THE HONGKONG AND SHANGHAI HOTELS, LIMITED

Annual Report 2015

Stock Code: 00045

Tradition meets Innovation

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Tradition meets Innovation

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

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

The objective of our approach is to provide a connected view of the different aspects of our performance by publishing this Annual Report and a separate Corporate Responsibility and Sustainability Report to highlight our vision, strategy and our achievements in 2015. Together with our company's website, the two reports enable our stakeholders to have a more informed assessment of our company.

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

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

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

Accomplishments and Results 2015

Business Model

It remains the strategy of our Board to keep our sights firmly focused on the long term and to continue to create shareholder value by focusing on sustainable long-term investment decisions.

The Hon. Sir Michael Kadoorie
Chairman

Snapshot of HSH in 2015

Company at a Glance

Hotels

Asia

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%*

USA

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

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

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

* The 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.

The Peninsula Tokyo

Established: 2007
Rooms: 314
Ownership: 100%

The Peninsula Bangkok

Established: 1998
Rooms: 370
Ownership: 75%

The Peninsula Manila

Established: 1976
Rooms: 469
Ownership: 77.4%

Europe

The Peninsula Paris

Established: 2014
Rooms: 200
Ownership: 20%

The Hongkong and Shanghai Hotels, Limited (HSH) was incorporated in 1866 and is listed on the Hong Kong Stock Exchange (00045). HSH is the holding company of a Group which is engaged in the ownership, development, and management of prestigious hotels and commercial and residential properties in key locations in Asia, the United States and Europe, as well as the provision of tourism and leisure, club management and other services.

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

GRI G4 Material Disclosure: G4-17

Company at a Glance

Commercial Properties

Residential

Commercial

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%**

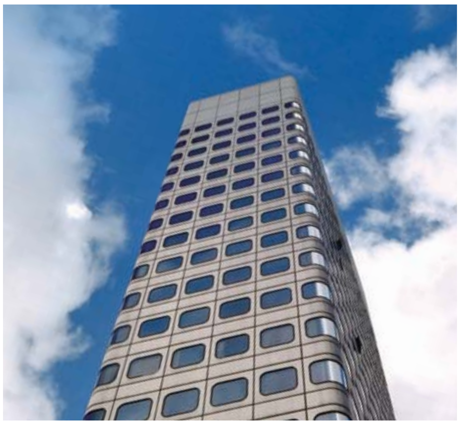
The Peak Tower,
Hong Kong

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

Office

The Peninsula Office Tower,
Hong Kong

Established: 1994
GFA: 75,082 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%**

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

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%

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

Financial Highlights

	2015	2014	Increase/ (Decrease)
Consolidated Income Statement (HK$m)			
Revenue	**5,741**	5,838	(2%)
EBITDA	**1,440**	1,528	(6%)
Operating profit	**1,014**	1,105	(8%)
Profit attributable to shareholders	**1,000**	1,146	(13%)
Underlying profit attributable to shareholders*	**688**	804	(14%)
Dividends	**308**	349	(12%)
Earnings per share (HK$)	**0.65**	0.76	(14%)
Underlying earnings per share (HK$)*	**0.45**	0.53	(15%)
Dividends per share (HK cents)	**20**	23	(13%)
Dividend cover (times)**	**2.2x**	2.3x	(4%)
Interest cover (times)	**14.9x**	16.7x	(11%)
Weighted average gross interest rate	**2.2%**	2.3%	(0.1pp)
Consolidated Statement of Financial Position (HK$m)			
Total assets	**45,089**	43,982	3%
Audited net assets attributable to shareholders	**36,427**	35,901	1%
Adjusted net assets attributable to shareholders#	**39,627**	39,496	–
Audited net assets attributable to shareholders per share (HK$)	**23.61**	23.67	–
Adjusted net assets attributable to shareholders per share (HK$)#	**25.68**	26.04	(1%)
Net borrowings	**3,273**	3,004	9%
Funds from operations to net debt##	**35%**	44%	(9pp)
Net debt to EBITDA (times)	**2.3x**	2.0x	15%
Net debt to equity	**9%**	8%	1pp
Gearing	**8%**	8%	–
Consolidated Statement of Cash Flows (HK$m)			
Net cash generated from operating activities before taxation	**1,444**	1,589	(9%)
Capital expenditure on existing assets	**(476)**	(370)	29%
New projects and acquisitions	**(916)**	(39)	2,249%
Share Information (HK$)			
Highest share price	**12.20**	12.60	(3%)
Lowest share price	**8.00**	10.08	(21%)
Year end closing share price	**8.64**	11.50	(25%)

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

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

pp Denotes percentage points.

Non-Financial Highlights

Revenue per greenhouse gas emission*

HK$70,300

per tonnes of carbon dioxide equivalent

Revenue per energy used*

HK$8,400

per Gigajoules

Revenue per water consumed*

HK$3,900

per m^3

Revenue per full-time headcount*

HK$954,700

Greenhouse gas emissions*

106,493 tonnes

Direct water consumption*

1,898,681 m^3

* The reported values include managed properties owned by joint venture and associates.
Pecentage change refers to year-over-year movement.

Financial Review Summary

❶ EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION (EBITDA)

EBITDA and EBITDA margin of the Group for 2015 decreased by 6% and one percentage point to HK$1,440 million and 25% respectively. The decrease was mainly due to the reduced contribution from the hotels division.

❷ REVENUE

The hotels division is the main contributor to the Group's revenue, accounting for 71% (2014: 73%) of total revenue. The operating performance of the Group's hotel businesses is subject to a higher degree of volatility by nature. The decrease in revenue of the hotels division was due to a combination of factors, including the room closures for the renovation programmes undertaken by The Peninsula Beijing and The Peninsula Chicago, and declining tourist arrivals in Hong Kong. The devaluation of Renminbi and Japanese Yen has also contributed to the decrease in revenue of the hotels division.

The increase in revenue for the commercial properties was mainly due to the increased occupancy achieved by The Repulse Bay Complex whereas the increase in revenue for the clubs and services division was due to higher mooncake sales achieved by Peninsula Merchandising and better results achieved by Quail Lodge following its renovation of the golf course.

Details of the operating performances of the Group's individual operations are set out on pages 28 to 48 of the CEO's Strategic Review.

Consolidated Statement of Financial Position at 1.1.2015

	HK$m
Net assets	
Fixed assets	38,168
Other long-term investments	2,434
Deferred tax assets	40
Cash at banks and in hand	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, exchange and other reserves	278
	35,901
Non-controlling interests	250
	36,151

Consolidated Statement of Cash Flows for the year ended 31.12.2015

		HK$m
❶ EBITDA		1,440
Net changes in working capital		4
Tax payment		(224)
Payment for the purchase of property, plant and equipment, including the hotel building of The Peninsula Tokyo		(1,392)
Net financing charges and dividends paid		(159)
Net increase in bank borrowings		822
Net placement of interest-bearing bank deposits with maturity of more than three months		(513)
Net cash outflow for the year		(22)
Cash at banks and in hand	2,477	
Less: Bank deposits maturing more than 3 months	(1,633)	
Less: Bank overdrafts	(5)	
Cash & cash equivalents at 1.1.2015		839
Effect of changes in exchange rates		(49)
Cash & cash equivalents at 31.12.2015*		768
* Representing:		
Cash at banks and in hand		2,919
Bank deposits maturing more than 3 months		(2,146)
Bank overdrafts		(5)
		768

Consolidated Income Statement for the year ended 31.12.2015

	HK$m
❷ Revenue	5,741
Operating costs before depreciation and amortisation	(4,301)
EBITDA	1,440
Depreciation and amortisation	(426)
Operating profit	1,014
Net financing charges	(68)
Profit after net financing charges	946
❸ Share of results of a joint venture	(71)
❹ Share of results of associates	(23)
❺ Increase in fair value of investment properties	277
Taxation	(124)
Non-controlling interests	(5)
Profit attributable to shareholders	1,000

Consolidated Retained Profits for the year ended 31.12.2015

	HK$m
Retained profits at 1.1.2015	31,079
Profit attributable to shareholders for the year	1,000
Dividends distributed during the year	(350)
Retained profits at 31.12.2015	31,729

Consolidated Statement of Financial Position at 31.12.2015

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

Underlying profit attributable to shareholders for the year ended 31.12.2015

	HK$m
Profit attributable to shareholders	1,000
Non-operating and non-recurring items	(312)
❻ Underlying profit attributable to shareholders	688

❸ SHARE OF RESULTS OF A JOINT VENTURE

The Group has a 50% interest in The Peninsula Shanghai Complex and the Group's share of loss amounted to HK$71 million, which included the share of a net unrealised loss of HK$37 million (2014: unrealised gain of HK$6 million) arising from the revaluation of The Peninsula Shanghai Complex's shopping arcade.

❹ SHARE OF RESULTS OF ASSOCIATES

The Group has a 20% interest in each of The Peninsula Beverly Hills and The Peninsula Paris. The Group's share of net loss of these two hotels for 2015 amounted to HK$23 million (2014: 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).

❺ INCREASE IN FAIR VALUE OF INVESTMENT PROPERTIES

The Group states its investment properties at fair value and gain or loss arising from the change in fair value of investment properties is recognised in the income statement. The year end revaluation of the Group's investment properties has resulted in a non-operating gain of HK$277 million, principally attributable to The Repulse Bay Complex.

❻ UNDERLYING PROFIT ATTRIBUTABLE TO SHAREHOLDERS

To provide additional insight into the performance of its business operations, the Group presents underlying profit by excluding non-operating and non-recurring items such as any change in fair value of investment properties. Details of the reconciliation from reported profit to underlying profit are summarised on page 55.

Ten Year Operating Statistics

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
a) The Peninsula Hotels: (Note 1 & 2)										
Hong Kong										
Occupancy rate	**73%**	75%	72%	79%	74%	70%	57%	71%	77%	80%
Average room rate (HK$)	**4,760**	5,144	5,170	5,133	4,503	4,197	4,176	4,504	4,151	3,551
RevPAR (HK$)	**3,477**	3,870	3,731	4,072	3,347	2,926	2,401	3,219	3,182	2,851
Other Asia (excluding Hong Kong) (Note 3)										
Occupancy rate	**70%**	65%	66%	63%	57%	58%	48%	57%	68%	68%
Average room rate (HK$)	**2,265**	2,146	2,065	2,179	2,156	2,100	1,904	2,237	1,668	1,269
RevPAR (HK$)	**1,581**	1,390	1,361	1,367	1,221	1,214	920	1,284	1,139	858
United States of America and Europe										
Occupancy rate	**68%**	74%	74%	72%	69%	65%	59%	68%	76%	76%
Average room rate (HK$)	**5,807**	5,471	4,858	4,627	4,550	4,403	4,292	4,936	4,844	4,337
RevPAR (HK$)	**3,962**	4,059	3,573	3,346	3,135	2,856	2,511	3,378	3,701	3,282
b) Residential (Note 1 & 4)										
Occupancy rate	**93%**	85%	89%	92%	91%	92%	88%	94%	92%	91%
Average monthly yield per square foot (HK$)	**45**	42	42	41	38	36	37	39	35	33
c) Shopping Arcades (Note 1 & 5)										
Occupancy rate	**95%**	97%	99%	99%	97%	96%	95%	97%	97%	93%
Average monthly yield per square foot (HK$)	**202**	206	191	179	168	153	168	165	148	148
d) Offices (Note 1 & 4)										
Occupancy rate	**99%**	97%	92%	96%	100%	98%	91%	98%	99%	100%
Average monthly yield per square foot (HK$)	**55**	52	48	45	45	42	36	35	27	22
e) Peak Tram										
Patronage ('000)	**6,359**	6,325	6,272	5,918	5,777	5,385	4,862	5,006	4,939	4,430
Average fare (HK$)	**19**	19	19	19	19	17	16	16	16	15
f) Full Time Headcount (as at 31 December)										
Hotels	**6,178**	6,300	5,877	5,612	5,475	5,444	5,489	5,239	5,138	4,601
Commercial Properties	**348**	344	332	314	323	331	339	339	329	316
Clubs and Services	**1,318**	1,288	1,302	1,243	1,224	1,180	998	1,056	1,027	1,004
Total headcount	**7,844**	7,932	7,511	7,169	7,022	6,955	6,826	6,634	6,494	5,921

Notes:

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

Ten Year Financial Summary

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Consolidated Income Statement (HK$m)										
Revenue	**5,741**	5,838	5,508	5,178	5,009	4,707	4,218	4,938	4,542	3,717
EBITDA	**1,440**	1,528	1,306	1,201	1,211	1,143	924	1,425	1,510	1,275
Operating profit	**1,014**	1,105	911	817	834	794	586	1,051	1,175	1,024
Profit attributable to shareholders	**1,000**	1,146	1,712	1,555	2,259	3,008	2,660	(27)	4,002	2,350
Underlying profit attributable to shareholders*	**688**	804	511	439	464	408	323	808	906	787
Dividends	**308**	349	240	210	208	177	132	246	259	228
Earnings per share (HK$)	**0.65**	0.76	1.14	1.04	1.52	2.04	1.82	(0.02)	2.79	1.65
Underlying earnings per share (HK$)*	**0.45**	0.53	0.34	0.29	0.31	0.28	0.22	0.56	0.63	0.55
Dividends per share (HK cents)	**20**	23	16	14	14	12	9	17	18	16
Dividend cover (times) **	**2.2x**	2.3x	2.1x	2.1x	2.2x	2.3x	2.4x	3.3x	3.5x	3.5x
Interest cover (times)	**14.9x**	16.7x	9.7x	9.6x	9.5x	7.4x	6.8x	15.5x	13.5x	8.6x
Weighted average gross interest rate	**2.2%**	2.3%	2.9%	3.2%	3.1%	3.2%	3.2%	3.4%	4.2%	5.0%
Consolidated Statement of Financial Position (HK$m)										
Total assets	**45,089**	43,982	43,144	39,807	38,233	36,587	32,872	29,606	29,519	24,609
Total liabilities	**(8,429)**	(7,831)	(7,770)	(6,368)	(6,490)	(6,498)	(5,817)	(5,215)	(4,911)	(4,419)
Non-controlling interests	**(233)**	(250)	(269)	(289)	(283)	(981)	(908)	(934)	(891)	(783)
Audited net assets attributable to shareholders	**36,427**	35,901	35,105	33,150	31,460	29,108	26,147	23,457	23,717	19,407
Adjusted net assets attributable to shareholders#	**39,627**	39,496	38,486	36,396	34,708	31,893	28,571	26,611	27,056	21,859
Audited net assets attributable to shareholders per share (HK$)	**23.61**	23.67	23.37	22.07	21.11	19.67	17.79	16.18	16.45	13.59
Adjusted net assets attributable to shareholders per share (HK$)#	**25.68**	26.04	25.62	24.23	23.29	21.55	19.44	18.35	18.76	15.31
Net borrowings	**(3,273)**	(3,004)	(3,992)	(1,989)	(2,335)	(1,674)	(1,990)	(1,198)	(1,455)	(2,076)
Funds from operations to net debt##	**35%**	44%	28%	48%	42%	52%	33%	92%	86%	48%
Net debt to EBITDA (times)	**2.3x**	2.0x	3.1x	1.7x	1.9x	1.5x	2.2x	0.8x	1.0x	1.6x
Net debt to equity	**9%**	8%	11%	6%	7%	6%	8%	5%	6%	11%
Gearing	**8%**	8%	10%	6%	7%	5%	7%	5%	6%	10%
Consolidated Statement of Cash Flows (HK$m)										
Net cash generated from operating activities before taxation	**1,444**	1,589	1,401	1,133	1,145	1,173	904	1,429	1,616	1,271
Capital expenditure on existing assets	**(476)**	(370)	(928)	(875)	(312)	(276)	(269)	(417)	(213)	(437)
New projects and acquisitions	**(916)**	(39)	(2,293)	–	(578)	–	(1,157)	–	(595)	(208)
Share Information (HK$)										
Highest share price	**12.20**	12.60	14.20	11.92	14.74	14.90	11.98	14.50	15.46	13.50
Lowest share price	**8.00**	10.08	10.38	8.63	8.10	10.32	4.26	5.13	10.90	8.00
Year end closing share price	**8.64**	11.50	10.52	10.82	8.61	13.32	11.36	5.86	13.70	13.14

* 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 attributable to shareholders 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.

HSH Business Model and Investment Strategy

The Peninsula Hong Kong, 1928 (left) and 2015 (right)

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

The Peninsula Hong Kong was built in 1928 at a cost of HK$3 million. today, the property has a total worth of over HK$12 billion.

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

We create significant value for our shareholders from the appreciation in capital value of our properties as well as from the increasing operating yield as the asset continues to grow its income over time. The best example of this is our flagship property, The Peninsula Hong Kong, which in 1928 was built for what was regarded in those days as an enormous sum of HK$3 million. Of course, much money has since been invested in maintenance and upgrades, most notably in the Peninsula Tower built in 1994, but today the property has a total worth of over HK$12 billion and annual earnings in excess of HK$1.3 million.

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

Location, Location, Location

Our philosophy is to have only one Peninsula hotel in a given city and to seek a location which is not only unique but relates to the city’s history as well as being at the heart of a vibrant community. The location has to provide the ability for us to build a hotel or a mixed-use development which has its own distinct exterior appearance, identity, presence

The Peninsula Paris

The Repulse Bay

and impact. Ease of access to the property and the ability to provide a grand arrival experience for guests are essential, as are sweeping views from the hotel's guestrooms. The size of the site has to be able to accommodate the exceptionally generous guestroom sizes and stately public areas which make up a Peninsula hotel.

Bridging the investment gap

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

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

Embracing the local culture and history

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

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

Similarly, our residential apartments attract loyal tenants who appreciate that they offer a unique living environment in an exceptional setting – for example, The Repulse Bay was voted *Best Residential Complex 2015* and The Landmark in Vietnam was ranked *Top Serviced Apartments in Vietnam* (see Our Brand, page 86).

Innovation

With 87 years of history, The Peninsula Hong Kong is often referred to as a "The Grand Dame" of the Group. But time does not age our product. From the time The Peninsula was conceived, HSH was determined to present "an establishment containing the most modern hotel equipment and hygienic appliances to an extent without parallel in this part of the world", according to the first managing director of HSH, James Taggart, in 1928. This has been the cornerstone of our approach to innovation ever since those early days.

We believe innovation is the key to remaining modern and cutting-edge in our properties. We believe we are the only hotel group to invest in our own in-house research and technology facility, located in Hong Kong, which is celebrating its 30th anniversary this year. The team includes 25 engineers working on the design, development, prototyping and implementation of the seamless in-room technology that is delivered to guests in 11 languages on user-friendly tablets in their guestrooms. They also monitor the latest trends such as artificial intelligence and the "Internet of Things". More about our approach to innovation and technology initiatives can be read on pages 88 to 91.

A People Culture

The people who deliver the services to our guests represent the face and heart of The Peninsula brand. These highly-trained individuals excel in providing personalised services that delight our guests, anticipating their needs or surprising them with unexpected initiatives, while at the same time carefully managing and maintaining our assets and upholding operational standards. To underpin this brand attribute, we place strong emphasis on training, career development, genuine caring for our staff, empowerment and providing a confident and happy working environment in which employees can take pride. At The Peninsula Hong Kong, we take pride in the fact that 34% of our staff have over 10 years of service with us, which is high by any industry standard. More details about our HR strategy, investment in our people, our training and succession planning can be read on pages 78 to 80.

A Vision for Sustainable Luxury

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

Diversification of our Brand

With the objective of diversifying our brand and increasing brand recognition in markets where we do not operate a Peninsula hotel, Peninsula Merchandising Limited was established in Hong Kong in 2003. This subsidiary develops and distributes Peninsula-branded merchandise and operate Peninsula Boutiques in key gateway cities in Asia. The Peninsula Boutique outlets are located at The Peninsula Hong Kong, The Peninsula Beijing, The Peninsula Shanghai, The Peninsula Tokyo, The Peninsula Manila, The Peninsula Bangkok and The Peninsula Chicago, and a new boutique opened at Hong Kong International Airport in 2015. The Peninsula merchandise is also available at Peninsula Boutiques throughout Asia including Hong Kong, Beijing, Fukuoka, Hiroshima, Osaka, Tokyo, Yokohama, Singapore, Taichung and Taipei. The Peninsula Boutique & Cafè outlet is located at The Peninsula Tokyo. A selection of merchandise is also available for purchase online and delivery in Hong Kong, Japan and Taiwan at peninsulaboutique.com.

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

A Passion for Excellence

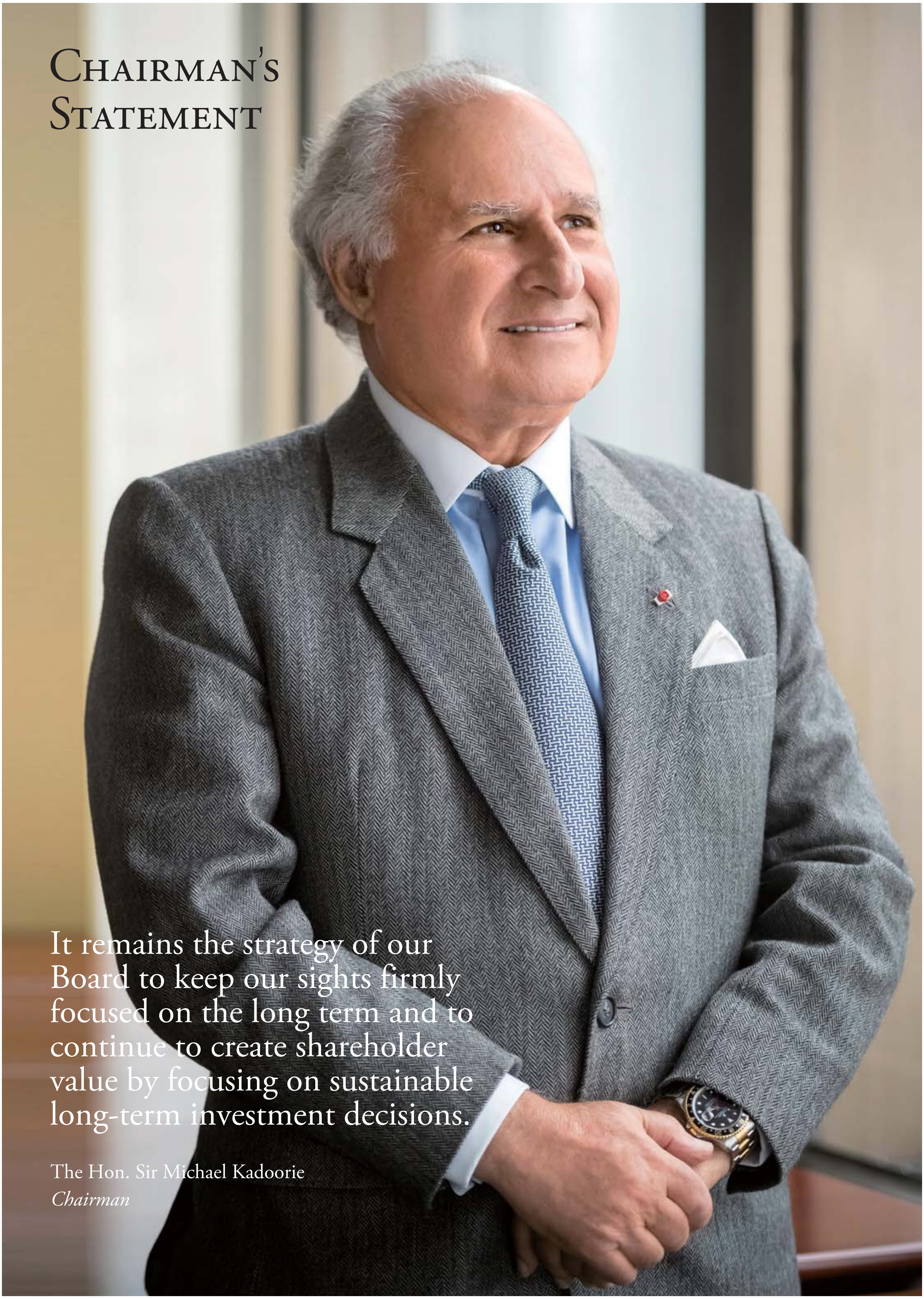
Perhaps the strongest pillar of our business model and investment strategy can be summed up in one word: Passion. We strongly believe that a great hotel is built on attention to detail, quality and an exceptional back-of-house. This passion for perfection is set by our leadership and translates through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

Performance and Outlook

The satisfactory results achieved by the Group in the face of many challenges emphasises the importance of having a diversified portfolio of assets.

Clement K.M. Kwok
CEO

Chairman's Statement



It remains the strategy of our Board to keep our sights firmly focused on the long term and to continue to create shareholder value by focusing on sustainable long-term investment decisions.

The Hon. Sir Michael Kadoorie
Chairman

Dear Shareholders,

I am extremely proud that The Hongkong and Shanghai Hotels is celebrating its 150th anniversary in 2016. Our company is currently the oldest company on the Hong Kong Companies Registry; it was one of the first companies to list on the Hong Kong Stock Exchange, and we believe it is also the world's oldest hotel group in continuous operation. Despite such a long history, we are still at a youthful stage in terms of our company's exciting development and expansion plans.

As we reflect on the traditions of the past and the achievements we have celebrated in recent years, it remains the strategy of our Board to keep our sights firmly focused on the long term and to continue to create shareholder value by focusing on sustainable long-term investment decisions. We believe that our rich history gives us a fuller understanding of our shared identity, culture and values, enabling us to manage change responsibly, to safeguard the best of the past and to keep innovating to meet the demands of the next generation.

In 2015, the year in review, our Group celebrated a significant milestone in April with the grand opening of our first hotel in Europe, The Peninsula Paris. The grand opening party was an extravaganza of colour, music and had an international guest list of stars befitting of the *Belle Epoque* era when the hotel first opened in 1908.

I am very proud of the way in which this magnificent hotel has delivered on the long-term vision of our Group which is to own and operate a small number of the world's best hotels. The Peninsula Paris is truly an exceptional property and in its first full year of operation has been recognised by international media as among the best of its kind in the world and the best hotel in Paris. More details can be read in Our Brand on page 87.

Unfortunately, 2015 saw "the best of times and the worst of times" in Paris. The senseless tragedies of the terrorist attacks in January and November shocked the world, and our hearts went out to the families and friends of the innocent people affected by these dreadful events. Our businesses in Thailand, which had recently started to recover from the political uncertainties of the past two years, were also impacted by the terrorist attack in Bangkok in July. Our Board remains most concerned about the global terrorist threat and its effect on the tourism industry in the short to medium term. The Board and senior management have implemented several initiatives to enhance our security and mitigate other significant emerging risks, as listed on pages 93 and 134.

Our company has always been at the forefront of innovation. As technology evolves, it also brings many opportunities to shape the future of the entire travel industry and the guest experience. Today's elite travellers expect not only unsurpassed luxury but also the most sophisticated technology, seamless connectivity, convenience and fast service at the touch of a button. Despite the advance of technology, we firmly believe that personalised attention to detail will always be the most important aspect of good service when one is travelling away from home. We endeavour to strike a balance between high-tech service and the warm personal touch that represents The Peninsula hospitality. More details about our Group's strategy on innovation can be read on page 88.

We endeavour to strike a balance between high-tech service and the warm personal touch that represents The Peninsula hospitality.

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 2015 we commenced significant renovations to The Peninsula Chicago and The Peninsula Beijing, with these projects due to be completed in 2016 and 2017 respectively. These new hotels will showcase the best of Peninsula service and standards, including the latest in-room technology.

In our home market of Hong Kong, we faced a challenging year. Tourist arrivals continued to decline, particularly from mainland China and to a lesser extent from Japan, and the outlook for the coming year remains uncertain. I am pleased that despite these difficulties, our Group performed relatively well and we delivered a satisfactory set of results in the face of intense competition in many of our key markets. The Financial Statements can be viewed on pages 155 to 211.

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 exceptional locations and to the high 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. In 2015, I am delighted that we signed a conditional agreement with our partners in Turkey for a proposed luxury hotel development in Istanbul.

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.

Corporate responsibility and sustainability is an integral part of all our business activity. In line with our move towards integrated reporting, we have taken steps to enhance our sustainability reporting. We have outlined our social and environmental performance and the impact of our businesses on the local communities in which we operate in this report and in our Corporate Responsibility and Sustainability Report. 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 represents our ambition to take luxury to the next level, and ensures that our Company will continue to succeed and have a positive influence on its local communities for decades to come.

Despite the current uncertainties, the benefit of 150 years of history gives us confidence in the long-term future. Our properties and hotels have survived the turbulence of war, military occupation, stock market crashes and other crises, and we have emerged resilient. We look forward to creating delightful experiences for our guests and creating value for our shareholders for many decades to come.

On behalf of the Board, I would like to express my deep appreciation and heartfelt thanks for the leadership of Clement Kwok and his management team, and for the hard work and dedication of the entire Group for their efforts in delivering a truly world-class service for our guests.

The Hon. Sir Michael Kadoorie
16 March 2016

CEO's Strategic Review

Clement K.M. Kwok
Chief Executive Officer

Our long-term strategic mission is to build, maintain and create the highest quality assets that become legacies in their time. At almost 150 years old, we are the oldest registered company in Hong Kong, but one that is still at a youthful stage in its development and growth strategy. We are still building for the future and it is an exciting time for us as a group.

I am pleased to report that we delivered a satisfactory set of financial results in spite of a challenging year for our company, with intense competition and a difficult operating environment in many of our key markets.

The satisfactory results achieved by the Group in the face of many challenges emphasises the importance of having a diversified portfolio of assets to weather the cyclical nature of the hotel industry. We continued to work hard to improve revenues and increase shareholder value through asset value appreciation and operational earnings, while doing business in a high cost environment.

Our long-term strategic mission is to build, maintain and create the highest quality assets that become legacies in their time. At almost 150 years old, we are the oldest registered company in Hong Kong, but one that is still at a youthful stage in its development and growth strategy. We are still building for the future and it is an exciting time for us as a group.

In this year's Annual Report, we are moving towards an integrated reporting style, sharing key aspects of our corporate strategy and long-term vision, and for the first time we have decided to publish a stand-alone Corporate Responsibility and Sustainability Report to give full coverage of our sustainability strategy and initiatives for our stakeholders.

Highlights of 2015

The highlight of the year was the grand opening of The Peninsula Paris in April 2015. In its first full year of operation, The Peninsula Paris has achieved tremendous international recognition and is already becoming noted as one of the finest hotels in Europe. The grand opening party was a spectacular display of traditional Peninsula hospitality with thousands of international and local guests and celebrities in attendance.

In December 2015, we were pleased that Westminster City Council's planning committee resolved to grant in principle planning consent for a new 190-room hotel, to be known as The Peninsula London, located at 1-5 Grosvenor Place, Hyde Park Corner, Belgravia in central London. London is one of the world's most dynamic capital cities and we are excited to move another step closer to introducing The Peninsula brand to London. More details and design renderings can be read on page 49.

Also in December 2015, we were pleased to move another step forward with The Peninsula Yangon project. An agreement was reached between the Myanmar Ministry of Rail Transportation and Yoma, our partners in Yangon, for the extension of the land lease that is required for the development of a mixed-use project located in the Yangon central business district in Myanmar. The former Myanmar Railway Headquarters forms part of this development and will be renovated to become The Peninsula Yangon.

I am pleased to report that we delivered a satisfactory set of financial results in spite of a challenging year for our company, with intense competition and a difficult operating environment in many of our key markets.

In July 2015, together with our partners Doğuş Holding A.Ş. and BLG Gayrimenkul Yatırımları ve Ticaret A.Ş., we entered into a conditional shareholders' agreement to form a joint venture partnership, of which HSH has a 50% share, for a proposed hotel development in Istanbul, Turkey. The location of our project is truly exceptional, with views across the Bosphorus to the Topkapi palace, and despite short-term security concerns we remain optimistic for the development of the high-end tourism market in Istanbul. More details on this project can be read on page 50.

We are working through the challenges of these three exciting hotel projects and it is our focus to make these projects work in commercial and financial reality. Our cashflow strategy is to keep our existing business generating sufficient levels of cash to support our new projects while maintaining a robust financial position, and to ensure that we have a healthy interest rate cover despite our project commitments.

We were pleased to reach an agreement with the Hong Kong Government for the renewal of the operating right to The Peak Tram, commencing 1 January 2016.

We were pleased to reach an agreement with the Hong Kong Government for the renewal of the operating right to The Peak Tram, commencing 1 January 2016. As one of Hong Kong's most popular tourist attractions that has been in operation since 1888, it is a much-loved and important asset for our company and I am delighted that we can continue to provide our services to tourists and the local community.

In December 2015, the Group restructured the lease agreement for The Peninsula Tokyo with our Japanese partner, MEC, which previously owned the hotel building and granted our Group a 50-year lease which commenced in 2007. We were delighted to reach an agreement to purchase the hotel building from MEC and to enter into a new Land Lease Agreement for a fixed term of 70 years from December 2015, for a cash consideration of JPY10.3 billion (excluding acquisition and transfer taxes). We therefore extended our tenure of The Peninsula Tokyo by 28 years.

Improving assets through renovation

We reported in 2014 that our business would be impacted in the short term by the renovations at The Peninsula Chicago and The Peninsula Beijing. This impact will continue into 2016 as the commencement of the renovation of The Peninsula Beijing was delayed due to the additional time required to achieve the necessary permits. We are confident that when these renovations are complete in 2016 for The Peninsula Chicago and 2017 for The Peninsula Beijing, we will see increased revenue and earnings from the improved product offering. These renovations are in line with our philosophy of improving existing assets to deliver long-term value for our shareholders.

A challenging environment

As a Hong Kong company with the majority of our assets located in Hong Kong, we are concerned about the short-term outlook for the tourism industry in Hong Kong. Overall tourist arrivals declined 2.5% year-on-year and Chinese mainland arrivals declined by 3% year-on-year. As a result, average room rates have been under pressure, not just for The Peninsula Hong Kong, but also for our competitive set and across the industry. Retail sales have inevitably suffered as a result of lower tourist arrivals, and the tenants in our shopping arcades are reporting a challenging environment.

Unfortunately the tragic terrorist events in Paris in January and November shocked the world and placed a shadow over the city, with tourism heavily impacted in the short term. Our businesses in Paris and Bangkok were impacted by the terrorist attacks in these cities during 2015, and we continue to be concerned about the global terrorist threat and its impact on tourism.

Financial Performance

The Group's revenue in 2015 amounted to HK$5,741 million, representing a slight decrease of 2% over 2014. The EBITDA for the year of HK$1,440 million, a decrease of 6% over the previous year, reflects the challenging situation that we faced in many of our key markets, as well as the impact of the renovations in The Peninsula Beijing and The Peninsula Chicago. Profit attributable to shareholders amounted to HK$1,000 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 2015 decreased by 14% to HK$688 million.

We believe that if we had not commenced the major renovations at The Peninsula Beijing and Chicago and the earnings of those projects had been the same as last year, the underlying profit of the Group in 2015 would have been flat to last year, which we consider to be a very creditable result in the light of the market environment especially in our main market of Hong Kong. Although revenue was down, we have worked hard to control costs. Despite general inflation in labour and operating costs, the Group's total operating costs and overheads were maintained at a level similar to last year, partly helped by reduced operating costs during the renovations of The Peninsulas in Beijing and Chicago as well as a weaker foreign currency.

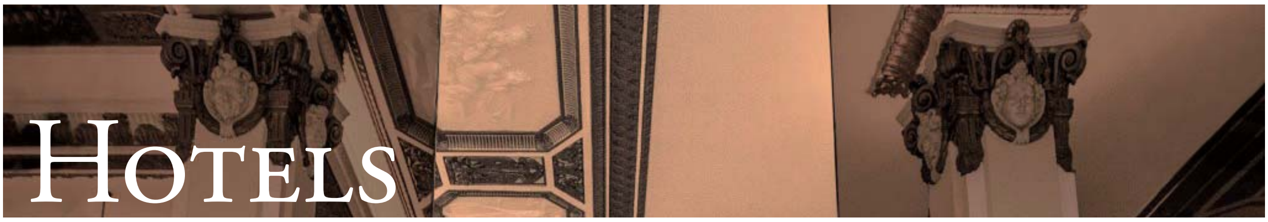
The Board has recommended a final dividend payable on 24 June 2016 of 15 HK cents per share. Together with the 2015 interim dividend of 5 HK cents per share paid on 30 October 2015, the total dividend in respect of the 2015 financial year will be 20 HK cents per share, an decrease of 13% compared to 2014.

Business Performance

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

Group Results

HK$m	**2015**	2014	Variance
Revenue			
Hotels	**4,073**	4,260	(4%)
Commercial Properties	**937**	901	4%
Clubs and Services	**731**	677	8%
	5,741	5,838	(2%)
EBITDA			
Hotels	**713**	818	(13%)
Commercial Properties	**596**	582	2%
Clubs and Services	**131**	128	2%
	1,440	1,528	(6%)



	2015 Revenue HK$m	2014 Revenue HK$m	Variance In HK$	Variance In Local Currency
Consolidated Hotels				
The Peninsula Hong Kong	**1,342**	1,360	(1%)	(1%)
The Peninsula Beijing	**275**	411	(33%)	(32%)
The Peninsula New York	**651**	674	(3%)	(3%)
The Peninsula Chicago	**487**	499	(2%)	(2%)
The Peninsula Tokyo	**711**	756	(6%)	7%
The Peninsula Bangkok	**215**	181	19%	26%
The Peninsula Manila	**284**	279	2%	5%
Management fees income	**108**	100	8%	n/a
	4,073	4,260	(4%)	n/a
Non-consolidated Hotels				
The Peninsula Shanghai (PSH)*	**592**	595	(1%)	1%
The Peninsula Beverly Hills (PBH)**	**564**	581	(3%)	(3%)
The Peninsula Paris (PPR)**	**537**	225	139%	172%
	1,693	1,401	21%	n/a

* The Group owns a 50% interest in PSH and the result of PSH is equity accounted for as a joint venture entity in the Group’s financial statements.

** The Group has a 20% interest in each of PBH and PPR and the results of these hotels are equity accounted for as associates in the Group’s financial statements.

“We believe that if we had not commenced the major renovations at The Peninsula Beijing and Chicago and the earnings of those projects had been the same as last year, the underlying profit of the Group in 2015 would have been flat to last year, which we consider to be a very creditable result in the light of the market environment especially in our main market of Hong Kong.”


