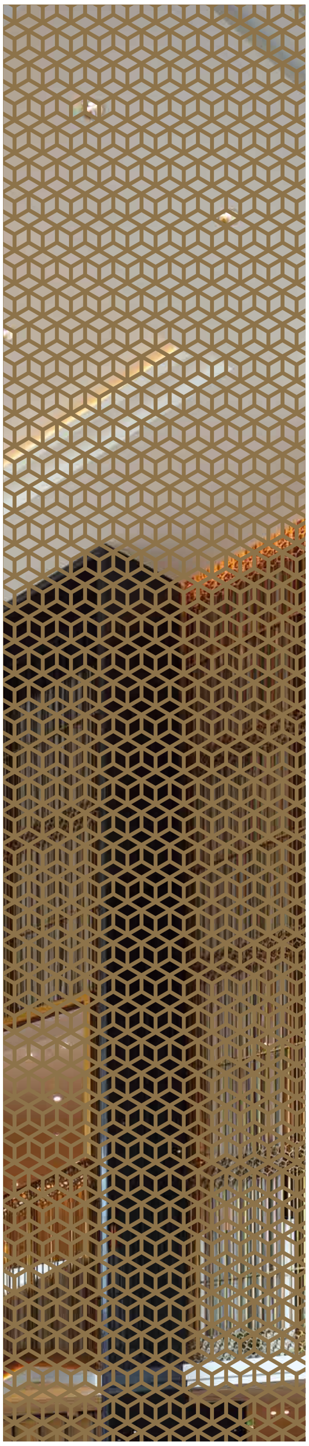
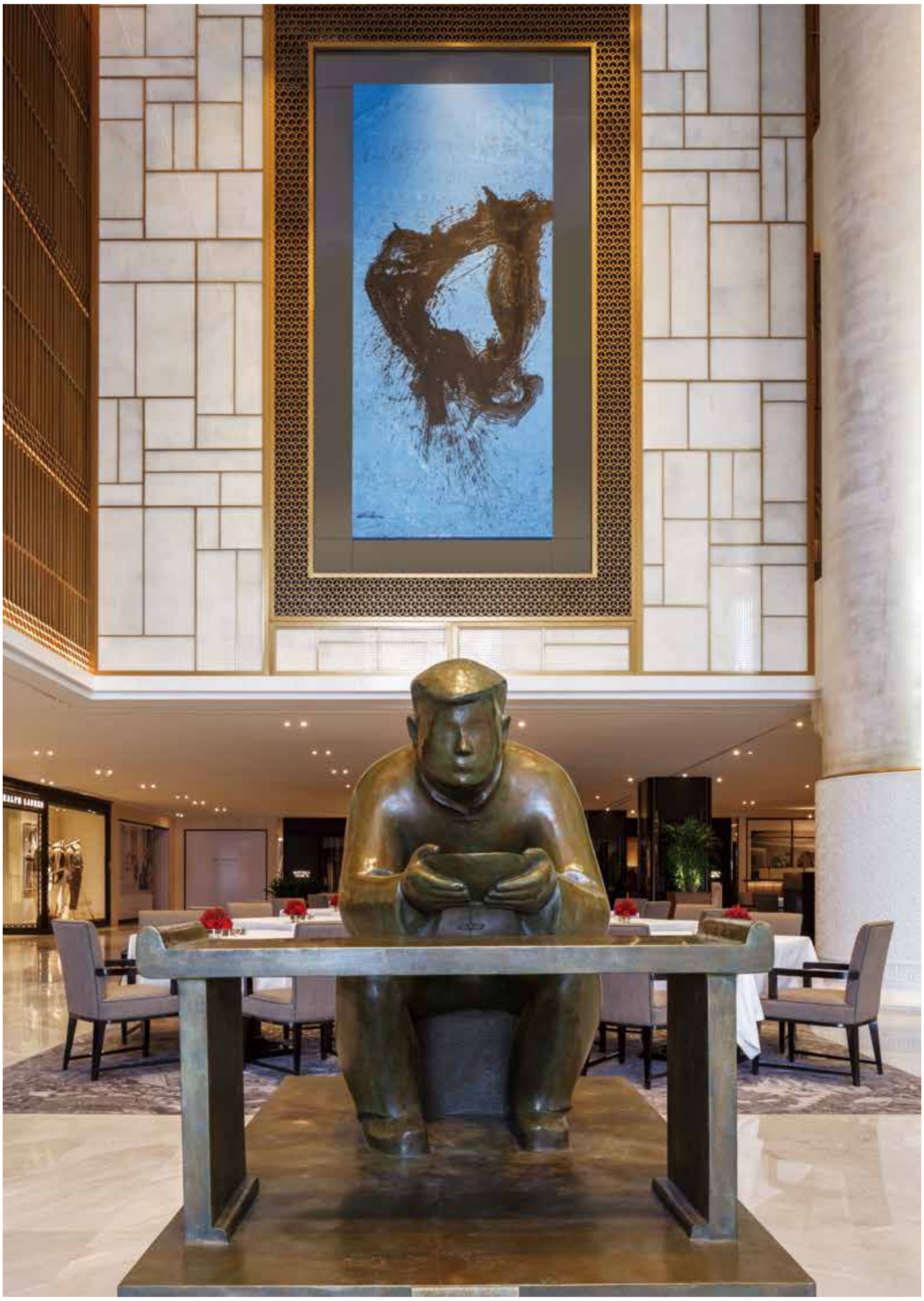




ANNUAL REPORT 2017

AN IMPERIAL REBIRTH

Stock Code: 00045

The Hongkong and Shanghai Hotels, Limited

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).

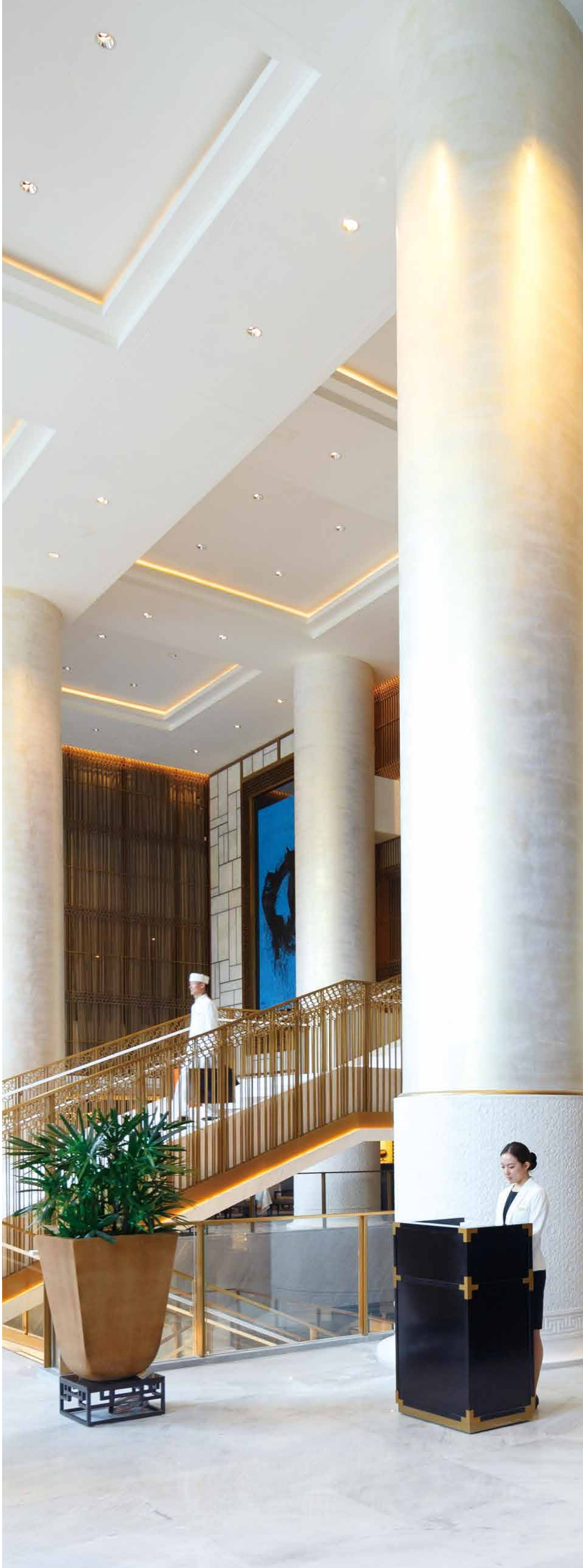
In the IIRC's words "Integrated Reporting brings together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how 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 2017. Together with our company's website, the two reports enable our stakeholders to have a more informed assessment of our company.

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.

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TIFFANY & Co.

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Accomplishments and Results 2017

Two five-metre-high paintings by Xinjiang-born painter Qin Feng depict the sun and moon – referencing Beijing's iconic Temples of the Sun and Moon – on a deep cobalt background, which symbolises peace and spirituality in Chinese culture.

Company at a Glance

HOTELS

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.

The Peninsula Hong Kong
Established: 1928

Rooms: 300 Ownership: 100%

The Peninsula Shanghai
Established: 2009
Rooms: 235 Ownership: 50%

The Peninsula Beijing
Established: 1989
Rooms: 230 Ownership: 76.6%*

The Peninsula Tokyo
Established: 2007
Rooms: 314 Ownership: 100%

The Peninsula Bangkok
Established: 1998
Rooms: 370 Ownership: 50%**

The Peninsula Manila
Established: 1976
Rooms: 469 Ownership: 77.4%

The Peninsula New York
Established: 1988
Rooms: 235 Ownership: 100%

The Peninsula Chicago
Established: 2001
Rooms: 339 Ownership: 100%

The Peninsula Beverly Hills
Established: 1991
Rooms: 195 Ownership: 20%

The Peninsula Paris
Established: 2014
Rooms: 200 Ownership: 20%

* 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

** Changed from 75% in August 2017

Company at a Glance

COMMERCIAL PROPERTIES

The Repulse Bay,
Hong Kong (residential and arcade)
Established: 1976 &1989
GFA:1,058,455 sq. ft. Ownership: 100%

The Peninsula Office Tower,
Hong Kong
Established: 1994
GFA: 75,082 sq. ft. Ownership: 100%

The Peak Tower,
Hong Kong (retail)
Established: 1996
GFA: 116,768 sq. ft. Ownership: 100%

21 avenue Kléber
Paris, France (office and retail)
Acquired: 2013
GFA: 44,218 sq. ft. Ownership: 100%

St. John's Building,
Hong Kong (office)
Established: 1983
GFA: 71,400 sq. ft. Ownership: 100%

The Landmark,
Ho Chi Minh City, Vietnam
(office and residential)
Established: 1994
GFA: 175,903 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

CLUBS AND SERVICES

The Peak Tram,
Hong Kong
Established: 1888
Ownership: 100%

Thai Country Club,
Bangkok, Thailand
Established: 1996
Ownership: 50%**

Quail Lodge & Golf Club,
Carmel, USA
Acquired: 1997
Ownership: 100%

Peninsula Clubs and
Consultancy Services
Established: 1977
Ownership: 100%

Peninsula Merchandising
Established: 2003
Ownership: 100%

Tai Pan Laundry,
Hong Kong
Established: 1980
Ownership: 100%

PROJECTS

The Peninsula London
Ownership : 100%

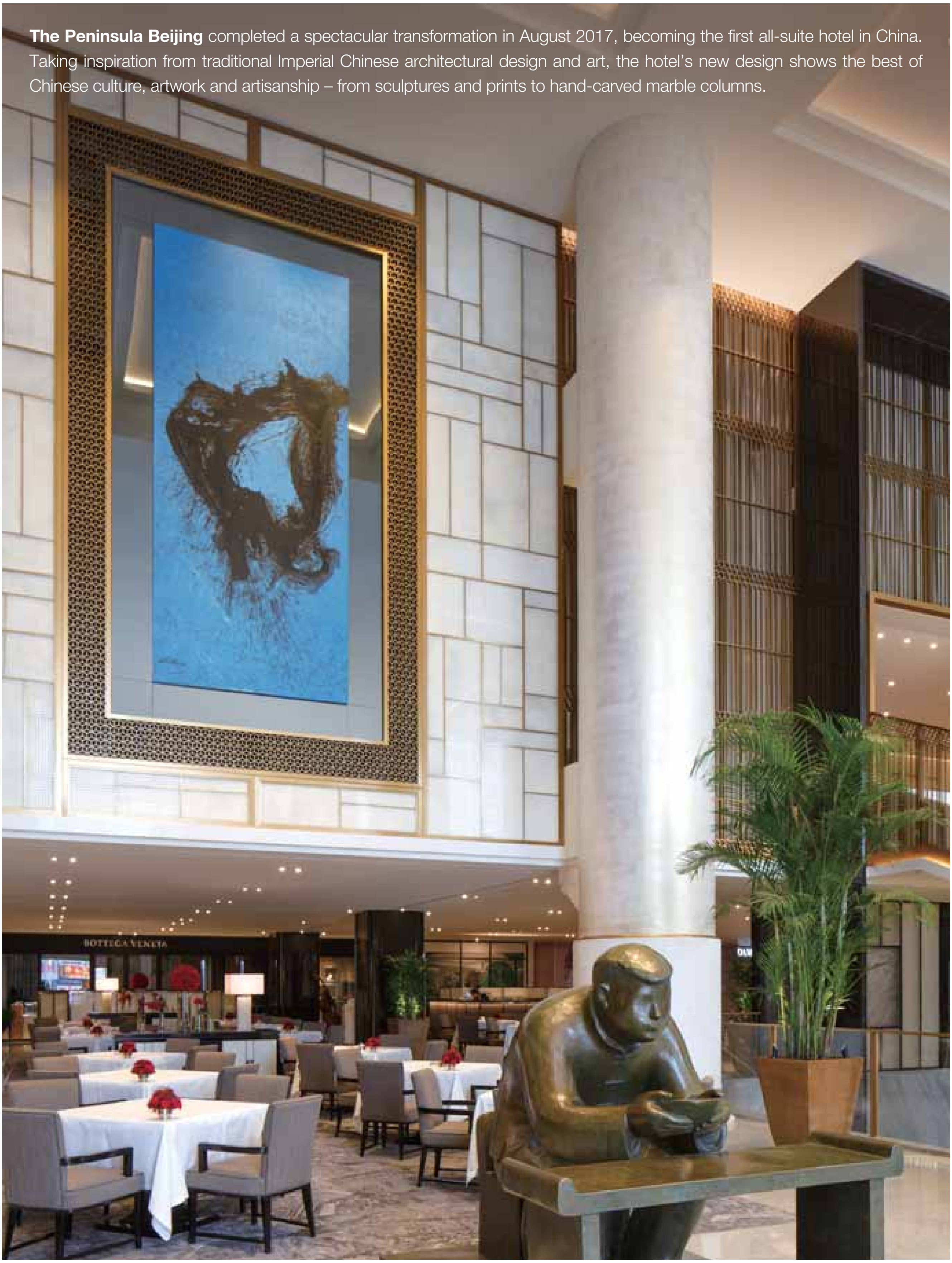
The Peninsula Istanbul
Ownership : 50%

The Peninsula Yangon
Ownership : 70%

** Changed from 75% in August 2017

2017 Milestones

The Peninsula Beijing completed a spectacular transformation in August 2017, becoming the first all-suite hotel in China. Taking inspiration from traditional Imperial 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 London groundbreaking ceremony was held on 2 November 2017, with the Duke of Westminster attending as Guest of Honour.

2017 Milestones

Significant progress was made in construction at **The Peninsula Istanbul**, which is located on the Bosphorus within walking distance of Istanbul's main visitor attractions, and has spectacular views over the Topkapi Palace.

The Peninsula Yangon held its groundbreaking ceremony on 16 February 2017. We are excited to move forward with this development as Myanmar develops as an important emerging market.

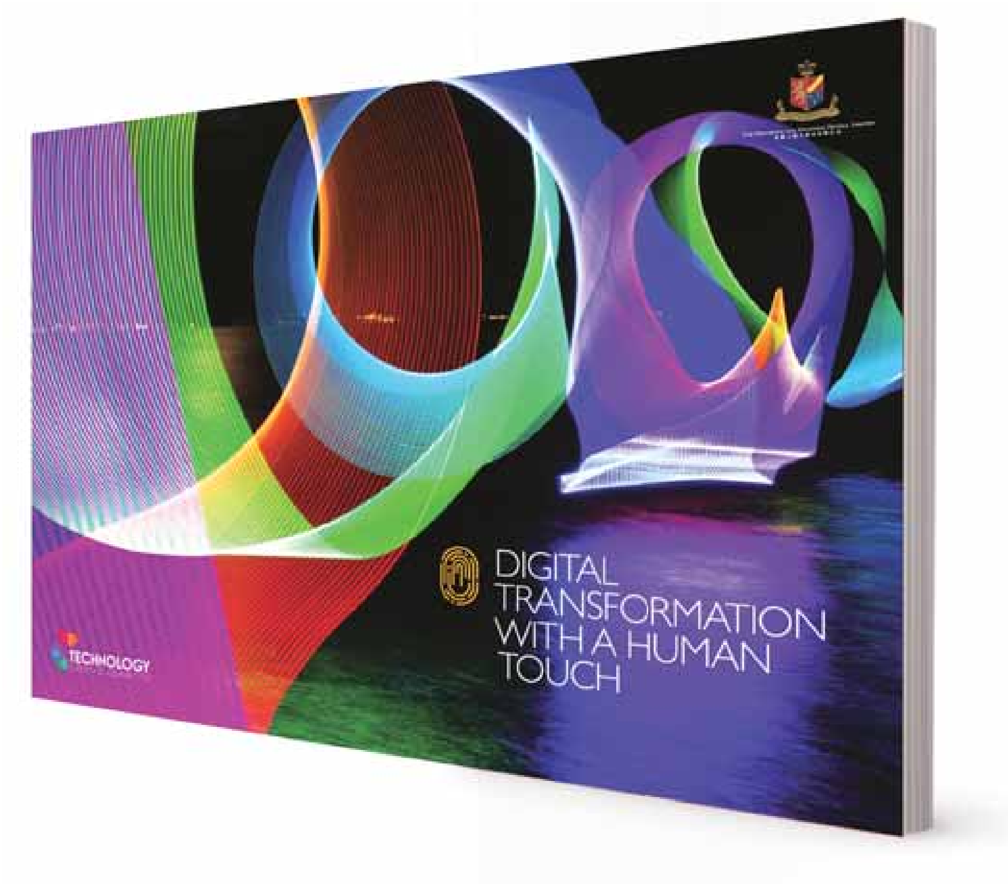
The Peninsula Tokyo celebrated its tenth anniversary with a dazzling gala party on 26 October 2017, attended by more than 1,000 guests. The Peninsula Tokyo Rally Nippon 2017 held during the same week was the first event of its kind to be sponsored by a luxury hotel company in Japan, highlighting The Peninsula Hotels' long association with classic cars.

2017 Milestones

A spectacular renovation of **21 avenue Kléber, Paris** was completed and leases were signed with major office and retail tenants.

Our Chairman The Hon. Sir Michael Kadoorie was bestowed a **Lifetime Achievement Award** by Hong Kong Polytechnic University in September 2017.

The “**Digital Transformation with a Human Touch**” strategy was launched by the Technology Steering Committee and shared with the entire group.



From 1 April 2017, **No.1 Waitanyuan** was fully managed and operated by The Peninsula Shanghai, diversifying its portfolio of services, facilities and event spaces in one of Shanghai’s most iconic period buildings.

Financial Highlights

	2017	2016	Increase/ (Decrease)
Consolidated Statement of Profit or Loss (HK$m)			
Revenue	**5,782**	5,631	3%
EBITDA	**1,422**	1,288	10%
Operating profit	**919**	824	12%
Profit attributable to shareholders	**1,155**	675	71%
Earnings per share (HK$)	**0.73**	0.43	70%
Underlying profit*	**801**	646	24%
Dividends	**318**	297	7%
Dividends per share (HK cents)	**20**	19	5%
Dividend cover (times)**	**2.5x**	2.2x	14%
Interest cover (times)$^{\Delta}$	**10.6x**	8.6x	23%
Cash interest cover (times)$^{\Delta\Delta}$	**11.9x**	13.8x	(14%)
Weighted average gross interest rate	**2.2%**	2.1%	0.1pp
Consolidated Statement of Financial Position (HK$m)			
Total assets	**48,520**	45,870	6%
Audited net assets attributable to shareholders	**38,175**	36,359	5%
Adjusted net assets attributable to shareholders#	**41,725**	39,711	5%
Audited net assets per share (HK$)	**24.02**	23.20	4%
Adjusted net assets per share (HK$)#	**26.26**	25.34	4%
Net borrowings	**5,521**	4,911	12%
Funds from operations to net debt##	**21%**	22%	(1pp)
Net debt to equity attributable to shareholders	**14%**	14%	–
Gearing	**13%**	12%	1pp
Consolidated Statement of Cash Flows (HK$m)			
Net cash generated from operating activities before taxation	**1,369**	1,312	4%
Capital expenditure on existing assets			
– The Peninsulas in Beijing and Chicago and 21 avenue Kléber	**(349)**	(737)	(53%)
– Others	**(252)**	(263)	(4%)
Capital expenditure on new projects/new acquisitions	**(1,053)**	(1,419)	(26%)
Share Information (HK$)			
Highest share price	**17.12**	9.49	
Lowest share price	**8.27**	7.15	
Year end closing share price	**11.60**	8.60	

* Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items. In addition, to reflect the commercial reality of these transactions, the share of cumulative revaluation gains (net of the related tax) in respect of the apartments sold by the Group's joint venture in Shanghai, which were previously accounted for as investment properties, were added back to arrive at the underlying profit for the year. The comparative underlying profit has been adjusted to conform to the current year's presentation

** Dividend cover is calculated based on underlying profit over dividends

Δ Interest cover is calculated based on operating profits divided by net financing charges

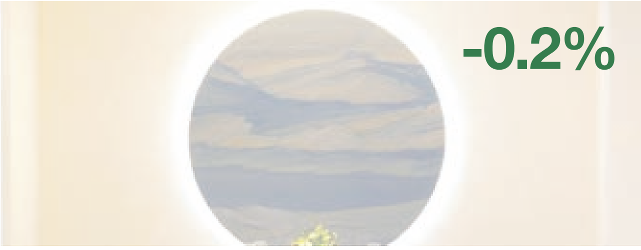
ΔΔ Cash interest cover is calculated based on EBITDA divided by net interest paid

\# 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, net of tax

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

pp Denotes percentage points

Non-Financial Highlights



Energy Intensity

1,326 MJ per m^2

Carbon Intensity

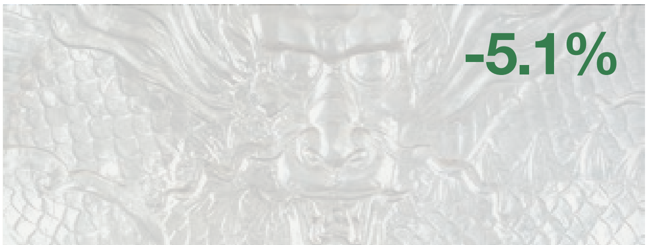
156 $kgCO_2e$ per m^2

Direct Water Consumption

1,784,313 m^3

Waste Diverted

47.5%



Injury Rate

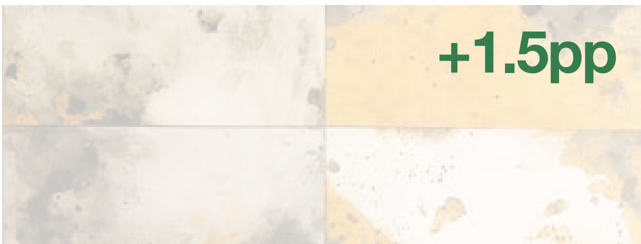
7.9 injury cases per 100 employees

Lost Day Rate

40.7 lost days per 100 employees

Total Turnover

21.3%



Employees Engaged in Community Service

22.2%

* Percentage change refers to year-on-year movement and green denotes improvement, all points are positive improvements with the exception of direct water consumption which was due to increased business and less water collected due to changing weather conditions. More details can be read in sustainability data statements on page 236 or the online 2017 CRS Report.

Financial Review Summary

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

The Group's EBITDA and combined EBITDA, including the Group's effective share of EBITDA of associates and a joint venture, increased by 10% and 11% to HK$1,422 million and HK$1,583 million respectively. The Group's combined EBITDA margin of 25% represented an increase of two percentage points over 2016, mainly due to the improved profitability achieved by the hotels division.

In 2017, the combined EBITDA margin of the hotels division increased by two percentage points to 19%, mainly due to the improved margin achieved by The Peninsula Beijing following its return of full room inventory in August 2017 and the increase in profitability achieved by The Peninsula Shanghai.

For the commercial properties division, although 1-5 Grosvenor Place was completely vacated in April 2017 for redevelopment, the EBITDA margin of the division increased by four percentage points mainly due to the increased occupancy achieved by The Repulse Bay Complex and higher admission fee income achieved by Sky Terrace 428 at The Peak Tower.

The clubs and services division also reported an increase in margin by two percentage points mainly due to the higher contribution from Peninsula Merchandising for its mooncake sales although part of such margin increase was offset by the loss of income resulting from the termination of the management contracts for the Cathay Pacific Lounges in May 2016.

❷ Revenue

The Group's consolidated revenue and combined revenue, including the Group's effective share of revenue of associates and a joint venture, both increased by 3% to HK$5,782 million and HK$6,313 million respectively.

The hotels division remains the main contributor to the Group's combined revenue, accounting for 75% (2016: 74%) or HK$4,720 million of the combined revenue. The operating performance of the Group's hotels division is subject to a higher degree of volatility by nature. Following the completion of renovation of The Peninsula Beijing and the return of full room inventory in August 2017, it reported a revenue growth of HK$107 million or 78% over last year. However, PBJ's revenue growth was partly offset by the decrease in rental income of the commercial arcade at The Peninsula Hong Kong and the revenue shortfall suffered by The Peninsula Manila due to the continued addition of new supply of hotel rooms in that market in 2017.

The commercial properties division reported a steady growth in revenue mainly due to the increase in occupancy achieved by The Repulse Bay Complex and a higher admission fee income achieved by Sky Terrace 428 at The Peak Tower.

Consolidated Statement of Financial Position at 1.1.2017

	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

Consolidated Statement of Cash Flows for the year ended 31.12.2017

		HK$m
❶ EBITDA		1,422
Net change in working capital		(53)
Tax payment		(153)
Payment for the purchase of property, plant and equipment		(1,654)
Cash injected from a non-controlling shareholder		22
Net repayment from a joint venture and associates		17
Net financing charges and dividends paid		(203)
Net increase in bank borrowings		235
Disposal of interest in subsidiaries to a non-controlling shareholder		178
Net placement of interest-bearing bank deposits with maturity of more than three months		(125)
Net cash outflow for the year		(314)
Cash at banks and in hand	2,087	
Less: Bank deposits maturing more than 3 months	(130)	
Less: Bank overdrafts	(2)	
Cash & cash equivalents at 1.1.2017		1,955
Effect of changes in exchange rates		19
Cash & cash equivalents at 31.12.2017*		1,660
* Representing:		
Cash at banks and in hand		1,922
Bank deposits maturing more than 3 months		(255)
Bank overdrafts		(7)
		1,660

Consolidated Statement of profit or loss for the year ended 31.12.2017

	HK$m
❷ Revenue	5,782
Operating costs before depreciation and amortisation	(4,360)
EBITDA	1,422
Depreciation and amortisation	(503)
Operating profit	919
Net financing charges	(87)
Profit after net financing charges	832
❸ Share of result of a joint venture	(97)
❹ Share of results of associates	(24)
❺ Increase in fair value of investment properties	609
Taxation	(168)
Non-controlling interests	3
Profit attributable to shareholders	1,155

Consolidated Retained Profits for the year ended 31.12.2017

	HK$m
Retained profits at 1.1.2017	32,111
Profit attributable to shareholders for the year	1,155
Dividends distributed during the year	(298)
Disposal of interest in subsidiaries to a non-controlling shareholder	(66)
Retained profits at 31.12.2017	32,902

Consolidated Statement of Financial Position at 31.12.2017

	HK$m
Net assets	
Fixed assets	43,355
Other long-term investments	2,318
Deferred tax assets	38
Cash at banks and in hand	1,922
Other current assets	887
	48,520
Bank overdrafts	(7)
Bank borrowings	(7,436)
Derivative financial instruments	(4)
Deferred tax liabilities	(659)
Other liabilities	(1,712)
	38,702
Capital and reserves	
Share capital	5,224
Retained profits	32,902
Hedging, exchange and other reserves	49
	38,175
Non-controlling interests	527
	38,702

Underlying profit for the year ended 31.12.2017

	HK$m
Profit attributable to shareholders	1,155
Non-operating and non-recurring items	(354)
❻ Underlying profit	801

❷ Revenue (continued)

For the clubs and services division, total revenue decreased slightly against last year as the increase in mooncake sales achieved by Peninsula Merchandising and the higher income generated from The Peak Tram were fully offset by the full year impact of the loss of income from Peninsula Clubs and Consultancy Services following the termination of the management contracts for the Cathay Pacific Lounges at Hong Kong International Airport in May 2016.

Details of the operating performances of the Group's individual operations are set out on pages 26 to 55 of the CEO's Strategic Review.

❸ Share of Result of a Joint Venture

The Group has a 50% interest in The Peninsula Shanghai (PSH). PSH remained the market leader in terms of average room rate and RevPAR in its competitor set in 2017, generating an operating EBITDA of HK$235 million, above 2016 by 17%. However, PSH's operating EBITDA was fully offset by the unrealised loss resulting from the reclassification of its remaining 20 apartments held for leasing as apartments held for sale, the unrealised loss on revaluation of other investment properties, depreciation and interest expenses. As a result, PSH sustained a net loss of HK$195 million and the Group's share of loss amounted to HK$97 million (2016: profit of HK$20 million).

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 2017 amounted to HK$24 million (2016: HK$25 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 consolidated statement of profit or loss. The year end revaluation of the Group's investment properties has resulted in a non-operating gain of HK$609 million (2016: HK$29 million), principally attributable to the increase in the appraised market value of The Repulse Bay, The Peninsula Office Tower, The Peak Tower and St. John's Building, net of the decrease in appraised market value of the commercial arcade at The Peninsula Beijing and The Landmark, Vietnam due to the shortening of the remaining lease of these properties.

❻ Underlying Profit

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 57.

Ten Year Operating Statistics

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
a) The Peninsula Hotels (Note 1)										
Hong Kong										
Occupancy rate	**75%**	72%	73%	75%	72%	79%	74%	70%	57%	71%
Average room rate (HK$)	**4,875**	4,843	4,760	5,144	5,170	5,133	4,503	4,197	4,176	4,504
RevPAR (HK$)	**3,659**	3,473	3,477	3,870	3,731	4,072	3,347	2,926	2,401	3,219
Other Asia (excluding Hong Kong) (Note 2)										
Occupancy rate	**68%**	67%	70%	65%	66%	63%	57%	58%	48%	57%
Average room rate (HK$)	**2,661**	2,599	2,265	2,146	2,065	2,179	2,156	2,100	1,904	2,237
RevPAR (HK$)	**1,802**	1,753	1,581	1,390	1,361	1,367	1,221	1,214	920	1,284
United States of America and Europe										
Occupancy rate	**70%**	71%	68%	74%	74%	72%	69%	65%	59%	68%
Average room rate (HK$)	**5,861**	5,625	5,807	5,471	4,858	4,627	4,550	4,403	4,292	4,936
RevPAR (HK$)	**4,130**	3,993	3,962	4,059	3,573	3,346	3,135	2,856	2,511	3,378
b) Residential (Notes 1 & 3)										
Occupancy rate	**94%**	91%	93%	85%	89%	92%	91%	92%	88%	94%
Average monthly yield per square foot (HK$)	**46**	45	45	42	42	41	38	36	37	39
c) Shopping Arcades (Notes 1 & 4)										
Occupancy rate	**89%**	93%	95%	97%	99%	99%	97%	96%	95%	97%
Average monthly yield per square foot (HK$)	**174**	184	202	206	191	179	168	153	168	165
d) Offices (Notes 1 & 3)										
Occupancy rate	**95%**	100%	99%	97%	92%	96%	100%	98%	91%	98%
Average monthly yield per square foot (HK$)	**55**	56	55	52	48	45	45	42	36	35
e) Peak Tram										
Patronage ('000)	**6,179**	6,259	6,359	6,325	6,272	5,918	5,777	5,385	4,862	5,006
Average fare (HK$)	**20**	19	19	19	19	19	19	17	16	16
f) Full Time Headcount (as at 31 December)										
Hotels	**6,123**	6,121	6,201	6,308	5,878	5,617	5,475	5,444	5,489	5,239
Commercial Properties	**359**	360	363	362	347	333	323	331	339	339
Clubs and Services	**1,052**	993	1,318	1,317	1,325	1,260	1,224	1,180	998	1,056
Total headcount	**7,534**	7,474	7,882	7,987	7,550	7,210	7,022	6,955	6,826	6,634

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 to Aug 2017 for renovation, impacting on 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

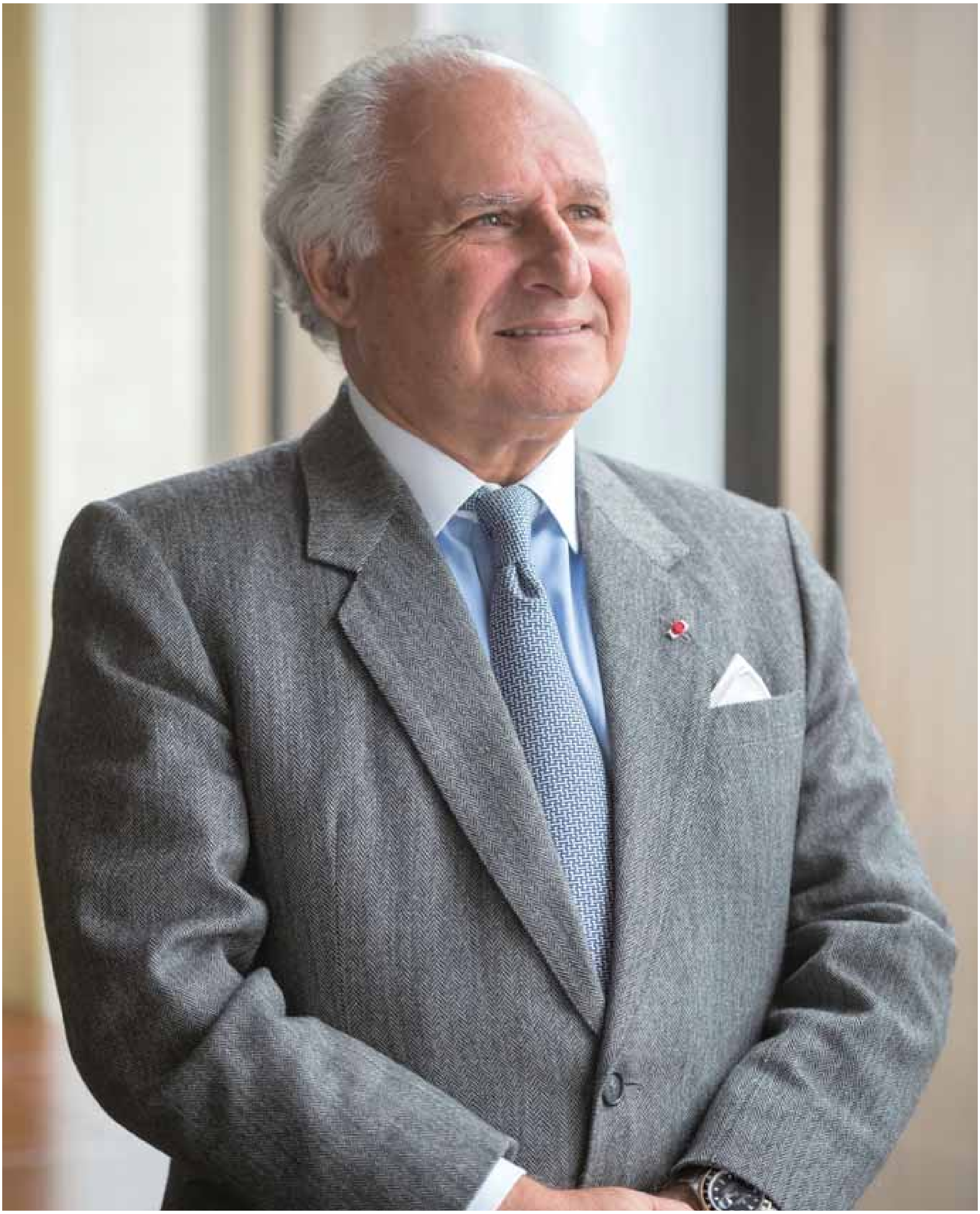
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Consolidated Statement of Profit or Loss (HK$m)										
Revenue	**5,782**	5,631	5,741	5,838	5,508	5,178	5,009	4,707	4,218	4,938
EBITDA	**1,422**	1,288	1,440	1,528	1,306	1,201	1,211	1,143	924	1,425
Operating profit	**919**	824	1,014	1,105	911	817	834	794	586	1,051
Profit attributable to shareholders	**1,155**	675	1,000	1,146	1,712	1,555	2,259	3,008	2,660	(27)
Earnings per share (HK$)	**0.73**	0.43	0.65	0.76	1.14	1.04	1.52	2.04	1.82	(0.02)
Underlying profit*	**801**	646	716	980	511	439	464	408	323	808
Dividends	**318**	297	308	349	240	210	208	177	132	246
Dividends per share (HK cents)	**20**	19	20	23	16	14	14	12	9	17
Dividend cover (times)	**2.5x**	2.2x	2.3x	2.8x	2.1x	2.1x	2.2x	2.3x	2.4x	3.3x
Interest cover (times)	**10.6x**	8.6x	14.9x	16.7x	9.7x	9.6x	9.5x	7.4x	6.8x	15.5x
Cash interest cover (times)	**11.9x**	13.8x	21.2x	25.5x	11.5x	16.9x	13.8x	9.9x	7.5x	14.3x
Weighted average gross interest rate	**2.2%**	2.1%	2.2%	2.3%	2.9%	3.2%	3.1%	3.2%	3.2%	3.4%
Consolidated Statement of Financial Position (HK$m)										
Total assets	**48,520**	45,870	45,089	43,982	43,144	39,807	38,233	36,587	32,872	29,606
Total liabilities	**(9,818)**	(9,296)	(8,429)	(7,831)	(7,770)	(6,368)	(6,490)	(6,498)	(5,817)	(5,215)
Non-controlling interests	**(527)**	(215)	(233)	(250)	(269)	(289)	(283)	(981)	(908)	(934)
Audited net assets attributable to shareholders	**38,175**	36,359	36,427	35,901	35,105	33,150	31,460	29,108	26,147	23,457
Adjusted net assets attributable to shareholders	**41,725**	39,711	39,627	39,496	38,486	36,396	34,708	31,893	28,571	26,611
Audited net assets per share (HK$)	**24.02**	23.20	23.61	23.67	23.37	22.07	21.11	19.67	17.79	16.18
Adjusted net assets per share (HK$)	**26.26**	25.34	25.68	26.04	25.62	24.23	23.29	21.55	19.44	18.35
Net borrowings	**(5,521)**	(4,911)	(3,273)	(3,004)	(3,992)	(1,989)	(2,335)	(1,674)	(1,990)	(1,198)
Funds from operations to net debt	**21%**	22%	35%	44%	28%	48%	42%	52%	33%	92%
Net debt to equity attributable to shareholders	**14%**	14%	9%	8%	11%	6%	7%	6%	8%	5%
Gearing	**13%**	12%	8%	8%	10%	6%	7%	5%	7%	5%
Consolidated Statement of Cash Flows (HK$m)										
Net cash generated from operating activities before taxation	**1,369**	1,312	1,444	1,589	1,401	1,133	1,145	1,173	904	1,429
Capital expenditure on existing assets	**(601)**	(1,000)	(476)	(370)	(928)	(875)	(312)	(276)	(269)	(417)
New projects and acquisitions	**(1,053)**	(1,419)	(916)	(39)	(2,293)	–	(578)	–	(1,157)	–
Share Information (HK$)										
Highest share price	**17.12**	9.49	12.20	12.60	14.20	11.92	14.74	14.90	11.98	14.50
Lowest share price	**8.27**	7.15	8.00	10.08	10.38	8.63	8.10	10.32	4.26	5.13
Year end closing share price	**11.60**	8.60	8.64	11.50	10.52	10.82	8.61	13.32	11.36	5.86

* Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items. In addition, to reflect the commercial reality of these transactions, the share of cumulative revaluation gains (net of the related tax) in respect of the apartments sold by the Group's joint venture in Shanghai, which were previously accounted for as investment properties, were added back to arrive at the underlying profit for the year. The comparative underlying profit has been adjusted to conform to the current year's presentation

The bases of calculation of the following items are disclosed in the Financial Highlights on page 16

1 Underlying profit
2 Dividend cover
3 Interest cover and cash interest cover
4 Adjusted net assets attributable to shareholders and adjusted net assets per share
5 Funds from operations to net debt

Letter from the Chairman



The Hon. Sir Michael Kadoorie
Chairman

> "Improving our assets for the long term is a key focus for our group. The inspiration behind the reinvention of The Peninsula Beijing came from the opulence of ancient Imperial Palaces and tranquil gardens."

