Stock Code: 00045

Celebrating 150 Years of Tradition Well Served

Annual Report 2016

The Hongkong and Shanghai Hotels, Limited

To commemorate the 150th anniversary of The Hongkong and Shanghai Hotels, the company unveiled a spectacular series of custom-made giant balloons to represent the core components of the group's business units. The balloons were anchored onto The Peninsula Hong Kong hotel's legendary façade in November 2016, marking the first time in the world such a large-scale display has been tethered to a Grade I-listed heritage landmark building. Balloons are associated with travel, glamour and adventure – attributes that very much echo the company's culture.

Contents

In this year's Annual Report we have moved further towards integrated reporting as envisaged by the International Integrated Reporting Council (IIRC – www.theiirc.org).

In the IIRC's words "Integrated Reporting brings together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organisation demonstrates stewardship and how it creates and sustains value".

The objective of our approach is to provide a connected view of the different aspects of our performance by publishing this Annual Report and a separate Corporate Responsibility and Sustainability Report to highlight our vision, strategy and our achievements in 2016. Together with our company's website, the two reports enable our stakeholders to have a more informed assessment of our company.

2016

Our integrated approach encapsulates a number of different reference guidelines, including the International Integrated Reporting Framework published by the International Integrated Reporting Council, The Stock Exchange of Hong Kong Limited's (HKEx) Environmental, Social and Governance Reporting Guide, the Hong Kong Institute of Certified Public Accountants' (HKICPA) approach on corporate governance disclosure, and the Global Reporting Initiative G4 Sustainability Reporting Guidelines.

Our financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on HKEx.

We welcome your feedback. Please share your views with us by post or email.

Governance

Financial and Sustainability Statements

Additional Information

Accomplishments and Results 2016

Heritage

A New Chapter

Company at a Glance

Hotels

1866	1928	1976	1988	1989	1991
HSH established	Hong Kong	Manila	New York	Beijing	Beverly Hills

THE PENINSULA HONG KONG

Rooms: 300 | Ownership: 100%

THE PENINSULA SHANGHAI

Rooms: 235 | Ownership: 50%

THE PENINSULA BEIJING

Rooms: 230 | Ownership: 76.6%*

THE PENINSULA TOKYO

Rooms: 314 | Ownership: 100%

THE PENINSULA BANGKOK

Rooms: 370 | Ownership: 75%

THE PENINSULA MANILA

Rooms: 469 | Ownership: 77.4%

* The Group owns 100% economic interest of The Peninsula Beijing with a reversionary interest to the PRC partner at the end of the co-operating joint venture period

1998	2001	2007	2009	2014
Bangkok	Chicago	Tokyo	Shanghai	Paris

THE PENINSULA NEW YORK

Rooms: 235 | Ownership: 100%

THE PENINSULA CHICAGO

Rooms: 339 | Ownership: 100%

THE PENINSULA BEVERLY HILLS

Rooms: 195 | Ownership: 20%

THE PENINSULA PARIS

Rooms: 200 | Ownership: 20%

The Hongkong and Shanghai Hotels, Limited (HSH) was incorporated in 1866 and is listed on the Hong Kong Stock Exchange (00045). HSH is the holding company of a Group which is engaged in 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.

HSH businesses are grouped under three divisions: hotels, commercial properties and clubs and services.

Commercial Properties

1888	1976 & 1989	1977	1980
The Peak Tram	The Repulse Bay	Peninsula Clubs and Consultancy Services	Tai Pan Laundry

Residential

THE REPULSE BAY, HONG KONG

GFA: 995,546 sq. ft. | Ownership: 100%

THE LANDMARK, HO CHI MINH CITY, VIETNAM

GFA: 69,750 sq. ft. | Ownership: 70%**

Commercial

THE PEAK TOWER, HONG KONG

GFA: 116,768 sq. ft. | Ownership: 100%

Office

THE PENINSULA OFFICE TOWER, HONG KONG

GFA: 75,082 sq. ft. | Ownership: 100%

ST. JOHN'S BUILDING, HONG KONG

GFA: 71,400 sq. ft. | Ownership: 100%

THE LANDMARK, HO CHI MINH CITY, VIETNAM

GFA: 106,153 sq. ft. | Ownership: 70%**

** The Group owns 50% economic interest of The Landmark with a reversionary interest to the Vietnamese partner at the end of the joint venture period

1983	1989	1994	1996	1997	2003	2013
St. John's Building	The Repulse Bay Arcade	The Landmark, The Peninsula Office Tower	The Peak Tower, Thai Country Club	Quail Lodge & Golf Club	Peninsula Merchandising	1-5 Grosvenor Place, 21 avenue Kléber

THE REPULSE BAY ARCADE, HONG KONG

GFA: 62,909 sq. ft. | Ownership: 100%

1-5 GROSVENOR PLACE, LONDON, UNITED KINGDOM

GFA: 246,192 sq. ft. | Ownership: 100%

21 AVENUE KLÉBER, PARIS, FRANCE

GFA: 43,163 sq. ft. | Ownership: 100%

Clubs and Services

THE PEAK TRAM, HONG KONG

Ownership: 100%

THAI COUNTRY CLUB, BANGKOK, THAILAND

Ownership: 75%

QUAIL LODGE & GOLF CLUB, CARMEL, USA

Ownership: 100%

PENINSULA CLUBS AND CONSULTANCY SERVICES

Ownership: 100%

PENINSULA MERCHANDISING

Ownership: 100%

TAI PAN LAUNDRY, HONG KONG

Ownership: 100%

2016 Highlights

We continue to build and expand for the future and to create shareholder value by investing in improving our existing assets. 2016 was a year of considerable investment for our Group.

The Peninsula Beijing

The Peninsula Beijing showcased its major renovation to the public for the first time in August 2016, and the full inventory of renovated rooms will be completed in mid-2017. Taking inspiration from traditional Chinese architectural design and art, the hotel's new design shows the best of Chinese culture, artwork and artisanship – from sculptures and prints to hand-carved marble columns.

THE PENINSULA CHICAGO

We completed room renovations at The Peninsula Chicago, placing our hotel at the top of the city in RevPAR for 2016.

THE PENINSULA LONDON

We changed the structure of our partnership with Grosvenor in London to assume 100% ownership of the leasehold of The Peninsula London project. This restructure will result in our Group having full control over the development, management and future operations of The Peninsula London, as well as be entitled to 100% of the proceeds from the future sales of the residential units in the project and the profits of the hotel. We are excited to move forward with this project given the importance of London as a business and tourism destination and we believe The Peninsula London and residences will set new standards in luxury and service when the project is completed.

2016 Highlights

The Peninsula Yangon

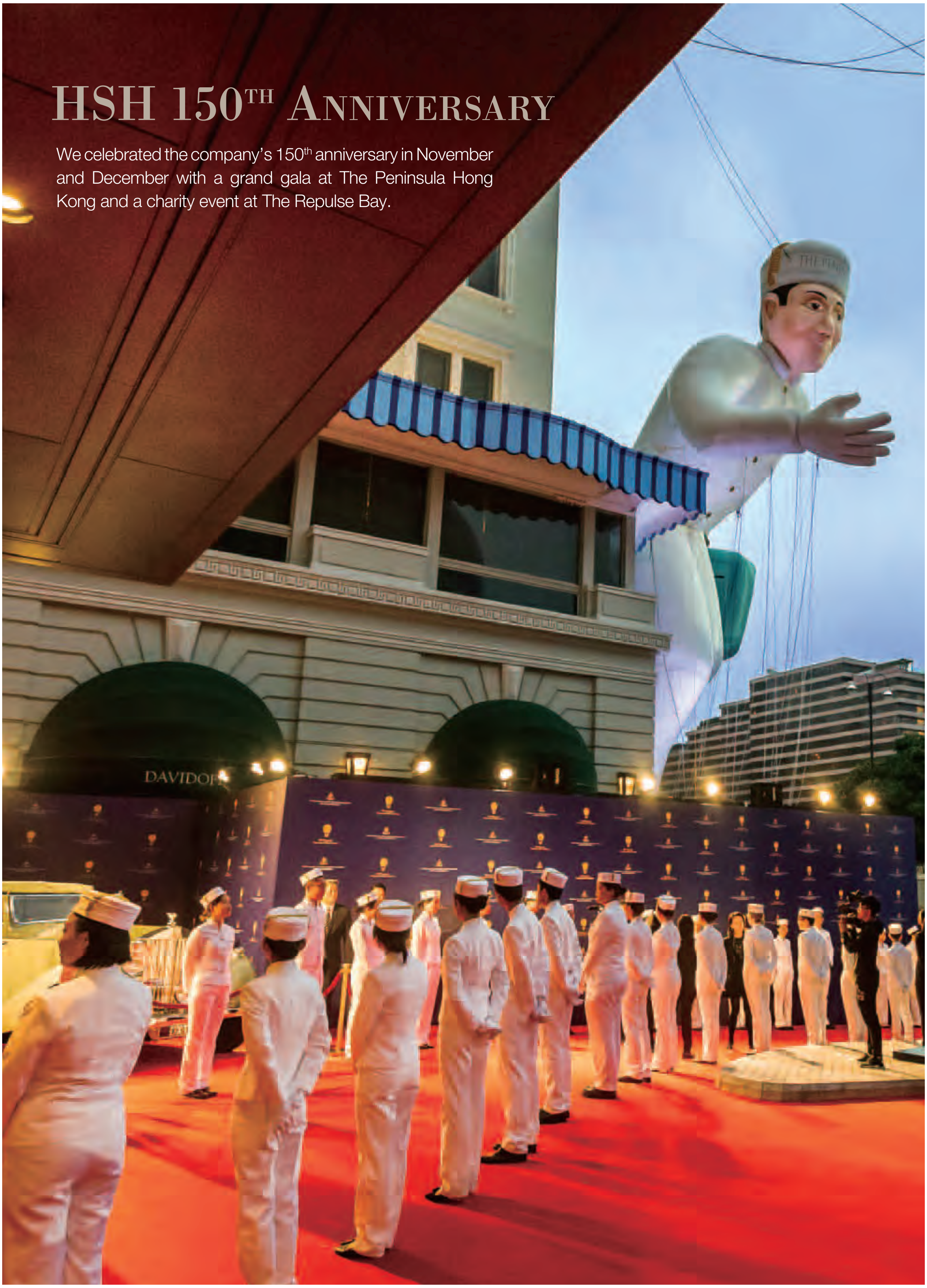
For The Peninsula Yangon, the assignment and extension of the master lease and the approval of the Myanmar Investment Commission were obtained after an extended period of application, and the groundbreaking ceremony was held on 16 February, 2017. We are excited to move forward with this development and to be part of history as Myanmar becomes increasingly important on the global stage as a business and tourism destination.

The Peninsula Istanbul

Construction started on the site of The Peninsula Istanbul and all of the conditions in the shareholders' agreement were met. We expect this hotel to open in 2019, which will be the first of our future projects.

HSH 150TH ANNIVERSARY

We celebrated the company's 150th anniversary in November and December with a grand gala at The Peninsula Hong Kong and a charity event at The Repulse Bay.



Financial Highlights

	2016	2015	Increase/ (Decrease)
Consolidated Statement of Profit or Loss (HK$m)			
Revenue	**5,631**	5,741	(2%)
EBITDA	**1,288**	1,440	(11%)
Operating profit	**824**	1,014	(19%)
Profit attributable to shareholders	**675**	1,000	(33%)
Underlying profit attributable to shareholders*	**606**	688	(12%)
Dividends	**297**	308	(4%)
Earnings per share (HK$)	**0.43**	0.65	(34%)
Underlying earnings per share (HK$)*	**0.39**	0.45	(13%)
Dividends per share (HK cents)	**19**	20	(5%)
Dividend cover (times)**	**2.0x**	2.2x	(9%)
Interest cover (times)	**8.6x**	14.9x	(42%)
Weighted average gross interest rate	**2.1%**	2.2%	(0.1pp)
Consolidated Statement of Financial Position (HK$m)			
Total assets	**45,870**	45,089	2%
Audited net assets attributable to shareholders	**36,359**	36,427	–
Adjusted net assets attributable to shareholders#	**39,711**	39,627	–
Audited net assets per share (HK$)	**23.20**	23.61	(2%)
Adjusted net assets per share (HK$)#	**25.34**	25.68	(1%)
Net borrowings	**4,911**	3,273	50%
Funds from operations to net debt##	**22%**	35%	(13pp)
Net debt to EBITDA (times)	**3.8x**	2.3x	65%
Net debt to equity attributable to shareholders	**14%**	9%	5pp
Gearing	**12%**	8%	4pp
Consolidated Statement of Cash Flows (HK$m)			
Net cash generated from operating activities before taxation	**1,312**	1,444	(9%)
Capital expenditure on existing assets			
– The Peninsula Beijing and The Peninsula Chicago	**(686)**	(195)	252%
– Others	**(314)**	(281)	12%
Capital expenditure on new projects/new acquisitions	**(1,419)**	(916)	55%
Share Information (HK$)			
Highest share price	**9.49**	12.20	(22%)
Lowest share price	**7.15**	8.00	(11%)
Year end closing share price	**8.60**	8.64	–

* Underlying profit attributable to shareholders and underlying earnings per share are calculated by excluding the post-tax effects of the property revaluation movements and other non-operating and non-recurring items

** Dividend cover is calculated based on underlying profit attributable to shareholders over dividends

Adjusted net assets attributable to shareholders and adjusted net assets per share are calculated by adjusting the Group's hotels and golf courses to fair market value based on the valuation conducted by independent property valuers

Being EBITDA less tax paid and net interest paid as a percentage of net debt

pp Denotes percentage points

Non-Financial Highlights

Energy Intensity

1,329 MJ per m^2

Carbon Intensity

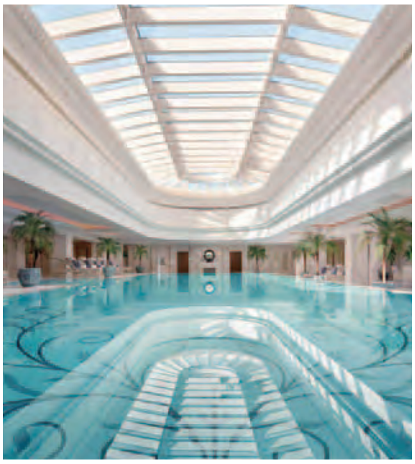
158 $kgCO_2e$ per m^2

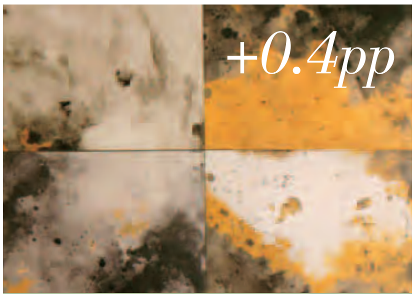
Direct Water Consumption

1,776,653 m^3

Waste Generated

7,746 tonnes





Waste Recycled

42.2%

Staff Turnover

22.0%

Injury Rate

8.3 injury cases per 100 employees

Lost Day Rate

45.6 lost days per 100 employees

Percentage change refers to year-on-year movement; all points are positive improvements with the exception of the injury rate. More details can be read in the sustainability data statements.

Financial Review Summary

❶ Earnings Before Interest, Taxation, Depreciation and Amortisation ("EBITDA")

EBITDA and EBITDA margin of the Group for 2016 decreased by 11% and two percentage points to HK$1,288 million and 23% respectively. The decrease was mainly due to the reduced contribution from the Hotels division resulted from the renovation of our hotel in Beijing.

❷ Revenue

The Hotels division is the main contributor to the Group's revenue, accounting for 72% (2015: 71%) of total revenue. The operating performance of the Group's hotel businesses is subject to a higher degree of volatility by nature. The decrease in revenue of the Hotels division was predominantly due to the room closures for the renovation undertaken by The Peninsula Beijing.

The operating performance of the Commercial Properties division remained stable compared with last year. The decrease in revenue for the Clubs and Services division was mainly due to the loss of income from Peninsula Clubs & Consultancy Services following the termination of the management contracts for the Cathay Pacific Lounges at Hong Kong International Airport with effect from 1 May 2016.

Details of the operating performances of the Group's individual operations are set out on pages 24 to 44 of the CEO's Strategic Review.

Consolidated Statement of Financial Position at 1.1.2016

	HK$m
Net assets	
Fixed assets	39,097
Other long-term investments	2,139
Deferred tax assets	30
Cash at banks and in hand	2,919
Other current assets	904
	45,089
Bank overdrafts	(5)
Bank borrowings	(6,187)
Derivative financial instruments	(39)
Deferred tax liabilities	(701)
Other liabilities	(1,497)
	36,660
Capital and reserves	
Share capital	4,808
Retained profits	31,729
Hedging, exchange and other reserves	(110)
	36,427
Non-controlling interests	233
	36,660

Consolidated Statement of Cash Flows for the year ended 31.12.2016

		HK$m
❶ EBITDA		1,288
Net change in working capital		24
Tax payment		(136)
Payment for the purchase of property, plant and equipment, including the additional interest in1-5 Grosvenor Place		(2,419)
Net payment to a joint venture and associates		(98)
Net financing charges and dividends paid		(194)
Net increase in bank borrowings		747
Net withdrawal of interest-bearing bank deposits with maturity of more than three months		2,016
Net cash inflow for the year		1,228
Cash at banks and in hand	2,919	
Less: Bank deposits maturing more than 3 months	(2,146)	
Less: Bank overdrafts	(5)	
Cash & cash equivalents at 1.1.2016		768
Effect of changes in exchange rates		(41)
Cash & cash equivalents at 31.12.2016*		1,955
* Representing:		
Cash at banks and in hand		2,087
Bank deposits maturing more than 3 months		(130)
Bank overdrafts		(2)
		1,955

Consolidated Income Statement for the year ended 31.12.2016

	HK$m
❷ Revenue	5,631
Operating costs before depreciation and amortisation	(4,343)
EBITDA	1,288
Depreciation and amortisation	(464)
Operating profit	824
Net financing charges	(96)
Profit after net financing charges	728
❸ Share of results of a joint venture	20
❹ Share of results of associates	(25)
❺ Increase in fair value of investment properties	29
Taxation	(85)
Non-controlling interests	8
Profit attributable to shareholders	675

Consolidated Retained Profits for the year ended 31.12.2016

	HK$m
Retained profits at 1.1.2016	31,729
Profit attributable to shareholders for the year	675
Dividends distributed during the year	(293)
Retained profits at 31.12.2016	32,111

Consolidated Statement of Financial Position at 31.12.2016

	HK$m
Net assets	
Fixed assets	40,712
Other long-term investments	2,176
Deferred tax assets	47
Cash at banks and in hand	2,087
Other current assets	848
	45,870
Bank overdrafts	(2)
Bank borrowings	(6,996)
Derivative financial instruments	(16)
Deferred tax liabilities	(652)
Other liabilities	(1,630)
	36,574
Capital and reserves	
Share capital	5,005
Retained profits	32,111
Hedging, exchange and other reserves	(757)
	36,359
Non-controlling interests	215
	36,574

Underlying profit attributable to shareholders for the year ended 31.12.2016

	HK$m
Profit attributable to shareholders	675
Non-operating and non-recurring items	(69)
❻ Underlying profit attributable to shareholders	606

❸ Share of Results of a Joint Venture

The Group has a 50% interest in The Peninsula Shanghai Complex and the Group's share of profit amounted to HK$20 million (2015: share of loss of HK$71 million), which included the share of gain on apartments sale of HK$31 million (2015: HK$18 million) and net unrealised loss of HK$19 million (2015: HK$37 million) arising from the revaluation of The Peninsula Shanghai Complex's investment properties.

❹ Share of Results of Associates

The Group has a 20% interest in each of The Peninsula Beverly Hills and The Peninsula Paris. The Group's share of net loss of these two hotels for 2016 amounted to HK$25 million (2015: HK$23 million).

❺ Increase in Fair Value of Investment Properties

The Group states its investment properties at fair value and gain or loss arising from the change in fair value of investment properties is recognised in the income statement. The year end revaluation of the Group's investment properties has resulted in a non-operating gain of HK$29 million (2015: HK$277 million). The reduction in revaluation surplus was a reflection of the general market conditions.

❻ Underlying Profit Attributable to Shareholders

To provide additional insight into the performance of its business operations, the Group presents underlying profit by excluding non-operating and non-recurring items such as any change in fair value of investment properties. Details of the reconciliation from reported profit to underlying profit are summarised on page 51.

Ten Year Operating Statistics

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
a) The Peninsula Hotels: (Note 1)										
Hong Kong										
Occupancy rate	**72%**	73%	75%	72%	79%	74%	70%	57%	71%	77%
Average room rate (HK$)	**4,843**	4,760	5,144	5,170	5,133	4,503	4,197	4,176	4,504	4,151
RevPAR (HK$)	**3,473**	3,477	3,870	3,731	4,072	3,347	2,926	2,401	3,219	3,182
Other Asia (excluding Hong Kong) (Note 2)										
Occupancy rate	**67%**	70%	65%	66%	63%	57%	58%	48%	57%	68%
Average room rate (HK$)	**2,599**	2,265	2,146	2,065	2,179	2,156	2,100	1,904	2,237	1,668
RevPAR (HK$)	**1,753**	1,581	1,390	1,361	1,367	1,221	1,214	920	1,284	1,139
United States of America and Europe										
Occupancy rate	**71%**	68%	74%	74%	72%	69%	65%	59%	68%	76%
Average room rate (HK$)	**5,625**	5,807	5,471	4,858	4,627	4,550	4,403	4,292	4,936	4,844
RevPAR (HK$)	**3,993**	3,962	4,059	3,573	3,346	3,135	2,856	2,511	3,378	3,701
b) Residential (Note 1 & 3)										
Occupancy rate	**91%**	93%	85%	89%	92%	91%	92%	88%	94%	92%
Average monthly yield per square foot (HK$)	**45**	45	42	42	41	38	36	37	39	35
c) Shopping Arcades (Note 1 & 4)										
Occupancy rate	**93%**	95%	97%	99%	99%	97%	96%	95%	97%	97%
Average monthly yield per square foot (HK$)	**184**	202	206	191	179	168	153	168	165	148
d) Offices (Note 1 & 3)										
Occupancy rate	**100%**	99%	97%	92%	96%	100%	98%	91%	98%	99%
Average monthly yield per square foot (HK$)	**56**	55	52	48	45	45	42	36	35	27
e) Peak Tram										
Patronage ('000)	**6,259**	6,359	6,325	6,272	5,918	5,777	5,385	4,862	5,006	4,939
Average fare (HK$)	**19**	19	19	19	19	19	17	16	16	16
f) Full Time Headcount (as at 31 December)										
Hotels	**6,121**	6,201	6,308	5,878	5,617	5,475	5,444	5,489	5,239	5,138
Commercial Properties	**360**	363	362	347	333	323	331	339	339	329
Clubs and Services	**993**	1,318	1,317	1,325	1,260	1,224	1,180	998	1,056	1,027
Total headcount	**7,474**	7,882	7,987	7,550	7,210	7,022	6,955	6,826	6,634	6,494

Notes:

1. Occupancy rates, average room rates, RevPAR and average monthly yield per square foot are weighted averages in each grouping
2. The saleable inventory in The Peninsula Beijing was reduced from the start of 2015 as preparations were made for renovation, impacting Occupancy Rate and RevPAR
3. The operating statistics for residential and offices do not include information for operations that are not consolidated or whose results are not material in the Group context: The Landmark, Vietnam; The Peninsula Residences, Shanghai; and 21 avenue Kléber, Paris. The operating statistics also do not include information for 1-5 Grosvenor Place, London because of the planned redevelopment
4. The Group's most significant shopping arcades are located in The Peninsula hotels in Hong Kong, Shanghai, Beijing, New York, as well as The Repulse Bay Complex and The Peak Tower

Ten Year Financial Summary

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Consolidated Statement of Profit or Loss (HK$m)										
Revenue	**5,631**	5,741	5,838	5,508	5,178	5,009	4,707	4,218	4,938	4,542
EBITDA	**1,288**	1,440	1,528	1,306	1,201	1,211	1,143	924	1,425	1,510
Operating profit	**824**	1,014	1,105	911	817	834	794	586	1,051	1,175
Profit attributable to shareholders	**675**	1,000	1,146	1,712	1,555	2,259	3,008	2,660	(27)	4,002
Underlying profit attributable to shareholders*	**606**	688	804	511	439	464	408	323	808	906
Dividends	**297**	308	349	240	210	208	177	132	246	259
Earnings per share (HK$)	**0.43**	0.65	0.76	1.14	1.04	1.52	2.04	1.82	(0.02)	2.79
Underlying earnings per share (HK$)*	**0.39**	0.45	0.53	0.34	0.29	0.31	0.28	0.22	0.56	0.63
Dividends per share (HK cents)	**19**	20	23	16	14	14	12	9	17	18
Dividend cover (times) **	**2.0x**	2.2x	2.3x	2.1x	2.1x	2.2x	2.3x	2.4x	3.3x	3.5x
Interest cover (times)	**8.6x**	14.9x	16.7x	9.7x	9.6x	9.5x	7.4x	6.8x	15.5x	13.5x
Weighted average gross interest rate	**2.1%**	2.2%	2.3%	2.9%	3.2%	3.1%	3.2%	3.2%	3.4%	4.2%
Consolidated Statement of Financial Position (HK$m)										
Total assets	**45,870**	45,089	43,982	43,144	39,807	38,233	36,587	32,872	29,606	29,519
Total liabilities	**(9,296)**	(8,429)	(7,831)	(7,770)	(6,368)	(6,490)	(6,498)	(5,817)	(5,215)	(4,911)
Non-controlling interests	**(215)**	(233)	(250)	(269)	(289)	(283)	(981)	(908)	(934)	(891)
Audited net assets attributable to shareholders	**36,359**	36,427	35,901	35,105	33,150	31,460	29,108	26,147	23,457	23,717
Adjusted net assets attributable to shareholders#	**39,711**	39,627	39,496	38,486	36,396	34,708	31,893	28,571	26,611	27,056
Audited net assets per share (HK$)	**23.20**	23.61	23.67	23.37	22.07	21.11	19.67	17.79	16.18	16.45
Adjusted net assets per share (HK$)#	**25.34**	25.68	26.04	25.62	24.23	23.29	21.55	19.44	18.35	18.76
Net borrowings	**(4,911)**	(3,273)	(3,004)	(3,992)	(1,989)	(2,335)	(1,674)	(1,990)	(1,198)	(1,455)
Funds from operations to net debt##	**22%**	35%	44%	28%	48%	42%	52%	33%	92%	86%
Net debt to EBITDA (times)	**3.8x**	2.3x	2.0x	3.1x	1.7x	1.9x	1.5x	2.2x	0.8x	1.0x
Net debt to equity attributable to shareholders	**14%**	9%	8%	11%	6%	7%	6%	8%	5%	6%
Gearing	**12%**	8%	8%	10%	6%	7%	5%	7%	5%	6%
Consolidated Statement of Cash Flows (HK$m)										
Net cash generated from operating activities before taxation	**1,312**	1,444	1,589	1,401	1,133	1,145	1,173	904	1,429	1,616
Capital expenditure on existing assets	**(1,000)**	(476)	(370)	(928)	(875)	(312)	(276)	(269)	(417)	(213)
New projects and acquisitions	**(1,419)**	(916)	(39)	(2,293)	–	(578)	–	(1,157)	–	(595)
Share Information (HK$)										
Highest share price	**9.49**	12.20	12.60	14.20	11.92	14.74	14.90	11.98	14.50	15.46
Lowest share price	**7.15**	8.00	10.08	10.38	8.63	8.10	10.32	4.26	5.13	10.90
Year end closing share price	**8.60**	8.64	11.50	10.52	10.82	8.61	13.32	11.36	5.86	13.70

* Underlying profit attributable to shareholders and underlying earnings per share are calculated by excluding the post-tax effects of the property revaluation movements and other non-operating and non-recurring items

** Dividend cover is calculated based on underlying profit attributable to shareholders over dividends

\# Adjusted net assets attributable to shareholders and adjusted net assets per share are calculated by adjusting the Group's hotels and golf courses to fair market value based on the valuation conducted by independent property valuers

\#\# Being EBITDA less tax paid and net interest paid as a percentage to net debt

Letter from the Chairman

The Hon. Sir Michael Kadoorie
Chairman

"We believe our guests will always seek The Peninsula's warm hospitality, luxurious comfort and personal attention to detail that has not changed since our earliest days of operation"

Dear Shareholders,

Our company was incorporated as 'The Hongkong Hotel Company, Limited' on the second of March 1866, making it the oldest Hong Kong registered company still active today. Indeed, at 150 years old in 2016, we believe it is the world's oldest hotel group in continuous operation.

Anniversaries are a time to pause and reflect; a time to recall the events and individuals whose legacies have shaped us. They are also a time to invest in the future and to shape the destiny that lies ahead of us for future generations.

We opened our first hotel in Hong Kong in 1868, in an era of rickshaws and sedan chairs, ocean liners and steamships. The glamorous age of travel was just beginning and there was a robust demand for accommodation for affluent tourists in the style and luxury they were accustomed to back home. Our company – as an innovative pioneer even in its earliest days – met this demand. The Hongkong Hotel, The Repulse Bay Hotel and later The Peninsula Hotel, known as "the finest hotel east of Suez", helped seal Hong Kong's reputation as "the Riviera of the Orient". In 1888, we added another stellar attraction to Hong Kong's tourism scene by opening Asia's first funicular railway, the Peak Tram. In 1891, my grandfather, Sir Elly Kadoorie, purchased 25 shares in the Hongkong Hotel Company – and thus began my family's long and enduring association with the business.

During the past 150 years we have experienced numerous highs and lows in Hong Kong and around the world in the markets where we operate – from stock market crashes and financial crises, riots, strikes, diseases such as SARS which led to plummeting hotel occupancy, even military occupation during the second world war – and yet time and again the company has emerged even stronger and more resilient. If we continue meeting their needs, we believe our guests will always seek The Peninsula's warm hospitality, luxurious comfort and personal attention to detail that has not changed since our earliest days of operation.

Today, more than a century after they were established, The Peninsula Hotel, the Peak Complex, the Peak Tram, and The Repulse Bay remain iconic tourist attractions and luxury properties. Our brand is established worldwide with hotels in Asia, the United States, and most recently in Europe.

In 2016, the year in review, our commitment to the long term remains as steadfast as it has been for more than a century, reflecting our vision to own and operate a small group of the world's finest hotels. This was a difficult year for our Group, with economic challenges and political uncertainty in some of our key markets caused by the "Brexit" vote in the UK, the US elections and the sad passing of His Majesty King Bhumibol Adulyadej of Thailand. The threat of global terrorism and its short-term impact on tourism continues to be a major concern for the Board, with several tragic terrorist attacks occurring in Istanbul during 2016, and we continue to closely monitor this situation.

"We continue to build and expand for the future and to create shareholder value by investing in improving our existing assets"

In our home market of Hong Kong, we saw a continued decline in overnight tourist arrivals and a difficult market for retail. However, we are confident in the long-term future of Hong Kong as a retail hub and we are reviewing the strategy for our Arcades, working in partnership with our tenants to attract more retail traffic.

I am pleased that despite the challenges, our Group performed relatively well and we delivered a satisfactory set of results in the face of intense competition in many of our key markets, and taking account of the disruption caused by our renovation programme in Beijing and Chicago. The Financial Statements can be viewed on page 170 to 224.

We continue to build and expand for the future and to create shareholder value by investing in improving our existing assets. 2016 was a year of considerable investment for our Group. We completed the renovation of The Peninsula Chicago and continued the extensive renovation of The Peninsula Beijing, which is due for completion by mid-2017.

We continue to make good progress with our projects in London, Myanmar and Istanbul. Most significantly, we changed the structure of our partnership with Grosvenor in London to assume 100% leasehold ownership of the project. This restructure will result in our Group funding all the remaining development costs, representing a significant increase in investment. More details can be read on page 45. Construction has already started on the site of The Peninsula Istanbul and all of the conditions in the shareholders' agreement have been met. We expect this hotel to be the first of our current development projects to open in 2019.

Behind our international reputation lies our ethos of community responsibility and a belief in the importance of integrity and sustainability. We have outlined our social and environmental performance and the impact of our businesses on the local communities in which we operate in this report and in our Corporate Responsibility and Sustainability Report. In our second year of moving towards integrated reporting, we have taken steps to enhance our sustainability reporting. The Sustainable Luxury Vision 2020 puts sustainability at the heart of the company's business model and brand. Covering all divisions of the business, Vision 2020 represents our ambition to take luxury to the next level, and ensures that our company will continue to succeed and have a positive influence on its local communities for decades to come.

I am proud that The Peninsula Hotels are among the most admired in luxury hospitality. I attribute much of this to steadfast leadership within the company, a commitment to the long term and the hard work of all our staff, who are the company's most valuable assets. On behalf of the Board, I would like to express my deep appreciation and heartfelt thanks for the leadership of Clement Kwok and his management team, and for the hard work and dedication of the entire Group for their efforts in delivering a truly world-class service for our guests.

From generation to generation, we preserve for the future a unique heritage that has become synonymous with our company legacy, and that can be shared by all.

The Hon. Sir Michael Kadoorie
20 March 2017

CEO's Strategic Review

I am proud to share that The Hongkong and Shanghai Hotels celebrated its 150th anniversary in 2016. Over many decades, our company has focused its business philosophy on the provision of luxury hospitality, giving people an experience that they treasure and enjoy, and not only to meet but to exceed our guests' expectations. This is the essence of our brand and reputation and has helped us weather many ups and downs over our long history. Our company remains well placed for the future, with The Peninsula brand enjoying recognition as one of the leading luxury city hotel brands in the world. We have a valuable portfolio of quality hotels and other assets located in some of the most exceptional locations in leading cities around the world.

While we always look at the long-term strategy and future of our business, 2016 proved to be a year of considerable global economic, political and security uncertainties. The "Brexit" vote, the US presidential elections, mixed economic performance in many of the countries in which we operate and continued terrorist incidents and threats all pose uncertainties to our business. In addition, sentiment in our main market of Hong Kong was negative towards tourism and retail business for much of 2016 although we believe we have seen some stabilisation since.

Given the circumstances in which we were operating, we believe our 2016 financial results for the Group were satisfactory. While operating profit and underlying profit attributable to shareholders declined compared to the same period last year, the bulk of this decrease was due to the earnings disruption arising from the partial closure of The Peninsula Beijing for the extensive renovation project being undertaken at that hotel, as we had reported and forewarned in our 2015 Annual Report. Excluding the results of The Peninsula Beijing, which was under renovation for the year, the underlying profit of the Group in 2016 would have remained flat, which we consider to be a creditable result in the light of the market circumstances.

2016 was a year that saw increasing consolidation and commoditisation in the hotel market globally, meaning that our Group is becoming increasingly unique as an owner-operator amongst the top international luxury brands. One of the benefits of being an owner-operator is that we can have more control over our assets and the timing of our investments. The Group has invested heavily in raising the standards of our existing hotel assets. This was our key strategy during 2016, with significant renovations at The Peninsula Chicago and The Peninsula Beijing and a new Grand "Fifth Avenue" Suite in The Peninsula New York.

With the renovation of The Peninsula Beijing being completed in the first half of 2017, our current programme of renovations on existing hotels has largely been completed and our focus for the next few years will be on the successful delivery and completion of our new hotel developments underway in London, Istanbul and Yangon.

Significant progress has been made on each of these projects during the year. For The Peninsula London which is our largest project under development, we have restructured our partnership with Grosvenor. As of 30 September 2016, HSH has increased its leasehold interest to 100% of the leasehold interest, and we have taken over full control and responsibility for the development and management of the project. For The Peninsula Istanbul project, the shareholders' agreement that was signed with our Turkish partners in July 2015 became unconditional with the granting of satisfactory construction approvals from 30 December 2016. Good progress is being made and construction has been underway since June 2016. For The Peninsula Yangon project, the assignment and extension of the master lease and the approval of the Myanmar Investment Commission were obtained after an extended period of application, following which the groundbreaking ceremony was held on 16 February 2017. More details on these projects can be found on pages 45-47.

More details of our strategy and business model are described in the following pages of this report and our online Corporate Responsibility and Sustainability Report, as we travel further on our journey towards integrated reporting and sharing our long-term strategy with our shareholders.

A detailed review of our business performance is below.

Business Performance

Our Group comprises three key divisions – hotels, commercial properties and clubs and services. These divisions are described in more detail in the following review.

Hotels

	2016	Variance	
	Revenue HK$m	In HKD	In Local Currency
Consolidated Hotels			
The Peninsula Hong Kong	**1,295**	(4%)	(4%)
The Peninsula Beijing	**137**	(50%)	(47%)
The Peninsula New York	**695**	7%	7%
The Peninsula Chicago	**545**	12%	12%
The Peninsula Tokyo	**802**	13%	2%
The Peninsula Bangkok	**235**	9%	12%
The Peninsula Manila	**257**	(10%)	(6%)
Non-consolidated Hotels			
The Peninsula Shanghai	**598***	1%	7%
The Peninsula Beverly Hills	**619**	10%	10%
The Peninsula Paris	**481**	(10%)	(10%)

* Excluding proceeds from sale of apartments

One of the benefits of being an owner-operator is that we can have more control over our assets and the timing of our investments. The Group has invested heavily in raising the standards of our existing hotel assets. This was our key strategy during 2016, with significant renovations at The Peninsula Chicago and The Peninsula Beijing and a new Grand "Fifth Avenue" Suite in The Peninsula New York

The Peninsula Hong Kong

The tourism market in Hong Kong was challenging in the beginning of the year, although the situation improved in the second half of 2016. Overnight visitor arrivals from non-mainland China markets increased more than 5% year-on-year, although total overnight arrivals declined. We remain optimistic that Hong Kong will continue to be an attractive destination for travellers and we are committed to working with industry peers and government departments to support new ideas and initiatives for Hong Kong's tourism industry.

Revenue HK$1,295m	Occupancy	Average Room Rate	RevPAR
-4%	*-1pp*	*+2%*	*+0%*

As the flagship property of the group, we were delighted to receive the accolade of "Best Hotel in the World for Service" from the readers of *Condé Nast Traveller UK* for The Peninsula Hong Kong in September 2016, as well as "Best Business Hotel in Asia Pacific" from *Business Traveller*. An enduring bastion of the Hong Kong dining scene, The Peninsula Hong Kong's Cantonese restaurant *Spring Moon* received a Michelin star in December 2016. These awards are a testament to our long-serving team of colleagues who combine the spirit of integrity, passion and commitment to provide the best experiences for our guests.

During the year, hotel occupancy declined slightly although we were able to maintain our position in terms of market share and an improved average room rate. We continued to have a well-balanced customer base with diverse market segmentation and we have placed a stronger focus on marketing efforts targeting corporate business and groups to strengthen both occupancy and rates.

The Peninsula Office Tower continues to perform well and was fully let throughout 2016, and the immediate outlook is stable. In spite of this, we are sensitive to the pressure on our tenants in The Peninsula Arcade as a result of the city-wide downturn facing the luxury retail market in Hong Kong. Many of our loyal tenants have been with us for decades, and we believe the long-term relationships we enjoy with them, coupled with our ability to offer access to Peninsula Hotel guests, will help to support their business needs. We are proactively working with our key retail tenants to establish marketing collaborations and promotional opportunities to support their business development efforts, such as the successful marketing campaign, "Legendary Artisans", which took place in the summer to promote the Arcade's tenants, showcasing exclusive collection launches and culinary collaborations such as the Tiffany-inspired "New York Spirit" Afternoon Tea.

In March 2016, the hotel's three-year collaboration with Britain's Royal Academy of Arts, "Love Art at The Peninsula", continued with the launch of a robotic sculptural installation entitled "The Ada Project" by British conceptual artist Conrad Shawcross RA, which generated extensive press coverage and standout reviews from the international art community during Art Basel Hong Kong, which has become a highly successful event for the city.

On 25 November 2016, the Group celebrated its 150th anniversary with a spectacular Gala party for around 2,000 VIP guests and media including a group of 20 VIP travel editors from around the world, which generated significant valuable coverage for Hong Kong and our hotel.

As part of the ongoing implementation of the Sustainable Luxury Vision 2020, the hotel continued to support the "Honing Skills for Hospitality" programme for selected secondary students studying hospitality from the ethnic minority community in Hong Kong, which included a five-week internship programme and an opportunity to learn about the hospitality industry.

The Peninsula Shanghai

The Peninsula Shanghai reported a solid 2016 with increased average room rates and RevPAR. The hotel remains the market leader in RevPAR in the city and we were delighted to receive the accolade of Number 1 in Best City Hotels in Asia by *Travel + Leisure* magazine. We are pleased to report that *Yi Long Court* received two Michelin stars and Sir Elly's one Michelin star, becoming the only establishment in China with two in-house restaurants to have Michelin stars. We have been recognised by the Chinese government as an "official" destination for high level state visits and government delegations.

The Shanghai market reported a 7% increase in visitor arrivals during the year, driven by the opening of the new Shanghai Disneyland in June 2016 which encouraged larger numbers of domestic travellers to visit the city. Competition was intense with hotels striving for market share at the expense of average room rates, and the fact we have been able to grow rates in this environment is a testament to the quality of our product and our exceptional service levels.

The domestic market remained strong and we are also seeing growth from The Middle East. We are working on strategies to drive more direct internet bookings and interaction with our guests in popular online channels such as Ctrip and Booking.com.

The Peninsula Arcade was fully occupied, and we are working with our tenants on renewed rental contracts to secure long-term partnerships. The Arcade participated in the "Legendary Artisans" marketing campaign to promote our retail tenants which was also held in Hong Kong and Beijing.

The Peninsula Shanghai continues to embrace the Chinese government's efforts to promote low-emissions energy and environmental conservation. The Peninsula Shanghai sponsored China's Techeetah Formula E racing team, which competed for the first time at the 2016 Hong Kong ePrix in October 2016, with the aim of encouraging sustainable driving in China and worldwide. The Peninsula Shanghai continued to promote wellness and fitness for employees during 2016 and staff had the pleasure of meeting Chen Penbin, China's first international ultra-marathon champion and Fitness Ambassador for The Peninsula Shanghai, who delivered a motivational speech at the opening of the new staff gym.

Our Group's developmental strategy includes the development of residential properties for lease and sale in certain key markets. Four sales of apartments at The Peninsula Shanghai Residences were recognised in 2016 with total proceeds of HK$229 million, leasing another 20 apartments.

Revenue RMB512m (HK$598m)	Occupancy	Average Room Rate	RevPAR
+7%	*+0pp*	*+6%*	*+7%*

Proceeds from sale of apartments

RMB196m *(HK$229m)*

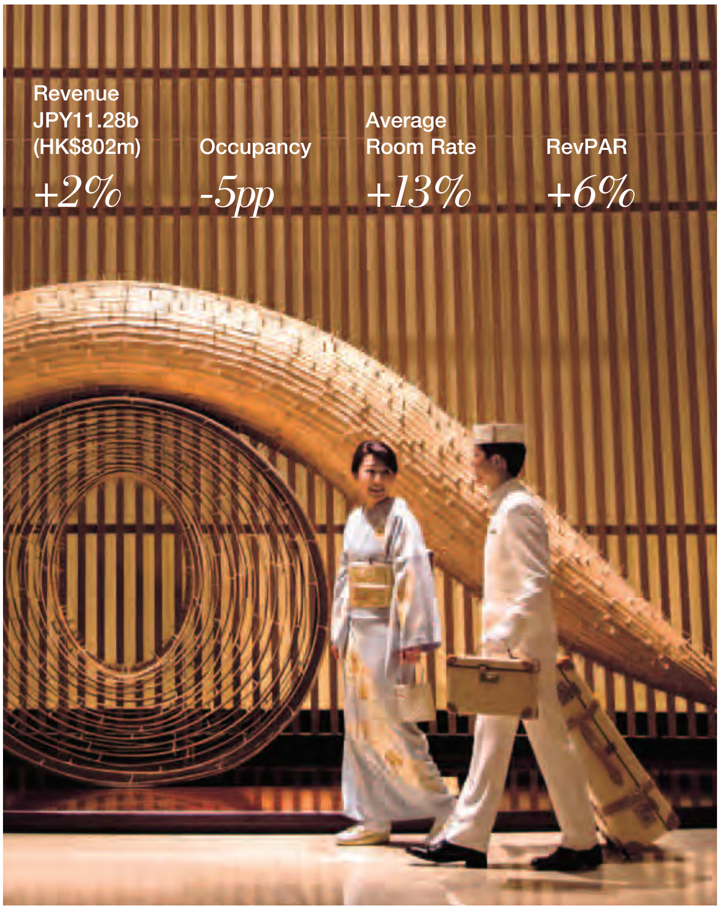
The Peninsula Beijing

The Peninsula Beijing is well advanced in its extensive renovation, with the first phase of public areas finalised in August 2016 and the second phase of rooms to be completed in mid-2017. The previous 525 rooms of the hotel are being combined to create 230 elegant new rooms and suites which are the largest in Beijing and among the most spacious luxury hotel rooms in the country. At a press conference held in June 2016, we unveiled spectacular new public spaces including the Lobby and newly revamped restaurants, *Huang Ting* and *Jing*. The latter introduced a new "farm to table" dining concept and a 70% organic, sustainable menu, which is a unique feature in the Chinese mainland.

The renovation was inspired by the Imperial architecture of ancient China and we have combined our traditional Peninsula hospitality with the best of Chinese tradition, culture and artisanship and contemporary standards of luxury, including our up-to-date modern technology. Occupancy and average rates were significantly impacted by the renovation. However, we have already seen that the renovated rooms are able to achieve a much higher average rate. The feedback from guests and media on the first phase of the renovation has been positive and we believe this investment will place The Peninsula Beijing at the top of the highly competitive Beijing market. The Peninsula Arcade reported a stable performance despite the disruption during the renovation, and tenant interest remains strong.

As part of our extensive renovation at The Peninsula Beijing, sustainable guidelines such as the Building Research Establishment Environmental Assessment Method (BREEAM) were incorporated since the beginning of project planning, with certification targeted in 2017. This included the implementation of energy efficient LEDs, sustainably sourced wood for most of the wood work and furniture, as well as avoiding harmful glues, paints, wall coverings and carpeting. This is an example of our Vision 2020 commitment in action.

While offering a high quality guest experience, we feel it is equally important to provide a comfortable and healthy back of house environment for our staff. One of the key elements of the renovation at The Peninsula Beijing was to design the best "Back of House" area for our employees in Beijing, with nutritious menus and entertainment in the staff restaurant. We also decided not to implement lay-offs during the renovation and instead focused on developing and training our staff with cross-exposure programmes to other hotels and increased learning and development programmes.



The Peninsula Tokyo

Tourist arrivals in Tokyo exceeded 20 million in 2016 and are expected to expand to 40 million by 2020 for the Olympics. Against this fast-growing and dynamic backdrop, The Peninsula Tokyo had a strong year with the hotel reporting an increase of 13% in average room rates – the highest ever in its ten-year history, and a corresponding increase in RevPAR. We reported a slightly lower occupancy rate due to the strategy to drive average room rates, but the overall outcome was that we achieved the highest revenue for the hotel since its opening.

Across the city, Tokyo recorded softer demand from international markets, particularly corporate business, due to the strengthening yen. Although there were no major new hotel openings in the city, the growth of restaurants within the local area resulted in a slightly lower food and beverage revenue. Weddings remain as our largest non-rooms revenue contributor and we anticipate the weddings market will be stronger in 2017 than last year.

