Resilience Amidst Uncertainty

Annual Report 2021

The Hongkong and Shanghai Hotels, Limited
Stock Code: 00045

In this year's annual report, we continue to move further towards integrated reporting as envisaged by the International Integrated Reporting Council. The spirit of an integrated report is to bring 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 financial as well as our environmental, social and governance performance by publishing this annual report, and a separate Corporate Responsibility and Sustainability Report to demonstrate our sustainability vision, strategy and achievements in detail. Alongside our company website, the two reports enable our stakeholders to have a more informed assessment of our company.

As we aspire to go beyond compliance and continue to enhance our integrated reporting approach and disclosure, your feedback is welcome. Please share your views with us by post or email.

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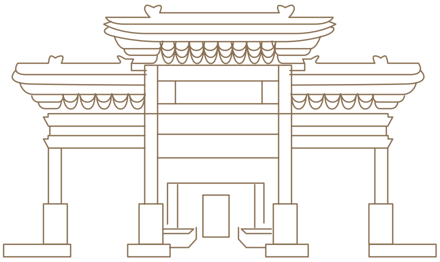

Creating Stakeholder Value

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Accomplishments and Results 2021

Company at a Glance

Number of Rooms | Ownership

HOTELS

Established: 1928 | 300 | 100%

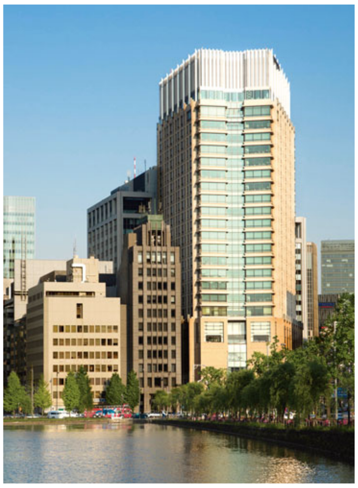
THE PENINSULA HONG KONG

Established: 2009 | 235 | 50%

THE PENINSULA SHANGHAI

Established: 1989 | 230 | 76.6%

THE PENINSULA BEIJING



Established: 2007 | 314 | 100%

THE PENINSULA TOKYO

Established: 1998 | 370 | 100%

THE PENINSULA BANGKOK

Established: 1976 | 351 | 77.4%

THE PENINSULA MANILA

Established: 2001 | 339 | 100%

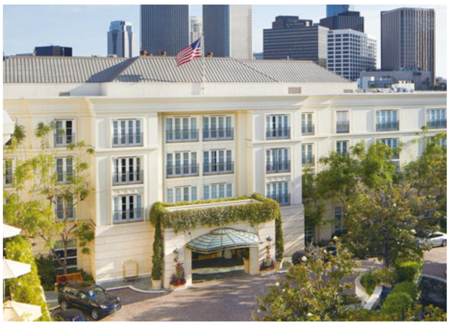
THE PENINSULA CHICAGO

Established: 1988 | 235 | 100%

THE PENINSULA NEW YORK

Established: 1991 | 195 | 20%

THE PENINSULA BEVERLY HILLS



Established: 2014 | 200 | 20%

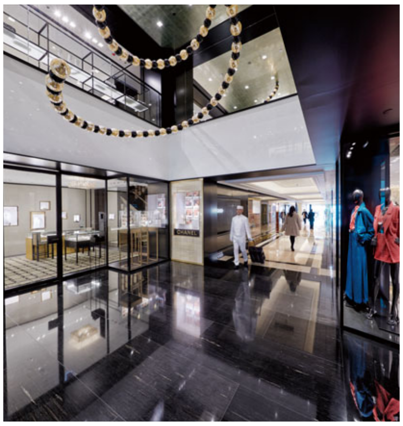
THE PENINSULA PARIS

GFA (sq. ft.) | Ownership

THE PENINSULA ARCADES

77,654 | 100%

THE PENINSULA HONG KONG



87,995 | 50%

THE PENINSULA SHANGHAI

94,450 | 76.6%

THE PENINSULA BEIJING

Ownership

PROJECTS UNDER DEVELOPMENT

100% THE PENINSULA LONDON

50% THE PENINSULA ISTANBUL

Company at a Glance

GFA (sq. ft.) Ownership

COMMERCIAL PROPERTIES

Established: 1994
75,082 100%
THE PENINSULA OFFICE TOWER
HONG KONG

Established: 1976 & 1989
1,058,455 100%
THE REPULSE BAY
HONG KONG (residential and arcade)

Established: 1996
116,768 100%
THE PEAK TOWER
HONG KONG (retail)