THE PENINSULA
THE PENINSULA
MP 3128

The Peninsula Hotels

The Peninsula Hong Kong

The Hong Kong market experienced 3.9% fewer overnight arrivals during 2015 and overall hotel occupancy for the city declined 4 percentage points year-on-year. As a result of the weaker demand across the city, The Peninsula Hong Kong experienced a soft year with average room rates and RevPAR negatively affected.

During 2015, Japanese visitor arrivals to The Peninsula Hong Kong declined, mainly due to the weak currency in their home market, and although we continue marketing efforts in Japan, we believe that until the currency regains value, the Japanese segment will remain soft for the short-to-medium term. It was widely reported that Chinese mainland visitor arrivals declined in Hong Kong, but at The Peninsula Hong Kong we were not significantly affected by this trend and our mainland arrivals remained relatively stable. With the fall in leisure travellers, our strategy is to capture more corporate and group business, which we successfully secured by attending additional trade shows and sales events in the wider Asian region.

Food and beverage revenue remained healthy, and although mildly affected by the lower occupancy rates in the hotel, the local market and local patronage to our outlets remains strong. Spa revenue increased due to a popular new product line. The Peninsula Office Tower remained fully let and the Shopping Arcade revenue remained stable, demonstrating that our tenants continue to value The Peninsula brand, although we are sensitive to the weaker retail market across the city.

The hotel's three-year collaboration with Britain's prestigious Royal Academy of Arts, *Love Art at The Peninsula,* generated significant positive media coverage with a full-sized replica of a coach teetering on the Sun Terrace in an artwork by renowned British Sculptor Richard Wilson. This pioneering approach to art has helped to positively impact our company's image in the local and international art communities. Throughout June, *National Geographic* broadcast a promotional documentary about the hotel's 85th anniversary celebration, titled *The Making of a Gala.* In November, a Terry O'Neill *James Bond* photography exhibition was successful and resulted in sell-out bookings at *Gaddi's*. Our strategy with these initiatives is to bring our brand to the forefront of art, culture and lifestyle.

Revenue HK$1,342m	Occupancy	Average Room Rate	RevPAR
-1%	-2pp	-7%	-10%

Our strategy is to bring our brand to the forefront of art, culture and lifestyle.

The Peninsula Shanghai

The Peninsula Shanghai had a stable year despite intense competition and an oversupply of inventory across the city, and remains the leader in both RevPAR and average room rates in Shanghai. Domestic travellers are the top geographic segment making up around 50% of hotel guests, followed by the US and Hong Kong. Emerging markets include Russia and the Middle East, with high-level business delegations increasing from these markets because of investments in China. The high levels of PR exposure generated from The Peninsula Paris has helped drive new business from these markets due to increased brand recognition.

The Peninsula Academy programme has been very popular with affluent travellers in Shanghai looking for new and unique experiences, such as a private tour of Shanghai's finest heritage buildings in one of the hotel's Rolls-Royce Phantoms. We are seeing a move towards online and mobile bookings, which has led to a higher number of last-minute bookings and also strong business generated from online travel agencies, including Ctrip.

The shopping arcade in The Peninsula Shanghai remains almost fully let. Our strategy is to maintain a strong mix of tenants selling fashion, jewellery and watches to encourage more shoppers to visit the arcade. Our tenants are expanding their presence in the arcade and bring long-term revenue.

All food and beverage businesses located on the Bund were impacted when the government boarded up the area and reduced street lighting following the tragic events on the Bund on New Year's Eve 2014. This affected our revenue in the first quarter, but food and beverage business picked up later in the year. 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.

As of 31 December 2015, The Peninsula Shanghai Residences sold 13 out of the 19 units available for sale.

The Peninsula Shanghai is very active in community activities and corporate responsibility efforts (see page 69 of the Corporate Responsibility and Sustainability Report for more details). The *2015 Tour de Bund* saw hotel guests, city residents, company teams, media, club and professional cyclists – including Ding Yong, winner of the Chinese National Road and Track Cycling Championships – saddle up for a charity ride through the heart of Shanghai. With its fifth anniversary in 2015, this event helps to promote the benefits of fitness and healthy living, increases awareness of pollution-free travel, and raises money for Raleigh China, a charity which used these funds to construct much-needed schools in rural areas of Guizhou province, China, and to build access roads and water storage facilities.

The Peninsula Beijing

The market in Beijing was challenging in 2015 due to continued austerity measures impacting both rooms business and overall food and beverage and spa businesses across the city. However, despite a slight slowdown, there is a reorientation of the Chinese mainland economy from an export-driven model to a domestic consumption-driven economy, and we expect to see increased spending on food and beverage and experiences.

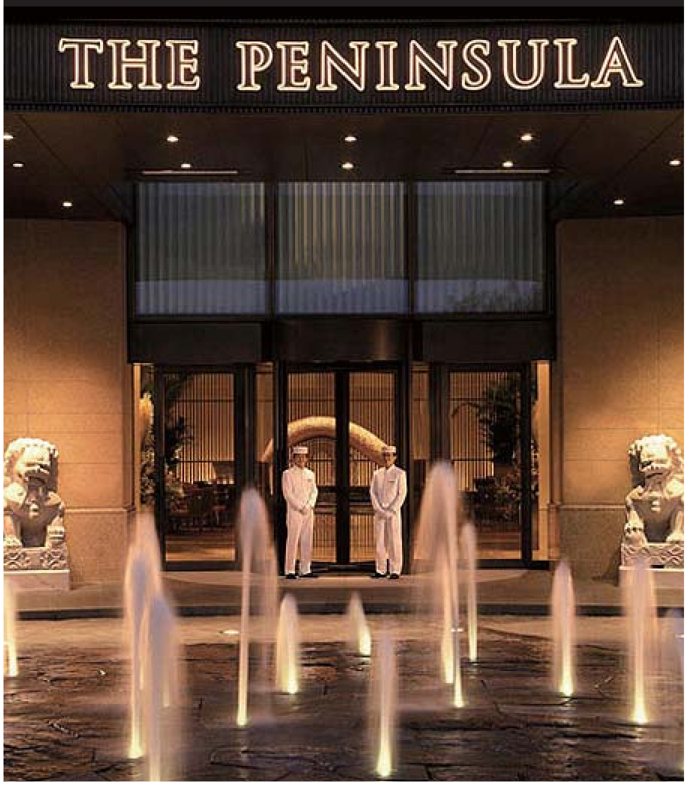
In keeping with our Group's philosophy of improving existing assets to deliver long-term value for our shareholders, a major RMB 890 million renovation for The Peninsula Beijing started in 2015. The renovation will be completed in 2017, slightly later than planned, due to a delay in obtaining the necessary permits. As forewarned in the 2014 Annual Report and the 2015 Interim Report, the disruption caused by the renovation negatively affected our earnings in 2015 as a result of rooms being taken out of commission and some retail tenants moving out of our shopping arcade due to the disruption to business. We expect this impact on earnings will continue throughout 2016 and into 2017 when the renovation will be completed.

The renovation will significantly enhance the lobby, restaurants and our room product, with new guestrooms starting at a spacious 60 square metres - the largest in Beijing and among the largest in China. Each room will feature a sleek entrance hall, a separate bedroom, living area and a dressing room, and an outsized bathroom styled in black and white veined marble. The renovation will also include fully customised in-room amenities, and proprietary Peninsula technology with interactive digital bedside and desk tablets that can be pre-set in 11 languages.

The renovation of The Peninsula Beijing incorporates the Group's sustainability efforts, incorporating BREEAM principles, the implementation of new LED lights, a much-improved air filtration system, and better facilities for our staff including a staff gym, relaxation area and café. During the renovation, we took the opportunity to send employees from Beijing to our other Group properties with our cross exposure programme, allowing them to learn best practices and broaden their skillset by experiencing a new work environment, operations, people and culture. More details can be read on page 32 of the Corporate Responsibility and Sustainability Report.

* The occupancy and RevPAR for this hotel are based on the rooms available for sale, which was approximately half of the normal inventory of 525 rooms.

Revenue JPY 11.10b	Average Room Rate
+7%	+13%
Occupancy	RevPAR
+2pp	+16%



The Peninsula Tokyo

The Peninsula Tokyo enjoyed a strong performance in 2015, helped by the strengthening of the Japanese economy and the weakening of the yen making it more affordable for overseas travellers. Japan has made significant changes to visa requirements within the Asian region which has resulted in increasing numbers of visitors from the Philippines, Thailand, and Indonesia. Local consumption was slightly weaker, resulting in lower food and beverage revenue at The Peninsula Tokyo.

Our strategy was to improve RevPAR and market positioning, which we successfully achieved in 2015. There was a large increase in transient business, with an increase of 20% over 2014 in terms of the international wholesale segment. Mainland Chinese visitor arrivals to Tokyo have increased substantially. The weddings business improved later in 2015 after a slow start across the city, and The Peninsula Tokyo marketing team commenced a more aggressive marketing strategy to promote our weddings business. Our strategy is to focus on improving our rooms and food and beverage offerings to the local domestic market, and to encourage more business in our restaurants and spa.

In December 2015, the Group successfully restructured the lease agreement for The Peninsula Tokyo with our Japanese partner, MEC, which previously owned the hotel building and granted our group a 50-year lease which commenced in 2007. We were delighted to reach an agreement to purchase the hotel building from MEC and to enter into a new Land Lease Agreement for a fixed term of 70 years, for a cash consideration of JPY10.3 billion (excluding acquisition and transfer taxes). We therefore extended our tenure of The Peninsula Tokyo by 28 years.

The Peninsula Bangkok

Thailand started the year with a strong recovery over 2014 and this was helped further in the second quarter, when the Thai Government ended martial law, which was positive news for our MICE (Meetings, Incentives, Conferences and Exhibitions) business. We saw increased revenue from catering as a result of more conferences and meetings. The second quarter, which is traditionally slow in Bangkok, enjoyed its strongest year since 2008.

The continually weakening Thai baht was positive for tourism and we saw increasing arrivals from the Korean market and other regional markets. Australian business declined in 2015, possibly due to many airlines offering direct flights to Chiang Mai and the islands, instead of having to transit via Bangkok. Also, many Australian and European long-haul travellers booked transit flights via the Middle East, which impacted the Bangkok market as a travel hub destination.

Unfortunately there was an impact on our business due to the terrorist attack in Bangkok in August, which deterred some leisure tourists from visiting Thailand in the months following the attack, but the business impact appears to have been short-lived and tourists returned to Thailand in the fourth quarter. We continue to be concerned about security threats in Bangkok and are continually assessing and working to improve our safety and security efforts to protect our guests and staff.

One of the key Group marketing strategies in 2015 was to focus on promoting Thailand and The Peninsula Bangkok, including the global *Peninsula Wellness* programme launched at The Peninsula Bangkok Spa. Highlights included a Thai massage programme in collaboration with Wat Pho Temple, new treatments and product lines, and *Tastefully Thai*, a group-wide three-month celebration of Thai cuisine, culture, art and wellness. We are delighted to report that The Peninsula Bangkok Spa was voted Number 1 in Asia by *Travel + Leisure*.

Revenue THB 956m	Occupancy	Average Room Rate	RevPAR
+26%	+16pp	-2%	+33%

The Peninsula Manila

The Peninsula Manila enjoyed a positive year, with revenue increasing 5% and RevPAR up 10% over the same period last year, partially due to consolidation in the local market as some competitor set hotels closed and others were under renovation. Various bans on local airlines were lifted for the EU and US and new routes opened up to Russia, which significantly boosted traffic. Cruise ship arrivals to the Philippines increased significantly. The rise of the middle class in the Philippines had a significant effect on our business with domestic travellers now comprising the second largest group after the US.

Madrid Fusion Manila, a gastronomic event held in April, attracted a significant number of international and local visitors and celebrity chefs to our food and beverage outlets. Our Peninsula Manila colleagues were proactive in serving the community (see page 73 of the Corporate Responsibility and Sustainability Report) and we are delighted to report that The Peninsula's global campaign for charity, *Hope for the Philippines*, completed Phase 1 of the project with the design and construction of 75 new homes for people displaced after Typhoon Yolanda in 2013. All 75 houses were turned over to their new owners in January 2016.

Revenue PHP 1,676m	Available Rooms	Occupancy	Average Room Rate	RevPAR
+5%	-5%	+1pp	+9%	+10%

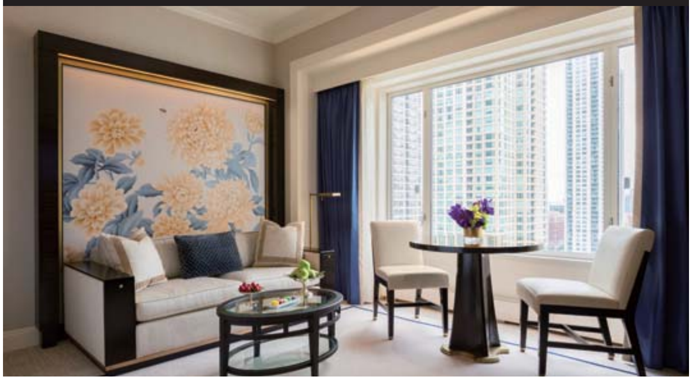
The Peninsula New York

The market in New York City was particularly challenging in 2015 due to intense competition and flat growth across the city. The decline in RevPAR of 7% was a similar result for most of our competitive set. However, we were pleased to report that we improved our RevPAR market positioning despite the challenging environment. New York has been flooded with additional supply, which also impacted our competitive set. The traditionally strong business from The Middle East and Europe did not grow to the extent we had expected. The US dollar strengthened against the euro which had a softening effect on our European business. Corporate business was relatively stable although we were disappointed to lose a key corporate account. Our strategy remains to build a broader base of varied corporate businesses to support the hotel and to maintain occupancy.

The worst winter weather in 35 years meant that business in our rooftop bar, *Salon de Ning*, was slower in the first quarter although this picked up in the autumn. There was intense competition in the food and beverage industry in New York City, with many new and trendy celebrity chef restaurants opening in the city. Our direct competitive set embarked on renovations and product overhauls. We repositioned *Clement* restaurant as a more approachable dining option within Midtown and also introduced a new fixed-price pre-theatre dinner with shuttle service to Broadway. With the new American fare menu direction, PR and marketing efforts have continued to position the restaurant and bar as a top spot to dine in the city.

In December, The Peninsula New York volunteered to participate in the NYC Carbon Challenge, committing to reduce its carbon intensity by 30% by 2025, in support of the city's collaborative effort in curbing greenhouse gas emissions. The NYC Carbon Challenge reflects our company's own Sustainable Luxury Vision 2020 in which we endeavour to support the local communities where we operate and to be conscious of our environmental footprint. More details on our efforts to improve our carbon performance can be read on pages 42 to 44 of the Corporate Responsibility and Sustainability Report.

Revenue US$ 62m	Average Room Rate
-2%	+9%
Occupancy	RevPAR
-9pp	-4%



The Peninsula Chicago

The US market in 2015 was flat. Boutique hotels have become popular in Chicago and there was an increasing supply of inventory in the market in 2015. In the past 24 months, 1,440 new hotel rooms have come onto the market. Chicago suffered from underfunding in terms of resources to promote global tourism, and therefore we do not expect any significant increase from international markets in the near future. There was some negative media coverage due to the 'Black Lives Matter' demonstrations in Chicago but this has not had a significant effect on tourism arrivals.

Traditional business at The Peninsula Chicago has been corporate accounts from the domestic market. This business was impacted by severe cold weather in the first quarter and later in the year by the start of our major room renovation. While the convention market, which is Chicago's key attraction for business travellers, increased by 6.7% in 2015, we were not able to capitalise on this due to our renovation. The hotel could not accept its usual level of large group bookings, which negatively impacted occupancy and our catering business. However, we have already been able to charge a premium rate for the same room category in our renovated rooms, achieving additional revenue per room per night. We expect business to pick up further as rooms come back into commission.

The new room product received positive feedback from guests and numerous media reviews. The re-design of the hotel introduced the Peninsula's proprietary advanced guest room technology to the United States, along with two new service initiatives: 24-hour check-in for web bookings and "Keys to the City," which provides guests with special access to Chicago's best destinations. A hand-crafted floral art piece by artist David Qian in each guest room features the chrysanthemum, the official flower of Chicago and one of the four "noble flowers" of Asia, marrying the Peninsula's Asian heritage with its Chicago influence.

As part of The Peninsula Hotels' strategy to support public art, The Peninsula Chicago embraced the art community with a significant art installation in The Lobby, entitled *'Alchemy'*, by renowned Korean artist Choi Jeong Hwa and curated by Pearl Lam Galleries. The Peninsula Hotels take pride in highlighting our destination cities and this project was an ideal way to showcase Chicago at the heart of the global contemporary art scene. The installation debuted in September 2015 to coincide with EXPO Chicago.

A major sustainability milestone was the successful deployment of LED lighting in all Peninsula Chicago guest rooms and suites. This is a first for the Group, and has been a major undertaking, beginning in the design phase and involving much testing and refining to achieve the ideal hue and dimming effect. More details can be read on pages 54 to 57 of the Corporate Responsibility and Sustainability Report.

The Peninsula Beverly Hills

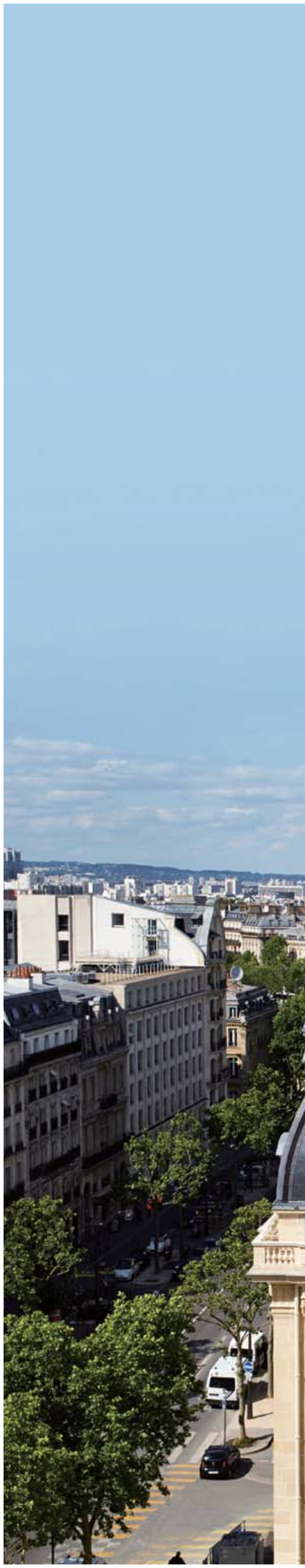
The Peninsula Beverly Hills had a strong first half of the year and this continued until the end of August. The major remodelling and renovation of our fine dining restaurant, *The Belvedere*, started in September and this impacted our room revenue for the remainder of the year. We are confident of increased patronage and improved revenue with the completion of the renovation in the first quarter of 2016. Despite the renovation and its negative impact on both occupancy and average rates, we remain the RevPAR leader in the market and in August we had record average rates.

The majority of our guests are domestic travellers from within the US although we are seeing an increasing number of year-round visitors from the Middle East following the introduction of a new Saudi Arabian airline direct flight from Jeddah, as well as direct flights from Abu Dhabi to LA. There are an increasing numbers of guests travelling to LA for medical tourism and "educational tourism" where parents are travelling with their children to visit local universities in Southern California. A large percentage of our guests book directly with the hotel.

The impact of lower oil prices could affect the lucrative business from the Middle East in the long term, and therefore our strategy at The Peninsula Beverly Hills is to grow our market share in other international markets including China, Brazil and Mexico which are strong potential markets. Australia is also a robust market with eight flights per day to LA from Australia. In line with our Sustainable Luxury Vision 2020 we are placing an enhanced focus on family travellers.

The Peninsula Beverly Hills continues to win high profile awards and we are proud to have been voted as The Best Hotel in the US for five consecutive years by *Global Traveler* magazine. Other prestigious awards are listed on page 87 and on our website.

Revenue US$ 72m	Occupancy	Average Room Rate	RevPAR
-3%	-5pp	+5%	-1%



The Peninsula Paris

The Peninsula Paris had a challenging year in its first full year of operation due to the terrorist attacks in the city in January and November, which impacted the entire tourism industry and particularly the Paris market in the short term, while the longer-term effect remains to be seen. Leisure traveller arrivals reduced significantly and with the reliance on corporate travel bookings rather than the usual mix of corporate and leisure, we reported a negative impact on the hotel's average room rates. We had to temporarily close *La Terrasse Kléber* because of security concerns and this, together with the lower occupancy in the hotel in December, negatively impacted our food and beverage revenue.

Despite the difficult market environment, we are satisfied with of our overall occupancy levels for a luxury hotel in its first full year of operation, and we believe this can be attributed to the very high level of publicity and recognition that the hotel has garnered since opening, attracting guests from around the world, and significantly boosting brand recognition for other more established Peninsula Hotels. The grand opening party in April was a great success and attracted celebrities and international guests from all over the world. More details about the grand opening party can be read on pages 68 to 71.

The entire hotel market in Paris is dramatically changing and expanding. However, with increased supply, we are facing an intensely competitive market. As a newcomer to Paris, we are proud to be counted among some of the very best hotels in the world.

Revenue EUR 63m	Occupancy	Average Room Rate	RevPAR
+172%	+8pp	-10%	+4%

Commercial Properties

	2015	2014	Variance	
	Revenue HK$m	Revenue HK$m	In HK$	In Local Currency
The Repulse Bay Complex	**629**	583	8%	8%
The Peak Tower	**180**	176	2%	2%
St. John's Building	**54**	51	6%	6%
The Landmark	**38**	36	6%	7%
1-5 Grosvenor Place	**35**	39	(10%)	(3%)
21 avenue Kléber	**1**	16	(94%)	(90%)
	937	901	4%	n/a

The Repulse Bay Complex is a premier residential property located close to the city, offering one of the finest and most enjoyable living environments in Hong Kong. We were delighted to win the accolade of *Best Residential Complex 2015 – Southside Magazine Reader's Choice Award*. The Complex reported a stable performance in 2015, with 8% higher revenue than 2014 due to buoyant rental income from the de Ricou apartment tower after its renovation in 2013, and increased rents from our other apartment towers at 101 and 109 Repulse Bay Road. The Complex offers excellent restaurants and a stunning wedding venue with panoramic views over Repulse Bay Beach and our weddings and catering business performed strongly in 2015.

The operating results were pleasing in the light of the general uncertainty in the high-end property leasing market in Hong Kong.

The operating results were pleasing in the light of the general uncertainty in the high-end property leasing market in Hong Kong; rental transactions fell across all major luxury residential districts in Hong Kong in the fourth quarter of 2015. The demand for luxury apartments in the market may further decline with budget cuts being made by multinational companies, resulting in tenants moving to less expensive apartments. We also remain concerned about the weak retail environment in Hong Kong which could impact the shopping arcade revenue in 2016.


The Repulse Bay

Sky Terrace 428 welcomed record visitor numbers in 2015 despite a decline in the overall visitor numbers to Hong Kong.

St. John’s Building

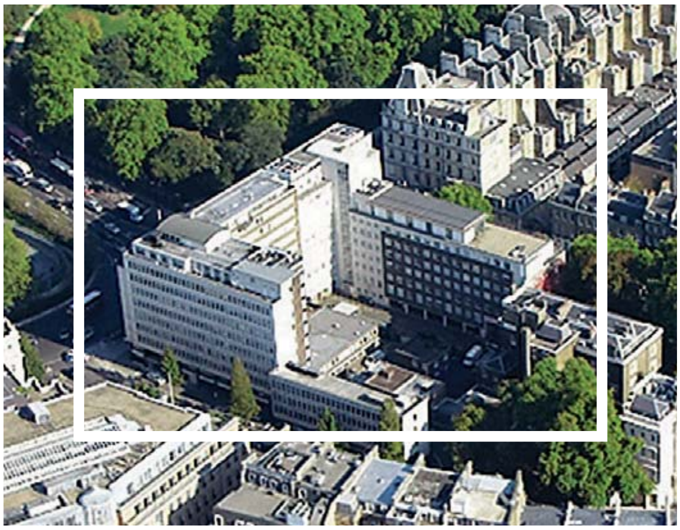
The Peak Tower

The Peak Tower remained fully occupied although average rental rates declined because of lower turnover rent. This property generates revenue not only from commercial leasing, but also from admission fees to the open-air rooftop attraction of Sky Terrace 428 with its unparalleled views of Hong Kong. Sky Terrace 428 welcomed record visitor numbers in 2015 despite a decline in the overall visitor numbers to Hong Kong.

St. John’s Building, located at the lower terminus of The Peak Tram, offers an excellent Central location for offices. The building was fully let in 2015, with revenue growth of 6%. In December, we were proud to support *Event Horizon*, the most extensive public art installation ever seen in Hong Kong, created by award-winning and internationally acclaimed British artist, Sir Antony Gormley. The installation featured statues on top of buildings and public spaces.

The Landmark in Ho Chi Minh City, Vietnam, which is a mixed-use commercial building comprised of serviced apartments, offices and retail space, reported a 7% increase in revenue despite a highly competitive market situation in the city. The complex celebrated its 20th anniversary at the end of 2014. We were pleased to secure new long-term tenants due to the high quality of management and very competitive service offered, and we were delighted to receive the Accolade of *Best Serviced Apartments in Vietnam* in 2015.

The Landmark, Vietnam



21 avenue Kléber, Paris (top), 1-5 Grosvenor Place, London (below)

1-5 Grosvenor Place in London, which was acquired in 2013, generates revenue primarily from its commercial tenants. Revenue has been maintained at similar levels as 2014 with higher occupancy, despite the fact that we can only offer shorter term leasing to new tenants in light of the pending redevelopment. In December 2015, Westminster City Council resolved in principle to grant planning approval to demolish the existing building and redevelop it into The Peninsula London hotel and residential apartments. We target to commence demolition and construction during 2017.

21 avenue Kléber in Paris, which was acquired during 2013, had 90% less revenue in 2015 as we prepared the building for renovation. The building is located immediately adjacent to The Peninsula Paris and will continue to be leased as offices and retail space after its renovation, which we expect to complete in 2017.

Clubs and Services

	2015	2014	Variance	
	Revenue HK$m	Revenue HK$m	In HK$	In Local Currency
The Peak Tram	**122**	124	(2%)	(2%)
Thai Country Club	**58**	55	5%	12%
Quail Lodge & Golf Club	**135**	117	15%	15%
Peninsula Clubs & Consultancy Services	**182**	171	6%	6%
Peninsula Merchandising	**179**	157	14%	14%
Tai Pan Laundry	**55**	53	4%	4%
	731	677	8%	n/a

The Peak Tram is one of Hong Kong's most popular tourist attractions. Revenue remained relatively flat as we did not increase fares in 2015. We saw a slightly increased patronage of 1% despite a decline in overall visitor numbers to Hong Kong. We were pleased to reach an agreement with the Hong Kong Government for the renewal of the operating rights to The Peak Tram, commencing 1 January 2016, which paves the way for a proposed project to increase the capacity of the trams and create additional waiting areas for our customers.

Thai Country Club enjoyed a more positive year with an increase of 12% in revenue, reporting stronger business levels and increased golf membership revenue as Thailand's economy recovered, compared to last year's political uncertainty.

Quail Lodge & Golf Club revenue increased by 15%, with increased occupancy rates due to a successful marketing strategy to attract business from online travel agents, and increased wedding and banqueting business. The renovated golf course was officially opened in May after six months of renovations. We paid particular attention to sustainability considerations during this renovation, with a state-of-the-art irrigation system and drought-resistant landscaping introduced to minimise water use over the long term. (More details available on page 47 of the Corporate Responsibility and Sustainability Report). *The Quail: A Motorsports Gathering* in August enjoyed another successful year, generating significant revenue for the Lodge and attracting thousands of motoring aficionados and classic car lovers from around the world. *The Quail Motorcycle Gathering* continues to grow in popularity with more than 2,000 visitors in May including celebrities and international guests.

In the second half, El Niño affected California after a three-year drought, which, while bringing much needed rainfall, negatively affected transient business and golf rounds.

Peninsula Clubs & Consultancy Services (PCCS) manages prestigious clubs in Hong Kong including The Hong Kong Club, The Hong Kong Bankers Club and Butterfield's. Our revenue increased by 6% over the previous year. In 2015, HSH and Cathay Pacific Airways Limited agreed to end The Peninsula's management of the Cathay Pacific Lounges at Hong Kong International Airport, comprising agreements for The Wing, The Pier and The Cabin, with effect from 1 May, 2016. We are disappointed with this outcome as we had been managing Cathay Pacific's Lounges at Hong Kong airport since 1998 but this decision was taken with a strategic long-term view of both companies' business interests. PCCS is working with the new operator to transition 273 existing staff.

Revenue at **Peninsula Merchandising** was 14% higher than 2014, with strong growth in revenue from Peninsula Mooncakes. In November, The Peninsula Boutique opened a beautiful new retail outlet at Hong Kong International Airport and we expect this will help drive revenue in 2016 whilst undergoing a brand evolution project to increase brand recognition among international travellers.

Tai Pan Laundry increased revenue by 4 % due to the increased volume of laundry from its non-hotel customers.

The Peninsula Boutique opened a beautiful new retail outlet at Hong Kong International Airport

Projects

The Peninsula London

In 2013, our Group purchased a 50% interest in the lease of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of £132.5 million. The remaining 50% leasehold interest, as well as the freehold of the site, is owned by Grosvenor. This property is in a spectacular location overlooking Hyde Park Corner and the Wellington Arch.

Together with Grosvenor, we submitted an application in July 2015 to replace the existing 1950s and 1960s offices with a high-quality 190-room hotel and residential apartments designed by UK-based Hopkins Architects. We were delighted to announce in December 2015 that Westminster City Council's planning committee resolved to grant in principle planning consent for the new hotel, to be known as The Peninsula London.

Design rendering of The Peninsula London project

The Peninsula London aims to bring a new level of distinction to London's luxury hospitality scene and will cater for both hotel guests and local customers. In addition to guestrooms and spa, it will include shops, bars, restaurants and a ballroom. The design is inspired by the area's heritage, befitting one of London's most celebrated addresses.

In line with our philosophy to create value for shareholders by adding residential apartments to the hotel complex we develop, plans for The Peninsula London also include 24-28 residential apartments with their own leisure and spa facility. Separately, 23 intermediate affordable homes will be built nearby on Buckingham Palace Road, adding to housing supply and diversity of the area. We aim to start construction in summer 2017, with completion due in 2021.

Redevelopment of the site remains subject to a number of conditions including obtaining all requisite planning approvals and the final agreement to proceed by Grosvenor and HSH. HSH will also be responsible for a 50% share in the total redevelopment costs, which are still being finalised.

The Peninsula Yangon

The Company entered into a conditional agreement with Yoma Strategic Holdings in January 2014 to acquire a 70% majority interest for a proposed hotel development on the site of the former headquarters of the Myanmar Railway Company in the centre of Yangon, Myanmar. The hotel will be at the heart of a mixed-use project. The Group's overall investment will be about US$100 million, taking into account the value of the leasehold interest pertaining to the proposed hotel development and development cost estimates which are still being finalised.

In December 2015, we were pleased to move another step forward with The Peninsula Yangon project. A framework agreement was reached between the Myanmar Ministry of Rail Transportation and Yoma, our partners in Yangon, for the extension of the land lease that is required for the development of the mixed-use project. The former Myanmar Railway Headquarters forms part of this development and will be renovated to become The Peninsula Yangon. We will also manage The Peninsula Residences Yangon, luxury residential apartments in Yangon. We are working alongside Yoma for the fulfilment of all conditions precedent to The Peninsula Yangon project.

The Peninsula Istanbul

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

Subject to fulfilment of the conditions, the partners have agreed to jointly develop the property with an investment commitment of approximately €300 million (equivalent to approximately HK$2,568 million), of which HSH will be responsible for 50% or approximately €150 million (equivalent to approximately HK$1,284 million).

The partners plan to redevelop a property within the Salıpazarı Port Project Area, located in the historic Karaköy area of the Beyoğlu district of Istanbul overlooking the Bosphorus. Our Turkish partner currently holds the right of operation for a period of 30 years starting from February 2014 for the construction of various facilities, development and operation of the Salıpazarı Port Project Area.

Istanbul is a vibrant and beautiful city that embodies both ancient and modern cultures and has become one of the world's most popular tourist destinations. We are excited to develop this project in such a unique location which is consistent with our Group's long-term strategy to invest and operate Peninsula hotels in strategically selected cities. We are pleased to be partnering with Doğuş and BLG who offer a proven track record of successful investments in Istanbul and share our values of quality and long-term outlook.

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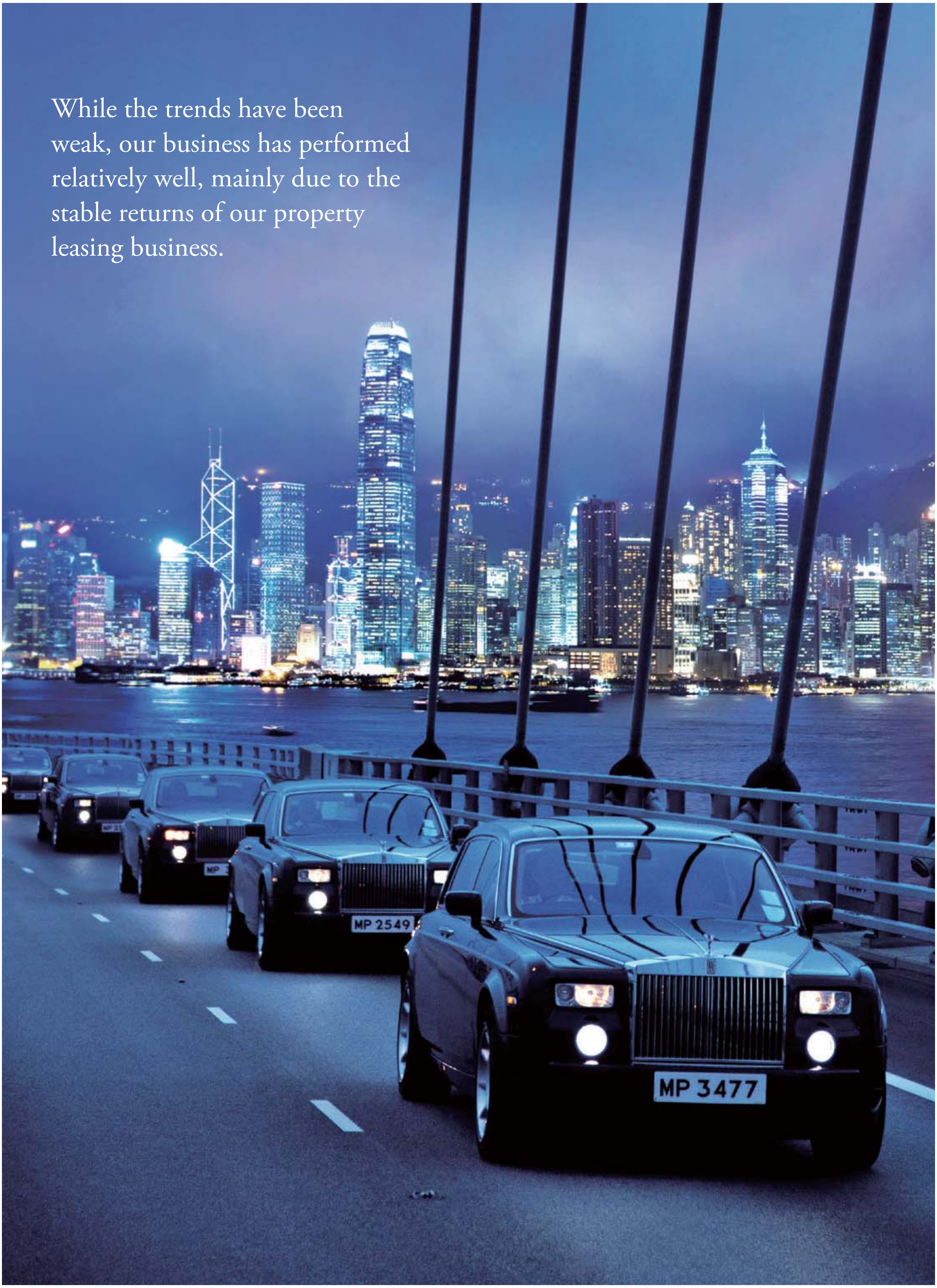
A Vision for Sustainable Luxury

In 2013 we unveiled our Sustainable Luxury Vision 2020, setting out our blueprint for sustainable growth and our ambition to achieve a new level of sustainable luxury. In the past two years we feel that we are gradually achieving our goal of creating a mindset and buy-in towards sustainability throughout our company so that it becomes a living and breathing topic that matters personally to our employees and is integral to how we conduct all our businesses and operations. Rather than a separate topic, this vision is fundamental to our company's operations, brand and service standards, and is being implemented across seven pillars of our Group. With this in mind, in addition to moving towards an integrated reporting style we have produced a stand-alone Corporate Responsibility and Sustainability Report, which delivers the relevant information to our stakeholders while ensuring that sustainability issues and considerations receive the full attention of the Board as we plan our strategy for the coming years.

Outlook

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.

While the trends have been weak, our business has performed relatively well, mainly due to the stable returns of our property leasing business.



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.

The outlook for the Hong Kong market in terms of tourism, high-end residential lettings and retail rental income is somewhat uncertain and this is a concern for the Board. While the trends have been weak, our business has performed relatively well, mainly due to the stable returns of our property leasing business, with our residential apartments and commercial arcades holding up well.

We believe that the smaller, exclusive and high-end nature of the retail outlets at The Peninsula Hong Kong, as well as our luxury residential product at The Repulse Bay Complex, especially our recently fully renovated and enlarged apartments at the de Ricou tower, have been key to maintaining demand for those properties.

Outside Hong Kong, mainland China is a very important market for us and we are pleased that The Peninsula Shanghai has reinforced its position as the number one hotel in that city, with a stable future outlook. We believe that the domestic mainland market will continue to grow, especially among high-end affluent travellers who are seeking new and unique experiences. While both the Shanghai and Beijing five star hotel markets are currently over-supplied, we believe that the two Peninsula hotels in these cities will be able to differentiate with their superior products, especially following the full renovation of The Peninsula Beijing.

Elsewhere in Asia, we continue to see strong and increasing demand in Tokyo, and Bangkok continues to recover following the relaxation of martial law which was previously imposed in that country.