Dear Shareholders,

Your company, The Hongkong and Shanghai Hotels, Limited, was established in 1866 and is, we believe, the world's oldest hotel group which has been in continuous operation until today. With its rich and long history, while preserving and honouring our heritage, we must continually plan for the future and what lies ahead for our industry and indeed our world, keeping in mind that our company must constantly evolve to remain a leader in the luxury hospitality sector.

In 2017, our commitment to the long term remains steadfast, reflecting a vision to own and operate a small group of the world's finest hotels and luxury commercial properties. Our hotels update themselves with the latest technology, services and luxury amenities to be consistently recognised as being among the best in the world, epitomising our commitment to the quality of The Peninsula brand.

Improving our assets for the long term is a key focus for our group. The inspiration behind the reinvention of The Peninsula Beijing came from the opulence of ancient Imperial Palaces and tranquil gardens. Luxurious materials such as bronze, marble and onyx were featured prominently in the Ming and Qing Dynasties, and these materials have been extensively used throughout the hotel's new design, creating an atmosphere of grandeur, elegance and timelessness. An ancient imperial pattern – the hexagon – is a recurring theme throughout The Peninsula Beijing's design and fittings, and is reflected throughout the pages of this report. This motif is inspired by the pattern of tortoise shells, which in Chinese culture represents longevity. It also symbolises our company's philosophy to reinvent ourselves while respecting our heritage and creating a portfolio of the highest quality assets for the long term. Consistent with these thoughts, the theme of this annual report is "An Imperial Rebirth", paying homage to the spectacular transformation of The Peninsula Beijing which was completed in 2017.

Looking to the future, a key focus in 2017 has been digital transformation, paying close attention to the importance and usage of technology and data in our operations with the primary objective of improving the guest experience. When The Peninsula Hong Kong first opened in 1928, it was a pioneer of innovation with "the most modern appliances and equipment of its time", according to then Manager, James Taggart. Today, we seek to enhance our offering in terms of the latest modern conveniences for our guests, and this is something in which I take a deep personal interest. We believe that our technology offering should always be aligned with the signature warm hospitality and personal attention to detail that is synonymous with The Peninsula brand, and this is why the team has named our strategy "Digital Transformation with a Human Touch". We are also seeking to encourage an entrepreneurial spirit with the launch of an incubator programme. More details about the five-year plan and this programme can be read on pages 99 to 100.

Despite economic challenges and political uncertainty in some of our key markets, particularly in the Middle East, this was a satisfactory year for our group in terms of business performance. The threat of global terrorism and cybersecurity issues remain a major concern for the Board, and we continue to monitor the potential effect of these risks on our business and how to mitigate them.

Letter from the Chairman

> “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 were pleased to note a recovery in tourist arrivals, which is reflected in the positive results of The Peninsula Hong Kong. Our hotels business is balanced by a strong mix of commercial properties and shopping arcades, and we enjoyed a robust year in our residential and commercial property division, with excellent results from The Repulse Bay and The Peak Tower, although the luxury retail leasing market continues to show some adjustments. Overall, in spite of intense competition and challenging geopolitical circumstances, our Group performed well and we delivered a pleasing set of results. The Financial Statements can be viewed on pages 170 to 233.

Our projects in London, Istanbul and Yangon have made significant progress during the year, with groundbreaking ceremonies held in 2017 at The Peninsula London and The Peninsula Yangon. Construction is also underway at The Peninsula Istanbul which is on a beautiful site overlooking the Bosphorus and located within walking distance of Istanbul’s famous old town. The Peak Tram, in its 130th year of operation under our Group, remains one of Hong Kong’s most popular tourist attractions. We are working in cooperation with the Hong Kong Government to upgrade and renovate the tram and lower terminus, in order to create increased capacity and a more comfortable experience for our visitors. More details about our projects can be read on pages 50 to 52.

To achieve long-term, sustainable growth, we must evaluate our social and environmental performance and the impact on the local communities where we operate. We are reviewing our Sustainable Luxury Vision 2020 through the lens of three key areas of focus: our guests, our people and our cities. In our third year of moving towards integrated

reporting, we have taken steps to improve and condense our sustainability reporting, with strategy woven throughout the pages of this report as well as the Corporate Responsibility and Sustainability Report which is published online.

We are fortunate in achieving pleasing results with the full support of a dedicated team. On behalf of the Board, I would like to express my appreciation and sincere thanks for the leadership of Clement Kwok and his management team, and for the hard work and dedication of the entire Group in delivering a world-class service for our guests, together with top class corporate and operational management and governance.

With our wonderful team, enduring culture and appropriate strategies in place, we are well positioned to pursue our strategic goal of remaining one of the world's best luxury property and hotels groups. It is from this solid base of planning and growth that we can all look ahead with optimism. The Group will continue on the journey it began 151 years ago with the same spirit of a family with a commitment to the highest quality of service to our guests, staff and shareholders.

The Hon. Sir Michael Kadoorie
16 March 2018

CEO's Strategic Review

Clement K.M. Kwok
Chief Executive Officer

" 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. "

The Hongkong and Shanghai Hotels has had a long history of hospitality excellence and one of our key philosophies is to build on this heritage while continuing to maintain and enhance the quality of our assets for value creation over the very long term. Over the past 15 years, we have continually invested in and enhanced the quality of our existing hotel and other properties, as a result of which the Company's net asset value per share has grown from HK$9.9 per share in 2002 to HK$24.02 per share in 2017. We have developed and successfully opened several Peninsula Hotels which are recognised as being among the world's best; and have currently under development three new Peninsula Hotel projects in exceptional locations in London, Istanbul and Yangon (in Myanmar).

Over the very long life cycles of our hotel investments, it is to be expected that we will encounter, and have the staying power to overcome, many ups and downs and 2017 was no exception. We continued to face uncertainties in many of the markets in which we operate, including mixed although improving sentiment in our home market of Hong Kong, political uncertainties in a number of the countries in which we operate and tensions in the Middle East affecting our business originating from that region.

Through these uncertainties, we have remained steadfast in our commitment to service and quality and I am pleased that we have been able to achieve a satisfactory set of financial results for 2017 whilst maintaining this philosophy. The Company's combined EBITDA, including the Group's effective share of EBITDA of our associates and joint ventures, increased by 11% from the previous year to HK$1,583 million. The Company's net profit attributable to shareholders increased by 71% from the previous year to HK$1,155 million, inclusive of the revaluation gain on the Group's investment properties of HK$609 million (2016: HK$29 million). Our underlying profit increased by 24% from the previous year to HK$801 million.

Our focus for the next few years will be on the successful delivery and financing of our new hotel developments in London, Istanbul and Yangon. With the significant capital commitments that these projects entail, we continue to carefully monitor our Company's financial position and I am pleased that our gearing remains at 13%, which we believe to be comfortable taking into account the estimated project budgets of our new developments.

I am also pleased to report that, in line with our commitment to enhance our existing properties, we have completed a major transformation of The Peninsula Beijing by rebuilding the key public areas and effectively combining two guestrooms into one, thus lowering the guestroom key count from 525 to 230 and creating an "all-suite" hotel. The theme of this annual report focuses on this very major renovation with its title of "An Imperial Rebirth".

CEO's Strategic Review

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

	2017 Revenue	Variance	
	HK$m	In HK$	In Local Currency
Consolidated hotels			
The Peninsula Hong Kong	**1,298**	0%	0%
The Peninsula Beijing	**244**	78%	78%
The Peninsula New York	**698**	1%	1%
The Peninsula Chicago	**568**	4%	4%
The Peninsula Tokyo	**826**	3%	5%
The Peninsula Bangkok	**253**	8%	2%
The Peninsula Manila	**235**	–9%	–3%
Non-consolidated hotels			
The Peninsula Shanghai	**603***	1%	2%
The Peninsula Beverly Hills	**627**	1%	1%
The Peninsula Paris	**521**	8%	4%

* Excluding proceeds from sale of apartments

CEO's Strategic Review

Revenue HK$1,298m	Occupancy	Average Room Rate	RevPAR
0%	+3pp	+1%	+5%

The Peninsula Hong Kong

The tourism market in Hong Kong saw some recovery in 2017. Overnight visitor arrivals increased more than 5% year-on-year. We are optimistic that Hong Kong will continue to be an attractive destination for luxury 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.

Our company is excited about the ongoing development of the Kowloon area, where our hotel is situated, including the Tsim Sha Tsui waterfront and the West Kowloon Cultural District. The latter is the largest cultural initiative of its kind in the world comprising 17 new cultural venues including a stunning Great Opera House; 'M+' museum of modern art; concert halls; and a 15,000-seat Arena with an Expo Centre, and 30,000 square metres of arts education facilities that will encourage home-grown artistic talent. A new Express Rail Link which will open in 2018 will connect Hong Kong to the Chinese mainland's National High-speed Railway Network and we believe this will bring more visitors to Hong Kong.

As the flagship property of the Group, we were honoured that **The Peninsula Hong Kong** received the accolade of "Best Hotel" in Hong Kong by *Travel + Leisure* 2017 World's Best Awards. The Peninsula Hong Kong's Cantonese restaurant *Spring Moon* retained its Michelin star in December 2017. 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 increased and we were able to maintain our position in terms of market share with an improved average room rate. We continued to benefit from a well-balanced customer base and we have placed a stronger focus on marketing efforts targeting corporate business and groups to strengthen both occupancy and rates.

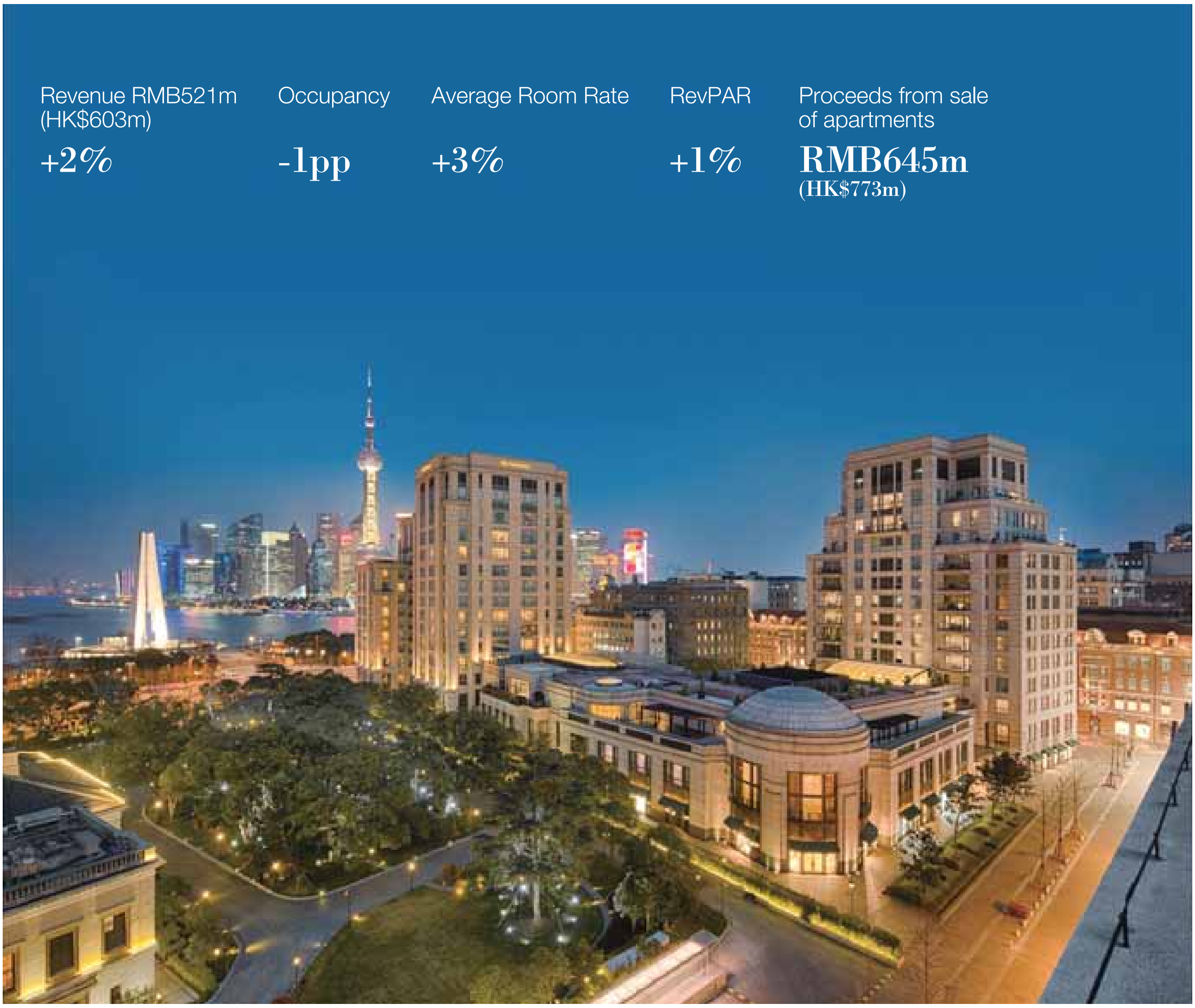
The Peninsula Office Tower continued to perform well and was 93% occupied throughout 2017, with a stable outlook. The Peninsula Arcade revenue declined as a result of the lethargic luxury retail rental market. However, many of our loyal tenants have been with us for decades, and we believe the long-term relationships we enjoy with them, coupled with our ability to offer access to The Peninsula Hotel guests and services, will help to maintain the attractiveness of this arcade. We are planning to launch a strategic Customer Relationship Management programme in 2018, in order to reinforce The Peninsula Arcade's luxury positioning and to engage new customers and drive traffic.

CEO's Strategic Review

As part of the ongoing implementation of the Sustainable Luxury Vision 2020, we were honoured to be nominated globally for *The Ethical Corporation's* "Best Domestic Community Investment", for our Honing Skills in Hospitality Programme, shining a light on the challenges of ethnic minority youth in Hong Kong.

In December 2017 we were pleased to announce the sponsorship of China's TECHEETAH Formula-E racing team, which competed for the second time at the 2017 Hong Kong ePrix. Formula E represents a global vision for the future of sustainable high-speed motor racing.

Revenue RMB521m (HK$603m)	Occupancy	Average Room Rate	RevPAR	Proceeds from sale of apartments
+2%	-1pp	+3%	+1%	RMB645m (HK$773m)



The Peninsula Shanghai

The Peninsula Shanghai reported a solid 2017 with increased average room rates and RevPAR. The hotel remains the RevPAR market leader in the city. We were delighted that The Peninsula Shanghai was awarded "Best Hotel in Shanghai" by *Travel + Leisure* 2017 World's Best Awards.

The domestic Chinese mainland market continued to be our largest revenue driver and the US and Hong Kong markets were also robust, with good demand from Japan, Taiwan and the UK. We are working on strategies to drive more direct internet bookings and interaction with our guests in popular online channels. The Peninsula Arcade occupancy was flat to the previous year with slightly lower revenue, as our tenants continued to come under pressure in line with the global luxury retail rental market. In April 2017, we announced that No.1 Waitanyuan, the former British Consulate building, would be fully managed and operated by The Peninsula Shanghai, diversifying its portfolio of services, facilities and event spaces to include one of Shanghai's most iconic period buildings.

We are pleased to report that *Yi Long Court* received two Michelin stars and *Sir Elly's* one Michelin star, becoming the only hotel in China with two in-house restaurants to have Michelin stars.

The Group owns a 50% interest in The Peninsula Shanghai Complex which comprises a hotel, a shopping arcade and a residential tower of 39 apartments. In 2013, the joint venture partners resolved to sell 19 apartment units of which 17 units have been sold. During the year, the joint venture partners decided to put the remaining 20 apartment units up for sale, of which 11 apartment units were sold by the end of 2017. Out of the 11 sold units, five apartments were sold to the Company which will be held for long-term investment purposes and rental income generation. Proceeds from the apartments sales were used to pay down the borrowings of the joint venture.

CEO's Strategic Review

The Peninsula Beijing

The Peninsula Beijing completed its extensive renovation in July 2017, transforming the property into an all-suite luxury hotel. As described in more detail on pages 88 to 92 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. We preserved the original façade and roof of the hotel which is a tangible part of the heritage of Beijing, and the property has become an icon in the capital city. This complete transformation, "An Imperial Rebirth" is the theme of this annual report, and underpins our company's philosophy of continually improving our assets for the long term.

It took longer than anticipated to start seeing positive results from our marketing efforts and the hotel continues to implement aggressive marketing strategies, both for the domestic as well as the international markets. The renovation has been welcomed by domestic guests and long-term customers, and we are building up a rapport with select industry groups including the entertainment industry, as well as diplomatic and group business. *Jing* restaurant has been redesigned to offer French fine dining cuisine, with a positive response from the market. The Peninsula Arcade, which served as the entry point for renowned brands into the China market when it first opened in the 1980s, reported a stable performance and we were pleased to attract a good mix of new luxury retail tenants.

During the renovation, sustainable guidelines including the Building Research Establishment Environmental Assessment Method (BREEAM) were incorporated from the beginning of project planning, and we achieved a "good" rating certification in early 2018. This included the implementation of energy efficient LEDs, sustainably sourced wood for most of the woodwork and furniture, as well as avoiding harmful glues, paints, wall coverings and carpeting. This is an example of our Sustainable Luxury 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. Our staff dormitory was renovated into a most comfortable, full-featured hotel staff dormitory with a fully-equipped staff gym, a hairdresser and individual bathrooms. The staff restaurant features high quality staff dining and is a key factor in attracting new employees to the hotel.

The renovation of The Peninsula Beijing is an example of tradition meeting innovation, a trait for which our company is renowned. We are optimistic that this hotel will become the market leader in the city and has already become an icon of luxury hospitality in Beijing.

The Peninsula Tokyo

The Peninsula Tokyo celebrated its tenth anniversary in 2017 with a spectacular Gala in October as the highlight to a series of special offers and promotions throughout the year. We were delighted that our hotel was awarded "Best Hotel in Tokyo" by *Travel + Leisure* 2017 World's Best Awards and we achieved the Forbes Five Star accolade for our hotel and spa. The hotel reported an increase in revenue, occupancy and average room rates and a corresponding increase in RevPAR.

Across the city, Tokyo saw returning demand from China as well as a resurgence in domestic business. Weddings were particularly strong during the year as a result of aggressive marketing strategies from our events team in Tokyo. The Peninsula Tokyo introduced a new spa product line in June 2017 which was highly successful and led to good growth in spa revenues year on year. We had very strong suite occupancy due to a strong online marketing strategy and front desk recommendations.

Major workplace reform is taking place across Tokyo and we placed a heavy focus on improving work-life balance for our employees with 97% annual leave taken in a country where 48% is the average and 41% the industry average. We implemented employee recognition programmes and strict overtime rules. More than 200 of our staff also volunteered to help donate *onigiri* to orphanages and domestic violence shelters.

In celebration of our tenth anniversary in 2017, The Peninsula Tokyo also sponsored "The Peninsula Tokyo Rally Nippon 2017 – A Peninsula Signature Event" which took place in October 2017 and provided an excellent opportunity to market the brand outside of Tokyo.

CEO's Strategic Review

The Peninsula Bangkok

The Peninsula Bangkok had a stable year in 2017, with an improved performance in average rates and RevPAR. However, the sad passing away of His Majesty King Bhumibol Adulyadej of Thailand in October 2016 continued to have an impact on our occupancy and catering business until the last quarter, due to the year-long mourning period which led to the cancellation of corporate events and banquets. Since October 2017 we have seen a rebound in group and corporate business, as well as a strong demand for wedding bookings. Thailand reported a good growth in arrivals mainly coming from China, Korea, Japan and the US due to the visa-free agreements with these countries.

Revenue THB1,095m
(HK$253m)

+2%

Occupancy

-1pp

Average Room Rate

+7%

RevPAR

+5%

We continued to enhance our Peninsula Academy programme 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 have also established local cultural initiatives including visiting a local heritage temple which offers Peninsula guests sunrise yoga as part of our Wellness initiative.

We completed a soft goods refurbishment of 11 floors of the hotel to ensure a consistent product offering in 2018. We are positioning the hotel as an "urban luxury resort" concept, focusing on a resort experience with healthy options in spa, fitness and food.

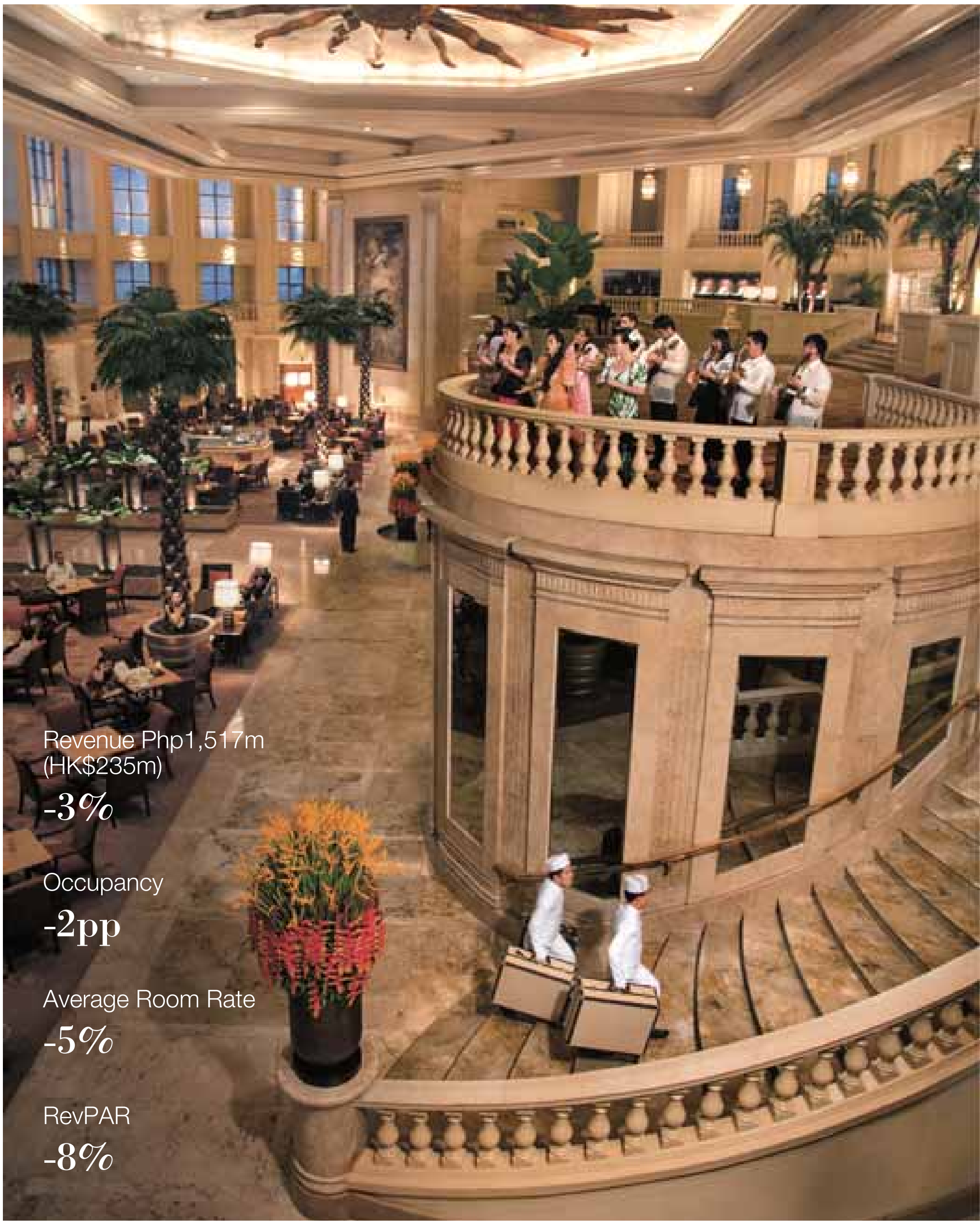
Until August 2017, HSH owned 75% of The Peninsula Bangkok and Thai Country Club. In August 2017, our Thai partner exercised an option which was granted to them during a debt and equity restructuring in 2002, to buy back a 25% shareholding at the fixed price of US$25 million. Therefore, HSH and our Thai partner currently each own a 50% interest in our Thai businesses.

CEO's Strategic Review

The Peninsula Manila

The Peninsula Manila had a challenging 2017, with revenue and rates decreasing over the same period last year. Competition in Manila was intense, with a large increase in the supply of luxury hotel rooms in 2017 driving business away from the Metro Manila region as new CBDs emerge and compete for corporate business. We expect this will remain an issue in 2018.

Another challenge during the year included security unrest and terrorist threats in the south of the country. Guests from the traditionally strong markets of the US and Singapore were particularly affected as a result of travel advisories in the first half of 2017. To offset this decrease, we focused on the domestic market, and attracting regional groups from the Chinese mainland and Korea which continued to be robust. This trend improved in the second half particularly in November 2017, when the 31st Association of Southeast Asian Nations (ASEAN) Summit week was held in Manila, which contributed room nights and banqueting revenue.



Revenue Php1,517m (HK$235m)

-3%

Occupancy

-2pp

Average Room Rate

-5%

RevPAR

-8%

Revenue US$89m (HK$698m)	Occupancy	Average Room Rate	RevPAR
+1%	0pp	+2%	+1%

The Peninsula New York

The Peninsula New York experienced intense competition in 2017 as a result of increased supply in Manhattan, but we were able to report a slight increase in both revenue and average rates over the previous year.

Our traditionally robust segment of government and diplomatic business was negatively impacted due to political uncertainty in the Middle East. To offset this decline, we focused on generating business from Latin America, particularly Mexico, and the Chinese mainland market reported an increase in arrivals. Our 250 square metre Fifth Avenue suite, which opened in 2016, continued to drive revenue in its first year of operation and was well received by guests. Our food and beverage performance was flat and we implemented initiatives to drive business to *Clement* restaurant, including *Kitchen Table at Clement*. The hotel's rooftop bar, *Salon de Ning*, is consistently rated as one of the best bars in New York.

The Peninsula New York focused on promoting local art and culture through the introduction of "Frieze Frame," an exhibition of artworks, paintings, drawings, sculptures and photographs by 10 contemporary masters who were showing at Frieze New York, through the hotel's continued partnership with Circa 1881. We also introduced a new Peninsula Academy programme to experience the Intrepid Sea, Air and Space Museum from an insider's perspective, where guests could gain access to a variety of vessels on board the USS Intrepid that are not available to the general public.

The Peninsula New York continued to work closely with the local community and more than 30 of our staff contributed to a "Refurbishment Project" at The New York Center for Children, our local charity partner.

The Peninsula Chicago

The Peninsula Chicago reported a satisfactory year with a 4% increase in RevPAR, 4% increase in revenue and a RevPAR ranking of No. 1 for the year despite significant new supply in the city. We were delighted to receive the accolade of "Best Hotel in Chicago" by *Travel + Leisure* 2017 World Best Awards, which is a testament to the popularity of the hotel following its extensive renovation in 2016. The Peninsula Spa revenue reported strong growth after we made a number of improvements to the service offering.

Chicago is highly dependent on business travellers and the convention industry experienced a downturn in 2017. However, the city reported a record 55 million leisure travellers in 2017, boosted by positive media reports and Chicago winning the accolades of "Best Big City" by *Conde Nast Traveler*, "Most Architecturally Aware City on Earth" by *Financial Times* and "Restaurant City of the Year" by *Bon Appetit Magazine*.

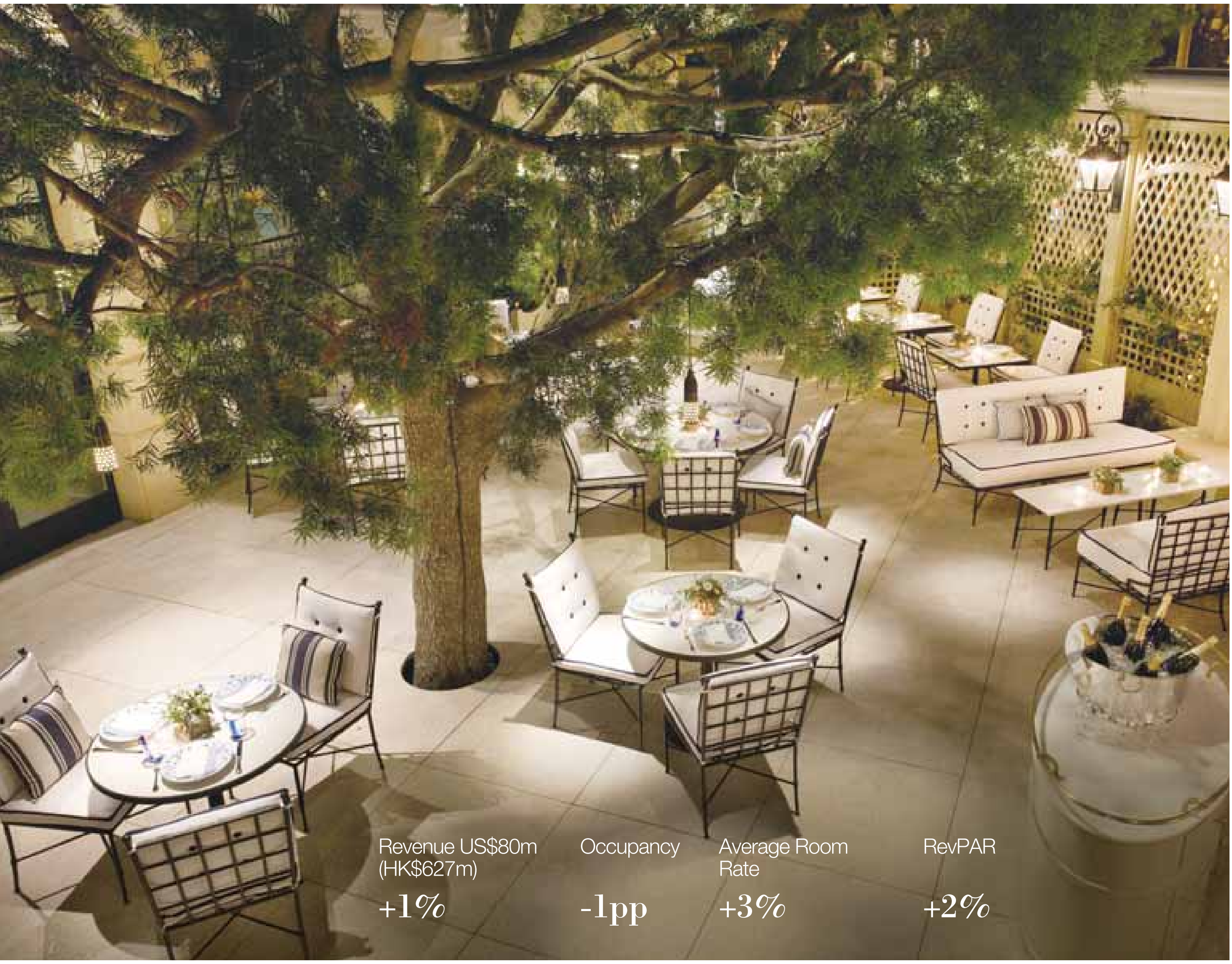
In line with celebrating the city's unique art and culture, The Peninsula Chicago once again participated in EXPO Chicago, an annual international contemporary art exhibition which attracts thousands of visitors. The offering of 24-hour check-in for web bookings and "Keys to the City," providing guests with special access to Chicago's top restaurants, tourist attractions and other initiatives have helped to drive revenue. Construction is underway for a new rooftop bar designed by Yabu Pushelberg that will offer views of Chicago's skyline and famous water tower. The new bar is scheduled to open in 2018.

Revenue US$73m (HK$568m)
+4%

Occupancy
+1pp

Average Room Rate
+3%

RevPAR
+4%



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 2017. 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 reported a slight increase in rates and revenue over the previous year and remained number one in RevPAR within its competitive set, although occupancy declined slightly. We believe this was partly due to the US Administration's travel bans on Middle East countries as well as political tension in the Middle East region which led to decreased business from this region. Our strategy was to attract business from other markets, including Mexico, Brazil and Australia, which showed positive growth. Increased competition in the Beverly Hills area with the first five-star luxury hotel to open in more than eight years across the street from our hotel had a slight impact on occupancy, however, we have a loyal clientele with a high repeat guest ratio and we will continue to nurture our long-term relationships with our guests.

Our connections in the entertainment industry remain strong and we announced a creative collaboration with the British Fashion Council's Fashion Arts Foundation, *Reflections on Hollywood*, filmed on location at The Peninsula Beverly Hills and screened for the first time at BAFTA in June 2017.

Our sustainability initiatives continued, including an innovative "waterless carwash" staffed by employees with special needs; co-sponsoring events with our local charity partner "A Place called Home" which provides a safe environment for underprivileged children in the LA community, and free parking for electric or "zero emission" cars.

CEO's Strategic Review

The Peninsula Paris

In 2017 we were pleased to report that tourists were starting to return to Paris, and President Macron's election in the summer of 2017 brought a level of optimism and business confidence to France. **The Peninsula Paris** reported positive results with a 4% increase in revenue and a 9% increase in rates. Food and beverage revenue was strong, particularly from the rooftop restaurant *L'Oiseau Blanc* which offers spectacular views from the Sacre-Coeur to the Eiffel Tower and has become extremely well established in the local market. However, the recent geopolitical developments in the Middle East have resulted in a significant decline of business from that region, although they are still one of our top contributing geographical segments, and we have been focusing on the traditional US market as well as Latin American, Russian and African markets to try to offset the loss of revenue from the Middle East.

We relaunched a new spa concept "When East meets West" which helped build a loyal base of return clients. The hotel also received the EarthCheck Silver award during 2017. We were honoured to achieve the highly sought-after "Palace" rating, bestowed by the French Tourism Development Agency, *ATOUT France*, to reward the hotel excellence in "promoting the French way of life on the international stage". We also achieved a Forbes Five-star ranking during 2017. 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 2017.

COMMERCIAL PROPERTIES

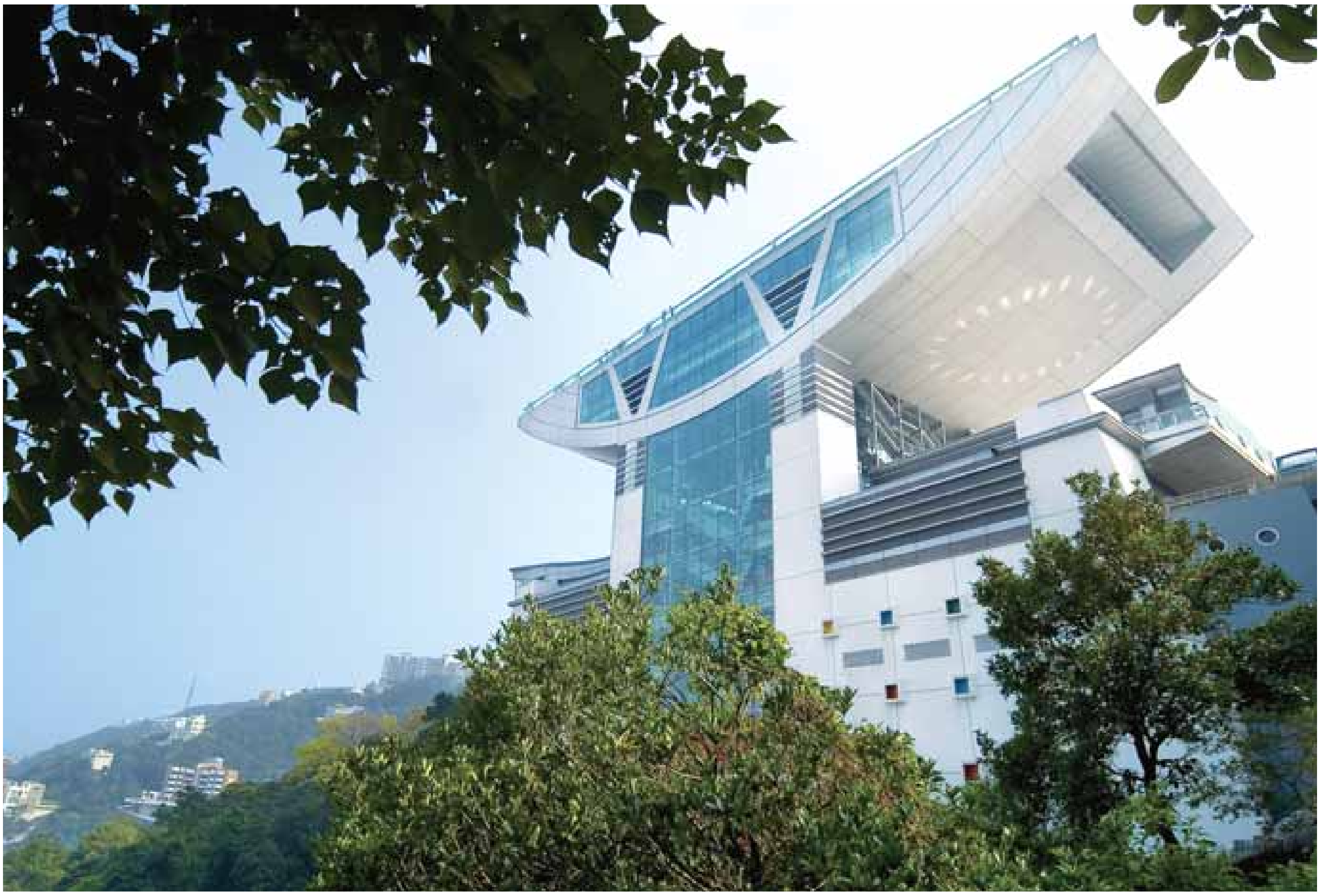
	2017 Revenue	Variance	
	HK$m	In HK$	In Local Currency
The Repulse Bay Complex	**637**	+4%	+4%
The Peak Tower	**201**	+10%	+10%
St. John's Building	**53**	+2%	+2%
The Landmark	**39**	+3%	+4%
1-5 Grosvenor Place	**13**	-62%	-59%

Our largest commercial property, **The Repulse Bay Complex**, reported a good year in 2017 with increased revenue. We consider these operating results to be pleasing 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 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 experienced double-digit growth following the introduction of promotional celebration packages and seasonal campaigns such as a summer value card which have proved popular with our residents. The Repulse Bay offers a beautiful location for weddings overlooking the ocean and our weddings and banqueting business remained stable in 2017. We opened a new *Breeze Bar* with stunning ocean views in early 2018 and we are confident this will bring additional revenue in the coming year. We are exploring collaborations together with The Peninsula Hong Kong to drive cross-marketing revenue.