The Spa performance was robust in the second half with revenue driven by an innovative new treatment line, "Pedi:Mani:Cure Studio" by French podiatrist Bastien Gonzalez, which includes a proprietary line of cures and formulas offered in Japan for the first time and which can be experienced only at The Peninsula Spa.

Maintaining an appropriate work-life balance is currently a hot topic in modern Japanese society which has made frequent headlines in the local and international press, and the government is seeking to address this by promoting a "Premium Friday" scheme where workers can leave early on the last Friday of each month, with the aim of improving the work-life balance of employees. The Peninsula Tokyo is adhering to this scheme and we are also in discussions to instigate an "email-free day" for our hotel employees.

All classic tea, chocolate and coffee served in The Peninsula Tokyo are from certified sustainable sources. The hotel partnered with "Clean the World" to recycle its used soap bars to promote cleanliness in needy communities.

In celebration of our tenth anniversary in 2017, The Peninsula Tokyo also announced its sponsorship of "The Peninsula Tokyo Rally Nippon 2017 – A Peninsula Signature Event" which is scheduled to take place 21-24 October 2017.

The Peninsula Bangkok

The Peninsula Bangkok had a solid year in 2016 with a reasonable recovery after the political upheaval of 2014, although the sad passing away of His Majesty King Bhumibol Adulyadej of Thailand in October 2016 had an impact on our business. The country entered a period of mourning for one year starting from October 2016 which led to the cancellation of corporate events and banquets. MICE business (Meetings, Incentives, Conferences and Exhibitions) remained soft for the year. Visitor arrivals improved significantly from the US, Chinese mainland and from around the Asian region, especially Japan and South Korea. We aim to increase group and corporate business and offer special packages to encourage groups to return to Thailand and this has been facilitated by the Thai Government's waiving of visa-on-arrival costs for tourists from 18 countries including China.

Although the traditional Peninsula in Pink charitable activities had to be scaled down due to the sad passing away of His Majesty King Bhumibol Adulyadej in October 2016, the hotel continued to organise charitable events such as a sponsored run to the top of The Peninsula Bangkok's 36-storey building to raise funds for underprivileged students' education. The Peninsula Academy programme was enhanced to include sustainability elements related to local Thai nature conservation; for example, guests can participate in a tour of Thailand's first urban Nature Education Centre, Bang Pu, guided by award-winning naturalists.

We expect the outlook for 2017 to remain soft until the official mourning period ends in October 2017.

The Peninsula Manila

The Peninsula Manila had a challenging 2016, with revenue decreasing 6% in local currency terms over the same period last year. This was partially due to a softer business environment in the first half due to uncertainty over the Philippine Presidential Elections, which took place in May 2016.

Generally, the rise of the middle class in the Philippines continues to have a positive effect on the Philippine economy, and domestic travellers now comprise the hotel's second largest group after the US. As reported in page 38 of the Corporate Responsibility and Sustainability Report, we are delighted to report that The Peninsula's global campaign for charity, *Hope for the Philippines*, completed Phase 1 of the project with construction of 75 new homes for people displaced after Typhoon Yolanda in 2013. All 75 houses were turned over to their new owners in January 2016. The second and third phases of this initiative will involve an education component, as well as life-skills training for the inhabitants of the Village.

The Peninsula Manila celebrated its 40th anniversary in September 2016 with a Gala celebration honouring our partners, staff and guests who have been instrumental in building this hotel into a legendary icon of Manila's high society.

Revenue Php1,571m (HK$257m)	Occupancy	Average Room Rate	RevPAR
-6%	-2pp	-4%	-7%

The Peninsula New York

During 2016, New York City reported significant additional supply with more than 2,400 new hotel rooms coming onto the market, many in the luxury sector. The Peninsula New York experienced intense competition as a result of this increased supply, but we were pleased to report a positive increase in both revenue and occupancy over the previous year, as well as a stable RevPAR positioning and good market share growth.

Government and diplomatic business such as that associated with the UN General Assembly conference in September 2016 was particularly strong. The new 250 square metre Fifth Avenue suite, created by Manhattan designers Bill Rooney Studio Inc., opened in September 2016 to cater for increased top-end demand and has been well received by guests. We introduced a new monthly series concept at *Clement* restaurant, *Kitchen Table at Clement*, hosted by Chef Remi van Peteghem, and *Jazz at Clement Bar*, which helped drive food and beverage revenue. The hotel's rooftop bar, *Salon de Ning*, is consistently rated as one of the best bars in New York.

The Peninsula Garden on the rooftop of the hotel contributes organic herbs and fresh vegetables to our menus and the hotel's chefs continued to place an emphasis on sourcing local sustainable seafood and fresh produce. The Peninsula New York continued to work closely with the local community and in November 2016 staff contributed to a "Refurbishment Project" at The New York Center for Children, its local charity partner.

We are optimistic for continued growth in 2017 and will continue to focus on driving corporate and diplomatic business whilst monitoring costs to drive margins.

The Peninsula Chicago

Following the completion of the renovation in April 2016, The Peninsula Chicago enjoyed a 15% increase in RevPAR, 12% increase in revenue and a RevPAR ranking of No. 1 for the year despite significant new supply. This was due to our renovated rooms achieving a significant increase in room rate to become rate leader in the city. Chicago is a city that is highly dependent on the convention industry and in 2016 the city experienced a significant slowdown in large-scale events, with the number of events declining 20% year-on-year. In 2016, Choose Chicago, the official tourism organisation for Chicago, announced an increased focus on attracting international visitors to the city which is usually heavily dependent on the domestic US market. Boutique hotels remain popular in Chicago and more than 2,700 new hotel rooms became available on the market in the past year.

In June 2016, we celebrated the hotel's 15th anniversary with an elegant gala event for our VIP guests and media, and the hotel invited several groups of international media from China, Australia and Germany to experience its newly renovated rooms which generated positive reviews.

The contemporary design of the renovated guestrooms drew inspiration from the hotel's French Deco public spaces, as well as Lake Michigan and the Chicago River, and also introduced the Peninsula's proprietary advanced guestroom technology to the United States. Two new service initiatives were introduced to Chicago – 24-hour check-in for web bookings and "Keys to the City," which provides guests with special access to Chicago's art museums, top restaurants and tourist attractions. The Peninsula Chicago's Chinese restaurant, Shanghai Terrace, was ranked "Best Chinese restaurant in the city" by *Zagat*, and overall the hotel's food and beverage revenue increased by almost 10% year-on-year, as a result of increased traffic following the renovation.

As part of our group-wide strategy to connect our local communities with the art world, The Peninsula Chicago was honoured to feature a significant art exhibition entitled *Whoville* showcasing a number of renowned artists with connections to Chicago. This exhibition coincided with the annual EXPO CHICAGO, the International Exposition of Contemporary & Modern Art, in September 2016.

The Peninsula Chicago remains committed to sustainable business practices and we continued to place an emphasis on sourcing local sustainable seafood and fresh produce.

The Peninsula Beverly Hills

We were delighted that The Peninsula Beverly Hills was once again voted "The Best Hotel in the US" by *Global Traveler* magazine in 2016. The Peninsula Beverly Hills remains the only AAA Five Diamond and Forbes Five Star-rated hotel in Southern California, an accolade it has achieved every year since 1993.

The hotel enjoyed a positive 2016 with steady market growth and increased occupancy over the previous year. The hotel remained number one in RevPAR within its competitive set. Revenue increased by 10% as a result of implementing a relentless approach to revenue maximisation, with a focus on attracting long-term guests and selling suites. The newly renovated *Belvedere* restaurant opened in January 2016 and has achieved positive reviews and feedback from guests, and its new outdoor terrace area created a beautiful additional space for private parties, contributing to growth in revenue.

The Middle East and Australian markets remained particularly strong and the UK market held up despite the decline in the sterling currency.

We continued to pioneer new sustainability initiatives, including an innovative "waterless carwash" staffed by employees with special needs. We co-sponsored events with our local charity partner "A Place Called Home" which provides a safe environment for underprivileged children in the LA community. In June 2016, we launched a new Peninsula Academy LA-themed experience for children, "Red Carpet Kids", in line with our strategy of attracting more family travellers.

The Peninsula Beverly Hills celebrated its 25th anniversary in August 2016.

The Peninsula Paris

The Paris market is recovering slowly following the major terrorist attacks in Paris in 2015 and Nice in 2016. The tragic attacks on Brussels airport in March 2016 and Berlin city centre in December 2016 had a negative impact on travellers coming to France. Paris was also negatively affected by flooding of the Seine in June 2016 and the city has a long way to go to return to the high occupancy levels of pre-2014. We are optimistic that Paris, one of the world's most beautiful cities, remains an attractive destination for business and leisure and we are confident of a recovery in the medium term.

The hotel continues to garner a high level of acclaim from guests, media and the industry after its spectacular Grand Opening in 2015. Despite the challenging environment in 2016, we were pleased to achieve the highly sought-after 'Palace' rating for The Peninsula Paris, bestowed by the French Tourism Development Agency, ATOUT France, to reward the hotel's excellence in "promoting the French way of life on the international stage". We also achieved a Forbes Five-star ranking during the year. We were delighted to be the selected partner for the highly prestigious event *le Bal*, the traditional annual debutantes' ball, which was held in November 2016.

La Terrasse Kléber and *L'Oiseau Blanc* rooftop terrace have become established as popular venues for the local Parisian nightlife scene as well as for overseas visitors, particularly in the summer months when Paris enjoys a social buzz. During 2016 our key markets were Saudi Arabia, US and France domestic visitors, with increasing brand recognition in the Middle East as a result of our partnership with Katara Hospitality.

Private accommodation online aggregators are particularly popular in Europe and Paris, which is indirectly creating a new level of competition for French hoteliers even at the high end. We recognise that visitors to France desire an authentic, glamorous Parisian experience; to enhance our guests' experience of the city beyond the hotel, we have developed a variety of bespoke Peninsula Academy experiences with a unique Parisian flair. These include a private exclusive tour of haute couture design boutiques in Paris and a trip by choice of helicopter, Rolls-Royce Phantom or BMW to the heart of the Champagne region and the House of Deutz, producer of one of the world's finest champagnes and partner to The Peninsula Hotels worldwide.

The hotel uses nearly all of its paper from certified sustainably managed forests and continues to procure most of its seafood and fresh produce locally.

Revenue EUR56m (HK$481m)	Occupancy	Average Room Rate	RevPAR
-10%	-5pp	-10%	-18%

Commercial Properties

	2016	Variance	
	Revenue HK$m	In HKD	In Local Currency
The Repulse Bay Complex	**615**	(2%)	(2%)
The Peak Tower	**183**	2%	2%
St. John's Building	**52**	(4%)	(4%)
The Landmark	**38**	0%	3%
1-5 Grosvenor Place	**34**	(3%)	14%

The Repulse Bay Shopping Arcade, which offers an eclectic blend of boutique and lifestyle amenities, was fully occupied for most of the year

Revenue at our largest investment property, **The Repulse Bay Complex**, reported a slight decline compared with the same period last year. However, we consider these operating results to be satisfactory in the light of softer demand in Hong Kong, where the luxury residential leasing market is experiencing a downward trend, multinational companies are cutting housing allowances and more expatriates are being transferred to local packages. The majority of our tenants come from Europe, US and the Chinese mainland and we expect to see demand from these markets continuing to grow.

The Repulse Bay Shopping Arcade, which offers an eclectic blend of boutique and lifestyle amenities, was fully occupied for most of the year, with tenants recognising the value of the spectacular location and benefiting from robust traffic at weekends as city residents flocked to the south side to escape the city. Food and beverage revenue was slightly down over the same period last year and we implemented new promotional campaigns such as *Jazz on the Lawn* and themed wine evenings at *The Verandah*. A new website was launched at the end of 2016 to better promote the property and its restaurants. The Repulse Bay offers a beautiful location for weddings overlooking the ocean and our weddings and banqueting business remained stable in 2016.

As part of the group's 150th anniversary celebrations, we held a large-scale two-day charity event for more than 1,000 underprivileged and special needs children, working with some 80 partner charities to bring children to The Repulse Bay for a fun day out with a Christmas Carnival theme.

The Peak Tower was fully leased for most of the year in 2016 and revenue remained stable, with new rental agreements signed for two additional restaurant tenants in the first half. The Peak Tower generates most of its revenue from commercial leasing, with additional revenue coming from admission fees to the open-air rooftop attraction of Sky Terrace 428 with its panoramic views of Hong Kong. Visitor numbers to Sky Terrace 428 reached record levels with 8% higher revenue than 2015, thanks to increased sales of "combo tickets" with the Peak Tram. We are working with our tenants to promote traffic and have created new marketing campaigns and innovative photography areas free of charge.

As part of our community responsibility efforts and to commemorate the group's 150th anniversary, The Peak Complex gave out 150 umbrellas to homeless people in Hong Kong, and promoted special offers to children and the elderly.

St John's Building, located at the lower terminus of the Peak Tram, offers an excellent location for office space. The property was fully let, although revenue decreased by 4% over the previous year due to lower advertising income on the façade of the building.

The Landmark, a 16-storey residential and office property, is located on a prime waterfront site in the central business district of Ho Chi Minh City, Vietnam. The complex has 65 serviced apartments, a fully equipped business centre and Health Club, as well as 100,000 square feet of first class office space for leasing. Revenue increased 3% year-on-year as a result of increased demand for serviced apartments. The Landmark maintains its popularity and leadership in a competitive market, and continues to attract awards for its management and facilities. We were delighted to receive the accolade of *Best Serviced Apartments in Vietnam* in 2016.

1-5 Grosvenor Place in London, the project site of The Peninsula London hotel and residences, was acquired during 2013. As mentioned in the Projects section on page 45, on 30 September 2016 we completed an agreement to change the structure in our partnership with Grosvenor to assume 100% ownership of the project. We reported a revenue increase of 14% as a result of HSH being entitled to 100% of the rental income following the completion of the change of structure instead of 50%. Nevertheless, in Hong Kong dollar terms, there was a decrease of 3% in revenue due to the depreciation in local currency. We target to obtain vacant possession and commence demolition and construction of The Peninsula London project in April 2017.

The renovation of **21 avenue Kléber** is progressing well and is expected to complete at the end of September 2017. The property offers a spectacular location immediately adjacent to The Peninsula Paris on Avenue Kléber, in a chic neighbourhood just steps from the Arc de Triomphe. The building has been restored in keeping with the heritage of the building, while opening up and modernising the internal space into contemporary offices, spacious terraces and a large courtyard. The property has achieved international BREEAM Excellent and HQE Outstanding environmental certifications which are the highest level of sustainable building assessments in Europe.

Clubs and Services

	2016	Variance	
	Revenue HK$m	In HKD	In Local Currency
The Peak Tram	**120**	(2%)	(2%)
Thai Country Club	**56**	(3%)	(2%)
Quail Lodge & Golf Club	**145**	7%	7%
Peninsula Clubs & Consultancy Services	**68**	(63%)	(63%)
Peninsula Merchandising	**217**	21%	21%
Tai Pan Laundry	**50**	(9%)	(9%)

The Peak Tram is one of Hong Kong's most popular tourist attractions and, following weak tourism trends earlier in 2016, we started to see a pick up towards the end of the year, with December reporting record visitor numbers. However, overall revenue decreased by 2% and patronage declined slightly for the full year 2016.

We renewed our operating rights to the Peak Tram from 1 January 2016 for a ten-year period, which paves the way for a project to increase the capacity of the trams and create additional waiting areas for our customers. The Peak Tram is considered a "must-see" attraction for most visitors to Hong Kong and while it is a unique experience, we recognise the long queues to board during peak hours can be a source of frustration for visitors and we are working to improve their experience and comfort. Significant improvement work is expected to begin in 2017 and be completed in 2020, subject to the extension of the operating period being approved by the Hong Kong Government.

We were pleased to receive several accolades for **Thai Country Club** during 2016 at the Asian Golf Awards. These included "Best Managed Golf Club in Asia Pacific" and "Best Food and Beverage Experience in Asia Pacific". However, the club, which is located in Bangkok, recorded a small decrease in revenue for the full year as Thailand experienced a soft market, fewer visitors and fewer golf membership sales during the one-year mourning period following the sad passing of His Majesty King Bhumibol Adulyadej. Corporate events and tour groups were cancelled and we expect the market to remain soft in 2017.

Quail Lodge & Golf Club had a stronger year with revenue increasing by 7%. This was due to a successful marketing strategy, online travel agency (OTA) promotions, cost reductions, as well as improved golf membership sales and golf rounds following the major golf course renovation in 2015. The wedding market was strong in 2016 and our food and beverage revenue from *Edgar's* improved thanks to increased business from the Lodge and new monthly wine dinner initiatives. The results could have been even better, were it not for extreme rain at the beginning of 2016 and the Soberanes wildfires in the summer which both impacted business.

"The Quail Motorcycle Gathering", a Peninsula Signature event, welcomed 2,000 visitors in May 2016, followed in August by the highly successful "The Quail: A Motorsports Gathering", which occurs during Monterey Car Week and has become one of the world's leading concours events for classic car aficionados, attracting more than 5,000 visitors. Also in August, to coincide with The Quail, we launched "The Peninsula Classics Best of the Best Award" – an event bringing together the "2015 Best of Show winners" from six of the top concours events around the globe to compete for the title of the most exceptional car in the world. This brought the Peninsula brand to the attention of leading car aficionados and collectors.

Monterey Car Week, and The Quail event, is an important event in terms of giving back to the local community. During summer 2016 more than US$40,000 was raised for the community foundation's Kiwanis Foundation Community Fund. Quail Lodge donated the proceeds from a community party silent auction to this fund, which contributed to local scholarships and services in Carmel Valley. Our employees doubled their volunteer hours during 2016 to help with community activities, and we also donated guestrooms for firefighters when they were fighting the aforementioned Soberanes wildfires.

Peninsula Clubs & Consultancy Services manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and Butterfield's. As of 1 May 2016, HSH and Cathay Pacific Airways Limited agreed to end the Peninsula's management of the Cathay Pacific Lounges at Hong Kong International Airport. This decision was taken with a strategic long-term view of both companies' business interests. The decline in revenue was due to the termination of the Lounges management, although there were also commensurate cost savings.

Revenue at **Peninsula Merchandising** was 21% higher than the same period last year, driven by higher sales and brand awareness following the launch of the new Peninsula Boutique at Hong Kong International Airport. The Peninsula Boutique is investing in its marketing including a new e-commerce website launched in May 2016 which won the Silver Award for Excellence in Design at the Marketing Magazine's Marketing Excellence Awards 2016. Peninsula Merchandising sales are driven by the very popular Peninsula Mooncakes which are sold in autumn and are gaining popularity around the world beyond the traditional market of Hong Kong. Peninsula Merchandising has implemented a new strategy of a broader product range and seasonal promotions, which requires an initial investment but is expected to lead to a long-term increase in revenue as well as a broader earnings base.

Tai Pan Laundry decreased revenue by 9% to HK$50 million, mainly due to the loss of a large client.

Projects

The Peninsula London hotel and apartments will set new standards in luxury and service and we believe they will be the finest in the London market when complete.

The Peninsula London

In 2013, our Group purchased a 50% interest in the leasehold of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of £132.5 million and entered into a joint venture with Grosvenor to develop the site into The Peninsula London hotel and residences. As announced on 26 July 2016, we signed Heads of Terms to change the structure of our partnership with Grosvenor into a landlord and tenant relationship, whereby HSH assumed 100% ownership of the project for an additional cash consideration of £107.5 million. Grosvenor will remain as the landlord under the 150-year lease.

Upon completion of the restructuring on 30 September 2016, HSH assumed full responsibility and control for the development of the London project, including the remaining development costs. The final project budget is still being finalised but is expected to be in the region of £600 million. In return for this additional investment, we will have full control over the development, management and future operations of The Peninsula London, as well as be entitled to 100% of the proceeds from the future sales of the residential units in the project and the profits of the hotel. This is a significant transaction for our group, given the importance of London as a business and tourism destination.

This property is in a spectacular location overlooking Hyde Park Corner and the Wellington Arch. The current 1950s and 1960s offices will start to be demolished in 2Q 2017, to be replaced with a luxury 189-room hotel and a select number of luxury residential apartments for sale. The hotel and apartments will set new standards in luxury and service and we believe they will be the finest in the London market when complete, currently scheduled for 2021.

The Peninsula Istanbul

In July 2015, together with our partners Doğuş Holding and BLG, we entered into a conditional shareholders' agreement to form a joint venture partnership, of which HSH has a 50% share, for a proposed hotel development in Istanbul, Turkey.

The partners have agreed to jointly develop the property with an investment commitment of approximately €300 million, of which HSH is responsible for 50% or approximately €150 million.

All the conditions have been met and the project is well under way. Demolition on the project site began in June 2016 and is making significant progress. We expect it will be the first of our three hotel projects to be opened, with an expected completion date in 2019. There will be 180 rooms, a ballroom with sweeping views of the Bosphorus, rooftop restaurant, indoor and outdoor swimming pool, Spa and verdant garden area on the waterfront.

Istanbul is a beautiful historic city that embodies the meeting point of East and West, and the location of The Peninsula Istanbul on the Bosphorus is truly spectacular. The Peninsula Istanbul will form part of the wider *Galataport* project being developed by our partners, which incorporates a promenade, museums, art galleries, restaurants, boutiques, retail units, parks and public spaces for the local community as well as a cruise passenger terminal with global standards. Our partners have a long track record of investment in Turkey and share the same values of integrity and long-term commitment as HSH. We remain concerned about the uncertain political situation in Turkey and the tragic terrorist attacks in December 2016 which have had a negative impact on the tourism industry. However, we remain committed to this project as we believe in the long-term future of Istanbul as one of the world's fastest-growing tourism destinations and we will continue to monitor the security situation closely.

The Peninsula Yangon

The Company entered into a conditional agreement with Yoma Strategic Holdings in January 2014 to acquire a 70% majority interest for a proposed hotel development on the site of the former headquarters of the Myanmar Railway Company in central Yangon, Myanmar. The property will be renovated to become The Peninsula Yangon and will be adjacent to a mixed-use development called Yoma Central, previously known as the Landmark Development. We will also receive fees on the sale of The Peninsula Residences Yangon, luxury residential apartments within the development, and also continue to manage the residences post sale.

The Peninsula Yangon will have 88 high-ceilinged guestrooms, surrounded by garden terraces and tropical landscaped gardens with an outdoor swimming pool.

The final project budget is still being finalised but the Group's overall investment is expected to be around US$100 million, including the value of the leasehold interest and estimated development costs. The assignment and extension of the master lease and the approval of the Myanmar Investment Commission were obtained after an extended period of application, following which the groundbreaking ceremony was held on 16 February 2017. We look forward to continue to work with our partners to complete this project by 2021.

Human Resources

Attracting and developing our talent remains a key focus of our Company. We are committed to creating a culture of engaged employees across the Group, as well as widening our succession planning in the light of our company's development. The travel and tourism sector often suffers from high turnover of staff, but despite challenging times for our industry and an uncertain economic outlook in our home market of Hong Kong, we are pleased to report a low voluntary turnover rate among our staff compared with the industry. Having a well-trained and engaged workforce is critical to our work culture and in order to deliver the quality of service to our guests.

As of 31 December 2016, there were 7,474 full time employees in the Group. More details about our approach to nurturing our "human capital" can be read on pages 90-99.

Sustainable Luxury Vision 2020

As a company with 150 years of history, HSH is committed to delivering the highest standards of luxury in a sustainable way, which is reflected in our Sustainable Luxury Vision 2020, launched in 2013.

In 2016, we saw a good outcome of our continued energy and water efficiency efforts with energy intensity at 2.9% lower than 2015 and water use decreasing by 6.5%. In 2016 we focused on delivering a natural, organic and sustainably farmed choices on our menus worldwide, as part of our relaunch of *Naturally Peninsula*, including the menus in our newly renovated restaurants at The Peninsula Beijing. More details on our ambitions for Vision 2020 can be read on our website and in the Corporate Responsibility and Sustainability Report which is online this year to be more environmentally friendly.

With our long-term outlook and the exciting new projects that we are developing, we remain confident and positive about the future.

Outlook

The strength of our Group continues to emanate from our genuine focus and commitment to long-term value creation. This provides the vision and willingness to make decisions that are in the best long-term interests of the company and its shareholders and the staying power to ride through shorter-term cycles in the economy. In the volatile economic, political and social circumstances that we see today, this approach 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 pursue a course which will maximise the value of our assets and operations and deliver appropriate returns to our shareholders over time.

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.

As has been mentioned, the retail and tourism markets in Hong Kong in 2016 were subdued and we are seeking to address this by focusing on driving revenues with more focused marketing on the hotel side and closer interaction with guests on retail, as well as containing costs. More generally, our focus is to maintain and drive our operating margins throughout the Group.

Despite the uncertainties arising from political, economic and security factors, we remain cautiously optimistic that we will see improved financial performance in 2017. More specifically, we expect that The Peninsula Chicago will continue to benefit in terms of room rate from its recently completed renovation and The Peninsula Beijing to increase its earnings after the completion of its rooms renovation when it returns to full inventory in mid-2017. We have seen more stability and optimism regarding the Hong Kong economy and tourism and hope to see a gradual recovery in the coming year.

Looking to the longer term, according to the World Travel and Tourism Council (WTTC) the global travel and tourism industry is expected to grow at above global GDP rates for the next decade. This is in spite of an uncertain global economy, political uncertainty, and increasing competition for the hotel industry in the form of private accommodation online aggregators. To remain competitive against such aggregators, we are taking steps to enhance our appeal to discerning guests who are searching for a bespoke, tailored travel experience.

Overall, our company remains in a strong financial position, and the core operations are performing well when the renovations are taken into account. With our long-term outlook and the exciting new projects that we are developing, we remain confident and positive about the future, whilst being ready and able to ride out the shorter term fluctuations in the markets in which we operate.

Clement Kwok
20 March 2017

Financial Review

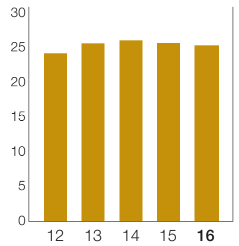
The financial details outlined in this chapter provide an overview of the Group's consolidated results and financial capital as categorised by the International Integrated Reporting Framework, which refers to the pool of funds that is available to an organisation for use in the production of goods or the provision of services.

ADJUSTED NAV

HK$39,711m
flat

Adjusted NAV per share

HK$m



The Group's adjusted net assets value

In the Financial Statements, the Group's hotels (other than shopping arcades and offices within the hotels) and golf courses are stated at depreciated cost less accumulated impairment losses, if any, and not at fair value.

Accordingly, we have commissioned an independent third-party fair valuation of the Group's hotels and golf courses as at 31 December 2016, the details of which are set out on page 57. If these assets were to be stated at fair value, the Group's net assets attributable to shareholders would increase by 9% to HK$39,711 million as indicated in the table below.

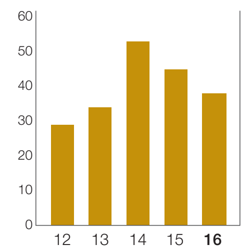
HK$m	**2016**		2015	
Net assets attributable to shareholders per the audited statement of financial position		**36,359**		36,427
Adjusting the value of hotels and golf courses to fair value	**3,815**		3,685	
Less: Related deferred tax and non-controlling interests	**(463)**		(485)	
		3,352		3,200
Adjusted net assets attributable to shareholders		**39,711**		39,627
Audited net assets per share (HK$)		**23.20**		23.61
Adjusted net assets per share (HK$)		**25.34**		25.68

UNDERLYING EARNINGS

HK$606m
-12%

Underlying Earnings per share

HK cents



The Group's underlying earnings

Our operating results are mainly derived from the operation of hotels and leasing of commercial properties. We manage the Group's operations with principal reference to their underlying operating cash flows and recurring earnings. To comply with accounting standards, we are required to include non-operating and non-recurring items, such as any changes in the fair value of investment properties, in our statement of profit or loss. To reflect the true performance of the Group, we have provided calculations of the underlying profit attributable to shareholders and underlying earnings per share. These are determined by excluding the post-tax effects of the property revaluation movements and other non-operating and non-recurring items.

The Group's underlying profit attributable to shareholders for the year ended 31 December 2016 amounted to HK$606 million, a decrease of 12% compared to 2015, mainly due to the renovation at The Peninsula Beijing. The challenging retail market in Hong Kong and China also had an impact on our retail arcades.

HK$m	2016	2015	2016 vs 2015
Profit attributable to shareholders	**675**	1,000	
Adjustment for fair value movement of investment properties, including the Group's share of revaluation movement of The Peninsula Shanghai, net of tax and non-controlling interest	**(69)**	(258)	
Effect of decrease in tax rates on deferred tax liabilities arising from revaluation gains on investment properties	**–**	(54)	
Underlying profit attributable to shareholders	**606**	688	(12%)
Underlying earnings per share (HK$)	**0.39**	0.45	(13%)

Statement of profit or loss

The Group's consolidated statement of profit or loss for the year ended 31 December 2016 is set out on page 170. The following table summarises the key components of the Group's profit attributable to shareholders. This table should be read in conjunction with the commentaries set out on pages 52 to 55 of this Financial Review.

HK$m	2016	2015	2016 vs 2015
Revenue	**5,631**	5,741	(2%)
Operating costs	**(4,343)**	(4,301)	1%
EBITDA	**1,288**	1,440	(11%)
Depreciation and amortisation	**(464)**	(426)	9%
Net financing charges	**(96)**	(68)	41%
Share of result of The Peninsula Shanghai*	**20**	(71)	n/a
Share of results of The Peninsula Paris and The Peninsula Beverly Hills**	**(25)**	(23)	9%
Increase in fair value of investment properties	**29**	277	(90%)
Taxation	**(85)**	(124)	(31%)
Profit for the year	**667**	1,005	(34%)
Non-controlling interests	**8**	(5)	n/a
Profit attributable to shareholders	**675**	1,000	(33%)

* Being the Group's 50% share of The Peninsula Shanghai's (PSH) result. The 2016 figure includes the Group's share of unrealised loss of HK$19 million (2015: HK$37 million) arising from the revaluation of PSH's investment properties, net of tax

** Being the Group's 20% share of The Peninsula Paris' operating loss net of its 20% share of The Peninsula Beverly Hills' profit

REVENUE

HK$5,631m
-2%

Hotels

HK$4,040m
-1%

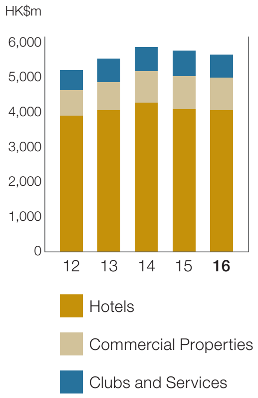
Commercial Properties

HK$935m
flat

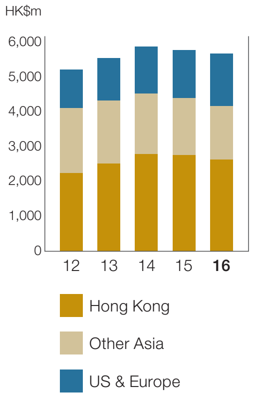
Clubs and Services

HK$656m
-10%

Consolidated Revenue by Business Segment



Consolidated Revenue by geographical segment



Revenue

The Group's revenue in 2016 decreased by 2% to HK$5,631 million. A breakdown of this by business segment and geographical segment is set out in the following tables.

Consolidated revenue by business segment

HK$m	**2016**	2015	2016 vs 2015
Hotels	**4,040**	4,073	(1%)
Commercial Properties	**935**	937	–
Clubs and Services	**656**	731	(10%)
	5,631	5,741	(2%)

Consolidated revenue by geographical segment*

HK$m	**2016**	2015	2016 vs 2015
Hong Kong	**2,615**	2,749	(5%)
Other Asia	**1,526**	1,624	(6%)
USA and Europe	**1,490**	1,368	9%
	5,631	5,741	(2%)

* The segment revenue of the Group is analysed based on the geographical location at which the properties are located and the services were provided

The hotels division is the main contributor to the Group's revenue, accounting for 72% (2015: 71%) of total revenue. The operating performance of the Group's hotel businesses is subject to a higher degree of volatility by nature. The decrease in revenue of the hotels division was predominantly due to the room closures for the renovation undertaken by The Peninsula Beijing.

The operating performance of the commercial properties division remained stable compared with last year. The decrease in revenue for the clubs and services division was mainly due to the loss of income from Peninsula Clubs & Consultancy Services following the termination of the management contracts for the Cathay Pacific Lounges at Hong Kong International Airport with effect from 1 May 2016.

Details of the operating performances of the Group's individual operations are set out on pages 24 to 44 of the CEO's Strategic Review.

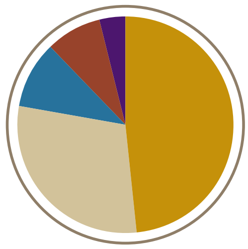
Operating costs

In 2016, our operating costs (excluding depreciation and amortisation) increased by 1% to HK$4,343 million (2015: HK$4,301million).

Given the nature of operating high-end luxury hotels, staff costs continued to be the largest portion of operating costs. Staff costs and related expenses for the year increased by 2% to HK$2,108 million, representing 49% (2015: 48%) of the Group's operating costs and 37% (2015: 36%) of the Group's revenue.

OPERATING COSTS

HK$4,343m
+1%



Staff costs and related expenses
Others
Cost of inventories
Rent
Utilities

EBITDA and EBITDA Margin

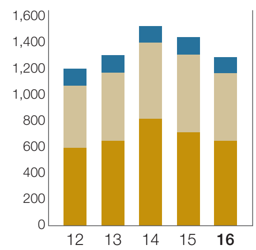
EBITDA (earnings before interest, taxation, depreciation and amortisation) of the Group decreased by HK$152 million or 11% to HK$1,288 million in 2016. The table below sets out the breakdown of the Group's EBITDA by business segment and by geographical segment.

EBITDA* (HK$m)	Hong Kong	Other Asia	USA and Europe	Total
2016				
Hotels	**493**	**74**	**82**	**649**
Commercial Properties	**479**	**15**	**24**	**518**
Clubs and Services	**123**	**5**	**(7)**	**121**
	1,095	**94**	**99**	**1,288**
	85%	**7%**	**8%**	**100%**
2015				
Hotels	539	166	72	777
Commercial Properties	502	15	21	538
Clubs and Services	123	8	(6)	125
	1,164	189	87	1,440
	81%	13%	6%	100%
Change 2016 vs 2015	(6%)	(50%)	14%	(11%)

* With effect from 2016, to more accurately reflect the profitability of each segment, the inter-company fees charged by the Head Office to individual properties are included in the segment relating to that entity. The comparative figures have been restated to conform to the current year's presentation

EBITDA by Business Segment

HK$m



Hotels
Commercial Properties
Clubs and Services

EBITDA Margin	2016	2015
Hotels	**16%**	19%
Commercial Properties	**55%**	57%
Clubs and Services	**18%**	17%
Overall EBITDA margin	**23%**	25%
By region:		
Hong Kong	**42%**	42%
Other Asia	**6%**	12%
USA and Europe	**7%**	6%

The luxury hotel business is a labour-intensive industry with high fixed costs. The decrease in EBITDA margin for the hotels division in 2016 was mainly due to the low margins earned by The Peninsula Beijing and The Peninsula Chicago during their renovations. Revenue was down significantly due to the closure of rooms, and we made a strategic decision to not lay off any staff during the renovation period – instead investing in our people and improving service levels by increasing their training and cross-exposure to other hotels. Therefore, we could not achieve a corresponding reduction in operating costs due to continuing staff costs and overhead expenses. The decrease in the EBITDA margin for the commercial properties division was mainly due to the increase in operating costs and a reduction in net rental yield from 1-5 Grosvenor Place, as the property is offering shorter-term leasing in preparation for vacant possession of the building in the second quarter of 2017. For the clubs and services division, despite the loss of income following the termination of the Cathay Pacific Lounges' management contracts, with continuous efforts to contain costs, we were able to maintain our EBITDA margin at a healthy level.

Depreciation and amortisation

The depreciation and amortisation charge of HK$464 million (2015: HK$426 million) largely relates to hotels. Depreciation charges are substantial and as such the Group adopts a rolling 5-year capital expenditure plan that is reviewed regularly to monitor planned replacement of furniture, fixtures and equipment, purchase of new items and major upgrade or enhancement projects.

Increase in fair value of investment properties

Investment properties of the Group were revalued as at 31 December 2016 by independent firms of valuers based on income capitalisation approach. The reduction in revaluation surplus was a reflection of the general market conditions. The net surplus in 2016 was principally attributable to the increase in the appraised market value of The Repulse Bay Complex, The Peninsula Office Tower, The Peak Tower, St. John's Building and 21 avenue Kléber net of the decrease in appraised market value of The Landmark, Vietnam and the commercial arcades at The Peninsula Hong Kong and The Peninsula Beijing.

Share of result of The Peninsula Shanghai

The Group, through its joint venture The Peninsula Shanghai Waitan Hotel Company Limited (PSW), owns a 50% interest in The Peninsula Shanghai Complex which comprises a hotel, a shopping arcade and a residential tower of 39 apartments, of which 19 apartment units were reclassified as apartments held for sale in 2013.

During 2016, The Peninsula Shanghai remained the market leader in terms of average room rate and RevPAR in its competitor set, generating an EBITDA of HK$273 million (2015: HK$159 million), of which HK$72 million (2015: HK$35 million) was derived from the sale of 4 apartment units (2015: 2 apartment units). In addition, The Peninsula Shanghai Complex recorded a net unrealised loss of HK$38 million on revaluation of the hotel arcade (2015: HK$74 million). After accounting for the unrealised revaluation loss, depreciation and interest, PSW generated a net profit of HK$40 million (2015: net loss of HK$142 million). The Group's share of profit thereon amounted to HK$20 million (2015: share of loss of HK$71 million).

Details of the operating performance of The Peninsula Shanghai are set out in the CEO's Strategic Review section on pages 28 and 29.

Share of results of The Peninsula Beverly Hills and The Peninsula Paris

The Group has a 20% interest in each of The Peninsula Beverly Hills and The Peninsula Paris. The Group's share of net loss of these two hotels for 2016 amounted to HK$25 million (2015: HK$23 million).

Details of the operating performances of The Peninsula Beverly Hills and The Peninsula Paris are set out in the CEO's Strategic Review section on pages 36 and 37.

Statement of financial position

The Group's financial position as at 31 December 2016 remained strong and net assets attributable to shareholders amounted to HK$36,359 million, representing a per share value of HK$23.20 compared to HK$23.61 in 2015. The consolidated statement of financial position of the Group as at 31 December 2016 is presented on page 172 and the key components of the Group's assets and liabilities are set out in the following table:

HK$m	**2016**	2015	2016 vs 2015
Fixed assets	**40,712**	39,097	4%
Other long-term assets	**2,223**	2,169	2%
Cash at banks and in hand	**2,087**	2,919	(29%)
Other assets	**848**	904	(6%)
	45,870	45,089	2%
Interest-bearing borrowings	**(6,998)**	(6,192)	13%
Other liabilities	**(2,298)**	(2,237)	3%
	(9,296)	(8,429)	10%
Net assets	**36,574**	36,660	–
Represented by			
Shareholders' funds	**36,359**	36,427	–
Non-controlling interests	**215**	233	(8%)
Total equity	**36,574**	36,660	–

Fixed assets

The Group has interests in ten operating hotels in Asia, US and Europe. In addition to hotel properties, we own residential apartments, office towers and commercial buildings for rental purposes.

Our hotel properties and investment properties are dealt with under different accounting policies as required by accounting standards. The hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties are stated at fair value. Therefore, independent valuers have been engaged to conduct a fair valuation of the hotel properties and golf courses as at 31 December 2016. A summary of the Group's hotel, commercial and other properties showing both the book value and the fair value as at 31 December 2016 is set out in the table on the following page.

		2016		2015	
		Value of 100% of the property (HK$m)			
	Group's interest	**Fair value valuation**	**Book value**	Fair value valuation	Book value
Hotel properties *					
The Peninsula Hong Kong	100%	**12,031**	**9,882**	12,084	9,989
The Peninsula New York	100%	**2,378**	**1,757**	2,414	1,741
The Peninsula Beijing	76.6%**	**1,716**	**1,485**	1,321	1,156
The Peninsula Tokyo	100%	**1,567**	**1,446**	1,458	1,420
The Peninsula Chicago	100%	**1,331**	**1,268**	1,340	1,221
The Peninsula Bangkok	75%	**606**	**590**	597	595
The Peninsula Manila	77.4%	**139**	**138**	163	160
		19,768	**16,566**	19,377	16,282
Commercial properties					
The Repulse Bay Complex	100%	**16,930**	**16,930**	16,862	16,862
The Peak Tower	100%	**1,362**	**1,362**	1,345	1,345
St. John's Building	100%	**1,027**	**1,027**	967	967
21 avenue Kléber	100%	**621**	**621**	509	509
1-5 Grosvenor Place	100%#	**2,583**	**2,583**	3,278	3,278
The Landmark	70%Δ	**68**	**68**	77	77
		22,591	**22,591**	23,038	23,038
Other properties					
Thai Country Club golf course	75%	**211**	**242**	210	237
Quail Lodge resort, golf course and vacant land	100%	**307**	**286**	305	289
Vacant land in Thailand	75%	**390**	**390**	382	382
Others	100%	**344**	**219**	335	225
		1,252	**1,137**	1,232	1,133
Total market/ book value		**43,611**	**40,294**	43,647	40,453
Hotel and investment property held by a joint venture					
The Peninsula Shanghai Complex ΔΔ	50%	**4,556**	**4,256**	4,895	4,628
Hotel properties held by associates					
The Peninsula Paris	20%	**5,220**	**5,017**	5,517	5,347
The Peninsula Beverly Hills	20%	**2,640**	**479**	2,636	467

* Including the shopping arcades and offices within the hotels

** The Group owns 100% economic interest of The Peninsula Beijing with a reversionary interest to the PRC partner in 2033 upon expiry of the co-operative joint venture period

Δ The Group owns 50% economic interest of The Landmark with a reversionary interest to the Vietnamese partner in 2026 upon expiry of the joint venture period

ΔΔ Excluding the apartment units held for sale

The Group acquired the remaining 50% interest in 1-5 Grosvenor Place in September 2016 and the property is now wholly-owned

Other long-term assets

The other long-term assets as at 31 December 2016 of HK$2,223 million (2015: HK$2,169 million) principally comprise the Group's 50% interest in The Peninsula Shanghai, the Group's 20% interest in The Peninsula Paris (PPR) and the related hotel operating right in respect of PPR and the Group's 50% interest in The Peninsula Istanbul which is under development.

Cash at banks and in hand and interest-bearing borrowings

As at 31 December 2016, the Group's cash at banks and in hand and interest-bearing borrowings amounted to HK$2,087 million (2015: HK$2,919 million) and HK$6,998 million (2015: HK$6,192 million) respectively. The increase in interest-bearing borrowings was mainly due to the acquisition of additional interest in 1-5 Grosvenor Place. A breakdown of the Group's capital expenditure for the year ended 31 December 2016 is set out on page 59.

Cash flows

The consolidated statement of cash flows of the Group for the year ended 31 December 2016 is set out on page 174. The following table summarises the key cash movements for the year ended 31 December 2016.

HK$m	**2016**	2015
EBITDA	**1,288**	1,440
Net change in working capital	**24**	4
Tax payment	**(136)**	(224)
Net cash generated from operating activities	**1,176**	1,220
Capital expenditure on existing assets		
– The Peninsula Beijing and The Peninsula Chicago	**(686)**	(195)
– Others	**(314)**	(281)
Net cash inflow after normal capital expenditure	**176**	744
Acquisition of additional interest in 1-5 Grosvenor Place	**(1,288)**	–
Acquisition of The Peninsula Tokyo's hotel building	**–**	(732)
Capital expenditure on new projects	**(131)**	(184)
Net cash outflow before dividends and other payments	**(1,243)**	(172)

The after-tax net cash generated from operating activities for the year amounted to HK$1,176 million (2015: HK$1,220 million), of which HK$1,000 million (2015: HK$476 million) was applied to fund capital expenditure on existing assets.

The breakdown of the Group's spending on its existing assets is analysed below:

HK$m	**2016**	2015
Hotels		
The Peninsula Beijing and The Peninsula Chicago	**686**	195
Others	**170**	139
Commercial properties	**105**	77
Clubs and services	**39**	65
	1,000	476

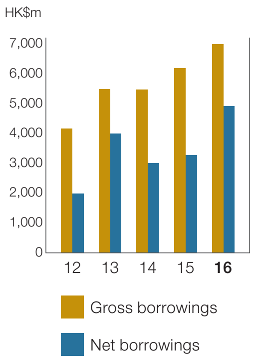
Capital and treasury management

The Group is exposed to liquidity, foreign exchange, interest rate and credit risks in the normal course of business and have policies and procedures in place to manage such risks.

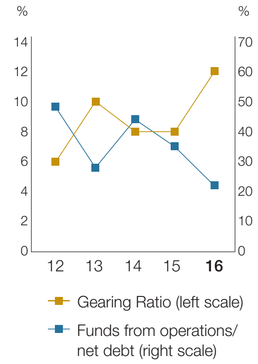
The Group manages treasury activities centrally at its corporate office in Hong Kong. The Group also regularly reviews its capital structure and actively monitors current and expected liquidity requirements to ensure its obligations and commitments are met. A proactive approach is taken to forecasting future funding requirements and, when funds are needed, market conditions are evaluated to determine the best form of finance to be secured.

In addition, the Group maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to ensure funds are available to meet its financial obligations and to finance its growth and development.

Gross and Net Borrowings



Gearing and Funds from Operations to Net Debt



Liquidity/financing

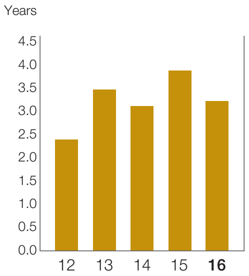
The Group monitors its capital structure on the basis of its gearing ratio, which is expressed as the percentage of net borrowings (defined as interest-bearing borrowings less cash at banks and in hand) to the total of net borrowings and equity attributable to shareholders of the Company.

In 2016, gross borrowings increased to HK$6,998 million (2015: HK$6,192 million) mainly due to the payment for the acquisition of Grosvenor's 50% interest in the London project. Consolidated net debt increased to HK$4,911 million as compared to HK$3,273 million in 2015, after taking into account cash of HK$2,087 million (2015: HK$2,919 million). The Group's net gearing increased to 12%, whilst the funds from operations (EBITDA less tax paid and less net interest paid) to net debt ratio decreased from 35% to 22%. These ratios continue to reflect a healthy financial position for the Group.

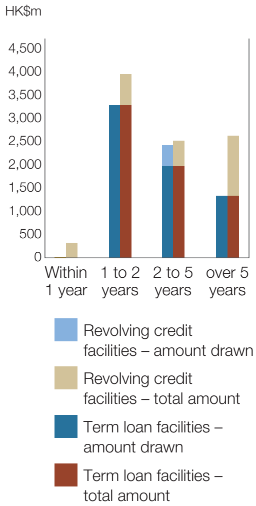
The average debt maturity decreased from 3.9 years to 3.2 years.

During the year, the Company has obtained 2 new credit facilities totalling HK$2,100 million in Hong Kong and a credit facility of THB800 million for a subsidiary to refinance its maturing loans.

