THE HONGKONG AND SHANGHAI HOTELS, LIMITED

STOCK CODE: 00045

A Grand Debut in Europe

ANNUAL REPORT 2014

A Grand Debut in Europe

In 2014, The Hongkong and Shanghai Hotels, Limited celebrated a significant milestone – the opening of our first hotel in Europe, The Peninsula Paris, which was developed and is owned together with our partners Katara Hospitality. This "grand debut in Europe" sets our Company firmly on course for an exciting future and builds a solid legacy for the long term.

Contents

Hotels

Asia

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: 525
Ownership: 76.6%*

The Peninsula Tokyo

Established: 2007
Rooms: 314
Ownership: 100%

The Peninsula Bangkok

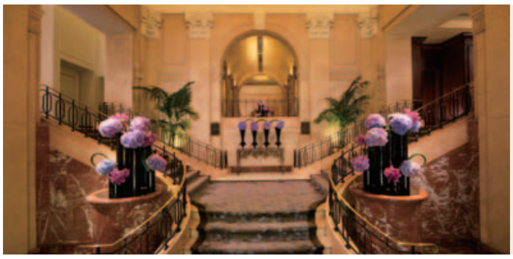
Established: 1998
Rooms: 370
Ownership: 75%

The Peninsula Manila

Established: 1976
Rooms: 497
Ownership: 77.4%

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

USA



The Peninsula New York

Acquired: 1988
Rooms: 239
Ownership: 100%

The Peninsula Chicago

Established: 2001
Rooms: 339
Ownership: 100%

The Peninsula Beverly Hills

Established: 1991
Rooms: 194
Ownership: 20%

Europe

The Peninsula Paris

Opened in August 2014
Rooms: 200
Ownership: 20%

GRI G4 Material Disclosure: G4-17

Commercial Properties

Residential

The Repulse Bay, Hong Kong

Established: 1976 & 1989
GFA: 995,546 sq. ft.
Ownership: 100%

The Landmark, Ho Chi Minh City, Vietnam

Established: 1994
GFA: 69,750 sq. ft.
Ownership: 70%**

Commercial

The Peak Tower, Hong Kong

Established: 1996
GFA: 116,768 sq. ft.
Ownership: 100%

The Repulse Bay Arcade, Hong Kong

Established: 1989
GFA: 62,909 sq. ft.
Ownership: 100%

1-5 Grosvenor Place, London, United Kingdom

Acquired: 2013
GFA: 246,192 sq. ft.
Ownership: 50%

21 avenue Kléber, Paris, France

Acquired: 2013
GFA: 43,163 sq. ft.
Ownership: 100%

Office

The Peninsula Office Tower, Hong Kong

Established: 1994

GFA: 76,786 sq. ft.

Ownership: 100%

St. John's Building, Hong Kong

Established: 1983

GFA: 71,400 sq. ft.

Ownership: 100%

The Landmark, Ho Chi Minh City, Vietnam

Established: 1994

GFA: 106,153 sq. ft.

Ownership: 70%**

Clubs and Services

The Peak Tram, Hong Kong

Established: 1888

Ownership: 100%

Thai Country Club, Bangkok, Thailand

Established: 1996

Ownership: 75%

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%

GRI G4 Material Disclosure: G4-17

** *The Group owns 50% economic interest of The Landmark with a reversionary interest to the Vietnamese partner in 2026 at the end of the joint venture period.*

2014 Performance Highlights

+6%
2014
2013

Turnover
HK$5,838m

+17%
2014
2013

EBITDA
HK$1,528m

+57%
2014
2013

Underlying Profit Attributable to Shareholders[1]
HK$804m

-33%
2014
2013

Profit Attributable to Shareholders[2]
HK$1,146m

+56%
2014
2013

Underlying Earnings per Share
HK$0.53

-33%
2014
2013

Earnings per Share
HK$0.76

+2%
2014
2013

Shareholders' Funds
HK$35,901m

+44%
2014
2013

Dividends per Share
23HK cents

+7%
2014
2013

Revenue per Greenhouse Gas Emission*
HK$63,200
per tonne of carbon dioxide equivalent

+7%
2014
2013

Revenue per Energy Used*
HK$8,400
per Gigajoule

+8%
2014
2013

Revenue per Water Consumed*
HK$3,900 per m^3

+5%
2014
2013

Revenue per Full-Time Headcount*
HK$920,800

+4%
2014
2013

Greenhouse Gas Emissions*
115,642 tonnes

+2%
2014
2013

Direct Water Consumption*
1,879,083 m^3

1 Excludes post-tax effects of property revaluation adjustments.
2 Includes property revaluation adjustments.
* The reported value include managed properties owned by a joint venture and associates.

Financial Highlights

	2014	2013	Increase/ (Decrease)
Consolidated Income Statement (HK$m)			
Turnover	**5,838**	5,508	6%
EBITDA	**1,528**	1,306	17%
Operating profit	**1,105**	911	21%
Profit attributable to shareholders	**1,146**	1,712	(33%)
Underlying profit attributable to shareholders*	**804**	511	57%
Dividends	**349**	240	45%
Earnings per share (HK$)	**0.76**	1.14	(33%)
Underlying earnings per share (HK$)*	**0.53**	0.34	56%
Dividends per share (HK cents)	**23**	16	44%
Dividend cover (times)**	**2.3x**	2.1x	10%
Interest cover (times)	**16.7x**	9.7x	72%
Weighted average gross interest rate	**2.3%**	2.9%	(0.6pp)
Consolidated Statement of Financial Position (HK$m)			
Total assets	**43,982**	43,144	2%
Audited net assets attributable to shareholders	**35,901**	35,105	2%
Adjusted net assets attributable to shareholders#	**39,496**	38,486	3%
Audited net assets per share (HK$)	**23.67**	23.37	1%
Adjusted net assets per share (HK$)#	**26.04**	25.62	2%
Net borrowings	**3,004**	3,992	(25%)
Funds from operations to net debt##	**44%**	28%	16pp
Net debt to EBITDA (times)	**2.0x**	3.1x	(35%)
Net debt to equity	**8%**	11%	(3pp)
Gearing	**8%**	10%	(2pp)
Consolidated Statement of Cash Flows (HK$m)			
Net cash generated from operating activities before taxation	**1,589**	1,401	13%
Capital expenditure on fixed assets (excluding new acquisitions)	**(409)**	(928)	(56%)
Acquisition of 1-5 Grosvenor Place	**–**	(1,688)	n/a
Acquisition of 21 avenue Kléber	**–**	(605)	n/a
Share Information (HK$)			
Highest share price	**12.60**	14.20	(11%)
Lowest share price	**10.08**	10.38	(3%)
Year end closing share price	**11.50**	10.52	9%

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

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

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

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

pp Denotes percentage points.

Financial Review Summary

1 Earnings before interest, taxation, depreciation and amortisation ("EBITDA")

EBITDA and EBITDA margin of the Group for 2014 increased by 17% and two percentage points to HK$1,528 million and 26% respectively. These increases were mainly due to improved performances of the Hotels and Commercial Properties Divisions.

2 Turnover

The hotels division is the main contributor to the Group's revenue, accounting for 73% of total revenue. The hotels division achieved satisfactory revenue growth of 5% during the year mainly due to the enhanced performance of The Peninsula Hong Kong in its first full year of operation following its extensive rooms renovation project completed in May 2013 and the improved result achieved by The Peninsula Tokyo.

The commercial properties division achieved a revenue growth of 12% mainly due to the increased contributions from The Repulse Bay Complex and The Peak Tower.

For the clubs and services division, the 3% increase in revenue was mainly due to the increased revenue achieved by Quail Lodge.

Detailed discussion of the operating performance of each division is set out on pages 24 to 41.

Consolidated Statement of Financial Position at 1.1.2014

	HK$m
Net assets	
Fixed assets	38,187
Other long term investments	2,560
Deferred tax assets	28
Derivative financial instruments	8
Cash and bank balances	1,494
Other current assets	867
	43,144
Bank overdrafts	(18)
Bank borrowings	(5,468)
Derivative financial instruments	(35)
Deferred tax liabilities	(732)
Other liabilities	(1,517)
	35,374
Capital and reserves	
Share capital and premium	4,361
Retained profits	30,189
Hedging and exchange reserves	555
	35,105
Non-controlling interests	269
	35,374

Consolidated Statement of Cash Flows for the year ended 31.12.2014

		HK$m
1 EBITDA		1,528
Net changes in debtors/creditors		61
Payment of tax		(157)
Purchase of fixed assets		(409)
Loans to an associate		(128)
Net financing charges and dividends paid		(151)
Net increase in bank borrowings		275
Net placement of interest-bearing bank deposits with maturity of more than three months		(1,193)
Net cash outflow for the year		(174)
Cash and bank balances	1,494	
Less: Bank deposits maturing more than 3 months	(440)	
Less: Bank overdrafts	(18)	
Cash & cash equivalents at 1.1.2014		1,036
Effect of changes in exchange rates		(23)
Cash & cash equivalents at 31.12.2014*		839
* Representing:		
Cash and bank balances		2,477
Bank deposits maturing more than 3 months		(1,633)
Bank overdrafts		(5)
		839

Consolidated Income Statement for the year ended 31.12.2014

	HK$m
2 Turnover	5,838
Operating costs before depreciation and amortisation	(4,310)
EBITDA	1,528
Depreciation and amortisation	(423)
Operating profit	1,105
Net financing charges	(66)
Profit after net financing charges	1,039
3 Share of result of a joint venture	(6)
4 Share of results of associates	(35)
5 Increase in fair value of investment properties	496
6 Provision for impairment loss	(132)
Taxation	(231)
Non-controlling interests	15
Profit attributable to shareholders	1,146

Consolidated Retained Profits for the year ended 31.12.2014

	HK$m
Retained profits at 1.1.2014	30,189
Profit attributable to shareholders for the year	1,146
Dividends distributed during the year	(256)
Retained profits at 31.12.2014	31,079

Consolidated Statement of Financial Position at 31.12.2014

	HK$m
Net assets	
Fixed assets	38,168
Other long term investments	2,434
Deferred tax assets	40
Cash and bank balances	2,477
Other current assets	863
	43,982
Bank overdrafts	(5)
Bank borrowings	(5,476)
Derivative financial instruments	(38)
Deferred tax liabilities	(785)
Other liabilities	(1,527)
	36,151
Capital and reserves	
Share capital	4,544
Retained profits	31,079
Hedging and exchange reserves	278
	35,901
Non-controlling interests	250
	36,151

Underlying profit attributable to shareholders for the year ended 31.12.2014

	HK$m
Profit attributable to shareholders	1,146
Non-operating and non-recurring items	(342)
7 Underlying profit attributable to shareholders	804

3 Share of result of a joint venture

The Group has a 50% interest in The Peninsula Shanghai Complex and the Group's share of loss amounted to HK$6m.

During 2014, The Peninsula Shanghai remained as the market leader in terms of average room rate and RevPAR in its competitive set, generating an EBITDA of HK$247 million, of which HK$129 million was derived from the sale of 11 apartment units. In addition, The Peninsula Shanghai Complex recorded a net unrealised gain of HK$12 million on revaluation of the hotel arcade and apartments.

4 Share of results of associates

The Group has a 20% interest in The Peninsula Paris and The Peninsula Beverly Hills. The share of net loss of these two hotels amounted to HK$35 million, of which HK$22 million related to the share of pre-opening expenses incurred by The Peninsula Paris which opened for business on 1 August 2014.

5 Increase in fair value of investment properties

The Group states its investment properties at fair value and gain or loss arising from the change in fair value of investment properties is recognised in the income statement. The year end revaluation of the Group's investment properties has resulted in a non-operating gain of HK$496 million, principally attributable to The Repulse Bay Complex and the shopping arcade at The Peninsula Hong Kong.

6 Provision for impairment loss

The Group states its hotels at cost less accumulated depreciation and impairment losses and assesses the recoverable amounts of its hotels at the end of each reporting date. As at 31 December 2014, the directors considered that the recoverable amounts of The Peninsula Beijing and The Peninsula Manila were lower than their book values. As a result, the book values of these hotels were written down to their recoverable amounts and an impairment loss of HK$132 million was recognised for the year ended 31 December 2014.

7 Underlying profit attributable to shareholders

To provide additional insight into the performance of its business operations, the Group presents underlying profit by excluding non-operating and non-recurring items such as any change in fair value of investment properties. Details of the reconciliation from reported profit to underlying profit are summarised on page 45.

Ten Year Operating Statistics

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
a) The Peninsula Hotels: (Note 7 & 8)										
Hong Kong (Note 1)										
Occupancy rate	**75%**	72%	79%	74%	70%	57%	71%	77%	80%	79%
Average room rate (HK$)	**5,144**	5,170	5,133	4,503	4,197	4,176	4,504	4,151	3,551	3,160
RevPAR (HK$)	**3,870**	3,731	4,072	3,347	2,926	2,401	3,219	3,182	2,851	2,498
Other Asia (excluding Hong Kong) (Note 2)										
Occupancy rate	**65%**	66%	63%	57%	58%	48%	57%	68%	68%	72%
Average room rate (HK$)	**2,146**	2,065	2,179	2,156	2,100	1,904	2,237	1,668	1,269	1,073
RevPAR (HK$)	**1,390**	1,361	1,367	1,221	1,214	920	1,284	1,139	858	773
United States of America and Europe (Note 3)										
Occupancy rate	**74%**	74%	72%	69%	65%	59%	68%	76%	76%	75%
Average room rate (HK$)	**5,471**	4,858	4,627	4,550	4,403	4,292	4,936	4,844	4,337	3,867
RevPAR (HK$)	**4,059**	3,573	3,346	3,135	2,856	2,511	3,378	3,701	3,282	2,902
b) Residential (Note 4, 9 & 10)										
Occupancy rate	**85%**	89%	92%	91%	92%	88%	94%	92%	91%	82%
Average monthly yield per square foot (HK$)	**42**	42	41	38	36	37	39	35	33	27
c) Shopping Arcades (Note 5, 9 & 10)										
Occupancy rate	**97%**	99%	99%	97%	96%	95%	97%	97%	93%	90%
Average monthly yield per square foot (HK$)	**206**	191	179	168	153	168	165	148	148	140
d) Offices (Note 6, 9 & 10)										
Occupancy rate	**97%**	92%	96%	100%	98%	91%	98%	99%	100%	95%
Average monthly yield per square foot (HK$)	**52**	48	45	45	42	36	35	27	22	19
e) Peak Tram										
Patronage ('000)	**6,325**	6,272	5,918	5,777	5,385	4,862	5,006	4,939	4,430	3,923
Average fare (HK$)	**19**	19	19	19	17	16	16	16	15	14
f) Full Time Headcount (Note 11)										
Hotels	**6,300**	5,877	5,612	5,475	5,444	5,489	5,239	5,138	4,601	4,334
Commercial Properties	**344**	332	314	323	331	339	339	329	316	307
Clubs and Services	**1,288**	1,302	1,243	1,224	1,180	998	1,056	1,027	1,004	981
Total headcount	**7,932**	7,511	7,169	7,022	6,955	6,826	6,634	6,494	5,921	5,622

Notes:

1. The renovation works in The Peninsula Hong Kong were completed in two phases, resulting in 135 rooms being removed from saleable inventory from January to September 2012, followed by 165 rooms being out of saleable inventory from September 2012 to May 2013.
2. The number of rooms increased after the opening of The Peninsula Tokyo in September 2007 and The Peninsula Shanghai in October 2009.
3. The number of rooms increased after the opening of The Peninsula Paris on 1 August 2014.
4. Residential properties includes all apartments in The Repulse Bay Complex. The statistics are affected by the re-opening of de Ricou tower in August 2013 after an 18-month closure for a complete renovation.
5. Shopping Arcades are located in The Peninsula hotels in Hong Kong, Shanghai, Beijing, New York, Paris, Tokyo, Bangkok and Manila, as well as The Repulse Bay Complex and The Peak Tower.
6. Offices are located in The Peninsula Hong Kong and St. John's Building.

General notes for Hotels in section a) above:

7. Occupancy rates, average room rates and RevPAR are weighted averages for the hotels in each grouping.
8. The average room rates and RevPAR include undistributed service charge, which is levied at 10% in Hong Kong and at 15% in China and Japan.

General notes for other businesses in sections b) to f) above:

9. Occupancy rates are weighted averages based on the space available in each grouping.
10. The operating statistics 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 proposed redevelopment.
11. The full-time headcount is as at 31 December each year.

Ten Year Financial Summary

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Consolidated Income Statement (HK$m)										
Turnover	**5,838**	5,508	5,178	5,009	4,707	4,218	4,938	4,542	3,717	3,276
EBITDA	**1,528**	1,306	1,201	1,211	1,143	924	1,425	1,510	1,275	1,092
Operating profit	**1,105**	911	817	834	794	586	1,051	1,175	1,024	850
Profit attributable to shareholders	**1,146**	1,712	1,555	2,259	3,008	2,660	(27)	4,002	2,350	2,830
Underlying profit attributable to shareholders*	**804**	511	439	464	408	323	808	906	787	638
Dividends	**349**	240	210	208	177	132	246	259	228	199
Earnings per share (HK$)	**0.76**	1.14	1.04	1.52	2.04	1.82	(0.02)	2.79	1.65	2.01
Underlying earnings per share (HK$)*	**0.53**	0.34	0.29	0.31	0.28	0.22	0.56	0.63	0.55	0.45
Dividends per share (HK cents)	**23**	16	14	14	12	9	17	18	16	14
Dividend cover (times) **	**2.3x**	2.1x	2.1x	2.2x	2.3x	2.4x	3.3x	3.5x	3.5x	3.2x
Interest cover (times)	**16.7x**	9.7x	9.6x	9.5x	7.4x	6.8x	15.5x	13.5x	8.6x	5.2x
Weighted average gross interest rate	**2.3%**	2.9%	3.2%	3.1%	3.2%	3.2%	3.4%	4.2%	5.0%	5.0%
Consolidated Statement of Financial Position (HK$m)										
Total assets	**43,982**	43,144	39,807	38,233	36,587	32,872	29,606	29,519	24,609	21,972
Total liabilities	**(7,831)**	(7,770)	(6,368)	(6,490)	(6,498)	(5,817)	(5,215)	(4,911)	(4,419)	(4,196)
Non-controlling interests	**(250)**	(269)	(289)	(283)	(981)	(908)	(934)	(891)	(783)	(710)
Audited net assets attributable to shareholders	**35,901**	35,105	33,150	31,460	29,108	26,147	23,457	23,717	19,407	17,066
Adjusted net assets attributable to shareholders#	**39,496**	38,486	36,396	34,708	31,893	28,571	26,611	27,056	21,859	19,970
Audited net assets per share (HK$)	**23.67**	23.37	22.07	21.11	19.67	17.79	16.18	16.45	13.59	12.04
Adjusted net assets per share (HK$)#	**26.04**	25.62	24.23	23.29	21.55	19.44	18.35	18.76	15.31	14.09
Net borrowings	**(3,004)**	(3,992)	(1,989)	(2,335)	(1,674)	(1,990)	(1,198)	(1,455)	(2,076)	(2,313)
Funds from operations to net debt##	**44%**	28%	48%	42%	52%	33%	92%	86%	48%	35%
Net debt to EBITDA (times)	**2.0x**	3.1x	1.7x	1.9x	1.5x	2.2x	0.8x	1.0x	1.6x	2.1x
Net debt to equity	**8%**	11%	6%	7%	6%	8%	5%	6%	11%	14%
Gearing	**8%**	10%	6%	7%	5%	7%	5%	6%	10%	12%
Consolidated Statement of Cash Flows (HK$m)										
Net cash generated from operating activities before taxation	**1,589**	1,401	1,133	1,145	1,173	904	1,429	1,616	1,271	1,139
Capital expenditure on fixed assets	**(409)**	(928)	(875)	(312)	(276)	(269)	(417)	(213)	(437)	(292)
Investment in new projects	**–**	(2,293)	–	(578)	–	(1,157)	–	(595)	(208)	(372)
Share Information										
Highest share price (HK$)	**12.60**	14.20	11.92	14.74	14.90	11.98	14.50	15.46	13.50	9.65
Lowest share price (HK$)	**10.08**	10.38	8.63	8.10	10.32	4.26	5.13	10.90	8.00	6.40
Year end closing share price (HK$)	**11.50**	10.52	10.82	8.61	13.32	11.36	5.86	13.70	13.14	8.50

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

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

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

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

Chairman's Statement

Dear Shareholders,

With the 150th anniversary of our Company approaching in 2016, we have a proud and rich history, many achievements and a devoted family of friends, colleagues, business partners and loyal guests for which we are thankful. It is our belief that our past and present achievements define our future, and the future is built on the foundations of the past.

Over the past 12 months, our Group celebrated a significant milestone – the opening of our first hotel in Europe, The Peninsula Paris, which was developed and is owned together with our partners Katara Hospitality. Our long-term strategy is to own and operate a small number of the world's best hotels and with the opening in Paris, we have created a truly exceptional property. This momentous step into a new continent by the Peninsula brand sets us firmly on course for an exciting future and builds a solid legacy for the long term.

This momentous step into a new continent by the Peninsula brand sets us firmly on course for an exciting future and builds a solid legacy for the long term.

The building which is now The Peninsula Paris was first built in 1908 and was a Parisian landmark acclaimed for its beauty, glamour and spectacular events. Many moments of artistic, literary and political history were celebrated within its walls; Pablo Picasso, George Gershwin and James Joyce stayed there in the 1920s. The building was the location of the signing of the Paris Peace Accords by Henry Kissinger and others in 1973, ending the Vietnam War.

Today the rich heritage of this building has been recreated and further enhanced to meet the needs of the modern traveller, creating a magnificent hotel which stands among the very best in Europe and one that we hope will create many more delightful experiences for our guests. More details about the four-year restoration project can be read on page 112-117 of this report.

2014 was a challenging year in which our industry faced economic and political uncertainties, as well as intense competition in most of our key markets. Despite these trying times, our Group produced a very pleasing set of results with our underlying profit increasing by 57% over 2013.

To remain competitive and continue offering the best facilities and services to our guests, improving our existing assets continues to be a key strategy of the Company. In 2014 our Board approved significant renovations to The Peninsula Beijing and The Peninsula Chicago, which will commence in 2015.

To remain competitive and continue offering the best facilities and services to our guests, improving our existing assets continues to be a key strategy of the Company.

We continue to seek new opportunities to develop a select number of additional Peninsula hotels. However, we will only pursue opportunities where we can develop hotels in the most prime locations and to the exceptional standards which are the hallmark of the Peninsula brand. Such opportunities are rare, especially when coupled with the need to ensure that these projects deliver acceptable returns to the Company as an owner-operator. With this objective, we are making progress with our partners in London and Myanmar for the development of hotels to be called The Peninsula London and The Peninsula Yangon.

Ahead of our 150th anniversary next year, our heritage remains one of the most important elements of our brand. A corporate documentary about our Company, titled *Tradition Well Served*, won the prestigious Gold Dolphin in the Corporate Film and Video Category at the Cannes Corporate and Media TV Awards in October. This film showcases the remarkable history and heritage of our Company, of which we remain most proud.

Looking to the future, we are committed to ensuring that our Company continues to adhere and prosper in a sustainable way. Corporate responsibility and sustainability underpins activities across all our businesses. This involves not only paying the closest attention to the environmental and social impact of our operations, but also conducting our business in a manner and to standards which will ensure that the Company continues to succeed for decades to come. As you will read in our Sustainability Review on pages 56 to 108, the Sustainable Luxury Vision 2020 puts sustainability at the heart of the Company's business model and brand. With seven areas of focus covering all divisions of the business, Vision 2020 sets out a blueprint for our business and our ambition to take luxury to the next level.

Our results and achievements continue to reflect the dedication and commitment of our Chief Executive Officer Clement Kwok and all the Management and their teams, across all geographic locations and sectors of our business. On behalf of the Board, I thank our staff for sharing our vision, understanding our philosophy, representing our culture and delivering a world-class service to our clientele.

The Hon. Sir Michael Kadoorie
20 March 2015

Management Discussion and Analysis

Chief Executive Officer's Letter

Overview

A significant milestone was reached in 2014 for the Company when, after almost 150 years of operations, we opened our first hotel in Europe, The Peninsula Paris. This hotel was the product of over four years of a meticulous and extensive construction project, during which we carefully restored the magnificent classic French-style building located close to the Arc de Triomphe and converted it into a grand contemporary hotel, whilst respecting the heritage, authenticity and spirit of the building. Since the hotel's opening on 1 August 2014, I am delighted that it has garnered a high level of acclaim from our guests and from the industry.

The Peninsula Paris project is a good example of our Company's philosophy towards development. We focus on undertaking only a very small number of projects, but seek to do so as an owner-operator in exceptional locations where we believe we can create hotels that can rank among the world's best. Being an owner, in the case of The Peninsula Paris in partnership with Katara Hospitality, means that we are able to take a long-term view on the property investment and the hotel's operations. Our ultimate goal is to develop and hold the highest possible quality portfolio of hotel and other property assets for the long term, in order to benefit from both operational yields and asset value appreciation over time.

We focus on undertaking only a very small number of projects, but seek to do so as an owner-operator in exceptional locations where we believe we can create hotels that can rank among the world's best.

In line with this objective, we are working in partnership with Grosvenor to develop The Peninsula London in an exceptional location in Belgravia overlooking Hyde Park Corner and in partnership with Yoma and First Myanmar Investment to develop The Peninsula Yangon in the former Myanmar Railway Company headquarters building in the centre of Yangon, Myanmar.

It is an important strand of our business strategy to continually improve and upgrade our existing assets. In this respect, we have commenced major renovation projects for The Peninsula Beijing and The Peninsula Chicago, with construction of both scheduled to start in 2015, as well as a renovation of our recently acquired investment property at 21 avenue Kléber, Paris.

While our overall business strategy is focused on long-term growth, we are of course seeking to maximise our operational earnings every year. In 2014, despite challenges to our business coming from the political uncertainty in Thailand, the unusually severe winter weather in the United States and continued oversupply in a number of our markets, I am delighted to report a substantial increase of 57% as compared to the previous year in our underlying profit attributable to shareholders to HK$804 million. This result was achieved through the enhanced earnings of The Peninsula Hong Kong in its first full year of operations following its extensive rooms renovation project completed in May 2013, the continued improvement of the results of The Peninsula Tokyo and our overall efforts to drive revenues and contain costs around the Group.

I am delighted to report a substantial increase of 57% as compared to the previous year in our underlying profit attributable to shareholders to HK$804 million.

With the earnings achieved in 2014 together with a further upward revaluation of our investment property assets, the Group's financial position remained healthy with an adjusted net asset value of HK$39,496 million (HK$26.04 per share) and a modest gearing ratio of 8%.

2014 Performance Review

Hotels

Overall it was a challenging year for the markets in which we operate. As usual, we continued to focus on driving revenue, containing costs and improving margins. As a result, our hotels division revenue increased by HK$216 million (5%) over 2013 to HK$4,260 million. The highest revenue growth was achieved by our flagship hotel, The Peninsula Hong Kong, where revenue was HK$168 million (14%) higher than 2013. With its extensive rooms renovation project having been completed in May 2013, the hotel benefited from having its full room inventory for the whole year.

Although many Hong Kong businesses were negatively impacted in the fourth quarter of 2014 by the civil protests in the city, our hotel is located well away from the main protest areas and while there were some cancellations, the impact on our hotel was relatively minor. The Peninsula Hong Kong remains the market leader in terms of average room rates in the city and continues to receive many favourable comments for its renovated guest rooms and in-room technology. The Peninsula Hong Kong Arcade and Office Tower were fully occupied during the year, with leases in the arcade continuing to be renewed on favourable terms.

The Peninsula Shanghai enjoyed a positive year and remains the market leader in Shanghai in terms of RevPAR and average room rates. Its food and beverage outlets performed well during the year and its arcade continues to become more established as a high-end shopping destination. The Peninsula Tokyo's results were pleasing, with a 12% growth in revenue in Japanese Yen terms, in part due to the strengthening of the Japanese economy coupled with the more affordable currency. However, the weakening of the yen has reduced the growth in earnings to the group when translated back into Hong Kong dollars.

The Peninsula Beijing had a challenging year due to the over-supply of five-star hotels in the city. This hotel will undergo a major renovation and reconfiguration in 2015 and 2016, which will significantly increase the size of its guestrooms and bring them up to current Peninsula standards. The shopping arcade at The Peninsula Beijing remained one of the most sought-after luxury retail destinations in Beijing, enjoying full occupancy with many of the world's top brands present. I am pleased that the Arcade will remain open during the renovation project.

The Peninsula Shanghai enjoyed a positive year and remains the market leader in Shanghai in terms of RevPAR and average room rates.

The Peninsula Bangkok has been negatively affected by political uncertainties in Thailand on and off since 2008, with increased activity in February 2014 when a state of emergency was declared. This further dampened business for the year although a minor recovery was experienced towards the end of the year. The Peninsula Manila also faced challenges with an oversupplied and price sensitive market and natural disasters but achieved stable results for the year.

In the United States, the unusually harsh winter weather in the first quarter of 2014 affected bookings in Chicago and New York. The Peninsula New York nevertheless enjoyed a strong year with growth in RevPAR, occupancy growth and average room rates. In Chicago, room rates remained depressed with a weak corporate sector, coupled with strong competition from new luxury hotels, resulting in flat results as compared to the previous year. Plans are underway for us to significantly enhance our rooms product to regain our previous leading market position. The Peninsula Beverly Hills reported another record year on top of a record year in 2013, with very strong occupancy and average room rates increasing year-on-year.

The results of The Peninsula Paris have been pleasing since its opening on 1 August 2014. Although we would typically expect a new hotel to take some time to build up its business and customer base, the publicity and attention which The Peninsula Paris received upon its opening has resulted in both rooms and food and beverage revenue exceeding our expectations. The opening of this hotel has established the Peninsula brand in Europe and introduced a new clientele to our Group's hotels.

Commercial Properties

The Commercial Properties Division continues to provide a stable income contribution to the Group's earnings, counter-balancing the more cyclical nature of hotel earnings. Total revenue from this division increased by HK$95 million (12%) over 2013 at HK$901 million.

The luxury residential market in Hong Kong remained uncertain in 2014, due to the slowing of the financial markets and a reduction in the number of expatriates receiving high rental allowances. The Repulse Bay Complex, our key asset in this division, offers extensive facilities and a market-leading product with the newly renovated de Ricou Tower, and we achieved satisfactory occupancy levels in 2014 despite the flat market situation. The Complex reported 8% higher revenue over 2013 due to increased rental income from apartments, with a pleasing pick-up in the occupancy of the de Ricou apartment tower following its renovation and reconfiguration which was completed in 2013.

Both the Peak Tower and St John's Building remained fully let in 2014, reporting revenue growth of 12% and 11% respectively. The Peak Tower generates most of its revenue from retail leasing, with additional revenue being derived from entrance fees to the open-air Sky Terrace 428 with its panoramic views of Hong Kong.

The Landmark in Ho Chi Minh City, Vietnam, celebrated its 20th anniversary in December 2014. A mixed-use commercial building comprised of serviced apartments, offices and retail space, its revenue in 2014 was flat as compared to the previous year.

Rental income from 1-5 Grosvenor Place in London and 21 avenue Kléber in Paris also contributed to the commercial properties division this year from their respective dates of acquisition. Our 50% interest in the leasehold of 1-5 Grosvenor Place was acquired with the intention that this property would be redeveloped in partnership with Grosvenor into The Peninsula London hotel and residential complex. 21 avenue Kléber is wholly-owned and was acquired as an investment property due to its location immediately adjacent to The Peninsula Paris. With its previous main tenant vacating at the end of 2014, we have plans to renovate the building to enhance its attractiveness to future retail and office tenants.

Clubs and Services

The Group's diverse portfolio is complimented by our Clubs and Services division, which reported an increase in total revenue of 3% to HK$677 million in 2014.

Peninsula Clubs and Consultancy Services maintained a consistent portfolio in 2014, providing club management services for several prestigious private clubs in Hong Kong, as well as Cathay Pacific Lounges at Hong Kong International Airport.

The historic Peak Tram has maintained its position as one of Hong Kong's most popular tourist attractions, welcoming tens of thousands of visits every day from locals and tourists alike. In 2014, The Peak Tram reported an increase of 1% in patronage, giving rise to revenue growth of 2%. As previously reported, the Ordinance which grants HSH the right to operate the Peak Tram was temporarily extended until 31 December 2015 pending the Hong Kong Government's review and appraisal of the proposal which we have submitted to improve and enlarge the capacity of The Peak Tram. We expect that in conjunction with this investment proposal, the Government will propose legislation to grant us another long-term operating licence for the Tram.

Peninsula Merchandising achieved record sales in Hong Kong and Asia for its signature Mid-Autumn Festival mooncakes, contributing to a revenue growth of 3%. The Thai Country Club was negatively impacted by the ongoing political uncertainties in Thailand. Tai Pan Laundry's revenue increased by 10% over the same period last year.

Projects and Developments

The highlight of the year was the completion of The Peninsula Paris project in time for its opening on 1 August 2014. We have invested a substantial amount of time and resources into this project since signing the agreement in January 2009 for the redevelopment of this magnificent historic French building into The Peninsula Paris. Construction of the project commenced in 2010 and the scope of work has included large-scale technical and engineering work to reconstruct and strengthen the entire building, excavating basement levels and adding extensive technological facilities to bring the building into the 21st century, whilst respecting and preserving many elements of historical interest in the building. I am pleased to report that the project has been completed within the revised budget of €429 million (excluding contingencies) as reported in last year's annual report. HSH's shareholding interest in this freehold project is 20%.

The Peninsula London project was entered into in July 2013 and is a 50/50 partnership with Grosvenor in the 150 year leasehold of 1-5 Grosvenor Place, situated in an exceptional location in Belgravia overlooking Hyde Park Corner. Subject to planning consent from the London authorities, the intention is to demolish the existing building and to build in its place a mixed use complex comprising The Peninsula London hotel and residential apartments for sale. Our interest in the building was acquired for £132.5 million and we are currently finalising the overall timetable and budget for the redevelopment, as well as the designs and plans to be submitted in order to seek planning approval in London.

In order to expand our presence into one of the world's most exciting developing markets, we announced in January 2014 a conditional shareholders' agreement with Yoma Strategic Holdings Ltd. and First Myanmar Investment Co., Ltd. to acquire a 70% interest in the leasehold of the former Myanmar Railway Headquarters in the centre of Yangon, Myanmar, with the intention of restoring the building and converting it into a hotel to be called The Peninsula Yangon. Preparatory work has been undertaken to establish a programme for the development of this asset upon final satisfaction of the remaining conditions to the agreement. It is expected that the hotel budget and timetable will be finalised after the agreement becomes unconditional.

The major RMB 890 million renovation for The Peninsula Beijing is due to begin in 2015. The design process and preparations are well underway for the renovation which will significantly enhance the guest rooms and public areas of the hotel up to current Peninsula standards, with most room sizes being doubled by combining two existing guestrooms into one larger guestroom. We believe that the resultant product will place us at the top of the Beijing market, as has been experienced with The Peninsula Shanghai. In Chicago, the US$35.7 million guestroom renovation programme will begin in 2015 and will result in a complete refit of all guestrooms up to current Peninsula standards. After these renovations, both The Peninsula Beijing and The Peninsula Chicago will have our latest in-room technology installed, offering easy-to-use tablet controls in 11 different languages.

The highlight of the year was the completion of The Peninsula Paris project in time for its opening on 1 August 2014.

Sustainable Luxury

We unveiled our Sustainable Luxury Vision 2020 in 2013, setting out our blueprint for sustainable growth and our ambition to achieve a new level of sustainable luxury. As the first full year of our journey towards Vision 2020, our focus in 2014 was on laying the foundations for achieving our long-term goals. This involved developing action plans and implementation guides to drive success, enhancing our reporting system to track our progress, and embedding Vision 2020 into our management decision processes.

To deliver on both luxury and sustainability is challenging. There will be successes and setbacks in our path towards Vision 2020 and 2014 was a year in which we embraced both. For example, our hotels division made good progress in improving water efficiency whereas our energy management performance fell short of the targets we had set. We were one of the first companies in the world to comply with the new Global Reporting Initiative (GRI) G4 reporting standards starting in 2013 and to be verified by GRI on our report's Materiality Disclosures. Our Sustainability Review on pages 56 to 108 contains detailed data and reports on all of our activities.

Financial Results

In 2014, we achieved earnings before interest, taxation, depreciation and amortisation (EBITDA) of HK$1,528 million, representing a significant increase of 17% over 2013. Underlying profit attributable to shareholders increased by 57% to HK$804 million.

Based on our results, the Board has recommended a final dividend payable on 19 June 2015 of 18HK cents per share. Together with the 2014 interim dividend of 5HK cents per share paid on 31 October 2014, the total dividend in respect of the 2014 financial year will be 23HK cents per share, an increase of 44% as compared to last year.

Future Prospects

The strength of our Group continues to emanate from our genuine commitment to a long-term future. This provides the vision and willingness to invest in assets for their long-term value creation and the staying power to ride through shorter-term cycles in the economy without compromising the quality of our products and services. In the volatile economic circumstances that we regularly encounter in today's environment, this commitment 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 chart a course which will maximise the quality and value of our assets and deliver long-term returns to our shareholders.

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.

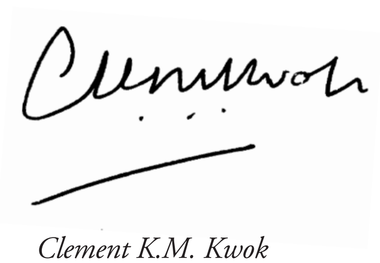
In 2015, our operating results will be adversely affected by the partial closure of The Peninsula Beijing and the disruption to The Peninsula Chicago as a result of their renovation projects. Also, I believe that the outlook for the Hong Kong market in terms of high-end residential lettings and retail rental income is somewhat uncertain. We have experienced a mixed start to our businesses in 2015 and will have to work hard to drive revenues and contain costs across all of our operations to compensate for the earnings disruptions in Beijing and Chicago as mentioned above.

Taking a wider and longer term view, I am optimistic that the actions we have taken over the years will result in attractive long-term growth and development for our Company. The Peninsula Hong Kong is well placed in its market following the extensive renovation project completed in 2013 and all of our three more recently opened hotels, The Peninsulas in Tokyo, Shanghai and Paris, have become well established in their markets with good growth prospects. The extensive renovations in Beijing and Chicago will significantly enhance the competitiveness of those hotels and we are excited about the quality of the upcoming developments in London and Yangon, Myanmar. At the same time, our hotels business is well balanced by the more stable earnings that are generated by our investment property division, particularly the Repulse Bay Complex and the Peak Complex.

> *I am optimistic that the actions we have taken over the years will result in attractive long-term growth and development for our Company.*

Our long-term growth is underpinned by a strong balance sheet comprising valuable high quality assets coupled with a low level of gearing, as well as our dedicated team of management and staff around the world who understand and respect our heritage and serve the Group with loyalty.

I would like to thank my Board members for their support and guidance and all of my colleagues around the world for their hard work and commitment. We are proud of their achievements and I look forward to working and developing together with our great team for years to come.



Clement K.M. Kwok
20 March 2015

Business Review

Non-Accounting Performance Indicators

Key non-accounting performance indicators relevant to the Group's hotel business include:

Average Room Rate (HK$) :

$$\frac{\text{Total Rooms Revenue}}{\text{Rooms Sold}}$$

Rooms Revenue per Available Room ("RevPAR") (HK$) :

$$\frac{\text{Total Rooms Revenue}}{\text{Rooms Available}}$$

Occupancy Rate:

$$\frac{\text{Rooms Sold}}{\text{Rooms Available}} \times 100\%$$

Review of Group Results

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

HK$m	2014	2013	2014 vs 2013
Revenue			
Hotels	**4,260**	4,044	5%
Commercial Properties	**901**	806	12%
Clubs and Services	**677**	658	3%
	5,838	5,508	6%
EBITDA			
Hotels	**818**	649	26%
Commercial Properties	**582**	521	12%
Clubs and Services	**128**	136	(6%)
	1,528	1,306	17%

We are pleased to report that the Group's turnover continued to grow in 2014 and amounted to HK$5,838 million, representing an increase of 6% over 2013. The EBITDA for the year of HK$1,528 million, an increase of 17% over the previous year, reflects the improved management of costs relative to the increase in revenue. Profit attributable to shareholders amounted to HK$1,146 million, after including property revaluation gains, net of tax and non-controlling interests. The Group's underlying profit attributable to shareholders for the year ended 31 December 2014 increased by 57% to HK$804 million.

The Board has recommended a final dividend payable on 19 June 2015 of 18HK cents per share. Together with the 2014 interim dividend of 5HK cents per share paid on 31 October 2014, the total dividend in respect of the 2014 financial year will be 23HK cents per share, an increase of 44% over 2013.

Operating Statistics

Peninsula Hotels

	Occupancy %		ARR (HK$)		RevPAR (HK$)	
	2014	2013	**2014**	2013	**2014**	2013
Hong Kong (Note 1)	**75**	72	**5,144**	5,170	**3,870**	3,731
Other Asia (excluding Hong Kong)	**65**	66	**2,146**	2,065	**1,390**	1,361
United States of America and Europe (Note 2)	**74**	74	**5,471**	4,858	**4,059**	3,573
Average	**68**	68	**3,454**	3,087	**2,361**	2,105

Notes:

1. The renovation works in The Peninsula Hong Kong were completed in two phases, resulting in 135 rooms being removed from saleable inventory from January to September 2012, followed by 165 rooms from September 2012 to May 2013. The occupancy and RevPAR are based on the number of rooms not being renovated.
2. The Peninsula Paris was opened on 1 August 2014, although the full inventory of 200 rooms was not available from that date. The average number of availabe rooms per day for the 5 months to 31 December 2014 was 171 and this number has been used for the calculation of occupancy and RevPAR.
3. Occupancy rates, average room rates and RevPAR are weighted averages for the hotels in each grouping.
4. The average room rates and RevPAR include undistributed service charge, which is levied at 10% in Hong Kong and at 15% in China and Japan.

Consolidated Hotel Revenue by Geographical Segment (HK$m)

	2010	2011	2012	2013	**2014**
Hong Kong	1,119	1,217	1,092	1,268	**1,460**
Other Asia	1,547	1,551	1,758	1,685	**1,627**
USA	910	998	1,035	1,091	**1,173**
	3,576	3,766	3,885	4,044	**4,260**

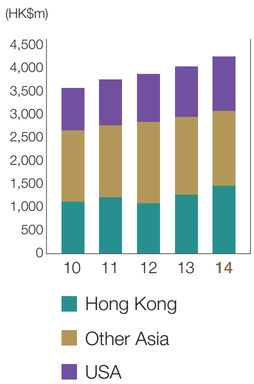
Consolidated Hotel Revenue by Nature (HK$m)

	2010	2011	2012	2013	**2014**
Rooms	1,549	1,642	1,637	1,768	**1,889**
Food & Beverage	1,123	1,175	1,232	1,218	**1,239**
Others	904	949	1,016	1,058	**1,132**
	3,576	3,766	3,885	4,044	**4,260**

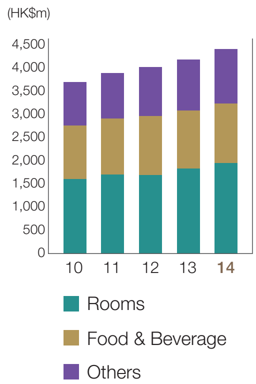
Consolidated Hotel EBITDA (HK$m)

	2010	2011	2012	2013	**2014**
EBITDA (HK$m)	604	605	596	649	**818**
EBITDA Margin	17%	16%	15%	16%	**19%**

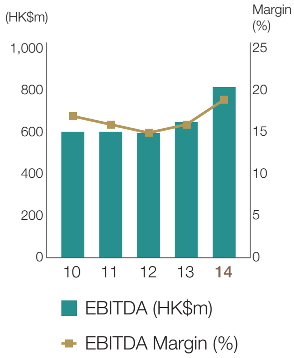
Consolidated Hotel Revenue by Geographical Segment



Consolidated Hotel Revenue by Nature

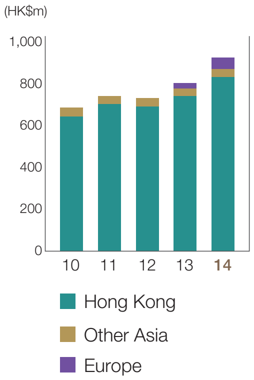


Consolidated Hotel EBITDA

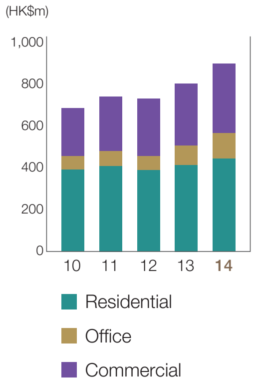


Commercial Properties

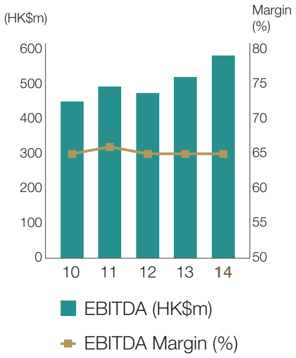
Rental Revenue from Commercial Properties by Geographical Segment



Rental Revenue from Commercial Properties by Nature



Commercial Properties EBITDA



Rental Revenue from Commercial Properties by Geographical Segment (HK$m)

	2010	2011	2012	2013	**2014**
Hong Kong	646	704	694	743	**810**
Other Asia	42	39	39	36	**36**
Europe	–	–	–	27	**55**
	688	743	733	806	**901**

Rental Revenue from Commercial Properties by Nature (HK$m)

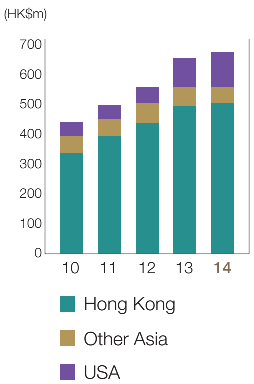
	2010	2011	2012	2013	**2014**
Residential	392	410	390	415	**445**
Office	66	71	67	93	**124**
Commercial	230	262	276	298	**332**
	688	743	733	806	**901**

Commercial Properties EBITDA

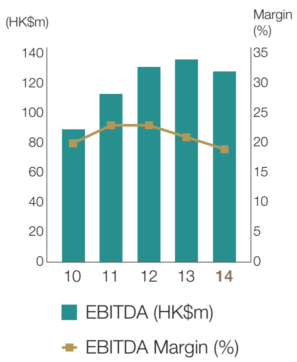
	2010	2011	2012	2013	**2014**
EBITDA (HK$m)	450	493	474	521	**582**
EBITDA Margin	65%	66%	65%	65%	**65%**

Clubs and Services

Revenue from Clubs and Services by Geographical Segment



Clubs and Services EBITDA



Revenue from Clubs and Services by Geographical Segment (HK$m)

	2010	2011	2012	2013	**2014**
Hong Kong	338	393	438	494	**505**
Other Asia	58	60	66	65	**55**
USA	47	47	56	99	**117**
	443	500	560	658	**677**

Clubs and Services EBITDA

	2010	2011	2012	2013	**2014**
EBITDA (HK$m)	89	113	131	136	**128**
EBITDA Margin	20%	23%	23%	21%	**19%**

Hotels

	2014 Revenue (HK$m)	2013 Revenue (HK$m)	2014 vs 2013
Consolidated hotels			
The Peninsula Hong Kong	**1,360**	1,192	14%
The Peninsula Beijing	**411**	424	(3%)
The Peninsula New York	**674**	592	14%
The Peninsula Chicago	**499**	499	0%
The Peninsula Tokyo	**756**	734	3%
The Peninsula Bangkok	**181**	235	(23%)
The Peninsula Manila	**279**	292	(4%)
Management fees income	**100**	76	32%
	4,260	4,044	5%
Non-consolidated hotels			
The Peninsula Shanghai	**595**	553	8%
The Peninsula Beverly Hills	**581**	508	14%
The Peninsula Paris	**225**	–	n/a
	1,401	1,061	32%

2014 was a pleasing year for the Group's hotels division. With the opening of The Peninsula Paris, our first European property, on 1 August 2014, our portfolio now comprises ten hotels situated in Asia (6), the United States of America (3) and Europe (1).

During the year, our existing portfolio of hotels achieved revenue growth of 5% over 2013. The largest increases came from The Peninsula hotels in Hong Kong and New York. The Peninsula Tokyo achieved revenue growth of 12% in its base currency, although the depreciation of the Japanese yen reduced that growth to 3% in Hong Kong dollar terms. The Peninsula Bangkok recorded a reduction in revenue due to the continuing political uncertainty in Thailand.

Our hotels continue to enjoy a strong market position in the midst of a competitive operating environment. Guest loyalty, evidenced by the high levels of repeat patronage, remains a core strength of the Group.

The Peninsula Hong Kong

The Peninsula Hong Kong

Revenue
HK$1,360m
+14%

Room Revenue
HK$420m
+27%

Available Rooms
+23%

Occupancy
+3pp

Average Room Rate
-1%

RevPAR
+4%

The Peninsula Hong Kong is our flagship property for the Group and remains the leader in average room rates among our benchmarking competitive set. Occupancy levels were slightly affected in the last quarter because of the impact of the civil protests, which led to a number of cancellations from overseas visitors but the impact on our hotel was relatively minor. We firmly believe that Hong Kong remains a healthy and desirable destination for business and we remain positive for 2015.

Our top three market segments continue to be the United States ("US"), Japan and mainland China. Whilst Japanese visitor arrivals to Hong Kong recorded a slight slowdown due to the weakening of the yen, the US and Chinese mainland markets remained strong and we saw an increasing number of visitors from emerging markets such as Russia.

The hotel enjoyed a positive year in 2014, with a 14% increase in revenue over 2013. RevPAR increased by 4% which is a pleasing result in light of the increased number of rooms available compared to 2013 when we completed our renovation. The newly renovated rooms and in-room technology continue to be very favourably received by guests. Food and beverage outlets and the spa performed well due to the increased number of guests in the hotel. The Peninsula Hong Kong Arcade and Office Tower were fully occupied throughout the year, with leases being renewed on favourable terms. The complex gross operating margin, being inclusive of both hotel and retail trading, improved by four percentage points and reflects the beneficial impact of stronger pricing having been achieved.

In 2014 we started a new art initiative, *Love Art at the Peninsula*, which created a high level of awareness for our brand amongst the art community. We also launched a documentary about our 85th anniversary celebration – *The Making of a Gala* – in December 2014 which will be broadcast internationally in 2015.

The Peninsula Shanghai had a positive year in 2014 with revenue increasing by 8% over 2013. The city remains a top choice in hosting high-profile conferences and meetings as it is well positioned to cater for large events, and in 2014 we hosted several important conferences at our hotel. Trade agreements between China and other countries are leading to more overseas delegations and The Peninsula Shanghai is well positioned to generate business from these conferences. The Shanghai Free Trade Zone has brought more financial trade and investment companies to the city which has led to increased demand for our hotel.

It is anticipated that there will be up to 2,800 new luxury hotel rooms added to the market in the next few years. However, we are optimistic that Shanghai's strong growth and location as a tourist and business destination will be able to generate sufficient demand to match the new supply. Shanghai will also be opening the largest Disneyland in Asia in the 4th quarter of 2015, potentially bringing a large regional and domestic market of visitors into the city.

The hotel remains the market leader within our competitive set in Shanghai in terms of RevPAR and average room rates. We reported good growth in rooms, food and beverage and spa revenue despite an intensely price-competitive market. While ongoing austerity measures in the Chinese mainland have negatively impacted demand from some of our government-related business, this was successfully mitigated by increased banqueting for family gatherings, reunions and personal celebrations. We have also entered into a strategic partnership with Shanghai Auto Museum to display classic cars at the Arcade to help generate increased foot traffic.

Close attention to the operating costs of the hotel during 2014, reflected by a reduction in total payroll costs relative to the prior year, has resulted in an improved complex gross operating margin of three percentage points.

Demand for the leasing of luxury apartments continues to be soft although achieved rental rates per square foot are substantially ahead of the prior year. As at 31 December 2014, we had sold 11 of the 19 units within The Peninsula Residences which were made available for sale.

The Peninsula Shanghai

Revenue from hotel
HK$595m

+8%

Occupancy

+1pp

Average Room Rate

+4%

RevPAR

+6%

Proceeds from Sale of Apartments

HK$1,044m

The Peninsula Shanghai and The Peninsula Residences, Shanghai

The Peninsula Beijing

Revenue
HK$411m

-3%

Occupancy

+4pp

Average Room Rate

-10%

RevPAR

-4%

The Peninsula Beijing endured a difficult trading period, with reported revenue 3% below 2013, due to the over-supply of five-star hotels within the business district of the city. The high profile APEC meeting held during November actually had a negative impact on revenues, due to visa restrictions and traffic restrictions.

The city of Beijing has reported a 5% decline in catering revenue, although we believe this to be of a short-term nature as China moves to a consumer-driven economy with anticipated growth in disposable income and levels of spending. Pollution has had an effect on inbound tourism, but we are optimistic that this will ease over the next few years as the government is taking significant actions to address this issue.

Strategically, the hotel has continued its efforts to capture market share and focused on increasing the amount of domestic customers. It is notable that occupancy increased from 60% in 2013 to 64% in 2014 despite the difficult market environment, although RevPAR decreased by 4%. The complex gross operating profit margin only reduced by a single percentage point as both payroll and other operating costs were reduced as compared to the prior year.

In keeping with our Group's philosophy of improving existing assets to deliver long-term value for our shareholders, a major RMB 890 million renovation for The Peninsula Beijing is due to begin in 2015. We have begun the design process and preparation for the renovation which will result in an increase in the room size, by combining two smaller guestrooms into one larger one, and improving the public areas and associated services we offer to our guests. The renovation is expected to negatively affect our earnings in 2015.

The Peninsula Beijing

The Peninsula Tokyo

The Peninsula Bangkok

The Peninsula Tokyo had a positive year due to Prime Minister Shinzo Abe's economic and financial measures which are focused on supporting Japanese economic growth. Key factors that helped the hotel industry were the weakening of the yen, making it more affordable for people to travel to Japan, and the easing of visa restrictions which resulted in a record increase in inbound travellers from Thailand, the Philippines and Indonesia.

During 2014 the Japanese government introduced the first sales tax increase in 17 years, which had mixed results and led to an overall reduction in consumer spending. In our hotel, the food and beverage outlets were temporarily affected by the slowdown but did not see any enduring significant negative impact from the sales tax increase.

The Peninsula Tokyo hotel recorded a 20% growth in RevPAR and 12% growth in total revenue over 2013 in Japanese Yen terms. The combination of increased revenues and overhead costs which remained at a similar level with those of 2013, resulted in the hotel gross operating margin improving by almost five percentage points on the prior year.

During 2014, we upgraded the fitness centre's gym and cardio equipment as well as continuing with our soft refurbishment programme of the guest bedroom accommodation.

The Peninsula Bangkok reported revenue 23% lower than the previous year due to the continuing political uncertainty in the country, with a state of emergency being declared in February 2014, followed by a coup and the introduction of martial law in May 2014. This had a significant negative effect on inbound travel, particularly business travellers. The curfew was subsequently lifted in June and business started to pick up again despite travel warnings still being in place.

The downtown area recovered more quickly than the rest of the city as business travellers returned, while the riverside, where The Peninsula Bangkok is located, has been affected by weaker bookings from leisure groups and long-haul travellers, which are the hotel's traditional sources of business. While recent evidence shows that visitors are starting to return to Bangkok, the US and English markets are recovering more slowly than expected.

The Peninsula Tokyo

Revenue
JPY 10.4b
+12%

Revenue
HK$756m
+3%

Occupancy
+3pp

Average Room Rate (JPY)
+16%

RevPAR (JPY)
+20%

The Peninsula Bangkok

Revenue
HK$181m
-23%

Occupancy
-14pp

Average Room Rate
-5%

RevPAR
-28%

The Peninsula Manila

The Peninsula Manila

Revenue
HK$279m
-4%

Occupancy
-1pp

Average Room Rate
-3%

RevPAR
-5%

In our competitor set we remain number two in average room rates. As the majority of our food and beverage revenue in Bangkok is generated from in-house guests, this was negatively affected by the lower occupancy levels. We are cautiously optimistic for 2015, with indications of increased demand from the groups and incentive markets.

A highly anticipated multi-purpose complex located near our hotel, comprising several hundred shops and restaurants, has started construction and is expected to significantly increase the number of visitors to the hotel's surrounding areas.

The Peninsula Manila had a challenging year in 2014 in an oversupplied and price sensitive market. Despite this, the hotel was able to maintain complex revenues as compared to the previous year in local currency terms.

The Philippine economy has remained strong and the growth in our domestic business has been a result of the growing middle class. We have also increased our attendance in overseas roadshows with the local Department of Tourism, visiting destinations such as Taiwan, Korea and Indonesia. Top markets for The Peninsula Manila continue to be the US, the Philippines, Japan, Hong Kong and Australia.

The key strategy in 2014 was to focus on increasing group and government business, and this approach resulted in an increase of 7% in group room nights and a 20% increase in group revenue year-on-year. Effective management of the hotel cost base contributed to the complex gross operating margin remaining in line with that reported in 2013.

We renovated our club lounge and Old Manila restaurant. Both these enhancements were well received by our clientele and Old Manila has become a much talked-about culinary gem. In 2015 we will convert the less-used guestrooms on the second floor of the hotel into office space which will reduce our room inventory from 497 to 469 and bring in incremental revenue.

The Peninsula New York

The Peninsula New York enjoyed a strong year with 9% RevPAR growth as the US economy continued to strengthen. In 2014, around 1,000 new rooms were added to the market in the Midtown area which contributed to a 6% increase in inventory in New York City in general. This high level of confidence in development within an improving economy will result in increased competition within the luxury hotel market in 2015.

There was increased group demand in 2014 compared with 2013, mostly driven by diplomatic business from the Middle East, primarily from Saudi Arabia and Qatar. The Superbowl weekend provided additional business in the first quarter of 2014, although this was offset by severe storm weather which resulted in one of the coldest winters in history.

The Gotham Lounge reopened in September to very positive feedback and Clement restaurant continues to receive accolades and awards of excellence. Food and beverage revenue increased by 9% as compared to the previous year due to both the opening of Clement in 2013 and good growth in our banqueting business.

This year we are undertaking the conversion of five rooms on the 16th floor into a second Grand Suite of approximately 2,600 gross square feet, which is expected to open by September 2015 and bring incremental revenue for the hotel. We are also renovating our employee cafeteria and the terrace of our rooftop bar, Salon de Ning. The successful renegotiation of the commercial space in the hotel also contributed to both the increased revenue and a substantial improvement in the complex gross operating margin of 5 percentage points.

The Peninsula Chicago had a challenging start to the year when the city of Chicago suffered the worst winter in its history, with 57 inches of snow falling in the first quarter and 15,000 flights cancelled. It is nevertheless pleasing that the hotel achieved the same level of revenue as 2013.

The Peninsula Chicago

The Peninsula New York

Revenue
HK$674m
+14%

Occupancy
+4pp

Average Room Rate
+4%

RevPAR
+9%

The Peninsula Chicago

Revenue
HK$499m
0%

Occupancy
+1pp

Average Room Rate
+1%

RevPAR
+2%

The Peninsula Beverly Hills

Revenue
HK$581m
+14%

Occupancy
+5pp

Average Room Rate
+11%

RevPAR
+17%

There is increasing competition in the city with new boutique hotels and competitors flooding the market with low rates. The cost of hosting events in Chicago has also been rising, partly due to the high cost of labour for events, resulting in Chicago losing some of its traditional convention business to Las Vegas and Orlando. However, more recently, some of these conventions are starting to return to the city. The Chicago Mayor's tourism initiatives have attracted more business travellers and there has been a slight improvement in international travellers.