The Peak Tower was fully leased for most of the year in 2017 and revenue increased more than 10%. The Peak Tower generates its revenue from commercial leasing, and revenue 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 17% higher revenue than the previous year, due to new ticketing strategies 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. In November, we sponsored Mexican artist Jaime Ruiz to create an original 6 x 5 metre mural on the wall of the Peak Tower to raise awareness about unsustainable consumption of seafood products in South China.

St John's Building, located at the lower terminus of the Peak Tram, offers a prime location for office space, and the property was fully let for most of the year in 2017.



The Landmark, a 16-storey residential and office property, is located on a prime river-waterfront site in the central business district of Ho Chi Minh City, Vietnam. The complex has 65 serviced apartments, a fully equipped Health Club, as well as 100,000 square feet of high quality office space for leasing. Revenue increased 4% year-on-year as a result of increased demand for office space. 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 Services* in Vietnam in 2017.

1-5 Grosvenor Place in London, the project site of The Peninsula London hotel and residences, was acquired during 2013. We obtained vacant possession of the office buildings on the site in April 2017 and completed demolition during the year, in preparation for the construction of The Peninsula London. This explains the decline in revenue for this property.

The renovation of **21 avenue Kléber** was completed in September 2017. The property offers a convenient location immediately adjacent to The Peninsula Paris on avenue Kléber, in a chic neighbourhood a short walk from the Arc de Triomphe. The building has been restored in keeping with its heritage, preserving the spacious terraces and a large courtyard while opening up and modernising the internal space into contemporary offices. The property has achieved international BREEAM Excellent and HQE Outstanding environmental certifications which are the highest level of sustainable building assessments in Europe. We have successfully leased the entire office and one of the two retail spaces to tenants commencing in 2018.

CLUBS AND SERVICES

	2017 Revenue	Variance	
	HK$m	In HK$	In Local Currency
The Peak Tram	**128**	+7%	+7%
The Thai Country Club	**61**	+9%	+4%
Quail Lodge & Golf Club	**160**	+10%	+10%
Peninsula Clubs & Consultancy Services	**6**	-91%	-91%
Peninsula Merchandising	**240**	+11%	+11%
Tai Pan Laundry	**55**	+10%	+10%

The Peak Tram is one of Hong Kong's most popular tourist attractions and is approaching 130 years of operation under our group in 2018. Revenue increased although patronage declined slightly for the full year 2017.

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 much-improved 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. To further enhance passengers' experience and reduce waiting time, we are investing in a new ticketing system and a full upgrade of the Peak Tram system and facilities. Extensive planning, design and preparation has already been carried out with the support of numerous consultants and the Hong Kong Government. Full details of the upgrade plan, which involves an investment of around HK$680m will be released as soon as possible, subject to approval by the Hong Kong Government.

CEO's Strategic Review

The Thai Country Club was delighted to host the Thailand Open in May 2017 which led to significant recognition for the club which won "Best Golf Club Experience in the Asia Pacific" at the *Asian Golf Awards* in 2017. The Club is located near to Bangkok and recorded an increase in revenue for the full year despite Thailand experiencing a soft market, during the one-year mourning period following the sad passing away of His Majesty King Bhumibol Adulyadej. Corporate events and tour groups were cancelled until October 2017 although we are starting to see a rebound in this market since the end of the mourning period.

Quail Lodge & Golf Club had a stronger year with revenue increasing by 10%. This was due to a successful marketing strategy, online travel agency (OTA) promotions, as well as improved golf membership sales and golf rounds. The wedding market was strong in 2017 and our food and beverage revenue from *Edgar's, Covey's* and banqueting improved thanks to increased business from the Lodge and an improved food and beverage offering to guests and the public.

The Quail Motorcycle Gathering, a Peninsula Signature event, welcomed 2,000 visitors in May 2017 and continues to grow from strength to strength. This event was 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*, the second *The Peninsula Classics Best of the Best Award* – an event bringing together the "2017 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.

Peninsula Clubs & Consultancy Services manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and Butterfield's, which was reopened as "The Refinery" at the end of 2017. 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 in 2017 was due to the termination of the Lounges management, although there were also commensurate cost savings.

Revenue at **Peninsula Merchandising** was 11% 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 and won the *MARKies Bronze Award* for "Best Idea" (Web Design) in 2017. 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 is expected to lead to a long-term increase in revenue as well as a broader earnings base.

Tai Pan Laundry increased revenue by 10% to HK$55 million, mainly due to more contracts and an improved pricing strategy.

CEO's Strategic Review

PROJECTS

The Peninsula London

In 2013, our Group purchased a 50% interest in the lease of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of £132.5 million. In 2016 HSH assumed 100% ownership of the project for an additional cash consideration of £107.5 million. Grosvenor will remain as the freeholder under the 150-year lease.

The total development cost of the project is expected to be around £650 million. This property is in a spectacular location overlooking Hyde Park Corner and the Wellington Arch, and will feature 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 last remaining office tenants moved out in April 2017 and demolition was completed by the end of 2017, with a groundbreaking ceremony for The Peninsula London held on 2 November 2017.

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

Demolition on the project site began in June 2016 and despite unforeseen site conditions and challenges with the heritage building, good progress was made in 2017, with an expected completion date in mid 2020. There will be approximately 180 rooms, a ballroom with sweeping views of the Bosphorus, indoor and outdoor swimming pools, spa and a verdant garden 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 believe in the long-term future of Istanbul as one of the world's prominent tourism destinations.

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 heritage property will be restored 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 Yoma Central development, and will manage the residences post sale.

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

The Group's overall investment is expected to be around US$126 million, including the value of the leasehold interest and estimated development costs. 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, and a particular focus is to attract and retain talent, as well as widening our succession planning in the light of our development. The travel and tourism sector often suffers from high turnover of staff, however, 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 to deliver quality service to our guests.

As of 31 December 2017, there were 7,534 full time employees in the Group.

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, this is reflected in our Sustainable Luxury Vision 2020, launched in 2013.

In 2017, we saw a good outcome of our continued energy and water efficiency efforts and we continued to see good progress in achieving over 80% of our commitments, although we have encountered challenges. Since the implementation of our Sustainable Luxury Vision 2020 strategy, we have become more aware of the systemic and multi-dimensional nature of sustainability issues. With a more nuanced understanding, we are reassessing our approach, recognising that addressing these challenges requires concerted efforts and collaborative solutions with other stakeholders. We are focusing our efforts in three key areas of “Our Guests, Our People, and Our Cities”. More details can be read in the Corporate Responsibility and Sustainability Report which is available online.

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 we believe 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.

In terms of outlook for the coming year, we continue to experience a stable and improving luxury hospitality market in Hong Kong, as well as solid demand for our luxury residential lettings. Demand continues to be good for overall tourism as reflected in the performance of the Peak Tram. We are also seeing some improvements in the luxury retail sector although the overall market continues to adjust from the previous “boom” years.

Outside Hong Kong, we are experiencing stable, albeit competitive, markets in the US, China and Japan. We are seeking to increase our market share at our recently renovated properties The Peninsula Chicago and The Peninsula Beijing and we are hopeful of a continued recovery for The Peninsula Paris both from a return of high-end Middle Eastern business and general stability following the uncertainties of the last few years. Unfortunately, relatively low rates for our hotels in Bangkok and Manila remain an issue.

We continue to focus our efforts on creating personalised bespoke services and experiences for our guests, as well as managing our margins both from driving revenues and containing costs. We have invested significantly in our customer data base management in order to provide better information for our marketing and operational teams to personalise our offerings to guests.

Looking to the longer term, we agree with the assessment of the World Travel and Tourism Council (WTTC) that the global travel and tourism industry is expected to grow at above global GDP rates for the next decade. We firmly believe that affluent travellers will continue to seek and appreciate highly personalised experiences, attention to detail and a genuine service culture and it is with this believe that we have the confidence to continue developing a small number of Peninsula Hotels as an owner operator. We expect that the new hotels in London, Istanbul and Yangon will further enhance our brand presence when they open in 2020-2021.

Overall, our company remains in a strong financial position with a highly motivated and dedicated team of management and staff who are committed to our long-term vision. With the quality of our operating properties and the exciting new projects under development, 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 K.M. Kwok
16 March 2018

Financial Review

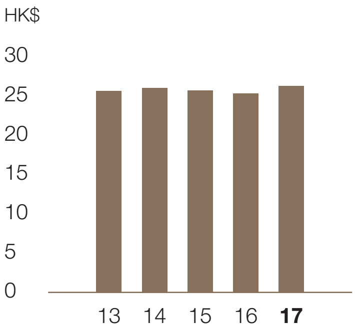
The financial details outlined in this chapter provide an overview of the Group's consolidated results and financial capital as categorised by the International Integrated Reporting Framework, which refers to the pool of funds that is available to an organisation for use in the production of goods or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

Adjusted NAV

HK$41,725m

+5%

Adjusted NAV per Share



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 2017, the details of which are set out on page 65. If these assets were to be stated at fair value, the Group's net assets attributable to shareholders would increase by 9% to HK$41,725 million as indicated in the table below.

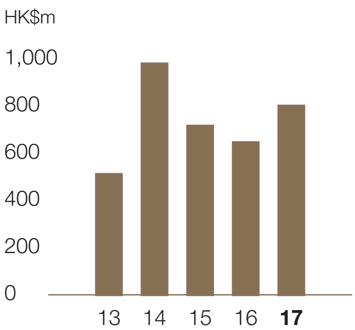
HK$m		**2017**		2016
Net assets attributable to shareholders per the audited statement of financial position		**38,175**		36,359
Adjusting the value of hotels and golf courses to fair value	**3,876**		3,815	
Less: Related deferred tax and non-controlling interests	**(326)**		(463)	
		3,550		3,352
Adjusted net assets attributable to shareholders		**41,725**		39,711
Audited net assets per share (HK$)		**24.02**		23.20
Adjusted net assets per share (HK$)		**26.26**		25.34

Underlying Profit

HK$801m

+24%

Underlying Profit



The Group's Underlying Profit

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. However, to comply with the applicable accounting standards, we are required to include non-operating items, such as any changes in the fair value of investment properties and the related deferred tax movements, in our statement of profit or loss. To reflect the true performance of the Group, we have provided calculations of the underlying profit. These are determined by excluding the post-tax effects of the property revaluation movements and other non-operating items.

The Group's underlying profit for the year ended 31 December 2017 amounted to HK$801 million, an increase of 24% compared to 2016, mainly due to: (a) the increased contribution from the hotels division following the completion of the renovation at The Peninsula Beijing although the commercial revenue generated from our retail arcades was under pressure as the retail market in Hong Kong and Mainland China remained challenging; and (b) a higher share of realised gain on apartments sold by the Group's joint venture in Shanghai.

HK$m	**2017**	2016	2017 vs 2016
Profit attributable to shareholders	**1,155**	675	
Less: Unrealised revaluation gain on investment properties of the Group, net of tax and non-controlling interests	**(628)**	(87)	
Add: Share of unrealised loss in respect of provision for PRC land appreciation tax and other transaction costs arising from the reclassification of apartments held for rental (investment properties) as apartments held for sale and unrealised revaluation loss on the commercial arcade of The Peninsula Shanghai (PSH)	**125**	19	
Less: Effect of decrease in tax rates on deferred tax liabilities arising from revaluation gains on investment properties	**(1)**	(1)	
	651	606	7%
Add: Share of cumulative revaluation gains on apartments sold by PSH during the year which were previously accounted for as investment properties, net of the related tax and transaction costs*	**150**	40	
Underlying profit	**801**	646	24%

* Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items. In addition, to reflect the commercial reality of these transactions, the share of cumulative revaluation gains (net of the related tax) in respect of the apartments sold by the Group's joint venture in Shanghai, which were previously accounted for as investment properties, were added back to arrive at the underlying profit for the year. The comparative underlying profit has been adjusted to conform to the current year's presentation

Statement of Profit or Loss

The Group's consolidated statement of profit or loss for the year ended 31 December 2017 is set out on page 175. The following table summarises the key components of the Group's profit attributable to shareholders. This table should be read in conjunction with the commentary set out on pages 59 to 63 of this Financial Review.

HK$m	**2017**	2016	2017 vs 2016
Revenue	**5,782**	5,631	3%
Operating costs	**(4,360)**	(4,343)	–
EBITDA	**1,422**	1,288	10%
Depreciation and amortisation	**(503)**	(464)	8%
Net financing charges	**(87)**	(96)	(9%)
Share of results of The Peninsula Shanghai*	**(97)**	20	n/a
Share of results of The Peninsula Paris and The Peninsula Beverly Hills**	**(24)**	(25)	(4%)
Increase in fair value of investment properties	**609**	29	2,000%
Taxation$^{\Delta}$	**(168)**	(85)	98%
Profit for the year	**1,152**	667	73%
Non-controlling interests	**3**	8	(63%)
Profit attributable to shareholders	**1,155**	675	71%

* Being the Group's share of The Peninsula Shanghai's (PSH) operating profit after interest of HK$28 million (2016: HK$3 million), net of (i) an unrealised loss in respect of provision for PRC land appreciation tax and other transaction costs arising from the reclassification of 20 apartments from investment properties to apartments held for sale, and (ii) an unrealised revaluation loss on the hotel's commercial arcade, amounting to HK$125 million in total (2016: HK$19 million)

During 2017, a total of 11 apartments were sold at market price, raising total proceeds of HK$773 million (2016: 4 apartments with total proceeds of HK$229 million). Given the net realisable value of the apartments sold in 2017 was approximately equal to the proceeds received, no accounting gain on sale was recognised in the Group's statement of profit or loss (2016: a share of gain of HK$36 million was realised by the Group)

Further details of PSH's operating results and non-operating items for 2017 are set out on page 63 of this Financial Review

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

$^{\Delta}$ The amount of taxation includes deferred tax liabilities arising from the increase in fair value of the Group's investment properties

Revenue

The Group has interests in ten luxury hotels under the Peninsula brand in Asia, the US and Europe, three of which are held by the Group's associates and a joint venture. The Group also owns residential apartments, office towers and commercial buildings in prime city-centre locations in Asia and Europe. The Group's third business division is engaged in the provision of tourism and leisure, club management and other services, including the Peak Tram, one of Hong Kong's most popular tourist attractions.

The Group's consolidated revenue in 2017 increased by 3% to HK$5,782 million. Total revenue, including the Group's effective share of revenue of associates and a joint ventures amounted to HK$6,313 million, representing an increase of 3% over 2016.

A breakdown of the Group's total revenue, including its effective share of revenue of associates and a joint venture by business segment and geographical segment is set out in the tables below.

Revenue by business segment

HK$m	2017 Group's subsidiaries	2017 Associates and joint venture (effective share)	2017 Combined total	2016 Group's subsidiaries	2016 Associates and joint venture (effective share)	2016 Combined total	2017 vs 2016
Hotels	4,189	531*	4,720	4,040	519*	4,559	4%
Commercial Properties	943	-	943	935	–	935	1%
Clubs and Services	650	-	650	656	–	656	(1%)
	5,782	531	6,313	5,631	519	6,150	3%

Revenue by geographical segment

HK$m	2017 Group's subsidiaries	2017 Associates and joint venture (effective share)	2017 Combined total	2016 Group's subsidiaries	2016 Associates and joint venture (effective share)	2016 Combined total	2017 vs 2016
Hong Kong	2,626	-	2,626	2,615	–	2,615	–
Other Asia	1,656	302*	1,958	1,526	299*	1,825	7%
US and Europe	1,500	229	1,729	1,490	220	1,710	1%
	5,782	531	6,313	5,631	519	6,150	3%

* Excluding the Group's share of revenue in respect of the sale of apartments by the joint venture in Shanghai

Consolidated Revenue

HK$5,782m

+3%

Hotels

HK$4,189m

+4%

Commercial Properties

HK$943m

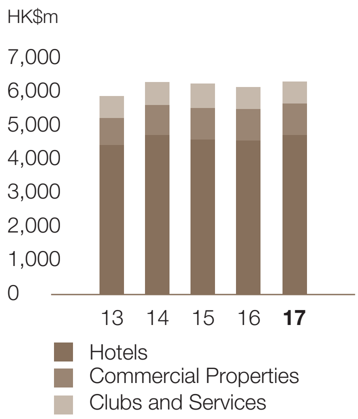
+1%

Clubs and Services

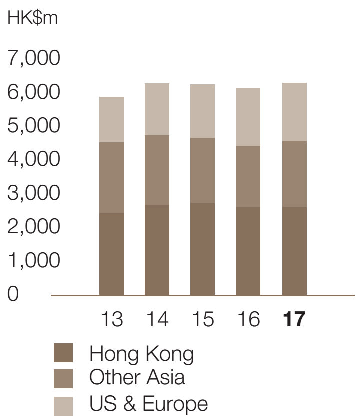
HK$650m

-1%

Combined Revenue by Business Segment



Combined Revenue by Geographical Segment



Financial Review

The hotels division is the main contributor to the Group's combined revenue, accounting for 75% (2016: 74%) of total revenue. The operating performance of the Group's hotel businesses is cyclical by nature. Following the completion of the renovation at The Peninsula Beijing and the return of full room inventory in August 2017, the hotel reported a revenue growth of HK$107 million or 78% over last year. However, this revenue growth was partly offset by the decrease in rental income of the commercial arcade at The Peninsula Hong Kong and the revenue shortfall suffered by The Peninsula Manila.

The commercial properties division reported a steady growth in revenue mainly due to the increase in occupancy achieved by The Repulse Bay Complex and a higher admission fee income achieved by Sky Terrace 428 at The Peak Tower.

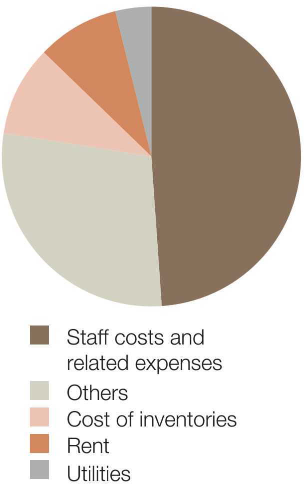
For the clubs and services division, total revenue decreased slightly against last year as the increase in mooncake sales achieved by Peninsula Merchandising and the higher income generated from The Peak Tram were offset by the full year impact of the loss of income from Peninsula Clubs and Consultancy Services following the termination of the management contracts for the Cathay Pacific Lounges at Hong Kong International Airport in May 2016.

Details of the operating performances of the Group's individual operations are set out on pages 26 to 49 of the CEO's Strategic Review.

Operating Costs

HK$4,360m

flat

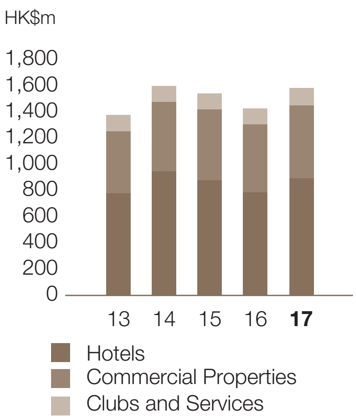


Operating costs

In 2017, despite the increase in payroll and other operating expenses incurred by The Peninsula Beijing following the phased completion of its renovation during the year, our operating costs (excluding depreciation and amortisation) only increased marginally by HK$17 million to HK$4,360 million (2016: HK$4,343 million) due to our continuous efforts to contain costs and increase in efficiency.

Given the nature of operating high-end luxury hotels, staff costs continued to be the largest portion of our operating costs. Staff costs and related expenses for the year increased by 1% to HK$2,135 million, representing 49% (2016: 49%) of the Group's operating costs and 37% (2016: 37%) of the Group's consolidated revenue.

Combined EBITDA by Business Segment



EBITDA and EBITDA margin

EBITDA (earnings before interest, taxation, depreciation and amortisation), including the Group's effective share of EBITDA of associates and a joint venture, increased by 11% to HK$1,583 million. The table on the following page sets out the breakdown of the Group's EBITDA by business segment and by geographical segment.

EBITDA by business segment

HK$m	2017 Group's subsidiaries	2017 Associates and joint venture (effective share)	2017 Combined total	2016 Group's subsidiaries	2016 Associates and joint venture (effective share)	2016 Combined total	2017 vs 2016
Hotels	732	161*	893	649	138*	787	13%
Commercial Properties	558	–	558	518	–	518	8%
Clubs and Services	132	–	132	121	–	121	9%
	1,422	161	1,583	1,288	138	1,426	11%

* Excluding the Group's share of EBITDA in respect of the sale of apartments by the joint venture in Shanghai

EBITDA by geographical segment

HK$m	2017 Group's subsidiaries	2017 Associates and joint venture (effective share)	2017 Combined total	2016 Group's subsidiaries	2016 Associates and joint venture (effective share)	2016 Combined total	2017 vs 2016
Hong Kong	1,169	–	1,169	1,095	–	1,095	7%
Other Asia	167	118*	285	94	101*	195	46%
US and Europe	86	43	129	99	37	136	(5%)
	1,422	161	1,583	1,288	138	1,426	11%

* Excluding the Group's share of EBITDA in respect of the sale of apartments by the joint venture in Shanghai

EBITDA margin	2017 Group's subsidiaries	2017 Associates and joint venture (effective share)	2017 Combined total	2016 Group's subsidiaries	2016 Associates and joint venture (effective share)	2016 Combined total
Hotels	17%	30%*	19%	16%	27%*	17%
Commercial Properties	59%	–	59%	55%	–	55%
Clubs and Services	20%	–	20%	18%	–	18%
Overall EBITDA margin	25%	30%	25%	23%	27%	23%
By region						
Hong Kong	45%	–	45%	42%	–	42%
Other Asia	10%	39%*	15%	6%	34%*	11%
US and Europe	6%	19%	7%	7%	17%	8%

* Excluding the Group's share of EBITDA in respect of the sale of apartments by the joint venture in Shanghai

Financial Review

In 2017, the combined EBITDA margin of the hotels division increased by two percentage points to 19%, mainly due to the improved margin achieved by The Peninsula Beijing following its return of full room inventory in August 2017 and the increase in profitability achieved by The Peninsula Shanghai.

For the commercial properties division, although 1-5 Grosvenor Place was completely vacated in April 2017 for redevelopment, the EBITDA margin of the division increased by four percentage points mainly due to the increased occupancy achieved by The Repulse Bay Complex and higher admission fee income achieved by Sky Terrace 428 at The Peak Tower.

The clubs and services division also reported an increase in margin by two percentage points mainly due to the higher contribution from Peninsula Merchandising for its mooncake sales although part of this margin increase was offset by the loss of income resulting from the termination of the management contracts for the Cathay Pacific Lounges in May 2016.

Depreciation and amortisation

The Group's hotels (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less depreciation and impairment, if any. The depreciation and amortisation charge of the Group amounted to HK$503 million (2016: HK$464 million). The increase was mainly due to the additional depreciation at The Peninsula Chicago and The Peninsula Beijing following their renovations which were completed in April 2016 and August 2017 respectively. To monitor the Group's spending of capital expenditure, a rolling 5-year capital expenditure plan is adopted which will be 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

The investment properties of the Group were revalued as at 31 December 2017 by independent firms of valuers based on an income capitalisation approach. The increase in revaluation surplus was a reflection of the general market conditions. The net surplus in 2017 was principally attributable to the increase in the appraised market value of The Repulse Bay, The Peninsula Office Tower, The Peak Tower and St. John's Building, net of the decrease in appraised market value of the commercial arcade at The Peninsula Beijing and The Landmark, Vietnam due to the shortening of the remaining lease term of these properties.

Share of results 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 The Peninsula Shanghai hotel and shopping arcade and the adjoining Peninsula Residences apartment tower. The Peninsula Shanghai is the market leader in terms of average room rate and RevPAR in its competitor set and the operating results for the hotel and arcade combined reflected an increase over last year. PSW also earns leasing income from the residential apartments it has not been sold as well as sales proceeds when apartments are sold. During the year, a total of 11 apartments were sold generating total proceeds of HK$773 million. Five of the 11 apartments sold by PSW were acquired by the Group at an arm's length price for the purpose of generating long-term rental income. At the conclusion of 2017, PSW owns a remaining 11 apartments which are held for sale.

Inclusive of hotel and arcade operations, and residential leasing and sales, PSW generated an operating EBITDA of HK$235 million (2016: HK$273 million) and sustained a net loss of HK$195 million (2016: net profit of HK$40 million). PSW's results were significantly affected by the recognition of a total unrealised loss of HK$250 million due to: (a) the provision of land appreciation tax and other transaction costs arising from the reclassification of 20 apartments from investment properties to apartments held for sale during the year; and (b) the unrealised loss on revaluation of the shopping arcade.

It is worth noting that any unrealised accumulated appreciation in fair value of the apartments will become realised gains upon disposal. Accordingly, adjustments should be made to the Group's share of PSW's results to arrive at the underlying profit realised by the Group when the apartments are sold. Further details of the adjustments for 2017 and 2016 are set out on page 57 of this Financial Review.

Details of the operating performance of The Peninsula Shanghai are set out in the CEO's Strategic Review section on page 33.

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 2017 amounted to HK$24 million (2016: HK$25 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 41 and 42.

Statement of Financial Position

The Group's financial position as at 31 December 2017 remained strong and net assets attributable to shareholders amounted to HK$38,175 million, representing a per share value of HK$24.02 compared to HK$23.20 in 2016. The consolidated statement of financial position of the Group as at 31 December 2017 is presented on page 177 and the key components of the Group's assets and liabilities are set out in the following table.

HK$m	**2017**	2016	2017 vs 2016
Fixed assets	**43,355**	40,712	6%
Other long-term assets	**2,356**	2,223	6%
Cash at banks and in hand	**1,922**	2,087	(8%)
Other assets	**887**	848	5%
	48,520	45,870	6%
Interest-bearing borrowings	**(7,443)**	(6,998)	6%
Other liabilities	**(2,375)**	(2,298)	3%
	(9,818)	(9,296)	6%
Net assets	**38,702**	36,574	6%
Represented by			
Shareholders' funds	**38,175**	36,359	5%
Non-controlling interests	**527**	215	145%
Total equity	**38,702**	36,574	6%

Summary of hotel, commercial and other properties

The Group has interests in ten operating hotels in Asia, US and Europe and three hotels under development. In addition to hotel properties, the Group owns residential apartments, office towers and commercial buildings for rental purposes. During the year, the Group acquired five apartment units from its joint venture in Shanghai at a total investment cost, including deed tax and other transaction costs, of HK$423 million. The Group intends to hold these apartments as long-term assets for rental.

The Group's hotel properties and investment properties are dealt with under different accounting policies as required by the relevant 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 (including shopping arcades and offices within the hotels) are stated at fair value. In order to provide users of the Financial Statements with additional information on the fair value of the Group's properties, independent valuers have been engaged to conduct a valuation of the hotel properties and golf courses as at 31 December 2017. A summary of the Group's hotel, commercial and other properties showing both the book value and the fair value as at 31 December 2017 is set out in the table on the following page.

		2017		2016	
		Value of 100% of the property (HK$m)			
	Group's interest	**Fair value valuation**	**Book value**	Fair value valuation	Book value
Hotel properties*					
The Peninsula Hong Kong	100%	**12,142**	**9,931**	12,031	9,882
The Peninsula New York	100%	**2,366**	**1,710**	2,378	1,757
The Peninsula Beijing	76.6%**	**1,814**	**1,777**	1,716	1,485
The Peninsula Tokyo	100%	**1,640**	**1,468**	1,567	1,446
The Peninsula Chicago	100%	**1,331**	**1,225**	1,331	1,268
The Peninsula Bangkok	50%	**670**	**660**	606	590
The Peninsula Manila	77.4%	**126**	**124**	139	138
The Peninsula Shanghai Complex#	50%	**3,207**	**2,808**	4,556	4,256
The Peninsula Paris#	20%	**5,861**	**5,534**	5,220	5,017
The Peninsula Beverly Hills#	20%	**2,640**	**485**	2,640	479
		31,797	**25,722**	32,184	26,318
Commercial properties					
The Repulse Bay Complex	100%	**17,362**	**17,362**	16,930	16,930
The Peak Tower	100%	**1,422**	**1,422**	1,362	1,362
St. John's Building	100%	**1,142**	**1,142**	1,027	1,027
Apartments in Shanghai	100%	**423**	**423**	–	–
21 avenue Kléber	100%	**741**	**741**	621	621
1-5 Grosvenor Place$^{\Delta\Delta}$	100%	**–**	**–**	2,583	2,583
The Landmark	70%$^{\Delta}$	**62**	**62**	68	68
		21,152	**21,152**	22,591	22,591
Other properties					
Thai Country Club golf course	50%	**239**	**269**	211	242
Quail Lodge resort, golf course and vacant land	100%	**298**	**282**	307	286
Vacant land in Thailand	50%	**431**	**431**	390	390
Others	100%	**374**	**220**	344	219
		1,342	**1,202**	1,252	1,137
Properties under development					
The Peninsula London$^{\Delta\Delta}$	100%	**3,640**	**3,640**	–	–
The Peninsula Yangon	70%	**279**	**279**	–	–
The Peninsula Istanbul#	50%	**479**	**479**	132	132
		4,398	**4,398**	132	132
Total market/book value		**58,689**	**52,474**	56,159	50,178

* 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

$\Delta\Delta$ The Group had a 50% interest in 1-5 Grosvenor Place when it was first acquired in 2013. The Group acquired the 50% remaining interest in the property by changing the partnership and lease arrangements with Grosvenor in 2016. Vacant possession of the building was obtained in April 2017 for demolition work to commence

\# These properties are held by associates/joint ventures

Interest in Thai subsidiaries

Since 2002, the Group had held a 75% interest in the holding company of our Thai subsidiaries, which in turn owns 100% direct interest in The Peninsula Bangkok and Thai Country Club.

On 29 August 2017, the Thai Partner exercised an option to buy back a 25% interest in the Thai holding company. This option was given to the Thai Partner pursuant to a restructuring of the debt and equity of the Thai holding company back in 2002.

Following the completion of the exercise of this option, the economic interests in the Thai subsidiaries became 50:50 between the Group and the Thai Partner.

Other long-term assets

The other long-term assets as at 31 December 2017 of HK$2,356 million (2016: HK$2,223 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 2017, the Group's cash at banks and in hand and interest-bearing borrowings amounted to HK$1,922 million (2016: HK$2,087 million) and HK$7,443 million (2016: HK$6,998 million) respectively. The increase in interest-bearing borrowings was mainly due to the capital expenditure incurred on existing assets, ongoing projects under development and the acquisition of five apartment units from the Group's joint venture in Shanghai. A breakdown of the Group's capital expenditure for the year ended 31 December 2017 is set out on pages 67.

Cash flows

The consolidated statement of cash flows of the Group for the year ended 31 December 2017 is set out on page 179. The following table summarises the key cash movements for the year ended 31 December 2017.

HK$m	**2017**	2016
EBITDA	**1,422**	1,288
Net change in working capital	**(53)**	24
Tax payment	**(153)**	(136)
Net cash generated from operating activities	**1,216**	1,176
Capital expenditure on existing assets	**(601)**	(1,000)
Net cash inflow after normal capital expenditure	**615**	176
Acquisition of additional interest in 1-5 Grosvenor Place	**–**	(1,288)
Acquisition of five apartment units from the joint venture in Shanghai	**(423)**	–
Capital expenditure on new projects	**(630)**	(131)
Net cash outflow before dividends and other payments	**(438)**	(1,243)

The after-tax net cash generated from operating activities for the year amounted to HK$1,216 million (2016: HK$1,176 million), of which HK$601 million (2016: HK$1,000 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	**2017**	2016
Hotels		
The Peninsula Beijing	**250**	566
The Peninsula Chicago		
(including the new rooftop bar)	**31**	120
Others	**137**	170
Commercial properties		
21 avenue Kléber	**68**	51
Others	**57**	54
Clubs and services	**58**	39
	601	1,000

The breakdown of the Group's spending on new projects is analysed below.

HK$m	**2017**	2016
The Peninsula London	**449**	131
The Peninsula Yangon	**181**	–
	630	131

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.

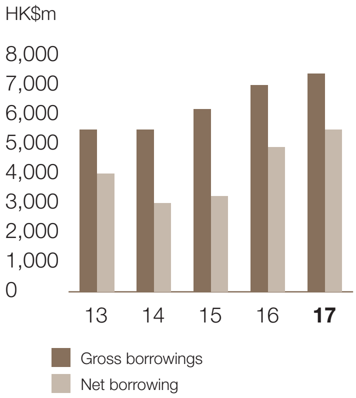
The Group manages treasury activities centrally at its corporate office in Hong Kong. The Group also regularly reviews its capital structure and actively monitors current and expected liquidity requirements to ensure its obligations and commitments are met. A proactive approach is taken to forecasting 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.

Liquidity/financing

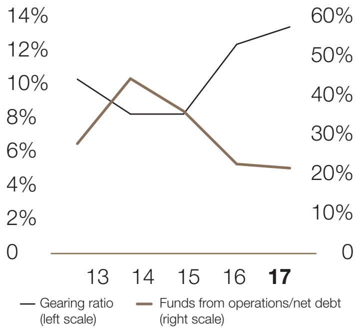
The Group monitors its capital structure on the basis of its gearing ratio, which is expressed as the percentage of net borrowings (defined as interest-bearing borrowings less cash at banks and in hand) to the total of net borrowings and equity attributable to shareholders of the Company.

Gross and Net Borrowings

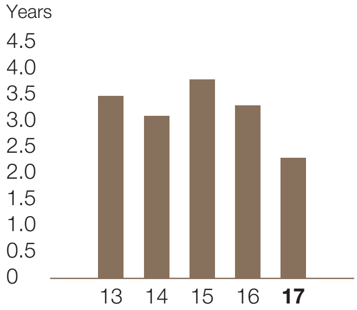


Financial Review

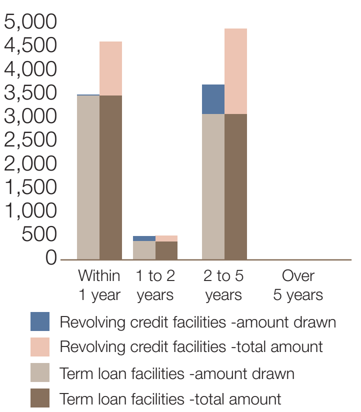
Gearing and Funds from Operations to Net Debt



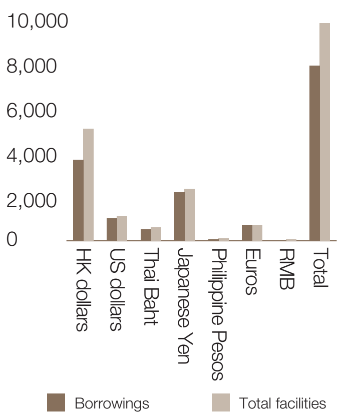
Average Debt Maturity



Banking Facilities and Borrowings (by type and maturity)



Banking Facilities and Borrowings (by currency)



In 2017, gross borrowings increased to HK$7,443 million (2016: HK$6,998 million) mainly due to the payment for the construction cost of The Peninsula London. Consolidated net debt increased to HK$5,521 million as compared to HK$4,911 million in 2016, after taking into account cash of HK$1,922 million (2016: HK$2,087 million). The Group's net gearing increased to 13%, whilst the funds from operations (EBITDA less tax paid and less net interest paid) to net debt ratio decreased from 22% to 21%. These ratios continue to reflect a healthy financial position for the Group.

The average debt maturity decreased from 3.2 years to 2.3 years.

During the year, the Company has obtained a new standby credit facility of RMB70 million to meet the working capital needs of a subsidiary in China.

A total of HK$3.4 billion of loans is maturing in 2018, mostly in the final quarter of 2018. These loans are primarily denominated in HK dollars, Japanese Yen and Euro. The Group intends to refinance these loan facilities upon their maturities by evaluating the loan market and debt capital market at the time. In February 2018, the Group utilised some of its cash balance to early repay HK$500 million of the above maturing loans.

Furthermore in March 2018, the Group obtained a GBP650 million 5-year term loan facility from a consortia of five banks. The drawdown of this loan will be staggered to fund progress payments for the construction costs of The Peninsula London project. The loan is unsecured and bears interest at LIBOR plus a fixed margin. This loan was arranged early in 2018 such that we do not have concentrated financing risk in the second half of the year.

We continue to monitor our overall debt and cashflow positions closely and believe that the best defense against any unforeseen volatility in business levels is to maintain prudent financial ratios.

The consolidated and non-consolidated borrowings as at 31 December 2017 are summarised as follows:

	2017					2016
HK$m	Hong Kong	Other Asia	United States of America	Europe	Total	Total
Consolidated gross borrowings	3,306	2,663	915	559	7,443	6,998
Non-consolidated gross borrowings attributable to the Group*:						
The Peninsula Shanghai (50%)	-	721	-	-	721	989
The Peninsula Beverly Hills (20%)	-	-	209	-	209	214
The Peninsula Paris (20%)	-	-	-	410	410	357
Non-consolidated borrowings	-	721	209	410	1,340	1,560
Consolidated and non-consolidated gross borrowings	3,306	3,384	1,124	969	8,783	8,558

* 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 2017, Hong Kong dollar borrowings represented 44% (2016: 44%) 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 after interest capitalised of HK$48 million (2016: HK$3 million) in 2017 amounted to HK$109 million (2016: HK$133 million). After interest income of HK$22 million (2016: HK$37 million), a net charge of HK$87 million (2016: HK$96 million) was recognised in the statement of profit or loss. Interest cover (operating profit divided by net financing charges) increased to 10.6 times (2016: 8.6 times) in 2017, whereas cash interest cover (EBITDA divided by net interest paid) decreased to 11.9 times (2016: 13.8 times). As at 31 December 2017, the Group's fixed to floating interest rate ratio decreased to 65% (2016: 67%). The weighted average gross interest rate for the year increased slightly from 2.1% to 2.2%.

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.

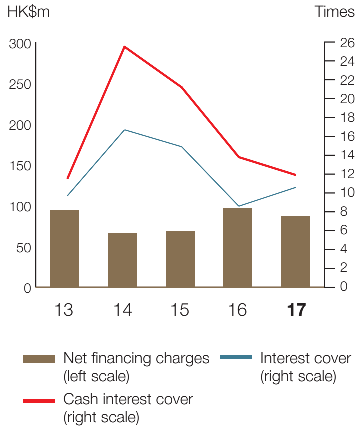
As at 31 December 2017, bank deposits of HK$1,900 million (2016: HK$2,075 million) and derivatives with notional amount of HK$1,719 million (2016: HK$1,850 million) were transacted with financial institutions with credit ratings of at least investment grade.

Share Information

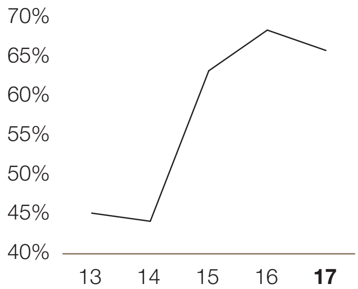
At market close on 16 March 2018, the Company's share price stood at HK$11.86, giving a market capitalisation of HK$18.8 billion (US$2.4 billion). This reflects a discount of 51% to net assets attributable to shareholders of the Company, or a discount of 55% to the adjusted net assets attributable to shareholders (see page 56).

The average closing price during 2017 was HK$11.01, with the highest price of HK$17.12 achieved on 12 July 2017 and the lowest price of HK$8.27 recorded on 3 January 2017.

Net Financing Charges and Interest Covers



Percentage of fixed rate borrowings to total borrowings (adjusted for the hedging effect)



Our Business

Echoing both the hotel's location in the heartland of Beijing tea culture and The Peninsula's legendary Afternoon Tea tradition, The Lobby features two large sculptures of tea drinkers by Zhang Du. These are crafted in bronze, a material which has historically been the preferred material of China's master sculptors.

HSH Business Model and Investment Strategy

HSH is an owner-operator of a small number of leading hotels in the world under the world-renowned The 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. Our goal is to be one of the world's leading luxury hotel and property companies, with a commitment to our people, our guests and the cities in which we operate.