In the US, the economic outlook is positive and our US operations are well-positioned to benefit from the projected growth in consumer spending. Growth in the US domestic and corporate market will be especially beneficial for The Peninsula Chicago with its full renovation due for completion in 2016. The Peninsula Beverly Hills also expects to see a positive impact with the opening of its fully renovated restaurant *The Belvedere* in the first quarter of 2016.

In Paris, business has clearly been affected by the terrorist attacks of 2015. However, we have been seeing some pickup since the beginning of 2016 although this period is in the winter low season and we are looking to a stronger recovery in the leisure market from spring onwards.

For 2016, it should be noted that 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. The Peninsula Beijing renovation will be completed in phases up until 2017 and The Peninsula Chicago renovation will be completed in 2016.

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, and serving our local communities, for years to come.

Clement K.M. Kwok
16 March 2016

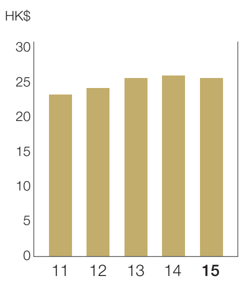
Financial Review

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

ADJUSTED NAV

HK$39,627m +0.3%

Adjusted NAV per share



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.

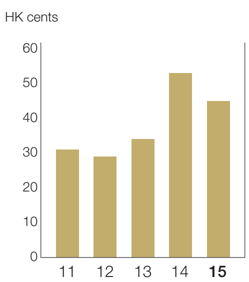
Accordingly, we have commissioned an independent third-party fair valuation of the Group's hotels and golf courses as at 31 December 2015, the details of which are set out on page 61. If these assets were to be stated at fair value, the Group's net assets attributable to shareholders would increase by 9% to HK$39,627 million as indicated in the table below.

HK$m		**2015**		2014
Net assets attributable to shareholders per the audited statement of financial position		**36,427**		35,901
Adjusting the value of hotels and golf courses to fair value	**3,685**		4,378	
Less: Related deferred tax and non-controlling interests	**(485)**		(783)	
		3,200		3,595
Adjusted net assets attributable to shareholders		**39,627**		39,496
Audited net assets per share (HK$)		**23.61**		23.67
Adjusted net assets per share (HK$)		**25.68**		26.04

UNDERLYING EARNINGS

HK$688m -14%

Underlying Earnings per share



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.

The Group's underlying profit attributable to shareholders for the year ended 31 December 2015 amounted to HK$688 million, a decrease of 14% compared to 2014, mainly due to the renovations at the Peninsula hotels in Beijing and Chicago and the declining tourist arrivals in Hong Kong.

HK$m	2015	2014	2015 vs 2014
Profit attributable to shareholders	**1,000**	1,146	
Increase in fair value of investment properties, net of tax and non-controlling interests	**(295)**	(490)	
Share of property revaluation loss/(gain) of The Peninsula Shanghai, net of tax	**37**	(6)	
Effect of decrease in tax rates on deferred tax liabilities arising from revaluation gains on investment properties	**(54)**	–	
Provision for impairment loss in respect of The Peninsula Beijing and The Peninsula Manila	**–**	132	
Other non-operating and non-recurring items	**–**	22	
Underlying profit attributable to shareholders	**688**	804	(14%)
Underlying earnings per share (HK$)	**0.45**	0.53	(15%)

Income statement

The Group's consolidated income statement for the year ended 2015 is set out on page 156. The following table summarises the key components of the Group's profit attributable to shareholders. This table should be read in conjunction with the commentaries set out on pages 56 to 59 of this Financial Review.

HK$m	2015	2014	2015 vs 2014
Revenue	**5,741**	5,838	(2%)
Operating costs	**(4,301)**	(4,310)	–
EBITDA	**1,440**	1,528	(6%)
Depreciation and amortisation	**(426)**	(423)	1%
Net financing charges	**(68)**	(66)	3%
Share of result of The Peninsula Shanghai*	**(71)**	(6)	1,083%
Share of results of The Peninsula Paris and The Peninsula Beverly Hills**	**(23)**	(35)	(34%)
Non-operating items	**277**	364	(24%)
Taxation	**(124)**	(231)	(46%)
Profit for the year	**1,005**	1,131	(11%)
Non-controlling interests	**(5)**	15	(133%)
Profit attributable to shareholders	**1,000**	1,146	(13%)

* Being the Group's 50% share of The Peninsula Shanghai's (PSH) result. The 2015 figure includes the Group's share of unrealised loss of HK$37 million (2014: unrealised gain of HK$6 million) arising from the revaluation of PSH's investment properties, net of tax.

** Being the Group's 20% share of The Peninsula Paris' (PPR) operating loss net of its 20% share of The Peninsula Beverly Hills' profit. PPR opened for business on 1 August 2014 and the 2014 comparative figure includes the Group's 20% share of pre-opening expenses of the hotel.

REVENUE

HK$5,741m -2%

Hotels

HK$4,073m -4%

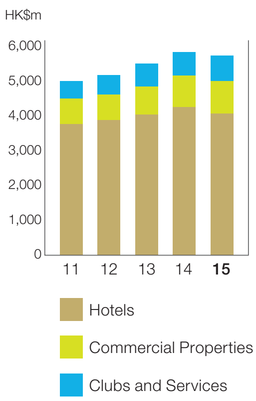
Commercial Properties

HK$937m +4%

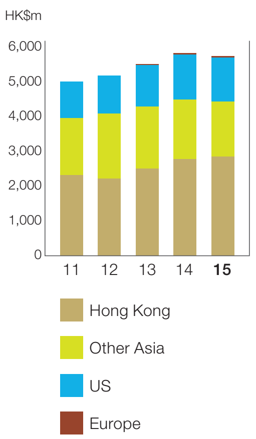
Clubs and Services

HK$731m +8%

Consolidated Revenue by Business Segment



Consolidated Revenue by geographical segment



Revenue

The Group's revenue in 2015 decreased by 2% to HK$5,741 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	**2015**	2014	2015 vs 2014
Hotels	**4,073**	4,260	(4%)
Commercial Properties	**937**	901	4%
Clubs and Services	**731**	677	8%
	5,741	5,838	(2%)

Consolidated revenue by geographical segment

HK$m	**2015**	2014	2015 vs 2014
Arising in			
Hong Kong	**2,851**	2,775	3%
Other Asia	**1,581**	1,718	(8%)
United States of America	**1,273**	1,290	(1%)
Europe	**36**	55	(35%)
	5,741	5,838	(2%)

The hotels division is the main contributor to the Group's revenue, accounting for 71% (2014: 73%) of total revenue. The operating performance of the Group's hotel businesses is subject to a higher degree of volatility by nature. The decrease in revenue of the hotels division was due to a combination of factors, including the room closures for the renovation programmes undertaken by The Peninsula Beijing and The Peninsula Chicago, and declining tourist arrivals in Hong Kong. The devaluation of Renminbi and Japanese Yen has also contributed to the decrease in revenue of the hotels division.

The increase in revenue for the commercial properties was mainly due to the increased occupancy achieved by The Repulse Bay Complex. The increase in revenue for the clubs and services division was due to higher mooncake sales achieved by Peninsula Merchandising and better results achieved by Quail Lodge following its renovation of the golf course.

Details of the operating performances of the Group's individual operations are set out on pages 28 to 48 of the CEO's Strategic Review.

Operating costs

In 2015, our operating costs (excluding depreciation and amortisation) decreased marginally to HK$4,301 million (2014: HK$4,310 million).

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 1% to HK$2,063 million, representing 48% (2014: 48%) of the Group's operating costs and 36% (2014: 35%) of the Group's revenue.

EBITDA and EBITDA Margin

EBITDA (earnings before interest, taxation, depreciation and amortisation) of the Group decreased by HK$88 million or 6% to HK$1,440 million in 2015. The table below sets out the breakdown of the Group's EBITDA by business segment and by geographical segment.

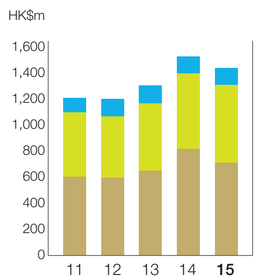
EBITDA (HK$m)	Hong Kong	Other Asia	United States of America	Europe	Total
2015					
Hotels	**536**	**161**	**16**	**–**	**713**
Commercial Properties	**555**	**16**	**–**	**25**	**596**
Clubs and Services	**132**	**10**	**(11)**	**–**	**131**
	1,223	**187**	**5**	**25**	**1,440**
	85%	**13%**	**–**	**2%**	**100%**
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%
Change 2015 vs 2014	–	(20%)	(85%)	(40%)	(6%)

EBITDA Margin	**2015**	2014
Hotels	**18%**	19%
Commercial Properties	**64%**	65%
Clubs and Services	**18%**	19%
Overall EBITDA margin	**25%**	26%
Arising in		
Hong Kong	**43%**	44%
Other Asia	**12%**	14%
United States of America	**–**	3%
Europe	**69%**	76%

OPERATING COSTS

HK$4,301m -0.2%

EBITDA by Business Segment



The luxury hotel business is a labour-intensive industry with a high fixed cost base. With continuous efforts to certain costs, the Group was able to limit the decrease in the hotels division's EBITDA margin by one percentage point compared to a four percent decrease in hotel revenue, mainly caused by renovations to The Peninsula Beijing and The Peninsula Chicago. The decrease in the EBITDA margin for the commercial properties division was mainly due to a reduction in rental income from 21 avenue Kléber, following the departure of its main tenant in December 2014 ahead of the renovation of this property. The clubs and services division's EBITDA margin decreased by one percentage point to 18%, mainly due to high operating costs of The Peak Tram and Quail Lodge & Golf Club.

Depreciation and amortisation

The depreciation and amortisation charge of HK$426 million (2014: HK$423 million) largely relates to hotels. Depreciation charges are substantial and as such the Group adopts a rolling 5-year capital expenditure plan that is reviewed regularly to monitor planned replacement of furniture, fixtures and equipment, purchase of new items and major upgrade or enhancement projects.

Non-operating items

The non-operating items are analysed as follows:

HK$m	**2015**	2014
Increase in fair value of investment properties	**277**	496
Provision for impairment loss	**–**	(132)
	277	364

The increase in fair value of investment properties for the year was principally attributable to the increase in the appraised market value of The Repulse Bay Complex. In 2014, the Directors considered that the book values of The Peninsula Beijing 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.

Share of results of The Peninsula Shanghai

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

During 2015, The Peninsula Shanghai remained the market leader in terms of average room rate and RevPAR in its competitor set, generating an EBITDA of HK$159 million (2014: HK$247 million), of which HK$35 million (2014: HK$129 million) was derived from the sale of two apartment units (2014: 11 apartment units). In addition, The Peninsula Shanghai Complex recorded a net unrealised loss of HK$74 million on revaluation of the hotel arcade (2014: a net unrealised gain of HK$12 million). As PSW has been mainly debt financed and its hotel building is subject to a high depreciation charge given the remaining lease term, PSW made a net loss of HK$142 million (2014: HK$12 million) after accounting for the unrealised revaluation loss, depreciation and financing charges. The Group's share thereon amounted to HK$71 million (2014: HK$6 million).

Details of the operating performance of The Peninsula Shanghai are set out in the CEO's Strategic Review section on pages 32 to 33.

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

The Group has a 20% interest in each of The Peninsula Beverly Hills and The Peninsula Paris. The Group's share of net loss of these two hotels for 2015 amounted to HK$23 million (2014: 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).

Details of the operating performances of The Peninsula Beverly Hills and The Peninsula Paris are set out in the CEO's Strategic Review section on pages 40 to 41.

Statement of financial position

The Group's financial position as at 31 December 2015 remained strong, with a year-on-year increase in shareholders' funds of 1% to HK$36,427 million, representing a per share value of HK$23.61 compared to HK$23.67 in 2014. The consolidated statement of financial position of the Group as at 31 December 2015 is presented on page 158 and the key components of the Group's assets and liabilities are set out in the table below:

HK$m	**2015**	2014	2015 vs 2014
Fixed assets	**39,097**	38,168	2%
Other long-term assets	**2,169**	2,474	(12%)
Cash at banks and in hand	**2,919**	2,477	18%
Other assets	**904**	863	5%
	45,089	43,982	3%
Interest-bearing borrowings	**(6,192)**	(5,481)	13%
Other liabilities	**(2,237)**	(2,350)	(5%)
	(8,429)	(7,831)	8%
Net assets	**36,660**	36,151	1%
Represented by			
Shareholders' funds	**36,427**	35,901	1%
Non-controlling interests	**233**	250	(7%)
Total equity	**36,660**	36,151	1%

Fixed assets

The Group has interests in ten operating hotels in Asia, US 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 dealt with under different accounting policies as required by the accounting standards. The hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses whilst investment properties are stated at fair value. Therefore, independent valuers have been engaged to conduct a fair valuation of the hotel properties and golf courses as at 31 December 2015, 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 2015 is set out in the table on the following page.

	Group's interest	Value of 100% of the property: Fair value valuation (HK$m)	Value of 100% of the property: Book value (HK$m)
Hotel properties *			
The Peninsula Hong Kong	100%	12,084	9,989
The Peninsula New York	100%	2,414	1,741
The Peninsula Tokyo	100%	1,458	1,420
The Peninsula Chicago	100%	1,340	1,221
The Peninsula Beijing	76.6%**	1,321	1,156
The Peninsula Bangkok	75%	597	595
The Peninsula Manila	77.4%	163	160
		19,377	16,282
Commercial properties			
The Repulse Bay Complex	100%	16,862	16,862
The Peak Tower	100%	1,345	1,345
St. John's Building	100%	967	967
21 avenue Kléber	100%	509	509
1-5 Grosvenor Place	50%	3,278	3,278
The Landmark	70%$^{\Delta}$	77	77
		23,038	23,038
Other properties			
Thai Country Club golf course	75%	210	237
Quail Lodge resort, golf course and vacant land	100%	305	289
Vacant land in Thailand	75%	382	382
Others	100%	335	225
		1,232	1,133
Total market/ book value		43,647	40,453
Hotel and investment property held by a joint venture			
The Peninsula Shanghai Complex $^{\Delta\Delta}$	50%	4,895	4,628
Hotel properties held by associates			
The Peninsula Paris	20%	5,517	5,347
The Peninsula Beverly Hills	20%	2,636	467

* Including the shopping arcades and offices within the hotels.

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

$^{\Delta}$ The Group owns 50% economic interest of The Landmark with a reversionary interest to the Vietnamese partner in 2026 upon expiry of the joint venture period.

$^{\Delta\Delta}$ Excluding the remaining 6 apartment units held for sale.

Other long-term assets

The other long-term assets as at 31 December 2015 of HK$2,169 million (2014: HK$2,474 million) principally comprise the Group's 50% interest in The Peninsula Shanghai, the Group's 20% interest in The Peninsula Paris (PPR) and the hotel operating right in respect of PPR. The decrease in balance was mainly due to the exchange on translation of the Group's investment in PPR and the related hotel operating right resulting from the weakening of the Euro exchange rate. The exchange differences were accounted for as other comprehensive income in 2015.

Cash at banks and in hand and interest-bearing borrowings

As at 31 December 2015, the Group's cash at banks and in hand and interest-bearing borrowings amounted to HK$2,919 million (2014: HK$2,477 million) and HK$6,192 million (2014: HK$5,481 million) respectively. The increase in interest-bearing borrowings was mainly due to the drawdown of a new JPY11 billion term loan to fund the acquisition of The Peninsula Tokyo's hotel building. A breakdown of the Group's capital expenditure for the year ended 31 December 2015 is set out on page 63.

Cash flows

The consolidated statement of cash flows of the Group for the year ended 31 December 2015 is set out on page 160. The following table summarises the key cash movements for the year ended 31 December 2015.

HK$m	**2015**	2014
EBITDA	**1,440**	1,528
Net change in working capital	**4**	61
Tax payment	**(224)**	(157)
Net cash generated from operating activities	**1,220**	1,432
Capital expenditure on existing assets	**(476)**	(370)
Net cash inflow after normal capital expenditure	**744**	1,062
Capital expenditure on new projects	**(67)**	(39)
Acquisition of new properties including The Peninsula Tokyo's hotel building	**(849)**	–
Net cash (outflow)/inflow before dividends and other payments	**(172)**	1,023

The increase in current tax payment was mainly due to the higher tax payments by The Peninsula Hong Kong and The Repulse Bay Complex. The tax payments of these two Hong Kong operations were lower in the previous year due to the depreciation allowances in respect of cost of renovation to the properties.

The after-tax net cash generated from operating activities for the year amounted to HK$1,220 million (2014: HK$1,432 million), of which HK$476 million (2014: HK$370 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	**2015**	2014
Hotels		
Renovations for The Peninsula Beijing and The Peninsula Chicago	**195**	76
Others	**139**	181
Commercial properties	**77**	66
Clubs and services	**65**	47
	476	370
New projects and acquisitions		
Capital expenditure on new projects	**67**	39
The Peninsula Tokyo's hotel building	**732**	–
A property in Hong Kong	**117**	–
	916	39
	1,392	409

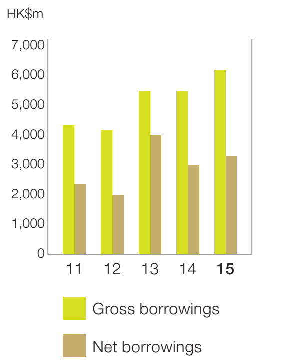
Capital and treasury management

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

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

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

Gross and Net Borrowings



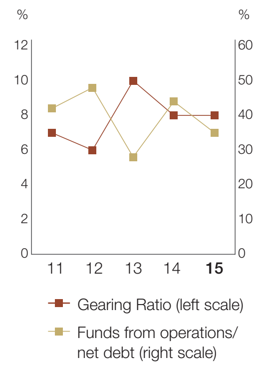
Liquidity/financing

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

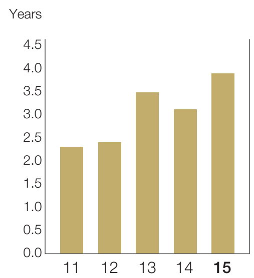
In 2015, gross borrowings increased to HK$6,192 million (2014: HK$5,481 million) mainly due to the drawdown of a new JPY 11 billion term loan to fund the acquisition of the hotel building of The Peninsula Tokyo. Consolidated net debt increased to HK$3,273 million as compared to HK$3,004 million in 2014, after taking into account cash of HK$2,919 million (2014: HK$2,477 million). Despite the increase in net borrowings, the Groups's net gearing remained at 8%, whilst the funds from operations (EBITDA less tax paid and less net interest paid) to net debt ratio decreased from 44% to 35%. These ratios continue to reflect a healthy financial position for the Group.

The average debt maturity increased from 3.1 years to 3.9 years.

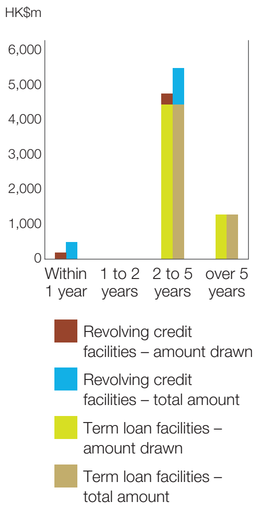
Gearing and Funds from Operations to Net Debt



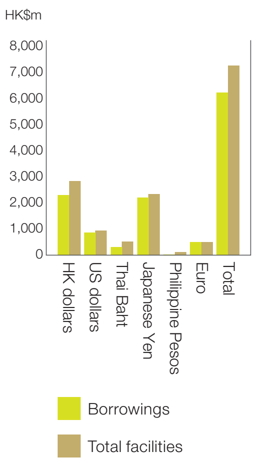
Average Debt Maturity



Banking Facilities and Borrowings (by type and maturity)



Banking Facilities and Borrowings (by currency)



Apart from a new credit facility of JPY11 billion obtained for the acquisition of the hotel building for The Peninsula Tokyo, the Company also arranged credit facilities of JPY12 billion and US$80 million respectively for two wholly owned subsidiaries and a credit facility of PHP700 million for a subsidiary to refinance their maturing loans.

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 2015 are summarised as follows:

	2015					2014
HK$m	**Hong Kong**	**Other Asia**	**United States of America**	**Europe**	**Total**	Total
Consolidated gross borrowings	**2,287**	**2,538**	**862**	**505**	**6,192**	5,481
Non-consolidated gross borrowings attributable to the Group*						
The Peninsula Shanghai (50%)	**–**	**1,088**	**–**	**–**	**1,088**	1,183
The Peninsula Beverly Hills (20%)	**–**	**–**	**219**	**–**	**219**	224
The Peninsula Paris (20%)	**–**	**–**	**–**	**370**	**370**	409
Non-consolidated borrowings	**–**	**1,088**	**219**	**370**	**1,677**	1,816
Consolidated and non-consolidated gross borrowings	**2,287**	**3,626**	**1,081**	**875**	**7,869**	7,297

* 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.

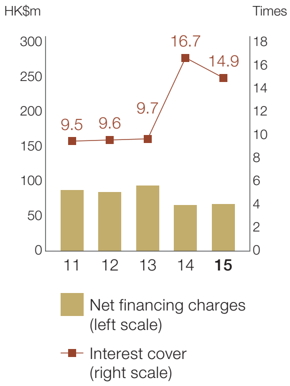
All of the Group's borrowings are denominated in the functional currency of the operations to which they relate. As at 31 December 2015, Hong Kong dollar borrowings represented 37% (2014: 42%) of total borrowings. Other balances were mainly in US dollars, Japanese yen and other local currencies of the 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 2015 amounted to HK$124 million (2014: HK$131 million). After interest income of HK$56 million (2014: HK$65 million), a net charge of HK$68 million (2014: HK$66 million) was recognised in the income statement. Interest cover (operating profit divided by net financing charges) decreased to 14.9 times (2014: 16.7 times) in 2015. As at 31 December 2015, the Group's fixed to floating interest rate ratio increased to 62% (2014: 44%) whilst the weighted average gross interest rate for the year decreased from 2.3% to 2.2%.

Net Financing Charges and Interest Cover



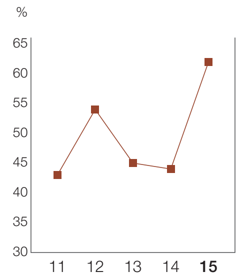
Credit risk

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

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

As at 31 December 2015, bank deposits of HK$2,902 million (2014: HK$2,463 million) and derivatives with notional amount of HK$1,843 million (2014: HK$1,788 million) were transacted with financial institutions with credit ratings of at least investment grade.

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



Share information

At market close on 16 March 2016, the Company's share price stood at HK$8.13, giving a market capitalisation of HK$12.5 billion (US$1.6 billion). This reflects a discount of 66% to net assets attributable to shareholders of the Company, or a discount of 68% to the adjusted net assets attributable to shareholders (see page 54).

The average closing price during 2015 was HK$10.03, with the highest price of HK$12.20 achieved on 7 May 2015 and the lowest price of HK$8.00 recorded on 15 December 2015.

Creating Shareholder Value

External Environment

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

Clement K.M. Kwok
CEO


THE PENINSULA
PARIS


THE PENINSULA
PARIS

The Peninsula Paris
A Glamorous Grand Opening

Steeped in Parisian history, The Peninsula Paris – owned by Katara Hospitality and The Hongkong and Shanghai Hotels Limited (HSH) – opened its doors quietly with a traditional lion dance on 1 August, 2014.

The Peninsula Group had made its entrance into Europe on avenue Kléber in Paris, setting spectacular 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.

On a balmy Parisian spring evening on 16 April 2015, The Peninsula Paris celebrated its grand opening in a blaze of colour, music and a guest list comprising international stars, guests from around the world and "le tout Paris".

Guests arriving at the party were greeted with three large *Montgolfier* balloons floating above a Hollywood-style red carpet, each bearing the golden word of hospitality – "Welcome" – in the three languages – French, Arabic and Chinese – that forge The Peninsula Paris' culture.

The opening ceremony was hosted by French TV personality Valérie Expert, with speeches by The Honourable Sir Michael Kadoorie, Chairman of HSH, and Mr Christopher R. J. Knable, Chief Operating Officer of Katara Hospitality, on behalf of their Chairman, His Excellency Sheikh Nawaf Bin Jassim Bin Jabor Al-Thani.

"For many years, I had hoped that our first hotel in Europe would be in this magnificent city of Paris. There are two reasons for this: first, because Paris is the quintessential capital of *art de vivre* and elegance. In our business, we strive to uphold these typically French values every day. And then, my family has a long history with France, one that has lasted for three generations. This tradition continues with my three children," declared Sir Michael.

Katara Hospitality's Christopher R. J. Knable added: "We are proud to be part of history here today, and on behalf of His Excellency Sheikh Nawaf, Chairman of Katara Hospitality, we would like to express our sincere gratitude to our partners The Hongkong and Shanghai Hotels for their support; this is the first step of many in our story together."

The speeches signalled the start of the festivities, inviting guests to discover the various areas and themes throughout the hotel, together with musical performances by some of France's best-known musicians:

- At the historical staircase in the reception lobby, the Orchestre de Colonne (one of Paris' oldest orchestras, founded in 1873) greeted guests with lively Gershwin-inspired tunes – referencing George Gershwin's stay at the original Hotel Majestic (today The Peninsula) in 1928, where he wrote "An American in Paris"
- Singer and actress Lou Lesage and DJ Cécile Togni appeared in the Lobby restaurant, which was transformed into a dance floor for the night, together with a Josephine Baker-style performance by French model and singer Inna Modja
- "Duelling pianos" were the order of the night at the Salon Etoile, with Matthias Mimoun and Flavien Compagnon playing all evening long as guests enjoyed the live cooking stations dotted around the room
- Cantonese restaurant LiLi hosted DJ Noémi Sunshine Ferst, while the signature rooftop L'Oiseau Blanc restaurant and terrace saw guests partying under the stars to the music of the Something A La Mode band and well-known DJ Gostan

VIPs and celebrities abounded, including Chinese actress Zhang ZiYi and French actor François Cluzet.

While the festivities proceeded, the back-of-house was a hive of activity in a celebration of the art of hospitality and gastronomy. The menu developed by Executive Chef Jean-Edern Hurstel featured copious quantities of caviar, blue lobster, wild salmon and line-caught European sea bass, Kobe beef, milk-fed lamb and veal carpaccio. Sumptuous dessert buffets created by award-winning Pastry Chef Julien Alvarez included literally thousands of cream puffs, verrines of seasonal fruit and dessert tarts with heady scents of tonka, chocolate, raspberry, lemon and nuts, petit-fours, chocolates and vast arrays of sweets, all set off to perfection by a chocolate fountain and over 150 litres of ice cream.

The occasion also called for fine wines, Champagnes and the very best Grands Crus selected by the hotel's Chief Sommelier Xavier Thuizat, including:

- 1800 bottles of champagne and wine
- 300 bottles of spirits for mixing cocktails
- On arrival, partner Dom Pérignon served guests a duo of delicacies – Dom Pérignon Vintage 2005 and Alverta Imperial caviar from Petrossian
- Deutz – The Peninsula Hotels' Champagne partner for over 25 years – filled and refilled glasses through the night

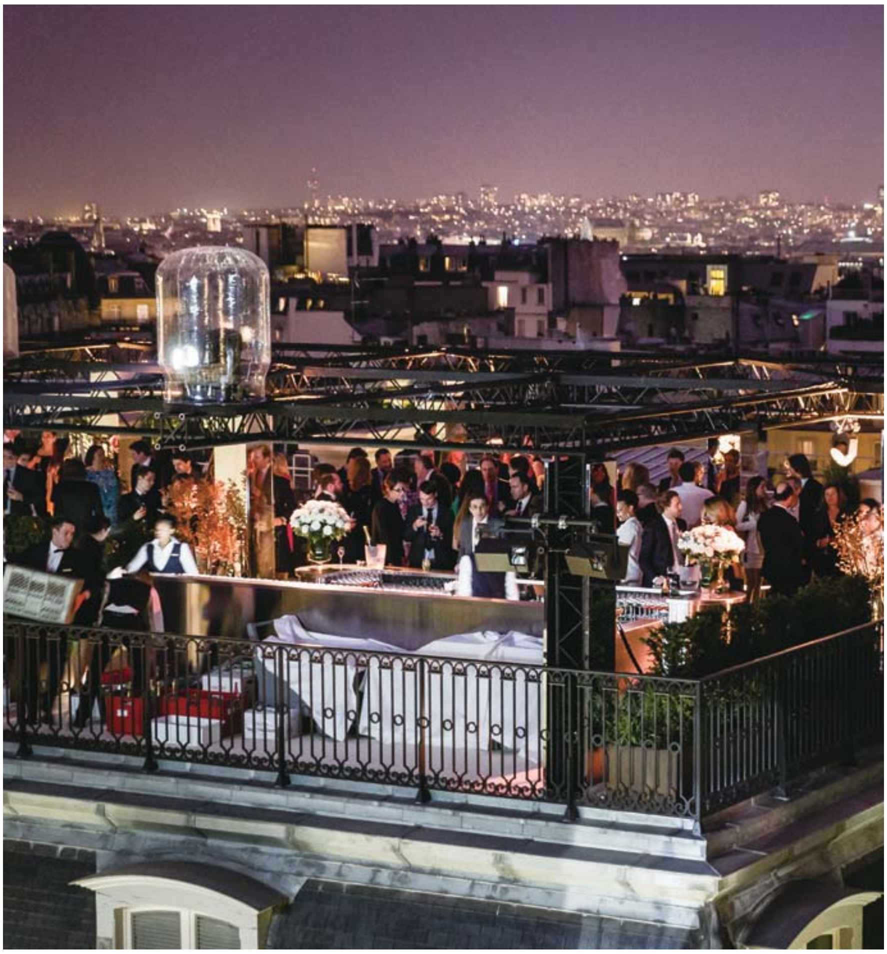
Champagnes on offer included Laurent Perrier and Taittinger which offered two Methuselahs, equivalent to eight bottles, of Comte de Taittinger 2005 to celebrate the event.

Thuizat also paid tribute to his home region of Burgundy, with a Jeroboam, equivalent to four bottles, of the coveted Meursault Premier Cru.

Highlights from the hotel's extensive wine cellar also featured celebrated Bordeaux wines including Chasse-Spleen, Château Talbot, Domaine Duclot – La Vinicole, and great Burgundy vineyards wine growers including Chapoutier and Prieur-Brunet.

The festivities continued late into the night, with dancing until dawn, set against the panoramic skyline of Paris, with the glittering Eiffel Tower as a backdrop. The team then set to clearing up, as it was business as usual the next morning.

It was a glamorous night to remember for guests, employees and Parisians, forming another spectacular chapter in the history and heritage of The Peninsula Hotels.

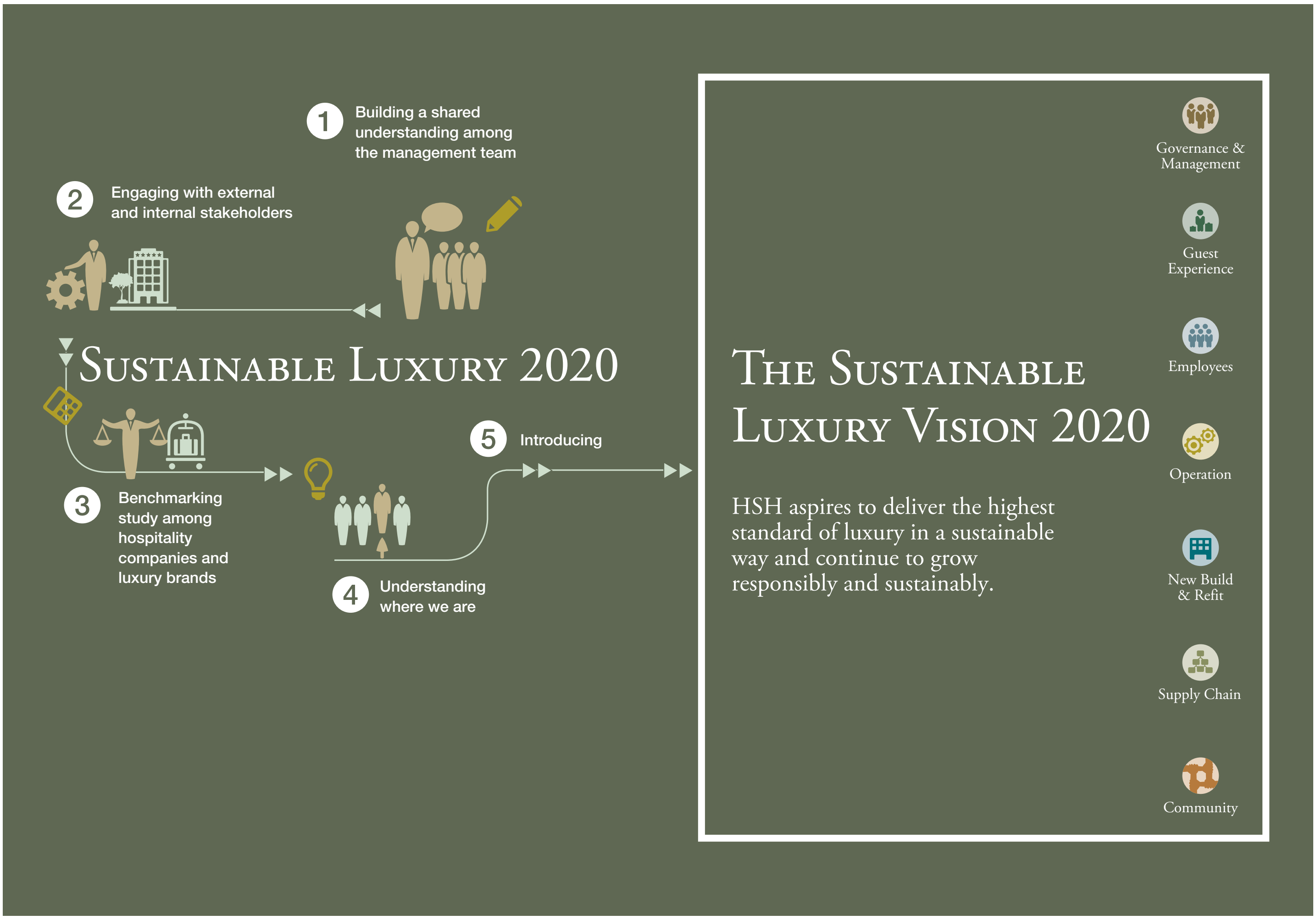


The festivities continued late into the night, with dancing until dawn, set against the panoramic skyline of Paris, with the glittering Eiffel Tower as a backdrop

A Vision for Sustainable Luxury

The HSH Group has long been a responsible corporate citizen – supporting local communities, recycling food and linens where possible, and conscious of energy-saving. However, prior to 2007, we did not have a group-wide strategy for sustainability and were not proactive in coordinating sustainability efforts across the Group.

In 2007, our Chief Executive Officer convened a Group Corporate Responsibility Committee and challenged the executive team to find better and more sustainable ways to continue providing the highest standard of quality and luxury to our guests. As part of a two-year exercise conducted in 2012 we engaged our stakeholders and listened to their feedback, assessed macro trends shaping our landscape, and benchmarked best practice in the industry. The result of this consultation was a framework to set the stage for the long term, in the form of our Sustainable Luxury Vision 2020, which was rolled out in 2013. We identified seven pillars incorporating every aspect of our business:



Guest Experience, Employees, Community, Supply Chain, New Build and Refit, Operations, and Governance and Management.

We created a "roadmap" to roll out the Vision across the Group in three phases:

1. **Laying The Foundation** for the new vision: action planning, updating and building the right management processes and reporting tools to help us track our progress, developing various implementation guides and best practice references.
2. The **second phase** of the journey entails **Engaging the Heart and the Mind of every employee** – making everyone an owner of our Vision 2020, instigating mindset and cultural change, building professional buy-in and emotional engagement.
3. The **final phase** will be **Delivery and reviewing opportunities** to stretch the ambitions. By 2020, our goal is to see Sustainable Luxury as the new normal in the way we conduct our business, generating more revenue and to be recognised as a leader in Sustainable Luxury.

A changing mindset – internally and globally

We believe we have laid strong foundations for Vision 2020 with a well-developed governance process for overseeing progress (see page 10 of the Corporate Responsibility and Sustainability Report on "How we Govern and Manage"). We are currently moving into the second phase of our roadmap and our approach to sustainability has evolved considerably. We operate not from a position of idealism or seeking to "change the world", but rather we regard sustainability as a sensible and inevitable business decision that benefits the short, medium and long-term economic value of our group. We aspire to do this in a way that complements our heritage of quality, thoughtfulness and meticulous attention to detail.

Sustainable Luxury 2020

Against this backdrop, we believe that luxury brands such as The Peninsula Hotels have the responsibility and opportunity to adopt sustainable business practices, lower our carbon emissions and offer our guests sustainable choices without compromising on the high quality of our products and services. Our guests, particularly the younger generation, are demanding more sustainable choices and unique experiences that have a positive impact on the local society and environment, and we are well-positioned to meet this demand.

Externally, public opinion towards sustainability issues is also shifting. For the first time in over 20 years of UN negotiations, in December 2015, a universal agreement on climate change was achieved at the UN Climate Change Conference in Paris (COP21). The main aim was to keep a global temperature rise this century well below 2 degrees Celsius and to drive efforts to limit the temperature increase even further to 1.5 degrees Celsius above pre-industrial levels. Businesses will be expected to play their part in reaching the goal of net zero emissions by the end of the century.

At the consumer level, according to a study conducted by Nielsen in 2015, 66% of global respondents and 72% of consumers aged 15-20 (so-called “millennials”) are willing to pay more for products and services from companies that are committed to positive social and environmental impact.[1]

Sustainable Luxury Vision 2020 and the IIRC “Capitals”

The seven pillars of our Group’s Sustainable Luxury Vision 2020 can be categorised against the “capitals” outlined in the International Integrated Reporting Framework in the table below. For our Group and our industry, these capitals are not mutually exclusive and some are interdependent on each other. We recognise that all our business activities draw on these capitals and lead to specific outputs and outcomes, which in 2015 we have measured in terms of progress against our strategic 2020 ambitions. More details on the seven pillars as well as the outcomes and progress against our 2020 ambitions for each pillar can be read in the Corporate Responsibility and Sustainability Report.