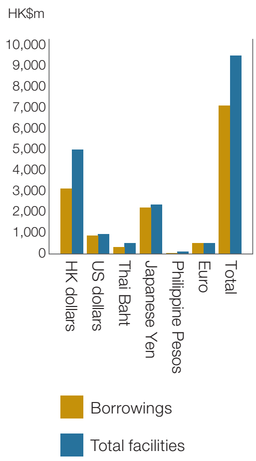
Average Debt Maturity



Banking Facilities and Borrowings (by type and maturity)



Banking Facilities and Borrowings (by currency)



In addition to the Group's consolidated borrowings, The Peninsula Shanghai (50% owned), The Peninsula Beverly Hills (20% owned) and The Peninsula Paris (20% owned) have non-recourse bank borrowings which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the Company.

The consolidated and non-consolidated borrowings as at 31 December 2016 are summarised as follows:

	2016					2015
HK$m	Hong Kong	Other Asia	United States of America	Europe	Total	Total
Consolidated gross borrowings	3,070	2,529	910	489	6,998	6,192
Non-consolidated gross borrowings attributable to the Group*						
The Peninsula Shanghai (50%)	–	989	–	–	989	1,088
The Peninsula Beverly Hills (20%)	–	–	214	–	214	219
The Peninsula Paris (20%)	–	–	–	357	357	370
Non-consolidated borrowings	–	989	214	357	1,560	1,677
Consolidated and non-consolidated gross borrowings	3,070	3,518	1,124	846	8,558	7,869

* Represents HSH's attributable share of borrowings

Foreign exchange

The Group reports its financial results in Hong Kong dollars and does not hedge US dollar exposures in the light of the HK-US dollar peg. The Group mostly uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge foreign exchange exposures.

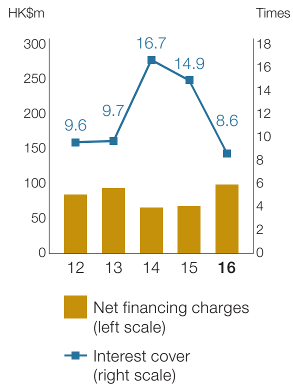
All of the Group's borrowings are denominated in the functional currency of the operations to which they relate. As at 31 December 2016, Hong Kong dollar borrowings represented 44% (2015: 37%) of total borrowings. Other balances were mainly in US dollars, Japanese yen and other local currencies of the Group's entities.

Interest rate risk

The Group has an interest rate risk management policy which focuses on reducing the Group's exposure to changes in interest rates by maintaining a prudent mix of fixed and floating rate liabilities. In addition to raising funds directly on a fixed rate basis, the Group also uses interest rate swaps or cross currency interest rate swaps in managing its long-term interest rate exposure.

Financing charges on borrowings in 2016 amounted to HK$133 million (2015: HK$124 million). After interest income of HK$37 million (2015: HK$56 million), a net charge of HK$96 million (2015: HK$68 million) was recognised in the statement of profit or loss. Interest cover (operating profit divided by net financing charges) decreased to 8.6 times (2015: 14.9 times) in 2016. As at 31 December 2016, the Group's fixed to floating interest rate ratio increased to 67% (2015: 62%) arising from fixed rate borrowings of HK$800 million arranged during the year. The weighted average gross interest rate for the year decreased from 2.2% to 2.1%.

Net Financing Charges and Interest Cover



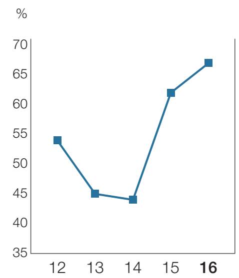
Credit risk

The Group manages its exposure to non-performance of counterparties by transacting with those who have a credit rating of at least investment grade when depositing surplus funds. However, in developing countries, it may be necessary to deal with banks of lower credit rating.

Derivatives are used solely for hedging purposes and not for speculation and the Group only enters into derivative transactions with counterparties which have credit ratings of at least investment grade, even in developing countries, because of the longer-term effect.

As at 31 December 2016, bank deposits of HK$2,075 million (2015: HK$2,902 million) and derivatives with notional amount of HK$1,850 million (2015: HK$1,843 million) were transacted with financial institutions with credit ratings of at least investment grade.

Long Term Fixed-to-Total Borrowings (adjusted for the hedging effect)



Share information

At market close on 20 March 2017, the Company's share price stood at HK$8.8, giving a market capitalisation of HK$13.8 billion (US$1.8 billion). This reflects a discount of 62% to net assets attributable to shareholders of the Company, or a discount of 65% to the adjusted net assets attributable to shareholders (see page 50).

The average closing price during 2016 was HK$8.14, with the highest price of HK$9.49 achieved on 23 November 2016 and the lowest price of HK$7.15 recorded on 11 February 2016.

Our Business

Imagination


Operator
Telephone Call
Hotel Services
Restaurants & Bars
VOIP
THE PENINSULA
ROOM CONTROL
SERVICES
DINING
TV / AUDIO
CONCIERGE
°C/°F
02:58
14:55
THE PENINSULA

INNOVATION

HSH Business Model and Investment Strategy

We take a very long-term investment view, consistently maintaining and enhancing the quality of our assets and operations, while continually upholding and upgrading our brand and service quality.

HSH is an owner-operator of a small number of leading hotels in the world under the well-renowned Peninsula brand, together with luxury commercial and residential properties. It also provides club management and other hospitality-related services. The owner-operator business model is a capital intensive one, but it allows us to have control over the timing of investments in assets and new developments, to ensure the highest level of quality and consistency in our product, and to offer a bespoke, tailored guest experience. We take a very long-term investment view, consistently maintaining and enhancing the quality of our assets and operations, while continually upholding and upgrading our brand and service quality.

The company's majority shareholders are the Kadoorie family, whose key philosophies permeate throughout our governance and management values. These are:

- To conduct business with the highest levels of integrity
- To respect history and heritage
- To maintain the best brand and reputation
- To pass onto future generations a portfolio of the highest quality assets

Having a diverse portfolio within our chosen niche mitigates investment risks generally associated with the hospitality industry: the stable returns of the commercial properties and residential properties division and, to a smaller extent, the clubs and services division, helps to offset the cyclical nature of the hotel business.

We create significant value for our shareholders from the appreciation in capital value of our properties as well as from the increasing operating yield as the asset continues to grow its income over time. The best example of this is our flagship property, The Peninsula Hong Kong, which in 1928 was built for what was regarded in those days as an enormous sum of HK$3 million. Of course, much money has since been invested in maintenance and upgrades, most notably in the Peninsula Tower built in 1994, but today the property has a total worth of over HK$12 billion and annual revenue in excess of HK$1.2 billion.

Our development strategy is to continue expanding on a measured and selective basis. The business development team evaluates opportunities around the world in both developed and emerging markets, taking into consideration a number of factors including real estate costs, political stability, heritage appeal, labour costs and availability of the right skills, competition, the stability of the operating environment, levels of luxury consumption in those locations, and potential for tourism growth. The team then shortlists opportunities based against these "Peninsula potential" criteria. While there is no shortage of opportunities, we are very selective and particular about our requirements for a Peninsula hotel. It must be able to stand the test of time, from century to century. Therefore, truly exceptional locations which befit a Peninsula hotel are difficult to come by.

Location, Location, Location

Our philosophy is to have only one Peninsula hotel in a given city and to seek a location which is not only unique but relates to the city's history as well as being at the heart of a vibrant community. We seek to embrace the local community as well as overseas guests and to make local people feel proud of the hotel as an iconic location within their home city. The location has to provide the ability for us to build a hotel or a mixed-use development which has its own distinct exterior appearance, identity, presence and impact. Ease of access to the property and the ability to provide a grand arrival experience for guests are essential, as are sweeping views from the hotel's guestrooms. The size of the site has to be able to accommodate the exceptionally generous guestroom sizes and stately public areas which make up a Peninsula hotel.

Bridging the Investment Gap

Implicit in this strategy is the challenge of high land prices for the type of location that we seek, compounded by ever-rising construction costs. It is neither likely nor intended that we shall reap significant returns on any of our investments in the short term. The key to bridging the gap before eventually maximising gains comes from the following factors:

1. The ability to take a very long-term view on real estate capital appreciation in the world's gateway cities. Our hotels are considered "trophy assets" in all these cities and will continue to create value over time.
2. Additional returns from shopping arcades or residential apartments as part of the hotel complex.
3. Entering into long-term partnerships with our co-owners who value the benefits of creating a high quality long-term asset.
4. Building up a long-term loyal clientele who are willing to pay premium prices for a superior luxury product and services. We achieve this by offering a high level of personalised service and attention to detail.

On the commercial property side, we take a similar investment approach and seek exceptional locations for luxury office space – for example, St John's Building in Central Hong Kong and our latest investment, 21 avenue Kléber, located beside The Peninsula Paris. We own high-end residential property, The Repulse Bay, in Hong Kong's exclusive South Side and rent commercial space to tenants at The Repulse Bay Arcade and The Peak Tower. Our strategy to open Sky Terrace for tourists to enjoy Hong Kong's spectacular panoramic views has been highly successful as a source of additional revenue.

Embracing the local culture and history

Each Peninsula Hotel is designed specifically for that development and embraces the local culture, style and history of its host country or city. It is important to us that a stay at a Peninsula hotel forms an integral part of a guest's total experience of the country they are visiting and is rich in references to local architecture, artwork and ambience. As an integral part of our local community, our hotels are also "adopted" by local residents who make up a large percentage of our patrons at food and beverage outlets, function rooms, and shopping arcade. This strong and loyal local patronage helps us to weather periodic downturns in tourism arrivals.

The hotel also generates additional value for surrounding shopping districts and restaurants.

To boost our competitive advantage, The Peninsula Academy has been developed and designed to offer a highly curated and personalised branded experience that extends beyond the walls of the guestroom or property – and really allows our guests to see the location through the eyes of a local person.

We encourage our guests to explore the local area, through an exclusive partnership with LUXE City Guides to produce PenCities by LUXE, offering a curated collection of tips for dining, entertainment, shopping, design, nightlife, spa and wellness, plus the latest openings, special cultural events and seasonal celebrations in each dynamic Peninsula destination – thus embedding the hotel deeper into the life of the community it serves.

Similarly, our residential apartments attract loyal tenants who appreciate that they offer a unique living environment in an exceptional setting – for example, The Repulse Bay was voted Best Residential Complex 2016 and The Landmark in Vietnam was ranked *Top Serviced Apartments in Vietnam* (see Awards & Accolades, page 104.)

Innovation

With 88 years of history, The Peninsula Hong Kong is often referred to as a "The Grand Dame" of the Group. But time does not age our product. From the time The Peninsula was conceived, HSH was determined to present "an establishment containing the most modern hotel equipment and hygienic appliances to an extent without parallel in this part of the world", according to the first managing director of HSH, James Taggart, in 1928. This has been the cornerstone of our approach to innovation ever since those early days and continues today with a strategic approach with the creation of The Technology Steering Committee (see more on page 106).

We believe innovation is the key to remaining modern and cutting-edge in our properties. We are the only hotel group to invest in our own in-house research and technology facility, located in Hong Kong. The team includes 26 engineers working on the design, development, prototyping and implementation of the seamless in-room technology

that is delivered to guests in 11 languages on user-friendly tablets in their guestrooms. More about our approach to innovation and technology initiatives can be read on page 104.

A People Culture

The people who deliver the services to our guests represent the face and heart of The Peninsula brand. These highly-trained individuals excel in providing personalised services that delight our guests, anticipating their needs or surprising them with unexpected initiatives, while at the same time carefully managing and maintaining our assets and upholding operational standards. To underpin this brand attribute, we place strong emphasis on training, career development, genuine caring for our staff, empowerment and providing a confident and happy working environment in which employees can take pride. At The Peninsula Hong Kong, we ourselves are proud of the fact that 34% of our staff have over 10 years of service with us, which is high by any industry standard. Our Corporate Management Trainee Programme attracts hundreds of applicants and after a stringent hiring process, we select the best people to participate in the programme to become our future leaders.

More details about our HR strategy, investment in our people, our training and succession planning can be read on page 94.

A Vision for Sustainable Luxury

As a company with 150 years of history, we are deeply committed to sustainability in an environmental as well as a business context. Our Sustainable Luxury Vision 2020 integrates sustainable practices into our business, including our operations, supply chain, guest experience, employees and the local communities in which we operate. Through a variety of platforms, training workshops and initiatives, we aspire to create awareness and buy-in towards sustainability throughout our company so that it becomes a living and breathing topic that matters personally to our employees and is integral to how we conduct all our businesses and operations. We also approach sustainability in a way that makes business sense. We calculate paybacks and returns on investments made into environmental initiatives, and we look at what value drivers our sustainability initiatives could contribute. We are making good progress towards our Vision 2020 goals which can be read in more detail on page 75 and in our Corporate Responsibility and Sustainability Report, available online.

Diversification of Our Brand

With the objective of diversifying our brand and increasing brand recognition in markets where we do not operate a Peninsula hotel, Peninsula Merchandising Limited was established in Hong Kong in 2003. This subsidiary develops and distributes Peninsula-branded merchandise and operate Peninsula Boutiques in key gateway cities in Asia. The Peninsula Boutique outlets are located at The Peninsula Hong Kong, The Peninsula Beijing, The Peninsula Shanghai, The Peninsula Tokyo, The Peninsula Manila, The Peninsula Bangkok and The Peninsula Chicago, and a boutique at Hong Kong International Airport. The Peninsula merchandise is also available at Peninsula Boutiques throughout Asia including Hong Kong, Beijing, Fukuoka, Hiroshima, Osaka, Tokyo, Yokohama, Singapore, Taichung and Taipei. The Peninsula Boutique & Cafè outlet is located at The Peninsula Tokyo. A selection of merchandise is also available for purchase online and delivery in Hong Kong, Japan and Taiwan at peninsulaboutique.com.

Perhaps the strongest pillar of our business model and investment strategy can be summed up in one word: Passion.

A Passion for Excellence

Perhaps the strongest pillar of our business model and investment strategy can be summed up in one word: Passion. We strongly believe that a great hotel is built on attention to detail, quality and an exceptional back-of-house. This passion for perfection is set by our leadership and translates through to the work of our general managers, our designers, project teams, operations teams and our partners, to create a truly prestigious brand that is celebrated across the world and a values-driven company that consistently lives up to its unique brand proposition.

External Environment and Industry Trends

The hotel industry has been catering to travellers' needs for thousands of years, from the earliest inns of Medieval Europe to today's robot-staffed trendy boutique hotels. Luxury hotels started to be developed at the end of the 19th century to cater to a niche group of wealthy clientele who wanted the same level of comfort and luxury they could find at home. This is how the HSH story began – with Hong Kong's first luxury hotel in 1866 catering to affluent European adventurers travelling to the Far East on steamships or by rail, as the world started to become more connected.

The basic tenets of our industry have not changed. Trade, diplomacy, political events, weddings and family gatherings take place within our walls. Happy guests are loyal guests and they will return and continue to create sustainable value for the company if their expectations are met and exceeded on each visit. However, certain industry trends are moving at unprecedented speed and competition is intensifying.

In this chapter, we have identified various external factors and industry trends together with our key stakeholders which may impact our business. These include aspects of the macroeconomic context in which we operate, as well as environmental challenges, technological changes, terrorist threats and issues specific to the hospitality industry. The objective is to give our shareholders some insight into the external environment in which we operate, in accordance with the *International Integrated Reporting Council Framework*.

Happy guests are loyal guests and they will return and continue to create sustainable value for the company if their expectations are met and exceeded on each visit.

Retail Environment in Hong Kong

The Hong Kong retail market was challenging in 2016 and we experienced a small decline in revenue during the year. As a landlord of various shopping arcades located in our hotels and commercial properties, we acknowledge the pressure this challenging market placed on our retail tenants. JLL's *Retail Atelier* report in January 2017 observed that "Hong Kong's position as a shopper's paradise is far from lost", and the retail trend was moving away from luxury watches and jewellery towards middle market brands and experiences, with a more diverse retail offering becoming available on Hong Kong's streets and shopping malls. We expect that the long-term success of Hong Kong as a retail hub will continue and there is a niche market for innovative luxury shopping. The Peninsula also benefits from an emotional connection with our tenants as a destination shop for items such as fine jewellery. We will continue to work with our tenants on promoting traffic to our Arcades.

Consolidation

Consolidation was the buzzword of the hospitality industry in 2016, with the most notable example being the Marriott and Starwood US$13.6 billion merger to become the world's largest hotel company in September 2016. Chinese companies have also been increasing their investments overseas – Anbang Insurance, which purchased Waldorf Astoria in New York for US$1.95 billion in 2014, has spent more than US$30 billion in the past two years on purchasing luxury hotels, real estate and financial deals. The HNA Group purchased a 25% stake of Hilton Worldwide Holdings Inc in October 2016, as well as Carlson Hotels Inc, owner of Radisson hotels. The benefit of such consolidation is to drive efficiencies, build scale and to capture more customers as partner brands can promote their sister properties.

At HSH, we do not intend to follow this trend of consolidation and building on a large scale. Our business model and strategy is to focus on owning and operating a small number of the world's best properties and hotels. We do not want to be the biggest – our development pipeline, currently three hotel projects – is the largest we have ever taken on in terms of financial and human resources as an owner-operator. However, despite our relatively small size in comparison to such giant companies, we aim to be among the best in the world and we recognise the need to keep innovating and providing a superior guest experience to ensure that we do not lose our competitive edge. More details on our approach to guest experience can be read on page 10 of the Corporate Responsibility and Sustainability Report.

Sharing Economy

The "sharing economy", of which Airbnb is the most famous example, is growing from strength to strength. Airbnb welcomed its 100-millionth guest in July 2016 and its revenue increased by 80% in 2016. It is popular with younger travellers who are looking to have a "local" experience and to feel integrated with the local community. At HSH we are responding to this trend by developing highly bespoke, curated experiences and traditional hospitality for discerning guests. The inimitability of the Peninsula brand offers guests a full service model, including bespoke experiences through The Peninsula Academy programmes, which introduce each Peninsula destination with highly curated experiences to allow guests to learn about the local culture.

"Sharing economy" companies are operating in uncharted legal territory and are not subject to the stringent health and safety regulations that traditional hotels are subject to, and we believe discerning guests will demand a certain level of service which unregistered accommodation cannot provide. Regulation regarding tax payments has already started in New York City and we expect this to occur in other global cities in due course. However, we continue to monitor the fast-moving developments in the shared economy and its move towards the ultra-luxury sector.

Millennials

Millennial travellers are defined as being 18 to 34 years old, so-called "Generation Y" and much has been written in the mainstream media about their expectations for brands and their growing consumption power. In 2016, ahead of our General Managers' conference in Hong Kong, we conducted research of a group of more than 20 "millennials" from around the world and asked their views on hotels and luxury brands. The findings were interesting and we concluded that millennials views are, in fact, not so dissimilar to other generations. They want an excellent location at the heart of the city, they want to have unique experiences, and they want digital convenience and the ability to read honest and transparent social media reviews. We are adjusting our digital marketing strategy to adapt and respond to these influential travellers.

Technology

Mobile room keys, remote controlled rooms, robotic staff, smart mirrors and innovative products are making headlines around the world. HSH's approach to technology is to ensure we have the most modern and seamless technology for our guests, but we insist that it must be functional. Technology for the sake of being trendy, if it doesn't work, is only frustrating for the guest. Likewise, we firmly believe that technology can never replace the warm personalised service that makes the Peninsula brand unique.

To keep abreast of industry trends and ensure that we are responding appropriately, as well as keeping ourselves protected against Cybersecurity risks, in 2016 we established a Technology Steering Committee (TSC) which integrates HSH's IT, Research and Technology, Marketing, and Finance Departments to oversee the strategic direction of the company's technology innovation, research and product development programs. TSC will deliver on the value of technology, service, efficiency, financial resource allocation and organisational performance at HSH for long-term commercial benefit.

We are also taking a closer look at Big Data and how this can translate into a better guest experience. Our objective is to optimise our web and digital channels to offer the most inspiring, useful, and bespoke experience in the luxury sector – one that will not only express the essence and DNA of the Brand, but also drive additional revenue and to generate new or connected sales leads across the Group (for example rooms, F&B, spa, events and online gifting) by delivering the right experience, to the right person, at the right time.

More details can be read on page 106 "150 Years of Innovation".

Terrorist Threats

HSH is expanding its global portfolio at a time of increasing security threats and terrorism attacks. The terrorist threat is truly global and incidents have occurred in several of the countries where HSH people and assets are based. HSH has adopted a top-down, proactive management approach to mitigate security threats, with the objective of safeguarding our guests, staff, assets and brand to the best of our ability. However, we are conscious that we must strike a balance between ensuring high levels of security while ensuring the freedom of movement and privacy for our guests. It is an unfortunate reality in today's world that one can never be 100% protected against terrorists in a free and open society.

The strategy we have adopted to mitigate this risk is to strengthen our network with security stakeholders including local intelligence agencies and police departments, and to enhance our global intelligence monitoring. In 2016, we conducted a series of risk and insurance workshops to assess the adequacy of our polices with regards to cybersecurity, terrorism, property damage and business interruption. We boosted our Crisis Management Center capabilities with increased focus on video conferencing capabilities. As a company with frequent staff travel, we already have global security and medical evacuation capabilities through renowned international service providers, and we enhanced travel security protection and tracking for staff, with a particular focus on Istanbul.

We are also taking a closer look at Big Data and how this can translate into a better guest experience

In a statement on the global terrorist threat issued in July 2016, the World Travel and Tourism Council (WTTC) commented: “The intrinsic value of the travel and tourism sector is to bring people together and to foster dialogue between different cultures and traditions. An open tourism sector contributes positively to the attitudes, institutions and structures that create and sustain peaceful societies. Disrupting this peace is what terrorists aim to do with these meaningless attacks. This is precisely why the Council and the tourism sector at large encourage people to travel as a means to unite in our common humanity.”

HSH supports this statement and follows such industry guidelines closely when developing our risk management and security strategies.

Climate Change and Sustainability

Climate change is a significant challenge facing the world today and has been included in the online CRS report on page 21. Scientists have warned that climate change impact would become catastrophic and irreversible if global temperature increases by two degrees above pre-industrial levels.

The hotel industry is increasingly focused on integrating climate change into business strategy with commitment at executive and board level, and at HSH we have implemented such a strategy since 2013. As outlined in the Group’s Sustainable Luxury Vision 2020, making our business more resilient to climate impact and reducing greenhouse gas emissions associated with our own business and our value chain is important to our group. Our approach to implementing sustainability strategy is not from a position of idealism or seeking to “change the world”, but rather we regard it as a sensible and inevitable business decision that benefits the short, medium and long-term economic value of our group. We aim to do this in a way that complements our heritage of quality, thoughtfulness and meticulous attention to detail. More details can be read in the Corporate Responsibility and Sustainability report.

Managing Risk – A Summary

We manage risks in order to optimise the quality of our asset portfolio in the long term.

HSH takes a dynamic approach to managing risk and we continually evaluate key business risks to effectively identify, assess and mitigate risks across our operations so that they do not affect the company's ability to achieve our business objectives. Our risk management framework and its process is designed to manage and mitigate risks rather than eliminate all risks, which is never possible in any business.

We manage risks in order to optimise the quality of our asset portfolio in the long term. Our focus is on managing risks to ensure the long-term sustainability of our business, preserve a high standard of luxury, tradition of integrity and respect for our heritage as embodied in the culture of our Company.

The Board is ultimately responsible for establishing, maintaining and overseeing appropriate and effective risk management and internal control systems for the business of the Group. It has given the Audit Committee the responsibility to oversee these systems on an ongoing basis and to assess their adequacy and effectiveness semi-annually. This is done with the support from the Group Risk Committee and Audit & Risk Management (ARM).

The Group Risk Committee is responsible for setting the strategic direction for the risk management process and challenging the overall risk and control profile for HSH. The GRC consists of senior management members representing relevant parts of the global organisation and is chaired by the Chief Financial Officer. We assess the top risks and risk treatments for each operation or project, as well as monitor the actions required for critical and major incidents, with examination of specific risks as required. Heads of Corporate Departments are invited for deep-dive presentation on selected risks.

All business activity has inherent risk. Our policy for risk management is to proactively manage risk to ensure continued growth of our business and to protect our people, assets and reputation. This means that we:

- utilise an effective and integrated risk management system while maintaining business flexibility
- identify and assess material risks associated with our business
- monitor, manage and mitigate risks.

Our risk willingness depends upon the specific category of risk:

- we take a conservative approach to the management of financial risks.
- we strive to reduce supply chain risks through proactive business continuity planning, regular inspections and back-up facilities.
- we strive to reduce any risks to people, communities and the environment related to our business activities
- we never compromise on quality and business ethics.

Our full Group Risk Committee Report can be read on pages 142-147 of this Annual Report.

Sustainable Luxury Vision 2020

We regard sustainability as a sensible and inevitable business decision that benefits the short, medium and long-term economic value of our Group

Creating value for our stakeholders has long been our guiding principle since the early days of our company's operation. Our long-standing commitment to the sustainability of our business is not only about our ethos to long-term investment decisions, but also extends to the care we give our guests and the communities we operate in by ensuring that the high standards of luxury that are the hallmark of our operations are delivered in a responsible and sustainable way, with the least impact and amplifying benefits to society at large.

For us, sustainability is not from a position of idealism or seeking to "change the world", but rather we regard it as a sensible and inevitable business decision that benefits the short, medium and long-term economic value of our Group. We aim to do this in a way that complements our heritage of quality, thoughtfulness and meticulous attention to detail.

While we have long been a responsible corporate citizen, implementing several sustainability initiatives over many years of operations, in 2007 our Chief Executive Officer convened our first Group Corporate Responsibility Committee. In 2013 we further formalised our sustainability approach through the launch of Sustainable Luxury Vision 2020 (Vision 2020). This vision was created with the benefit of an understanding of our significant social and environmental impacts and opportunities, with the aim of enhancing the beneficial contribution of the six capitals (as outlined in the International Integrated Reporting Council's (IIRC) Integrated Reporting Framework) towards the Group's overall value creation. We engaged our stakeholders, benchmarked industry best practice, and assessed broader trends to identify the seven pillars which are integral to our strategy and core to our business.

By focusing on these pillars we hope to further integrate and generate awareness on sustainability throughout our operations, so that it is of personal relevance to each of our employees and an innate aspect of our business.

Our Vision 2020, along with the rest of our initiatives highlighted in this report demonstrate our aspiration to integrated thinking and ultimately, reporting, where we are able to articulate and demonstrate how we are managing different factors, both financial and non-financial that influence our decision making, and materially impact on our capability to create value over time.

It is our aim for Vision 2020 to contribute to embedding sustainability and integrated thinking within the Group. More details on the pillars, as well as progress to our Vision 2020 ambitions can be read in the Corporate Responsibility and Sustainability Report, which is available online.

Creating Shareholder Value – from Century to Century

Tradition

Celebration

150

Years of
Tradition Well Served

150th

Anniversary Celebration and a Glittering Gala

A century and a half of service calls for celebration. HSH marked its 150th anniversary with a series of spectacular events and initiatives to say thank you to its city of origin, Hong Kong, and to partners, guests and friends from the overseas locations where it operates today.

Originally incorporated on 2 March 1866 as The Hongkong Hotel Company, Limited, the company merged with the Shanghai Hotel Company in 1923 to create The Hongkong and Shanghai Hotels, Limited, which we believe is the world's oldest hotel group in continuous operation. HSH is also the oldest company on the Hong Kong Companies Registry still active today.

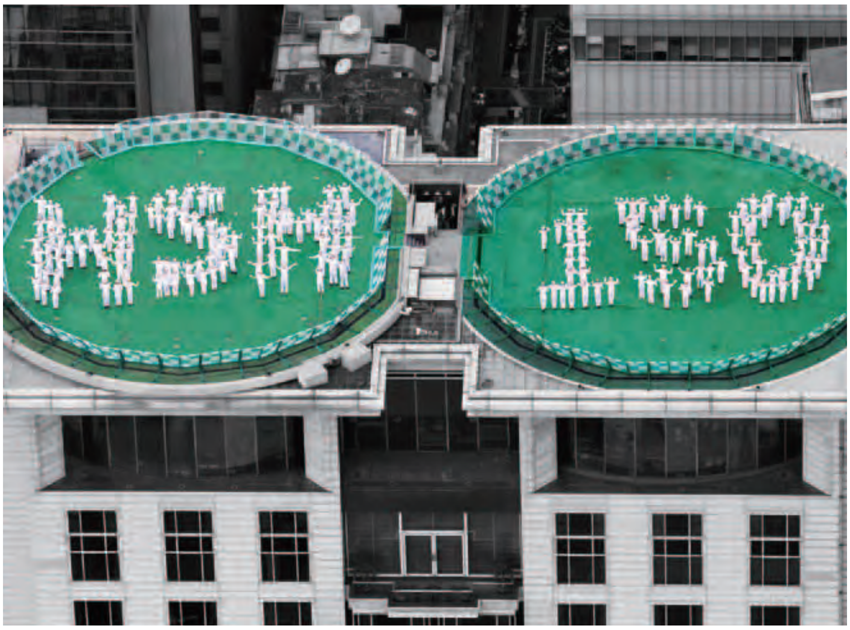
"HSH has always been an adventurous and pioneering company. The company took risks to build The Peninsula Hong Kong on the relatively underdeveloped Kowloon side, The Repulse Bay and the Peak Tram in the early days of Hong Kong, and these investments proved to be immensely successful," observed HSH CEO Mr Clement Kwok.

HSH Chairman, The Honourable Sir Michael Kadoorie, commented: "The future is built on the past, and the events that shaped our history also govern our current operations. In this anniversary year, our team reminds Hong Kong of its rich history, inviting the whole community to share in our heritage."


HONGKONG AND SHANGHAI HOTELS, LIMITED

HSH Chairman, The Honourable Sir Michael Kadoorie, commented: "The future is built on the past, and the events that shaped our history also govern our current operations. In this anniversary year, our team reminds Hong Kong of its rich history, inviting the whole community to share in our heritage."

On the morning of 25 November 2016, 150 young volunteers from Hong Kong universities and training institutions donned the crisp white uniforms of The Peninsula's Pageboys and Pagegirls, and congregated on the hotel's helipad for a dramatic commemorative aerial photo spelling out the words 'HSH 150' in human formation.



That evening, the youngsters gained valuable hospitality experience greeting the 2,000 guests from Hong Kong and around the world who attended our dazzling 150th anniversary Gala celebration.

An anniversary initiative that involved the Hong Kong public in our celebrations was The Peninsula Boutique's online draw for 15,000 instant prizes, including hampers, chocolates and home-made pastries – the kind of gourmet delights that have been extending The Peninsula brand beyond its hotel walls since 1976.

With an ethos of social responsibility underpinning the Group's culture since the 1880s and entrenched in our vision for the future, naturally our anniversary celebrations around the world also reached out to the less privileged. A variety of community initiatives took place in Hong Kong and around the world. See "150 years in the Community on page 86.

Other hotels also celebrated significant milestones in 2016. In Manila, the first Peninsula Hotel to be opened outside of Hong Kong, a glittering celebration to mark the 40th anniversary took place in September.

The Peninsula Chicago celebrated its 15th anniversary in June 2016 with a dazzling display to showcase its brand new renovation.

The Peninsula Beverly Hills celebrated 25 years with a new "Silver Suite" and a variety of glamorous silver-themed promotions.

All our 150th anniversary celebrations and momentous anniversaries demonstrated that HSH always respects its heritage, continually striving for the standards of service and style that earned it the accolade of 'The Far East's leading hotel company'.

An anniversary year celebrating the 150-year heritage of The Hongkong and Shanghai Hotels, Limited (HSH) reached its climax on 25 November 2016, at a lavish gala party hosted by its flagship property, The Peninsula Hong Kong. The Grande Dame of Hong Kong hotels provided the perfect backdrop for the celebrations of HSH's distinguished past and glowing future.

As more than 2,000 illustrious guests arrived for the gala, the HSH legacy was very much in evidence. Tethered onto the legendary façade of The Peninsula's Grade I-listed building were seven visually-arresting giant helium balloons, in the form of the company's most recognisable assets – The Peak Tram, The Peak Tower, The Repulse Bay Complex, The Peninsula's Phantom II vintage Rolls-Royce, The Peninsula's MD902 helicopter, the HSH-themed hot-air balloon and a Peninsula Pageboy.

Another giant helium balloon bearing the HSH 150th anniversary logo greeted guests in the hotel forecourt, where it was flanked by two vintage Rolls-Royces, referencing The Peninsula's famed fleet. A myriad of 7,488 smaller helium balloons decorated the hotel. In the lobby, the evening's MC, renowned Hong Kong actress Ms Sarah Song, introduced the guest of honour, Chief Executive of the Government of The Hong Kong SAR, The Honourable CY Leung, who gave a congratulatory address emphasising HSH's pivotal historic role as a bastion of the community and an exemplary corporate advocate of Hong Kong.

This stunning HSH 150th Anniversary commission – the largest project ever undertaken by Parade Giants Studio, in Arizona, USA – gave rise to some fascinating facts:

The balloons measured up to *18* metres high and *20* metres wide

It took nine months and over *10,000* man hours to make the balloons

4,663 metres of fabric were used

150 gallons of paint were used to achieve the balloons' rich depth of colour

An airport hangar was leased in *Arizona* to inflate and complete the balloons

2,000 cubic metres of helium were used

The Honourable Sir Michael Kadoorie, Chairman of HSH, then delivered a welcome speech in which he traced the company's key milestones. "Anniversaries are a time to pause and reflect, to recall the events that have shaped us, and the individuals whose legacies have played a beneficial role in Hong Kong's success story," he declared.

He paid homage to his father, Lord Lawrence Kadoorie, and uncle, Sir Horace Kadoorie, who in their day embodied the company's pledge to pursue excellence without compromise, striving for the highest standards of quality and service. "The Kadoorie family has always been fully committed to the company and this will endure with the next generation as we continue to play a role in creating the future," said Sir Michael.

After Mr CY Leung and Sir Michael unveiled a commemorative plaque, a moving choral rendition of the Louis Armstrong jazz classic, ‘What a Wonderful World’, launched the festivities.

Every detail of the evening showcased the art of hospitality and refined gastronomy that have made The Peninsula the ultimate gala venue for nine decades.

As the celebrations continued late into the night, HSH directors, guests, employees and the Kadoorie family reflected that tradition had once again been well served, at what will undoubtedly be remembered as one of the parties of the century.

A Memorable Day at The Repulse Bay

Giving back to the local community in Hong Kong was a key feature of the 150th anniversary celebrations on Saturday 10 and Sunday 11 December 2016 in the form of a children’s Christmas Carnival held at The Repulse Bay. More than 80 local charities were invited to participate in the event, with some 1,100 children from underprivileged families and those with special needs attending over the two-day period.

The Repulse Bay organised a wide variety of fun activities to give the children an unforgettable experience, including pony rides, Santa’s Grotto, carnival games and “Winter Olympics”, stage acts with a magician and bubble artist, face painting, an arts and crafts corner to inspire creativity and the highlight – a Celebration Parade – led by a giant snowman and gingerbread man. Everyone’s favourite delicious carnival food – hot dogs, popcorn and candy floss – was on offer at brightly-coloured booths staffed by characters in fancy dress costumes.

Martyn Sawyer, Group Director of Properties, said: “HSH has had a philosophy of giving back to the community for the past 150 years. The Repulse Bay first opened in 1920 and has been an important part of Hong Kong’s history and heritage ever since, creating many memorable family days at the beach and in the grounds of our property. We are delighted to say thank you to Hong Kong by giving back to the local community and creating a special day of unforgettable memories for the less fortunate in our society.”

We have managed to reinforce the importance of sustainability in a way that people now live and breathe it within their operations.

150 YEARS OF

Community Responsibility

A Tradition of Philanthropy

The Hongkong and Shanghai Hotels (HSH) and its majority shareholders, the Kadoorie family, have always believed in giving back to the communities in which they prospered.

From the outset, the Kadoorie family helped establish hospitals, old-age homes and community centres in Hong Kong. Believing that "wealth is a sacred trust to be administered for the good of society", Elly Kadoorie built schools and hospitals worldwide, and even lent his palatial Shanghai home to any charitable society with a worthy moneymaking purpose.

His sons Lawrence and Horace inherited his largesse, founding small hospitals and clinics in Hong Kong's rural districts. In 1951 they formed the Kadoorie Agricultural Aid Association, which donated village houses, farm animals and materials to destitute refugees in Hong Kong to give them a source of income and dignity.

Today, the family's charitable works thrive under the direction of Sir Michael Kadoorie, Lord Lawrence Kadoorie's son. He has also initiated the Hong Kong Heritage Project to document Hong Kong's heritage – through his family history – for the local community.

Meanwhile, the Kadoorie philanthropic spirit is entrenched in HSH's Sustainable Luxury Vision 2020, which commits the company to achieving over 50 economic, social and environmental goals by 2020.

CEO Mr Clement Kwok commented: "Looking back at our history, our group has always been a responsible corporate citizen, but we needed a more consistent group-wide policy. We have managed to reinforce the importance of sustainability in a way that people now live and breathe it within their operations."

During its 150th Anniversary year, HSH's myriad community activities in Hong Kong included a carnival weekend for over 1,000 underprivileged and special needs children at The Repulse Bay, and art workshops for disadvantaged children. Underprivileged elderly people and children enjoyed heritage tours and scavenger hunts at The Peninsula Hong Kong and special offers at The Peak Complex, which also produced 150 umbrellas for the homeless.

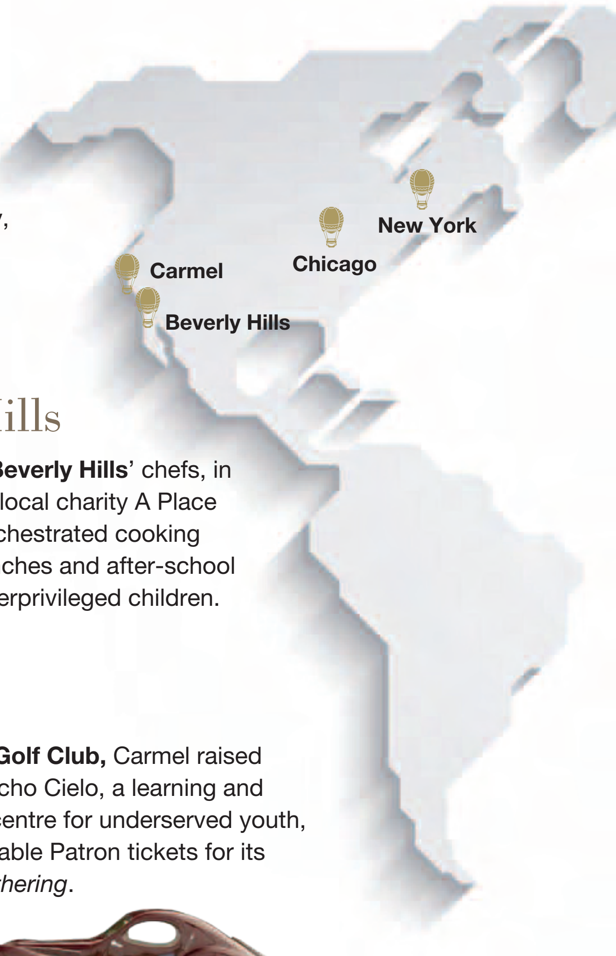
HSH Head Office partnered with the New Life Psychiatric Rehabilitation Association and Kadoorie Farm, while Tai Pan Laundry joined forces with the Salvation Army, to distribute foodstuffs to the elderly. For the community at large, The Peninsula Boutique gave away 15,000 gourmet treats in an online draw.

Worldwide

All these activities reflect the ethos of community responsibility that underpins HSH's international reputation.

New York

The Peninsula New York volunteers donated more than 126 hours to maintenance projects for The New York Center for Children.



Chicago

The Peninsula Chicago organised an event with Little Brother's Friends of the Elderly, for 100 guests, and prepared Thanksgiving food bags for elderly people.

Beverly Hills

The Peninsula Beverly Hills' chefs, in partnership with local charity A Place Called Home, orchestrated cooking programmes, lunches and after-school activities for underprivileged children.

Carmel

Quail Lodge & Golf Club, Carmel raised $57,500 for Rancho Cielo, a learning and social services centre for underserved youth, by selling Charitable Patron tickets for its *Motorsports Gathering*.

Community Activities

Paris

The Peninsula Paris partnered with Apprentis d'Auteuil, providing pastry and carpentry lessons, and sports activities for orphanages. It also sold books to support the charity.

Beijing

The Peninsula Beijing worked with Beijing Fengtai Lizhi Rehabilitation Center, helping people with mental illness. It also held an outdoor hot chocolate sale, to fund the planting of 1,500 trees in The Shanghai Roots & Shoots Million Tree Project.

Shanghai

The Peninsula Shanghai undertook repairs, maintenance and painting for local children's cerebral palsy charity CereCare. Partnering with The Library Project and Raleigh China, the hotel also provided a new library in a remote school, which its engineering team helped set up.

Tokyo

The Peninsula Tokyo created the Chiyoda-ku Volunteer Supporting Company, which undertakes bed-making, cleaning, cooking and entertainment for the elderly.

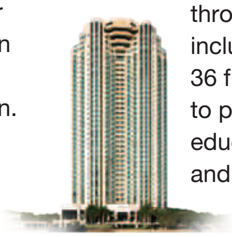
Manila

HOPE for the PHILIPPINES

The Peninsula Manila completed the "Hope for the Philippines" The Peninsula – Gawad Kalinga Village, creating homes for 75 families devastated by Typhoon Haiyan. It also supported Liter of Light, which provides affordable solar light to places lacking electricity.

Vietnam

The Landmark Vietnam organised an outing to Tho Trang Park for impoverished children from Christina Noble Children's Foundation.



Bangkok

The Peninsula Bangkok raised one million Thai baht through various initiatives, including a sponsored run up 36 flights of stairs to its rooftop, to provide 150 years' worth of education for ethnic minority and underprivileged children.

Bangkok

The Thai Country Club cleaned and tidied a popular local temple.

The Kadoories, from the early days of the establishment of their various business concerns, have been vigilant in embracing their employees almost as extended members of their own family, which in turn has resulted in a phenomenal level of loyalty and long service to this day.

150 YEARS OF

EXPERTISE

Legendary loyalty

Ever since its founding in 1866, The Hongkong and Shanghai Hotels has held fast to one of its key core philosophies, that of underscoring the importance of family values, especially as far as its employees are concerned. This is undoubtedly borne out of the fact that the Kadoorie Family itself has always been extremely close-knit, as was the Jewish community in Hong Kong when it began to expand in the latter half of the 1900s.

The Kadoories, from the early days of the establishment of their various business concerns, have been vigilant in embracing their employees almost as extended members of their own family, which in turn has resulted in a phenomenal level of loyalty and long service to this day.

James Harper Taggart

Going back in time, one of The Hongkong and Shanghai Hotels' early and historically one of its most significant employees, was James Harper Taggart, who arrived in Hong Kong in 1907 at the age of 22, securing a position as Manager of The Hongkong Hotel, which had first opened in 1868.

Recognised for his successful management of the Territory's first luxury hotel, which was commended as the "greatest enterprise of its kind in China and Japan", Taggart was subsequently pinpointed by The Hongkong Hotel Company to commence plans for an entirely new hotel, as rooms in Hong Kong at the time were becoming scarce due to a substantial increase in the influx of international travellers. As a result, The Repulse Bay Hotel opened on New Year's Day 1920.

Then in October 1923, Taggart helped to engineer the merger of The Shanghai Hotels Limited and The Hongkong Hotel Company, thus creating The Hongkong and Shanghai Hotels, Limited, whilst remaining in his position as Managing Director.

Taggart presided as Managing Director during what was possibly the most eventful period in the Company's history. Known as being a visionary who could appreciate the Board's plans to expand and a tough operator, he played a leading role in revolutionising the hotel business in Shanghai by introducing such novel concepts as dinner dances and European-style grill rooms.

All told, aside from a brief period during the time of the capitulation of Hong Kong by the Japanese which, ironically, was carried out at The Repulse Bay Hotel, when Taggart was compelled to return to the United States, he served the Company for a commendable 61 years.

Leo Gaddi

Having served as a chef at The Hong Kong Hotel prior to the war, later being sent to Shanghai to manage The Palace Hotel and then to supervise its sale and transfer, Leo Gaddi was welcomed into the fold of The Peninsula Hong Kong in 1948 as General Manager. Gaddi dove straight into putting his stamp on the hotel, and under his leadership, new discipline was instilled and standards of service were raised to the impeccable.

But perhaps the single most defining facet immortalising the hotelier was a Peninsula signature restaurant named after him - 'Gaddi's'. The Peninsula, ever unrelenting in its quest for the finer things in life, was forging a new chapter in hospitality history. In a move that is now enshrined in tradition, Sir Horace Kadoorie named the hotel's fine dining restaurant after Gaddi, in order to ensure that every single enticement was on the table to keep his General Manager motivated and the dining stakes sufficiently high. Testament to Leo Gaddi's own leadership and his embracing of family values, another of The Peninsula's longest-serving members of staff and the first Head Waiter at the restaurant, Chan Pak, stayed with the restaurant for 32 years. Gaddi himself remained in his position for 12 years, becoming the longest serving General Manager in the history of The Peninsula Hong Kong.

Felix Bieger

Felix Bieger embarked on his extensive hotelier career as an apprentice cook at a restaurant in Zurich - which he promptly walked out on after just seven weeks. Fast forward to 1954, when Bieger left Switzerland working as a sous-chef on board a cruise liner bound for Asia.

Shortly after docking in Hong Kong, he landed a five-year contract at The Repulse Bay Hotel.

Upon the completion of that contract, Bieger headed back to Switzerland to complete his Accounting diploma at the Ecole Hôtelière de Lausanne. By November 1959, he was back in Hong Kong and in charge of the Front Desk at The Peninsula Court (now the Kowloon Hotel).

In 1967, The Peninsula teamed up with Cathay Pacific in a joint-venture, and Swire Air Caterers was born, with Bieger becoming its first General Manager in 1968, whilst maintaining his role at The Peninsula Court by choice. He juggled being at the hotel from 6 to 8am every morning, before rushing off to the airport to oversee the catering activities during the day, and then returning to his Front Desk by early evening.

Returning to The Peninsula full-time in 1969, Bieger was promoted to General Manager in 1970. Whenever someone new came from abroad to work at the hotel, he would always invite them for a drink at The Long Bar at Gaddi's, taking time get to know them and put them at ease as part of the hotel family.

Having made his way through the ranks to hold the title General Manager of Hong Kong's Grand Dame of Hospitality no less than three times, Felix Bieger has devoted himself to a career spanning more than 62 years at The Hong Kong and Shanghai Hotels, Limited.

Peter C. Borer

The defining moment in Peter Borer's career came early - even before his career began. He convinced the Dean at the Ecole hôtelière de Lausanne to admit him to the programme, even though he feared he wouldn't pass his final prep exam. "I promised Mr. Gerber I would become a good hotelier," Borer recalls. "When I was named GM of The Peninsula in Hong Kong I wrote him a note and said, 'I kept my promise.'"

Likely, what Borer was able to show Mr. Gerber on that fateful day in 1972 was his sincerity, humility and his love and respect for the business – qualities that remain these 43 years later, and traits that named him as '2013 Corporate Hotelier of the World' by the readers of Hotel magazine.

"It is said that an excellent hotelier requires the ability to work in different environments, cultures and cities," says Sir Michael Kadoorie, Chairman of The Hongkong and Shanghai Hotels, Borer's employer for the past 35 years. "Peter has not only successfully navigated these environments but has forged the strong brand profile and quality services we see today."

When an eager Borer decided it was time to head east to Asia, he fortuitously landed in 1981 as the F&B manager at The Peninsula Manila.