Whereas 90% of our business is from the domestic US market, visitors from China and the Middle Eastern markets are growing, particularly diplomatic travellers. The Peninsula Chicago has also been working with the local hospitals on promoting Chicago's renowned medical care and hospital facilities.

Food and beverage revenue remained flat compared to 2013. The change in the mix of revenues, which saw a volume-based increase being offset by a lack of opportunities to increase pricing due to competition, resulted in the complex gross operating margin weakening by one percentage point.

The US$35.7 million bedroom renovation programme will begin in April 2015 and this will include one of our grand suites being updated. The hotel will also have our latest tablet technology in 11 different languages installed and will begin to offer free international calls.

The Peninsula Beverly Hills enjoyed another record year. Our Sales and Marketing teams have undertaken significant initiatives over the past several years in international markets with positive results. Saudi Arabia, Qatar, Kuwait and Bahrain are producing strong business year-round. These markets have also been supported by the introduction of direct flights to the city. We have observed an increase in "medical travel" as well as entrepreneurs and business travellers.

The domestic market has continued to be very robust, particularly the New York Metropolitan area, as well as increasing visitors from Chicago, Miami, Dallas and San Francisco as the US economy strengthens.

We reported very strong occupancy and average rates leading to a 17% year-on-year growth in RevPAR. The hotel remains the clear RevPAR leader within its competitive set. The positive demand resulted in the complex gross operating profit for the year increasing by 19% over the previous year.

The Peninsula Beverly Hills

The Peninsula Paris

In November we started upgrading the bedside panel technology in our guest bedrooms. Our food and beverage outlets also enjoyed robust growth over 2013; and the Belvedere restaurant is preparing for a full renovation in the fall of 2015 which will result in both an improved dining experience and increased capacity.

A successful property is not just about the bottom line – it has to be balanced with a great guest experience and we believe that our 70% repeat clientele in Beverly Hills is the best indicator of our focus on customer service at the highest level.

The Peninsula Paris opened its doors on 1 August 2014, gradually increasing from 115 available rooms to its full inventory of 200 rooms by the end of November. The opening of this hotel has firmly established the Peninsula brand in Europe and introduced a new clientele to our Group's hotels. The opening has also been significant both in terms of the local public awareness and support for the hotel and the exceptional level of international press interest that has been generated.

Trading for the period has exceeded our initial expectations, particularly within the catering outlets which have consistently traded strongly in both covers and average spend per guest. We are delighted that our Cantonese restaurant, *Lili*, and rooftop restaurant, *L'Oiseau Blanc*, both received prestigious '*toque*' (hat) awards from Gault & Millau just months after our opening.

The hotel management team, supported by colleagues internationally, remains focused on developing a broad base of clients for the future. Our association with our partner, based in Qatar, has also immediately provided increased levels of demand from within the larger Middle East region.

The Peninsula Paris

Revenue
HK$225m

Commercial Properties

	2014	2013	2014 vs 2013
	Revenue (HK$m)	Revenue (HK$m)	
The Repulse Bay Complex	**583**	540	8%
The Peak Tower	**176**	157	12%
St. John's Building	**51**	46	11%
The Landmark	**36**	36	0%
1-5 Grosvenor Place	**39**	16	144%
21 avenue Kléber	**16**	11	45%
	901	806	12%

Our Group benefits from holding a diversified portfolio of hotel assets and other commercial and residential properties.

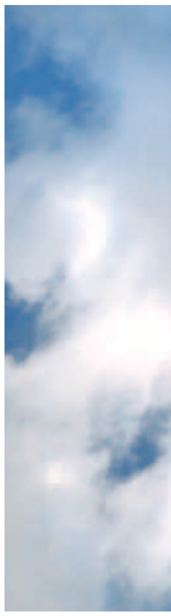
The luxury residential market was under increased pressure in Hong Kong in 2014, due to the slowing of the financial markets and a reduction in the number of expatriates receiving high rental allowances. However, we believe the high-end market will remain subdued for the short term rather than suffering a significant downturn.

The Repulse Bay Complex

Revenue
HK$583m

+8%

The Repulse Bay Complex



The Peak Tower

The Repulse Bay Complex, our key asset in this division, offers one of the finest and most enjoyable living environments in Hong Kong, comprising extensive facilities and a market-leading product with the newly renovated de Ricou Tower. This tower now comprises 34 unfurnished apartments and 15 serviced apartments with significantly improved layouts and interior design, and it was the first in Hong Kong to be awarded the prestigious LEED Gold Award in the Alteration and Addition category.

St John's Building

We achieved satisfactory occupancy levels in 2014 despite the market conditions. The Complex reported an increase in total revenue of 8% over 2013 due to a combination of increased rental income following the renovation of the de Ricou apartment tower for part of 2013, and better food and beverage revenues.

The complex gross operating margin was one percentage point lower as a result of increased levels of maintenance being incurred to prepare recently vacated apartments for re-letting.

The Peak Tower and St John's Building remained fully let in 2014. These properties reported revenue growth of 12% and 11% respectively which reflects rental leases being negotiated at levels greater than that being achieved by the general market. The Peak Tower generates most of its revenue from retail leasing, with additional revenue coming from tourist entrance fees to the open-air rooftop attraction of Sky Terrace 428, with its panoramic views of Hong Kong and featuring a new audio-visual tour. In May we launched a new promotional campaign video titled "Rendezvous at the Peak" to encourage more local residents to visit.

The Peak Tower

Revenue
HK$176m

+12%

Sky Terrace
Visitors

+3%

St. John's Building

Revenue
HK$51m

+11%

The Landmark

Revenue
HK$36m
0%

1-5 Grosvenor Place

Revenue
HK$39m
+144%

21 avenue Kléber

Revenue
HK$16m
+45%

The Landmark

The Landmark in Ho Chi Minh City, Vietnam, celebrated its 20th anniversary in December 2014. It is a mixed use commercial building comprised of serviced apartments, offices and retail space, with revenue increasing marginally over 2013. This property faces increasing competition from oversupply in Ho Chi Minh City which has resulted in a reduction in the achieved rental per square foot. Nevertheless, as a result of effective cost management, the complex gross operating margin has remained in line with 2013.

Rental income from **1-5 Grosvenor Place** in London and **21 avenue Kléber**, which is situated immediately adjacent to The Peninsula Paris, also contributed to the commercial properties division this year from their respective dates of acquisition. Together with Grosvenor, our joint venture partner, we are seeking planning permission to demolish the existing buildings of 1-5 Grosvenor Place and redevelop the site into The Peninsula London hotel and residential complex. Separately, we are currently evaluating the best use for 21 avenue Kléber as the current tenant vacated the property at the end of 2014, and this will include an opportunity for the renovation of the property over the next two years.

Total revenue from this division was HK$901 million, an increase of HK$95 million, 12% higher than 2013.

21 avenue Kléber

Clubs and Services

	2014	2013	2014 vs 2013
	Revenue (HK$m)	Revenue (HK$m)	
Peak Tram	**124**	121	2%
Thai Country Club	**55**	65	(15%)
Quail Lodge & Golf Club	**117**	99	18%
Peninsula Clubs and Consultancy Services	**171**	172	(1%)
Peninsula Merchandising	**157**	153	3%
Tai Pan Laundry	**53**	48	10%
	677	658	3%

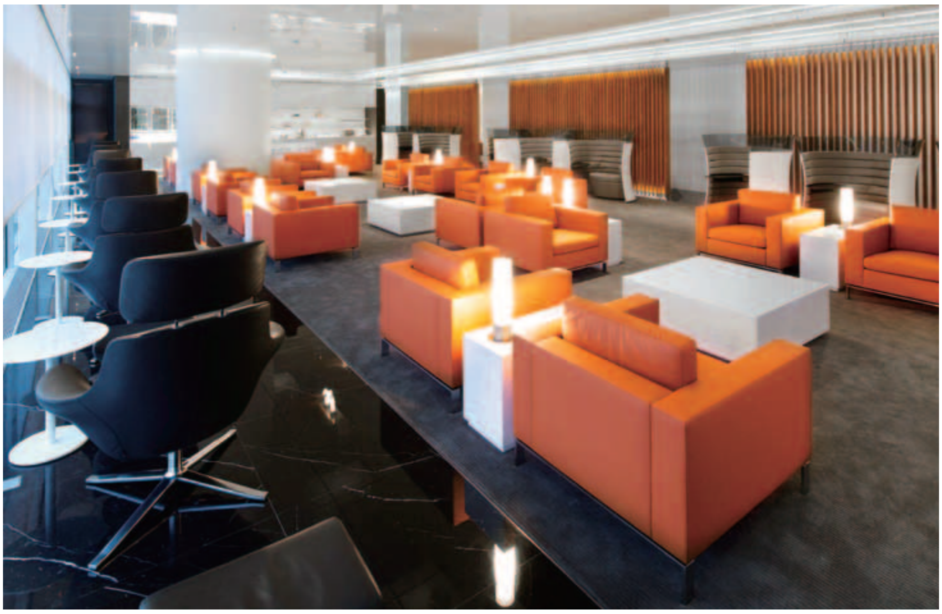
The Group's clubs and services division includes management and consultancy services, retailing of merchandise, operation of the Peak Tram, operation of golf clubs and provision of dry cleaning and laundry services. Total revenue for this division increased by 3% to HK$677 million.

Peninsula Clubs and Consultancy Services provides club management services for several prestigious private clubs in Hong Kong, including The Hong Kong Club, Butterfield's and The Hong Kong Bankers' Club as well as the Cathay Pacific Lounges at Hong Kong International Airport.

Peninsula Clubs and Consultancy Services

Revenue
HK$171m

-1%



Peninsula Clubs and Consultancy Services

Peak Tram

Revenue
HK$124m

+2%

Patronage

+1%

Peninsula Merchandising

Revenue
HK$157m

+3%

Peak Tram

The historic **Peak Tram** has maintained its position as one of Hong Kong's most popular tourist attractions, welcoming tens of thousands of visits every day from locals and tourists alike. In 2014, The Peak Tram reported an increase of 1% in patronage, giving rise to revenue growth of 2%. As previously reported, the Ordinance which grants HSH the right to operate the Peak Tram was temporarily extended until 31 December 2015 pending the Hong Kong Government's review and appraisal of the proposal which we had submitted to improve and enlarge the capacity of The Peak Tram. We expect that in conjunction with this investment proposal, the Government will propose legislation to grant us another long-term operating licence for the Tram.

The underlying trading results, whilst greater than 2013 at the gross operating profit level, include an increased license fee payable to Government.

Peninsula Merchandising

Peninsula Merchandising achieved record sales in Hong Kong and Asia for its signature Mid-Autumn Festival mooncakes. The gross operating margin was in line with the budget expectations set for the year.

Thai Country Club was negatively impacted by the ongoing political uncertainties in Thailand and reported revenue 15% below 2013.

Thai Country Club

Quail Lodge & Golf Club

Membership-based income increased compared to the prior year. Demand is expected to improve in line with the increase in foreign tourism during 2015.

The relatively high level of fixed costs associated with running a golf course limited the opportunity to reduce costs at a similar rate by which the revenues decreased, resulting in a reduced gross operating margin for the year.

Quail Lodge & Golf Club continues to grow its revenue following the re-opening of its hotel in March 2013, with 18% growth in total revenue. We have aggressively sought corporate group business and managed to almost double midweek group business, which has a consequential benefit to both catering and golf demand.

Peninsula Signature Events were a tremendous success in 2014. *The Quail: A Motorsports Gathering* this year attracted the largest crowd ever, and during the event we were able to command rates of US$695+ per night.

Quail Lodge's individual guest profile is very diverse and we are now observing a younger demographic, while for corporate groups we have noticed more business from Silicon Valley and San Francisco. While the addition of Quail Lodge on internet booking sites has resulted in a significant increase of international guests, California residents remain the largest source of our guests.

The gross operating profit for the property increased by more than US$1 million compared to the prior year.

In 2014 Quail Lodge & Golf Club began its golf course renovation after receiving permit approval, and we expect this to be completed in May 2015. The renovation is aimed at both sustaining and enhancing the golf course for the next 50 years.

Tai Pan Laundry revenue increased 10% over the same period last year as a result of the increased volume of laundry processed. Improved payroll efficiency ensured that the gross operating margin improved by three percentage points.

Thai Country Club

Revenue
HK$55m

-15%

Quail Lodge & Golf Club

Revenue
HK$117m

+18%

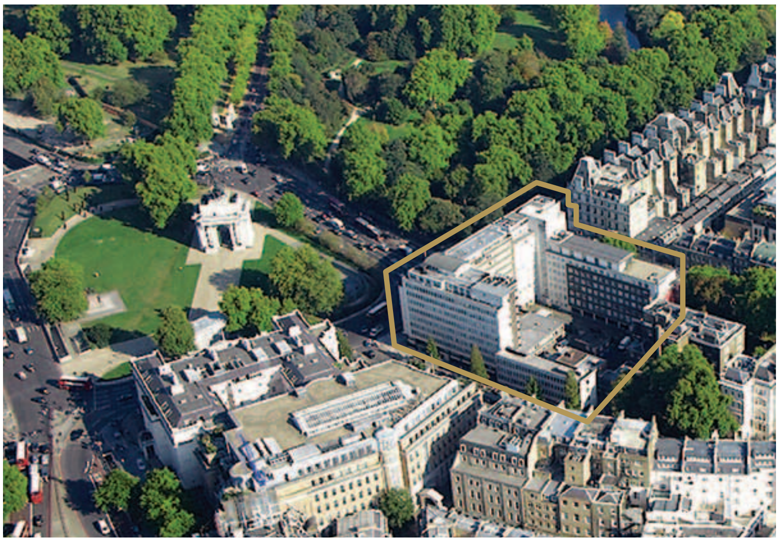
Tai Pan Laundry

Revenue
HK$53m

+10%

Projects and Developments

In August 2014, after four years of a meticulous and intensive construction project, we opened our first hotel in Europe, **The Peninsula Paris**. Further information regarding the design, construction and preparation for the opening of this hotel is presented in the Feature Stories on pages 112 to 117 of this report. This project is a good example of our Company's philosophy towards development.



1-5 Grosvenor Place

A combination of our strong brand, which is sought after by developers of luxury hotels, and public awareness arising from the high profile opening of The Peninsula Paris continues to provide the Business Development team with investment opportunities. These are reviewed on a very selective basis with an underlying principle of the Group retaining an ownership interest in the properties which we operate.

The Group will only proceed with the development of hotels that can rank among the world's best in prime locations in key international cities. We therefore expect to commit to a small number of new projects to ensure we have an appropriate level of both financial and human resources available at all times. This, together with a robust investment appraisal process, will ensure investment decisions contribute positively to the longer-term shareholder value of the Group.

The team is also involved with the appraisal of opportunities to improve the longer-term performance of the existing Group asset portfolio. Examples of this include the successful negotiations for a long-term commercial lease at The Peninsula New York in early 2014 and an evaluation of the strategic opportunities for our commercial property located at 21 avenue Kléber in Paris.

The Group Projects team plays a significant role in the development of any business opportunity, from initiation by the Business Development team to the post-opening phase following the commencement of trading. This includes aspects such as design, costing, standards compliance and project management, with each project having dedicated personnel assigned. This combination provides for the development of a product that addresses the needs and expectations of our guests, both present and future, whilst also meeting the Group's investment criteria.

The Peninsula Paris

In advance of the formal planning application to the local council authorities, we have made progress with Grosvenor, our joint venture partner in London, on the design and planning of **The Peninsula London**. Presentation of our development plans for this complex project, comprising hotel, residential and commercial elements, are being prepared for consultation with government officials and bodies as well as the public.

The design and development process continues in order to maximise the return on investment of the available interior space and to ensure that a truly Peninsula brand standard hotel will be forthcoming. Our joint venture partner provides valuable local experience and support to ensure that the project goals will be successfully met.

In January 2014, we announced an agreement with Yoma Strategic Holdings Ltd. and First Myanmar Investment Co., Ltd. to restore the former Myanmar Railway Company Headquarters into a hotel to be called **The Peninsula Yangon**. Since then, preparatory work has been undertaken to establish a development programme for this asset upon satisfaction of the remaining conditions to the agreement.

As highlighted on page 21 of the CEO's Letter, major renovation projects are also being commenced at **The Peninsula Beijing** and at **The Peninsula Chicago** during 2015. Both projects will result in the hotels' guestrooms being upgraded to meet the current Peninsula brand standards, including the latest in-room technology.

A strategic goal for the Group is our ongoing investment in guestroom technology through our Research & Technology department based in Hong Kong. The focus of the team is to ensure that guestroom, and facilities are designed to seamlessly reflect forecast trends in audio, television and internet connectivity to meet the future needs of our guests.

Further elaboration on the various projects in which the team is involved is included within the Feature Stories on pages 118 to 123.

Financial Review

Adjusted NAV per share

HK$26.04

+2%

The Group's Adjusted Net Asset 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 2014, the details of which are set out on page 51. If these assets were to be stated at fair value, the Group's net assets attributable to shareholders would increase by 10% to HK$39,496 million as indicated in the table below.

HK$m	2014		2013	
Net assets attributable to shareholders per the audited statement of financial position		**35,901**		35,105
Adjusting the value of hotels and golf courses to fair market value	**4,378**		4,103	
Less: Related deferred tax and non-controlling interests	**(783)**		(722)	
		3,595		3,381
Adjusted net assets attributable to shareholders		**39,496**		38,486
Audited net assets per share (HK$)		**23.67**		23.37
Adjusted net assets per share (HK$)		**26.04**		25.62

Underlying EPS

HK$0.53

+56%

The Group's Underlying Earnings

Our operating results are mainly derived from the operation of hotels and letting 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 and non-recurring items, such as any changes in fair value of investment properties, in our income statement. In order to provide a better reflection of the performance of the Group, we have provided calculations of the Group's underlying profit attributable to shareholders and underlying earnings per share, which are determined by excluding the post-tax effects of the property revaluation movements and other non-operating and non-recurring items on the next page.

The Group's underlying profit attributable to shareholders for the year ended 31 December 2014 increased by 57% to HK$804 million.

HK$m	2014	2013	2014 vs 2013
Profit attributable to shareholders	**1,146**	1,712	
Increase in fair value of investment properties	**(496)**	(1,403)	
Share of property revaluation (gain)/loss of The Peninsula Shanghai, net of tax	**(6)**	178	
Provision for impairment loss in respect of The Peninsula Beijing and The Peninsula Manila	**132**	–	
Other non-operating and non-recurring items	**22**	(3)	
Tax and non-controlling interests attributable to non-operating items	**6**	27	
Underlying profit attributable to shareholders	**804**	511	57%
Underlying earnings per share (HK$)	**0.53**	0.34	56%

Income Statement

The Group's consolidated income statement for the year ended 2014 is set out on page 192. The following table summarises the key components of the Group's profit attributable to shareholders. This table should be read in tandem with the commentaries set out on pages 46 to 49 of this Financial Review.

HK$m	2014	2013	2014 vs 2013
Turnover	**5,838**	5,508	6%
Operating costs	**(4,310)**	(4,202)	3%
EBITDA	**1,528**	1,306	17%
Depreciation and amortisation	**(423)**	(395)	7%
Net financing charges	**(66)**	(94)	(30%)
Share of result of The Peninsula Shanghai	**(6)**	(280)	(98%)
Share of results of The Peninsula Beverly Hills and The Peninsula Paris	**(35)**	–	n/a
Non-operating items	**364**	1,406	(74%)
Taxation	**(231)**	(231)	–
Profit for the year	**1,131**	1,712	(34%)
Non-controlling interests	**15**	–	n/a
Profit attributable to shareholders	**1,146**	1,712	(33%)

Turnover
HK$5,838m

+6%

Hotel
HK$4,260m

+5%

Commercial Properties
HK$901m

+12%

Clubs and Services
HK$677m

+3%

Turnover

The Group's turnover in 2014 increased by 6% to HK$5,838 million. A breakdown of this by business segment and geographical segment is set out in the following table.

Consolidated revenue by business segment

HK$m	2014	2013	2014 vs 2013
Hotels	**4,260**	4,044	5%
Commercial Properties	**901**	806	12%
Clubs and Services	**677**	658	3%
	5,838	5,508	6%

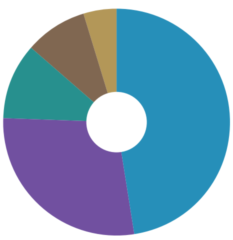
Consolidated revenue by geographic location

HK$m	2014	2013	2014 vs 2013
Arising in			
Hong Kong	**2,775**	2,505	11%
Other Asia	**1,718**	1,786	(4%)
United States of America	**1,290**	1,190	8%
Europe	**55**	27	104%
	5,838	5,508	6%

Our hotels division is the main contributor to the Group's revenue, accounting for 73% (2013: 73%) of total revenue. Within the other Asia revenues are the two Thai properties, namely The Peninsula Bangkok and the Thai Country Club, which have both been significantly affected by political events. A further analysis of the revenues and operating performance of individual operating entities are set out in the Business Review section on pages 24 to 41.

Operating Cost
HK$4,310m

+3%



- Staff costs and related expenses
- Others
- Cost of inventories
- Rent
- Utilities

Operating Costs

In 2014, our operating costs (excluding depreciation and amortisation) increased by 3% to HK$4,310 million due to higher business levels attained by most of our operations.

Given the nature of operating high-end luxury hotels, staff costs continued to be the largest portion of operating costs. Staff costs and related expenses for the year increased by 5% to HK$2,052 million, representing 48% (2013: 46%) of the Group's operating costs and 35% (2013: 35%) of the Group's revenue.

EBITDA and EBITDA Margin

EBITDA (earnings before interest, taxation, depreciation and amortisation) of the Group increased by HK$222 million or 17% to HK$1,528 million in 2014. Compared to an increase of HK$330 million or 6% in consolidated revenue, the increase in EBITDA represented a flow-through of 67%. Our successful efforts to control costs have resulted in an increase of two percentage points in the Group's overall EBITDA margin to 26%.

The table below sets out the breakdown of the Group's EBITDA by business segment and by geographical segment.

EBITDA (HK$m)	Hong Kong	Other Asia	United States of America	Europe	Total
2014					
Hotels	**565**	**209**	**44**	**–**	**818**
Commercial Properties	**524**	**16**	**–**	**42**	**582**
Clubs and Services	**130**	**9**	**(11)**	**–**	**128**
	1,219	**234**	**33**	**42**	**1,528**
	80%	**15%**	**2%**	**3%**	**100%**
2013					
Hotels	452	189	8	–	649
Commercial Properties	484	16	–	21	521
Clubs and Services	144	15	(23)	–	136
	1,080	220	(15)	21	1,306
	83%	17%	(1%)	1%	100%
Change					
2014 vs 2013	13%	6%	320%	100%	17%

EBITDA margin	**2014**	2013
Hotels	**19%**	16%
Commercial Properties	**65%**	65%
Clubs and Services	**19%**	21%
Overall EBITDA margin	**26%**	24%
Arising in:		
Hong Kong	**44%**	43%
Other Asia	**14%**	12%
United States of America	**3%**	(1%)
Europe	**76%**	78%

The luxury hotel business is a labour-intensive industry, which also requires a relatively high cost of inventories to maintain the quality of service and food and beverage. Despite this, we are pleased to have been able to improve our hotels division's EBITDA margin by three percentage points to 19% in 2014.

The EBITDA margin of the commercial properties division in 2014 remained stable as a result of our efforts to control increases in costs within a soft residential market. However, the clubs and services division's EBITDA margin decreased by two percentage points to 19%, mainly due to the higher licence fee charged by the Hong Kong government to The Peak Tram for the two-year extension of its operating right to the end of 2015, and the revenue shortfall suffered by the Thai Country Club as a result of the political situation in Thailand.

Depreciation and Amortisation

The depreciation and amortisation charge of HK$423 million (2013: HK$395 million) largely relates to the hotels. The increase in depreciation and amortisation in 2014 was mainly due to the full year depreciation impact following the completion of the renovation project at The Peninsula Hong Kong in April 2013. Depreciation charges are substantial and as such the Group adopts a rolling 5-year capital expenditure plan that is reviewed regularly to monitor planned replacement of furniture, fixtures and equipment, purchase of new items and major upgrade or enhancement projects.

Non-Operating Items

The non-operating items are analysed as follows:

HK$m	**2014**	2013
Increase in fair value of investment properties	**496**	1,403
Provision for impairment loss	**(132)**	–
Gain on disposal of an unlisted equity instrument	**–**	3
	364	1,406

The increase in fair value of investment properties for the year was principally attributable to the increase in the appraised market value of the shopping arcade at The Peninsula Hong Kong and The Repulse Bay Complex. In 2013, The Peninsula New York also recorded an increase of HK$523 million in fair value in respect of its shopping arcade due to the successful restructuring of the retail leases.

The Directors considered that the book values of The Peninsula Beijing, pending major renovation, and The Peninsula Manila as at 31 December 2014 were higher than their respective recoverable amounts. On this basis, the book values of these hotels were written down by HK$132 million.

Result of The Peninsula Shanghai

The Group, through its joint venture The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"), owns a 50% interest in The Peninsula Shanghai Complex which comprises a hotel, a shopping arcade and a residential tower of 39 apartments. In order to reduce financing charges, PSW resolved in July 2013 to sell 19 apartment units in the market. Accordingly, these apartment units were reclassified from "investment properties" to "assets held for sale" during 2013. Following this reclassification, these apartment units are stated at their fair value net of the estimated selling costs to be incurred as required by the applicable accounting standard, whereas the remaining 20 apartment units, which are available for lease, continue to be stated at fair value.

During 2014, The Peninsula Shanghai remained as the market leader in terms of average room rate and RevPAR in its competitive set, generating an EBITDA of HK$247 million (2013: HK$92 million), of which HK$129 million was derived from the sale of 11 apartment units (2013: HK$nil). In addition, The Peninsula Shanghai Complex recorded a net unrealised gain of HK$12 million on revaluation of the hotel arcade and remaining apartments (2013: a net loss of HK$355 million, mainly due to the unrealised loss incurred for the reclassification of the 19 apartment units from "investment properties" to "assets held for sale" as noted in the previous paragraph).

As PSW has been mainly debt financed and the hotel building is subject to a high depreciation charge given the remaining lease term, PSW made a net loss of HK$12 million after accounting for depreciation and net financing charges. The Group's share thereof amounted to HK$6 million (2013: HK$280 million).

Details of the operating performance of The Peninsula Shanghai are set out in the Business Review section on page 29.

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 2014 amounted to HK$35 million (2013: HK$nil), of which HK$22 million related to the share of pre-opening expenses incurred by The Peninsula Paris which opened for business on 1 August 2014.

Details of the operating performances of The Peninsula Beverly Hills and The Peninsula Paris are set out in the Business Review section on pages 34 and 35.

Balance Sheet

The Group's financial position as at 31 December 2014 remained strong, with a year-on-year increase in shareholders' funds of 2% to HK$35,901 million, representing a per share value of HK$23.67 compared to HK$23.37 in 2013. The consolidated balance sheet of the Group as at 31 December 2014 is presented on page 194 and the key components of the Group's assets and liabilities are set out in the table below.

HK$m	**2014**	2013	2014 vs 2013
Fixed assets	**38,168**	38,187	(0%)
Other long-term assets	**2,474**	2,596	(5%)
Cash at banks and in hand	**2,477**	1,494	66%
Other assets	**863**	867	(0%)
	43,982	43,144	2%
Interest-bearing borrowings	**(5,481)**	(5,486)	(0%)
Other liabilities	**(2,350)**	(2,284)	3%
	(7,831)	(7,770)	1%
Net assets	**36,151**	35,374	2%
Represented by			
Shareholders' funds	**35,901**	35,105	2%
Non-controlling interests	**250**	269	(7%)
Total equity	**36,151**	35,374	2%

Fixed Assets

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

Our hotel properties and investment properties are accounted for in different ways. 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, while investment properties are stated at fair value. Therefore, independent valuers have been engaged to conduct a fair valuation of these properties as at 31 December 2014, and a summary of the Group's hotel, commercial and other properties showing both the book value and the fair value as at 31 December 2014 is set out in the table on the following page.

	Group's Interest	100% Value: Fair Value based on Independent Valuation (HK$m)	100% Value: Book Value (HK$m)
Hotels			
The Peninsula Hong Kong	**100%**	12,172	10,038
The Peninsula New York	**100%**	2,413	1,764
The Peninsula Beijing	**76.6%***	1,493	1,244
The Peninsula Chicago	**100%**	1,342	1,146
The Peninsula Tokyo	**100%**	1,178	711
The Peninsula Bangkok	**75%**	741	751
The Peninsula Manila	**77.4%**	182	182
		19,521	15,836
Commercial Properties			
The Repulse Bay Complex	**100%**	16,566	16,566
The Peak Tower	**100%**	1,331	1,331
St. John's Building	**100%**	919	919
21 avenue Kléber	**100%**	548	548
1-5 Grosvenor Place	**50%**	3,447	3,447
The Landmark	**70%****	88	88
		22,899	22,899
Other Properties			
Thai Country Club golf course	**75%**	232	252
Quail Lodge resort, golf course and vacant land	**100%**	304	264
Vacant land near Bangkok	**75%**	330	330
Others	**100%**	207	92
		1,073	938
Total market/book value		43,493	39,673
Hotel and investment property held by a joint venture			
The Peninsula Shanghai Complex***	**50%**	5,341	5,019
Hotel property held by associates			
The Peninsula Paris	**20%**	6,622	6,169
The Peninsula Beverly Hills	**20%**	2,533	428

* 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.

** 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.

*** Excluding the remaining 8 apartment units held for sale.

Other Long-Term Assets

The other long-term assets as at 31 December 2014 of HK$2,474 million (2013: HK$2,596 million) principally comprise the Group's 50% interest in The Peninsula Shanghai, the Group's 20% interest in The Peninsula Paris and the hotel operating rights in respect of The Peninsula Paris. The decrease in balance was mainly due to the exchange difference on translation of the Group's investment in The Peninsula Paris resulting from the weakening of the Euro exchange rate. The exchange differences were accounted for as other comprehensive income in 2014.

Cash At Banks and in Hand and Interest-Bearing Borrowings

As at 31 December 2014, the Group's cash at banks and in hand increased to HK$2,477 million (2013: HK$1,494 million), partly due to delayed operating and project expenditures, whilst interest-bearing borrowings decreased to HK$5,481 million (2013: HK$5,486 million). The net cashflow from operations was therefore sufficient to cover capital expenditure on existing assets for the year. A breakdown of the Group's capital expenditure for the year ended 31 December 2014 is set out on page 53.

Cash Flows

The consolidated statement of cash flows of the Group for the year ended 31 December 2014 is set out on page 197. The following table summarises the key cash movements leading to the increase in cash at banks and in hand of the Group as at 31 December 2014.

HK$m	**2014**	2013
EBITDA	**1,528**	1,306
Net change in debtors/creditors	**61**	95
Tax payment	**(157)**	(93)
Net cash generated from operating activities	**1,432**	1,308
Capital expenditure on existing assets	**(409)**	(928)
Net cash inflow after normal capital expenditure	**1,023**	380
Acquisition of new properties	**–**	(2,293)
Net cash inflow/(outflow) before dividends and other payments	**1,023**	(1,913)

The tax payment in 2014 was higher due to the non-recurrence of 2013 depreciation allowances in respect of the renovations of The Peninsula Hong Kong and The Repulse Bay Complex.

The after-tax net cash generated from operating activities for the year amounted to HK$1,432 million (2013: HK$1,308 million), of which HK$409 million (2013: HK$928 million) was applied to fund capital expenditure on existing assets.

The breakdown of the Group's spending on its existing assets and the new acquisitions is analysed below.

HK$m	2014	2013
Properties upgrade		
Hotels		
The Peninsula Hong Kong (including guestroom renovation)	**56**	198
Other hotels	**201**	265
Commercial properties		
The Repulse Bay Complex (including de Ricou reconfiguration)	**56**	293
Other properties	**49**	50
Clubs and services	**47**	122
	409	928
New acquisitions		
1-5 Grosvenor Place	**–**	1,688
21 avenue Kléber	**–**	605
	–	2,293
	409	3,221

Treasury Management

The Group manages treasury activities centrally at our corporate office in Hong Kong. We are 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.

Liquidity/Financing

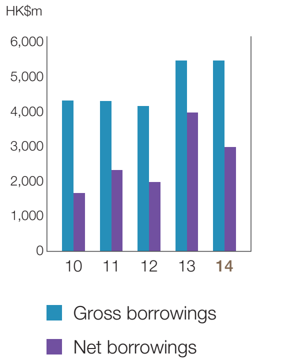
Our policy is to monitor current and expected liquidity requirements and to ensure that we maintain sufficient funds to meet short and longer-term obligations and commitments. The Group also constantly reviews its loan profile so as to manage its refinancing risks and extend its maturity profile.

In 2014, gross borrowings decreased to HK$5,481 million (2013: HK$5,486 million). Consolidated net debt decreased to HK$3,004 million as compared to HK$3,992 million in 2013, after taking into account cash of HK$2,477 million (2013: HK$1,494 million). Gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders' funds, decreased from 10% to 8%, whilst the funds from operations (EBITDA less tax paid and less net interest paid) to net debt ratio increased from 28% to 44%. These ratios continue to reflect a healthy financial position for the Group.

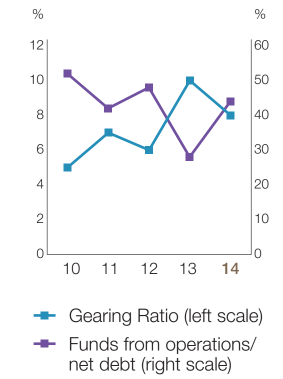
The average debt maturity decreased from 3.5 years to 3.1 years.

During the year, the Company arranged credit facilities of JPY2 billion and US$40 million respectively for two wholly owned subsidiaries and a credit facility of Baht800 million for a subsidiary to refinance their maturing term loans.

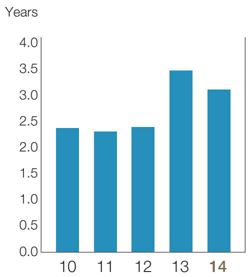
Gross and Net Borrowings



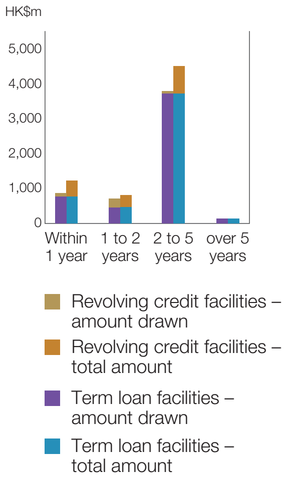
Gearing and Funds from Operations to Net Debt



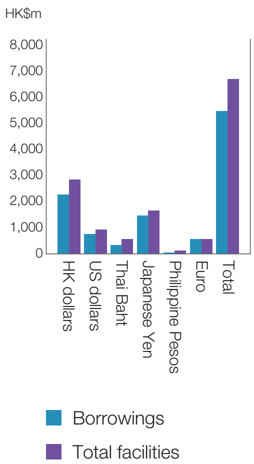
Average Debt Maturity



Banking Facilities and Borrowings (by type and maturity)



Banking Facilities and Borrowings (by currency)



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

The consolidated and non-consolidated borrowings as at 31 December 2014 are summarised as follows:

	2014					2013
HK$m	Hong Kong	Other Asia	United States of America	Europe	Total	Total
Consolidated gross borrowings	2,281	1,872	766	562	5,481	5,486
Non-consolidated gross borrowings attributable to the Group*						
The Peninsula Shanghai (50%)	–	1,183	–	–	1,183	1,412
The Peninsula Beverly Hills (20%)	–	–	224	–	224	218
The Peninsula Paris (20%)	–	–	–	409	409	446
Non-consolidated borrowings	–	1,183	224	409	1,816	2,076
Consolidated and non-consolidated gross borrowings	2,281	3,055	990	971	7,297	7,562

* 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. It usually hedges most of the foreign exchange exposures arising from significant foreign currency monetary assets and liabilities, including foreign currency borrowings. The Group mostly uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge exposures.

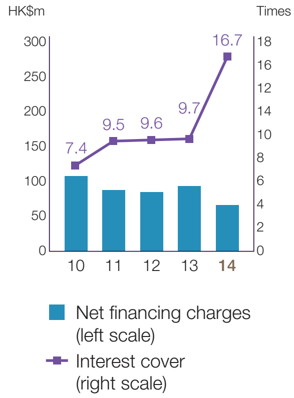
All of the Group's borrowings are denominated in the functional currency of the operations to which they relate. As at 31 December 2014, Hong Kong dollar borrowings represented 42% (2013: 37%) of total borrowings. Other balances were mainly in US dollars, Japanese yen and other local currencies of the Group's entities.

Interest Rate Risk

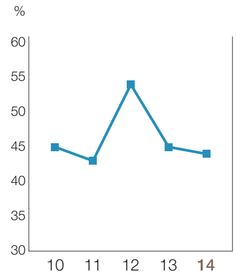
The Group has an interest rate risk management policy which focuses on reducing the Group's exposure to changes in interest rates by maintaining a prudent mix of fixed and floating rate liabilities. In addition to raising funds directly on a fixed rate basis, the Group also uses interest rate swaps or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

Financing charges on borrowings in 2014 amounted to HK$131 million (2013: HK$140 million). After interest income of HK$65 million (2013: HK$46 million), a net charge of HK$66 million (2013: HK$94 million) was recognised in the income statement. Interest cover (operating profit divided by net financing charges) increased to 16.7 times (2013: 9.7 times) in 2014 due to the combination of improved operating profit and reduced net financing charges. As at 31 December 2014, the Group's fixed to floating interest rate ratio was at 44% (2013: 45%) and the weighted average gross interest rate for the year decreased to 2.3% (2013: 2.9%). The floating interest rate portfolio benefited from the current low interest rate environment.

Net Financing Charges and Interest Cover



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



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 2014, bank deposits of HK$2,463 million (2013: HK$1,471 million) and derivatives with notional amount of HK$1,788 million (2013: HK$2,090 million) were transacted with financial institutions with credit ratings of at least investment grade.

Share Information

At market close on 20 March 2015, the Company's share price stood at HK$11.16, giving a market capitalisation of HK$16.9 billion (US$2.2 billion). This reflects a discount of 53% to net assets attributable to shareholders of the Company, or a discount of 57% to the adjusted net assets (see page 44).

The average closing price during 2014 was HK$11.23, with the highest price of HK$12.60 achieved on 12 September 2014 and the lowest price of HK$10.08 recorded on 21 March 2014.

Sustainability Review

In this section of the Annual Report, we report on the progress and challenges we faced in delivering the HSH Sustainable Luxury Vision 2020. It also covers specific environmental and social issues that contribute to the sustainable development of HSH and are of interest to our stakeholders.

In line with our commitment to transparency and accountability, we report not only our achievements, but also areas where we need to improve. We welcome feedback from readers and contact details can be found on page 271 of this report.

Reporting Scope[1]

This section focuses on the Company's businesses in the hotels division and commercial properties division, as well as Thai Country Club, Quail Lodge & Golf Club and Tai Pan Laundry in the clubs and services division where HSH has operational control. This covers 94%[2] of the Group's business portfolio. HSH employees working for Peninsula Merchandising Limited and Peninsula Clubs & Consultancy Services (PCCS) are included in the workforce statistics. However, facilities managed by PCCS or Peninsula Boutiques operating outside Peninsula hotels are not included in the environmental data as HSH does not own these facilities nor has sole control of their policies. The reporting scope for 2014 has been expanded to include The Peninsula Residences in Shanghai, and The Peninsula Paris from when it became operational on 1 August.

Reporting Standards And Assurance

We have used the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) G4 and the Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide (ESG Guide) in the development of this report. GRI and ESG references can be found on pages 258-265. The report meets GRI G4 Core Level compliance and is verified by GRI on Materiality Disclosures.

KPMG were commissioned to conduct assurance of this report in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000) and to provide an independent limited assurance opinion on whether the reported information complies with GRI G4 as detailed on pages 258-265. The report from KPMG is set out on pages 266-267.

Materiality And Defining Report Content[3]

The content reported in this section covers the calendar year of 2014. In line with G4's materiality principles, our process for defining report content is guided by the most significant and relevant sustainability issues identified by the Company's Group Corporate Responsibility Committee and through a materiality process involving both external and internal stakeholders. Details of HSH Sustainability Materiality Matrix can be found on page 60.

In the Report, disclosures of management approach for material GRI aspects and topics are mapped to the pillars within our Sustainable Luxury Vision 2020. The Sustainability Data Statements section supplements the discussion with detailed performance data. (See pages 253-257)

1 GRI G4 Material Disclosure: G4-17

2 Based on the Group's annual revenue in 2014.

3 GRI G4 Material Disclosure: G4-18, 27

SUSTAINABLE LUXURY 2020

1 Building a shared understanding among the management team

2 Engaging with external and internal stakeholders

3 Benchmarking study among hospitality companies and luxury brands

4 Understanding where we are

5 *Introducing*

The Sustainable Luxury Vision 2020

HSH aspires to deliver the highest standard of luxury in a sustainable way and continue to grow responsibly and sustainably.

Guest Experience

Employees

Community

Supply Chain

New Build & Refit

Operation

Governance & Management

PROGRESS TOWARDS VISION 2020 AMBITIONS

Guest Experience

- New in-room technology raised global standards of personalised in-room experience.
- Re-launched peninsula.com to enhance online guest experience
- Electric car joined The Peninsula's luxury car fleet in Tokyo. Car charging stations are available at Quail, The Repulse Bay and some Peninsula hotels.
- An exclusive interactive Pokémon adventure aimed at family travellers debuted at The Peninsula Tokyo.
- Tradition Well Served premiered worldwide.
- The Peninsula Academy introduced guests to traditional crafts and culture.

Governance Management

- Vision 2020 workshops and action review meetings were conducted with the executive committees of 13 operations.
- HSH Sustainability Materiality Matrix provides a mapping of material issues for the company.
- Group Risk Register and Bi-annual Safety and Security Risk Assessment to assess and monitor operational risks the Group is exposed to
- A bespoke 2-year stakeholder engagement plan with Vision 2020 as the theme of engagement
- Instigated an industry-wide stakeholder engagement programme with International Tourism Partnership members to map material sustainability issues for the hospitality industry
- Revamped the reporting tools in various areas to provide more accurate and comprehensive understanding of our corporate responsibility and sustainability performance
- Among the 1st in the world to meet GRI G4 disclosure requirements, verified by KPMG and accredited by GRI
- Scored a high 90B for CDP 2014. Invited to join Climate Disclosure Leadership Index Asia ex-Japan

Employees

- Conducted global employee engagement survey with over 90% response rate
- Introduced global competency framework and training
- New e-learning module on Vision 2020 is being developed.
- Introduced e-performance modules of the global HR system to selected employee groups
- Enhance emergency preparedness through more disciplined emergency drills
- Conducted 16K hours of health and safety training
- Supported employee wellness with a wide range of programmes, including The Peninsula New York and The Peninsula Chicago's employee wellness day

New Build & Refit

- Adopted BREEAM, a UK-based certification scheme, in the HSH Design Standards as a benchmark of sustainable building design
- Achieved LEED Gold certification for the renovation of de Ricou apartments

LEED

Planning & Tracking, Sharing & Learning

- All operations developing action plans to deliver Vision 2020 ambitions
- New reporting tools to monitor progress
- Vision 2020 Spotlight to share best practice and personal stories quarterly
- Leveraging different channels to communicate Vision 2020

(e.g. CEO webcast, all-hands meeting, CRS corner on Intranet, staff notice board, workshop and games)

Supply Chain

- Over 70% of paper products are from certified sustainable sources
- Conducted sustainability review on our seafood offering in Asia with the support of WWF
- The Peninsula New York and The Peninsula Paris serves market fresh menu and embraces farm-to-table concept.
- Coffee used by The Peninsula Tokyo and Quail are from certified ethical sources.
- Caviar served at The Peninsula Shanghai is from internationally-certified sustainable caviar farm in China.
- New collection of bathroom amenities are without substances potentially harmful to human health.
- Sustainable procurement guidelines for different materials are being developed.
- Most operations have incorporated HSH Supply Chain Code of Conduct requirements in their supplier pre-qualification process.
- Introduced protocols for procurement teams to assess high-risk suppliers' compliance with HSH Supply Chain Code of Conduct

Operation

- 22% reduction in carbon intensity
- 18% reduction in water intensity by hotels division
- Rolled out HSH Water Management Guide
- Conducted a pilot building re-commissioning project to optimise energy use
- Achieved 45% waste diversion rate
- The Peninsula Paris offers guests premium glass bottled water and works with its supplier to reuse the bottles, reducing waste.
- The Peninsula hotels in Beijing, Hong Kong and Manila achieved HACCP certification.
- All hotels conducted HACCP gap analysis and developed plans for achieving compliance.
- The Peninsula Chicago and The Peninsula Tokyo achieved EarthCheck certification.

1 in TOKYO

Community

- Introduced a new strategic framework that links community engagement with core operations
- Conduct regional community best practice calls quarterly
- 11K hours of community service in 2014 (Up 50%)
- Operations are building longer term and more in-depth partnerships with selected local community organisations.
- Hotels developed innovative partnerships for Peninsula in Pink and Trees of Hope.

THE PENINSULA

- 2nd Honing Skills in Hospitality programme to support the development of underprivileged ethnic minority youths in Hong Kong
- Hired over 50 employees with disabilities

Governance & Management

Our Mission

We meet local laws and regulations and ensure that our business is conducted in accordance with professional, ethical and moral standards, as outlined in our code on corporate governance, so as to achieve sustained, healthy and long-term growth.

We consult and share our sustainability performance with our key stakeholders and balance their interests with the Group's objectives.

Our 2020 Ambitions

- Build a robust succession planning framework for senior leadership
- Introduce "Leaders for Good" Training Programme for management
- Establish a strong framework to track and manage financial, operational and environmental, social and governance risks
- Engage stakeholders on wider sustainability issues through a process that is meaningful and helps to advance the Group's sustainability commitments
- Establish a robust sustainability management system to support the management, planning and disclosure requirements on sustainability issues as well as progress towards 2020 goals
- Meet international and local sustainability disclosure requirements relevant to HSH

We unveiled our Sustainable Luxury Vision 2020 in 2013, setting out our blueprint for sustainable growth and our ambition to take our business to a new level of sustainable luxury. As the first full year of our journey towards Vision 2020, our focus in 2014 was on laying the foundations for achieving our long-term goals. This involved developing action plans and implementation guides to drive success, enhancing our reporting system to track our progress, and embedding Vision 2020 in our management decision process.

Driving Excellence Through A Robust Management Process

We believe that our journey to Vision 2020 would be made more focused by regular measurement of our progress. In 2014, we reconsidered the metrics that we should use and the data points that should be tracked in order to monitor our progress towards our 2020 ambitions. We introduced more comprehensive reporting templates on health and safety and workforce issues and rolled out a new reporting tool on sustainable sourcing during the year. We also revisited our monthly environmental reporting tool, expanding its scope to support the pursuit of our 2020 goals. The upgraded tool will be rolled out in 2015.

In addition, we have planned to provide more implementation guides to support operations in pursuing our 2020 ambitions. For example, a water management guide with a self-assessment checklist was rolled out in 2014 to facilitate operation teams in benchmarking themselves against the best water management practice within the Group and identifying room for improvement.

Creating accountability through executive oversight

The Group's Corporate Responsibility Quarterly Report captures key performance indicators for the review of the Group Corporate Responsibility Committee, enabling executive oversight on our performance towards Vision 2020 regularly throughout the year. At the end of 2014, the Company's executive team also reported back to the Board on the progress we made in this first year of implementing Vision 2020.

To strengthen how we govern the delivery of Vision 2020, the Group Management Board (GMB) issued a new requirement, whereby any proposals made to the GMB should include an analysis on the impact to the Sustainable Luxury Vision 2020 and other environmental and social implications.

Our accomplishments to date are the result of establishing rigorous governance and management processes that provide a strong foundation for our future. By continuing to evolve our governance and management practices, our aspirations for Sustainable Luxury Vision 2020 across all of its pillars would be enabled.

How We Govern and Manage at Group Level

The Company's Group Corporate Responsibility Committee (GCRC) provides a formal governance structure to address the wider aspects of our environmental, social and ethical responsibilities. Chaired by our Chief Executive Officer, the Committee meets at least three times a year to review Group operations' sustainability performance and to discuss policies, objectives and plans for achieving our 2020 ambitions. The reporting structure and composition of the Committee is outlined on page 163 in the Governance Report.

Each of the seven Vision 2020 pillars is championed by a GCRC member whose role is to provide guidance and work with Group operations to deliver progress.

The Chief Executive Officer is accountable for HSH's overall corporate responsibility and sustainability performance. He is supported by the Director of Corporate Responsibility and Sustainability, who is responsible for setting the direction of the Group's policy and strategy on corporate responsibility and sustainability, managing stakeholder relationships on environmental and social issues and supporting the Champions.

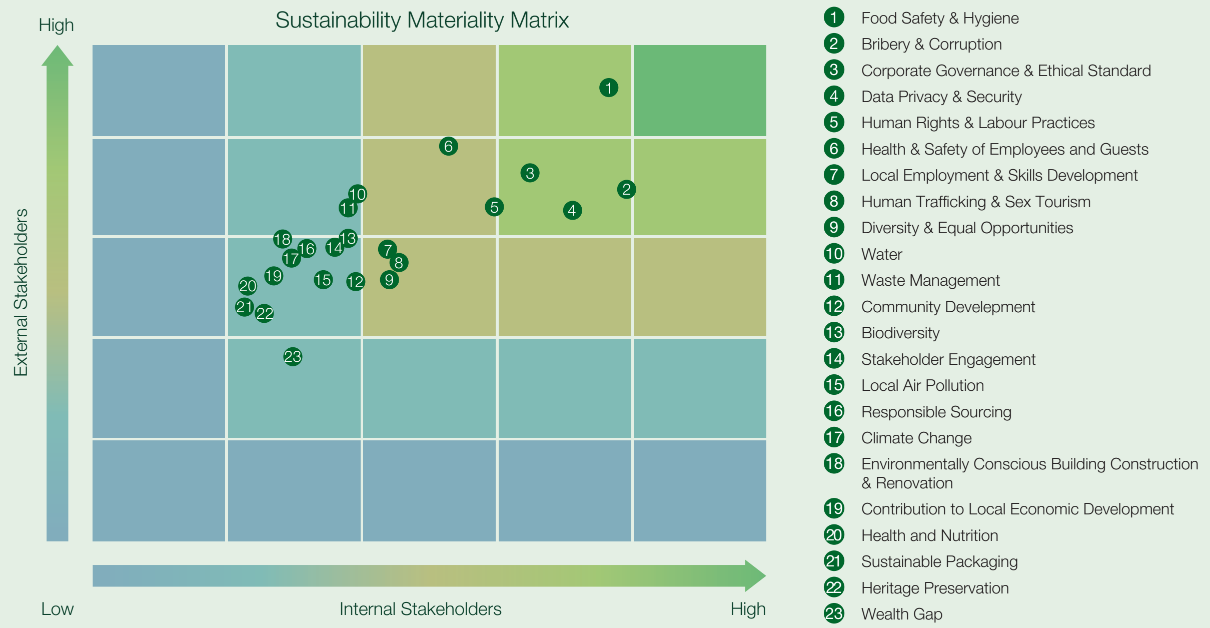
Acting Locally

Group operations have also set up their corporate responsibility committees to coordinate actions and review progress for integrating sustainable practices in their day-to-day operations and delivering on its 2020 commitments. These committees are often supported by specific working groups on health and safety, the environment and community engagement.

Focusing On What Matters[4]

In our materiality matrix, material issues are defined as issues of the highest concern to the Company and to external stakeholders. These were defined through a process of risk assessment and stakeholder engagement involving over 100 stakeholders including the Group's management team as well as external stakeholders from 12 major stakeholder groups in Asia, Europe and the US. For the Company, priorities are ranked based on the likelihood and potential impact of issues affecting business continuity and development. The two factors were multiplied to give the overall rating of an issue. For external stakeholders, prioritisation is given to the importance of the issues to society and the relevance of HSH to these issues.

Sustainability Materiality Analysis



The Matrix has combined the perspectives of external and internal stakeholders and provides a mapping of material sustainability issues to HSH.

The materiality matrix provided the foundation for the framework of our Sustainable Luxury Vision 2020 policy. It provided important insights for us to take a more focused and proactive approach in managing issues of the highest concern to our stakeholders. We also mapped our matrix to international standards such as the Global Reporting Initiative's G4 framework to establish and prioritise our disclosure of key performance indicators.

Managing risks proactively

We have an established governance structure that supports the early identification and mitigation of key business risks. Our Group Risk Register covers key strategic and operational risks to the Company including sustainability risks, and is updated on a regular basis. For more information on how we manage risk, please refer to the Governance section on pages 170-175.

4 GRI G4 Material Disclosure: G4-18, 26, 27

Raising Awareness and Understanding on Climate Change Impact

In 2014, we carried out an internal survey on climate change risks and opportunities. The management teams in our corporate headquarters and our operations across the world were invited to assess a wide spectrum of potential climate risks and opportunities to the Company, with a view to raising their awareness on climate issues. The survey findings also informed our response to the climate change programme of Carbon Disclosure Project (CDP).

We conduct onsite safety and security risk assessments at all properties biannually to ensure proper precautionary measures have been taken to safeguard the safety and security of our guests and staff. (See page 88 for more information)

Bringing Our Vision To Life Through Stakeholder Engagement[5]

Stakeholder engagement is central to our Sustainable Luxury Vision 2020 with dedicated pillars focused on engagement with our guests, employees, communities, suppliers and contractors. In the Governance and Management pillar of our vision, we formalise our commitment to ongoing transparent and value-added engagement to support shared objectives between the Company and our stakeholders.

In summer 2013 when we launched Vision 2020, we also developed a two-year, three-phased stakeholder engagement plan to ensure that we inform and listen to stakeholders in our Vision 2020 journey. The plan defined a rigorous process focusing on integrated and continuous engagement with internal and external stakeholders throughout the year. Following the plan, during 2014 our focus was on raising awareness and building understanding of Vision 2020 internally while beginning to share our new vision with external stakeholders.

Aligning the commitment at the centre

It is important that the management team at our corporate headquarters are aligned in their commitment to the Group's new vision for sustainable luxury and are able to provide leadership to our operation teams in embedding sustainability considerations in the different functions of day-to-day operations.

5 *GRI G4 Material Disclosure: G4-26, 27*

Contributing to an Industry-wide Effort

We are actively involved with the International Tourism Partnership (ITP), which is the voice for environmental and social responsibility in the hospitality industry. In 2014, our Corporate Responsibility and Sustainability Director was on the steering committee for an ITP initiative on conducting an industry-wide stakeholder engagement programme and creating a mapping of material sustainability issues to the hospitality industry. A stakeholder forum was also organised as part of the process to provide an opportunity for a two-way dialogue between the hotel industry and external specialists. HSH contributed by sharing our methodology and experience in our materiality process.

2-way

dialogue between hotel industry and external specialists

The findings of the study identified water as the top environmental issue and labour standards as a top social issue, for which ITP will take forward as its focus areas in engaging hotel companies to share best practice and identify new solutions. The findings also validated our own materiality matrix. Although our matrix was developed two years ago, it remained relevant to stakeholders' current concerns and provided appropriate representation of the material issues to our company.

In 2014, we commissioned an independent consultancy to carry out one-on-one interviews with the senior management team and each general manager at the corporate headquarters. This engagement programme provided valuable insights into the understanding of Vision 2020 among our corporate leaders, the perceived barriers in achieving the 2020 ambitions, and ways by which the Corporate Responsibility and Sustainability team could best support our corporate leaders in integrating sustainability considerations into the different business functions.

Translating the global vision to local actions

As part of the two-year stakeholder engagement plan in building a shared commitment to Vision 2020 across the Group, workshops and action review meetings were conducted with the executive committee and key department heads at each operation. During 2014, following the workshops, each operation has been busy setting its local ambitions and sketching out its action plans over the next six years for contributing to the delivery of the Company's 2020 ambitions.

We also used various means at the Group level and at property level to engage employees on our new vision for sustainable luxury. (See page 74 for more information) We will continue to expand our effort in this area over the coming years, striving to build a wider and deeper understanding among all employees until this commitment takes roots in and reaches all areas of our business.

Communicating externally[6]

In 2014 we began to communicate our vision for sustainable luxury externally. Through various regional and local forums and conferences, we shared Vision 2020 with a broad range of stakeholders including institutional investors, non-profit organisations, sustainability professionals and academia as well as our peers in the hospitality and luxury sectors.

6 *GRI G4 Material Disclosure: G4-26, 27*

We continued our engagement with industry advocacy groups and organisations to keep ourselves informed of the latest developments on sustainability issues and to learn from the experience of other industry peers. We are a member of Forum for The Future (www.forumforthefuture.org) and several industry bodies, including International Tourism Partnership (www.tourismpartnership.org) and the Advisory Group of Cornell Hotel Sustainability Benchmarking Study, contributing time and input to support industry-wide initiatives and research. In Hong Kong where the Group is headquartered, we continued our engagement and collaboration with WWF Hong Kong (www.wwf.org.hk) and Hong Kong Council of Social Service (www.hkcss.org.hk).

Uniting To Meet Our 2020 Ambitions

We are proud to have crafted out our new vision for sustainable luxury, putting sustainability at the heart of our business model and our brand. However, to transform our 2020 aspirations into reality, we must mobilise as an organisation. It takes the passion, the creativity and the commitment of each member of staff to make a difference in our collective journey to Vision 2020. In the coming years, we will work hard on galvanising this commitment throughout the HSH family, in an effort to inspire each of us to live and breathe the values of our new vision.

How We Did in 2014?

- (Behind Plan) All operations developed action plans and defined the associated goals contributing to Sustainable Luxury Vision 2020.
- (On Plan) Developed communication tools to support the leadership teams of all operations to cascade localised Vision 2020 plans to the wider workforce
- (On Plan) Implemented the two-year stakeholder engagement plan to support the rollout of Sustainable Luxury Vision 2020
- (On Plan) Continued to expand employee engagement efforts on corporate responsibility and sustainability
- (On Plan) Continued to improve the robustness of the Group's sustainability reporting

Achieved · On Plan · Behind Plan · Objective Missed

Our 2015 Commitments

- All operations to finalise Vision 2020 site level targets and action plans
- Continue to expand employee engagement efforts on Vision 2020
- Renew the two-year stakeholder engagement plan
- Enhance the use of website to communicate with stakeholders on Vision 2020
- Continue to improve the Group's sustainability management process

Guest Experience

Our Mission

We strive to offer unique experiences, timeless glamour and exquisite surroundings and facilities, all designed to enrich, enhance and create everlasting memories for our guests while respecting the environment and preserving our heritage.

Our service is genuine, personalised and innovative, and we are committed to quality in everything we do.

Our 2020 Ambitions

- Expand our customer base, particularly in the 30s-50s age groups, and nurture their loyalty through our authentic service culture and the use of innovative technology
- Attract family travellers by providing facilities and services that cater to their needs
- Attract senior travellers by providing facilities and services that cater to their needs
- Engage our customers in preserving our heritage for future generations
- Provide Green Meeting options to corporate clients
- Continue to create memorable guest experiences through impeccable service, applying the right technology, leveraging on the resources of the cities we operate in, and creating an environment that supports our guests' lifestyle choices, such as healthier and more sustainable lifestyles

As the world's leading small luxury hotel group, HSH has a proud heritage as Asia's oldest hotel company, which first started in Hong Kong in 1866. Building on our reputation as a purveyor of timeless luxury, we are as committed to defining the future of luxury as we have been to preserving our magnificent heritage of the past. Our Sustainable Luxury Vision 2020 focuses on refining and evolving luxury in tandem with the changing needs of our guests.