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 on to future generations a portfolio of the highest quality assets

Having a diverse portfolio within our chosen niche helps to mitigate 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 Office Tower built in 1994, but the appreciation in value of the investment over time is plain for all to see.

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 property 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 where available. 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.

HSH Business Model and Investment Strategy

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 21 avenue Kléber, located beside The Peninsula Paris. (see page 78 for more details on the renovation). We own exceptional high-end residential property such as 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 offers an abundance of local architecture, artwork and local 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 significant value in terms of attracting traffic to the 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.

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 in Hong Kong's South Side and The Landmark in Vietnam was ranked Best Serviced Apartments in Vietnam (see Awards & Accolades, page 110.)

Innovation

With almost 90 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 in the form of "digital transformation with a human touch" under the leadership and direction of The Technology Steering Committee.

We believe innovation is the key to remaining modern and staying relevant 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 more than 20 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. (They also monitor the latest trends such as artificial intelligence, robots and smart hotel rooms.) More about our approach to innovation and technology initiatives can be read on pages 99 to 110.

HSH Business Model and Investment Strategy

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 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. (We also hire people from ethnic minorities in Hong Kong though our Ethnic Minority programme.) More details about our Human Resources strategy, investment in our people, our training and succession planning can be read on pages 93 to 98.

A Vision for Sustainable Luxury

As a company with over 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, and we categorise this into three main focus areas of our people, our guests, and our cities 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 pages 8 to 22 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.

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.

HSH Business Model and Investment Strategy

Special Investment Strategy Feature: 21 avenue Kléber

A part of our development strategy is to invest in strategically located commercial property assets nearby to our luxury hotels, thereby enhancing the surrounding neighbourhood and contributing to the value of our portfolio. In 2017, we completed a full transformation of a beautiful heritage office space in Central Paris on avenue Kléber, steps from the Arc de Triomphe and situated next door to The Peninsula Paris in the 16th arrondissement. We purchased this building in 2013 for the sum of €56 million when it became available through a private opportunity. The property has now been leased to major office and retail tenants.

Prior to its transformation, 21 avenue Kléber was used as a four-storey private townhouse dating back to the 1900s, built in a similar Second Empire architectural style and with Noyant stone façade, echoing the style of The Peninsula Paris. Over a three-year period, the office space was fully refurbished with the most up-to-date modern facilities. Great care was taken to meticulously restore and renovate the building using local French artisanal craftsmen and workmanship.

Carlos Dos Santos, a craftsman from local French stone masonry COBA, was responsible for the renovation of the stone façade and courtyard of the building. “The Noyant stones in this building are of exceptional quality and beauty, and this type of stone has been used to create and build many Parisian landmarks and cathedrals, due to its ability to withstand climactic extremes. The stones in 21 avenue Kléber were in need of a restoration and refreshment.”

The craftsman, who was involved in the restoration of the Louvres a few years ago, explained: “This building has undergone a complete internal transformation. Some of the damaged stones have been replaced, and the porch areas were meticulously cleaned, brushed and restored. We are very satisfied with the result, and we feel this property has regained the splendour of its magnificent past.”

Like its illustrious neighbour, The Peninsula Paris, the building skilfully combines tradition and innovation, with modern architecture infused with the originality of the majestic marble staircases, grand reception areas and private rooms. Landscaped terraces and access to natural daylight from almost all areas offers a beautiful ambience.

Jean-François Bequet, representing Ateliers Stuc et Staff, helped to restore two magnificent stairwells inside the building. He said: “These staircases were beautifully styled with stucco panels and marble colors of morello cherry, yellow, and black, although they presented an enormous challenge due to the sheer size and ensemble. The goal was to refresh and restore, and also to renovate some of the panels which had suffered from the wear and tear of time. We had to bring them back to life without distorting their beauty. It was a major challenge that lasted four months, due to the delicacy of the marble and the attention to detail it required in its finishing.”

The building achieved international environmental certifications including HQE Outstanding and BREEAM Excellent Certifications and was designed to become 40% more energy and water efficient. Throughout the renovation, we used sustainably sourced wood and eco-friendly carpets, adhesives, and paint, and all construction waste was recovered and recycled as much as possible.

External Environment and Industry Trends

In this chapter, we have identified various external factors and industry trends which may impact our business and our key stakeholders. These include geopolitical and macroeconomic factors such as instability in the Middle East, changes in the structure of the retail industry, environmental challenges, technological changes, risks posed by cybersecurity threats and other issues that impact the hospitality industry. The objective is to give our shareholders some insight into the external environment in which we operate, as per the *International Integrated Reporting Council Framework*. We evaluate the external environment in the context of the key risks to our business operations, which are reported in more detail in the Group Risk Committee Report on pages 144 to 151.

Geopolitical Issues Changing Travel Patterns

The travel and tourism industry was responsible for more than 10% of global GDP in 2017, and the rate of growth of this sector outpaced global GDP, according to the World Travel and Tourism Council (WTTC), of which HSH is a member. The World Bank noted that over the past two decades, the number of international travel departures has more than doubled from 600 million to 1.3 billion, with many travellers coming from emerging markets for the first time. The World Bank believes this growth is poised to continue in 2018. The UNWTO World Tourism Barometer announced that 2017 international tourist arrivals (overnight arrivals) reported their highest increase in seven years of 7% and this is expected to continue in 2018. However, increasing instability in the Middle East negatively impacted outbound travel from that region.

Retail and Consumer habits

In 2017, clear trends were emerging in retail where luxury brands were transforming their "bricks-and-mortar" stores into an augmented reality or multimedia experience, with technology meeting personalised service in their physical retail spaces to meet the desires of customers. As a company which offers luxury retail space to a variety of high-end brands and premium outlets, we are closely monitoring these trends to explore ways in which we can attract more traffic to our tenants' stores, as well as our own Peninsula Boutique retail outlets. A decrease in retail rents may pose a significant risk to our business, more details of which can be read on pages 144 to 151 of the Group Risk Committee Report.

Technology Shaping the Future of Travel

Artificial intelligence, the Internet of Things (IoT) and automation are some of the technologies that could have a profound impact on the hospitality industry in the future. Robotics and process automation is emerging as a key trend for driving operating efficiency. Our Finance and Research & Technology teams are paying close attention to these trends and what they mean for our business.

At the same time we recognise that travellers are also seeking more personal and meaningful experiences, and the intersection of these trends and experiences is where we believe The Peninsula excels.

External Environment and Industry Trends

HSH established a Technology Steering Committee in 2016 to stay abreast of the latest trends, and in 2017 we launched a five-year roadmap titled "Digital Transformation with a Human Touch" to outline our strategy towards becoming a more data-driven organisation. We are also seeking to tap into entrepreneurial innovation with the establishment of an incubator programme called Kaleidoscope. More details can be read on pages 99 and 100.

Cybersecurity

The hotel industry was a victim of some highly publicised cyberattacks and data breaches in 2017. Credit card fraud and identity theft remains very high on our radar and we have taken robust steps to mitigate this risk (more details on pages 148 to 149 of the Group Risk Committee Report).

Health, Wellness and Sleep

Health, wellness and sleep has become a trillion-dollar industry and the hotel sector is uniquely placed to offer a wide variety of services from Spas to health-conscious menus, medical tourism, beauty, sports and fitness, to name just a few. In 2017 the sleep industry experienced an enormous boom, with record funding for sleep-related tech startups and *The New York Times* published an article titled 'Sleep is the new status symbol". HSH has invested in our health and wellness offering by providing a uniquely personalised approach to wellbeing while travelling and working. The Peninsula Wellness combines the best of Western and Eastern philosophies of health, wellness and nutrition to create unique experiences for guests, including an exclusive Sleep Ceremony experience. In 2017 we reviewed and enhanced our *Naturally Peninsula* menus in our properties around the world, featuring sustainable, organic and healthy cuisine.

Climate Change

The implications of climate change for the hospitality sector are far-reaching. According to the WTTC, climate-related risks including floods, crop failure or sea level rise can have a huge financial impact on the valuation of tourism assets as well as the risk of increasing insurance premiums and other long-term liabilities. It may also impact food costs if agricultural or marine environments are no longer able to produce food. The Paris Agreement came into force in November 2016 and with this, we believe corporates have a significant responsibility to contribute to transitioning to a low-carbon world. Hotels have a significant role to play in reducing carbon emissions through lower and cleaner energy usage, as well as adapting to the impacts of climate change. Our approach to this is explained in our Corporate Responsibility and Sustainability Report online on pages 9 and 10.

Preservation of Local Heritage and Culture in Destinations

High-end travellers are seeking authentic "local" experiences in the destinations they visit. With the increase in mass tourism to heritage sites and cultural assets causing degradation of landscapes and biodiversity, there is an urgent need for companies and governments to take a leadership role in preserving the local heritage and culture of their destinations. We have designed Peninsula Academy experiences to promote local heritage and in 2017 in Hong Kong our management in collaboration with the Hong Kong Tourism Board set up a working group to promote Kowloon, one of Hong Kong's most historical areas. We are also a co-sponsor of The Hong Kong Heritage Project which is an archive of photos, documents and oral interviews related to the Kadoorie Family businesses in Hong Kong. In 2017 the Hong Kong Heritage Project held a successful public exhibition to showcase 1950s Hong Kong photographs taken by Lord Lawrence Kadoorie, the father of our current Chairman.

Driving Employee Engagement

Deloitte's 2017 Customer Experience Survey found that friendly, hospitable employees was the most important element needed for a positive experience at a restaurant or hotel. According to the Global Purpose Survey, jobseekers are in search of employment with a nobility of purpose, therefore companies must ensure that they are attracting, selecting and retaining a motivated and happy workforce. Strategic employee engagement programmes have become a critical foundation to define and transform the guest experience, and engaged, motivated employees are the face of the brand. At HSH, we have placed an increased emphasis on employee engagement and retention as an important pillar in our five-year Human Resources strategy, which is outlined in our Corporate Responsibility and Sustainability Report.

Sustainable Luxury Vision 2020

At HSH, we regard sustainability as a sensible and necessary 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 fundamental values – a commitment to our people, unparalleled quality and the longevity of our business. These are at the heart of everything we do, and have enabled us to be globally recognised as one of the best luxury hospitality companies in the world.

Governance of Corporate Responsibility and Sustainability and Vision 2020

With a focus on three key areas: our guests, our people, and our cities, we have long been a responsible corporate citizen, implementing sustainability initiatives over many years of operations.

In 2007, HSH Chief Executive Officer Clement Kwok formalised our approach by convening the company's first Group Corporate Responsibility Committee (refer to our yearly GCRC Report on pages 152 to 153 of this Annual Report).

In 2013, we launched the Sustainable Luxury Vision 2020 (Vision 2020), which outlined a blueprint for sustainable growth and our strategy for increasing the Group's overall value creation through the six capitals as outlined in the International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework.

As an evolving strategy, we continue to engage our stakeholders (refer to pages 140 to 141 of this Annual Report), benchmark industry best practice, and assess broader trends (refer to the Corporate Responsibility and Sustainability Report) to ensure that our plans remain relevant to the times, integral to our strategy and core to our business.

Vision 2020 Progress and Challenges

In 2017, over 80% of our 52 Vision 2020 commitments have either been achieved or are on-track. We initially presented our Vision 2020 through seven pillars and 52 commitments, to simplify the communication of our efforts, we have summarised these into three key areas: our guests, our people and our cities.

While we continued to see good progress in achieving most of our commitments, we have encountered challenges. Since the implementation of this strategy, we have become more aware of the systemic and multi-dimensional nature of sustainability issues, for example, the lack of waste management infrastructure in specific regions, the low value accorded to some natural resources such as water and the complexities of holistically measuring community impact, to name a few. We have witnessed longer-term trends such as environmental and social impacts becoming more significant in the eyes of our stakeholders. It is essential that we address these challenges strategically, considering our ambitions and priorities as a Group.

Vision 2020 Way Forward

Now that we have a more detailed understanding of various key issues, we are reassessing our approach to our current strategy, framing it into three distinct approaches towards our guests, our people and our cities. We are beginning to develop an enhanced framework, after the completion of Vision 2020. We recognise that addressing these challenges requires concerted efforts and collaborative solutions with other stakeholders. We continue to see our efforts as an extension of the continuous process of innovation and dedication to excellence and quality that have served us throughout our history.

The success of Vision 2020 is based on mobilising the entire organisation. We are working on further integrating sustainability into our business by utilising the passion and creativity of our staff so that it is of personal relevance to them and becomes an innate aspect of our business.

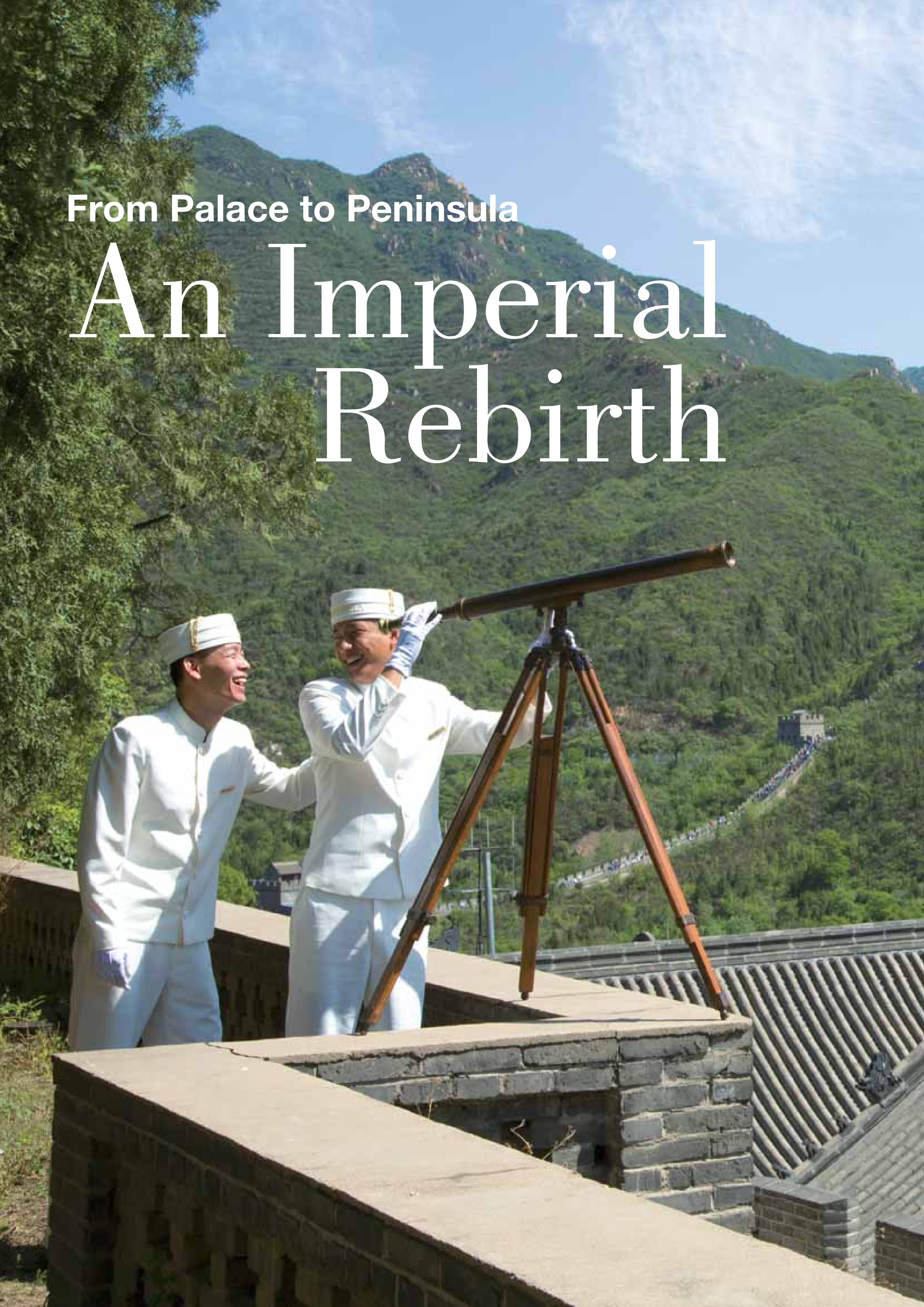
More details on our CRS programmes and Vision 2020 progress can be read in the Corporate Responsibility and Sustainability Report, which is available online (www.hshgroup.com/en/sustainable-luxury).

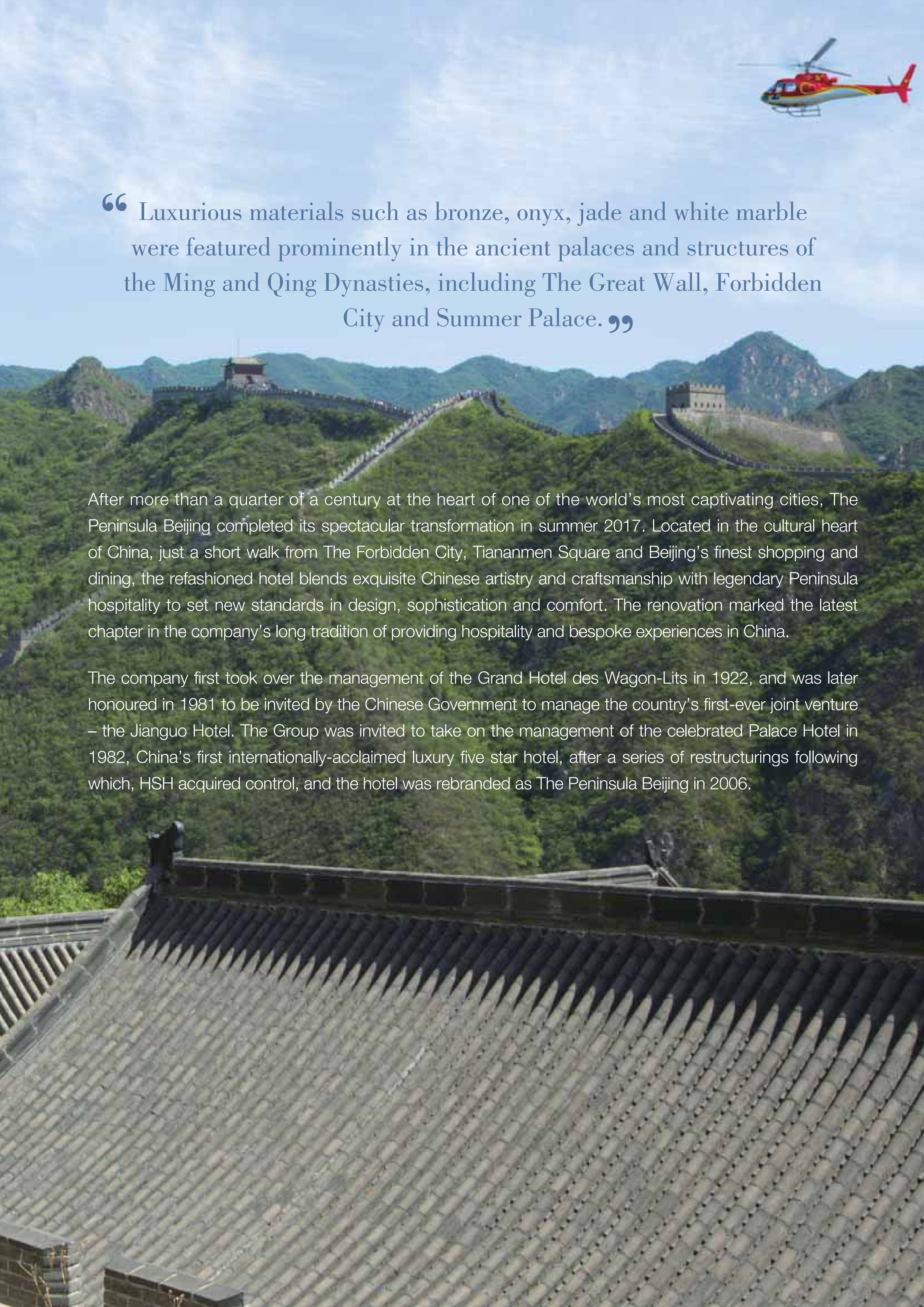
Creating Shareholder Value

Inspired by a secret Chinese garden, The Peninsula Beijing's international restaurant, Jing, has been re-imagined as a contemporary "Farm-to-Table" venue, to create memorable dining experiences for guests.

From Palace to Peninsula

An Imperial Rebirth





> Luxurious materials such as bronze, onyx, jade and white marble were featured prominently in the ancient palaces and structures of the Ming and Qing Dynasties, including The Great Wall, Forbidden City and Summer Palace.

After more than a quarter of a century at the heart of one of the world's most captivating cities, The Peninsula Beijing completed its spectacular transformation in summer 2017. Located in the cultural heart of China, just a short walk from The Forbidden City, Tiananmen Square and Beijing's finest shopping and dining, the refashioned hotel blends exquisite Chinese artistry and craftsmanship with legendary Peninsula hospitality to set new standards in design, sophistication and comfort. The renovation marked the latest chapter in the company's long tradition of providing hospitality and bespoke experiences in China.

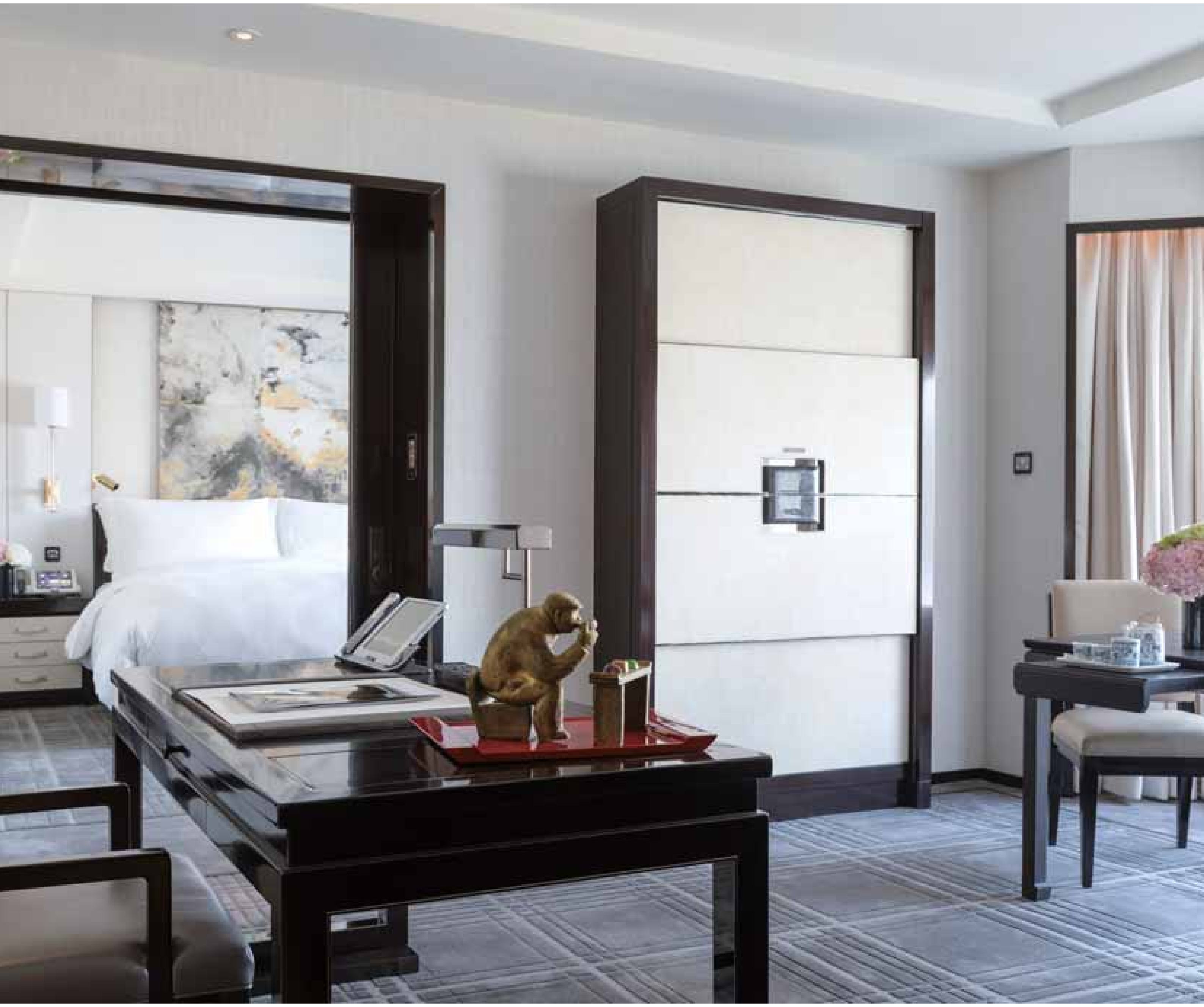
The company first took over the management of the Grand Hotel des Wagon-Lits in 1922, and was later honoured in 1981 to be invited by the Chinese Government to manage the country's first-ever joint venture – the Jianguo Hotel. The Group was invited to take on the management of the celebrated Palace Hotel in 1982, China's first internationally-acclaimed luxury five star hotel, after a series of restructurings following which, HSH acquired control, and the hotel was rebranded as The Peninsula Beijing in 2006.

An Imperial Inspiration

Beijing has a rich history of more than 3,000 years and is known for its grand landscapes, diverse architecture and deep roots of heritage and culture. The inspiration behind the reinvention of The Peninsula Beijing came from the Middle Kingdom's opulent Imperial Palaces and tranquil Imperial Gardens, which traditionally provided a serene oasis for Emperors and nobility to meditate and relax in the heart of the city.

Luxurious materials such as bronze, onyx, jade, and white marble were featured prominently in the ancient palaces and structures of the Ming and Qing Dynasties, including The Great Wall, Forbidden City and Summer Palace. These materials, carefully selected for their enduring qualities as much as their beauty, have been extensively used throughout the hotel's new design and artwork, thereby creating an atmosphere of grandeur, elegance and timelessness.

An Imperial pattern – the hexagon – is a strong recurring theme throughout the new hotel design and artworks. The hexagon motif is inspired by the pattern of tortoise shells, which in Chinese culture represents longevity, as well as the peony flower, representing prosperity and honour. In typical Peninsula style of paying attention to the smallest detail, the hexagon also makes an appearance on the crisp Mandarin-collared new staff uniforms.

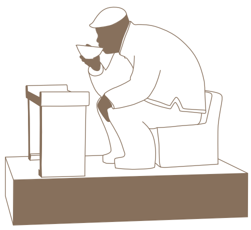


A Transformation of Magnitude Scale

The Peninsula Beijing was originally designed by eminent architect KY Cheung. The new RMB890 million renovation project was conceived in 2012 by the HSH Operations and Projects teams working in collaboration with designer Henry Leung of CAP Atelier. Construction began in 2015 and the project was completed in phases in order to keep the hotel operational throughout the renovation period. More than 600 workers were on site during peak construction times and more than 40 suppliers, designers, engineers and contractors came together to deliver this momentous transformation.

In a complex feat of engineering and architectural flair, the original 525 rooms and suites have been reduced and reimagined as just 230 suites. Starting at 60 square metres, the guestrooms are now the largest in Beijing and among the most spacious in China. The existing Atrium has been completely reconfigured to allow more open space and create a breathtaking three-storey grand Lobby. A white marble bridge that previously featured as a focal point of the former hotel lobby design has been transformed into a magnificent grand staircase.

The Peninsula Beijing renovation also marked a new era for The Peninsula Hotels with the traditional front desk being replaced by in-room, fully mobile check-in and tablet registration, in order to save guests' time upon arrival and departure. However – this does not mean cutting down on the warm hospitality and personalised service that is a hallmark of the Peninsula guest experience and staff are highly trained to anticipate guests' needs. Reminiscent of a bygone era and symbolising ancient tradition meeting innovation, The Peninsula Beijing's signature *pailou* Chinese archway has been refreshed and repainted, welcoming guests with a legendary sense of glamour, inviting them to enter the Lobby and discover the hotel waiting beyond.



Engaging Our People, Our Future

The Hongkong and Shanghai Hotels, Limited (HSH) has prioritised a high level of responsibility and care towards our people. Our people are the face of our brand, continually striving to maintain the company's exceptional standards of service and exceeding guest expectations.

Whether a member of staff has served for decades or has just embarked on a career journey with us, their happiness, job satisfaction and well-being is of paramount importance to us. Recruiting and retaining talent is always a challenge. We believe there is a need to ensure there are clear career maps, diverse work and learning experiences including mobility and ensuring our people are engaged. While the strength of our brand may initially attract people to us, we have to ensure we deliver our employee promise every day to retain them. Employees leave their managers, not necessary the organisation, so it is paramount that management effectiveness and leadership are core competencies that cannot be underestimated and our managers and leaders are well trained.

"As long as we have respect for one another, all language and cultural barriers can be overcome when dealing with guests and other employees," said Sindy Tsui, Group Director of Human Resources. "The long-term nature of the company combined with the relatively small size helps to create a family feeling. I believe Human Resources has an important role to safeguard this culture. We want the interactions with our employees to be genuine and caring."

In 2017 HSH explored ways in which we could improve our internal communications, rolling our new platforms such as Microsoft Yammer and Microsoft Teams, and implementing awards and recognition programmes for star performers. Our CEO delivers regular video messages to employees on key topics and hosts roundtable meetings with employees and heads of department regularly to hear their feedback.

Meet some of our employees across the group:

Mary Li celebrated 30 years of service at The Peninsula Beijing in 2017. When she first entered through the doors of the then Palace Hotel on September 1, 1987, Mary took her seat as the hotel's Telephone Service Manager. Following the renovation of The Peninsula Beijing, Mary retired in April 2016, but was persuaded by the hotel's senior management to return to become a Peninsula Ambassador.

"The Peninsula is so special to me, I truly love this place," says Mary. "It's my second home, and I have been given so much respect by the management. I tell every new employee that they have chosen the right place, and that if they work hard, they will have a bright future here."

Chef Sam Song, who joined the hotel on exactly the same day as Mary, echoes her sentiments. "To this day, I continue to love this hotel; I feel like I am married to my job. I'm supposed to retire next year, but I don't want to."

Now serving in a dual role as an Executive Sous Chef in The Peninsula Beijing's Jing restaurant and Head Chef of the hotel's staff canteen, Sam speaks with pride about the experience of working with The Peninsula brand. "Even when I take a taxi to work and I say the name of the hotel, the drivers are so respectful and are in awe of the fact that I work there. This is what I say to young chefs joining the hotel; I try to explain the value of gaining experience at The Peninsula. They are taken care of so well – they have a staff dormitory, their uniforms are beautiful and if they are good, they will have the opportunity to travel overseas to other Peninsula hotels for further training."

Paying tribute to the high loyalty level of its employees, even during the renovation period, The Peninsula Beijing has gone to great lengths to look after their wellbeing. A new staff restaurant in the basement of the hotel offers breakfast, lunch and dinner in a large and comfortable environment. Each day, a selection of both Chinese and Western dishes are available, alongside a noodle bar, a salad bar and a hot and cold drinks station. Employees are encouraged to eat as much as they want from the fresh and healthy daily selections, which keeps them happy and results in less food wastage.

The dedicated noodle counter was one of the ideas that the staff recommended, and which was subsequently implemented. Communal computer tables and a separate beverage area were installed, and the menu continues to change every day. "From that moment I believe it was a turning point in a way, because the staff could see that the level of commitment was real, and also what the Company was doing for them," says Sam.

James Wei, a young Pageboy at the hotel since 2016, is unquestionably one of the hotel staff who appreciates the canteen facility. “I was just a skinny kid who came to Beijing in search of a dream,” he says. “Since I have been here, I have gained weight from eating every day in such a wonderful environment, where I can chat to my supervisor if wherever I need to. Being here makes me feel like I have another family.”

The family theme echoes throughout all Peninsula hotels, with countless long-time staff echoing these sentiments. “Once a month we have an Appreciation Day when we gather together for brunch,” says Fe Licup, who has worked as a Laundry Presser at The Peninsula Beverly Hills since the hotel first opened in 1991. “It feels like we are part of one big family.”

“It’s the ultimate dream of people in the hospitality industry to work at The Peninsula Beverly Hills,” concurs Pageboy and fellow Filipino Alfredo Navalta. “I’m very proud to be an employee of a hotel that has attained five stars and five diamonds for 23 consecutive years.”

Back in the Philippines, Porter Michael Esquivel who has worked at The Peninsula Manila for 40 years, speaks of the ever-changing demographics and increasing competition in the hospitality industry: “I truly enjoy my job, and for the new blood coming in, if they work hard, the company will really support them. In addition, they have us to show them the ropes, kind of like a family of older brothers and sisters.”

At The Peninsula Tokyo, Lobby Manager Hiroshi Kikuchi, when asked what he loves most about his employer says: “The Peninsula gives us many opportunities, such as various training programmes for staff development. The company is very flexible and caring towards its employees. I am now at an age when I should be retired, but The Peninsula inspires me to carry on working.”

Annie Chan, PR Manager at The Repulse Bay, says “I still remember the moment that I left The Repulse Bay after the first interview for a position in 2001. I was on a public bus on the way back to the city. I asked myself that if I was offered a job, should I take it? I made a quick decision that I would give it a try for two or three years. That was my plan at that time. I just can’t believe that it’s now the 17th year that I have worked with the company. Throughout the years, I have seen the development of the company, while my seniors and colleagues have witnessed my two children growing up. There have been ups and downs both at work and in life. It is all about the people here who give you courage and support. I am fortunate to have been able to devote a significant part of my working life to The Repulse Bay and HSH.”

"Helping to realise our aspirations in London means my role is diverse and challenging, with something different every day. I can be working on the project and in the project, in the boardroom, on site; with stakeholders and neighbours, with teams of professionals from a myriad of disciplines, cultures and global locations. With so many components, the trick lies in finding the right balance to secure the required team performance. People are what make a successful project and motivation comes in many guises – and having fun along the way certainly helps!" says Andrew Taylor, Project Director, The Peninsula London.

The Peak Tram operator Lau Hong says "The happiest thing about working here is that everyone is highly efficient and the working atmosphere is good. We all want passengers to get to the mountain top as soon as possible without standing in a queue for a long time. I like the culture here very much."

"I find the working environment here very harmonious, it is always a pleasant day for me to come to work. Colleagues here get along so well and are very willing to share thoughts and feelings. Though my job nature is rather simple, The Peninsula spirit is infused throughout my work, leading me to fulfil my duties with warm hospitality from my heart. This is also the spirit that is shared by everyone who works for the company. It's truly my honour to be part of the company," says Jenny Keung, HSH head office Pantry Assistant since 2014.

Innovation

Digital Transformation with a Human Touch

The HSH Group's approach to Digital Transformation has the overarching aim of enhancing our guest experience, satisfaction and engagement. We are rethinking how we use technology to seek out new revenue streams or business models, and to help us evolve and build a distinctive competitive advantage for the long term. The strategy has been named "Digital transformation with a human touch".

More than 200 action items are currently underway to achieve our overall goals of personalisation, 360 degree view of our guests, and to achieve better digital integration. Projects have been grouped under key themes of Customer Experience, Smart Data, Smart Platforms, and Digital Technology.

"Our purpose is to enhance our service offering to guests, as well as understanding more deeply which areas of our hotel activity and retail services are most valuable to guests," said Shane Izaks, Group General Manager, Information Technology. "We are asking ourselves the question of how can we help our staff to serve our customers even better in the future? We all know that it is only through innovation that we can transform our operations and secure our future. We are planning to take the very best of contemporary best practice, combining digital technology and deploying it to enhance the way we work and create a better guest experience."

This is subtler and more sensitive than just introducing the power of data and analytics and automation into our operations; this is about how we use that technology to enhance how we work: not replacing people, but facilitating a better guest experience; automating the back of house to free up more time and people to serve the front of house and make our guests happy.

One area where this can be achieved is to source the very best of local and worldwide talent – fostering entrepreneurship – as we encourage the next generation of entrepreneurs through our newly launched Incubator programme, Kaleidoscope.

Mr Izaks has established a Technology Steering Committee (TSC) which he co-chairs together with CEO Clement Kwok. The TSC has defined a five-year roadmap to deliver this ambition. Across the group, there are five departmental pillars that shape this work – Operations, Sales & Marketing, R&T, Finance and Human Resources. Our ambition is to transition from current best practice into a truly data driven company where the guest and operations experience is enhanced by digitisation and data analytics.

Our group is unique because we have our own research and technology (R&T) facilities to design, build and customise equipment to serve the group's guests. All our in-room technology is developed and then tested in-house by the R&T department – a team of electronic, software and hardware engineers who are able to respond to guests' needs through a combination of observation, innovation and technological know-how. With the aim of delivering a seamless, intuitive technology experience, where guests can choose how they access the hotel's services, R&T is tasked to not just keep up with, but stay ahead, of guests' expectations as technology continues to develop.

We are exploring how we use tomorrow's technology to enhance our guests' experience. We are uniquely well placed to do this – partly through our deep-rooted R&T and IT skills – but also through the size of our operation. With 10 hotels (and a further three in the pipeline in London, Istanbul and Yangon), we are big enough to scale and gain economies from our innovation and operations – but we are small enough to remain nimble and agile, designing bespoke solutions to ensure we evolve and remain at the forefront of innovation.

Art With A Purpose

The Hongkong and Shanghai Hotels is known for its support and recognition of local arts and culture around the world. By partnering with art museums, galleries and curators, each property is able to provide an exceptional showcase for both established and emerging local and international artists.

The focus on art as a unique part of the renovation of The Peninsula Beijing was an important aspect of including local culture in the design, and so the hotel called upon the Executive Director of the Museum of Contemporary Art (MOCA) Beijing, Michael Suh, to curate its new collection, in collaboration with interior designer Henry Leung. With the enormous surge of interest in Chinese Contemporary art over the past three decades, The Peninsula Beijing is in a strong position to showcase and share the very best of this genre with its guests and visitors.

The result was a permanent, museum-quality collection of notable art pieces in the very heart of Beijing, in a place where guests can experience not only the highest level of hospitality and service, but also artworks and exhibitions of museum quality.

The hotel as a museum concept is brought to another level with a dedicated art gallery on the fourth floor that is bathed in natural light. The space is equipped with museum quality hanging and mounting facilities as well as specialist lighting. The objective of the gallery space is to give emerging artists an opportunity to showcase their work to guests of The Peninsula Beijing, in the hope that they may become more prominent in the future.

The Peninsula Beijing's Artist-in-Residence programme adds another dimension to its support of the arts, with selected artists being given the opportunity to spend up to three months creating works in a custom-built dedicated studio on the 14th floor of the hotel, whilst also living in the hotel. The Peninsula Beijing encourages the future blossoming of the next generation of China's contemporary artists, thus giving back to the community.

Tokyo's contemporary art scene is notoriously difficult to navigate, with much of the best collections tucked away in addresses that are difficult even for locals to find. With Tokyo-born art curator Natane Takeda as their guide, guests have the opportunity to view works by local artists, following an itinerary expressly tailored to their personal preferences, interests and needs through 'Hidden Colours of Tokyo: An Insider's Guide to the Contemporary Art Scene', part of the hotel's Peninsula Academy programme.

Within the hotel itself, The Peninsula Tokyo has brought Japanese and international artists together to create one of Tokyo's most special art collections, consisting of approximately 1,000 pieces created by 90 artists, 90 percent of who are Japanese, once again showing The Peninsula's support of the local art scene.

"Even though I took the Company's brief, I was given a good deal of freedom to interpret what The Peninsula represents," said Michael Suh. "This is why The Peninsula Beijing project was completely different to other hotels, many of which simply view art as decorative wall-fillers. The Peninsula and the designers wanted something that was both unique and integral to the design, as well as something special to share with visitors."