After at times challenging – but always inspiring – stints with The Peninsula in Hong Kong and Bangkok, in 1985 Borer was promoted to Director of Sales and Marketing at the Company's Head Office. By 1990, after several more promotions, he was named Senior Vice President, responsible for planning the renovation of The Peninsula Hong Kong and the construction of its new tower.

In 1994, he returned to operations as General Manager of The Peninsula Hong Kong, charged with opening the hotel extension, and by 1999 Borer had assumed wider responsibility for The Peninsula Hotels' portfolio of Asian properties. Fast forward to April 2004, and he was appointed Chief Operating Officer and an Executive Director of The Hongkong and Shanghai Hotels, Limited.

All along the way, Borer had one eye on the company flagship – The Peninsula Hong Kong – and after a series of events caused the company to make plans to better utilise its hometown hotel, he decided that his time had come to make his play to run the flagship and be an integral part of developing the hotel's new 30-storey tower.

"The most fun was changing the way we ran that hotel," says Borer of the hotel that in the late 1980s was still predominantly managed and run by men. "I found wonderful people like Rainy Chan, who now runs the hotel. We brought in a different culture."

Having spent the past 35 years with The Hongkong and Shanghai Hotels, why so long with one company? "Because the values of this family are what inspires me and what I respect; so why change a good thing?"

The sense of heritage and loyalty reflected by these legendary hoteliers is something that clearly holds dear to Sir Michael's heart. A sign that reads 'Sir Elly Kadoorie and Sons Ltd' is placed prominently at his office in St. George's Building in Hong Kong and is a reminder of the pioneering role that his family ancestors have played in the company. "The family environment within the Company encourages employees to put their thoughts forward and motivates them to play a part, no matter what their designation may be," says Sir Michael. "Everyone is valued as a contributor, and as a result of that, we have been extremely fortunate to have had the loyalty of people for unprecedented long periods of time."

The Hongkong and Shanghai Hotels

150th

Training for the Future

Our most precious asset at HSH is our people, who have been the heart of our business for 150 years. HSH is home to some famous "characters", some of whom are legends of their time – such as Johnny Chan, the barman at the Peninsula Hong Kong for more than 50 years – who never forgets a guest's favourite drink. How can our company inspire this passion and dedication in the employees of the future? Millennials are often said to be fond of "job-hopping" particularly in the hospitality industry, and as a company we are actively striving to retain and encourage our future leaders to have a long career with us.

"I couldn't have asked for a better way to have started my career than with the CMT programme. I've been very fortunate to have worked with and learnt from some of the most passionate and experienced people in the industry. The opportunity has not only inspired me to set the bar high when it comes to the quality and standard of my work, but has also allowed me to experience what it means to be part of the Peninsula family."

Charmaine Chua

We realise that attracting, retaining and developing the right talent is key to driving our future success, which is why we have invested in a Corporate Management Trainee (CMT) programme. This programme inspires and cultivates the future leaders who will take our company forward.

HSH CEO Clement Kwok said: "It is important to create a legacy. We are not thinking about the next few years; we are thinking about the long term, and of future generations."

The CMT programme plays a key role in supporting our succession planning strategies. HSH is already recognised as a company that encourages growth and development of its employees.

However, in a sector facing a potentially serious shortfall of talent in the next decade, we cannot afford to rest on our laurels. Our CMT programme aims to attract aspiring young trainees and align them to the Company's strategic objectives from the start of their hospitality careers. As we expand our portfolio, they will provide a strong foundation of assets, knowledge and experience for our current and future Peninsula Hotel openings such as Istanbul, London and Yangon.

Although the CMT programme prepares and fast-tracks high potential talent for an Assistant Manager position in operations or Head Office, the focus is on their long-term development. We want to motivate, nurture and support them to realise their full potential – which will in turn ensure the growth and success of our business.

Cary Chan, Director of Organisational and Talent Development, is in charge of the programme and presents at hotel schools in Switzerland and universities in Hong Kong to scout for potential candidates.

A stringent recruitment process involves interviews, a personality profiling questionnaire modelled around the Company's competency framework and cognitive tests.

"We place great value on having the right skillset and proven performance, but equally important is having the right mindset – a passion for the industry and an empathy with our values," said Ms. Chan.

Successful candidates are selected from interns or trainees who have worked for the Company during or post their hospitality and tertiary education. This helps the candidates understand our company culture and our long-term philosophy.

"With this exposure, I get to understand The Peninsula values, I can feel how much they treasure their people."

Yannie Kwan

"I was introduced to a very unique culture when I joined the company as a CMT, it was like being part of a huge family. The flexibility of this programme allows me to discover who I am and what I can do, through different operations and projects. It truly is a special experience"

Jeremy Lin

"Being a Corporate Management Trainee provides the biggest opportunity for me to polish my soft skills as well as broaden my vision and connections, to prepare myself for future adventures and grow with the Company."

Lawrence Ng

"Through the CMT programme, The Peninsula Hotels gave me everything I was looking for: Mentorship, challenges, special projects, exposure, and fun! All of this in a personal and family-like environment, which can hardly be found elsewhere in our industry."

Nicolas Dupont

"The CMT programme was a great chance for me to discover all aspects of the hotel industry thanks to colleagues devoted to your personal achievement as a professional but most importantly as a person."

Martin Goic

"The passion allows you to persist even in the tough times, and I think a positive attitude is very important."

Gregory Ng

"Not only does this programme give you a job, it gives you a lot of guidance, a lot of mentors, who share their experience with you. You work on bigger projects with higher executives to roll things out, and they are constantly testing you to see whether you can cope."

Foong Leung

"This programme has offered me many opportunities to be part of different projects and functions. The family-like culture here is something very unique to the brand, and it has been a wonderful journey for me so far – with more to come of course!"

Carina Li

Highly flexible, the programme lasts 18 to 24 months across one to two properties. From the outset, CMTs are introduced to the unique, family-oriented culture that permeates our Group, through cross-exposure in different operations. As we are a relatively small company and accept a handful of candidates each year, the programme can be tailored to their individual strengths and ambitions, helping to hone their leadership skills and optimise their potential.

Our CMTs are known as "culture carriers" because they are internationally mobile. For example, Carina Li, who speaks fluent Japanese, Cantonese and English, recently transferred to The Peninsula Tokyo after six months at Head Office.

We are currently planning a group training curriculum for our CMTs worldwide, where they will spend three days learning to adapt to diverse cultures and receiving personal coaching.

CMTs are also assigned to special projects where they participate in decision-making and contribute to various teams. This allows them to fine-tune their communication skills with inter-departmental staff, including senior management. Carina worked on HSH's 150th Anniversary events and will play a significant role in planning The Peninsula Tokyo's 10th Anniversary celebrations. Martin Goîc, now Assistant Front Desk Manager at The Peninsula Hong Kong, spent his first year preparing for the opening of The Peninsula Paris.

Martin said: "You have to go through every step to understand how to become a proper manager, and that's something I've really learned thanks to the CMT programme. I was working in a freshly opened hotel in Paris, so everything was new, and then I moved to the flagship hotel in Hong Kong which has been open for more than 85 years so it's a totally different experience."

Since the CMT programme began eight years ago, some our graduate trainees have developed into managers and Directors. We foresee that the programme will play a key role in cultivating a strong and engaged HSH management team who are proud of our heritage and passionate in delivering exceptional service.

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The Glamour of Travel

For 150 years, the history of The Hongkong and Shanghai Hotels (HSH) has reflected the evolution of world travel, adding glamour and elegance to the experiences of those who ventured overseas for work or leisure.

In the mid-19th century, travel was the privilege of an elite few. After the Suez Canal opened in 1869, wealthy Europeans and Americans began to embark on luxury steamship cruises, and lavish hotels appeared along the shipping route. The magical Orient held a particular allure, and Hong Kong became a connecting port for major Europe-Asia sea routes.

For 150 years, the history of The Hongkong and Shanghai Hotels (HSH) has reflected the evolution of world travel, adding glamour and elegance to the experiences of those who ventured overseas for work or leisure.

The newly formed Hongkong Hotel Company had opened Hong Kong's first luxury hotel in 1868, prominently positioned on the city's bustling waterfront. The Hongkong Hotel was soon being praised as "the most commodious and best-appointed hotel in the Far East", with well-heeled locals and international travellers flocking to its famous Gripps bar.

Meanwhile, Shanghai had become China's commercial capital and an important port of call for European and American steamship lines. In 1909, Central Stores (later renamed The Shanghai Hotels) raised the hospitality bar with its majestic Palace Hotel on the Shanghai Bund. The company subsequently purchased the luxurious Astor House Hotel, whose renowned ballroom hosted new Jazz Age dances and popular Argentinian "tango teas".

At the same time, The Hongkong Hotel Company was planning a new luxury hotel in the Territory's Repulse Bay, an oasis where travellers could enjoy sunny days and cool evenings. Opened on New Year's Day 1920, the gracious Repulse Bay Hotel – joined in 1935 by the Repulse Bay Lido with its open-air dances – greatly enhanced Hong Kong's reputation as "The Riviera of the Orient".

Today, The Peninsula Hotels worldwide perpetuate the glamour of a bygone era of travel.

By 1923, when The Hongkong Hotel Company acquired The Shanghai Hotels, and became The Hongkong and Shanghai Hotels, Hong Kong was facing a serious hotel room shortage. The government decided a grand railway hotel was needed at the tip of the Kowloon peninsula, close to the quays and opposite the railway terminus, with its steam trains connecting to Europe via Beijing or Moscow.

HSH took up the gauntlet, and the magnificent Peninsula Hotel opened on 11 December 1928 with the party of the decade in its Roof Garden Ballroom. Kowloon's tallest building at the time, the hotel confirmed the Company's reputation for luxury and excellence. Its Sunday concerts, nightly dinner dances to the strains of a jazz orchestra, and afternoon tea dances attracted Hong Kong's high society.

The Peninsula's opulence quickly lured the most illustrious guests. The Duke of Gloucester stayed in 1929, followed a decade later by royalty of a different genre in the form of Charlie Chaplin and his leading lady Paulette Goddard. Film star Clark Gable allegedly spent so much time drinking in The Peninsula's sumptuous Lobby while on location for "Soldier of Fortune" that the producer banned him from it until filming finished.

In the 1930s, HSH's owner Lord Lawrence Kadoorie helped persuade the government to grant Pan American landing rights in Hong Kong. The first Clipper flying boat arrived on 23 October 1936, and its passengers and crew stayed at The Peninsula, starting a long association with Hong Kong's aviation industry. Today, rare photos and artefacts in the hotel's China Clipper lounge capture the romance of the fabled Clippers.

With the post-war boom in air travel, The Peninsula welcomed a new international clientele and became the world's first city-centre check-in terminal. It also pioneered air catering in 1958, when Gaddi's restaurant began preparing gourmet meals for Swissair's DC6Bs. A decade later, HSH partnered with Swire to create Swire Air Caterers (now Cathay Catering), and the kitchen moved to the airport. The Peninsula was also Hong Kong's first hotel to offer its guests a helicopter service.

Today, The Peninsula Hotels worldwide perpetuate the glamour of a bygone era of travel. A fleet of luxury vehicles encompasses Rolls-Royce Phantoms, including an immaculately restored 1934 Rolls-Royce Phantom II, and sporty Mini Coopers, all painted the signature Peninsula Brewster Green and customised with minibars and more.

The Peninsula Shanghai offers private river cruises on a splendid 16.5-metre yacht, giving unsurpassed views of the Bund and the spectacular Pudong skyline. The Peninsula Bangkok invites adventurous travellers to explore the city Thai-style in its customised tuk-tuk, while The Peninsula Manila proposes a bespoke jeepney, the country's flamboyant means of transport originally made from WWII military jeeps.

Awards in 2016

Operation	Awards	Organisers
The Hongkong and Shanghai Hotels Annual Report 2015	ARC Awards, Grand Award Best of Category – Chairman's Letter	MerComm. Inc.
	ARC Awards, Gold – Chairman's Letter: Hotel & Leisure – Written Text: Hotel & Leisure – Sustainability Report: Specialized Annual Report – Interior Design (Specialized Annual Report): Sustainability Report	MerComm. Inc.
	ARC Awards, Bronze – Traditional Annual Report: Hotel & Leisure – Cover Photo/Design: Hotel & Leisure – Cover Photo/Design: Specialized Annual Report: Sustainability Report – Interior Design: Hotel & Leisure	MerComm. Inc.
	Best Annual Reports Awards – Silver (General Category)	The Hong Kong Management Association
	Best Corporate Governance Awards – Platinum, Non-Hang Seng Index (Large Market Capitalisation)	Hong Kong Institute of Certified Public Accountants
	Sustainability and Social Responsibility Reporting Awards – Special Mention, Non-Hang Seng Index (Large Market Capitalisation)	Hong Kong Institute of Certified Public Accountants
The Peninsula Hotels	Business Traveller Awards 2016 – No. 3 Best Luxury Hotel Chain – No. 3 Best Smaller Hotel Chain	Business Traveller
The Peninsula Hong Kong	AsiaSpa Awards 2016 – Urban Hotel of the Year	AsiaSpa
	Michelin One Star – Spring Moon	2017 Michelin Guide Hong Kong Macau
	2016 Conde Nast Traveler Reader's Choice – Best Hotel in the World for Service – No. 3 Top Hotels in China	Conde Nast Traveler
	Business Traveller Awards 2016 – No. 2 Best Business Hotel Worldwide	Business Traveller Asia Pacific
	Business Traveller Awards 2016 – No. 1 Best Business Hotel in Asia Pacific	Business Traveller
	2016 Travel + Leisure World's Best Awards – No. 1 Best Hotels in Hong Kong	Travel + Leisure
	Forbes Travel Guide 2016 Star Award Five-Star Hotel	Forbes Travel Guide (US)
	The Peninsula Spa Five-Star Ranking	Forbes Travel Guide (US)

Operation	Awards	Organisers
The Peninsula Shanghai	2016 Travel + Leisure World's Best Awards – No.1 Best City Hotel in Asia	Travel + Leisure
	Michelin Two Stars – Yi Long Court	2017 Michelin Guide Shanghai
	Michelin One Star – Sir Elly's	2017 Michelin Guide Shanghai
	Forbes Travel Guide 2016 Star Award Five-Star Hotel	Forbes Travel Guide (US)
	2016 Conde Nast Traveler Reader's Choice – No. 2 Top Hotels in China	Conde Nast Traveler
	The 50 Greatest Hotels in the World – No. 1 Top in China and Asia	Telegraph Travel
	Business Traveller China Awards Best Luxury Hotel 2016	Business Traveller China
	Hurun Best of the Best Award Best Hotel in Shanghai 2016	Hurun
	2016 Shanghai Morning Post Tourism Awards Best Luxury Hotel of Shanghai	Shanghai Morning Post
The Peninsula Tokyo	Forbes Travel Guide 2016 Star Award Five-Star Hotel	Forbes Travel Guide (US)
	The Peninsula Spa Five-Star Ranking	Forbes Travel Guide (US)
The Peninsula Bangkok	Forbes Travel Guide 2016 Star Award Five-Star Hotel	Forbes Travel Guide (US)
The Peninsula New York	2016 Conde Nast Traveler Reader's Choice – No. 2 Top Hotels in New York City	Conde Nast Traveler
	Forbes Travel Guide 2016 Star Award Five-Star Hotel	Forbes Travel Guide (US)
	The Peninsula Spa Five-Star Ranking	Forbes Travel Guide (US)
The Peninsula Chicago	Business Traveller Awards 2016 – No. 2 Best Business Hotel in North America	Business Traveller
	2016 Conde Nast Traveler Reader's Choice – No. 3 Top Hotels in Chicago	Conde Nast Traveler
	Forbes Travel Guide 2016 Star Award Five-Star Hotel	Forbes Travel Guide (US)
The Peninsula Beverly Hills	Best Hotels 2016 No.1 Best California Hotels	U.S. News & World Report
	Best Hotels 2016 No.1 Best Los Angeles Hotels	U.S. News & World Report
The Peninsula Paris	Palace Distinction	Atout France
	The Peninsula Spa Five-Star Ranking	Forbes Travel Guide (US)
The Repulse Bay	Southside Magazine Reader's Choice Award Best Residential Complex 2016	Southside Magazine
The Landmark Vietnam	The Best Manager in Caring for Staff Benefits (for Mrs Bee Lian Ng, General Manager)	Ho Chi Minh City Trade Union
	Top Ten – The Guide Awards Winner – Serviced Apartments & Office Complex	Vietnam Economic Times
Thai Country Club	2016 Asian Golf Awards – Best Managed Golf Club in Asia Pacific – Best Food and Beverage Experience in Asia Pacific	Asian Golf Magazine
Quail Lodge & Golf Club	Best Playing Condition Awards for 2016 – Best Playing Conditions (Central California)	Greenskeeper.org
Peninsula Merchandising Limited	Marketing Excellence Awards 2016 – Excellence in Design (Silver)	Marketing Magazine

The Hongkong and Shanghai Hotels

150

YEARS OF

Innovation and Looking to the Future

The HSH approach to innovation offers significant value to shareholders and ensures that our company stays relevant in today's interconnected world, where a reliance on technology has become second nature to most of our guests. This is also part of our heritage; from the time The Peninsula was conceived in 1928, HSH was determined to present "an establishment containing the most modern hotel equipment and hygienic appliances to an extent without parallel in this part of the world", according to the first managing director of HSH, James Taggart, speaking at the hotel's opening. This has been the cornerstone of our approach to innovation ever since those early days and today our innovative IT and Research & Technology approach is part of our DNA.

As mentioned on page 71, to keep abreast of industry trends and ensure that we are well prepared for the future and protected from Cybersecurity risks, in 2016 we established a Technology Steering Committee (TSC) to oversee the strategic direction of the company's technology innovation, research and product development programs. TSC will deliver on the value of technology, service, efficiency, financial resource allocation and organisational performance at HSH for long-term commercial benefits.

An innovative, sustainable future

With the technology industry moving at such breakneck speed, what lies ahead? The research and technology team is working with Projects for sustainable innovative solutions; for example to produce an improved lighting system to control energy-saving LED lighting to Peninsula standards. As Peninsula in-room technology evolves, the hotels can save on printing materials and enjoy enhanced communication between guests and staff. Big data analysis is underway to help the research team better understand guest behaviour and spending inside the hotel. The team is also working on further developing the Wi-fi phone which can be used in all locations in the hotel.

R&T Guest Experience & In-Room Tech

Creating a seamless user guestroom technology experience by collaborating with the latest in consumer hardware technology and intelligent software development.

Our Approach to Innovation

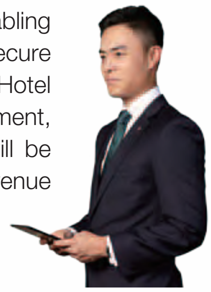
The Technology Steering Committee has set out a vision with six themes:

Customer Information & Marketing

Optimise our web and digital channels to offer the most inspiring, useful, and bespoke experience in the luxury sector – one that will not only express the essence and DNA of the Brand, but also drive additional revenue and generate leads across the Group (rooms / F&B / spa / event / online gifting) by delivering the right experience, to the right person, at the right time.

Customer Information & Sales

Maximise revenue for the hotels by using the most effective systems and tools to make informed and intelligent strategic revenue management decisions, properly manage and maintain a clean client's database, efficiently identify, grow and service sales accounts whilst enabling sales managers to instantaneously secure vital business ahead of competitors. Hotel general managers, senior management, sales teams and corporate office will be able to accurately measure their revenue accountability at any given period.



HR & Technology

The HR Team strives to deploy HR technology that will enhance internal communications, employee engagement, talent attraction and HR efficiency, and to leverage data and discover HR insights to optimise HR-related business decisions.

Financial Processing

Streamline Finance and Accounting processes to improve efficiencies. Unite and centralise processes to drive effectiveness up and costs down. Analyse financial information and make observations in a timely manner to aid in strategic decision making.

Operations, Efficiency & Improvements

Implement systems and associated processes that (1) improve efficiency and communication by removing barriers to guest service, (2) analyse existing data and capture additional data about our current and prospective guests and (3) use this to offer a more personalised and bespoke experience to them, with the ultimate goal of enhanced emotional engagement resulting in higher return guest ratios and more profitable relationships. At the same time, seek opportunities to enhance productivity through the strategic use of technology that will provide appropriate return on investment while improving the guest experience.

Governance

Passion

Perfection

Chairman's Overview

It is our dedication and commitment to high standards of corporate governance that has helped us to continue to generate sustainable shareholder value and to deliver our strategies

Dear Shareholders,

Our company celebrated a significant milestone, our 150th anniversary, in 2016. As Hong Kong's oldest registered company still in operation, today we are considered one of the leading luxury hospitality companies in the world. I believe that it is our dedication and commitment to high standards of corporate governance that has helped us to continue to generate sustainable shareholder value and to deliver our strategies, which have remained the same for more than a century.

The Board leads a governance framework which is at the heart and soul of our company culture and upholds our values and principles of integrity, transparency and accountability. We operate within a well-established framework of policies, processes and management systems that we believe will ensure the long-term success of the Group.

Improving our Governance Practices

Our objective is to continually improve our governance practices and the effectiveness of the Board. In 2016 we continued to enhance our risk management and internal control systems. We undertook a process to facilitate better comprehension of the Company's Code of Conduct, with the aim of instilling our integrity and ethical values in all employees by making the Code more user-friendly.

Sustainability and environmental and social issues continue to be integrated throughout our business strategies and are regularly considered in day-to-day decision-making at Group Management Board meetings. We established a Technology Steering Committee for the first time in 2016, which has responsibility for uploading our innovation standards and keeping our competitive edge in the fast-paced world of technology.

We also reviewed our approach to risk management, enhanced our tracking of risks and identified risk trends which was reviewed at management and Board level. We increased the accountability and transparency of risk ownership and management, and strengthened our monitoring of the Group's principal risks. Our objective was to ensure that the Group's risk management framework is robust and capable of adapting and responding to our ever-changing business environment.

Board Changes

We were delighted to appoint Mr Matthew Lawson as Chief Financial Officer on 3 May 2016. Matthew has had extensive experience with hospitality and real estate transactions, investments and financing, including joint venture negotiations and structuring. This follows the appointment of Dr Kim Winser, OBE as an Independent Non-Executive Director in January 2016. Dr Winser is recognised as one of the UK's most internationally renowned and inspirational businesswomen and has delivered valuable insights to our Board.

We believe that HSH has a dynamic Board with a diverse range and balance of skills, expertise and experience, who can work effectively and constructively in challenging the Executive Directors and management.

Compliance

As a Hong Kong listed company, we are reporting in the context of the Stock Exchange's Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules. This report sets out our approach to corporate governance, how we have applied the main principles and whether we have complied with the relevant provisions. It also shows the structure of our Board and Board Committees, the roles that they play, how they operate, and our risk management structure and processes.

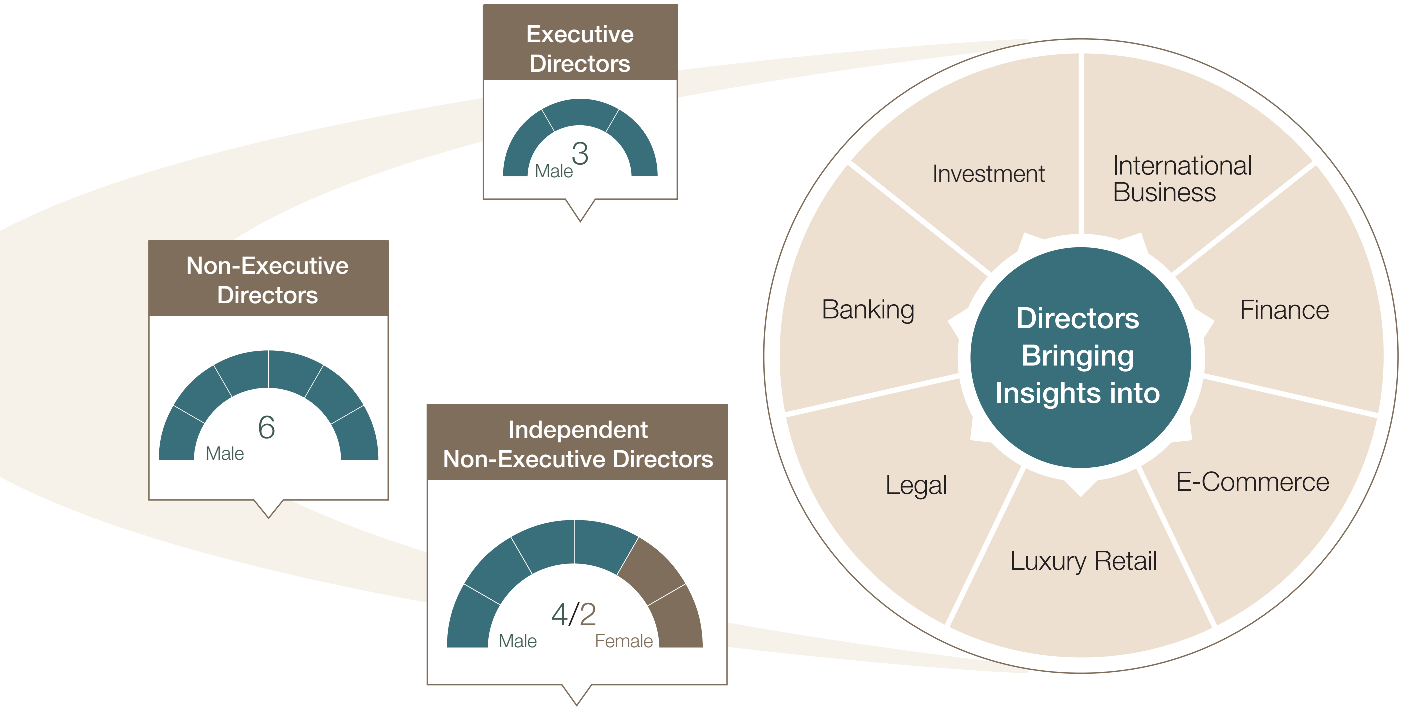
Commitment to long-term success

Overall, I am pleased with the progress we have made in 2016 in the area of governance. We strive to continually improve and enhance our efforts and ensure the long-term success of the Company.

The Hon. Sir Michael Kadoorie
20 March 2017

Our Board

Leading the Group with a Wealth of Experience



Non-Executive Chairman

The Hon. Sir Michael Kadoorie

N E

GBS, LL.D. (Hon), DSc (Hon), Commandeur de la Légion d'Honneur, Commandeur de l'Ordre des Arts et des Lettres, Commandeur de l'Ordre de la Couronne, Commandeur de l'Ordre de Leopold II

Appointed a Director in November 1964 and elected Chairman in 1985, Sir Michael is a substantial shareholder of the Company within the meaning of the Securities and Futures Ordinance. He is the brother-in-law of a fellow Director, Mr Ronald James McAulay, and is a Director of several subsidiaries of the Company. He is also Chairman of CLP Holdings Limited, an Independent Non-Executive Director of CK Hutchison Holdings Limited, a Director of Sir Elly Kadoorie & Sons Limited, as well as holding a number of other directorships. He was an Independent Non-Executive Director of Hutchison Whampoa Limited until July 2015 and an Alternate Director of Hong Kong Aircraft Engineering Company Limited until May 2016. In addition, Sir Michael acts as a trustee of a number of notable local charitable organisations. He is 75 years old.

Non-Executive Deputy Chairman

Andrew Clifford Winawer Brandler

Ⓐ Ⓡ Ⓔ Ⓕ

Appointed a Director and Deputy Chairman in May 2014, Mr Brandler is also Chairman of two subsidiaries of the Company. From May 2000 to September 2013, Mr Brandler was the Group Managing Director and Chief Executive Officer of CLP Holdings Limited and he remains a Non-Executive Director of this company. He is a Non-Executive Director of Tai Ping Carpets International Limited and Chairman of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. Prior to joining CLP Holdings Limited, Mr Brandler worked for Schroders, a UK investment bank, based in London, in Singapore and latterly in Hong Kong, where his last position was Head of Asia-Pacific Corporate Finance. He was the Chairman of The Hong Kong General Chamber of Commerce between 2008 and 2010. He holds BA and MA degrees from the University of Cambridge, an MBA degree from Harvard Business School, and is a Member of the Institute of Chartered Accountants in England and Wales. He is 60 years old.

Executive Directors

Chief Executive Officer

Clement King Man Kwok

Ⓔ Ⓕ

Chevalier de la Légion d'Honneur

Appointed to the Board as Executive Director and Managing Director and Chief Executive Officer in February 2002. Mr Kwok is also a Director of the majority of the Group's entities. His career began with Price Waterhouse and Barclays de Zoete Wedd in the UK, following which he returned to Hong Kong in 1986 to work with Schroders Asia, where he was appointed as Head of Corporate Finance in 1991. From 1996 to 2002, Mr Kwok served as Finance Director of MTR Corporation. He was an Independent Non-Executive Director of Swire Pacific Limited until May 2015. He is an Independent Non-Executive Director of Orient Overseas (International) Limited, a Fellow of The Hong Kong Management Association, a Council Member of the World Travel & Tourism Council, a Board Member of the Faculty of Business and Economics of The University of Hong Kong and an Honorary Adviser to the Financial Reporting Council. Over his long career in Hong Kong, he has served on the Stock Exchange Listing Committee, the Takeovers and Mergers Panel, the Securities and Futures Appeals Tribunal, the Hang Seng Index Advisory Committee and the Harbourfront Commission, as well as the Interpretations Committee of the International Accounting Standards Board in London. He holds a Bachelor of Science in Economics from the London School of Economics and is a Member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He is 57 years old.

Governance Board Committees

Ⓐ Audit Committee   Ⓝ Nomination Committee   Ⓡ Remuneration Committee   ● Chairman of the Committee

Other Board Committees

Ⓔ Executive Committee   Ⓕ Finance Committee   ● Chairman of the Committee

Chief Operating Officer

Peter Camille Borer

Appointed to the Board as Executive Director in April 2004, Mr Borer is a Director of the majority of the Group's entities. He joined the Group in 1981 and was appointed General Manager of The Peninsula Hong Kong in 1994, taking on additional regional responsibility in 1999, culminating in his appointment as Chief Operating Officer in April 2004. Mr Borer is a graduate of the Ecole hôtelière de Lausanne, Switzerland and is now a member of the International Advisory Board of the school. He is also a member of the Advisory Board of the School of Hotel and Tourism Management of The Chinese University of Hong Kong. He is 63 years old.

Chief Financial Officer

Matthew James Lawson

F

Appointed to the Board as Executive Director and Chief Financial Officer in May 2016, Mr Lawson is also a Director of the majority of the Group's entities. Over the course of his career Mr Lawson has had extensive experience with hospitality and real estate transactions, investments and financing, including joint venture negotiations and structuring. He began his career with Arthur Andersen Corporate Finance in Sydney in 1998 and subsequently joined Deutsche Bank AG in Sydney in 2001 where he worked across Equity Capital Markets and Real Estate Investment Banking. Mr Lawson joined JPMorgan in Asia in 2006, where he held senior positions in Hong Kong and Singapore. Prior to his departure he was Managing Director and Head of JPMorgan's Real Estate, Gaming and Lodging investment banking practice in Asia. He holds a Bachelor of International Business Relations from Griffith University and a Bachelor of Commerce from The University of Queensland. Mr Lawson has also completed various postgraduate studies in China, including at the Hopkins-Nanjing Center for Chinese and American Studies. He is 43 years old.

Non-Executive Directors

Ronald James McAulay

Appointed to the Board in May 1972, Mr McAulay is the brother-in-law of The Hon. Sir Michael Kadoorie and a substantial shareholder of the Company within the meaning of the Securities and Futures Ordinance. He also serves on the Board of Sir Elly Kadoorie & Sons Limited and several other companies. He was a Non-Executive Director of CLP Holdings Limited until the end of September 2016. Mr McAulay is an Honorary Trustee of the Tate Foundation in London and a trustee of various charitable organisations. He is a graduate of the University of Glasgow and a Member of the Institute of Chartered Accountants of Scotland. He is 81 years old.

William Elkin Mocatta

Appointed to the Board in May 1985, Mr Mocatta served as Deputy Chairman from 1993 until May 2002. He is also a Director of several subsidiaries of the Company. Mr Mocatta is an Executive Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. He holds other non-executive positions including Vice Chairman of CLP Holdings Limited and Chairman of CLP Power Hong Kong Limited, CLP Properties Ltd., CLP Property Investment Limited, Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited. Mr Mocatta is also an Alternate Director for The Hon. Sir Michael Kadoorie in CK Hutchison Holdings Limited. He was an Alternate Director for The Hon. Sir Michael Kadoorie in Hutchison Whampoa Limited until July 2015. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He is 64 years old.

John Andrew Harry Leigh

E F

Appointed to the Board in May 2006, Mr Leigh serves on the Boards of CLP Holdings Limited and Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. Previously, he worked in private practice as a solicitor in Hong Kong and the UK. He is 63 years old.

Nicholas Timothy James Colfer

Appointed to the Board in May 2006, Mr Colfer is Chairman of Tai Ping Carpets International Limited and Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. He also serves on several other corporate Boards in Hong Kong. He holds a Master of Arts and has over 30 years of experience in corporate management in the Asia Pacific region, principally in real estate, manufacturing and distribution. He is 57 years old.

Independent Non-Executive Directors

Dr the Hon. Sir David Kwok Po Li N

GBM, GBS, OBE, JP, MA Cantab. (Economics & Law), Hon. LLD (Cantab), Hon. DSc. (Imperial), Hon. LLD (Warwick), Hon. DBA (Edinburgh Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. LLD (Hong Kong), Hon. DSocSc (Lingnan), Hon. DLitt (Macquarie), Hon. DSocSc (CUHK), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCIArb, Officier de l'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l'Ordre National de la Légion d'Honneur

Appointed to the Board in October 1987, Sir David is the Chairman and Chief Executive of The Bank of East Asia, Limited (listed in Hong Kong). He is an Independent Non-Executive Director of Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited and Vitasoy International Holdings Limited (all listed in Hong Kong). He is also a Director of Hong Kong Interbank Clearing Limited. Sir David was a Director of CaixaBank, S.A. (listed in Spain) until October 2014 and an Independent Non-Executive Director of SCMP Group Limited (now known as Great Wall Pan Asia Holdings Limited) until June 2016. Sir David is a Member of the Council of the Treasury Markets Association. He is Founding Chairman of The Friends of Cambridge University in Hong Kong Limited, Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command and Chairman of the Executive Committee of St. James' Settlement. He was a Member of the Legislative Council of Hong Kong from 1985 to 2012. He is 78 years old.

Patrick Blackwell Paul, CBE A R

Appointed to the Board in February 2004, Mr Paul began his career with Price Waterhouse in London in 1969. A resident of Hong Kong since 1980, he was Chairman and senior partner of PricewaterhouseCoopers in Hong Kong from 1994 until 2001. He is an Independent Non-Executive Director of Johnson Electric Holdings Limited and Pacific Basin Shipping Limited. He is also the Chairman of the Supervisory Board of the British Chamber of Commerce in Hong Kong. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He is 69 years old.

Pierre Roger Boppe

Chevalier dans l'Ordre National de la Légion d'Honneur

From May 1996 until January 2002, Mr Boppe was Managing Director and Chief Executive Officer of the Group. He was re-designated from being a Non-Executive Director to an Independent Non-Executive Director in June 2009. Upon his return to Europe, Mr Boppe continues to be active in the hotel and travel industries. He holds Master of Science degrees from both the Swiss Federal Institute of Technology and Stanford University. Mr Boppe has held various executive positions with the international quality control company SGS. He is 69 years old.

Dr William Kwok Lun Fung, SBS, OBE, JP

Ⓐ Ⓝ

Appointed to the Board in January 2011, Dr Fung is the Group Chairman of Li & Fung Limited and also serves as a Non-Executive Director of other Fung Group companies including Convenience Retail Asia Limited, Trinity Limited and Global Brands Group Holding Limited. Dr Fung is an Independent Non-Executive Director of VTech Holdings Limited, Shui On Land Limited, Sun Hung Kai Properties Limited and Singapore Airlines Limited. He is a past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and Hong Kong Committee for the Pacific Economic Cooperation Council. Dr Fung graduated from Princeton University with a Bachelor of Science degree in Engineering. He also holds an MBA degree from the Harvard Graduate School of Business. He was conferred with Honorary Doctorate degrees of Business Administration by The Hong Kong University of Science and Technology and by The Hong Kong Polytechnic University. He is 68 years old.

Dr Rosanna Yick Ming Wong, DBE, JP

Ⓡ

Appointed to the Board in February 2013, Dr Wong is a member of the National Committee of the Chinese People's Political Consultative Conference. She is the Executive Director of The Hong Kong Federation of Youth Groups, an Independent Non-Executive Director of The Hongkong and Shanghai Banking Corporation Limited, CK Hutchison Holdings Limited and Hutchison Telecommunications Hong Kong Holdings Limited. In addition, Dr Wong is the Non-Executive Chairman of the Hongkong Bank Foundation's Advisory Committee, Honorary Chairman of World Vision Hong Kong and a Global Advisor to Mars, Incorporated. She is a member of The Hong Kong University of Science and Technology Business School Advisory Council. Dr Wong was an Independent Non-Executive Director of Cheung Kong (Holdings) Limited until June 2015. She holds a Doctor of Philosophy degree in Sociology from University of California, Davis and has been awarded Honorary Doctorates from The Chinese University of Hong Kong, The Hong Kong Polytechnic University, The University of Hong Kong, The Hong Kong Institute of Education and The University of Toronto. She is 64 years old.

Dr Kim Lesley Winser, OBE

Appointed to the Board in January 2016, Dr Winser has substantive experience and expertise in the consumer and retail industries. She began her career with Marks & Spencer plc in the UK and became its first female commercial divisional board director as well as its youngest director in the 1990s. She went on to successfully deliver turnarounds for the iconic British heritage brands Pringle of Scotland as Chief Executive Officer and Aquascutum as President and Chief Executive Officer. She became a senior adviser to 3i, a leading private equity firm in the UK, for its investments in the consumer and retail industries and became Chairman of one of their brands, Agent Provocateur. Dr Winser has also previously served as an adviser to Natalie Massenet at online retailer Net-a-Porter and a Non-Executive Director of The Edrington Group Limited. Dr Winser is the Founder and Chief Executive Officer of Winser London Limited, an online womenswear business. Appointed by the British Prime Minister, Dr Winser is a member of the Board of Trustees and the Chairwoman of Commercial Advisory Committee of the Natural History Museum in the UK. Dr Winser was awarded an Order of the British Empire (OBE) by Her Majesty The Queen and a Doctorate from Heriot-Watt University for her work on British business. She is 58 years old.

Senior Management and Key Functions

From left to right
Back row: Martyn Sawyer, Christobelle Liao, Rainy Chan, Shane Izaks, Sindy Tsui, Maria Razumich-Zec
Front row: Matthew Lawson, Clement Kwok, Peter Borer

Senior Management

Group Management Board

The Group Management Board (GMB) is entrusted with making decision for the Group's management and operations and advising the Board on the Group's strategic direction under the official delegation of authority from the Board. GMB meets weekly where possible and makes decisions on management and operational matters.

In addition to **Chief Executive Officer, Clement Kwok; Chief Operating Officer, Peter Borer and Chief Financial Officer, Matthew Lawson**:[1]

Group Executives

Christobelle Liao

Ms Liao joined the Group as Company Secretary and Corporate Counsel in 2002. She was appointed to the Group Management Board in 2011 and was promoted to Group Executive and retitled as Group Director, Corporate and Legal in 2013 while retaining the position of Company Secretary. She is a qualified solicitor in Hong Kong and England & Wales and had many years of experience in legal practice specialising in corporate mergers and acquisitions. She is 48 years old.

Martyn Sawyer

Mr Sawyer is responsible for the Group's non-hotel properties and operations including The Repulse Bay Complex and The Peak Complex in Hong Kong, as well as management of properties and clubs in Hong Kong, Vietnam, Thailand, France and the UK. He has served the Group for over 30 years. He was appointed Group General Manager, Properties and Clubs in 1999, became a member of the Group Management Board in 2002 and was promoted to Group Executive and retitled as Group Director, Properties in 2013. He is 59 years old.

Other members

Rainy Chan

Ms Chan joined The Peninsula Hong Kong in 1994. After a series of internal promotions, she was appointed General Manager of The Peninsula Bangkok from 2004 to 2007. In 2007 she was appointed General Manager of The Peninsula Hong Kong, and she was promoted to Area Vice-President – Hong Kong and Thailand in 2010. She was appointed to the Group Management Board in 2011 and was retitled as Regional Vice-President in 2013, in addition to being General Manager, The Peninsula Hong Kong. She is 52 years old.

Shane Izaks

Mr Izaks was appointed General Manager, Information Technology in 1995 when he joined HSH and has been a key member of the development and restructuring of the Technology Function within the Group. In 2013 he was retitled as Group General Manager and is responsible for formulating and implementing Information Technology strategy at both Group and Operational levels. He was appointed to the Group Management Board in 2015. He is 54 years old.

1 Profiles of Chief Executive Officer, Chief Operating Officer and Chief Financial Officer are disclosed on pages 113 and 114

Maria Razumich-Zec

Mrs Razumich-Zec joined the Group as General Manager of The Peninsula Chicago in 2002 and was promoted to the position of Regional Vice-President – USA East Coast in 2007, with regional responsibilities covering The Peninsula Hotels in Chicago and New York, and Quail Lodge & Golf Club in Carmel, California. She was appointed to the Group Management Board in 2007 and was retitled as Regional Vice-President in 2013. She is 59 years old.

Sindy Tsui

Ms Tsui was appointed General Manager, Human Resources in 2007. With many years of experience in human resources management in the hospitality industry, she is responsible for the Group's strategy on human resources, talent development and training. She was appointed to the Group Management Board in 2011 and was retitled as Group Director, Human Resources in 2013. She is 48 years old.

P.T. Wong

Mr Wong joined HSH in 1996 as Senior Assistant Project Manager. He was promoted to General Manager, Project Management in 2010 and was appointed Group General Manager of Projects in 2013. He is responsible for all project development of the Group and during his tenure has developed and opened new Peninsula hotels in Shanghai and Paris as well as significant renovations in Hong Kong, Beijing and Chicago. He was on the Group Management Board until December 2016. He resigned from the Company with effect from 31 March 2017. He is 49 years old.

Key Functions

The following are members of key functions in the Group. Names are listed in alphabetical order by last name.

Bharath Bangalore, *General Manager, Operations Finance and Efficiency*

Julie Bourgeois, *General Manager, Peninsula Merchandising Limited*

Christopher Chan, *General Manager, Research and Technology*

Ming Chen, *Director, Business Development*

Robert Cheng, *Vice President, Marketing, The Peninsula Hotels*[2]

Joseph Chong, *General Manager & Managing Director, The Peninsula Shanghai Complex*

Mark Choon, *General Manager, The Peninsula Manila*

Vincent Chow, *Group Chief Engineer*

Jonathan Crook, *General Manager, The Peninsula New York*

Anne Geiermann, *General Manager, Design*

Katja Henke, *General Manager, The Peninsula Paris*

Jason Hui, *Director, Security and Operational Risk*

Janice Lao, *Director, Corporate Responsibility and Sustainability*

Suan Beng Lee, *Group Treasurer*

Nadine Maurellet, *General Counsel*

Lynne Mulholland, *Director, Corporate Affairs*

Louise Napier, *Vice President, Global Commercial Leasing*

Offer Nissenbaum, *Managing Director, The Peninsula Beverly Hills*

Vincent Pimont, *General Manager, The Peninsula Beijing*

Gareth Roberts, *Group General Manager, Operations*

Joseph Sampermans, *General Manager, The Peninsula Bangkok*

Max Schroeder, *General Manager, Quail Lodge & Golf Club*

Ernest Tang, *General Manager, Group Finance*

May Tsang, *General Manager, The Peak Complex*

Sonja Vodusek, *General Manager, The Peninsula Tokyo*

Kitty Wan, *Group General Manager, Audit & Risk Management*

Tina Wong, *General Manager, The Repulse Bay Company, Limited*

Simon Yip, *Vice President, Sales, The Peninsula Hotels*

2 Mr Mark Kobayashi has been appointed as Vice President, Marketing, The Peninsula Hotels with effect from 27 March 2017 as a replacement for Mr Robert Cheng who resigned in March 2017

Corporate Governance Report

Our Board sees corporate governance as an integral part of our business strategy

Our Corporate Governance Framework

As the platform supporting our business strategy

Good corporate governance is crucial to sustain the Group in the long-run through the changing regulatory and market environment. Our Board sees corporate governance as an integral part of our business strategy. By putting in place the right governance framework, our Board has set a culture of integrity, transparency and accountability that permeates throughout the Group. This in turn fosters and maintains shareholders' and stakeholders' confidence in our company.

Our 2016 Corporate Governance Initiatives and Activities

Below are the highlights of our initiatives and corporate governance activities. Further details can be found throughout this report and in the Corporate Responsibility and Sustainability Report which is posted on the Company's website[3] and the Stock Exchange's website.

- **Risk Management Process –** We continued to fine-tune our risk management process by (i) improving the risk management methodology to give our executives better visibility on top risks for each operation; and (ii) expanding our risk assessment matrix. We launched two new reports: "Incident Insights" and "Risk Alerts" reports to raise awareness and enhance sharing of lessons learnt from incidents and educated our operations through the risk management workshops
- **Board Evaluation –** Our Board took actions after its second self-evaluation in 2015, with a view to improving the effectiveness of the Board
- **Succession Plan –** We employed an online Talent Management System to build a robust succession planning framework for key functions
- **Practices and Policies –** As part of our regular reviews and assessment of our governance processes, policies and practices: (i) we made the Code of Conduct more user-friendly; (ii) we continued to implement the Fair Competition Compliance Programme; and (iii) we updated our Data Privacy Manual on direct marketing consent
- **Information Technology –** The Technology Steering Committee, a sub-committee of Group Management Board, was formed to oversee the strategic direction of the Group's technology development
- **Projects –** With the Group's growing number of new and renovation projects, the Project Executive Committee was formed to strengthen the process and co-ordination of the project resources
- **Operational Finance –** We restructured the financial reporting function and renamed it as Operations Finance and Efficiency Department, to focus on business plans, budgets, efficiencies in the business, risk management, audit findings and data analysis
- **Communication –** The General Managers' Conference and Marketing Conference in May 2016 provided a forum to discuss the opportunities, challenges and focus for the Group

3 www.hshgroup.com/en/sustainable-luxury/sustainability-reports

Our corporate governance framework and the main responsibilities of each function is shown below:

Accountability

Board

responsible and accountable to the Company's shareholders and stakeholders for the long-term success of the Group

Governance Board Committees

Audit Committee

- oversees the integrity of the Group's financial reporting and the external and internal audit process
- monitors and reviews the effectiveness of Group's risk management and internal control systems

Nomination Committee

- reviews the structure, size and composition of the Board
- makes recommendation to the Board for appointments with reference to the Board Diversity Policy

Remuneration Committee

- makes recommendations to the Board on the remuneration philosophy and policies of the Group
- reviews and approves the remuneration packages of the Executive Directors and senior management
- reviews and recommends to the Board the Non-Executive Directors' fees and the fees for serving on Board Committees

Other Board Committees

Executive Committee

- develops and reviews strategic opportunities and significant investment proposals
- evaluates the Group's competitive position and determining strategies to protect the brand, values and business principles of the Group
- oversees the implementation of strategic plans and investment proposals

Finance Committee

- reviews all financial aspects and budgets of significant acquisitions, investments, assets disposals and new project commitments of the Group
- reviews and approves the establishment of the financial and annual operational plans, budgets, forecasts and any revisions of the Group
- reviews the Group's financial performance

Chief Executive Officer

leads the management to fulfil objectives set by the Board and assisted by the Group Management Board

Group Management Board

reviews and monitors day-to-day operations and business affairs of the Group and supported by various sub-committees

Group Risk Committee

- oversees top tier risks of the Group and related contingency plans
- develops governing policy, procedures and instructions to the purpose, application, and completion for the Group Risk Register

Group Corporate Responsibility Committee

- monitors and oversees the implementation of the Group's responsibility and sustainability policy and initiatives

Technology Steering Committee

- oversees the strategic direction of the Group's technology development

Audit & Risk Management

- provides Internal audit assurance
- reports to Audit Committee and supports Group Risk Committee on risk management and internal control

General Managers of Operations and Heads of Corporate Departments as well as Business Operations

runs the day-to-day business of the Group

Delegation

Transparent Reporting Wins Awards

HSH is committed to providing its shareholders and stakeholders with a transparent picture of our business performance. The Annual Report is an important tool which contributes to this commitment.