We understand that there is a perceived divide between the notion of luxury and the principles of sustainability. To bridge this divide can be challenging. However, we believe that our relentless attention to detail and persistent quest for quality will lead us to new opportunities for innovation – in delivering luxury and quality to our guests in the most sustainable ways, and enhancing standards by making sustainability part of the appeal of our luxury offering.

Going Beyond What Is Expected

Delivering luxury and quality service, exceeding the expectations of our guests and delighting them with unique and memorable experiences have always been at the heart of our ethos. We pride ourselves in providing our guests with a unique culture of warmth and genuine service. This unique culture, together with exceptional hotel products, award-winning facilities and a relentless attention to detail, has placed us where we are today.

Watch a short interview with The Hon. Sir Michael Kadoorie, Chairman of The Hongkong and Shanghai Hotels, Limited about what defines The Peninsula service.

Measuring guest satisfaction

We tactfully solicit feedback from guests through our interactions with them, as well as through optional surveys available in the guest rooms. To gain a deeper understanding of the experience of our guests, we have also been engaging a mystery-shopping firm to carry out anonymous reviews of our service at each Peninsula hotel twice a year. In 2014, we decided to engage an additional partner to provide quality assurance of our service. This complements the existing programme with the opinion of another third-party and an expanded pool of luxury hotel companies for benchmarking the standards of our service delivery, while increasing the frequency of assessment throughout the year.

Both programmes provide thorough and quantifiable analyses on how well we meet our standards. The assessment covers the entire journey of guest experience from making a reservation to departure, assessing the quality of services such as housekeeping and laundry, pools and fitness centres as well as our restaurants, lobbies, boutiques and other guest areas. The detailed analyses provide insights into how we can continuously improve. In 2014, key results from these guest satisfaction reports for our hotels did not reveal any fundamental, endemic gaps that we need to address but instead showed a range of specific, tactical improvement opportunities we could attend to at each property.

An Enriched Digital Experience

In March 2014, we re-launched peninsula.com to further enhance our guests' online experience. The new website, accessible in multiple languages, is packed with in-depth content about our services, our destinations and our rich history. It aims to tell a deeper story of our brand and our unique properties. With the extensive use of videos and photography, the new website offers an immersive and dynamic digital experience that is captivating and visually impactful. It also goes behind-the-scenes to provide an insider perspective of each hotel, including the restoration process of The Peninsula Paris which opened in August 2014.

Guests can now make bookings in just two simple steps with the re-designed and simplified online reservation process. Traffic to the re-launched website has increased over 30%, and direct online bookings have also grown by 40%.

To appeal to the younger generation, social media integration has been enhanced, making it easy to share content and connect to social media networks. A new mobile version will be available in 2015.

Watch a short film about the unique Peninsula Moments

Smart Technology Drives Us Forward

The development of technology has created new opportunities for us to innovate our service: to deliver our service in more sustainable way and to make sustainability part of the appeal of our luxury offering.

Personalised in-room technology

We believe that guest-focused and intuitive technology can enrich guest experiences and help us stay relevant. Our state-of-the-art in-room technology elevates guest stays to a whole new level of experiential luxury. It also enables us to reduce the use of paper in the guest rooms as our service directories and room service menus are now available through the new customised, interactive tablets instead of print copies.

Driving down Electric Avenue

The Peninsula Hotels has been long celebrated for its exceptional collection of car fleet, ranging from customised Rolls-Royces to Minis and BMWs.

In pursuit of sustainable luxury, The Peninsula Tokyo became the first hotel in the Group and in Japan to add a customised all-electric sedan with zero tailpipe emissions to its fleet in 2014. Guests can now select a Tesla Model S for hired chauffeured service – the world's first premium, all-electric sedan in signature Peninsula green. During the

See the Feature Stories section to find out more about our exclusive in-room technology and luxurious car fleet.

year, other Peninsula hotels, Quail Lodge & Golf Club in Carmel, California and The Repulse Bay in Hong Kong also installed charging stations for electric cars for the use of their customers. These represent the first steps in making sustainability considerations part of the appeal of the luxury car service we offer our guests.

Curating a Unique Guest Experience

Exclusively designed to give our guests unique and unprecedented access to historical, cultural and local lifestyle experiences in each of our destinations, The Peninsula Academy offers a collection of bespoke programmes for both adults and children.

In 2014, The Peninsula Academy introduced 18 thoughtfully curated programmes, inspiring our guests with a deeper appreciation of our host cities through the lens of art, culture, fashion, cuisine and the nature. From exclusive access to a private chamber in Beijing's Forbidden City and a coastal mangrove eco-adventure in Thailand guided by award-winning naturalists, to oyster foraging in New York or spending the day fishing with Chef Codney in Beverly Hills, these programmes embody our on-going commitment to provide unforgettable experiences for our guests, while also contributing to preserving these cities' heritage and customs for future generations, in line with our Vision 2020 ambitions.

Adventures for Family Travellers

In October 2014, The Peninsula Tokyo debuted an interactive Pokémon adventure exclusively designed for the hotel by The Pokémon Company. Guests of all ages may don a Pikachu hat, armed with a Poké Ball, and set forth on an imaginative hotel-wide quest to seek out Pokémon characters!

This innovative and exciting adventure is part of The Peninsula Hotels' efforts in creating unique experiences to family travellers.

The Peninsula Hong Kong's *Love Art at The Peninsula* initiative comprised a series of projects reflecting the hotel's support of contemporary artists and celebrating Hong Kong's burgeoning art scene. In the run up to the second Art Basel Hong Kong in May 2014, the hotel collaborated with international contemporary art gallery White Cube to unveil a spectacular work by Tracey Emin, one of the world's leading contemporary artists. The ground-breaking installation, *My Heart is with You Always*, was projected onto the hotel's tower, illuminating the façade of the hotel for four consecutive nights. The series of projects also included the installation of another stunning creation *Three Hundred Leafs* at the hotel's lobby by in-demand Chinese artist Su Xiaobai. Traditional clay roof tiles originated from abandoned Qing dynasty houses in China's Fujian province were suspended from the ceiling on wires, creating enchanting floating canopies at the lobby of the hotel.

Celebrating Hong Kong's burgeoning art scene

Many Academy programmes offer a memorable time for families, but The Peninsula Kids' Academy is reserved specifically to our younger guests, providing fun insights into the tradition and culture of our cities as well as a delicious and educational time with our chefs.

Art and Soul

We want to share with our guests the rich culture and heritage of our cities, as well as the present-day excitement and possibilities of these cities.

The Peninsula Paris displays vibrant and contemporary artworks by French and international artists throughout the hotel. The artworks are juxtaposed with the building's historical elements, creating a dynamic interplay between the artworks and their surroundings. Contemporary artwork is displayed in other Peninsula hotels as well. The Peninsula Beijing initiated *The Peninsula Art Journey* programme, turning its public area and one of its suites into an art gallery for hosting rotating exhibitions from local contemporary artists. The programme created a dynamic visual experience for the guests of the hotel while increasing the exposure for these budding local artists. In New York, the hotel collaborates with a private art collector showcasing selected artwork by renowned contemporary artists throughout the lobby and the newly renovated Gotham Lounge. Each artwork label features a unique QR code, which links to The Peninsula's website where more in-depth information can be found.

During the year, The Peninsula Tokyo showcased iconic works by photographer Keiichi Tahara, a former long-time resident of Paris whose many accolades include France's Order of Arts and Letters (Chevalier). Six photographs from the artist's Torse (Torso) portrait series held in the collections of The Louvre adorned the walls of the hotel's lobby throughout October. The artist donated these photographs to The Peninsula Tokyo for a silent auction to raise awareness and funds for the fight against breast cancer.

The Peninsula Academy's programmes also offer our guests the opportunity to experience the contemporary art scene of our cities – in Peninsula-style. They include a private tour of the Shanghai Museum of Contemporary Art led by the museum's deputy curator, a personalised excursion with a local art connoisseur to explore Tokyo's vibrant art galleries, designer cafés and tea houses, and a private art lesson with artist Alexandre Renoir (the great-grandson of French Impressionist artist Pierre-Auguste Renoir) in Beverly Hills.

Our award-winning film Tradition Well Served, now available in all guest rooms, includes rare archival footage and behind-the-scenes clips showing the fascinating historical and cultural context underlying each of the Peninsula Hotels worldwide.

Innovating For Sustainable Luxury

By looking through the prism of sustainability, we believe we can continue to enrich our guests' experience and make a positive impact on our society and the environment.

How We Did in 2014?

- ✓ Enhanced online guest experience
- ✓ Continued to add meaningful guest experiences that appeal to guests of all ages to the programme offering of Peninsula Academy

Achieved | On Plan | Behind Plan | Objective Missed

Our 2015 Commitments

- Create family-friendly programmes and facilities to offer unique experiences and further attract family travellers
- Relaunch the new room product at The Peninsula Chicago as part of the repositioning of the hotel
- Update and relaunch the Peninsula wellness concept across all hotels to provide our guests with a wider selection of options to maintain their wellbeing
- Roll out a new mobile version of Peninsula.com

Employees

Our Mission

We create a culture of engaged and loyal employees who are proud of our heritage and are passionate in delivering exceptional service. This is achieved in a family environment that promotes honesty and respect for each other, where we are recognised as a genuine and caring employer that continually grows and develops our own talent.

We are committed to the health and safety of our employees and endeavour to nurture them to make a positive impact on our customers, our community and the environment.

Our 2020 Ambitions

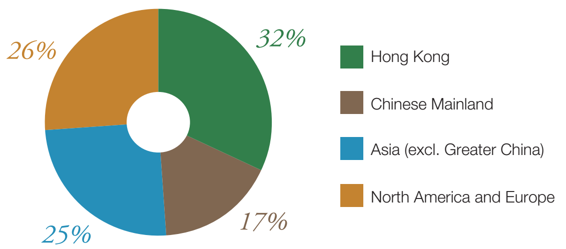
- Strengthen executive and leadership development
- Attract new talent and retain quality employees
- Implement the competency framework across the Group
- Introduce “Ambassadors for Good” Training Programme
- Empower Operations’ CRS champions through training
- Target zero work fatality or incident resulting in permanent disability
- Minimise occupational health and safety incidents by improving the processes and systems to support the management, planning and disclosure requirements on health and safety
- Achieve OHSAS 18001 for all operations
- Establish a global talent management system to support talent management, planning and disclosure needs

People At The Heart Of Our Success

Our employees are essential to our success. Caring, genuine, passionate and proud are qualities that describe the dynamic and diverse individuals who together form the HSH family. All of these qualities provide that little bit of magic that sets us apart.

We place great value and pride in the unique family culture that runs deep throughout the Group's 149-year history. We motivate, nurture and reward our employees, supporting them to realise their full potential for the growth and success of our business. We are also committed to providing an environment that promotes respect and equal opportunities for every employee.

More than 8,700 Employees Worldwide



We First Seek To Listen[7]

At the heart of our human resources strategy is our commitment to creating a culture of engaged employees across the Group, where our employees are well informed, encouraged to communicate openly and provided with respect.

In 2014, we conducted a global employee engagement survey. Almost all (92%) employees took the opportunity to respond, telling us how they feel about working for us, what they think we do well, and where we could improve.

We were delighted that the vast majority of employees felt positively about working for the Company. In all comparable categories, HSH significantly outperformed the norm of global travel and leisure companies, notably in the areas of employees' commitment to the Company, and their views on customer focus and quality. The responses also showed that employees recognised the Company as being environmentally responsible.

When compared to the findings of the 2011/12 employee survey, all comparable questions showed a marked improvement, particularly in the areas of performance evaluation, communication, as well as working relationships and well-being.

While greatly encouraged by the positive feedback, we have not been complacent. Action points on areas that we could further improve have been developed across Group operations. These include two-way communications and employee development as well as helping employees understand the Company's newly launched vision for sustainable luxury.

7 GRI G4 Material Disclosure: G4-26

Most Desirable Hotel Employers for Young Talent

In 2014, Young Hoteliers Summit surveyed hospitality students from 99 countries and 78 top hotel management schools worldwide to gather the views and employer preferences of young talent worldwide. We are proud to see The Peninsula Hotels being voted by international hospitality students as the second most desirable employer in the global hotel industry.

Communication builds community

From town hall meetings and informal gatherings, to newsletters and online social networking groups, Group operations use different channels to ensure their teams are informed and heard. At the Group level, we use our intranet to share information and keep employees abreast of the happenings across the Group. The Chief Executive Officer also speaks to all employees by webcasts regularly throughout the year.

Expressing appreciation is an important part of communication. In addition to various employee awards, we use different fun and meaningful ways to thank our teams. The Peninsula New York and The Peninsula Chicago threw a weeklong celebration with fun games, tasty treats and dance parties to show their appreciation to the housekeeping team for their hard work. The Peninsula Shanghai prepared handmade thank you cards, which employees could use to express their appreciation not only to their peers, but also to family members.

A Long-Term Commitment

We seek to attract and retain the right talent to meet our operational needs and strengthen the HSH team. We cherish long-term relationships with our employees as their experience and deep understanding of our corporate values make them best placed to provide the exceptional level of customer service that our brand is known for.

Profiling And Strengthening The HSH Culture

The passion, commitment and creativity of our employees makes HSH special to our customers and leads our business to achieve our ambitions for sustainable growth. In 2013, we launched a bespoke competency framework that defines the desired behaviours at different job levels of

My Fair Ladies

On the International Women's Day, female employees at The Landmark enjoyed being pampered by their male colleagues, who held departmental competitions for creating the most beautiful flower arrangements and delicious vegetarian cuisine to treat their female colleagues.

A Lifelong Relationship

In celebration of the hotel's silver jubilee, The Peninsula Beijing proudly presented a commemorative book entitled "Our Peninsula", which captures stories told by 25 employees, some of whom have been with the hotel since its inauguration.

The Landmark also celebrated its 20th anniversary with its tenants and employees in 2014. Twenty percent of its employees have worked at The Landmark since its opening, witnessing the development of the property over the past 20 years.

The Challenge

Retention of young employees remained a challenge in 2014. The Group's overall turnover rate was 19.9%, which improved by 0.4 percentage point when compared to 2013. However, the turnover of employees under thirty years old was 33.7%, more than double the combined turnover of employees of other age groups. Although the recent employee engagement survey reflected that our employees' commitment to the Company was 25% higher than the industry norm, we will continue to enhance our effort in building a committed and engaged workforce, especially among the younger generation.

Bring out the Artist in Each and Every Employee

Behind every life-long memory our guests take away is the passion and love of service embodied by our employees. In the past two years, the Group invested in the development of a bespoke programme to refresh all of our frontline employees' commitment to delivering genuine and unique luxury experience for our guests.

Luxury service is an art. Through interactive exercises and practical examples, the series of The Art of Peninsula Hospitality programmes discuss the importance of consistency, details and quality in luxury service and inspire us to continually innovate and personalise our service. It also explores the emotional side of luxury and the link between generosity and luxury.

the Company and the link to driving business success. We believe that this new framework will help us translate our vision and goals into expected behaviours, measure and evaluate performance more effectively, hire the right people and develop them in the right way.

A series of training sessions and tools were introduced in 2014 to support the application of the competency framework during performance evaluation, recruitment and development planning. For example, the interview guide provides managers with a structured way of assessing a candidate's competency potential, while the development guide assists them in growing the capabilities of their teams and supports individual employees in developing the skills and knowledge that will enable them to excel in the Company. In addition, posters, videos, leaflets and training sessions were rolled out across the Group to familiarise employees with the competency framework.

An important first step

During 2014, we launched an e-performance appraisal module of the global talent management system that we are committed to developing. This new module enables employees to assess their own performance against the core competencies, which feeds into their training and development plans. It also helps managers evaluate their teams' performance more effectively against well-defined competencies and business goals. A pilot group of 600+

Extend the HSH Family Culture to Paris

To support the opening of The Peninsula Paris, a 53-strong pre-opening team was formed, drawing on the talent from across the Group. The pre-opening team was instrumental in infusing the newly hired local team with our unique service standards and the values of integrity, heritage and tradition of the HSH family.

A group of high potential individuals were selected to take part in the Peninsula Ambassador programme, undergoing an intensive training programme at the Group's flagship hotel The Peninsula Hong Kong before they re-joined the pre-opening team of The Peninsula Paris.

Watch a video about
The Peninsula Ambassadors

employees' reviews were conducted through this newly launched e-performance review platform. Overall, about 90% of employees had their performance review during the year.

Over time, we will be able to create a single platform that provides a complete picture of an employee's training history, development needs and performance record. It will provide a valuable profile and insight into our workforce, supporting us in succession planning, identifying skill gaps that need to be filled through recruitment, and meeting the increasing disclosure requirements more efficiently.

Empower the enablers

In 2014, we developed a dedicated online portal to bring together our human resources teams around the world. The portal provides a platform to collaborate, encourage and learn from each other, and to share best practice ideas and materials for building a stronger and more engaged workforce.

Engaging Employees To Embrace Vision 2020

Since the Group introduced the Sustainable Luxury Vision 2020 in 2013, we have been leveraging on different means to introduce this new vision to our employees as the commitment of our employees is fundamental to the success of Vision 2020.

At the Group level, we enriched the intranet with information and resources about Vision 2020. We also introduced a quarterly e-newsletter Vision 2020 Spotlight for sharing best practice on delivering the 2020 ambitions. These platforms facilitate our teams to learn from the experience of each other within the HSH family and be encouraged by each other's successes as we move the company towards our vision for sustainable luxury. A new e-learning module to educate and engage employees on Vision 2020 is currently being developed and will be rolled out across the Group in 2015.

Group operations have also used all-hands meetings, notice boards, newsletters and workshops to introduce Vision 2020 to their employees and incorporated it into the induction of new recruits. The employee engagement survey showed that, in this first year of its launch, about 60% of our employees worldwide were aware of the Company's new vision for sustainable luxury. However, we still have much to do to ensure each employee can live and breathe the values of our new vision, and become a true ambassador for Vision 2020, both in the workplace and in their wider communities.

Matching training with community needs

In line with our focus on integrating Vision 2020 ambitions into our everyday activities, we have begun to link our training and development needs with our community programmes. This strengthens collaboration between employees across different functions, while connecting them with the community and reinforcing the spirit and joy of serving.

A Creative Pursuit to Vision 2020

The Peninsula Tokyo created beautiful wall displays at the back-of-house of the hotel introducing the seven pillars of Vision 2020 and using cherry blossom as a motif to reflect on its corporate responsibility and sustainability journey to date.

The Peninsula Bangkok publishes a colourful bilingual internal newsletter in Thai and English every quarter to share its progress and activities under each Vision 2020 pillar. It also organised workshops and field trip to engage employees on environmental conservation.

In Search of Mushrooms Deep in a Southern China Forest

There is no greater contrast to working in the concrete jungle of Wangfujing in Beijing than roaming around a forest in Southern China spotting wild mushrooms.

The Peninsula Beijing sent a team of five employees on a five-day expedition deep in to a forest in Southern China. They worked alongside climate scientists conducting field research while learning more about the impact of climate change on China's forest ecosystem. This was an award trip for The Peninsula Beijing team who won the Grand Prize of the HSH Corporate Responsibility and Sustainability Video-Making Contest.

Watch The Peninsula Beijing's award winning video

It was an adventurous and inspiring expedition. Led by a scientist and a field worker from Earthwatch Institute, the group participated in an on-going research project to monitor the structural and phenological (plant life cycle) changes of the mushroom population as a means to evaluate the impact of climate change on forest ecosystem.

Building Teams through Serving Our Community

40%

employees served the underprivileged elderly

In 2014, The Peninsula Hong Kong incorporated community service in its property-wide team-building programme. The objective is to enable colleagues from different departments to build a sense of camaraderie while contributing to the wider community.

The hotel's 900 employees could choose between two modules of a team-building programme, one of which involved the challenge of rope climbing while the other one gave them the opportunity to serve the underprivileged elderly. About 40% of employees chose this option, visiting 10 elderly centres serving 250 elderly people.

Each team first took part in an orienteering exercise that allowed them to earn tools and gifts for use in the elderly visit. From Cantonese opera performance and talent shows, to exercises promoting health, each team also created their own programmes to engage the elderly. Many participants found it both an enjoyable and humbling experience, which also reminded them of the importance of caring for those close to them.

Reinforcing An Ethical And Inclusive Culture

Maintaining high standards of ethics and corporate governance is among the highest priorities of HSH and our stakeholders. It is essential to the sustainability of our business that we continue to embed the qualities of integrity, respect and diversity into our culture.

Our Code of Conduct and Equal Opportunities sets out expected standards of behaviour of our employees on a range of ethical issues, including anti-bribery, fair competition, equal opportunities and protection of customer privacy. It broadly acknowledges the principles outlined in the United Nations' Universal Declaration of Human Rights, including among others denouncing all forms of child exploitation, forced or bonded labour, as well as recognising the right of workers to form and join trade unions to protect their interests[8].

All employees starting work with HSH are required to complete two modules of Code of Conduct training programme[9], covering anti-corruption and bribery and equal opportunities. The latter is an important aspect of the human rights issues relevant to our operations. All employees who handle customer information are also required to undertake a further module on customer data privacy[10]. Out of the Group's workforce of over 8,700 employees, 13 grievances of discrimination were lodged, investigated and dealt with in accordance with the Group's policy, and there were three reported incidents of breaching anti-corruption practices whereby appropriate actions were taken in respect of each case including dismissal and involving local authorities. To reinforce our commitment to high standards of ethics, refresher training on anti-corruption and bribery and equal opportunities were rolled out to all HSH employees in 2014.

Celebrating diversity

Diversity at HSH is more than an obligation; it is a business strength that we celebrate. It enhances our business by enabling us to better connect with our customers from around the world.

We are proud of our gender-balanced workforce[11] and are committed to providing an inclusive, non-discriminatory workplace: one that provides development opportunities to all employees as well as fair consideration to all applicants regardless of gender, age, nationality, religion, sexual orientation or disability. Across the Group we now employ over 50 employees with disabilities in a variety of positions that can effectively draw on their talents and abilities. The majority of these employees have hearing or speech impairments while some are mildly mentally handicapped. They are fully-fledged members of the HSH family, making valued contributions across a range of functions from catering and cleaning, to IT and front-of-house services. The Peninsula Residences in Shanghai will unfortunately be required to pay a total of HK$45,741 to its local government for not meeting the required legislative quota for employing people with disabilities in 2014. It will rectify the issue by identifying the right duties and candidates in 2015.

Safety Is A Priority

Making sure our hotels and properties are safe for our customers and our employees is of paramount importance to HSH and our stakeholders. Our group-wide operation risk manual provides guidance on crisis management, security and occupational health and safety standards.

Refer to Operation section on how we ensure we are always prepared for emergency situations.

We seek to take a preventive approach to health and safety issues. All operations have health and safety committees which meet on a monthly basis to review performance and devise the appropriate improvement plans. In addition, regional directors of security and operational risks host weekly calls with each operation's security team to provide further support. In 2014, we introduced a more comprehensive health and safety reporting tool to track our progress towards related Vision 2020 ambitions. This is already enabling our operations to look into root causes

8 *In 2014, 18.6% of our employees were covered by collective bargaining agreements.*

9 *By the end of 2014, 56.8% of the total workforce undertook anti-corruption refresher training, 53.7 % undertook equal opportunities refresher training. These represented a total of 2,479.5 hours of training on anti-corruption and 2,345 hours on equal opportunities.*

10 *The customer data privacy module of the Code of Conduct training is designed to be undertaken by all management as well as general employees who handle guest information in functions such as guest services, food & beverage, front-office, sales and marketing. These included 2,009 employees. 76.7% employees completed the training in previous years. 17.9% completed the training in 2014, representing 180 training hours on protection of customer data privacy in 2014.*

11 *The gender split of our workforce: In our overall workforce, we employ 42% females and 58% males. In our management team, 41% were females and 59% males. Our full time workforce is 41% female and 59% male and our part time workforce is 59% female and 41% male. Permanent employees are 42% female and 58% male, while fixed term/ temporary contract employees are 53% female and 47% male. In Asia, we employ 42% females and 58% males. Outside of Asia, we employ 42% females and 58% males.*

of incidents and to manage risks and training needs more proactively. Our lost day rate showed a small year-on-year improvement to 75.6 lost days per 100 workers, which were mainly accounted for by a small number of incidents with prolonged lost days. Most incidents during the year were minor injuries, such as bruises or cuts.

A total of 16,220 hours of health and safety training were delivered across the Group. This was 16% less than 2013 because The Peninsula Hong Kong and The Peninsula Manila conducted intensive food safety and hygiene training in preparation for HACCP certification in 2013, and were only required to conduct refresher trainings in 2014. Fire safety as well as first aid and life support were the key training topics during the year, followed by training in other areas such as food safety and hygiene.

Refer to the Sustainability Data Statements section

Promoting health and wellbeing

We care about our employees' health and wellbeing, and believe that healthy and happy employees contribute to a healthy company and happy customers. Our operations have become more conscientious in providing healthy and balanced meals at staff restaurants. We worked on promoting wellness and a healthy lifestyle by setting up staff fitness centres on premises or partnering with local health clubs to offer discounted memberships to our employees. Dragon boat and cycling teams in Shanghai, runners' clubs in Manila, an employee sports day at Thai Country Club and a wellness day in New York were a few examples of the sports and wellness programmes organised by our operations to help their employees adopt a healthy lifestyle.

Across our Hong Kong operations, a series of employee benefits, such as annual comprehensive medical examination benefits for all permanent employees, three-day paternity leave, four-week adoption leave as well as full remuneration for maternity leave were introduced to support the work-life balance of our employees.

How We Did in 2014?

- Rolled out refreshment programmes for the Code of Conduct training (Achieved)
- Developed HR tools to support HSH competency framework (On Plan)
- Conducted global employee engagement survey (Achieved)
- Developed new employee e-learning module on Vision 2020 (Behind Plan)
- Implemented a new health and safety reporting template to support the monitoring of health and safety performance across the Group (Achieved)
- All operations developed action plans for achieving HACCP certification. (On Plan)
- Enhanced injury and illness prevention programme through more robust post-incident investigations (Behind Plan)

Achieved · On Plan · Behind Plan · Objective Missed

Our 2015 Commitments

- Improve our succession planning by incorporating the Group's competency framework in the process
- Align our people-development tools to the Group's competency framework
- Expand the reach of the new e-performance appraisal system to more employees as part of a global talent management system that we are building
- Roll out the Sustainable Luxury Vision 2020 e-learning module across all operations
- Conduct a gap analysis of our compliance with OHSAS 18001
- Further enhance the injury and illness prevention programme through more robust post-incident investigations
- Establish a global IT platform to support operations with on-site crisis management

Operation

Our Mission

We strive to deliver high standards in the most sustainable and cost-effective way.

We commit to implementing robust sustainability management and practices, and to delivering continuous improvement through discipline, creativity and applying the right technology.

Our 2020 Ambitions

- Using the 2006-08 average as baseline
  - Achieve 10% absolute carbon emission reduction
  - Achieve 30% carbon intensity reduction
  - Achieve 25% energy intensity reduction
  - Achieve 25% water intensity reduction
- Achieve 25% reduction on waste intensity from 2012 baseline
- Achieve 60% waste diversion rate through recycle, reuse and donation
- Achieve excellent rating in IAQ assessment for all operations
- Provide self-bottled water for guestrooms and meetings to reduce plastic waste
- Achieve HACCP certification for all hotel operations
- Operations located in water stressed regions to be "water neutral" by efficient use of water and replenishing sources near our locations

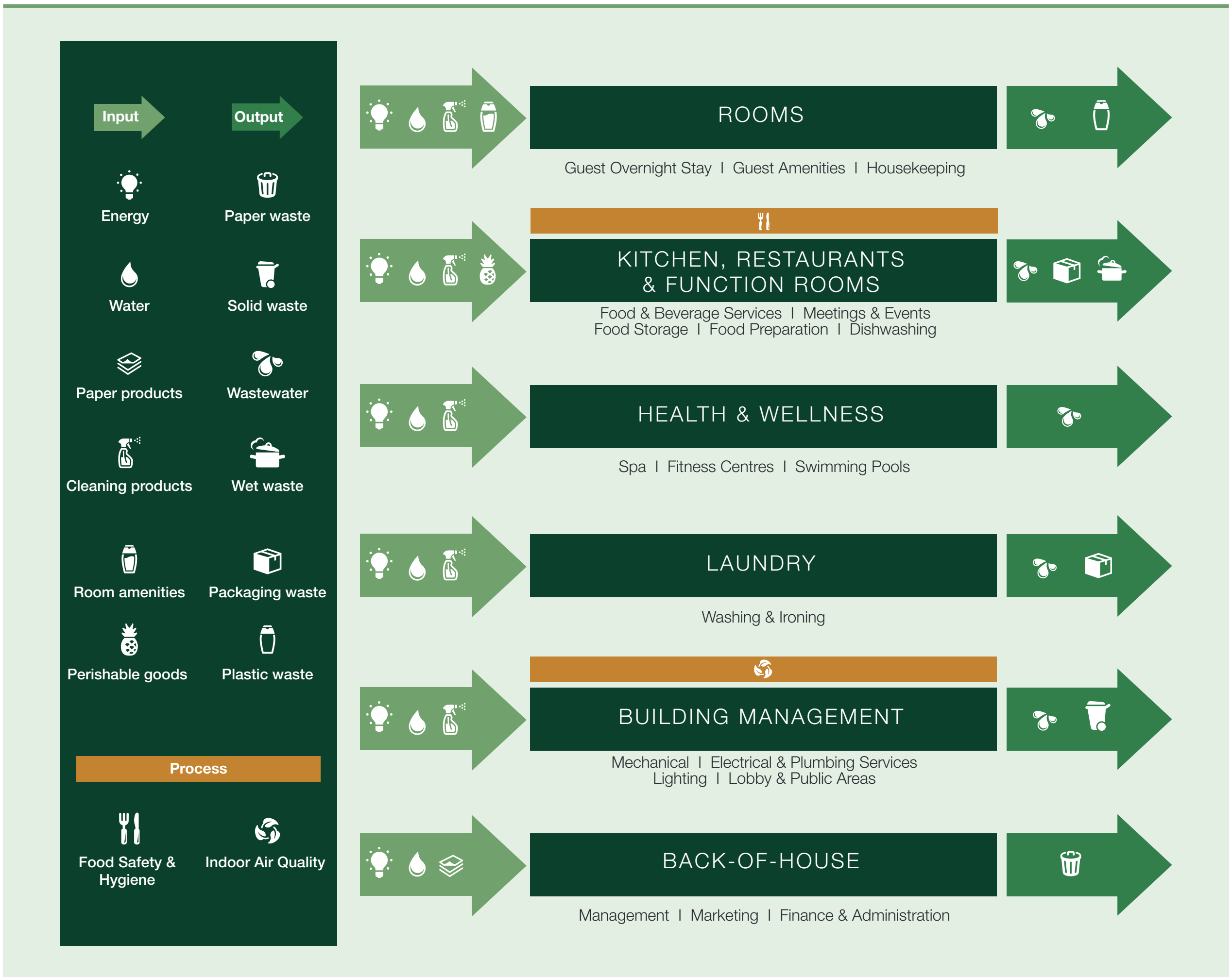
2014 was a year of successes and setbacks. For example, our hotels division made good progress in improving water efficiency. On the other hand, our energy management performance fell short of the targets we set for ourselves. Our business operation generated more waste than we did in the previous year; however, we continued to improve our waste diversion effort, thus reducing the adverse impact our operation might have on the local environment.

Our aim is to report successes and setbacks with equal honesty. We remain committed to achieving our long-term goals and will continue to focus relentlessly on driving down our energy use and waste generated in order to meet our Vision 2020 ambitions.

What HSH Means to The Environment

We are conscious that buildings account for about 40% of global energy and 25% of global water use[12], with significant impact on the world's carbon footprint as well as energy and water demands. Buildings are also a prime origin of municipal solid waste which is expected to double in volume over the next 10 years, presenting grave environmental and social challenges. Given that HSH's core business is developing, owning and managing prestigious hotels and premium properties, it makes energy, water and waste management a clear priority in our operations. These are also issues of keen interest to our stakeholders.

Our Sustainability Footprint



12 *The United Nation's Environment Programme's Sustainable Building and Climate Initiative (UNEF-SBCI) (www.unep.org/sbci)*

Deep Pride and Great Encouragement

HSH was part of 2014 Climate Disclosure Leadership Index for Asia ex-Japan. This annual index run by Carbon Disclosure Project (CDP) recognises companies which display a strong approach to the disclosure of climate strategy and measurement and is reserved for the top 10% of CDP reporting companies in Asia.

CDP CLIMATE DISCLOSURE LEADER 2014

EARTHCHECK SILVER CERTIFIED 2015

Following The Peninsula Chicago, The Peninsula Tokyo achieved its EarthCheck Silver Certified status in 2014 in recognition of its robust environmental management process and its commitment to continuous improvement. Both hotels were the first in their respective cities to achieve EarthCheck certification. EarthCheck is a leading international sustainability benchmarking and certification programme for the hospitality sector, which benchmarks hotel companies against their peers in the sector. It currently covers over 1,300 hotel companies in 70 countries.

Meanwhile, The Peninsula Bangkok was awarded a Clean & Green Certificate by the Bangkok Metropolitan Administration, recognising its excellent performance in environmental attentiveness and hygiene and safety performance.

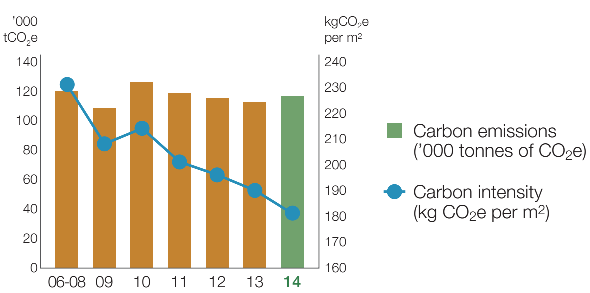
As we strive to make progress towards our 2020 ambitions, it is gratifying to receive these recognitions which provide a great source of encouragement for us to continue our effort in embedding sustainability principles and practices in our day-to-day operation.

Managing Our Footprint Responsibly

In 2014, our energy consumption generated a total of 115,642 tonnes of CO_2 equivalent. Our Group carbon intensity was 181 kg of CO_2 equivalent per floor area which was 22% lower than our 2006-08 baseline. The average carbon intensity of our hotels division was 111.5 kgCO_2e per occupied room per day[13], a 2% reduction from 2013.

The year 2014 was reported by scientists as one of the warmest years across global land and ocean surfaces since records began in 1880[14]. The increasing impact of climate change is evident in the cities where we operate, where more extreme weather and extreme weather events increased the risk of disruption to our business operation and supply chain. The Sustainable Luxury Vision 2020 contains our strategy for managing climate risks and making our business more resilient to climate impact.

Group Carbon Footprint



13 Based on the carbon accounting methodology of Hotel Carbon Measurement Initiative developed by International Tourism Partnership and World Travel and Tourism Council (www.tourismpartnership.org and http://www.wttc.org).

14 Reference made from www.ncdc.noaa.gov/sotc/global

Ready for Carbon Trading in Beijing

The Beijing government introduced a carbon-trading scheme that applies to all businesses with annual emissions above 10,000 tonnes. The Peninsula Beijing is one of the many companies that must now comply with an annual carbon emission quota. The 2014 emission limit was set at 97% of a company's 2009-2012 average.

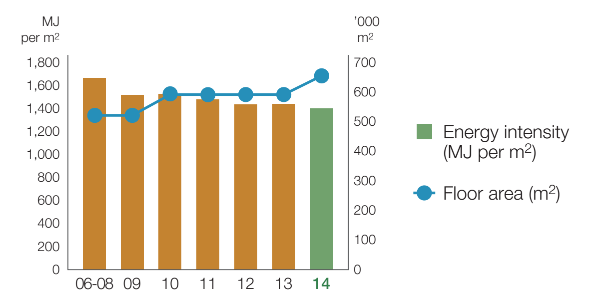
The Peninsula Beijing welcomes this new scheme as a collaborative effort by the city to combat climate change. With its discipline in monitoring its environmental impact and driving continuous improvement over the years, the hotel is very well prepared to comply with this new regulatory requirement. Its carbon footprint in 2014 was 11% lower than the 2009-2012 benchmark, substantially outperforming the 3% reduction target set by the government.

The Peninsula Beijing, having achieved 25% reduction in total energy use and 21% reduction in its carbon footprint when compared to the 2006-08 baseline, is also a forerunner in this area within the Group.

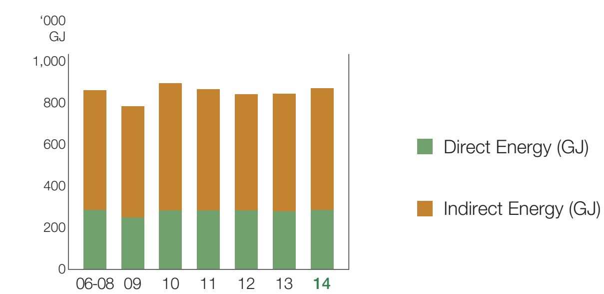
Using Energy Wisely

In 2014, we completed a variety of energy saving initiatives which generated an energy and carbon emissions reduction of 6,235 GJ and 861 tonnes of CO_2 equivalent respectively. It also brought a saving of HK$2.4 million to our operational cost for the year.

Group Energy Intensity[16]



Group Energy Use[17]



Cooking Up Fewer Carbon Emissions

The Peninsula Paris is already playing its part in driving down energy use, with its state-of-the-art computerised kitchen hood. Demand-controlled so that the motor only runs when necessary, it uses a third less energy than a conventional exhaust hood, and contains a device to monitor carbon emission in real-time. It could help the hotel reduce its annual carbon footprint by 21 tonnes of CO_2 equivalent and energy use by 295 GJ, which is equivalent to the average annual electricity consumption of more than 16 households in France[15].

15 *Based on World Energy Council 2011, average electricity consumed annually per household in France is 4,977 kilowatt hours (17.91 GJ).*

16 *The increase in energy use and floor space in 2014 was mainly due to the opening of The Peninsula Paris.*

17 *Direct energy used in our operations include gas for heating. Indirect energy is energy consumed to provide the energy we use, such as the fuel burned in power stations to generate electricity. In 2014, the split of our direct energy consumption by sources were: 61.8% gas, 30.1% diesel oil and vehicle fuel 8.1%, whilst our indirect energy consumption were from electricity (89.7%), steam (9.1%) and chilled water (1.2%).*

Spotlight on LED replacements

The majority of our hotels and properties implemented further LED lamp replacements during the year. For example, The Peninsula Beverly Hills and The Peninsula Chicago retrofitted some of the lights in the hotels' public areas and guestrooms, generating an annual energy saving of 968 GJ which is equivalent to the annual energy use of 17 US households[18]. As part of its ongoing LED re-lamping programme, The Peninsula Tokyo replaced another 5,600 halogen lamps in the guestrooms with LED lights in 2014, yielding an estimated annual saving of JPY12 million (HK$871,000) in electricity cost and 2,365 GJ of energy. It also meant a reduction of 327 tonnes of carbon emissions, enough gas to fill more than 82 hot air balloons. Although LED replacement projects can be an effective measure for cost and energy reduction, it has been an area that we tread with great caution. Lighting is a core component for creating a luxurious environment for our guests and enhancing the character of our hotels. Extensive trials were conducted before introducing these LED lights into guest areas.

Re-commissioning The Peninsula Hong Kong

Like tuning up a car engine to run at its best, the building re-commissioning[19] project at The Peninsula Hong Kong has helped us get the best out of our existing mechanical, ventilation and air-conditioning (MVAC) system, while saving energy and money.

2,300 GJ and HK$605,000 saved annually

The project, which aims to reduce energy use and emissions through optimising the performance of machinery and equipment, was completed in October 2014. Even in the two months before the end of the year, we saw great results and expect the full year saving to be about 2,300 GJ, enough energy to power more than 90 homes in Hong Kong for a year[20]. It will also help the hotel reduce its annual energy spend by HK$605,000, recouping the project cost in less than two years.

As a result of the all-round success of this pilot, we will assess the viability of introducing this project to other operations in the coming year.

18 *Reference made from www.epa.gov/cleanenergy/energy-resources/calculator.html#results*

19 *Re-commissioning is a re-optimisation process for existing buildings that improves a building's overall performance by optimising energy efficient design features and directly addressing equipment performance and system integration issues.*

20 *According to Energy Efficiency Office, Electrical & Mechanical Services Department, HKSAR Government 60,888 TJ energy was used in residential sector in 2012 (http://www.emsd.gov.hk/emsd/e_download/pee/HKEEUD2014.pdf). Census and Statistics Department, HKSAR Government recorded 2,389,000 households (http://www.censtatd.gov.hk/hkstat/sub/sp150.jsp?tableID=005&ID=0&productType=8).*

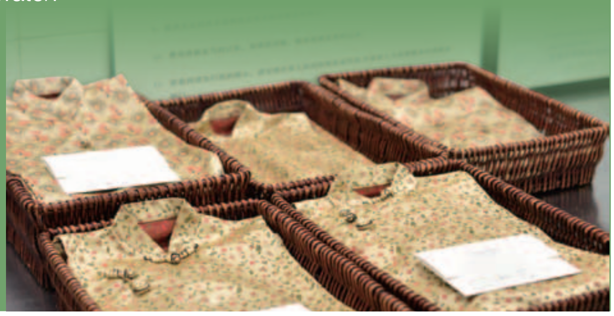
Luxury at a Lower Price for The Planet

The Peninsula Beijing's switch to low-temperature washing in its laundry perfectly illustrates the concept of sustainable luxury. Energy savings, water savings and the use of biodegradable chemicals: all without compromising the clean, fresh look and the soft touch we want for our guests' sheets and towels.

Always aiming for improvement in late 2013 our team in Beijing began to work with its supplier Ecolab in experimenting with a new laundry programme with a shorter wash cycle at a lower temperature. The team kept a close eye on the results throughout the year, recalibrating the chemical dosage and fine-tuning the washing cycle to ensure the colour and softness of the towels and linens were up to our high standards.

The new washing process reduced the water use in our laundry by 12% and energy use by 42%, saving over 4,500 cubic meters of water and lowering the hotel's carbon footprint by 100 tonnes of CO_2 equivalent. Biodegradable chemicals are used in this new laundry programme. The increased chemical costs have been offset by the financial savings from using less energy and water.

We are encouraged by the success of this pilot. It demonstrates that innovation combined with our attention to detail and persistent quest for quality could lead us to new opportunities to deliver luxury at a lower price for the planet.



Cool investment

The heating and cooling systems consume the most energy in a building. During the year, to improve energy efficiency and optimise guest comfort, The Peninsula Beverly Hills recalibrated its chilled water temperature while The Peninsula Tokyo conducted an overhaul of its heat exchanger for its free-cooling system. The Peninsula Manila also replaced its 20-year-old chiller.

Watch how The Peninsula Tokyo saved energy in the hot summer months

Older chillers in the air-conditioning systems of our hotels and properties are also the main sources of our ozone-depleting substances (ODS) emissions. ODS have a detrimental effect on the ozone layer, damaging the earth's protection against excessive levels of solar radiation. In the past five years, we upgraded more than 20 chillers across our operations. Our ODS emissions in 2014 were 71.5 kg CFC-11 equivalent, a 57% reduction from 167.4 kg in 2009 when we introduced an internal policy to phase out all ozone-depleting refrigerants by the end of 2015. These upgrades were mostly planned capital investment for replacing fully depreciated equipment. They provided great opportunities to integrate environmental considerations in the investment decision-making, creating on-going cost and environmental saving.

Better Reporting Drives Better Performance

During the year, we enhanced our monthly environmental reporting tool to support the pursuit of our 2020 goals. The improved tool, which will be implemented in 2015, makes it easier to track our performance and compliance requirements, and provides a more comprehensive picture of our environmental impact. In revamping the tool, we also took the opportunity to review and incorporate carbon equivalent emissions from refrigerants in our baseline years, which we had not previously accounted for.

Remain Committed

Our 2020 ambitions include a number of stretching carbon and energy reduction targets, and we aim to make progress against these each year. Despite the initiatives implemented during the year, regrettably, we were not able to meet our 2014 target of 18.5% reduction in energy intensity compared with our 2006-08 baseline. Our current energy intensity of 1,394 MJ per floor area was 2.5% shy of the 18.5% reduction target we set for 2014.

Our energy use was higher than expected, due in part to an increase in business activities and to unusually cold winter in the US in the first quarter of the year which resulted in a sharp rise in energy use at our US operations. The increasing application of technology has on one hand enhanced the efficiency of our operation and enriched the experiential luxury that we offer to our guests; but on the other hand it has also increased the energy demand of our day-to-day operation.

The Challenge

To deliver on luxury and sustainability can be challenging. The impact of external climatic factors also add to the complexity. There will be successes and setbacks in our path towards Vision 2020. 2014 was a year that we encountered both. We are confident that, as we increasingly look at our operation through a sustainability lens, it will open up new opportunities for driving innovation and efficiency while further enhancing the standard of our services and products.

This setback will not deter us. We are committed to achieving our 2020 ambitions and will work harder to identify new opportunities for improvement in the coming years. In 2015, we will set up a best practice sharing platform among our engineering team to support their effort towards Vision 2020. In addition, we aim to expand our internal engagement programme to inspire more employees to take individual action in making a positive difference to the environment.

An Ongoing Focus On Water

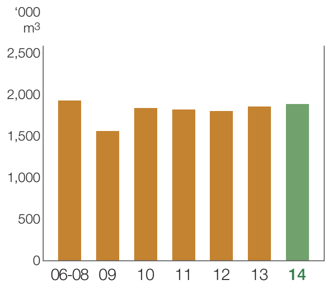
In 15 years, nearly half of the world's population will be living in water-stressed areas[21], including some of the communities in which we operate. Vastly undervalued, water is vital for life, crucial to our operations, and essential for food and energy production. We are committed to making on-going improvements to our water use. Our main focus in 2014 was on developing a bespoke water management guide tailored to our operations for sharing guidance and best practice on water stewardship.

Refer to the Sustainability Data Statements section

950,000
bathtubs saved

Across the Group, we used 1.9 million m³ of water. Despite the addition of The Peninsula Paris to the Group's portfolio during the year, our overall water consumption was 2% lower than our 2006-08 baseline. Since we began our environmental programme in 2008, our water savings initiatives have conserved 189,764 m³ of water (equivalent to 948,820 bathtubs[22]).

Group Water Consumption



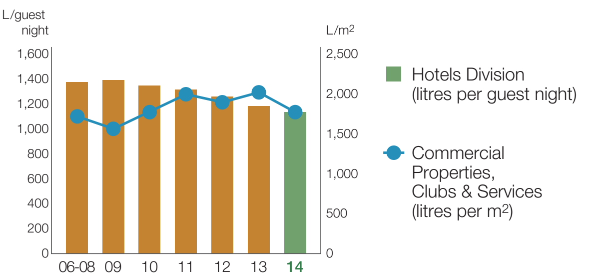
21 *Managing Water for All: An OECD Perspective on Pricing and Financing – Key Messages for Policy Makers © OECD 2009, www.oecd.org/env/42350563.pdf*
22 *Reference made from www.chinawaterrisk.org*

The water intensity of our hotels division in 2014 was 1,132 litres per guest night which was 18% lower than the 2006-2008 baseline, achieving the reduction target we set for 2014. The water intensity of commercial properties, clubs and services division was 3% higher than the baseline; however, the division managed to reduce its water intensity by 12% from the previous year, exceeding the 7% year-on-year reduction target we set for the year. In pursuit of our 2020 ambitions, our 2015 target is for the hotels division to achieve a 18.5% water intensity reduction and for our properties, clubs and services division to reduce water intensity by 5% when compared with the 2006-08 baseline.

Guidance and awareness makes the difference

In 2013 the Group Corporate Responsibility Committee reviewed and endorsed a variety of best practices on water conservation across the Group and committed to conduct a group-wide water management assessment to identify further reduction opportunities. To meet this commitment, we developed a bespoke water management guide during the year to provide guidance and best practice examples for responsible water management across all our business functions, so that operations can reference, identify and conduct self-assessment against these recommended best practices. Above all, the guide aims to support the leadership team at each HSH operation to move towards our 2020 ambitions of achieving 25% reduction in water intensity and for operations located in water stressed regions to become water neutral by 2020.

Water Intensity



Pushing Further on Water Stewardship

The Peninsula Bangkok leads the way in water recycling efforts within the Group. The hotel recycled over 100,000 m^3 of water each year for the use of its cooling tower as well as floor cleaning, watering plants and replenishing the ponds in its gardens. During the year, the hotel's engineering team pushed the envelope by modifying its greywater pipe system to fill another two outdoor ponds in its beautiful garden. In 2014, The Peninsula Bangkok recycled over 65% of its greywater, enough to fill 42 olympic-size swimming pools.

All operations completed a self-assessment in the fourth quarter of 2014 and are required to conduct the assessment every two years. The assessment results would be incorporated into the property audit conducted by our Group Chief Engineer every six months so as to monitor and support individual operations on the improvement areas.

The guide also provides a big picture of the water risk in communities where we operate and encourages every employee to play their part in better water stewardship. During the year, many operations also ran employee awareness campaigns on the importance of water conservation by putting up posters at staff canteens or tags in bathrooms and kitchens with a hotline to report leaks.

Every Drop Counts

Quail Lodge & Golf Club began its golf course modernisation project in late 2014. The team has also planned to use this opportunity to install more water-efficient irrigation system and replace non-indigenous plants with native species and plants that are more tolerant to drought in order to minimise on-going water demand in the years to come. During the year, the property upgraded its dishwashing machines to more water efficient options, which could save about 25,137 litres of water each year. California has long been battling with drought. 2014 was recorded as one of the driest years for California[23] in the last 1,200 years. We want to ensure that we contribute where we can.

What about HSH operations in water-stressed regions?

Beijing, Shanghai and California, where our properties are located, are among the world's most water-stressed places. Compared to the 2006-08 baseline, The Peninsula Beijing and The Peninsula Shanghai saw a 19% and 22% reduction in their water intensity in 2014 while The Peninsula Beverly Hills and Quail Lodge & Golf Club also lowered theirs by 20% and 19% respectively. We strive to do our best to conserve water in order to reduce the financial and operational risks we are exposed to, while contributing to the sustainability of these communities.

Stamping Out Wastefulness

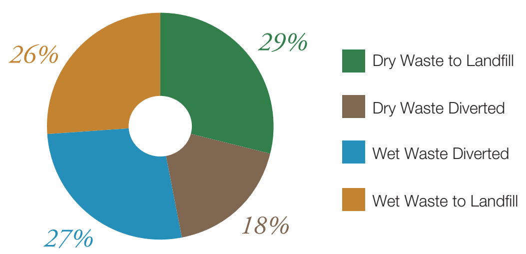
We recognise that if waste is not properly managed, it can lead to a host of environmental, social and health issues in the community. Vision 2020 sets out our ambitions to reduce our waste intensity by 25% from the 2012 baseline and to achieve 60% waste diversion rate.

Waste Intensity	2014	change	2012
Dry Waste (kg per sq.m.)	5.75	+8.8%	5.29
Wet Waste (kg per food cover)	0.91	-2.2%	0.93

All Group operations report their waste management performance on a quarterly basis. In 2014, our operations generated a total of 7,501 tonnes of waste, which was 10.2% higher than our 2012 baseline. The increase was due in part to a few operations disposing old furniture and unwanted items in preparation of renovation.

On a positive note, we further improved our waste diversion rate from last year by 5 percentage points to 44.5%, mainly through raising employee awareness and providing more recycling bins at convenient locations. This means 3,338 tonnes of waste was diverted from landfill for reuse or recycling – the weight of more than 740 elephants[24]! Waste disposal methods vary across our operations, largely due to available solutions and infrastructure in the communities where we operate. Some of our operations send their waste to contractors designated by the municipal government for single stream waste segregation and recycling. Others work with a range of waste management vendors and charities to manage their waste.

What happened to our waste in 2014[25]?



The Peninsula Beverly Hills and The Peninsula Tokyo continued to lead in waste diversion efforts within the Group, recycling respectively 88.5% and 84.8% of the waste produced.

23 Griffin, D., and K. J. Anchukaitis (2014), How unusual is the 2012–2014 California drought?, Geophysical Research Letters, 41, DOI: 10.1002/2014GL062433

24 According to an online database of animal natural history and classification of the University of Michigan (http://animaldiversity.ummz.umich.edu/site/index.html), the average size of an adult African elephant is around 4,500kg.

25 38% of dry waste was recycled; while 51% of wet waste was recycled.

In 2014, we also recorded the disposal of 11,798 kg of hazardous waste, which included fluorescent tubes, paints, solvents and dry cleaning chemicals. The disposal of our hazardous waste is regulated by local authorities and handled by specialist contractors.

Turning waste into resources

Our hotels in the US have long been working with Clean The World, donating partially used soap bars and bottled amenities for distribution to impoverished countries, helping these deprived communities in combatting hygiene-related illnesses. The Peninsula Hong Kong also began its partnership with Clean The World as the charity extended its operation to Hong Kong in 2014. Meanwhile, other Peninsula hotels worked with local partners they identified to distribute partially used soap for good causes. In 2014, the Group's hotels donated about 6,870 kg of partially used soap and bottled amenities.

All Group operations recycle glass, wastepaper, plastic bottles and aluminium cans and work with their local partners in recycling used cooking oil into bio-fuel. Some operations participated in local food assistance programme, donating surplus food to charity organisations for preparing meals to the underprivileged. Some also recycled their food waste through composting. In places with more limited opportunities for composting, such as Hong Kong, we invested in food bio-digesters to turn food waste into waste water in order to reduce the pressure on landfill capacity.

Thoughtful, not wasteful

At HSH, we believe that luxury is not about drowning our guests with wasteful overabundance, but about pampering our guests with the finest, being thoughtful to their needs and delighting them with unique experiences that last for a lifetime.

Attention to detail is a hallmark of our approach to everything we do, and we will endeavour to apply this approach to improving our waste management practice. In the coming year, we will take a closer look at our day-to-day operations and identify opportunities to cut down wastage and manage our resources more wisely, to make progress towards our 2020 goal.

Dual Benefits

The Peninsula Manila and The Landmark Vietnam established special employee welfare funds with money collected through the sales of recyclable waste. Employees determine how the funds are used; often helping to provide emergency financial assistance to colleagues in need.

This motivates employees to enhance their recycling efforts as they know for every can and plastic bottle recycled, they are helping both the environment and their fellow colleagues.

Cutting Down Plastic Waste

Instead of providing plastic bottled water in the guestrooms, The Peninsula Paris offers premium glass bottled water to its guests and works with its supplier to collect and reuse these bottles. The Peninsula Beverly Hills worked with its local supplier and introduced bottled water made of 100% recycled plastic. Production of these bottles takes only 32% of the energy used for producing a new plastic bottle.

Safety Comes First

Making sure our operation is safe for our guests and employees is of utmost importance to HSH and its stakeholders. From the food we serve and the indoor air quality of our premises, to being prepared for emergency situations, we remain committed to safeguarding the well-being of our guests and employees.

Healthy indoor air quality

It is essential that we ensure the indoor air quality at all our locations is safe and healthy. To meet this commitment, we carefully manage our indoor environments through cautious control of ventilation and water systems, well-timed maintenance work, and by using less hazardous paints and cleaning products.

Since 2012, all operations have been required to undertake indoor air quality assessment on an annual basis in accordance with our Group Indoor Air Quality (IAQ) Policy. IAQ assessment is not a regulatory requirement in most of the locations where we operate, but this practice ensures we remain focused on this important issue and make improvements where necessary. From guestrooms and offices to restaurants and spas, the assessments cover all corners of our properties. In 2014, the air quality at all operations was recorded as satisfactory with the majority achieving either excellent or good ratings.

Our 2020 target is to achieve an excellent air quality rating at all our properties. While easy to attain in some locations where the outdoor air quality is good, this is particularly challenging in cities such as Beijing and Shanghai which have high air pollution levels. It makes safeguarding our indoor air quality an important undertaking.

Safeguarding food safety and hygiene

Our food and beverage operation is an important aspect of how we plan to deliver sustainable luxury, which begins with our steadfast commitment to food safety and hygiene. This was confirmed by our stakeholders as the most important corporate responsibility issue for our company in the materiality study that we conducted in 2012. Our operations strictly adhere to local food safety standards. To further raise the bar on safeguarding food safety and hygiene, our ambition is to have all our food and beverage operations go beyond their local regulatory requirements to achieve Hazard Analysis and Critical Control Points (HACCP)[26] certification by 2020.

Our hotels in Hong Kong, Beijing and Manila have already become HACCP certified while all other hotels in the Group have conducted HACCP gap analysis and developed their plans for achieving compliance. Our focus areas for 2015 are to begin implementing the plans for closing the gaps identified. Some operations – including our newest hotel, The Peninsula Paris – have hired a hygiene manager and set up a food safety taskforce to coordinate the process. Others are using external consultants. Our properties and clubs division also plans to develop a shared food safety management platform to support its teams in moving towards HACCP.

Ensuring we are prepared at all times

We have implemented biannual safety and security risk assessments of all properties since 2013. The assessments facilitated regular reviews of possible threats and risks as well as operations' crisis and safety management practices, reinforcing our efforts in taking precautionary measures to ensure the security of our staff and guests. To bolster emergency preparedness, all operations were asked to put special focus on emergency drills and trainings in 2014.

The Peninsula Tokyo, for example, enhanced its earthquake preparedness by carrying out a simulation which was evaluated by the local fire services department as a success. Some operations conducted both announced and unannounced fire and evacuation drills in order to measure the alertness of their teams and the reliability of their communication systems. Most operations improved the breadth of their trainings during the year.

In Hong Kong, the Peak Tram, which enjoys an exemplary safety record, conducts two emergency simulations a year. Employees take on roles as passengers in scenarios designed to test the rescue team's ability to respond if the tram should have to stop between stations for emergency situations. All our Hong Kong operations also put their procedures to the test satisfactorily at the time of pro-democracy protests in our home city of Hong Kong.

26 Hazard Analysis & Critical Control Points (HACCP) is an internationally recognised food safety and hygiene standard for commercial kitchens. A highly regarded accreditation in the hotel and food industry, HACCP is a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product.

How We Did in 2014?

- Achieved an overall 18.5% energy intensity reduction against the 2006-08 baseline
- Achieved a 16% water intensity reduction against the 2006-08 baseline for hotels division and 7% reduction for commercial properties, clubs and services division
- Carried out water management assessment across the Group
- All operations carried out employee awareness programme on environmental conservation
- Conducted a pilot Building Re-commissioning project
- Continued to seek opportunities to improve waste diversion
- Established more vigorous discipline of conducting emergency drills to enhance our emergency preparedness

Achieved On Plan Behind Plan Objective Missed

Our 2015 Commitments

- Maintain an overall 18.5% energy intensity reduction against the 2006-08 baseline
- Achieve 18.5% water intensity reduction against the 2006-08 baseline for the hotels division and 5% reduction for the commercial properties, clubs and services division
- Establish a best practice sharing platform among the engineering team to support the delivery of Vision 2020 Operation ambitions
- Develop additional guidance to help operations improve waste management practices
- Develop a shared food safety management platform to support the properties and clubs division in moving towards HACCP compliance

New Build & Refit

Our Mission

We strive to design and deliver our hotels and properties to meet the highest sustainability criteria whilst providing an exceptional level of comfort. These high design standards support superior service delivery in the future and provide the foundation for efficient energy, water, waste and safety management.