Sustainable Luxury Vision 2020	Corresponding “Capitals” according to IIRC Framework*	Outcomes/Progress against our 2020 ambitions in 2015
Guest Experience 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.	• Intellectual Capital • Human Capital • Social and Relationship Capital • Financial Capital • Natural Capital	• Launched The Peninsula Mobile Experience • New in-room technology extended to The Peninsula Beijing and The Peninsula Chicago • New Peninsula Academy programme to engage our guests in the notion of sustainable luxury • Investing in our cities’ vibrant art scene

* see page 77 for definition of IIRC capitals

1 http://www.nielsen.com/us/en/insights/news/2015/green-generation-millennials-say-sustainability-is-a-shopping-priority.html

Sustainable Luxury Vision 2020	Corresponding "Capitals" according to IIRC Framework*	Outcomes/Progress against our 2020 ambitions in 2015
Employees 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	• Human Capital • Social and Relationship Capital	• Developed a new five-year HR strategy that incorporated Vision 2020 • Identified 200 positions across the Group for building targeted succession plans • 118,000 hours invested in skills training and learning and development of employees • Reduced lost days due to work injuries by 24% • Thai Country Club achieved industry-leading OHSAS 18001 certification for its approach to occupational health and safety
Operation 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	• Natural Capital • Intellectual capital • Financial capital	• 9% reduction in absolute carbon emissions despite continued business growth • 27% reduction in carbon intensity • 15% reduction in water intensity by hotels division • 42% of waste was recycled • 4% reduction in food waste intensity • 5 Hotels achieved EarthCheck Certification
New build & Refit 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	• Manufactured capital • Natural Capital	• Incorporated BREEAM principles in the renovation of The Peninsula Beijing and The Peninsula Chicago • The Peninsula Chicago guestrooms retrofitted with 100% LEDs • 92% of woodwork in the newly renovated guestrooms The Peninsula Chicago is from certified sustainable sources

Sustainable Luxury Vision 2020	Corresponding "Capitals" according to IIRC Framework*	Outcomes/Progress against our 2020 ambitions in 2015
Supply Chain 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	• Natural Capital • Social and Relationship Capital • Human Capital • Manufactured Capital	• Over 80% of paper products are from certified sustainable sources • 99.9% of Peninsula Merchandising paper use is from certified FSC sources • Sustainability of over 800 seafood items on our menus in Asia was assessed • Pesticide-free Naturally Peninsula garden introduced in our hotels in Bangkok, Shanghai and Beverly Hills • 50% of cleaning products are biodegradable
Community 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	• Social and Relationship Capital • Human Capital	• 13,000 hours of community service in 2015 • Hope for the Philippines built 75 new homes for families displaced by Typhoon Yolanda • Supported 590 non-profit organisations worldwide with HK$6.3 million cash donations and a variety of in-kind sponsorships • Focused on building longer term and more in-depth partnerships with local community organisations • Developed community programmes that created shared value for the community and our company

Sustainable Luxury Vision 2020	Corresponding "Capitals" according to IIRC Framework*	Outcomes/Progress against our 2020 ambitions in 2015
Governance & Management 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	• Human capital • Social and relationship Capital	• Conducted Vision 2020 workshops with 260 managers across the Group • Commissioned climate science impact study to understand our risks exposure to climate change • Developed a bespoke two-year stakeholder engagement plan around Vision 2020 • Recognised by CDP 2015 as part of the Climate Disclosure Leadership Index for the region for the second consecutive year

* Definition of each Capital according to the IIRC Framework:

Financial Capital	• The pool of funds that is available to an organisation for use in production of goods or provision of services • Obtained through financing such as debt, equity or grants or generated through operations or investments
Manufactured Capital	• Manufactured physical objects that are available for use in the provision of goods or services, eg. buildings, equipment and infrastructure
Intellectual Capital	• Intellectual property such as patents, copyrights, software, rights and licences • Knowledge, systems, procedures and protocols • Intangibles associated with the brand and reputation
Human Capital	• People's competencies and experience, and their motivations to innovate • Alignment with an support for an organisation's governance framework and risk management approach, and ethical values such as recognition of human rights
Social and Relationship Capital	• The institutions and relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being • Shared common values and behaviours
Natural Capital	• All renewable and non-renewable environmental resource and processes that provide goods or services • Air, water, land, forests and minerals • Biodiversity and ecosystem health

More details on our Sustainable Luxury Vision 2020 can be read in our Corporate Responsibility and Sustainability Report, which we are producing separately for the first time this year to address the specific requirements of our different sets of stakeholders.

Our People and Expertise

HSH is growing and expanding our portfolio, which means more career opportunities for new and existing employees. Yet growth brings challenges – and we realise that attracting, retaining and developing key talent is the key to driving our future success. This chapter explores our investment in the "human capital" side of our business.

HSH currently employs more than 8,000 people around the world. Our Employees are included as one of the seven pillars in the Group's Sustainable Luxury Vision 2020 (pages 26 to 37 of the Corporate Responsibility and Sustainability Report). Demonstrating the importance of human capital to HSH, the Group Director of Human Resources, Sindy Tsui, is also a member of the Group Management Board (GMB) reporting directly to the CEO, and as such is involved in the highest levels of business strategy and planning.

At HSH, we are committed to creating a culture of engaged employees across the Group, and a particular concern is to attract and retain talent, as well as improving our succession planning. The travel and tourism sector is notorious for its high turnover of staff; World Tourism & Travel Council Research shows that the travel and tourism sector could face a shortfall of up to 14 million jobs over the next ten years – human capital challenges are significantly higher than those faced in other sectors with 37 out of 46 countries showing a talent "deficit" or shortage in the next 10 years, compared with only 6 out of 46 for the whole economy.[1]

1 WTTC Global Talent Trends & Issues
http://www.wttc.org/research/policy-research/human-capital/global-talent-trends/

As a company with 150 years of history, we are very concerned about maintaining the company culture and family environment of our Group

Therefore, a key focus of our HR team in 2015 was to develop retention strategies for our talents, in particular, younger employees in the under-30s age group, and to ensure they are given adequate career progression opportunities and development plans. In 2015, we invested HK$25 million on learning and development programmes across the group, including 170 cross exposure programmes. Some 30% of the cross exposure programmes in 2015 included staff from The Peninsula Beijing, which started its major renovation in 2015. We took the opportunity to send these employees to our other Group properties to learn best practices and broaden their skillset by experiencing a new work environment, operations, people and culture.

We expanded our Corporate Management Trainee Programme in 2015 where graduates were assigned to corporate office roles. Since the inception of the programme eight years ago, we are delighted that one of our graduates of the programme has reached the level of Director of Food and Beverage.

In 2015 we developed a five-year Human Resources Strategy that incorporated the Sustainable Luxury Vision 2020. This five-year plan includes five key areas of focus:

1. Attract and Select
2. Develop and Grow
3. Engage and Energise
4. Reward and Recognise
5. Build and Enhance

To communicate our strategic vision to our HR teams across the Group, the HR Conference 2015 was held at The Peninsula Bangkok in June 2015. This event brought together over 50 HR and Learning & Development leaders from across the company; a 40% increase in attendees compared to previous HR conferences. The objectives of this meeting were to:

- Get to know each other as part of one strong HR community collaborating towards success across our organisation
- Cultivate our future by defining initiatives required to deliver our HR Strategy
- Hone our HR skills on how to be influential and impactful for the future
- Incorporate operational input into the HR Strategy before it was finally submitted and approved by the Group Management Board.

Our people are at the heart of our business and our brand. As a company with 150 years of history, we are very concerned about maintaining the company culture and family environment of our Group. We place great value on having the right skillsets, but even more important is to have a passion for the industry and the company, to be extremely caring about our guests, and to be respectful, humble, creative and detail-oriented. Such values can be intangible but our global competency framework ensures that we recruit and develop our talents in the right way to reinforce our values.

HSH COMPETENCY FRAMEWORK

This competency framework also provides an important foundation for our new global talent management system. In 2015 we expanded this system and incorporated succession planning onto the framework. A total of 202 employees joined the succession management process across 20 operations, and 59% of the selected population said they were willing to relocate with their career in HSH.

As a relatively small company, we are able to personalise our learning and development programmes and, for a select group of corporate management trainees and senior executives, we tailor these programmes to our people's exact training requirements. This enables our management team to develop better leadership skills and to inspire success in their teams.

More details of our Group's Vision 2020 strategy for our employees, including case studies and our approach to training and development are described in our Corporate Responsibility and Sustainability Report on pages 30 to 37.

The HR Conference 2015 at The Peninsula Bangkok.

Our Brand

We have a diverse portfolio of award-winning hotels, properties, clubs and services.

Since the opening of The Peninsula Hong Kong in 1928, The Peninsula Hotels brand has been synonymous with excellence, glamour and timeless elegance. It is this brand recognition and emotional engagement with the Peninsula story that drives our business results and ensures that our guests return time after time.

As a result of the grand opening of The Peninsula Paris in April 2015, our brand enjoyed new levels of visibility, brand awareness and luxury positioning. Our debut in Europe provides a truly global footprint and is a great example of the Peninsula brand promise. News coverage of The Peninsula Paris opening, including the grand opening party, generated a PR value of more than US$265 million. Forbes reported that The Peninsula Paris was "The Biggest Hotel Opening of the Year in 2015".

How are we different from other luxury hotel brands? As an owner-operator, we are able to invest in our properties to achieve product consistency and a pursuit of excellence. We offer guests exceptional and memorable experiences through our superior product and commitment to world-class service. We have a reputation that goes well beyond our footprint and we pride ourselves on being at the heart of the community. We differentiate by offering guests iconic local experiences that they cannot find elsewhere; the people who stay in Peninsula hotels are sophisticated world travellers and we help bring the destination to life for them.

For example, The Peninsula Academy, our iconic experiential programme, provides in-house guests with a bespoke opportunity to learn about and gain exposure to each of our iconic destinations. The rich culture and hidden gems

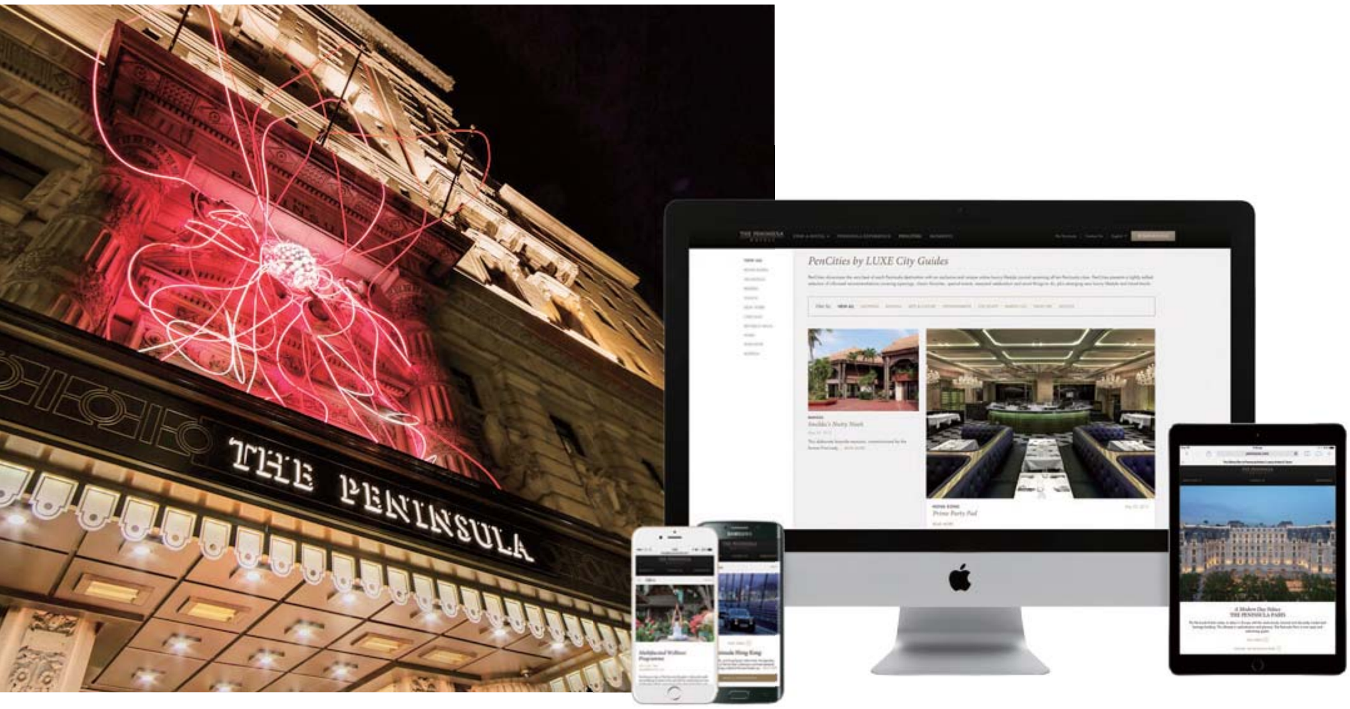
of each location are highlighted in a variety of inspired and bespoke programmes, which in 2015 included a behind-the-scenes visit to Parc des Princes stadium to meet the Paris Saint Germain football team; a Hollywood fitness programme with trainer to the stars James Duigan, and helicopter tours over the Great Wall of China. In line with our Sustainable Luxury Vision 2020, we placed an increasing focus on family and wellness in 2015 through our Peninsula Academy programmes.

Online technology is having an enormous influence on the travel and tourism sector, with the majority of travellers now using mobile to research and book their trips, review destinations and post their experiences online. Mobile is a fast-growing channel to book hotels and flights.

To stay relevant and competitive, The Peninsula Marketing team continued to enhance its digital strategy in 2015 following on from the launch of the peninsula.com website in 2014. The aim is to continue to innovate with improved digital content, and to leverage technology enhancements to deliver more seamless experience to our guests. In 2015, we launched two new language sites in Spanish and Portuguese to appeal to new audiences in Latin America. We also made significant investments in a new mobile-specific site, placing an emphasis on mobile functionality as well as increasing engagement on social media with a comprehensive social content strategy. We developed more content to tell The Peninsula story in a more dynamic and engaging way, with the objective of speaking to new audiences as well as current guests.

Pre Trip	During Trip	Post Trip
Discover & Dream 52% of people consult **Facebook** photos for travel ideas	**Resolve** 47% of people actively seek customer service on **social media**	**Memorialize** 76% of travellers post vacation photos on **social media**
Decide 37% of people consider **travel blogger reviews** before making decisions	**Explore** 83% of people use **YouTube** and **Google** to explore destinations	**Review** 46% of people review hotels on **social platforms e.g. Tripadvisor**
Book 33% of people book on **hotel brand website**	**Connect** Travellers connect with friends and family during the trip via **social media**	**Recommend** 92% of users trust recommendations from **friends and family**

Source: Isobar US. 2015



In 2015 we launched The Peninsula Mobile Experience, a content-rich mobile site which brings our celebrated hospitality to guests' fingertips on their smartphones. This included special functions for users with engaging content, videos and useful tips. A unique highlight is PenCities by LUXE, produced in an exclusive partnership with stylish travel guide publisher LUXE City Guides. In April, we also established an innovative and exclusive partnership with online luxury fashion retailer and publisher NET-A-PORTER.com to create a series of stylish mini guides to the world's most dynamic gateway cities, promoted across their channels as well as our own.

We share the soul of our brand with our guests through videos, stunning photography and frequent updates on our beautifully designed website www.peninsula.com.

We selectively partner with a series of handpicked digital influencers who share our brand ethos and appeal to our guests, to showcase our hotels and boost the appeal of our destination cities.

This investment in digital has proven results; the investment in the new website was paid off within 18 months since launch. We have saved more than US$10 million in commissions as a result of guests booking directly with our website. The new mobile site has increased revenue from bookings on our website by 25%. Following the renovation of The Peninsula Chicago and with the launch of our new mobile site, some 27% of bookings for The Peninsula Chicago came from online sources. Our corporate social channels on Facebook, Instagram and Twitter grew by an average 44%.

While continuing our marketing efforts in the established markets of North America, China, Japan, Australia, France, Germany and the UK, we organised new bespoke PR and brand awareness campaigns in Brazil, Mexico, and Russia. Our sales team worked closely with our key accounts to leverage on major consortia networks in America and Australia. Our target is to grow 10% revenue from increased sales opportunities via these partnerships.

In addition to our annual group-wide campaigns of The Peninsula Academy and charity initiatives such as Peninsula in Pink, and Trees of Hope, in 2015 we further promoted The Peninsula Brand though targeted participation at Art Basel Hong Kong, Expo Chicago and we explored deeper linkages with art and film through major global art fairs and film festivals. Following the success of *The Quail: A Motorsports Gathering*, we are deepening The Peninsula's association with luxury cars and we announced the launch of a new Peninsula Classics "Best of the Best" as part of our Peninsula Signature event series.

In 2015 we launched The Peninsula Mobile Experience, a content-rich mobile site which brings our celebrated hospitality to guests' fingertips on their smartphones

Over the last two years we have focused on a strategy of streamlining our sales organisation to create more synergy, increase productivity and improve efficiency. We have moved towards a final phase of "Sales Globalisation" with the aim of uniting our Regional Sales Offices. To achieve this we have placed increasing investment in sales training, product familiarisation, assignment and setting of sales targets.

To build closer relationships with our selected travel agents, we established and expanded our PenClub programme, which offers a collection of priority benefits to thank loyal travel professionals for their continued support, and to inspire new agents and their clients to share in the Peninsula experience. PenClub is a select and personalised programme, with membership by invitation only, which rewards members with generous enticements and tailored incentives.

We are delighted that our sales and marketing efforts and our absolute dedication to our guests has resulted in significant brand recognition in terms of prestigious awards and accolades. A full list of awards and accolades is on the next page.

Awards in 2015

Operation	Awards	Organisers
The Hongkong and Shanghai Hotels Annual Report 2014	ARC Awards Rank 17 – Top 100 Annual Reports 2015 • Grand Award – Best of Category – Chairman's Letter • Chairman's/President's Letter (Gold) • Photography (Gold) • Printing & Production (Gold) • Interior Design (Bronze)	MerComm. Inc.
	Platinum Award – Non-Hang Seng Index (Large Market Capitalisation)	Hong Kong Institute of Certified Public Accountants' 2015 Best Corporate Governance Disclosure Awards
	Winner – Sustainability and Social Responsibility Award	Hong Kong Institute of Certified Public Accountants' 2015 Best Corporate Governance Disclosure Awards
	Bronze – General Category	Hong Kong Management Association
The Hongkong and Shanghai Hotels	CDP's Climate Disclosure Leadership Index for the region, recognising the top 10% of CDP reporting companies	
The Peninsula Hotels	EarthCheck Silver Certification The Peninsula Chicago The Peninsula Tokyo The Peninsula Bangkok The Peninsula New York The Peninsula Hong Kong	
	Hurun Best of the Best Awards 2015 – Best Luxury Hotel Brand	Hurun Report (China)
	2015 Best in Business Travel Awards – 'Best Hotels for Business' and 'Best Hotels Room Design & Amenities'	Travel + Leisure and Fortune (US)
The Peninsula Hong Kong	Readers' Travel Awards 2015 – Favourite Overseas Business Hotel	Conde Nast Traveler (US)
	Best Business Hotel Worldwide	2015 Business Traveller Awards
	2015 Ultratravel Awards – Best Hotel in Asia & Australia	The Daily Telegraph (UK)
The Peninsula Shanghai	The Best Hotel in China	2015 Condé Nast Traveler Readers' Choice Awards, Condé Nast Traveler (US)
	No. 1 In Asia, No. 8 in the World	Travel + Leisure 2015 World's Best Hotels
	The World's Top 100 Hotels	2015 Robb Report's annual Top 100 Hotels List (US)

Operation	Awards	Organisers
The Peninsula Beijing	Best Chinese Restaurant – Huang Ting	Tatler Magazine
	Best TCM Treatment of the Year – The Peninsula Spa (Chinese Meridian Treatment)	Spa China Magazine
	The Hall of Fame (for 5 consecutive years)	TripAdvisor
The Peninsula Tokyo	The Peninsula Spa – Crystal Award 2015 Top Spa in Japan	Spa Finder (Japan)
	The Peninsula Spa Five-Star Ranking	Forbes Travel Guide (US)
	Business Travel Poll 2014 Best Hotels in Tokyo – Rank #1	FinanceAsia (Hong Kong)
The Peninsula Bangkok	No. 1 Best Hotel Spa in Asia	Travel + Leisure
	No. 2 Best Hotel in Asia	Travel + Leisure
	No. 1 Top 10 Hotel in Bangkok Reader Choice Award 2015	Condé Nast Traveler (USA)
The Peninsula Manila	No. 1 Philippines' Best Hotel Spa 2015	World Spa Awards 2015 (UK)
	No. 7 Top 15 Hotels in Southeast Asia	Condé Nast Traveler (US)
	No. 17 Top 25 Luxury Hotels in the Philippines	TripAdvisor: Travelers' Choice Awards 2015
The Peninsula New York	Best of Award of Excellence	Wine Spectator
	No. 2 in New York City – Best Hotels in the USA	US News and World Report
The Peninsula Chicago	The World's Top 100 Hotels at Top 100 Hotels List 2015	Robb Report (US)
	Forbes Travel Guide 2015 Star Award Five-Star Hotel	Forbes Travel Guide
	AAA Five Diamond Award 2015	American Automobile Association
The Peninsula Beverly Hills	No. 1 Best Hotel in the United States for Fifth Consecutive Year	Global Traveler
	Best of the Best Virtuoso Awards "Most Innovative Guest Experience"	Virtuoso
	No.1 Top 10 U.S. Hotels for Business Travelers	Condé Nast Traveler (US)
The Peninsula Paris	Top 100 Hotels in the World, Best Hotels in Europe – The best hotel in France – Fifth best in Europe – 48th in the 100 Best Hotels in the World	Condé Nast Traveller Readers' Choice Awards
	It List 2015	Travel + Leisure
	Best Renovation and Restoration	European Hotel Design Awards 2015
The Repulse Bay	Best Residential Complex 2015	Southside Magazine Reader's Choice Award
The Peak Tram	Certificate of Excellence 2015 (COE 2015)	TripAdvisor
The Landmark Vietnam	Top Serviced Apartment – The Guide Awards 2014-2015	Vietnam Economic Times
	The Best Manager in Caring for Staff Benefits (For Mrs. Bee Lian Ng, General Manager)	HCMC Trade Union
	Golden Dragon Award	Vietnam Economic Times
Quail Lodge & Golf Club	Top 5 Most Important Golf Course Renovations in 2015	Golf Vacation Insider
	No. 8 The Best Hotels in the World for Fall (2015)	Huffington Post
	Katherine Marren, Quail Lodge Golf Academy's PGA Director of Instruction, Top 20 Best Golf Instructors in California	Golf Digest
Thai Country Club	Best Golf Courses in 206 countries – No.2 in Thailand	Golf Digest
	Best Managed Golf Club in Asia Pacific – First Runner Up	2015 Asian Golf Awards
	Best Locker Room/Male or Female in Asia Pacific – First Runner Up	
	Best Course in Thailand – First Runner Up	
Peninsula Clubs and Consultancy Services	No.3 Best Business Class Airline Lounges – Cathay Pacific Business Class Lounge	The Skytrax Awards

Our Innovation

According to the International Integrated Reporting Framework, our research and technology offering could be categorised as "Intellectual Capital". For the purposes of our report we will refer to it as "Our Innovation".

The Hongkong and Shanghai Hotels operates its own research and development facilities to design, build and customise technologies to better serve guests. We believe we are the only hotel group in the world with such facilities in-house. This pioneering approach in providing innovative guestroom amenities is driven by the Group's Research and Technology Department (R&T), which celebrated its 30th anniversary in 2015.

The HSH approach to innovation offers significant value to shareholders and ensures that our company stays relevant in today's interconnected world, where a reliance on technology has become second nature to most of our guests. This is also part of our heritage; from the time The Peninsula was conceived in 1928, HSH was determined to present "an establishment containing the most modern hotel equipment and hygienic appliances to an extent

without parallel in this part of the world", according to the first managing director of HSH, James Taggart, speaking at the hotel's opening in 1928. This has been the cornerstone of our approach to innovation ever since those early days.

All in-room technology used at The Peninsula Hotels is designed and developed in-house and then prototyped and tested to perfection by the R&T team of 25 electronic software and hardware engineers, who are able to respond to guests' needs through a combination of observation, innovation and technological expertise.

Located in Aberdeen, Hong Kong, Christopher Chan, General Manager of Research and Technology, and his team of white-coated engineers strive to provide user-friendly, intuitive technology for today's increasingly discerning and tech-savvy hotel guests. Whether visiting for business or leisure, Peninsula technologies seamlessly assist guests with their work and personalise their comfort, entertainment and connectivity in the sanctuary of their guestroom.

Bespoke in-room experiences

As guests' expectations continue to develop at breakneck speed, the R&T team is tasked to not just keep pace with, but to lead the hospitality sector. Their aim is to deliver bespoke in-room experiences that enable guests to choose how they access, use and enjoy the hotel's services.

The R&T team's latest offering takes these initiatives to a new level of creativity and innovation, with a truly personalised in-room experience. The fully customised interactive digital bedside, desk and wall panels were initially introduced at The Peninsula Hong Kong in 2011. Pre-set in 11 languages, the tablets control all in-room functions with a simple touch, including the in-room compendium of restaurant menus, hotel services, the "PenCities" virtual city guide, personalised streaming terrestrial TV, Internet TV and radio, mood lighting, curtains, valet call, weather, thermostat, language and privacy options.

Connected to the tablets, the large lacquered work desk is equipped with high-speed Internet access, international Internet radio, a weather panel, and a smartphone docking station, while The Peninsula's signature en suite marble bathrooms offer LCD touch-screen panels for terrestrial and Internet TV and radio. Mood lighting, with a customised ambient spa setting, delivers a luxurious, integrated light and sound experience for indulgent relaxation.

State-of-the-art audio-visual centres with flat-screen, LED televisions offer an enriched entertainment experience via tablet with 90 terrestrial, cable and satellite TV channels, more than 4,000 Internet radio stations and complimentary

HD movies. The entertainment system also includes an iPhone/iPad docking station, a Blu-ray player in every room, memory card reader and Sound Bar virtual surround sound speaker system. Wireless connection to personal electronic devices and to the all-in-one printer/photocopier/scanner/fax/ enables the seamless functionality of a home office, plus multiple device chargers for added convenience.

Complimentary high-speed wired and wireless Internet access and free international IDD calls via VOIP are available in all guestrooms. Free wireless access and local calls are also available when travelling in the hotel's Rolls-Royce and MINI fleet cars.

Tasked to deliver what guests want before they even know they want or need it, the R&T's twin mantras are "technology is all about people" and "you shouldn't have to think – it just happens". Every aspect must serve guests, to help them unwind and keep them connected, informed and stimulated. At its heart, the issue has always been a continual evolution of design – always asking "how does this work?" and "what can we do better?"

Since its inception in 1985, the R&T department has created, designed and developed cutting-edge in-room facilities for The Peninsula's portfolio of hotels. The team also works closely with manufacturers of off-the-shelf items, such as TVs, to re-design remote control devices to be as simple and user-friendly as possible for guests.

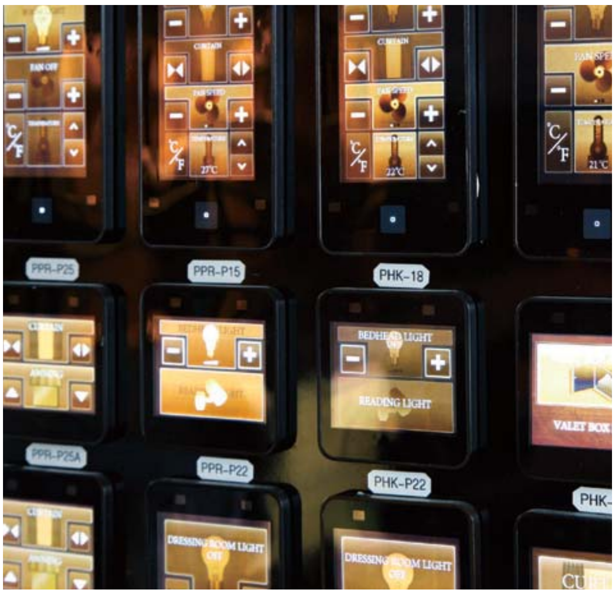
The technology design process for a new hotel starts an average of two years prior to opening. It all starts with an idea, generated by a specific need or maybe just a request from a guest that makes us think differently. We combine market trends with our long experience in the hospitality industry to offer guests a seamless service. Ideas and functions are envisioned by a committee of senior HSH executives, and are then developed and produced by the R&T team, incorporating lab prototyping and testing. The technology is installed into the sample room – a complete and fully functional room in a confidential location in Hong Kong – which is then occupied and tested by numerous Peninsula executives to perfect the design, flow and functionality of the entire space.

The inspirations for "invisible technology"

A catalyst for invention, the thought and development process comes from a variety of sources, including intense observation when travelling (in The Peninsula hotels and elsewhere), ranging from how guests move around a guestroom to staff interaction with guests in different spaces.

A scientific article on the effects of bright lights on rabbits led to extensive research on the effect of light on brainwaves, and how "invisible technology" (in-room lighting and facilities) can help guests unwind. In order to bring the conscious state to a relaxed level, fading the lights out rather than abruptly switching them off helps reduce brain waves from the usual 15 Hz to a more relaxed 10 Hz (in comparison, the REM stage of sleep is 8 Hz). Similarly, the sudden ringing of an alarm clock jolts sleepers awake, causing involuntarily muscle tensing and momentary stress, so The Peninsula alarms start gently and then ramp up the volume in order to avoid this.

We combine market trends with our long experience in the hospitality industry to offer guests a seamless service



Ideas come from other sources too. The inspiration behind the bathtub telephone, first introduced at The Peninsula Hong Kong in 1994, came from a soap TV commercial featuring a couple in a bubble bath on a private jet when the husband calls the pilot to fly to Bermuda.

Telephones are a signature Peninsula feature. Unable to source an attractive and appropriate model offering the required functions, The Peninsula phone was custom-designed by the executive committee, with innovations including a rubber grip on its sides for the elderly or when hands are wet, "ripples" to grip the phone to the shoulder while talking, VOIP powered by Skype, and a hometown time and language display.

The phone also detects the voltage reversal if a call comes in, mutes the TV or radio and then turns the sound back on when hanging up.

The Peninsula's headline innovations

The Peninsula Hotels' in-room technological systems are proprietary, and never sold. As a result, we believe The Peninsula can lay claim to the following "firsts" – hospitality innovations created by the R&T team that are now used everywhere….

- "Smart switching" – the master switch turns all devices off, but individual freestanding lights can still be illuminated
- The celebrated Peninsula bedside tablet, which initially controlled all light switches in the room and affected how the lights worked. Latest models now control every aspect of the in-room ambience
- Weather, temperature and other climate information panel
- Hotel, destination, weather and flight information displayed on the TV screen
- Complimentary Internet – we have never charged guests for Wifi
- Internet radio – The Peninsula Shanghai offers more than 4,000 channels
- Complimentary VOIP calls
- Total in-room integration with today's most innovative touch screen controls in 11 languages.

An innovative, sustainable future

With the technology industry moving at such speed, what lies ahead? The research and technology team is working with our internal Projects team for sustainable innovative solutions; for example to produce an improved lighting system to control energy-saving LED lighting to Peninsula design standards. As Peninsula in-room technology evolves, the hotels can save on printing materials and enjoy enhanced communication between guests and staff. Big data analysis on guest behaviour and perferences is conducted to help our research team improve the guest experience. The team is also working on further developing the Wi-fi phone which can be used in all locations in the hotel. Artificial intelligence and smart hotel rooms are a future trend that we continue to monitor carefully.

External Environment and Industry Trends

We have identified various external factors, emerging risks and industry trends together with our key stakeholders which may impact our business.

The Group considers a number of significant factors when reviewing our ability to create value in the short, medium and long term. In addition to our principal risks and emerging risks which are listed in the Group Risk Committee Report on pages 132 to 137, we have also identified various external factors, emerging risks and industry trends together with our key stakeholders which may impact our business. These include aspects of the macroeconomic context in which we operate, as well as environmental challenges, technological changes, terrorist threats and issues specific to the hospitality industry. In 2015, the relevant Heads of Corporate Departments updated the Board on these issues, which are discussed on the following pages. This is by no means an exhaustive list of factors which affect our business; the objective is to give our shareholders some insight into the external environment in which we operate, as per the International Integrated Reporting Framework.

Rising Interest Rates

The Group takes a robust and structured approach on Treasury management. We have a comprehensive set of Treasury policies and guidelines that are reviewed and approved by the Group Management Board and Finance Committee annually. The policies and guidelines are used to set up financial indicators to measure and manage the key financial risk exposures of the Group. The financial indicators are monitored monthly and some are disclosed in the Group financial reports. The key financial risk exposures are interest rate, liquidity, financing, foreign exchange and counterparties.

The Group is monitoring interest rate rises closely as one of the principal risks for our Group, and we take a prudent and conservative approach to managing this risk. This risk has been included in this chapter due to the potential of rising interest rates. Significant floating rate liabilities could result in higher financing costs, if and when interest rates increase. The US Federal Reserve increased interest rates in December 2015 for the first time since the global financial crisis in 2008, and further increases are forecast in the coming year. This may have a "ripple effect" across the wider global economy. To manage the increased interest rate environment, we work with partner banks to actively manage our fixed-to-floating interest rate ratio, which is one of the financial indicators. In addition to raising funds on a fixed-rate basis, derivatives are transacted to manage our interest rate exposure. As at 31 December 2015, we had fixed rate liabilities of 62% (vs 38% floating rate liabilities) as compared to 44% in the previous year.

Liquidity and financing are other major risks. With property investments for future hotel developments in London, Yangon and Istanbul, and uncertainty in some of our key markets including our home market of Hong Kong, we need to maintain sufficient funds to meet our short and long-term obligations. We monitor current and expected cash requirements and the financial indicator "financing horizon". This indicates the number of months the Group's existing cash and committed facilities can cover our outstanding capex and investments, based on approved budget without any surplus operating cashflow from operations, and any refinancing. As at 31 December 2015, the Group achieved our requirements for the financial indicator financing horizon by maintaining a mix of committed facilities and cash. We also regularly explore different funding structures and options. We maintain and build strong relationships with a diverse range of banks of investment grade and above which would be able to extend credit facilities as and when required.

Terrorist Threats

HSH is expanding its global portfolio at a time of increasing security threats and terrorism attacks. The terrorist threat is truly global – in recent years, attacks have occurred in New York, Boston, Sydney, Paris, London, Ottawa, Istanbul, as well as incidents in China, Thailand, Philippines and Myanmar – many of the countries where HSH people and assets are based.

HSH has adopted a top-down, proactive management approach to mitigate security threats, with the objective of safeguarding our guests, staff, assets and brand to the best of our ability.

HSH has adopted a top-down, proactive management approach to mitigate security threats, with the objective of safeguarding our guests, staff, assets and brand to the best of our ability. However, we are conscious that we must strike a balance between ensuring high levels of security while ensuring the freedom of movement and privacy for our guests. It is an unfortunate reality in today's world that one can never be 100% protected against terrorists in a free and open society.

The strategy we are adopting to mitigate this risk is to strengthen our network with security stakeholders including local intelligence agencies and police departments, and to enhance our global intelligence monitoring. We are taking steps to upgrade our global crisis management capabilities with virtual and video conferencing technology, boosted global security manpower resources in key markets and enhanced crisis training and drills for staff according to the local threats in their region. As a company with frequent staff travel, we already have global security and medical evacuation capabilities through renowned international service providers, and in addition we are increasing travel security protection and tracking for staff.

In an advisory on global terrorist threat issued in November 2015, the World Travel & Tourism Council stated: "Enhancing security is not about closing borders or tightening visa restrictions. It is about working collectively on the ground to prevent terrorism. This means having more security people in place, monitoring the sources of terrorism in a country and enhancing the processes for sharing intelligence about people crossing borders."

HSH follows such guidelines closely when developing our risk management and security strategies.

Cybersecurity

As mentioned in the Governance section on page 106, we have strengthened our Group Management Board with the appointment of two new members, including Mr Shane Izaks, Group General Manager of Information Technology. This reflects the strategic importance the Board places on technology development and the significant investments we are making in Information Technology and cybersecurity.

Around the world from 2014 to 2015, there were 1.43 billion cyberattacks from online resources, 123 million internet viruses, and 295,000 malicious software programmes.[1] Several hotel companies were victims of cyberattacks and credit card fraud. With such a constant threat, the risk of an attack on our Company is high and we are mindful that it is almost impossible to fully prevent such attacks if a malicious party is determined to target a particular company. To mitigate this risk in 2015 we have stepped up our prevention and protection standards, enhanced our network protection, and enforced security measures such as updating antivirus and firewall protection. We also enhanced internal communication of these threats across our Group, and introduced more extensive orientation for new employees, with the objective of managing any vulnerabilities that may exist.

1 Source: Kaspersky Security Bulletin 2014

Climate Change and Water Scarcity

Climate change is a significant challenge facing the world today and has been included in the principal risks overview on page 134. Scientists have warned that climate change impact would become catastrophic and irreversible if global temperature increases by two degrees above pre-industrial levels. As outlined in the Group's Sustainable Luxury Vision 2020, making our business more resilient to climate impact and reducing greenhouse gas emissions associated with our own business and our value chain is important. The increasing impact of climate change is evident in the cities where we operate. These cities are seeing increasing incidents of extreme weather events which pose potential risks of disrupting our business operation. In addition, climate change may also affect water availability and quality in certain regions of the world, and lead to decreased agricultural productivity, potentially limiting the availability or increasing the cost of our supplies.

In 2015, we commissioned a research study on climate science and impact to HSH's businesses. More details on this study and our approach to energy saving and mitigating climate change risk can be read on pages 42 to 44 of the Corporate Responsibility and Sustainability Report.

Extensive media coverage was achieved in December when The Peninsula New York volunteered to participate in the NYC Carbon Challenge, committing to reduce its carbon intensity by 30% by 2025, in support of the city's collaborative effort in curbing greenhouse gas emissions. The NYC Carbon Challenge reflects our Group's own Sustainable Luxury Vision 2020 in which we endeavour to support the local communities where we operate and to be conscious of our environmental footprint.

We are pleased to report that HSH was recognised once again by the Carbon Disclosure Project (CDP) Climate Disclosure Leadership Index for the region in 2015. This annual index recognises the top 10% of CDP reporting companies which demonstrated robust management and transparency in climate strategy and measurement.