In 2016, the HSH Annual Report won an ARC Grand Award – Best of Category for the Chairman's Letter, and 4 Gold Awards and 4 Bronze Awards in the Hotel & Leisure Category.

HSH also won the Silver Award for Best Annual Reports Awards under the General Category organised by The Hong Kong Management Association. In addition, we received the Platinum Award of Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Awards and Special Mention of the Sustainability and Social Responsibility Reporting Award under Non-Hang Seng Index (Large Market Capitalisation) Category. Receiving such external recognition serves to assure our shareholders and stakeholders that we are well placed amongst our peers in our corporate governance practices.

How our Board Works

The Role of the Board

The Board leads and oversees the management of the Company and our Directors are collectively responsible and accountable to the Company's shareholders and stakeholders for the long-term success of the Group.

The Board has its own terms of reference[4] and has reserved its powers in strategic and significant matters of the Group, including:

- Formulating long and short-term strategic directions of the Group, including development strategy, major investments, acquisitions and disposal of major assets
- Approving the Group's annual budgets and forecasts
- Approving significant changes in accounting policies
- Approving changes to the Company's capital structure
- Setting the dividend policy
- Authorising material borrowings and expenditure
- Approving financial statements, annual and interim reports, and making judgements that are appropriate in the preparation of the Company's disclosure statements
- Approving the appointments of Directors for election and/or re-election in general meetings
- Reviewing and ensuring corporate governance functions are carried out in accordance with the Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code), including determining the Group's corporate governance policies, and reviewing and monitoring the corporate governance practices of the Group
- Overseeing the risk management and internal control systems of the Group on an ongoing basis through review of reports of Audit Committee, the Group Management Board and the Group Risk Committee and reviewing the effectiveness of these systems

Through the Board's leadership and direction, Group Management Board runs the Group's day-to-day business (as more specifically described on pages 132 and 133).

The Board's terms of reference are reviewed annually to ensure that they comply with latest legal and regulatory requirements and reflect developments in best practices. Revisions to the terms of reference of the Board were made in 2016 accordingly.

The Board also evaluates its performance every two years. Details are set out on page 128. With respect to the Directors' responsibility for preparing the Financial Statements for the year ended 31 December 2016, please refer to the Directors' Report set out on page 164.

The Roles of our Non-Executive Chairman and Chief Executive Officer and Division of Responsibilities

The Hon. Sir Michael Kadoorie has been our Non-Executive Chairman since May 1985 and Clement King Man Kwok has been the Chief Executive Officer since February 2002.

There is a clear division of the responsibilities in the Company between the running of the Board, and the executives responsible for the running of the Company's business.

4 It is also available on the Company's website www.hshgroup.com/en/about/leadership

The respective roles of the Chairman and the Chief Executive Officer and their division of responsibilities are established in our HSH Corporate Governance Code (HSH Code).

- **Non-Executive Chairman** – The Chairman leads the Board and is responsible for ensuring that both the Board and individual Directors perform their duties effectively and make active contributions to the Board's affairs. He fulfils this by facilitating and encouraging all Directors, in particular Independent Non-Executive Directors (each as INED) and other Non-Executive Directors, to voice their views and concerns openly. He also ensures the formation of constructive relations between Executive and Non-Executive Directors so that the decisions made by the Board fairly reflect a consensus. The Chairman keeps abreast of the development and operations of the Group via his frequent communication with the Chief Executive Officer and the Chief Operating Officer and/or Chief Financial Officer which takes place on average at least once each week. During the year, the Chairman also seeks an independent evaluation of management's performance from the Non-Executive Directors, in the absence of the Executive Directors. He also leads the discussions on Board evaluation which is being conducted every two years. With the assistance of the Company Secretary, the Chairman also ensures that good corporate practices and procedures are established and implemented throughout the Group.

- **Chief Executive Officer** – The Chief Executive Officer leads the day-to-day management of the Group. He is responsible for implementing the strategies and policies agreed by the Board, and leading the management to fulfil the objectives set by the Board. The Board has entrusted the Chief Executive Officer with the authority to operate the business and he is accountable to and reports to the Board on the performance of the business. The Chief Executive Officer is supported by the Chief Operating Officer, the Chief Financial Officer, the Group Executives and other members of the Group Management Board. This management structure facilitates clear reporting and provides the Board with high quality information and recommendations to enable informed decisions in all aspects of the Company's business and strategy.

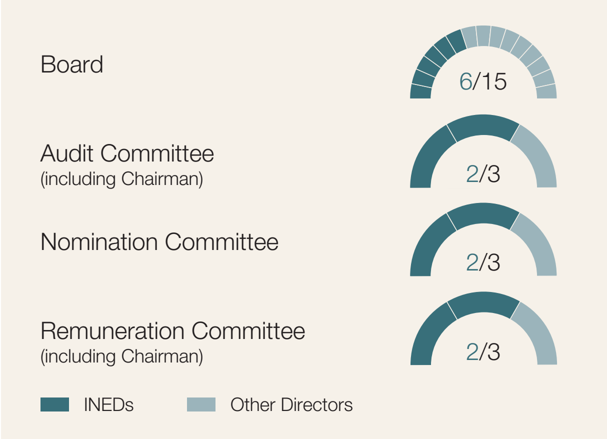
Our Chairman and Chief Executive Officer do not have any financial, business, family or other material or relevant relationships with each other.

The Roles of the Non-Executive Directors and Independent Non-Executive Directors

Among our 12 Non-Executive Directors, six are INEDs, independent of management. The other six Non-Executive Directors do not participate in the day-to-day business of the Company, but are not considered independent due to their association with the substantial shareholder. They evaluate management's performance in achieving the agreed corporate goals and objectives. They also serve to ensure clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effective. Our NEDs are active and vocal in challenging and providing constructive feedback on the decisions of management in all areas, which is crucial to the objectivity of the Board's deliberation and decision-making. They are also involved in determining the appropriate levels of remuneration for Executive Directors and senior management. Mr Patrick B. Paul, an INED, chairs the Audit Committee and the Remuneration Committee, and other Non-Executive Directors are also actively involved either directly on the Board or in the Board Committees. Non-Executive Directors serving on the Board and Board Committees give these Committees the benefit of their skills, expertise, and varied backgrounds and qualifications.

In addition to their roles as Non-Executive Directors, our INEDs bring to the Board knowhow and business expertise that are extrinsic to the management, thereby providing insights and independent judgement on the situations that may be encountered in our business. Their presence further helps to maintain objectivity in the Board's decisions when potential conflicts of interest arise.

Independence Weighting of HSH Board and Governance Board Committees



The Role of Executive Directors

The Chief Executive Officer, Chief Operating Officer and Chief Financial Officer of the Company serve as our Executive Directors and are involved in the day-to-day business. Whilst each has specific executive duties, their roles are not confined to the areas of business covered by their specific executive functions, but are extended to the entire Group's operations. They proactively communicate with the Non-Executive Directors and are open and responsive to any executive proposals and challenges made by the Non-Executive Directors.

The Role of Company Secretary

The Company Secretary reports to the Chairman and the Chief Executive Officer on governance matters. Balancing efficacy and the importance of good corporate governance, her role includes the reviews and implements our corporate governance practices and processes as well as initiating improvements. Acting as Secretary of the Board as well as Governance Board Committees, she is responsible to the Board in respect of Board procedures and processes. All our Directors have direct access to the advice and support of the Company Secretary on such matters.

Our Company Secretary is also responsible for advising and keeping the Board and Board Committees up to date on legislative, regulatory and governance matters. In addition, she facilitates induction and professional development of the Directors.

Board Committees

The Board has established the following Board Committees in order to manage the Company effectively. The Audit, Nomination, and Remuneration Committees are Governance Board Committees under the CG Code. The Executive and Finance Committees are strategic and finance committees which are integral part of the management process. Each Committee reports its decisions and recommendations to the Board and seeks the Board's prior approval on specific reserved matters. Attendance and reports on main activities from these Governance Board Committees are included in this section.

The terms of reference of each Board Committee have been approved by the Board and are reviewed annually to ensure that they comply with latest legal and regulatory requirements and reflect developments in best practices and the needs of the Company. The terms of reference of the Finance Committee were revised in 2016 accordingly.

The full terms of reference of each Board Committee can be found on the Company's website[5] and those for the Governance Board Committees are also published on the Stock Exchange's website. The Governance Committees' reports are set out on pages from 150 to 157.

Board Processes

We continue to adopt clear and consistent board processes. In 2016, the Board had duly convened 5 regular meetings and one special meeting. The attendance of individual Directors at the Board meeting and the Governance Board Committees are set out on page 129.

Sound decisions cannot be made unless Directors have accurate, clear, complete and reliable information. Directors are invited to include discussion items in the Board agenda and comprehensive Board papers are sent to all Directors in advance of each Board meeting or Board written resolutions to allow sufficient time for review of discussion topics. In addition, management provides Board members with a monthly update of our business operations. During the Board meetings, we ensure that all Directors are also given adequate and quality information in a timely manner, allowing them to maintain effective control over the strategic, financial, operational, compliance, sustainability and corporate governance matters of the Company. All Directors are entitled to unrestricted access to independent professional advice and senior management, and the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and for advising the Board on all legal and corporate matters.

Board decisions are voted on at Board meetings and supplemented by circulation of written resolutions between Board meetings. Board meetings are structured so as to encourage open dialogue, frank debate and active participation by Directors in meetings. Whilst matters may be decided at meetings are decided by a majority of votes from voting Directors, the Board would typically strive to get unanimous consensus.

5 www.hshgroup.com/en/Corporate-Governance/Board-Committees

All Directors are required to comply with their common law duty to act in the best interests of the Company and the interests of our shareholders and stakeholders. All Directors are also required to declare the nature and extent of their interests, if any, in any transaction, arrangement or other proposal to be considered by the Board in accordance with the HSH Code and the CG Code. In 2016, no potential conflict of interest was determined by the Board to be material except the continuing connected transactions as disclosed in the Directors' Report on pages 159 and 160, which were discussed and approved in the March Board meeting.

Our Board Committees operate under similar processes as the Board.

2016 Board Focus

Taking the Group Forward in an Evolving Environment

In addition to the usual decision matters that are within the Board's terms of reference, the Board discussed the Company's different businesses, financial performance and its strategic direction in light of our external environment. Highlights for the year include:

Governance

- Directors were updated on new trends, legislation, and the Group's business, through presentations by Heads of Corporate Departments on relevant topics including competition law, marketing strategy and trends, risk management, and security and crisis management
- Reviewed and approved the Fair Competition Guide to help our employees navigate through rugged landscape of competition law in line of their work

Strategy

- Reviewed the five years' financial projection for the Group and the short to medium term financial impact of potential investments on the Group
- Approved the restructuring of the joint venture arrangements of the London Project and monitored its progress
- Monitored the progress of the projects in Istanbul and Yangon
- Reviewed the leasing strategy of the Group's shopping arcade
- Monitored the renovation of The Peninsula Chicago, The Peninsula Beijing and 21 avenue Kléber
- Discussed the strategic and business development considerations which arose at the 2016 General Managers' Conference

Risk Management and Internal Control

- Approved the principal risks of the Group with key controls and risk treatment as disclosed in 2015 Annual Report
- Monitored the risk management and internal control systems on an ongoing basis and reviewed the effectiveness of these systems semi-annually through Audit Committee
- Reviewed and kept informed by reports from Audit Committee Chairman on audit, internal control and risk management matters
- Reviewed the Group's security and crisis management process

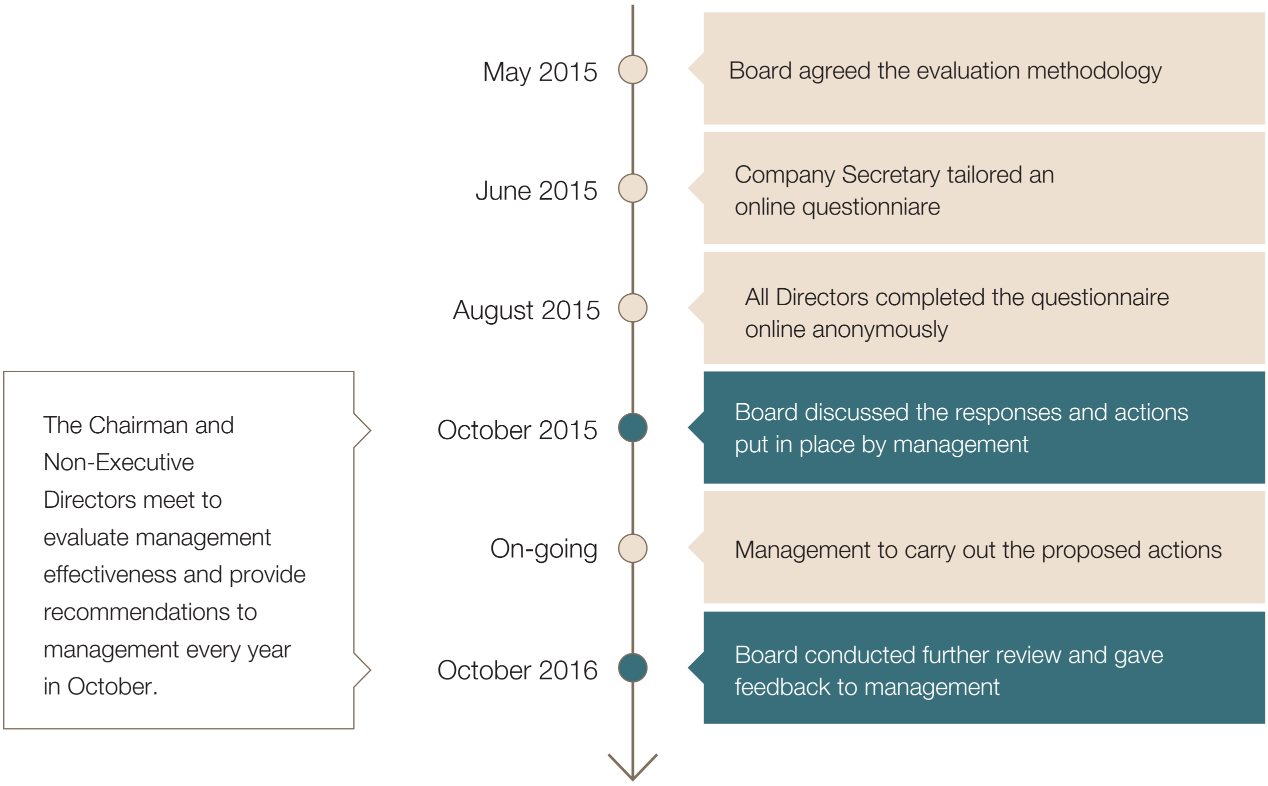
Leadership and Employees

- Appointed Mr Matthew J. Lawson as the Executive Director, the Chief Financial Officer and member of the Finance Committee and Group Management Board
- Discussed talent acquisition in the context of millennials' views on career development

Board Evaluation

Our Two-year Cycle

The Board evaluates its own performance and that of its committees and individual Directors every two years with the aim of improving effectiveness. In 2015, the Board carried out its second evaluation by way of self-assessment through the completion of a bespoke online qualitative questionnaire.



As a result of the last Board evaluation, management has put in place a number of actions to improve effectiveness, including the discussion of budget direction at every October Board Meeting, as well as the standardisation of our reporting on financial projection of the Group and its impact on cashflow and financial ratios. Management continues to facilitate more presentations by General Managers of Operations and Heads of Corporate Departments at Board Meetings to keep Board members appraised of best practices in different function trends, market conditions, technological advancement affecting our business.

In additon to the self-evaluation, the Chairman also met with Non-Executive Directors in October 2016 to review management performance and discuss how we may enhance our governance practices. These discussion were communicated to management for response or implementation.

2016 Board and Committee Attendance and Training Records

The attendance of Directors and the Company Secretary at the Annual General Meeting, Board and Governance Board Committee meetings and training records in the year 2016 were as follows:

	Board	Audit Committee(1)	Nomination Committee	Remuneration Committee	Annual General Meeting(1)	Types of Training
Non-Executive Directors						
The Hon. Sir Michael Kadoorie *Non-Executive Chairman*	○○●●●●		●		●	A,B,C
Mr Andrew Brandler *Non-Executive Deputy Chairman*	●●●●●●	●●●●		●●	●	A,B,C
Mr Ronald J. McAulay	○○○○●●				●	A,B,C
Mr William E. Mocatta	●●●●●●				●	A,B,C
Mr John A.H. Leigh	○●●●●●				●	A,B,C
Mr Nicholas T.J. Colfer	●●●●●●				●	A,B,C
Independent Non-Executive Directors						
Dr the Hon. Sir David K.P. Li	○○●●●●		●		○	A,B,C
Mr Patrick B. Paul	●●●●●●	●●●●		●●	●	A,B,C
Mr Pierre R. Boppe	○●●●●●				●	A,B,C
Dr William K.L. Fung	○○●●●●	○○○●	○		○	A,B,C
Dr Rosanna Y.M. Wong	○●●●●●			●●	○	A,B,C
Dr Kim L. Winser	○●●●●●				○	A,B,C
Executive Directors						
Mr Clement K.M. Kwok *Chief Executive Officer*	●●●●●●				●	A,B,C
Mr Peter C. Borer *Chief Operating Officer*	●●●●●●				●	A,B,C
Mr Matthew J. Lawson(2) *Chief Financial Officer*	●●●●●				●	A,B,C
Company Secretary						
Ms Christobelle Liao(3)	●●●●●●	●●●●	●	●●	●	A,B,C

Notes:

(1) Representatives of the external auditor participated in all Audit Committee meetings and the Annual General Meeting

(2) Mr Matthew J. Lawson was appointed as Director with effect from 3 May 2016

(3) During 2016, Ms Christobelle Liao undertook over 15 hours of professional training requirement of the Listing Rules

(A) Reading materials which covered relevant new laws and regulations and Group's business related topics

(B) Visiting operations such as The Peninsula Beijing in October 2016

(C) Seminars/conferences which are relevant to the business or Directors' duties in the following areas:

- Competition law and anti-trust
- Corporate governance matters
- Risk management
- Latest marketing trends in the world of millennials
- Sustainable development
- Security and crisis management

Board Induction, Familiarisation and Training

Induction

The Company provides a tailored induction programme for all Directors upon joining the Board. The programme provides a broad introduction to the Group's business to ensure new Directors develop a quick insight and understanding of the business. New Directors would meet with the Executive Directors and members of senior management on a one-on-one basis to discuss the Group's businesses, strategy and core function, and visits to the Group's major businesses in Hong Kong initially and overseas would be arranged. All corporate policies would also be explained and provided to new Directors by the Company Secretary. Dr Kim L. Winser and Mr Matthew J. Lawson, who joined the Board in January and May 2016 respectively, have completed their induction programmes.

Familiarisation and Training

To ensure the effective fulfilment of the roles of the Directors, various steps are taken to ensure that all Directors continually update and refresh their knowledge and skills, as well as familiarise themselves with the Company through gaining access to its operations and employees.

The Board aims to hold one Board meeting per year at one of the Group's overseas assets and takes the opportunity to discuss business issues, risks and strategy with local management. The October 2016 Board meeting was held at The Peninsula Beijing which has undergone phase one of its renovation. Board members toured the newly renovated facilities and met with local management to understand their business challenges and market environment. Such overseas site-visits provide Non-Executive Directors with deeper insight into the Group's different businesses, thus enabling them to make sound decisions that are in line with the Group's business strategy.

Our Directors participate in continuous training and development activities that keep themselves abreast of developments in all areas pertaining to the business of the Company and their performance of duties as Directors. The Directors provide the Company with details of their training attended by them annually and such records are maintained by the Company Secretary. The training records of Directors and the Company Secretary for 2016 are reflected in page 129.

Other Compliance Matters

Appointments and Re-election of Directors

The Company confirms that all Directors' appointments and re-elections were conducted in compliance with the CG Code in 2016. All Directors including Non-Executive Directors are subject to a term of re-election every three years. Details of the appointments to the Board in 2016, and Directors who will retire and offer themselves for re-election in the 2017 Annual General Meeting are set out in the Directors' Report on page 160.

Time Commitment of Directors

The Board recognises that it is important that all Directors should be able to dedicate sufficient time to the Company to discharge their responsibilities. The letters of appointment for Non-Executive Directors and INEDs, as well as service contracts for Executive Directors, contain guidelines on expected time commitments required for the affairs of the Company. In 2016, in view of the increase of time spent on the Company's affairs by Non-Executive Directors and INEDs, the Remuneration Committee has approved the revised time commitment of these Directors. Each individual confirms his or her understanding of such time commitment when the appointment is accepted. In addition, the Board reviews annually the contributions required from the Directors and whether they are spending sufficient time performing their responsibilities.

All Directors have confirmed to the Company that they have given sufficient time and attention to the Company's affairs throughout 2016.

Independence of INEDs

The independence of the Non-Executive Directors is relevant to Board balance. The Company has received annual written confirmations of independence from each of its six INEDs who served in 2016. The Nomination Committee and the Board considered that all six INEDs who served in 2016 were, and continue to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules and that there were no business or other relationships or circumstances which are likely to affect the judgement of any of the INEDs.

Beyond the formal confirmation of independence referred to above, of overriding importance is that each INED has an independent mindset and is prepared to challenge conventional wisdom in a constructive fashion. The Board believes that it is not appropriate to apply an arbitrary period of service beyond which a director is assumed to have lost his or her independence. The Board will continue to review the independence of its INEDs by assessing whether they remain independent in character and judgement, and continue to present an objective and constructive challenge to the assumptions and viewpoints presented by the management and the Board.

Directors' Dealings with Company Securities

All Directors conduct their dealings in the Company's Code for Dealing in the Company's Securities by Directors (Securities Code) which contains terms no less exacting than the standards set out in the Stock Exchange's Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (Model Code). Directors must seek approval before engaging in any dealing.

All Directors have confirmed their full compliance with the required standards set out in the Model Code and the Securities Code in 2016. Details of the shareholding interests held by the Directors of the Company as at 31 December 2016 are set out on pages 160 and 161.

Our Code for Dealing in the Company's Securities is extended to specified employees including senior management who may from time to time come across inside information. All specified employees have also confirmed their full compliance with the standards set out in the Code for Dealing in the Company's Securities by Specified Employees. Brief particulars and shareholding interests of the senior management are set out on pages 119 and 200, and 161 respectively.

Directors' Disclosure on Conflict of Interest

We have established procedures to ensure we comply with disclosure requirements on potential conflicts of interests. All Directors are required to disclose to the Board the following sets of information in relation to their interests upon appointment and on an annual basis:

- The number and nature of offices they hold in public companies or organisations and other significant commitments (if any) and their time involvements
- Their interests as a Director or shareholder in other companies or organisations significant to the businesses of the Company
- Whether he or she (other than an INED) or any of his or her close associates has an interest in any business which competes with the Company, and none of them has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules

In 2016, all Directors have fulfilled these disclosure requirements.

We have also extended the annual disclosure requirements on potential conflict of interests to GMB members and key functions, which have also been fulfilled.

Internal Control Procedures on Connected Transaction

We have implemented a series of measures to ensure our connected transactions are conducted in compliance with the connected transaction rules. These measures include: (i) tracking all current and potential connected transactions semi-annually; (ii) Group Legal review is required before any potential connected transactions are entered into; (iii) monthly connected transactions reports are prepared for monitoring purposes; and (iv) annual review of the continuing connected transactions of our office leases by Audit Committee, INEDs, external auditor and Board.

With respect to the connected transactions for the financial year of 2016, Audit & Risk Management has reviewed (i) the adequacy and effectiveness of the internal control procedures of connected transactions; and (ii) the continuing connected transactions of our office leases. Their findings are submitted to Audit Committee, please refer to the Directors' Report set out on page 159.

Corporate Governance Code Compliance

The CG Code forms the basis of the HSH Code. Our Board recognises the principles underlying the CG Code and have applied all of them to the HSH Code. The HSH Code is updated from time to time, most recently in December 2016, to formalise the establishment of the Technology Steering Committee.

The CG Code sets out the principles of a good corporate governance with two levels of recommendations:

- **CG Code code provisions**, which are "comply or explain" provisions; or
- **CG Code recommended best practices**, which are for guidance only, and issuers are encouraged to comply with or give considered reasons for deviation from compliance.

In respect of **CG Code code provisions**, we have complied with all of the code provisions throughout 2016.

In respect of **CG Code recommended best practices**, we have complied with all of the recommended best practices throughout 2016, with the exception of the following:

- **Publication of quarterly financial results** – The Board believes that the businesses of the Group are characterised by their long-term and cyclical nature, while quarterly financial results reporting encourages a short-term view on performance. To keep our shareholders informed, we issue quarterly operating statistics setting out key operating information; and
- **Disclosure of individual senior management remuneration** – We do not disclose the remuneration of individual senior management. However, we have complied with CG Code code provisions and disclosed the remuneration payable to senior management by band in our Remuneration Committee Report.

Managing the Company and its Business

The Chief Executive Officer is accountable to the Board and the Shareholders on the day-to-day management of the Group's business. In discharging his responsibilities, the Chief Executive Officer is assisted by the Group Management Board (GMB) comprising senior management covering major operations and functions. Chaired by the Chief Executive Officer, the GMB is the principal management decision-making body on all day-to-day business of the Group and operates under clear guidelines and delegated authorities approved by the Board.

The GMB is in turn supported by four sub-committees, and the General Managers and Heads of Operations and Functional Departments. Each of the GMB and its sub-committees, has its own terms of reference or charter, as set out on the next page.

GMB and its Sub-Committees

Accountability

Group Management Board

(please refer to pages 119 and 120 for membership)

Main Responsibilities

- Reviews and monitors day-to-day operations and business affairs of the Group
- Conducts business development
- Formulates strategic objectives and action plans covering corporate and financial structure, strategic investment plans, major investments and divestments, operational efficiency, marketing and branding, human resources, corporate sustainability, and risk mitigation
- Makes recommendations to the Board and Board Committees on strategic and operating matters and matters reserved for the Board

Group Risk Committee

Chairman and Members

(C) Mr Matthew J. Lawson, Chief Financial Officer
(M) Group General Manager, Audit & Risk Management, selected members of senior management and Group General Manager, Operations

Main Responsibilities

- Coordinates with operations to ensure that each of them addresses the risks identified, and tracks progress of mitigating plans and activities of key business risks and reports on examinations of specific risks as required
- Develops governing policy, procedures and instructions to the purpose, application, and completion for the Group Risk Register
- Regularly reviews, assesses and updates Group risks and related contingency plans to GMB for further review by Audit Committee and the Board

Group Corporate Responsibility Committee

Chairman and Members

(C) Mr Clement K.M. Kwok, Chief Executive Officer
(M) Director, Corporate Responsibility and Sustainability, selected members of senior management, General Managers of Operations and Heads of Corporate Departments covering engineering, projects, operational risks and safety, operations planning and support, human resources, legal and corporate affairs functions

Main Responsibilities

- Considers the Company's corporate responsibility and key trends, and propose and recommends policies, practices and measurements relating to the environment, labour practices, supply chain practices, social/community responsibility and ethical matters including the Company's Sustainable Luxury Vision 2020
- Monitors and reports to GMB on the effectiveness of the corporate responsibility policies and practices and seeks improvements for them
- Reviews and recommends annual plans with respect to the community and the environment

Technology Steering Committee

Chairman and Members

(C) Mr Clement K.M. Kwok, Chief Executive Officer
(Joint C) Mr Shane Izaks, Group General Manager, Information Technology
(M) Regional Vice President and General Manager of Peninsula Hong Kong and selected members of Heads of Corporate Departments

Main Responsibilities

- Oversees the strategic direction of the Group's technology development covering guest experience and in-room technology, customer information and marketing, operations efficiency and improvements, financial processing and human resources

HSH Retirement Plan ORSO Committee

Chairman and Members

(C) Mr Matthew J. Lawson, Chief Financial Officer
(M) Selected members of senior management, Heads of Corporate Departments and selected representatives from operations

Main Responsibilities

- Regularly reviews and monitors performances of the funds in which the HSH Retirement Plan has made investments
- Reviews and approves audited accounts of the HSH Retirement Plan
- Discusses and approves matters in relation to the operation and administration of the HSH Retirement Plan

Delegation

(C) Chairman (C) Joint Chairman (M) Member

Our Shareholders

HSH had 1,795 registered shareholders as at 31 December 2016. The actual number of investors interested in HSH shares is likely to be much greater, as shares are being held through nominees, investment funds and the Central Clearing and Settlement System (CCASS) of Hong Kong.

Size of registered shareholdings	Number of shareholders	% of shareholders	Number of shares held	% of total number of shares in issue
500 or below	416	23.176	69,851	0.004
501-1,000	192	10.696	152,890	0.010
1,001-10,000	672	37.437	2,837,167	0.181
10,001-100,000	397	22.117	12,794,754	0.817
100,001-500,000	82	4.568	17,293,337	1.104
Above 500,000	36	2.006	1,533,706,008	97.884
Total	**1,795**	**100.000**	**1,566,854,007**	**100.000**

Note: as at 31 December 2016, 36.47% of all HSH total number of shares in issue were held through CCASS

The Kadoorie Family (including interests associated with the Family but excluding interests held by charities associated with the Family) has a combined shareholding of 58.99% as disclosed in “Interests of Directors” and “Interests of Substantial Shareholders” in Directors’ Report on pages 160 to 163. The remaining HSH shares are mainly held by institutional and private investors, with a considerable number of those investors being Hong Kong residents.

From publicly available information and within the knowledge of the Directors, HSH has maintained sufficient public float of its share capital in the Hong Kong Stock Market throughout the financial year ended 31 December 2016 and has continued to maintain such a float as at 20 March 2017.

Shareholders’ Rights to General Meetings

Shareholders holding not less than 5% of total voting rights of the Company may convene an extraordinary general meeting by stating the objectives of the meeting through a requisition and sending the signed requisition to the Company.

Our company’s website[6] sets out the procedures for shareholders to convene and present proposals at general meetings, including proposing a person for election as a Director, and to vote by poll at general meetings.

2016 Annual General Meeting

The 2016 AGM was held on 11 May 2016 at The Peninsula Hong Kong. Of the 412 attendees, 190 were registered shareholders and 222 attended by proxies or through corporate representatives.

Prior to the meeting, a circular containing the notice of the AGM was distributed to all shareholders more than 20 clear business days prior to the AGM, setting out details of each proposed resolution and other relevant information. The Company regards AGM as an important event. Our Directors, including the Chairmen of the Audit and Remuneration Committees, were present at the 2016 AGM. KPMG, the Company’s external auditor, was also present to answer questions from any shareholder relating to its audit of the Company’s Financial Statements.

Procedures for conducting a poll were explained by the Chairman at the beginning of the AGM and Computershare Hong Kong Investor Services Limited, the Company’s Share Registrar, was appointed as scrutineer for voting by poll to ensure the voting was properly counted. Results were posted on both the Company’s[7] and the Stock Exchange’s websites. Media representatives were invited to observe and report on the AGM.

6 www.hshgroup.com/en/Corporate-Governance/Shareholders-Rights

7 www.hshgroup.com/en/investors/corporate-announcements

Separate resolutions were proposed on each issue, including the re-election of individual Directors. All resolutions proposed at the 2016 AGM were passed. The matters discussed and the percentage of votes cast in favour of the resolutions were:

Matters Being Voted Upon	% of Affirmative Votes
Receipt of the audited Financial Statements and the Reports of the Directors and independent auditor for the year ended 31 December 2015	**100%**
Payment of final dividend of 15HK Cents per share for the year ended 31 December 2015	**100%**
Re-election of six retiring Directors: The Hon. Sir Michael Kadoorie, Mr Peter Camille Borer, Mr Patrick Blackwell Paul, Dr Rosanna Yick Ming Wong, Dr Kim Lesley Winser and Mr Matthew James Lawson as Directors of the Company	**Ranging from 96.60% to 99.99% in respect of each individual resolution**
Re-appointment of KPMG as the auditor of the Company and authorisation of the Directors to fix their remuneration	**100%**
Granting of the general mandate to Directors to allot, issue and deal with the Company's shares	**81.45%**
Granting of the general mandate to Directors to buy-back the Company's shares	**99.86%**
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	**81.46%**
Determining the ordinary remuneration of Non-Executive Directors and Independent Non-Executive Directors	**100%**

Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 231.

The Company's share price information as well as share and dividend per share information for the last ten years are disclosed on pages 61 and 17 respectively.

Engaging our Shareholders[8]

The Company attaches great importance in engaging the investing communities, both individuals and institutional shareholders. We believe that continued engagement is key to building increased understanding between the Company and the shareholders and sharing views, opinions and concerns with each other.

The Company utilises multiple platforms to engage investors:

- We encourage our shareholders to participate in our Annual General Meeting (AGM) and directly communicate with our Directors
- We participated in a major investor conference in Shanghai to engage existing and potential investors
- Throughout the year, our Executive Directors and Investor Relations team also held regular meetings and conference calls with institutional shareholders, financial analysts and potential investors
- Our Company's website[9] gives the public a window to who are, what we do and how we are doing. There is a wealth of current and historical information such as webcasts of the announcements of the latest financial results on along with the presentation materials from such announcements, our financial reports, financial statistics, corporate governance practices. In 2016, we re-designed the Corporate website to improve functionality and allow users easier to access information
- Our Shareholder Communication Policy (posted on the Company's website[10]) has specified the various communication platforms to which our shareholders and stakeholders have access

For queries and additional information, shareholders and investors can send their requests to our Investor Relations email address at ir@hshgroup.com.

8 GRI G4 Material Disclosure: G102-40

9 www.hshgroup.com/en/investors

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

Engaging our Stakeholders[11]

As our businesses impact on the natural and social environment around us, we are proactive in engaging with our stakeholders, employees, customers, lenders, shareholders and investors, non-governmental organisations and others. This Annual Report, including our Corporate Responsibility and Sustainability Report, explains our approach to good governance in relation to environmental and social impact. We regularly engage with key stakeholder groups which most impact our business as outlined below:

Stakeholders Group	How We Engage
Customers	As a hospitality company with 150 years of history, engaging our customers and ensuring their satisfaction is critical to how we run our business In 2016 we continued to drive digital engagement through social media and enhanced our mobile website. We engaged bloggers and online influencers to drive brand awareness amongst our customers. We launched Peninsula WeChat for the China market, highlighting our destinations and also functioning as a room booking channel. Arabic language was added to our website to drive business with the growing Middle East market On the sales side, we focused heavily on expanding and enhancing our relationships with global travel agencies who can help interact with potential customers. We organised a12-city European roadshow and sales missions to the Middle East to introduce our brand to cities and regions where we do not have a Peninsula Hotel
Employees	In 2016, we focused on employee engagement as part of our 150th anniversary initiatives, inviting long serving staff to attend the Gala event and also providing a staff gift of a commemorative Octopus card We continued to enhance our Talent Management System and Learning and Development Programmes online
Governments	Our Executive Directors and Chairman regularly meet with senior Hong Kong Government leaders and Legislative Council members to discuss areas of concern for the tourism and property sectors. Our Chief Executive Officer and selected senior management are members of the World Travel & Tourism Council (WTTC) which actively engages with governments around the world on industry issues on behalf of members
Financial Analysts and Investors	Our Investor Relations team and our Executive Directors meet regularly with financial analysts and investors, as well as participate in non-deal investor road shows, post-results briefings and the annual general meeting
Media	Our Marketing team conducts regular press briefings and attends high profile trade shows in all our key markets as well as emerging markets, and the Corporate Affairs team organises press conferences with Executive Directors at annual/ interim results and individual interviews throughout the year. For the Group's 150th anniversary we invited a group of 20 top travel media from the world's most prestigious publications to visit Hong Kong and write about the city
NGOs and Academia	Our Corporate Responsibility and Sustainability team meets with non-profit organisations, academia and industry advocacy groups regularly throughout the year to keep ourselves informed of the latest developments on sustainability issues, and contributes to the sustainability development of the wider community by sharing HSH's experience at various local and regional conferences and industry committees This engagement also includes our support to different charities around the world, in particular our global partnership with Make-A-Wish Foundation, as well as the beneficiaries of our Peninsula in Pink programme to fundraise on behalf of breast cancer charities. Our operations globally also engage with local charities to provide support where possible
Partners and Suppliers	Our partners are also key to our growth, as they help us to ensure the successful operation of our properties in their local markets. Sustainable guidelines such as the Building Research Establishment Environmental Assessment Method (BREEAM) were incorporated since the beginning of project planning, for the construction of the new hotels and renovation projects such as 21 avenue Kléber

11 GRI G4 Material Disclosure: G102-40

We always seek to improve on the area of stakeholder engagement and we conducted a thorough stakeholder mapping and engagement exercise with an independent third party in March 2016.

We encourage our stakeholders to give us feedback on our approach. Comments and enquiries can be sent to our email address at cr@hshgroup.com.

Examples in 2016

- Collaborated with China's most celebrated avant-garde photographer, Chen Man, to deepen our association with the contemporary art world and partnered with online auctioneer Paddle8 to open Peninsula in Pink, our main charitable initiative for breast cancer, to a global audience
- Launched Peninsula WeChat for the China market and added Arabic language to our website
- Expanded PenClub, our in-house preferred travel partner programme, to 79 agencies in Latin America and 110 agencies in Europe. A closed Facebook page has been introduced to enhance communications

- See pages 94 to 98 for more details on our employee engagement strategy

- Advised on tourism industry issues
- Engaged with Hong Kong Government departments for our 150th anniversary, which was given policy support in recognition of our efforts to promote Hong Kong
- Membership of WTTC

- Investor Conferences
- Financial reports and website
- Annual General Meeting (AGM)
- One-on-one and group briefings

- International Luxury Travel Market (ILTM) in Cannes
- HSH financial results press conferences at The Peninsula Hong Kong and post-AGM with the Chairman
- 150th anniversary personalised high-profile media programme

- Membership of International Tourism Partnership (ITP)
- Partnership with WWF Hong Kong
- Partnership with The Hong Kong Council of Social Service
- Member of Hong Kong Council for Sustainable Development's Support Group for Promotion of Sustainable Use of Biological Resources

- The Peninsula Yangon has been undertaking an extensive restoration and heritage preservation, cataloguing to preserve the history and heritage of Myanmar
- BREEAM certification achieved for The Peninsula Beijing and 21 avenue Kléber

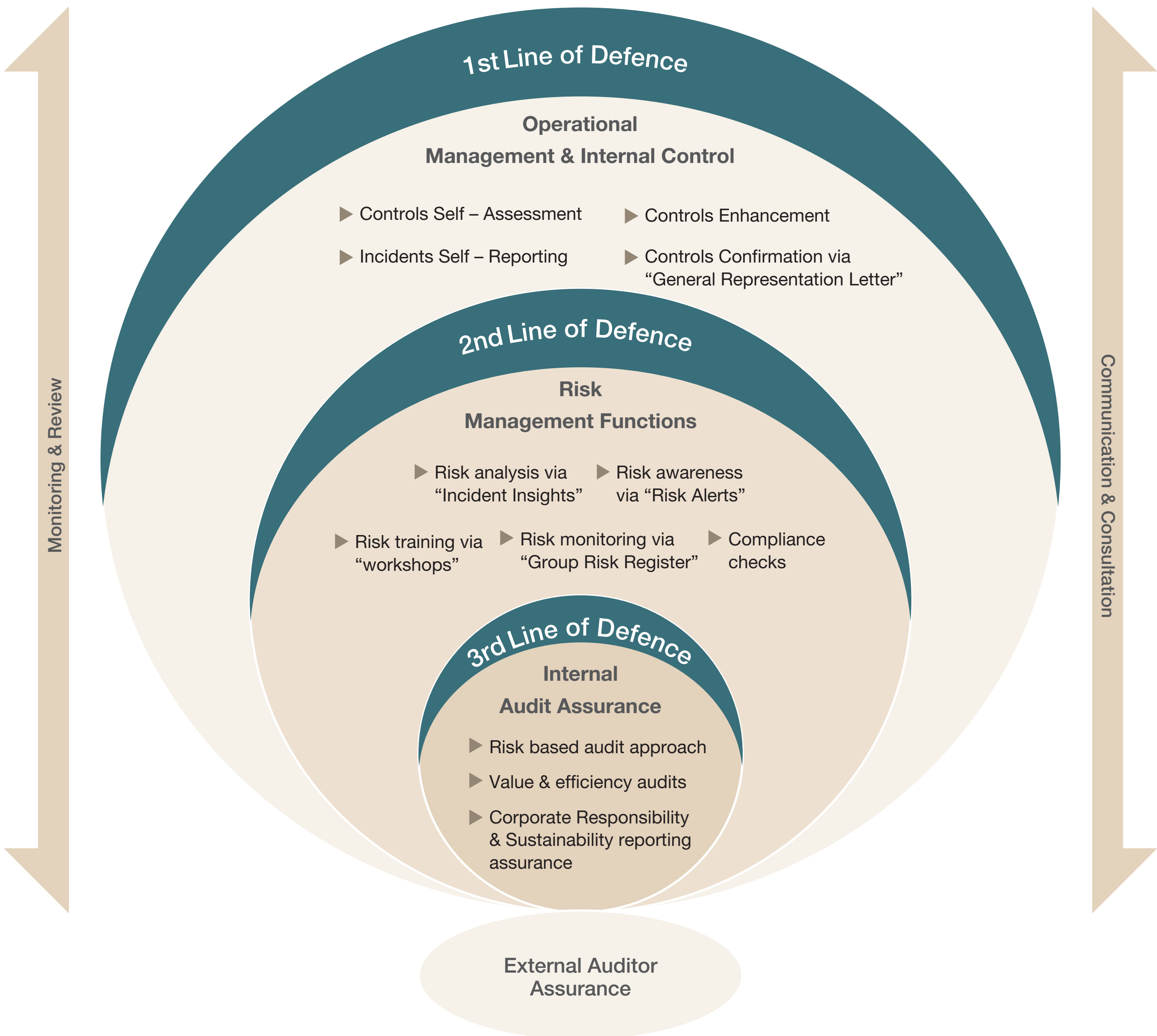
Risk Governance

Effective risk management is and has been an integral part of the overall achievement of the Group's strategic objectives. Our risk management approach is shaped by our business strategy. We manage risks in order to optimise the quality of our asset portfolio in the long term. Our focus is on managing risks to ensure the long-term sustainability of our business, preserve a high standard of luxury, tradition of integrity and respect for our heritage as embodied in the culture of our Company.

The Board is ultimately responsible for establishing, maintaining and overseeing appropriate and effective risk management and internal control systems for the business of the Group. It has given the Audit Committee the responsibility to oversee these systems on an ongoing basis and to assess their adequacy and effectiveness semi-annually. This is done with the support from the Group Risk Committee and Audit & Risk Management (ARM).

Approach to Risk Governance

Our risk governance framework is guided by the model of "Three Lines of Defence", in that we manage risks through operational management and internal control, risk management functions and internal audit assurance. The three lines of defence is also complemented by the independent assurance of the external auditor.



Our risk management framework and its process are designed to manage and mitigate risks rather than eliminate all risks. As with all systems, it does not provide an absolute shield against factors such as unpredictable risks, uncontrollable events such as natural catastrophes, fraud, and errors of judgement.

First Line of Defence

The Group's operational management and internal control system covers Group policies, procedures and practices, as well as internal control procedures.

Controls Self-Assessment

Our business and functional units are at the forefront of risk management and they participate in assessing the Group's risk management and control processes. This year we enhanced the risk control assessment process by introducing a "control self-assessment" (CSA) process to our business and functional units. Management evaluates the effectiveness of material controls using a four-tiered controls rating criteria. The CSA process allows the Group and each operation to identify opportunities for further strengthening of controls and implement control enhancement plans with designated control executives, control owners and timelines. For example, in response to the increased risk of terrorism, we identified the need to enhance our operational controls surrounding security and the safety of our staff and guests. As a result, we approved capital investment to upgrade our physical security systems at certain operations. Similarly, certain operations identified the need to refresh staff training on their Crisis Management Plans.

Controls Enhancement

We took positive steps to improve our ability to respond to the regulatory risks that are relevant to our Group:

- We continued to implement the **Fair Competition Compliance Programme** to enhance awareness of anti-competition behaviour across the Group and minimise competition risks. Following the launch of the Fair Competition Guide, we arranged face-to-face trainings to the relevant departments and the executives at the General Managers' Conference and Marketing Conference. Interactive e-training would be rolled out across the Group in 2017.
- The **Data Privacy Manual** sets out the practical procedures which assist our employees in handling personal data collected in the normal course of business. We continue to provide on-board training to new employees and e-learning personal data privacy refresher training programme to all senior staff and employees who handle data of guest information. In 2016, we reviewed our marketing process and updated the Data Privacy Manual on obtaining consent for direct marketing for our operations.
- Our Whistleblowing Policy was renamed as the **Speak Up Policy**. In addition to providing employees and other stakeholders a reporting channel on suspected misconduct or malpractice within the Group in confidence and without fear of reprisal or victimisation, it also outlines the report handling process to improve transparency. The policy is posted on the Company's website.[12] ARM promptly follows up on reports received through the dedicated and secure "speak up" channel. Investigation results are then communicated to the Executive Directors and the Audit Committee with approved recommendations implemented by the responsible parties.

Our **Inside Information Escalation Policy** regulates the handling of inside information within the Group, to ensure potential inside information are being captured and confidentiality of such information are being maintained until consistent and timely disclose are made. The Policy includes:

- Designated reporting channels from different operations informing any potential inside information to Group Management Board (GMB)
- GMB to determine further escalation and disclosure as required
- Designated persons authorised to act as spokespersons and respond to external enquiries

Training has been provided to GMB, and interactive discussion conducted with key members of financial and operational management of all operations since the policy was adopted.

12 www.hshgroup.com/en/Corporate-Governance/Speak-Up-Policy

Incidents Self-Reporting

We improved the Group's online incident reporting platform to enable faster reporting of incidents that have a major or critical impact, so that prompt senior management action can be taken as appropriate. The technology tool also facilitates analytics for supporting early identification of emerging risks.

Controls Confirmation

General Managers and Directors of Finance or Financial Controllers of all operations have personal obligations to confirm compliance of internal control systems and procedures at operational level and the effectiveness of risk management and internal control systems. Their confirmation of the effectiveness and adequacy of material controls (which include financial, operational as well as compliance controls) is communicated via General Representation Letters (GRL) bi-annually to the Chief Executive Officer and Chief Financial Officer, which in turn forms the basis by which management confirms the effectiveness of the Group's risk management and internal control systems to the Audit Committee. We also took steps to update the design of the GRL to align with the changes in the risk and internal control systems.