Our 2020 Ambitions

- In countries where qualified contractors are available, all main contractors appointed are ISO 14001 certified.
- In countries where qualified contractors are available, all main contractors appointed are OHSAS 18001 certified.
- All new build and major refits meet international green building standards.
- All paints used for indoor environment are free of VOCs.

Watch a video of the Making of The Peninsula Paris

"A very important aspect of the restoration work of The Peninsula Paris was the respect we paid to the history and heritage of the building"

Mr Clement K.M. Kwok
Chief Executive Officer

The Group's portfolio of prestigious hotels and properties is designed to deliver an exceptional level of experiential luxury to our guests and tenants. Our design is thoughtful, timeless and relentless in attention to detail. We use the finest materials and craftsmanship in our construction process. The Company also embraces innovation and is keen to make our properties sustainable while preserving their historical characteristics. The Peninsula Paris, our newest hotel and our first in Europe, which opened in August 2014 is a testimony to this philosophy.

Recreating A Legend

The building, which is now home to The Peninsula Paris, has enjoyed a long and distinguished history since its original completion in 1908, having functioned as one of Paris' most luxurious "*grands hotels*" and as government offices. The original building took two years to build but has taken us over four years of construction and restoration work to restore it to its former glory. Our dedication to preserving its heritage for future generations to enjoy is exemplified in this journey.

The restoration work involved historic monument specialists and teams of French master craftsmen, utilising traditional techniques and skills now only possessed by a handful of small family companies. The building's façade, for example, had deteriorated through the years. As many as forty skilled stonemasons were employed to restore the elaborate 10,000 sq.m. exterior façade alone. Repairs were carried out where possible, carving missing portions by hand using stone dust paste, while some severely damaged sections were re-constructed from scratch. The work also included the rehabilitation of the interior courtyards. Inside, marble, stucco, mosaics, roof and wall tiles, gold leaf and carvings were painstakingly restored in an effort to retain the soul and spirit of the original building.

Combining past & present, heritage & technology

While the aim of the restoration was to preserve the beauty and the soul of the building, we also ensured that, beneath its historical façade, The Peninsula Paris is a modern, state-of-the art 21st century hotel, equipped with the latest personalised in-room technology which is a hallmark of The Peninsula Hotels.

All the guest rooms of The Peninsula Paris include fully-customised interactive digital bedside and desk tablets, pre-set in one of 11 languages to suit guest preference. All information of interest to our guests and full control of all in-room functions, from streaming terrestrial TV, lighting control to valet call and privacy option, are accessible with merely one touch on the tablet.

The retractable awnings in signature Peninsula green not only add to the character of the hotel, but also reduce direct solar heat gain through the windows, lowering the energy demand for air-conditioning in the guest rooms.

Sustainable, by choice

The lead contractor appointed for the project is both ISO 14001 and OHSAS 18001 certified for its responsible environmental and health and safety management practices. During the construction phase of the project, we ensured that we embed sustainability principles in the use of materials. A good selection of solid wood and plywood used for some furniture in both guest rooms and public areas were certified[27] to be from sustainable sources, and applied with low emission adhesives. In the hotel's lobby and bar area, 1,000 individual pieces of wood were removed from the original building to undergo restoration and re-installation by local wood restoration experts Atelier Fancelli, a small family company stretching back three generations and with just 12 employees. LED lights were carefully applied in most of the guestroom corridors and some of the public areas of the hotel to help conserve energy use.

The guest room windows are double-glazed to improve heat insulation and sound proofing. When the windows are opened, the water supply to the fan-coil unit is automatically cut off to reduce energy wastage in accordance with local regulations. The beautiful carpet in the guest room is Green Label Plus[28] certified, meeting rigorous standards for low emissions of volatile organic compounds (VOCs) and thus improving the quality of the air in the guest room.

Some of the suites that The Peninsula Paris offers to its guests have private outdoor rooftop gardens, with spectacular view of the city of lights. A herb garden was also planted on the hotel's rooftop to provide fresh herbs to its chefs, while serving as a green roof for insulation, reducing energy use year round.

Applying Sustainable Design Thinking

The HSH Sustainable Building Design Standards were renewed in 2013 to adopt Building Research Establishment Environmental Assessment Method (BREEAM) as a benchmark. BREEAM is one of the world's leading measures of a building's environmental performance. It encourages designers and project owners to consider the environmental implications of their decisions and emphasizes the importance of establishing proper control systems to monitor responsible usage of resources.

27 Certified by either FSC (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification Schemes)

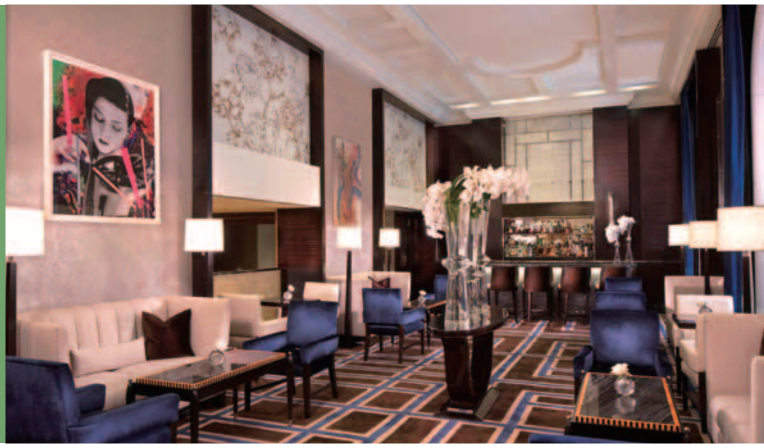
28 Green Label Plus identifies carpet, adhesives and cushion that have low chemical emissions, improving the quality of the air in which the products are used.

In 2015 we will be refurbishing The Peninsula Beijing as well as The Peninsula Chicago. In readiness for both projects, we incorporated BREEAM principles in the design of their model rooms during the year. For example, we used low emission paints, glues and wood stains, and that the wood used for some furniture was FSC certified. We also procured Green Label Plus certified carpet and applied LED lamps in some of the architectural lighting.

Looking ahead, as we undergo exciting new developments in London and Yangon, we will challenge ourselves to deliver these projects to the highest standards of quality and sustainability criteria.

A New Look

The Gotham Lounge at The Peninsula New York unveiled a newly designed space in 2014. Elegant and intimate, the newly renovated Gotham Lounge sourced 60% of the furnishing materials within North America.



The Challenge

We are keenly aware that the design decisions we make – both in new build and renovation projects – have significant effects on the long-term performance of our properties. It may affect ongoing energy and water efficiency, waste and safety management as well as operating costs.

Our challenge is to marry our ambitions for lower impact operation with the exceptional level of quality and luxury standards we aim to provide for our guests, while also respecting the history and heritage of the building. Our Sustainable Luxury Vision 2020 sets out our ambition to take on this challenge.

We are hopeful that as the construction and design industries as well as the suppliers we work with continue to innovate and embrace sustainability thinking, we will see more solutions that can support us in meeting both our quality standards and our Vision 2020 ambitions.

How We Did in 2014?

- (On Plan) Began to implement the renewed Sustainable Design Standards for new build and major refit projects

Achieved | On Plan | Behind Plan | Objective Missed

Our 2015 Commitments

- Incorporate BREEAM environmental principles in the design of the renovation of The Peninsula Beijing and The Peninsula Chicago
- Seek to use sustainable materials in the renovation of The Peninsula Beijing and The Peninsula Chicago

Supply Chain

Our Mission

We seek opportunities to delight customers whilst controlling cost. We will address the sustainability risks in our supply chains, with the goal of minimising the negative environmental and social impacts of our procurement decisions.

Whilst meeting our financial and quality requirements, we will make preference to source locally and from sustainable sources in order to support the local communities and environment and, in the process, reduce our carbon and water footprints.

Our 2020 Ambitions

- All operations continue to enforce the group-wide ban on shark fin.
- Paper products will be from certified sustainable sources by 2017.
- Critically endangered species are removed from our food and beverages offerings.
- Strive to source 50% perishable produce locally
- Guestroom amenities are made of sustainable materials.
- More than 50% cleaning products used in operations will be chemical-free or biodegradable.
- Tea, coffee and chocolate we sell are from certified ethical sources.
- Our luxurious furnishings meet uncompromising quality and sustainability criteria.
- Strive to have all procurement contracts in compliance with HSH Supplier Code of Conduct and verified by sample audit
- Rejuvenate "Naturally Peninsula" as the choice for sustainable, organic, and healthy options

Central to our Sustainable Luxury Vision 2020 is the commitment to making thoughtful choices. As a business with a global supply chain, we are aware that the choices we make as a buyer have a direct impact on the environment and the communities where our products originate. We aim to uphold our luxury standards while looking to source ethically, sustainably and locally. We understand that we cannot achieve this aspiration alone, but through close partnership with suppliers that share the same value and the same commitment to quality and standards with us.

Tracking Our Progress

In 2014, we rolled out a new reporting tool to all our operations in order to instil the discipline of measuring our performance on responsible sourcing on a regular basis. Designing a framework for collecting robust and meaningful procurement data on a diverse range of products and raw materials across our operations around the world was a challenge, but one which we were determined to undertake. We are pleased to report that, after two years of collaborative effort by our procurement teams, we now have a global framework to track our progress towards the 2020 ambitions we set for ourselves in the areas of responsible and sustainable sourcing. This will help us gain a better understanding of the sustainability impact of our purchasing decisions and maintain our focus on delivering improvement. During the year, we also began to develop a guide with recommended principles and alternatives for a range of raw materials to support us in making more considered choices. This new sustainable procurement guide will be rolled out across the Group in 2015.

Not An Option[29]

Supplier relationships are an important part of our reputation and brand. We seek to buy at competitive rates, but not at the expense of labour standards, human rights or the environment. The HSH Supply Chain Code of Conduct articulates our expectations of suppliers and contractors on sustainable and responsible business practices. The Code is part of the compliance requirements mandated by the Group's Purchasing and Tendering Procedures. Group operations have also progressively incorporated the Code as a standard requirement in all procurement contracts over time, in a bid to ensure that the suppliers we work with follow responsible and sustainable business practices. In 2014, we also developed guidance and checklists to support our procurement team in assessing their suppliers' compliance to the Code in supplier visits.

Manage Our Ecological Footprint Responsibly

We endeavour to source 50% of our perishable produce locally as a means to support the local community by contributing to local employment and economic development while reducing the environmental impact arising from the transportation to goods.

Across the Group, it was estimated that the proportion of perishable produce sourced locally ranged from 15% at The Peninsula Hong Kong, to 80% at The Peninsula Chicago and The Peninsula Paris, and to 100% at Quail Lodge & Golf Club. This wide variation was in part due to the available resources at different locations, but it also highlighted the opportunity for us to share best practice and learn from each other within the HSH family.

In 2014, we continued to focus on lowering our ecological footprint by sourcing our paper products and food items from more sustainable sources.

A paper trail to sustainable forestry

12 to 15 million hectares of forest are lost each year – the equivalent of 36 football fields every 60 seconds[30]. Around 40% of the world's commercially harvested timber is used for

29 GRI G4 Material Disclosure: G4-26

30 16 January 2013, WWF (www.panda.org) paper production. HSH's day-to-day business operations involve the use of a wide range of paper products. To ensure we work with suppliers who share our commitment to conserve the world's forests and forest biodiversity, we introduced a policy in 2012, mandating all Group companies to purchase paper products only from certified sustainable sources such as the Forest Stewardship Council (FSC)[31] by 2017.

We have been making steady progress towards this goal. By the end of 2014, from printed matter and collaterals to toilet paper in the guest room of our hotels, more than 70% of our paper purchases across the Group were from certified sustainable sources. It represented an improvement of 17 percentage points from the previous year.

Almost There

The Peninsula Merchandising – our single largest user of paper products – now purchases over 99% of its paper supplies from FSC-certified sources.

The Challenge

We seek to avoid serving any critically endangered species listed on the IUCN Red List of Threatened Species, and only serve seafood that is considered sustainable. Our intention is genuine, but we acknowledge that delivering on it is not an easy undertaking, especially in our Asia operations, where certain seafood items are highly tied to local culture and customs. Despite the challenges, with the support of conservation organisations, such as WWF and Monterey Bay Aquarium as well as our seafood suppliers, we remain dedicated and optimistic on realising our ambitions of removing critically endangered species from our seafood offering.

Contribute to a healthy ocean

An important decision we made in 2011 was to take a definitive stand on removing shark fin from all of our owned food outlets, in an effort to contribute to preserving the marine ecosystem for the world's future generations. The decision was well received by our guests and other stakeholders around the world. To further support shark conservation, we also became a signatory of WWF's No Shark Fin Corporate Pledge.

In 2013, we began our collaboration with WWF in assessing the sustainability of our seafood offering at the Group's flagship hotel, The Peninsula Hong Kong. The assessment covered the full range of seafood items offered by the hotel and provided recommendations, where possible, on alternative options in the market. Our partnership with WWF has since been extended to other locations in Asia. In 2014, led by WWF Hong Kong, the WWF teams and our hotels teams in Tokyo, Manila and Bangkok worked together to conduct similar assessment of our seafood offering in these three locations. The study provided useful insights for developing our broader sustainable seafood strategy.

31 FSC (ic.fsc.org) is internationally recognised as the most comprehensive certification scheme on forest management.

Sustainable Caviar, Twelve Years in The Making

The Peninsula Shanghai partnered with Kaluga Queen to offer our guests an exquisite taste of sustainable luxury – the finest sustainable caviar experience, including the first harvest of sustainable Beluga caviar produced in China.

Located at the picturesque Qiandaohu (Thousand-Island Lake) in Zhejiang province and occupying 200,000 square metres, Kaluga Queen operates the only internationally certified caviar farm in China and the first sustainable sturgeon aquaculture farm in Asia. It took 12 years for the first sturgeon to become mature enough for harvest in 2014. The sturgeon were processed in a plant operating to the highest international food hygiene and safety standards.

Ethically, sustainably and locally

Our chefs are always on the look-out for quality produce from local, ethical and sustainable sources. In addition to perishable produce, we also started to make sustainability considerations part of the choices of beverages that we offer to our guests. For example, The Peninsula Tokyo introduced new coffee blends to all its restaurants in late 2013. The new blends not only enhanced the quality of coffee, for which the hotel received many compliments from its guests, but also helped to support sustainable farming practices as all the coffee is Rainforest Alliance[32] certified. At Quail Lodge & Golf Club, from coffee to tea, from chocolate to sugar, all are from farms that follow fair trade and sustainable farming practices.

Redefine Luxury Dining

Having our produce come from local and sustainable sources is increasingly part of the exquisite gastronomic experience that we offer to our guests. See pages 131-135 on how our chefs around the world passionately pursue the concept of farm-to-table, adding a wholesome perspective to fine dining experience.

32 *Rainforest Alliance (www.rainforest-alliance.org) is an international nonprofit organisation that helps farmers and forest managers realise greater economic benefits by ensuring ecosystems within and around their operations are protected, and that their workers are well-trained and enjoy safe conditions, proper sanitation, health care and housing.*

Tea-ming Up for good

The best partnerships are often founded on shared values

The best partnerships are often founded on shared values: a commitment to doing things with the same principles, with the same aspirations. That is what makes our business relationship with our major tea provider, the Teesta Valley Tea Company, so special. Just like us, they aim to provide the highest quality product with superb service to match; and like us, Teesta Valley also places great store in its people.

Established in 1841, the Teesta Valley Tea Company has been in the tea business for more than three generations, and for the last 14 years has supplied tea for some of the restaurants and guest rooms of all Peninsula hotels. Their estates in Darjeeling, Assam and the Doars enjoy some of the best tea-growing slopes in the world while their expert tea-tasters and master-blenders create some of the finest tea one can find. Just the kind of quality, care and craftsmanship we love to share with our guests.

It is not only what they make but also how they make it that demonstrates why they make such a valuable partner for The Peninsula. Teesta Valley provides free housing to all permanent employees within its estates in Darjeeling and Assam, as well as schooling for workers' children. It runs its own hospitals at each estate, with workers benefitting from free medicines and treatment, and the company bears the cost of treatment required at government hospitals for more serious illnesses. Teesta Valley also subsidises a high school in Kolkata, where its head office is located, as well as a welfare centre that provides food and warm clothing to vulnerable people. In 2014, Teesta Valley was certified by Fairtrade in recognition of its ethical practices.

This outstanding level of care and support for its people sets Teesta Valley apart and we are proud to have had them as a business partner for more than a decade. We are pleased to have a partner who is making a difference in its community while supporting us in offering our guests a high-quality, lovingly made tea. We are also grateful to know that our sourcing relationship has contributed to the growth of our partner, and in turn touched the life of its people and local communities in a small way. It is a fine partnership and long may it continue.

How We Did in 2014?

- Implemented a new reporting template for the Group to measure our performance on responsible sourcing practices (Achieved)
- Developed protocols to incorporate HSH Supply Chain Code of Conduct compliance assessment as part of supplier visits (Achieved)
- Introduced supplier pre-qualification process which incorporates HSH Supply Chain Code of Conduct requirements (On Plan)
- Conducted sustainability review on the seafood offering across operations (On Plan)
- Developed sustainable procurement guidelines (Behind Plan)

Achieved On Plan Behind Plan Objective Missed

Our 2015 Commitments

- Expand the sustainability review on our seafood offerings
- Seek to use more environmentally friendly cleaning products
- Leverage technology further to reduce paper use
- Roll out the sustainable procurement guidelines across all operations

Community

Our Mission

Respectful to our environment and our community, we will engage with our communities to respond to their needs in a strategic, relevant and focused way.

We also seek to integrate our aspirations for supporting the development of our communities with our core operations.

Our 2020 Ambitions

- Contribute 100,000 hours of community service by 2020
- Engage 10% of employees in community service
- Develop Group "Impact" programmes on global and regional levels
- All hotel operations have at least one "Impact" programme.
- All hotel and property operations annually organise at least one cause marketing campaign to engage their customers in contributing to communities where we operate.
- Empower disadvantaged youth and marginalised groups in communities where we operate with the skills and opportunities for livelihoods while building the pipeline for our future workforce needs
- The Peninsula Academy provides opportunities for guests to appreciate and care for the local community and environment.

Caring for the community is a core value of ours that stretches back 149 years when HSH was founded in 1866. Our Sustainable Luxury Vision 2020 cements this commitment firmly for the future. The success of our business is rooted in the success of the communities in which we operate. They provide the resources, infrastructure and markets that support our businesses. In return, we feel we have a responsibility to make a positive and an enduring contribution to these communities that we are proud to call home.

Bringing A Lasting Benefit

Our 2020 ambitions set out our commitment to the communities. Our Community Development Wheel[33] outlines the strategic framework of how we plan to achieve our goals. We strive to integrate our aspirations to support the development of our communities with our core operations. It may be through employment opportunities, through the sales of our products, through our sourcing practices, or acting as an ambassador for our communities. Our priorities are to align our support to the community with our core business activities. It is through this alignment that we believe we can bring a lasting and sustainable benefit to these communities.

Planning for impact

In 2014, all Group operations set their local ambitions and sketched out action plans for contributing to the Company's 2020 community goals. In the coming year, we will refine these plans and continue to grow our effort.

The Group also began to host quarterly regional calls on the topic of community engagement with all operation teams during the year. The purpose of the quarterly call is to provide an opportunity for the teams to share past successes, review common challenges, and discuss strategies for delivering the Vision 2020 community ambitions. It could also facilitate more opportunities of synergy among different operations within the Group. Progress would be reported to the Group Corporate Responsibility Committee. We believe that the discipline of a quarterly update would ensure we remain focused on driving progress and that our strategies would lead to the successful delivery of Vision 2020.

Uniting For Good Causes[34]

In 2014, Group operations continued to work with their local partners to support the needs in their local communities, specifically on our priority areas of education, healthcare and livelihood programmes for children and youth, the elderly and marginalised groups in our communities. We have also chosen some causes in line with our focus areas to support at Group level, so that all operations, regardless of where they are, can unite for a common purpose.

33 *GRI G4 Material Disclosure: G4-26*

34 *GRI G4 Material Disclosure: G4-26*

Engaging the community to think Pink

The Peninsula Hotels around the world came together for the fourth year to show support for Breast Cancer Awareness Month with the Peninsula in Pink campaign throughout the month of October. All our hotels rose to the occasion by hosting a month-long campaign of pink-themed dining, room and spa promotions as well as fundraising parties and events, with part of the proceeds donated to local breast cancer charities. Staff members were also involved in pink runs, triathlon des roses and other activities to help raise awareness and funds.

In celebration of the opening of The Peninsula Paris, the campaign took on the theme of *Peninsula en Rose*, adding a Parisian twist to the Peninsula Afternoon Tea and other culinary offers. It also included an organic-inspired *Naturally Peninsula in Pink* menu in each hotel's lobby to promote healthy eating, with recipes available online. At The Peninsula Chicago, a special remembrance tree was put up

in the lobby, whereby guests may donate US$5 for a pink card and write a message to someone who has suffered from breast cancer and hang it on the tree.

In 2014, we also reached out to our network, rallying our partners to join the cause in serving the communities together. In Tokyo and Beijing, we engaged local artists to donate their beautiful artworks for charity auctions. In Manila, the hotel in partnership with The Estée Lauder Companies raised almost PHP6 million (HK$1 million) over the course of three years. The funds were donated to the Philippine Foundation for Breast Care to expand and upgrade the breast care centre at East Avenue Medical Centre. The Peninsula Bangkok brought together over 30 of Bangkok's most outstanding restaurants, pastry shops and bars in organising a *Eat-Drink-Pink* gourmet party at the hotel to raise funds and awareness. The 2014 campaign was our most creative and impactful one yet.

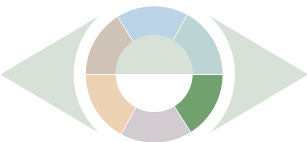
Coming together to inspire hope

In December, our hotels once again lit up the Trees of Hope to raise spirits and funds for local chapters of Make-A-Wish Foundation and other children's charities. The Foundation grants wishes that bring happiness and a brief respite for children diagnosed with life-threatening medical conditions.

Featuring our holiday ambassador SnowPage as its theme, two exclusive holiday mementos – a specially created SnowPage glass tree ornament and a plush SnowPage soft toy – were available for guests to purchase, with part of the proceeds being donated.

In 2014, the fundraising fun was also extended to the online community through social media. Individuals were invited to snap a photo of the SnowPage and post it on social media, whereby we would make a donation to Make-A-Wish. In addition, some of our hotels were involved in granting the special wishes of Make-A-Wish children. This winter The Peninsula Beijing assisted with the wish of a six-year-old girl who wanted to see snow. The hotel prepared her family's suite in her favourite shades of pink and filled the room with Christmas presents and snowflakes! This unforgettable trip to Beijing gave the little girl, who suffered from brainstem anaplastic astrocytoma, many happy moments and the strength to return home to Hong Kong to continue her treatment.

Finding a great fit for marginalised groups



In Hong Kong where the Group is headquartered, we continued to build on the Honing Skills in Hospitality programme. Organised in partnership with Delia Memorial School (Broadway) and Hong Kong Council of Social Service (HKCSS), the programme involved three modules, from introduction to HSH's operations, service trainings, to internship and mentorship – all aimed to support the development of ethnic minority youth. In 2014, five operations in Hong Kong – The Peninsula Hong Kong, The Repulse Bay, The Peak Complex as well as Cathay Pacific Lounges and Butterfield's under Peninsula Clubs and Consultancy Services – provided 10 underprivileged ethnic minority students, who studied Tourism and Hospitality at school, an opportunity to experience the inner workings of the hospitality industry. Additionally, the programme could help build the pipeline for our future workforce.

Ethnic minority youths in Hong Kong face many barriers in the society. HKCSS carried out a community impact assessment of the programme. The findings showed that the programme was able to help these students enhance their self-esteem and build their aspirations for a career in hospitality and tourism industry. It also facilitated cross-cultural understanding, contributing to the long term process of racial inclusion in Hong Kong.

Continue to Grow Hope for The Philippines

In 2013, the devastating Super Typhoon Haiyan took over 6,000 lives and left hundreds of thousands injured and homeless in the Eastern Visayas region of the Philippines. All Peninsula hotels jumped to aid of the typhoon victims through the Hope for the Philippines campaign.

More than HK$7 million was raised. In cooperation with the Philippine-based charity Gawad Kalinga Community Development Foundation, we identified a site located near Tacloban, and aimed to use the funds for building a village with 75 homes for families from the coastal town of San Roque who were displaced by Super Typhoon Haiyan. Gawad Kalinga has been a long-term charity partner of The Peninsula Manila which is driving the project on the Group's behalf. Construction began in early September and we are eager to have these new homes ready before the end of 2015, providing shelter and a new beginning for the typhoon victims.

Watch a video about Hope for The Philippines

Great Oaks from Little Acorns Grow

In 2014, HSH supported more than 600 non-profit organisations worldwide, and contributed HK$4.2 million monetary donations as well as a variety of in-kind sponsorships such as hotel stays, meal coupons, spa treatments and event venues to our charity partners. In addition, our employees devoted over 11,000 hours in serving the local communities.

Partnering for a better life for children

The Peninsula Bangkok further developed its partnership with the **Foundation of Better Life for Children**, which provides underprivileged children with shelter, education and vocational training. The team organised a series of staff activities throughout the year to raise funds for building a library for the children. They managed to collect close to THB600,000 (HK$136,000) to make the children's dream come true, and opened a new library at the Foundation's shelter home in November.

The Peninsula Bangkok's partnership with the Foundation began in 2013 when the Group's management team visited the children shelter during the General Managers' Conference, and planted some fruit-bearing trees as a source of sustainable income for the Foundation.

The Landmark lights up local orphanage

The Landmark Vietnam has developed a rewarding and multifaceted partnership with the local **Dieu Phap Orphanage** since 2012. The orphanage cares for over 150 children, some suffering from physical and mental disabilities.

In 2014, the Landmark team donated a variety of supplies and paid quarterly visits to the orphans. From planting trees and assisting with cleaning and repair work, to cutting hair and throwing a surprise party for the children, staff members contributed skills and time and, more importantly, their compassion to these unfortunate children.

Getting ready for a new school year

HSH partnered with **St. James' Settlement** to help underprivileged children prepare for the new school year. More than 100 staff members from our Hong Kong operations took part in the Back to School Drive community programme, donating over 150 backpacks to disadvantaged children. Peninsula Merchandising matched each backpack with a lovely Peninsula Pagebear Suitcase.

Staff members not only filled the backpacks with school supplies, toys and other goodies, but also brightened the lives of these children by fulfilling many of their wishes. The wishes of the children ranged from a pencil case or a pair of shoes, to something more exotic such as a lizard or a younger sister!

Together with St. James' Settlement, we have planned to engage other local companies in the effort to delight more underprivileged children in 2015.

Sharing moments of kindness

The Peninsula Chicago team went out into the streets and the lanes in Chicago neighbourhoods in the evening to reach out to homeless youth.

Supported by the **Night Ministry**, staff volunteers prepared sandwiches and meals for these homeless youths, listening to their stories and learning about their needs. The team conducted four outreach services in 2014 and aimed to do more in the coming year.

Onigiri Love

The Peninsula Tokyo and its charity partner **Hands On Tokyo** began to collaborate on the Onigiri Project in December 2009. Twice a month, staff volunteers would gather to make onigiri rice balls for donation to local orphanage homes and domestic violence shelters. More than 20,000 onigiri rice balls were made over the past five years and the effort is still continuing.

An admirable devotion

The Peninsula Beijing began its partnership with **Li Zhi Rehabilitation Centre** in 2014. Li Zhi provides shelter and skill training to people with mental disabilities, assisting them to achieve their full potential.

A small team of devoted staff volunteers paid visits to the centre every month throughout the year. They helped with repair work and held birthday parties for the trainees, but more importantly they provided these trainees with much needed attention, love and care.

Not to forget the elderly

The Peninsula Hong Kong continued to work with its long-term community partner **St. James' Settlement** in serving the elderly with different programmes every two months. In 2014, the team treated the elderly guests with the hotel's iconic afternoon tea and took them on an outing to Lantau Island. In partnership with a cosmetic company, the team also arranged a special make-up session and took some beautiful photos of 10 elderly couples. Staff volunteers also hand-knitted 30 scarves as presents for keeping the elderly warm in the cold winter.

How We Did in 2014?

- Implemented the renewed HSH Group community investment and engagement strategy and framework
- Introduced the Group community impact programme Honing Skills in Hospitality across all operations

Achieved | On Plan | Behind Plan | Objective Missed

Our 2015 Commitments

- Expand the Group community impact programme to a regional level
- All operations begin to implement their action plans for delivering the Vision 2020 Community ambitions.

Pillars

Guest Experience | *Employees* | *Community*

2020 Ambitions

Guest Experience

- Expand our customer base, particularly the 30s-50s age groups, and nurture their loyalty through our authentic service culture and the use of innovative technology
- Attract family travellers by providing facilities and services that cater for their needs
- Attract senior travellers by providing facilities and services that cater for their needs
- Engage our customers in preserving our heritage for future generations
- Provide Green Meeting options to corporate clients
- Continue to create memorable guest experiences through impeccable service, applying the right technology, leveraging on the resources of the cities we operate in, and creating an environment that supports our guests' lifestyle choices, such as healthier and more sustainable lifestyles

Employees

- Strengthen executive and leadership development
- Attract new talent and retain quality employees
- Implement the competency framework across the Group
- Introduce "Ambassadors for Good" Training Programme
- Empower Operations' CRS champions through training
- Target zero work fatality or incident resulting in permanent disability
- Minimise occupational health and safety incidents by improving the processes and system to support the management, planning and disclosure requirements on health and safety
- Achieve OHSAS 18001 for all operations
- Establish a global talent management system to support talent management, planning and disclosure needs

Community

- Contribute 100,000 hours of community service by 2020
- Engage 10% of employees in community service
- Develop Group "Impact" programmes on global and regional levels
- All hotel operations have at least one "Impact" programme.
- All hotel and property operations annually organise at least one cause marketing campaign to engage their customers in contributing to communities where we operate.
- Empower disadvantaged youth and marginalised groups in communities where we operate with the skills and opportunities for livelihoods while building the pipeline for our future workforce needs
- The Peninsula Academy provides opportunities for guests to appreciate and care for the local community and environment.

2015 Commitments

Guest Experience

- Create family-friendly programmes and facilities to offer unique experiences and further attract family travellers
- Relaunch the new room product at The Peninsula Chicago as part of the repositioning of the hotel
- Update and relaunch the Peninsula wellness concept across all hotels to provide our guests with a wider selection of options to maintain their wellbeing
- Roll out a new mobile version of Peninsula.com

Employees

- Improve our succession planning by incorporating the Group's competency framework in the process
- Align our people-development tools to the Group's competency framework
- Expand the reach of the new e-performance appraisal system to more employees as part of a global talent management system that we are building
- Roll out the Sustainable Luxury Vision 2020 e-learning module across all operations
- Conduct a gap analysis of our compliance with OHSAS 18001
- Further enhance the injury and illness prevention programme through more robust post-incident investigations
- Establish a global IT platform to support operations with on-site crisis management

Community

- All operations begin to implement their action plans for delivering the Vision 2020 Community ambitions.
- Expand the Group community impact programme to a regional level

Progress Against 2014 Targets

Guest Experience

- Enhanced online guest experience
- Continued to add meaningful guest experiences that appeal to guests of all ages to the programme offering of Peninsula Academy

Employees

- Rolled out refreshment programmes for the Code of Conduct training
- Developed HR tools to support HSH competency framework
- Conducted global employee engagement survey
- Developed new employee e-learning module on Vision 2020
- Implemented a new health and safety reporting template to support the monitoring of health and safety performance across the Group
- All operations developed action plans for achieving HACCP certification.
- Enhanced injury and illness prevention programme through more robust post-incident investigations

Community

- Implemented the renewed HSH Group community investment and engagement strategy and framework
- Introduced the Group community impact programme Honing Skills in Hospitality across all operations

Achieved | On Plan | Behind Plan | Objective Missed

Supply Chain	New Build & Refit	Operation	Governance & Management
• All operations continue to enforce the group-wide ban on shark fin. • Paper products will be from certified sustainable sources by 2017. • Critically endangered species are removed from our food and beverages offerings. • Strive to source 50% perishable produce locally • Guestroom amenities are made of sustainable materials. • More than 50% cleaning products used in operations will be chemical-free or biodegradable. • Tea, coffee, and chocolate we sell are from certified ethical sources. • Our luxurious furnishings meet uncompromising quality and sustainability criteria. • Strive to have all procurement contracts in compliance with HSH Supplier Code of Conduct and verified by sample audit • Rejuvenate "Naturally Peninsula" as the choice for sustainable, organic and healthy options	• In countries where qualified contractors are available, all main contractors appointed are ISO14001 certified. • In countries where qualified contractors are available, all main contractors appointed are OHSAS 18001 certified. • All new built and major refit meet international green building standards. • All paints used for indoor environment are free of VOCs.	Using the 2006-08 average as baseline: • Achieve 10% absolute carbon emission reduction • Achieve 30% carbon intensity reduction • Achieve 25% energy intensity reduction • Achieve 25% water intensity reduction • Achieve 25% reduction on waste intensity from 2012 baseline. • Achieve 60% waste diversion rate through recycle, reuse and donation • Achieve excellent rating in IAQ assessment for all operations • Provide self-bottled water for guestrooms and meetings to reduce plastic waste • Achieve HACCP certification for all hotel operations • Operations located in water stressed regions to be "water neutral" by efficient use of water and replenishing sources near our locations	• Build a robust succession planning framework for senior leadership • Introduce "Leaders for Good" Training Programme for management • Establish a strong framework to track and manage financial, operational and environmental, social and governance risks • Engage stakeholders on wider sustainability issues through a process that is meaningful and helps to advance the Group's sustainability commitments • Establish a robust sustainability management system to support the management, planning and disclosure requirements on sustainability issues as well as progress towards 2020 goals • Meet international and local sustainability disclosure requirements relevant to HSH
• Expand the sustainability review on our seafood offerings • Seek to use more environmentally friendly cleaning products • Leverage technology further to reduce paper use • Roll out the sustainable procurement guidelines across all operations	• Incorporate BREEAM environmental principles in the design of the renovation of The Peninsula Beijing and The Peninsula Chicago • Seek to use sustainable materials in the renovation of The Peninsula Beijing and The Peninsula Chicago	• Maintain an overall 18.5% energy intensity reduction against the 2006-08 baseline • Achieve 18.5% water intensity reduction against the 2006-08 baseline for the hotels division and 5% reduction for the commercial properties, clubs and services division • Establish a best practice sharing platform among the engineering team to support the delivery of Vision 2020 Operation ambitions • Develop additional guidance to help operations improve waste management practices • Develop a shared food safety management platform to support the properties and clubs division in moving towards HACCP compliance	• All operations to finalise Vision 2020 site level targets and action plans • Continue to expand employee engagement efforts on Vision 2020 • Renew the two-year stakeholder engagement plan • Enhance the use of website to communicate with stakeholders on Vision 2020 • Continue to improve the Group's sustainability management process
• Implemented a new reporting template for the Group to measure our performance on responsible sourcing practices • Developed protocols to incorporate HSH Supply Chain Code of Conduct compliance assessment as part of supplier visits • Introduced supplier pre-qualification process which incorporates HSH Supply Chain Code of Conduct requirements • Conducted sustainability review on the seafood offering across operations • Developed sustainable procurement guidelines	• Began to implement the renewed Sustainable Design Standards for new build and major refit projects	• Achieved an overall 18.5% energy intensity reduction against the 2006-08 baseline • Achieved a 16% water intensity reduction against the 2006-08 baseline for hotels division and 7% reduction for commercial properties, clubs and services division • Carried out water management assessment across the Group • All operations carried out employee awareness programme on environmental conservation • Conducted a pilot Building Re-commissioning project • Continued to seek opportunities to improve waste diversion • Established more vigorous discipline of conducting emergency drills to enhance our emergency preparedness	• All operations developed action plans and defined the associated goals contributing to Sustainable Luxury Vision 2020. • Developed communication tools to support the leadership teams of all operations to cascade localised Vision 2020 plans to the wider workforce • Implemented the two-year stakeholder engagement plan to support the rollout of Sustainable Luxury Vision 2020 • Continued to expand employee engagement efforts on corporate responsibility and sustainability • Continued to improve the robustness of the Group's sustainability reporting

SUSTAINABLE LUXURY 2020

We will mobilise as an organisation to transform our 2020 aspirations into reality.

Feature Stories

A Grand Debut in Europe

The reputation of The Hongkong and Shanghai Hotels, Limited as one of the leading hotel companies in the world is built upon on a long-standing tradition of hospitality, leading design, innovative user-friendly technology and exemplary customer service. These elements seamlessly blend together to form a unique culture that is inspired by passion, attention to detail and a deep pride in the brand. With the latest addition to its portfolio, The Peninsula Paris, the Company continues to bring together the best of its history and a vision for its future.

The Perfection of Detail

On 1 August, 2014, The Peninsula made its grand entrance into Europe on avenue Kléber in Paris, setting new standards in design, luxury and comfort. The century-old classic building re-emerged from its past, meticulously restored and modernised to create a new example of Peninsula excellence.

"I am delighted that together with our partners, Katara Hospitality, we are making our entry into one of the most magical cities in the world," said HSH Chief Executive Officer Clement Kwok. "The Peninsula Paris is the product of over four years of a meticulous and intensive construction project and is a good example of our Company's philosophy towards development. We focus on undertaking only a very small number of projects, but seek to do so as an owner-operator in exceptional locations where we believe we can create hotels that can rank among the world's best. Being an owner, in this case in partnership with Katara Hospitality, means that we are able to take a long-term view on the property investment and the hotel's operations."

The Peninsula made its grand entrance into Europe on avenue Kléber in Paris, setting new standards in design, luxury and comfort.

While respecting the history and ambience of this building, The Peninsula Paris was designed with the modern luxury traveller in mind. The finest collection of France's top craftsmen and experts worked tirelessly on the exquisitely restored spaces and interior design details.

Restoring the former Hotel Majestic, a Beaux-Arts building, to its former glory to create The Peninsula Paris was a four-year labour of love, technical and engineering mastery, utilising the skills of some of France's top master craftsmen and centuries-old techniques. The objective and challenge from the outset was to marry a Haussmanian soul and body to a modern building - to preserve the soul and the spirit of this unique location, while respecting each area and material, while simultaneously offering contemporary facilities, technology and other trappings of a 21st Century hotel.

"This was one of the first buildings in Paris to utilise reinforced concrete, which was extremely innovative at the time and therefore of great historical interest," notes Project Manager, James Mercer.

In general, historical restoration on this scale is far less common today for budget reasons, and thus the sheer scale and detail of The Peninsula Paris' metamorphosis is extremely unusual. "Structurally we had to preserve the existing concrete and further reinforce it. The building had not been treated well, and when we took it over it was in bad condition both internally and externally," says Mr Mercer. "Although the building is not listed, we worked very closely with historical associations to ensure the reconstruction of the interiors as they were originally."

While it only took two years to build the Hotel Majestic between 1906 and 1908, it required four years to restore it and to become The Peninsula Paris. Working in conjunction with France's top heritage organisations, marble, stucco, mosaics, roof and wall tiles, wood carvings, stone work, gold leafing, paintings and a myriad of other elements have been lovingly preserved and restored by some of France's most revered family firms, dating back generations and more used to working on heritage projects such as The Louvre and the Palace of Versailles.

In addition to the restoration, two basement levels were added to house a Peninsula Spa as well as car parking facilities to accommodate 57 vehicles. Extensive technological facilities were also added to bring the building into the 21st Century. An astounding 2.5 kilometres of cabling is concealed behind the wall of every guestroom in order to ensure maximum connectivity at all times.

The Majestic hotel, which opened in 1908, was one of the most innovative buildings of its era, with the Hennebique beams enabling vast public spaces to be created without supports or columns as required previously. Following the restoration, the grandeur and sheer scale of the hotel's expansive public spaces have been retained and preserved – and unlike other hotels of the era which have subdivided spaces and changed footprints, The Peninsula Paris has been described as Paris' most architecturally authentic hotel space, similar to the city's cultural landmarks, and retaining the "spirit" of the building.

An extremely complicated feat of engineering, the entire structure of the building had to be reconstructed on a metal frame and the foundations underpinned.

This was one of the first buildings in Paris to utilise reinforced concrete, which was extremely innovative at the time and therefore of great historical interest

The façade employed the talents of 20 skilled stonemasons from historic monument specialist Degaine to restore the 10,000 square metre area. Repairs were carried out where possible, carving missing portions by hand, or where the bas-reliefs were severely damaged, the entire section was replaced by a new stone and handcarved from scratch, using only photos for reference. Each flower cascade took a stonemason three weeks of work.

Meanwhile, wood restoration experts Fancelli – a small three-generation family company of just 12 employees – individually numbered and removed each original wood panel – over 1,000 in total, with 370 and 130 sections in The Lobby and Le Bar Kléber respectively. These were then sanded down, repaired, restored and replaced.

Making its grand entrance into Europe, The Peninsula Hotels has once again seamlessly blended tradition and innovation to create a Peninsula like no other.

Founded in 1905, S.O.E. Stuc et Staff restored the plaster and mouldings found in over 100 bedrooms, LiLi, The Lobby, Le Bar Kléber and Salon Adam.

Specialist gilder and restorer Ateliers Gohard – another tri-generation family company with just 15 employees – handled repairs, gold leafing and hand painting, including The Lobby, the galleries, The Rotunda, Le Bar Kléber and Salon Adam, using 20,000 pieces of gold leaf, each measuring eight square centimetres.

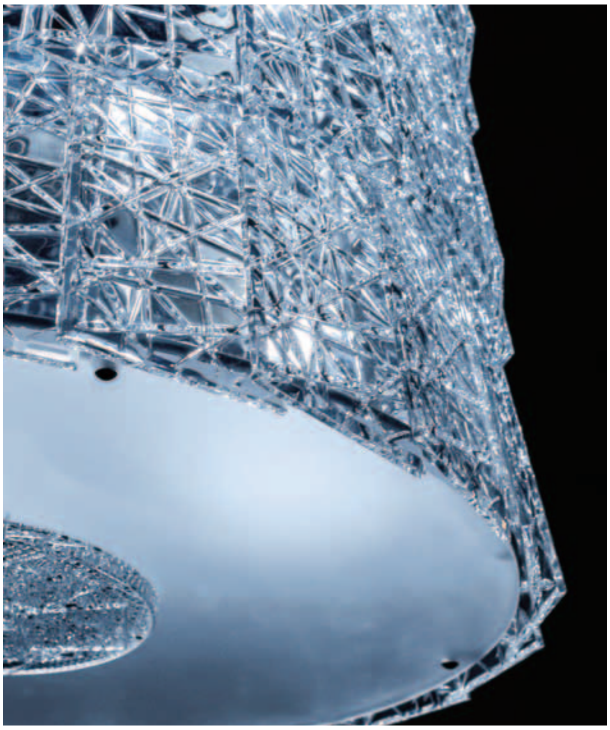
With a family history dating back to the 19th Century, master glass craft company Duchemin restored and replaced the four stained glass ceiling panels of the small salons (now the boutiques) and created a new skylight for The Rotunda, the central point of the building adjacent to the Ballroom. Adapting the design of the salon panels took a full two years of work, creating a masterpiece of yesterday and today.

The two paintings on the ceiling of Le Lounge Kléber were restored by Cinzia Pasquali, who has restored paintings by Leonardo da Vinci at the Louvre, and also in the Palace of Versailles.

The paintings were previously concealed by white paint, which took three months to remove and clean. It then required two weeks to take the paintings down and six months to restore them before replacing them in situ over a further period of one month. Pasquali has more than 30 years of experience in this field and worked with a team of 15 people to meet this particular challenge.

Pasquali also worked on the restoration of the mosaic tiles which were originally laid on the floor of The Lobby. The tiles were meticulously relaid in the central courtyard of the hotel.

Another exclusive family business, bespoke ornamental metalwork company Remy Garnier, was commissioned to both restore historical items from the original building, adding missing pieces where necessary, and to recreate other parts in the Beaux-Arts style of the early 1900s, thus fully preserving the authenticity of the historic interior. These pieces include large mirror frames, door handles, cabinet and drawer knobs, keyholes and their covers, cremone bolts and decorative hinge concealers.

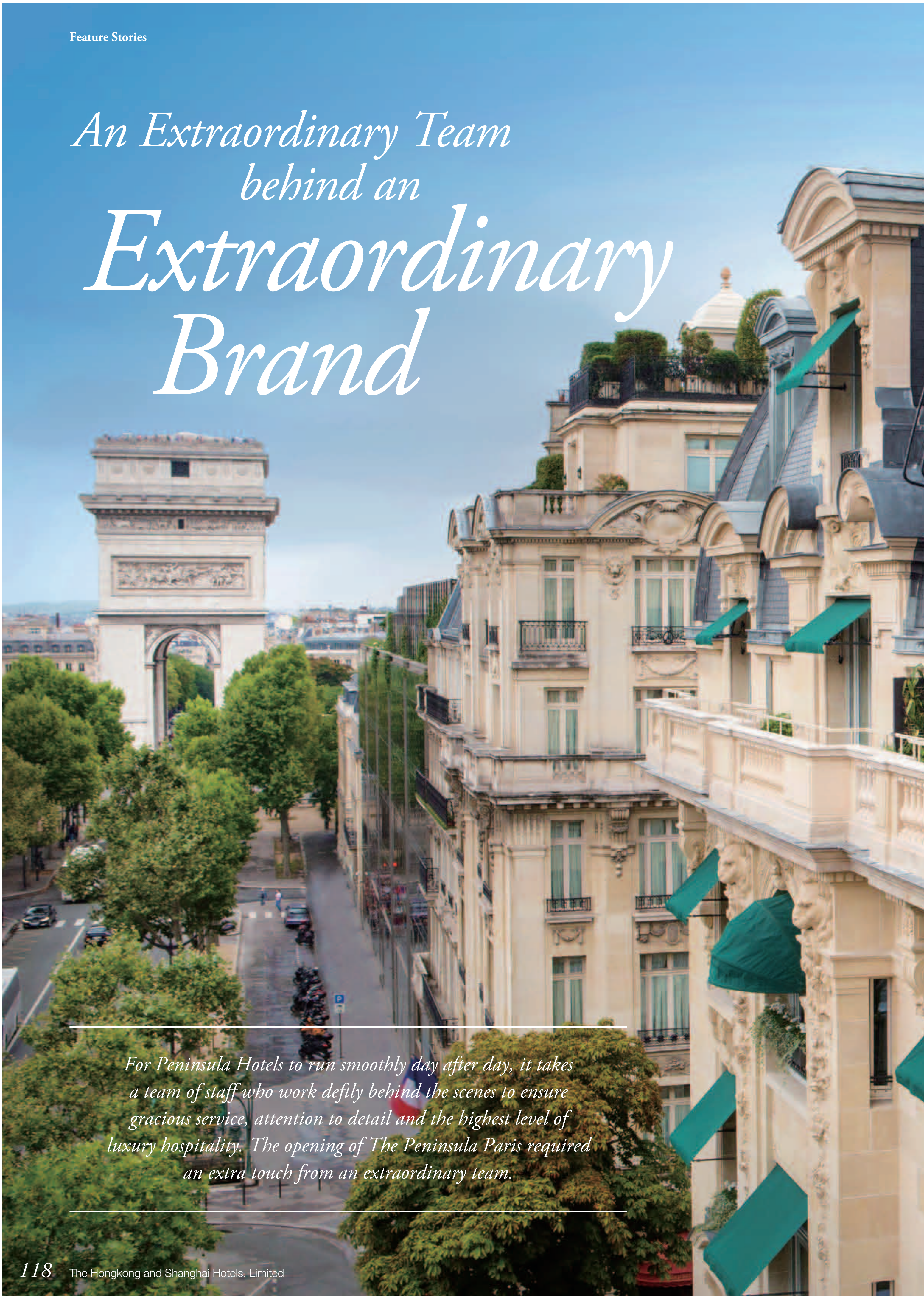


While The Peninsula Paris features the hand-crafted specialities of these traditional companies using centuries-old skills, it is still very much also rooted in the modern, with contemporary touches balancing the heritage elements of the hotel. Though architects were forbidden to alter the heritage building's exterior, the interior was reconfigured and discreetly modernised to create a contemporary hotel. "One of our many challenges was to find a way to install sophisticated air conditioning and smoke extraction systems into the building," reveals Mr Mercer, "but I believe we have been able to do that very successfully, including the implementation of a concealed fire curtain above the main staircase for maximum safety."

Making its grand entrance into Europe, The Peninsula Hotels has once again seamlessly blended tradition and innovation to create a Peninsula like no other.

View our beautiful video about The Peninsula Paris

An Extraordinary Team behind an Extraordinary Brand



For Peninsula Hotels to run smoothly day after day, it takes a team of staff who work deftly behind the scenes to ensure gracious service, attention to detail and the highest level of luxury hospitality. The opening of The Peninsula Paris required an extra touch from an extraordinary team.

"The opening of any new hotel is never easy and is a challenging task, requiring hard work and a high degree of teamwork," notes Chief Operating Officer, Peter Borer. "The Peninsula Paris was no exception, and I rolled up my sleeves to help clear tables with the rest of the team until 1 am on the opening day. An event of this scale requires a high level of teamwork."

Each and every company employee, whatever their position or grade, prides themselves on providing guests of The Peninsula with a unique culture of warmth and genuine service, where the personal connection between the staff and guests is paramount. This, together with exceptional hotel products, award-winning facilities and a strong focus on attention to detail, has placed The Peninsula Hotels where it stands today as a leader in global hospitality. "When we opened a new Peninsula in one of the world's greatest cities – Paris – we also strove to instil the culture of the brand into the hotel – neither an easy task, nor something that can be achieved overnight," adds Mr Borer.

Mr Borer reinforces the effort involved maintaining the principles of The Peninsula brand. "To us, this is of paramount importance. It is often hard to quantify and difficult to achieve, but it provides that extra dimension to the guest's experience and ultimate enjoyment. Apart from the tangibles that all great hotels possess, it is often the intangibles that make that significant difference: the warmth, the security, the smiles, smells, lights and sounds that combine to create the ultimate guest experience."

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The Company undertook various initiatives to bring its brand culture to The Peninsula Paris, including installing key management personnel directly from other Peninsula appointments, including the General Manager, the Hotel Manager, the Food & Beverage Director, the Assistant Food & Beverage Director, and the Executive Chinese chef.

The Opening Taskforce team was a multi-departmental team comprising 53 personnel at various levels drawn from Peninsula hotels worldwide, who assisted with the opening. These members of staff worked at the hotel for a minimum of a month, and indeed some of them are still at the property.

When people come to The Peninsula, they have very high expectations, and I think that for all of us having been able to experience it directly, we will bring back a slice of Peninsula DNA which we will endeavour to spread in Paris.

People have always played a vital role in the continuing success of The Peninsula Hotels, and the creation of The Peninsula Paris involved well over a thousand individuals, from HSH and Katara Hospitality senior management members to architects and designers, the very highest level of craftspeople, on-site workers, and of course, staff members of the hotel itself.

Prior to the opening of The Peninsula Paris on 1 August, eight young French hoteliers were selected to undergo a month-long training programme to immerse them in the Peninsula corporate culture that is a key part of what makes the company's hotels around the world stand out in terms of service and the very highest level of global hospitality.

The cross-discipline group – including LiLi Cantonese restaurant manager, Director of Front Office Operations and the Conference and Catering Sales Director, among others - spent the month at The Peninsula Hong Kong, covering Rooms, Food and Beverage, Banqueting and Catering divisions in their training.

The "students" began their training in May 2014, and during this unique experience they learned the necessary skills to connect with both hotel guests and their fellow associates and reaffirm the culture and core brand values of The Peninsula Hotels. The unique and comprehensive learning course, entitled the 'Peninsula Ambassadors Programme', is designed not only to introduce participants to Peninsula operations and service standards, but also to impart the more intangible elements such as the company's long heritage dating back to 1866.

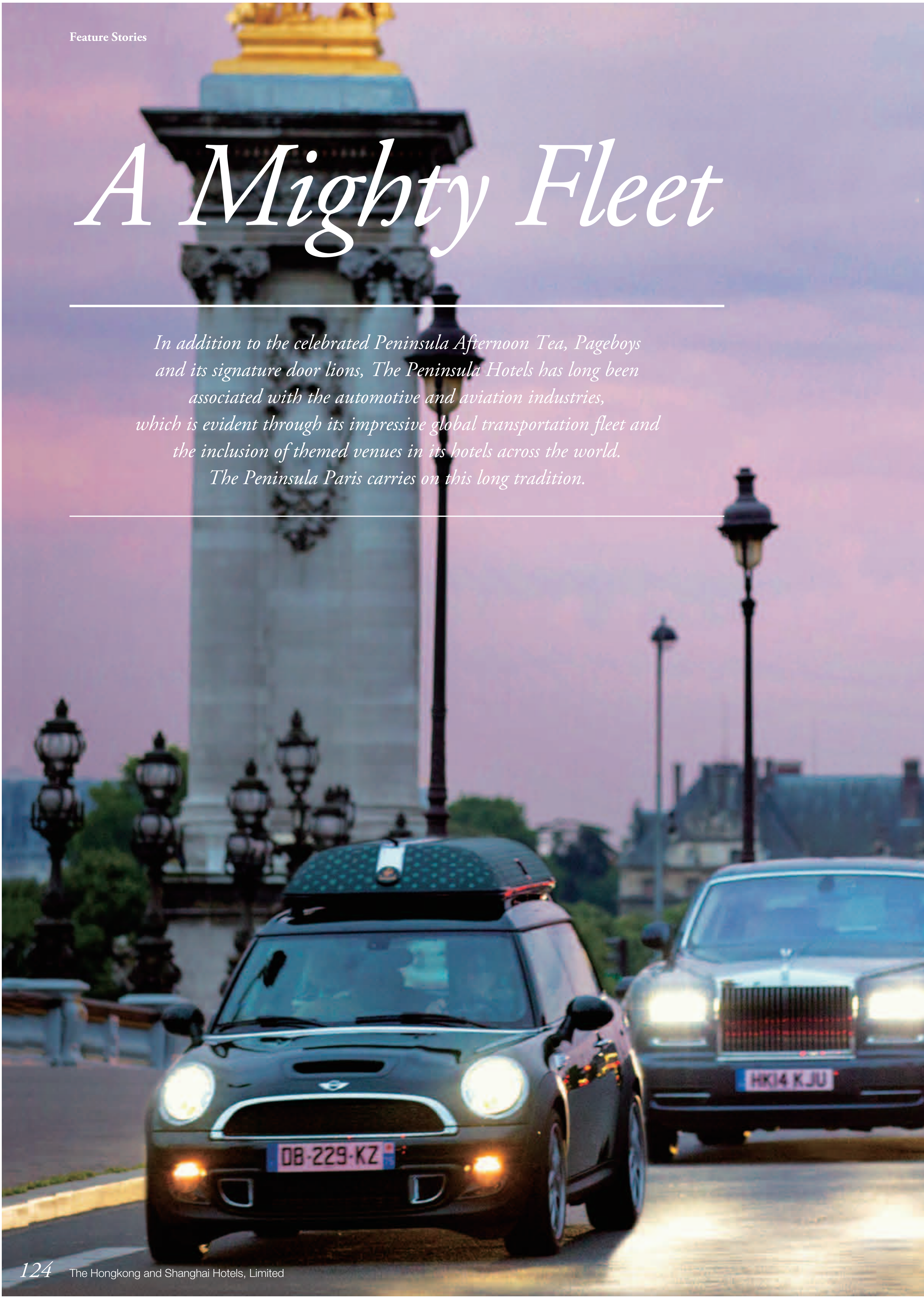
At the end of the course, each Peninsula Ambassador is expected to share the hospitality spirit with the rest of the hotel team; maintain a proactive and positive attitude, help upkeep excellence in the standards of service and promote The Peninsula culture; consistently deliver on the brand promise of a luxury experience and world-class service to meet and exceed guests' needs and expectations; and act as peer group mentors to new employees.

"I have worked in the hotel industry for many years, and it's all about service", says Christophe Wong, Manager of Cantonese restaurant LiLi. "When people come to The Peninsula, they have very high expectations, and I think that for all of us having been able to experience it directly, we will bring back a slice of Peninsula DNA which we will endeavour to spread in Paris."

Assistant Executive Housekeeper Celine Rodriguez stated that the staff at The Peninsula Hong Kong exemplified the very best in standards of service. "It's a big honour for me to be part of this family, and I will do my best to bring this same level of service to The Peninsula Paris."

"This programme further reiterated our commitment to training to ensure that our guests' expectations are both met and exceeded," says Nicolas Béliard, General Manager of The Peninsula Paris. "It successfully provided the necessary framework to further push our long-standing tradition and service standards."

Indeed, it is inspiring that all of the efforts put into the manifestation of this remarkable property are proving to be a success. "We have had an extraordinary response from guests, which has completely surpassed our expectations," says Mr Béliard. "We have been inundated with people wanting to see the building and the latest offering from The Peninsula. This is truly a great challenge to have and as such we have increased the number of staff from 450 to 550 in order to meet our service requirements. We are all very conscious of what this hotel represents."



A Mighty Fleet

In addition to the celebrated Peninsula Afternoon Tea, Pageboys and its signature door lions, The Peninsula Hotels has long been associated with the automotive and aviation industries, which is evident through its impressive global transportation fleet and the inclusion of themed venues in its hotels across the world. The Peninsula Paris carries on this long tradition.

Long celebrated for its eclectic collection of transportation choices, The Hongkong and Shanghai Hotels, Limited's association with the aviation industry began during the 1930s, when several significant aircraft were flying in China.

The first China National Aviation Corporation (CNAC) plane, the Loening Air Yacht, initiated the airline's service in 1929, and six Loenings featured in the CNAC fleet, each of which was named after a Chinese city along the Yangtze River route that the plane flew. As a tribute, The Peninsula Shanghai chose to feature a life-size replica of a Loening in its Rosemonde Aviation Lounge, named after the first aircraft to be designed and built in China in 1923.

Aviation lounges feature in a number of The Peninsula Hotels. The Peninsula Hong Kong's China Clipper Aviation Lounge features a real China Clipper engine alongside a real propeller. The China Clipper was a Pan American Airways plane which was the first air link that Hong Kong had with North America. Tokyo's Seven Seas Pacific Aviation Lounge features a replica Gnome rotary engine which was the first engine to fly in Japan. Bangkok's Paribatra Aviation Lounge, named after the first Thai indigenous airplane, is home to a real Bristol Jupiter engine which, though a British engine, was the first engine used on a Thai designed and built aircraft.

The Peninsula Paris continues this long tradition with its impressive rooftop restaurant and lounge, L'Oiseau Blanc.

L'Oiseau Blanc is the hotel's crowning glory, showcasing the best of French cuisine and a bespoke wine and cocktail selection, against a picturesque backdrop of Parisian rooftops and some of the city's most unique views. Taking as its theme the heritage of French aviation, the restaurant celebrates the L'Oiseau Blanc bi-plane which made one of the earliest attempts at a trans-Atlantic crossing piloted by ex-World War flying aces Charles Nungesser and François Coli, who attempted the crossing in 1927 from Le Bourget, but sadly did not make it.