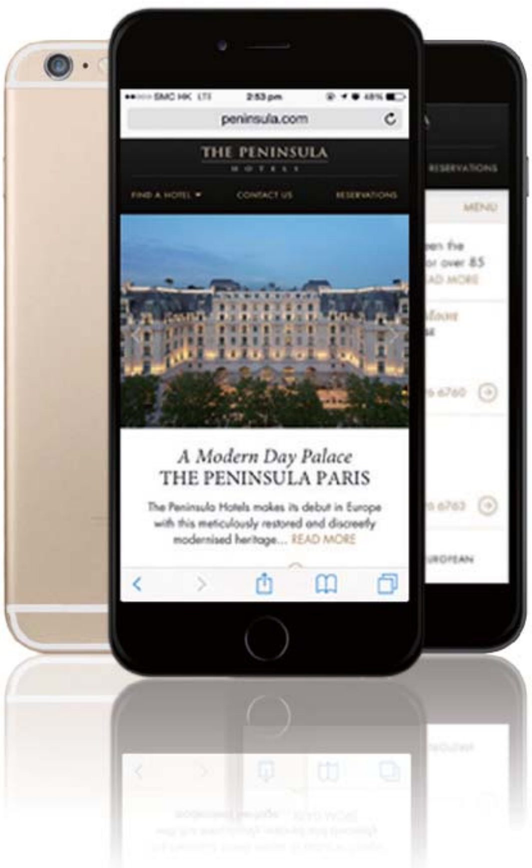
Biodiversity Loss

Biodiversity is declining rapidly due to land use changes, over-exploitation, climate change, and pollution. We have a shared responsibility in using the resources provided by nature, and do what we can to protect biodiversity and ecosystems which we all rely on. At HSH, as a business with a global supply chain, we are aware that the purchasing choices we make not only affect the experience we create for our guests, but also have a direct impact on the environment and the communities in which we operate. We are committed to taking a responsible, ethical and sustainable approach to sourcing our products. Making thoughtful choices for our guests and for the planet is central to the proposition of our Sustainable Luxury Vision 2020. More details are on page 60 to 65 of the Corporate Responsibility and Sustainability Report.

We are aware that the purchasing choices we make not only affect the experience we create for our guests, but also have a direct impact on the environment and the communities in which we operate.

Mobile Convenience

A significant industry trend that has emerged in the past two years is the shift towards customer preference for mobile booking, mobile check-in, and seamless connectivity across devices and platforms. We are experiencing a paradigm shift in technology where nanotechnology, virtual reality and the "Internet of Things" are becoming more commonplace. The hospitality industry is embracing the concept of smart rooms, wearable technology, and enhanced security through retina scans or i-beacons in shopping arcades. This shift towards a virtual world is both a risk factor and an opportunity; the most innovative companies will adapt to their customer preferences, but it brings significant costs in terms of financial and human capital and training. HSH is dedicated to innovation and offering seamless connectivity on the in-room technology that we have designed in-house, and we keep up with the latest trends in technology through our Research and Technology team. However, we endeavour to strike a balance between the requirements of the modern traveller and also the warm personalised service that is the hallmark of the Peninsula brand. More details about our approach to innovation and technology can be read on pages 88 to 91 and our latest digital and mobile innovations in "Our Brand" on pages 81 to 87.



We endeavour to strike a balance between the requirements of the modern traveller and also the warm personalised service that is the hallmark of the Peninsula brand.

The Sharing Economy

The so-called "sharing economy", of which Airbnb and Uber are the most famous examples, is growing from strength to strength. Technology magazine *Fast Company* speculated that Airbnb will soon become the "world's largest hotel chain, without owning a single hotel". However, an independent analysis conducted by STR, a company that tracks supply and demand data for the hotel industry, on Airbnb in New York showed no correlation between the company's presence and hotel performance in Manhattan, New York.

As of 2015, HSH management believes that Airbnb is competing with three and four-star hotels rather than the ultra-luxury sector in which we operate, and is particularly targeting guests who book extended stays of more than seven days. "Sharing economy" companies are operating in uncharted legal territory and are not subject to the stringent health and safety regulations that traditional hotels are subject to, and we believe discerning guests will demand a certain level of service that unregistered accommodation cannot provide. However, we continue to monitor the fast-moving developments in the "sharing economy" and its move towards the ultra-luxury sector.

A detailed description of our Group's approach to risk management and the 'Three Lines of Defence" model are described in detail on the following pages of the Corporate Governance Report pages 127 to 131.

Governance

Our governance framework supports the culture of the Company and our values and principles of integrity, transparency and accountability which we believe are the basis of a successful and sustainable company.

The Hon. Sir Michael Kadoorie
Chairman

Chairman's Overview

Our objective is to continually improve our governance practices and the effectiveness of the Board

Dear Shareholders,

As Chairman of the Board, I am committed to ensuring that HSH operates to the highest standards of corporate governance. Our governance framework, led by the Board, supports the culture of the Company and our values and principles of integrity, transparency and accountability which we believe are the basis of a successful and sustainable company. We carefully consider 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 that ensure the long-term success of the Group.

Improving our Governance Practices

Our objective is to continually improve our governance practices and the effectiveness of the Board. In 2015 we continued to enhance our risk management and internal control systems, as well as our financial management and reporting. We increased the accountability and transparency of risk ownership and management, and strengthened our monitoring of the Group's principal and emerging risks.

In particular, during the year, we refined our risk management structure and processes, and reviewed new emerging risks such as the global terrorist threat and the potential impact of climate change on our businesses. The latter topic was reviewed by the Group Corporate Responsibility Committee, which has included its report in this Annual Report for the first time on pages 138 and 139.

We also implemented a top-down and bottom-up approach to risk management, enhanced our tracking of risks and identified risk trends for operational issues which was reviewed at management and Board level. Our objective was to ensure that the Group's risk management framework is robust and capable of adapting and responding to our ever-changing business environment.

In 2015, the Board's second self-evaluation was carried out, to assess its own performance and that of its committees and individual Directors with the aim of improving effectiveness. The evaluation provided the Board and management with constructive feedback, and resulted in the actions described under the Board Evaluation section of this report.

Board Changes and Succession Planning

My role as Chairman is to ensure that HSH has a dynamic Board with a diverse range and balance of skills, expertise and experience, who can work effectively and constructively in challenging the Executive Directors and management.

In November 2015, Mr Alan Clark stepped down from our Board as an Executive Director and the Chief Financial Officer. We have identified Mr Matthew Lawson as his successor who has had extensive experience with hospitality and real estate transactions, investments and financing, including joint venture negotiations and structuring. He will join the Board on 3 May 2016. I am also delighted to announce the appointment of Dr Kim Winser, OBE as an Independent Non-Executive Director. Dr Winser is recognised as one of the UK's most internationally renowned and inspirational businesswomen and will bring a new level of global insight to our Board. During 2015, we appointed two new members to the Group Management Board, Mr Shane Izaks and Mr P.T. Wong, recognising their years of experience with the Group and their strategic input in the areas of Information Technology and Projects respectively. Their biographies can be read on pages 108 and 109.

Compliance

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

Objectives for the Year Ahead

It is pleasing to see the progress we have made in 2015 in the area of governance. We seek to continually improve and enhance our efforts in this domain. Our objectives for the Board this year are to ensure that it continues to support the execution of our strategy and the opportunities and challenges that we face.

The Hon. Sir Michael Kadoorie
16 March 2016

Board of Directors

Non-Executive Chairman

The Hon. Sir Michael Kadoorie N E

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

Appointed a Director in 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 CK Hutchison Holdings 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. He was an Independent Non-Executive Director of Hutchison Whampoa Limited until July 2015. He is 74 years old.

Non-Executive Deputy Chairman

Andrew Clifford Winawer Brandler A R E F

Appointed a Director and Deputy Chairman in May 2014, Mr Brandler is also Chairman of two subsidiaries of the Company. 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. He is 59 years old.

Executive Directors[1]

Chief Executive Officer

Clement King Man Kwok E F

Chevalier de la Légion d'Honneur

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 the majority 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 was an Independent Non-Executive Director of Swire Pacific Limited until May 2015. He is an Independent Non-Executive Director of Orient Overseas (International) Limited, a Fellow of The Hong Kong Management Association, a Council Member of the World Travel & Tourism Council, 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. He is 56 years old.

1 Mr Matthew James Lawson will join the Board as Executive Director and Chief Financial Officer on 3 May 2016. His biographical details are disclosed in the announcement dated 2 February 2016.

Chief Operating Officer

Peter Camille Borer

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 in April 2004. Mr Borer is also a Director of the majority of the Group's entities. He is 62 years old.

Non-Executive Directors

Ronald James McAulay

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 and a trustee of various charitable organisations. He is 80 years old.

William Elkin Mocatta

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, CLP Properties Ltd., CLP Property Investment Limited, Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited. Mr Mocatta is also an Alternate Director for The Hon. Sir Michael Kadoorie in CK Hutchison Holdings Limited. He was an Alternate Director for The Hon. Sir Michael Kadoorie in Hutchison Whampoa Limited until July 2015. He is 63 years old.

John Andrew Harry Leigh E F

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. He is 62 years old.

Governance Board Committees

A Audit Committee Member | N Nomination Committee Member | R Remuneration Committee Member

Other Board Committees

E Executive Committee Member | F Finance Committee Member

Nicholas Timothy James Colfer

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. He is 56 years old.

Independent Non-Executive Directors

Dr the Hon. Sir David Kwok Po Li N

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

Appointed to the Board in 1987, Sir David is the Chairman and Chief Executive of The Bank of East Asia, Limited (listed in Hong Kong). 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 China Overseas Land & Investment Limited (listed in Hong Kong) until March 2013, 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 and the Honorary Chairman of The Chamber of Hong Kong Listed Companies. He is also a member of the Council of the Treasury Markets Association. He is 77 years old.

Patrick Blackwell Paul, CBE A R

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 Listed and Pacific Basin Shipping Limited. He is also the Chairman of the Supervisory Board of the British Chamber of Commerce in Hong Kong. He is 68 years old.

Pierre Roger Boppe

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

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. He is 68 years old.

Dr William Kwok Lun Fung, SBS, OBE, JP A N

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. 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. He is 67 years old.

Dr Rosanna Yick Ming Wong, DBE, JP R

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, an Independent Non-Executive Director of The Hongkong and Shanghai Banking Corporation Limited, CK Hutchison Holdings Limited and Hutchison Telecommunications Hong Kong Holdings Limited. In addition, Dr Wong is the Non-Executive Chairman of the Hongkong Bank Foundation's Advisory Committee, Honorary Chairman of World Vision Hong Kong and a Global Advisor to Mars, Incorporated. She is a member of The Hong Kong University of Science and Technology Business School Advisory Council. Dr Wong was an Independent Non-Executive Director of Cheung Kong (Holdings) Limited until June 2015. She is 63 years old.

Dr Kim Lesley Winser, OBE

Appointed to the Board in January 2016, Dr Winser was awarded an Order of the British Empire (OBE) by Her Majesty The Queen and a Doctorate from Heriot-Watt University for her work in British business. She has substantive experience and expertise in the consumer and retail industries. She began her career with Marks & Spencer plc in the United Kingdom and became its first female commercial divisional board director as well as its youngest director in the 1990s. She went on to successfully deliver turnarounds for the iconic British heritage brands Pringle of Scotland as Chief Executive Officer and Aquascutum as President and Chief Executive Officer. She became a senior adviser to 3i, a leading private equity firm in the UK, for its investments in the consumer and retail industries and became Chairman of one of their brands, Agent Provocateur. Dr Winser has also previously served as an adviser to Natalie Massenet at online retailer Net-a-Porter and a Non-Executive Director of The Edrington Group Limited. Dr Winser is the Founder and Chief Executive Officer of Winser London Limited, an online womenswear business. Appointed by the British Prime Minister, Dr Winser is a member of the Board of Trustees and the audit and risk committees of The Natural History Museum in the UK. She is 57 years old.

Senior Management and Key Functions

From left to right: Sindy Tsui, Maria Razumich-Zec, Rainy Chan, Martyn Sawyer, Clement K.M. Kwok

Senior Management

Group Management Board

The Group Management Board (GMB) is entrusted with making decision for the Group's management and operations and advising the Board on the Group's strategic direction under the official delegation of authority from the Board. The GMB now comprises two Executive Directors, two Group Executives and five other members including the addition of the Group General Manager, Projects and Group General Manager, Information Technology in August 2015.

From left to right: Peter C. Borer, Christobelle Liao, Shane Izaks, P.T. Wong

In 2015, changes were made to the composition and process of the GMB. In view of the Group's growing number of new and renovation projects and the emphasises on technology development, the Group General Manager, Projects and Group General Manager, Information Technology were invited to join the GMB. They assist GMB in managing projects and advising technological development, both of which are strategically important to the long-term viability of our business. GMB meets weekly where possible and makes decisions on management and operational matters.

In order to streamline the decision-making process on finance, legal and administration matters, a working team of the GMB, comprising Chief Executive Officer, Chief Financial Officer and Group Director, Corporate and Legal, was formed. This working team meets weekly immediately after the GMB meetings.

Group Executives

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

Christobelle Liao

Ms Liao joined the Group as Company Secretary and Corporate Counsel in 2002. She was appointed to the Group Management Board in 2011 and was promoted to Group Executive and retitled as Group Director, Corporate and Legal in 2013 while retaining the position of Company Secretary. She is a qualified solicitor in Hong Kong and England & Wales and had many years of experience in legal practice specialising in corporate mergers and acquisitions. She is 47 years old.

Martyn Sawyer

Mr Sawyer is responsible for the Group's non-hotel properties and operations including The Repulse Bay Complex and The Peak Complex in Hong Kong, as well as management of properties and clubs in Hong Kong, Vietnam, Thailand, France and the UK. He celebrated his 30-year anniversary with the Group in 2015. He was appointed Group General Manager, Properties and Clubs in 1999, became a member of the Group Management Board in 2002 and was promoted to Group Executive and retitled as Group Director, Properties in 2013. He is 58 years old.

Other members:

Rainy Chan

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. She is 51 years old.

Shane Izaks

Mr Izaks was appointed General Manager, Information Technology in 1995 when he joined HSH and has been a key member of the development and restructuring of the Technology Function within the Group. In 2013 he was retitled to Group General Manager and is responsible for formulating and implementing Information Technology strategy at both Group and Operational levels. He was appointed to the Group Management Board in 2015. He is 53 years old.

Maria Razumich-Zec

Mrs Razumich-Zec joined the Group as General Manager of The Peninsula Chicago in 2002 and was promoted to the position of Regional Vice-President – USA East Coast in 2007, with regional responsibilities covering The Peninsula Hotels in Chicago and New York, and Quail Lodge & Golf Club in Carmel, California. She was appointed to the Group Management Board in 2007 and was retitled as Regional Vice-President in 2013. She is 58 years old.

Sindy Tsui

Ms Tsui was appointed General Manager, Human Resources in 2007. With many years of experience in human resources management in the hospitality industry, she is responsible for the Group's strategy on human resources, talent development and training. She was appointed to the Group Management Board in 2011 and was retitled as Group Director, Human Resources in 2013. She is 47 years old.

P.T. Wong

Mr Wong joined HSH in 1996 as Senior Assistant Project Manager. He was promoted to General Manager, Project Management in 2010 and was appointed Group General Manager of Projects in 2013. He is responsible for all project development of the Group and during his tenure has developed and opened new Peninsula hotels in Shanghai and Paris as well as significant renovations in Hong Kong, Beijing and Chicago. He was appointed to the Group Management Board in 2015. He is 48 years old.

Key Functions

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

Nicolas Beliard, *General Manager, The Peninsula Paris*

Juile Bourgeois, *General Manager, Peninsula Merchandising Limited*

Christopher Chan, *General Manager, Research and Technology*

Natalie Chan, *Director, Corporate Responsibility and Sustainability*

Ming Chen, *Director, Business Development*

Robert Cheng, *Vice President, Marketing, The Peninsula Hotels*

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

Mark Choon, *General Manager, The Peninsula Manila*

Vincent Chow, *Group Chief Engineer*

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

Sarah Cruse, *General Manager, Quail Lodge & Golf Club*[2]

Anne Geiermann, *General Manager, Design*

Sian Griffiths, *Director of Communications, The Peninsula Hotels*

Katja Henke, *General Manager, The Peninsula Bangkok*

Jason Hui, *Director, Security and Operational Risk*

Suan Beng Lee, *Group Treasurer*

Martin Lew, *General Manager, Operations Finance*

Nadine Maurellet, *General Counsel*

Lynne Mulholland, *Director, Corporate Affairs*

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

Joseph Sampermans, *General Manager, The Peninsula Beijing*

Ernest Tang, *General Manager, Group Finance*

Paul Tchen, G*roup General Manager, Operations*

May Tsang, *General Manager, The Peak Complex*

Sonja Vodusek, *General Manager, The Peninsula Tokyo*

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

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

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

2 Mr Max Schroeder has been appointed as General Manager, Quail Lodge & Golf Club with effect from 1 April 2016 as a replacement for Ms Sarah Cruse.

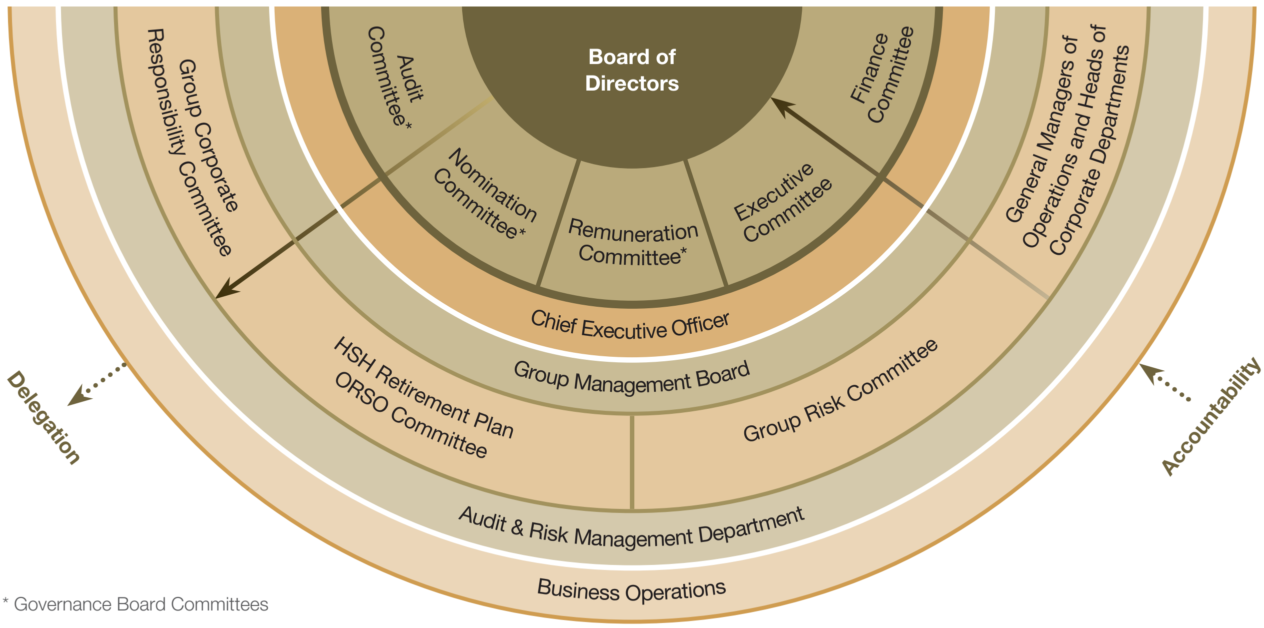
Corporate Governance Report

Our Board has set a culture of integrity, transparency and accountability that permeates throughout the Group

Corporate Governance Commitment

Our Board of Directors is responsible to our shareholders and stakeholders for ensuring the success of the Company. Good corporate governance is crucial to carry the Group through the changing regulatory landscape and in fostering relationships with shareholders and stakeholders of our company. By putting in place the right governance framework, our Board has set a culture of integrity, transparency and accountability that permeates throughout the Group. Our Board of Directors believes that such a framework is the cornerstone for good corporate governance throughout the organisation and in turn fosters and maintains shareholders' and stakeholders' confidence in our company.

Our corporate governance framework is shown below:



* Governance Board Committees

Corporate Governance Code Compliance

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code) forms the basis of the HSH Corporate Governance Code (HSH Code). Our Board recognises the principles underlying the CG Code and have applied all of them to the HSH Code. The HSH Code is updated from time to time, most recently in December 2015, reflecting the new CG Code requirements for risk management and internal control compliance.

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

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

In respect of **CG Code code provisions**, we have complied with all of the code provisions throughout 2015.

In respect of **CG Code recommended best practices**, we have complied with all of the recommended best practices throughout 2015, 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.

Transparent Reporting Wins Awards

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

In 2015, the HSH Annual Report ranked 17 in the World's Top 100 Annual Reports by the ARC Awards International. The Report also won an ARC Grand Award – Best of Category for the Chairman's Letter, and 3 Gold Awards and One Bronze in the Hotel & Leisure Category.

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

2015 Key Initiatives and Activities in Corporate Governance Practices

Below are the highlights of our initiatives and activities on corporate governance practices during the year. Further details can be found throughout this report and in Corporate Responsibility and Sustainability Report.

1 Risk Management and Internal Control

- We took positive steps to enhance the Group's corporate governance policies and procedures before the new requirements in CG Code on risk management and internal control compliance become effective for the accounting periods beginning on or after 1 January 2016
- We reviewed our internal approval framework and updated our Company Management Authority Manual, with a view towards streamlining and improving operational efficiency
- We formalised and refined the Project Risk Assessment Guidelines for projects as a practical and comprehensive tool to assist project owners to better manage key risks throughout the project cycle
- We promoted staff awareness on risk management via our intranet, making transparent how key business risks are managed

2 Board Evaluation

- Our Board conducted its second self-evaluation aimed at improving effectiveness of the Board

3 Key Personnel Changes/Succession Plan

- We appointed Dr Kim L. Winser to the Board as an Independent Non-Executive Director with effect from 1 January 2016. Dr Winser brings extensive experience and expertise in brand management and business strategy, particularly in the luxury retail market and online business, and her appointment enriches the composition of the Board
- We appointed Matthew J. Lawson as our Chief Financial Officer who will come on board on 3 May 2016. He has extensive experience with hospitality and real estate transactions, investments and financing, including joint venture negotiations and structuring
- Our Group Management Board has been expanded to include Mr P.T. Wong (Group General Manager, Projects) and Mr Shane Izaks (Group General Manager, Information Technology), in view of the Group's growing number of new and renovations projects and the emphasis on technology development

4 Data Privacy

- 89% of all senior staff and guest data handling employees who enrolled in the data privacy training have completed it as at the end of 2015

5 Competition and Anti-trust Law

- We carried out a global risk assessment of the Group's business practices on competition and anti-trust risks. Existing policies and codes have been revamped and targeted training has been given to the more risk-prone operations.

6 Information Technology

- We updated and consolidated our Information Technology (IT) security policies into a group-wide IT Security Guidelines to raise staff awareness on IT security and protection to mitigate potential attacks and viruses

7 Strategic Development

- A General Managers' Conference was held to discuss the opportunities, challenges and focus in the medium term

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 102 to 105. This information is also posted on the Company's website.[3]

Each member of the Board is collectively responsible and accountable to the Company's shareholders and stakeholders for the long-term success of the Group. Through the Board's leadership and direction, management runs the Group's day-to-day business (as more specifically described on pages 122 and 123). The Board leads and oversees the management of the Company by focusing on and reserving its 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
- Approving the Group's annual budgets and forecasts
- Approving significant changes in accounting policies
- Approving changes to the Company's capital structure
- Setting the dividend policy
- Authorising material borrowings and expenditure
- Approving financial statements, annual and interim reports, and making judgements that are appropriate in the preparation of the Company's disclosure statements
- Approving the appointments of Directors for election and/or re-election in general meetings
- Reviewing and ensuring corporate governance functions are carried out in accordance with the CG Code, including determining the Group's corporate governance policies, and reviewing and monitoring the corporate governance practices of the Group
- Overseeing the risk management and internal control systems of the Group on an ongoing basis through review of reports of Audit Committee, the Group Management Board and the Group Risk Committee and reviewing the effectiveness of these systems

The Board also evaluates its performance every two years. Details are set out on page 120. With respect to the Directors' responsibility for preparing the Financial Statements for the year ended 31 December 2015, please refer to the Directors' Report set out on page 154.

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.

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

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

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

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

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

Our 12 Non-Executive Directors (six of whom are INEDs) evaluate management's performance in achieving the agreed corporate goals and objectives. They also serve to ensure clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effective. Our NEDs are active and vocal in challenging and providing constructive feedback on the decisions of management in all areas, which is crucial to the objectivity of the Board's deliberation and decision-making. They are also involved in determining the appropriate levels of remuneration for Executive Directors and senior management. Mr Patrick B. Paul, an INED, chairs the Audit Committee and the Remuneration Committee, and other Non-Executive Directors are also actively involved either directly on the Board or in the Board Committees. Non-Executive Directors serving on the Board and Board Committees give these Committees the benefit of their skills, expertise, and varied backgrounds and qualifications.

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

Independence Weighting of HSH Board and Governance Board Committees

Board	6/14 members
A Audit Committee	2/3 members (including Chairman)
N Nomination Committee	2/3 members
R Remuneration Committee	2/3 members (including Chairman)

The Role of Executive Directors

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

The Role of Company Secretary

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

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

Clear and Consistent Board Processes

The Board met five times in 2015. The dates of the 2015 Board meetings were determined and provided to the Directors in the fourth quarter of 2014. The Directors were notified of any changes to this schedule at least 14 days prior to the pertinent meeting. The attendance of individual Directors at the Board meeting and the Governance Board Committees are set out on page 117. All Directors attended Board meetings in person or through electronic means of communication.

Prior to each Board meeting, the Company Secretary draws up the agenda in consultation with the Directors. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings. 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.

Sound decisions cannot be made unless Directors have accurate, clear, complete and reliable information. During the meetings and from time to time throughout the year, we ensure that all Directors are given adequate and quality information in a timely manner, allowing them to maintain effective control over the strategic, financial, operational, compliance, sustainability and corporate governance matters of the Company. All Directors are entitled to unrestricted access to independent professional advice and senior management, and the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and for advising the Board on all legal and corporate matters.

Board decisions are voted on at Board meetings and supplemented by circulation of written resolutions between Board meetings. 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.

Board meetings are structured so as to encourage open dialogue, frank debate and active participation by Directors in meetings. The key activities of the Board during the year are set out on page 118.

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 2015, no potential conflict of interest was determined by the Board to be material expect the continuing connected transaction as disclosed in the Directors' Report on pages 149 and 150 .

Our Board Committees operate under similar processes as the Board.

Board Committees

The Board has established five committees:

Governance Board Committees

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee

Other Board Committees

- E Executive Committee
- F 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. Each Committee reports its decisions and recommendations to the Board and seeks the Board's prior approval on specific reserved matters. Attendance and reports on main activities from these Governance Board Committees are included in this section.

Terms of Reference

Each Committee has its own terms of reference, which have been approved by the Board and are reviewed annually to ensure that they comply with latest legal and regulatory requirements and reflect developments in best practices. In 2015, we have revised the terms of reference of the Board and Audit Committee to incorporate the new requirements in CG Code on risk management and internal control compliance becomes effective for accounting periods beginning on or after 1 January 2016.

The full terms of reference of each Board Committee can be found on the Company's website[4] and those for the Governance Board Committees are also published on the Stock Exchange's website. A summary of the terms of reference of each Board Committee is set out in the table below:

Governance Board Committees

Committee	A Audit	N Nomination	R Remuneration
Chairman	Mr Patrick B. Paul	The Hon. Sir Michael Kadoorie	Mr Patrick B. Paul
Composition	Chaired by INED, majority being INEDs	Chaired by the Chairman of the Board, all other members are INEDs	Chaired by INED, majority being INEDs
Main Responsibilities	• Oversees the Group's financial reporting and audit processes with management and the internal and external auditors • Reviews the Group's financial controls, risk management and internal control systems on an on-going basis • Monitors and reviews the effectiveness of the Group's audit and risk management and internal control systems and reviews annual audit plan and reports • Oversees the scope of work of external auditors including approving fees for non-audit work • Reviews whistleblowing policies by which employees and stakeholders may raise concerns in confidence	• Reviews the structure, size and composition of the Board • Evaluates the balance and blend of skills, knowledge, experience and diversity of the Board • Reviews the Board Diversity Policy • Maintains under review the leadership and succession needs of the Group • Reviews and makes recommendations to the Board on the appointment and re-appointment of all Directors • Assesses the independence of INEDs	• Makes recommendations to the Board on the remuneration philosophy and policies of the Group • Reviews and approves bonus schemes for senior staff • Reviews and approves employment terms (including compensation, performance related bonuses, and retirement provisions) for the Executive Directors and senior management • Reviews and recommends Non-Executive Directors' fees to the Board and the fees for serving on Board Committees • Ensures that no Director approves his or her own remuneration
Committee Report	Set out on pages 140 and 141	Set out on pages 142 and 143	Set out on pages 144 to 147

Other Board Committees

Committee	E Executive	F Finance
Chairman	The Hon. Sir Michael Kadoorie	Mr Andrew Brandler
Composition	Chaired by Non-Executive Chairman, consists of Non-Executive Directors and Chief Executive Officer	Chaired by Non-Executive Deputy Chairman, consists of Non-Executive Directors, Chief Executive Officer and Chief Financial Officer
Main Responsibilities	• Develops and reviews strategic opportunities and significant investment proposals • Evaluates the Group's competitive position and determining strategies to protect the brand, values and business principles of the Group • Oversees the implementation of strategic plans and investment proposals • Monitors the Group's financial and operational plans and forecasts, and delivers these plans and monitor performance • Interacts with the Finance Committee on its submissions	• Reviews all financial aspects and budgets of significant acquisitions, investments, assets disposals and new project commitments of the Group • Reviews and approves the establishment of the financial and annual operational plans, budgets, forecasts and any revisions of the Group • Reviews the Group's financial performances • Reviews the establishment of corporate capital and operating contingencies and approves requests for drawing on contingencies within the approved budgets • Endorses issuance and allotment of shares and share buyback • Reviews and approves treasury policies • Reviews and approves granting of guarantees and indemnities

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

2015 Board and Committee Attendance and Training Records

The attendance of Directors and the Company Secretary at the Annual General Meeting, Board and Governance Board Committee meetings and training records in the year 2015 were as follows:

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

Notes:

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

(2) Mr Alan Clark resigned as Director with effect from 30 November 2015

(3) During 2015, Ms Christobelle Liao undertook over 15 hours of professional training requirement of the Listing Rules

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

(B) Visiting operations including The Peninsula Paris in April 2015

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

- Cyber security
- Social media, e-commerce, marketing
- Corporate governance matters
- Risk management
- Competitive landscape for the hotel business
- Sustainable development

2015 Board Meetings

Five regular Board meetings took place in 2015. Two of the regular Board meetings took place at our operation, The Peninsula Hong Kong. In addition to the scheduled meetings, the Board has also dealt with certain matters by written resolutions.

The Board 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

- Agreed the methodology for 2015 Board evaluation and reviewed and discussed the evaluation results and the action plan put in place by management
- Approved the proposed changes to the HSH Corporate Governance Code, terms of reference of the Board, Audit Committee to incorporate the enhanced risk management process which already put in place
- Reviewed and approved the 2016 budget, the 2014 Company Annual Report and the 2015 Interim Report
- Reviewed the progress towards the delivery of the Group's Sustainable Luxury Vision 2020
- Reviewed all Connected Transactions
- Directors kept updated on new trends, legislation, and the Group's business, through presentations by Heads of Corporate Departments on relevant topics including cyber security, social media, e-commerce and marketing

Strategy

- Reviewed the strategic and business development considerations discussed at the General Managers' Conference
- Overall strategy review of potential investments and the short to medium term financial impact on the Group
- Reviewed the five years financial projection for the Group
- Reviewed and approved the proposed hotel development in Istanbul, Turkey
- Monitored the development plans for the project in London
- Monitored the progress of the project in Yangon, Myanmar and approved the extension of the long stop date for fulfilment of the conditions precedent under the Shareholders' Agreement
- Approved the restructure of the land lease to a new 70-year leasehold for The Peninsula Tokyo
- Monitored the operating right renewal process of The Peak Tram
- Monitored the renovation of The Peninsula Chicago and The Peninsula Beijing

Board Discussion

Leadership and Employees

- Proposed the selection criteria for a new INED and approved the recommendation of Nomination Committee for the appointment of Dr Kim L. Winser
- Accepted the resignation of Mr Alan Clark as the Chief Financial Officer and noted the recommendation of Nomination Committee for the appointment of the Chief Financial Officer
- Reviewed the development of people and talent in the Group, and discussed the contingency and succession planning for senior management to ensure the long-term success of the Company

Risk Management and Internal Control

- Approved the principal risks of the Group with key controls and risk treatment which are detailed in the Group Risk Management Report and disclosed them in the Annual Report
- Monitored the risk management and internal control systems and reviewed the effectiveness of these systems through Audit Committee
- Reviewed and kept informed by reports from Audit Committee Chairman on audit, internal control and risk management issues
- Approved the proposed changes to the Company Management Authority Manual to streamline and improve operational efficiency

Composition of the Board

On 1 January 2016, the Board increased the number of INEDs from five to six as Dr Kim Winser joined as an INED. As of the date of this report, our Board comprises 14 members, of which 12 are Non-Executives. Among our Non-Executive Directors, six are INEDs independent of management, representing 43% of the entire Board. The other six Non-Executive Directors do not participate in the day-to-day business of the Company, but are not considered independent due to their association with the substantial shareholders.

In February 2016, we announced the appointment of Mr Matthew Lawson as an Executive Director and Chief Financial Officer on 3 May 2016, replacing Mr Alan Clark who resigned on 30 November 2015.

The Nomination Committee reviewed and the Board confirmed that the structure, size and composition of the Board as at end of 2015 remained appropriate for it to perform its responsibilities.

Boardroom Diversity

The Board believes that having variety in its composition is important for a healthy and effective Board. The Board in March 2013 adopted its diversity policy, which can be found on the Company's website.[5] This philosophy does not end at the Board level but is carried out throughout the Group.

Gender diversity of the Board and management as at the date of this report is set out below:

	Number	Proportion
The Board	2 females 12 males	14% female 86% male
Senior Management*	4 females 5 males	44% female 56% male
Key Functions**	12 females 16 males	43% female 57% male

* Inclusive of 2 Executive Directors

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

The Company has taken, and continues to take, steps to promote diversity, including gender, 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 adopt rigid quotas or measurable objectives for implementing diversity. The Board believes that every appointment should be made 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.

With the departure of Mr Robert Miller as our INED, we engaged external search consultants to select candidates with reference to our diversity policy, in particular preference for a female candidate as the Board recognised the lack of gender diversity at Board level. The process resulted in the appointment of Dr Kim Winser as INED on 1 January 2016, being the second female Director of our company who brings with her expertise and experience in brand management and business strategy, luxury retail market and online business. In addition, in selecting the new Chief Financial Officer following the departure of Mr Alan Clark in November 2015, our search consultants were also tasked to shortlist the candidates based on the skills and experience of the individual, while bearing our diversity policy in mind. This process has led us to the appointment of Mr Matthew Lawson who will join the Board on 3 May 2016 as Chief Financial Officer. He has extensive experience with hospitality and real estate transactions, investments and financing, including joint venture negotiations and structuring.

For further information, please refer to the Nomination Committee Report on pages 142 and 143.

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

Board Evaluation

In 2013, the Board affirmed the value of Board evaluation and agreed that a similar evaluation should be conducted every two years. In 2015, the Board carried out its second evaluation by way of self-assessment to evaluate its own performance and that of its committees and individual Directors with the aim of improving effectiveness. The Company Secretary, in consultation with Group Management Board and Chairman of Audit Committee tailored a bespoke online qualitative questionnaire. In addition to the topics covered in the previous evaluation, we took into account comments made by Directors in the 2013 review. Key discussion topics in the review included: Group objectives, strategy and performance assessment, risk management and internal control systems effectiveness, succession planning, management performance, composition and effectiveness of the Board, process supporting the Board, Board Committees' performance, and individual members' performance. In additon to the self-evaluation, the Chairman met with Non-Executive Directors in October 2015 to review management performance and recommendations were communicated to management for implementation. At that meeting, the Board also acknowledged the information provided by management in response to the 2013 review.

2015 Board Evaluation Process

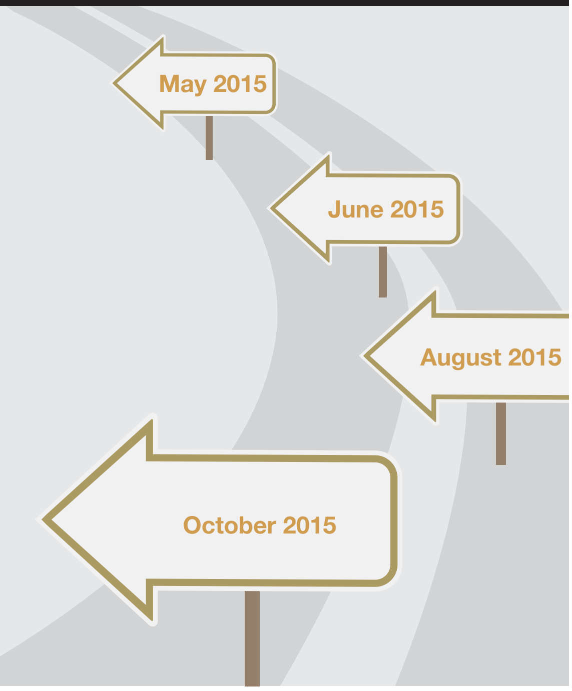
May 2015
The Board discussed the evaluation methodology and agreed internal evaluation remains appropriate and effective

June 2015
Company Secretary, in consulation with Group Management Board and Chairman of Audit Committee tailored an online questionnaire based on feeback from the Board in 2013

August 2015
All Directors to rate the Board, Board Committees and themselves by completing the questionnaire online anonymously

October 2015
Responses received were collated by the Company Secretary and discussed at the October Board meeting and actions put in place by management were reported to the Board

On-going
Management to carry out the proposed actions



The 2015 evaluation provided the Board and management with constructive feedback, and resulted in the following action:

- To keep the Board appraised of the budget process earlier in the year by introducing a presentation on budget direction at every October Board meeting before the budget is formally reviewed and approved in the annual budget at the December meeting
- With new projects in the pipeline, management updates the financial projection of the Group more regularly and its impact on cashflow and financial ratios
- Management continues to arrange presentations of General Managers of Operations and Head of Corporate Departments at Board meetings to keep Board members appraised of the presenters' roles and functions and understand the Group's businesses and risks
- The process for the appointment of the Chief Financial Officer was discussed

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. Dr Kim Winser who joined the Board in January 2016, has commenced her induction programmes including visiting our US, Paris and some of our Asian properties.