Second Line of Defence

The second line of defence is our risk management functions which the Group Risk Committee oversees. The Group Risk Committee reviews the Group Risk Register and the Group Risk Management Report and monitor our risks and develop risk management procedures in response to such risks.

Incident Insights and Risk Alerts

This year, we introduced a new process to improve the way root causes to incidents are analysed. The Group Risk Committee analyses common incidents with similar root causes and summarised in an "Incident Insights" report for further discussion with the Group Management Board on a quarterly basis. Opportunities arising from this analysis to improve key controls and share best practice are now discussed and captured in an internal communication newsletter, "Risk Alerts", for communication across the Group.

Risk Monitoring

The Group Risk Committee continued to strengthen its monitoring of risks through a number of steps taken to enhance the Group Risk Register compilation process. For the initiatives taken in 2016, please refer to the Group Risk Committee report on pages 142 to 147.

Third Line of Defence

ARM performs the Group's internal audit assurance by assessing the effectiveness of our risk management and internal control systems.

Auditing

The Group continues to move towards a risk-based internal audit approach to determine whether material controls are effective in managing the risks which arise from the strategic direction of the Group. In formulating its internal audit approach, ARM identifies appropriate audit methodologies to assess internal controls with our risk management objectives. Among other things, the internal audit plan also now includes a review of our business processes as value chains with a view to optimising efficiency, and ultimately, the performance of our Group.

Corporate Responsibility and Sustainability (CRS) Reporting Assurance

During the year, ARM provided additional assurance to the Audit Committee on the data accuracy of the Group's CRS reports by reviewing the underlying record to report process and specific data points on energy consumption and carbon emissions. All of the Group's operations were independently reviewed by ARM during the year. Key observations and control gaps were addressed immediately and reported to the corporate responsibility and sustainability function for monitoring.

External Auditor Assurance

The external auditor of the Group further complements the third line of defence process by independently auditing material internal controls over financial reporting for our Group. The external auditor would report on any material financial reporting control weakness to the Audit Committee.

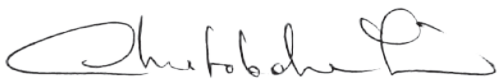
Board Confirmation

The Board has considered and endorsed the Audit Committee's assessment of the effectiveness of risk management and controls systems in the Group, namely that throughout 2016 there were no areas of concern identified which might materially affect the operational, financial reporting and compliance controls of the Group, and that the existing risk management and internal control systems remain effective and adequate.

Beyond 150 years

Commitment to high standards of corporate governance and business integrity has seen us through our 150th year of operations and we seek to maintain and develop our corporate governance standards for the continued future success of the Group.

By order of the Board



Christobelle Liao
Company Secretary
20 March 2017

Group Risk Committee Report

We placed our emphasis on improving the design and effectiveness of the Group's risk management process

As Chairman of the Group Risk Committee (GRC), which is a sub-committee of the Group Management Board, my objective is for the GRC to enhance our focus on existing and potential risks. GRC also acts as a coordinator to ensure each operation addresses the risks we have identified, and track progress of risk treatment plans and activities and report on examinations of specified risks as required.

Chairman: Mr Matthew J. Lawson (Chief Financial Officer)

Members: Group General Manager, Audit & Risk Management
Selected members of senior management
Group General Manager, Operations

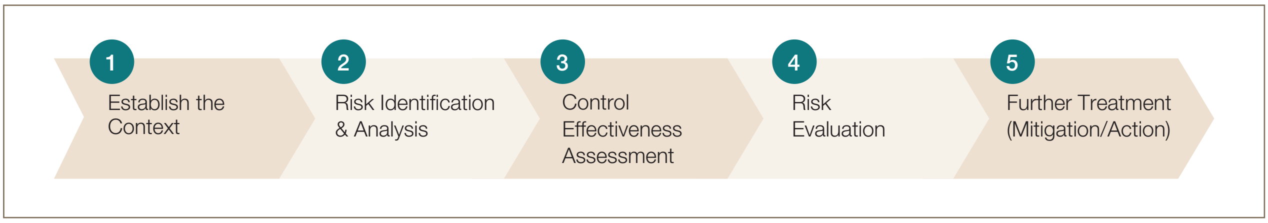
The GRC holds four regular meetings every year to evaluate the Group's risks. We assess the top risks and risk treatments for our operation or major projects, as well as monitor the actions required for critical and major incidents, with examination of specific risks as required. Heads of relevant departments are invited to give in-depth presentations on selected risks. The GRC is also responsible for reviewing and approving the Group Risk Management Report for submission to the Audit Committee and the Board. The Group Risk Management Report is a semi-annual reporting tool which consolidates the risk registers of each operations and the risks faced by the Group as a whole, in order to provide the Board and the Audit Committee with an overview of the Group's major business risks and how management has sought to monitor and mitigate them.

Key Areas of Focus

We placed our emphasis on improving the design and effectiveness of the Group's risk management process. The review began with an assessment of the Group's existing risk management structure against internationally accepted criteria. Improvement opportunities were identified and the key focus areas for 2016 are set out on the next page.

5 Step Risk Management Methodology

We streamlined our Group's risk management methodology. The new methodology introduced a new step for assessing both external and internal context to ensure the risk assessment process and internal controls remained current and are adapted and modified as business conditions and the organisation changes.



Risk Assessment

The Group's risk assessment which includes a likelihood and impact matrix for assessing risk was broadened to align with the Group's strategies. Financial criteria using EBITDA objectives was added and non-financial criteria, such as brand and reputation were added. The overall risk rating was extended to identify those risks where prompt executive management and/or Audit Committee attention would be required.

Group Risk Register

During the year we trimmed and enhanced the format and structure of the Group Risk Register. The new register now shows a description of the risk event, whether the risk had a short or long-term impact, an assessment of the effectiveness of the risk treatment, options to accept or treat the risk, details of further risk treatment and mitigation plans, the control executive and the control owner. Plans for risk treatment and mitigation are further summarised and monitored at business unit and functional level.

Using its respective risk register, each operation reports its risks and controls on a half-yearly basis to the GRC for further discussion and consideration. Critical or major risks are escalated immediately via the Incidents Self-Reporting process or directly to senior management, as appropriate.

Risk Transfer and Insurance

This year, the Group also took its risk transfer approach a step further by conducting a series of risk and insurance workshops with key insurers, advisors and our insurance broker to assess the adequacy of our insurance policies using a number of downside scenarios across risk classes including cybersecurity, terrorism, property damage, business interruption and general liability.

Risk Workshops

The Audit & Risk Management team held face-to-face workshops to train the operations on the new risk management methodology throughout 2016. Around 200 senior executives across the Group engaged in these workshops where hypothetical and relevant real risk events were used to facilitate discussion, risk identification, analysis and evaluation.

Principal Risks

The Board supported by the Audit Committee and the GRC has assessed the principal risks facing the Group, taking into account those that would impact its strategies, future performance and long-term objectives.

Our principal risks are compiled through prioritisation of risks from a total Group perspective taking into account each of the business unit's detailed risk registers. This process includes an ongoing review by the Group Management Board of the most significant risks facing the Group, and the identification and evaluation of potential new risks.

Understanding why and how our principal risks change

The ongoing review of the most significant risks faced by the Group focuses on how changes may arise and how our controls need to be adapted in response to changing business conditions and organisational changes.

Since the publication of our 2015 Annual Report, our principal risks have changed as follows:

Increased Risk Profiles	Why?
Decline in retail and commercial letting revenue	Continued decline in spend within the luxury industry in the markets where we operate
Acquisition, investments and developments projects	Increased investment in development projects (e.g. increase of our ownership of the development of The Peninsula London from 50% to 100%)
Foreign exchange and interest rates	Exchange rate volatility negatively impacting the way our performance is reported in our financial report, which are denominated in HK dollars Existing and additional increase in borrowings arising from our development projects which increases our exposure to any material increases in interest rates
Disaster events arising from terrorism	Increased terrorism risk following attacks in key locations such as Istanbul and Paris
Macroeconomic and political	UK's plans to leave the EU and new regulations being introduced as a result New regulations being introduced in the US
Cybersecurity	Number of cybersecurity incidents increased in 2016 around the world
Data privacy	Global trend of crimes involving the stealing of personal data such as credit card data

The principal risks are:

Principal Risks	Key Controls and Risk Treatment
Retail and Commercial Tenants	⬆
Retail and Commercial letting may become difficult due to factors such as increased competition, decline in spend within the luxury industry, or shifts of retail preferences leading to decrease in our arcade traffic	• Improvements in the utilisation of commercial and retail space to allow flexible usage and conversion possibilities to accommodate tenants • Commitment to maintain high quality properties • Marketing and sales initiatives to increase foot traffic • Proactively working with tenants to jointly develop marketing and incentive plans to drive traffic and repeat customers to our retail arcades • Diversification and maintenance of an appropriate tenant mix to enhance retail proposition
Acquisitions, Investments and Developments	⬆
Acquisitions, investments and developments of properties carry inherent risks. These are often pursued in partnership with third parties. Risks relating to capital allocation, capital funding, meeting budgets, incurring debt, missing targets, partnership relationships and competition for resources will need to be managed. Challenges may arise in relation to obtaining planning or other consents and compliance with different jurisdictions' design and construction standards	• Partnerships with experienced and reputable local partners, and familiarisation with local authorities • Individual and aggregated acquisition/development-related risk levels reviewed by GRC • Robust and auditable risk management process applied to all live acquisitions/developments • Continuous monitoring and review of all aspects of developments, planning, construction progress and reporting of potential project risks • Business "stress testing" under various downside scenarios • Formation of the Project Executive Committee to oversee governance and co-ordination of Group projects to ensure a disciplined and systematic approach to project management
Foreign Exchange and Interest Rate	⬆
Exchange rate fluctuations could result in significant foreign currency losses and affect our capital projects. Significant floating rate liabilities could result in higher cost of financing if current interest rates increase	• Operations predominantly charging in local currencies and expending in local currency to minimise currency mismatch • The majority of borrowings are typically denominated in the functional currency of the operations to which they relate • Sensitivity analysis performed by Head Office (ad hoc for projects, and yearly for the Group's financial reporting) • Monitoring of interest rate risk by Head Office

Principal Risks	Key Controls and Risk Treatment
Disaster Events	↑
A major disaster event, such as a "force majeure" event, natural catastrophe, extreme weather due to climate change impact, terrorist activity, war or contagious diseases could impact on our assets, business levels, level of travel activity, and therefore our ability to conduct business, and reduce earnings	• Ongoing risk surveys by external risk engineering consultant on selected properties focusing on insurable risks • Alignment of corporate security practices to international standards for security risk management • Ongoing group-wide security threat awareness training sessions, bespoke to our hotels and the locations in which we operate • Increased capital investment across the Group to upgrade all physical security systems to enhance our global crisis management capabilities • A comprehensive and effective travel risk management programme for all employees travelling and working abroad • Strengthening our network with security stakeholders to enhance our global intelligence monitoring
Macroeconomic and Political	↑
Changing macroeconomic conditions could impact our business. Political instability and uncertainties, including actions or interventions impacting hospitality and travel related activities, could impact travel patterns and guest spend	• Continuous monitoring of the macroeconomic, political and regulatory landscape in all our key markets to anticipate issues for possible adjustment of any business activities promptly • Maintain comfortable level of gearing • Close monitoring of operating costs and savings measures when required
Cybersecurity	↑
Frequency of cyber and ransomware attacks increased in 2016. The threat of an attack is high	• Ongoing group-wide security training and enforcement of IT compliance checklists • Mandate ongoing internal and external vulnerability assessments • Continue enhancing the security measures and data protections • Formation of Technology Steering Committee to oversee the strategic direction of the Group's technology development
Data Privacy	↑
Given our wide guest base and global operations, we are regulated by privacy laws and regulations of many jurisdictions. Compliance could increase our operating costs and impact our direct marketing abilities. Breaches could result in fines and may adversely affect our brand and business	• Updated Data Privacy Manual and e-commerce policy for sending direct marketing material • Implementation of group-wide Data Privacy Manual and training (classroom and online formats) • Compliance assessments by Data Privacy teams across operations • Providing channels for reporting and dealing with data breaches
Business Portfolio/Concentration	↔
A significant portion of our Group revenues is derived from our operations in Hong Kong. Unfavourable events in the city could disrupt our overall business, lower our revenues, and impact the valuation of our assets	• Focus on increasing overseas earnings contribution, by entering new markets and increasing revenues and profits from markets outside of Hong Kong • Ongoing focus to strengthen our brand values to existing customers and, within the fast-changing business environment of Hong Kong, make prompt adjustment to our business strategies when necessary • Continue to support the overall tourism direction of Hong Kong and work on authentic offerings to maintain the city's global position as one of the most attractive global tourism destinations • Maintain comfortable level of gearing

Principal Risks	Key Controls and Risk Treatment
Brand and Reputation	↔
Significant adverse publicity in traditional or social media could result in a loss of confidence in our brand, a decline in guest, tenant and/or customer base and our ability to recruit and retain good people	• Clear guidelines on incident communication and crisis management process by Crisis Management team • Implementation of group-wide social media usage guidelines • Our Code of Conduct and behavioural standards regulate staff conduct
Competition	↔
Increased competition, cyclical over-supply of luxury hotels in some markets could also harm our business	• Continuously monitor and analyse competitive and market information in order to anticipate unfavourable changes • Brand and communication initiatives to drive revenue growth and strengthen our brand's market position • Reinvestments into our properties to ensure competitiveness • Continue to focus on strengthening our people development platforms, in order to retain the best talent in the Company and within the industry as a whole • Maintain comfortable level of gearing

↑ Risk level increased ↔ Risk level remains broadly the same

Emerging Risks

The Group has not identified any emerging risks during 2016.

Major Initiatives for 2017

In 2017, the GRC's main focus will continue to be on i) enhancement of internal controls to manage the strategic risks of the Group; ii) the roll-out of the 5-step risk management methodology to other areas of the Group such as the functional divisions and iii) a focus on communication, awareness and ownership of risks and controls across the Group.

On behalf of the Group Risk Committee

Matthew Lawson
Chairman of the Group Risk Committee
20 March 2017

Group Corporate Responsibility Committee Report

I believe building our business to be sustainable for the long term is the most important task of our Group

As the CEO, I believe building our business to be sustainable for the long term is the most important task of our Group. 'Doing the right thing' is our mantra for many of the decisions we make. The Group Corporate Responsibility Committee (GCRC) is a sub-committee of the Group Management Board, which was formed to address and review the Group's environmental, social and ethical responsibility and sustainability practices. You can read more about our Sustainable Luxury Vision 2020 on page 75 of this Annual Report and on our company website.[13] This report provides an overview of the GCRC's accomplishments during the year.

Chairman: Mr Clement K.M. Kwok, Chief Executive Officer

Members: Director, Corporate Responsibility and Sustainability
Selected members of senior management
General Managers of Operations and Heads of Corporate Departments covering engineering, projects, operational risks and safety, operations planning and support, human resources, legal and corporate affairs functions

We also published a separate and more comprehensive Corporate Responsibility and Sustainability Report (CRS Report) which is available on the Company's website[13] and the Stock Exchange's website. The CRS Report complies with the "comply or explain" provisions in the Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide (revised in December 2015), which includes reporting of a number of relevant recommended disclosures and contains standard disclosures for Core level of the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards) (re-launched in November 2016).

Every year the GCRC holds three regular meetings. These meetings are held to review the Group's operations' sustainability performance and to discuss the policies, objectives and plans for achieving HSH Sustainable Luxury Vision 2020 (Vision 2020). Vision 2020 comprises seven pillars, each of which is championed by a GCRC member whose role is to provide guidance and work with the operations of the Group to deliver progress. Progress towards Vision 2020 is reviewed regularly throughout the year while a Corporate Responsibility Performance Report covering the full range of key performance indicators of Vision 2020 of our operations is reviewed by GCRC semi-annually.

13 www.hshgroup.com/en/sustainable-luxury/sustainability-reports

Main Activities in 2016

In 2016, we continued to enhance internal communications and engagements on Vision 2020 with our employees and partners to support in achieving our long-term goals. We utilised newsletters, regular calls, best practice sharing, learning competitions and guide publications.

Other activities of the GCRC in 2016 included:

- Reviewed and provided recommendations on the Group's 2016 progress, achievements and initiatives on energy, water and waste management, responsible sourcing, health and safety, workforce issues and ethical standards and community engagement
- Reviewed a third party report on the Group's exposure to climate change risks and discussed next steps including the implementation of relevant recommendations
- Endorsed the publication of a separate online CRS Report and the inclusion of a summary to provide an overview of HSH's CRS strategy and 2016 highlights in the Annual Report
- Reviewed the latest energy and water saving technologies shared during the 2016 Group Engineering Conference
- Discussed recent global and local trends on the topics of corporate responsibility and sustainability
- Discussed and recommended efforts to streamline data collection to enable a more focused and strategic performance reporting
- Reviewed and confirmed the terms of reference of the Committee with no change

In 2017, the GCRC's main focus is to streamline processes to enable a more effective way of progress reporting on the Vision 2020 commitments, and continuing to enhance engagement activities to embed CRS into the hearts and minds of our people. We have also provided a list of other specific initiatives as outlined in the CRS Report on the Company's website.[13]

Progress on Vision 2020

We continued to see good progress in achieving most of the Vision 2020 commitments. We highlight some good examples to demonstrate how we have progressed since we launched this vision:

- CRS e-learning modules have now been provided to all our CRS champions and integrated into our e-learning platform, *Learning KEY*
- One of the world's leading green building standards, Building Research Establishment Environmental Assessment Method (BREEAM), has been implemented in the major renovation of The Peninsula Beijing
- The Honing Skills in Hospitality programme, designed to advance the development of underprivileged ethnic minority youth in Hong Kong continues to grow in impact and influence with 43 graduates since 2013
- Peninsula Academy programmes include those tailored to children and teenagers, as well as on cultural heritage and nature conservation;
- Re-launched *Naturally Peninsula* as the choice for sustainable, organic, and healthy fare for guests

We are gratified to see the progress we have made since we launched Vision 2020. We know that there is still much more to be done, and we remain committed to implementing initiatives and programmes that align with our Vision 2020 objectives. We look forward to reporting our progress in future reports.

On behalf of the Group Corporate Responsibility Committee

Clement K.M. Kwok
Chairman of the Group Corporate Responsibility Committee
20 March 2017

Audit Committee Report

The principal role of our Audit Committee is to assist the Board in carrying out its oversight responsibilities in relation to financial reporting, external audit, internal audit, risk management and internal controls

I am pleased to present the 2016 Audit Committee Report. This year, we continued to focus on improving our risk management system, in line with the new requirements on risk management and internal control compliance under the CG Code.

Chairman: Mr Patrick B. Paul (INED)

Members: Dr William K.L. Fung (INED)
Mr Andrew Brandler (Non-Executive Director)

Our Role

The principal role of our Audit Committee is to assist the Board in carrying out its oversight responsibilities in relation to financial reporting, external audit, internal audit, risk management and internal controls. The Audit Committee met four times in 2016, with senior management, the external auditor and the Group General Manager, Audit & Risk Management (ARM) in attendance by invitation. I have set out below a summary of the main activities of the Committee in 2016.

Main Activities in 2016

During the year, we conducted a special review on risk management including its evolution, framework, approach and focus for 2016. We also reviewed a special audit on the limited scope data accuracy of the Group's 2015 Corporate Responsibility and Sustainability Report, focusing on specific data points on energy consumption and carbon emissions. In addition, we also conducted the following business:

Financial Information

- Reviewed and endorsed the 2015 Annual Report and Corporate Responsibility and Sustainability Report and the annual results announcement, and the 2016 Interim Report and the interim results announcement
- Reviewed the valuations of the properties by independent valuers
- Reviewed the deferred tax position of the Group's subsidiaries

Audit

- Considered audit plans and reports from the external auditor on its audit and its review of the financial statements including accounting policies and areas of judgement and its comments on control matters
- Reviewed and approved the external auditor's audit and non-audit fees for 2015 as described below, assessed the performance and endorsed the reappointment of KPMG as the Company's independent auditor for 2016
- Considered internal audit reports submitted by ARM
- Reviewed and approved the internal audit plan for 2017 as well as the 3-year audit plan
- Reviewed and discussed the 2016 draft "long-form" audit report on the financial statements for the 2016 Annual Report

Financial reporting system, risk management and internal control systems

- Reviewed all connected transactions and related party transactions including but not limited to the continuing connected transactions of renewal of tenancy agreements of the office premises and the master agreement of carpet purchases
- Reviewed and approved the structure, adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions
- Reviewed and endorsed semi-annually the Group Risk Management Report detailing the principal risks facing the Group, mitigation controls and the adequacy and effectiveness of risk management and internal control systems
- Considered summaries of the internal representation letters from business operations and approved the representation letters to the external auditor before issuance of the 2015 Annual Report and 2016 Interim Report
- Reviewed and discussed the upcoming new accounting standard for leased assets

Others

- Reviewed and confirmed the terms of reference of the Committee with no change
- Reviewed reported speak up cases and investigations
- Reviewed the revamped Code of Conduct and the renamed Speak Up Policy

As the Chairman of the Audit Committee, I met separately with the Group General Manager, ARM and also met with the external auditor without management being present.

Based on the reports from Group General Manager, ARM and the external auditor, the Audit Committee considers the overall financial and operating controls, risk management and internal control systems for the Group during 2016 to be effective and adequate. Issues raised by the internal and external auditors during 2016 have been, or are being addressed, by management and the Audit Committee advised to the Board that there are no issues required to be raised to shareholders.

In March 2017, the Audit Committee reviewed and endorsed this Annual Report, the Corporate Responsibility and Sustainability Report, which is posted on the website,[14] and the annual results announcement, and recommended the same to the Board for approval.

Ensuring the Independence of our External Auditor

The Group's external auditor is KPMG. We believe the independence of our external auditor is crucial to the effectiveness of our corporate governance and should not be compromised. The issue of auditor independence is reviewed annually. In engaging the external auditor for non-audit work, we always take into account the guideline adopted to monitor the amount of non-audit work given to the external auditor. In 2016, apart from audit work, the Company also awarded non-audit work to KPMG including taxation and other services. In our first meeting in 2017, the Audit Committee reviewed the nature of non-audit work performed by KPMG and confirmed that it gave rise to no impairment of actual or perceived independence or objectivity of the audit work itself. The Committee has recommended to the Board the re-appointment of KPMG as independent auditor for 2017 for Shareholders' approval at the 2017 Annual General Meeting.

A summary of fees for audit and non-audit services to KPMG for the financial years ended 31 December 2016 and 2015 is as follows:

Nature of Services	**2016 HK$m**	2015 HK$m
Audit Services	**10**	10
Non-audit Services		
Taxation and other services	**4**	3

On behalf of the Audit Committee

Patrick B. Paul
Chairman of the Audit Committee
20 March 2017

14 www.hshgroup.com/en/sustainable-luxury/sustainability-reports

Nomination Committee Report

The Board believes that having variety in its composition is important for a healthy and effective Board

Having the right Board structure and composition remain the focus of the Nomination Committee. We continue to embrace Boardroom diversity in our reviews.

Chairman: The Hon. Sir Michael Kadoorie (Non-Executive Chairman)

Members: Dr the Hon. Sir David K.P. Li (INED)
Dr William K.L. Fung (INED)

Our Role

The key role of our Nomination Committee is to keep under review the size, structure and composition of the Board. This includes the selection of new Directors for the purpose of replacement and/or maintaining an appropriate, adequate and balanced make-up of the Board that could effectively discharge its responsibilities and the review of independence of INEDs. The Nomination Committee met once in 2016 and also dealt with matters by written resolution.

Main Activities in 2016

The Nomination Committee conducted the following business in 2016:

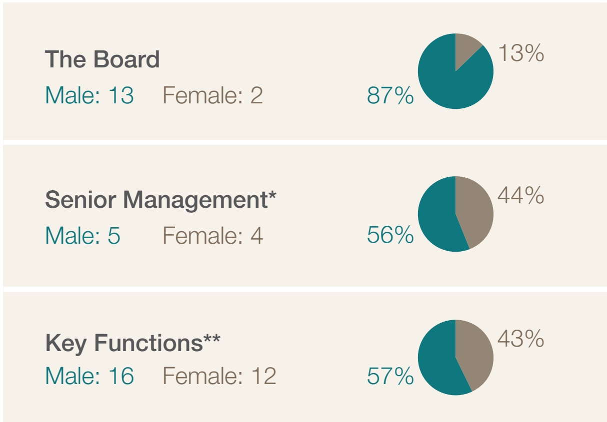
- Assessed and reviewed all INEDs' confirmations of independence and affirmed the Committee's view over their independence
- Recommended the re-election of retiring Directors as these Directors continue to contribute effectively
- Reviewed the structure, size and composition of the Board and the split between number of INEDs, Non-Executive Directors and Executive Directors
- Reviewed the value of having measurable objectives for implementing the Board Diversity Policy
- Reviewed and confirmed the terms of reference of the Committee with no change
- Reviewed the formalised changes of Board Diversity Policy
- Reviewed the 2015 Nomination Committee Report

Boardroom Diversity

The Board believes that having variety in its composition is important for a healthy and effective Board. The Board in March 2013 adopted its diversity policy, which can be found on the Company's website.[15] The Company approaches diversity in the broadest sense, recognising the benefits of a diverse mix of skills, knowledge, age, race, gender and experience on its Board including accounting, banking, business strategies, finance, investment, legal, corporate and public sector management, hospitality, luxury retail market, online-retail and international business experience. The Nomination Committee, when considering Board composition and in its process of recommending Board appointments, is guided by the principles of the Company's policy on diversity. While we recognise the gender diversity at Board level can be improved and this is taken into consideration, we continue to apply the principle of appointments based on merit. As mentioned in last year report, our Committee continued with that diversity approach set the objectives to our external search consultants identifying Dr Kim Winser and Mr Matthew Lawson as our INED and Chief Financial Officer who joined our Board on 1 January 2016 and 3 May 2016 respectively.

The Nomination Committee considered that the HSH Board has in place a diverse mix of skills, knowledge and experience, as well as increased gender diversity with the appointment of the two female members on the Board. The Committee reviewed the appropriateness of an express diversity quota or measurable objective, and concluded that it was not necessary, and the selection would continue to be based on merit with reference to our diversity policy in terms of skill set, experience, knowledge, expertise, culture, level of independence from the Company, age, race and gender. This approach is approved by the Board.

Our diversity philosophy does not end at the Board level but is carried out throughout the Group. Gender diversity of the Board and management as at the date of this report is set out below:



* Inclusive of 3 Executive Directors and exclusive of Mr PT Wong who was on the Group Management Board until December 2016

** Key Functions include General Managers of Operations and Heads of Corporate Departments but do not include members of senior management who also hold a functional role at operations or corporate office

The Company has taken, and continues to take, steps to promote diversity, including gender, at management levels. The Company has policies on equal opportunities and policies against discrimination with regard to gender in relation to recruitment and promotion as well as family friendly employment practices. Active steps were taken in promoting diversity in recruitment.

On behalf of the Nomination Committee

The Hon. Sir Michael Kadoorie
Chairman of the Nomination Committee
20 March 2017

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

Remuneration Committee Report

The Remuneration Committee remains committed to careful oversight of remuneration policies of the Company

On behalf of the Remuneration Committee, I am pleased to present our 2016 Report. This year we have carried out a review of the HSH Rewards Philosophy, revising it with the aim of defining more clearly the objectives and the guiding principles.

Chairman: Mr Patrick B. Paul (INED)

Members: Mr Andrew Brandler (Non-Executive Director)
Dr Rosanna Y.M. Wong (INED)

Our Role

The Committee is empowered by the Board with the authority and duty to exercise oversight of all aspects of the Group's remuneration policies, in particular to review and approve the proposals for the basic compensation and bonuses for Executive Directors and senior management, as well as the application of the Group's bonus scheme for senior staff.

The Remuneration Committee had two meetings in 2016, with the Chief Executive Officer and Group Director, Human Resources in attendance. Decisions of the Committee were made at those meetings or by written resolutions.

HSH Rewards Philosophy

This philosophy is to ensure that compensation and benefits programmes are designed for the Group and its executives according to the framework of various guiding principles. In 2016, we carried out a review of the HSH Rewards Philosophy with the aim of defining more clearly the objectives and refining the guiding principles of our philosophy. Our objective is to attract talent and retain good performers by offering a mix of financial and non-financial rewards to meet the employees' needs.

Key Guiding Principles

- Providing benefits that are competitive and support the long-term objective of caring for our employees and ensuring these benefits are legally compliant, locally relevant and globally consistent
- Formulating weightings of variable pay such as bonus and incentive targets taking into account the business performance of the Group or business unit
- Recognising and encouraging long-term careers within HSH through appropriate rewards and succession planning programmes
- Designing a pay mix of the total cash package with an appropriate mix of fixed pay and variable pay taking into account the Group's pay policy and market practice to incentive management and individual performance

Remuneration for Executive Directors

The Committee recognises that there is a competitive market for successful executive talent and believes that remuneration packages being offered must be set competitively with the market in order to attract and retain the Company's executives.

As part of its scope of responsibility, this Committee is involved in reviewing and approving the key terms of the service of all Executive Directors and senior management, including remuneration and duration of the service contracts. No individual is involved in the decision of his or her own remuneration.

There are four components of remuneration paid to Executive Directors, senior management and other executives:

Basic Compensation

Basic compensation includes basic salary, housing and other allowances and the general policy is to set them at the level required to retain and motivate employees, taking into account the scope and complexity of responsibilities, market pay levels in the defined markets, as well as individual performance.

Bonuses and Incentives

The provision of appropriate bonus and incentive awards for performance is vital to the continued growth to the business. Executive Directors' bonuses consist of contractual and discretionary components. Senior management participates in the HSH Management Bonus Plan which is a short-term incentive scheme calculated by reference to financial and non-financial considerations as follows:

- The Group's financial performance
- The Business Units' quality measurement
- Individual performance
- Share price

In addition, the Committee retains discretion in the awarding of non-contractual annual bonuses.

Retirement Benefits

The Executive Directors and most of the senior management participate in the Company's retirement plan which is a scheme set up under the Occupational Retirement Scheme Ordinance of Hong Kong – The Hongkong and Shanghai Hotels, Limited 1994 Retirement Plan. The employer contributions to the Company's plan for the Executive Directors, senior management and all other Hong Kong employees are made according to the plan's defined contribution level and vesting conditions. Employees can opt to pay contributions. One member of the senior management participates in a local plan instead of the Company's plan due to the local requirements.

Other Benefits

The benefits available to Executive Directors and senior management include, but are not limited to, health, life, disability and accidental insurance.

Remuneration for Non-Executive Directors

Fees of Non-Executive Directors are fixed by shareholders at shareholders general meetings, while any additional fees of Non-Executive Directors for serving on Board Committees are fixed by the Board. The Committee has the responsibility for reviewing management's annual recommendations for these fees. Factors taken account of in this process include estimated time spent in the discharge of these duties and benchmarking against other Hong Kong listed companies of similar size and activities. After review, the Committee makes recommendations to the Board, and no Director approves his or her own remuneration.

In line with the above annual fee review's methodology, the Board approved in March 2016 the proposal from the Committee and recommended the fees of Non-Executive Directors and INEDs are to be fixed at the rate of HK$300,000 and HK$350,000 respectively per annum. These fees were approved by Shareholders at the Annual General Meeting on 11 May 2016.

The Board also approved the recommendation from the Committee of a revision of the fees payable to the Chairman and members of the Nomination Committee to HK$40,000 per annum.

The revised fees took effect on 11 May 2016 and was paid to the Non-Executive Directors and INEDs on a pro rata basis for the financial year ended 31 December 2016.

Main Activities in 2016

The Remuneration Committee conducted the following business in 2016:

Remuneration

- Reviewed fees for Non-Executive Directors and INEDs and additional fees for the same to serve on Board Committees in 2016 and recommended the changes to the Board and Shareholders for approval
- Reviewed and approved the 2015 HSH Management Bonus Plan for senior staff
- Noted the group-wide 2017 general salary increase proposal taking into account various factors including market pay trends, inflationary forecasts, labour market outlook and the Group financial performance
- Reviewed and approved the 2017 salary increases of Executive Directors and senior management
- Approved the 2015 discretionary bonus proposal for Executive Directors and Group Directors
- Reviewed and approved the scoring changes for the quality factor of the HSH Management Bonus Plan and revised the HSH Rewards Philosophy

Service terms

- Reviewed and approved the terms of letters of appointment for an INED
- Reviewed and approved the changes to the time commitments for Non-Executive Directors and INEDs

Others

- Reviewed and approved 2015 Remuneration Committee Report
- Reviewed and confirmed the terms of reference of the Committee with no change
- Reviewed and approved the change of quality assurance audit agents

2016 Remuneration of Directors and Senior Management

The following information is an integral part of the Audited Financial Statements for the year ended 31 December 2016.

Non-Executive Directors – Remuneration

The fees paid to each of our Non-Executive Directors in 2016 for their service on the Company's Board and, where applicable, on its Board Committees are set out below.

Higher levels of fees were paid to the Chairmen of the Audit Committee and the Remuneration Committee indicated by "C". Executive Directors serving on the Board and Board Committees are not entitled to any Directors' fees.

(HK$'000)	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	**Total[Δ] 2016**	Total[Δ] 2015
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	282	100	–	–	33	**415**	370
Mr Andrew Brandler	282	100	120	60	–	**562**	530
Mr Ronald J. McAulay	282	–	–	–	–	**282**	250
Mr William E. Mocatta	282	–	–	–	–	**282**	250
Mr John A.H. Leigh	282	100	–	–	–	**382**	350
Mr Nicholas T.J. Colfer	282	–	–	–	–	**282**	250
Independent Non-Executive Directors							
Dr the Hon. Sir David K.P. Li	332	–	–	–	33	**365**	320
Mr Patrick B. Paul	332	–	175[(c)]	85[(c)]	–	**592**	560
Mr Pierre R. Boppe	332	–	–	–	–	**332**	300
Dr William K.L. Fung	332	–	120	–	33	**485**	440
Dr Rosanna Y.M. Wong	332	–	–	60	–	**392**	360
Dr Kim L. Winser*	332	–	–	–	–	**332**	–
	3,684	300	415	205	99	**4,703**	3,980

* Dr Kim L. Winser was appointed as a Director of the Company with effect from 1 January 2016

Δ In line with industry practice, the Group operates a scheme which encourages Directors and senior management to use the facilities of the Group to promote its business. For this purpose, discount cards are issued to the Directors. The remuneration disclosed does not include the amount of discounts offered to the Directors and senior management

Executive Directors – Remuneration

The remuneration paid to Executive Directors of the Company in 2016 was as follows:

(HK$'000)	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	**Total[(3)] 2016**	Total[(3)] 2015
Executive Directors						
Clement K.M. Kwok	6,612	7,317	1,088	280	**15,297**	15,075
Peter C. Borer	4,746	3,549	769	183	**9,247**	9,246
Alan Clark[(1)]	–	–	–	–	**–**	5,327
Matthew J. Lawson[(2)]	2,904	1,700	476	128	**5,208**	–
	14,262	12,566	2,333	591	**29,752**	29,648

Notes:

(1) Mr Alan Clark resigned as a Director of the Company with effect from 30 November 2015

(2) Mr Matthew J. Lawson was appointed as a Director of the Company with effect from 3 May 2016

(3) In line with industry practice, the Group operates a scheme which encourages Directors and senior management to use the facilities of the Group to promote its business. For this purpose, discount cards are issued to the Directors. The remuneration disclosed does not include the amount of discounts offered to the Directors and senior management

Senior Management – Remuneration

Remuneration for senior management (GMB members other than Executive Directors*) disclosed pursuant to the Listing Rules falls within the following bands:

	2016 Number	2015 Number
HK$4,000,001 – HK$5,000,000	**5**	5
HK$5,000,001 – HK$6,000,000	**1**	1
HK$6,000,001 – HK$7,000,000	**–**	1
HK$7,000,001 – HK$8,000,000	**1**	–

* The GMB, the Company's management and operations' decision-making authority, comprises the three Executive Directors and seven (2015: seven) senior management who represent the various key functions and operations of the Company

Individuals with Highest Emoluments

The five highest paid individuals in the Group included three Executive Directors and two members of senior management (2015: two members of senior management). The emoluments of the two (2015: two) individuals with highest emoluments are within the following bands:

	2016 Number	2015 Number
HK$5,500,001 – HK$6,000,000	**1**	1
HK$6,000,001 – HK$6,500,000	**–**	–
HK$6,500,001 – HK$7,000,000	**–**	1
HK$7,000,001 – HK$7,500,000	**1**	–

The aggregate of the emoluments in respect of these two (2015: two) individuals is as follows:

(HK$'000)	**2016**	2015
Basic compensation	**7,901**	7,671
Bonuses and incentives	**3,992**	3,711
Retirement benefits	**790**	767
Other benefits	**299**	308
	12,982	12,457

The Remuneration Committee remains committed to careful oversight of remuneration policies of the Company and to continued transparent disclosure on these matters.

On behalf of the Remuneration Committee

Patrick B. Paul
Chairman of the Remuneration Committee
20 March 2017

Directors' Report

The Directors have pleasure in submitting their report together with the audited Financial Statements for the year ended 31 December 2016

The Directors have pleasure in submitting their report together with the audited Financial Statements for the year ended 31 December 2016.

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 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 22 to 49 and Financial Review on pages 50 to 61. Description of the principal risks and uncertainties facing the Group can be found throughout this Annual Report, particularly in External Environment and Industry Trends and Managing Risk on pages 69 to 74 and Group Risk Committee Report on pages 142 to 147. Particulars of an important event affecting the Group that have occurred since the end of the financial year 2016 is 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 49.

Details regarding the environmental policies and performance, compliance with relevant laws and regulations which have a significant impact on the Group and an account of the Group's relationships with its key stakeholders can be found in the Corporate Responsibility and Sustainability Report. No incident of significant non-compliance to environmental laws and regulations was recorded in 2016.

The discussions with respect to the above topics in the Annual Report and Corporate Responsibility and Sustainability Report which is available online[16] 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 16 and 17.

Share Capital

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

16 www.hshgroup.com/en/sustainable-luxury/sustainability-reports

Equity-linked Agreements

For the year ended 31 December 2016, the Company has not entered into any equity-linked agreement.

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 4 HK cents per share (2015: 5 HK cents per share) in respect of the year ending 31 December 2016 was paid during the year 2016. The Directors have recommended a final dividend of 15 HK cents per share (2015: 15 HK cents per share). Subject to the approval by shareholders at the Annual General Meeting to be held at The Peninsula Hong Kong on 8 May 2017 (2017 Annual General Meeting), such dividends will be payable on 16 June 2017 to shareholders whose names appear on the register of members on 16 May 2017.

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 19 May 2017.

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$3,407,523 (2015: HK$4,653,324).[17]

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 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 HK$120,000 per month plus a monthly service charge of HK$15,663 and HK$1,655,000 per month plus a monthly service charge of HK$216,039 respectively. The rents and services charges incurred in 2016 amounted to HK$1.6 million and HK$21.8 million for items (i) and (ii) respectively (2015: HK$1.5 million and HK$19.9 million for items (i) and (ii) respectively).

17 The donations amount of HK$4,231,658 (2015: HK$6,273,052) referred to in the Sustainability Data Statements on page 228 include donations by manage properties owned by a joint venture and associates and employees.

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 (21 March 2016 Announcement).

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 has also reviewed these transactions and confirmed to the Board of Directors that:

(i) nothing has come to their attention that caused them to believe that the transactions have not been approved by the Company's Board of Directors;

(ii) nothing has come to their attention that caused them to believe that the transactions have not been entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

(iii) nothing has come to their attention that caused them to believe that the transactions have exceeded the maximum aggregate annual consideration disclosed in the 21 March 2016 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 112 to 117. All these Directors held office throughout 2016 with the exception of Mr Matthew J. Lawson who was appointed as Executive Director and Chief Financial Officer with effect from 3 May 2016. In accordance with the Articles of Association of the Company, Mr Andrew Brandler, Mr Clement K.M. Kwok, Mr William E. Mocatta, Mr Pierre R. Boppe and Dr William K.L. Fung will retire at the 2017 Annual General Meeting and, being eligible, have agreed to offer themselves for re-election.

None of the Directors proposed for re-election at the 2017 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 are shown on the Company's website.[18]

Senior Management

Biographical details of senior management are shown on pages 119 and 120. All members of senior management held office throughout the year.

Interests of Directors

As at 31 December 2016, 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 set out on the next page.

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

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)	839,244,796	53.562
Mr Clement K.M. Kwok	Beneficial Owner	709,700	0.045
Mr Peter C. Borer	Beneficial Owner	353,801	0.023
Mr Ronald J. McAulay	Note (b)	262,949,469	16.782
Mr William E. Mocatta	Beneficial Owner	17,000	0.001
Mr John A.H. Leigh	Note (c)	80,005,506	5.106
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,061,713	0.068
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 839,244,796 shares in the Company. These shares were held in the following capacity:

(i) 182,943,963 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;

(ii) 333,006,390 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) 323,294,443 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 839,244,796 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 262,949,469 shares in the Company. These shares were held in the following capacity:

(i) 182,943,963 shares were ultimately held by discretionary trusts, of which Mr Ronald J. McAulay is one of the discretionary objects; and

(ii) 80,005,506 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 80,005,506 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 80,005,506 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 80,005,506 shares.

Messrs Andrew Brandler, Nicholas T.J. Colfer, Patrick B. Paul, Dr William K.L. Fung, Dr Rosanna Y.M. Wong, Dr Kim L. Winser and Mr Matthew J. Lawson, 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 2016.

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 2016, 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 2016, 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 2016, 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	182,943,963	11.676(i)
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	600,955,859(vi)(c)	38.354(i)
Guardian Limited	Beneficiary/Interest of controlled corporation	80,005,506	5.106(v)
Harneys Trustees Limited	Interests of controlled corporations	656,300,833	41.887(iii)
Lawrencium Holdings Limited	Beneficiary	323,294,443	20.633(ii)
Lawrencium Mikado Holdings Limited	Beneficiary	333,006,390	21.253(ii)
The Magna Foundation	Beneficiary	333,006,390	21.253(ii)
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	656,300,833(vi)(d)	41.887(ii)
Mikado Investments (PTC) Limited	Interest of controlled corporation/Trustee	333,006,390(vi)(b)	21.253(i)
New Mikado Holding Inc.	Trustee	333,006,390(vi)(a)	21.253(i)
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	85,005,506	5.425(iv)
Oak (Unit Trust) Holdings Limited	Trustee	80,005,506	5.106(i)
Oak HSH Limited	Beneficiary	80,005,506	5.106(iv)
Mr Richard Parsons	Trustee	80,005,506	5.106(v)

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 80,005,506 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".

(vi) On 15 March 2017, the Company has been notified by the following substantial shareholders regarding a change of their deemed interests in shares of the Company pursuant to the SFO taking effect as at 10 March 2017 following an internal administrative exercise of the family trusts established for the members of the Kadoorie family. The Company has also been informed that during the course of the above exercise, no outside consideration, no new beneficiaries and no new shares of the Company were involved and the overall number of shares held by the Kadoorie family interests and their associated individuals or entities has remained the same:

(a) New Mikado Holding Inc. was no longer deemed to be interested in 333,006,390 shares of the Company, representing 21.253% of the shares in issue of the Company which were held in its capacity as trustee of a trust and accordingly, it ceased as a substantial shareholder of the Company.

(b) Mikado Investments (PTC) Limited was no longer deemed to be interested in the shares in which New Mikado Holding Inc. was deemed to be interested and accordingly, it ceased as a substantial shareholder of the Company.

(c) Bermuda Trust Company Limited was deemed to be interested in 267,949,469 shares, representing 17.10% of the shares in issue of the Company. Such shares were attributed to Bermuda Trust Company Limited either in its capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over Acorn Holdings Corporation, Oak (Unit Trust) Holdings Limited and The Oak Private Trust Company Limited. Bermuda Trust Company Limited was no longer deemed to be interested in 333,006,390 shares in which New Mikado Holding Inc. and Mikado Investments (PTC) Limited were formerly deemed to be interested.

(d) The Mikado Private Trust Company Limited was deemed to be interested in 656,300,833 shares, representing 41.887% of the shares in issue of the Company, either in its capacity as trustee of a discretionary trust and/or a trust and/or by virtue of having direct or indirect control over Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited. The 333,006,390 shares in which New Mikado Holding Inc. was formerly interested was duplicated within the interests attributed to The Mikado Private Trust Company Limited.

(b) Other substantial shareholders

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
International Value Advisers, LLC	Investment manager	120,880,774	7.71

Except as set out above, as at 31 December 2016, 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 2016, 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 2016 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 contracts concerning the management and administration of the whole or any substantial part of the business of the Company were 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 122 to 141.

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 2016, 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 2017 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 2017 Annual General Meeting.

By order of the Board

Christobelle Liao
Company Secretary
20 March 2017

Financial Statements

Independent Auditor's Report

Independent auditor's report to the members of
The Hongkong and Shanghai Hotels, Limited
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of The Hongkong and Shanghai Hotels, Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 170 to 224, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

Recoverability of the carrying value of hotel properties owned by the Group, a joint venture and associates

(Refer to note 33 and note 12 to the consolidated financial statements)

The key audit matter	How the key audit matter was addressed in our audit
The Group owns interests in various hotel properties in the world either directly or through its investments in a joint venture and associates. These hotel properties, which are stated at cost less depreciation and impairment, are significant to the Group in terms of their values. At the year end management assesses if there are any indicators of potential impairment of hotel properties. In such cases, management assesses the recoverability of the carrying value of hotel properties based on valuations prepared by an external property valuer in accordance with recognised industry standards. The valuation of hotel properties is complex and involves a significant degree of judgement and estimation, particularly given the diverse locations of the hotel properties and the particular economic and political circumstances at each location which can affect, inter alia, occupancy rates, revenue per available room and future growth rates. We identified assessing the recoverability of the carrying value of hotel properties owned by the Group and its investees as a key audit matter because of the complexity of the valuations and because of the significant judgement and estimation required and the potential for management bias in the selection of the assumptions.	Our audit procedures to assess the recoverability of the carrying value of hotel properties owned by the Group and its investees included the following: • discussing triggering events and/or indicators of potential impairment of hotel properties with management and inspecting the operating results and cash flow forecasts of the respective hotels; • where such triggering events or indicators were determined to exist: – meeting the external property valuer, independent of management, to discuss the valuations and assess the valuation methodology applied and considering the valuer's qualifications, expertise in the properties being valued, objectivity and independence; – challenging the key estimates and assumptions adopted in the valuations, including occupancy rates, revenue per available room, future growth rates and the discount rates applied, by comparing these with budgets approved by the directors, market available data for comparable properties and the current year's operating results; • performing sensitivity analyses by making adjustments to the key estimates and assumptions to assess the risk of possible management bias in the valuation exercise.