With a new dawn rising for Philippine contemporary art, The Peninsula Academy's "Art in the Hills: 27 Years of Philippine Contemporary Art" programme at The Peninsula Manila takes guests and art enthusiasts alike on a private guided tour of the Silangan Gardens, the Pinto Art Museum, and galleries housing the works of artists Elmer Borlongan, Geraldine Javier, Mark Justiniani, Ronald Ventura, Alfredo Esquillo and Winner Jumalon, and other Filipino artists whose works are now being snapped up at Sotheby's and Christie's Southeast Asian Paintings auctions.

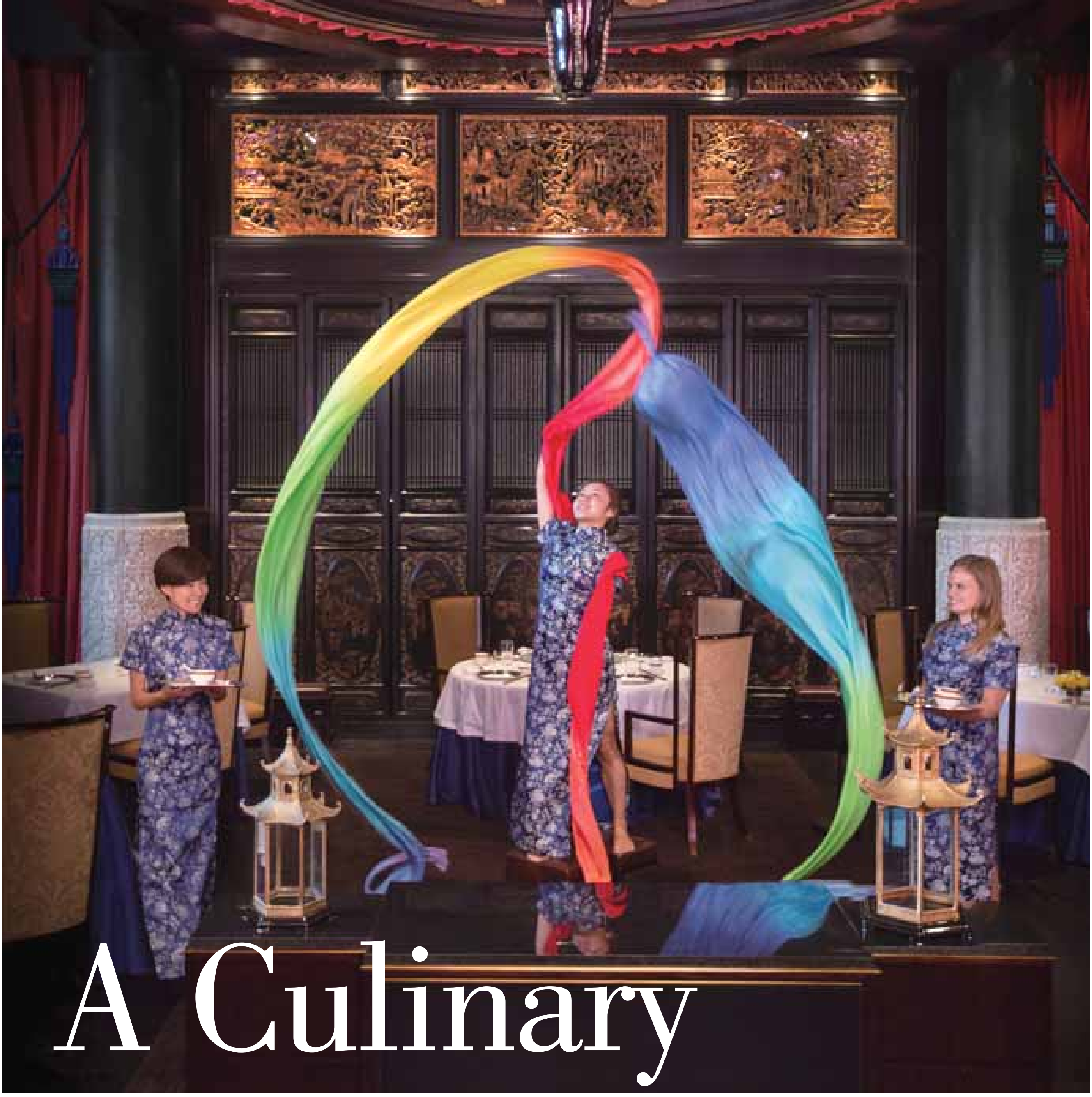
At The Peninsula Beverly Hills, the new look Belvedere restaurant features a breathtaking collection of contemporary artworks by renowned international artists including Yayoi Kusama, Robert Indiana, Alex Katz, Sean Scully, Fabienne Verdier, Tsuyoshi Maekawa, Nancy Graves, and Josef Albers. Guests have the unique opportunity to dine against a backdrop of work by these prominent artists, many of whom have work featured in such prominent locations as the Whitney Museum of American Art, the Saatchi Gallery and The Metropolitan Museum of Art.

In Hong Kong, a three-year collaboration with the UK's Royal Academy has seen a succession of high profile public art adorn the façade of The Peninsula Hong Kong, with installations from Tracey Emin to Richard Wilson and Conrad Shawcross.

At one of Hong Kong's most popular tourist destinations, The Peak Tower, the company sponsored Mexican artist Jaime Ruiz to create an original 6 x 5 metre mural to raise awareness about unsustainable consumption of seafood products in South China. Meanwhile, The Repulse Bay embraced local musical and cultural talent with jazz appreciation evenings for local residents and organizing "busking" evenings for local young people to showcase their musical talent.

The task of selecting the right mix of artworks by both recognised and emerging artists and sponsoring local community initiatives has brought together oil paintings, watercolours, sculptures and mixed media work, representing a laudable commitment to showcasing global art and cultural talent.


THE PEAK TRAM 山頂纜車



A Culinary Ambassador

A genuine desire to serve and to create an emotional connection for guests lies at the heart of The Hongkong and Shanghai Hotels' food and beverage strategy. Our company values the importance of personality as much as high standards of cuisine and service in its restaurants; naming them after recognised characters: from "Gaddi's", named after the hotel's manager in the 1950s Leo Gaddi, to "Felix" as a tribute to former General Manager Felix Bieger; "Clement" named after Group CEO Clement Kwok and "Peter" as an accolade to Chief Operating Officer Peter Borer.

Our strategy is to position our brand as not only a leader in the world of hotel food and beverage offerings, but also a "culinary ambassador", bringing the best of Cantonese cuisine to our properties in the West, the finest French gastronomy to the East, and even bringing The Peninsula's culinary delights to passengers dining 30,000 feet above the ground.

"At HSH, we never forget that the hospitality business caters to the most basic human needs of food, beverage, and shelter. We recognise that it is how we deliver on these needs, that allows us to form an emotional connection, create memories, and ensure a unique experience for the guest," explained James Overbaugh, Director, Group Food and Beverage Operations, The Peninsula Hotels.

"The memories our guests take away are important to us, and this is what lasts – sometimes for a lifetime. This perception is what drives loyalty and the reputation of our brand."

"The world's great dining experiences tend to fall into four categories: gastronomic, service-oriented, environmental, or theatrical," said Mr Overbaugh. "Planning a successful restaurant involves discovering the magic formula for each." Mr. Overbaugh hails from Massachusetts and began his HSH career at The Peninsula Beverly Hills in April 2008 when he joined as Executive Chef before moving into food and beverage management as Executive Director – Food and Beverage in January 2011. He joined the Company with a solid career in hospitality, having worked in various luxury restaurants and five-star hotels in the USA, and is a graduate of the Culinary Institute of America.

"An equally important element is to attract and retain world-class talent with vision and leadership, to ensure stability and achieve long term return on investment. These are clear focus areas for us as we move into 2018. My role is a facilitator to enhance the team's success, and to work with them and to help them. I have the experience of working in our operations and I know the importance of empowerment and fostering independence to inspire creativity, while at the same time keeping up with the group's stringent brand standards," said Mr Overbaugh.

Mr Overbaugh's appointment to head office in 2017 aligned with the Group's strategy to re-evaluate its food and beverage offering, which is overseen by Group General Manager Operations Gareth Roberts. Staying true to The Peninsula brand is key, while recognising that the guest's needs are constantly evolving as they travel and discover new cuisines, new beverages and new stories. The Group's signature restaurants offer sophistication, quality, and elegance, but we are also evolving to ensure our restaurants are accessible and a place where people want to come back for special experiences time and again.

"People's options are increasing as they travel, and guests are becoming more experientially oriented. For many people, it's all about the curating a unique memory they will carry for many years. Most importantly, a restaurant needs to be creative, be current and be bold," said Mr Overbaugh. "We are evaluating everything from mood and lighting to the music, menu designs and sequence of service."

With three new Peninsula hotels under development in the cities of London, Istanbul and Yangon, more than half the food and beverage team's time is dedicated to planning these new properties and working with the Projects team to ensure the right infrastructure is in place to develop exceptional restaurants in the new hotels.

The Group is currently defining a future strategy for its Signature Restaurants to define the "experience" as a prerequisite to development. Then, we plan to proceed with designing the restaurant and planning the culinary, beverage and service programmes, all of which must support the Signature dining experience. The final design execution should be specific to the experiential, gastronomic and service goals of the concept first and foremost, with the menu representing the "story" of the restaurant and including some must-have items that guests yearn to return for. Bespoke beverage programmes should be ahead of market trends, and the music, lighting, materials and ambience must all be carefully considered as supporting the experience.

The guest experience will always remain the most important aspect of everything we do. The Group Executive Head Chef, Florian Trento, who joined the company in 1987, commented: "Even in the early days with the company I could feel that the philosophy was different to other companies I had worked in. Here at HSH, running a hotel is really all about the guest. This aligns the whole team to always think about the guest. It makes a big difference. Cooking is all about emotions – chefs get very passionate about our food and how the ingredients are sourced, how the products are prepared, cooked, presented and served; we always envision it in this perfect way with smiling, happy customers."

James Overbaugh agrees whole-heartedly. "We have beautiful hotel products and spectacular surroundings, but there is a complex psychology behind the infrastructure. The guest experience is everything. This is what makes the business of food and beverage so exciting."

Awards in 2017

Operation	Awards	Organisers
The Hongkong and Shanghai Hotels Annual Report 2016	ARC Awards – Traditional Annual Report: Hotel & Leisure – Gold	MerComm. Inc.
	ARC Awards – Photography: Hotel & Leisure – Bronze	MerComm. Inc.
	ARC Awards – Financial Data: Hotel & Leisure – Bronze	MerComm. Inc.
	ARC Awards – Printing & Production: Hotel & Leisure – Bronze	MerComm. Inc.
	ARC Awards – Chairman's/President's Letter: Hotel & Leisure – Honors	MerComm. Inc.
	ARC Awards – Interior Design: Sustainability Report – Honors	MerComm. Inc.
	2017 HKMA Best Annual Reports Awards – General – Silver	Hong Kong Management Association
	Best Corporate Governance Awards 2017 – Non-Hang Seng Index (Medium Market Capitalisation) – Platinum	Hong Kong Institute of Certified Public Accountants
The Hongkong and Shanghai Hotels	2017 LinkedIn Transformation Award – Bronze	LinkedIn
The Peninsula Hong Kong	2017 Business Traveller UK Awards – No. 1 Best Business Hotel in Asia Pacific – No. 1 Top Award for Best Business Hotel Worldwide – No. 1 Favourite Overseas Business Hotel	Business Traveller (UK)
	2017 Travel + Leisure World's Best Award – No. 1 Best Hotels in Hong Kong	Travel + Leisure (US)
	2017 Gold List – No. 1 Best Overseas Luxury Hotel	Luxury Travel (Australia)
	Forbes Travel Guide 2017 Star Award Five-Star Hotel	Forbes Travel Guide (US)
	The Peninsula Spa Five-Star Ranking	Forbes Travel Guide (US)
	Readers' Choice Awards 2017 – No. 1 Best Hotel in Hong Kong	DestinAsian (Indonesia)
	Michelin One Star – Spring Moon	2018 Michelin Guide Hong Kong and Macau
	AsiaSpa Awards – Medi-Spa Treatment of the Year (Margy's Ultimate Radiance Aesthetic Facial)	AsiaSpa Magazine
The Peninsula Shanghai	2017 Travel + Leisure World's Best Award – No. 1 Asia Top 5 Hotels in Shanghai – No. 1 Best Hotels in Shanghai	Travel + Leisure (US)
	– Michelin Two Stars – Yi Long Court – Michelin One Star – Sir Elly's	2018 Michelin Guide Shanghai

Operation	Awards	Organisers
The Peninsula Tokyo	2017 Travel + Leisure World's Best Award – No. 1 Asia - Top 5 Hotels in Tokyo – No. 1 Best Hotels in Tokyo	Travel + Leisure (US)
	Forbes Travel Guide 2017 Star Award Five-Star Hotel	Forbes Travel Guide (US)
	The Peninsula Spa Five-Star Ranking	Forbes Travel Guide (US)
The Peninsula Beijing	Best of the Best 2017 – Best Hotel	Robb Report Lifestyle (China)
	29th Annual Best of the Best Awards – No. 1 Winner of the Journeys category and the Renovation Subcategory	Robb Report (US)
	Best Luxury Hotel Award 2017-2018 – City of Paradise	City Traveler (China)
The Peninsula Bangkok	The Peninsula Spa Five-Star Ranking	Forbes Travel Guide (US)
The Peninsula New York	Forbes Travel Guide 2017 Star Award Five-Star Hotel	Forbes Travel Guide (US)
	The Peninsula Spa Five-Star Ranking	Forbes Travel Guide (US)
The Peninsula Chicago	World's Best Award 2017 – No. 1 Top 10 City Hotels in Chicago	Travel + Leisure (US)
	World's Best Award 2017 – No. 1 Continental US - Top 5 Hotels in Chicago	Travel + Leisure (US)
	Forbes Travel Guide 2017 Star Award Five-Star Hotel	Forbes Travel Guide (US)
	Gold List 2017	Condé Nast Traveler (US)
The Peninsula Beverly Hills	World’s Best Award 2017 – No. 2 Top 10 City Hotels in Greater Los Angele	Travel + Leisure (US)
	World's Best Award 2017 – No. 2 Continental US - Top 5 Hotels in Greater Los Angeles	Travel + Leisure (US)
	Forbes Travel Guide 2017 Star Award Five-Star Hotel	Forbes Travel Guide (US)
The Peninsula Paris	Forbes Travel Guide 2017 Star Award Five-Star Hotel	Forbes Travel Guide (US)
The Repulse Bay	Reader’s Choice Award – Best Residential Complex 2017	Southside Magazine (Hong Kong)
	Bridal Award 2017 – Best Outdoor Wedding Venue Award	ESDLife (Hong Kong)
The Landmark Vietnam	Golden Dragon Award 2016-2017 – Best Services	Vietnam Economic Times
	The Guide Awards 2016-2017 – Best Services (Green Tourism for a Green Economy)	Vietnam Economic Times
Thai Country Club	Asian Golf Awards 2017 – Best Golf Club Experience in Asia Pacific – Best Food and Beverage Experience in Asia Pacific	Asia Pacific Golf Group (Singapore)
The Hong Kong Club	– Golden Cloche Award – For Executive Chef, Stefan Leitner	The Gastronomy Club Wien and the Chamber of Commerce in Austria
Peninsula Merchandising Limited	The MARKies Awards 2017 – Bronze Award for Best Idea (Web Design)	Marketing Magazine

Governance

Spirit Walls are a time-honoured feature at the entrance of Beijing's hutong residences to repel evil spirits while providing interior privacy. The Spirit Wall at the entrance of The Lobby features a noble phoenix, to symbolise the good feng shui of the hotel, and a pattern of peonies, representing fortune and nobility.

Chairman's Governance Overview

> "I believe that our ability to continually create sustainable shareholder value and to attract and retain the best talent is primarily attributable to our dedication and commitment to high standards of corporate governance."

Dear Shareholders,

Preserving our heritage while continually evolving

Your company, The Hongkong and Shanghai Hotels, has been striving to perfect the art of hospitality and guest experience for many years, and as a result is considered one of the world's leading luxury hospitality brands. With this heritage in mind, we must continually improve and evolve in order to safeguard the future of our company, our people, and the cities in which we operate. This annual report is entitled "An Imperial Rebirth" to showcase how we generate shareholder value through continuous improvement of our assets and practices.

I believe that our ability to continually create sustainable shareholder value and to attract and retain the best talent is primarily attributable to our dedication and commitment to high standards of corporate governance. We uphold our core values and principles of integrity, transparency and accountability, with a focus on the long-term future.

With the objective of ensuring a stable and robust succession plan, we were delighted to welcome three new Board members, Ms Ada Tse, Mr James Lewis and Mr Philip Kadoorie, who joined the Board in December 2017. These Directors are a valuable addition bringing with them a variety of experience and new 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. Our Board has also carried out a management succession planning review and we are satisfied that adequate succession planning is in place for key positions.

After serving our Board for 45 years, Mr Ronald McAulay retired in May 2017. In recognition of his extensive contribution to the Company, the Board conferred on Mr McAulay the title of Honorary Life President.

Reinforcing a Tradition of Integrity

Continuous improvement is our goal. We conducted a self-evaluation of the Board during 2017 with the objective of enhancing our effectiveness and ensuring high standards of governance for the long term. The evaluation provided the Board and management with constructive feedback, and resulted in the actions described under the "Board Evaluation" section of this report. We regularly review our governance processes, policies, procedures and practices to ensure they are in line with the global regulatory requirements and best practices. Our Code of Conduct was given a fresh identity, the "Tradition of Integrity", with the aim of instilling our values with each staff member and applying them to our business practices.

Throughout 2017 we continuously enhanced our risk management process across the projects to improve the effectiveness of our controls. The identified principal and emerging risks facing the Group and their mitigation methods were closely monitored by the Group Risk Committee and reviewed by Audit Committee and the Board. More details of which can be read on pages 145 to 151 of this report.

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.

A commitment to long-term success

Overall, I am pleased with the progress we have made in 2017 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
16 March 2018

Our Leadership - Board Members

From left to right

Back row: Peter Borer, James Lewis, John Leigh, Patrick Paul, Philip Kadoorie, Clement Kwok, Pierre Boppe, Dr William Fung, Nicholas Colfer, Matthew Lawson

Front row: Ada Tse, William Mocatta, Andrew Brandler, The Hon. Sir Michael Kadoorie, Dr the Hon. Sir David Li, Dr Kim Winser, Dr Rosanna Wong, Ronald McAulay

Our Leadership - Board Members

Governance Board Committees	Other Board Committees
A Audit Committee	E Executive Committee
N Nomination Committee	F Finance Committee
R Remuneration Committee	Chairman of the Committee
Chairman of the Committee	

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 a Director of a subsidiary 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, and he holds 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 for a number of notable local charitable organisations. He is the brother-in-law of the Honorary Life President, Mr Roanld James McAulay. He is 76 years old.

Non-Executive Deputy Chairman

Andrew Clifford Winawer Brandler

A R E F

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 an Independent Non-Executive Director of MTR Corporation Limited. As Chairman of Sir Elly Kadoorie & Sons Limited, he oversees 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, and was 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 61 years old.

Executive Directors

Chief Executive Officer

Clement King Man Kwok

E F

Chevalier de la Légion d'Honneur

Appointed to the Board as 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 currently 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 Member of the International Advisory Council 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 58 years old.

Chief Operating Officer

Peter Camille Borer

Appointed to the Board as an 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. He was appointed 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 64 years old.

Chief Financial Officer

Matthew James Lawson

F

Appointed to the Board as an 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 44 years old.

Non-Executive Directors

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 65 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 64 years old.

Nicholas Timothy James Colfer

Appointed to the Board in May 2006, Mr Colfer is Chairman of Tai Ping Carpets International Limited and a 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 35 years of experience in corporate management in the Asia Pacific region, principally in real estate, manufacturing and distribution. He is 58 years old.

James Lindsay Lewis

Appointed to the Board in December 2017, Mr Lewis is an Independent Non-Executive Director of Hong Kong Aircraft Engineering Company Limited, and a Director of Sir Elly Kadoorie & Sons Limited, being involved in a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. Mr Lewis has experience in private equity, hotel, charity and aviation operations and currently serves on the Boards of several private companies in the United Kingdom, Hong Kong and the Philippines. Mr Lewis is a graduate of the Kellogg-HKUST Executive MBA program, holds a Master of Aviation Management from The University of Newcastle, Australia, a Certification of Hospitality Management from Cornell University, U.S.A. and is a Member of The Society of Trust and Estate Practitioners. He is 43 years old.

Our Leadership - Board Members

Philip Lawrence Kadoorie

Appointed to the Board in December 2017, Mr Kadoorie is the son of The Hon. Sir Michael Kadoorie. He is a 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. Mr Kadoorie holds a Bachelor of Science in Communication from Boston University. Prior to his appointment to the Board, Mr Kadoorie completed various internships in commercial property companies in London and at CLP Group in Hong Kong. He holds an FAA Commercial Pilot's License (Helicopter). He is 26 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 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 79 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 a 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 70 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 70 years old.

Dr William Kwok Lun Fung, SBS, OBE, JP

N

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 and Sun Hung Kai Properties Limited. He was an Independent Non-Executive Director of Singapore Airlines Limited until July 2017. 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. He was a Hong Kong Special Administrative Region delegate to the Chinese People's Political Consultative Conference from 1998 to 2003. 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 awarded Honorary Doctorate degrees of Business Administration from The Hong Kong University of Science and Technology, The Hong Kong Polytechnic University and Hong Kong Baptist University. He is 69 years old.

Dr Rosanna Yick Ming Wong, DBE, JP

R

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 an Independent Non-Executive Director of CK Hutchison Holdings Limited and Hutchison Telecommunications Hong Kong Holdings Limited. In addition, Dr Wong is Honorary Chairman of World Vision Hong Kong, a Global Advisor to Mars, Incorporated and the Senior Advisor to The Hong Kong Federation of Youth Groups. 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 65 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 59 years old.

Ada Koon Hang Tse

A

Appointed to the Board in December 2017, Ms Tse is a Senior Advisor of PineBridge Investments Asia (formerly, AIG Investments Asia). She joined AIG in 1996 and was President and Chief Executive Officer of AIG Investments Asia before assuming an advisory role in 2011. Ms Tse previously worked in financial advisory services and equity capital markets at Morgan Stanley in New York and Hong Kong. Prior to joining Morgan Stanley, she worked as a lawyer with Sullivan and Cromwell in New York. Ms Tse now serves on the Appeal Board Panel (Town Planning) and the Municipal Services Appeals Board of the Hong Kong SAR Government. She has also served on the Securities and Futures Commission Advisory Committee, Film Censorship Review Board and Travel Industry Compensation Fund Management Board. In addition, she runs her family's YangTse Foundation focusing on supporting education and arts initiatives. Ms Tse holds a BA in Applied Mathematics from Harvard University and JD from Harvard Law School. She is 51 years old.

Honorary Life President

Ronald James McAulay

Mr McAulay served on the Board as a Non-Executive Director of the Company for over 45 years until his retirement in May 2017. In recognition of his extensive contribution to the Company, the Board conferred on Mr McAulay the title of Honorary Life President. He does not have any official responsibilities within the Company. Mr McAulay is the brother-in-law of The Hon. Sir Michael Kadoorie. He is 82 years old.

Our Leadership - Senior Management and Key Functions

From left to right

Back row: Martyn Sawyer, Christobelle Liao, Shane Izaks, Sindy Tsui, Maria Razumich-Zec

Front row: Matthew Lawson, Clement Kwok, Peter Borer

Senior Management

Group Management Board

Chaired by the Chief Executive Officer, Group Management Board (GMB) is the principal decision-making body on management and day-to-day business of the Group. It operates under clear guidelines and delegated authorities approved by the Board. GMB meets weekly and the Group's business strategy is often featured on its agenda. GMB also sets aside time every year for a strategic meeting to reflect on the current direction and review and reset the future direction of the business with reference to the current market and the progress made to date, and to debate, formulate and refine ideas. The discussions are then communicated to the Board.

GMB members consist of Executive Directors, Clement Kwok, Peter Borer and Matthew Lawson[1], Group Executives and other members.

Group Executives:

Christobelle Liao

Appointed to GMB since 2011, Ms Liao is a Group Executive and also a Director of a number of the Group's entities. She is the Group Director, Corporate and Legal, and responsible for general management, all corporate and legal matters as well as the Group's investment in Istanbul. Ms Liao joined the Group in 2002 as General Counsel and Company Secretary, and through the years took on additional responsibilities from risk management to general corporate management and new projects. She is a qualified solicitor in Hong Kong and England & Wales. She is 49 years old.

1 Profiles of Clement Kwok, Peter Borer and Matthew Lawson are disclosed on pages 118 and 119

Martyn Sawyer

Appointed to the GMB since 2002, Mr Sawyer is a Group Executive and also a Director of a number of the Group's entities. He 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 the Group's properties and clubs in Hong Kong, Vietnam, Thailand, France and the UK. Mr Sawyer also oversees the Group's investment in Yangon. He has served the Group for over 30 years. He was appointed Group General Manager, Properties and Clubs in 1999, and became Group Director, Properties in 2013. He is 60 years old.

Other members:

Shane Izaks

Appointed to GMB since 2015, 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 became Group General Manager, Information Technology and is responsible for formulating and implementing Information Technology strategy at both Group and Operational levels. He is 55 years old.

Maria Razumich-Zec

Appointed to GMB since 2007, 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 became Regional Vice-President and General Manager, The Peninsula Chicago in 2013. She is 60 years old.

Sindy Tsui

Appointed to GMB since 2011, Ms Tsui joined the Group as 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 became Group Director, Human Resources in 2013. She is 49 years old.

Key Functions

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

Julie Bourgeois, *General Manager, Peninsula Merchandising Limited*

Christopher Chan, *General Manager, Research and Technology*

Ming Chen, *Director, Business Development*

Jisoo Chon, *General Manager, The Peninsula Shanghai*

Joseph Chong, *Area Vice-President and Managing Director, The Peninsula Hong Kong and The Peninsula Shanghai*

Mark Choon, *General Manager, The Peninsula Manila*

Christopher Cribb, *Group General Manager, Projects*

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

Katja Henke, *General Manager, The Peninsula Paris*

Jason Hui, *Director, Security and Operational Risk*

Mark Kobayashi, *Vice President, Marketing, The Peninsula Hotels*

Janice Lao, *Director, Corporate Responsibility and Sustainability*

Suan Beng Lee, *Group Treasurer*

Kai Lermen, *General Manager, Quail Lodge and Golf Club*

Mark Lomas, *Project Director, Project, The Peak Complex*

Cecilia Lui, *Director, PRC Affairs*

Nadine Maurellet, *General Counsel*

Lynne Mulholland, *Director, Corporate Affairs*

Louise Napier, *Vice President, Global Commercial Leasing*

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

Megan Palmer, *Senior Manager, Operations Finance and Efficiency*

Vincent Pimont, *General Manager, The Peninsula Beijing*

Gareth Roberts, *Group General Manager, Operations*

Joseph Sampermans, *General Manager, The Peninsula Bangkok*

Wilson So, *Group Chief Engineer*

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*

Corporate Governance Report

Integrity, Transparency and Accountability

Good corporate governance is crucial to sustaining the Group through the changing regulatory and market environment over the long term. 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. The annual report has been an important tool for us to provide our shareholders and stakeholders with a transparent picture of our business performance. Our commitment to continuously improve on the quality of disclosure is recognised in the list of awards we received for the annual report. The list can be found in the "Awards in 2017" section on page 110.

Corporate Governance Framework

The Board has determined our corporate governance framework as follows:

Board and Board Committees

The Board has established five Board Committees in order to manage the Company effectively. The Audit, Nomination, and Remuneration Committees are Governance Board Committees under the Corporate Governance Code in Appendix 14 of the Listing Rules. Attendance and reports on main activities from the Governance Board Committees are included in this section.

The Executive and Finance Committees are strategic and finance committees which are integral parts 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.

Chief Executive Officer and Group Management Board and sub-committees

The Chief Executive Officer (CEO) leads the management of the Group's business with the assistance of the Group Management Board (GMB) and under the clear guidelines and delegated authorities of the Board. This management structure fosters accountability and provides the Board with high quality information and recommendations to enable informed decisions in all aspects of the Company's business and strategy.

GMB is in turn supported by four sub-committees with different areas of focus, and the General Managers and Heads of Operations and Functional Departments on the implementation of our business strategy. Each GMB sub-committee has its own terms of reference or charter.

The main responsibilities[2] of each function is set out on next page.

2 Details of responsibilities and memberships of the Committees can be found on HSH website: www.hshgroup.com/en/corporate-governance

Delegation

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 recommendations 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 determines 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 (GMB)

makes key decisions on management and day-to-day business of the Group and is supported by various sub-committees

Group Risk Committee

- oversees top tier risks and mitigation plans of the Group as well as monitors the actions required for critical and major incidents

Group Corporate Responsibility Committee

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

Technology Steering Committee

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

HSH Retirement Plan ORSO Committee

- monitors and advises on strategic, administrative and operational aspect of the HSH Retirement Plan

Audit & Risk Management

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

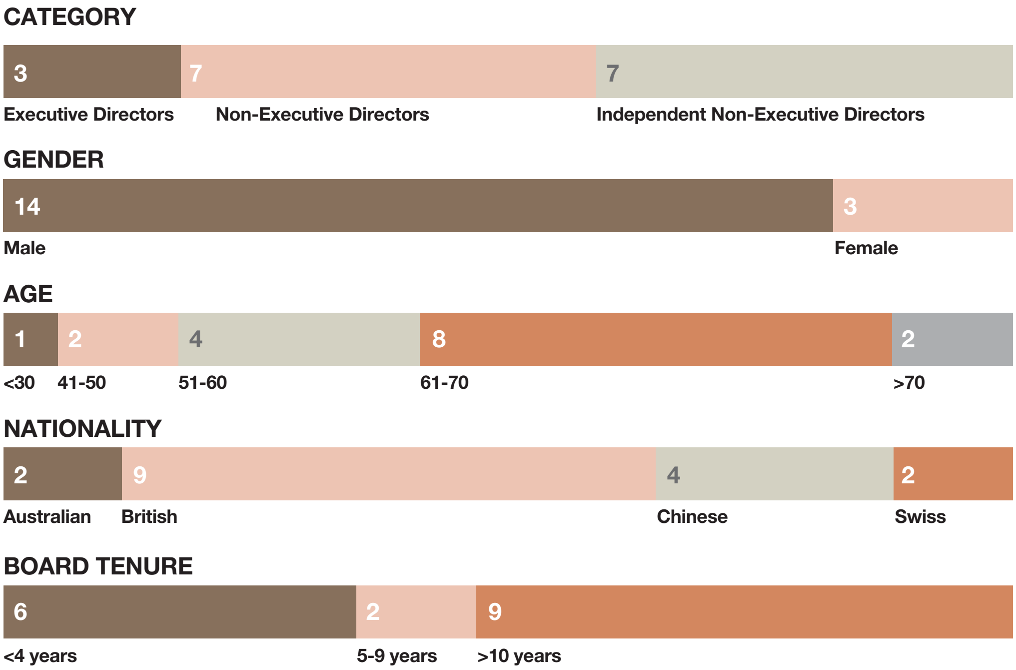
GENERAL MANAGERS OF OPERATIONS AND HEADS OF CORPORATE DEPARTMENTS AS WELL AS BUSINESS OPERATIONS

implements the Group's strategy through its day-to-day operation

Corporate Governance Report

Boardroom Diversity

A strong and effective Board requires an appropriate mix of skills, experience and diversity among its members, in order to provide sound judgement on strategic issues and effective oversight of and guidance to management.



INDEPENDENCE WEIGHTING OF HSH BOARD AND GOVERNANCE BOARD COMMITTEES

BOARD EXPERTISE AND SKILLS

Diverse range of expertise and experience

2017 Board diversity highlights

- Gender diversity (female representatives) increased to 3 members (2016: 2 members)
- Independent Non-Executive Directors increased to 7 members (2016: 6 members)
- Experience diversity broadened to provide new perspective on customer engagement, provision of services and corporate social responsibility

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

GENDER OF SENIOR MANAGEMENT*

GENDER OF KEY FUNCTIONS**

* Inclusive of 3 Executive Directors

** 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 diversity, at management levels. The Company has policies on equal opportunities and policies against gender and other forms of discrimination. Active steps were taken in promoting diversity in recruitment.

Biographical details of all Directors and senior management are shown on pages 118 to 123 and information on Board Diversity Policy is set out in the Nomination Committee Report on page 156.

Our 2017 Corporate Governance Focus

In addition to the regular activities, we continuously review and take initiatives to improve governance. In keeping with our commitment to quality and excellence, and the sustainability of the Company in the long term, our focus in 2017 was to broaden and bring fresh perspective to the Board, strengthen the Group's risk management and prepare the Group for future challenges.

New Directors

The Group operates in a world of rapid change and a diverse Board helps the Company to embrace these changes when setting its strategic direction for the future. The Nomination Committee considered the outlook of the Group and recognised the needs to bring new insights to the Board, particularly in the areas of technology, digital space and perspectives of different generations of guests. This resulted in the appointment of Ms Ada Tse, Messrs James Lewis and Philip Kadoorie as Directors in December 2017. Further details can be found in the Nomination Committee Report on page 156.

Corporate Governance Report

Board evaluation

The Board carried out its third self-evaluation. The overall results were very positive. Management has responded to the comments from the Board. The Board is considering an alternative evaluation method in supplement of the current format for the next evaluation that is planned for 2019. Further details on the evaluation process can be found under the heading of "Board Evaluation" on page 132.

Project risks and efficiency

To monitor and evaluate the ongoing hotel developments in London, Istanbul and Yangon, we continuously seek to improve the systems and processes in managing the risks and efficiency of our projects. For instance, we took steps to standardise the project risk register to facilitate better and consistent assessment, reporting and management of risks. In addition, we have undertaken organisational restructuring to optimise the use of our resources and achieve the goals of the projects.

Current risks

We have taken steps to address market trends and proactively manage our risks. For example:

Cybersecurity

With a number of cyberattacks making headline news this year, we became more vigilant in our cybersecurity measures. Group Information Technology strengthened its defence capabilities and increased training of its team and all employees.

Crisis management

We continuously review the Group’s crisis management structure, policies and procedures on their strength, weaknesses and gaps.

Governance with a people focus

We regularly review our governance policies and processes with a focus on empowering our employees to learn, embrace and create a culture of compliance. The Company’s Code of Conduct is titled “Tradition of Integrity” and the main pillar of our corporate values. As mentioned in the last year’s report, we undertook the process of transforming the Code into principles of ethics which are relevant to our employees in the context of the workplace, our business practices and our community. The Code and has been translated into eight languages and made available on our website[3]. In addition, we create different “communication toolkits” which include e-learning training programmes, webinars, poster campaigns to help our employees understanding our corporate values and key compliance obligations such as anti-bribery and anti-corruption, fair competition and data privacy.

Inside information

HSH Inside Information Policy regulates the handling of inside information within the Group, to ensure potential inside information is being captured and the confidentiality of such information is maintained until consistent and timely disclosure is made. We have formalised and updated our policy and the internal guidance on the communication of the Group’s monthly financial information. Refresher training on our inside information policy has been provided to our senior management in addition to the interactive discussion conducted with key members of financial and operational management of all operations. Further training to our Board members would be conducted in 2018.

Inside Information Policy includes:

- Designated reporting channels from different operations informing any potential inside information to GMB
- GMB to determine further escalation and disclosure as required
- Designated persons authorised to act as spokespersons and respond to external parties

3 www.hshgroup.com/en/corporate-governance/our-code-of-conduct

How the Board Operates

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 reserved its powers in strategic and significant matters of the Group[4], including oversight of:

Strategy and Financial	• Long and short-term strategic directions of the Group • Annual budgets and forecasts • Significant changes in accounting policies • Company's capital structure • Dividend policy • Material borrowings and expenditures • Annual and Interim reports
Leadership	• Director's appointment and re-election
Corporate Governance	• Corporate governance functions
Risk Management	• Risk management and internal control systems

Through the Board's leadership and direction, GMB runs the Group's day-to-day business (as more specifically described on page 122).

The Board also evaluates its own performance every two years. Details are set out on page 132. With respect to the Directors' responsibility for preparing the Financial Statements for the year ended 31 December 2017, please refer to the Directors' Report set out on page 167.

The role of the Board members and Company Secretary

There is a clear division of the responsibilities in the Company between the Chairman and the Chief Executive Officer and their division of responsibilities which was established in our HSH Corporate Governance Code. Our Chairman and Chief Executive Officer do not have any financial, business, family or other material or relevant relationships with each other.

Among our 14 Non-Executive Directors (NEDs), seven are Independent Non-Executive Directors (INEDs), independent of management. The other seven NEDs do not participate in the day-to-day business of the Company, but are not considered independent due to their association with the substantial shareholders.

The Chief Executive Officer, Chief Operating Officer and Chief Financial Officer of the Company serve as our Executive Directors. The Company Secretary reports to the Chairman and the Chief Executive Officer. Their respective roles are set out in the table on next page.

4 Details can be found on the terms of reference of the Board: www.hshgroup.com/en/about/leadership

Corporate Governance Report

Role	Responsibilities
Non-Executive Chairman *The Hon. Sir Michael Kadoorie*	◆ Leading the Board and monitoring its effectiveness ◆ Fostering candid discussions and constructive relationships among Directors ◆ Reviewing management performance with the NEDs ◆ Safeguarding that good corporate practices and procedures are established and implemented throughout the Group, with the assistance of the Company Secretary
Chief Executive Officer* *Clement K.M. Kwok* **supported by GMB*[5]	◆ Leading the management in the day-to day running of the Group business ◆ Developing strategies for the Board's approval ◆ Executing strategies, policies and objectives agreed by the Board ◆ Reporting to the Board on the performance of the business
Non-Executive Directors and Independent Non-Executive Directors *see pages 119 to 121*	◆ Evaluating management's performance in achieving the agreed corporate goals and objectives ◆ Ensuring clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effective ◆ Providing constructive feedback on management decisions ◆ Serving on the Board and Board Committees give these Committees the benefit of their skills, expertise, and varied backgrounds and qualifications ◆ The INEDs, being independent, have the additional role of: – Bringing knowhow and business expertise that are extrinsic to the management, thereby providing insights and independent judgement on the business – Helping to maintain objectivity in the Board's decisions when potential conflicts of interest arise
Executive Directors *Clement K.M. Kwok* *Peter C. Borer* *Matthew Lawson*	◆ Managing the day-to-day business of the entire Group's operations ◆ Being accountable for their specific executive functions to the Board ◆ Communicating proactively with the NEDs and being open and responsive to any executive proposals and challenges made by the NEDs
Company Secretary *Christobelle Liao*	◆ Reviewing, implementing and initiating improvements on our corporate governance practices and processes ◆ Advising and keeping the Board and Board Committees up to date on legislative, regulatory and governance matters ◆ Facilitating induction and professional development of the Directors

Board processes

We continue to adopt clear and consistent board processes to allow the Board to maintain effective control over the strategic, financial, operational, compliance, sustainability and corporate governance matters of the Company. The Board held 5 scheduled meetings in 2017 and the attendance of individual Directors at the Board meeting and the Governance Board Committees are set out on page 133.

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. 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.

5 Details of the GMB members and its function can be found on pages 122 and 123

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.