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. In April 2015, all Board members attended The Grand Opening of The Peninsula Paris. Board members toured the facilities and 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 2015 are stated in page 117.

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 2015. 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 2015, and Directors who will retire and offer themselves for re-election in the 2016 Annual General Meeting are set out in the Directors' Report on page 150.

Time Commitment of Directors

The Board recognises that it is important that all Directors should be able to dedicate sufficient time to the Company to discharge their responsibilities. The letters of appointment for Non-Executive Directors and INEDs, as well as service contracts for Executive Directors, contain guidelines on expected time commitments required for the affairs of the Company. 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 2015.

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 2015. The Nomination Committee and the Board considered that all these INEDs who served in 2015 were, and the current six 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 has an independent mindset and is prepared to challenge conventional wisdom in a constructive fashion. The Board believes that it is not appropriate to apply an arbitrary period of service beyond which a director is assumed to have lost his or her independence.

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 2015. Details of the shareholding interests held by the Directors of the Company as at 31 December 2015 are set out on page 151.

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 108, 109 and 151. All senior management confirmed that they do not have shareholding interests of the Company as at 31 December 2015.

Directors' Disclosure on Conflict of Interest

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

- The number and nature of offices they hold in public companies or organisations and other significant commitments (if any) and their time involvements
- Their interests as a Director or shareholder in other companies or organisations significant to the businesses of the Company
- Whether he or she (other than an INED) or any of his or her close associates has an interest in any business which competes with the Company

In 2015, 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

  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

  Mr Shane Izaks, Group General Manager, Information Technology

  Mrs Maria Razumich-Zec, Regional Vice-President and General Manager of The Peninsula Chicago

  Ms Sindy Tsui, Group Director, Human Resources

  Mr P.T. Wong, Group General Manager, Projects

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:

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

In order to streamline the decision-making process on finance, legal and administrative matters, a working team of the GMB, comprising Chief Executive Officer, Chief Financial Officer and Group Director, Corporate and Legal, was formed. This working team meets weekly immediately after the GMB meetings.

The GMB has three sub-committees consisting of the Group Risk Committee, the Group Corporate Responsibility Committee and the HSH Retirement Plan ORSO (Occupational Retirement Schemes Ordinance) Committee which oversee areas related to the Group's risks, sustainability and the operation of the HSH Retirement Plan respectively.

Group Risk Committee

Chairman and Members

- Chairman: Ms Christobelle Liao, Group Director, Corporate and Legal (Acting Chairman from 30 November 2015)
- Members: Group General Manager, Audit and Risk Management, selected members of senior management and Group General Manager, Operations

Main Responsibilities

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

Group Corporate Responsibility Committee

Chairman and Members

- 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

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

HSH Retirement Plan ORSO Committee

Chairman and Members

- Chairman: Mr Ernest Tang, General Manager, Group Finance (Acting Chairman from 30 November 2015)
- Members: Selected members of senior management, Heads of Corporate Departments and selected representatives from operations

Main Responsibilities

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

Our Shareholders

HSH had 1,792 registered shareholders as at 31 December 2015. 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	391	21.819	66,995	0.004
501-1,000	190	10.603	150,606	0.010
1,001-10,000	679	37.891	2,842,658	0.184
10,001-100,000	410	22.879	13,216,375	0.857
100,001-500,000	86	4.799	18,139,004	1.176
Above 500,000	36	2.009	1,508,573,108	97.769
Total	**1,792**	**100.000**	**1,542,988,746**	**100.000**

Note: as at 31 December 2015, 36.80% 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 58.56% as disclosed in "Interests of Directors" and "Interests of Substantial Shareholders" in Directors' Report on pages 151 and 152. 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 2015 and has continued to maintain such a float as at 16 March 2016.

Engaging our Shareholders[6]

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

The Company utilises multiple platforms to engage investors. We encourage our shareholders to participate in our Annual General Meeting (AGM) and directly communicate with our Directors. We participated in a major investor conference in Shanghai to engage existing and potential investors. Throughout the year, our Executive Directors and Investor Relations team also held regular meetings and conference calls with institutional shareholders, financial analysts and potential investors.

We also post webcasts of the announcements of the latest financial results on the Company's website,[7] along with the presentation materials from such announcements, specifically the Annual Report and the Interim Report. Financial statistics, corporate governance practices and the latest investor information are available on the Company's website.[8] Our Shareholder Communication Policy (posted on the Company's website[9]) has specified the various communication platforms which our shareholders and stakeholders have access to.

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

6 GRI G4 Material Disclosure: G4-26

7 www.hshgroup.com/en/Investor-Relations

8 www.hshgroup.com/en

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

Shareholders' Rights to General Meetings

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

Our company's website[10] 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.

2015 Annual General Meeting

The 2015 AGM was held on 11 May 2015 at The Peninsula Hong Kong. There were 411 attendees in total, of which 201 were registered shareholders and 210 attended by proxies or through corporate representatives.

Prior to the meeting, a circular containing the notice of the AGM was distributed to all shareholders more than 20 clear business days prior to the AGM, setting out details of each proposed resolution and other relevant information. The Company regards AGM as an important event. All Directors, including the Chairmen of the Audit and Remuneration Committees, were present at the 2015 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 2015 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 2014	**100%**
Payment of final dividend of 18HK Cents per share for the year ended 31 December 2014	**100%**
Re-election of four retiring Directors: Mr Ronald James McAulay, Dr the Hon. Sir David Kwok Po Li, Mr John Andrew Harry Leigh and Mr Nicholas Timothy James Colfer as Directors of the Company	**Ranging from 87.96% to 99.96% 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	**99.99%**
Granting of the general mandate to Directors to allot, issue and deal with the Company's shares	**81.05%**
Granting of the general mandate to Directors to buy-back the Company's shares	**99.99%**
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	**81.07%**

Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 219.

The Company's share price information is disclosed on page 65.

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

Engaging our Stakeholders[11]

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

Stakeholders Group	How We Engage	Examples in 2015
Customers	As a hospitality company with 150 years of history, engaging our customers and ensuring their satisfaction and happiness is critical to how we run our business. In 2015 we have enhanced our digital engagement through social media and a newly developed mobile website. We have created a new PenClub programme to enhance our engagement with online travel agencies	• Enhanced digital engagement directly with customers via social media and mobile sites • PenClub to enhance our engagement with online travel agencies
Employees	In 2015, we conducted an internal HR Effectiveness Questionnaire with key stakeholders comprising of senior management and management at Head Office and Operations. Respondents were asked to provide feedback on the HR function at Head Office and Operational level. Over 90% of respondents said they felt HR cared about our employees and over 80% said HR creates a culture of engaged employees and supports our business leaders to achieve their business results	• See page 78 to 80 for more details on our employee engagement strategy
Governments	Our Executive Directors and Chairman regularly meet with senior Hong Kong Government leaders and Legislative Council members to discuss areas of concern for the tourism and property sectors. Our CEO and selected senior management are members of the World Travel & Tourism Council (WTTC) which actively engages with governments around the world on industry issues on behalf of members	• Peak Tramway Ordinance • Advising on tourism industry issues • Membership of WTTC
Financial Analysts and Investors	Our Investor Relations team and the Executive Directors conduct one-to-one briefings with financial analysts and investors, as well as non-deal investor road shows, post-results briefings, annual general meeting; the Investor Relations team is also exploring ways to engage with the sustainable investment community	• Financial reports and website • Annual General Meeting (AGM) • One-on-one meetings and group briefings
Media	Our Marketing team conducts regular press briefings and attends high profile trade shows in all our key markets as well as emerging markets, and the Corporate Affairs team organises press conferences with Executive Directors at annual/interim results and individual interviews throughout the year	• International Luxury Travel Market (ILTM) in Cannes • HSH financial results press conferences at The Peninsula Hong Kong and post-AGM with the Chairman
NGOs and Academia	Our Corporate Responsibility and Sustainability team meets with non-profit organisations, academia and industry advocacy groups regularly throughout the year to keep ourselves informed of the latest developments on sustainability issues, and contributes to the sustainability development of the wider community by sharing HSH's experience at various local and regional conferences and industry committees	• Membership of International Tourism Partnership (ITP) • Advisory Group of Cornell Hotel Sustainability Benchmarking Study • Partnership with WWF Hong Kong • Partnership with The Hong Kong Council of Social Service • Member of Hong Kong Council for Sustainable Development's Support Group for Promotion of Sustainable Use of Biological Resources
Partners and Suppliers	Our partners are also key to our growth, as they help us to ensure the successful operation of our properties in their local markets. The spirit of cooperation and engagement is exemplified in the opening of The Peninsula Paris in 2015 and with the revised lease agreement at The Peninsula Tokyo	• Peninsula Paris Grand Opening • Peninsula Tokyo lease agreement • Peninsula Istanbul signing

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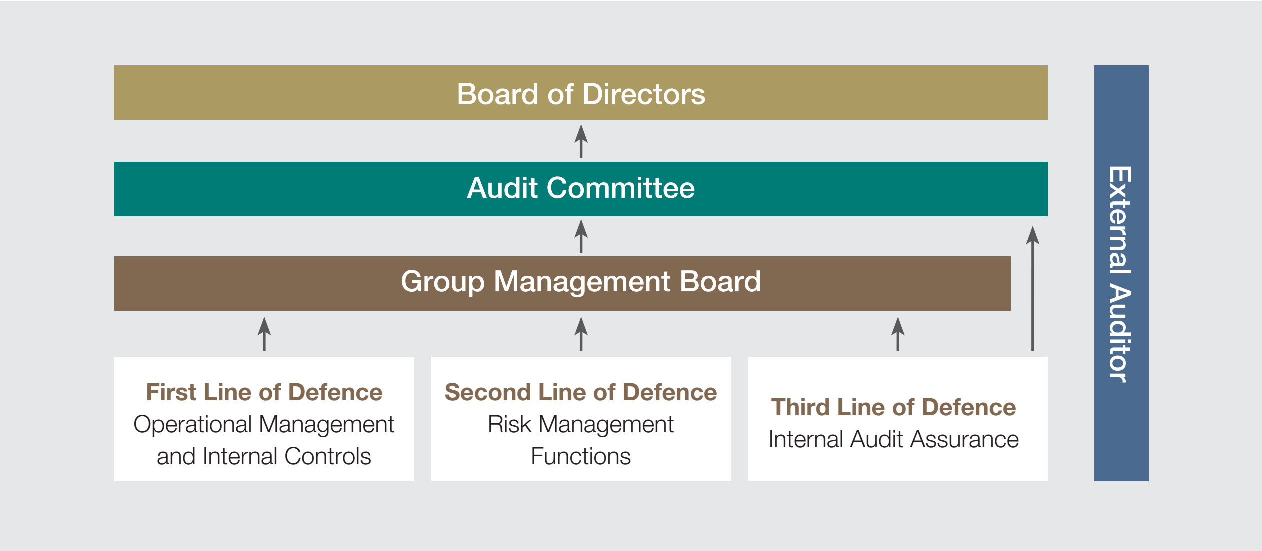
We always seek to improve the area of stakeholder engagement and are planning to conduct a thorough stakeholder mapping and engagement exercise with an independent third party during 2016.

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

Risk Management

Risks are inherent in every business and the challenge is in identifying and managing them so that they are managed, mitigated, transferred, avoided or understood and accepted. Effective risk management is and has been an integral part of the overall achievement of the Group's strategic objectives. 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 semi-annually. To achieve this, the Board ensures that there is a robust 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. Our Board has delegated the responsibility for overseeing the adequacy and effectiveness of risk management and internal control systems to Audit Committee.

Our risk management framework is guided by the model of "Three Lines of Defence" as shown below:



Three Lines of Defence

Our risk management framework and its processes are regularly reviewed and the latest review was completed in 2014. We implemented various recommendations endorsed by the Audit Committee and approved by the Board to make it an even more structured process. This includes the submission of the semi-annual Group Risk Management Report detailing the principal risks and management measures for the Board's review.

The system and processes that have been put in place are designed to manage our risks and not eliminate all risks. As with all systems, it does not provide an absolute shield against factors such as unpredictable risks, uncontrollable events such as natural catastrophes, fraud, and errors of judgement.

First Line of Defence: 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.

Key Group Policies

The following policies and procedures form the backbone of our internal control processes which apply to all levels of staff:

- **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, delegation of authorities and accountability. In 2015, we carried out a detailed review of the CMAM with an objective to improving operational efficiency. Certain approval limits and approval process were updated under the CMAM.

- **HSH Code of Conduct** governs behaviour of our employees. In 2015 we have initiated a project to relaunch and revamp the Code of Conduct with the objective to enhance permeation of the Group's integrity and ethics values while fundamentally existing principles would remain unchanged.

- **Whistleblowing Policy** facilitates 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.[12] Audit & Risk Management promptly follows up incidents reported through the dedicated and secure whistleblowing email account. Investigation results are then communicated to the Executive Directors and Audit Committee with approved recommendations implemented by the responsible parties.

- **Inside Information Escalation Policy** regulates the handling and dissemination of inside information of the Group. We ensure potential inside information being captured and confidentiality of such information being maintained until consistent and timely disclose are made. 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.

Our **Inside Information Escalation 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

12 www.hshgroup.com/en/Corporate-Governance/Whistleblowing-Policy

Operational Policies

On daily operations of the businesses, we have built into the system of management controls:

- **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 Group Risk Committee.
- **Data Privacy Manual** sets out the practical procedures which assist our employees in handling personal data collected in the normal course of business. In 2015, in addition to on-board training for new employees, we rolled out the interactive e-learning personal data privacy refresher training programme to all senior staff and employees who handle data of guest information. As at the end of 2015, 89% of staff who enrolled in the training completed it.
- Additional group internal control policies and procedures cover 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. In 2015, the confirmation has been extended to the effectiveness of risk management and internal control systems. This formed the basis on which management confirmed to Audit Committee the effectiveness of the Group's risk management and internal control systems.
- Operations and businesses are also expected to conduct **Annual Compliance Checks** and provide confirmations to Group Legal on statutory or best practices compliance.
- Financial management and internal reporting 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. In 2015, this Department organised the biennial Finance Conference which was attended by all operational Directors of Finance and Financial Controllers and members of the Head Office team. The conference provides updates and allow the attendees to share the good corporate governance practices.

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** 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 risk 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 35 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 134 to 137.

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 systems 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 risk based internal audit reviews at both operational and corporate levels. Plans and tools for corrective action and improvements are identified with operations management to address any issues, or deficiencies identified. ARM follows up the implementation of its recommendations and reports the outcome to the Audit Committee.

External Auditor

The **external auditor** of the Group further supplements the third line of defence 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 internal control over financial reporting issues identified in the course of its audit work. The external auditor would report on any control weakness to the Audit Committee.

Audit Committee and Board

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 timing 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 2015, 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.

Moving towards Integrated Reporting

The Annual Report has always been a useful corporate governance tool which the Company uses to communicate to its shareholders and stakeholders. We understand that the constantly evolving external business environment means that our stakeholders desire to have a truer picture of our company's ability to generate value over time, and our ability to adapt and change to the external environment and manage our intangible assets. With this in mind, in this year's report, the Company has taken steps to move towards integrated reporting, taking reference from the International Integrated Reporting Framework. We believe this new approach offers a more holistic overview of how we create shareholder value in financial and non-financial terms.

By order of the Board

Christobelle Liao
Company Secretary
16 March 2016

Group Risk Committee Report

In 2015, we continued to enhance our existing risk management structure and processes and at the same time foster a risk awareness culture

Role and Composition

I have been the Acting Chairman of the Group Risk Committee following the resignation of Chief Financial Officer in November 2015. 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. 2015 has been a busy year for this Committee and this report provides an overview of the responsibilities of the Committee and what we have done during the year.

Chairman: Ms Christobelle Liao (Group Director Corporate and Legal) – Acting Chairman from 30 November 2015

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

The GRC holds four regular meetings every year to discuss the emerging risk and mitigation issues which are significant to the Group as a whole. Heads of Corporate Departments are invited for deep-dive presentation on selected risks. The GRC is also responsible for reviewing and approving the Group Risk Management Report for submission to the Audit Committee and the Board. The Group Risk Management Report is a semi-annual reporting tool which consolidates the risk registers of each operations and the risks faced by the Group as a whole, in order to provide the Board and the Audit Committee with an overview of the types of the risks profile of the Group.

Group Risk Committee Charter

Group Risk Committee Charter (Charter) 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:

- Evaluates the Group's principal risks through review and challenge, where necessary, of information received
- Monitors exposure to risk types in a sufficiently accurate and timely manner, and the available mitigating actions
- Evaluates the risk profile of the Group
- Develops and updating risk management procedures including oversees and advises 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
- Coordinates and compiles the Register with on-going maintenance, and prepares summaries of principal risks and related contingency plans to Audit Committee and the Board
- Implements the Register including establishing clear roles and responsibilities for risk oversight, risk reporting and escalation, risk ownership, and communicating across the Group
- Approves policies, procedures and instructions relating to the Register

Group Risk Management Evolution

2012-2013 Rolling out new ERM framework

- Expanded risk register
- Selected a single Global Risk System
- Monitored incidents with group-wide impact

2014 Building Group risk system and risk profile

- Established first Group level risk map
- Rolled out of risk registers completed (21 operations)
- Piloted Global Risk System in Head Office and The Peninsula Hong Kong

2015 Enhancing framework – semi annual risk updating and reporting

- Rolled out Global Risk System – 130 users in 21 operations
- Implemented new semi-annual risk update process
- Launched Risk Management Portal on intranet to raise staff awareness

2012-2013

2014

2015

Main Activities in 2015

In 2015, we continued to enhance our existing risk management structure and processes and at the same time foster a risk awareness culture. The actions taken in formalising the risk management process is as described under the "Risk Management Functions – second line of defence" on pages 129 and 130.

We also continued to monitor all incidents reported through the Incident Reporting Policy as described on page 129 and the actions taken and best practices shared. There was no incident of a material nature in 2015 which needed to be brought to the attention of the shareholders.

Other activities of the GRC in 2015 included:

- ✔ Launched the Group's first Risk Management Portal on the Company's intranet to promote staff awareness about risk management and share management tools, documentation and practices

> The Risk Management Portal's content:
> - Promote employee awareness about HSH Group risk management framework
> - Provide guidance and training on risk management processes and system
> - Centralise management policies, defining roles and responsibilities

- ✔ Formalised and refined the Project Risk Assessment Guidelines to provide a practical and comprehensive tool to assist project owners to better manage key risks throughout the project cycle
- ✔ Reviewed and approved the GRC Charter to incorporate the enhanced risk management process which have already been put into practice
- ✔ Reviewed Group Risk Management Reports prepared by ARM for submission to GMB, then Audit Committee and the Board for approval
- ✔ Discussed the existing and emerging principal risks and measures and additional actions to be taken to deals with them
- ✔ Updated the Business Unit risk registers and captured top 3 risks of each operations along with the likelihood and impact of these risks
- ✔ Reviewed current Information Technology (IT) measures, policies and procedures and future IT security and risk management
- ✔ Reviewed the progress of the Global Command Centre project which is expected to be completed within the next five years across the Group

- ✓ Reviewed the progress of follow-up actions on recommendations in integrated property, safety and security risk reports of external third party specialists on selected US operations
- ✓ Endorsed HSH Code of Conduct Relaunch Project for 2016
- ✓ Endorsed the competition and anti-trust law compliance project to raise HSH employees' awareness of competition and anti-trust risks

Principal Risks

In 2015 we considered the following to be the Group's top ten principal risks. These principal risks are compiled through aggregation, filtering and prioritisation of the risks from a Group's perspective, taking into account each of Business Unit's detailed risk registers. The process for compiling the principal risks faced by the Group included a special Group Management Board strategic meeting, discussion and review of management action on individual risks and multiple interviews and validation with risk owners.

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. From this year's review, it is noted that foreign exchange and interest rate fluctuations, as well as the change and volatility in the macroeconomic and political environment have become principal risks to the Group, given our global presence. Details are set out in the chart below:

Principal Risks	Key Controls and Risk Treatment	Changes since 2014 Annual Report
Disaster Events		
A major disaster event, such as an incident, "Act of God," natural catastrophe, extreme weather due to climate change impact, terrorist activity, war or contagious diseases such as Zika, SARS or 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	↑ Reason for trend: Heightened terrorism risk following attacks in key locations
Business Portfolio/Concentration		
A significant portion of our Group revenues is derived from our operations in Hong Kong. Unfavourable events in the city could disrupt our overall business, lower our revenues, and impact the valuation of our assets	• Focus on 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	↔ No change
Foreign Exchange and Interest Rate		
Exchange rate fluctuations could result in significant foreign currency losses and affect our capital projects. Significant floating rate liabilities could result in higher cost of financing if current interest rates increase	• Currency hedging policies, hotels charging in local currencies and expending in local currency • All borrowings are denominated in the functional currency of the operations to which they relate • Sensitivity analysis performed by Head Office (ad hoc for projects, and yearly for the Group's financial reporting) • Monitoring of interest rate risk by Head Office	↑ Reason for trend: Increasingly volatile currency markets and interest rates expected to increase

Principal Risks	Key Controls and Risk Treatment	Changes since 2014 Annual Report
Retail and Commercial Tenants		
Retail and commercial letting may become difficult due to factors such as increased competition, decline in spend within the luxury industry, or shifts of retail preferences leading to decrease in our arcade traffic	• Improvements in design of commercial and retail space to allow flexible usage and conversion possibilities to accommodate tenants • Commitment to maintain high quality properties • Marketing and sales initiatives to attract and retain quality retail tenants • Active engagement with current and potential tenants and closer relationship at higher level with key existing tenants to strengthen strategic relationships • Diversification and maintenance of an appropriate mix of tenants	↑ Reason for trend: Decline in spend within the luxury industry
Brand and Reputation		
Protecting 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 manage 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	↔ No change
Acquisitions, Investments and Developments		
Acquisitions, investments and developments of properties carry inherent risks. These are often pursued in partnership with third parties. Risks relate to capital allocation, capital funding, meeting budgets, incurring debt, missing targets, partnership relationships and competition for resources will need to be managed. Challenges may arise in relation to obtaining planning or other consents and compliance with different jurisdictions' design and construction standards	• 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 risk management of our projects and developments assisted by external professionals	↑ Reason for trend: Increased number of projects in the pipeline and expansion into new and emerging markets

Principal Risks	Key Controls and Risk Treatment	Changes since 2014 Annual Report
Competition		
Increased competition, cyclical over-supply of luxury hotels in some markets could also harm our business	• Continuously monitor and analyse competitive and market information in order to anticipate unfavourable changes • Brand and communication initiatives to drive revenue growth and strengthen our brand's market position • Reinvestments into our properties to ensure competitiveness	⇔ No change
Macroeconomic and Political		
Changes and volatility in general economic conditions, including the severity and duration of any downturn in the US, 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	⇧ Reason for trend: Political uncertainties and deteriorating economic conditions in some markets
Cybersecurity		
The number of online viruses, cyberattacks and malicious software rapidly increased in 2015. The threat of an attack is high	• Step up our prevention and protection standards, enhanced our network protection • Enforce security measures such as updating antivirus and firewall protection • Enhance internal communication of these threats across our Group, and introduce more extensive orientation for new employees, with the objective of managing any vulnerabilities that may exist	⇧ Reason for trend: Number of cybersecurity incidents increased in 2015 around the world
Data Privacy		
Given our wide guest base and global operations, we are regulated by privacy laws and regulations of many jurisdictions. Compliance could increase our operating costs and impact our direct marketing abilities. Breaches could result in fines and may adversely affect our brand and business	• Implementation of group-wide data privacy policy manual and training (classroom and online formats) • Assessments by Data Privacy teams across operations • Implementation of a process for reporting and dealing with data breaches • Investment in information technology infrastructure, application and training to protect personal data • Management of risks via e-commerce functions at operational level	⇔ No change

Emerging Risks

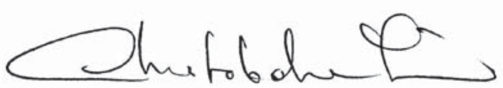
In addition to addressing the principal risk categories faced by the Group, GRC also reviewed specific emerging risks. These emerging risks are normally results of changes in the economic, political, legal or technical environment, which may or may not be within an existing principal risk category. GRC 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.

Emerging Risk	**Key Controls and Risk Treatment**
Terrorist Threats	
The number of major terrorist attacks has increased on a global scale The increasing significance of our operations outside of Hong Kong make us increasingly susceptible to the risks of doing business internationally. Terrorist activities or threats and heightened travel security measures in some markets could disrupt our business and lower our revenues	• Strengthen our network with security stakeholders including local intelligence agencies and police departments, and to enhance our global intelligence monitoring • Upgrade our Global Crisis management capabilities with virtual and video conferencing technology, boost global security manpower resources in key markets • Enhance crisis training and drills for staff according to the local threats in their region • Increase travel security protection and tracking for staff

Major Initiatives for 2016

In 2016, the GRC's main focus will be continued refinement of the improved group-wide risk management process in line with the Corporate Governance Code and industry best practices. We will focus on communication, awareness and ownership of risks across the Group. Risk awareness training is being planned for all key operations. We will continue to assist Business Units in enhancing their risk management processes in line with Group's risk management framework and guidelines. Refinement of risk measurements and reporting, framework for emerging risks, and closer monitoring status of action plans against each principal risk are planned for 2016.

On behalf of the Group Risk Committee



Christobelle Liao
Acting Chairman of the Group Risk Committee
16 March 2016

Group Corporate Responsibility Committee Report

We focused on strengthening our foundation for achieving our long-term goals and enhancing communication on Vision 2020 to our employees and stakeholders

Role and Composition

The Group Corporate Responsibility Committee (GCRC) is a sub-committee of the Group Management Board, formed as part of the governance structure to assist the Group Management Board and Board in reviewing and addressing the Group's environment, social and ethical responsibility and sustainability practices. As we move towards integrated reporting, for the first time, we include this report in the Annual Report so that our shareholders may have a more informed assessment of our company's strategy, governance, performance and long-term value within the commercial, social and environmental context in which we operate. Accompanying this Annual Report, a separate and more comprehensive Corporate Responsibility and Sustainability Report (CRS Report) in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) G4 disclosure standard is published. This report provides an overview of the GCRC's accomplishments during the year.

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

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

The GCRC holds three regular meetings every year. In 2015, two additional meetings were held to review the Group operations' sustainability performances and to discuss the policies, objectives and plans for achieving HSH Sustainable Luxury Vision 2020 (Vision 2020). Vision 2020 comprises seven pillars, each of which is championed by a GCRC member whose role is to provide guidance and work with the operations of the Group to deliver progress. Progress towards Vision 2020 is reviewed regularly throughout the year while a Corporate Responsibility Performance Report covering the full range of key performance indicators of Vision 2020 of our operations is reviewed by GCRC semi-annually.

Main Activities in 2015

In 2015, being the second year of our journey towards Vision 2020, we focused on strengthening our foundation for achieving our long-term goals and enhancing communication on Vision 2020 to our employees and stakeholders. We also used newsletters, workshops and calls to share best practices among our operation.

Other activities of the GCRC in 2015 included:

- ✔ Reviewed the Corporate Responsibility Performance Reports which captured the operation's progress towards Vision 2020 based on key performance indicators for disclosure in the CRS Report

- Reviewed and discussed the Group's 2015 commitments and improvement areas in terms of energy, water and waste management, responsible sourcing, health and safety, workforce issues and ethical standards and community engagement
- Endorsed the suggestions of KPMG, our independent auditor, to deploy a software reporting system to enhance data collection and analysis
- Endorsed the new methodology to assess our energy saving and its financial saving for disclosure
- Discussed climate change issues and its impact to the Group
- Reviewed a new two-year stakeholder engagement plan
- Reviewed the terms of reference of the Committee

In 2016, the GCRC's main focus is to set up policies and action plans in developing a group-wide strategy on driving energy savings, and to review the current strategies of LED usage across the Group, as well as other specific initiatives as outlined in the CRS Report.

Sustainability Reporting

We have continued to adopt the reporting requirements of the GRI G4 and the Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide which will become effective for the accounting periods beginning on or after 1 January 2016 in our CRS Report 2015. The CRS Report meets GRI G4 Core Level compliance and is verified by GRI on Materiality Disclosures. KPMG were commissioned to conduct assurance of the CRS Report in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000) and ISAE 3410 Assurance Engagements on Greenhouse Gas Statements, and to provide an independent limited assurance opinion on whether the reported information complies with GRI G4.

In addition, we responded to the CDP (formerly the Carbon Disclosure Project) and continued to be part of the CDP's Climate Disclosure Leadership Index for the region in 2015. This annual index recognises the top 10% of CDP reporting companies which demonstrated robust management and transparency in climate strategy and measurement.

The contents reported in the CRS Report covers the calendar year of 2015. In line with G4's materiality principles, our process for defining report content is guided by a process of engaging external and internal stakeholders in assessing the most significant and relevant business continuity and sustainability issues. Details of HSH Sustainability Materiality Matrix can be found in the CRS Report.

On behalf of the Group Corporate Responsibility Committee

Clement K M Kwok
Chairman of the Group
Corporate Responsibility Committee
16 March 2016

Audit Committee Report

The Audit Committee considers the overall financial and operating controls, risk management and internal control systems for the Group during 2015 to be effective and adequate

Focus 2015

We continue to put emphasis on improving our risk management system, in line with the new requirements on risk management and internal control compliance under the CG Code.

Role and Composition

The Audit Committee's principal role is to assist the Board in carrying out its oversight responsibilities in relation to financial reporting, external audit, internal audit, risk management and internal controls. The Audit Committee met four times in 2015, with senior management, the external auditor and the Group General Manager, Audit & Risk Management (ARM) in attendance by invitation. I have set out below a summary of the main activities of the Committee in 2015.

Chairman: Mr Patrick B. Paul (INED)

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

Main Activities in 2015

During the year, in addition to the usual business set out below, we conducted a special review on cyber security including our current measures, policies and procedures and assess its risks to the Group. We also reviewed the treasury management and guidelines and the five key risks exposures, which are liquidity, refinancing, foreign exchange, interest rate and counterparties, and their mitigating actions taken. In addition, we

- reviewed and endorsed the Annual Report for the year ended 31 December 2014 and the annual results announcement, and the Interim Report for the six months ended 30 June 2015 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 2014 as described below, assessed the performance of the external auditor and endorsed the reappointment of KPMG as the Company's independent auditor for 2015;
- considered summaries of general representation letters from business operations and approved the representation letter from external auditor before issuance of 2014 Annual Report and 2015 Interim Report;
- reviewed and endorsed the Group Risk Management Report detailing the principal risks facing the Group, mitigation controls and the adequacy and effectiveness of risk management and internal control systems semi-annually;

- reviewed and approved the structure, adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions;
- considered internal audit reports submitted by ARM;
- reviewed and approved the internal audit plan for 2016;
- reviewed connected transactions and related party transactions;
- reviewed the valuations of all assets;
- reviewed the Group Risk Register and discussed the enhancement procedures;
- reviewed reported whistleblowing cases and incident reporting cases;
- reviewed, discussed and refined the Group's risk management framework processes;
- reviewed the deferred tax position of the Group's subsidiaries;
- reviewed and endorsed the revised terms of reference of the Committee to incorporate the enhanced risk management process which already put into practice; and
- discussed the new requirements for audits of the financial statements for 2016 Annual Report.

As the Chairman of the Audit Committee, I also met separately with the Group General Manager, ARM and the Audit Committee met with the external auditor without management being present during the year to discuss 2015 issues.

Based on the reports from Group General Manager, ARM and the external auditor, the Audit Committee considers the overall financial and operating controls, risk management and internal control systems for the Group during 2015 to be effective and adequate. Issues raised by the internal and external auditors during 2015 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, Corporate Responsibility and Sustainability Report, the Directors' Report and Financial Statements for the year ended 31 December 2015 and the annual results announcement, after review and discussion, in March 2016, the Audit Committee endorsed and recommended the same to the Board for approval.

Ensuring the Independence of our External Auditor

The Group's external auditor is KPMG. We believe the independence of our external auditor is crucial to the effectiveness of our corporate governance and should not be compromised. The issue of auditor independence is taken very seriously and is reviewed annually. In engaging the external auditor for non-audit work, we always take into account the guideline adopted to monitor the amount of non-audit work given to the external auditor. In 2015, apart from audit work, the Company also awarded non-audit work to our independent auditor including, taxation and other services. In our first meeting 2016, 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. The Committee has recommended to the Board the re-appointment of KPMG as independent auditor for 2016 for Shareholders' approval at the 2016 Annual General Meeting.

A summary of fees for audit and non-audit services to the Group's independent auditor, KPMG, for the financial years ended 31 December 2015 and 2014 is as follows:

Nature of Services	**2015 HK$m**	2014 HK$m
Audit Services	**10**	10
Non-audit Services		
Taxation and other services	**3**	2
Due diligence services	**–**	1

On behalf of the Audit Committee

Patrick B. Paul
Chairman of the Audit Committee
16 March 2016

Nomination Committee Report

The Nomination Committee considered that the HSH Board has in place a diverse mix of skills, knowledge and experience, as well as increased gender diversity

Focus 2015

We are pleased that Dr Kim L. Winser has joined us as an Independent Non-Executive Director (INED) from 1 January 2016 and that Mr Matthew J. Lawson will join us as our new Chief Financial Officer from 3 May 2016.

Role and Composition

The key role of our Nomination Committee is to keep under review the size, structure and composition of the Board. This includes the selection of new Directors for the purpose of replacement and/or maintaining an appropriate, adequate and balanced make-up of the Board that could effectively discharge its responsibilities and the review of independence of INEDs. The Nomination Committee met twice in 2015 and also dealt with a matter by written resolution.

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

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

Main Activities in 2015

In 2015, with the assistance of external search consultants, we identified two new Directors and recommended their appointments to the Board: Dr Kim Winser who joined the Board as INED on 1 January 2016 and Mr Matthew Lawson who will come on board on 3 May 2016 as a replacement for the position of the Chief Financial Officer. The Nomination Committee also conducted the following business in 2015:

- ✔ 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

- Reviewed the structure, size and composition of the Board and the split between number of INEDs, Non-Executive Directors and Executive Directors
- Reviewed the value of having measurable objectives for implementing the Board Diversity Policy
- Reviewed the terms of reference of Nomination Committee

Boardroom 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, business, finance, legal, corporate and public sector management, banking, hospitality and online-retail experience. The Nomination Committee, when considering Board composition and in its process of recommending Board appointments, is guided by the principles of the Company's policy on diversity. While we recognise the gender diversity at Board level can be improved and this is taken into consideration, we continue to apply the principle of appointments based on merit. This year, our Committee continued with that diversity approach identifying a new INED and Chief Financial Officer. The objectives that we set for our external search consultants are described in page 119.

The Nomination Committee considered that the HSH Board has in place a diverse mix of skills, knowledge and experience, as well as increased gender diversity with the appointment of the two female members on the Board. 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 merit with diversity being a factor 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
16 March 2016

Remuneration Committee Report

We continue to link pay holistically to business results, market practice as well as non-financial factors and individual performance in order to reward the high performers and critical positions in senior management

Focus 2015

We continue to link pay holistically to business results, market practice as well as non-financial factors and individual performance in order to reward the high performers and critical positions in senior management.

Role and Composition

The Remuneration Committee is empowered by the Board with the authority and duty to review and approve or endorse the management's remuneration and bonus proposals for Directors and senior management, as well as the Group's bonus 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)
Dr Rosanna Y.M. Wong (INED)

The Remuneration Committee met twice in 2015 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 certain matters by written resolutions.

Remuneration Philosophy

Our HSH Rewards Philosophy which was established and approved by the Remuneration Committee in 2011 has not changed. A review of the philosophy will be carried out in 2016. 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
- 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 Executive Directors, senior management and other executives.

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 Business Units' quality measurement
- Individual performance
- 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 to the Company's plan for the Executive Directors, senior management and all other Hong Kong employees are made according to the plan's defined contribution level and vesting conditions. Employees can opt to pay contributions. One member of the senior management participates in a local plan instead of the Company's plan due to the local requirements.

Other Benefits

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

Remuneration for Non-Executive Directors

Fees of Non-Executive Directors are fixed by shareholders at shareholders general meetings, while any additional fees of Non-Executive Directors for serving on Board Committees are fixed by the Board. The Remuneration Committee has the responsibility for 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, 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 2016 the proposal from the Committee and recommended the fees of Non-Executive Directors and INEDs are to be fixed at the rate of HK$300,000 and HK$350,000 respectively per annum. These fees will be subject to Shareholders' approval at the Annual General Meeting on 11 May 2016. The Board also approved the recommendation from the Committee of a revision of the fees payable to the Chairman and members of Nomination Committee to HK$40,000 per annum.

The revised fees will take effect on 11 May 2016 and be payable to the Non-Executive Directors and INEDs on a pro rata basis for the financial year ending 31 December 2016.

Main Activities in 2015

The Remuneration Committee conducted the following business in 2015:

- ✔ Reviewed fees for Non-Executive Directors and INEDs and additional fees for the same to serve on Board Committees in 2015. No changes were approved in 2015
- ✔ Reviewed and approved amendments relating to the calculation methodology of the 2014 HSH Management Bonus Plan for senior staff
- ✔ Approved the 2014 bonus proposal for Executive Directors and senior management and include 4 additional staff for the participation in the bonus scheme
- ✔ Reviewed and approved the terms of letters of appointment for Non-Executive Directors and INEDs
- ✔ Reviewed benchmarking of total remuneration of top 2 Grades senior staff against market
- ✔ Reviewed and approved 2014 Remuneration Committee Report
- ✔ Reviewed, amended and endorsed the terms of reference of the Committee
- ✔ Noted the group-wide 2016 general salary increase proposal taking into account various factors including market pay trends, inflationary forecasts, labour market outlook and the Group financial performance

- Set the performance themes of the Chief Executive Officer in which his discretionary bonus will be paid
- Reviewed and approved the 2016 salary increases of Executive Directors and senior management
- Reviewed the service contract and remuneration package of the new Chief Financial Officer

2015 Remuneration of Directors and Senior Management

The following information is an integral part of the audited Financial Statements for the year ended 31 December 2015.