Valuation of investment properties owned by the Group and a joint venture

(Refer to note 33 and note 12 to the consolidated financial statements)

The key audit matter	How the key audit matter was addressed in our audit
The Group holds a portfolio of investment properties comprising office, residential and commercial properties in various locations around the world. These investment properties, which are stated at fair value, are significant to the Group in terms of their values. Management's assessment of the fair value of investment properties is based on valuations performed by external property valuers in accordance with recognised industry standards. These valuations are complex and involve a significant degree of judgement and estimation in respect of capitalisation rates and market rents, particularly given the number and diversity of locations and nature of the investment properties. We identified assessing the valuation of investment properties owned by the Group and a joint venture as a key audit matter because of the complexity of the valuations and because of the significant judgement and estimation required.	Our audit procedures to assess the valuation of investment properties owned by the Group and a joint venture included the following: • discussing with management their assessment of the valuations, including the key assumptions adopted and recent market developments at each location where the investment properties are situated; • meeting the external property valuers, independent of management, to discuss the valuations and assess the valuation methodologies applied and considering the valuers' qualifications, expertise in the properties being valued, objectivity and independence; • with the assistance of our property valuations specialists, challenging the key estimates and assumptions adopted in the valuations, including the capitalisation rates and market rents, by comparing the key estimates with market available data, government produced market statistics and the current year's operating results.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yau Ngai Lun, Alan.

KPMG

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

20 March 2017

Consolidated Statement of Profit or Loss (HK$m)

	Note	Year ended 31 December 2016	2015
Revenue	3	**5,631**	5,741
Cost of inventories		**(428)**	(454)
Staff costs and related expenses		**(2,108)**	(2,063)
Rent and utilities		**(527)**	(545)
Other operating expenses		**(1,280)**	(1,239)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)		**1,288**	1,440
Depreciation and amortisation		**(464)**	(426)
Operating profit		**824**	1,014
Interest income		**37**	56
Financing charges	5	**(133)**	(124)
Net financing charges		**(96)**	(68)
Profit after net financing charges	4	**728**	946
Share of result of a joint venture	14	**20**	(71)
Share of results of associates	15	**(25)**	(23)
Increase in fair value of investment properties	12(b)	**29**	277
Profit before taxation		**752**	1,129
Taxation			
Current tax	6	**(139)**	(172)
Deferred tax	6	**54**	48
Profit for the year		**667**	1,005
Profit attributable to:			
Shareholders of the Company		**675**	1,000
Non-controlling interests		**(8)**	5
Profit for the year		**667**	1,005
Earnings per share, basic and diluted (HK$)	9	**0.43**	0.65

The notes on pages 175 to 224 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income (HK$m)

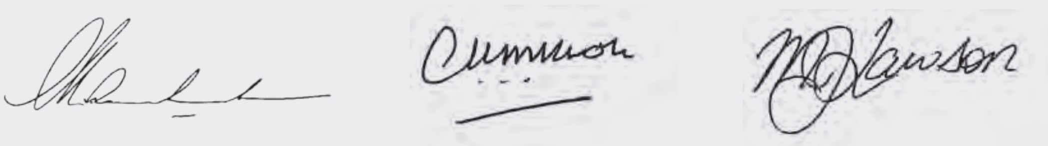
	Note	Year ended 31 December 2016	2015
Profit for the year		**667**	1,005
Other comprehensive income for the year, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**(572)**	(244)
– financial statements of joint ventures		**(63)**	(44)
– loans to an associate		**(21)**	(90)
– hotel operating rights		**(16)**	(54)
		(672)	(432)
Cash flow hedges:			
– effective portion of changes in fair values		**(2)**	(22)
– transfer from equity to profit or loss		**22**	22
		(652)	(432)
Items that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit retirement obligations		**–**	2
Surplus on revaluation of land and buildings held for own use transferred to investment properties		**–**	25
Other comprehensive income	8	**(652)**	(405)
Total comprehensive income for the year		**15**	600
Total comprehensive income attributable to:			
Shareholders of the Company		**28**	612
Non–controlling interests		**(13)**	(12)
Total comprehensive income for the year		**15**	600

The notes on pages 175 to 224 form part of these Financial Statements.

Consolidated Statement of Financial Position (HK$m)

		At 31 December	
	Note	**2016**	2015
Non-current assets			
Investment properties		**33,896**	32,783
Other properties, plant and equipment		**6,816**	6,314
	12	**40,712**	39,097
Interest in joint ventures	14	**1,019**	901
Interest in associates	15	**642**	694
Hotel operating rights	16	**515**	544
Deferred tax assets	18(b)	**47**	30
		42,935	41,266
Current assets			
Inventories	19	**82**	82
Trade and other receivables	20	**655**	643
Amount due from a joint venture	30(b)	**111**	179
Cash at banks and in hand	21	**2,087**	2,919
		2,935	3,823
Current liabilities			
Trade and other payables	22	**(1,359)**	(1,214)
Interest-bearing borrowings	23	**(2)**	(186)
Derivative financial instruments	17	**(7)**	-
Current taxation	18(a)	**(26)**	(28)
		(1,394)	(1,428)
Net current assets		**1,541**	2,395
Total assets less current liabilities		**44,476**	43,661
Non-current liabilities			
Interest-bearing borrowings	23	**(6,996)**	(6,006)
Trade and other payables	22	**(229)**	(239)
Net defined benefit retirement obligations	26(a)	**(16)**	(16)
Derivative financial instruments	17	**(9)**	(39)
Deferred tax liabilities	18(b)	**(652)**	(701)
		(7,902)	(7,001)
Net assets		**36,574**	36,660
Capital and reserves			
Share capital	24	**5,005**	4,808
Reserves		**31,354**	31,619
Total equity attributable to shareholders of the Company		**36,359**	36,427
Non-controlling interests		**215**	233
Total equity		**36,574**	36,660

Approved by the Board of Directors on 20 March 2017 and signed on its behalf by:



The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Matthew Lawson, Directors

The notes on pages 175 to 224 form part of these Financial Statements.

Consolidated Statement of Changes in Equity (HK$m)

		Year ended 31 December Attributable to shareholders of the Company						
	Note	Share capital	Hedging reserve	Exchange and other reserves	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2015		4,544	(47)	325	31,079	35,901	250	36,151
Changes in equity for 2015:								
Profit for the year		–	–	–	1,000	1,000	5	1,005
Other comprehensive income	8	–	–	(388)	–	(388)	(17)	(405)
Total comprehensive income for the year		–	–	(388)	1,000	612	(12)	600
Dividends approved in respect of the previous year	10	202	–	–	(273)	(71)	–	(71)
Dividends approved in respect of the current year	10	62	–	–	(77)	(15)	–	(15)
Dividend paid to non-controlling interests		–	–	–	–	–	(5)	(5)
Balance at 31 December 2015		4,808	(47)	(63)	31,729	36,427	233	36,660
Changes in equity for 2016:								
Profit for the year		**–**	**–**	**–**	**675**	**675**	**(8)**	**667**
Other comprehensive income	8	**–**	**20**	**(667)**	**–**	**(647)**	**(5)**	**(652)**
Total comprehensive income for the year		**–**	**20**	**(667)**	**675**	**28**	**(13)**	**15**
Dividends approved in respect of the previous year	10	**155**	**–**	**–**	**(231)**	**(76)**	**–**	**(76)**
Dividends approved in respect of the current year	10	**42**	**–**	**–**	**(62)**	**(20)**	**–**	**(20)**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Balance at 31 December 2016		**5,005**	**(27)**	**(730)**	**32,111**	**36,359**	**215**	**36,574**

The notes on pages 175 to 224 form part of these Financial Statements.

Consolidated Statement of Cash Flows (HK$m)

	Note	Year ended 31 December 2016	2015
Operating activities			
Profit after net financing charges		**728**	946
Adjustments for:			
Depreciation	12(a)	**451**	413
Amortisation of hotel operating rights	16	**13**	13
Interest income	4	**(37)**	(56)
Financing charges	5	**133**	124
Operating profit before changes in working capital		**1,288**	1,440
Decrease in inventories		**–**	8
Increase in trade and other receivables		**–**	(62)
Increase in trade and other payables		**24**	58
Cash generated from operations		**1,312**	1,444
Net tax (paid)/refunded:			
Hong Kong profits tax paid		**(137)**	(191)
Overseas tax refunded/(paid)		**1**	(33)
Net cash generated from operating activities		**1,176**	1,220
Investing activities			
Payment for the purchase of property, plant and equipment		**(1,131)**	(660)
Payment for the acquisition of additional interest in 1-5 Grosvenor Place		**(1,288)**	–
Payment for the acquisition of The Peninsula Tokyo's hotel building		**–**	(732)
Dividend from an associate		**5**	–
Capital injection into a joint venture		**(161)**	–
Loan repayment from a joint venture/associate		**58**	–
Net cash used in investing activities		**(2,517)**	(1,392)
Financial activities			
Drawdown of term loans		**800**	2,114
Repayment of term loans		**–**	(1,249)
Net decrease in revolving loans		**(53)**	(43)
Net withdrawal/(placement) of interest-bearing bank deposits with maturity of more than three months		**2,016**	(513)
Interest paid and other financing charges		**(138)**	(126)
Interest received		**45**	58
Dividends paid to shareholders of the Company		**(96)**	(86)
Dividends paid to holders of non-controlling interests		**(5)**	(5)
Net cash generated from financing activities		**2,569**	150
Net increase/(decrease) in cash and cash equivalents		**1,228**	(22)
Cash and cash equivalents at 1 January		**768**	839
Effect of changes in foreign exchange rates		**(41)**	(49)
Cash and cash equivalents at 31 December	21	**1,955**	768

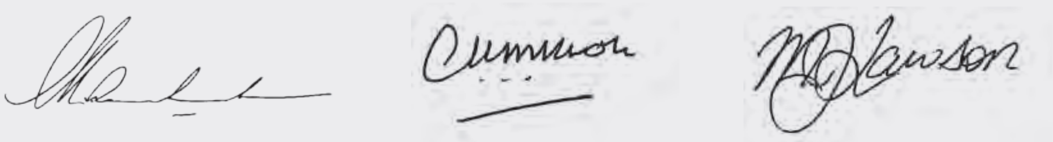
The notes on pages 175 to 224 form part of these Financial Statements.

Notes to the Financial Statements

1. Company-level statement of financial position (HK$m)

	Note	At 31 December 2016	2015
Non-current assets			
Investment in subsidiaries	13	**–**	–
Current assets			
Trade and other receivables		**13,382**	12,662
Tax recoverable		**4**	4
Cash at banks and in hand		**313**	232
		13,699	12,898
Current liabilities			
Trade and other payables		**(495)**	(67)
Net assets		**13,204**	12,831
Capital and reserves			
Share capital	24	**5,005**	4,808
Reserves	25(a)	**8,199**	8,023
Total equity		**13,204**	12,831

Approved by the Board of Directors on 20 March 2017 and signed on its behalf by:



The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Matthew Lawson, Directors

2. Statement of compliance

These Financial Statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group are disclosed in note 33.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 34 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these Financial Statements.

3. Revenue (HK$m)

The Company is an investment holding company; its subsidiary companies, joint ventures and associates are engaged in the ownership, management and operation of hotels, commercial properties and clubs and services.

Revenue represents the gross amount invoiced for services, goods and facilities including management fees and rental income. The amount of each significant category of revenue recognised during the year is as follows:

	2016	2015
Hotels		
– Rooms	**1,812**	1,765
– Food and beverage	**1,173**	1,168
– Shopping arcades and offices	**691**	761
– Others	**364**	379
	4,040	4,073
Commercial properties		
– Residential properties	**480**	486
– Offices	**121**	110
– Shopping arcades	**334**	341
	935	937
Clubs and Services		
– Clubs and consultancy services	**68**	182
– Peak Tram operation	**120**	122
– Others	**468**	427
	656	731
	5,631	5,741

4. Profit after net financing charges (HK$m)

Profit after net financing charges is arrived at after charging/(crediting):

	2016	2015
Amortisation	13	13
Depreciation	451	413
Auditor's remuneration:		
audit services	10	10
taxation and other services	4	3
Minimum operating lease charges for properties, including contingent rent of HK$13 million (2015: HK$14 million)	224	227
Interest income	(37)	(56)
Rentals receivable from investment properties less direct outgoings of HK$18 million (2015: HK$17 million)	(1,282)	(1,361)

5. Financing charges (HK$m)

	2016	2015
Interest on bank borrowings	94	83
Other borrowing costs	18	17
Total interest expenses on financial liabilities carried at amortised cost	112	100
Derivative financial instruments:		
– cash flow hedges, transfer from equity	24	24
– at fair value through profit or loss	–	4
	136	128
Less: Interest expense capitalised into property, plant and equipment*	(3)	(4)
	133	124

* The borrowing costs have been capitalised at a rate of 2.1% per annum in 2016 (2015: 1.8%)

6. Income tax in the consolidated statement of profit or loss (HK$m)

(a) Taxation in the consolidated statement of profit or loss represents:

	2016	2015
Current tax – Hong Kong profits tax		
Provision for the year (note 18(a))	**142**	152
Over–provision in respect of prior years	**(5)**	(3)
	137	149
Current tax – Overseas		
Net charge for the year	**2**	23
	139	172
Deferred tax		
Decrease in net deferred tax liabilities relating to revaluation of overseas investment properties	**(21)**	(20)
(Decrease)/increase in net deferred tax liabilities relating to other temporary differences	**(32)**	26
Effect of decrease in tax rates on deferred tax balances	**(1)**	(54)
	(54)	(48)
Total	**85**	124

The provision for Hong Kong profits tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016	2015
Profit before taxation	**752**	1,129
Notional tax at the domestic income tax rate of 16.5% (2015: 16.5%)	**124**	186
Tax effect of non-deductible expenses	**4**	21
Tax effect of non-taxable income	**(12)**	(7)
Tax effect of share of losses of a joint venture and associates	**1**	17
Tax effect of fair value gain on Hong Kong investment properties	**(9)**	(58)
Tax effect of recognition of previously unrecognised tax losses	**(13)**	(25)
Tax effect of tax losses not recognised	**30**	47
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(28)**	(9)
Effect of change in tax rates on deferred tax balances as at 1 January	**(1)**	(54)
Over-provision in prior years	**(12)**	(3)
Others	**1**	9
Actual tax expense	**85**	124

7. Emoluments of key management personnel (HK$000)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and the Group. It comprises the Board of Directors of the Company and the Group Management Board (GMB). Members of the GMB include the Executive Directors and seven (2015: seven) senior management. The total remuneration of the key management personnel is shown below:

	2016		2015	
	Executive and Non-executive Directors	**GMB members other than Executive Directors**	Executive and Non-executive Directors	GMB members other than Executive Directors
Directors' fees	**4,703**	**–**	3,980	–
Basic compensation	**14,262**	**25,021**	14,459	24,213
Bonuses and incentives	**12,566**	**7,859**	12,075	7,160
Retirement benefits	**2,333**	**2,347**	2,374	2,264
Other benefits	**591**	**1,114**	740	1,119
	34,455	**36,341**	33,628	34,756

Further details of the remuneration of the Directors (on a named basis) and senior management, and remuneration paid to the five highest paid individuals by bands are disclosed in the "2016 Remuneration of Directors and Senior Management" section of the Remuneration Committee Report, which forms an integral part of these audited Financial Statements.

8. Other comprehensive income and the related tax effects (HK$m)

	2016			2015		
	Gross amount before tax	**Tax (expense)/ benefit**	**Net-of-tax amount**	Gross amount before tax	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– financial statements of overseas subsidiaries	**(572)**	**–**	**(572)**	(244)	–	(244)
– financial statements of joint ventures	**(63)**	**–**	**(63)**	(44)	–	(44)
– loans to an associate	**(21)**	**–**	**(21)**	(90)	–	(90)
– hotel operating rights	**(16)**	**–**	**(16)**	(54)	–	(54)
	(672)	**–**	**(672)**	(432)	–	(432)
Cash flow hedges:						
– effective portion of changes in fair values	**(2)**	**–**	**(2)**	(26)	4	(22)
– transfer from equity to profit or loss	**24**	**(2)**	**22**	24	(2)	22
Remeasurement of net defined benefit retirement obligations	**–**	**–**	**–**	2	–	2
Surplus on revaluation of land and buildings held for own use transfer to investment properties	**–**	**–**	**–**	25	–	25
Other comprehensive income	**(650)**	**(2)**	**(652)**	(407)	2	(405)

9. Earnings per share

(a) Earnings per share – basic

	2016	2015
Profit attributable to shareholders of the Company (HK$m)	**675**	1,000
Weighted average number of shares in issue (million shares)	**1,554**	1,528
Earnings per share (HK$)	**0.43**	0.65

	2016 (million shares)	2015 (million shares)
Issued shares at 1 January	***1,543***	*1,517*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2015 final dividend and 2016 interim dividend	***11***	*11*
Weighted average number of shares at 31 December	***1,554***	*1,528*

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2016 and 2015 and hence the diluted earnings per share is the same as the basic earnings per share.

10. Dividends (HK$m)

(a) Dividends payable to shareholders of the Company attributable to the year

	2016	2015
Interim dividend declared and paid of 4 HK cents per share (2015: 5 HK cents per share)	**62**	77
Final dividend proposed after the end of the reporting period of 15 HK cents per share (2015: 15 HK cents per share)	**235**	231
	297	308

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2016	2015
Final dividend in respect of the previous financial year, approved and paid during the year, of 15 HK cents per share (2015: 18 HK cents per share)	**231**	273

11. Segment reporting (HK$m)

The Group is organised on a divisional basis. In a manner consistent with the way in which information is reported internally to the Group's senior executive management for the purposes of resource allocation and performance assessment, the Group's reportable segments are as follows:

Hotels	This segment includes revenue generated from operating hotels, leasing of commercial shopping arcades and office premises located within the hotel buildings.
Commercial Properties	This segment is engaged in the leasing of commercial and office premises (other than those in hotel properties) and residential apartments, as well as operating food and beverage outlets in such premises.
Clubs and Services	This segment is engaged in the operation of golf courses, The Peak Tram, wholesaling and retailing of food and beverage products, laundry services and the provision of management and consultancy services for clubs.

No operating segments have been aggregated to form the reportable segments. Comparative figures have been restated to conform to the current year's presentation of internal report to the Group's senior executive management for the purposes of resource allocation and performance assessment.

(a) Segment results (HK$m)

The results of the Group's reportable segments for the years ended 31 December 2016 and 2015 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Reportable segment revenue*	**4,040**	4,073	**935**	937	**656**	731	**5,631**	5,741
Reportable segment operating profits before interest, taxation, depreciation and amortisation (EBITDA)	**649**	777	**518**	538	**121**	125	**1,288**	1,440
Depreciation and amortisation	**(418)**	(385)	**(11)**	(9)	**(35)**	(32)	**(464)**	(426)
Segment operating profit	**231**	392	**507**	529	**86**	93	**824**	1,014

Reconciliation of segment operating profit to the profit before taxation in the consolidated statement of profit or loss is not presented, since the segment operating profit is the same as the operating profit presented in the consolidated statement of profit or loss.

* Analysis of segment revenue is disclosed in note 3

11. Segment reporting (HK$m) continued

(b) Segment assets (HK$m)

Segment assets include all tangible and current assets and hotel operating rights held directly by the respective segments. The Group's segment assets and unallocated assets as at 31 December 2016 and 2015 are set out as follows:

	Note	**2016**	2015
Reportable segment assets			
Hotels		**17,868**	17,602
Commercial properties		**23,087**	21,747
Clubs and services		**1,009**	1,017
		41,964	40,366
Unallocated assets			
Interest in joint ventures	14	**1,019**	901
Interest in associates	15	**642**	694
Deferred tax assets	18(b)	**47**	30
Amount due from a joint venture	30(b)	**111**	179
Cash at banks and in hand	21	**2,087**	2,919
Consolidated total assets		**45,870**	45,089

(c) Geographical information (HK$m)

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's total specified non-current assets (excluding derivative financial instruments and deferred tax assets). The geographical location of revenue is analysed based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment, the location of the operation to which they are allocated in the case of hotel operating rights and the location of operations in the case of interests in joint ventures and associates.

	Revenue from external customers		Specified non-current assets	
	2016	2015	**2016**	2015
Hong Kong	**2,615**	2,749	**29,579**	29,547
Other Asia*	**1,526**	1,624	**5,224**	4,930
United States of America and Europe	**1,490**	1,368	**8,085**	6,759
	5,631	5,741	**42,888**	41,236

* Other Asia includes Mainland China, Japan, Thailand, The Philippines and Vietnam

12. Investment properties and other properties, plant and equipment (HK$m)

(a) Movements of investment properties and other properties, plant and equipment

	Freehold land	Hotel and other buildings held for own use	Plant, machinery and equipment	Sub-total	Other investment properties	Investment property held for redevelopment	Interests in leasehold land held under finance leases	Total
Cost or valuation:								
At 1 January 2015	962	6,898	4,799	12,659	30,825	1,723	1	45,208
Exchange adjustments	(53)	(190)	(87)	(330)	(138)	(85)	–	(553)
Additions	–	900	414	1,314	65	–	–	1,379
Disposals	–	(125)	(381)	(506)	–	–	–	(506)
Revaluation surplus	–	25	–	25	–	–	–	25
Transfer	(83)	(1)	(32)	(116)	116	–	–	–
Fair value adjustment	–	–	–	–	277	–	–	277
At 31 December 2015	826	7,507	4,713	13,046	31,145	1,638	1	45,830
Representing:								
Cost	826	7,507	4,713	13,046	–	–	1	13,047
Valuation – 2015	–	–	–	–	31,145	1,638	–	32,783
	826	7,507	4,713	13,046	31,145	1,638	1	45,830
At 1 January 2016	**826**	**7,507**	**4,713**	**13,046**	**31,145**	**1,638**	**1**	**45,830**
Exchange adjustments	**2**	**(17)**	**(41)**	**(56)**	**(78)**	**(344)**	**–**	**(478)**
Additions	**–**	**19**	**1,061**	**1,080**	**111**	**1,288**	**–**	**2,479**
Disposals	**–**	**(6)**	**(262)**	**(268)**	**–**	**–**	**–**	**(268)**
Transfer	**–**	**461**	**(568)**	**(107)**	**107**	**–**	**–**	**–**
Fair value adjustment	**–**	**–**	**–**	**–**	**28**	**1**	**–**	**29**
At 31 December 2016	**828**	**7,964**	**4,903**	**13,695**	**31,313**	**2,583**	**1**	**47,592**
Representing:								
Cost	**828**	**7,964**	**4,903**	**13,695**	**–**	**–**	**1**	**13,696**
Valuation – 2016	**–**	**–**	**–**	**–**	**31,313**	**2,583**	**–**	**33,896**
	828	**7,964**	**4,903**	**13,695**	**31,313**	**2,583**	**1**	**47,592**
Accumulated depreciation and impairment losses:								
At 1 January 2015	351	3,571	3,117	7,039	–	–	1	7,040
Exchange adjustments	(28)	(124)	(62)	(214)	–	–	–	(214)
Charge for the year	–	138	275	413	–	–	–	413
Written back on disposals	–	(125)	(381)	(506)	–	–	–	(506)
At 31 December 2015	323	3,460	2,949	6,732	–	–	1	6,733
At 1 January 2016	**323**	**3,460**	**2,949**	**6,732**	**–**	**–**	**1**	**6,733**
Exchange adjustments	**1**	**(29)**	**(8)**	**(36)**	**–**	**–**	**–**	**(36)**
Charge for the year	**–**	**162**	**289**	**451**	**–**	**–**	**–**	**451**
Written back on disposals	**–**	**(6)**	**(262)**	**(268)**	**–**	**–**	**–**	**(268)**
At 31 December 2016	**324**	**3,587**	**2,968**	**6,879**	**–**	**–**	**1**	**6,880**
Net book value:								
At 31 December 2016	**504**	**4,377**	**1,935**	**6,816**	**31,313**	**2,583**	**–**	**40,712**
At 31 December 2015	503	4,047	1,764	6,314	31,145	1,638	–	39,097

12. Investment properties and other properties, plant and equipment (HK$m) continued

(a) Movements of investment properties and other properties, plant and equipment continued

During 2016, the Group acquired items of investment properties and other properties, plant and equipment with a cost of HK$2,479 million, of which HK$1,288 million related to the cash consideration paid for the acquisition of additional interest in 1-5 Grosvenor Place (2015: HK$1,379 million, of which HK$732 million related to the cash consideration paid for the acquisition of The Peninsula Tokyo's hotel building). Included in the balance of other properties, plant and equipment are construction in progress of HK$486 million (2015: HK$434 million).

The Group assessed the recoverable amounts of its other properties, plant and equipment at the reporting date in accordance with the accounting policy as disclosed in note 33(i). Based on the assessment, the directors considered that no provision for or reversal of impairment was required as at 31 December 2016 and 2015.

(b) All investment properties of the Group were revalued as at 31 December 2016. The changes in fair value of the investment properties during the year were accounted for in the consolidated statement of profit or loss. The valuations were carried out by valuers independent of the Group who have staff with recent experience in the location and category of the property being valued. Discussions have been held with the valuers on the valuation assumptions and valuation results when the valuation is performed at each reporting date. Details of the valuers are as follows:

Description of investment properties	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong		
Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited (Savills)	Members of the Hong Kong Institute of Surveyors
Other Asia*		
Retail shops, offices, residential apartments and vacant land	Savills	Members of the Hong Kong Institute of Surveyors
	HVS	Members of the Singapore Institute of Surveyors and Valuers and Royal Institution of Chartered Surveyors
United States of America		
Retail shops and vacant land	HVS	Members of the Singapore Institute of Surveyors and Valuers and Royal Institution of Chartered Surveyors
Europe		
Retail shops, offices and residential apartments	HVS	Members of the Singapore Institute of Surveyors and Valuers and Royal Institution of Chartered Surveyors

* Other Asia includes Mainland China, Japan, Thailand, The Philippines and Vietnam

12. Investment properties and other properties, plant and equipment (HK$m) continued

(c) Fair value measurement of investment properties

The fair value of the Group's investment properties is mainly determined using the income capitalisation approach by applying the expected rental income with a capitalisation rate adjusted for the quality and location of the buildings. The following table summarises the valuation parameters adopted by the valuers in assessing the fair value of the Group's investment properties as at 31 December 2016:

Valuation technique	Valuation parameters	Range
Income capitalisation approach	Capitalisation rate	
	– Shopping arcades	3.8% – 6.6% (2015: 4.4% – 6.6%)
	– Offices	3.8% – 4.6% (2015: 4.1% – 4.6%)
	– Residential properties	3.0% – 3.8% (2015: 3.0% – 3.8%)
	Expected monthly market rental per square foot	
	– Shopping arcades	HK$40 – HK$1,300 (2015: HK$38 – HK$1,300)
	– Offices	HK$21 – HK$53 (2015: HK$26 – HK$50)
	– Residential properties	HK$40 – HK$73 (2015: HK$39 – HK$73)

Details of the movement of the Group's investment properties are disclosed in note 12(a) above.

The net fair value adjustment of investment properties is recognised as a non-operating item in the consolidated statement of profit or loss.

(d) Investment property held for re-development

The investment property held for re-development represents the Group's economic interest in 1-5 Grosvenor Place, London (the Property). The Group initially acquired a 50% interest in the Property on 25 July 2013. On 30 September 2016, the Group further acquired the remaining 50% interest in the Property at a total cost of HK$1,288 million, inclusive of stamp duty land tax and other transaction costs. As at 31 December 2016, the Property was held for leasing purpose and its fair value amounted to HK$2,583 million (GBP271 million) (2015: HK$1,638 million (GBP142 million)). The Property will be re-developed into a mixed used complex consisting of a Peninsula hotel and luxury residences.

(e) Investment properties leased out under operating leases

The Group leases its investment properties under operating leases. The leases typically run for an initial period of one to five years, with or without options to renew the leases after that date at which time all terms are renegotiated. Contingent rentals earned from these leases in 2016 amounted to HK$30 million (2015: HK$40 million).

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties. Future minimum rentals receivable under non-cancellable operating leases of these properties are disclosed in note 28(b).

12. Investment properties and other properties, plant and equipment (HK$m) continued

(f) The analysis of net book value of properties is as follows:

		2016	2015
Hong Kong	– Long term leases	**27,411**	27,356
	– Medium term lease	**1,495**	1,483
Other Asia*	– Freehold	**1,126**	1,126
	– Long term lease	**1,295**	1,271
	– Medium term lease	**1,359**	1,205
	– Short term lease	**68**	-
USA	– Freehold	**1,215**	1,155
	– Long term lease	**1,583**	1,567
Europe	– Freehold	**642**	532
	– Long term lease	**2,583**	1,638
		38,777	37,333

* Other Asia includes Mainland China, Japan, Thailand, The Philippines and Vietnam

	2016	2015
Representing:		
Land and buildings carried at fair value (investment properties)	**33,896**	32,783
Land and buildings carried at cost	**4,881**	4,550
	38,777	37,333

(g) Hotel and investment properties, all held through subsidiaries, are as follows:

	Usage
Held in Hong Kong:	
Long term leases (over 50 years):	
The Peninsula Hong Kong, Salisbury Road	Hotel and commercial rentals
The Peninsula Office Tower, 18 Middle Road	Office
The Repulse Bay, 109 Repulse Bay Road	Residential and commercial rentals
Repulse Bay Apartments, 101 Repulse Bay Road	Residential
Repulse Bay Garage, 60 Repulse Bay Road	Commercial rentals
St. John's Building, 33 Garden Road	Office
Medium term lease (between 10 and 50 years):	
The Peak Tower, 128 Peak Road	Commercial rentals
Held in Mainland China:	
Medium term lease (between 10 and 50 years):	
The Peninsula Beijing, 8 Goldfish Lane, Wangfujing, Beijing	Hotel and commercial rentals

12. Investment properties and other properties, plant and equipment (HK$m) continued

(g) Hotel and investment properties, all held through subsidiaries, are as follows: continued

	Usage
Held in Japan:	
Long term lease (over 50 years):	
The Peninsula Tokyo, 1-8-1 Yurakucho, Chiyoda-ku, Tokyo	Hotel and commercial rentals
Held in Thailand:	
Freehold:	
The Peninsula Bangkok, 333 Charoennakorn Road, Klongsan, Bangkok 10600	Hotel
Vacant land, near The Peninsula Bangkok	Undetermined
Thai Country Club, Bangna-Trad, Chachoengsao	Golf club
Land plots, Bangpakong District, Chachoengsao	Undetermined
Held in The Philippines:	
Medium term lease (between 10 and 50 years):	
The Peninsula Manila, Corner of Ayala and Makati Avenues, 1226 Makati City, Metro Manila	Hotel and commercial rentals
Held in Vietnam:	
Short term lease (less than 10 years):	
The Landmark, 5B Ton Duc Thang Street, District 1, Ho Chi Minh City	Residential and commercial rentals
Held in the United States of America:	
Freehold:	
Quail Lodge Golf Club	Golf club
Quail Lodge Resort 8205 Valley Greens Drive, Carmel, California	Resort
Vacant land, near Quail Lodge	Undetermined
The Peninsula Chicago,	
108 East Superior Street (at North Michigan Avenue), Chicago, Illinois	Hotel
Long term lease (over 50 years):	
The Peninsula New York,	
700 Fifth Avenue at 55th Street, New York	Hotel and commercial rentals
Held in France:	
Freehold:	
21 avenue Kléber, Paris	Commercial rentals
21 Rue de Longchamp, Paris	Residential
Held in the United Kingdom:	
Long term lease (over 50 years):	
1-5 Grosvenor Place, London SW1X 7YL	Residential and commercial rentals

12. Investment properties and other properties, plant and equipment (HK$m) continued

(h) The net book value of the Group's hotels and golf courses as at 31 December 2016 amounted to HK$6,225 million (2015: HK$5,853 million). To provide additional information for shareholders, the Directors commissioned an independent valuation of these properties as at 31 December 2016.

The total valuation placed on these properties amounted to HK$9,417 million (2015: HK$8,937 million) as at 31 December 2016. It is important to note that the surplus of HK$3,192 million (2015: HK$3,084 million) and the related deferred taxation and non-controlling interests, if any, have not been incorporated in the consolidated Financial Statements but are provided for additional information only.

The fair value of the Group's hotel properties and golf courses is determined based on the discounted cash flow approach by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates.

The valuations were carried out by valuers independent of the Group, details of which are as follows:

Description of hotels and golf courses	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong, the United States of America and other Asia		
Hotels and golf course	HVS	Members of the Singapore Institute of Surveyors and Valuers and Royal Institution of Chartered Surveyors

13. Investment in subsidiaries

The following list contains only the particulars of subsidiaries which principally affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Hotel Limited	Hong Kong	2 shares	100%*	Hotel investment
The Repulse Bay Apartments Limited	Hong Kong	2 shares	100%*	Property investment
The Repulse Bay Company, Limited	Hong Kong	2 shares	100%*	Property investment
The Peak Tower Limited	Hong Kong	2 shares	100%*	Property investment
Peak Tramways Company, Limited	Hong Kong	450,000 shares	100%*	Tramway operation
St. John's Building Limited	Hong Kong	2 shares	100%*	Property investment
Peninsula Merchandising Limited	Hong Kong	2 shares	100%*	Wholesaling and retailing of merchandise
Tai Pan Laundry & Dry Cleaning Services, Limited	Hong Kong	5,000,000 shares	100%*	Laundry and dry cleaning services
HSH Financial Services Limited	Hong Kong	1 share	100%	Lending and borrowing of funds
Peninsula Clubs and Consultancy Services Limited	Hong Kong	1,000,000 shares	100%*	Club management
HSH Management Services Limited	Hong Kong	10,000 shares	100%*	Management and marketing services
Peninsula New York Hotel LLC	United States of America	Contributed capital of US$323,500,000	100%*	Hotel investment
Peninsula Chicago LLC	United States of America	Contributed capital of US$57,038,089	100%*	Hotel investment
Quail Lodge, Inc.	United States of America	10,652 shares of US$100 each	100%*	Golf club, resort and property investment

13. Investment in subsidiaries continued

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
Peninsula of Tokyo Limited	Japan	200 shares of JPY50,000 each	100%*	Hotel investment
The Palace Hotel Co., Ltd.	People's Republic of China	Registered capital of US$161,921,686	76.6%**	Hotel investment
Manila Peninsula Hotel, Inc.	The Philippines	111,840,386 shares of Pesos 10 each	77.36%*	Hotel investment
Siam Chaophraya Holdings Company Limited	Thailand	250,000 ordinary shares of THB2,000 each	75%*	Hotel investment
Town and Country Sport Club Company Limited	Thailand	1,250,000 ordinary shares of THB100 each Δ	75%*	Golf club and property investment
International Burotel Company Limited	Vietnam	Registered capital of US$6,866,667	70%#	Property investment
Le 21 Avenue Kléber SNC	France	1,369,000 shares of EUR1 each	100% *	Property investment
Peninsula London, LP	United Kingdom	Contributed capital of GBP1,000	100% *	Property investment and hotel development

* Indirectly held

** The Palace Hotel Co., Ltd. is a sino-foreign co-operative joint venture

\# The Group owns 50% of the economic interest of International Burotel Company Limited with a reversionary interest to the Vietnam partner at the end of the joint venture period

Δ 5,000 shares are fully paid up and the remaining 1,245,000 shares are partially paid up at THB25 each

The non-controlling interests in individual subsidiaries are considered immaterial to the Group.

14. Interest in joint ventures (HK$m)

	2016	2015
Share of net assets	**498**	380
Loans to a joint venture (note 30(b))	**521**	521
	1,019	901

14. Interest in joint ventures (HK$m) continued

(a) Details of the joint ventures, which are accounted for using the equity method in the Group's consolidated financial statements, are as follows:

Company name	Form of business structure	Place of incorporation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Shanghai (BVI) Limited (TPS)*	Incorporated	British Virgin Islands	US$1,000	50%	Investment holding
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)**	Incorporated	Turkey	TRY130,600,000	50%	Hotel investment

* The Group's interest in TPS is held indirectly by the Company. TPS holds a 100% direct interest in Evermore Gain Limited (EGL), a company incorporated in Hong Kong, which in turn holds a 100% direct interest in The Peninsula Shanghai Waitan Hotel Company Limited (PSW). PSW is a wholly owned foreign enterprise incorporated in the People's Republic of China and is engaged in the development and operation of The Peninsula Shanghai hotel, Peninsula hotel apartments, a retail arcade and ancillary facilities. At 31 December 2016, the paid up capital of EGL and PSW amounted to HK$1 (2015: HK$1) and US$117,500,000 (2015: US$117,500,000) respectively.

** PIT was incorporated on 10 February 2016 and the Group's interest in this joint venture is held indirectly by the Company. PIT has redevelopment and operating rights in respect of a property within the Salıpazarı Port Project Area in Istanbul, Turkey. The Group, together with its joint venture partner, intend to redevelop the property into The Peninsula Istanbul. As at 31 December 2016, capital injected into PIT amounted to HK$161 million. The net assets of PIT at 31 December 2016 mainly comprised of property, plant and equipment and cash at bank and in hand of HK$132 million and HK$25 million respectively.

(b) PSW has pledged its properties inclusive of the land use rights as security for a loan facility amounting to RMB2,500 million. As at 31 December 2016, the loan drawn down amounted to HK$1,977 million (RMB1,774 million) (2015: HK$2,177 million (RMB1,823 million)). The net carrying amount of these pledged assets amounted to HK$4,300 million (RMB3,857 million) (2015: HK$4,794 million (RMB4,015 million)).

(c) Set out below is a summary of the financial information on PSW, of which the Group has a 50% share:

	2016	2015
Non-current assets	**4,256**	4,628
Cash at bank and in hand	**127**	89
Other current assets	**163**	236
Current liabilities	**(349)**	(439)
Non-current liabilities	**(3,515)**	(3,754)
Net assets	**682**	760
Income*	**827**	760
Cost of inventories and operating expenses	**(554)**	(601)
EBITDA	**273**	159
Depreciation	**(81)**	(84)
Net financing charges	**(114)**	(143)
Profit/(loss) before non-operating item	**78**	(68)
Non-operating item, net of tax**	**(38)**	(74)
Profit/(loss) for the year	**40**	(142)
The Group's share of result of PSW	**20**	(71)

* Including proceeds of HK$229 million (2015: HK$171 million) from sale of apartments.

** Being net valuation adjustment of investment properties.

15. Interest in associates (HK$m)

	2016	2015
Interest in associates	**642**	694

(a) Details of the principal unlisted associates, which are accounted for using the equity method in the Group's consolidated financial statements, are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up/contributed capital	Group's effective interest*	Principal activity
19 Holding SAS (19 Holding)**	Incorporated	France	EUR1,000	20%	Investment holding
Majestic EURL (Majestic)	Incorporated	France	EUR80,000,000	20%	Hotel investment and investment holding
Le 19 Avenue Kléber	Incorporated	France	EUR100,000	20%	Hotel operation
The Belvedere Hotel Partnership (BHP)#	Partnership	United States of America	US$46,500,000	20%	Hotel investment

* The Group's effective interest is held indirectly by the Company.

** 19 Holding was incorporated in 2016 to replace the investment holding company, Al Maha Majestic S.à r.l., which was dissolved following a restructuring of the holding structure in 2016. 19 Holding holds a 100% direct interest in Majestic which owns The Peninsula Paris.

BHP holds a 100% interest in The Peninsula Beverly Hills.

(b) Included in the balance of interest in associates are unsecured loans to 19 Holding of HK$616 million (2015: HK$678 million) which are repayable after more than one year. These loans were made pro rata to the Group's shareholding in 19 Holding and bear interest at rates related to the rates published by the French tax authorities.

(c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR220 million (HK$1,802 million). As at 31 December 2016, the loan drawn down amounted to EUR220 million (HK$1,802 million) (2015: EUR220 million (HK$1,864 million)). As at 31 December 2016, the net carrying amount of these pledged assets amounted to EUR613 million (HK$5,017 million) (2015: EUR631 million (HK$5,350 million)).

(d) BHP has pledged its hotel property to an independent financial institution as security for BHP's loan facility, amounting to US$145 million (HK$1,131 million) (2015: US$145 million (HK$1,131 million)). As at 31 December 2016, the loan drawn down amounted to US$137 million (HK$1,069 million) (2015: US$140 million (HK$1,092 million). The net carrying amount of the pledged assets amounted to US$61 million (HK$476 million) (2015: US$60 million (HK$468 million)).

(e) Set out below is a summary of the aggregate financial information of the associates, of which the Group has a 20% share:

	2016	2015
Net loss from continuing operations	**(125)**	(115)
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**(125)**	(115)
The Group's share of results of the associates	**(25)**	(23)

16. Hotel operating rights (HK$m)

	2016	2015
Cost		
At 1 January	**674**	727
Exchange adjustments	**(17)**	(53)
At 31 December	**657**	674
Accumulated amortisation		
At 1 January	**(130)**	(116)
Exchange adjustments	**1**	(1)
Amortisation for the year	**(13)**	(13)
At 31 December	**(142)**	(130)
Net book value	**515**	544

The amortisation charge for the year is included in "Depreciation and amortisation" in the consolidated statement of profit or loss.

Hotel operating rights represent the cost attributable to securing the Group's rights to operate The Peninsula Beverly Hills and The Peninsula Paris.

17. Derivative financial instruments (HK$m)

	2016 Liabilities	2015 Liabilities
Cash flow hedges:		
Interest rate swaps	**(15)**	(37)
At fair value through profit or loss:		
Interest rate swaps	**(1)**	(2)
	(16)	(39)
Less: Portion to be settled within one year		
Cash flow hedges:		
Interest rate swaps	**(6)**	–
At fair value through profit or loss:		
Interest rate swaps	**(1)**	–
	(7)	–
Amount to be settled after one year	**(9)**	(39)

18. Income tax in the consolidated statement of financial position (HK$m)

(a) Current taxation in the consolidated statement of financial position represents:

	2016	2015
Provision for Hong Kong profits tax for the year (note 6(a))	**142**	152
Provisional profits tax paid	**(135)**	(147)
	7	5
Tax recoverable relating to prior year	**(2)**	–
Provision for overseas taxes	**15**	11
	20	16
Represented by:		
Tax recoverable (note 20)	**(6)**	(12)
Current tax payable (included in current liabilities)	**26**	28
	20	16

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities of the Group recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Revaluation of investment properties	Tax allowances in excess of the related depreciation	Provisions and others	Tax losses	Cash flow hedges	Total
Deferred tax arising from:						
At 1 January 2015	562	640	(27)	(428)	(2)	745
Charged/(credited) to profit or loss	(48)	18	2	(20)	–	(48)
Charged/(credited) to reserves	(16)	(11)	–	2	(1)	(26)
At 31 December 2015 and at 1 January 2016	**498**	**647**	**(25)**	**(446)**	**(3)**	**671**
Charged/(credited) to profit or loss	**5**	**52**	**1**	**(112)**	**–**	**(54)**
Charged/(credited) to reserves	**(11)**	**(1)**	**–**	**(2)**	**2**	**(12)**
At 31 December 2016	**492**	**698**	**(24)**	**(560)**	**(1)**	**605**

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable.

The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position.

	2016	2015
Deferred tax assets	**47**	30
Deferred tax liabilities	**(652)**	(701)
	(605)	(671)

18. Income tax in the consolidated statement of financial position (HK$m) continued

(b) Deferred tax assets and liabilities recognised continued

In accordance with the accounting policy set out in note 33(p), the Group has not recognised deferred tax assets totalling HK$465 million (2015: HK$437 million) in respect of certain accumulated tax losses of HK$1,392 million (2015: HK$1,306 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The expiry dates of these tax losses are as follows:

	2016	2015
After one year but within five years	**610**	588
After five years but within 20 years	**663**	627
Without expiry date	**119**	91
	1,392	1,306

The Group does not have any deferred tax liabilities arising from any undistributable profit in 2016. In 2015, deferred tax liabilities of HK$2 million arising from undistributable profit of certain subsidiaries amounting to HK$21 million has not been recognised as the Company controls the dividend policy of these subsidiaries and it is not likely that dividends will be declared by these subsidiaries in the foreseeable future.

19. Inventories (HK$m)

	2016	2015
Food and beverage and others	**82**	82

The cost of inventories recognised as expenses in the consolidated statement of profit or loss amounted to HK$428 million (2015: HK$454 million).

20. Trade and other receivables (HK$m)

	2016	2015
Trade debtors	**271**	254
Rental deposits, payments in advance and other receivables	**378**	377
Tax recoverable (note 18(a))	**6**	12
	655	643

The amount of the Group's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK$139 million (2015: HK$86 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

The Directors consider that the carrying amount of all trade and other receivables approximates their fair value.

20. Trade and other receivables (HK$m) continued

The ageing analysis of trade debtors is as follows:

	2016	2015
Current	**255**	238
Less than one month past due	**10**	10
One to three months past due	**5**	6
More than three months but less than 12 months past due	**1**	–
Amounts past due	**16**	16
	271	254

Trade debtors are normally due within 30 days from the date of billing. The Group's credit policy is set out in note 27(d).

No impairment is considered necessary for any of the trade debtors including those that are past due as they relate to a wide range of independent customers that have a good track record with the Group, with no recent history of default and are considered by the management to be fully recoverable.

21. Cash at banks and in hand (HK$m)

	2016	2015
Interest-bearing bank deposits	**1,902**	2,765
Cash at banks and in hand	**185**	154
Total cash at banks and in hand	**2,087**	2,919
Less: Bank deposits with maturity of more than three months	**(130)**	(2,146)
Bank overdrafts (note 23)	**(2)**	(5)
Cash and cash equivalents in the consolidated statement of cash flows	**1,955**	768

Cash at banks and in hand at the end of the reporting period include amounts of HK$314 million (2015: HK$932 million) held by overseas subsidiaries which are subject to regulatory and foreign exchange restrictions.

22. Trade and other payables (HK$m)

	2016	2015
Trade creditors	**148**	150
Interest payable	**7**	8
Accruals for property, plant and equipment	**145**	45
Tenants' deposits	**381**	382
Guest deposits and gift vouchers	**157**	135
Golf membership deposits	**76**	87
Other payables	**674**	646
Financial liabilities measured at amortised cost	**1,588**	1,453
Less: Non-current portion of trade and other payables	**(229)**	(239)
Current portion of trade and other payables	**1,359**	1,214

The amount of trade and other payables of the Group expected to be settled or recognised as income after more than one year is HK$310 million (2015: HK$343 million). All the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The Directors consider that the carrying amount of all trade and other payables approximates their fair value.

The ageing analysis of trade creditors is as follows:

	2016	2015
Less than three months	**144**	149
Three to six months	**2**	–
More than six months	**2**	1
	148	150

23. Interest-bearing borrowings (HK$m)

	2016	2015
Total facilities available:		
Term loans and revolving credits	**9,116**	6,956
Uncommitted facilities, including bank overdrafts	**323**	319
	9,439	7,275
Utilised at 31 December:		
Term loans and revolving credits	**7,047**	6,184
Uncommitted facilities, including bank overdrafts	**2**	53
	7,049	6,237
Less: Unamortised financing charges	**(51)**	(45)
	6,998	6,192
Represented by:		
Short-term bank loans, repayable within one year or on demand	**–**	181
Bank overdrafts, repayable on demand (note 21)	**2**	5
	2	186
Long-term bank loans, repayable:		
Between one and two years	**3,291**	–
Between two and five years	**2,423**	4,764
Over five years	**1,333**	1,287
	7,047	6,051
Less: Unamortised financing charges	**(51)**	(45)
Non-current portion of long-term bank loans	**6,996**	6,006
Total interest-bearing borrowings	**6,998**	6,192

All of the non-current interest-bearing borrowings are carried at amortised cost. The non-current portion of long-term bank loans is not expected to be settled within one year and all borrowings are unsecured.

All of the Group's banking facilities are subject to the fulfilment of covenants relating to some of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 27(c). As at 31 December 2016 and 2015, none of the covenants relating to drawn down facilities had been breached.