2017 Board Activities

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

Strategy

- Reviewed the five-year financial projection for the Group and the short to medium term financial impact of potential investments on the Group
- Monitored the progress of the ongoing projects in London, Istanbul and Yangon
- Discussed The Peninsula Tokyo position, competition, challenges and opportunities
- Reviewed our business strategy on luxury merchandise
- Reviewed the strategic priorities and the five-year roadmap of the Technology Steering Committee

Leadership and Employees

- Appointed Ms Ada Tse as INED and Mr James Lewis and Mr Philip Kadoorie as NEDs
- Reviewed succession planning for key positions for both unforeseen situations and the longer term
- Reviewed the talent assessment conducted by management every two years identifying high-potential employees across the Group and providing them with access to bespoke executive development programmes
- Accepted the resignation of Mr Ronald McAulay after having served on the Board for over 45 years

Risk Management and Internal Control

- Reviewed and approved the list of the principal risks of the Group and the key controls and risk treatments as disclosed in 2016 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 our risks and controls against cyberattacks and the security measures being taken

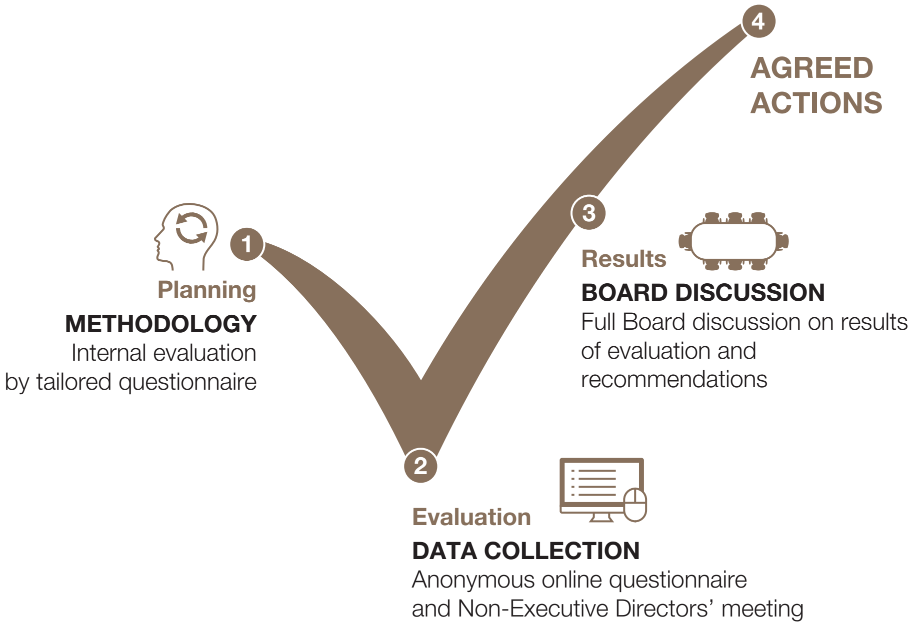
Governance

- Reviewed and approved the revamped Code of Conduct, Anti-Fraud Policy and Anti-Bribery and Anti-Corruption Policy
- Reviewed and discussed the Board evaluation results
- Directors were updated on new trends, legislation, and the Group's business, through presentations by General Manager of Operations and Heads of Corporate Departments on relevant topics including, technology development, consumer trends in luxury merchandise and project developments

Board Evaluation

The Board evaluates its own performance and that of its committees and individual Directors every two years with the aim of improving effectiveness.

Board evaluation process



In May 2017, the Board agreed to carry out its third evaluation by way of self-assessment. The Company Secretary, in consultation with Group Management Board, Deputy Chairman and Chairman of the Audit Committee tailored an online questionnaire based on feedback from the Board in 2015. All Directors completed the questionnaire online anonymously. The Company Secretary collated all responses for Board discussion at the October Board meeting and the overall feedback was very positive.

The 2017 Board evaluation provided the Board and management with constructive feedback. Succession planning, digital development, the Group's principal risks and mitigation factors as well as post-implementation reviews on key projects were recognised by the Board as being important items on the Board agendas and will continue to be reviewed and discussed throughout the year. In addition to the self-evaluation, the Chairman met with NEDs before the October Board Meeting to evaluate management performance and discussed how we might enhance our governance practices. These discussions were communicated to management for response or implementation at the October Board Meeting.

Questionnaire – key discussion topics

- Group objectives, strategy and performance assessment
- Risk management systems and process effectiveness
- Succession planning
- Financial and project management
- Composition and effectiveness of the Board and Board Committees
- Process supporting the Board
- Board Committees' performance
- Board evaluation and Chairman and NEDs' meeting effectiveness
- Individual Board member's performance

2017 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 2017 are 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[2]	●●				●	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
Mr James L. Lewis[3]	●					A,B,C
Mr Philip L. Kadoorie[3]	●					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
Ms Ada K.H. Tse[3]	●	●				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 Lawson *Chief Financial Officer*	●●●●●				●	A,B,C
Company Secretary						
Ms Christobelle Liao[4]	●●●●●	●●●●	●●●	●●	●	A,B,C

Notes:

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

(2) Mr Ronald J McAulay resigned as Director with effect from 8 May 2017

(3) Ms Ada K.H. Tse, Mr James L. Lewis and Mr Philip L. Kadoorie were appointed as Directors with effect from 1 December 2017

(4) During 2017, 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 Tokyo in October 2017

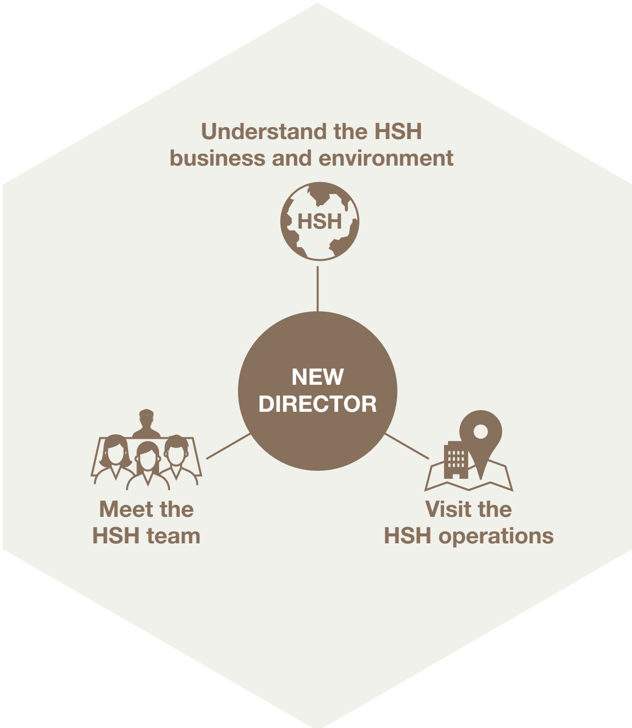
(C) Seminars/conferences which are relevant to the business or Directors' duties in the following areas:

- Anti-fraud and anti-bribery and anti-corruption
- Corporate governance matters
- Risk management
- Consumer trends in luxury markets
- Information technology

Corporate Governance Report

Board Induction, Familiarisation and Training

Induction for new Directors



The Company provides a tailored and comprehensive induction programme for all new Directors upon joining the Board. The programme comprises a combination of briefings and meetings with Executive Directors, Company Secretary, and senior management, and visits to the Group's major businesses in Hong Kong initially and overseas would be arranged. This covers Directors' duties, an overview of the Group's business, its operations, risks and regulatory matters, governance, finance and investor relations. All corporate policies would also be explained and provided to new Directors by the Company Secretary. Ms Ada Tse, Mr James Lewis and Mr Philip Kadoorie who joined the Board in December 2017 have been provided with tailored induction programmes to allow them to gain insight into our business, our colleagues and stakeholders.

Familiarisation and training to all Directors

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.

Our 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 2017 Board meeting was held at The Peninsula Tokyo. Board members toured the facilities and met with local management to understand their business challenges and market environment. Such overseas site visits provide NEDs 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. In addition, presentations by General Managers of Operations and Head of Corporate Departments after the Board Meeting were arranged to update our Directors on the new trends, legislation and the Group's business. Topics covered in 2017 include technology development, consumer trends in luxury merchandise, anti-fraud, anti-bribery and anti-corruption.

Our Directors participate in continuous training and development activities that keep them up to date on developments in all areas pertaining to the business of the Company and their performance of duties as Directors. The Directors provide the Company their training records annually and such records are maintained by the Company Secretary. The training records of Directors and the Company Secretary for 2017 are reflected on page 133.

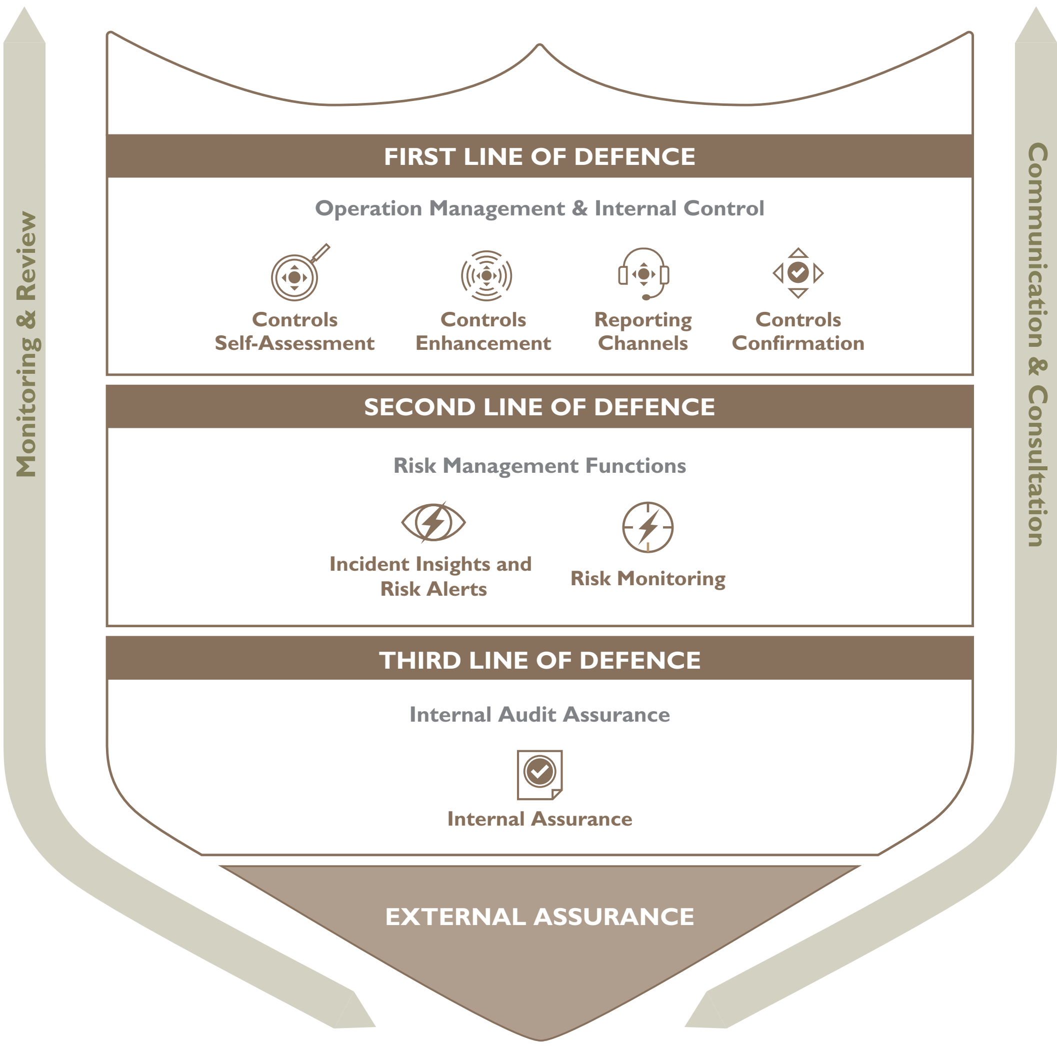
Risk Management

Effective risk management plays an integral role in the overall achievement of the Group's strategic objectives. Our risk management approach is shaped by our business strategy which is to optimise the quality of our asset portfolio in the long term, ensure the long-term sustainability of our business, deliver a high standard of luxury, preserve the tradition of integrity and respect for our heritage.

The Board is ultimately responsible for establishing, maintaining and overseeing appropriate and effective risk management and internal control systems for 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 of the Group Risk Committee (GRC) and Audit & Risk Management (ARM).

Approach to Risk Management

Our risk management framework is guided by the model of "Three Lines of Defence". This 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.



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. Throughout 2017 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.

Corporate Governance Report

Monitoring & Review

FIRST LINE OF DEFENCE

Operation Management & Internal Control

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 by undertaking a "control self-assessment" (CSA). The CSA process allows the Group and each operation to identify potential new risks affecting their businesses, opportunities for further strengthening of controls and implement needed control enhancement plans with designated executives, management and timelines.

Controls Enhancement

The Group has developed a number of controls to manage our regulatory and operational rules. For the enhancement measures undertaken in 2017, please refer to the GRC Report on pages 144 and 145.

Reporting Channels

The Group's online incident reporting platform enables timely 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.

In addition, the Speak Up Policy[6] provides employees and other stakeholders a reporting channel on suspected misconduct or malpractice within the Group in confidence and without fear for reprisal or victimisation. Moreover, HSH Inside Information Policy regulates the handling of inside information within the Group, to ensure potential inside information are being captured and confidentiality is being maintained until disclosure are made. Details about inside information can be found on page 128.

Controls Confirmation

General Managers and Directors of Finance or Financial Controllers of all operations confirm the effectiveness and adequacy of material controls (which include financial, operational as well as compliance controls) via General Representation Letters 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.

Communication & Consultation

Monitoring & Review

SECOND LINE OF DEFENCE

Risk Management Functions

The second line of defence is overseen by the GRC which (i) reviews the risk registers of the operations and the Group, and the Group Risk Management Report, (ii) monitors the principal risks and emerging risks of the Group, and (iii) regularly evaluates the risk management procedures in response to such risks. We use our 5-step Risk Management Methodology to ensure the risk assessment process and internal controls remain current, are adapted and modified as business conditions and for organisation changes. Details can be found on page 144 in the GRC Report.

Incident Insights and Risk Alerts

The GRC 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 to improve key controls and share best practices are discussed and communicated across the Group.

Risk Monitoring

The GRC continued to strengthen its monitoring of risks. For the initiatives taken in 2017, please refer to the GRC Report on pages 144 and 145.

THIRD LINE OF DEFENCE

Internal Audit Assurance

The third line of defence is supported by internal assurance activities. ARM performs the Group's internal audit assurance by assessing the effectiveness of our risk management and internal control systems.

Internal Assurance

ARM applies a risk-based internal audit approach to determine whether material controls are effective in managing the key risks of the Group. The internal audit plan in 2017 included reviews of the efficiency of key business processes with a view to optimising efficiency and performance of our Group.

External Assurance

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

Communication & Consultation

6 Posted on the Company's website: www.hshgroup.com/en/corporate-governance/speak-up-policy

Corporate Governance Report

Our Shareholders

HSH had 1,816 registered shareholders as at 31 December 2017. 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	496	27.313	70,481	0.004
501-1,000	189	10.408	151,947	0.010
1,001-10,000	640	35.242	2,661,709	0.167
10,001-100,000	384	21.145	12,356,470	0.778
100,001-500,000	72	3.965	14,942,204	0.940
Above 500,000	35	1.927	1,558,848,222	98.101
Total	**1,816**	**100.000**	**1,589,031,033**	**100.000**

Note: As at 31 December 2017, 36.33% 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 59.29% as disclosed in "Interests of Directors" and "Interests of Substantial Shareholders" in Directors' Report on pages 164 to 166. The remaining HSH shares are held by institutional and retail investors, with a considerable number of those investors being Hong Kong residents.

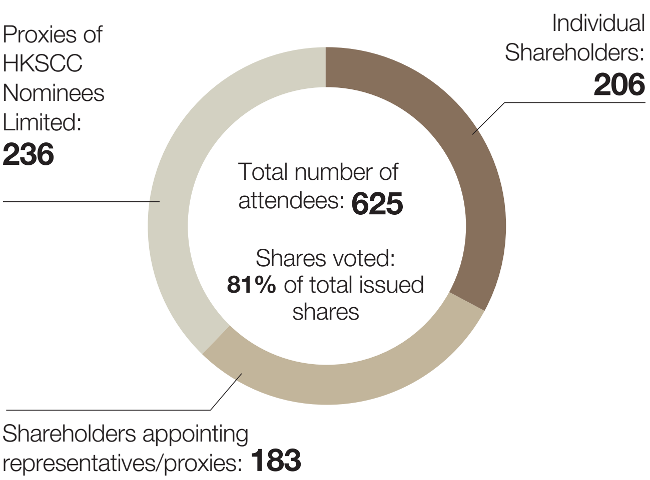
From publicly available information and within the knowledge of the Directors, HSH has maintained sufficient public float of its share capital in the Hong Kong Stock Market throughout the financial year ended 31 December 2017 and has continued to maintain such a float as at 16 March 2018.

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[7] 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.

2017 Annual General Meeting



The 2017 AGM was held on 8 May 2017 at The Peninsula Hong Kong. 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 2017 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.

7 www.hshgroup.com/en/corporate-governance/shareholders-rights

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[8] and the Stock Exchange's websites. Media representatives were invited to observe and report on the AGM.

Separate resolutions were proposed on each issue, including the re-election of individual Directors. All resolutions proposed at the 2017 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 2016	**99.99%**
Payment of final dividend of 15 HK cents per share for the year ended 31 December 2016	**99.99%**
Re-election of five retiring Directors: Mr Andrew Brandler, Mr Clement K.M. Kwok, Mr William E. Mocatta, Mr Pierre R. Boppe and Dr William K.L. Fung as Directors of the Company	**Ranging from 89.78% 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	**99.97%**
Granting of the general mandate to Directors to allot, issue and deal with the Company's shares	**88.02%**
Granting of the general mandate to Directors to buy-back the Company's shares	**99.87%**
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	**88.03%**

Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 240.

The Company's share price information as well as share and dividend per share information for the last ten years are disclosed on pages 69 and 21 respectively.

Engaging our Shareholders

The Company attaches great importance in engaging with the investing community, including individuals and institutional shareholders and research analysts. 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 and directly communicate with our Directors
- We participated in investor conferences in Hong Kong and China to engage existing and potential investors
- Throughout the year, our Executive Directors and Investor Relations team also held roadshows, regular meetings and conference calls with institutional shareholders, analysts and potential investors in and outside of Hong Kong
- Our Company's website[9] gives the public a window to who we 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 along with presentation materials from such announcements, our financial reports, financial statistics, corporate governance practices
- Our Shareholder Communication Policy[10] has specified the various communication platforms to which our shareholders and stakeholders can access
- The Company's branded social media sites provide investors with daily updates on our business initiatives in The Peninsula Hotels, The Repulse Bay, and The Peak, as well as HSH community and employee initiatives on employer branding social media sites

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

8 www.hshgroup.com/en/investors/corporate-announcements
9 www.hshgroup.com/en/investors
10 Posted on the Company's website: www.hshgroup.com/en/corporate-governance

Engaging our Stakeholders

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:

Stakeholder Group	How we engage	Examples in 2017
Guests	Engaging our guests and ensuring their satisfaction is critical to how we run our business. In 2017, we continued to drive digital engagement by enhancing the peninsula.com website user experience and social media content. We engaged bloggers and online influencers to drive brand awareness amongst our customers. WeChat is a very important channel for the China market, and we use this to highlight Peninsula destinations and also as a room booking channel. 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 roadshows and sales missions to Latin America and the Middle East to introduce our brand to cities and regions where we do not have a Peninsula Hotel.	• In celebration of its tenth anniversary, The Peninsula Tokyo sponsored The Peninsula Tokyo Rally Nippon 2017, bringing together international and Japanese classic car enthusiasts on an epic motoring experience through Japan, encompassing five UNESCO World Heritage and Cultural Heritage Sites, including National Parks, historical landmarks, and ancient Japanese shrines • April marked the fourth edition of “Love Art at The Peninsula” – The Peninsula Hong Kong initiative that champions public art through site-specific works, exciting events, and partnerships. For the 2017 Peninsula Commission, The Peninsula Hong Kong welcomed the Irish-born artist Sir Michael Craig-Martin RA, for the third year in collaboration with Britain’s Royal Academy of Arts, unveiling a brand new sculptural work entitled “Bright Idea” to the public and the art world • The Peninsula Shanghai celebrated the graduation of the first batch of graduates from the Peninsula Shanghai Mentoring Programme, an initiative developed by the Sir Horace Kadoorie Youth Development Centre for Hospitality (SHKYDCH). The two-year mentoring programme began in 2015 and aims to inspire disadvantaged youths in China and provide access to career opportunities in the fast-growing hospitality industry
Employees	In 2017, we placed a greater emphasis on attracting and retaining employees, as well as rewards and recognition, employer branding, and staff engagement. We increased our information sharing on employee-focused social media sites such as LinkedIn and Glassdoor, rolled out an internal communication platform Yammer, increased two-way communication with senior management through discussion forums and Open House meetings, and are exploring best practices to reward and recognise high performing staff.	• Developed a high level internal communications strategy aligned with Human Resources and business goals • Rolled out Microsoft Yammer as a communication tool across the Group • Exploring best practices and reward and recognition programmes • See pages 93 to 98 for more details on our employee engagement strategy

Stakeholder Group	How we engage	Examples in 2017
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 select 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. Our Project team members in London, Istanbul and Yangon meet with select local government representatives, diplomats and relevant stakeholders to discuss local issues and enhance cooperation ahead of our three project hotel openings.	• Engaged with Hong Kong Government departments on tourism initiatives and advocated for the promotion of Kowloon as a tourist destination • Membership of WTTC • Engaged with local government representatives and diplomats in London, Istanbul and Yangon
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 roadshows, post-results briefings and the AGM.	• Investor Conferences • Financial reports and website • Annual General Meeting (AGM) • One-on-one and group briefings
Media	The Peninsula Hotels Marketing team conducts regular press briefings and attends high profile trade shows in all our key markets as well as emerging markets, and the HSH Corporate Affairs team organises press conferences with Executive Directors at annual/interim results and individual interviews throughout the year in Hong Kong. The Peninsula Hotels hosts regular press groups from the world's most prestigious travel, luxury and business publications to visit the cities in which we operate.	• International Luxury Travel Market (ILTM) in Cannes • HSH financial results press conferences at The Peninsula Hong Kong and post-AGM with the Chairman • High-profile media programmes
Community and NGOs	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.	• Membership of Business for Social Responsibility • Partnership with WWF Hong Kong • Partnership with The Hong Kong Council of Social Service • Membership of Responsible Luxury Initiative, Business Women for Action, Mekong Club and the Hong Kong Sustainable Seafood Coalition
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.	• The Peninsula Yangon has been undertaking an extensive restoration and heritage preservation, cataloguing to preserve the history and heritage of Myanmar. The Peninsula Istanbul is undergoing a highly complex restoration and construction project on the banks of the Bosphorus, in collaboration with local authorities and Heritage Board. We worked extensively with local partners in Paris to restore and renovate 21 avenue Kléber (see pages 78 and 79) • The Peninsula London, Istanbul and Yangon are referencing international green building standards during their development

We always seek to improve on the area of stakeholder engagement and we are compiling a thorough stakeholder engagement profile for our three project markets in 2018.

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

Corporate Governance Code Compliance

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code) forms the basis of the HSH Corporate Governance Code (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.

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

- *CG 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 provisions*, we have complied with all of the code provisions throughout 2017.

In respect of *CG Code recommended best practices*, we have complied with all of the recommended best practices throughout 2017, 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.

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 2017. All Directors including NEDs are subject to a term of re-election every three years. Details of the appointments to the Board in 2017, and Directors who will retire and offer themselves for re-election in the 2018 Annual General Meeting are set out in the Directors' Report on page 163.

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 responsibility. The letters of appointment for NEDs and INEDs, as well as service contracts for Executive Directors, contain guidelines on expected time commitments required for the affairs of the Company. 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 2017.

Independence of INEDs

The independence of the Non-Executive Directors is relevant to Board balance. The Company has received written confirmations of independence from each of its seven INEDs who served in 2017. The Nomination Committee and the Board considered that all seven INEDs who served in 2017 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 2017. Details of the shareholding interests held by the Directors of the Company as at 31 December 2017 are set out on page 164.

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 122 and 123, and 165 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 Group, and none of them has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules

In 2017, 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.

In addition, 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 2017, 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 page 163, which were reviewed in the March Board meeting.

Codes and terms of reference

Each year we review our governance and securities codes and the relevant terms of reference of the Board and each Board Committees[11] to ensure that they comply with the 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 2017 accordingly.

The full terms of reference of the Board and each Board Committee can be viewed at the Company's website[12] and those of the Governance Board Committees[13] are also published on the Stock Exchange's website. The Governance Board Committees' reports are set out on pages from 154 to 161.

Internal control procedures on connected transaction

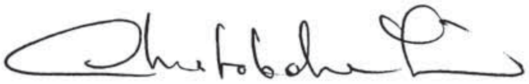
We have implemented a series of measures to ensure our connected transactions are conducted in compliance with the connected transaction rules. These measures include: (i) tracking all current and potential connected transactions semi-annually; (ii) Group Legal review is required before any potential 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 the Audit Committee, INEDs, external auditor and the Board.

With respect to the connected transactions for the financial year of 2017, 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 the Audit Committee, please refer to the Directors' Report set out on page 163.

High Standards of Corporate Governance

Commitment to high standards of corporate governance and business integrity has seen us through our year of operations and we continue 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
16 March 2018

11 Audit, Nomination, Remuneration, Executive and Finance Committees
12 www.hshgroup.com/en/corporate-governance/board-committees
13 Audit, Nomination, Remuneration Committees

Group Risk Committee Report

Composition	Chairman Members	Mr Matthew Lawson, Chief Financial Officer Group General Manager, Audit & Risk Management Select members of senior management Group General Manager, Operations
Meeting Frequency		• Quarterly • Four meetings in 2017
Responsibilities		• To assess the top risks and risk treatments for our operations and major projects, as well as monitor the actions required for critical and major incidents • To monitor the process whereby each operation addresses the risks identified, track progress of mitigating plans and activities of key business risks and report in the Group Risk Register • To regularly review, assess and update the Group risks and related contingency plans to GMB for further review by the Audit Committee and the Board

5-Step Risk Management Methodology

We continued to go deeper in implementing the Group's 5-Step Risk Management Methodology across the Group, with a particular focus on further treatment (mitigation/action). We have improved the effectiveness of our controls in the following focus areas:

Development & investment risks

The Group continued to strengthen its governance surrounding The Peninsula London, The Peninsula Istanbul, The Peninsula Yangon and The Peak Tram Upgrade by standardising the risk management process across the projects and aligning it to the Group's 5-Step Risk Management Methodology. Quarterly updates on the major risks relating to the projects are now being monitored and reviewed by the Group Risk Committee (GRC).

Risk engineering survey

Our owner-operator business model is a capital intensive one and higher attention is paid to protect and maintain our assets. To further improve our assets' structural and engineering controls, our risk engineering consultant has performed risk engineering surveys for select operations. We further enhanced the risk engineering survey process by aligning it to the Group's standards. Recommendations and mitigations were addressed by the respective engineering department.

Security and Operational Risk Capability Assessment

Guest safety is close to management's heart and to ensure the highest level of security in our operations, the Security & Operation Risk Department appointed an external consultant to perform a gap analysis on the Group's security management standard with ISO31000 Risk Management. The aim was to further strengthen

Matthew Lawson
Chairman of
the Group Risk Committee
16 March 2018

The Group's enhanced risk management process has formed a solid platform for us to focus on control effectiveness assessment and proactively address issues before they escalate.

and enhance our group-wide security standards. New Group Security Policy Statement, Group Standard Operating Procedures and Group Crisis Management Plan are under review and will be rolled out to operations in 2018 to ensure a consistent standard of security for our guests across operations.

Cybersecurity Incident Response Plan

Cybersecurity incident response has become a critical component of information security risk management. With the continued increase in the number of incidents and the level of sophistication in organisations across all industry sectors, one of the best defences is to ensure a cybersecurity incident response plan is in place to prepare for and respond to incidents in an effective and efficient manner. The Cybersecurity Incident Response Plan has been developed and will be rolled out across the Group in 2018.

Food Safety and Quality Management System

With the continued growth of The Peninsula mooncakes, artisan chocolates and specialty teas, Peninsula Merchandising Limited undertook a process to strengthen food safety and processes within its operation with the introduction of the Food Safety and Quality Management System. The system contains detailed guidelines aimed at ensuring the processes and supply chains surrounding our operations meet and exceed The Peninsula Boutique customer's expectation for a high standard of food safety and production.

Principal Risks

The Board, with support from 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. This process includes an ongoing review by GMB 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.

The movements of our principal risks since the publication of our 2016 Annual Report are shown on the next page.

Emerging Risks

The accelerating change of technology and ongoing growth of new technology based business models such as internet based aggregators and B2C online retail platforms may continue to disrupt our traditional business models and operations.

2018 Major Initiatives

In 2018, 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.

Group Risk Committee Report

1. Retail Tenants

RETAIL TENANTS

What is the risk?

Retail letting, particularly in the non-luxury segment has become difficult due to factors such as the increased proliferation of cross border e-commerce changing consumer's shopping habits from offline to online, general decline in spend within the luxury retail segment, shifts in retail consumer goods preferences, an increase in competition leading to a decrease in our retail arcade traffic.

What is the impact?

Revenue from our retail arcades may be hampered leading to a failure to achieve our retail letting targets.

How do we manage it?

- Identification and acquisition of exclusive niche retail brands that would uniquely benefit from coinciding within Peninsula shopping arcade
- 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
- Employed a dedicated Retail Customer Relationship Management Manager

Risk category	FINANCIAL
Risk movement in 2017	◀▶
Why?	Continued challenges within the luxury retail industry in the markets that we operate and customer spending behaviour moving from offline to online purchasing

2. Acquisition, Investment and Development Projects

ACQUISITION, INVESTMENT AND DEVELOPMENT PROJECTS

What is the risk?

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 project milestones, 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.

What is the impact?

If we fail to deliver our planned acquisitions, investments or developments, it may result in a major impact on our capital, partnership relationships and reputation.

How do we manage it?

- Greater due diligence throughout the construction procurement process by way of transparent and competitive tendering as to mitigate potential escalation of construction costs
- Partnerships with experienced and reputable local partners, and familiarisation with local authorities
- Individual and aggregated acquisition/development-related risk levels reviewed by the GRC
- Robust and auditable risk management process applied to all live acquisitions/development
- 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

Risk category	STRATEGIC
Risk movement in 2017	◀▶
Why?	Continued investment in London, Istanbul and Yangon as these projects move into construction phases

3. Foreign Exchange, Interest Rate and Funding Risk

FOREIGN EXCHANGE, INTEREST RATE AND FUNDING RISK

What is the risk?

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. Entering into rising interest rate environment for the first time in many years.

What is the impact?

Economic instability in exchange rate and interest rate may restrict our refinancing requirements and increase costs of capital.

How do we manage it?

- 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
- Regular stress testing (ad hoc for projects, and yearly for the Group's financial reporting)
- Actively managing fixed/floating interest rate exposure

Risk category	FINANCIAL
Risk movement in 2017	▼
Why?	Funding risk has reduced as financing for The Peninsula London project completed as of March 2018

Group Risk Committee Report

4. Disaster Events

DISASTER EVENTS

What is the risk?

A major disaster event, such as a force majeure event, natural catastrophe, extreme weather due to climate change impact, 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.

What is the impact?

Major incident caused by disaster events, although rare, may result in the complete loss of assets causing severe impact on our customers, revenues and reputation.

How do we manage it?

- Enhanced risk engineering control process by external risk engineering consultant and Group engineering team on select properties focusing on insurable risks
- Security and Operational Risk Capability Assessment to align 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

Risk category	OPERATIONAL
Risk movement in 2017	◀ ▶
Why?	Terrorist risk exposure in our operating locations remains at a similar level

5. Macroeconomic and Political

MACROECONOMIC AND POLITICAL

What is the risk?

A global or regional economic downturn could lead to a reduction of global or country-specific travel activity and hence reduced demand for hospitality services. Political instability and significant changes to regulatory relevant to hospitality industry and travel related activities result in changes of travel patterns and guest spend.

What is the impact?

Reduced demand for hospitality services may result in a decline in profit and cash inflow, while inflation and currency fluctuation may increase operating costs. Changes to regulations may result in higher legal and compliance costs, as well as a restricted ability to repatriate profits.

How do we manage it?

- Diversification of target market segment to ensure the impact of a market loss due to adverse economic or political event is manageable and can be reasonably offset by increasing revenue from market segments through reallocating resources
- 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
- Close monitoring of operating costs and implementation of cost savings measures when required

Risk category	EXTERNAL
Risk movement in 2017	◀ ▶
Why?	Macroeconomic and political risks in our operating locations remain at a similar level despite tensions in Middle East having an impact on number of guests received from the region

6. Cybersecurity

CYBERSECURITY

What is the risk?

Frequency of cyberattacks like sophisticated phishing campaigns and ransomware continued increased in 2017. The threat of an attack is high.

What is the impact?

Inability to operate effectively may result in a loss of information and unavailability of systems. Significant costs may be incurred for data recovery and system restoration, and/or possible financial or other regulatory penalties.

How do we manage it?

- A new leadership position for information technology security and risk
- Redesign group-wide security awareness training for all operations
- Ongoing review of business-critical applications for disaster recovery plan
- Strengthen account authentication for all employees
- Mandate regular vulnerability assessments and penetration test
- Continue to enhance security measures and adopt cyber insurance policy against loss

Risk category	OPERATIONAL
Risk movement in 2017	▲
Why?	Number of cybersecurity incidents increased globally in 2017

7. Data Privacy

DATA PRIVACY

What is the risk?

Our business involves handling a large amount of personal data and given our wide guest base and global operations, we are regulated by privacy laws and regulations in all jurisdictions. In addition, as a result of a vendor data breach, we were on higher alert and expended more management time and effort to manage the risk.

What is the impact?

Compliance could increase our operating costs and impact our ability to directly market. Breaches, either through deliberate targeted actions or inadvertent errors, may adversely affect our brand and business and may result in regulatory investigations and potential fines.

How do we manage it?

- Review of our data privacy policies and practices with reference to changes in privacy laws and regulation in the places we operate in
- Strengthened due diligence and controls with respect to third party data processors
- Revamped group-wide e-training and rolled it out to existing and new employees
- Compliance assessments by Data Privacy teams across operations
- Provide channels for reporting and dealing with data breaches

Risk category	OPERATIONAL
Risk movement in 2017	▲
Why?	Global trend of tightening privacy laws has increased the challenge of compliance. The rise in cybercrimes also exposed us to higher risks of data security breaches

Group Risk Committee Report

8. Business Portfolio/Concentration

BUSINESS PORTFOLIO/ CONCENTRATION

What is the risk?

Owing to the origin of the Company, a significant portion of our Group earnings is derived from our operations in Hong Kong.

What is the impact?

Unfavourable events (e.g. pandemic, terrorism, natural disaster) in the city could severely disrupt our overall business, lower our revenues, and impact the valuation of our assets.

How do we manage it?

- Focus on increasing overseas earnings contribution, by increasing earnings from existing operations outside of Hong Kong
- Ongoing focus to strengthen our brand with existing customers globally and, within the fast-changing business environment of Hong Kong, make prompt adjustment to our business strategies when necessary
- Maintain comfortable level of gearing

Risk category	STRATEGIC
Risk movement in 2017	◀ ▶
Why?	Group earnings still predominantly derived from Hong Kong operations despite an increase of contribution from recently renovated operations outside of Hong Kong such as The Peninsula Chicago and The Peninsula Beijing

9. Brand and Reputation

BRAND AND REPUTATION

What is the risk?

Adverse publicity in traditional or social media, e.g. complaints, allegations, rumours, negative comments or reporting, which may be frivolous or misconceived, could result in brand and reputational damage.

What is the impact?

Loss of confidence in our brand may lead to a decline in loyalty of existing guests, tenants and/or customers, and impairment of the ability to attract new customers from competitors. It may also result in a decline of ability to recruit and retain talent and increased cost for crisis management and potential legal fee.

How do we manage it?

- A continuous endeavour on corporate branding initiatives, both traditional and digital platforms
- 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, behavioural standards and other policies which regulate staff and guests conduct emphasises the zero-tolerance of abusive behaviour and misconduct by staff or guests, and provide clear guidelines on the escalation process
- Increased focus on employer branding to ensure awareness of HSH being a reputable listed company and considerate employer

Risk category	OPERATIONAL
Risk movement in 2017	◀ ▶
Why?	Reputational risk has slightly increased during the year due to cybersecurity incidents in hospitality industry and widespread media coverage on the topic of alleged sexual harassment around the world, with a particular focus on guest behaviour in luxury hotels

10. Competition

COMPETITION

What is the risk?

Cyclical over-supply of luxury hotel and increased competition over pricing, quality of products and level of services pose a significant competitive pressure to the business.

What is the impact?

Failure to compete effectively may result in a decline in market share, revenue and profit, and reduce partnership opportunities.

How do we manage it?

- Increased focus on digital marketing and e-commerce opportunities, recruitment of digital talent from outside industries to contribute to the Company's digital transformation and development of guest experiences
- Continuously monitor and analyse competitive and market information in order to anticipate unfavourable changes
- Marketing and communication initiatives to drive revenue growth and strengthen our brand marketing position
- Increased focus on engaging directly with customers rather than through third party channels
- 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 category	EXTERNAL
Risk movement in 2017	◀ ▶
Why?	Competition level remained high during the year

Group Corporate Responsibility Committee Report

Composition	Chairman Members	Mr Clement K.M. Kwok, Chief Executive Officer Director, Corporate Responsibility and Sustainability Select members of senior management General Managers of Operations and Heads of Corporate Departments covering engineering, projects, operational risks and safety, operations planning and support, sales and marketing, human resources, legal and corporate affairs functions
Meeting Frequency	◆ At least three meetings each year ◆ Four meetings in 2017	
Responsibilities	◆ To propose, recommend, monitor and report to the Group Management Board on corporate responsibility and sustainability (CRS) topics, including the implementation of the Company's Sustainable Luxury Vision 2020 ◆ To review practices, standards, trends, regulation, plans related to CRS topics that may impact on the operations of the Group	

Reporting Approach

As we aim to provide a connected view of our overall performance to both our shareholders and key stakeholders, we have increased discussion of the linkages of the different aspects of our business and how it contributes to the Group's creation of value on economic, environmental and social aspects. We continued to publish online[14] a detailed Corporate Responsibility and Sustainability Report (CRS Report) and this was also published on the Hong Kong Stock Exchange website. The CRS Report complies with the "comply or explain" provisions in the Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide 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).

2017 Main Activities

We continued to embed sustainability principles and thinking in our operations through enhancing clarity on Vision 2020 commitments. We did this by categorising commitments according to three areas – Our guests, Our people, Our cities – while retaining six out of the original seven pillars. We also assessed progress on each of the commitments and focused attention on those that needed more traction. With these objectives in mind, the Committee's work in 2017 revolved around clarity and enhanced implementation:

- Reviewed CRS performance data and recommended actions relating to energy, water and waste management, responsible sourcing, health and safety, workforce issues and ethical standards and community engagement
- Discussed recent global and local trends on the topics of CRS, e.g. single use plastic and food waste issues, carbon reduction targets, Sustainable Development Goals, etc.
- Reviewed progress of the implementation of CRS initiatives, e.g. building re-commissioning projects, LED re-lamping strategy, Building Research Establishment Environmental Assessment Method (BREEAM) certification of new projects
- Oversaw and approved an enhanced and streamlined progress reporting approach to enable a more focused and strategic performance reporting on Vision 2020
- Discussed key focus areas and communication strategy on Vision 2020 for the next three years
- Discussed and agreed on the approach of 2017/18 stakeholder engagement and materiality assessment
- Reviewed and confirmed the terms of reference of the Committee

In 2018, the Committee's main focus is to enhance engagement activities to embed CRS into the hearts and minds of our people; and to continue to provide effective support to the implementation of Vision 2020. We have also provided a list of other specific initiatives as outlined in the CRS Report on the Company's website.[14]

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

It is my belief that building our business to be sustainable for the long term is the most important task of our group. I believe we have exhibited a strong sense of responsibility, high level of consciousness and integrity which has contributed to our success. However, we understand that in creating a legacy and addressing the challenges we face, we must play a role in building a sustainable future, through continued dialogue, collaboration and innovation.