L'Oiseau Blanc was named following Nungesser's appearances in flying circuses around the USA demonstrating his World War I fighter prowess. A Native American chief refused to let him fly over his reservation, and so Nungesser offered to take him up in his plane. Amazed by his flight, he relented and Nungesser named his next plane after him – 'The White Bird'.

A replica of the L'Oiseau Blanc Levasseur PL8 biplane, 75 percent of the original size and with a wingspan of 11 metres, hangs above the hotel's courtyard. The replica was built in Newquay, England.

Inside, a restored 1927 Levasseur engine takes pride of place in the restaurant. This was rebuilt from parts of three original engines at Le Bourget - a labour of love undertaken by a group of enthusiastic volunteers comprising retired aviation engineers, working one day a week on the project.

The Peninsula has also always been renowned for its on-ground transportation fleet, today ranging from Rolls-Royces to MINI Coopers, BMWs and more. The Peninsula Paris is no exception and is the only hotel in the city to have its very own customised car fleet.

The Peninsula Hotels and Rolls-Royce have enjoyed a strong association that extends more than four decades to 1970, when The Peninsula Hong Kong's purchase of seven Silver Shadows made history as the largest single order for Rolls-Royce automobiles. Under the carmaker's Bespoke programme, a large number of dedicated features were developed by Rolls-Royce engineers and designers in close collaboration with Hongkong and Shanghai Hotels, Limited Chairman The Hon. Sir Michael Kadoorie, and Martin Oxley, The Peninsula Hotels' Fleet Vehicle Manager.

L'Oiseau Blanc is the hotel's crowning glory, showcasing the best of French cuisine and a bespoke wine and cocktail selection, against a picturesque backdrop of Parisian rooftops and some of the city's most unique views.

The Peninsula Paris offers its guests chauffeured service in bespoke Rolls-Royces, including a 1934 Phantom II, BMWs, and MINI Cooper Clubman hardtops, all finished in the Peninsula's signature green livery and featuring dozens of original modifications for guests' maximum comfort. As always, the fleet enables guests to arrive at their destinations in classic Peninsula style.

In addition to a specially designed Rolls-Royce extended wheelbase Phantom, The Peninsula Paris is the proud owner of an immaculately restored 1934 vintage Rolls-Royce Phantom II. Built in the era of flair and flamboyance between the two World Wars, its bodywork is by Barker & Co. Ltd, coachbuilders by appointment to HM The King and HRH The Prince of Wales. The classic Sedanca de Ville town car required substantial restoration and modifications before it could shine in its original splendour for Peninsula guests while coping with modern Paris road conditions. Sir Michael Kadoorie took a personal interest in its restoration.

The Phantom II underwent its complex and detailed refurbishment and re-equipping in the workshops of Ashton Keynes Vintage Restorations in Wiltshire, England. The vehicle has been adapted to current standards to ensure the comfort of its passengers without compromising its appearance or character. Given its age, and the fact that it was built for a gentler motoring environment, the ability of the original brakes, gearbox and engine cooling system with only minor modifications is testament to the engineering skills of the original builders. A multi-function telephone exchange, complex audio system, air conditioning and refrigerated drinks cabinet have also been tastefully integrated to produce a timeless classic that combines the elegance of bygone days with the modern luxuries and conveniences expected by today's discerning guests.

Meanwhile, custom modifications to The Peninsula Paris' 2014 Extended Wheelbase Phantom involved moving the rear air-conditioning controls, normally fitted on the back of the front console, to the armrests for easier access. The boulevard lighting system was re-engineered to give maximum illumination for passengers when entering and alighting from the cars. Even the smallest details were subject to scrutiny – new counter-sunk screws were developed for the trunk compartment to eliminate even the slightest chance of scratching guests' luggage.

In a first for the MINI Cooper marque, the S Clubmans were built for the hotel with special-edition features. The engineers and designers worked closely with Sir Michael and Fleet Manager Oxley to develop new specifications, which include a tailor-made rooftop box, a mini-fridge, and a dedicated iPhone. Each car sports a custom-illuminated Peninsula logo on the tread plates, leather finishing matching that of the Rolls-Royces, and the signature Peninsula green livery that distinguishes every vehicle in the hotel's transport fleet.

The Peninsula Paris also offers 10 Peninsula 7 Series long-wheelbase sedans. Instantly recognisable with its signature livery of Peninsula green and providing the highest standards of power, refinement and efficiency, the 7 Series is the BMW signature, embodying elegant design, impeccable ergonomics, bar-setting comfort and exquisite personality.

To conclude, a classic 1956 Citroen 2CV *fourgonnette* (small van) completes the Peninsula tradition of providing guests with iconic transport options, which include a tuk-tuk at The Peninsula Bangkok, bubble cars at The Peninsula Beijing, and a jeepney at The Peninsula Manila.

Bringing its own whimsical touch of French automobile history to the streets of Paris, the 2CV van was meticulously restored by a specialist workshop in Nice, and features the original steering wheel and leather upholstery. The van is used to make deliveries around Paris, and pick up guest requests.

Meanwhile in Asia, The Peninsula Tokyo welcomed the eighth addition to its customised car fleet in 2014, a Tesla Model S. Finished as always in the Peninsula's signature livery of Brewster green, the Tesla joins the hotel's 1934 Rolls-Royce Phantom II, two bespoke Rolls-Royce Extended Wheelbase Phantoms, two BMW 7 Series sedans and two MINI Cooper Clubman hardtops. The Peninsula Tokyo is the first hotel in Japan to include a plug-in sedan in its fleet and the Tesla can also recharge at The Peninsula Tokyo's own on-property station.

Whatever a guest's choice of vehicle, at every Peninsula Hotel it is certainly guaranteed that "getting there is half the fun".

Embracing

the Future

The Hongkong and Shanghai Hotels, Limited is a veritable pioneer and industry leader in the research and development of innovative guestroom technology. It is the only hotel company in the world with its own Research and Development facilities to design, build and customise equipment to serve the Group's guests. All in-room technology is developed and then tested to perfection by the Research and Technology Department, comprising a team of electronic and software engineers who are able to respond to guests' needs through a combination of observation, innovation and technological know-how.

While The Peninsula Paris features the crafts of traditional artisanal companies using centuries-old skills, it is still very much also rooted in the modern, with contemporary 21st century technology and touches balancing the heritage elements of the hotel. Though architects were forbidden to alter the heritage building's exterior, the interior has been reconfigured and discreetly modernised to create a contemporary hotel.

Whilst preserving the hotel's renowned heritage and tradition, The Peninsula Paris has seamlessly blended the Group's proprietary, ground-breaking hotel technology into its offering. This technology, first introduced at The Peninsula Hong Kong in 2013, was developed by the in-house research and development team and fully demonstrates the Company's capabilities in terms of enhancing the service it offers its guests.

In all guestrooms and suites, fully customised interactive digital bedside and desk tablets are preset in one of 11 languages, and full control of all in-room functions is just a touch away, enabling access to restaurant menus, hotel services and TV channels, in addition to LED touch-screen wall panels which feature valet call, weather details, thermostat, language and privacy options.

Guestrooms are designed so that every control and switch is located precisely where it is required and used by guests without having to search.

"It's all about the details – the light switches, the temperature gauge, or simply the ability to control the curtains from the confines of the bed," says Ingvar Herland, Group General Manager, Research & Technology for The Peninsula Hotels. "If you are in the bath with the TV on and the phone rings, you can take your call right there. The TV will go mute until the call is over, if desired."

These intricate details are largely worked out in Hong Kong, and what is known in-house as the ELV (Electronic Low Voltage) system is installed in a fully functional model room. At that point, everyone in the Senior Management team, including the Chairman, has to spend at least one night in the model room. Based on feedback, switches may be relocated, the lighting is tweaked to perfection, and everything is fine-tuned.

"One of the aims of our in-room technology was to create multi-language facilities for all of our international guests," says Mr Herland. "Total integration is the key to our systems and I believe we are the only hotel group in the world to have been able to achieve this."

Fibre optic cabling in each room yields ever more powerful complimentary wired and wireless high-speed Internet access, with guests also able to enjoy long distance VOIP calls in-room, as well as within the hotel's luxury car fleet, for maximum ease, convenience and enjoyment throughout their stay.

With 2.5 kilometres of concealed cabling per room, Herland discusses the reason behind this. "Wireless systems are something that you can't control, so that is why we have a wired system that is flawless and completely reliable, in order to meet our guests' needs without question or time-wasting."

"Innovation is part of the tradition of The Peninsula Hotels," adds Chief Operating Officer, Peter Borer. "We are at the forefront of a new era of in-room comfort, showcasing our leadership role in bringing the latest guest-focused technology to the world."

A Visionary Journey towards Sustainable Luxury

The Hongkong and Shanghai Hotels, Limited is aware of the importance of understanding and managing the effects of adverse environmental factors on its business activities, whilst simultaneously remaining committed to providing the highest standard of luxury products and services to its guests.

Meeting both objectives is challenging, but the Group's properties across the globe continue to develop innovative ways to find sustainable ways to deliver luxury and quality to their customers, and to explore how they can increasingly make sustainability part of the appeal of the luxury offering.

Sustainability in the hospitality industry demands the necessary systems to be put in place combined with a cultural approach, and at The Hongkong and Shanghai Hotels, Limited (HSH) a new vision of sustainable luxury continues to be implemented across all of the Group's businesses, including at the latest addition to its portfolio, The Peninsula Paris.

"Sustainability is of utmost importance to us and we will form an official committee in 2015," states Nicolas Béliard, General Manager of The Peninsula Paris. "We look at everything from the types of vehicles that we use to the sourcing of produce, energy consumption, recycling across the board, to the preservation of the heritage of the building in which we are housed."

Béliard says that sustainability policies are advocated to each and every one of the hotel's employees, not only from a legal point of view, but also for their own safety and for that of guests. "Our aim is to maintain corporate responsibility standards to the highest level whilst keeping our service standards to the level that guests have come to expect of The Peninsula."

The Peninsula Paris' sustainability efforts began well before the official opening of the property, with the employment of artisans and artisanal skills in the restoration of the building. "It has been an extraordinary journey to manifest what represents HSH's original motto which was always to create "the finest hotel east of Suez", which I believe has now been achieved in the West. We are all extremely conscious of what this

"Our aim is to maintain corporate responsibility standards to the highest level whilst keeping our service standards to the level that guests have come to expect of The Peninsula."

hotel represents and we are continuing to re-create the legend in the 21st Century whilst remaining fully conscious of the adverse effects created by the environment on our planet."

Béliard states that in The Lobby alone, 480 LED lightbulbs are used in the chandeliers without compromising the desired colour of the light emitted from them. Although the use of LED lighting is an extremely effective and financially efficient measure for energy reduction, it is an exercise that The Peninsula Paris had to undertake with great caution, as all Peninsula hotels place a great deal of importance on lighting quality, particularly in the front-of-house Lighting is a key component in creating a luxurious environment for guests and enhancing the character of each property.

"As much as I can, I order our food produce from local suppliers. The longer we keep the vegetables in the ground and the fruit on the trees, the better they will be." – Executive Chef Jean-Edern Hurstel

In terms of transportation choices, The Peninsula Paris has introduced BMW electric bicycles as an excellent alternative for guests to enjoy and discover the city. The hotel's underground car park also has an electric charger for the use of hybrid cars, including the BMW i Series and other vehicles.

In the area of food and beverage purchasing, David Jegoux, Procurement Manager at The Peninsula Paris says that fresh produce are initially all purchased from local markets nearby or from suppliers who are located within 50 kilometres of the hotel. "90 percent of our fresh produce is of French origin, with the other 10 percent being imported for our Cantonese restaurant LiLi, whilst our wine list is also comprised of 90 percent French wines and champagnes. We place a great deal of importance on the usage of local, organic and fair trade produce."

Our commitment to food safety and hygiene is core to our dedication in pursuing gastronomic excellence and this is an area which is also of key importance to our stakeholders.

Executive Chef Jean-Edern Hurstel concurs, saying, "As much as I can, I order our food produce from local suppliers. The longer we keep the vegetables in the ground and the fruit on the trees, the better they will be. The less they travel, the more flavoursome they will be. We have a wonderful vegetable grower, Joel Thiebaut, who is located about 20 minutes from the hotel and I visit him every Wednesday at the market. He is passionate about what he does and he truly offers the best vegetables in France."

On the subject of recycling, The Peninsula Paris has already begun to implement the HSH Group Paper Policy with 70% of its paper products from FSC-certified sources and the majority of documents printed in double-sided mode.

Mathieu Merlet, Hygiene & Social Responsibility Manager at The Peninsula Paris, works closely with seven teams from across the hotel Guest Experience, Human Resources, Supply Chain, Community, Operations, Management and Renovation & General Maintenance to ensure that every employee is fully aware of the issues that need to be overcome. "We meet monthly to discuss the latest matters in the area of corporate responsibility and sustainability, which could range from ensuring that we are using ethically produced tea to our ongoing activity in volunteer work within the local community."

Merlet's role is also to ensure that the hotel maintains the very highest levels of hygiene throughout its operations. "This of course is particularly important in the kitchens and I ensure that the culinary team members fully understand the nature of all risks," he says. General Manager Béliard reinforces this statement saying, "Our commitment to food safety and hygiene is core to our dedication in pursuing gastronomic excellence and this is an area which is also of key importance to our stakeholders. Our food and beverage operations strictly adhere to local food safety standards."

The HSH Supply Chain Code of Conduct and policies on responsible sourcing outline the Group's corporate responsibility commitments as well as the Group's expectations of suppliers and contractors on environmental, social and ethical practices. "It is mandatory that all our suppliers sign our Code of Conduct agreement, which addresses issues such as human rights, child labour and French and European regulations," states Merlet.

Meanwhile, in the United States, Cornel Ruhland, Executive Chef at The Peninsula New York capitalises on the abundance

Our menu is about using the highest quality of ingredients possible. In the northeast region we have all four seasons and large and very small farms that offer the best and most beautiful livestock and produce available," says Kida.

of locally sourced seasonal ingredients available. "I grew up in Germany where home gardens and organic food are normal. Now, I meet the farmers who raise the best livestock and produce as it is important for our menus."

Brandon Kida, Chef de Cuisine at Clement restaurant at The Peninsula New York concurs with his colleague. "Our menu is about using the highest quality of ingredients possible. In the northeast region we have all four seasons and large and very small farms that offer the best and most beautiful livestock and produce available," says Kida. "I source as much organic and locally-grown produce as feasible according to the season. During my last two years on a farm with my previous employer, I learned in detail the genetics of animals and the importance of what they eat throughout their life cycle. With this knowledge, I now source my meat and fish quite differently than before, asking particular questions."

The Peninsula Beverly Hills' Executive Chef, David Codney says, "California is the best grocery store a chef could ever ask for; we have it all in our own back yard."

Not only does Chef Codney oversee the hotel's collection of revered restaurants, he has also planted an elaborate rooftop garden, which he calls 'The Farm'. Here, he grows an array of herbs and vegetables including basil, three types of thyme, chives, shiso, tomatillos, jalapenos, ginger, eggplant, cucumber and strawberries, which he uses to prepare sumptuous farm fresh dishes throughout the hotel.

At the Quail Lodge & Golf Club, Chef Kenneth Macdonald insists on using the freshest ingredients harvested from local organic farms that are hand selected by the chef himself and exquisitely prepared by his culinary team into the dishes available on the property's menus.

In Asia, over five years ago, The Peninsula Bangkok's dedicated expert gardener planted the first seeds in the Naturally Peninsula Garden, the hotel's own herb garden boasting a stunning array of Thai herbs used in Thai cuisine as well as in traditional medicines.

Located behind The Peninsula Bangkok's Thiptara restaurant, the garden is watered twice a day and soil is refreshed every six months to ensure the highest quality produce including sweet and red basils, thyme, rosemary, mint, sage, vanilla bean and tarragon.

With new initiatives continually being introduced at HSH properties across the Continents, the Group is undoubtedly at the very forefront of the concept of sustainable luxury.

Awards and Accolades

The distinction of Chevalier dans l'Ordre National de la Légion d'Honneur for Mr Clement K.M. Kwok

2014 Hotelier of the Year for Ms Rainy Chan

A selection of awards we have won in 2014:

HSH Group

- The distinction of **Chevalier dans l'Ordre National de la Légion d'Honneur** for Mr Clement K.M. Kwok, HSH Chief Executive Officer and Managing Director
- **Gold Dolphin Award** for HSH's Tradition Well Served documentary *(Cannes Corporate and Media TV Awards)*

- HSH was included in CDP's **Climate Disclosure Leadership Index for Asia (ex-Japan)**, recognising the top 10% of CDP reporting companies

HSH 2013 Annual Report

- **Platinum Award** in the Non-Hang Seng Index (Large Market Capitalisation) Category and a Special Mention of the Sustainability and Social Responsibility Award in the same Category *(Hong Kong Institute of Certified Public Accountants' 2014 Best Corporate Governance Disclosure Awards)*
- **Silver Award** in General Category *(Hong Kong Management Association)*

Hotels

The Peninsula Hotels

- **Best International Hotel Group** – 2014 China Travel Award *(Travel+, China)*
- **No. 2 Best International Hotel Chain** – 2014 GT Tested Awards *(Global Traveler, USA)*
- **No. 3 Best Business Hotel Chain in Asia-Pacific** *(Business Traveller, UK)*

The Peninsula Hong Kong

- **Hotelier of The Year** for Ms Rainy Chan, Regional Vice-President and General Manager of The Peninsula Hong Kong *(Best of the Best, 2014 Virtuoso Awards)*
- **Gold List 2014** – Best Overseas Hotel *(Luxury Travel Magazine, Australia)*
- **TTG Travel Awards 2014** – Best Luxury Hotel in Hong Kong *(TTG China)*
- **Forbes Five-Star Spa**, Forbes Travel Guide 2014 Five-Star Hotel *(Forbes Travel Guide, USA)*
- **Best Hotel in Hong Kong** – Readers' Choice Awards 2014 *(DestinAsian, Asia Pacific)*
- **No. 3 Best Business Hotel Worldwide** – Business Traveller Awards 2014 *(Business Traveller, UK)*
- **No. 3 World's Best Awards 2014** – The Top City Hotels in Asia *(Travel + Leisure, USA)*

The Best Luxury Hotel in China (2014 Business Traveller China Awards)

2014 Orbitz Best In Stay Elite Awards

The Peninsula Shanghai

- **The Best Luxury Hotel in China** *(2014 Business Traveller China Awards)*
- **Top 25 in Asia - Readers' Choice Awards 2014** *(Condé Nast Traveler, USA)*
- **Best Service Hotel Award in China** *(2014 City Traveler Hotel Awards)*
- **No. 1 Mainland China – World's Best Hotel 2014** *(Travel + Leisure, USA)*
- **Best Luxury Hotel of the Year** – 2014 China Travel & Meetings Industry Awards *(Travel Weekly China)*
- **Country Winner – (China) The Peninsula Spa, Shanghai** *(Best Luxury Hotel Spa, 2014)*

The Peninsula Tokyo

- **No. 1 Best Hotels in Tokyo at Business Travel Poll 2013** *(FinanceAsia, Hong Kong)*
- **No.2 2014 Gold List in Japan** *(Condé Nast Traveler, USA)*

The Peninsula Bangkok

- Travel + Leisure **World's Best Awards 2014** *(Travel + Leisure, USA)*:

  No. 2 in Top City Hotels in Asia

  No. 1 in Top Hotels Spas, Asia
- **100 List 2014 – Best City Hotels** *(World Spa & Travel, Singapore)*
- Mei Jiang – Exceptional cuisine and service – **Thailand's Best Restaurants 2014** *(Thailand Tatler, Thailand)*
- **No. 3 Hotel in Bangkok** – T+L 500 World's Best Hotels *(Travel + Leisure, USA)*

The Peninsula Manila

- **Top City Hotels in Asia** – World's Best Awards 2014 *(Travel+Leisure, USA)*
- **No. 2 of the Best Hotels in Manila** – 500 World's Best Hotels 2013 *(Travel+Leisure, USA)*

The Peninsula New York

- **2014 Orbitz Best In Stay Elite Awards**
- **2014 World's Best Awards** – Top Large City Hotels in US/Canada *(Travel + Leisure, USA)*
- **Best of Award of Excellence 2014** for *Clement* restaurant *(Wine Spectator, USA)*
- **Three-star review at Restaurant Review** for *Clement* restaurant *(The New York Post, USA)*
- **Top 50 U.S. Hotel Spas list** – 2014 Best Spas in the World *(Condé Nast Traveler's, USA)*
- **Gold List** – World's best places to stay New York 2014 *(Condé Nast Traveler, USA)*

The official 5* rating (Atout France, France)

Best of Residential Interior Design distinction
(Architecture & Design Awards 2014, Hong Kong)

The Peninsula Beverly Hills

- **Top 10 Large City Hotels in the U.S.** – World's Best Awards 2014 *(Travel + Leisure, USA)*
- **Gold List 2014** *(Condé Nast Traveler, USA)*
- **No. 1 Hotel in the U.S. and No. 8 Best Individual Hotel in the World** – 2014 GT Tested Awards *(Global Traveler, USA)*
- **2014 Best of Beverly Hills "Golden Palm" Award**

The Peninsula Paris

- **The official 5* rating** *(Atout France, France)*
- **"Most Promising Pastry Chef" of the year** – The Pastry Chef Julien Alvarez *(Relais Desserts, France)*
- 2 *toques* (hats) for restaurant *LiLi* from **Gault Millau** *(Gault & Millau, France)*
- 2 *toques* (hats) for restaurant *L'Oiseau Blanc* from **Gault Millau** *(Gault & Millau, France)*

Commercial Properties, Clubs and Services

de Ricou Apartments

- **Best of Residential Interior Design distinction** *(Architecture & Design Awards 2014, Hong Kong)*
- **Certificate of Excellence in Residential Interior Design** *(Architecture & Design Awards 2014, Hong Kong)*

Thai Country Club

- **First Runner-up** – the Best Course in Thailand *(2014 Asian Golf Awards, Canada)*

Cathay Pacific Lounges

- Skytrax World Airline Awards 2014:
  - **– No. 2 Best Business Class Airline Lounge Dining**
  - **– No. 3 Best First Class Airline Lounge**
  - **– No. 3 Best Business Class Airline Lounge**
  - **– No. 3 Best First Class Airline Lounge Dining**

The Landmark, Vietnam

- **The Best Manager in caring for staff benefits**
  Mrs Bee Lian Ng, General Manager *(HCMC Trade Union)*
- **The Guide Awards** *(Vietnam Economic Times)*
- **Golden Dragon Award** *(Vietnam Economic Times)*

Governance

Chairman's Overview

We believe the principles of integrity, transparency and accountability are the basis of a successful and sustainable company.

Dear Shareholders,

As Chairman of the Board, I am committed to ensuring that HSH operates to the highest standards of corporate governance. We believe the principles of integrity, transparency and accountability are the basis of a successful and sustainable company. We recognise good corporate governance promotes and safeguards the interests of our shareholders and other stakeholders, and our goal is to operate within a well-established framework of policies, processes and management systems.

We continuously aspire to improve our governance practices: in 2014 we continued to review and refresh our risk management and internal control systems, financial management and reporting. In particular, during the year, a thorough Group-wide review of our risk management structure and processes was conducted. The outcome is a more regular and structured review of Group risks at management and Board level. We increased the accountability and transparency of risk ownership and management, and strengthened our monitoring of the Group's principal and emerging risks. Our objective was to ensure that the Group's risk management framework is robust and capable of responding to the ever-changing business environment in which we operate.

Details of these initiatives and activities, as well as an outline of our approach to governance, are set out in the following pages.

My role as Chairman is to ensure that HSH has a dynamic Board which works effectively and constructively in challenging the Executive Directors and management. It is critical to have leadership with a diverse range and balance of skills, expertise, experience and perspectives on the Board. In March 2014, Mr Alan Clark joined our Board as an Executive Director and the Chief Financial Officer. Mr Ian Boyce stepped down as a Non-Executive Director and the Deputy Chairman of the Company. In Mr Boyce's place, Mr Andrew Brandler was elected as Non-Executive Director by the Shareholders at the Annual General Meeting and also appointed by the Board as the Deputy Chairman. On behalf of our Board, I would like to thank Mr Boyce for his 14 years of service to the Company.

It is critical to have leadership with a diverse range and balance of skills, expertise, experience and perspectives on the Board.

As with our usual practice, we are reporting against 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.

It is pleasing to see the progress we have made this year in the governance area. We seek to continually improve and enhance our efforts in this area.

The Hon. Sir Michael Kadoorie
20 March 2015

Board of Directors

From left to right

Front row: William E. Mocatta; Andrew Brandler; The Hon. Sir Michael Kadoorie; Ronald J. McAulay

Back row: Peter C. Borer; John A.H. Leigh; Patrick B. Paul; Dr the Hon. Sir David K.P. Li; Dr William K.L. Fung; Clement K.M. Kwok; Dr Rosanna Y.M. Wong; Pierre R. Boppe; Nicholas T.J. Colfer; Alan Clark

Non-Executive Chairman

The Hon. Sir Michael Kadoorie

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

Aged 73. Appointed a Director in 1964 and elected Chairman in 1985, Sir Michael is a substantial shareholder of the Company by virtue of the Securities and Futures Ordinance. He is the brother-in-law of a fellow Director, Mr Ronald James McAulay, and is a Director of several subsidiaries of the Company. He is also Chairman of CLP Holdings Limited, an Independent Non-Executive Director of Hutchison Whampoa Limited, an Alternate Director of Hong Kong Aircraft Engineering Company Limited, a Director of Sir Elly Kadoorie & Sons Limited, as well as holding a number of other directorships. In addition, Sir Michael acts as a trustee of a number of notable local charitable organisations. (N, E)

A – Audit Committee Member
N – Nomination Committee Member
R – Remuneration Committee Member
E – Executive Committee Member
F – Finance Committee Member

Non-Executive Deputy Chairman

Andrew Clifford Winawer Brandler

Aged 58. Appointed a Director and Deputy Chairman in May 2014, Mr Brandler is also Chairman of two subsidiaries of the Company. 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. From May 2000 to September 2013, Mr Brandler was the Group Managing Director and Chief Executive Officer of CLP Holdings Limited and he remains a Non-Executive Director of this company. He is a Non-Executive Director of Tai Ping Carpets International Limited and Chairman of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. Prior to joining CLP Holdings Limited, Mr Brandler worked for Schroders, a U.K. investment bank, based in London, in Singapore and latterly in Hong Kong, where his last position was Head of Asia-Pacific Corporate Finance. He was the Chairman of The Hong Kong General Chamber of Commerce between 2008 and 2010. (A, R, E, F)

Executive Directors

Chief Executive Officer

Clement King Man Kwok

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

Aged 55. A Bachelor of Science in Economics from the London School of Economics and a Member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, Mr Kwok joined the Group in February 2002 as Managing Director and Chief Executive Officer, and is a Director of most of the Group's entities. His career began with Price Waterhouse and Barclays de Zoete Wedd in the United Kingdom, 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 is an Independent Non-Executive Director of Swire Pacific Limited, a Fellow of The Hong Kong Management Association, a Council Member of the World Travel & Tourism Council, and a Board Member of the Faculty of Business and Economics of The University of Hong Kong. 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. (E, F)

Chief Operating Officer

Peter Camille Borer

Aged 61. Appointed to the Board as an Executive Director in April 2004, Mr Borer is a graduate of the Ecole Hoteliere 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 joined the Group in 1981 and was appointed General Manager of The Peninsula Hong Kong in 1994, taking on additional regional responsibility in 1999, culminating in his appointment as Chief Operating Officer, The Peninsula Hotels, in April 2004. Mr Borer is also a Director of most of the Group's entities.

Chief Financial Officer

Alan Philip Clark

Aged 47. A Bachelor of Accounting Science from the University of South Africa and a Member of the Chartered Institute of Management Accountants in the United Kingdom, Mr Clark joined the Group in March 2014 as Chief Financial Officer, and is a Director of most of the Group's entities. He began his career with KPMG in South Africa in 1985. He previously worked for Le Meridien Hotels & Resorts as Deputy Vice President Finance, Europe and for Malmaison & Hotel du Vin Hotels as Group Financial Controller, and then Financial Director. Since 2010 and prior to joining the Group, Mr Clark served as Group Finance Director of Rocco Forte Hotels. (F)

Non-Executive Directors

Ronald James McAulay

Aged 79. A graduate of the University of Glasgow, a Member of the Institute of Chartered Accountants of Scotland and brother-in-law of The Hon. Sir Michael Kadoorie, Mr McAulay was appointed to the Board in 1972 and is a substantial shareholder of the Company by virtue of the Securities and Futures Ordinance. He also serves on the Board of CLP Holdings Limited, Sir Elly Kadoorie & Sons Limited and several other companies. Mr McAulay is an Honorary Trustee of the Tate Foundation in London, a trustee of the Victoria and Albert Foundation in London and various other charitable organisations.

William Elkin Mocatta

Aged 62. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr Mocatta was appointed to the Board in 1985 and 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. He is also an Alternate Director for The Hon. Sir Michael Kadoorie in Hutchison Whampoa Limited.

John Andrew Harry Leigh

Aged 61. Mr Leigh was previously in private practice as a solicitor in Hong Kong and the United Kingdom. He was appointed to the Board in May 2006. He 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. (E, F)

Nicholas Timothy James Colfer

Aged 55. A Master of Arts and with over 30 years of experience in corporate management in the Asia Pacific region, principally in real estate, manufacturing and distribution, Mr Colfer was appointed to the Board in May 2006. He is Chairman of Tai Ping Carpets International Limited and Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. He also serves on several other corporate Boards in Hong Kong.

Independent Non-Executive Directors

Dr the Hon. Sir David Kwok Po Li

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

Aged 76. Appointed to the Board in 1987, Sir David is Chairman and Chief Executive of The Bank of East Asia, Limited. Sir David 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, SCMP Group Limited and Vitasoy International Holdings Limited (all listed in Hong Kong). Sir David was an Independent Non-Executive Director of COSCO Pacific Limited and China Overseas Land & Investment Limited (both listed in Hong Kong) until May 2012 and March 2013 respectively, a Non-Independent Non-Executive Director of AFFIN Holdings Berhad (listed in Malaysia) until August 2013 and a Director of CaixaBank, S.A. (listed in Spain) until October 2014. He also served as a member of the Legislative Council of Hong Kong from 1985 to 2012. Sir David is the Chairman of The Chinese Banks' Association Limited. He is also a member of the Council of the Treasury Markets Association. (N)

Patrick Blackwell Paul

CBE

Aged 67. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr Paul was appointed to the Board in February 2004. He began his career with Price Waterhouse in London in 1969. A resident of Hong Kong since 1980, he was Chairman and senior partner of PricewaterhouseCoopers in Hong Kong from 1994 until 2001. He is an Independent Non-Executive Director of Johnson Electric Holdings Limited and Pacific Basin Shipping Limited. He is also the Chairman of the Supervisory Board of the British Chamber of Commerce in Hong Kong. (A, R)

Pierre Roger Boppe

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

Aged 67. A Master of Science 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 and from 1996 until January 2002, he was Managing Director and Chief Executive Officer of the Group. Upon his return to Europe, Mr Boppe continues to be active in the hotel and travel industries. He was re-designated from a Non-Executive Director to an Independent Non-Executive Director in June 2009.

Dr William Kwok Lun Fung

SBS, OBE, JP

Age 66. Appointed to the Board in January 2011, Dr Fung graduated from Princeton University with a Bachelor of Science degree in Engineering and also holds an MBA degree from the Harvard Graduate School of Business. He was conferred with Honorary Doctorate degrees of Business Administration by The Hong Kong University of Science and Technology and by The Hong Kong Polytechnic University. 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. He is a Director of the Fung Global Institute, an independent and non-profit think-tank. Dr Fung is an Independent Non-Executive Director of VTech Holdings Limited, Shui On Land Limited, Sun Hung Kai Properties Limited and Singapore Airlines Limited. He is a past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and Hong Kong Committee for the Pacific Economic Cooperation Council. (A, N)

Dr Rosanna Yick Ming Wong

DBE, JP

Aged 62. Appointed to the Board in February 2013, Dr Wong 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 a member of the National Committee of the Chinese People's Political Consultative Conference. She is the Executive Director of The Hong Kong Federation of Youth Groups, a Non-Executive Director of The Hongkong and Shanghai Banking Corporation Limited and an Independent Non-Executive Director of CK Hutchison Holdings Limited, Cheung Kong (Holdings) Limited and Hutchison Telecommunications Hong Kong Holdings Limited. In addition, Dr Wong is the Non-Executive Chairman of the Hongkong Bank Foundation's Advisory Committee, Honorary Chairman of World Vision Hong Kong and a Global Advisor to Mars, Incorporated. She is a member of The Hong Kong University of Science and Technology Business School Advisory Council, and an elected Member of the Council and an ex-officio Member of the Court of The University of Hong Kong. (R)

Senior Management and Key Functions

From left to right
Front row: Peter C. Borer; Clement K.M. Kwok; Alan Clark
Back row: Maria Razumich-Zec; Rainy Chan; Christobelle Liao; Martyn Sawyer; Sindy Tsui

Senior Management

Group Management Board

The Group Management Board is the key decision-making body for the Group's management and operations, under the official delegation of authority from the Board. The Group Management Board comprises three Executive Directors, two Group Executives who assist the Executive Directors in managing the Company and its assets and projects and three other members involved in corporate strategic direction.

Group Executives

In addition to Chief Executive Officer, Clement K.M. Kwok, Chief Operating Officer, Peter C. Borer and Chief Financial Officer, Alan Clark:

Christobelle Liao

Aged 46. Ms Liao is a qualified solicitor in Hong Kong and England & Wales. After a number of years in legal practice in corporate mergers and acquisitions, she joined the Group as Corporate Counsel in 2002 and was appointed as the Company Secretary in January 2003. She was appointed to the Group Management Board in 2011 and was promoted to Group Executive and retitled as Group Director, Corporate and Legal in 2013 while retaining the position of Company Secretary.

Martyn Sawyer

Aged 57. Mr Sawyer is responsible for the Group's non-hotel properties and operations including The Repulse Bay Complex and The Peak Complex in Hong Kong, as well as management of properties and clubs in Hong Kong, Vietnam, Thailand, France and the UK. He has been with the Group since 1985. He was appointed Group General Manager, Properties and Clubs in 1999, made a member of the Group Management Board in 2002 and was promoted to Group Executive and retitled as Group Director, Properties in 2013.

Other Members:

Rainy Chan

Aged 50. Ms Chan joined The Peninsula Hong Kong in 1994 and, after a series of internal promotions, was appointed General Manager of The Peninsula Bangkok from 2004 to 2007. In 2007 she was appointed General Manager of The Peninsula Hong Kong, in addition to which she was promoted to Area Vice-President – Hong Kong and Thailand in 2010. She was appointed to the Group Management Board in 2011 and was retitled as Regional Vice-President in 2013 and remains as General Manager, The Peninsula Hong Kong.

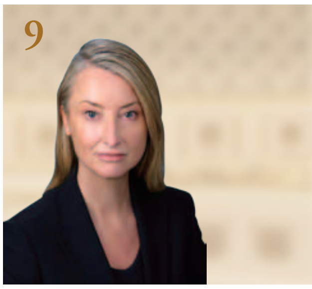
Maria Razumich-Zec

Aged 57. Mrs Razumich-Zec joined the Group as General Manager of The Peninsula Chicago in 2002 and was promoted to the position of Regional Vice-President – USA East Coast in 2007, with regional responsibilities covering The Peninsula Hotels in Chicago and New York, and Quail Lodge & Golf Club in Carmel, California. She was appointed to the Group Management Board in 2007 and was retitled as Regional Vice-President in 2013.

Sindy Tsui

Aged 46. Ms Tsui was appointed General Manager, Human Resources in 2007. With many years of experience in human resources management in the hospitality industry, she is responsible for the Group's strategy on human resources, talent development and training. She was appointed to the Group Management Board in 2011 and was retitled as Group Director, Human Resources in 2013.

Key Functions



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

1. *Nicolas Beliard,* General Manager, The Peninsula Paris
2. *Natalie Chan,* Director, Corporate Responsibility and Sustainability
3. *Ming Chen,* Director, Business Development
4. *Robert Cheng,* Vice President, Marketing, The Peninsula Hotels
5. *Joseph Chong,* General Manager & Managing Director, The Peninsula Shanghai Complex
6. *Vincent Chow,* Group Chief Engineer
7. *Jonathan Crook,* General Manager, The Peninsula New York
8. *Sarah Cruse,* General Manager, Quail Lodge & Golf Club
9. *Anne Geiermann,* General Manager, Design
10. *Sian Griffiths,* Director of Communications, The Peninsula Hotels
11. *Katja Henke,* General Manager, The Peninsula Bangkok
12. *Ingvar Herland,* Group General Manager, Research & Technology
13. *Jason Hui,* Director, Security and Operational Risk

14. *Shane Izaks,* Group General Manager, Information Technology

15. *Suan Beng Lee,* Group Treasurer

16. *Martin Lew,* General Manager, Operations Finance

17. *Douglas Lui,* Group General Manager, Audit & Risk Management

18. *Nadine Maurellet,* General Counsel

19. *Lynne Mulholland,* Director, Corporate Affairs

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

21. *Joseph Sampermans,* General Manager, The Peninsula Beijing

22. *Ernest Tang,* General Manager, Group Finance

23. *Paul Tchen,* Group General Manager, Operations

24. *Malcolm Thompson,* General Manager, The Peninsula Tokyo

25. *May Tsang,* General Manager, The Peak Complex

26. *Sonja Vodusek,* General Manager, The Peninsula Manila

27. *Andrew Whitaker,* General Manager, The Repulse Bay and Area General Manager, Peninsula Clubs and Consultancy Services

28. *P.T. Wong,* Group General Manager, Projects

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

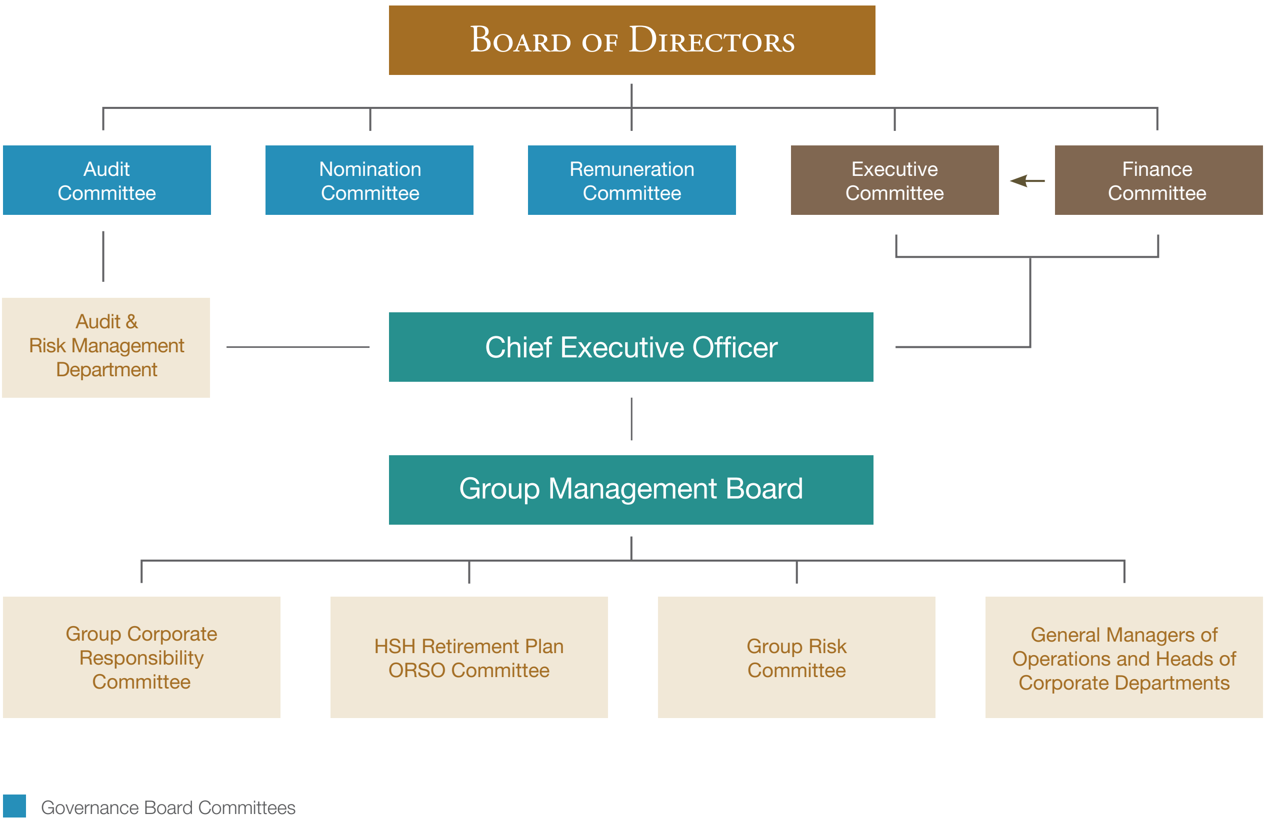
Corporate Governance Report

Our Board sets the governance culture based on integrity, transparency and accountability and ensures the same culture is reinforced throughout the Group.

Introduction to Corporate Governance Framework

Our Board of Directors is responsible to our shareholders and stakeholders for ensuring the success of the Company under a rigorous governance framework. This can only be achieved by having the right structure, supported by appropriate and well-managed processes. Our Board sets the governance culture based on integrity, transparency and accountability and ensures the same culture is reinforced throughout the Group. Good corporate governance throughout the organisation ensures that we can stand up to scrutiny and the changing regulatory environment, and in turn foster and maintain shareholders' and stakeholders' confidence in our Company.

Our corporate governance structure is shown below:



Corporate Governance Code Compliance

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules ("CG Code") is the standard against which we measure ourselves. Our Board recognises the principles underlying the CG Code, and the HSH Corporate Governance Code ("HSH Code") has applied all the principles of the CG Code.

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

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

In respect of **CG Code code provisions**, we have complied with all of the code provisions throughout 2014.

In respect of **CG Code recommended best practices**, we have complied with all of the recommended best practices throughout 2014, 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.

2014 Developments in Corporate Governance Practices

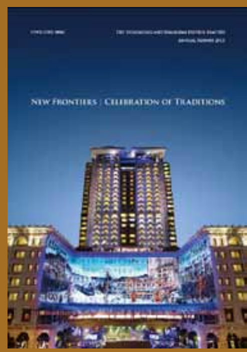
We review and seek improvements in our corporate governance practices on a regular basis. Highlights of our achievements during the year include:

- We implemented the action plan agreed by the Board from our first in-house Board evaluation in 2013, aimed at improving effectiveness
- We reviewed and updated our Company Management Authority Manual which is the backbone of our internal control system
- We reviewed the new Companies Ordinance and updated the constitution and other governance documents of the Company. Shareholders approved the changes to the Articles of Association of the Company to reflect the requirements of the new law at the Annual General Meeting in 2014
- Our Sustainability Report contained in the last Annual Report met Global Reporting Initiative G4 standard. We continue to review and measure our performance against the Environmental, Social and Governance Reporting Guide issued by the Stock Exchange, and duly reported in this Report on pages 258 to 265
- We continued with our two-year engagement plan to assist operations in understanding the Sustainable Luxury Vision 2020 and developing their local plans to deliver on the Vision
- Since February 2014, we have adopted a policy where impact on our Sustainable Luxury Vision 2020 and other environmental and social implications be taken into consideration in investment proposals
- We carried out a comprehensive review of our risk management structure and processes. Developments in the risk management system of the Group are set out in the Group Risk Committee Report on pages 170 to 175
- Data privacy training was conducted for the executive committee and selected customer-facing senior staff of our new operation, The Peninsula Paris, in December 2014 and data privacy practices reinforced at all Group's operations
- Further training on Inside Information Escalation Policy was conducted for selected managers at a Finance for Business Managers course

Transparent Reporting Wins Awards

HSH is committed to providing its shareholders and stakeholders with a transparent picture of our business performance and our Annual Report is an important part of our communications to fulfil this commitment.

In 2014, HSH won the Silver Award for Best Annual Reports Awards under General Category organised by The Hong Kong Management Association. In addition, we received the Platinum award of Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Disclosure Awards under Non-Hang Seng Index (Large Market Capitalisation) Category. The sustained external recognition reaffirms that our practices are meeting the expectations of our shareholders and stakeholders.



The Role of the Board

The names and biographical details of all Board members (including details of their relevant experience, and financial, business, family or other material or relevant relationships among them) are set out on pages 142 to 145. This information is also posted on the Company's website[1].

The Board's role is to provide leadership of the Company and direction for management. It is collectively responsible and accountable to the Company's shareholders and stakeholders for the long-term success of the Group. While the management is delegated to run the Group's day-to-day business (as more specifically described on page 163), the Board focuses on and reserves powers in the most significant matters of the Group, including:

- formulating long and short-term strategic directions of the Group, including development strategy, major investments, acquisitions and disposal of major assets;
- evaluating the Board's performance;
- approving financial statements, annual and interim reports, and making judgements that are appropriate in the preparation of the Company's disclosure statements;
- approving the Group's annual budgets and forecasts;
- approving significant changes in accounting policies;
- approving changes to the Company's capital structure;
- setting the dividend policy;
- authorising material borrowings and expenditure;
- approving the appointments of Directors for election and/or re-election in general meetings;
- reviewing and ensuring corporate governance functions are carried out in accordance with the CG Code, including determining the Group's corporate governance policies, and reviewing and monitoring the corporate governance practices of the Group; and
- overseeing and assessing the effectiveness of the risk management and internal control systems of the Group on an on-going basis through review of reports of Audit Committee and the Group Management Board.

With respect to the Directors' responsibility for preparing the Financial Statements for the year ended 31 December 2014, please refer to the Directors' Report set out on page 190.

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

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

There is a clear division of the responsibilities in the Company between the running of the Board, and the executives responsible for the running of the Company's business. The respective roles of the Chairman and the Chief Executive Officer and their division of responsibilities are established in our HSH Code.

1 *www.hshgroup.com/en/Corporate-Governance*

- **Non-Executive Chairman** – The Chairman leads the Board and is responsible for ensuring that both the Board and individual Directors perform their duties effectively and make active contributions to the Board's affairs. He fulfils this by facilitating and encouraging all Directors, in particular Independent Non-Executive Directors (each as "INED") and other Non-Executive Directors, to voice their views and concerns openly. He also ensures the formation of constructive relations between Executive and Non-Executive Directors so that the decisions made by the Board fairly reflect a consensus. The Chairman is in frequent contact with the Chief Executive Officer through various means including face-to-face meetings and telephone conversations on average at least once each week. During the year, the Chairman met with Non-Executive Directors without the presence of Executive Directors in order to review management performance. With the assistance of the Company Secretary, the Chairman also ensures that good corporate practices and procedures are established and implemented throughout the Group.

- **Chief Executive Officer** – The Chief Executive Officer leads the day-to-day management of the Group. He is responsible for effective implementation of the strategies and policies agreed by the Board, and leading the management to fulfil the objectives set by the Board. The Board has given the Chief Executive Officer broad authority to operate the business and he is accountable to and reports to the Board on the performances of the business. The Chief Executive Officer is supported by the Group Management Board, which provides the Board with high quality information and recommendations to enable informed decisions on all areas of Company strategy.

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

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

Our Non-Executive Directors scrutinise the Group's performance in achieving agreed corporate goals and objectives and monitor performance reporting. The role also serves to assure clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effectively in place. They constructively challenge management in all areas, which is vital to the objectivity of the Board's deliberation and decision-making, as well as determine appropriate levels of remuneration for Executive Directors and senior management. Mr Patrick B. Paul, an INED, chairs the Audit Committee and Remuneration Committee with active involvement of other Non-Executive Directors. These Committees, together with the Non-Executive Directors in the Executive Committee and Finance Committee, give the Board and Board Committees the benefit of their skills, expertise, and varied backgrounds and qualifications.

In addition to their roles of Non-Executive Directors, our INEDs bring to the Board outside knowledge of the businesses and markets in which the Company operates, providing informed insight and independent judgement on all types of issues and take a stance where potential conflicts of interest arise.

Independence weighting of HSH Board and Governance Board Committees

Board	5/14 members
Audit Committee	2/3 members (including chairman)
Nomination Committee	2/3 members
Remuneration Committee	2/3 members (including chairman)

The Role of Executive Directors

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

The Role of Company Secretary

Our Company Secretary is the Secretary of the Board and our Governance Board Committees' meetings including Audit Committee, Nomination Committee and Remuneration

Committee. The Company Secretary reports to the Chairman and the Chief Executive Officer on governance matters. She keeps the efficacy of the Company's and the Board's governance processes under review and also promotes improvements. She is responsible to the Board in respect of compliance with Board procedures. All our Directors have direct access to the advice and support of the Company Secretary on such matters.

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

Clear and Consistent Board Processes

The Board meets in person regularly to discharge its responsibilities. The dates of the 2014 Board meetings were determined and provided to the Directors in the fourth quarter of 2013. The Directors were notified of any changes to schedules at least 14 days prior to the pertinent meeting.

Prior to each Board meeting, as delegated by the Chairman, the Company Secretary draws up the agenda in consultation with the Directors and all Directors are invited to include items for such. Comprehensive Board papers are sent to all Directors seven days in advance of each Board meeting to allow sufficient time for review of discussion topics.

During the meetings and at regular intervals, all Directors are given, in a timely manner, adequate information which is accurate, clear, complete and reliable, in order for them to maintain effective control over the strategic, financial, operational, compliance, sustainability and corporate governance issues of the Company. All Directors are entitled to unrestricted access to independent professional advice and senior management, and the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and for advising the Board on all legal and corporate matters.

Board decisions are voted on at Board meetings. Matters to be decided at meetings are decided by a majority of votes from voting Directors, although the usual practice is that decisions reflect the unanimous consensus of the Board. The Company Secretary keeps detailed minutes of each meeting, and records all matters considered by the Board, the decisions reached and any concerns raised or dissenting views expressed by each Director. Draft and final versions of minutes are sent to all Directors in a timely manner for their comment and record.

All Directors are required to comply with their common law duty to act in the best interests of the Company and the interests of our shareholders and stakeholders. All Directors are also required to declare the nature and extent of their interests, if any, in any transaction, arrangement or other proposal to be considered by the Board in accordance with the HSH Code and the CG Code. In 2014, no potential conflict of interest was determined by the Board to be material.

Similar processes apply to our Board Committee meetings.

Board Committees

The Board has established five committees:

- Audit Committee
- Nomination Committee
- Remuneration Committee
- Executive Committee
- Finance Committee

The Audit, Nomination, and Remuneration Committees are Governance Board Committees under the CG Code. The Executive and Finance Committees are strategic and finance committees which are integral part of the management process. Only the attendance and reports on main activities from the Governance Board Committees are included in this section. However, each Committee reports its decisions and recommendations to the Board and seeks the Board's prior approval on specific reserved matters.

Board Committee Terms of References

Each Committee has its own terms of reference, which have been approved by the Board and are reviewed periodically to ensure that they comply with latest legal and regulatory requirements and reflect developments in best practices.

The full terms of reference of each Board Committee can be found on the Company's website[2] and also the Stock Exchange's website for the Governance Board Committees. A summary of the terms of reference of each Board Committee is set out on the next page.

2 *www.hshgroup.com/en/Corporate-Governance/Board-Committees*

Audit Committee

Main Responsibilities

- To oversee the Group's financial reporting and audit processes with management and the internal and external auditors
- To review the Group's internal controls and how risk is managed on an on-going basis, as further set out in the Risk Management section and the Group Risk Committee Report
- To review arrangements by which employees and stakeholders may, in confidence, raise concerns about possible improprieties in financial reporting and other matters
- To monitor and review the effectiveness of the Group's audit and risk management functions and review annual audit plan and reports
- To oversee the scope of work of external auditor including approving fees paid to such in respect of non-audit work

Members and Chairman

- At least three members with the majority being INEDs
- At least one member must have the appropriate qualifications or experience in financial reporting
- The Chairman of the Committee must be an INED

Regular Attendees by Invitation

- Chief Executive Officer
- Chief Financial Officer
- Company Secretary (as meeting secretary)
- Group General Manager, Audit & Risk Management
- External auditor of the Company

Quorum

Two members of the Committee

Number of Meetings Per Year

Four meetings a year and additionally as required

Committee Report

Set out on pages 176 and 177

Nomination Committee

Main Responsibilities

- To review the structure, size and composition of the Board
- To evaluate the balance and blend of skills, knowledge, experience and diversity of the Board
- To review the Board's Diversity Policy
- To maintain under review the leadership and succession needs of the Group
- To review and make recommendations to the Board on the appointment and re-appointment of all Directors
- To assess the independence of INEDs

Members and Chairman

- At least three members with the majority being INEDs
- The Chairman of the Committee must be the Chairman of the Board

Attending by Invitation

Company Secretary (as meeting secretary)

Quorum

Two members of the Committee, one of whom must be the Chairman of the Board

Number of Meetings Per Year

At least once a year and additionally as required

Committee Report

Set out on pages 178 and 179

Remuneration Committee

Main Responsibilities

- To approve the remuneration philosophy and policies of the Group and bonus schemes for senior staff
- To review and approve all remuneration packages for Executive Directors and senior management
- To review and recommend the fees of Non-Executive Directors to the Board and the fees for serving on Board Committees
- To ensure that no Director approves his or her own remuneration
- To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives

Members and Chairman

- At least three members with the majority being INEDs
- The Chairman of the Committee must be an INED

Regular Attendees by Invitation

- Chief Executive Officer
- Company Secretary (as meeting secretary)
- Group Director, Human Resources

Quorum

Two members of the Committee

Number of Meetings Per Year

At least twice a year and additionally as required

Committee Report

Set out on pages 180 to 183

Executive Committee

Main Responsibilities

- To develop and review strategic opportunities and significant investment proposals
- To evaluate the Group's competitive position and determining strategies to protect the brand, values and business principles of the Group
- To oversee the implementation of strategic plans and investment proposals
- To monitor the Group's financial and operational plans and forecasts, and deliver these plans and monitor performance
- To interact with Finance Committee and other relevant Board Committees on their submissions

Members and Chairman

- At least three members and consisting of Non-Executive Directors with the Chief Executive Officer
- Currently the Committee has four members:
  - The Hon. Sir Michael Kadoorie (Chairman, Non-Executive Chairman)
  - Mr Andrew Brandler (Member, Non-Executive Deputy Chairman)
  - Mr John A.H. Leigh (Member, Non-Executive Director)
  - Mr Clement K.M. Kwok (Member, Chief Executive Officer)

Regular Attendees by Invitation

- Relevant Non-Executive Directors
- Chief Operating Officer
- Chief Financial Officer
- General Manager of operations or Heads of corporate departments per relevance of the matters discussed

Quorum

Two members of the Committee

Number of Meetings Per Year

Bi-monthly and additionally as required

Finance Committee

Main Responsibilities

- To review all financial aspects and budgets of significant acquisitions, investments, assets disposals and new projects commitments of the Group
- To review and approve the establishment of the financial and annual operational plans, budgets, forecasts and any revisions of the Group
- To review the Group's financial performances
- To review the establishment of corporate capital and operating contingencies and approve requests for drawing on contingencies within the approved budgets
- To endorse issuance and allotment of shares and share repurchases
- To review and approve treasury policies
- To review and approve granting of guarantees and indemnities

Members and Chairman

- At least three members and consisting of Non-Executive Directors, the Chief Executive Officer and Chief Financial Officer
- Currently the Committee has four members:
  - Mr Andrew Brandler (Chairman, Non-Executive Deputy Chairman)
  - Mr John A.H. Leigh (Member, Non-Executive Director)
  - Mr Clement K.M. Kwok (Member, Chief Executive Officer)
  - Mr Alan Clark (Member, Chief Financial Officer)

Regular Attendees by Invitation

- Relevant Non-Executive Directors
- Company Secretary
- General Manager, Group Finance
- Group Treasurer
- General Manager of operations or Heads of corporate departments per relevance of the matters discussed

Quorum

Two members of the Committee, one of whom must be a Non-Executive Director

Number of Meetings Per Year

At least on a monthly basis and additionally as required

2014 Board and Committee Attendance

The attendance of Directors at the Annual General Meeting, Board and Governance Board Committee meetings in the year 2014 was as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Non-Executive Directors					
The Hon Sir Michael Kadoorie Non-Executive Chairman	○●●●●		●●		●
Mr Andrew Brandler (1) Non-Executive Deputy Chairman	●●●●	●●●		●●	●
Mr Ian D. Boyce (2) Non-Executive Deputy Chairman	●●	●		●	●
Mr Ronald J. McAulay	○●●●●				●
Mr William E. Mocatta	●●●●●				●
Mr John A.H. Leigh	●●●●●				●
Mr Nicholas T.J. Colfer	●●●●●				●
Independent Non-Executive Directors					
Dr the Hon. Sir David K.P. Li	●●●●●		●●		●
Mr Patrick B. Paul	●●●●●	●●●●		●●●	●
Mr Pierre R. Boppe	●●●●●				●
Dr William K.L. Fung	○○●●●	○○●●	○○		●
Dr Rosanna Y.M. Wong	●●●●●			○●●	●
Executive Directors					
Mr Clement K.M. Kwok Chief Executive Officer	●●●●●				●
Mr Peter C. Borer Chief Operating Officer	●●●●●				●
Mr Alan Clark (3) Chief Financial Officer	●●●●				●

Notes:

(1) Mr Andrew Brandler was elected as Director with effect from 12 May 2014.

(2) Mr Ian D. Boyce resigned as Director with effect from 12 May 2014.

(3) Mr Alan Clark was appointed as Director with effect from 30 March 2014.

2014 Board Meetings

Five regular Board meetings took place in 2014. Two of these meetings took place at our operations: The Peninsula Hong Kong and The Peninsula Manila respectively. In addition to the scheduled meetings, the Board has also dealt with certain matters by written resolutions.

The Board's reviewed and discussed reports on the Company's different businesses and financial performance. In addition, key activities of the Board during the year included:

Governance

- Reviewed and received reports from Audit Committee Chairman on audit, internal control and risk management issues
- Approved the 2015 budget and the 2013 Company's Annual Report and the 2014 Interim Report
- Reviewed, discussed and implemented the action plan concerning 2013 Board evaluation results
- Received updates on financial performance of the Group
- Approved the proposed changes to the Company Management Authority Manual and Articles of Association
- Reviewed all Connected Transactions

Strategy

- Reviewed and discussed business development priorities and parameters
- Approved the definitive conditional shareholders' agreement for the project in Yangon, Myanmar
- Reviewed the Company's investment in existing assets and approving renovation proposals for The Peninsula Chicago and 21 avenue Kléber
- Monitored the operating right renewal process of The Peak Tram
- Monitored the renovation of The Peninsula Beijing
- Monitored the development plans for the project in London
- Overall strategy review of potential investments and the short to medium term financial impact on the Group

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Board Discussion

Leadership and Employees

- Approved the appointments of Mr Alan Clark as Executive Director and Chief Financial Officer, and Mr Andrew Brandler as Non-Executive Deputy Chairman
- Reviewed and approved fees of Directors and of members of Board Committees
- Reviewed and received reports from the Chairman of the Remuneration Committee on salary adjustments and bonus proposals for all operations
- General Managers of operations and Heads of corporate departments were asked to attend Board meetings to keep Directors appraised of their roles and functions

Sustainability

- Reviewed the progress towards the delivery of Group's Sustainable Luxury Vision 2020
- Reviewed HSH's Employees Engagement Survey results
- Discussed succession contingency plans for the Company
- Reviewed the "Hope for the Philippines" Project in response to Typhoon Haiyan and the donation to construct The Peninsula – GK Village near Tacloban

Composition of the Board

As of the date of this Report, our Board comprises 14 members. Eleven of our 14 Directors are Non-Executives, among which five are INEDs, independent of management and representing 36% of the entire Board. The other six Non-Executive Directors are not involved in the day-to-day business of the Company, but are not considered independent due to their association with the substantial shareholders. During 2014, Mr Ian D. Boyce resigned with effect from the close of the annual general meeting held on 12 May 2014 and Mr Andrew Brandler was elected to the Board as Non-Executive Director at the same annual general meeting. In addition, Mr Alan Clark was appointed to the Board as Executive Director and Chief Financial Officer of the Company on 30 March 2014.