24. Share capital

	2016		2015	
	No. of shares (million)	**HK$m**	No. of shares (million)	HK$m
Ordinary shares, issued and fully paid:				
At 1 January	**1,543**	**4,808**	1,517	4,544
Shares issued under scrip dividend scheme (note)	**24**	**197**	26	264
At 31 December	**1,567**	**5,005**	1,543	4,808

In accordance with Section 135 of the Companies Ordinance, the ordinary shares of the Company do not have a par value.

All ordinary shares issued during 2016 rank pari passu in all respects with the existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Note
During 2016, the Company issued and allotted new shares which were fully paid under the scrip dividend scheme as follows:

	Number of shares (million)	Scrip price (HK$)	Increase in share capital (HK$m)
2015 final scrip dividend	19	8.362	155
2016 interim scrip dividend	5	7.902	42
	24		197

25. Reserves (HK$m)

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

(a) Company

	Capital reserve	Retained profits	Total
At 1 January 2015	4,975	2,917	7,892
Profit for the year	–	481	481
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	481	481
Dividends approved in respect of the previous year	–	(273)	(273)
Dividends approved in respect of the current year	–	(77)	(77)
At 31 December 2015	4,975	3,048	8,023
At 1 January 2016	**4,975**	**3,048**	**8,023**
Profit for the year	**–**	**469**	**469**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**469**	**469**
Dividends approved in respect of the previous year	**–**	**(231)**	**(231)**
Dividends approved in respect of the current year	**–**	**(62)**	**(62)**
At 31 December 2016	**4,975**	**3,224**	**8,199**

25. Reserves (HK$m) continued

(b) Nature and purpose of reserves

Capital reserve
The Company's capital reserve represents the profit recognised on the intra-group transfer of properties as a result of the corporate restructuring in 1991.

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges in note 33(d).

Exchange and other reserves
The exchange reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 33(s). Other reserves mainly comprise other comprehensive income recognised for the remeasurement of net defined benefit retirement obligations and the surplus on revaluation of land and building held for own use transfer to investment properties. The relevant accounting policies for which are set out in note 33(o) and 33(f) respectively.

(c) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was HK$3,224 million (2015: HK$3,048 million). After the end of the reporting period, the Directors proposed a final dividend of 15 HK cents per share (2015: 15 HK cents per share), amounting to HK$235 million (2015: HK$231 million). This dividend has not been recognised as a liability at the end of the reporting period.

(d) Capital management

The Group takes a long term view of its business and consequently the planning of the use of capital. The Group's primary objectives when managing its capital are to safeguard the Group's ability to continue as a going concern, to secure access to finance at a reasonable cost relative to risk and to provide an appropriate return to shareholders. In so doing, it seeks to achieve an appropriate balance between shareholders' equity and external debt by taking into account the cost of capital and the efficiency of using the capital.

The Group regularly reviews its capital structure and actively monitors current and expected liquidity requirements to ensure its obligations and commitments are met. A proactive approach is taken to forecasting future funding requirements and, when funds are needed, market conditions are evaluated to determine the best form of finance to be secured.

In addition, the Group maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to ensure funds are available to meet its financial obligations and to finance its growth and development.

25. Reserves (HK$m) continued

(d) Capital management continued

The Group monitors its capital structure on the basis of its gearing ratio, which is expressed as the percentage of net borrowings (defined as interest-bearing borrowings less cash at bank and in hand) to the total of net borrowings and equity attributable to shareholders of the Company. The Group's share of net borrowings and equities of the non-consolidated entities (such as the associates and joint ventures), if any, are also taken into account. The calculations of gearing ratios before and after the non-consolidated entities as at 31 December 2016 and 2015 are as follows:

(HK$m)	2016	2015
Interest-bearing borrowings	6,998	6,192
Less: Cash at banks and in hand	(2,087)	(2,919)
Net borrowings per the statement of financial position	4,911	3,273
Share of net borrowings of non-consolidated entities	1,466	1,608
Net borrowings adjusted for non-consolidated entities	6,377	4,881
Equity attributable to shareholders of the Company per the statement of financial position	36,359	36,427
Equity plus net borrowings per the statement of financial position	41,270	39,700
Equity plus net borrowings adjusted for non-consolidated entities	42,736	41,308
Gearing ratio based on the Financial Statements	12%	8%
Gearing ratio adjusted for non-consolidated entities	15%	12%

During 2016, the Group continued to operate within its long term treasury management guidelines. Operating and investment decisions are made by making reference to the Group's long term cash flow forecasts to ensure that the guidelines are followed.

The Group is subject to covenants imposed by the lenders of the interest-bearing borrowings based on the Group's borrowings and other indebtedness, as well as the amount of equity attributable to shareholders of the Company. The Group complied with the imposed loan covenants on capital requirements for the years ended 31 December 2016 and 2015. Except for the above, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26. Employee retirement benefits

(a) Defined benefit retirement obligations

The Group maintains several defined benefit retirement plans covering 587 employees (2015: 606 employees) of Quail Lodge, Inc. (QLI), a US subsidiary of the Company and Manila Peninsula Hotel, Inc. (MPHI), a Philippine subsidiary of the Company. Such plans are administered by independent trustees with the assets, if any, held separately from those of the Group.

QLI has retirement compensation agreements with certain employees which provide, among other things, that during the employees' lifetime after retirement, QLI will pay such employees retirement compensation equal to 30% of the average salaries of the final three years of employment.

QLI has not funded the above retirement compensation arrangement and the liability in respect of its obligations is fully recognised in its Financial Statements at each year end date, based on independent actuarial valuation prepared by qualified staff of Bartel Associates, LLC, who are members of the American Academy of Actuaries, using the projected unit credit method as at 31 December 2016.

26. Employee retirement benefits continued

(a) Defined benefit retirement obligations continued

In addition, MPHI operates a non-contributory defined benefit retirement plan which covers all its employees. The plan is administered by an independent trustee with the assets held separately from those of MPHI.

The above plan is funded by contributions from MPHI in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The latest independent actuarial valuation of the plan was prepared by qualified staff of Actuarial Advisers, Inc., who are members of the Actuarial Society of the Philippines, using the projected unit credit method as at 31 December 2016. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were 81% (2015: 80%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2016.

The amounts recognised in the Group's statement of financial position are as follows (HK$m):

	2016	2015
Present value of wholly or partly funded obligations	**46**	47
Fair value of plan assets	**(30)**	(31)
	16	16

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay HK$5 million (2016: HK$5 million) in contributions to defined benefit retirement plans in 2017.

Plan assets consist of the following (HK$m):

	2016	2015
Debt instruments	**23**	24
Investment funds	**6**	3
Equity investment and others	**1**	4
	30	31

The Group's assets–liabilities matching objective is to match maturities of the plan assets to the retirement benefit obligations as they fall due.

Movements in the present value of the defined benefit obligations (HK$m):

	2016	2015
At 1 January	**47**	50
Exchange adjustments	**(2)**	(2)
Benefits paid by the plans	**(4)**	(4)
Current service cost	**4**	4
Interest cost	**2**	2
Actuarial gain	**(1)**	(3)
At 31 December	**46**	47

26. Employee retirement benefits continued

(a) Defined benefit retirement obligations continued

Movements in plan assets (HK$m):

	2016	2015
At 1 January	**31**	33
Exchange adjustments	**(2)**	(2)
Group's contributions paid to the plans	**4**	4
Benefits paid by the plans	**(4)**	(4)
Interest income	**2**	1
Return on plan assets, excluding interest income	**(1)**	(1)
At 31 December	**30**	31

Amounts recognised in "staff costs and related expenses" in the consolidated statement of profit or loss and statement of comprehensive income are as follows (HK$m):

	2016	2015
Consolidated statement of profit or loss		
Current service cost	**4**	4
Interest cost	**2**	2
Interest income	**(2)**	(1)
	4	5
Consolidated statement of comprehensive income		
Actuarial gain on:		
Remeasurement of plan assets	**1**	1
Remeasurement of defined benefit obligations	**(1)**	(3)
	–	(2)

The principal actuarial assumptions used as at 31 December 2016 are as follows:

	2016	2015
Discount rate	**from 2.25% to 6.5%**	from 2.75% to 5.06%
Future salary increases	**4%**	4%

The analysis below shows how the defined benefit obligations as at 31 December 2016 would have increased/(decreased) as a result of changes in the significant actuarial assumptions:

	Defined benefit obligations	
(HK$m)	Increase	Decrease
Discount rate (0.5% change)	(1)	1
Future salary increases (1% change)	2	(1)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

26. Employee retirement benefits continued

(b) Defined contribution retirement plans

The Group has a defined contribution retirement plan covering 1,558 employees (2015: 1,565 employees), most of whom are in Hong Kong. The defined contribution retirement plan is formally established under an independent trust with the assets of the funds held separately from those of the Group by an independent trustee. The plan is registered under the Occupational Retirement Schemes Ordinance in Hong Kong and is exempted under the Mandatory Provident Fund Schemes (Exemption) Regulation. Employees covered by this plan are not required to make contributions and funds contributed by employers are fully vested with their employees immediately. The average contribution rate against employees' relevant income for the year was 13% (2015: 13%).

In addition, the Group participates in the Mandatory Provident Fund Scheme (the MPF Scheme) under the Mandatory Provident Fund Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, which is operated by an independent service provider to cover 457 employees (2015: 467 employees) in Hong Kong who are not covered by the above defined contribution retirement plan. The MPF Scheme is a defined contribution retirement plan administrated by independent trustees. Contributions at a fixed rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 per employee, are made to the Scheme by both the employer and the employee and vest immediately.

The Group also operates several defined contribution retirement plans, including union pension schemes for its overseas subsidiaries covering 2,211 employees (2015: 2,236 employees) in other Asian countries and the United States of America, in accordance with the respective applicable labour regulations.

Total contributions to all of the above defined contribution retirement plans made by the Group amounted to HK$110 million (2015: HK$111 million) and was charged to the statement of profit or loss during the year.

27. Financial risk management and fair values

The Group is exposed to foreign exchange, interest rate, liquidity and credit risks in its normal course of business. The Group's exposure to these risks, as well as various techniques and derivative financial instruments used to manage these risks, are described below.

(a) Foreign exchange risk

The Group manages its foreign exchange exposure with a view to protecting its net assets and profitability against adverse fluctuations in exchange rates. The Company reports its results in Hong Kong Dollars. In the light of the Hong Kong Dollar peg, the Group does not hedge United States Dollar exposures and it aims to preserve its value in Hong Kong Dollar and/or United States Dollar terms.

Foreign exchange risk may arise in sale and purchase transactions which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars, Euros, Great Britain Pounds, Renminbi, Japanese Yen, Thai Baht and Philippine Pesos.

Forecast transactions

In respect of committed future transactions and highly probable forecast transactions, the Group usually hedges most of the estimated foreign currency transaction exposures if the foreign exchange risk of these exposures is considered to be significant. The Group mainly uses forward exchange contracts to hedge this type of foreign exchange risk and classifies these contracts as cash flow hedges.

27. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Recognised assets and liabilities
The Group has foreign currency monetary assets and liabilities that are denominated in a currency other than the functional currency of the operations to which they relate. Exchange differences arising on settling or translating these foreign currency monetary items at rates different from those at dates of transactions giving rise to these monetary items are recognised in the statement of profit or loss.

The Group usually hedges most of the foreign exchange exposures arising from significant foreign currency monetary assets and liabilities, including foreign currency borrowings. The Group mainly uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge this type of foreign exchange risk and classifies these derivative financial instruments as cash flow hedges or at fair value through profit or loss, depending on whether the future foreign currency cash flows are fixed or not.

Changes in the fair value of these cash flow hedges or derivative financial instruments at fair value through profit or loss are recognised in the hedging reserve or the statement of profit or loss respectively.

All of the Group's borrowings are denominated in the functional currency of the operations to which they relate. Given this, it is not expected that there will be any significant currency risk associated with the Group's borrowings.

Net investment in foreign subsidiaries
At 31 December 2016 and 2015, the Group did not hedge any net investment in foreign subsidiaries.

Exposure to foreign exchange risk
The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The amounts of the exposure are shown in original currency. Differences resulting from the translation of the Financial Statements of the foreign operations into the Group's presentation currency and exposures arising from inter-company balances which are denominated in a foreign currency and is considered to be in the nature of investment in the subsidiary, joint venture and associates are excluded.

	2016				2015			
(million)	**United States Dollars**	**Euro**	**Great Britain Pounds**	**Philippine Pesos**	United States Dollars	Euro	Great Britain Pounds	Philippine Pesos
Trade and other receivables	**27**	**2**	**–**	**–**	23	1	1	–
Cash at banks and in hand	**44**	**1**	**19**	**5**	37	1	–	4
Trade and other payables	**(18)**	**–**	**–**	**–**	(11)	–	(1)	–
Net exposure arising from recognised assets and liabilities	**53**	**3**	**19**	**5**	49	2	–	4

Based on the sensitivity analysis performed as at 31 December 2016, it was estimated that a increase/decrease of 10% in foreign exchange rate in respect of financial instruments denominated in currency other than the functional currencies, with all other variables held constant, would not have significant impact on the Group's post-tax profits and other components of equity.

27. Financial risk management and fair values continued

(b) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. Borrowings bearing floating interest rates that are reset on a regular basis as market interest rates change expose the Group to cash flow interest rate risk. As the borrowing costs are subject to market fluctuations in interest rates, the Group adopts a policy to fix interest rates of 40% to 70% of the exposure, with a long term target of 50%, mainly by way of interest rate swaps or other derivative financial instruments.

At 31 December 2016, the Group had interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK$1,649 million (2015: HK$1,650 million) maturing over the next two years (2015: three years). Changes in fair value of these swaps accounted for as cash flow hedges are recognised in the hedging reserve. The Group locked in the following ranges of fixed rates by the swaps at 31 December 2016:

	31 December 2016	31 December 2015
Hong Kong Dollars	**1.5% to 1.6%**	1.5% to 1.6%
Japanese Yen	**2.1%**	2.1%
Euros	**1.2%**	1.2%

The net fair value of all the swaps entered into by the Group at 31 December 2016 was as follows (HK$m):

	2016	2015
Cash flow hedges (note 17)	**(15)**	(37)
At fair value through profit or loss (note 17)	**(1)**	(2)
	(16)	(39)

The following table details the profile of the Group's borrowings at the end of the reporting period, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments.

	2016		2015	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**2.2%**	**4,712**	2.3%	3,857
Floating rate borrowings:				
Bank loans	**2.1%**	**2,286**	1.4%	2,335
Total interest-bearing borrowings		**6,998**		6,192
Fixed rate borrowings as a percentage of total borrowings		**67%**		62%

27. Financial risk management and fair values continued

(b) Interest rate risk continued

On the other hand, as at 31 December 2016 and 2015, the Group had short term bank deposits. Since these deposits are placed for short term liquidity purposes, the Group has no intention to lock in their interest rates for the long term. In addition, the Group grants interest-bearing loans to a joint venture, which are subject to interest rate risk. The interest rate profile of these bank deposits and loans at the end of the reporting period, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments is summarised as follows:

	2016		2015	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate instruments:				
Amount due from a joint venture	**3.3%**	**111**	3.4%	179
Floating rate instruments:				
Bank deposits	**1.1%**	**1,902**	1.5%	2,765
Total interest-bearing financial assets		**2,013**		2,944

Sensitivity analysis

The following table indicates the approximate changes in the Group's profit after taxation (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the interest rates, with all other variables held constant, to which the Group has significant exposure at the end of the reporting period. As at 31 December 2016 and 2015, the effects were attributable to changes in interest income and expense relating to floating rate financial instruments and gains or losses resulting from changes in the fair value of derivative financial instruments.

	2016			2015		
	Increase/(decrease) in			Increase/(decrease) in		
	Interest rates (basis points)	**Profit after taxation and retained profits (HK$m)**	**Other components of equity (HK$m)**	Interest rates (basis points)	Profit after taxation and retained profits (HK$m)	Other components of equity (HK$m)
Renminbi	**100**	**2**	**–**	100	7	–
	(100)	**(2)**	**–**	(100)	(7)	–
Thai Baht	**100**	**(3)**	**–**	100	(2)	–
	(100)	**3**	**–**	(100)	2	–
Japanese Yen	**50**	**(1)**	**1**	50	(2)	3
	(50)	**1**	**(1)**	(50)	2	(3)
Philippine Pesos	**200**	**–**	**–**	200	–	–
	(200)	**–**	**–**	(200)	–	–
HK Dollars	**100**	**(2)**	**15**	100	2	24
	(100)	**2**	**(16)**	(100)	(2)	(24)
US Dollars	**100**	**1**	**–**	100	1	–
	(100)	**(1)**	**–**	(100)	(1)	–
Euros	**100**	**(1)**	**5**	100	(1)	9
	(100)	**1**	**(5)**	(100)	1	(9)
GBP	**100**	**2**	**–**	100	–	–
	(100)	**(2)**	**–**	(100)	–	–

27. Financial risk management and fair values continued

(b) Interest rate risk continued

Sensitivity analysis continued

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would have arisen, assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group and which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of exposure to cash flow interest rate risk arising from the floating rate non-derivative financial instruments (which include bank borrowings and deposits) held by the Group at the end of the reporting period, the impact on the Group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such changes in interest rates. The analysis has been performed on the same basis as for 2015.

(c) Liquidity risk

Borrowings and cash management, including short term investment of surplus cash, are arranged centrally to cover expected cash requirements. The Group's policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that it maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to meet its obligations and commitments in the short and longer term.

At 31 December 2016, total available borrowing facilities amounted to HK$9,439 million (2015: HK$7,275 million), of which HK$7,049 million (2015: HK$6,237 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$2,069 million (2015: HK$772 million).

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2016						2015					
		Contractual undiscounted cash outflow/(inflow)						Contractual undiscounted cash outflow/(inflow)				
(HK$m)	**Statement of financial position carrying amount**	**Total**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	Statement of financial position carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Trade creditors	**148**	**148**	**148**	**–**	**–**	**–**	150	150	150	–	–	–
Interest payable	**7**	**7**	**7**	**–**	**–**	**–**	8	8	8	–	–	–
Accruals for property, plant and equipment	**145**	**145**	**145**	**–**	**–**	**–**	45	45	45	–	–	–
Tenants' deposits	**381**	**381**	**161**	**133**	**81**	**6**	382	382	156	134	86	6
Guest deposits and gift vouchers	**157**	**157**	**157**	**–**	**–**	**–**	135	135	135	–	–	–
Golf membership deposits	**76**	**76**	**–**	**–**	**–**	**76**	87	87	–	–	–	87
Other payables	**674**	**674**	**674**	**–**	**–**	**–**	646	646	646	–	–	–
Interest-bearing borrowings	**6,998**	**7,405**	**119**	**3,396**	**2,548**	**1,342**	6,192	6,577	275	88	4,905	1,309
Interest rate swaps (net settled)	**16**	**30**	**20**	**10**	**–**	**–**	39	65	26	24	15	–
Current taxation	**26**	**26**	**26**	**–**	**–**	**–**	28	28	28	–	–	–
	8,628	**9,049**	**1,457**	**3,539**	**2,629**	**1,424**	7,712	8,123	1,469	246	5,006	1,402

27. Financial risk management and fair values continued

(d) Credit risk

The Group's credit risk is primarily attributable to bank deposits, trade and other receivables and derivative financial instruments and is monitored on an ongoing basis.

To minimise credit exposure for bank deposits and derivative financial instruments, the Group transacts with financial institutions with good credit ratings and diversifies its exposure to various financial institutions in accordance with Group guidelines. All bank deposits are subject to a single counterparty exposure limit and a composite counterparty exposure limit. The credit ratings of the financial institutions are closely monitored throughout the lives of the transactions.

At 31 December 2016, cash at banks and in hand amounted to HK$2,087 million (2015: HK$2,919 million), of which HK$1,625 million (2015: HK$2,522 million) was placed as time deposits with financial institutions with credit ratings of no less than BBB (issued by Standard & Poor's Rating Services (S&P)) or Baa2 (issued by Moody's Investors Services, Inc.(Moody's)) and there was no significant concentration risk to any single counterparty.

For derivative financial instruments, the credit ratings of the financial institutions were no less than A (S&P) or A1 (Moody's).

The Group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. Credit evaluations are performed for all significant customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Credit limits are set for customers based on their credit worthiness and past history. Trade receivables are normally due within 30 days from the date of billing. In respect of the Group's rental income from operating leases, rentals are normally received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. Other than this, as such, the Group normally does not obtain collateral from its customers. The ageing of trade debtors at 31 December 2016 is summarised in note 20.

The Group's exposure to credit risk is influenced mainly by individual characteristics of each customer rather than the industry or country in which the customers operate; therefore, it is considered that there is no concentration of credit risk as the Group has no significant exposure to individual customers given the large number of customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including the derivative financial instruments, in the statement of financial position after deducting any impairment allowance. The Group does not provide any other guarantee which would expose the Group to any material credit risk.

27. Financial risk management and fair values continued

(e) Fair values

(i) Financial instruments carried at fair value

HKFRS 13, *Fair value measurement* requires disclosure of the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

All derivative financial instruments carried at fair value are categorised as falling under Level 2 of the fair value hierarchy.

(ii) Fair values of financial instruments carried at other than fair value

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2016. Advances to the joint venture are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair values. The Group has no intention of disposing these loans.

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Derivative financial instruments

Forward foreign exchange contracts and foreign exchange swaps are either marked to market using listed market prices, or by discounting the contractual forward price and deducting the current spot rate. The fair values of interest rate swaps and cross currency interest rate swaps are the estimated amount that the Group would receive or pay to terminate the swaps at the end of the reporting period, taking into account current interest rates, foreign exchange rates and the current creditworthiness of the swap counterparties.

When discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period. Where other pricing models are used, inputs are based on market related data at the end of the reporting period.

The Group used the following discount rates for determining fair value of derivative financial instruments.

	31 December 2016	31 December 2015
Hong Kong Dollars	**0.7% to 1.9%**	0.2% to 1.7%
Japanese Yen	**0% to 0.1%**	0 % to 0.1%
Euros	**-0.3% to -0.2%**	-0.2% to 0.1%

28. Commitments (HK$m)

(a) Capital commitments outstanding as at 31 December 2016 not provided for in the Financial Statements were as follows:

	2016			2015		
	Contracted for	**Authorised but not contracted for**	**Total**	Contracted for	Authorised but not contracted for	Total
Capital commitments in respect of existing properties and new projects	**849**	**7,782**	**8,631**	798	2,164	2,962
The Group's share of capital commitments of joint ventures and associates	**517**	**598**	**1,115**	1	17	18
	1,366	**8,380**	**9,746**	799	2,181	2,980

The Group's capital commitments include the capital expenditure for the renovation of The Peninsula Beijing, 21 avenue Kléber and the major upgrade project to be undertaken by The Peak Tram as well as the development costs to be incurred for The Peninsula London and The Peninsula Yangon projects.

Furthermore, the Group has a 50% interest in a proposed joint development of a luxury hotel property within the Salıpazarı Port Project Area in Istanbul, Turkey and the Group's share of development cost in respect of this project is included in the share of capital commitments of joint ventures.

The significant movements reflect the inclusion of the capital commitments in respect of the hotel projects in London, Yangon and Istanbul as the conditions precedent of these projects were fully satisfied during 2016.

(b) At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases of the Group in respect of land and buildings are as follows:

	Receivable		Payable	
	2016	2015	**2016**	2015
Within one year	**(939)**	(1,058)	**142**	125
After one year but within five years	**(1,004)**	(1,242)	**471**	442
After five years	**(920)**	(1,050)	**12,699**	6,742
	(2,863)	(3,350)	**13,312**	7,309

The Group's hotels in Beijing, Tokyo, Manila and New York are subject to certain land lease arrangements. The original lease terms of these hotels range from 33 to 99 years. The annual lease payment in respect of the Group's hotel in Beijing is fixed whereas those relating to the hotels in Tokyo and New York are subject to future adjustments, as defined in the lease agreements, and the annual lease payment of the hotel in Manila is determined based on a percentage of the hotel's revenue.

28. Commitments (HK$m) continued

Following the completion of the acquisition of the 50% remaining interest in 1-5 Grosvenor Place, London and the restructuring of the joint venture arrangements in respect of the London project to a landlord and tenant relationship on 30 September 2016, the Group is committed to paying annual base rent and turnover rent to Grosvenor Estate Belgravia commencing on 1 January 2022 until the end of the lease on 22 February 2162. The base rent is subject to annual adjustment based on consumer price index and certain re-set mechanisms every 20 years whereas the turnover rent is determined by reference to the hotel's revenue.

In addition, the Group is the lessee in respect of a number of properties under operating leases. These leases typically run for an initial period of two to four years, with an option to renew the lease upon expiry when all terms are renegotiated. None of these leases include contingent rentals.

29. Contingent liabilities (HK$m)

The Directors consider there being no material contingent liabilities for the Group at 31 December 2016 and 2015.

30. Material related party transactions

Other than the Directors' remuneration and the loans advanced to an associate as disclosed in note 15, material related party transactions are set out as follows:

(a) Under a three-year tenancy agreement which commenced on 1 April 2013, a wholly owned subsidiary of the Company, HSH Management Services Limited (HMS), leased the 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rent of HK$1,540,452 per month plus a monthly service charge of HK$182,224 from Kadoorie Estates Limited (KEL), which is the agent of the registered owner which is controlled by one of the substantial shareholders of the Company. Furthermore, HMS leased office premises on the 4th floor of St. George's Building at a market rent of HK$111,690 per month plus a monthly service charge of HK$13,211 from KEL for two years and seven months commencing on 1 September 2013. With effect from 1 January 2016, the monthly service charges for the 7th and 8th floors of St. George's Building and the office premises on the 4th floor of St. George's Building were revised to HK$216,039 and HK$15,663 respectively.

The above two leases were renewed for three years on 1 April 2016 at a total market rent of HK$1,775,000 per month plus service charges of HK$231,702 per month. The rent and service charges incurred in 2016 amounted to HK$23 million (2015: HK$21 million). These tenancy agreements fall under the Listing Rules as continuing connected transactions. The Company has complied with the disclosure requirements governing continuing connected transaction under the Listing Rules. Further details of these continuing connected transactions are disclosed in the Directors' Report.

(b) Unsecured and interest free shareholder's loans amounting to US$66.85 million (HK$521 million) (2015: US$66.85 million (HK$521 million)) were granted by Peninsula International Investment Holdings Limited (PIIHL), a wholly owned subsidiary of the Company, to The Peninsula Shanghai (BVI) Limited (TPS), a 50% joint venture of the Group. The loans were provided in proportion to PIIHL's shareholding in TPS and are unsecured, interest free and have no fixed terms of repayment. TPS owns a 100% interest in Evermore Gain Limited (EGL) which in turn holds a 100% interest in The Peninsula Shanghai Waitan Hotel Company Limited (PSW), a foreign owned enterprise incorporated in the People's Republic of China, engaged in the operation of The Peninsula Shanghai Complex. As at 31 December 2016, shareholder's loans amounting to US$58.75 million (HK$458 million) (2015: US$58.75 million (HK$458 million)) had been contributed as capital of PSW through EGL.

In addition, pursuant to a tripartite entrustment loan agreement dated 12 December 2011 entered into among The Palace Hotel Co., Ltd. (TPH), a sino-foreign co-operative joint venture established in the People's Republic of China, which holds a 100% interest in The Peninsula Beijing, PSW and a PRC branch of an international bank (the agent bank), entrustment loans totalling RMB150 million were on-lent by TPH to PSW via the agent bank. As at 31 December 2016, the balance of entrustment loans amounted to RMB100 million (HK$111 million) (2015: RMB150 million (HK$179 million)). The remaining balance of entrustment loans bears an annual interest of 3.3% and is repayable on 14 June 2017. The interest was fixed by reference to the deposit rate published by The People's Bank of China on the day on which the draw down was made plus a margin of 200 basis points.

31. Non-adjusting post reporting period events

After the end of the reporting period, the Directors proposed a final dividend, the details of which are disclosed in note 10.

32. Key sources of estimation uncertainty

Notes 26(a) and 27 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Valuation of investment properties

Investment properties are included in the statement of financial position at their open market value, which is assessed semi-annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential. The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

(b) Estimated useful lives of properties, plant and equipment

The Group estimates the useful lives of its properties, plant and equipment based on the periods over which the assets are expected to be available for use. The Group reviews annually their estimated useful lives, based on factors that include asset utilisation, internal technical evaluation, technological changes as well as environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of properties, plant and equipment would increase depreciation charges and decrease non-current assets.

(c) Asset impairment

The Group assesses the impairment of assets in accordance with the accounting policy set out in note 33(i). The factors that the Group considers important in identifying indications of impairment and in assessing the impairment include the following:

- significant under-performance relative to expected historical or projected future operating results; and
- significant negative industry or economic trends.

(d) Deferred tax assets

The Group reviews the carrying amounts of deferred taxes at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilised.

33. Significant accounting policies

(a) Basis of preparation of the Financial Statements

The consolidated Financial Statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the Financial Statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

i) investment properties (see note 33(f)); and

ii) derivative financial instruments (see note 33(d))

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of Financial Statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that may have a significant effect on the Financial Statements and major sources of estimation uncertainty are discussed in note 32.

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated Financial Statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated Financial Statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Company.

33. Significant accounting policies continued

(b) Subsidiaries and non-controlling interests continued

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 33(c)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 33(i)), unless the investment is classified as held for sale.

(c) Associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated Financial Statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 33(i)). Any acquisition-date excess over costs, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associates or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with the Group's long-term interests that, in substance, form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of a financial asset.

33. Significant accounting policies continued

(d) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify as cash flow hedges.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged transaction affects profit or loss. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(e) Properties, plant and equipment

Hotel and other properties held for own use (including buildings held for own use which are situated on leasehold land classified as held under operating leases) and plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 33(i)).

The cost of self-constructed items of properties, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 33(t)).

Depreciation is calculated to write off the carrying values of items of properties, plant and equipment, less their estimated residual values, if any, on a straight line basis over the shorter of the unexpired period of the land lease and the anticipated remaining useful lives of the assets. The useful lives which have been adopted are summarised as follows:

- leasehold land classified as held under finance leases is depreciated over the unexpired term of lease

• hotel buildings	75 to 150 years
• other buildings	50 years
• golf courses	100 years
• external wall finishes, windows, roofing and glazing works	10 to 40 years
• major plant and machinery	15 to 25 years
• furniture, fixtures and equipment	3 to 20 years
• operating equipment	3 to 5 years
• motor vehicles	5 to 10 years

No depreciation is provided on freehold land as it is deemed to have an indefinite life.

Where parts of an item of properties, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

33. Significant accounting policies continued

(f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 33(h)) to earn rental income and/or for capital appreciation. These include land held for currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the statement of financial position at fair value, unless they are still in the course of construction or development at the reporting date and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 33(r).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 33(h)) and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 33(h).

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property as described in note 33(e) up to the date of change in use, and any difference at the date between the carrying amount and the fair value of the property is accounted for as movements in the asset revaluation reserve. On disposal of a revalued assets, the relevant portion of the asset revaluation reserve realised in respect of previous valuation is transferred to retained profits as a movement in reserves.

(g) Hotel operating rights

Costs incurred for securing the Group’s rights to operate hotels are capitalised and are stated in the statement of financial position at cost less accumulated amortisation and impairment losses (see note 33(i)).

Amortisation of the operating rights is charged to profit or loss on a straight-line basis over the terms of the relevant operating periods.

(h) Leased assets

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 33(f)); and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

33. Significant accounting policies continued

(i) Impairment of assets

(i) Impairment of financial assets

Investments in equity securities (other than investment in subsidiaries in the Company's statement of financial position) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

Objective evidence of impairment includes observable data that comes to the attention of the group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, an impairment loss is determined and recognised as follows:

- For investments in associates and joint ventures accounted for under the equity method (see note 33(c)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 33(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 33(i)(ii).
- For unquoted equity instruments carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for unquoted equity instruments carried at cost are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. An impairment loss for trade and other receivables carried at amortised cost is calculated as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

33. Significant accounting policies continued

(i) Impairment of assets continued

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the non-financial assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

An impairment loss is reversed to profit or loss if the recoverable amount of an asset, or the cash-generating unit to which it belongs, exceeds its carrying amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(iii) Interim financial reporting and impairment

Impairment losses recognised in an interim period in respect of unquoted equity instruments carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(j) Inventories

Land lots for sale and other inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

(k) Trade debtors and other receivables

Trade debtors and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest rate less allowance for impairment of doubtful debts (see note 33(i)), except where they are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, they are stated at cost less allowance for impairment of doubtful debts (see note 33(i)).

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

33. Significant accounting policies continued

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 33(q), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans
Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined benefit retirement plan obligations
The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense (income) on the net defined liability (asset) are recognised in profit or loss and allocated by nature as part of "staff costs and related expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in other reserves. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

Termination benefits
Termination benefits are recognised when and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

33. Significant accounting policies continued

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities and are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 33(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances and movements therein, are presented separately from each other and are not offset.

33. Significant accounting policies continued

(q) Provisions, contingent liabilities and financial guarantees issued

Provisions are recognised for liabilities of uncertain timing or amount when the Group or Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where the Group issues a financial guarantee, where material, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group or Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Hotel and golf club operations
Revenue is recognised on a basis that reflects the timing, nature and value when the relevant services are provided.

Sale of goods and wholesaling
Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership of the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Rental income from operating leases
Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Interest income
Interest income is recognised as it accrues using the effective interest method.

33. Significant accounting policies continued

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities and non-monetary assets and liabilities that are stated at fair values and are denominated in foreign currencies, are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to become ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Related parties

(1) A person, or a close member of that person’s family, is related to the Group if that person:

- i) has control or joint control over the Group;
- ii) has significant influence over the Group; or
- iii) is a member of the key management personnel of the Group or the Group’s Parent.

33. Significant accounting policies continued

(u) Related parties continued

(2) An entity is related to the Group if any of the following conditions applies:

i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

vi) The entity is controlled or jointly controlled by a person identified in (1).

vii) The entity identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments and the amounts of each segment item reported in the Financial Statements are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

34. Changes in accounting policies and disclosures

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these new developments have had a material effect on the Group's results and financial position for the current period or that of the prior periods.

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting year.

35. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016

Up to the date of issue of these Financial Statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these Financial Statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified the adoption of HKFRS 16 may have a significant impact on the consolidated financial statements and the details are set out below.

As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 16, Leases

As disclosed in note 33(h), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease.

HKFRS 16 specifies that lessees should account for all leases in a similar way to the current finance lease accounting. The adoption of HKFRS 16 will primarily affect the Group's accounting as a lessee of the leases for certain hotel properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 28(b), at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$13,312 million. It is expected that a majority of the future minimum lease payments will need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of the new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16.

Looking Ahead & Beyond

Independent Assurance Report

KPMG was engaged by The Hongkong and Shanghai Hotels, Limited ("HSH") to undertake a limited assurance engagement on identified elements ("Identified Elements") of the Corporate Responsibility and Sustainability Report and Data Statements 2016 of HSH (further referred to as "the Report") for the year ended 31 December 2016 being prepared in accordance with the Reporting Criteria.

Identified Elements of the Report

The Identified Elements are as follows:

- The following data points and relevant narratives included in the Report on pages 4 to 39 of the Corporate Responsibility and Sustainability Report
- The following data points as included in the Data table on pages 43 to 47 of the Corporate Responsibility and Sustainability Report

Economic	People	Safety	Environment
Revenue (incl. interest income)	Headcount	Health and safety training	Greenhouse gas emissions
Operating costs	Turnover	Injury rate	Group carbon intensity
Employee wage and benefits	Headcount by gender	Lost day rate	Total energy use
Capital expenditure			Energy intensity
Payments to providers of capital			Direct water consumption
Tax payments to governments			Water intensity
Total floor area			Waste generated
Total number of guest nights			Waste recycled

Responsibilities of the Directors of The Hongkong and Shanghai Hotels, Limited

The Directors of HSH are responsible for the preparation and presentation of the Report specifically ensuring that in all material respects the Report is prepared and presented in accordance with the Reporting Criteria, being the Environmental, Social and Governance Reporting Guide, Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEx ESG Guide") and the Global Reporting Initiative Sustainability Reporting Standards ("GRI Standards"). This responsibility also includes designing, implementing and maintaining internal controls relevant to the preparation of the Report that is free from material misstatement whether due to fraud or error.

Responsibilities of the Independent Assurance Provider

Our responsibility is to express a conclusion to the Directors of HSH based on our limited assurance procedures referred to below as performed over the Identified Elements of the Report. Our independent limited assurance report is made solely to HSH in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the Directors of HSH those matters we have been engaged to state in this independent limited assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than HSH for our work, for this independent limited assurance report, or for the conclusion we have reached. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Basis of Our Work

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information and ISAE 3410 Assurance Engagements on Greenhouse Gas Statements. These standards require the assurance team to possess the appropriate knowledge, skills and professional competencies needed to perform the assurance engagement.

Our Independence and Quality Control

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We have complied with the independence and other requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Work Performed

Our limited assurance engagement on the Identified Elements of the Report consists of making inquiries, primarily of persons responsible for the preparation of Identified Elements presented in the Corporate Responsibility and Sustainability Report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures include:

- Conducting interviews with management and staff responsible for the collection and review of Identified Elements at HSH Head Office to obtain an understanding of the information collection process;
- Attending a site visit to understand the data collection processes used to gather and review Identified Elements included in the Report;
- Examining and testing the systems and processes in place to generate, aggregate and report the Identified Elements;
- Agreeing the Identified Elements, on a sample basis, to underlying calculations and supporting schedules;
- Performing an analytical review of data provided by each operation and investigating, through discussion with management, key movements compared to prior year, expectations and targets;
- Comparing the definitions as included in the HKEx ESG Guide and the GRI Standards against the definitions used by HSH to prepare the metrics;
- Reading the Sustainability Reporting Content Index on pages 48 to 52 of the Corporate Responsibility and Sustainability Report to determine whether it is in line with our understanding of HKEx ESG Guide and the GRI standards;
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of the sustainability performance of HSH.

Conclusion

Based on the limited assurance procedures and the evidence obtained, nothing has come to our attention that causes us to believe that the Identified Elements, as described above, of the Corporate Responsibility and Sustainability Report and Data Statements 2016 of HSH for the year ended 31 December 2016, are not prepared, in all material respects, in accordance with the Reporting Criteria.

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

20 March 2017

Sustainability Data Statements

This section provides statistical information on the Group's sustainability performance. To facilitate stakeholders in understanding and benchmarking our corporate responsibility performance, our reporting follows the HKEx ESG and GRI Standards.

Performance Highlights (1)

			2016	2015	2014	2013	2012	2006-08 baseline
Economic	**Revenue (incl. interest income)**	HK$m	**5,668**	5,797	5,903	5,554	5,234	–
	Operating costs	HK$m	**2,134**	2,142	2,168	2,164	2,051	–
	Employee wage and benefits	HK$m	**2,108**	2,063	2,052	1,951	1,842	–
	Capital expenditure	HK$m	**2,479**	1,379	354	3,183	985	–
	Payments to providers of capital	HK$m	**239**	217	211	372	227	–
	Tax payments to governments (2)	HK$m	**410**	480	458	362	437	–
	Total floor area	'000 m^2	**651**	651	651	588	588	518
	Total number of guest nights	'000	**1,262**	1,256	1,277	1,211	1,122	1,119
People	**Headcount**		**7,985**	8,447	8,728	8,216	8,006	–
	Turnover	%	**22.0%**	22.6%	19.9%	20.3%	19.2%	–
	Headcount by Gender	% Female	**42.6%**	42.8%	42.3%	41.5%	41.0%	–
	Average training spend (3)	HK$	**3,205**	3,048	2,322	2,602	2,645	–
Health and Safety	**Training**							
	Health and safety training	'000 hours	**26**	32	16	19	17	–
	Safety							
	Injury rate (4)	reported incidents per 200,000 hours	**8.3**	7.9	7.4	7.2	7.6	–
	Lost day rate (4)	reported days per 200,000 hours	**45.6**	57.0	75.6	77.1	52.5	–
	Absentee rate (5)	reported days/total days worked	**1.9%**	2.0%	1.9%	1.8%	–	–
Environment	**Greenhouse gas emissions**	'000 tCO_2e	**103**	107	116	112	115	117
	Group carbon intensity	kg CO_2e per m^2	**158**	164	178	190	196	226
	Total energy use (6)	'000 GJ	**866**	892	871	843	842	858
	Energy intensity (6)	MJ per m^2	**1,329**	1,369	1,338	1,434	1,433	1,658
	Energy saved through reduction initiatives	GJ	**4,522**	6,644	6,517	10,383	35,711	–
	Direct water consumption	'000 m^3	**1,776**	1,899	1,880	1,846	1,795	1,921
	Water intensity							
	Hotels Division	litres per guest night	**1,154**	1,168	1,132	1,181	1,257	1,373
	Commercial Properties, Clubs & Services Division	litres per m^2	**1,638**	1,752	1,765	2,012	1,888	1,712
	Water recycled and other water sources	'000 m^3	**613**	137	124	126	122	–
	Waste generated (8)	tonnes	**7,746**	7,832	7,778	7,101	6,861	–
	Waste recycled (8)	tonnes	**3,270**	3,294	3,219	2,772	2,559	–
Community	**Monetary Donations (9)**	HK$ '000	**4,232**	6,273	4,197	8,900	2,843	–
	Community Outreach							
	Service hours	hours	**15,394**	13,160	11,124	7,350	7,332	–
	Employee volunteers		**1,658**	1,366	929	788	584	–

Note:

(1) Please refer to Reporting Scope on page 1 of the Corporate Responsibility and Sustainability Report for the scope of businesses covered in the reporting of employee, health and safety, community and environmental performance.

(2) Inclusive of corporate income tax, property and real estate tax, payroll tax and other corporate taxes.

(3) Average training spend is based on total annual training spend per full-time equivalent.

(4) Injuries recorded include from minor first aid incidents to more severe incidents that required hospitalisation. There was no incident of occupational disease recorded in 2016. This does not include 326 lost days of the 2 open cases from CX Lounges. 2011 and 2012 injury and lost day data did not include Quail Lodge & Golf Club.

(5) Absentee rate recorded from 2015 onward did not include The Peninsula Beverly Hills, due to re-categorisation of sick days under paid-time off. Absentee data of The Peninsula Beverly Hills is therefore not available.

(6) Vehicle fuel consumption is not included in the total energy use and energy intensity reported.

(7) 44,750 GJ represented energy saved over 2010 and 2011. Energy saved was calculated based on vendor estimates and assumptions according to expected efficiency gains.

(8) Group waste diversion rate in 2016 was 42.2%. Grease trap waste and construction waste were not included in the waste data reported.

(9) Donations reported have not included HSH's yearly contribution to the Hong Kong Heritage Project which is an archive project for preserving valuable historical records of the Kadoorie family and its businesses.

Glossary

Terms

Absentee Rate	Represents the number of absentee days per year. It is calculated as total absentee days, which include sick days and lost days due to injury and occupational diseases, divided by total work days for the year
Average room rate	This reveals the average rate charged per occupied room, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms sold}}$
Adjusted net assets	The figure provides an adjusted value assessment of the Group's assets based on current market valuation
Back-of-house	Staff-only areas, usually in a hotel
BREEAM	Building Research Establishment Environmental Assessment Method is a UK-based environmental assessment and certification scheme on sustainable building
Climate Disclosure Leadership Index for Asia ex-Japan	An annual index run by Carbon Disclosure Project (CDP) recognising companies which display a strong approach to the disclosure of climate strategy and measurement. The index includes top 10% of CDP reporting companies for the year
Corporate Responsibility	A systematic approach whereby a business monitors and ensures its compliance with the law, ethical standards, and international standards relating to the environment, consumers, employees, communities, and other stakeholders
EarthCheck	An internationally recognised sustainability benchmarking and certification programme for the hospitality sector
EBITDA	The figure reflects the profitability of the operations of the Group before interest, tax, depreciation and amortisation
Front-of-house	Areas of a hotel that are in sight of guests/customers
Forest Stewardship Council (FSC)	An internationally recognised certification scheme on sustainable forest management, which meets key requirements of responsibility, transparency, international consistency and balanced multi-stakeholder governance

Terms

Gearing	This measures the degree of debt financing used by the Group to fund its business, calculated based on the following formula: $\frac{\text{Net borrowings}}{\text{Net borrowings + Shareholders' equity}}$
Global Reporting Initiative (GRI)	A non-profit organisation that produces the prevalent standards for sustainability reporting widely adopted by companies worldwide
Environmental, Social and Governance Reporting Guide	A guide on environmental, social and governance disclosure standard published by the Hong Kong Stock Exchange for voluntary disclosure by listed companies in Hong Kong
Interest cover	The ratio reflects the ability of the Group to meet its financing costs expressed as a multiple of its operating profit
Occupancy rate	This reveals the extent of rooms being occupied, calculated based on the following formula: $\frac{\text{Rooms sold}}{\text{Rooms available}} \times 100\%$
PP	Percentage points
RevPAR	The figure reflects the revenue generating ability of the Group's hotels from available rooms, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms available}}$
Stakeholders	Group or individuals that are affected by or can affect a company's activities
Sustainable luxury	Luxury products or services which maintain a level of responsibility to both the environment and society
Underlying profit attributable to shareholders	The figure reflects the profitability of the Group arising from its operations by excluding non-operating and non-recurring items

Shareholder Information

Financial Calendar 2017

2016 annual results announcement	20 March
Annual Report available	31 March
For entitlement to attend, speak and vote at Annual General Meeting	
– Last day to register	28 April 4:30pm
– Closure of register of members	2 May to 8 May (both days inclusive)
– Record date	8 May
Annual General Meeting	8 May 12:00 noon
Ex-dividend date for final dividend	10 May
For entitlement to receive final dividend	
– Last day to register	11 May 4:30pm
– Closure of register of members	12 May to 16 May (both days inclusive)
– Record date	16 May
Scrip dividend scheme circular and/or election form available	19 May
Last day to return scrip dividend election form	7 June 4:30pm
Dividend warrants and share certificates for final dividend available	On or about 16 June
2017 interim results announcement (tentative)	August
2017 interim dividend payment date (tentative)	October
Financial year end	31 December

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www.hshgroup.com/investors
E-mail: ir@hshgroup.com

Corporate Responsibility and Sustainability Enquiries
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Tel: (852) 2840 7788
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Share Information
Stock Code: 00045
2016 Interim Dividend: 4 HK cents per share
2016 Final Dividend: 15 HK cents per share

Request for Feedback
To improve the quality of our annual reporting, we welcome your feedback via email to ir@hshgroup.com or by post to our registered office.

Shareholder Services
For enquiries about share transfer and registration, please contact the Company's Share Registrar:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong
Customer Services Hotline: (852) 2862 8555
Fax: (852) 2865 0990/2529 6087
E-mail: hkinfo@computershare.com.hk

Shareholders may at any time change their choice of language or means of receipt of the Company's corporate communications by notice in writing to the Company's Share Registrar at the address above. The Change Request Form may be downloaded from the Company's website at www.hshgroup.com.

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www.hshgroup.com

The Peninsula Hotels
www.peninsula.com

The Repulse Bay
www.therepulsebay.com

The Peak Tower and The Peak Tram
www.thepeak.com.hk

The Landmark
www.thelandmarkvietnam.com

Thai Country Club
www.thaicountryclub.com

Quail Lodge & Golf Club
www.quaillodge.com

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THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司

www.hshgroup.com

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