Clement K.M. Kwok
Chairman of the Group Corporate Responsibility Committee
16 March 2018

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*
- Expanded succession planning to about 500 of our management-level staff
- One of the world's leading green building standards, BREEAM, has been implemented in the major renovation of The Peninsula Beijing and new projects in London, Istanbul and Yangon
- Over 22% of our staff volunteered their time benefiting around 240 organisations across our operations, working on key community areas such as youth development, elderly caring and meeting underserved needs
- Increased focus on family and wellness through our offerings and Peninsula Academy Programme
- Embraced farm-to-table concept in most operations and re-launched *Naturally Peninsula* as the choice for sustainable, organic, and healthy fare for guests
- Continued to achieve better energy and water efficiencies by implementing appropriate technology and engineering solutions, e.g. low-temperature laundry programme, LED lighting technology, building re-commissioning, irrigation system upgrade, etc.
- Improved on our understanding of waste management and implementing steps to better increase recovery rates for key waste streams such as food waste
- Majority of the paper products, cleaning products, tea and coffee are sourced sustainably/responsibly

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.

Audit Committee Report

Composition	Chairman Members	Mr Patrick B. Paul, INED Ms Ada Tse, INED Mr Andrew Brandler, NED
Meeting Frequency		• At least four times every year with senior management, the external auditor and the Group General Manager, ARM in attendance by invitation • Four meetings in 2017
Responsibilities		To assist the Board in carrying out its responsibility of overseeing financial reporting, external audit, internal audit, risk management and internal controls

Main Activities

During the year, Audit Committee continued to oversee and consider the matters arising from the financial reporting and audit process, risk management and internal controls and compliance as stated below:

Financial information

- Reviewed and endorsed the 2016 Annual Report and Corporate Responsibility and Sustainability Report (CRS Report) and the annual results announcement, and the 2017 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

- Endorsed KPMG's audit report on the financial statements for the 2016 Annual Report
- Considered the 2017 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 2016 as described below, assessed the performance and endorsed the reappointment of KPMG as the Company's independent auditor for 2017
- Reviewed the 2017 internal audit plan progress and its methodology, process and key observations on operations and progress of the 3-year audit plan which commenced in mid-2016
- Discussed the 2017 internal audit approach to the CRS 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 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
- Reviewed the uninsured risks of the Group
- Considered summaries of the internal representation letters from business operations which in turn forms the basis by which management confirms the effectiveness of the Group's risk management and internal control systems and approved the representation letters to the external auditor before issuance of the 2016 Annual Report and 2017 Interim Report
- Reviewed and discussed the upcoming new accounting standard for revenue recognition and leased assets and potential tax implications of the new pricing rules

This year, Ms Ada Tse has replaced Dr William Fung as a Committee member and attended the December Committee meeting. The Committee has continued to play a key role supporting the Board in matters relating to financial reporting, internal control and risk management, including the assessment of the Group's principal risks and risk tolerance and a review of uninsured risks.

Patrick B. Paul
Chairman of the Audit Committee
16 March 2018

Others

- Reviewed and confirmed the terms of reference of the Committee
- Reviewed reported speak up cases and investigations

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

Based on the reports from Group General Manager, ARM, summaries of internal representation letters and reports of the external auditor, the Audit Committee considers the overall financial and operating controls, risk management and internal control systems for the Group during 2017 to be effective and adequate. Issues raised by the internal and external auditors during 2017 have been, or are being addressed by management, and the Audit Committee advised the Board that there are no issues required to be raised to shareholders.

In February 2018, the Audit Committee reviewed and endorsed this annual report, the CRS Report, which is posted on the website[15], 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 take into account the internal guideline adopted to monitor the amount of non-audit work given to the external auditor. In 2017, apart from audit work, the Company also awarded non-audit work to KPMG including taxation and other services. In our first meeting in 2018, 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 2018 Shareholders' approval at the 2018 Annual General Meeting.

A summary of fees for audit and non-audit services to KPMG for the financial years ended 31 December 2017 and 2016 is as follows:

Nature of Services	**2017 HK$m**	2016 HK$m
Audit Services	**10**	10
Non-audit Services		
Taxation and other services	**4**	4

15 www.hshgroup.com/en/sustainable-luxury

Nomination Committee Report

Composition	Chairman Members	The Hon. Sir Michael Kadoorie, Non-Executive Chairman Dr the Hon. Sir David K.P. Li, INED Dr William K.L. Fung, INED
Meeting Frequency		• At least two meetings every year • Three meetings in 2017
Responsibilities		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

Boardroom Diversity[16]

We believe that having variety in composition is important for a healthy and effective Board. In March 2013, the Board adopted its diversity policy, which can be found on the Company's website.[17] 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. 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. With the departure of Mr Ronald McAulay in May 2017 as a NED, three new Directors, including one female Director, were appointed in December 2017 in accordance with our diversity approach. Ms Ada Tse, being the third female Director of the Company, brings a wide spectrum of expertise and experience in investment and international business. Mr James Lewis has a wealth of experience in private equity, hotel, charity and aviation operations and is knowledgeable about our company, having been invited to attend our Executive Committee meetings for the past six years as an observer. Mr Philip Kadoorie has also joined as a Board member and we believe he will bring to the Board a valuable perspective and different view and ideas of a younger generation.

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 three female members on the Board. The Committee reviewed the appropriateness of an express diversity quota or measurable objective, and concluded that it was unnecessary, 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.

Ada Tse

James Lewis

Philip Kadoorie

16 Please also refer to page 126 on Boardroom Diversity
17 www.hshgroup.com/en/corporate-governance

The Hon. Sir Michael Kadoorie
Chairman of the
Nomination Committee
16 March 2018

Selecting and mentoring the next generation of leaders is a critical part of our sustainable development and planning for the future. We are pleased that Ms Ada Tse has joined our Board as an Independent Non-Executive Director and Messrs James Lewis and Philip Kadoorie have joined our Board as Non-Executive Directors on 1 December 2017. The Nomination Committee was of the opinion that their extensive and diverse experience would bring new insights and be beneficial to the Board and their appointments would add to the diversity of the Board.

2017 Main Activities

In addition to nominating the appointments of Ms Ada Tse as INED and Messrs James Lewis and Philip Kadoorie as NEDs as mentioned above, the Committee also conducted the following business in 2017:

- Assessed and reviewed all INEDs' confirmations of independence and affirmed the Committee's view over their independence, including the newly appointed INED, Ms Ada Tse
- Recommended the re-election of retiring Directors as these Directors continue to contribute effectively
- Reviewed and confirmed the structure, size and composition of the Board and the split between number of INEDs, NEDs and Executive Directors remained appropriate for it to perform its duties following the appointments of three new Directors
- Reviewed the value of having measurable objectives for implementing the Board Diversity Policy
- Reviewed and confirmed the terms of reference of the Committee and Board Diversity Policy remained relevant and no revision was required
- Reviewed the 2016 Nomination Committee Report

Remuneration Committee Report

Composition	Chairman	Mr Patrick B. Paul, INED
	Members	Dr Rosanna Y.M. Wong, INED Mr Andrew Brandler, NED
Meeting Frequency	◆ At least two meetings every year with the Chief Executive Officer and Group Director, Human Resources in attendance ◆ Two meetings in 2017	
Responsibilities	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	

HSH Rewards Philosophy

This philosophy is to ensure that compensation and benefits programmes are designed for the Group and its executives according to an overall framework of various guiding principles. Our latest review of the framework was done in 2016, 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 and the particular 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 incentivise management and individual performance

Remuneration for Executive Directors and Senior Management

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 key executives.

As part of its scope of responsibility, this Committee is involved in reviewing and approving the terms of the service of all Executive Directors and senior management, including remuneration and duration of the service contracts. No individual is involved in determining 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 2017, we initiated a review of the HSH Management Bonus Plan. The mechanism, strengths and weaknesses of the plan were discussed. The Committee confirmed that the current plan is fundamentally sound and no immediate changes to the plan are anticipated. Management continues to review and recommend any areas which can be refined for the Committee to consider.

On behalf of the Remuneration Committee, I am pleased to present our 2017 Report. This year we have initiated a review of the HSH Management Bonus Plan looking for improvements but the Committee confirmed that the current plan is fundamentally sound and no immediate changes to the plan are anticipated.

Patrick B. Paul
Chairman of the Remuneration Committee
16 March 2018

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 (NEDs) are fixed by shareholders at shareholders general meetings, while any additional fees of NEDs 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. No director approves his or her own remuneration.

As disclosed in last year's Annual Report, the fees payable to the Chairman and members of the Audit Committee for 2017 were revised to HK$185,000 and HK$150,000 respectively per annum. These revised fees took effect on 20 March 2017 and were paid on a pro rata basis for the financial year ended 31 December 2017.

In line with annual fee review, the Board in March 2018 approved the proposal from the Committee (i) the fees of NEDs and INEDs to be fixed at the rate of HK$325,000 and HK$375,000 respectively per annum; and (ii) a revision of the fees payable to the Chairman of the Remuneration Committee to HK$100,000 per annum. The NED and INED fees are subject to Shareholders' approval at the Annual General Meeting on 9 May 2018. These revised fees, if approved, will take effect on 9 May 2018 and be payable to the NEDs and INEDs and Chairman of the Remuneration Committee on a pro rata basis for the financial year ending 31 December 2018.

2017 Main Activities

The Remuneration Committee conducted the following business in 2017:

Remuneration

- Reviewed management's proposals for fees for NEDs and INEDs and additional fees for the same to serve on Board Committees in 2017 and recommended to the Board and proposed changes on Audit Committee's fees
- Reviewed and approved the 2016 proposed bonus pool for senior staff
- Reviewed and approved the 2016 discretionary bonus proposal for Executive Directors and Group Executives

Remuneration Committee Report

- Reviewed the group-wide 2018 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 2018 salary increases of Executive Directors and senior management
- Reviewed the HSH Management Bonus Plan and confirmed no immediate change was necessary

Others

- Reviewed and approved the 2016 Remuneration Committee Report
- Reviewed and confirmed the terms of reference of the Committee
- Reviewed and approved the letters of appointment for the three newly appointed Directors

2017 Remuneration of Directors and Senior Management

The following information is an integral part of the Audited Financial Statements for the year ended 31 December 2017.

Non-Executive Directors – remuneration

The fees paid to each of our NEDs in 2017 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[6] 2017**	Total[6] 2016
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	300	100	–	–	40	**440**	415
Mr Andrew Brandler	300	100	144	60	–	**604**	562
Mr Ronald J. McAulay[1]	106	–	–	–	–	**106**	282
Mr William E. Mocatta	300	–	–	–	–	**300**	282
Mr John A.H. Leigh	300	100	–	–	–	**400**	382
Mr Nicholas T.J. Colfer	300	–	–	–	–	**300**	282
Mr James L. Lewis[2]	25	–	–	–	–	**25**	–
Mr Philip L. Kadoorie[3]	25	–	–	–	–	**25**	–
Independent Non-Executive Directors							
Dr the Hon. Sir David K.P. Li	350	–	–	–	40	**390**	365
Mr Patrick B. Paul	350	–	183[c]	85[c]	–	**618**	592
Mr Pierre R. Boppe	350	–	–	–	–	**350**	332
Dr William K.L. Fung[4]	350	–	131	–	40	**521**	485
Dr Rosanna Y.M. Wong	350	–	–	60	–	**410**	392
Dr Kim L. Winser	350	–	–	–	–	**350**	332
Ms Ada K.H. Tse[5]	29	–	13	–	–	**42**	–
	3,785	300	471	205	120	**4,881**	4,703

Notes:
(1) Mr Ronald J. McAulay resigned as a Director of the Company with effect from 8 May 2017
(2) Mr James L. Lewis was appointed as a Director of the Company with effect from 1 December 2017
(3) Mr Philip L. Kadoorie was appointed as a Director of the Company with effect from 1 December 2017
(4) Dr William K.L. Fung resigned as a member of the Audit Committee of the Company with effect from 1 December 2017
(5) Ms Ada K.H. Tse was appointed as a Director and a member of the Audit Committee of the Company with effect from 1 December 2017
(6) 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 2017 was as follows:

(HK$'000)	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	**Total[2] 2017**	Total[2] 2016
Executive Directors						
Mr Clement K.M. Kwok	6,778	7,508	1,115	192	**15,593**	15,297
Mr Peter C. Borer	4,864	3,674	788	149	**9,475**	9,247
Mr Matthew Lawson[1]	4,502	2,366	738	200	**7,806**	5,208
	16,144	13,548	2,641	541	**32,874**	29,752

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

	2017 Number	2016 Number
HK$4,000,001 – HK$5,000,000	**2**	5
HK$5,000,001 – HK$6,000,000	**2**	1
HK$6,000,001 – HK$7,000,000	**1**	–
HK$7,000,001 – HK$8,000,000	**1**	1

* GMB, the Company's management and operations' decision-making authority, comprises the three Executive Directors and six (2016: 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 (2016: two members of senior management). The emoluments of the two (2016: two) individuals with highest emoluments are within the following bands:

	2017 Number	2016 Number
HK$5,500,001 – HK$6,000,000	**–**	1
HK$6,000,001 – HK$6,500,000	**1**	–
HK$6,500,001 – HK$7,000,000	**–**	–
HK$7,000,001 – HK$7,500,000	**1**	1

The aggregate of the emoluments in respect of these two (2016: two) individuals is as follows:

(HK$'000)	**2017**	2016
Basic compensation	**8,188**	7,901
Bonuses and incentives	**4,337**	3,992
Retirement benefits	**819**	790
Other benefits	**270**	299
	13,614	12,982

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

Directors' Report

The Directors have pleasure in submitting their report together with the audited Financial Statements for the year ended 31 December 2017.

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, including analysis using financial key performance indicators, are provided in the CEO's Strategic Review on pages 26 to 55 and Financial Review on pages 56 to 69. Description of the principal risks and uncertainties facing the Group can be found throughout this annual report, particularly in External Environment and Industry Trends on pages 80 to 83 and Group Risk Committee Report on pages 144 to 151. Particulars of an important event affecting the Group that has occurred since the end of the financial year 2017 are set out in note 31 to the Financial Statements. The future development of the Group's business is discussed throughout this annual report including in the CEO's Strategic Review on page 55.

Details regarding compliance with relevant laws and regulations which have a significant impact on the Group can be found throughout this annual report and the Corporate Responsibility and Sustainability Report (CRS Report). Further details regarding the environmental policies and performance and an account of the Group's relationships with its key stakeholders are provided in the CRS Report.

The discussions with respect to the above topics in the annual report and CRS Report which is available online[18] form part of this Directors' Report.

18 www.hshgroup.com/en/sustainable-luxury

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 20 and 21.

Share Capital

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

Equity-linked Agreements

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

Purchase, Sale or Redemption of Listed Securities

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

Dividends

An interim dividend of 4 HK cents per share (2016: 4 HK cents per share) in respect of the year ending 31 December 2017 was paid during the year 2017. The Directors have recommended a final dividend of 16 HK cents per share (2016: 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 9 May 2018 (2018 Annual General Meeting), such dividends will be payable on 22 June 2018 to shareholders whose names appear on the register of members on 17 May 2018.

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 23 May 2018.

Borrowings

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

Charitable Donations

Cash donations made by the Group for charitable purposes during the year amounted to HK$2,967,580 (2016: HK$3,407,523).[19]

Major Customers and Suppliers

The diversity and nature of the Group's activities are such that the percentage of sales or purchases attributable to the Group's five largest customers or suppliers is significantly less than 30% of the total and the Directors do not consider any one customer or supplier to be influential to the Group during the year.

Connected Transactions

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

On 21 March 2016, HSH Management Services Limited, an indirect wholly-owned subsidiary of the Company, entered into two tenancy agreements with Kadoorie Estates Limited (KEL) to renew the office leases of (i) Room 408 and (ii) 7th and 8th Floors of St. George's Building, 2 Ice House Street, Central, Hong Kong (Office Premises) for three years commencing on 1 April 2016 at a market rent of (i) HK$120,000 per month plus a monthly service charge of HK$15,663 (revised to HK$16,344 with effect from 1 January 2017) and (ii) HK$1,655,000 per month plus a monthly service charge of HK$216,039 (revised to HK$225,432 with effect from 1 January 2017) respectively. The rents and services charges incurred in 2017 amounted to HK$24 million (2016: HK$23 million).

KEL is the agent of the registered owner of the Office Premises. The registered owner is controlled by one of the substantial shareholders of the Company. The leases constituted continuing connected transactions of the Company and subject to the disclosure requirements under the Listing Rules. Details of the transactions were disclosed in the announcement dated 21 March 2016.

19 The donations amount of HK$3,249,993 (2016: HK$4,231,658) referred to in the Sustainability Data Statements on page 236 include donations by manage properties owned by a joint venture and associates and employees

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

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

Material Related Party Transactions

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

Directors

Biographical details of the Directors in office at the date of this report are shown on pages 118 to 121. All these Directors held office throughout 2017 with the exception of Ms Ada Tse who was appointed as Independent Non-Executive Director and Mr James Lewis and Mr Philip Kadoorie who were appointed as Non-Executive Directors, with effect from 1 December 2017. Mr Ronald McAulay resigned as Non-Executive Director with effect from the conclusion of the Annual General Meeting held on 8 May 2017. In recognition of his contribution to the Company, the Board conferred on Mr McAulay the title of Honorary Life President. He does not have any official responsibilities within the Company.

In accordance with the Articles of Association of the Company, the Directors who will retire at the 2018 Annual General Meeting and, being eligible, have agreed to offer themselves for re-election are (i) Dr the Hon. Sir David Li, Mr John Leigh and Mr Nicholas Colfer; and (ii) Ms Ada Tse, Mr James Lewis and Mr Philip Kadoorie who were appointed by the Board.

None of the Directors proposed for re-election at the 2018 Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors of Subsidiaries

The list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is shown on the Company's website.[20]

Senior Management

Biographical details of senior management are shown on pages 122 and 123. All members of senior management held office throughout the year except Ms Rainy Chan who has taken a one-year sabbatical leave commencing on 1 November 2017.

Interests of Directors

As at 31 December 2017, 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, are as follows:

Long position in shares of the Company

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
The Hon. Sir Michael Kadoorie	Note (a)	860,570,367	54.157
Mr Clement K.M. Kwok	Beneficial Owner	723,505	0.046
Mr Peter C. Borer	Beneficial Owner	360,683	0.023
Mr Matthew Lawson	Beneficial Owner	200,000	0.013
Mr William E. Mocatta	Beneficial Owner	17,000	0.001
Mr John A.H. Leigh	Note (b)	81,561,828	5.133
Mr Philip L. Kadoorie	Note (c)	669,067,652	42.105
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,082,365	0.068
Mr Pierre R. Boppe	Beneficial Owner	30,000	0.002

Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 860,570,367 shares in the Company. These shares were held in the following capacity:
   (i) 191,502,715 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;
   (ii) 339,484,260 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder; and
   (iii) 329,583,392 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder.

   For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 860,570,367 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. She has no legal or beneficial interest in those shares otherwise.

(b) Mr John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 81,561,828 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 81,561,828 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 81,561,828 shares.

(c) Mr Philip L. Kadoorie was deemed (by virtue of the SFO) to be interested in 669,067,652 shares in the Company. These shares were held in the following capacity:
   (i) 339,484,260 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries; and
   (ii) 329,583,392 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries.

Messrs Andrew Brandler, Nicholas Colfer, James Lewis, Patrick Paul, Dr William Fung, Dr Rosanna Wong, Dr Kim Winser and Ms Ada Tse who are Directors of the Company have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2017.

20 www.hshgroup.com/en/corporate-governance/directors-of-subsidiaries

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 2017, none of the Directors of the Company (including their spouses and children under 18 years of age) had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations, within the meaning of Part XV of the SFO, recorded in the register required to be kept under section 352 of the SFO.

At no time during the year was the Company, or its subsidiaries, or its associated companies, a party to any arrangements which enabled any Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or of any other body corporate.

Interests of Senior Management

As at 31 December 2017, 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 2017, shareholders (other than Directors of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are as follows:

Long position in shares of the Company

(a) Substantial shareholders

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
Acorn Holdings Corporation	Beneficiary	191,502,715	12.05 (i)
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	273,064,543	17.18 (i)
Guardian Limited	Beneficiary/Interest of controlled corporation	81,561,828	5.13 (v)
Harneys Trustees Limited	Interests of controlled corporations	669,067,652	42.11 (iii)
Lawrencium Holdings Limited	Beneficiary	329,583,392	20.74 (ii)
Lawrencium Mikado Holdings Limited	Beneficiary	339,484,260	21.36 (ii)
The Magna Foundation	Beneficiary	339,484,260	21.36 (ii)
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	669,067,652	42.11 (ii)
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	81,561,828	5.13 (iv)
Oak (Unit Trust) Holdings Limited	Trustee	81,561,828	5.13 (i)
Oak HSH Limited	Beneficiary	81,561,828	5.13 (iv)
Mr Richard Parsons	Trustee	81,561,828	5.13 (v)

Directors' Report

Notes:

(i) Bermuda Trust Company Limited was deemed to be interested in the shares in which Acorn Holdings Corporation, Oak (Unit Trust) Holdings Limited and The Oak Private Trust Company Limited were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies.

The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie is among the discretionary objects as disclosed in "Interests of Directors".

(ii) The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited were deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested.

The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which The Hon. Sir Michael Kadoorie and/or Mr Philip L. Kadoorie are among the discretionary beneficiaries and/or a founder as disclosed in "Interests of Directors".

(iii) Harneys Trustees Limited controlled The Mikado Private Trust Company Limited and was therefore deemed to be interested in the shares in which such company was deemed to be interested.

(iv) The Oak Private Trust Company Limited was deemed to be interested in the shares in which Oak HSH Limited was deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such company.

(v) Mr Richard Parsons, in his capacity as one of the trustees of a trust, controlled Guardian Limited and therefore was deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 81,561,828 shares in which Guardian Limited was interested was duplicated within the interests attributed to Mr Richard Parsons and was also duplicated within the interests attributed to Mr John A.H. Leigh as disclosed in "Interests of Directors".

(b) Other substantial shareholders

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
Mr Chua Hwa Por	Interests of controlled corporations	190,702,103	12.00[(i)]
Chua Lee Holdings Limited	Trustee	190,702,103	12.00[(i)]
Tai He Financial Group Limited	Interests of controlled corporations	183,552,272	11.55[(i)]
Tai United Holdings Limited	Beneficiary/Interests of controlled corporations	183,552,272	11.55[(i)]
Mr Ng Chee Siong	Trustee	78,402,393	5.00[(ii)]
Mr Philip Ng Chee Tat	Trustee	78,402,393	5.00[(ii)]
Sino Hotels (Holdings) Limited	Interests of controlled corporations	78,402,393	5.00[(ii)]

Notes:

(i) Mr Chua Hwa Por and Chua Lee Holdings Limited were both deemed to be interested in the shares through their interests of controlled corporations including Tai He Financial Group Limited and Tai United Holdings Limited. The number and the percentage of shares held by all of them are based on the substantial shareholder notices filed with the Stock Exchange on 16 and 26 October 2017.

On 19 January 2018, Mr Chua Hwa Por and Chua Lee Holdings Limited ceased as substantial shareholders of the Company. On 25 January 2018, Satinu Resources Group Ltd. was deemed to be interested in the 183,552,272 shares through its interests of controlled corporations including Songbird SG Pte. Ltd., Tai He Financial Group Limited and Tai United Holdings Limited. The shares in the Company were acquired indirectly through the acquisition of shares in Tai United Holdings Limited by Songbird SG Pte. Ltd. The information is based on the substantial shareholder notices filed with the Stock Exchange on 25 and 26 January 2018.

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

Except as set out above, as at 31 December 2017, 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 2017, 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 2017 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 (including a former Director) 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 124 to 143.

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 2017, 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 2018 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 2018 Annual General Meeting.

By Order of the Board

Christobelle Liao
Company Secretary
16 March 2018

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 175 to 233, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017 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 matter was addressed in our audit
The Group owns interests in various hotel properties around 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 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.

Independent Auditor's Report

- 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
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

16 March 2018

Consolidated Statement of Profit or Loss (HK$m)

	Note	2017	2016
		Year ended 31 December	
Revenue	3	**5,782**	5,631
Cost of inventories		**(433)**	(428)
Staff costs and related expenses		**(2,135)**	(2,108)
Rent and utilities		**(548)**	(527)
Other operating expenses		**(1,244)**	(1,280)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)		**1,422**	1,288
Depreciation and amortisation		**(503)**	(464)
Operating profit		**919**	824
Interest income		**22**	37
Financing charges	5	**(109)**	(133)
Net financing charges		**(87)**	(96)
Profit after net financing charges	4	**832**	728
Share of result of a joint venture	14	**(97)**	20
Share of results of associates	15	**(24)**	(25)
Increase in fair value of investment properties	12(b)	**609**	29
Profit before taxation		**1,320**	752
Taxation			
Current tax	6	**(172)**	(139)
Deferred tax	6	**4**	54
Profit for the year		**1,152**	667
Profit attributable to:			
Shareholders of the Company		**1,155**	675
Non-controlling interests		**(3)**	(8)
Profit for the year		**1,152**	667
Earnings per share, basic and diluted (HK$)	9	**0.73**	0.43

The notes on pages 180 to 233 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income (HK$m)

	Note	Year ended 31 December 2017	2016
Profit for the year		**1,152**	667
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		**511**	(572)
– financial statements of joint ventures		**89**	(63)
– loans to an associate		**84**	(21)
– hotel operating rights		**62**	(16)
		746	(672)
Cash flow hedges:			
– effective portion of changes in fair values		**(8)**	(2)
– transfer from equity to profit or loss		**20**	22
		758	(652)
Item that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit retirement obligations		**(1)**	–
Other comprehensive income	8	**757**	(652)
Total comprehensive income for the year		**1,909**	15
Total comprehensive income attributable to:			
Shareholders of the Company		**1,891**	28
Non-controlling interests		**18**	(13)
Total comprehensive income for the year		**1,909**	15

The notes on pages 180 to 233 form part of these Financial Statements.

Consolidated Statement of Financial Position (HK$m)

		At 31 December	
	Note	**2017**	2016
Non-current assets			
Investment properties		**36,249**	33,896
Other properties, plant and equipment		**7,106**	6,816
	12	**43,355**	40,712
Interest in joint ventures	14	**1,055**	1,019
Interest in associates	15	**699**	642
Hotel operating rights	16	**564**	515
Deferred tax assets	18(b)	**38**	47
		45,711	42,935
Current assets			
Inventories	19	**77**	82
Trade and other receivables	20	**750**	655
Amount due from a joint venture	30(b)	**60**	111
Cash at banks and in hand	21(a)	**1,922**	2,087
		2,809	2,935
Current liabilities			
Trade and other payables	22	**(1,424)**	(1,359)
Interest-bearing borrowings	23	**(3,391)**	(2)
Derivative financial instruments	17	**(4)**	(7)
Current taxation	18(a)	**(41)**	(26)
		(4,860)	(1,394)
Net current (liabilities)/assets		**(2,051)**	1,541
Total assets less current liabilities		**43,660**	44,476
Non-current liabilities			
Interest-bearing borrowings	23	**(4,052)**	(6,996)
Trade and other payables	22	**(230)**	(229)
Net defined benefit retirement obligations	26(a)	**(17)**	(16)
Derivative financial instruments	17	**–**	(9)
Deferred tax liabilities	18(b)	**(659)**	(652)
		(4,958)	(7,902)
Net assets		**38,702**	36,574
Capital and reserves			
Share capital	24	**5,224**	5,005
Reserves		**32,951**	31,354
Total equity attributable to shareholders of the Company		**38,175**	36,359
Non-controlling interests		**527**	215
Total equity		**38,702**	36,574

Approved by the Board of Directors on 16 March 2018 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Matthew Lawson, Directors

The notes on pages 180 to 233 form part of these Financial Statements.

Consolidated Statement of Changes in Equity (HK$m)

Year ended 31 December

	Note	Share capital	Hedging reserve	Exchange and other reserves	Retained profits	Total	Non-controlling interests	Total equity
		Attributable to shareholders of the Company						
At 1 January 2016		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
Changes in equity for 2017:								
Profit for the year		**–**	**–**	**–**	**1,155**	**1,155**	**(3)**	**1,152**
Other comprehensive income	8	**–**	**12**	**724**	**–**	**736**	**21**	**757**
Total comprehensive income for the year		**–**	**12**	**724**	**1,155**	**1,891**	**18**	**1,909**
Dividends approved in respect of the previous year	10	**165**	**–**	**–**	**(235)**	**(70)**	**–**	**(70)**
Dividends approved in respect of the current year	10	**54**	**–**	**–**	**(63)**	**(9)**	**–**	**(9)**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Capital contribution from a non-controlling shareholder		**–**	**–**	**–**	**–**	**–**	**125**	**125**
Disposal of interest in subsidiaries to a non-controlling shareholder	30(d)	**–**	**–**	**70**	**(66)**	**4**	**174**	**178**
Balance at 31 December 2017		**5,224**	**(15)**	**64**	**32,902**	**38,175**	**527**	**38,702**

The notes on pages 180 to 233 form part of these Financial Statements.

Consolidated Statement of Cash Flows (HK$m)

	Note	Year ended 31 December 2017	2016
Operating activities			
Profit after net financing charges		**832**	728
Adjustments for:			
Depreciation	12(a)	**489**	451
Amortisation of hotel operating rights	16	**14**	13
Interest income	4	**(22)**	(37)
Financing charges	5	**109**	133
Operating profit before changes in working capital		**1,422**	1,288
Changes in working capital		**(53)**	24
Cash generated from operations		**1,369**	1,312
Net tax (paid)/refunded:			
Hong Kong profits tax paid		**(142)**	(137)
Overseas tax (paid)/refunded		**(11)**	1
Net cash generated from operating activities		**1,216**	1,176
Investing activities			
Payment for the purchase of property, plant and equipment and investment properties		**(1,654)**	(1,131)
Payment for the acquisition of additional interest in 1-5 Grosvenor Place		**–**	(1,288)
Cash injected from a non-controlling shareholder		**22**	–
Dividend from an associate		**5**	5
Capital injection into a joint venture		**(44)**	(161)
Net loan repayment from a joint venture/associate		**56**	58
Net cash used in investing activities		**(1,615)**	(2,517)
Financing activities			
Drawdown of term loans		**–**	800
Net increase/(decease) in revolving loans		**235**	(53)
Net (placement)/withdrawal of interest-bearing bank deposits with maturity of more than three months		**(125)**	2,016
Interest paid and other financing charges		**(140)**	(138)
Interest received		**21**	45
Disposal of interest in subsidiaries to a non-controlling shareholder		**178**	–
Dividends paid to shareholders of the Company		**(79)**	(96)
Dividends paid to holders of non-controlling interests		**(5)**	(5)
Net cash generated from financing activities		**85**	2,569
Net (decrease)/increase in cash and cash equivalents		**(314)**	1,228
Cash and cash equivalents at 1 January		**1,955**	768
Effect of changes in foreign exchange rates		**19**	(41)
Cash and cash equivalents at 31 December	21(a)	**1,660**	1,955

The notes on pages 180 to 233 form part of these Financial Statements.

Notes to the Financial Statements

1. Company-level Statement of Financial Position (HK$m)

	Note	2017	2016
		Year ended 31 December	
Non-current assets			
Investment in subsidiaries	13	**–**	–
Current assets			
Amounts due from subsidiaries		**14,155**	13,376
Other receivables		**7**	10
Cash at banks and in hand		**289**	313
		14,451	13,699
Current liabilities			
Amounts due to subsidiaries		**(696)**	(473)
Other payables and accruals		**(25)**	(22)
		(721)	(495)
Net assets		**13,730**	13,204
Capital and reserves			
Share capital	24	**5,224**	5,005
Reserves	25(a)	**8,506**	8,199
Total equity		**13,730**	13,204

Approved by the Board of Directors on 16 March 2018 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:

	2017	2016
Hotels		
– Rooms	**1,912**	1,812
– Food and beverage	**1,246**	1,173
– Shopping arcades and offices	**643**	691
– Others	**388**	364
	4,189	4,040
Commercial properties		
– Residential properties	**489**	480
– Offices	**90**	121
– Shopping arcades	**364**	334
	943	935
Clubs and Services		
– Clubs and consultancy services	**6**	68
– Peak Tram operation	**128**	120
– Others	**516**	468
	650	656
	5,782	5,631

Notes to the Financial Statements

4. Profit After Net Financing Charges (HK$m)

Profit after net financing charges is arrived at after charging/(crediting):

	2017	2016
Amortisation	**14**	13
Depreciation	**489**	451
Auditor's remuneration:		
audit services	**10**	10
taxation and other services	**4**	4
Minimum operating lease charges for properties, including contingent rent of HK$13 million (2016: HK$13 million)	**175**	173
Interest income	**(22)**	(37)
Rentals receivable from investment properties less direct outgoings of HK$20 million (2016: HK$18 million)	**(1,229)**	(1,282)

5. Financing Charges (HK$m)

	2017	2016
Interest on bank borrowings	**116**	94
Other borrowing costs	**19**	18
Total interest expenses on financial liabilities carried at amortised cost	**135**	112
Derivative financial instruments:		
– cash flow hedges, transfer from equity (note 8)	**22**	24
	157	136
Less: Interest expenses capitalised into properties under development*	**(48)**	(3)
	109	133

* The borrowing costs have been capitalised at an average rate of 2.4% per annum in 2017 (2016: 2.1%).

6. Income Tax in the Consolidated Statement of Profit or Loss (HK$m)

(a) Taxation in the consolidated statement of profit or loss represents:

	2017	2016
Current tax – Hong Kong profits tax		
Provision for the year (note 18(a))	**160**	142
Over-provision in respect of prior years	**(1)**	(5)
	159	137
Current tax – Overseas		
Net charge for the year	**13**	2
	172	139
Deferred tax		
Decrease in net deferred tax liabilities relating to revaluation of overseas investment properties	**(16)**	(21)
Increase/(decrease) in net deferred tax liabilities relating to other temporary differences	**13**	(32)
Effect of decrease in tax rates on deferred tax balances	**(1)**	(1)
	(4)	(54)
Total	**168**	85

The provision for Hong Kong profits tax for 2017 is calculated at 16.5% (2016: 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:

	2017	2016
Profit before taxation	**1,320**	752
Notional tax at the domestic income tax rate of 16.5% (2016: 16.5%)	**218**	124
Tax effect of non-deductible expenses	**8**	4
Tax effect of non-taxable income	**(6)**	(12)
Tax effect of share of losses of a joint venture and associates	**20**	1
Tax effect of fair value gain on Hong Kong investment properties	**(113)**	(9)
Tax effect of utilisation/(recognition) of previously unrecognised tax losses	**9**	(13)
Tax effect of tax losses not recognised	**28**	30
Effect of different tax rates of subsidiaries operating in other jurisdictions	**4**	(28)
Effect of change in tax rates on deferred tax balances as at 1 January	**(2)**	(1)
Over-provision in prior years	**(3)**	(12)
Others	**5**	1
Actual tax expense	**168**	85

Notes to the Financial Statements

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 six (2016: seven) senior management. The total remuneration of the key management personnel is shown below:

	2017		2016	
	Executive and Non-executive Directors	**GMB members other than Executive Directors**	Executive and Non-executive Directors	GMB members other than Executive Directors
Directors' fees	**4,881**	**–**	4,703	–
Basic compensation	**16,144**	**22,523**	14,262	25,021
Bonuses and incentives	**13,548**	**8,008**	12,566	7,859
Retirement benefits	**2,641**	**2,137**	2,333	2,347
Other benefits	**541**	**945**	591	1,114
	37,755	**33,613**	34,455	36,341

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 "2017 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)

	2017			2016		
	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	**511**	**–**	**511**	(572)	–	(572)
– financial statements of joint ventures	**89**	**–**	**89**	(63)	–	(63)
– loans to an associate	**84**	**–**	**84**	(21)	–	(21)
– hotel operating rights	**62**	**–**	**62**	(16)	–	(16)
	746	**–**	**746**	(672)	–	(672)
Cash flow hedges:						
– effective portion of changes in fair values	**(10)**	**2**	**(8)**	(2)	–	(2)
– transfer from equity to profit or loss	**22**	**(2)**	**20**	24	(2)	22
Remeasurement of net defined benefit retirement obligations	**(1)**	**–**	**(1)**	–	–	–
Other comprehensive income	**757**	**–**	**757**	(650)	(2)	(652)

9. Earnings per Share

(a) Earnings per share – basic

	2017	2016
Profit attributable to shareholders of the Company (HK$m)	**1,155**	675
Weighted average number of shares in issue (million shares)	**1,578**	1,554
Earnings per share (HK$)	**0.73**	0.43

	2017	2016
	(million shares)	*(million shares)*
Issued shares at 1 January	**1,567**	*1,543*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2016 final dividend and 2017 interim dividend	**11**	*11*
Weighted average number of shares at 31 December	**1,578**	*1,554*

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2017 and 2016 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

	2017	2016
Interim dividend declared and paid of 4 HK cents per share (2016: 4 HK cents per share)	**63**	62
Final dividend proposed after the end of the reporting period of 16 HK cents per share (2016: 15 HK cents per share)	**255**	235
	318	297

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

	2017	2016
Final dividend in respect of the previous financial year, approved and paid during the year, of 15 HK cents per share (2016: 15 HK cents per share)	**235**	231

Notes to the Financial Statements

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.

(a) Segment results

The results of the Group's reportable segments for the years ended 31 December 2017 and 2016 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Reportable segment revenue*	**4,189**	4,040	**943**	935	**650**	656	**5,782**	5,631
Reportable segment operating profits before interest, taxation, depreciation and amortisation (EBITDA)	**732**	649	**558**	518	**132**	121	**1,422**	1,288
Depreciation and amortisation	**(457)**	(418)	**(10)**	(11)	**(36)**	(35)	**(503)**	(464)
Segment operating profit	**275**	231	**548**	507	**96**	86	**919**	824

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

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 2017 and 2016 are set out as follows:

	Note	**2017**	2016
Reportable segment assets			
Hotels		**22,250**	17,868
Commercial properties		**21,417**	23,087
Clubs and services		**1,079**	1,009
		44,746	41,964
Unallocated assets			
Interest in joint ventures	14	**1,055**	1,019
Interest in associates	15	**699**	642
Deferred tax assets	18(b)	**38**	47
Amount due from a joint venture	30(b)	**60**	111
Cash at banks and in hand	21(a)	**1,922**	2,087
Consolidated total assets		**48,520**	45,870

(c) Geographical information

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	
	2017	2016	**2017**	2016
Hong Kong	**2,626**	2,615	**30,255**	29,579
Other Asia*	**1,656**	1,526	**6,298**	5,224
United States of America and Europe	**1,500**	1,490	**9,120**	8,085
	5,782	5,631	**45,673**	42,888

* Other Asia includes Mainland China, Japan, Thailand, The Philippines, Vietnam and Myanmar.