Non-Executive Directors – Remuneration

The fees paid to each of our Non-Executive Directors in 2015 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] 2015**	Total[Δ] 2014
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	250	100	–	–	20	**370**	348
Mr Andrew Brandler (1)	250	100	120	60	–	**530**	338
Mr Ian D. Boyce (2)	–	–	–	–	–	**–**	172
Mr Ronald J. McAulay	250	–	–	–	–	**250**	232
Mr William E. Mocatta	250	–	–	–	–	**250**	232
Mr John A.H. Leigh	250	100	–	–	–	**350**	332
Mr Nicholas T.J. Colfer	250	–	–	–	–	**250**	232
Independent Non-Executive Directors							
Dr the Hon. Sir David K.P. Li	300	–	–	–	20	**320**	298
Mr Patrick B. Paul	300	–	175(c)	85(c)	–	**560**	533
Mr Pierre R. Boppe	300	–	–	–	–	**300**	282
Dr William K.L. Fung	300	–	120	–	20	**440**	418
Dr Rosanna Y.M. Wong	300	–	–	60	–	**360**	338
	3,000	300	415	205	60	**3,980**	3,755

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.

Executive Directors – Remuneration

The remuneration paid to Executive Directors of the Company in 2015 was as follows:

(HK$'000)	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	**Total[Δ] 2015**	Total[Δ] 2014
Executive Directors						
Clement K.M. Kwok	6,420	7,354	1,056	245	**15,075**	14,653
Peter C. Borer	4,608	3,729	746	163	**9,246**	8,911
Alan Clark +	3,432	992	572	331	**5,327**	5,241
	14,460	12,075	2,374	739	**29,648**	28,805

\+ Mr Alan Clark resigned as a Director of the Company with effect from 30 November 2015.

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:

	2015 Number	2014 Number
HK$4,000,001 – HK$5,000,000	**5**	3
HK$5,000,001 – HK$6,000,000	**1**	1
HK$6,000,001 – HK$7,000,000	**1**	1

* The GMB, the Company's management and operations' decision-making authority, comprises the three Executive Directors and seven (2014: 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 (2014: two members of senior management). The emoluments of the two (2014: two) individuals with highest emoluments are within the following bands:

	2015 Number	2014 Number
HK$5,000,001 – HK$5,500,000	**–**	1
HK$5,500,001 – HK$6,000,000	**1**	–
HK$6,000,001 – HK$6,500,000	**–**	1
HK$6,500,001 – HK$7,000,000	**1**	–

The aggregate of the emoluments in respect of these two (2014: two) individuals is as follows:

(HK$'000)	**2015**	2014
Basic compensation	**7,671**	7,376
Bonuses and incentives	**3,711**	3,427
Retirement benefits	**767**	738
Other benefits	**308**	274
	12,457	11,815

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
16 March 2016

Directors' Report

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

Principal Activities

The principal activity of the Company is investment holding and the principal activities of its subsidiaries, joint venture, joint operation and associates are the ownership, development, and management of prestigious hotels and commercial and residential properties in key locations in Asia, the United States and Europe, as well as the provision of tourism and leisure, club management and other services.

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

Business Review and Performance

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

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

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

Ten Year Operating Statistics and Financial Summary

The Group's key operating statistics and financial data for the last ten years are set out on pages 12 and 13.

Share Capital

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

Purchase, Sale or Redemption of Listed Securities

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

Dividends

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

The proposed final dividend will be offered with a scrip alternative for shareholders to elect to receive such final dividend wholly or partly in the form of new fully paid shares instead of in cash. The new shares to be issued pursuant to the scrip dividend scheme are subject to their listing being granted by the Listing Committee of the Stock Exchange.

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend on 24 May 2016.

Borrowings

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

Charitable Donations

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

Major Customers and Suppliers

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

Connected Transactions

Audit & Risk Management has reviewed all connected transactions of the Company which were undertaken in the ordinary and usual course of business and noted that they are fair and reasonable and entered into on normal commercial terms. Audit Committee and the Board have also reviewed all of these transactions and they were exempt from any reporting requirements under the Listing Rules except the continuing connected transaction set out below.

On 22 March 2013, HSH Management Services Limited, an indirect wholly-owned subsidiary of the Company, entered into a tenancy agreement with Kadoorie Estates Limited (KEL) to renew the office lease of 7th and 8th Floors of St. George's Building, 2 Ice House Street, Central, Hong Kong (Office Premises) for three years commencing on 1 April 2013 at a market rent of HK$1,540,452 per month plus a monthly service charge of HK$182,224 with a rent free period of two months. With effect from 1 January 2015, the monthly service charge was revised to HK$201,010. The rent and service charge incurred in 2015 amounted to HK$20 million (2014: HK$20 million).

KEL is the agent of the registered owner of the Office Premises. The registered owner is controlled by one of the substantial shareholders of the Company. The lease constituted a continuing connected transaction of the Company and subject to the disclosure requirements under the Listing Rules. Details of the transaction were disclosed in the announcement dated 22 March 2013 (22 March 2013 Announcement).

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

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

(ii) on normal commercial terms and conducted on arm's length basis; and

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

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

The Company's auditor has also reviewed this transaction and confirmed to the Board of Directors that:

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

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

(iii) nothing has come to their attention that caused them to believe that the transaction has exceeded the maximum aggregate annual consideration disclosed in the 22 March 2013 Announcement.

Material Related Party Transactions

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

Directors

Biographical details of the Directors in office at the date of this Report are shown on pages 102 to 105. All these Directors held office throughout 2015 with the exception of Dr Kim L. Winser who was appointed to the Board as Independent Non-Executive Director on 1 January 2016. Mr Matthew J. Lawson was appointed as Executive Director and Chief Financial Officer with effect from 3 May 2016 replacing Mr Alan Clark who resigned on 30 November 2015. In accordance with the Articles of Association of the Company, The Hon. Sir Michael Kadoorie, Mr Peter C. Borer, Mr Patrick B. Paul and Dr Rosanna Y.M. Wong will retire at the 2016 Annual General Meeting and being eligible, have agreed to offer themselves for re-election.

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

None of the Directors proposed for re-election at the 2016 Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors of Subsidiaries

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

Senior Management

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

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

Interests of Directors

As at 31 December 2015, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any associated corporation, within the meaning of Part XV of the Securities and Futures Ordinance (SFO), recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (Model Code) to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares of the Company

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
The Hon. Sir Michael Kadoorie	Note (a)	820,303,098	53.163
Mr Clement K.M. Kwok	Beneficial Owner	693,683	0.045
Mr Peter C. Borer	Beneficial Owner	347,567	0.023
Mr Ronald J. McAulay	Note (b)	257,014,718	16.657
Mr William E. Mocatta	Beneficial Owner	17,000	0.001
Mr John A.H. Leigh	Note (c)	78,199,788	5.068
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,037,751	0.067
Mr Pierre R. Boppe	Beneficial Owner	150,000	0.010

Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 820,303,098 shares in the Company. These shares were held in the following capacity:

(i) 178,814,930 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;

(ii) 325,490,460 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder; and

(iii) 315,997,708 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.

For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 820,303,098 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. She has no legal or beneficial interest in those shares otherwise.

(b) Mr Ronald J. McAulay was deemed (by virtue of the SFO) to be interested in 257,014,718 shares in the Company. These shares were held in the following capacity:

(i) 178,814,930 shares were ultimately held by discretionary trusts, of which Mr Ronald J. McAulay is one of the discretionary objects; and

(ii) 78,199,788 shares were ultimately held by a discretionary trust, of which Mr Ronald J. McAulay, his wife and members of his family are discretionary objects.

(c) Mr John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 78,199,788 shares in the Company. These shares were ultimately held by a discretionary trust. Mr John A.H. Leigh was deemed to be interested in such 78,199,788 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 78,199,788 shares.

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

Certain Directors held qualifying shares in Manila Peninsula Hotel, Inc., a 77.36% subsidiary of the Company, on trust for a subsidiary of the Company.

Except as set out above, as at 31 December 2015, none of the Directors of the Company, or any of their spouses, or children under 18 years of age, has any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations, within the meaning of Part XV of the SFO, recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

Interests of Senior Management

As at 31 December 2015, none of the senior management (other than Directors) had any interests in the shares and underlying shares of the Company.

Interests of Substantial Shareholders

So far as is known to any Director of the Company, as at 31 December 2015, shareholders (other than Directors of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Long position in shares of the Company

(a) Substantial shareholders

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
Acorn Holdings Corporation	Beneficiary	178,814,930	11.589(i)
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	587,505,178	38.076(i)
Guardian Limited	Beneficiary/Interest of controlled corporation	78,199,788	5.068(v)
Harneys Trustees Limited	Interests of controlled corporations	641,488,168	41.574(iii)
Lawrencium Holdings Limited	Beneficiary	315,997,708	20.480(ii)
Lawrencium Mikado Holdings Limited	Beneficiary	325,490,460	21.095(ii)
The Magna Foundation	Beneficiary	325,490,460	21.095(ii)
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	641,488,168	41.574(ii)
Mikado Investments (PTC) Limited	Interest of controlled corporation/Trustee	325,490,460	21.095(i)
New Mikado Holding Inc.	Trustee	325,490,460	21.095(i)
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	83,199,788	5.392(iv)
Oak (Unit Trust) Holdings Limited	Trustee	78,199,788	5.068(i)
Oak HSH Limited	Beneficiary	78,199,788	5.068(iv)
Mr Richard Parsons	Trustee	78,199,788	5.068(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 78,199,788 shares in which Guardian Limited was interested was duplicated within the interests attributed to Mr Richard Parsons and was also duplicated within the interests attributed to Mr John A.H. Leigh as disclosed in "Interests of Directors".

(b) Other substantial shareholders

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
Prudential plc	Interests of controlled corporations	77,770,308	5.040[(i)]
M&G Investment Funds (1)	Interest of controlled corporation	77,770,308	5.040[(i)]
International Value Advisers, LLC	Investment manager	127,376,810	8.255

Note:

(i) Prudential plc was deemed to be interested in the shares through its interests in its controlled corporations including M&G Investment Funds (1).

Except as set out above, as at 31 December 2015, the Company had not been notified of any substantial shareholder (other than Directors of the Company) who had interests or short positions in the shares or underlying shares of the Company that were recorded in the register required to be kept under section 336 of the SFO.

Interests of Any Other Person

As at 31 December 2015, the Company had not been notified of any person other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of the SFO.

Directors' Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract of significance to which the Company or its subsidiaries was a party and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted as at 31 December 2015 or at any time during the year except the continuing connected transaction as disclosed in Connected Transactions and material related party transactions in note 30 to the Financial Statements.

Directors' Indemnities

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

Employee Retirement Benefits

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

Corporate Governance Report

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

Loan Agreements with Covenants Relating to Specific Performance of the Controlling Shareholder

The Company has not entered into any new loan agreements containing any covenant relating to specific performance of the controlling shareholder, which is required to be disclosed in accordance with Rule 13.18 of the Listing Rules.

Directors' Responsibilities for the Financial Statements

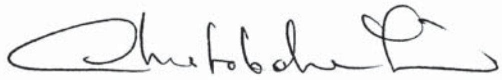
The Directors are responsible for preparing the Financial Statements for each financial period. These Financial Statements must present a true and fair view of the state of affairs of the Group and of the results and cash flows of the relevant period. The Directors are also responsible for ensuring that the Group operates an efficient financial reporting system and keeps proper accounting records which disclose at any time and with reasonable accuracy the financial position of the Group.

In preparing the Financial Statements for the year ended 31 December 2015, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the Financial Statements on a going concern basis.

Auditor

The Financial Statements for the year have been audited by KPMG who will retire at the 2016 Annual General Meeting and, being eligible, offer themselves for re-appointment. A resolution to re-appoint KPMG as auditor and authorise the Directors to fix their remuneration will be proposed at the 2016 Annual General Meeting.

By Order of the Board



Christobelle Liao
Company Secretary
16 March 2016

Financial Statements

Consolidated Income Statement (HK$M)

	Note	Year ended 31 December 2015	2014
Revenue	3	**5,741**	5,838
Cost of inventories		**(454)**	(467)
Staff costs and related expenses		**(2,063)**	(2,052)
Rent and utilities		**(545)**	(577)
Other operating expenses		**(1,239)**	(1,214)
Operating profit before interest, taxation, depreciation and amortisation ("EBITDA")		**1,440**	1,528
Depreciation and amortisation		**(426)**	(423)
Operating profit		**1,014**	1,105
Interest income		**56**	65
Financing charges	5	**(124)**	(131)
Net financing charges		**(68)**	(66)
Profit after net financing charges	4	**946**	1,039
Share of results of a joint venture	14	**(71)**	(6)
Share of results of associates	15	**(23)**	(35)
Increase in fair value of investment properties	12(b)	**277**	496
Provision for impairment loss	12(a)	**–**	(132)
Profit before taxation		**1,129**	1,362
Taxation			
Current tax	6	**(172)**	(179)
Deferred tax	6	**48**	(52)
Profit for the year		**1,005**	1,131
Profit attributable to:			
Shareholders of the Company		**1,000**	1,146
Non-controlling interests		**5**	(15)
Profit for the year		**1,005**	1,131
Earnings per share, basic and diluted (HK$)	9	**0.65**	0.76

The notes on pages 161 to 211 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income (HK$M)

	Note	Year ended 31 December 2015	2014
Profit for the year		**1,005**	1,131
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		**(244)**	(47)
– financial statements of a joint venture		**(44)**	(23)
– loans to an associate		**(90)**	(109)
– hotel operating rights		**(54)**	(74)
		(432)	(253)
Cash flow hedges:			
– effective portion of changes in fair values		**(22)**	(37)
– transfer from equity to profit or loss		**22**	25
		(432)	(265)
Item that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit retirement obligations		**2**	2
Surplus on revaluation of land and buildings held for own use transfer to investment properties		**25**	–
Other comprehensive income	8	**(405)**	(263)
Total comprehensive income for the year		**600**	868
Total comprehensive income attributable to:			
Shareholders of the Company		**612**	882
Non-controlling interests		**(12)**	(14)
Total comprehensive income for the year		**600**	868

The notes on pages 161 to 211 form part of these Financial Statements.

Consolidated Statement of Financial Position (HK$M)

	Note	At 31 December 2015	2014
Non-current assets			
Investment properties		**32,783**	32,548
Other properties, plant and equipment		**6,314**	5,620
	12	**39,097**	38,168
Interest in a joint venture	14	**901**	1,016
Interest in associates	15	**694**	807
Hotel operating rights	16	**544**	611
Deferred tax assets	18(b)	**30**	40
		41,266	40,642
Current assets			
Inventories	19	**82**	92
Trade and other receivables	20	**643**	583
Amount due from a joint venture	30(b)	**179**	188
Cash at banks and in hand	21	**2,919**	2,477
		3,823	3,340
Current liabilities			
Trade and other payables	22	**(1,214)**	(1,180)
Interest-bearing borrowings	23	**(186)**	(878)
Current taxation	18(a)	**(28)**	(70)
		(1,428)	(2,128)
Net current assets		**2,395**	1,212
Total assets less current liabilities		**43,661**	41,854
Non-current liabilities			
Interest-bearing borrowings	23	**(6,006)**	(4,603)
Trade and other payables	22	**(239)**	(260)
Net defined benefit retirement obligations	26(a)	**(16)**	(17)
Derivative financial instruments	17	**(39)**	(38)
Deferred tax liabilities	18(b)	**(701)**	(785)
		(7,001)	(5,703)
Net assets		**36,660**	36,151
Capital and reserves			
Share capital	24	**4,808**	4,544
Reserves		**31,619**	31,357
Total equity attributable to shareholders of the Company		**36,427**	35,901
Non-controlling interests		**233**	250
Total equity		**36,660**	36,151

Approved by the Board of Directors on 16 March 2016 and signed on its behalf by:

Andrew Brandler, Clement K. M. Kwok, Directors

The notes on pages 161 to 211 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 2014		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
Changes in equity for 2015:										
Profit for the year		**–**	**–**	**–**	**–**	**–**	**1,000**	**1,000**	**5**	**1,005**
Other comprehensive income	**8**	**–**	**–**	**–**	**–**	**(388)**	**–**	**(388)**	**(17)**	**(405)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(388)**	**1,000**	**612**	**(12)**	**600**
Dividends approved in respect of the previous year	**10**	**202**	**–**	**–**	**–**	**–**	**(273)**	**(71)**	**–**	**(71)**
Dividends approved in respect of the current year	**10**	**62**	**–**	**–**	**–**	**–**	**(77)**	**(15)**	**–**	**(15)**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Balance at 31 December 2015		**4,808**	**–**	**–**	**(47)**	**(63)**	**31,729**	**36,427**	**233**	**36,660**

The notes on pages 161 to 211 form part of these Financial Statements.

Consolidated Statement of Cash Flows (HK$M)

	Note	2015	2014
		Year ended 31 December	
Operating activities			
Profit after net financing charges		**946**	1,039
Adjustments for:			
Depreciation	12(a)	**413**	415
Amortisation of hotel operating rights	16	**13**	8
Interest income	4	**(56)**	(65)
Financing charges	5	**124**	131
Loss on disposal of property, plant and equipment		**–**	2
Operating profit before changes in working capital		**1,440**	1,530
Decrease in inventories		**8**	6
Increase in trade and other receivables		**(62)**	(19)
Increase in trade and other payables		**58**	72
Cash generated from operations		**1,444**	1,589
Net tax paid:			
Hong Kong profits tax paid		**(191)**	(107)
Overseas tax paid		**(33)**	(50)
Net cash generated from operating activities		**1,220**	1,432
Investing activities			
Payment for the purchase of property, plant and equipment, including the hotel building of The Peninsula Tokyo		**(1,392)**	(409)
Loans to an associate		**–**	(128)
Net cash used in investing activities		**(1,392)**	(537)
Financing activities			
Drawdown of term loans		**2,114**	1,076
Repayment of term loans		**(1,249)**	(346)
Net decrease in revolving loans		**(43)**	(455)
Net placement of interest-bearing bank deposits with maturity of more than three months		**(513)**	(1,193)
Interest paid and other financing charges		**(126)**	(120)
Interest received		**58**	60
Dividends paid to shareholders of the Company		**(86)**	(86)
Dividends paid to holders of non-controlling interests		**(5)**	(5)
Net cash generated from/(used in) financing activities		**150**	(1,069)
Net decrease in cash and cash equivalents		**(22)**	(174)
Cash and cash equivalents at 1 January		**839**	1,036
Effect of changes in foreign exchange rates		**(49)**	(23)
Cash and cash equivalents at 31 December	21	**768**	839

The notes on pages 161 to 211 form part of these Financial Statements.

Notes to the Financial Statements

1. Company-level statement of financial position (HK$m)

	Note	At 31 December 2015	2014
Non-current assets			
Investment in subsidiaries	13	**–**	–
Current assets			
Trade and other receivables		**12,662**	12,381
Tax recoverable		**4**	–
Cash at banks and in hand		**232**	142
		12,898	12,523
Current liabilities			
Trade and other payables		**(67)**	(84)
Current tax		**–**	(3)
		(67)	(87)
Net assets		**12,831**	12,436
Capital and reserves			
Share capital	24	**4,808**	4,544
Reserves	25(a)	**8,023**	7,892
Total equity		**12,831**	12,436

Approved by the Board of Directors on 16 March 2016 and signed on its behalf by:

Andrew Brandler, Clement K. M. Kwok, Directors

2. 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 (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group 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 periods reflected in these Financial Statements.

3. Revenue (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.

Revenue represents the gross amount invoiced for services, goods and facilities including management fees and rental income. The amount of each significant category of revenue recognised during the year is as follows:

	2015	2014
Hotels		
– Rooms	**1,765**	1,889
– Food and beverage	**1,168**	1,239
– Shopping arcades and offices	**761**	747
– Others	**379**	385
	4,073	4,260
Commercial Properties		
– Residential properties	**486**	445
– Offices	**110**	124
– Shopping arcades	**341**	332
	937	901
Clubs and Services		
– Clubs and consultancy services	**182**	171
– Peak Tram operation	**122**	124
– Others	**427**	382
	731	677
	5,741	5,838

4. Profit after net financing charges (HK$m)

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

	2015	2014
Amortisation	**13**	8
Depreciation	**413**	415
Auditor's remuneration:		
audit services	**10**	10
taxation and other services	**3**	2
due diligence services	**–**	1
Minimum operating lease charges for properties, including contingent rent of HK$14 million (2014: HK$14 million)	**227**	244
Interest income	**(56)**	(65)
Rentals receivable from investment properties less direct outgoings of HK$17 million (2014: HK$20 million)	**(1,361)**	(1,330)

5. Financing charges (HK$m)

	2015	2014
Interest on bank borrowings	**83**	87
Other borrowing costs	**17**	17
Total interest expenses on financial liabilities carried at amortised cost	**100**	104
Derivative financial instruments:		
– cash flow hedges, transfer from equity	**24**	27
– at fair value through profit or loss	**4**	–
	128	131
Less: Interest expense capitalised into property, plant and equipment*	**(4)**	–
	124	131

* The borrowing costs have been capitalised at a rate of 1.8% per annum (2014: nil).

6. Income tax in the consolidated income statement (HK$m)

(a) Taxation in the consolidated income statement represents:

	2015	2014
Current tax – Hong Kong profits tax		
Provision for the year (note 18(a))	**152**	127
(Over)/under-provision in respect of prior years	**(3)**	3
	149	130
Current tax – Overseas		
Net charge for the year	**23**	49
	172	179
Deferred tax		
(Decrease)/increase in net deferred tax liabilities relating to revaluation of overseas investment properties	**(20)**	6
Increase in net deferred tax liabilities relating to other temporary differences	**26**	50
Effect of decrease in tax rates on deferred tax balances	**(54)**	(4)
	(48)	52
Total	**124**	231

The provision for Hong Kong profits tax for 2015 is calculated at 16.5% (2014: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2015	2014
Profit before taxation	**1,129**	1,362
Notional tax at the domestic income tax rate of 16.5% (2014: 16.5%)	**186**	225
Tax effect of non-deductible expenses	**21**	32
Tax effect of non-taxable income	**(7)**	(4)
Tax effect of share of losses of a joint venture and associates	**17**	7
Tax effect of fair value gain on Hong Kong investment properties	**(58)**	(76)
Tax effect of recognition of previously unrecognised tax losses	**(25)**	(13)
Tax effect of tax losses not recognised	**47**	30
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(9)**	24
Effect of change in tax rates on deferred tax balances as at 1 January	**(54)**	(4)
(Over)/under provision in prior years	**(3)**	3
Others	**9**	7
Actual tax expense	**124**	231

7. Emoluments of key management personnel (HK$'000)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and the Group. It comprises the Board of Directors of the Company and the Group Management Board (GMB). Members of the GMB include the Executive Directors and seven (2014: five) senior executives. The total remuneration of the key management personnel is shown below:

	2015		2014	
	Executive and Non-executive Directors	**GMB members other than Executive Directors**	Executive and Non-executive Directors	GMB members other than Executive Directors
Directors' fees	**3,980**	**–**	3,755	–
Basic compensation	**14,459**	**24,213**	12,985	17,322
Bonuses and incentives	**12,075**	**7,160**	13,163	5,677
Retirement benefits	**2,374**	**2,264**	2,131	1,574
Other benefits	**740**	**1,119**	526	679
	33,628	**34,756**	32,560	25,252

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 "2015 Remuneration of Directors and Senior Management" section of the Remuneration Committee Report, which forms an integral part of these audited Financial Statements.

8. Other comprehensive income (HK$m)

Tax effects relating to each component of other comprehensive income

	2015			2014		
	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	**(244)**	**–**	**(244)**	(47)	–	(47)
– financial statements of a joint venture	**(44)**	**–**	**(44)**	(23)	–	(23)
– loans to an associate	**(90)**	**–**	**(90)**	(109)	–	(109)
– hotel operating rights	**(54)**	**–**	**(54)**	(74)	–	(74)
	(432)	**–**	**(432)**	(253)	–	(253)
Cash flow hedges:						
– effective portion of changes in fair values	**(26)**	**4**	**(22)**	(41)	4	(37)
– transfer from equity to profit or loss	**24**	**(2)**	**22**	27	(2)	25
Remeasurement of net defined benefit retirement obligations	**2**	**–**	**2**	2	–	2
Surplus on revaluation of land and buildings held for own use transfer to investment properties	**25**	**–**	**25**	–	–	–
Other comprehensive income	**(407)**	**2**	**(405)**	(265)	2	(263)

9. Earnings per share

(a) Earnings per share – basic

	2015	2014
Profit attributable to shareholders of the Company (HK$m)	**1,000**	1,146
Weighted average number of shares in issue (million shares)	**1,528**	1,509
Earnings per share (HK$)	**0.65**	0.76

	2015 ***(million shares)***	2014 *(million shares)*
Issued shares at 1 January	**1,517**	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 2014 final dividend and 2015 interim dividend	**11**	7
Weighted average number of shares at 31 December	**1,528**	1,509

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2015 and 2014 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

	2015	2014
Interim dividend declared and paid of 5 HK cents per share (2014: 5 HK cents per share)	**77**	76
Final dividend proposed after the end of reporting period of 15 HK cents per share (2014: 18 HK cents per share)	**231**	273
	308	349

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

	2015	2014
Final dividend in respect of the previous financial year, approved and paid during the year, of 18 HK cents per share (2014: 12 HK cents per share)	**273**	180

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 2015 and 2014 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Reportable segment revenue*	**4,073**	4,260	**937**	901	**731**	677	**5,741**	5,838
Reportable segment operating profits before interest, taxation, depreciation and amortisation (EBITDA)	**713**	818	**596**	582	**131**	128	**1,440**	1,528
Depreciation and amortisation	**(385)**	(385)	**(9)**	(10)	**(32)**	(28)	**(426)**	(423)
Segment operating profit	**328**	433	**587**	572	**99**	100	**1,014**	1,105

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.

* Analysis of segment revenue is disclosed in note 3.

11. Segment reporting (HK$m) continued

(b) Segment assets (HK$m)

Segment assets include all tangible and current assets and hotel operating rights held directly by the respective segments. The Group's segment assets and unallocated assets as at 31 December 2015 and 2014 are set out as follows:

	Note	**2015**	2014
Reportable segment assets			
Hotels		**17,602**	16,978
Commercial properties		**21,747**	21,440
Clubs and services		**1,017**	1,036
		40,366	39,454
Unallocated assets			
Interest in a joint venture	14	**901**	1,016
Interest in associates	15	**694**	807
Deferred tax assets	18(b)	**30**	40
Amount due from a joint venture	30(b)	**179**	188
Cash at banks and in hand	21	**2,919**	2,477
Consolidated total assets		**45,089**	43,982

(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	
	2015	2014	**2015**	2014
Hong Kong	**2,851**	2,775	**29,547**	29,092
Other Asia *	**1,581**	1,718	**4,930**	4,584
United States of America	**1,273**	1,290	**3,334**	3,254
Europe	**36**	55	**3,425**	3,672
	5,741	5,838	**41,236**	40,602

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

12. Investment properties and other properties, plant and equipment (HK$m)

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

	Freehold land	Hotel and other buildings held for own use	Plant, machinery and equipment	Sub-total	Other investment properties	Investment property held for redevelopment	Interests in leasehold land held under finance leases	Total
Cost or valuation:								
At 1 January 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
At 1 January 2015	**962**	**6,898**	**4,799**	**12,659**	**30,825**	**1,723**	**1**	**45,208**
Exchange adjustments	**(53)**	**(190)**	**(87)**	**(330)**	**(138)**	**(85)**	**–**	**(553)**
Additions	**–**	**900**	**414**	**1,314**	**65**	**–**	**–**	**1,379**
Disposals	**–**	**(125)**	**(381)**	**(506)**	**–**	**–**	**–**	**(506)**
Revaluation surplus	**–**	**25**	**–**	**25**	**–**	**–**	**–**	**25**
Transfer	**(83)**	**(1)**	**(32)**	**(116)**	**116**	**–**	**–**	**–**
Fair value adjustment	**–**	**–**	**–**	**–**	**277**	**–**	**–**	**277**
At 31 December 2015	**826**	**7,507**	**4,713**	**13,046**	**31,145**	**1,638**	**1**	**45,830**
Representing:								
Cost	**826**	**7,507**	**4,713**	**13,046**	**–**	**–**	**1**	**13,047**
Valuation – 2015	**–**	**–**	**–**	**–**	**31,145**	**1,638**	**–**	**32,783**
	826	**7,507**	**4,713**	**13,046**	**31,145**	**1,638**	**1**	**45,830**
Accumulated depreciation and impairment losses:								
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
At 1 January 2015	**351**	**3,571**	**3,117**	**7,039**	**–**	**–**	**1**	**7,040**
Exchange adjustments	**(28)**	**(124)**	**(62)**	**(214)**	**–**	**–**	**–**	**(214)**
Charge for the year	**–**	**138**	**275**	**413**	**–**	**–**	**–**	**413**
Written back on disposals	**–**	**(125)**	**(381)**	**(506)**	**–**	**–**	**–**	**(506)**
At 31 December 2015	**323**	**3,460**	**2,949**	**6,732**	**–**	**–**	**1**	**6,733**
Net book value:								
At 31 December 2015	**503**	**4,047**	**1,764**	**6,314**	**31,145**	**1,638**	**–**	**39,097**
At 31 December 2014	611	3,327	1,682	5,620	30,825	1,723	–	38,168

12. Investment properties and other properties, plant and equipment (HK$m) continued

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

During 2015, the Group acquired items of investment properties and other properties, plant and equipment with a cost of HK$1,379 million (2014: HK$354 million), of which HK$732 million related to the cash consideration paid for the acquisition of The Peninsula Tokyo's hotel building.

The Group assessed the recoverable amounts of its other properties, plant and equipment at the reporting date in accordance with the accounting policy as disclosed in note 33(j). Based on the assessment, the directors considered that no provision for or reversal of impairment was required as at 31 December 2015. As at 31 December 2014, 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 was recognised for the year ended 31 December 2014.

(b) All investment properties of the Group were revalued as at 31 December 2015. 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
	Cushman & Wakefield	Members of Royal Institution of Chartered Surveyors
United States of America		
Retail shops and vacant land	Cushman & Wakefield	Members of Royal Institution of Chartered Surveyors
Europe		
Retail shops, offices and residential apartments	Cushman & Wakefield	Members of Royal Institution of Chartered Surveyors

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

12. Investment properties and other properties, plant and equipment (HK$m) continued

(c) Fair value measurement of investment properties

The fair value of the Group's investment properties is determined using the income capitalisation approach by applying a capitalisation rate to the expected rental income 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 2015:

Valuation technique	Valuation parameters	Range
Income capitalisation approach	Capitalisation rate	
	– Shopping arcades	4.4% – 6.6% (2014: 4.9% – 6.6%)
	– Offices	4.1% – 4.6% (2014: 4.1% – 4.6%)
	– Residential properties	3.0% – 3.8% (2014: 3.0% – 3.8%)
	Expected monthly rental income per square foot	
	– Shopping arcades	HK$38 – HK$1,300 (2014: HK$44 – HK$1,300)
	– Offices	HK$26 – HK$50 (2014: HK$26 – HK$51)
	– Residential properties	HK$39 – HK$73 (2014: HK$39 – 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 2015, the Property was held for leasing purpose and its fair value amounted to HK$1,638 million (GBP142 million) (2014: HK$1,723 million (GBP142 million)). Subject to certain conditions, 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) Investment properties leased out under operating leases

The Group leases its investment properties under operating leases. The leases typically run for an initial period of one to five years, with or without options to renew the leases after that date at which time all terms are renegotiated. Contingent rentals earned from these leases in 2015 amounted to HK$40 million (2014: HK$45 million).

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties. Future minimum rentals receivable under non-cancellable operating leases of these properties are disclosed in note 28(b).

12. Investment properties and other properties, plant and equipment (HK$m) continued

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

		2015	2014
Hong Kong	– Long term leases	**27,356**	26,962
	– Medium term lease	**1,483**	1,356
Other Asia *	– Freehold	**1,126**	1,229
	– Long term lease	**1,271**	–
	– Medium term leases	**1,205**	1,915
USA	– Freehold	**1,155**	1,143
	– Long term lease	**1,567**	1,585
Europe	– Freehold	**532**	573
	– Long term lease	**1,638**	1,723
		37,333	36,486

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

	2015	2014
Representing:		
Land and buildings carried at fair value (investment properties)	**32,783**	32,548
Land and buildings carried at cost	**4,550**	3,938
	37,333	36,486

(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:	
Long term lease (over 50 years):	
The Peninsula Tokyo, 1-8-1 Yurakucho, Chiyoda-ku, Tokyo	Hotel and commercial rentals
Held in Thailand:	
Freehold:	
The Peninsula Bangkok, 333 Charoennakorn Road, Klongsan, Bangkok 10600	Hotel
Vacant land, near The Peninsula Bangkok	Undetermined
Thai Country Club, Bangna-Trad, Chachoengsao	Golf club
Land plots, Bangpakong District, Chachoengsao	Undetermined

12. Investment properties and other properties, plant and equipment (HK$m) continued

(g) Hotel and investment properties, all held through subsidiaries, are as follows: continued

	Usage
Held in 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, 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 2015 amounted to HK$5,853 million (2014: HK$5,339 million). To provide additional information for shareholders, the Directors commissioned an independent valuation of these properties as at 31 December 2015.

The total valuation placed on these properties amounted to HK$8,937 million (2014: HK$9,044 million) as at 31 December 2015. It is important to note that the surplus of HK$3,084 million (2014: HK$3,705 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	Cushman & Wakefield	Members of Royal Institution of Chartered Surveyors
United States of America		
Hotels and golf course	Cushman & Wakefield	Members of Royal Institution of Chartered Surveyors

13. Investment in subsidiaries

The following list contains only the particulars of subsidiaries which principally affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Hotel Limited	Hong Kong	2 shares	100%*	Hotel investment
The Repulse Bay Apartments Limited	Hong Kong	2 shares	100%*	Property investment
The Repulse Bay Company, Limited	Hong Kong	2 shares	100%*	Property investment
The Peak Tower Limited	Hong Kong	2 shares	100%*	Property investment
Peak Tramways Company, Limited	Hong Kong	450,000 shares	100%*	Tramway operation
St. John's Building Limited	Hong Kong	2 shares	100%*	Property investment
Peninsula Merchandising Limited	Hong Kong	2 shares	100%*	Wholesaling and retailing of merchandise
Tai Pan Laundry & Dry Cleaning Services, Limited	Hong Kong	5,000,000 shares	100%*	Laundry and dry cleaning services
HSH Financial Services Limited	Hong Kong	1 share	100%	Lending and borrowing of funds
Peninsula Clubs and Consultancy Services Limited	Hong Kong	1,000,000 shares	100%*	Club management
HSH Management Services Limited	Hong Kong	10,000 shares	100%*	Management and marketing services
Peninsula New York Hotel LLC	United States of America	Contributed capital of US$323,500,000	100%*	Hotel investment
Peninsula Chicago LLC	United States of America	Contributed capital of US$57,038,089	100%*	Hotel investment
Quail Lodge, Inc.	United States of America	10,652 shares of US$100 each	100%*	Golf club, resort and property investment
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$161,921,686	76.6%**	Hotel investment
Manila Peninsula Hotel, Inc.	The Philippines	111,840,386 shares of Pesos 10 each	77.36%*	Hotel investment
Siam Chaophraya Holdings Company Limited	Thailand	250,000 ordinary shares of THB2,000 each	75%*	Hotel investment
Town and Country Sport Club Company Limited	Thailand	1,250,000 ordinary shares of THB100 each$^{\Delta}$	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 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	289,000 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)

	2015	2014
Share of net assets	**380**	495
Loans to a joint venture (note 14(b))	**521**	521
	901	1,016

(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, 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 2015, the paid up capital of EGL and PSW amounted to HK$1 (2014: HK$1) and US$117,500,000 (2014: US$117,500,000) respectively.

(b) Included in the balance of interest in a joint venture are loans to TPS of HK$521 million (2014: HK$521 million). Further details of the loans are disclosed in note 30(b).

(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 2015, the loan drawn down amounted to HK$2,177 million (RMB1,823 million) (2014: HK$2,367 million (RMB1,893 million)). The net carrying amount of these pledged assets amounted to HK$4,794 million (RMB4,015 million) (2014: HK$5,278 million (RMB4,221 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:

	2015	2014
Non-current assets	**4,628**	5,019
Current assets	**325**	475
Current liabilities	**(439)**	(516)
Non-current liabilities	**(3,754)**	(3,989)
Net assets	**760**	989
Income*	**760**	1,639
Cost of inventories and operating expenses	**(601)**	(1,392)
EBITDA	**159**	247
Depreciation	**(84)**	(96)
Net financing charges	**(143)**	(175)
Loss before non-operating item	**(68)**	(24)
Non-operating item, net of tax**	**(74)**	12
Loss for the year	**(142)**	(12)
The Group's share of results of the joint venture	**(71)**	(6)

* Including proceeds of HK$171 million (2014: HK$1,044 million) from sale of apartments.

** Being net valuation adjustment of investment properties.

15. Interest in associates (HK$m)

	2015	2014
Interest in associates	**694**	807

(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.

15. Interest in associates (HK$m) continued

(b) Included in the balance of interest in associates are unsecured loans to Al Maha of HK$678 million (2014: HK$796 million). 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. An amount of HK$363 million is repayable in April 2017 and the remaining balance is repayable in December 2020.

(c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR220 million (HK$1,864 million). As at 31 December 2015, the loan drawn down amounted to EUR220 million (HK$1,864 million) (2014: EUR217 million (HK$2,047 million)). As at 31 December 2015, the net carrying amount of these pledged assets amounted to EUR631 million (HK$5,350 million) (2014: EUR654 million (HK$6,169 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) (2014: US$145 million (HK$1,131 million)). As at 31 December 2015, the loan drawn down amounted to US$140 million (HK$1,092 million) (2014: US$145 million (HK$1,131 million). The net carrying amount of the pledged assets amounted to US$60 million (HK$468 million) (2014: US$55 million (HK$427 million)).

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

	2015	2014
Net loss from continuing operations, including pre-opening expenses	**(115)**	(175)*
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**(115)**	(175)
The Group's share of results of the associates	**(23)**	(35)

* Including HK$109 million pre-opening expenses incurred by The Peninsula Paris which opened for business on 1 August 2014.