The Nomination Committee reviewed and the Board confirmed that the structure, size and composition of the Board as at end of 2014 remained appropriate for it to perform its responsibilities.

Boardroom Diversity

The Board believes that diversity is important for Board effectiveness. The Board adopted its diversity policy in March 2013, which can be found on the Company's website[3]. This philosophy does not end at the Board level but is carried out throughout the Group.

Gender Diversity of management as at the date of this Report is set out below:

	Number	Proportion
The Board	1 female 13 males	7% female 93% male
Senior Management*	4 females 4 males	50% female 50% male
Key Functions**	10 females 19 males	34% female 66% male

* 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.

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

Our Board Diversity Policy

The Company recognises and embraces the benefits of diversity in Board members. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of Directors. These differences will be taken into account in determining the optimum composition of the Board. All Board appointments will nevertheless be based on merit while taking into account diversity including gender diversity.

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

The Board has considered but decided not to set express diversity quotas or measurable objectives for implementing diversity. However, the Board will continue to consider appointments based on merits 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. Nomination Committee continues to look for a suitable person to fill the vacancy of the Company's INED following the resignation of Mr Robert Miller with effect from 1 January 2014.

Further information please refer to the Nomination Committee Report on pages 178 and 179.

Board Evaluation

In 2013, the Board carried out its first self-assessment to evaluate its own performance through the completion of a bespoke online qualitative questionnaire. Responses received anonymously were collated and discussed at the October 2013 meeting, during which an action plan was agreed and reported at the last Annual Report. The action points agreed by the Board included more regular meetings between Non-Executive Directors and management to discuss business strategy; a regular review of medium term strategy of the Company; regular reviews of medium term succession plan as well as facilitating more presentations by General Managers of operations and Heads of corporate departments at Board meetings to keep Board members appraised of presenter's roles and functions.

During 2014, the Board confirmed the Group's core strategy and reviewed the overall strategy in relation to potential investments and financial impact on the Group which would be done at regular intervals. Various changes were made to monthly reporting to Board members and on format of Board papers. The Board also discussed succession plans at the Board and operational level and this will continue to be regularly reviewed. Additional site visits, key management personnel luncheons with Directors and presentations at Board meetings also gave the Board better insight on roles and functions of General Managers of operations and Heads of corporate departments.

As directed by the Board, a self evaluation is conducted every two years and the next one will be done in 2015. Nevertheless, the Chairman met with Non-Executive Directors in October 2014 to review management performance and recommendations were communicated to management for implementation.

Director Induction, Familiarisation and Training

Induction

The Company provides a tailored induction programme for all Directors upon joining the Board. The programme provides a broad introduction to the Group's businesses to ensure new Directors develop a quick insight and understanding of the business. New Directors would meet with the Executive Directors and members of senior management on a one-on-one basis to discuss the Group's businesses, strategy and core function, and visits to the Group's major businesses in Hong Kong initially and overseas would be arranged. All corporate policies would also be explained and provided to new Directors by the Company Secretary. Both Mr Andrew Brandler and Mr Alan Clark who joined the Board in 2014 have completed a tailored induction.

Familiarisation and Training

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

The Board aims to hold one Board meeting per year at one of the Group's overseas assets and takes the opportunity to discuss business issues, risks and strategy with local management. The December 2014 Board Meeting was held at The Peninsula Manila. Board members met with local management to understand their business challenges and strategy for dealing with them. Such overseas site visits assist Non-Executive Directors in familiarising themselves with, and gaining a greater insight into, the Group's different businesses.

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

The training records of Directors and the Company Secretary for 2014 are as follows:

	Type of Training		
Directors	Reading materials[(a)]	Visiting and meeting with Operations[(b)]	Attending internal and external seminars or conferences[(c)]
Non-Executive Directors			
The Hon. Sir Michael Kadoorie Non-Executive Chairman	✓	✓	✓
Mr Andrew Brandler [(1)] Non-Executive Deputy Chairman	✓	✓	✓
Mr Ian D. Boyce [(2)] Non-Executive Deputy Chairman	✓	✓	✓
Mr Ronald J. McAulay	✓	✓	✓
Mr William E. Mocatta	✓	✓	✓
Mr John A.H. Leigh	✓	✓	✓
Mr Nicholas T.J. Colfer	✓	✓	✓
Independent Non-Executive Directors			
Dr the Hon. Sir David K.P. Li	✓	✓	✓
Mr Patrick B. Paul	✓	✓	✓
Mr Pierre R. Boppe	✓	✓	✓
Dr William K.L. Fung	✓		✓
Dr Rosanna Y.M. Wong	✓	✓	✓
Executive Directors			
Mr Clement K.M. Kwok Chief Executive Officer	✓	✓	✓
Mr Peter C. Borer Chief Operating Officer	✓	✓	✓
Mr Alan Clark [(3)] Chief Financial Officer	✓	✓	✓
Company Secretary			
Ms Christobelle Liao [(4)]	✓	✓	✓

Notes:

(1) Mr Andrew Brandler was elected as Director with effect from 12 May 2014.

(2) Mr Ian D. Boyce resigned as Director with effect from 12 May 2014.

(3) Mr Alan Clark was appointed as Director with effect from 30 March 2014.

(4) During 2014, Ms Christobelle Liao undertook over 15 hours of professional training.

(a) Reading materials covered new laws and regulations and Group's business related topics.

(b) Visiting operations included The Peak Complex and The Peninsula Manila. Mr Andrew Brandler and Mr Alan Clark visited most of the Group's Hong Kong and overseas properties for their induction programmes.

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

- Travel and Tourism development
- Corporate governance matters
- Risk management
- Sustainability development

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 2014. All Directors including Non-Executive Directors are subject to a term of re-election every three years. Details of the appointments to and resignations from the Board in 2014, and Directors who will retire and offer themselves for re-election in the 2015 Annual General Meeting are set out in the Directors' Report on page 186.

Time Commitment of Directors

The Board recognises that it is important that all Directors should be able to dedicate sufficient time to the Company to discharge their responsibilities. Our letters of appointment for Non-Executive Directors and INEDs, as well as service contracts for Executive Directors, contain guidelines on expected time commitments required for the affairs of the Company. 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 2014.

Independence of INEDs

The independence of the Non-Executive Directors is relevant to Board balance. The Company has received annual written confirmations of independence from each of its five INEDs who served in 2014. The Nomination Committee and the Board considered that all INEDs 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 possesses a mind-set that is independent 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.

Directors' Dealings with Company Securities

All Directors conduct their dealings in the securities of the Company in accordance with 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 2014. Details of the shareholding interests held by the Directors of the Company as at 31 December 2014 are set out on page 187.

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 147 and 187.

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; and
- whether he or she (other than an INED) or any of his or her close associates has an interest in any business which competes with the Company.

In 2014, all Directors have fulfilled these disclosure requirements.

Group Management

The day-to-day management of the Group's business is the responsibility of the Chief Executive Officer. In discharging his responsibilities, the Chief Executive Officer is assisted by the Group Management Board ("GMB") comprising senior management covering major operations and functions. The GMB is in turn supported by three sub-committees, and the General Managers and Heads of operations and functional departments. Each of the GMB and its sub-committees, has its own terms of reference or charter that set out its authorities and responsibilities.

Group Management Board

Chairman and Members

- Chairman: Mr Clement K.M. Kwok, Chief Executive Officer
- Members: Executive Directors: Mr Peter C. Borer, Chief Operating Officer; Mr Alan Clark, Chief Financial Officer

Group Executives: Ms Christobelle Liao, Group Director, Corporate and Legal; Mr Martyn Sawyer, Group Director, Properties

Other Members: Ms Rainy Chan, Regional Vice-President and General Manager of The Peninsula Hong Kong
Mrs Maria Razumich-Zec, Regional Vice-President and General Manager of The Peninsula Chicago
Ms Sindy Tsui, Group Director, Human Resources

Main Responsibilities

The GMB is the principal management decision-making body on all day-to-day business of the Group and operates under clear guidelines and delegated authorities approved by the Board. It is responsible for making recommendations to the Board and Board Committees on strategic and operating matters and making recommendations on matters reserved for the Board. Its main responsibilities are as follows:

- To review and monitor day-to-day operations and business affairs of the Group
- To conduct business development
- To formulate strategic objectives and action plans covering corporate and financial structure, strategic investment plans, major investments and divestments, operational efficiency, marketing and branding, human resources, corporate sustainability, and risk mitigation

The GMB has three sub-committees consisting of the Group Corporate Responsibility Committee, the HSH Retirement Plan ORSO (Occupational Retirement Schemes Ordinance) Committee and the Group Risk Committee which oversee areas related to sustainability, the operation of the HSH Retirement Plan and the Group's risks respectively.

Group Corporate Responsibility Committee

Chairman and Members

- Chairman: Mr Clement K.M. Kwok, Chief Executive Officer
- Members: Director, Corporate Responsibility and Sustainability, and selected members of senior management, General Managers of operations and Heads of corporate departments covering engineering, projects, operational risks and safety, operations planning and support, human resources, legal and corporate affairs functions

Main Responsibilities

- To propose and recommend policies, practices and measurements relating to the environment, labour practices, supply chain practices, social/community responsibility and ethical matters
- To monitor and report to GMB on the effectiveness of the corporate responsibility policies and practices and seek improvements for them
- To review and recommend annual plans with respect to the community, such as charitable and environmental donations and sponsorships

HSH Retirement Plan ORSO Committee

Chairman and Members

- Chairman: Mr Alan Clark, Chief Financial Officer
- Members: Selected members of senior management, Heads of corporate departments and selected representatives from operations

Main Responsibilities

- To regularly review and monitor performances of the funds in which the HSH Retirement Plan has made investments
- To review and approve audited accounts of the HSH Retirement Plan
- To discuss and approve matters in relation to the operation and administration of the HSH Retirement Plan

Group Risk Committee

Chairman and Members

- Chairman: Mr Alan Clark, Chief Financial Officer
- Members: Group General Manager, Audit and Risk Management, and selected members of senior management and corporate Group General Managers

Main Responsibilities

- To coordinate with operations to ensure that each of them address the risks identified, and track progress of mitigating plans and activities of key business risks and report on examinations of specific risks as required
- To develop governing policy, procedures and instructions to the purpose, application, and completion for the Group Risk Register
- To regularly review, assess and update Group risks and related contingency plans to GMB for further review by Audit Committee then the Board

Our Shareholders

HSH had 1,817 registered shareholders as at 31 December 2014. 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	390	21.464	69,761	0.004
501-1,000	188	10.347	149,332	0.010
1,001-10,000	691	38.030	2,910,917	0.192
10,001-100,000	422	23.225	13,592,686	0.896
100,001-500,000	92	5.063	19,770,341	1.303
Above 500,000	34	1.871	1,480,674,559	97.595
Total	**1,817**	**100.000**	**1,517,167,596**	**100.000**

Note: as at 31 December 2014, 36.99% of all HSH total number of shares in issue were held through CCASS.

The Kadoorie Family (including interests associated with the Family but excluding interests held by charities associated with the Family) has a combined shareholding of 58.25% as disclosed in "Interests of Directors" and "Interests of Substantial Shareholders" in Directors' Report on pages 187 and 188. The remaining HSH shares are mainly held by institutional and private investors, with a considerable number of those investors being Hong Kong residents.

From publicly available information and within the knowledge of the Directors, HSH has maintained sufficient public float of its share capital in the Hong Kong Stock Market throughout the financial year ended 31 December 2014 and has continued to maintain such a float as at 20 March 2015.

Engaging our Shareholders[4]

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

We encourage our shareholders to participate in our Annual General Meeting ("AGM") and directly communicate with our Directors. In 2014 we took a proactive approach to investor relations. In August, we conducted non-deal roadshows in Hong Kong and Singapore with the objective of engaging potential and existing investors. Throughout the year, our Executive Directors and investor relations team also held meetings with institutional shareholders, financial analysts and potential investors.

We also post webcasts of the meetings announcing the latest financial results on the Company's website[5], along with the presentation materials from such meetings, specifically the Annual Report and the Interim Report. Financial statistics, corporate governance practices and the latest investor information is available on the HSH corporate website. Our Shareholder Communication Policy (posted on the Company's website[6]) has specified the various communication channels which our shareholders and stakeholders have access to.

For additional information, shareholders and investors can email enquiries to us at ir@hshgroup.com.

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.

4 GRI G4 Material Disclosure: G4-26

5 www.hshgroup.com/en/Investor-Relations

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

Our Company 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.

2014 Annual General Meeting

The 2014 AGM was held on 12 May 2014 at The Peninsula Hong Kong. There were 337 attendees in total, of which 159 were registered shareholders and 178 attended by proxies or through corporate representatives.

Prior to the meeting, a circular containing the notice of the AGM was distributed to all shareholders more than 20 clear business days prior to the AGM, setting out details of each proposed resolution and other relevant information. All Directors, including the Chairmen of the Audit and Remuneration Committees, were present at the 2014 AGM.

KPMG, the Company's external auditor, was also present to answer questions from any shareholder relating to its audit of the Company's Financial Statements.

Procedures for conducting a poll were explained by the Chairman at the beginning of the AGM and Computershare Hong Kong Investor Services Limited, the Company's Share Registrar, was appointed as scrutineer for voting by poll to ensure the voting was properly counted. Results were posted on both the Company's 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 2014 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 2013	100%
Payment of final dividend of 10HK Cents per share for the year ended 31 December 2013	99.99%
Re-election of five retiring Directors: Mr Clement K.M. Kwok, Mr William E. Mocatta, Mr Pierre R. Boppe, Dr William K.L. Fung and Mr Alan Clark as Directors of the Company and election of a new Director: Mr Andrew Brandler as Director of the Company	Ranging from 94.66% 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	70.84%
Granting of the general mandate to Directors to repurchase the Company's shares	100%
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	81.81%
Determination of the ordinary remuneration of Non-Executive Directors and Independent Non-Executive Directors	99.99%
Deletion of the provisions of the former Memorandum of Association and amendment to the Articles of Association of the Company[8]	95.45%

7 *www.hshgroup.com/en/Corporate-Governance/Shareholders-Rights*

8 *Details of the deletion of the provisions of the former Memorandum of Association and Amendments to the Articles of Association in response to the new Companies Ordinance were disclosed in the 2014 AGM circular to our shareholders.*

Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 271.

The Company's share price information is disclosed on page 55.

Engaging our Stakeholders[9]

We acknowledge that our businesses have environmental and social impact. We believe that good governance also involves listening to our stakeholders, from employees, customers, lenders, shareholders and investors, non-governmental organisations and others. This Annual Report, including our Sustainability Review, explains our approach to discharging our responsibilities on such impact.

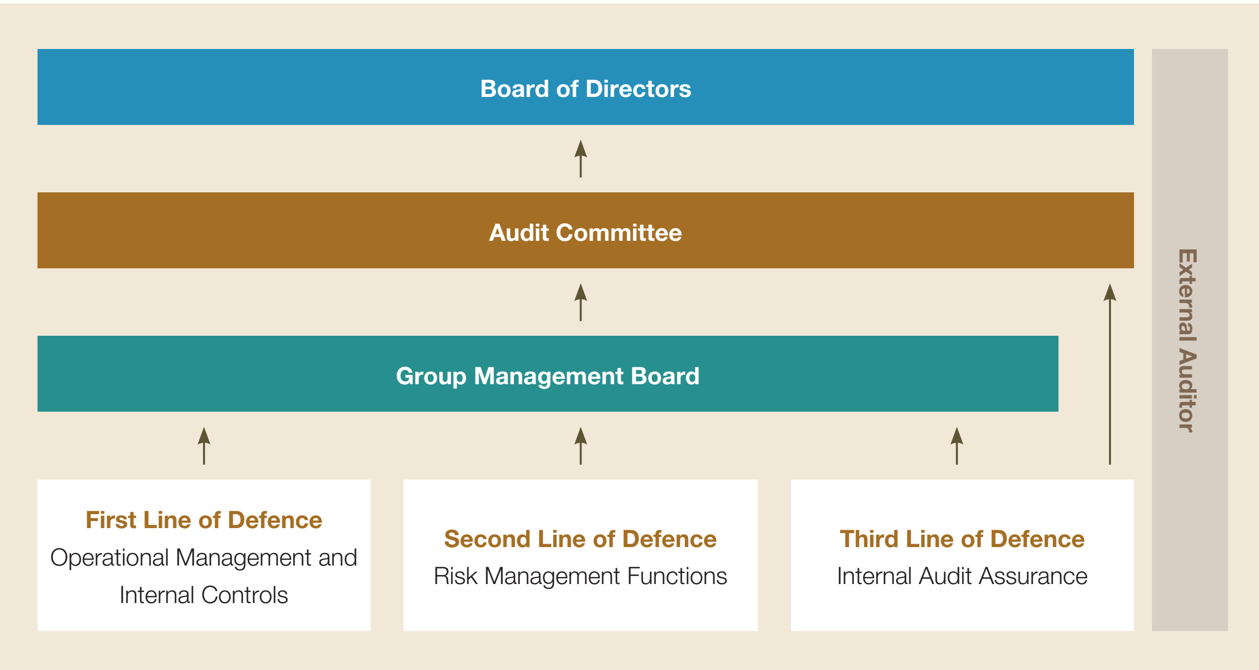
We encourage our stakeholders to give us feedback on our approach. Comments and enquiries can be sent to our email address at cr@hshgroup.com.

Risk Management

Risks are inherent in every business and the challenge is in identifying and managing them so that they are mitigated, transferred, avoided or understood. The Board acknowledges that it is ultimately responsible for establishing and maintaining appropriate risk management and internal control systems for the business of the Group and to assess their effectiveness on a regular basis. To achieve this, the Board ensures that there is an appropriate framework of ongoing risk management process in identifying, evaluating and managing significant risks faced by the Group to promote the long-term success of the Company.

Three Lines of Defence

Our risk management structure, although not specifically designed as such, through years of development and improvements, meets with a best practice model known as the "Three Lines of Defence Model". Our operational management and internal controls are the first line of defence, the various risk control practices and oversight functions by our Group Risk Committee is the second line of defence and internal audit being the third.



9 GRI G4 Material Disclosure: G4-26

Our risk management framework and its processes are regularly reviewed and in 2014, we have completed a review with various recommendations to make it an even more structured process has been endorsed by the Audit Committee and approved by the Board.

It should, however, be noted that risks cannot be completely eliminated and that systems can only provide reasonable, but not absolute, outcomes. The systems can never protect against such factors as unforeseeable events, fraud, and errors of judgement.

First line of defence: Operational Management and Internal Controls

The first line of defence consists of our Group's internal control system which includes: (i) Group policies which are shared with our employees through intranet, (ii) operational policies, procedures and practices covering a range of areas including the authorisation and approval of transactions, (iii) the application of financial reporting standards, and (iv) the review of financial performance and significant judgements.

At the Group level, our **Company Management Authority Manual** ("CMAM") covers all Group operations and forms the backbone of all authority limits set by the Board for the Board Committees, management and operations. The CMAM creates clear stewardship responsibilities, authorities and accountability. In 2014, we carried out an overall review and updated some limits under the CMAM. The **HSH Code of Conduct and Equal Opportunities** governs behaviour of our employees.

Built into the system of operational management controls are additional group internal control policies and procedures covering every business within the Group. These policies, manuals and guidelines are reviewed from time to time and updated where necessary. General Managers and Directors of Finance or Financial Controllers of all operations have a personal obligation to confirm compliance of internal control systems and procedures at operational level. They are required to submit **General Representative Letters** every six months to the Chief Executive Officer and the Chief Financial Officer. All representation letters and qualifications are summarised and submitted to the Finance Committee and Audit Committee for review.

In relation to financial management and internal reporting, this function is headed up by the Operations Finance Department, which co-ordinates all operating financial reports across the Group, ensuring the accuracy, consistency, validity and the integrity of financial reporting internally. This Department reviews and, where necessary, challenges the financial operating results with a view to finding ways to improve efficiency and profitability. It also initiates or approves changes to operational accounting practices or the monitoring and reporting systems. Guidance and support is provided when needed for operational Directors of Finance and Financial Controllers. The General Manager, Operations Finance reports to the Chief Financial Officer, and supports the Chief Operating Officer in the performance of his duties.

We recognise that even with a robust internal control system, there may be behavioural issues. Our **Whistleblowing Policy** is in place to facilitate employees and other stakeholders reporting on any suspected misconduct or malpractice within the Group in confidence and without fear of reprisal or victimisation. The policy is posted on the Company's website[10]. In 2014, 9 incidents were reported through the dedicated and secure whistleblowing email account. All incidents were promptly followed up by Audit & Risk Management in accordance with the policy. Investigation results were communicated to the Executive Directors and Audit Committee with approved recommendations implemented by the responsible parties.

10 *www.hshgroup.com/en/Corporate-Governance/Whistleblowing-Policy*

An **Inside Information Escalation Policy** is in place to ensure potential inside information being captured and confidentiality of such information being maintained until consistent and timely disclose are made.

Our **Inside Information Escalation Policy** regulates the handling and dissemination of inside information of the Company, which is a critical internal control component of a listed company in Hong Kong.

The policy includes:

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

Training has been provided to GMB, and interactive discussion conducted with key members of financial and operational management of all operations since the policy was adopted. Further training was conducted in 2014 to non-financial managers at a Finance for Business Managers course.

Second line of defence: Risk Management Functions

The second line of defence comprises the Group's various risk control practices with the oversight by the **Group Risk Committee** ("GRC"). Our GRC uses the **Group Risk Register**, a single centralised enterprise risk management system to support the Group's risk management process and to assist operations in capturing and reporting on key risks which impact the Group with detailed action plan on each risk. The Group Risk Register is the result of a top down risk assessment from the corporate level as complemented by a bottom up approach of separate risk registers at each operation, which are recalibrated based on magnitude. The Register identifies the major challenges faced by the Group allowing the Board and management to make informed decisions.

The Group Risk Register assesses risks in five categories: strategic, financial, operational, compliance and external. It also contains data on 25 risk types across all operations of the Group. Within each category, the principal risks facing the Group that could have a material effect are identified and each risk is regularly evaluated based on its potential financial impact and likelihood of occurrence. For all key risks, existing controls are identified and assessed as well as the ability, benefit and cost to improve them.

Each business or operation has to submit updates to their respective risk registers on a semi-annual basis to Audit & Risk Management for the compilation of the Group Risk Management Report. Following a review of our risk management process in 2014, we have adopted a new process of a semi-annual risk review by the GRC which would endorse the Group Risk Management Report for review by the Group Management Board, the Audit Committee and ultimately the Board to tie in with our financial reporting requirements. This allows the Audit Committee and the Board a better overview of the Group's major business risks and how management has sought to monitor and mitigate them.

Detailed disclosure on the principal risks and emerging risks of the Group are set out on pages 172 to 175.

In order to supplement the Group Risk Register and to capture risks and identify risk trends on a real time basis, the GRC monitors operational risk through our **Incident Reporting Policy**. Our Group-wide Incident Reporting Policy is a tool to allow systematic, timely and informative reporting of all incidents of the Group of a wide range of nature, in the form of a uniform protocol. The handling of the incidents and follow up actions are monitored by GRC. In addition, annual statutory compliance checks are required to be conducted by operations and businesses and confirmations provided to Group Legal. Operations are also required to check and provide confirmation on statutory or best practices compliance to Group Legal.

Third line of defence: Internal Audit Assurance

The Group's internal audit function is performed by **Audit & Risk Management** ("ARM"), which plays an important part in the assessment of the effectiveness of our risk management and internal control system of the Group and reports to Audit Committee on a regular basis. The internal audit is a Group-wide function under the leadership of the Group General Manager, ARM who leads a team of six qualified professionals. The Group General Manager, ARM has a reporting line to the Chief Executive Officer and has direct access to the Chairman of the Audit Committee. Internal audit reports on control effectiveness are submitted to the Audit Committee in line with the agreed audit plan. The Committee approves the annual audit plan and receives reports produced by ARM throughout the year.

ARM conducts internal audit reviews of material controls and of compliance with policies and procedures at both operational and corporate levels. In particular, attention is paid to adherence to the principle of applying adequate checks and balances in the approval processes. Plans and tools for corrective action and control improvement are identified with operations management to address any issues, non-compliance or deficiencies identified. ARM follows up the implementation of its recommendations and reports the statistics and outcome to the Audit Committee. During 2014, ARM conducted 10 internal audit exercises throughout the entire Group.

External Auditor, Audit Committee and Board

The **external auditor** of the Group further supplements the risk management process by providing independent challenge to the levels of assurance given by the different businesses and operations as well as the internal auditor particularly on any material financial and control issues identified in the course of its audit work. The external auditor would report on any control weakness to the Audit Committee.

The **Audit Committee** receives and considers regular reports and presentations from management, finance functions in respect of reporting standards, and internal and external auditors. Any significant issues are highlighted and discussed. Following a review in 2014, from 2015 onwards, we have split the regular risk management reports into separate internal audit and control reports and Group Risk Management Reports for more focused discussions. The internal audit reports are submitted four times a year, and the Group Risk Management Reports are reviewed on a semi-annual basis to tie in with financial reporting requirements of the Company. These reports allow the Audit Committee to assess the effectiveness of the risk management and internal control systems. The Audit Committee considers the impact of any weaknesses, whether necessary actions are being taken promptly, and whether more extensive monitoring is needed. Amongst other matters, the Audit Committee reviews the performance of both internal and external auditors. The Audit Committee also considers observations by the external auditor in relation to internal financial functions.

The **Board** has confirmed that throughout 2014, no material areas of concern which might affect the operational, financial reporting and compliance functions of the Company were identified and that the existing risk management and internal control systems remain effective and adequate.

By Order of the Board

Christobelle Liao
Company Secretary
20 March 2015

Group Risk Committee Report

In 2014, the main focus of the year was an overall review of our existing risk management structure and processes.

Role and Composition

I was appointed as Chairman of the Group Risk Committee when I joined the Company as its Chief Financial Officer in March 2014. The Group Risk Committee ("GRC") is a sub-committee of the Group Management Board, formed to enhance our focus on existing and potential risks of the Group. This report provides an overview of what the Committee has done during the year.

Chairman: Mr Alan Clark (Chief Financial Officer)

Members: Group General Manager, Audit and Risk Management

Selected members of senior management and corporate Group General Manager

In 2014, the GRC met four times to provide oversight of principal business risks to which the Group is subject. The GRC also issued two updates to the Group Management Board ("GMB") in 2014 on key risks, incidents and mitigating actions, and overall plans, trends and analyses, and shared updates with responsible management.

Group Risk Committee Charter

The GRC developed and adopted the Group Risk Committee Charter ("Charter") as its governing instrument. This document outlines the membership, meeting format and frequency, responsibilities for risk oversight and reporting, implementation of the Group Risk Register ("Register"), and the reporting line that applies to the Committee.

The main responsibilities of the GRC under the Charter include:

- Evaluating the Group's principal risks through review and challenge, where necessary, of information received
- Monitoring exposure to risk types in a sufficiently accurate and timely manner, and the available mitigating actions
- Evaluating the risk profile of the Group, and subsequently recommending to the GMB an appropriate level of risk for the Group
- Developing and updating risk management procedures including overseeing and advising GMB on the embedding and maintenance of a supportive risk management culture throughout the Group, to ensure effective delegation of risk management responsibilities, identification of key risks, implementation of action plans and remedy of incidents
- Coordinating and compiling the Register with on-going maintenance, and preparing summaries of top tier risks and related contingency plans to Audit Committee and the Board
- Implementing the Register including establishing clear roles and responsibilities for risk oversight, risk reporting and escalation, risk ownership, and communicating across the Group
- Approving policies, procedures and instructions relating to the Register

Main Activities in 2014

In 2014, the main focus of the year was an overall review of our existing risk management structure and processes. We introduced certain initiatives to enhance our system. Such initiatives included establishing a clear risk management process as described under the "Risk Management Functions – second line of defence" on page 168.

To enhance the usefulness and relevance of operational risk registers, a formalised and coordinated procedure for semi-annual updating and reporting was adopted in 2014 for implementation since January 2015. The meeting schedule of the GRC was also revamped, with two of the four regular meetings dedicated to discussing emerging and risk mitigation issues, while the remaining two regular meetings to focus on discussion of semi-annual Group Risk Management Reports.

We also continued to monitor all incidents reported through the Incident Reporting Policy as described in Risk Management Functions on page 168 and the actions taken and best practices shared. There was no incident of a material nature in 2014 which needed to be brought to the attention of the shareholders.

Other various activities of the GRC in 2014 include:

- Reviewed Group Risk Management Reports prepared by ARM including the Group's Risk Profile Report, for submission to GMB, then Audit Committee and the Board for approval
- Nine new local operations risk registers were successfully established and in active use, including The Peninsula Paris which opened in August 2014. By end of 2014, a total of 21 local risk registers has been put in place
- Since early 2014, the Company commenced the implementation of a single central enterprise risk management system to automate the Group's risk management process and to assist operations in capturing, managing and reporting key risks and incidents. The online incidents management module was deployed in December 2014 across all Hong Kong operations of the Group, while the risk register module is expected to be launched in 2015
- In response to the civil protests in Hong Kong, a comprehensive response protocol was successfully prepared and utilised in response to the crisis at corporate office and for Hong Kong operations
- Reviewed Ebola virus threat risk assessment. Group-wide response directives released by corporate office
- Reviewed the progress of follow-up actions on recommendations in integrated property, safety and security risk reports of external third party specialists on all Asian operations
- Engaged external third party specialists to conduct integrated property, safety and security risk reviews of our US operations in New York, Chicago and at Monterey Peninsula, California
- Reviewed security procedures for protecting the Group information technology infrastructure
- Reviewed alternative insurance strategies including feasibility of captive insurance vehicles

Principal Risks

A summary of the Group's principal risks is presented below. This summary is compiled through aggregation, filtering and prioritisation of the risks from a Group's perspective, taking into account each of the Group's operation's detailed risk registers. The process for compiling the principal risks faced by each operation includes multiple interviews and validations with risk owners of the operation concerned. In addition, in 2014, all members of senior management were interviewed to review the principal risks profile of the Group.

The risk review process provides an opportunity to highlight emerging risks and/or include new risks to the risk registers. The risk registers also track movements of risks and their specific ratings across the Group, contributing to ensuring their proactive management.

Principal Risks	Key Controls and Mitigating Factors
Acquisitions, Investments and Developments[(1)]	
Acquisitions, investments and developments of properties carry inherent risks. These are often pursued in partnership with third parties. Risks related to meeting budgets, incurring debt, missing targets, partnership relationships and competition for resources will need to be managed. Challenges may arise in relation to obtaining planning or other consents and compliance with different jurisdictions' design and construction standards	• Engagement with experienced and reputable local partners, and familiarisation with local authorities • Adequate due diligence to be conducted for each project • Developing complete and detailed integration plans and business strategies • Continuous monitoring and review of all aspects of developments, planning and construction progress • Involvement of Legal and Audit & Risk Management Departments to monitor legal, regulatory and internal policy compliance of our projects and developments assisted by external professionals
Brand and Reputation[(1)]	
Failure to protect the Group's brand and reputation from significant adverse publicity in media, social media or elsewhere could result in a loss of confidence in our brand, a decline in guest, tenant and/or customer base, and affect our business and our ability to recruit and retain good people	• Care in staff recruitment and training to bring forth the level of service that is befitting of our brand • Our Code of Conduct and behavioural standards regulate staff conduct • Supplier Code of Conduct implemented to mitigate risks relating to labour standards and product integrity • Clear guidelines on incident communication and crisis management process by Crisis Management team • Implementation of Group-wide social media usage guidelines
Competition[(1)]	
Increased competition, cyclical over-supply of luxury hotels in some markets could also harm our business	• Continuously monitor and analyse competitive and market information in order to anticipate unfavourable changes • Brand and communication initiatives to drive revenue growth and strengthen our brand's market position • Reinvestments into our properties to ensure competitiveness

Principal Risks	Key Controls and Mitigating Factors
Business Portfolio/ Concentration[1]	
A significant portion of our Group revenues is derived from our operations in Hong Kong. Unfavourable events in the city could disrupt our overall business, lower our revenues, and impact the valuation of our assets	• Focus on increase of overseas revenue, including entering new markets • Continuous monitoring of the operating and political environment of Hong Kong to anticipate issues for possible adjustment of any business activities promptly
Disaster Events[2]	
A major disaster event, such as an incident, "Act of God," natural disaster, terrorist activity, war or contagious diseases such as Avian Flu, SARS and Ebola could impact on our assets, business levels, level of travel activity, and therefore our ability to conduct business, and reduce earnings	• Comprehensive insurance coverage for properties and businesses • Multiple risk inspections by external risk consultant on selected properties focusing on insurable risks • Crisis Response Plan rolled out across all operations to ensure business continuity
Macroeconomic and Political[2]	
Changes and volatility in general economic conditions, including the severity and duration of any downturn in the USA, Europe or global economy and financial markets, decreased corporate budgets and spending could impact our business Political instability and uncertainties, including actions or interventions impacting hospitality and travel related activities, could impact travel patterns and guest spend	• Focus on spreading business area, including entering new markets • 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 • Crisis Response Plan rolled out across all operations to ensure business continuity
Data Privacy[3]	
Given our wide guest base and global operations, we are regulated by privacy laws and regulations of many jurisdictions, compliance with which could increase our operating costs and impact our direct marketing abilities. Breaches could result in fines and lawsuits and may adversely affect our brand and business *Data Privacy & Security has also been identified as a material sustainability issue of relatively high concern by external and internal stakeholders of the Company, as reported in our Sustainability Materiality Matrix (please refer to page 60 for further detail)*	• Implementation of Group-wide data privacy manual and training (classroom and online formats) • Implementation of a process for escalation and management of data breaches • Investment in information technology infrastructure, application and staff training to protect personal data • Management of risks via e-Commerce functions at operational level

Principal Risks	Key Controls and Mitigating Factors
Retail and Commercial Tenants(4)	
Commercial letting may become difficult due to factors such as decline in spend within the luxury industry, increased competition, or shifts of retail preferences leading to decrease in our arcade traffic	• Improvements in design of commercial space to allow flexible usage and conversion possibilities to accommodate tenants • Commitment to maintain high quality properties • Active engagement with current and potential tenants • Diversification and maintenance of an appropriate mix of tenants
Property/Capital Funding(4)	
Failure to ensure the availability of funds to meet our capital expenditure requirements to develop, maintain and renovate our properties could limit our ability to remain competitive	• On-going regular reviews of hardware standards • Continuous monitoring of furniture, fixture and equipment budget and spend by operations • Regular cash and treasury management and monitoring of allocation of funds and resources
Health and Safety(4)	
Failure to timely address health and safety issues or comply with laws and regulations that regulate our operations, merchandise and the properties we own and manage could expose us to costs and liabilities and result in damaged trust in our business *Food Safety & Hygiene, and Health & Safety of Employees and Guests have been identified as material sustainability issues of high concern by external and internal stakeholders of the Company, as reported in our Sustainability Materiality Matrix (please refer to page 60 for further detail)*	• Risks reviewed by management during monthly Safety Meetings and action plans are developed to address any areas of concern; measures deployed to prevent recurrence • Certification of the health and safety of our premises against relevant standards where possible and hiring or training staff with/for certification on health and safety • Policies and procedures on handling food, waste, and any hazardous materials • Supplier Code of Conduct to mitigate risks relating to product integrity • Continued improvements in Occupational Safety and Health programs
Labour and Material Cost(4)	
Rising labour and material costs while we operate in a highly competitive environment will continue to be a major challenge for our business. Failure to manage our costs, such as payroll and benefits, new taxes and social insurance charges, could adversely affect our business	• Close monitoring and management of operating costs, including payroll costs, new taxes and social insurance charges • Strategies to enhance our bargaining power with markets and suppliers • Professionals engaged to advise on labour related costs and liabilities

Principal Risks	Key Controls and Mitigating Factors
Security and Information Technology[4]	
Our reputation and financial performance may be adversely affected if we fail to maintain appropriate security measures, including security over our information systems, to protect our guests, visitors and employees. The threat of terrorism, criminal acts, and fire incidents continue to be a significant concern for the hospitality industry	• Dedicated Security & Operational Risk teams work with local management to ensure there is adequate level of security in our operations • Detailed threat and vulnerability assessments and tests are carried out at selected sites • Crisis Response Plan rolled out across all operations to ensure business continuity • Technical robustness of our information systems regularly reviewed by Information Technology Department, including engaging third parties to conduct independent tests

Notes:

Risk Category

(1) Strategic risks – risks relating to the Group's business model and strategy

(2) External risks – risks relating to external factors such as the economy, political developments and disaster events

(3) Compliance risks – relating to legal, regulatory and stakeholders considerations

(4) Operational risks – relating to operations, our properties, people and processes

Emerging Risks

In addition to addressing the principal risk categories faced by the Group, GRC also reviewed specific emerging risks. These emerging risks are normally results of changes in the economic, political, legal or technical environment, which may or may not be within an existing principal risk category. GRC recognises that the potential impact of such emerging risks may be significant and would monitor the potential impact to the Group, along with mitigating action plans.

In 2015, the GRC's main focus will be to ensure the smooth implementation and continued refinement of the improved Group-wide risk management process. We will also continue to monitor the status and progress of the action plan against each risk.

On behalf of Group Risk Committee

Alan Clark
Chairman of the Group Risk Committee
20 March 2015

Audit Committee Report

The Audit Committee considers the overall financial and operating controls for the Group during 2014 to be effective, sound and sufficient.

Role and Composition

The Audit Committee's primary responsibility is in reviewing financial reporting, internal controls, risk management, and internal and external audit. The Audit Committee met four times in 2014, with senior management, the external auditor and the Head of Audit & Risk Management ("ARM") in attendance by invitation. I have set out below a summary of the main activities of the Committee in 2014.

Chairman: Mr Patrick B. Paul (INED), a Fellow of the Institute of Chartered Accountants in England and Wales

Members: Dr William K.L. Fung (INED)

Mr Andrew Brandler (Non-Executive Director)

Secretary: Company Secretary

Main Activities in 2014

During the year in addition to the usual business set out below, the Audit Committee reviewed the function of the Company's Tax Department and the Group's tax structures for the different businesses. We also adopted guidelines on engagement of the external auditor for non-audit work.

- reviewed and endorsed the Annual Report for the year ended 31 December 2013 and the annual results announcement, and the Interim Report for the six months ended 30 June 2014 and the interim results announcement;
- considered audit plans and reports from the external auditor on its audit and its review of the financial statements including accounting policies and areas of judgement and its comments on control matters;
- reviewed and approved external auditor's audit and non-audit fees for 2013 as described below, assessed the performance of the external auditor and endorsed the reappointment of KPMG as the Company's independent auditor for 2014;
- considered summaries of general representation letters from business operations and approved the representation letter from external auditor before issuance of 2013 Annual Report and 2014 Interim Report;
- reviewed and endorsed the adequacy and effectiveness of risk management and internal control systems;
- reviewed and approved the structure, adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting functions;
- considered internal audit reports submitted by ARM;
- reviewed and approved the internal audit plan for 2015;
- reviewed connected transactions and related party transactions;
- reviewed the valuations of all assets;
- reviewed the approved accounting treatment relating to the Company's interests in associates and in new projects and residences for sale;

- reviewed the Group Risk Register and discussed the enhancement procedures;
- reviewed reported whistleblowing cases and incident reporting cases; and
- reviewed and discussed the Group's risk management framework.

During our first meeting in 2015, following a review of the risk management processes by the Group Risk Committee and the adoption of a more structured regular reporting approach in 2014, we also started reviewing a semi-annual Group Risk Management Report which we endorsed to the Board for approval. We also started formalising the review of the adequacy of resources of the ARM team.

As the Chairman of the Audit Committee, I also met separately with the Group General Manager, ARM and the Audit Committee met with external auditor without management being present during the year to discuss 2014 issues.

Based on the reports from Group General Manager, ARM and the external auditor, the Audit Committee considers the overall financial and operating controls for the Group during 2014 to be effective, sound and sufficient. Issues raised by the internal and external auditors during 2014 have been, or are being addressed, by management and the Audit Committee recommended to the Board that there are no issues required to be raised to shareholders.

In respect of this Annual Report, including the Corporate Governance Report, Sustainability Report, the Directors' Report and Financial Statements for the year ended 31 December 2014 and the annual results announcement, after review and discussion, in March 2015, the Audit Committee endorsed and recommended the same to the Board for approval.

Ensuring the Independence of our External Auditor

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 taken very seriously and is reviewed annually. In 2014, apart from audit work, the Company also awarded non-audit work to our independent auditor including due diligence, taxation and other services. As mentioned above, a guideline was adopted to ensure monitoring of the amount of non-audit work given to the external auditor. The Audit Committee reviewed the nature of non-audit work performed by the external auditor and confirmed that there is no adverse effect on actual or perceived independence or objectivity of the audit work itself.

A summary of fees for audit and non-audit services to the Company's independent auditor, KPMG, for the financial years ended 31 December 2014 and 2013 is as follows:

Nature of Services	**2014 HK$m**	2013 HK$m
Audit services	**10**	10
Non-audit services		
Taxation and other services	**2**	2
Due diligence services	**1**	3

On behalf of the Audit Committee

Patrick B. Paul
Chairman of the Audit Committee
20 March 2015

Nomination Committee Report

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.

Role and Composition

The Nomination Committee, which I chair, plays a key role in ensuring continued success of the Company through reviewing size, structure and composition of the Board. This includes the selection of new Directors for the purpose of maintaining an appropriate, adequate and balanced make-up of the Board that could effectively discharge its responsibilities and the review of independence of INEDs. The Nomination Committee met twice in 2014.

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

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

Secretary: Company Secretary

Main Activities in 2014

In 2014, Mr Alan Clark was appointed as Executive Director and Chief Financial Officer from March 2014, while Mr Andrew Brandler was elected as Non-Executive Director by the shareholders at the 2014 Annual General Meeting. The Nomination Committee also conducted the following business in 2014:

- assessed and reviewed INEDs' confirmations of independence and affirmed the Committee's view over their independence;
- recommended the re-election of retiring Directors as these Directors continue to contribute effectively and are committed to their roles;
- reviewed the structure, size and composition of the Board and the split between number of INEDs, Non-Executive Directors and Executive Directors;
- reviewed the value of having measurable objectives for implementing the Board Diversity Policy; and
- we continued to consider candidates to fill a vacant INED position.

Board Diversity

The Company approaches diversity in the broadest sense, recognising the benefits of a diverse mix of skills, knowledge, age, race, gender and experience on its Board including accounting, finance, legal, corporate and public sector management, banking and hospitality. 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 merits. We are looking for a suitable person to take on the vacancy to fill the Company's INED position with our diversity policy in view.

The Nomination Committee considered that HSH Board has in place a diverse mix of skills, knowledge and experience, as well as increased gender diversity with the appointment of the first female member on the Board since 2013. In reviewing the appropriateness of an express diversity quota or measurable objective, our Committee concluded that it was not necessary, and the selection would continue to be based on merits with diversity be taken into consideration. This approach is approved by the Board.

On behalf of the Nomination Committee

The Hon. Sir Michael Kadoorie
Chairman of the Nomination Committee
20 March 2015

Remuneration Committee Report

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 and at the right level to attract and retain the Company's executives.

Role and Composition

On behalf of the Remuneration Committee I am pleased to present the Remuneration Committee Report for the year ended 31 December 2014. The Remuneration Committee is empowered by the Board with the authority and duties to review and approve or endorse the management's remuneration or bonus proposals for Directors and senior management as well as the Group's bonuses scheme for senior staff and to note salary increase budgets for all businesses.

Chairman: Mr Patrick B. Paul (INED)

Members: Mr Andrew Brandler (Non-Executive Director) (appointed on 12 May 2014)

Mr Ian D. Boyce (Non-Executive Director) (resigned on 12 May 2014)

Dr Rosanna Y.M. Wong (INED)

Secretary: Company Secretary

The Remuneration Committee met three times in 2014 and the Chief Executive Officer and Group Director, Human Resources attended the meetings by invitation. In addition to the scheduled meetings, the Committee has also dealt with a matter by written resolution.

Remuneration Philosophy

Our HSH Rewards Philosophy which was established and approved by the Remuneration Committee in 2011 has not changed. This philosophy is to ensure that compensation and benefits programmes designed for the Group and its executives are done according to the framework of various guiding principles, including:

- linking pay to business results, market practice and non-financial goals;
- ensuring compensation and benefits programmes are legally compliant, locally relevant and globally consistent;
- providing a total remuneration package that rewards good performers competitively taking into account market movements and business performance; and
- promoting internal equity to ensure employees performing similar roles within the same market are rewarded fairly.

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 and at the right level to attract and retain the Company's executives.

All Executive Directors and senior management have service contracts, all terminable by notice. Review and approval of such contracts are within the scope of responsibility of this Committee. No individual is involved in the decision of his or her own remuneration. There are four components of remuneration paid to executives including Executive Directors and senior management.

Basic Compensation

Basic salaries are the primary element of remuneration 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. Basic compensation may include basic salary, housing and other allowances.

Bonuses and Incentives

The Committee believes that 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 Group's quality measurement;
- individual performance; and
- share price.

The Committee retains discretion in the awarding of non-contractual annual bonuses.

Retirement Benefits

The Executive Directors and most of the senior management participate in the Company's retirement plan which is a scheme set up under the Occupational Retirement Scheme Ordinance of Hong Kong – The Hongkong and Shanghai Hotels, Limited 1994 Retirement Plan. The employer contributions of 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 are not required to pay contributions. One member of the senior management participates in a local plan instead of the Company's plan due to the local requirements.

Other Benefits

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

Remuneration for Non-Executive Directors

Fees of Non-Executive Directors are fixed by shareholders at shareholders general meetings, while any additional fees of Non-Executive Directors for serving on Board Committees are fixed by the Board. The Remuneration Committee has the responsibility of reviewing Directors' fees and fees for serving on Board Committees and makes recommendations to Board. These fees are reviewed on an annual basis. No Director approves his or her own remuneration.

In reviewing the fees, the Committee takes into account factors including the estimated time required to discharge their duties, and benchmarking against other Hong Kong listed companies of similar market capitalisation and business.

In line with the above annual fee review's methodology, the Board approved in March 2014 the proposal from the Committee and recommended the fees of Non-Executive Directors and INEDs are to be fixed at the rate of HK$250,000 and HK$300,000 respectively per annum. These fees were approved by Shareholders at the Annual General Meeting on 12 May 2014.

The Board also approved the recommendations from the Committee of a revision of the fees payable to the Chairman and members of the Remuneration Committee to HK$85,000 and HK$60,000 respectively per annum and the Chairman and members of Nomination Committee to HK$20,000 per annum.

The revised fees took effect on 12 May 2014 and was paid to the Non-Executive Directors and INEDs on a pro rata basis for the financial year ended 31 December 2014.

Main Activities in 2014

The Remuneration Committee conducted the following business in 2014:

- reviewed fees for Non-Executive Directors and INEDs and additional fees for the same to serve on Board Committees in 2014 and recommended the changes to the Board and Shareholders for approval;
- reviewed and approved the 2013 bonus proposal for Head Office and Operations under the HSH Management Bonus Plan;
- approved the 2013 bonus proposal for Executive Directors;
- reviewed and approved the terms of letters of appointment for Non-Executive Directors and INEDs;
- approved the discretionary bonuses for two members of senior management;
- reviewed and approved amendments to the bonus factors for the HSH Management Bonus Plan and the inclusion of a US property into the Management Bonus Plan;
- approved the Group-wide 2015 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 2015 salary increases of senior management; and
- reviewed and approved the remuneration packages of the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer.

2014 Remuneration of Directors and Senior Management

The following information is an integral part of the Audited Financial Statements for the year ended 31 December 2014.

Non-Executive Directors – Remuneration

The fees paid to each of our Non-Executive Directors in 2014 for their service on the Company's Board and, where applicable, on its Board Committees are set out below.

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

(HK$'000)	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	**Total[Δ] 2014**	Total[Δ] 2013
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	232	100	–	–	16	**348**	310
Mr Andrew Brandler(1)	159	64	77	38	–	**338**	–
Mr Ian D. Boyce(2)	73	37	44	18	–	**172**	470
Mr Ronald J. McAulay	232	–	–	–	–	**232**	200
Mr William E. Mocatta	232	–	–	–	–	**232**	200
Mr John A.H. Leigh	232	100	–	–	–	**332**	300
Mr Nicholas T.J. Colfer	232	–	–	–	–	**232**	200
Independent Non-Executive Directors							
Dr the Hon. Sir David K.P. Li	282	–	–	–	16	**298**	260
Mr Robert W. Miller(3)	–	–	–	–	–	**–**	300
Mr Patrick B. Paul	282	–	175(c)	76(c)	–	**533**	485
Mr Pierre R. Boppe	282	–	–	–	–	**282**	250
Dr William K.L. Fung	282	–	120	–	16	**418**	380
Dr Rosanna Y.M. Wong	282	–	–	56	–	**338**	228
	2,802	301	416	188	48	**3,755**	3,583

Notes:

(1) Mr Andrew Brandler was appointed as a Director of the Company with effect from 12 May 2014.

(2) Mr Ian D. Boyce resigned as a Director of the Company with effect from 12 May 2014.

(3) Mr Robert W. Miller resigned as a Director of the Company with effect from 1 January 2014.

Executive Directors – Remuneration

The remuneration paid to Executive Directors of the Company in 2014 was as follows:

(HK$'000)	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	**Total[Δ] 2014**	Total[Δ] 2013
Executive Directors						
Clement K.M. Kwok	5,836	7,634	960	223	**14,653**	13,318
Peter C. Borer	4,430	3,579	718	184	**8,911**	8,122
Alan Clark+	2,719	1,950	453	119	**5,241**	–
Neil J. Galloway*	–	–	–	–	**–**	6,591
	12,985	13,163	2,131	526	**28,805**	28,031

+ Mr Alan Clark was appointed as a Director of the Company with effect from 30 March 2014.

* Mr Neil J. Galloway resigned as a Director of the Company with effect from 13 September 2013.

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

Senior Management – Remuneration

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

	2014 Number	2013 Number
HK$3,000,001 – HK$4,000,000	**–**	1
HK$4,000,001 – HK$5,000,000	**3**	3
HK$5,000,001 – HK$6,000,000	**1**	1
HK$6,000,001 – HK$7,000,000	**1**	–

* The GMB, the Company's management and operations' decision-making authority, comprises the three Executive Directors and five (2013: five) 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 (2013: two members of senior management). The emoluments of the two (2013: two) individuals with highest emoluments are within the following bands:

	2014 Number	2013 Number
HK$4,500,001 – HK$5,000,000	**–**	1
HK$5,000,001 – HK$5,500,000	**1**	1
HK$5,500,001 – HK$6,000,000	**–**	–
HK$6,000,001 – HK$6,500,000	**1**	–

The aggregate of the emoluments in respect of these two (2013: two) individuals is as follows:

(HK$'000)	**2014**	2013
Basic compensation	**7,376**	6,867
Bonuses and incentives	**3,427**	2,080
Retirement benefits	**738**	687
Other benefits	**274**	259
	11,815	9,893

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

On behalf of the Remuneration Committee

Patrick B. Paul
Chairman of the Remuneration Committee
20 March 2015

Directors' Report

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2014.

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2014.

Principal Activities

The principal activity of the Company is investment holding and the principal activities of its subsidiaries, joint venture, joint operation and associates are the ownership, development, and management of prestigious hotels and commercial and residential properties in key locations in Asia, the United States and Europe, as well as the provision of tourism and leisure, club management and other services.

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

Business Review and Performance

A review of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Chief Executive Officer's Letter on pages 16 to 23, Business Review on pages 24 to 43 and Financial Review sections on pages 44 to 55. Description of the principal risks and uncertainties facing the Group can be found throughout this Annual Report, particularly in Group Risk Committee Report on pages 170 to 175. Particulars of an important event affecting the Company that have occurred since the end of the financial year 2014 is set out in note 31 to the Financial Statements. The future development of the Company's business is discussed throughout this Annual Report including in the Chief Executive Officer's Letter on pages 16 to 23 and Business Review on pages 24 to 43.

In addition, details regarding the Group's performance on environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Group and an account of the Company's relationships with its key stakeholders are disclosed in the Sustainability Review on pages 56 to 108 and Sustainability Data Statements on pages 253 to 265.

Ten Year Operating Statistics and Financial Summary

The Group's key operating statistics and financial data for the last ten years are set out on pages 10 and 11.

Financial Statements

The profit of the Group for the year ended 31 December 2014 and the state of the Company's and the Group's affairs as at that date are set out in the Financial Statements on pages 191 to 252.

Share Capital

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

Purchase, Sale or Redemption of Listed Securities

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

Dividends

An interim dividend of 5HK cents per share (2013: 4HK cents per share) in respect of the year ending 31 December 2014 was paid during the year 2014. The Directors have recommended a final dividend of 18HK cents per share (2013: 12HK cents per share). Subject to the approval by shareholders at the Annual General Meeting to be held at The Peninsula Hong Kong on 11 May 2015 ("2015 Annual General Meeting"), such dividends will be payable on 19 June 2015 to shareholders whose names appear on the register of members on 19 May 2015.

The final dividend will be payable in cash but shareholders will have the option of receiving the final dividend in cash or in the form of new shares in respect of part or all of such dividend. The new shares to be issued pursuant to the scrip dividend scheme are subject to their listing being granted by the Listing Committee of the Stock Exchange.

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend on 22 May 2015.

Fixed Assets

Movements in fixed assets during the year are set out in note 12 to the Financial Statements.

Capitalised Interest

The amount of interest capitalised by the Group in 2014 and 2013 was insignificant.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity and note 25(a) to the Financial Statements respectively. Reserves available for distribution to shareholders are disclosed in note 25(c) to the Financial Statements.

Borrowings

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

Charitable Donations

Cash donations made by the Group for charitable purposes during the year amounted to HK$3,184,086 (2013: HK$7,418,296)*.

Major Customers and Suppliers

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

Connected Transactions

The Board has reviewed all connected transactions of the Company which were undertaken in the normal course of business. All of these transactions were either exempted from any reporting requirements under the Listing Rules or waivers have been granted by the Stock Exchange as disclosed in the announcements of the Company dated 27 November 2012 and 3 March 2014 except the continuing connected transaction set out below.

On 22 March 2013, HSH Management Services Limited, an indirect wholly-owned subsidiary of the Company, entered into a tenancy agreement with Kadoorie Estates Limited ("KEL") to renew the office lease of 7th and 8th Floors of St. George's Building, 2 Ice House Street, Central, Hong Kong ("Office Premises") for three years commencing on 1 April 2013 at a market rent of HK$1,540,452 per month plus a monthly service charge of HK$182,224 with a rent free period of two months. With effect from 1 January 2014, the monthly service charge was revised to HK$191,617. The rent and service charge incurred in 2014 amounted to HK$20 million (2013: HK$19 million).

* The donations amount of HK$4,196,997 (2013: HK$8,899,964 which includes a special 85th anniversary donation) referred to in the Sustainability Data Statements on page 256 include donations by managed properties owned by a joint venture and associates and employees.

KEL is the agent of the registered owner of the Office Premises. The registered owner is controlled by one of the substantial shareholders of the Company. The lease constituted a continuing connected transaction of the Company and subject to the disclosure requirements under the Listing Rules. Details of the transaction were disclosed in the announcement dated 22 March 2013 ("22 March 2013 Announcement").

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

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

(ii) on normal commercial terms and conducted on arm's length basis; and

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

The Company's auditor has also reviewed this transaction and confirmed to the Board of Directors that:

(i) nothing has come to their attention that the transaction has not been approved by the Company's Board of Directors;

(ii) nothing has come to their attention that the transaction has not been entered into, in all material respects, in accordance with the relevant agreement governing the transaction; and

(iii) nothing has come to their attention that the transaction has exceeded the maximum aggregate annual consideration disclosed in the 22 March 2013 Announcement.

Material Related Party Transactions

Details of material related party transactions which were undertaken in the normal 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 142 to 145. All these Directors held office throughout 2014 with the exception of Mr Andrew Brandler who was elected to the Board as Non-Executive Director and was appointed as Deputy Chairman of the Company in place of Mr Ian D. Boyce who resigned with effect from the close of the annual general meeting held on 12 May 2014. In addition, Mr Alan Clark was appointed to the Board as Executive Director and Chief Financial Officer of the Company on 30 March 2014. In accordance with the Articles of Association of the Company, Mr Ronald J. McAulay, Dr the Hon. Sir David K.P. Li, Mr John A.H. Leigh and Mr Nicholas T.J. Colfer will retire at the 2015 Annual General Meeting and being eligible, have agreed to offer themselves for re-election.

None of the Directors proposed for re-election at the 2015 Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Senior Management

Biographical details of senior management at the date of this Report are shown on page 147. All members of senior management held office throughout the year.

Interests of Directors

As at 31 December 2014, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any associated corporation, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules ("Model Code") to be notified to the Company and the Stock Exchange, were set out on the next page.

Long position in shares of the Company and its associated corporations

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
The Hon. Sir Michael Kadoorie	Note (a)	802,313,486	52.882
Mr Clement K.M. Kwok	Beneficial Owner	678,471	0.045
Mr Peter C. Borer	Beneficial Owner	339,946	0.022
Mr Ronald J. McAulay	Note (b)	251,378,271	16.569
Mr William E. Mocatta	Beneficial Owner	17,000	0.001
Mr John A.H. Leigh	Note (c)	76,484,832	5.041
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,014,994	0.067
Mr Pierre R. Boppe	Beneficial Owner	150,000	0.010

Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 802,313,486 shares in the Company. These shares were held in the following capacity:

(i) 174,893,439 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;

(ii) 318,352,310 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder; and

(iii) 309,067,737 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.

For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 802,313,486 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in those shares.

(b) Mr Ronald J. McAulay was deemed (by virtue of the SFO) to be interested in 251,378,271 shares in the Company. These shares were held in the following capacity:

(i) 174,893,439 shares were ultimately held by discretionary trusts, of which Mr Ronald J. McAulay is one of the discretionary objects; and

(ii) 76,484,832 shares were ultimately held by a discretionary trust, of which Mr Ronald J. McAulay, his wife and members of his family are discretionary objects.

(c) Mr John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 76,484,832 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 76,484,832 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 76,484,832 shares.

Messrs Andrew Brandler, Nicholas Colfer, Patrick Paul, Dr William Fung, Dr Rosanna Wong and Mr Alan Clark, 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 2014.