Notes to the Financial Statements

12. Investment Properties and Other Properties, Plant and Equipment (HK$m)

(a) Movements of investment properties and other properties, plant and equipment

	Land	Hotel and other buildings held for own use	Plant, machinery and equipment	Construction in progress	Sub-total	Investment properties	Investment property held for redevelopment	Total
Cost or valuation:								
At 1 January 2016	826	7,508	4,279	434	13,047	31,145	1,638	45,830
Exchange adjustments	2	(17)	(3)	(38)	(56)	(78)	(344)	(478)
Additions	–	19	120	941	1,080	111	1,288	2,479
Disposals	–	(6)	(262)	–	(268)	–	–	(268)
Transfer	–	461	284	(852)	(107)	107	–	–
Fair value adjustment	–	–	–	–	–	28	1	29
At 31 December 2016	828	7,965	4,418	485	13,696	31,313	2,583	47,592
Representing:								
Cost	828	7,965	4,418	485	13,696	–	–	13,696
Valuation – 2016	–	–	–	–	–	31,313	2,583	33,896
	828	7,965	4,418	485	13,696	31,313	2,583	47,592
At 1 January 2017	**828**	**7,965**	**4,418**	**485**	**13,696**	**31,313**	**2,583**	**47,592**
Exchange adjustments	**54**	**278**	**93**	**14**	**439**	**191**	**293**	**923**
Additions	**–**	**45**	**91**	**681**	**817**	**496**	**514**	**1,827**
Disposals	**–**	**–**	**(36)**	**–**	**(36)**	**–**	**–**	**(36)**
Transfer	**–**	**319**	**172**	**(741)**	**(250)**	**–**	**250**	**–**
Fair value adjustment	**–**	**–**	**–**	**–**	**–**	**609**	**–**	**609**
At 31 December 2017	**882**	**8,607**	**4,738**	**439**	**14,666**	**32,609**	**3,640**	**50,915**
Representing:								
Cost	**882**	**8,607**	**4,738**	**439**	**14,666**	**–**	**–**	**14,666**
Valuation – 2017	**–**	**–**	**–**	**–**	**–**	**32,609**	**3,640**	**36,249**
	882	**8,607**	**4,738**	**439**	**14,666**	**32,609**	**3,640**	**50,915**
Accumulated depreciation and impairment losses:								
At 1 January 2016	323	3,461	2,949	–	6,733	–	–	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	3,588	2,968	–	6,880	–	–	6,880
At 1 January 2017	**324**	**3,588**	**2,968**	**–**	**6,880**	**–**	**–**	**6,880**
Exchange adjustments	**31**	**131**	**64**	**–**	**226**	**–**	**–**	**226**
Charge for the year	**–**	**182**	**307**	**–**	**489**	**–**	**–**	**489**
Written back on disposals	**–**	**–**	**(35)**	**–**	**(35)**	**–**	**–**	**(35)**
At 31 December 2017	**355**	**3,901**	**3,304**	**–**	**7,560**	**–**	**–**	**7,560**
Net book value:								
At 31 December 2017	**527**	**4,706**	**1,434**	**439**	**7,106**	**32,609**	**3,640**	**43,355**
At 31 December 2016	504	4,377	1,450	485	6,816	31,313	2,583	40,712

12. Investment Properties and Other Properties, Plant and Equipment (HK$m) continued

(a) Movements of investment properties and other properties, plant and equipment continued

The additions in 2017 mainly related to the cost of acquisition of 5 apartment units from the Group's Shanghai joint venture, the development costs incurred for the projects in London and Yangon and the renovation costs incurred by The Peninsula Beijing and 21 avenue Kléber.

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 2017 and 2016.

(b) All investment properties of the Group were revalued as at 31 December 2017. 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
	Colliers International Consultancy & Valuation (Singapore) Pte. Limited (Colliers)	Members of the Royal Institution of Chartered Surveyors
United States of America		
Retail shops and vacant land	Colliers	Members of the Royal Institution of Chartered Surveyors
Europe		
Retail shops, offices, residential apartments and property under development	Colliers	Members of the Royal Institution of Chartered Surveyors

* Other Asia includes Mainland China, Japan, Thailand, The Philippines and Vietnam.

Notes to the Financial Statements

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 2017:

Valuation technique	Valuation parameters	Range
Income capitalisation approach	Capitalisation rate	
	– Shopping arcades	3.8% – 6.6% (2016: 3.8% – 6.6%)
	– Offices	3.9% – 4.1% (2016: 3.8% – 4.6%)
	– Residential properties	2.9% – 3.7% (2016: 3.0% – 3.8%)
	Expected monthly market rental per square foot	
	– Shopping arcades	HK$44 – HK$1,300 (2016: HK$40 – HK$1,300)
	– Offices	HK$29 – HK$54 (2016: HK$21 – HK$53)
	– Residential properties	HK$40 – HK$74 (2016: HK$40 – 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 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.

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

(e) The analysis of net book value of properties is as follows:

		2017	2016
Hong Kong	– Long term leases	**28,124**	27,411
	– Medium term lease	**1,551**	1,495
Other Asia*	– Freehold	**1,238**	1,126
	– Long term lease	**1,318**	1,295
	– Medium term lease	**1,947**	1,359
	– Short term lease	**139**	68
USA	– Freehold	**1,192**	1,215
	– Long term lease	**1,570**	1,583
Europe	– Freehold	**763**	642
	– Long term lease	**3,640**	2,583
		41,482	38,777

* Other Asia includes Mainland China, Japan, Thailand, The Philippines, Vietnam and Myanmar.

	2017	2016
Representing:		
Land and buildings carried at fair value (investment properties)	**36,249**	33,896
Land and buildings carried at cost	**5,233**	4,881
	41,482	38,777

(f) 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
Shanghai apartments, No. 32 The Bund, 32 Zhong Shan Dong Yi Road, Shanghai	Residential

Notes to the Financial Statements

12. Investment Properties and Other Properties, Plant and Equipment (HK$m) continued

(f) 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:	
Short term lease (less than 10 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	Under redevelopment
Held in Myanmar:	
Medium term lease (between 10 and 50 years):	
371-380 Bogyoke Aung San Road, Yangon	Under redevelopment

12. Investment Properties and Other Properties, Plant and Equipment (HK$m) continued

(g) The net book value of the Group's hotels and golf courses as at 31 December 2017 amounted to HK$6,476 million (2016: HK$6,225 million). To provide additional information for shareholders, the Directors commissioned an independent valuation of these properties as at 31 December 2017.

The total valuation placed on these properties amounted to HK$9,656 million (2016: HK$9,417 million) as at 31 December 2017. It is important to note that the surplus of HK$3,180 million (2016: HK$3,192 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 courses	Colliers	Members of the 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.

Company name	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

Notes to the Financial Statements

13. Investment in Subsidiaries continued

Company name	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
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
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	50%ΔΔ	Hotel investment
Town and Country Sport Club Company Limited	Thailand	1,250,000 ordinary shares of THB100 eachΔ	50%ΔΔ	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	1,801,000 shares of EUR1 each	100%	Property investment
Peninsula London, LP	United Kingdom	Contributed capital of GBP1,000	100%	Property investment and hotel development
Peninsula Yangon Limited	Myanmar	19,075,000 shares of US$1 each	70%	Hotel investment

* Except for HSH Financial Services Limited, all subsidiaries are indirectly held.

** The Palace Hotel Co., Ltd. is a sino-foreign co-operative joint venture with a reversionary interest to the PRC party at the end of the joint venture period.

\# 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.

ΔΔ Since 2002, the Group had held a 75% interest in the holding company of our Thai subsidiaries which in turn own 100% direct interest in The Peninsula Bangkok and Thai Country Club.
On 29 August 2017, the Thai Partner exercised an option to buy back a 25% interest in the Thai holding company. This option was given the Thai Partner pursuant to a restructuring of the debt and equity of the Thai holding company in 2002.
Following the completion of the exercise of this option, the economic interest in the Thai subsidiaries became 50:50 between the Group and the Thai Partner.

The non-controlling interests in individual subsidiaries are considered immaterial to the Group.

14. Interest in Joint Ventures (HK$m)

	2017	2016
Share of net assets	**534**	498
Loans to a joint venture (note 30(b))	**521**	521
	1,055	1,019

(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 and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Shanghai Waitan Hotel Company Limited (PSW)	Incorporated	PRC	US$117,500,000	50%	Hotel investment and apartments held for sale
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)*	Incorporated	Turkey	TRY171,700,000	50%	Hotel investment

* 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 2017, capital injected into PIT amounted to HK$205 million (2016: HK$161 million). The net assets of PIT at 31 December 2017 mainly comprised of property under development and cash at bank and in hand of HK$479 million (2016: HK$132 million) and HK$9 million (2016: HK$25 million) respectively.

(b) The Peninsula Shanghai Waitan Hotel Company Limited has pledged its properties inclusive of the land use rights as security for a loan facility amounting to RMB2,500 million (HK$2,991 million) (2016: RMB2,500 million (HK$2,787 million)). As at 31 December 2017, the loan drawn down amounted to RMB1,205 million (HK$1,442 million) (2016: RMB1,774 million (HK$1,977 million)). The net carrying amount of these pledged assets amounted to RMB2,905 million (HK$3,475 million) (2016: RMB3,857 million (HK$4,300 million)).

Notes to the Financial Statements

14. Interest in Joint Ventures (HK$m) continued

(c) Set out below is a summary of the financial information on The Peninsula Shanghai Waitan Hotel Company Limited, of which the Group has a 50% share:

	2017	2016
Non-current assets*	**2,808**	4,256
Cash at bank and in hand	**154**	127
Apartments held for sale and other current assets	**738**	163
Current liabilities	**(341)**	(349)
Non-current liabilities	**(2,748)**	(3,515)
Net assets	**611**	682
Proceeds from sale of apartments *	**773**	229
Hotel revenue and rental income	**603**	598
	1,376	827
Cost of apartments sold **	**(773)**	(157)
Hotel cost of inventories and operating expenses	**(368)**	(397)
	(1,141)	(554)
EBITDA	**235**	273
Depreciation	**(85)**	(81)
Net financing charges	**(95)**	(114)
Profit before non-operating items	**55**	78
Non-operating items, net of tax[Δ]	**(250)**	(38)
(Loss)/profit for the year	**(195)**	40
The Group's share of result of PSW	**(97)**	20

* In 2017, the company reclassified its remaining 20 apartments held for rental from investment properties to apartments held for sale, of which 11 apartment units were sold during the year (2016: 4 apartment units).

** The cost of apartments sold included cumulative revaluation gains, net of tax, of HK$300 million (2016: HK$80 million) which were realised upon disposal during the year.

Δ The non-operating items in 2017 mainly represented the unrealised loss in respect of the provision of PRC land appreciation tax and other transaction costs resulting from the reclassification of the remaining 20 apartments held for rental from investment properties to apartments held for sale and the unrealised loss on revaluation of the hotel's commercial arcade, net of tax (2016: unrealised loss on revaluation of the hotel's commercial arcade and apartments held for rental, net of tax).

15. Interest in Associates (HK$m)

	2017	2016
Interest in associates	**699**	642

(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 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 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 long-term loans to 19 Holding of HK$467 million (2016: HK$616 million). These loans were made pro rata to the Group's shareholding in 19 Holding and bear interest 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$2,053 million) (2016: EUR220 million (HK$1,802 million)). As at 31 December 2017, the loan drawn down amounted to EUR220 million (HK$2,053 million) (2016: EUR220 million (HK$1,802 million)). As at 31 December 2017, the net carrying amount of these pledged assets amounted to EUR593 million (HK$5,531 million) (2016: EUR613 million (HK$5,017 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) (2016: US$145 million (HK$1,131 million)). As at 31 December 2017, the loan drawn down amounted to US$134 million (HK$1,044 million) (2016: US$137 million (HK$1,069 million). The net carrying amount of the pledged assets amounted to US$62 million (HK$485 million) (2016: US$61 million (HK$476 million)).

Notes to the Financial Statements

15. Interest in Associates (HK$m) continued

(e) Set out below is a summary of the aggregate financial information of the associates, of which the Group has a 20% share:

	2017	2016
EBITDA	**214**	184
Depreciation	**(243)**	(228)
Interest	**(91)**	(81)
Net loss from continuing operations	**(120)**	(125)
Other comprehensive income	**–**	–
Total comprehensive income	**(120)**	(125)
The Group's share of results of the associates	**(24)**	(25)

16. Hotel Operating Rights (HK$m)

	2017	2016
Cost		
At 1 January	**657**	674
Exchange adjustments	**66**	(17)
At 31 December	**723**	657
Accumulated amortisation		
At 1 January	**(142)**	(130)
Exchange adjustments	**(3)**	1
Amortisation for the year	**(14)**	(13)
At 31 December	**(159)**	(142)
Net book value	**564**	515

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)

	2017 **Liabilities**	2016 Liabilities
Cash flow hedges:		
Interest rate swaps	**(4)**	(15)
At fair value through profit or loss:		
Interest rate swaps	**–**	(1)
	(4)	(16)
Less: Portion to be settled within one year		
Cash flow hedges:		
Interest rate swaps	**(4)**	(6)
At fair value through profit or loss:		
Interest rate swaps	**–**	(1)
	(4)	(7)
Amount to be settled after one year	**–**	(9)

18. Income Tax in the Consolidated Statement of Financial Position (HK$m)

(a) Current taxation in the consolidated statement of financial position represents:

	2017	2016
Provision for Hong Kong profits tax for the year (note 6(a))	**160**	142
Provisional profits tax paid	**(138)**	(135)
	22	7
Tax recoverable relating to prior year	**–**	(2)
Provision for overseas taxes	**15**	15
	37	20
Represented by:		
Tax recoverable (note 20)	**(4)**	(6)
Current tax payable (included in current liabilities)	**41**	26
	37	20

Notes to the Financial Statements

18. Income Tax in the Consolidated Statement of Financial Position (HK$m) continued

(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 2016	498	647	(25)	(446)	(3)	671
Exchange adjustments	(11)	(1)	–	(2)	–	(14)
Charged/(credited) to profit or loss	5	52	1	(112)	–	(54)
Charged to hedging reserve	–	–	–	–	2	2
At 31 December 2016 and at 1 January 2017	**492**	**698**	**(24)**	**(560)**	**(1)**	**605**
Exchange adjustments	**18**	**10**	**–**	**(8)**	**–**	**20**
Charged/(credited) to profit or loss	**(130)**	**5**	**(4)**	**125**	**–**	**(4)**
At 31 December 2017	**380**	**713**	**(28)**	**(443)**	**(1)**	**621**

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.

	2017	2016
Deferred tax assets	**38**	47
Deferred tax liabilities	**(659)**	(652)
	(621)	(605)

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$382 million (2016: HK$465 million) in respect of certain accumulated tax losses of HK$1,354 million (2016: HK$1,392 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:

	2017	2016
Expiring in one year	**79**	–
After one year but within five years	**672**	610
After five years but within 20 years	**537**	663
Without expiry date	**66**	119
	1,354	1,392

The Group does not have any deferred tax liabilities arising from any undistributable profit in 2017 and 2016.

19. Inventories (HK$m)

	2017	2016
Food and beverage and others	**77**	82

The cost of inventories recognised as expenses in the consolidated statement of profit or loss amounted to HK$433 million (2016: HK$428 million).

20. Trade and Other Receivables (HK$m)

	2017	2016
Trade debtors	**285**	271
Rental deposits, payments in advance and other receivables	**461**	378
Tax recoverable (note 18(a))	**4**	6
	750	655

Notes to the Financial Statements

20. Trade and Other Receivables (HK$m) continued

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$111 million (2016: HK$139 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.

The ageing analysis of trade debtors is as follows:

	2017	2016
Current	**253**	255
Less than one month past due	**25**	10
One to three months past due	**6**	5
More than three months but less than 12 months past due	**1**	1
Amounts past due	**32**	16
	285	271

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 and Cash Equivalents and Other Cash Flow Information (HK$m)

(a) Cash at banks and in hand

	2017	2016
Interest-bearing bank deposits	**1,658**	1,902
Cash at banks and in hand	**264**	185
Total cash at banks and in hand	**1,922**	2,087
Less: Bank deposits with maturity of more than three months	**(255)**	(130)
Bank overdrafts	**(7)**	(2)
Cash and cash equivalents in the consolidated statement of cash flows	**1,660**	1,955

Cash at banks and in hand at the end of the reporting period include amounts of HK$218 million (2016: HK$314 million) held by overseas subsidiaries which are subject to regulatory and foreign exchange restrictions.

21. Cash and Cash Equivalents and Other Cash Flow Information (HK$m) continued

(b) Reconciliation of liabilities arising from financing activities

	Interest-bearing borrowings	Derivative financial instruments	Interest payable	Total
As at 1 January 2017	6,998	16	7	7,021
Net increasing in revolving loans	235	–	–	235
Exchange difference	194	–	1	195
Financing charge	16	–	93	109
Capitalised borrowing costs (note 5)	–	–	48	48
Effective portion of changes in fair values (note 8)	–	10	–	10
Transfer from equity to profit or loss (note 8)	–	(22)	–	(22)
Interest paid and other financing charges	–	–	(140)	(140)
As at 31 December 2017	7,443	4	9	7,456

22. Trade and Other Payables (HK$m)

	2017	2016
Trade creditors	**140**	148
Interest payable	**9**	7
Accruals for property, plant and equipment	**172**	145
Tenants' deposits	**360**	381
Guest deposits and gift vouchers	**155**	157
Golf membership deposits	**89**	76
Other payables	**729**	674
Financial liabilities measured at amortised cost	**1,654**	1,588
Less: Non-current portion of trade and other payables	**(230)**	(229)
Current portion of trade and other payables	**1,424**	1,359

As at 31 December 2017, trade and other payables of the Group expected to be settled or recognised as income after more than one year amounted to HK$321 million (2016: HK$310 million). 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:

	2017	2016
Less than three months	**130**	144
Three to six months	**4**	2
More than six months	**6**	2
	140	148

Notes to the Financial Statements

23. Interest-bearing Borrowings (HK$m)

	2017	2016
Total facilities available:		
Term loans and revolving credits	**9,310**	9,116
Uncommitted facilities, including bank overdrafts	**429**	323
	9,739	9,439
Utilised at 31 December:		
Term loans and revolving credits	**7,466**	7,047
Uncommitted facilities, including bank overdrafts	**12**	2
	7,478	7,049
Less: Unamortised financing charges	**(35)**	(51)
	7,443	6,998
Represented by:		
Long-term bank loans, repayable within one year	**3,379**	–
Short-term bank loans and overdrafts, repayable on demand	**12**	2
	3,391	2
Long-term bank loans, repayable:		
Between one and two years	**488**	3,291
Between two and five years	**3,599**	2,423
Over five years	**–**	1,333
	4,087	7,047
Less: Unamortised financing charges	**(35)**	(51)
Non-current portion of long-term bank loans	**4,052**	6,996
Total interest-bearing borrowings	**7,443**	6,998

All of the interest-bearing borrowings are unsecured. The non-current portion of long-term bank loans is not expected to be settled within one year whereas the current portion of the loans is maturing in 2018. The Group intends to refinance these loan facilities upon their maturities.

On 6 March 2018, the Company, through a wholly owned subsidiary, obtained a GBP650 million (HK$6.8 billion) 5-year term loan facility from a group of five financial institutions. The loan is unsecured and bears interest at LIBOR plus a fixed margin. Drawdown of the loan will be staggered into phases to fund the progress payments of the construction costs of The Peninsula London project.

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 2017 and 2016, none of the covenants relating to drawn down facilities had been breached.

24. Share Capital

	2017		2016	
	No. of shares (million)	**HK$m**	No. of shares (million)	HK$m
Ordinary shares, issued and fully paid:				
At 1 January	**1,567**	**5,005**	1,543	4,808
Shares issued under scrip dividend scheme (note)	**22**	**219**	24	197
At 31 December	**1,589**	**5,224**	1,567	5,005

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 2017 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 2017, 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
2016 final scrip dividend	18	9.180	165
2017 interim scrip dividend	4	13.060	54
	22		219

Notes to the Financial Statements

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 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
At 1 January 2017	**4,975**	**3,224**	**8,199**
Profit for the year	**–**	**605**	**605**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**605**	**605**
Dividends approved in respect of the previous year	**–**	**(235)**	**(235)**
Dividends approved in respect of the current year	**–**	**(63)**	**(63)**
At 31 December 2017	**4,975**	**3,531**	**8,506**

(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 2017, 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$3,531 million (2016: HK$3,224 million). After the end of the reporting period, the Directors proposed a final dividend of 16 HK cents per share (2016: 15 HK cents per share), amounting to HK$255 million (2016: HK$235 million). This dividend has not been recognised as a liability at the end of the reporting period.

25. Reserves (HK$m) continued

(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.

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 2017 and 2016 are as follows:

	2017	2016
Interest-bearing borrowings	**7,443**	6,998
Less: Cash at banks and in hand	**(1,922)**	(2,087)
Net borrowings per the statement of financial position	**5,521**	4,911
Share of net borrowings of non-consolidated entities	**1,239**	1,466
Net borrowings adjusted for non-consolidated entities	**6,760**	6,377
Equity attributable to shareholders of the Company per the statement of financial position	**38,175**	36,359
Equity plus net borrowings per the statement of financial position	**43,696**	41,270
Equity plus net borrowings adjusted for non-consolidated entities	**44,935**	42,736
Gearing ratio based on the Financial Statements	**13%**	12%
Gearing ratio adjusted for non-consolidated entities	**15%**	15%

During 2017, 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 2017 and 2016. Except for the above, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the Financial Statements

26. Employee Retirement Benefits (HK$m)

(a) Defined benefit retirement obligations

The Group maintains several defined benefit retirement plans covering 550 employees (2016: 587 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 2017.

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 2017. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were 77% (2016: 81%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2017.

The amounts recognised in the Group's statement of financial position are as follows:

	2017	2016
Present value of wholly or partly funded obligations	**45**	46
Fair value of plan assets	**(28)**	(30)
	17	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$4 million (2017: HK$5 million) in contributions to defined benefit retirement plans in 2018.

26. Employee Retirement Benefits (HK$m) continued

(a) Defined benefit retirement obligations continued

Plan assets consist of the following:

	2017	2016
Debt instruments	**20**	23
Investment funds	**3**	6
Equity investment and others	**5**	1
	28	30

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:

	2017	2016
At 1 January	**46**	47
Exchange adjustments	**1**	(2)
Benefits paid by the plans	**(7)**	(4)
Current service cost	**3**	4
Interest cost	**2**	2
Actuarial gain	**–**	(1)
At 31 December	**45**	46

Movements in plan assets:

	2017	2016
At 1 January	**30**	31
Exchange adjustments	**1**	(2)
Group's contributions paid to the plans	**4**	4
Benefits paid by the plans	**(7)**	(4)
Interest income	**1**	2
Return on plan assets, excluding interest income	**(1)**	(1)
At 31 December	**28**	30

Notes to the Financial Statements

26. Employee Retirement Benefits (HK$m) continued

(a) Defined benefit retirement obligations continued

Amounts recognised in "staff costs and related expenses" in the consolidated statement of profit or loss and statement of comprehensive income are as follows:

	2017	2016
Consolidated statement of profit or loss		
Current service cost	**3**	4
Interest cost	**2**	2
Interest income	**(1)**	(2)
	4	4
Consolidated statement of comprehensive income		
Actuarial gain on:		
Remeasurement of plan assets	**(1)**	1
Remeasurement of defined benefit obligations	**–**	(1)
	(1)	–

The principal actuarial assumptions used as at 31 December 2017 are as follows:

	2017	2016
Discount rate	**from 2.5% to 6.5%**	from 2.25% to 6.5%
Future salary increases	**4%**	4%

The analysis below shows how the defined benefit obligations as at 31 December 2017 would have increased/(decreased) as a result of changes in the significant actuarial assumptions:

	Defined benefit obligations	
	Increase	Decrease
Discount rate (0.5% change)	(1)	1
Future salary increases (1% change)	1	(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 (HK$m) continued

(b) Defined contribution retirement plans

The Group has a defined contribution retirement plan covering 1,554 employees (2016: 1,558 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% (2016: 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 210 employees (2016: 457 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 2,219 employees (2016: 2,211 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$116 million (2016: HK$110 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.

Notes to the Financial Statements

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 2017 and 2016, 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 ventures and associates are excluded.

	2017			2016			
(million)	**United States Dollars**	**Euro**	**Philippine Pesos**	United States Dollars	Euro	Great Britain Pounds	Philippine Pesos
Trade and other receivables	**28**	**2**	**–**	27	2	–	–
Cash at banks and in hand	**43**	**–**	**5**	44	1	19	5
Trade and other payables	**(41)**	**–**	**–**	(18)	–	–	–
Net exposure arising from recognised assets and liabilities	**30**	**2**	**5**	53	3	19	5

Based on the sensitivity analysis performed as at 31 December 2017, 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 2017, the Group had interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK$1,719 million (2016: HK$1,649 million) maturing over the next three year (2016: two 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 2017:

	31 December 2017	31 December 2016
Hong Kong Dollars	**1.5% to 1.6%**	1.5% to 1.6%
Japanese Yen	**0.1%**	2.1%
Euros	**1.2%**	1.2%

The net fair value of all the swaps entered into by the Group at 31 December 2017 was as follows (HK$m):

	2017	2016
Cash flow hedges (note 17)	**(4)**	(15)
At fair value through profit or loss (note 17)	**–**	(1)
	(4)	(16)

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.

	2017		2016	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**2.0%**	**4,844**	2.2%	4,712
Floating rate borrowings:				
Bank loans	**2.3%**	**2,599**	2.1%	2,286
Total interest-bearing borrowings		**7,443**		6,998
Fixed rate borrowings as a percentage of total borrowings		**65%**		67%

Notes to the Financial Statements

27. Financial Risk Management and Fair Values continued

(b) Interest rate risk continued

On the other hand, as at 31 December 2017 and 2016, 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:

	2017		2016	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate instruments:				
Amount due from a joint venture	**3.3%**	**60**	3.3%	111
Floating rate instruments:				
Bank deposits	**1.2%**	**1,658**	1.1%	1,902
Total interest-bearing financial assets		**1,718**		2,013

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 2017 and 2016, 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.

	2017 Increase/(decrease) in			2016 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**	**1**	**–**	100	2	–
	(100)	**(1)**	**–**	(100)	(2)	–
Thai Baht	**100**	**(3)**	**–**	100	(3)	–
	(100)	**3**	**–**	(100)	3	–
Japanese Yen	**50**	**(1)**	**4**	50	(1)	1
	(50)	**1**	**–**	(50)	1	(1)
Philippine Pesos	**200**	**–**	**–**	200	–	–
	(200)	**–**	**–**	(200)	–	–
HK Dollars	**100**	**(2)**	**8**	100	(2)	15
	(100)	**2**	**(8)**	(100)	2	(16)
US Dollars	**100**	**1**	**–**	100	1	–
	(100)	**(1)**	**–**	(100)	(1)	–
Euros	**100**	**(1)**	**2**	100	(1)	5
	(100)	**1**	**(2)**	(100)	1	(5)
GBP	**100**	**(2)**	**–**	100	2	–
	(100)	**2**	**–**	(100)	(2)	–

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 2016.

(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. The Group will in due course commence refinancing of its bank loans which are due for maturity in 2018. Based on the Group's past ability to obtain external financing and good relationship with a number of financial institution, the Group expects to have adequate source of funding to finance and manage its liquidity position.

At 31 December 2017, total available borrowing facilities amounted to HK$9,739 million (2016: HK$9,439 million), of which HK$7,478 million (2016: HK$7,049 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$1,844 million (2016: HK$2,069 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:

	2017						2016					
		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	140	140	140	-	-	-	148	148	148	–	–	–
Interest payable	9	9	9	-	-	-	7	7	7	–	–	–
Accruals for property, plant and equipment	172	172	172	-	-	-	145	145	145	–	–	–
Tenants' deposits	360	360	236	43	75	6	381	381	161	133	81	6
Guest deposits and gift vouchers	155	155	155	-	-	-	157	157	157	–	–	–
Golf membership deposits	89	89	-	-	-	89	76	76	–	–	–	76
Other payables	729	729	729	-	-	-	674	674	674	–	–	–
Interest-bearing borrowings	7,443	7,748	3,512	551	3,685	-	6,998	7,405	119	3,396	2,548	1,342
Interest rate swaps (net settled)	4	6	6	-	-	-	16	30	20	10	–	–
Current taxation	41	41	41	-	-	-	26	26	26	–	–	–
	9,142	9,449	5,000	594	3,760	95	8,628	9,049	1,457	3,539	2,629	1,424

Notes to the Financial Statements

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 2017, cash at banks and in hand amounted to HK$1,922 million (2016: HK$2,087 million), of which HK$1,393 million (2016: HK$1,625 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 2017 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 2017. 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.

Notes to the Financial Statements

27. Financial Risk Management and Fair Values continued

(f) Estimation of fair values continued

The Group used the following discount rates for determining fair value of derivative financial instruments.

	31 December 2017	31 December 2016
Hong Kong Dollars	**1.2% to 1.4%**	0.7% to 1.9%
Japanese Yen	**–0.1% to 0%**	0% to 0.1%
Euros	**–0.3%**	–0.3% to –0.2%

28. Commitments (HK$m)

(a) Capital commitments outstanding as at 31 December 2017 not provided for in the Financial Statements were as follows:

	2017			2016		
	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	**1,616**	**7,363**	**8,979**	849	7,782	8,631
The Group's share of capital commitments of joint ventures and associates	**525**	**649**	**1,174**	517	598	1,115
	2,141	**8,012**	**10,153**	1,366	8,380	9,746

The Group's capital commitments include the development costs to be incurred for The Peninsula London and The Peninsula Yangon projects as well as the capital expenditure for the major upgrade project to be undertaken by The Peak Tram.

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.

28. Commitments (HK$m) continued

(b) At 31 December 2017, 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	
	2017	2016	**2017**	2016
Within one year	**(866)**	(939)	**150**	142
After one year but within five years	**(1,086)**	(1,004)	**522**	471
After five years	**(812)**	(920)	**13,349**	12,699
	(2,764)	(2,863)	**14,021**	13,312

The Group's future minimum lease payments under non-cancellable operating leases after five years mainly relate to the undiscounted lease liabilities in respect of its hotels in Tokyo and New York with remaining lease terms of 68 years and 61 years respectively as well as the undiscounted fixed rent payable for 140 years from January 2022 in respect of the development project in London.

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 2017 and 2016.

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 two three-year tenancy agreements which commenced on 1 April 2016, a wholly owned subsidiary of the Company, HSH Management Services Limited (HMS), leased the 4th, 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rent of HK$1,775,000 per month plus a monthly service charge of HK$231,702 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. With effect from 1 January 2017, the monthly service charges for the 4th, 7th and 8th floors of St. George's Building were revised to HK$241,776.

The rent and service charges incurred in 2017 amounted to HK$24 million (2016: HK$23 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.

Notes to the Financial Statements

30. Material Related Party Transactions continued

(b) Unsecured and interest free shareholder's loans amounting to US$66.85 million (HK$521 million) (2016: 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 holding company of the Peninsula Shanghai Waitan Hotel Company Limited (PSW), a foreign owned enterprise incorporated in the People's Republic of China of which the Group has a 50% indirect interest. PSW is engaged in the operation of The Peninsula Shanghai Complex. As at 31 December 2017, shareholder's loans amounting to US$58.75 million (HK$458 million) (2016: US$58.75 million (HK$458 million)) had been contributed as capital of PSW.

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 2017, the balance of entrustment loans amounted to RMB50 million (HK$60 million) (2016: RMB100 million (HK$111 million)). The remaining balance of entrustment loans bears an annual interest of 3.3% and is repayable on 14 June 2018. 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.

(c) On 29 September 2017, five wholly owned subsidiaries of the Company entered into sales and purchase agreements to purchase five apartment units from PSW at a total consideration of RMB359 million (HK$423 million) which was negotiated by reference to recent transactions of the luxury residential market in Shanghai. The transaction was completed in December 2017 and the Group intends to hold these apartments as investment properties for long term.

(d) Since 2002, the Company had held a 75% indirect interest in the holding company of our Thai subsidiaries which in turn own 100% interest in The Peninsula Bangkok and Thai Country Club. During the year, the Thai Partner exercised its option to buy back a 25% economic interest in the Thai holding company. Details of the transaction are disclosed in note 13.

(e) A conditional agreement was entered into between PIIHL (see (b) above) and Yoma Strategic Investments Limited, First Myanmar Investment Co., Limited (collectively "Yoma") on 28 January 2014 for the Group to acquire a 70% majority interest for a proposed hotel development on the site of the former headquarters of the Myanmar Railway Company in Yangon.

On 16 February 2017, all the conditions precedent were satisfied and Yoma was deemed to be a related party of the Group as it became a 30% shareholder of the Group's 70% subsidiary, Peninsula Yangon Limited (PYL).

As at 31 December 2017, the capital and cash contributions to PYL by Yoma amounted to US$16 million (HK$125 million).

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.

Notes to the Financial Statements

33. Significant Accounting Policies

(a) Basis of preparation of the Financial Statements

The consolidated Financial Statements for the year ended 31 December 2017 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.

Notes to the Financial Statements

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

33. Significant Accounting Policies continued

(e) Properties, plant and equipment continued

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. No depreciation is provided on properties under development.

(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.

Notes to the Financial Statements

33. Significant Accounting Policies continued

(h) Leased assets continued

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.

(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

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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 several amendments to HKFRSs that are first effective for the current accounting period of the group. None of these impact on the accounting policies of the group. However, additional disclosure has been included in note 21(b) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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 2017

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 2017 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
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKAS 40, *Investment property: Transfers of investment property*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations 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.

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 2017 the Group’s future minimum lease payments under non-cancellable operating leases amounted to HK$14,021 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.

Independent Assurance Report

Independent Assurance Report to The Directors of
The Hongkong and Shanghai Hotels, Limited

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 2017 of HSH (further referred to as "the Report") for the year ended 31 December 2017 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 Corporate Responsibility and Sustainability Report on pages 3 to 22
- The following data points as included in the Data table on pages 236 of the Annual Report and page 25 of the Corporate Responsibility and Sustainability Report.

Economic
Revenue (incl. interest income)
Operating costs
Employee wage and benefits
Capital expenditure
Payments to providers of capital
Tax payments to governments
Total floor area
Total number of guest nights

People
Headcount
Turnover
Headcount by Gender

Safety
Injury rate
Lost day rate

Community
Donations in cash and in kind
Other contributions for community development

Environment
Greenhouse gas emissions
Group carbon intensity
Total energy use
Energy Intensity
Energy saved through reduction initiatives
Direct water consumption
Water intensity
Water recycled and other water sources
Waste generated
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"). 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.

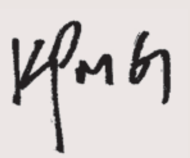
Work performed

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 against the definitions used by HSH to prepare the metrics;
- Reading the Sustainability Reporting Content Index on pages 28 to 32 of the Corporate Responsibility and Sustainability Report to determine whether it is in line with our understanding of HKEx ESG Guide;
- 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 2017 of HSH for the year ended 31 December 2017, are not prepared, in all material respects, in accordance with the Reporting Criteria.



KPMG
8th Floor, Prince's Building
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Central, Hong Kong

16 March 2018

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]

			2017	2016	2015	2014	2013	2006-08 baseline
Economic	**Revenue (incl. interest income)**	HK$m	**5,804**	5,668	5,797	5,903	5,554	–
	Operating costs	HK$m	**2,102**	2,134	2,142	2,168	2,164	–
	Employee wage and benefits	HK$m	**2,135**	2,108	2,063	2,052	1,951	–
	Capital expenditure	HK$m	**1,827**	2,479	1,379	354	3,183	–
	Payments to providers of capital	HK$m	**224**	239	217	211	372	–
	Tax payments to governments[2]	HK$m	**442**	410	480	458	362	–
	Total floor area	'000 m^2	**652**	651	651	651	588	518
	Total number of guest nights	'000	**1,240**	1,262	1,256	1,277	1,211	1,119
People	**Headcount**		**7,534**	7,985	8,447	8,728	8,216	–
	Turnover	%	**21.3%**	22.0%	22.6%	19.9%	20.3%	–
	Headcount by Gender	% Female	**41.9%**	42.6%	42.8%	42.3%	41.5%	–
Health and Safety	**Injury rate[3]**	reported incidents per 200,000 hours	**7.9**	8.3	7.9	7.4	7.2	–
	Lost day rate[3]	reported days per 200,000 hours	**40.7**	45.6	57.0	75.6	77.1	–
Environment	**Greenhouse gas emissions**	'000 tCO_2e	**102**	103	107	116	112	117
	Group carbon intensity	kg CO_2e per m^2	**156**	158	164	178	190	226
	Total energy use[4]	'000 GJ	**864**	866	892	871	843	858
	Energy intensity[4]	MJ per m^2	**1,326**	1,329	1,369	1,338	1,434	1,658
	Energy saved through reduction initiatives[5]	GJ	**13,136**	4,522	6,644	6,517	10,383	–
	Direct water consumption	'000 m^3	**1,784**	1,776	1,899	1,880	1,846	1,921
	Water intensity							
	Hotels Division[6]	litres per guest night	**1,100**	1,154	1,168	1,132	1,181	1,373
	Commercial Properties, Clubs & Services Division	litres per m^2	**1,665**	1,638	1,752	1,765	2,012	1,712
	Water recycled and other water sources	'000 m^3	**489**	613	137	124	126	–
	Waste generated[7]	tonnes	**7,605**	7,746	7,832	7,778	7,101	–
	Waste diverted[7]	tonnes	**3,610**	3,270	3,294	3,219	2,772	–
Community	**Monetary Donations**	HK$'000	**3,250**	4,232	6,273	4,197	8,900	–
	In-kind Donations[8]	HK$'000	**6,370**	9,040	7,115	7,196	8,581	–
	Other contributions for community development[9]	HK$'000	**2,730**	2,125	2,447	2,689	2,077	–

Footnotes:
(1) Please refer to Reporting Scope on page 2 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) Injuries recorded include from minor first aid incidents to more severe incidents that required hospitalisation. There was no incident of occupational disease recorded in 2017. The Peninsula Beverly Hills data is not included due to revised methodology utilised.
(4) Vehicle fuel consumption is not included in the total energy use and energy intensity reported.
(5) Since 2017, energy saved was calculated based on linear regression analysis, a new methodology, hence the increase, this was achieved through energy saving initiatives and behavioural change.
(6) Includes all water uses in the hotels, not just those used by guests directly.
(7) Group waste diversion rate in 2017 was 47.5%. Grease trap waste and construction waste were not included in the waste data reported.
(8) Valuation of in-kind donations are based on market and rack rates of our products and services, whichever is applicable.
(9) Relates to contributions made to non-charitable organisations on projects supporting the wider community, for example, the Hong Kong Heritage Project, an archive project for preserving valuable historical records of the Kadoorie family and its businesses, mostly based in Hong Kong.

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
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
Gearing	This measures the degree of debt financing used by the Group to fund its business, calculated based on the following formula: $\frac{\text{Net borrowings}}{\text{Net borrowings + Shareholders' equity}}$

Terms

Global Reporting Initiative (GRI)	A non-profit organisation that produces the prevalent standards for sustainability reporting widely adopted by companies worldwide
Interest cover	The ratio reflects the ability of the Group to meet its net financing costs expressed as a multiple of its operating profit
Cash interest cover	The ratio reflects the ability of the Group to meet its net interest expenses paid expressed as a multiple of its EBITDA
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
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 2018

2017 annual results announcement	16 March
Annual Report available	6 April
For entitlement to attend, speak and vote at Annual General Meeting	
– Last day to register	3 May 4:30pm
– Closure of register of members	4 May to 9 May (both days inclusive)
– Record date	9 May
Annual General Meeting	9 May 12:00 noon
Ex-dividend date for final dividend	11 May
For entitlement to receive final dividend	
– Last day to register	14 May 4:30pm
– Closure of register of members	15 May to 17 May (both days inclusive)
– Record date	17 May
Scrip dividend scheme circular and/or election form available	23 May
Last day to return scrip dividend election form	12 June 4:30pm
Dividend warrants and share certificates for final dividend available	On or about 22 June
2018 interim results announcement (tentative)	August
2018 interim dividend payment date (tentative)	October
Financial year end	31 December

Company Website

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E-mail: corpaffairs@peninsula.com

Investor Enquiries

www.hshgroup.com/investors
E-mail: ir@hshgroup.com

Corporate Responsibility and Sustainability Enquiries

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Share Information

Stock Code: 00045
2017 Interim Dividend: 4 HK cents per share
2017 Final Dividend: 16 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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Mainland China 4001 200 618
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India 000 800 852 1388
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Mexico 01 800 123 4646
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Saudi Arabia* 800 865 6047
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Reservations and Contact Addresses

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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

Peninsula Merchandising Limited

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THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司

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