16. Hotel operating rights (HK$m)

	2015	2014
Cost		
At 1 January	**727**	801
Exchange adjustments	**(53)**	(74)
At 31 December	**674**	727
Accumulated amortisation		
At 1 January	**(116)**	(108)
Exchange adjustments	**(1)**	–
Amortisation for the year	**(13)**	(8)
At 31 December	**(130)**	(116)
Net book value	**544**	611

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)

	2015 Liabilities	2014 Liabilities
Cash flow hedges:		
Interest rate swaps	**(37)**	(38)
At fair value through profit or loss:		
Interest rate swaps	**(2)**	–
Amount to be settled after one year	**(39)**	(38)

18. Income tax in the consolidated statement of financial position (HK$m)

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

	2015	2014
Provision for Hong Kong profits tax for the year (note 6(a))	**152**	127
Provisional profits tax paid	**(147)**	(80)
	5	47
Provision for overseas taxes	**11**	19
	16	66
Represented by:		
Tax recoverable (note 20)	**(12)**	(4)
Current tax payable (included in current liabilities)	**28**	70
	16	66

18. Income tax in the consolidated statement of financial position (HK$m) continued

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities of the Group recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Revaluation of investment properties	Tax allowances in excess of the related depreciation	Provisions and others	Tax losses	Cash flow hedges	Total
Deferred tax arising from:						
At 1 January 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 and at 1 January 2015	562	640	(27)	(428)	(2)	745
Charged/(credited) to profit or loss	**(48)**	**18**	**2**	**(20)**	**–**	**(48)**
Charged/(credited) to reserves	**(16)**	**(11)**	**–**	**2**	**(1)**	**(26)**
At 31 December 2015	**498**	**647**	**(25)**	**(446)**	**(3)**	**671**

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable.

The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position.

	2015	2014
Deferred tax assets	**30**	40
Deferred tax liabilities	**(701)**	(785)
	(671)	(745)

In accordance with the accounting policy set out in note 33(q), the Group has not recognised deferred tax assets totalling HK$437 million (2014: HK$537 million) in respect of certain accumulated tax losses of HK$1,306 million (2014: HK$1,379 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The expiry dates of these tax losses are as follows:

	2015	2014
After one year but within five years	**588**	672
After five years but within 20 years	**627**	630
Without expiry date	**91**	77
	1,306	1,379

In accordance with the accounting policy set out in note 33(q), the Group has not recognised deferred tax liabilities totalling HK$2 million (2014: HK$9 million) in respect of undistributed profits of certain subsidiaries amounting to HK$21 million (2014: HK$92 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)

	2015	2014
Food and beverage and others	**82**	92

The cost of inventories recognised as expenses in the consolidated income statement amounted to HK$454 million (2014: HK$467 million).

20. Trade and other receivables (HK$m)

	2015	2014
Trade debtors	**254**	241
Rental deposits, payments in advance and other receivables	**377**	338
Tax recoverable (note 18(a))	**12**	4
	643	583

The amount of the Group's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK$86 million (2014: HK$88 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

The Directors consider that the carrying amount of all trade and other receivables approximates their fair value.

The ageing analysis of trade debtors is as follows:

	2015	2014
Current	**238**	215
Less than one month past due	**10**	18
One to three months past due	**6**	6
More than three months but less than 12 months past due	**–**	2
Amounts past due	**16**	26
	254	241

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)

	2015	2014
Interest-bearing bank deposits	**2,765**	2,305
Cash at banks and in hand	**154**	172
Total cash at banks and in hand	**2,919**	2,477
Less: Bank deposits with maturity of more than three months	**(2,146)**	(1,633)
Bank overdrafts (note 23)	**(5)**	(5)
Cash and cash equivalents in the consolidated statement of cash flows	**768**	839

Cash at banks and in hand at the end of the reporting period include amounts of HK$932 million (2014: HK$989 million) held by overseas subsidiaries which are subject to regulatory and foreign exchange restrictions.

22. Trade and other payables (HK$m)

	2015	2014
Trade creditors	**150**	145
Interest payable	**8**	7
Accruals for property, plant and equipment	**45**	50
Tenants' deposits	**382**	381
Guest deposits and gift vouchers	**135**	139
Golf membership deposits	**87**	99
Other payables	**646**	619
Financial liabilities measured at amortised cost	**1,453**	1,440
Less: Non-current portion of trade and other payables	**(239)**	(260)
Current portion of trade and other payables	**1,214**	1,180

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$343 million (2014: HK$375 million). All the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The Directors consider that the carrying amount of all trade and other payables approximates their fair value.

The ageing analysis of trade creditors is as follows:

	2015	2014
Less than three months	**149**	142
Three to six months	**–**	3
More than six months	**1**	–
	150	145

23. Interest-bearing borrowings (HK$m)

	2015	2014
Total facilities available:		
Term loans and revolving credits	**6,956**	6,359
Uncommitted facilities, including bank overdrafts	**319**	336
	7,275	6,695
Utilised at 31 December:		
Term loans and revolving credits	**6,184**	5,477
Uncommitted facilities, including bank overdrafts	**53**	44
	6,237	5,521
Less: Unamortised financing charges	**(45)**	(40)
	6,192	5,481
Represented by:		
Short-term bank loans, repayable within one year or on demand	**181**	873
Bank overdrafts, repayable on demand (note 21)	**5**	5
	186	878
Long-term bank loans, repayable:		
Between one and two years	**–**	716
Between two and five years	**4,764**	3,797
Over five years	**1,287**	130
	6,051	4,643
Less: Unamortised financing charges	**(45)**	(40)
Non-current portion of long-term bank loans	**6,006**	4,603
Total interest-bearing borrowings	**6,192**	5,481

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 2015 and 2014, none of the covenants relating to drawn down facilities had been breached.

24. Share capital

	2015		2014	
	No. of shares (million)	**HK$m**	No. of shares (million)	HK$m
Ordinary shares, issued and fully paid:				
At 1 January	**1,517**	**4,544**	1,502	751
Shares issued under scrip dividend scheme (note i)	**26**	**264**	15	170
Transition to no-par value regime on 3 March 2014 (note ii)	**–**	**–**	–	3,623
At 31 December	**1,543**	**4,808**	1,517	4,544

All ordinary shares issued during 2015 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) During 2015, 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
2014 final scrip dividend	18	11.060	202
2015 interim scrip dividend	8	8.266	62
	26		264

(ii) The transition to the no-par value regime under the Hong Kong Companies Ordinance occurred automatically on 3 March 2014. On that date, the share premium account and any capital redemption reserve were subsumed into share capital in accordance with section 37 of Schedule 11 to the Ordinance. These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been made in accordance with the requirements of Parts 4 and 5 of the Ordinance.

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	Retained profits	Total
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
At 1 January 2015	**–**	**–**	**4,975**	**2,917**	**7,892**
Profit for the year	**–**	**–**	**–**	**481**	**481**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**481**	**481**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**(273)**	**(273)**
Dividends approved in respect of the current year	**–**	**–**	**–**	**(77)**	**(77)**
At 31 December 2015	**–**	**–**	**4,975**	**3,048**	**8,023**

25. Reserves (HK$m) continued

(b) Nature and purpose of reserves

Capital reserve

The Company's capital reserve represents the profit recognised on the intra-group transfer of properties as a result of the corporate restructuring in 1991.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges in note 33(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 and the surplus on revaluation of land and buildings held for own use transfer to investment properties. The relevant accounting policies for which are set out in note 33(p) and 33(g) respectively.

(c) Distributability of reserves

At 31 December 2015, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was HK$3,048 million (2014: HK$2,917 million). After the end of the reporting period, the Directors proposed a final dividend of 15 HK cents per share (2014: 18 HK cents per share), amounting to HK$231 million (2014: HK$273 million). This dividend has not been recognised as a liability at the end of the reporting period.

(d) Capital management

The Group takes a long term view of its business and consequently the planning of the use of capital. The Group's primary objectives when managing its capital are to safeguard the Group's ability to continue as a going concern, to secure access to finance at a reasonable cost relative to risk and to provide an appropriate return to shareholders. In so doing, it seeks to achieve an appropriate balance between shareholders' equity and external debt by taking into account the cost of capital and the efficiency of using the capital.

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

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

25. Reserves (HK$m) continued

(d) Capital management continued

The Group monitors its capital structure on the basis of its gearing ratio, which is expressed as the percentage of net borrowings (defined as interest-bearing borrowings less cash at bank and in hand) to the total of net borrowings and equity attributable to shareholders of the Company. The Group's share of net borrowings and equities of the non-consolidated entities (such as the associates and joint venture), if any, are also taken into account. The calculations of gearing ratios before and after the non-consolidated entities as at 31 December 2015 and 2014 are as follows:

(HK$m)	2015	2014
Interest-bearing borrowings	6,192	5,481
Less: Cash at banks and in hand	(2,919)	(2,477)
Net borrowings per the statement of financial position	3,273	3,004
Share of net borrowings of non-consolidated entities	1,608	1,680
Net borrowings adjusted for non-consolidated entities	4,881	4,684
Equity attributable to shareholders of the Company per the statement of financial position	36,427	35,901
Equity plus net borrowings per the statement of financial position	39,700	38,905
Equity plus net borrowings adjusted for non-consolidated entities	41,308	40,585
Gearing ratio based on the Financial Statements	8%	8%
Gearing ratio adjusted for non-consolidated entities	12%	12%

During 2015, the Group continued to operate within its long term treasury management guidelines. Operating and investment decisions are made by making reference to the Group's long term cash flow forecasts to ensure that the guidelines are followed.

The Group is subject to covenants imposed by the lenders of the interest-bearing borrowings based on the Group's borrowings and other indebtedness, as well as the amount of equity attributable to shareholders of the Company. The Group complied with the imposed loan covenants on capital requirements for the years ended 31 December 2015 and 2014. 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 606 employees (2014: 612 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 2015.

26. Employee retirement benefits continued

(a) Defined benefit retirement obligations continued

In addition, MPHI operates a non-contributory defined benefit retirement plan which covers all its employees. The plan is administered by an independent trustee with the assets held separately from those of MPHI.

The above plan is funded by contributions from MPHI in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The latest independent actuarial valuation of the plan was prepared by qualified staff of Actuarial Advisers, Inc., who are members of the Actuarial Society of the Philippines, using the projected unit credit method as at 31 December 2015. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were 80% (2014: 78%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2015.

The amounts recognised in the Group's statement of financial position are as follows (HK$m):

	2015	2014
Present value of wholly or partly funded obligations	**47**	50
Fair value of plan assets	**(31)**	(33)
	16	17

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 (2015: HK$5 million) in contributions to defined benefit retirement plans in 2016.

Plan assets consist of the following (HK$m):

	2015	2014
Debt instruments	**24**	23
Investment funds	**3**	7
Equity investment and others	**4**	3
	31	33

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):

	2015	2014
At 1 January	**50**	50
Exchange adjustments	**(2)**	–
Benefits paid by the plans	**(4)**	(5)
Current service cost	**4**	4
Interest cost	**2**	2
Actuarial gain	**(3)**	(1)
At 31 December	**47**	50

26. Employee retirement benefits continued

(a) Defined benefit retirement obligations continued

Movements in plan assets (HK$m):

	2015	2014
At 1 January	**33**	32
Exchange adjustments	**(2)**	–
Group's contributions paid to the plans	**4**	4
Benefits paid by the plans	**(4)**	(5)
Interest income	**1**	1
Return on plan assets, excluding interest income	**(1)**	1
At 31 December	**31**	33

Amounts recognised in "staff costs and related expenses" in the consolidated income statement and statement of comprehensive income are as follows (HK$m):

	2015	2014
Consolidated income statement		
Current service cost	**4**	4
Interest cost	**2**	2
Interest income	**(1)**	(1)
	5	5
Consolidated statement of comprehensive income		
Actuarial gain on:		
Remeasurement of plan assets	**1**	(1)
Remeasurement of defined benefit obligations	**(3)**	(1)
	(2)	(2)

The principal actuarial assumptions used as at 31 December 2015 are as follows:

	2015	2014
Discount rate	**from 2.75% to 5.06%**	from 3.25% 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 2015 would have increased/(decreased) as a result of changes in the significant actuarial assumptions:

	Defined benefit obligations	
(HK$m)	Increase	Decrease
Discount rate (0.5% change)	(1)	1
Future salary increases (1% change)	2	(1)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(b) Defined contribution retirement plans

The Group has a defined contribution retirement plan covering 1,565 employees (2014: 1,567 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% (2014: 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 467 employees (2014: 490 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 (HK$25,000 prior to June 2014) 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 2,236 employees (2014: 2,340 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$111 million (2014: HK$109 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 2015 and 2014, the Group did not hedge any net investment in foreign subsidiaries.

Exposure to foreign exchange risk
The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The amounts of the exposure are shown in original currency. Differences resulting from the translation of the Financial Statements of the foreign operations into the Group's presentation currency and exposures arising from inter-company balances which are denominated in a foreign currency and is considered to be in the nature of investment in the subsidiary, joint 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

(million)	2015 United States Dollars	2015 Euro	2015 Great Britain Pounds	2015 Philippine Pesos	2014 United States Dollars	2014 Euro	2014 Great Britain Pounds	2014 Japanese Yen	2014 Philippine Pesos
Trade and other receivables	**23**	**1**	**1**	**–**	25	4	1	–	–
Cash at banks and in hand	**37**	**1**	**–**	**4**	25	–	–	–	4
Trade and other payables	**(11)**	**–**	**(1)**	**–**	(21)	–	–	(43)	–
Net exposure arising from recognised assets and liabilities	**49**	**2**	**–**	**4**	29	4	1	(43)	4

Based on the sensitivity analysis performed as at 31 December 2015, it was estimated that an 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.

(b) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. Borrowings bearing floating interest rates that are reset on a regular basis as market interest rates change expose the Group to cash flow interest rate risk. As the borrowing costs are subject to market fluctuations in interest rates, the Group adopts a policy to fix interest rates of 40% to 70% of the exposure, with a long term target of 50%, mainly by way of interest rate swaps or other derivative financial instruments.

At 31 December 2015, the Group had interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK$1,650 million (2014: HK$1,788 million) maturing over the next three years (2014: four 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 2015:

	31 December 2015	31 December 2014
Hong Kong Dollars	**1.5% to 1.6%**	1.5% to 1.6%
Japanese Yen	**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 2015 was as follows (HK$m):

	2015	2014
Cash flow hedges (note 17)	**(37)**	(38)
At fair value through profit or loss (note 17)	**(2)**	–
	(39)	(38)

27. Financial risk management and fair values continued

(b) Interest rate risk continued

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.

	2015		2014	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**2.3%**	**3,857**	2.8%	2,438
Floating rate borrowings:				
Bank loans	**1.4%**	**2,335**	1.6%	3,043
Total interest-bearing borrowings		**6,192**		5,481
Fixed rate borrowings as a percentage of total borrowings		**62%**		44%

On the other hand, as at 31 December 2015 and 2014, the Group had short term bank deposits. Since these deposits are placed for short term liquidity purposes, the Group has no intention to lock in their interest rates for the long term. In addition, the Group grants interest-bearing loans to a joint venture, which are subject to interest rate risk. The interest rate profile of these bank deposits and loans at the end of the reporting period, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments is summarised as follows:

	2015		2014	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate instruments:				
Amount due from a joint venture	**3.4%**	**179**	4.6%	188
Floating rate instruments:				
Bank deposits	**1.5%**	**2,765**	2.2%	2,305
Total interest-bearing financial assets		**2,944**		2,493

Sensitivity analysis

The following table indicates the approximate changes in the Group's profit after taxation (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the interest rates, with all other variables held constant, to which the Group has significant exposure at the end of the reporting period. As at 31 December 2015 and 2014, 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

	2015 Increase/(decrease) in			2014 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**	**(2)**	**–**	100	(3)	–
	(100)	**2**	**–**	(100)	2	–
Japanese Yen	**50**	**(2)**	**3**	50	(3)	6
	(50)	**2**	**(3)**	(50)	3	(6)
Philippine Pesos	**200**	**–**	**–**	200	–	–
	(200)	**–**	**–**	(200)	–	–
HK Dollars	**100**	**2**	**24**	100	(2)	31
	(100)	**(2)**	**(24)**	(100)	2	(33)
US Dollars	**100**	**1**	**–**	100	(4)	–
	(100)	**(1)**	**–**	(100)	4	–
Euros	**100**	**(1)**	**9**	100	(1)	13
	(100)	**1**	**(9)**	(100)	1	(14)

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would have arisen, assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group and which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of exposure to cash flow interest rate risk arising from the floating rate non-derivative financial instruments (which include bank borrowings and deposits) held by the Group at the end of the reporting period, the impact on the Group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such changes in interest rates. The analysis has been performed on the same basis as for 2014.

(c) Liquidity risk

Borrowings and cash management, including short term investment of surplus cash, are arranged centrally to cover expected cash requirements. The Group's policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that it maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to meet its obligations and commitments in the short and longer term.

At 31 December 2015, total available borrowing facilities amounted to HK$7,275 million (2014: HK$6,695 million), of which HK$6,237 million (2014: HK$5,521 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$772 million (2014: HK$882 million).

27. Financial risk management and fair values continued

(c) Liquidity risk continued

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2015						2014					
		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	150	150	150	–	–	–	145	145	145	–	–	–
Interest payable	8	8	8	–	–	–	7	7	7	–	–	–
Accruals for property, plant and equipment	45	45	45	–	–	–	50	50	50	–	–	–
Tenants' deposits	382	382	156	134	86	6	381	381	141	152	84	4
Guest deposits and gift vouchers	135	135	135	–	–	–	139	139	139	–	–	–
Golf membership deposits	87	87	–	–	–	87	99	99	–	–	–	99
Other payables	646	646	646	–	–	–	619	619	619	–	–	–
Interest-bearing borrowings	6,192	6,577	275	88	4,905	1,309	5,481	5,795	951	784	3,925	135
Interest rate swaps (net settled)	39	65	26	24	15	–	38	88	25	25	38	–
Current taxation	28	28	28	–	–	–	70	70	70	–	–	–
	7,712	8,123	1,469	246	5,006	1,402	7,029	7,393	2,147	961	4,047	238

(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 2015, cash at banks and in hand amounted to HK$2,919 million (2014: HK$2,477 million), of which HK$2,522 million (2014: HK$2,030 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).

27. Financial risk management and fair values continued

(d) Credit risk continued

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 2015 is summarised in note 20.

The Group's exposure to credit risk is influenced mainly by individual characteristics of each customer rather than the industry or country in which the customers operate; therefore, it is considered that there is no concentration of credit risk as the Group has no significant exposure to individual customers given the large number of customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including the derivative financial instruments, in the statement of financial position after deducting any impairment allowance. The Group does not provide any other guarantee which would expose the Group to any material credit risk.

(e) Fair values

(i) Financial instruments carried at fair value

HKFRS 13, *Fair value measurement* requires disclosure of the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

All derivative financial instruments carried at fair value are categorised as falling under Level 2 of the fair value hierarchy.

(ii) Fair values of financial instruments carried at other than fair value

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2015. 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.

27. Financial risk management and fair values continued

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Derivative financial instruments

Forward foreign exchange contracts and foreign exchange swaps are either marked to market using listed market prices, or by discounting the contractual forward price and deducting the current spot rate. The fair values of interest rate swaps and cross currency interest rate swaps are the estimated amount that the Group would receive or pay to terminate the swaps at the end of the reporting period, taking into account current interest rates, foreign exchange rates and the current creditworthiness of the swap counterparties.

When discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period. Where other pricing models are used, inputs are based on market related data at the end of the reporting period.

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

	31 December 2015	31 December 2014
Hong Kong Dollars	**0.2% – 1.7%**	0.2% – 2.7%
Japanese Yen	**0% – 0.1%**	0.1% – 0.2%
Euros	**-0.2% – 0.1%**	0.1% – 0.3%

28. Commitments (HK$m)

(a) Capital commitments outstanding as at 31 December 2015 not provided for in the Financial Statements were as follows:

	2015			2014		
	Contracted for	**Authorised but not contracted for**	**Total**	Contracted for	Authorised but not contracted for	Total
Capital commitments of the Group	**798**	**2,164**	**2,962**	242	2,523	2,765
The Group's share of capital commitments of						
– a joint venture	**–**	**14**	**14**	–	10	10
– associates	**1**	**3**	**4**	–	17	17
	799	**2,181**	**2,980**	242	2,550	2,792

The Group's capital commitments include the authorised capital expenditure for the renovations of The Peninsula Beijing, The Peninsula Chicago, 21 avenue Kléber and the major upgrade project to be undertaken by The Peak Tram as well as normal capital expenditure for the Group's existing properties.

28. Commitments (HK$m) continued

(a) Capital commitments outstanding as at 31 December 2015 not provided for in the Financial Statements were as follows: continued

On 28 January 2014, the Group entered into conditional agreements with Yoma Strategic Holdings Ltd. to restore the heritage building that is the former Myanmar Railway Company headquarters in Yangon, Myanmar, to be redeveloped as The Peninsula Yangon. The Group has a 70% interest in the project and its share of commitment is estimated to be US$100 million. Furthermore, on 7 July 2015, the Group entered into a conditional shareholders' agreement with Doğuş Holding A.Ş and BLG Gayrimenkul Yatırımları ve Ticaret A.Ş. for a proposed joint development of a luxury hotel property within the Salıpazarı Port Project Area in Istanbul, Turkey. The Group has a 50% interest in the project and its share of commitment is estimated to be EUR150 million. The conditions precedent of these two potential projects and the redevelopment of 1-5 Grosvenor Place into The Peninsula London (note 12(d)) have not yet been fully satisfied as at 31 December 2015. In respect of these three projects, the figures include the amounts authorised to complete the studies and continuous work for planning and preparation up to the start of construction.

(b) At 31 December 2015, 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:

	Receivable		Payable	
	2015	2014	**2015**	2014
Within one year	**(1,058)**	(1,098)	**125**	157
After one year but within five years	**(1,242)**	(1,319)	**442**	538
After five years	**(1,050)**	(1,166)	**6,742**	6,416
	(3,350)	(3,583)	**7,309**	7,111

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 under the lease amounted to JPY1,181 million, with possible inflationary adjustment every 10 years. On 17 December 2015, the Group acquired the hotel building from the landlord and entered into a new 70-year land lease in place of the previous lease. The annual lease payment under this new lease amounts to JPY780 million with future adjustments being subject to mutual agreement.

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)

The Directors consider there being no material contingent liabilities for the Group as at 31 December 2015 and 2014.

30. Material related party transactions

Other than the Directors' remuneration and the loans advanced to an associate as disclosed in note 15, material related party transactions are set out as follows:

(a) Under a three-year tenancy agreement which commenced on 1 April 2013, a wholly owned subsidiary of the Company, HSH Management Services Limited (HMS), leased the 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rent of HK$1,540,452 per month plus a monthly service charge of HK$182,224 from Kadoorie Estates Limited (KEL), which is the agent of the registered owner which is controlled by one of the substantial shareholders of the Company. With effect from 1 January 2015, the monthly service charge was revised to HK$201,010. The rent and service charge incurred in 2015 amounted to HK$20 million (2014: HK$20 million). This tenancy agreement falls under the Listing Rules as a continuing connected transaction. The Company has complied with the disclosure requirements governing continuing connected transaction under the Listing Rules. Further details of this continuing connected transaction are disclosed in the Directors' Report.

(b) Unsecured and interest free shareholder's loans amounting to US$66.85 million (HK$521 million) (2014: 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 2015, shareholder's loans amounting to US$58.75 million (HK$458 million) (2014: 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 2015, the balance of entrustment loans amounted to RMB150 million (HK$179 million) (2014: RMB150 million (HK$187.6 million)). RMB50 million (HK$60 million) of the loan bears an annual interest of 3.3% and is repayable on 14 June 2016. The remaining RMB100 million (HK$119 million) of the loan bears an annual interest of 3.5% and is repayable on 14 December 2016. The interest was fixed by reference to the deposit rate published by The People's Bank of China on the day on which the draw down was made plus a margin of 200 basis points.

31. Non-adjusting post reporting period events

After the end of the reporting period, the Directors proposed a final dividend, the details of which are disclosed in note 10.

32. Key sources of estimation uncertainty

Notes 26(a) and 27 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Valuation of investment properties

Investment properties are included in the statement of financial position at their open market value, which is assessed 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; and
- significant negative industry or economic trends.

(d) Deferred tax assets

The Group reviews the carrying amounts of deferred taxes at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilised.

33. Significant accounting policies

(a) Basis of preparation of the Financial Statements

The consolidated Financial Statements for the year ended 31 December 2015 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, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated Financial Statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated 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.

33. Significant accounting policies continued

(b) Subsidiaries and non-controlling interests continued

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 33(c)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 33(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 a financial asset.

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; and
- 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).

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property as described in note 33(f) up to the date of change in use, and any difference at the date between the carrying amount and the fair value of the property is accounted for as movements in the asset revaluation reserve. On disposal of a revalued assets, the relevant portion of the asset revaluation reserve realised in respect of previous valuation is transferred to retained profits as a movement in reserves.

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.

Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

33. Significant accounting policies continued

(j) Impairment of assets continued

(i) Impairment of financial assets continued

If any such evidence exists, an impairment loss is determined and recognised as follows:

- For investments in associates and joint ventures accounted for under the equity method (see note 33(c)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 33(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.

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. An impairment loss for trade and other receivables carried at amortised cost is calculated as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the non-financial assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

An impairment loss is reversed to profit or loss if the recoverable amount of an asset, or the cash-generating unit to which it belongs, exceeds its carrying amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(iii) Interim financial reporting and impairment

Impairment losses recognised in an interim period in respect of unquoted equity instruments carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

33. Significant accounting policies continued

(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.

(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 in hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(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 nature as part of "staff costs and related expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in other reserves. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

Termination benefits
Termination benefits are recognised when and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(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.

The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances and movements therein, are presented separately from each other and are not offset.

(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.

33. Significant accounting policies continued

(s) Revenue recognition continued

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.

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.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

33. Significant accounting policies continued

(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.

(2) An entity is related to the Group if any of the following conditions applies:

i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

vi) The entity is controlled or jointly controlled by a person identified in (1).

vii) The entity identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(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 that are first effective for the current accounting year of the Group and the Company:

- Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contributions*
- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting year. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKAS 19, Employee benefits: Defined benefit plans: Employee contributions

The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation. The amendments do not have an impact on these financial statements as the defined benefit plans operated by the Group are wholly funded by contributions from the Group and do not involve contributions from employees or third parties.

Annual improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, Related party disclosures has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

35. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2015

Up to the date of issue of these Financial Statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 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
Annual Improvements to HKFRSs 2012-2014 Cycle	1 January 2016
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	1 January 2016
Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to HKAS 1, *Disclosure initiative*	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 consolidated financial statements.

Independent Auditor's Report

Independent auditor's report to the members 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 156 to 211, which comprise the consolidated statement of financial position as at 31 December 2015, 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 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

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

16 March 2016

Sustainability Data Statements

This section provides highlights of statistical information on the Group's sustainability performance for the past five years and the baseline year for environmental performance. More historical data are available on www.hshgroup.com/cr. 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, 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. The full set of Sustainability Data Statements can be read on pages 79 to 83 of the Corporate Responsibility and Sustainability report.

Performance Highlights [1]

			2015	2014	2013	2012	2011	2006-08 baseline
Economic	**Revenue (incl. interest income)**	HK$m	**5,797**	5,903	5,554	5,234	5,058	–
	Operating costs	HK$m	**2,142**	2,168	2,164	2,051	1,986	–
	Employee wage and benefits	HK$m	**2,063**	2,052	1,951	1,842	1,728	–
	Capital expenditure	HK$m	**1,379**	354	3,183	985	335	–
	Payments to providers of capital	HK$m	**217**	211	372	227	195	–
	Tax payments to governments [2]	HK$m	**480**	458	362	437	422	–
	Total floor area	‘000 m^2	**651**	651	588	588	588	518
	Total number of guest nights	‘000	**1,256**	1,277	1,211	1,122	1,090	1,119
People	**Headcount**		**8,447**	8,728	8,216	8,006	7,759	–
	Staff turnover	%	**22.6%**	19.9%	20.3%	19.2%	–	–
	Headcount by Gender	% of Female	**43%**	42%	41%	41%	41%	–
	Average training spend [3]	HK$	**3,048**	2,322	2,602	2,645	–	–
Health and Safety	**Training**	‘000 hours	**32**	16	19	17	11	–
	Health and safety training							
	Safety		**7.9**	7.4	7.2	7.6	9.5	–
	Injury rate [4]	reported incidents per 200,000 hours						
	Lost day rate [4]	reported days per 200,000 hours	**57.0**	75.6	77.1	52.5	55.4	–
	Absentee rate [5]	reported days/total days worked	**2.0%**	1.9%	1.8%	–	–	–
Environment	**Greenhouse gas emissions**	‘000 tCO_2e	**106**	116	112	115	118	117
	Group carbon intensity	kg CO_2e per m^2	**163**	181	190	196	201	225
	Total energy use [6]	‘000 GJ	**892**	871	842	842	865	858
	Energy intensity [6]	MJ per m^2	**1,369**	1,396	1,431	1,430	1,471	1,656
	Energy saved through reduction initiatives	GJ	**6,644**	6,517	10,383	35,711	44,750[7]	–
	Direct water consumption	‘000 m^3	**1,899**	1,880	1,846	1,795	1,813	1,921
	Water intensity		**1,168**	1,132	1,181	1,257	1,313	1,373
	Hotels Division	litres per guest night						
	Commercial Properties, Clubs & Services Division	litres per m^2	**1,752**	1,765	2,012	1,888	1,988	1,712
	Water recycled	‘000 m^3	**137**	124	126	122	93	–
	Waste generated [8]	tonnes	**7,873**	7,778	7,107	6,861	–	–
	Waste recycled [8]	tonnes	**3,294**	3,219	2,777	2,559	–	–
Community	**Monetary Donations** [9]	HK$ ‘000	**6,273**	4,197	8,900	2,843	4,453	–
	Community Outreach	hours	**13,160**	11,124	7,350	7,332	6,192	–
	Service hours							
	Employee volunteers		**1,366**	929	788	584	942	–
	Internships & Retraining scheme							
	Training hours	‘000 hours	**346**	295	400	384	540	–
	Participants		**615**	492	662	509	1,210	–

(1) Please refer to Reporting Scope on the inside front cover of the Corporate Responsibility and Sustainability report for the scope of businesses covered in the reporting of employee, health and safety, community and environmental performance.

(2) Inclusive of corporate income tax, property and real estate tax, payroll tax and other corporate taxes.

(3) Average training spend is based on total annual training spend per full-time equivalent.

(4) Injuries recorded include from minor first aid incidents to more severe incidents that required hospitalisation. There was no incident of occupational disease recorded in 2015. 2011 and 2012 injury and lost day data did not include Quail Lodge & Golf Club.

(5) Absentee rate recorded in 2015 did not include The Peninsula Beverly Hills, due to re-categorisation of sick days under paid-time off. Absentee data of The Peninsula Beverly Hills is therefore not available.

(6) Vehicle fuel consumption is not included in the total energy use and energy intensity reported.

(7) 44,750 GJ represented energy saved over 2010 and 2011. Energy saved was calculated based on vendor estimates and assumptions according to expected efficiency gains.

(8) Group waste diversion rate in 2015 was 41.8%. Grease trap waste was not included in the waste data reported. To conform with current year’s reporting scope, comparative information has been restated, which resulted in 9% increase in the amount of waste recycled data disclosed previously for 2012. (GRI G4 Material Disclosure: G4-22)

(9) Donations reported have not included HSH’s yearly contribution to the Hong Kong Heritage Project which is an archive project for preserving valuable historical records of the Kadoorie family and its businesses.

Independent Assurance Report

KPMG was engaged by The Hongkong and Shanghai Hotels, Limited ("HSH") to undertake a # limited assurance engagement on the Corporate Responsibility and Sustainability Report and Data Statements 2015 of HSH (further referred to as "The Report") for the year ended 31 December 2015.

Responsibilities of the Directors of The Hongkong and Shanghai Hotels, Limited

The Directors of HSH are responsible for the preparation and presentation of The Report specifically ensuring that in all material respects The Report is prepared and presented in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative 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 as described in the Section of GRI Content Index of The Report. This responsibility also includes the internal controls relevant to the preparation of The Report that is free from material misstatement whether due to fraud or error.

Responsibilities of the independent assurance provider

Our responsibility is to express a conclusion to the Directors of HSH based on our limited assurance procedures referred to below. 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.

Basis of our work

We conducted our work in accordance with International Standard on Assurance Engagements ISAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information and ISAE 3410 Assurance Engagements on Greenhouse Gas Statements. These standards required the assurance team to possess the specific knowledge, skills and professional competencies needed to provide assurance on sustainability information. The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements, and that we comply with the requirements of the Code of Ethics for Professional Accountants issued by International Ethics Standards Board for Accountants to ensure their independence. HSH uses the Sustainability Reporting Guidelines of the Global Reporting Initiative (G4), as detailed in the Reporting Standards and Assurance section on the inside front cover of the Corporate Responsibility and Sustainability Report. It is important to view the performance data in the context of this explanatory information.

Work performed

A limited assurance engagement on a corporate responsibility and sustainability report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the Corporate Responsibility and 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;

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

- 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 material issues and their implementation;
- Conducting interviews with management and other personnel at HSH to obtain an understanding of the information collection process;
- 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;
- Data included in the report agreed, on a sample basis, to underlying calculations and supporting schedules;
- Performed an analytical review of data provided by each operation and investigated, through discussion with management, key movements compared to prior year, expectations and targets;
- Checking the GRI Content Index on pages 84 to 91 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 Corporate Responsibility and Sustainability Report and Data Statements 2015 of HSH for the year ended 31 December 2015, is not presented fairly, in all material respects, in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative (G4), 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 as described in the Section of GRI Content Index on pages 84 to 91.

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

16 March 2016

The 2015 HSH Corporate Responsibility and Sustainability Report meets GRI G4 Core Level requirements and has successfully completed GRI's Materiality Disclosures Services. The Company has also complied with all "comply or explain" provisions as set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules. For more details, please refer to our Corporate Responsibility and Sustainability Report.

GRI GOLD Community
The Hongkong and Shanghai Hotels, Limited
2016

GRI Materiality Disclosures
The Hongkong and Shanghai Hotels, Limited
Mar 2016 Service

Glossary

Terms

Absentee Rate	Represents the number of absentee days per year. It is calculated as total absentee days, which include sick days and lost days due to injury and occupational diseases, divided by total work days for the year
Average room rate	This reveals the average rate charged per occupied room, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms sold}}$
Adjusted net assets	The figure provides an adjusted value assessment of the Group's assets based on current market valuation
Back-of-house	Staff-only areas, usually in a hotel
BREEAM	Building Research Establishment Environmental Assessment Method is a UK-based environmental assessment and certification scheme on sustainable building
Climate Disclosure Leadership Index for Asia ex-Japan	An annual index run by Carbon Disclosure Project (CDP) recognising companies which display a strong approach to the disclosure of climate strategy and measurement. The index includes top 10% of CDP reporting companies for the year
Corporate Responsibility	A systematic approach whereby a business monitors and ensures its compliance with the law, ethical standards, and international standards relating to the environment, consumers, employees, communities, and other stakeholders
EarthCheck	An internationally recognised sustainability benchmarking and certification programme for the hospitality sector
EBITDA	The figure reflects the profitability of the operations of the Group before interest, tax, depreciation and amortisation
Front-of-house	Areas of a hotel that are in sight of guests/customers
Forest Stewardship Council (FSC)	An internationally recognised certification scheme on sustainable forest management, which meets key requirements of responsibility, transparency, international consistency and balanced multi-stakeholder governance

Terms

Gearing	This measures the degree of debt financing used by the Group to fund its business, calculated based on the following formula: $\frac{\text{Net borrowings}}{\text{Net borrowings + Shareholders' equity}}$
Global Reporting Initiative (GRI)	A non-profit organisation that produces the prevalent standards for sustainability reporting widely adopted by companies worldwide
Environmental, Social and Governance Reporting Guide	A guide on environmental, social and governance disclosure standard published by the Hong Kong Stock Exchange for voluntary disclosure by listed companies in Hong Kong
Interest cover	The ratio reflects the ability of the Group to meet its financing costs expressed as a multiple of its operating profit
Occupancy rate	This reveals the extent of rooms being occupied, calculated based on the following formula: $\frac{\text{Rooms sold}}{\text{Rooms available}} \times 100\%$
PP	Percentage points
RevPAR	The figure reflects the revenue generating ability of the Group's hotels from available rooms, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms available}}$
Stakeholders	Group or individuals that are affected by or can affect a company's activities
Sustainable luxury	Luxury products or services which maintain a level of responsibility to both the environment and society
Underlying profit attributable to shareholders	The figure reflects the profitability of the Group arising from its operations by excluding non-operating and non-recurring items

Shareholder Information

Financial Calendar 2016

2015 annual results announcement	16 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	9 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	16 May 4:30pm
– Closure of register of members	17 May to 19 May (both days inclusive)
– Record date	19 May
Scrip dividend scheme circular and/or election form available	24 May
Last day to return scrip dividend election form	15 June 4:30pm
Dividend warrants and share certificates for final dividend available	On or about 24 June
2016 interim results announcement (tentative)	August
2016 interim dividend payment date (tentative)	October
Financial year end	31 December

Company Website

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Investor Enquiries

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Corporate Responsibility and Sustainability Enquiries

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Registered Office

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2 Ice House Street, Central, Hong Kong
Tel: (852) 2840 7788
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Share Information

Stock Code: 00045
2015 Interim Dividend: 5 HK cents per share
2015 Final Dividend: 15 HK cents per share

Request for Feedback

To improve the quality of our annual reporting, we welcome your feedback via email to ir@hshgroup.com or by post to our registered office.

Shareholder Services

For enquiries about share transfer and registration, please contact the Company's Share Registrar:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong
Customer Services Hotline: (852) 2862 8555
Fax: (852) 2865 0990/2529 6087
E-mail: hkinfo@computershare.com.hk

Shareholders may at any time change their choice of language or means of receipt of the Company's corporate communications by notice in writing to the Company's Share Registrar at the address above. The Change Request Form may be downloaded from the Company's website at www.hshgroup.com.

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The Repulse Bay:
www.therepulsebay.com

The Peak Tower and The Peak Tram:
www.thepeak.com.hk

The Landmark:
www.thelandmarkvietnam.com

Thai Country Club:
www.thaicountryclub.com

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* Toll free access number is only available through Saudi Telecom Company

THE HONGKONG AND SHANGHAI HOTELS, LIMITED
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