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 2014, none of the Directors of the Company, or any of their spouses, or children under 18 years of age, has any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations, within the meaning of Part XV of the SFO, recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

Interests of Senior Management

As at 31 December 2014, 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 2014, shareholders (other than Directors of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Long position in shares of the Company

(a) Substantial shareholders

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
Acorn Holdings Corporation	Beneficiary	174,893,439	11.528(i)
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	574,730,581	37.882(i)
Guardian Limited	Beneficiary/Interest of controlled corporation	76,484,832	5.041(v)
Harneys Trustees Limited	Interests of controlled corporations	627,420,047	41.355(iii)
Lawrencium Holdings Limited	Beneficiary	309,067,737	20.371(ii)
Lawrencium Mikado Holdings Limited	Beneficiary	318,352,310	20.983(ii)
The Magna Foundation	Beneficiary	318,352,310	20.983(ii)
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	627,420,047	41.355(ii)
Mikado Investments (PTC) Limited	Interest of controlled corporation/Trustee	318,352,310	20.983(i)
New Mikado Holding Inc.	Trustee	318,352,310	20.983(i)
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	81,484,832	5.371(iv)
Oak (Unit Trust) Holdings Limited	Trustee	76,484,832	5.041(i)
Oak HSH Limited	Beneficiary	76,484,832	5.041(iv)
Mr Richard Parsons	Trustee	76,484,832	5.041(v)

Notes:

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

The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie and/or Mr Ronald J. McAulay are among the discretionary objects as disclosed in "Interests of Directors".

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

The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and a founder as disclosed in "Interests of Directors".

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

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

The interests of The Oak Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which Mr Ronald J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors".

(v) Mr Richard Parsons, in his capacity as one of the trustees of a trust, controlled Guardian Limited and therefore was deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 76,484,832 shares in which Guardian Limited was interested was duplicated within the interests attributed to Mr Richard Parsons and was also duplicated within the interests attributed to Mr John A.H. Leigh as disclosed in "Interests of Directors".

(b) Other substantial shareholders

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
Prudential plc	Interests of controlled corporations	85,789,405	5.655[(i)]
M&G Investment Funds (1)	Interest of controlled corporation	85,789,405	5.655[(i)]
Aberdeen Asset Management Plc and its associates	Investment manager	103,195,402	6.802
International Value Advisers, LLC	Investment manager	78,972,812	5.205

Note:

(i) Prudential plc was deemed to be interested in the shares through its interests in its controlled corporations including M&G Investment Funds (1).

Except as set out above, as at 31 December 2014, 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 2014, 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, its subsidiaries or fellow 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 2014 or at any time during the year.

Directors' indemnities

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

Employee Retirement Benefits

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

Corporate Governance Report

The Corporate Governance Report outlines the Company's approach to governance is set out on pages 150 to 169.

Corporate Responsibility and Sustainability

The Sustainability Review and Data Statements (the "Sustainability Report") discuss in detail specific environmental and social issues that contribute to the sustainable development of the Group, and report on the Group's corporate responsibility and sustainability performance as set out on pages 56 to 108 and 253 to 265.

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 2014, 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 2015 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 2015 Annual General Meeting.

By Order of the Board

Christobelle Liao
Company Secretary
20 March 2015

Financial Statements

Consolidated Income Statement *(HK$m)*

	Note	Year ended 31 December 2014	2013
Turnover	2	**5,838**	5,508
Cost of inventories		**(467)**	(463)
Staff costs and related expenses		**(2,052)**	(1,951)
Rent and utilities		**(577)**	(586)
Other operating expenses		**(1,214)**	(1,202)
Operating profit before interest, taxation, depreciation and amortisation ("EBITDA")		**1,528**	1,306
Depreciation and amortisation		**(423)**	(395)
Operating profit		**1,105**	911
Interest income		**65**	46
Financing charges	4	**(131)**	(140)
Net financing charges		**(66)**	(94)
Profit after net financing charges	3	**1,039**	817
Share of result of a joint venture	14	**(6)**	(280)
Share of results of associates	15	**(35)**	–
Increase in fair value of investment properties	12(b)	**496**	1,403
Provision for impairment loss	12(a)	**(132)**	–
Gain on disposal of an unlisted equity instrument		**–**	3
Profit before taxation		**1,362**	1,943
Taxation			
Current tax	5	**(179)**	(130)
Deferred tax	5	**(52)**	(101)
Profit for the year		**1,131**	1,712
Profit attributable to:			
Shareholders of the Company		**1,146**	1,712
Non-controlling interests		**(15)**	–
Profit for the year		**1,131**	1,712
Earnings per share, basic and diluted (HK$)	9	**0.76**	1.14

The notes on pages 198 to 251 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income (HK$m)

	Note	Year ended 31 December 2014	2013
Profit for the year		**1,131**	1,712
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		**(47)**	314
– financial statements of a joint venture		**(23)**	33
– loans to an associate		**(109)**	26
– hotel operating rights		**(74)**	26
		(253)	399
Cash flow hedges:			
– effective portion of changes in fair values		**(37)**	(1)
– transfer from equity to profit or loss		**25**	38
		(265)	436
Item that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit retirement obligations		**2**	1
Other comprehensive income	8	**(263)**	437
Total comprehensive income for the year		**868**	2,149
Total comprehensive income attributable to:			
Shareholders of the Company		**882**	2,165
Non-controlling interests		**(14)**	(16)
Total comprehensive income for the year		**868**	2,149

The notes on pages 198 to 251 form part of these Financial Statements.

Consolidated Statement of Financial Position *(HK$m)*

	Note	At 31 December 2014	2013
Non-current assets			
Fixed assets			
Properties, plant and equipment		**5,620**	5,963
Investment properties		**32,548**	32,224
	12	**38,168**	38,187
Interest in a joint venture	14	**1,016**	1,045
Interest in associates	15	**807**	822
Hotel operating rights	16	**611**	693
Derivative financial instruments	17	**–**	8
Deferred tax assets	18(b)	**40**	28
		40,642	40,783
Current assets			
Inventories	19	**92**	100
Trade and other receivables	20	**583**	575
Amount due from a joint venture	30(c)	**188**	192
Cash at banks and in hand	21	**2,477**	1,494
		3,340	2,361
Current liabilities			
Trade and other payables	22	**(1,180)**	(1,175)
Interest-bearing borrowings	23	**(878)**	(550)
Derivative financial instruments	17	**–**	(13)
Current taxation	18(a)	**(70)**	(48)
		(2,128)	(1,786)
Net current assets		**1,212**	575
Total assets less current liabilities		**41,854**	41,358
Non-current liabilities			
Interest-bearing borrowings	23	**(4,603)**	(4,936)
Trade and other payables	22	**(260)**	(276)
Net defined benefit retirement obligations	26(a)	**(17)**	(18)
Derivative financial instruments	17	**(38)**	(22)
Deferred tax liabilities	18(b)	**(785)**	(732)
		(5,703)	(5,984)
Net assets		**36,151**	35,374
Capital and reserves			
Share capital	24	**4,544**	751
Reserves		**31,357**	34,354
Total equity attributable to shareholders of the Company		**35,901**	35,105
Non-controlling interests		**250**	269
Total equity		**36,151**	35,374

Approved by the Board of Directors on 20 March 2015 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Alan Clark, Directors

The notes on pages 198 to 251 form part of these Financial Statements.

Parent Company Statement of Financial Position *(HK$m)*

	Note	At 31 December	
		2014	2013
Non-current assets			
Investment in subsidiaries	13	**–**	–
Current assets			
Trade and other receivables	20	**12,381**	12,203
Cash at banks and in hand	21	**142**	31
		12,523	12,234
Current liabilities			
Trade and other payables	22	**(84)**	(94)
Current tax	18(a)	**(3)**	–
Net current assets		**(87)**	(94)
Net assets		**12,436**	12,140
Capital and reserves			
Share capital	24	**4,544**	751
Reserves	25(a)	**7,892**	11,389
Total equity		**12,436**	12,140

Approved by the Board of Directors on 20 March 2015 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K.M. Kwok, Alan Clark, Directors

The notes on pages 198 to 251 form part of these Financial Statements.

Consolidated Statement of Changes in Equity (HK$m)

		Year ended 31 December Attributable to shareholders of the Company								
	Note	Share capital	Share premium	Capital redemp -tion reserve	Hedging reserve	Exchange and other reserves	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2013		751	3,610	13	(72)	161	28,687	33,150	289	33,439
Changes in equity for 2013:										
Profit for the year		–	–	–	–	–	1,712	1,712	–	1,712
Other comprehensive income	8	–	–	–	37	416	–	453	(16)	437
Total comprehensive income for the year		–	–	–	37	416	1,712	2,165	(16)	2,149
Dividends approved in respect of the previous year	10	–	–	–	–	–	(150)	(150)	–	(150)
Dividends approved in respect of the current year	10	–	–	–	–	–	(60)	(60)	–	(60)
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	(4)	(4)
Balance at 31 December 2013		751	3,610	13	(35)	577	30,189	35,105	269	35,374
Changes in equity for 2014:										
Profit for the year		**–**	**–**	**–**	**–**	**–**	**1,146**	**1,146**	**(15)**	**1,131**
Other comprehensive income	8	**–**	**–**	**–**	**(12)**	**(252)**	**–**	**(264)**	**1**	**(263)**
Total comprehensive income for the year		**–**	**–**	**–**	**(12)**	**(252)**	**1,146**	**882**	**(14)**	**868**
Transition to no-par value regime on 3 March 2014		**3,623**	**(3,610)**	**(13)**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends approved in respect of the previous year	10	**120**	**–**	**–**	**–**	**–**	**(180)**	**(60)**	**–**	**(60)**
Dividends approved in respect of the current year	10	**50**	**–**	**–**	**–**	**–**	**(76)**	**(26)**	**–**	**(26)**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Balance at 31 December 2014		**4,544**	**–**	**–**	**(47)**	**325**	**31,079**	**35,901**	**250**	**36,151**

The notes on pages 198 to 251 form part of these Financial Statements.

Consolidated Statement of Cash Flows (HK$m)

	Note	Year ended 31 December 2014	2013
Operating activities			
Profit after net financing charges		**1,039**	817
Adjustments for:			
Depreciation	12(a)	**415**	392
Amortisation of hotel operating rights	16	**8**	3
Interest income	3	**(65)**	(46)
Financing charges	4	**131**	140
Loss on disposal of fixed assets		**2**	6
Operating profit before changes in working capital		**1,530**	1,312
Decrease/(increase) in inventories		**6**	(8)
Increase in trade and other receivables		**(19)**	(48)
Increase in trade and other payables		**72**	145
Cash generated from operations		**1,589**	1,401
Net tax paid:			
Hong Kong profits tax paid		**(107)**	(46)
Overseas tax paid		**(50)**	(47)
Net cash generated from operating activities		**1,432**	1,308
Investing activities			
Payment for the purchase of fixed assets		**(409)**	(928)
Payment for the acquisition of properties		**–**	(2,293)
Net repayment from a joint venture		**–**	63
Loans to an associate		**(128)**	(224)
Proceeds from disposal of an unlisted equity instrument		**–**	3
Net cash used in investing activities		**(537)**	(3,379)
Financing activities			
Drawdown of term loans		**1,076**	2,366
Repayment of term loans		**(346)**	(1,203)
Net (decrease)/increase in revolving loans		**(455)**	516
Net (placement)/withdrawal of interest-bearing bank deposits with maturity of more than three months		**(1,193)**	54
Interest paid and other financing charges		**(120)**	(158)
Interest received		**60**	44
Dividends paid to shareholders of the Company		**(86)**	(210)
Dividends paid to holders of non-controlling interests		**(5)**	(4)
Net cash (used in)/generated from financing activities		**(1,069)**	1,405
Net decrease in cash and cash equivalents		**(174)**	(666)
Cash and cash equivalents at 1 January		**1,036**	1,682
Effect of changes in foreign exchange rates		**(23)**	20
Cash and cash equivalents at 31 December	21	**839**	1,036

The notes on pages 198 to 251 form part of these Financial Statements.

1. Statement of compliance

These Financial Statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These Financial Statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622) "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that 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 ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group and the Company is set out in note 33.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting period of the Group and the Company. 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 and the Company for the current and prior accounting years.

2. Turnover (HK$m)

The Company is an investment holding company; its subsidiary companies, joint venture, joint operation and associates are engaged in the ownership, management and operation of hotels, commercial properties and clubs and services.

Turnover 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 in turnover during the year is as follows:

	2014	2013
Hotels (note 11(a))		
Rooms	**1,889**	1,768
Food and beverage	**1,239**	1,218
Commercial	**747**	687
Others	**385**	371
	4,260	4,044
Commercial Properties (note 11(a))	**901**	806
Clubs and Services (note 11(a))	**677**	658
	5,838	5,508

3. Profit after net financing charges (HK$m)

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

	2014	2013
Amortisation	8	3
Depreciation	415	392
Auditor's remuneration:		
audit services	10	10
taxation and other services	2	2
due diligence services	1	3
Foreign exchange losses/(gains)	1	(2)
Minimum operating lease charges for properties, including contingent rent of HK$14 million (2013: HK$15 million)	244	251
Interest income	(65)	(46)
Rentals receivable from investment properties less direct outgoings of HK$20 million (2013: HK$19 million)	(1,330)	(1,210)

4. Financing charges (HK$m)

	2014	2013
Interest on bank borrowings	87	77
Other borrowing costs	17	20
Total interest expenses on financial liabilities carried at amortised cost	104	97
Derivative financial instruments:		
– cash flow hedges, transfer from equity	27	43
	131	140

5. Income tax in the consolidated income statement (HK$m)

(a) Taxation in the consolidated income statement represents:

	2014	2013
Current tax – Hong Kong profits tax		
Provision for the year (note 18(a))	**127**	84
Under/(over)-provision in respect of prior years	**3**	(6)
	130	78
Current tax – Overseas		
Net charge for the year	**49**	52
	179	130
Deferred tax		
Increase in net deferred tax liabilities relating to revaluation of overseas investment properties	**6**	29
Increase in net deferred tax liabilities relating to other temporary differences	**46**	72
	52	101
Total	**231**	231

The provision for Hong Kong profits tax for 2014 is calculated at 16.5% (2013: 16.5%) of the estimated assessable profit 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 rate:

	2014	2013
Profit before taxation	**1,362**	1,943
Notional tax at the domestic income tax rate of 16.5% (2013: 16.5%)	**225**	321
Tax effect of non-deductible expenses	**32**	13
Tax effect of non-taxable income	**(4)**	(7)
Tax effect of share of losses of a joint venture and associates	**7**	46
Tax effect of fair value gain on Hong Kong investment properties	**(76)**	(154)
Tax effect of utilisation of previously unrecognised tax losses	**(13)**	(72)
Tax effect of tax losses not recognised	**30**	36
Effect of different tax rates of subsidiaries operating in other jurisdictions	**24**	44
Others	**6**	4
Actual tax expense	**231**	231

6. Emoluments of key management personnel (HK$m)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. It comprises the Group Management Board and the Non-executive Directors of the Group. Members of the Group Management Board include the Executive Directors and five (2013: five) senior executives. The total remuneration of the key management personnel is shown below:

	2014	2013
Directors' fees	**3,755**	3,583
Basic compensation	**30,307**	28,697
Bonuses and incentives	**18,840**	16,888
Retirement benefits	**3,705**	3,490
Other benefits	**1,205**	1,338
	57,812	53,996

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 "2014 Remuneration of Directors and Senior Management" section of the Corporate Governance Report on pages 182 and 183, which forms an integral part of these audited Financial Statements.

7. Profit attributable to shareholders of the Company (HK$m)

The consolidated profit attributable to shareholders of the Company includes a profit of HK$382 million (2013: HK$241 million) which has been dealt with in the Financial Statements of the Company.

8. Other comprehensive income (HK$m)

Tax effects relating to each component of other comprehensive income

	2014			2013		
	Before-tax amount	**Tax (expense)/ benefit**	**Net-of-tax amount**	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– financial statements of overseas subsidiaries	**(47)**	**–**	**(47)**	314	–	314
– financial statements of a joint venture	**(23)**	**–**	**(23)**	33	–	33
– loans to an associate	**(109)**	**–**	**(109)**	26	–	26
– hotel operating rights	**(74)**	**–**	**(74)**	26	–	26
	(253)	**–**	**(253)**	399	–	399
Cash flow hedges:						
– effective portion of changes in fair values	**(41)**	**4**	**(37)**	–	(1)	(1)
– transfer from equity to profit or loss	**27**	**(2)**	**25**	43	(5)	38
Remeasurement of net defined benefit retirement obligations	**2**	**–**	**2**	1	–	1
Other comprehensive income	**(265)**	**2**	**(263)**	443	(6)	437

9. Earnings per share

(a) Earnings per share – basic

	2014	2013
Profit attributable to shareholders of the Company (HK$m)	**1,146**	1,712
Weighted average number of shares in issue (million shares)	**1,509**	1,502
Earnings per share (HK$)	**0.76**	1.14

	2014 (million shares)	*2013 (million shares)*
Issued shares at 1 January	***1,502***	*1,502*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2013 final dividend and 2014 interim dividend	***7***	*–*
Weighted average number of shares at 31 December	***1,509***	*1,502*

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2014 and 2013 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

	2014	2013
Interim dividend declared and paid of 5 HK cents per share (2013: 4 HK cents per share)	**76**	60
Final dividend proposed after the end of reporting period of 18 HK cents per share (2013: 12 HK cents per share)	**273**	180
	349	240

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

	2014	2013
Final dividend in respect of the previous financial year, approved and paid during the year, of 12 HK cents per share (2013: 10 HK cents per share)	**180**	150

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 (HK$m)

The results of the Group's reportable segments for the years ended 31 December 2014 and 2013 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Reportable segment revenue*	**4,260**	4,044	**901**	806	**677**	658	**5,838**	5,508
Reportable segment operating profits before interest, taxation, depreciation and amortisation (EBITDA)	**818**	649	**582**	521	**128**	136	**1,528**	1,306
Depreciation and amortisation	**(385)**	(358)	**(10)**	(10)	**(28)**	(27)	**(423)**	(395)
Segment operating profit	**433**	291	**572**	511	**100**	109	**1,105**	911

* Analysis of segment revenue

	2014	*2013*
Hotels		
– Rooms	***1,889***	*1,768*
– Food and beverage	***1,239***	*1,218*
– Commercial	***747***	*687*
– Others	***385***	*371*
	4,260	*4,044*
Commercial properties		
Rental revenue from:		
– Residential properties	***445***	*415*
– Offices	***124***	*93*
– Shopping arcades	***332***	*298*
	901	*806*
Clubs and Services		
– Clubs and consultancy services	***171***	*172*
– Peak Tram operation	***124***	*121*
– Others	***382***	*365*
	677	*658*
	5,838	*5,508*

Reconciliation of segment operating profit to the profit before taxation in the consolidated income statement is not presented, since the segment operating profit is the same as the operating profit presented in the consolidated income statement.

11. Segment reporting (HK$m) continued

(b) Segment assets (HK$m)

Segment assets include all tangible and current assets and hotel operating rights held directly by the respective segments. The Group's segment assets and unallocated assets as at 31 December 2014 and 2013 are set out as follows:

	Note	2014	2013
Reportable segment assets			
Hotels		16,978	17,269
Commercial properties		21,440	21,273
Clubs and services		1,036	1,013
		39,454	39,555
Unallocated assets			
Interest in a joint venture	14	1,016	1,045
Interest in associates	15	807	822
Derivative financial instruments	17	–	8
Deferred tax assets	18(b)	40	28
Amount due from a joint venture	30(c)	188	192
Cash at banks and in hand	21	2,477	1,494
Consolidated total assets		43,982	43,144

(c) Geographical information (HK$m)

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's total specified non-current assets (excluding derivative financial instruments and deferred tax assets). The geographical location of revenue is analysed based on the location at which the services were provided or the goods 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 venture, joint operation and associates.

	Revenue from external customers		Specified non-current assets	
	2014	2013	2014	2013
Hong Kong	2,775	2,505	29,092	28,689
Other Asia *	1,718	1,786	4,584	4,961
United States of America	1,290	1,190	3,254	3,199
Europe	55	27	3,672	3,898
	5,838	5,508	40,602	40,747

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

12. Fixed assets (HK$m)

(a) Movements of fixed assets

	Group							
	Freehold land	Hotel and other buildings held for own use	Plant, machinery and other fixed assets	Sub-total	Other Investment properties	Investment property held for redevelopment	Interests in leasehold land held under finance leases	Total fixed assets
Cost or valuation:								
At 1 January 2013	1,010	7,195	4,267	12,472	28,108	–	1	40,581
Exchange adjustments	(47)	(274)	(117)	(438)	23	102	–	(313)
Additions	–	10	585	595	900	1,688	–	3,183
Disposals	–	(5)	(47)	(52)	–	–	–	(52)
Transfer	–	14	(14)	–	–	–	–	–
Fair value adjustment	–	–	–	–	1,403	–	–	1,403
At 31 December 2013	963	6,940	4,674	12,577	30,434	1,790	1	44,802
Representing:								
Cost	963	6,940	4,674	12,577	–	–	1	12,578
Valuation – 2013	–	–	–	–	30,434	1,790	–	32,224
	963	6,940	4,674	12,577	30,434	1,790	1	44,802
At 1 January 2014	**963**	**6,940**	**4,674**	**12,577**	**30,434**	**1,790**	**1**	**44,802**
Exchange adjustments	**(1)**	**(101)**	**(81)**	**(183)**	**(111)**	**(104)**	**–**	**(398)**
Additions	**–**	**16**	**295**	**311**	**43**	**–**	**–**	**354**
Disposals	**–**	**(4)**	**(42)**	**(46)**	**–**	**–**	**–**	**(46)**
Transfer	**–**	**47**	**(47)**	**–**	**–**	**–**	**–**	**–**
Fair value adjustment	**–**	**–**	**–**	**–**	**459**	**37**	**–**	**496**
At 31 December 2014	**962**	**6,898**	**4,799**	**12,659**	**30,825**	**1,723**	**1**	**45,208**
Representing:								
Cost	**962**	**6,898**	**4,799**	**12,659**	**–**	**–**	**1**	**12,660**
Valuation – 2014	**–**	**–**	**–**	**–**	**30,825**	**1,723**	**–**	**32,548**
	962	**6,898**	**4,799**	**12,659**	**30,825**	**1,723**	**1**	**45,208**
Accumulated depreciation and impairment losses:								
At 1 January 2013	377	3,339	2,741	6,457	–	–	1	6,458
Exchange adjustments	(26)	(96)	(67)	(189)	–	–	–	(189)
Charge for the year	–	148	244	392	–	–	–	392
Written back on disposals	–	(10)	(36)	(46)	–	–	–	(46)
At 31 December 2013	351	3,381	2,882	6,614	–	–	1	6,615
At 1 January 2014	**351**	**3,381**	**2,882**	**6,614**	**–**	**–**	**1**	**6,615**
Exchange adjustments	**–**	**(26)**	**(52)**	**(78)**	**–**	**–**	**–**	**(78)**
Charge for the year	**–**	**146**	**269**	**415**	**–**	**–**	**–**	**415**
Impairment loss	**–**	**74**	**58**	**132**	**–**	**–**	**–**	**132**
Written back on disposals	**–**	**(4)**	**(40)**	**(44)**	**–**	**–**	**–**	**(44)**
At 31 December 2014	**351**	**3,571**	**3,117**	**7,039**	**–**	**–**	**1**	**7,040**
Net book value:								
At 31 December 2014	**611**	**3,327**	**1,682**	**5,620**	**30,825**	**1,723**	**–**	**38,168**
At 31 December 2013	612	3,559	1,792	5,963	30,434	1,790	–	38,187

12. Fixed assets (HK$m) continued

(a) Movements of fixed assets continued

During 2014, the Group acquired items of fixed assets with a cost of HK$354 million (2013: HK$3,183 million).

The Group assessed the recoverable amounts of its fixed assets (other than investment properties) at the reporting date in accordance with the accounting policy as disclosed in note 33(j). Based on the assessment, the directors considered that, due to the major renovation to be undertaken by The Peninsula Beijing and its remaining lease term, The Peninsula Beijing's recoverable amount as at 31 December 2014 was lower than its carrying value. In addition, as The Peninsula Manila is subject to a relatively short remaining lease term of 12 years and given the oversupplied and price sensitive market in Manila, the directors considered that The Peninsula Manila's recoverable amount was lower than its carrying value. As a result, the carrying values of The Peninsula Beijing and The Peninsula Manila were written down to their recoverable amounts and an impairment loss of HK$132 million, consisting of HK$74 million in respect of hotel and other buildings held for own use and HK$58 million in respect of plant, machinery and other fixed assets, was recognised for the year ended 31 December 2014.

(b) All investment properties of the Group were revalued as at 31 December 2014. The changes in fair value of the investment properties during the year were accounted for in the consolidated income statement. The valuations were carried out by valuers independent of the Group and who have staff with recent experience in the location and category of the property being valued. Discussions have been held with the valuers on the valuation assumptions and valuation results when the valuation is performed at each reporting date. Details of the valuers are as follows:

Description of investment properties	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong		
Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited ("Savills")	Members of the Hong Kong Institute of Surveyors
Other Asia*		
Retail shops, offices, residential apartments and vacant land	Savills	Members of the Hong Kong Institute of Surveyors
	HVS	Members of the Singapore Institute of Surveyors and Valuers
United States of America		
Retail shops and vacant land	HVS	Members of the Appraisal Institute, United States of America
Europe		
Retail shops, offices and residential apartments	Savills	Members of the Royal Institution of Chartered Surveyors
	HVS	Members of the Royal Institution of Chartered Surveyors

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

12. Fixed assets (HK$m) continued

(c) Fair value measurement of investment properties

The fair value of the Group's investment properties is determined using the income capitalisation approach by discounting the expected rental income using a capitalisation rate adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected rental income and negatively correlated to the capitalisation rates. 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 2014:

Valuation technique	Valuation parameters	Range
Income capitalisation approach	Capitalisation rate	
	– Shopping arcades	4.9% – 6.6% (2013: 4.9% – 6.6%)
	– Offices	4.1% – 4.6% (2013: 4.1% – 4.6%)
	– Residential properties	3.0% – 3.8% (2013: 3.0% – 3.8%)
	Expected monthly rental income per square foot	
	– Shopping arcades	HK$30 – HK$1,300 (2013: HK$30 – HK$1,300)
	– Offices	HK$26 – HK$51 (2013: HK$25 – HK$58)
	– Residential properties	HK$39 – HK$75 (2013: HK$38 – HK$75)

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 income statement.

(d) Investment property held for re-development

Included in the Group's investment properties, the Group has a 50% economic interest in 1-5 Grosvenor Place, London (the "Property"), which was acquired on 25 July 2013. As at 31 December 2014, the Property was held for leasing purpose and its fair value amounted to HK$1,723 million (2013: HK$1,790 million). Subject to certain conditions, including planning approvals, the Group intends to redevelop the Property jointly with its partner into a mixed used complex consisting of a Peninsula hotel and luxury residences.

(e) Fixed assets leased out under operating leases

The Group leases its investment properties under operating leases. The leases typically run for an initial period of one to five years, with or without options to renew the leases after that date at which time all terms are renegotiated. Contingent rentals earned from these leases in 2014 amounted to HK$45 million (2013: HK$41 million).

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties. Future minimum rentals receivable under non-cancellable operating leases of these properties are disclosed in note 28(b).

12. Fixed assets (HK$m) continued

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

		2014	2013
Hong Kong	– Long term leases	26,962	26,540
	– Medium term leases	1,356	1,302
Other Asia*	– Freehold	1,229	1,227
	– Medium term leases	1,915	2,169
USA	– Freehold	1,143	1,173
	– Long term lease	1,585	1,526
Europe	– Freehold	573	668
	– Long term lease	1,723	1,790
		36,486	36,395

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

	2014	2013
Representing:		
Land and buildings carried at fair value (investment properties)	32,548	32,224
Land and buildings carried at cost	3,938	4,171
	36,486	36,395

(g) Hotel and investment properties, all held through subsidiaries, are as follows:

	Usage
Held in Hong Kong:	
Long term leases (over 50 years):	
The Peninsula Hong Kong, Salisbury Road	Hotel and commercial rentals
The Peninsula Office Tower, 18 Middle Road	Office
The Repulse Bay, 109 Repulse Bay Road	Residential and commercial rentals
Repulse Bay Apartments, 101 Repulse Bay Road	Residential
Repulse Bay Garage, 60 Repulse Bay Road	Commercial rentals
St. John's Building, 33 Garden Road	Office
Medium term lease (between 10 and 50 years):	
The Peak Tower, 128 Peak Road	Commercial rentals
Held in Mainland China:	
Medium term lease (between 10 and 50 years):	
The Peninsula Beijing, 8 Goldfish Lane, Wangfujing, Beijing	Hotel and commercial rentals
Held in Japan:	
Medium term lease (between 10 and 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
Thai Country Club, Bangna-Trad, Chachoengsao	Golf club
Land plots, Bangpakong District, Chachoengsao	Undetermined

12. Fixed assets (HK$m) continued

(g) Hotel and investment properties, all held through subsidiaries, are as follows: continued

	Usage
Held in The Philippines:	
Medium term lease (between 10 and 50 years):	
The Peninsula Manila, Corner of Ayala and Makati Avenues, 1226 Makati City, Metro Manila	Hotel and commercial rentals
Held in Vietnam:	
Medium term lease (between 10 and 50 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 (reopened in March 2013) 8205 Valley Greens Drive, Carmel, California	Resort
Vacant land, near Quail Lodge	Undetermined
The Peninsula Chicago,	
108 East Superior Street (at North Michigan Avenue), Chicago, Illinois	Hotel
Long term lease (over 50 years):	
The Peninsula New York, 700 Fifth Avenue at 55th Street, New York	Hotel and commercial rentals
Held in France:	
Freehold:	
21 avenue Kléber, Paris	Commercial rentals
21 Rue de Longchamp, Paris	Residential
Held in the United Kingdom:	
Long term lease (over 50 years):	
1-5 Grosvenor Place, London SW1X 7YL	Residential and commercial rentals

(h) The net book value of the Group's hotels and golf courses as at 31 December 2014 amounted to HK$5,339 million (2013: HK$5,712 million). To provide additional information for shareholders, the Directors commissioned an independent valuation of these properties as at 31 December 2014.

The total valuation placed on these properties amounted to HK$9,044 million (2013: HK$9,320 million) as at 31 December 2014. It is important to note that the surplus of HK$3,705 million (2013: HK$3,608 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 and other Asia		
Hotels and golf course	HVS	Members of the Singapore Institute of Surveyors and Valuers
United States of America		
Hotels and golf course	HVS	Members of the Appraisal Institute, United States of America

13. Investment in subsidiaries

	Company	
	2014	2013
Unlisted shares, at cost (HK$)	**93,789**	93,789

The following list contains only the particulars of subsidiaries which principally affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Hotel Limited	Hong Kong	2 shares	100%*	Hotel investment
The Repulse Bay Apartments Limited	Hong Kong	2 shares	100%*	Property investment
The Repulse Bay Company, Limited	Hong Kong	2 shares	100%*	Property investment
The Peak Tower Limited	Hong Kong	2 shares	100%*	Property investment
Peak Tramways Company, Limited	Hong Kong	450,000 shares	100%*	Tramway operation
St. John's Building Limited	Hong Kong	2 shares	100%*	Property investment
Peninsula Merchandising Limited	Hong Kong	2 shares	100%*	Wholesaling and retailing of merchandise
Tai Pan Laundry & Dry Cleaning Services, Limited	Hong Kong	5,000,000 shares	100%*	Laundry and dry cleaning services
HSH Financial Services Limited	Hong Kong	1 share	100%	Lending and borrowing of funds
Peninsula Clubs and Consultancy Services Limited	Hong Kong	1,000,000 shares	100%*	Club management
HSH Management Services Limited	Hong Kong	10,000 shares	100%*	Management and marketing services
Peninsula New York Hotel LLC	United States of America	Contributed capital of US$323,500,000	100%*	Hotel investment
Peninsula Chicago LLC	United States of America	Contributed capital of US$57,038,089	100%*	Hotel investment
Quail Lodge, Inc.	United States of America	10,652 shares of US$100 each	100%*	Golf club, resort and property investment
Peninsula of Tokyo Limited	Japan	200 shares of JPY50,000 each	100%*	Hotel investment
The Palace Hotel Co., Ltd.	People's Republic of China	Registered capital of US$161,921,686	76.6%**	Hotel investment
Manila Peninsula Hotel, Inc.	The Philippines	111,840,386 shares of Pesos 10 each	77.36%*	Hotel investment
Siam Chaophraya Holdings Company Limited	Thailand	250,000 ordinary shares of THB2,000 each	75%*	Hotel investment
Town and Country Sport Club Company Limited	Thailand	1,250,000 ordinary shares of THB100 each^Δ	75%*	Golf club and property investment
International Burotel Company Limited	Vietnam	Registered capital of US$6,866,667	70%#	Property investment

13. Investment in subsidiaries (HK$m) continued

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
Peninsula International (Lux) Limited S.à r.l.	Luxembourg/ France	12,500 shares of EUR1 each	100%*	Investment holding
Peninsula Paris Hotel Management SARL	France	2 shares of EUR1 each	100%*	Hotel management
Le 21 Avenue Kléber SNC	France	1,000 shares of EUR1 each	100%*	Property investment
HSH London Limited ΔΔ	United Kingdom	1 share of GBP1	100%*	Investment holding
Peninsula London Limited ΔΔ	United Kingdom	2 shares of GBP1 each	100%*	Investment holding

* Indirectly held.

** The Palace Hotel Co., Ltd. ("TPH") is a sino-foreign co-operative joint venture.

\# The Group owns 50% of the economic interest of International Burotel Company Limited with a reversionary interest to the Vietnam partner at the end of the joint venture period.

Δ 5,000 shares are fully paid up and the remaining 1,245,000 shares are partially paid up at THB25 each.

ΔΔ The two companies jointly hold a 100% interest in Peninsula London, LP ("PLLP"), a limited partnership formed in the United Kingdom. PLLP is a joint operator of a property in London known as 1-5 Grosvenor Place, London. (note 12(d)).

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

14. Interest in a joint venture (HK$m)

	Group	
	2014	2013
Share of net assets	**495**	524
Loans to a joint venture (note 14(b))	**521**	521
	1,016	1,045

(a) Details of the joint venture are as follows:

Company name	Form of business structure	Place of incorporation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
The Peninsula Shanghai (BVI) Limited ("TPS")	Incorporated	British Virgin Islands	US$1,000	50%	Investment holding

* The Group's interest in TPS is held indirectly by the Company. TPS holds a 100% direct interest in Evermore Gain Limited ("EGL"), a company incorporated in Hong Kong in 2007, which in turn holds a 100% direct interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"). PSW is a wholly-owned foreign enterprise incorporated in the People's Republic of China and is engaged in the development and operation of The Peninsula Shanghai hotel, Peninsula hotel apartments, a retail arcade and ancillary facilities. At 31 December 2014, the paid up capital of EGL and PSW amounted to HK$1(2013: HK$1) and US$117,500,000 (2013: US$117,500,000) respectively.

(b) The loans to the joint venture are denominated in US dollars, unsecured, interest free and have no fixed repayment terms. Further details of the loans are disclosed in note 30(c).

(c) PSW has pledged its properties inclusive of the land use rights as security for a loan facility amounting to RMB2,500 million. As at 31 December 2014, the loan drawn down amounted to HK$2,367 million (RMB1,893 million) (2013: HK$2,825 million (RMB2,209 million)). The net carrying amount of these pledged assets amounted to HK$5,278 million (RMB4,221 million) (2013: HK$6,108 million (RMB4,776 million)).

14. Interest in a joint venture (HK$m) continued

(d) Set out below is a summary of the financial information on the joint venture, of which the Group has a 50% share:

	Group	
	2014	2013
Non-current assets	**5,019**	5,201
Current assets	**475**	1,189
Current liabilities	**(516)**	(955)
Non-current liabilities	**(3,989)**	(4,388)
Net assets	**989**	1,047
Income*	**1,639**	553
Cost of inventories and operating expenses	**(1,392)**	(461)
EBITDA	**247**	92
Depreciation	**(96)**	(102)
Net financing charges	**(175)**	(195)
Loss before non-operating item	**(24)**	(205)
Non-operating item, net of tax**	**12**	(355)
Loss for the year	**(12)**	(560)
The Group's share of result of the joint venture	**(6)**	(280)

* Including proceeds of HK$1,044 million (2013: HK$nil) from sale of apartments.

** Being net valuation adjustment of investment properties.

15. Interest in associates (HK$m)

	Group	
	2014	2013
Interest in associates	**807**	822

15. Interest in associates (HK$m) continued

(a) Details of the principal unlisted associates which are accounted for using the equity method in the Group's consolidated financial statements, are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up /contributed capital	Group's effective interest*	Principal activity
Al Maha Majestic S.à r.l. ("Al Maha") **	Incorporated	Luxembourg/ France	EUR 12,500	20%	Investment holding
Majestic EURL ("Majestic")	Incorporated	France	EUR 80,000,000	20%	Hotel investment and investment holding
Le 19 Avenue Kléber	Incorporated	France	EUR 100,000	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.

** Al Maha holds a 100% direct interest in Majestic which owns The Peninsula Paris.

\# BHP holds a 100% interest in The Peninsula Beverly Hills. BHP was previously classified by the Group as an unlisted equity instrument and was stated at cost less impairment provision. Having reviewed the accounting treatment of the Group's interest in BHP, the Directors believe that it is more appropriate for the Group to account for BHP as an associate. Accordingly, the Group's interest in BHP was reclassified as an associate on 31 December 2013. The reclassification did not have any material impact on the financial position and the financial result of the Group for the year ended 31 December 2013.

(b) Included in the balance of interest in associates are loans to Al Maha of HK$796 million (2013: HK$822 million). Further details of these loans are disclosed in note 30(b).

(c) Majestic has pledged its hotel propertry as security for a loan facility amounting to EUR217 million (HK$2,047 million). As at 31 December 2014, the loan drawn down amounted to EUR217 million (HK$2,047 million) (31 December 2013: EUR208 million (HK$2,230 million)). As at 31 December 2014, the net carrying amount of these pledged assets amounted to EUR654 million (HK$6,169 million) (31 December 2013: EUR566 million (HK$6,056 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) (31 December 2013: US$140 million (HK$1,092 million)). The net carrying amount of the pledged assets amounted to US$54.8 million (HK$427 million) (31 December 2013: US$76 million (HK$593 million)).

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

	Group	
	2014	2013 **
Net loss from continuing operations, including pre-opening expenses	**(175)***	–
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**(175)**	–
The Group's share of results of the associates	**(35)**	–

* Including HK$109 million pre-opening expenses incurred by The Peninsula Paris which opened for business on 1 August 2014. Prior to the opening of The Peninsula Paris, the Group's share of results of Le 19 Avenue Kléber, Majestic and Al Maha was immaterial.

** The Group did not equity account for the result of The Peninsula Beverly Hills in 2013 as BHP was previously classified as an unlisted equity instrument and was only reclassified as an associate on 31 December 2013.

16. Hotel operating rights (HK$m)

	Group	
	2014	2013
Cost		
At 1 January	**801**	775
Exchange adjustments	**(74)**	26
At 31 December	**727**	801
Accumulated amortisation		
At 1 January	**(108)**	(105)
Amortisation for the year	**(8)**	(3)
At 31 December	**(116)**	(108)
Net book value	**611**	693

The amortisation charge for the year is included in "Depreciation and amortisation" in the consolidated income statement.

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)

	Group			
	2014		2013	
	Assets	**Liabilities**	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	**–**	**(38)**	8	(35)
Less: Portion to be settled within one year				
Cash flow hedges:				
Interest rate swaps	**–**	**–**	–	(13)
Portion to be recovered/(settled) after one year	**–**	**(38)**	8	(22)

18. Income tax in the statement of financial position (HK$m)

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

	Group		Company	
	2014	2013	**2014**	2013
Provision for Hong Kong profits tax for the year (note 5(a))	**127**	84	**7**	5
Provisional profits tax paid	**(80)**	(57)	**(4)**	(5)
	47	27	**3**	–
Balance of Hong Kong profits tax provision relating to prior years	**–**	(4)	**–**	–
Provision for overseas taxes	**19**	20	**–**	–
	66	43	**3**	–
Represented by:				
Tax recoverable (note 20)	**(4)**	(5)	**–**	–
Current tax payable (included in current liabilities)	**70**	48	**3**	–
	66	43	**3**	–

(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:

	Group					
	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 2013	351	487	(22)	(201)	(6)	609
Charged to profit or loss	215	147	(2)	(259)	–	101
Charged/(credited) to reserves	(12)	(1)	–	1	6	(6)
At 31 December 2013 and at 1 January 2014	554	633	(24)	(459)	–	704
Charged/(credited) to profit or loss	**17**	**7**	**(3)**	**31**	**–**	**52**
Charged/(credited) to reserves	**(9)**	**–**	**–**	**–**	**(2)**	**(11)**
At 31 December 2014	**562**	**640**	**(27)**	**(428)**	**(2)**	**745**

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable.

18. Income tax in the statement of financial position (HK$m) continued

(b) Deferred tax assets and liabilities recognised continued

The following amounts, determined after appropriate offsetting, are shown separately on the statement of financial position.

	Group	
	2014	2013
Net deferred tax assets	**40**	28
Net deferred tax liabilities	**(785)**	(732)
	(745)	(704)

In accordance with the accounting policy set out in note 33(q), the Group has not recognised deferred tax assets totalling HK$537 million (2013: HK$539 million) in respect of certain accumulated tax losses of HK$1,379 million (2013: HK$1,328 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. Details of the expiry date of unused tax losses are as follows:

	Group	
	2014	2013
Within one year	**–**	66
After one year but within five years	**672**	533
After five years but within 20 years	**630**	672
Without expiry date	**77**	57
	1,379	1,328

In accordance with the accounting policy set out in note 33(q), the Group has not recognised deferred tax liabilities totalling HK$9 million (2013: HK$17 million) in respect of undistributed profits of certain subsidiaries amounting to HK$92 million (2013: HK$171 million) as the Company controls the dividend policy of these subsidiaries and it is not likely that dividends will be declared by these subsidiaries in the foreseeable future.

19. Inventories (HK$m)

	Group	
	2014	2013
Food and beverage and others	**92**	100

The cost of inventories recognised as expenses in the consolidated income statement amounted to HK$467 million (2013: HK$463 million).

20. Trade and other receivables (HK$m)

	Group		Company	
	2014	2013	**2014**	2013
Loans and other receivables due from subsidiaries	**–**	–	**14,161**	13,983
Provision for impairment	**–**	–	**(1,786)**	(1,786)
	–	–	**12,375**	12,197
Trade debtors	**241**	242	**–**	–
Loans and receivables	**241**	242	**12,375**	12,197
Rental deposits, payments in advance and other receivables	**338**	328	**6**	6
Tax recoverable (note 18(a))	**4**	5	**–**	–
	583	575	**12,381**	12,203

Loans and other receivables due from subsidiaries are unsecured, interest free and have no fixed terms of repayment except for an amount of HK$2,279 million (2013: HK$2,920 million), which bears fixed interest or interest at market rates plus a margin mutually agreed by the relevant parties.

The amount of the Group's and the Company's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK$88 million (2013: HK$133 million) and HK$10,945 million (2013: HK$9,142 million) respectively. 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:

	Group	
	2014	2013
Current	**215**	196
Less than one month past due	**18**	32
One to three months past due	**6**	12
More than three months but less than 12 months past due	**2**	2
Amounts past due	**26**	46
	241	242

Trade debtors are normally due within 30 days from the date of billing. The Group's credit policy is set out in note 27(d).

No impairment is considered necessary for any of the trade debtors including those that are past due as they relate to a wide range of independent customers that have a good track record with the Group, with no recent history of default and are considered by the management to be fully recoverable.

21. Cash at banks and in hand (HK$m)

	Group		Company	
	2014	2013	**2014**	2013
Interest-bearing bank deposits	**2,305**	1,378	**141**	30
Cash at banks and in hand	**172**	116	**1**	1
Total cash at banks and in hand	**2,477**	1,494	**142**	31
Less: Bank deposits with maturity of more than three months	**(1,633)**	(440)	**(65)**	–
Bank overdrafts (note 23)	**(5)**	(18)	**–**	–
Cash and cash equivalents in the consolidated statement of cash flows	**839**	1,036	**77**	31

Cash at banks and in hand at the end of the reporting period include deposits with banks of HK$989 million (2013: HK$920 million) held by overseas subsidiaries which are subject to regulatory and foreign exchange restrictions.

22. Trade and other payables (HK$m)

	Group		Company	
	2014	2013	**2014**	2013
Trade creditors	**145**	140	**–**	–
Interest payable	**7**	6	**–**	–
Accruals for fixed assets	**50**	103	**–**	–
Tenants' deposits	**381**	357	**–**	–
Guest deposits and gift vouchers	**139**	140	**–**	–
Golf membership deposits	**99**	102	**–**	–
Other payables	**619**	603	**22**	18
Other payables to subsidiaries	**–**	–	**62**	76
Financial liabilities measured at amortised cost	**1,440**	1,451	**84**	94
Less: Non-current portion of trade and other payables	**(260)**	(276)	**–**	–
Current portion of trade and other payables	**1,180**	1,175	**84**	94

The amount of trade and other payables of the Group expected to be settled or recognised as income after more than one year is HK$375 million (2013: HK$369 million). All the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The director considers that, the carrying amounts of all trade and other payables approximate their fair value.

22. Trade and other payables (HK$m) continued

The ageing analysis of trade creditors is as follows:

	Group	
	2014	2013
Less than three months	**142**	138
Three to six months	**3**	1
More than six months	**–**	1
	145	140

23. Interest-bearing borrowings (HK$m)

	Group	
	2014	2013
Total facilities available:		
Term loans and revolving credits	**6,359**	6,535
Uncommitted facilities, including bank overdrafts	**336**	276
	6,695	6,811
Utilised at 31 December:		
Term loans and revolving credits	**5,477**	5,519
Uncommitted facilities, including bank overdrafts	**44**	18
	5,521	5,537
Less: Unamortised financing charges	**(40)**	(51)
	5,481	5,486
Represented by:		
Short-term bank loans, repayable within one year or on demand	**873**	532
Bank overdrafts, repayable on demand (note 21)	**5**	18
	878	550
Long-term bank loans, repayable:		
Between one and two years	**716**	951
Between two and five years	**3,797**	4,036
Over five years	**130**	–
	4,643	4,987
Less: Unamortised financing charges	**(40)**	(51)
Non-current portion of long-term bank loans	**4,603**	4,936
Total interest-bearing borrowings	**5,481**	5,486

All of the non-current interest-bearing borrowings are carried at amortised cost. The non-current portion of long-term bank loans is not expected to be settled within one year and all borrowings are unsecured.

All of the Group's banking facilities are subject to the fulfilment of covenants relating to some of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 27(c). As at 31 December 2014 and 2013, none of the covenants relating to drawn down facilities had been breached.

24. Share capital

	2014		2013	
	No. of shares (million)	**HK$m**	No. of shares (million)	HK$m
Authorised: (note i)				
Ordinary share of HK$0.5 each (note ii)	**–**	**–**	1,800	900
Ordinary shares, issued and fully paid:				
At 1 January	**1,502**	**751**	1,502	751
Shares issued under scrip dividend scheme (note iv)	**15**	**170**	–	–
Transition to no-par value regime on 3 March 2014 (note iii)	**–**	**3,623**	–	–
At 31 December	**1,517**	**4,544**	1,502	751

All ordinary shares issued during 2014 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.

Notes

i) Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

ii) In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

iii) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622) on 3 March 2014 any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the company's share capital.

iv) During 2014, the Company issued and allotted new shares which were fully paid under the scrip dividend scheme as follows:

	Number of shares	Scrip price	Increase in share capital
	million	HK$	HK$m
2013 final scrip dividend	10.7	11.188	120
2014 interim scrip dividend	4.2	11.836	50
	14.9		170

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

	Share premium	Capital redemption reserve	Capital reserve	Hedging reserve	Retained profits	Total
At 1 January 2013	3,610	13	4,975	5	2,760	11,363
Profit for the year	–	–	–	–	241	241
Other comprehensive income	–	–	–	(5)	–	(5)
Total comprehensive income for the year	–	–	–	(5)	241	236
Dividends approved in respect of the previous year	–	–	–	–	(150)	(150)
Dividends approved in respect of the current year	–	–	–	–	(60)	(60)
At 31 December 2013	3,610	13	4,975	–	2,791	11,389
At 1 January 2014	**3,610**	**13**	**4,975**	**–**	**2,791**	**11,389**
Profit for the year	**–**	**–**	**–**	**–**	**382**	**382**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**382**	**382**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**(180)**	**(180)**
Dividends approved in respect of the current year	**–**	**–**	**–**	**–**	**(76)**	**(76)**
Transition to no-par value regime on 3 March 2014	**(3,610)**	**(13)**	**–**	**–**	**–**	**(3,623)**
At 31 December 2014	**–**	**–**	**4,975**	**–**	**2,917**	**7,892**

25. Reserves (HK$m) continued

(b) Nature and purpose of reserves

Share premium and capital redemption reserve

Prior to 3 March 2014, the application of the share premium account and the capital redemption reserve was governed by sections 48B and 49H respectively of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014 any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the company's share capital (see note 24). The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

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(e).

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(t). Other reserves mainly comprise other comprehensive income recognised for the remeasurement of net defined benefit retirement obligations, the relevant accounting policies for which are set out in note 33(p).

(c) Distributability of reserves

At 31 December 2014, the aggregate amount of reserves available for distribution to shareholders of the Company, as calculated under the provisions of Part 6 of the new Hong Kong Companies Ordinance (Cap. 622), was HK$2,917 million (2013: HK$2,791 million). After the end of the reporting period, the Directors proposed a final dividend of 18 HK cents per share (2013: 12 HK cents per share), amounting to HK$273 million (2013: HK$180 million). This dividend has not been recognised as a liability at the end of the reporting period.

(d) Capital management

The Group takes a long term view of its business and consequently the planning of the use of capital. The Group's primary objectives when managing its capital are to safeguard the Group's ability to continue as a going concern, to secure access to finance at a reasonable cost relative to risk and to provide an appropriate return to shareholders. In so doing, it seeks to achieve an appropriate balance between shareholders' equity and external debt by taking into account the cost of capital and the efficiency of using the capital.

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

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

25. Reserves (HK$m) continued

(d) Capital management continued

The Group monitors its capital structure on the basis of its gearing ratio, which is expressed as the percentage of net borrowings (defined as interest-bearing loans and 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 venture), if any, are also taken into account. The calculations of gearing ratios before and after the non-consolidated entities as at 31 December 2014 and 2013 are as follows:

(HK$m)	2014	2013
Interest-bearing borrowings	5,481	5,486
Less: Cash at banks and in hand	(2,477)	(1,494)
Net borrowings per the statement of financial position	3,004	3,992
Share of net borrowings of non-consolidated entities	1,680	1,938
Net borrowings adjusted for non-consolidated entities	4,684	5,930
Equity attributable to shareholders of the Company per the statement of financial position	35,901	35,105
Equity plus net borrowings per the statement of financial position	38,905	39,097
Equity plus net borrowings adjusted for non-consolidated entities	40,585	41,035
Gearing ratio based on the Financial Statements	8%	10%
Gearing ratio adjusted for non-consolidated entities	12%	14%

During 2014, the Group continued to operate within its long term treasury management guidelines. Operating and investment decisions are made by making reference to 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 2014 and 2013. Except for the above, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26. Employee retirement benefits

(a) Defined benefit retirement obligations

The Group maintains several defined benefit retirement plans covering 612 employees (2013: 634 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 2014.

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.

26. Employee retirement benefits continued

(a) Defined benefit retirement obligations continued

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 2014. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were 78% (2013: 77%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2014.

The amounts recognised in the Group's statement of financial position are as follows (HK$m):

	Group	
	2014	2013
Present value of wholly or partly funded obligations	**50**	50
Fair value of plan assets	**(33)**	(32)
	17	18

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay HK$5 million (2014: HK$4 million) in contributions to defined benefit retirement plans in 2015.

Plan assets consist of the following (HK$m):

	Group	
	2014	2013
Debt instruments	**23**	22
Investment funds	**7**	7
Equity investment and others	**3**	3
	33	32

The Group's assets-liabilities matching objective is to match maturities of the plan assets to the retirement benefit obligations as they fall due.

Movements in the present value of the defined benefit obligations (HK$m):

	Group	
	2014	2013
At 1 January	**50**	52
Exchange adjustments	**–**	(3)
Benefits paid by the plans	**(5)**	(6)
Current service cost	**4**	4
Interest cost	**2**	3
Actuarial gain	**(1)**	–
At 31 December	**50**	50

26. Employee retirement benefits continued

(a) Defined benefit retirement obligations continued

Movements in plan assets (HK$m):

	Group	
	2014	2013
At 1 January	**32**	33
Exchange adjustments	**–**	(2)
Group's contributions paid to the plans	**4**	4
Benefits paid by the plans	**(5)**	(6)
Interest income	**1**	2
Return on plan assets, excluding interest income	**1**	1
At 31 December	**33**	32

Amounts recognised in "staff costs and related expenses" in the consolidated income statement and statement of comprehensive income are as follows (HK$m):

	Group	
	2014	2013
Consolidated income statement		
Current service cost	**4**	4
Interest cost	**2**	3
Interest income	**(1)**	(2)
	5	5
Consolidated statement of comprehensive income		
Actuarial gain on:		
Remeasurement of plan assets	**(1)**	(1)
Remeasurement of defined benefit obligations	**(1)**	–
	(2)	(1)

The principal actuarial assumptions used as at 31 December 2014 are as follows:

	Group	
	2014	2013
Discount rate	**from 3.25% to 6.5%**	from 4% to 6.5%
Future salary increases	**4%**	4%

26. Employee retirement benefits continued

(a) Defined benefit retirement obligations continued

The analysis below shows how the defined benefit obligations as at 31 December 2014 would have increased/ (decreased) as a result of changes in the significant actuarial assumptions:

	Defined benefit obligation	
(HK$m)	Increase	Decrease
Discount rate (0.5% change)	(1)	1
Future salary increases (1% change)	2	(1)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(b) Defined contribution retirement plans

The Group has a defined contribution retirement plan covering 1,567 employees (2013: 1,518 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% (2013: 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 490 employees (2013: 509 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 2,340 employees (2013: 2,362 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$109 million (2013: HK$101 million) and was charged to the income statement 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.

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 income statement.

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 income statement 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 2014 and 2013, the Group did not hedge any net investment in foreign subsidiaries.

Exposure to foreign exchange risk

The following table details the Group's and the Company'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 operation, joint venture and associates are excluded.

27. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Exposure to foreign exchange risk continued

	Group								
	2014					2013			
(million)	United States Dollars	Euro	Great Britain Pounds	Japanese Yen	Philippine Pesos	United States Dollars	Renminbi	Philippine Pesos	Japanese Yen
Trade and other receivables	25	4	1	–	–	46	–	–	–
Cash at banks and in hand	25	–	–	–	4	8	–	4	–
Trade and other payables	(21)	–	–	(43)	–	(24)	(4)	–	(36)
Derivative financial instruments	–	–	–	–	–	–	–	–	–
Interest-bearing borrowings	–	–	–	–	–	–	–	–	–
Net exposure arising from recognised assets and liabilities	29	4	1	(43)	4	30	(4)	4	(36)

	Company			
	2014		2013	
(million)	United States Dollars	Philippine Pesos	United States Dollars	Philippine Pesos
Trade and other receivables	14	–	32	–
Trade and other payables	(9)	–	(13)	–
Cash at banks and in hand	18	4	4	4
Overall net exposure	23	4	23	4

Based on the sensitivity analysis performed as at 31 December 2014, 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. All of the Group's borrowings bear floating interest rates that are reset on a regular basis as market interest rates change and hence 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 2014, the Group had interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK$1,788 million (2013: HK$2,090 million) maturing over the next four years (2013: five 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 2014:

	31 December 2014	31 December 2013
Hong Kong Dollars	**1.5% to 1.6%**	1.5% to 1.6%
United States Dollars	**–**	0.6% to 0.7%
Japanese Yen	**1.5% to 2.1%**	1.5% to 2.1%
Euros	**1.2%**	1.2%

The net fair value of all the swaps entered into by the Group at 31 December 2014 was as follows (HK$m):

	Group	
	2014	2013
Cash flow hedges (note 17)	**(38)**	(27)

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.

	Group			
	2014		2013	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**2.8%**	**2,438**	2.8%	2,460
Floating rate borrowings:				
Bank loans	**1.6%**	**3,043**	1.7%	3,026
Total interest-bearing borrowings		**5,481**		5,486
Fixed rate borrowings as a percentage of total borrowings		**44%**		45%

27. Financial risk management and fair values continued

(b) Interest rate risk continued

On the other hand, at 31 December 2014 and 2013, the Group and the Company had short term bank deposits. Since these deposits are placed for short term liquidity purposes, the Group and the Company have no intention to lock in their interest rates for the long term. In addition, the Company/Group grants interest-bearing loans to subsidiaries/a joint venture, which are subject to interest rate risk. The interest rate profile of these bank deposits and intra-group 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:

	Group				**Company**			
	2014		2013		**2014**		2013	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m	**Effective interest rate**	**HK$m**	Effective interest rate	HK$m
Fixed rate instruments:								
Loans to subsidiaries		**–**		–	**2.9%**	**1,104**		–
Amount due from a joint venture	**4.6%**	**188**	4.8%	192		**–**		–
Floating rate instruments:								
Bank deposits	**2.2%**	**2,305**	2.6%	1,378	**1.2%**	**141**	1.2%	30
Loans to subsidiaries		**–**		–	**0%**	**1,175**	0%	2,920
Total interest-bearing financial assets		**2,493**		1,570		**2,420**		2,950

Sensitivity analysis

The Group and the Company

The following tables indicate the approximate changes in the Group's and the Company'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 2014 and 2013, 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.

27. Financial risk management and fair values continued

(b) Interest rate risk continued

Sensitivity analysis continued

	Group					
	2014 Increase/(decrease) in			2013 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**	**7**	**–**	100	7	–
	(100)	**(7)**	**–**	(100)	(7)	–
Thai Baht	**100**	**(3)**	**–**	100	(2)	–
	(100)	**2**	**–**	(100)	2	–
Japanese Yen	**50**	**(3)**	**6**	50	(4)	9
	(50)	**3**	**(6)**	(50)	4	(9)
Philippine Pesos	**200**	**–**	**–**	200	(1)	–
	(200)	**–**	**–**	(200)	1	–
HK Dollars	**100**	**(2)**	**31**	100	(6)	39
	(100)	**2**	**(33)**	(100)	6	(40)
US Dollars	**100**	**(4)**	**–**	100	(4)	2
	(100)	**4**	**–**	(100)	4	(2)
Euros	**100**	**(1)**	**13**	100	(1)	19
	(100)	**1**	**(14)**	(100)	1	(20)

	Company					
	2014 Increase/(decrease) in			2013 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)
HK Dollars	**100**	**10**	**–**	100	24	–
	(100)	**(10)**	**–**	(100)	(24)	–
US Dollars	**100**	**1**	**–**	100	1	–
	(100)	**(1)**	**–**	(100)	(1)	–

The sensitivity analysis above indicates the instantaneous change in the Group's and the Company'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 and the Company'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 2013.

27. Financial risk management and fair values continued

(c) Liquidity risk

Borrowings and cash management, including short term investment of surplus cash, are arranged centrally to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that it maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to meet its obligations and commitments in the short and longer term.

At 31 December 2014, total available borrowing facilities amounted to HK$6,695 million (2013: HK$6,811 million), of which HK$5,521 million (2013: HK$5,537 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$882 million (2013: HK$1,016 million).

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company'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 and the Company can be required to pay:

	Group											
	2014						2013					
		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	**145**	**145**	**145**	**–**	**–**	**–**	140	140	140	–	–	–
Interest payable	**7**	**7**	**7**	**–**	**–**	**–**	6	6	6	–	–	–
Accruals for fixed assets	**50**	**50**	**50**	**–**	**–**	**–**	103	103	103	–	–	–
Tenants' deposits	**381**	**381**	**141**	**152**	**84**	**4**	357	357	183	53	108	13
Guest deposits and gift vouchers	**139**	**139**	**139**	**–**	**–**	**–**	140	140	140	–	–	–
Golf membership deposits	**99**	**99**	**–**	**–**	**–**	**99**	102	102	–	–	–	102
Other payables	**619**	**619**	**619**	**–**	**–**	**–**	603	603	603	–	–	–
Interest-bearing borrowings	**5,481**	**5,795**	**951**	**784**	**3,925**	**135**	5,486	5,814	628	951	4,235	–
Interest rate swaps (net settled)	**38**	**88**	**25**	**25**	**38**	**–**	35	53	14	13	26	–
Current taxation	**70**	**70**	**70**	**–**	**–**	**–**	48	48	48	–	–	–
	7,029	**7,393**	**2,147**	**961**	**4,047**	**238**	7,020	7,366	1,865	1,017	4,369	115

27. Financial risk management and fair values continued

(c) Liquidity risk continued

	Company											
	2014						2013					
		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
Other payables	22	22	22	–	–	–	18	18	18	–	–	–
Other payables to subsidiaries	62	62	62	–	–	–	76	76	76	–	–	–
Current taxation	3	3	3	–	–	–	–	–	–	–	–	–
	87	87	87	–	–	–	94	94	94	–	–	–
Financial guarantee issued:												
– maximum amount guaranteed (note 29)	–	5,516	5,516	–	–	–	–	5,519	5,519	–	–	–

The Company has also issued guarantees in respect of other banking facilities for its subsidiaries. Of the HK$40 million (2013: HK$38 million) guaranteed (note 29), HK$38 million (2013: HK$35 million) represented the fair value of the derivative financial instruments. The notional value of these derivative financial instruments amounted to HK$1,788 million (2013: HK$2,090 million) as at 31 December 2014.

(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 2014, cash at banks and in hand amounted to HK$2,477 million (2013: HK$1,494 million), of which HK$2,030 million (2013: HK$1,094 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 2014 is summarised in note 20.

27. Financial risk management and fair values continued

(d) Credit risk continued

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. Except for the financial guarantee given by the Group as set out in note 29, the Group does not provide any other guarantee which would expose the Group or the Company to any material credit risk.

(e) Fair values (HK$m)

(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 2014. Some of the loans to subsidiaries are at floating interest rates and the carrying amount of these loans approximate their fair value. Other loans to subsidiaries and 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 or Company 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.

27. Financial risk management and fair values continued

(f) Estimation of fair values continue

Derivative financial instruments continued

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

	31 December 2014	31 December 2013
Hong Kong Dollars	0.2% – 2.7%	0.2% – 3.7%
United States Dollars	–	0.2% – 0.3%
Japanese Yen	0.1% – 0.2%	0.1% – 0.5%
Euros	0.1% – 0.3%	0.3% – 2.0%

28. Commitments (HK$m)

(a) Capital commitments outstanding at 31 December 2014 not provided for in the Financial Statements were as follows:

	Group					
	2014			2013		
	Contracted for	Authorised but not contracted for	Total	Contracted for	Authorised but not contracted for	Total
Capital commitments of the Group	242	2,523	2,765	84	1,962	2,046
The Group's share of capital commitments of						
– a joint venture	–	10	10	–	9	9
– associates	–	17	17	86	124	210
	242	2,550	2,792	170	2,095	2,265

The Group's capital commitments include the authorised capital expenditure for the renovations of The Peninsula Beijing, The Peninsula Chicago, 21 avenue Kléber and Quail Lodge as well as normal capital expenditure for the Group's existing properties. In respect of The Peninsula London and The Peninsula Yangon projects, the figures include the amounts authorised to complete the studies and continuous work for planning and preparation up to the start of construction.

28. Commitments (HK$m) continued

(b) At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases of the Group in respect of land and buildings are (receivable)/payable as follows:

	Group			
	Receivable		Payable	
	2014	2013	**2014**	2013
Within one year	**(1,098)**	(1,002)	**157**	165
After one year but within five years	**(1,319)**	(1,193)	**538**	595
After five years	**(1,166)**	(60)	**6,416**	7,064
	(3,583)	(2,255)	**7,111**	7,824

Following the completion of the restructuring of The Palace Hotel Co., Ltd. ("TPH") on 13 December 2002, the Group is committed to making an annual payment of a minimum of RMB8 million to China Everbright Group Limited ("CEG") up to and including 11 November 2033 (the "Annual Payment"). The Annual Payment is a deemed lease payment and is included as a payment under non-cancellable operating leases of the Group.

The Peninsula Manila, the hotel owned by Manila Peninsula Hotel, Inc. ("MPHI"), is situated on a piece of land which belongs to Ayala Hotel, Inc. ("Ayala"). The hotel land lease was negotiated in 1975 by the management of MPHI at the time with Ayala in the ordinary and usual course of business based on normal commercial terms and on an arm's length basis (the "Land Lease"). The initial term of the Land Lease was from 31 December 1975 to 31 December 2001 and has been renewed until 31 December 2027 on the same terms and conditions. Pursuant to the terms and conditions, MPHI is committed to paying Ayala annual rental at 5% of its gross income on a quarterly basis.

The Peninsula New York leases a piece of land on which its hotel is situated from a third party under a 99-year lease, commencing in 1979. The present annual lease payment amounts to US$5 million and the lease payment is subject to a pre-determined inflation adjustment every 25 years.

The Group entered into a 50-year lease with respect to The Peninsula Tokyo, commencing in 2007. The minimum annual rental amounts to JPY1,181 million, which will be adjusted based on an inflation index every 10 years. In addition to the minimum annual rental, the lease is subject to contingent rental calculated based on the operating results of the hotel.

Other than above, the Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held 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 items are renegotiated. None of these leases include contingent rentals.

29. Contingent liabilities (HK$m)

Contingent liabilities at 31 December are analysed as follows:

	Group		Company	
	2014	2013	**2014**	2013
Guarantees issued for subsidiaries				
– in respect of bank borrowings	**–**	–	**5,516**	5,519
– in respect of other banking facilities	**–**	–	**40**	38
	–	–	**5,556**	5,557

The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries, as their fair value cannot be reliably measured using observable market data and their transaction price was HK$nil.

The Directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect at 31 December 2014 and 2013.

30. Material related party transactions

Other than the Directors' remuneration and the loans advanced to a joint venture and an associate as disclosed in note 14 and note 15 respectively, material related party transactions are set out as follows:

(a) Under a three-year tenancy agreement which commenced on 1 April 2013, a wholly owned subsidiary of the Company, HSH Management Services Limited ("HMS"), leased the 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rent of HK$1,540,452 per month plus a monthly service charge of HK$182,224 from Kadoorie Estates Limited ("KEL"), which is the agent of the registered owner which is controlled by one of the substantial shareholders of the Company. With effect from 1 January 2014, the monthly service charge was revised to HK$191,617. The rent and service charge incurred in 2014 amounted to HK$20 million (2013: HK$19 million). This tenancy agreement falls under the Listing Rules as a continuing connected transaction. Further details of this continuing connected transaction are disclosed in the Directors' Report.

(b) Unsecured shareholder's loans amounting to EUR88.9 million (2013: EUR76.8 million) were granted by Peninsula International (Lux) Limited S.à.r.l., a wholly owned subsidiary of the Company, to Al Maha Majestic S.à r.l. ("Al Maha"), a 20% associate of the Group. These loans were made pro rata to the Group's shareholding in Al Maha and bear interest at rates related to the rates published by the French tax authorities. Of the balance of EUR88.9 million, EUR42.8 million is repayable in April 2017 and the remaining balance is repayable in December 2020.

(c) Unsecured and interest free shareholder's loans amounting to US$66.85 million (HK$521 million) (2013: US$66.85 million (HK$521 million)) were granted by Peninsula International Investment Holdings Limited ("PIIHL"), a wholly owned subsidiary of the Company, to The Peninsula Shanghai (BVI) Limited ("TPS"), a 50% joint venture of the Group. The loans were provided in proportion to PIIHL's shareholding in TPS and are unsecured, interest free and have no fixed terms of repayment. TPS owns a 100% interest in Evermore Gain Limited ("EGL") which in turn holds a 100% interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"), a foreign owned enterprise incorporated in the People's Republic of China, engaged in the operation of The Peninsula Shanghai Complex. As at 31 December 2014, shareholder's loans amounting to US$58.75 million (HK$458 million) (2013: US$58.75 million (HK$458 million)) had been contributed as capital of PSW through EGL.

In addition, pursuant to a tripartite entrustment loan agreement dated 12 December 2011 entered into among The Palace Hotel Co., Ltd. ("TPH"), a sino-foreign co-operative joint venture established in the People's Republic of China, which holds a 100% interest in The Peninsula Beijing, PSW and a PRC branch of an international bank (the "agent bank"), entrustment loans were on-lent by TPH to PSW via the agent bank starting from 15 December 2011. As at 31 December 2014, the balance of entrustment loans amounted to RMB150 million (HK$187.6 million) (2013: RMB150 million (HK$191.8 million)). The loans are repayable on 12 June 2015 and bear an annual interest of 4.55%, which was fixed by reference to the deposit rate published by The People's Bank of China on the day on which the draw down was made plus a margin of 200 basis points.

31. Non-adjusting post reporting period events

After the end of the reporting period, the Directors proposed a final dividend, the details of which are disclosed in note 10.

32. Key sources of estimation uncertainty

Notes 26(a) and 27 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Valuation of investment properties

Investment properties are included in the statement of financial position at their open market value, which is assessed 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(j). 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;
- significant negative industry or economic trends.

(d) Deferred tax assets

The Group reviews the carrying amounts of deferred taxes at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilised.

33. Significant accounting policies

(a) Basis of preparation of the Financial Statements

The consolidated Financial Statements for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a joint venture.

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(g)); and

ii) derivative financial instruments (see note 33(e))

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 and transactions 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.

33. Significant Accounting Policies continued

(b) Subsidiaries and non-controlling interests continued

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 income statement 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.

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(j)), 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(j)). 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 income statement, 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 an investment in an associate.

33. Significant Accounting Policies continued

(d) Joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under a joint operation, the Group as a joint operator recognises in relation to its interest in the joint operation:

- Its share of any assets held jointly;
- Its share of any liabilities incurred jointly;
- Its share of revenue from the sale of the output by the joint operation;
- Its share of any expenses incurred jointly

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

(e) 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.

33. Significant Accounting Policies continued

(f) 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(j)).

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(u)).

Depreciation is calculated to write off the carrying values of items of properties, plant and equipment, less their estimated residual values, if any, on a straight line basis over the shorter of the unexpired period of the land lease and the anticipated remaining useful lives of the assets. The useful lives which have been adopted are summarised as follows:

- leasehold land classified as held under finance leases is depreciated over the unexpired term of lease

• hotel buildings	75 to 150 years
• other buildings	50 years
• golf courses	100 years
• external wall finishes, windows, roofing and glazing works	10 to 40 years
• major plant and machinery	15 to 25 years
• furniture, fixtures and equipment	3 to 20 years
• operating equipment	3 to 5 years
• motor vehicles	5 to 10 years

No depreciation is provided on freehold land as it is deemed to have an indefinite life.

Where parts of an item of properties, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 33(i)) 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(s).

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(i)) 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(i).

33. Significant Accounting Policies continued

(h) 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(j)).

Amortisation of the operating rights is charged to profit or loss on a straight-line basis over the terms of the relevant operating periods.

(i) 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(g)); and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(j) 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.

If any such evidence exists, an impairment loss is determined and recognised as follows:

- For investments in associates and joint ventures recognised using 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(j)(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(j)(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.

33. Significant Accounting Policies continued

(j) Impairment of assets continued

(i) Impairment of financial assets continued

- For trade and other current receivables and other financial assets carried at 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.

(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.

– 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.

(k) Inventories

Land lots for sale and other inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

33. Significant Accounting Policies continued

(l) 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(j)), 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(j)).

(m) 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.

(n) 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(r), 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.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on 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.

(p) 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.

33. Significant Accounting Policies continued

(p) Employee benefits continued

Defined benefit retirement plan obligations continued

Service cost and net interest expense (income) on the net defined liability (asset) are recognised in profit or loss and allocated by function as part of "cost of sales", "distribution costs" or "administrative 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.

(q) 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.

33. Significant Accounting Policies continued

(q) Income tax continued

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(g), 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.

Current tax balances and deferred tax balances and movements therein, are presented separately from each other and are not offset.

(r) 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.

(s) 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 land lots

Revenue is recognised upon the transfer of legal title of the land lots. Deposits and instalments received on land lots sold prior to the date of revenue recognition are included in the statement of financial position under trade and other payables.

33. Significant Accounting Policies continued

(s) Revenue recognition continued

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.

(t) 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.

(u) 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.

(v) Related parties

(1) A person, or a close member of that person's family, is related to the Group if that person:

- i) has control or joint control over the Group;
- ii) has significant influence over the Group; or
- iii) is a member of the key management personnel of the Group or the Group's Parent.

33. Significant Accounting Policies continued

(v) 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).

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.

(w) 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

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting year of the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK(IFRIC) 21 – *Levies*

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting year.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these Financial Statements as the Group does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these Financial Statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these Financial Statements as the Group has not novated any of its derivatives.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these Financial Statements as the guidance is consistent with the Group’s existing accounting policies.

35. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2014

Up to the date of issue of these Financial Statements, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these Financial Statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 19, *Defined benefit plans:* Employee contributions	1 July 2014
Annual improvements to HKFRSs 2010-2012 cycle	1 July 2014
Annual improvements to HKFRSs 2011-2013 cycle	1 July 2014
Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
HKFRS 15, *Revenue from contracts with customers*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) came into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the Consolidated Financial Statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the Consolidated Financial Statements.

Independent Auditor's Report

Independent auditor's report to the shareholders of
The Hongkong and Shanghai Hotels, Limited

香港上海大酒店有限公司
(incorporated in Hong Kong with limited liability)

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 192 to 251, which comprise the consolidated and Company statements of financial position as at 31 December 2014, the consolidated income statement, 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 a summary of significant accounting policies and other explanatory information.

Directors' responsibilities for the Consolidated Financial Statements

The Directors of the Company are responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

Auditor's responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. This report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Consolidated Financial Statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

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

20 March 2015

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 Global Reporting Initiative's (GRI) disclosure framework, which is an internationally recognised set of indicators for economic, environmental and social aspects of business performance.

Performance Highlights [1]

			2014	2013	2012	2011	2010	2009	2006-08 baseline
Economic	**Revenue (incl. interest income)**	HK$m	**5,903**	5,554	5,234	5,058	4,731	4,233	–
	Operating costs	HK$m	**2,168**	2,164	2,051	1,986	1,847	1,698	–
	Employee wage and benefits	HK$m	**2,052**	1,951	1,842	1,728	1,639	1,512	–
	Capital expenditure	HK$m	**354**	3,183	985	335	261	281	–
	Payments to providers of capital	HK$m	**211**	372	227	195	171	192	–
	Tax payments to governments [2]	HK$m	**458**	362	437	422	376	396	–
	Total floor area	'000 m^2	**651**	588	588	588	588	518	518
	Total number of guest nights	'000	**1,277**	1,211	1,122	1,090	1,082	870	1,089
People	**Headcount**		**8,728**	8,216	8,006	7,759	7,730	7,415	–
	Turnover	%	**19.9%**	20.3%	19.2%	19.5%	19.4%	11.7%	–
	Headcount by Gender	% of Female	**42%**	41%	41%	41%	40%	41%	–
	Average training spend [3]	HK$	**2,322**	2,602	2,645	–	–	–	–
Health and Safety	**Training**								
	Health and safety training	'000 hours	**16**	19	17	11	–	–	–
	Safety								
	Injury rate [4]	reported incidents per 200,000 hours	**7.4**	7.2	7.6	9.5	–	–	–
	Lost day rate [4]	reported days per 200,000 hours	**75.6**	77.1	52.5	55.4	–	–	–
	Absentee rate	reported days/total days worked	**1.9%**	1.8%	–	–	–	–	–
Environment	**Greenhouse gas emissions [5]**	'000 tCO_2e	**116**	112	115	118	126	108	120
	Group carbon intensity	kg CO_2e per m^2	**181**	190	196	201	214	208	231
	Total energy use [5]	'000 GJ	**870**	842	842	865	894	784	860
	Energy intensity	MJ per m^2	**1,394**	1,431	1,430	1,471	1,520	1,512	1,659
	Energy saved through reduction initiatives	GJ	**6,517**	10,383	35,711	44,750[6]		3,540	–
	Direct water consumption	'000 m^3	**1,879**	1,846	1,795	1,813	1,831	1,558	1,921
	Water intensity								
	Hotels Division	litres per guest night	**1,132**	1,181	1,257	1,313	1,346	1,389	1,375
	Commercial Properties, Clubs & Services Division	litres per m^2	**1,765**	2,012	1,888	1,988	1,773	1,557	1,712
	Water recycled	'000 m^3	**124**	126	122	93	142	129	–
	Waste generated [7]	tonnes	**7,501**	6,926	6,807	–	–	–	–
	Waste recycled [7]	tonnes	**3,338**	2,719	2,350	–	–	–	–
Community	**Monetary Donations [8]**	HK$ '000	**4,197**	8,900	2,843	4,453	1,259	1,786	–
	Community Outreach								
	Service hours	hours	**11,667**	7,350	7,332	6,192	3,788	2,084	–
	Employee volunteers		**949**	835	591	942	2,420	1,004	–
	Internships & Retraining scheme								
	Training hours	'000 hours	**296**	404	392	540	305	87	–
	Participants		**614**	1,130	1,069	1,210	693	393	–

(1) Please refer to Reporting Scope on page 57 for the scope of businesses covered in the reporting of employee, health and safety, community and environmental performance.

(2) Inclusive of corporate income tax, property and real estate tax, payroll tax and other corporate taxes.

(3) Average training spend is based on total annual training spend per full-time equivalent.

(4) Injuries recorded include from minor first aid incidents to more severe incidents that required hospitalisation. There was no incident of occupational disease recorded in 2014. Lost days drop in 2014 despite injury rates increase due to the rise in minor injury with no or shorter lost day. 2011 and 2012 injury and lost day data did not include Quail Lodge & Golf Club.

(5) The comparative information has been restated to conform with the current year's presentation. Changes were less than 1% difference from information previously disclosed. The greenhouse gas emissions baseline has been adjusted by 7% to more accurately report the average emissions in the baseline period. (GRI G4 Material Disclosure: G4-22)

(6) 44,750 GJ represented energy saved over 2010 and 2011. Energy saved was calculated based on vendor estimates and assumptions according to expected efficiency gains.

(7) Group waste diversion rate in 2014 was 44.5%. To conform with current year's reporting scope, total waste figures for 2013 and 2012 were restated to include dry waste disposed to landfill by The Peak Tower and St. John's Building, which resulted in 5% increase in the information previously disclosed. (GRI G4 Material Disclosure: G4-22)

(8) Donations reported have not included HSH's yearly contribution to the Hong Kong Heritage Project which is an archive project for preserving valuable historical records of the Kadoorie family and its businesses.

Workforce Profile and Safety Performance

		2014 Hotels[1]	2014 Commercial Properties, Clubs & Services[2]	2014 Total	2013 Hotels	2013 Commercial Properties, Clubs & Services	2013 Total
Workforce Demographics	**Total Headcount [3]**	6,668	2,060	8,728	6,202	2,014	8,216
	by Employment Types						
	Full-time	6,300	1,632	7,932	5,877	1,634	7,511
	Part-time & Casual	368	428	796	325	380	705
	by Type of Contracts						
	Permanent or At Will contract [4]	6,570	1,702	8,272	6,151	1,760	7,911
	Fixed term or temporary contracts	98	358	456	51	254	305
	by Geographical Locations						
	Asia	4,573	1,863	6,436	4,724	1,832	6,556
	Non-Asia [5]	2,095	197	2,292	1,478	182	1,660
	by Gender						
	Male	58.3%	55.9%	57.7%	58.5%	58.5%	58.5%
	Female	41.7%	44.1%	42.3%	41.5%	41.5%	41.5%
	by Management Role						
	Management	6.1%	5.0%	5.8%	6.0%	5.1%	5.8%
	Non-management	93.9%	95.0%	94.2%	94.0%	94.9%	94.2%
	Management Hired from Local Community (%)	69.8%	86.3%	73.1%	69.2%	89.2%	73.5%
	Employees Receiving Regular Performance Reviews (%)[6]	91.3%	83.9%	89.8%	93.3%	98.3%	94.4%
	Employees under Collective Bargaining	21.2%	10.3%	18.6%	13.9%	10.0%	12.9%
Turnover	**Total Turnover Rate [7]**	18.0%	27.5%	19.9%	18.3%	26.0%	20.3%
	by Geographical Locations						
	Asia	18.5%	28.0%	20.9%	19.3%	24.9%	20.8%
	Non-Asia	16.8%	21.5%	17.1%	15.2%	43.8%	17.2%
	by Gender						
	Male	16.9%	27.8%	19.2%	16.9%	25.2%	18.9%
	Female	19.4%	27.1%	21.0%	19.7%	29.3%	21.7%
	by Age Group						
	Under 30 years old	31.8%	44.8%	33.7%	28.7%	44.0%	31.1%
	30 to 50 years old	13.7%	23.8%	15.7%	14.8%	23.1%	16.6%
	Over 50 years old	8.4%	22.6%	12.8%	9.7%	21.7%	13.9%
New Hires	**Total New Hires**	1,629	498	2,127	1,245	520	1,765
	by Geographical Locations						
	Asia	705	443	1,148	1,008	435	1,443
	Non-Asia	924	55	979	237	85	322
	by Gender						
	Male	946	243	1,189	658	272	930
	Female	683	255	938	587	248	835
	by Age Group						
	Under 30 years old	914	206	1,120	692	193	885
	30 to 50 years old	642	186	828	490	239	729
	Over 50 years old	73	106	179	63	88	151
Parental Leave	**Entitled to Parental Leave**						
	Male	2,798	760	3,558	2,483	573	3,056
	Female	2,360	706	3,066	2,194	636	2,830
	Took Parental Leave						
	Male	67	18	85	52	6	58
	Female	100	13	113	83	7	90
	Returned to Work After Taking Parental Leave						
	Male	100%	100%	100%	100%	100%	100%
	Female	59%	70%	60%	69%	86%	70%
	Returned and Still Employed After 12 Months						
	Male	92%	100%	93%	89%	100%	91%
	Female	80%	60%	79%	78%	88%	79%
Training	**Average training spend [8]**	HK$2,662	HK$1,042	HK$2,322	HK$3,222	HK$690	HK$2,602
	Employee training ('000 hours) [9]	90	15	105	–	–	–
	Health and Safety Training ('000 hours)	9	7	16	12	7	19
Health & Safety	**Total Injury Rate [10]**	8.2	4.8	7.4	7.7	5.4	7.2
	by Geographical Locations						
	Asia	5.0	3.9	4.7	5.1	4.4	5.0
	Non-Asia	19.0	19.9	19.1	18.3	25.0	18.7
	by Gender						
	Male	7.7	4.8	6.8	–	–	–
	Female	9.3	5.8	8.1	–	–	–
	Total Lost Day Rate [10]	64.2	109.4	75.6	67.5	116.1	77.1
	by Geographical Locations						
	Asia	49.6	113.8	68.3	54.3	120.6	69.2
	Non-Asia	113.4	39.1	107.4	122.8	27.8	117.3
	by Gender						
	Male	45.5	85.7	55.7	–	–	–
	Female	91.8	145.9	105.1	–	–	–
	Total Absentee Rate	1.9%	2.1%	1.9%	1.8%	1.9%	1.8%
	by Geographical Locations						
	Asia	1.9%	1.9%	1.9%	1.8%	1.9%	1.8%
	Non-Asia	1.8%	5.1%	2.1%	1.8%	1.2%	1.7%
	by Gender						
	Male	1.5%	1.8%	1.6%	–	–	–
	Female	2.4%	2.7%	2.4%	–	–	–

(1) Data reported under the hotels division covers the Group's hotel operations and head office operations in Hong Kong, Beijing, Bangkok, Shanghai and the US.

(2) Data reported covers the Group's commercial properties as well as all other clubs and services operations.

(3) Headcount data cover the entire workforce including full-time and part-time employees working on permanent, fixed term and at will contracts, and non-contracted employees, but do not include daily contingent casual labour.

(4) All employees are employed "at will" at US hotels, which means an employee may resign or be terminated from employment at any time for any or no reason, with or without notice. By 2011, they were grouped as part of fixed term employment, but they are now incorporated into the permanent employment.

(5) Non-Asia operations include the Group's operations in the US and in France.

2012			2011			2010			2009		
Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total
6,158	1,848	8,006	6,039	1,720	7,759	6,064	1,666	7,730	5,827	1,588	7,415
5,612	1,557	7,169	5,475	1,547	7,022	5,444	1,511	6,955	5,334	1,499	6,833
546	291	837	564	173	737	620	155	775	493	89	582
6,018	1,649	7,667	3,062	1,453	4,515	3,043	1,429	4,472	2,956	1,389	4,345
140	199	339	2,752	210	2,962	3,026	221	3,247	2,691	173	2,864
4,703	1,693	6,396	4,575	1,543	6,118	4,633	1,493	6,126	4,481	1,451	5,932
1,455	155	1,610	1,464	177	1,641	1,431	173	1,604	1,346	137	1,483
58.3%	61.3%	59.0%	58.4%	62.7%	59.4%	58.7%	63.6%	59.8%	58.4%	62.7%	59.4%
41.7%	38.7%	41.0%	41.6%	37.3%	40.6%	41.3%	36.4%	40.2%	41.6%	37.3%	40.6%
7.5%	5.6%	7.1%	7.4%	6.1%	7.1%	6.4%	6.1%	6.4%	11.03%	9%	10.5%
92.5%	94.4%	92.9%	92.6%	93.9%	92.9%	93.6%	93.9%	93.6%	88.97%	89%	89.4%
59.5%	78.1%	62.9%	52.8%	83.3%	60.5%	50.8%	75.0%	55.6%	44.7%	80.0%	51.1%
89.2%	96.9%	90.8%	99.8%	90.5%	97.8%	99.7%	99.9%	99.8%	–	–	–
13.9%	9.6%	12.9%	13.0%	12.5%	12.9%	12.0%	12.4%	12.1%	10.9%	9.9%	10.7%
18.3%	21.1%	19.2%	17.6%	26.1%	19.5%	18.1%	24.0%	19.4%	13.0%	11.0%	11.7%
20.3%	21.6%	20.6%	18.73%	24.69%	20.3%	19.8%	20.4%	20.0%	11.3%	10.7%	11.0%
11.7%	11.5%	11.7%	13.86%	50.59%	16.1%	12.6%	81.3%	17.2%	14.9%	75.0%	15.8%
18.5%	18.9%	18.6%	10.14%	13.77%	10.9%	17.6%	23.8%	19.0%			
17.8%	28.0%	19.9%	7.45%	12.35%	8.5%	18.9%	24.5%	20.0%			
35.6%	41.8%	36.6%	10.10%	8.53%	9.76%	10.2%	8.7%	9.9%			
11.3%	18.8%	12.9%	6.59%	13.77%	8.17%	6.6%	10.4%	7.4%			
7.8%	15.4%	10.5%	0.89%	3.81%	1.54%	1.3%	1.4%	2.1%			
1,256	460	1,716									
1,026	343	1,369									
230	117	347									
703	258	961									
553	202	755									
835	174	1,009									
397	200	597									
24	86	110									
2,014	336	2,350									
2,125	552	2,677									
61	10	71									
110	13	123									
100%	100%	100%									
87%	91%	88%									
98%	86%	97%									
95%	89%	95%									
HK$2,974	HK$1,197	HK$2,645									
–	–	–									
11	6	17	10	1	11						
8.6	4.6	7.6	11.0	4.3	9.5						
6.3	4.6	5.8	9.1	4.3	7.8						
17.6	–	17.6	18.1	–	18.1						
–	–	–	–	–	–						
–	–	–	–	–	–						
41.4	85.7	52.5	49.9	74.5	55.4						
28.3	85.7	45.3	36.6	74.5	46.8						
93.0	–	93.0	100.9	–	100.9						
–	–	–	–	–	–						
–	–	–	–	–	–						

(6) Data reflects the percentage of full-time employees receiving performance reviews. If total workforce, including part-time and casual employees, is accounted for, the percentage of workforce receiving performance review will be 81.6%, with 82.6% of all male and 80.1% of all female employees.

(7) Based on GRI's disclosure requirement, turnover rate refers to full-time employees only. The calculation methodology of the breakdown of turnover rate in 2009-2011 differs from subsequent years.

(8) Average training spend is based on total annual training spend per full-time equivalent.

(9) Trainings include all types of vocational training, paid educational leave, training or education pursued externally which is paid for (in part or in whole) by the company, and training on specific issues such as communication skills, leadership, presentation etc. It excludes Code of Conduct and Health & Safety trainings. It covers on employees with Indefinite or Permanent Contract, or At Will Employment.

(10) Injuries recorded include from minor first aid incidents to more severe incidents that required hospitalisation. There was no incident of occupational disease recorded in 2014. 2011 and 2012 injury and lost day data did not include Quail Lodge & Golf Club.

Environmental and Community Performance

			2014			2013			2012		
			Hotels	**Commercial Properties, Clubs & Services[1]**	**Total**	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total
Environment	**Greenhouse gas emissions[2][4]**	'000 tCO_2e	**94**	**21**	**116**	92	20	112	95	20	115
	Scope 1 emission	'000 tCO_2e	**16**	**7**	**23**	15	7	22	18	6	25
	Scope 2 emission	'000 tCO_2e	**79**	**14**	**93**	77	13	90	77	14	91
	Carbon intensity	kg CO_2e per m^2	**198**	**129**	**181**	206	139	190	213	141	196
	Total energy use[3][4]	'000 GJ	**704**	**166**	**870**	689	153	842	701	141	842
	Direct energy use	'000 GJ	**199**	**88**	**287**	197	83	280	212	73	284
	Indirect energy use	'000 GJ	**505**	**78**	**583**	492	70	562	489	69	557
	Energy intensity	MJ per m^2	**1,525**	**1,008**	**1,394**	1,539	1,087	1,431	1,566	1,000	1,430
	Direct water consumption[5]	'000 m^3	**1,445**	**434**	**1,879**	1,430	416	1,846	1,411	384	1,795
	Water intensity (Hotels Division)	litres per guest night	**1,132**	**–**	**–**	1,181	–	–	1,257	–	–
	Water intensity[6] (Commercial Properties, Clubs & Services Division)	litres per m^2	**–**	**1,765**	**–**	–	2,012	–	–	1,888	–
	Water recycled	'000 m^3	**122**	**2**	**124**	121	6	126	122	–	122
	Waste generated[7]	tonnes	**6,390**	**1,111**	**7,501**	5,842	1,084	6,926	5,888	919	6,807
	Waste recycled[7]	tonnes	**3,181**	**158**	**3,338**	2,565	154	2,719	2,279	70	2,350
	Emission of ozone depleters	kg CFC-11e	**65.6**	**5.9**	**71.5**	50.0	18.4	68.3	57.1	15.5	72.6
Community	**Monetary donations**	HK$'000	**3,408**	**789**	**4,197**	8,659	241	8,900	2,514	329	2,843
	Company donations[8]	HK$'000	**1,225**	**285**	**1,510**	7,725	87	7,812	1,493	44	1,537
	Donations by employees and customers	HK$'000	**2,183**	**504**	**2,687**	934	155	1,088	1,021	285	1,306
	Community outreach										
	Service hours	hours	**9,672**	**1,995**	**11,667**	6,421	929	7,350	6,248	1,084	7,332
	Employee volunteers		**794**	**155**	**949**	750	85	835	508	83	591
	Internship and retraining scheme										
	Training hours	'000 hours	**287**	**9**	**296**	387	17	404	382	10	392
	Number of participants		**590**	**24**	**614**	637	493	1,130	504	565	1,069

(1) Inclusive of The Repulse Bay Complex, The Peak Tram Complex, St. John's Building, The Landmark, Thai Country Club, Quail Lodge & Golf Club, and Tai Pan Laundry. As part of our effort to continue to enhance the completeness of our reporting work, The Peninsula Residences in Shanghai with 39 residential apartments has been added to the reporting scope in 2014.

(2) Carbon emission generated from Hong Kong Towngas includes both scope 1 (combustion) and scope 2 (generation and transportation) as required under Hong Kong Carbon Accounting guidelines. For other countries the extraction, generation and transportation process are considered as scope 3 under GHG Protocol and other international standards, and are therefore excluded.

(3) The energy use generated from renewable sources is not significant. None of our properties produce renewable energy on-site; renewable energy is limited to the fuel mix used for electricity and steam generation as well as district cooling system in each location of operation.

2011			2010			2009			2006-2008		
Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total
96	22	118	103	23	126	86	22	108	95	25	120
16	6	22	18	6	23	15	6	22	20	8	27
80	16	96	86	17	103	70	16	86	75	17	92
214	159	201	231	160	214	226	159	208	251	177	231
721	144	865	752	142	894	638	146	784	707	153	860
217	69	285	222	61	283	185	67	251	216	69	285
504	76	580	530	81	611	453	79	533	491	84	575
1,612	1,023	1,471	1,680	1,010	1,520	1,684	1,047	1,512	1,867	1,097	1,659
1,431	382	1,813	1,456	375	1,831	1,204	354	1,558	1,536	385	1,921
1,313	–	–	1,346	–	–	1,389	–	–	1,375	–	–
–	1,988	–	–	1,773	–	–	1,557	–	–	1,712	–
93	–	93	142	–	142	129	–	129	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
68.8	23.7	92.5	115.7	31.6	147.3	151.8	15.6	167.4	157.0	141.3	298.3
4,355	98	4,453	1,004	255	1,259	1,635	151	1,786			
4,065	98	4,163	389	228	617	1,538	151	1,689			
290	0	290	615	27	642	97	0	97			
6,192	0	6,192	3,608	180	3,788	1,548	536	2,084			
942	0	942	2,307	113	2,420	937	67	1,004			
540	0	540	290	15	305	85	2	87			
1,210	0	1,210	679	14	693	389	4	393			

(4) The comparative information has been restated to conform with the current year's presentation. Changes were less than 1% difference from information previously disclosed. The greenhouse gas emissions baseline has been adjusted by 7% to more accurately report the average emission in the baseline period. (GRI G4 Material Disclosure: G4-22)

(5) All water consumed is obtained from municipal sources; none is withdrawn or captured directly.

(6) Water intensity of Tai Pan Laundry (16.23 litres per kilogram washed in 2014, slightly increased from 16.05 in 2013) is excluded as its intensity is measured on different metrics from that of properties and clubs.

(7) Group waste diversion rate in 2014 was 44.5%. To conform with current year's reporting scope, total waste figures for 2013 and 2012 were restated to include dry waste disposed to landfill by The Peak Tower and St. John's Building, which resulted in 5% increase in the information previously disclosed. (GRI G4 Material Disclosure: G4-22)

(8) Donations reported have not included HSH's yearly contribution to the Hong Kong Heritage Project which is an archive project for preserving valuable historical records of the Kadoorie family and its businesses.

Global Reporting Initiative Content Index and Accreditation

To facilitate stakeholders in understanding and benchmarking our corporate responsibility performance, our reporting follows the Global Reporting Initiative G4 disclosure framework, which is an internationally recognised set of indicators for economic, environmental and social aspects of business performance. GRI guidelines help companies select material content and key performance indicators. For more on GRI, please see www.globalreporting.org.

Our GRI Content Index also includes references to Key Performance Indicators of the Hong Kong Stock Exchange Environmental, Social and Governance Reporting Guide (ESG Guide)[1].

KPMG was commissioned to conduct assurance of this report in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000) and to provide an independent limited assurance opinion on whether the reported information complies with GRI G4. Please refer to the report from KPMG on pages 266-267 for the scope of assurance and detail of the work performed.

Material Aspects and Boundaries

Material Aspects (G4-19)	ESG Guide	Material to HSH's operation (G4-20)	Material to HSH's value chain (G4-21)	Remarks (The following Information support the disclosure requirements of G4-18 and G4-21)	References on DMA
1. Economic					
Economic Performance	–	●	●	Our economic performance is relevant to our investors and communities.	pp. 21
Market Presence	–	●	●	Our market presence is relevant to our communities.	pp. 101-103
Procurement Practices	–	●	●	Our procurement practices are relevant to our communities and suppliers.	pp. 92-99
2. Environmental					
Energy	B2, B3 B3.1	●	●	Our energy consumption is relevant to all stakeholders including the communities where we operate.	pp. 79-84
Water	B2, B3 B3.1	●	●	Our water stewardship is relevant to all stakeholders including the communities where we operate.	pp.79, 84-86
Emissions	B1, B3 B3.1	●	●	Our emissions from operations are relevant to all stakeholders including the communities where we operate.	pp.79-84
Effluents and Waste	B1, B3 B1.6 B3.1	●	●	Our handling of effluents and waste is relevant to all stakeholders including the communities where we operate.	pp.86-87
Compliance	–	●		Environmental compliance is relevant to all stakeholders including the communities where we operate and our investors.	pp.59, 84

1 Key Performance Indicator A3.2 of the ESG Guide is partially covered in the current disclosure. Breakdown of average training hours by employee category was not available.

Material Aspects (G4-19)	ESG Guide	Material to HSH's operation (G4-20)	Material to HSH's value chain (G4-21)	Remarks (The following Information support the disclosure requirements of G4-18 and G4-21)	References on DMA
3. Labour Practices and Decent Work					
Employment	A1, A4	●		Our employment practices are relevant to our investors and communities.	pp. 70-77
Labour and Management Relations	–	●		With 18.6% of our workforce covered by collective bargaining agreements, labour and management relations are relevant to our investors and communities.	pp. 70-77
Occupational Health and Safety	A2, A2.3	●		Occupational health and safety is relevant to our investors and communities.	pp. 76-77
Training and Education	A3	●		Training and education is relevant to our investors and communities.	pp. 70, 72-77
Diversity and Equal Opportunity	A1	●		Diversity and equal opportunity is relevant to our investors and communities.	pp. 76
4. Human Rights					
Investment	–	●	●	Our investment in human rights is relevant to our employees, suppliers, guests, communities, investors and prospective business partners.	pp. 76, 95, 99
Non-discrimination	–	●		Non-discrimination practices are relevant to our guests, investors and communities.	pp. 76
Freedom of Association and Collective Bargaining	–	●	●	The protection of freedom of association and right to collective bargaining is relevant to our suppliers, guests, investors and communities.	pp. 76, 95, 99
5. Society					
Local Communities	D1, D1.1	●	●	Local community impacts are relevant to all stakeholders, particularly the communities where we operate.	pp. 100-105
Anti-corruption	C3	●	●	Anti-corruption is relevant to our communities, investors and guests.	pp. 76
Compliance	–	●	●	Compliance with local laws and regulations is relevant to our communities, guests and investors.	pp. 59
6. Product Responsibility					
Customer Health and Safety	C2	●	●	Customer health and safety, particularly food safety and indoor air quality, is relevant to all stakeholders, most notably our guests. In our materiality assessment, food safety was the topic of highest stakeholder concern.	pp. 88-89, 94-97, 134
Customer Privacy	C2.5	●	●	The protection of customer data privacy is relevant to guests and investors.	pp. 76, 151, 173
Compliance	C2	●	●	Compliance with laws and regulations concerning the provision and use of products and services within our hotels and commercial properties, clubs and services divisions is relevant to our guests and investors.	pp. 59

General Standard Disclosures and Performance Indicators

Material Aspects	GRI Indicator	ESG Guide	Description	Remarks and References	External Assurance[2]
I. General Standard Disclosures					
Strategy and Analysis	G4.1	–	Statement from the most senior decision-maker about the relevance of sustainability and organisation's strategy	pp. 14, 21	✓
Organisational Profile	G4-3	–	Name of the organisation	pp. 2	✓
	G4-4	–	Primary brands, products, and services	pp. 2-3	✓
	G4-5	–	Location of the organisation's headquarters	pp. 271	✓
	G4-6	–	Number of countries where the organisation operates	pp. 2-5	✓
	G4-7	–	Nature of ownership and legal form	pp. 2-5	✓
	G4-8	–	Markets served, and types of customers and beneficiaries	pp. 2-5	✓
	G4-9	–	Scale of the organisation	pp. 2-5	✓
	G4-10	A1.1	Total number of employees by employment contract, gender and region	pp. 254-255	✓
	G4-11	–	Percentage of total employees covered by collective bargaining agreements	pp. 254-255	✓
	G4-12	–	Description of supply chain	As an owner, developer and manager of hotels, commercial and residential properties as well as a provider of transport, club management and other services, HSH's supply chain is comprised of thousands of suppliers of products and services. Significant procurement categories include those related to building materials; furniture and fittings; restaurant, spa and guest amenities; transportation fleet and information technology systems.	✓
	G4-13	–	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	The reporting scope expanded to include The Peninsula Residences in Shanghai and The Peninsula Paris since it became operational on 1 August 2014.	✓
	G4-14	–	Whether and how the precautionary approach or principle is addressed by the organisation	pp. 60-61	✓
	G4-15	–	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	pp. 96	✓
	G4-16	–	Memberships in associations and national/international advocacy organisations	pp. 63	✓

2 Refer to the external limited assurance statement on pages 266-267 for the assurance scope and the detail of the work performed.

Material Aspects	GRI Indicator	ESG Guide	Description	Remarks and References	External Assurance[2]
Material Aspects and Boundaries	G4-17	–	All entities included in the organisation's consolidated financial statements or equivalent documents	pp. 3, 5, 57	✔
	G4-18	–	Process for defining the report content and the Aspect Boundaries; and how the organisation has implemented the Reporting Principles for Defining Report Content	pp. 57, 60, 258-259	✔
	G4-19	–	All the material aspects identified in the process for defining report content	pp. 258-259	✔
	G4-20	–	The aspect boundary for each material aspect within the organisation and whether the aspect is material for all entities within the organisation	pp. 258-259	✔
	G4-21	–	Whether the aspect boundary for each material aspect outside the organisation	pp. 258-259	✔
	G4-22	–	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	The comparative environmental information on energy, carbon emissions and waste has been restated to conform with the current year's presentation. For details, please see footnotes 5 and 7 on page 253.	✔
	G4-23	–	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	The reporting scope expanded to include The Peninsula Residences in Shanghai and The Peninsula Paris since it became operational on 1 August 2014.	✔
Stakeholder Engagement	G4-24	–	List of stakeholder groups engaged by the organisation	Stakeholder groups include guests and tenants, investors, employees, communities, suppliers and contractors and industry associations.	✔
	G4-25	–	Basis for identification and selection of stakeholders with whom to engage	We identify and engage with stakeholders at the Group and local levels in consideration of shared social, environmental and economic impacts, concerns and opportunities.	✔
	G4-26	C1, C1.2	Organisation's approach to stakeholder engagement	Engagement with guests, tenants, employees, supplier and contractors typically occurs on a daily basis. Investor, community, and industry engagement occurs regularly. Additional information on engagement can be found in the Sustainability Review (pp. 60-62, 71, 95, 101) and Governance Report (pp. 164, 166). In 2012, HSH also engaged with stakeholders to conduct a materiality assessment that informed the development of the 2014 Sustainability Review and the Group's Sustainable Luxury Vision 2020.	✔
	G4-27	–	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns	pp. 57, 60-62 Additional information can also be found throughout the Sustainability Review.	✔

Material Aspects	GRI Indicator	ESG Guide	Description	Remarks and References	External Assurance[2]
Report Profile	G4-28	–	Reporting period for information provided	Calendar year 2014	✔
	G4-29	–	Date of most recent previous report	2013 Annual Report, which included the Sustainability Review and Data Statements, covered calendar year 2013.	✔
	G4-30	–	Reporting cycle	Annual	✔
	G4-31	–	Contact point for questions regarding the report or its contents	pp. 271	✔
	G4-32	–	GRI Index with "in accordance" option chosen and references to External Assurance Reports	pp. 258-267	✔
	G4-33	–	Organisation's policy and current practice with regard to seeking external assurance for the report	pp. 266-267	✔
Governance	G4-34	–	Governance structure of the organisation, including committees of the highest governance body and those responsible for decision-making on economic, environmental and social impacts	pp. 59, 150, 155-156, 163	✔
Ethics and Integrity	G4-56	–	Describe the organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	pp. 76, 95	✔
	–	C3.2	Whistle-blowing procedures, how they are implemented and monitored	pp. 167	✔
	–	A4.1, 4.2	Measures to avoid child and forced labour in employment practices	pp. 76	✔
II. Performance Indicators					
1. Economic					
Economic Performance	G4-EC1	D1.2	Direct economic value generated and distributed	pp.253, 256, 257	✔
	G4-EC3	–	Coverage of the organisation's defined benefit plan obligations	pp. 223-226	✔
Market Presence	G4-EC6	–	Proportion of senior management hired from the local community at significant locations of operation	pp. 254-255 Senior management includes management level staff at corporate office and operations, as well as department heads of hotel operations.	✔
Procurement Practices	G4-EC9	–	Proportion of spending on local suppliers at significant locations of operation	Local suppliers are estimated to account for over 70% of the overall procurement spend of the Group. More details in local sourcing practice can be found in pages 95, 97.	✔
	–	C1.1	Number of suppliers by geographical region	Asia-Pacific: 5,512; Americas: 2,292; Europe: 1,000; Others: 63	✔

Material Aspects	GRI Indicator	ESG Guide	Description	Remarks and References	External Assurance[2]
2. Environmental					
Energy	G4-EN3	B2.1	Energy consumption within the organisation	pp. 80-84, 256-257	✓
	G4-EN5	B2.1	Energy intensity	pp. 81, 84, 256-257	✓
	G4-EN6	B2.3	Reduction of energy consumption	pp. 81-83 Energy reduced was mainly due to anticipated reduction in electricity requirements. Calculations were based on vendor estimates and assumptions according to expected efficiency gains.	✓
Water	G4-EN8	B2.2	Total water withdrawal by source	pp. 256-257	✓
	–	B2.4	Issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	This is not a material issue to HSH operations given the location where we operate. Details on water management can be found on pp. 84-86.	✓
Emissions	G4-EN15	B1.1	Direct greenhouse gas (GHG) emissions (Scope 1)	pp.256-257 Greenhouse gases included in the emissions calculation included CO_2, CH4 and N_2O as a result of the consumption of fuel oil, diesel, petrol, natural gas, town gas and Tokyo gas. Fugitive emissions in CFCs and HCFCs from the consumption of refrigerants were also included in the calculations. All greenhouse gases are reported in CO_2 equivalents.	✓
	G4-EN16	B1.1	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	pp. 256-257	✓
	G4-EN18	B1.2	Greenhouse gas (GHG) emissions intensity	pp. 256-257	✓
	G4-EN19	B1.5	Reduction of greenhouse gas (GHG) emissions	pp. 80-83, 253 Greenhouse gas reduction was mainly due to anticipated reduction in Scope 2 purchased electricity requirements. Calculations were done by applying an emissions factor used for each property during the reporting period to the estimated energy saving of each energy reduction project.	✓
	G4-EN20	B1.1	Emissions of ozone-depleting substances (ODS)	pp. 256-257	✓
Effluents and Waste	G4-EN23	B1.3-1.4	Total weight of waste by type and disposal method	pp. 86-87, 256-257	✓
Compliance	G4-EN29	B1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	No fines or non-monetary sanctions for non-compliance recorded in 2014.	✓

Material Aspects	GRI Indicator	ESG Guide	Description	Remarks and References	External Assurance[2]
3. Labour Practices and Decent Work					
Employment	G4-LA1	A1.2	Total number and rates of new employee hires and employee turnover by age group, gender, and region	pp. 254-255	✓
	G4-LA3	–	Return to work and retention rates after parental leave, by gender	pp. 254-255	✓
Labour and Management Relations	G4-LA4	–	Minimum notice periods regarding operational changes	In the case of any significant operational changes that would substantially affect our employees, we keep them informed well in advance, typically with a minimum notice period of two to 12 weeks. This is also specified in collective agreements where they apply.	✓
Occupational Health and Safety	G4-LA6	A2.1-2.2	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work- related fatalities, by region and by gender	pp. 254-255 No fatalities or occupational diseases recorded during the reporting period.	✓
Training and Education	G4-LA11	–	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	pp. 254-255	✓
	–	A3.1	The percentage of employees trained by employee category (e.g. senior management, middle management, etc.)	17.9% management and 99.4% non-management employees received training during the year.	✓
	–	A3.2	The average training hours completed per employee by employee category	Average training hours completed per employee was 12 hours. Breakdown into employee category was not yet reported. Data collection mechanism is being considered.	✓
Diversity and Equal Opportunity	G4-LA12	A1.1	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	pp.159, 254-255 Data not reported per employee category or according to minority group membership because they are not material to the nature of our business.	✓
4. Human Rights					
Investment	G4-HR2	–	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	pp. 76	✓
Non-discrimination	G4-HR3	–	Total number of incidents of discrimination and corrective actions taken	pp. 76	✓
Freedom of Association and Collective Bargaining	G4-HR4	–	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	No known significant risks identified within our operations. We strive to mitigate all potential supply chain risks within our sphere of influence through HSH Supply Chain Code of Conduct.	✓

Material Aspects	GRI Indicator	ESG Guide	Description	Remarks and References	External Assurance[2]
5. Society					
Local Communities	G4-SO1	–	Percentage of operations with implemented local community engagement, impact assessments, and development programs	All operations had local community engagement programmes during the reporting period.	✓
Anti-Corruption	G4-SO5	C3.1	Confirmed incidents of corruption and actions taken	pp. 76	✓
Compliance	G4-SO8	–	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Except as stated on page 76, no non-compliance with law that resulted in significant fines or sanctions identified during the reporting period	✓
6. Product Responsibility					
Customer Health and Safety	G4–PR1	–	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Health and safety impacts are assessed for improvement for all significant products and services.	✓
	G4–PR4	C2	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	No incident of non-compliance in the reporting year. We, however, discovered an incident with a supplier which altered some ingredients used in one of our chocolate products without informing us. Although it did not cause any adverse health and safety implications, we took immediate action to remove from the shelves all concerned products with wrong labelling. These concerned products accounted for 6.7% of the total product.	✓
	–	C2.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	No products sold or shipped were subject to recalls for safety and health reasons.	✓
Customer Privacy	G4–PR8	C2.2, 2.5	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	No substantiated complaints regarding breaches of customer privacy recorded during the reporting period.	✓
Compliance	G4–PR9	C2.2	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	No significant fines during the reporting period.	✓
	–	C2.3	Practices relating to observing and protecting intellectual property rights	Our Code of Conduct outlines our commitment to IPR protection.	✓
	–	B2.5	Total packaging material used for finished products	230 tonnes of paper were used by the Group's merchandising business for packaging finished products.	✓
	–	C2.4	Description of quality assurance process and recall procedures	Once potentially unsafe products are identified, product recall procedure would kick-start to stop the distribution and sale of the product from marketplace. The cause, extent and result of the recall would be recorded and reported.	✓

Independent Assurance Report

KPMG was engaged by The Hongkong and Shanghai Hotels, Limited ("HSH") to undertake a limited assurance engagement on the Sustainability Review and Data Statements 2014 of HSH (further referred to as "The Report") for the year ended 31 December 2014.

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 for the year ended 31 December 2014 in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative as described in the Section of GRI Content Index of The Report, for determining the content and statements contained therein, and for establishing sustainability reporting guidelines and maintaining appropriate records and internal control systems from which the reported sustainability information is derived.

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. 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.

Scope of work

Our engagement was designed to provide the Directors of HSH with a conclusion on whether the information in The Report is in all material respects fairly stated in accordance with Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative as described in the Section of GRI Content Index of The Report.

Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance.

Basis of our work

We conducted our work in accordance with ISAE 3000*, with a team of specialists in assurance on sustainability information and with experience in similar engagements. ISAE 3000 requires that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain limited assurance about whether the information presented is free from material misstatement. HSH uses the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative, as detailed in the Reporting Standards and Assurance section on page 57 of the Sustainability Review. It is important to view the performance data in the context of this explanatory information.

Work performed

A limited assurance engagement on a sustainability report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the Sustainability Report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures include:

- An evaluation of the results of HSH's stakeholder consultation processes and their methodology for determining the material issues for key stakeholder groups;
- Media analysis and an internet search for references to HSH during the reporting period;
- Conducting interviews across the business concerning sustainability strategy and policies for materials issues and their implementation;
- Conducting interviews with management and other personnel at HSH to obtain an understanding of the information collection process;

* International Standard on Assurance Engagements 3000: Assurance engagements other than audits or reviews of historical information, issued by the International Auditing and Assurance Standards Board.

- Examining and testing of the systems and processes in place to generate, aggregate and report the sustainability performance information. We also tested the reliability of underlying sustainability information at the local operations selected for a site visit;
- Checking the GRI Content Index on pages 258 to 265 for consistency with G4 reporting guidelines in meeting Core disclosure level and The Environmental, Social and Governance Reporting Guide (ESG Guide) Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
- 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 our limited assurance procedures as described above, nothing has come to our attention that causes us to believe that Sustainability Review and Data Statements 2014 of HSH for the year ended 31 December 2014, is not presented fairly, in all material respects, in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative as described in the Section of GRI Content Index on pages 258 to 265.

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
20 March 2015

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
Carbon dioxide equivalent (CO_2e)	The 'CO_2e' measures how much global warming a given type and amount of greenhouse gas may cause, using the equivalent amount or concentration of carbon dioxide (CO_2) as the reference
Climate Disclosure Leadership Index for Asia ex-Japan	An annual index runs by Carbon Disclosure Project (CDP) recognising companies which display a strong approach to the disclosure of climate strategy and measurement. The index includes top 10% of CDP reporting companies for the year
Carbon intensity	Amount of carbon dioxide released per unit of energy produced (usually CO_2 per Mega Joules of energy)
Carbon footprint	The total set of greenhouse gas (GHG) emissions caused by an organisation, not always expressed in spatial terms
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
Diversion rate	Waste diversion is the process of diverting waste from landfill through recycling, reuse or other means, expressed as a percentage of total waste arising in an organisation, for example
EarthCheck	An international recognised sustainability benchmarking and certification programme for the hospitality sector
EBITDA	The figure reflects the profitability of the operations of the Group before interest, tax, depreciation and amortisation
Front-of-house	Areas of a hotel that are in sight of guests/customers
Forest Stewardship Council (FSC)	An internationally recognised certification scheme on sustainable forest management, which meets key requirements of responsibility, transparency, international consistency and balanced multi-stakeholder governance

Terms

Gearing	This measures the degree of debt financing used by the Group to fund its business, calculated based on the following formula: $\frac{\text{Net borrowings}}{\text{Net borrowings + Shareholders' equity}}$
Global Reporting Initiative (GRI)	A non-profit organisation that produces the prevalent standards for sustainability reporting widely adopted by companies worldwide
GREENGUARD	A well-recognised certification scheme verifying interior products and materials as having low chemical emissions
Greenhouse Gas (GHG) Emissions	Also referred to as GHG. Emissions of gases (e.g. carbon dioxide, methane) which have the potential to cause earth warming
HACCP	Hazard Analysis and Critical Control Points (HACCP) is an internationally recognised food safety and hygiene standard for commercial kitchens.
Health & Safety	Responsibility to protect the health and welfare of stakeholders, namely employees, customers, contractors and suppliers
Environmental, Social and Governance Reporting Guide	A guide on environmental, social and governance disclosure standard published by the Hong Kong Stock Exchange for voluntary disclosure by listed companies in Hong Kong
Indoor Air Quality (IAQ)	Refers to the air quality within and around buildings and structures, especially as it relates to the health and comfort of building occupants
Interest cover	The ratio reflects the ability of the Group to meet its financing costs expressed as a multiple of its operating profit
ISO 14001	ISO 14001 is an internationally recognised environmental management standard
IUCN Red List	A global inventory of the conservation status of biological species (www.iucnredlist.org)
Light-emitting diode (LED)	A semiconductor light source, better than incandescent light sources: lower energy consumption, longer lifetime, improved robustness, smaller size, and faster switching
Life cycle	The stages of a product's life from-cradle-to-grave (i.e. from raw material extraction through materials processing, manufacture, distribution, use, repair and maintenance, and disposal or recycling)
Injury Rate	Represents the number of injuries per 100 equivalent employees per year. It is calculated based on: $\frac{\text{Total injuries}}{\text{Total hours worked}} \times 200{,}000^{*}$ * The factor 200,000 is the annual hours worked by 100 employees, based on 40 hours per week for 50 weeks a year
Lost Day Rate	Represents the number of lost days per 100 equivalent employees per year. It is calculated based on: $\frac{\text{Total lost days}}{\text{Total hours worked}} \times 200{,}000^{*}$ * The factor 200,000 is the annual hours worked by 100 employees, based on 40 hours per week for 50 weeks a year

Terms

Occupancy Rate	This reveals the extent of rooms being occupied, calculated based on the following formula: $\frac{\text{Rooms sold}}{\text{Rooms available}} \times 100\%$
OHSAS 18001	Occupational Health & Safety Assessment Series 18001 is an internationally recognised occupational health and safety management standard
Ozone-depleting substance (ODS)	Any substance with an ozone depletion potential (ODP) greater than 0 that can deplete the stratospheric ozone layer. Most ozone-depleting substances are controlled under the Montreal Protocol and its amendments, and include CFCs, HCFCs, halons, and methyl bromide. CFC-11 is a measure used to compare various substances based on their relative ozone depletion potential
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: $\frac{\text{Total rooms revenue}}{\text{Rooms available}}$
Safety management systems	Management system designed to manage health and safety, environmental and general risk of a companies' operations
Stakeholders	Group or individuals that are affected by or can affect a company's activities
Sustainable building	Also known as "Green Building". A building which is environmentally responsible and resource-efficient throughout its life-cycle
Sustainable Development	Sustainable Development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Source: 'Our Common Future', 1987, World Commission on Environment and Development
Sustainable luxury	Luxury products or services which maintain a level of responsibility to both the environment and society
Sustainable procurement	Considering sustainability in procurement decisions, alongside other factors such as price and quality
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
Volatile Organic Compound (VOC)	Substances that are typically gas at room temperatures and can cause health issues if inhaled. Paints for example can emit VOCs
Water footprint	Total volume of freshwater used to produce the goods and services consumed by an individual, community or business
Water stress	In general terms, a country or region is said to experience water stress when annual water supplies drop below 1,700 cubic metres per person per year

Shareholder Information

Financial Calendar 2015

2014 annual results announcement	20 March
Annual Report available	8 April
For entitlement to attend, speak and vote at Annual General Meeting	
– Last day to register	6 May 4:30pm
– Closure of register of members	7 May to 11 May (both days inclusive)
– Record date	11 May
Annual General Meeting	11 May 12:00 noon
Ex-dividend date for final dividend	13 May
For entitlement to receive final dividend	
– Last day to register	14 May 4:30pm
– Closure of register of members	15 May to 19 May (both days inclusive)
– Record date	19 May
Scrip dividend scheme circular and/or election form available	22 May
Last day to return scrip dividend election form	10 June 4:30pm
Dividend warrants and share certificates for final dividend available	On or about 19 June
2015 interim results announcement (tentative)	August
2015 interim dividend payment date (tentative)	October
Financial year end	31 December

Company Website

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Corporate Responsibility and Sustainability Enquiries

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Share Information

Stock Code: 00045
2014 Interim Dividend: HK$0.05
2014 Final Dividend: HK$0.18

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
France 0800 915 980
Germany 0800 181 8418
India 000 800 852 1388
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