Established: 1994
176,766 70%
THE LANDMARK
HO CHI MINH CITY, VIETNAM
(office and residential)

Acquired: 2013
44,218 100%
21 AVENUE KLÉBER
PARIS, FRANCE (office and retail)

Established: 1983
71,400 100%
ST. JOHN'S BUILDING
HONG KONG (office)

Ownership

CLUBS AND SERVICES

Established: 1888 100%

THE PEAK TRAM HONG KONG

Acquired: 1997 100%

QUAIL LODGE & GOLF CLUB CARMEL, USA

Established: 1977 100%

PENINSULA CLUBS AND CONSULTANCY SERVICES

Established: 2003 100%

PENINSULA MERCHANDISING

Established: 1980 100%

TAI PAN LAUNDRY HONG KONG

Financial Highlights

	2021	2020	Increase/ (Decrease)
PROFIT OR LOSS HIGHLIGHTS (HK$m)			
Combined revenue^	**3,885**	2,947	32%
Revenue	**3,461**	2,710	28%
Combined EBITDA^	**526**	(53)	n/a
Combined EBITDA before pre-opening and project expenses	**589**	(3)	n/a
EBITDA	**394**	(61)	n/a
Operating loss	**(105)**	(614)	83%
Loss attributable to shareholders	**(120)**	(1,940)	94%
Loss per share (HK$)	**(0.07)**	(1.18)	94%
Underlying loss*	**(255)**	(814)	69%
Dividends	**–**	–	–
Dividends per share (HK cents)	**–**	–	–
Cash interest cover (times)$^{\Delta}$	**1.6x**	–1.2x	n/a
Weighted average interest rate	**1.5%**	1.9%	(0.4pp)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)			
Total assets	**55,685**	53,679	4%
Audited net assets attributable to shareholders	**36,762**	36,844	–
Adjusted net assets attributable to shareholders#	**40,871**	40,607	1%
Audited net assets per share (HK$)	**22.29**	22.34	–
Adjusted net assets per share (HK$)#	**24.79**	24.63	1%
Net external borrowings	**12,900**	10,662	21%
Funds from operations to net external debt##	**3%**	–1%	n/a
Net external debt to equity attributable to shareholders	**35%**	29%	6pp
Net external debt to total assets	**23%**	20%	3pp
CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)			
Net cash generated from/(used in) operations before taxation and working capital movements	**394**	(61)	
Capital expenditure on existing assets	**(334)**	(399)	
Capital expenditure on new projects	**(2,254)**	(1,771)	
SHARE INFORMATION (HK$)			
Highest share price	**8.50**	8.91	
Lowest share price	**6.67**	5.62	
Year end closing share price	**6.83**	6.90	

^ Including the group's effective share of revenue/EBITDA of associates and joint venture

* Underlying (loss)/profit is calculated by excluding the pre-opening and project expenses, the post-tax effects of unrealised property revaluation movements and impairment provisions

** Dividend cover is calculated based on underlying profit divided by dividends

Δ Cash interest cover is calculated based on EBITDA less lease payments divided by net interest on bank loans paid

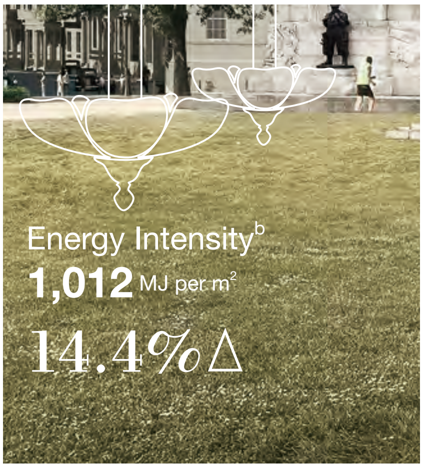
\# Adjusted net assets attributable to shareholders and adjusted net assets per share are calculated by adjusting the group's hotels and golf courses to fair market value based on the valuation conducted by independent property valuers, net of tax

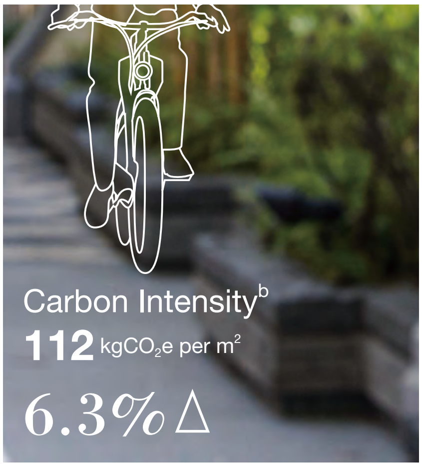
\## Being EBITDA as a percentage of net external debt

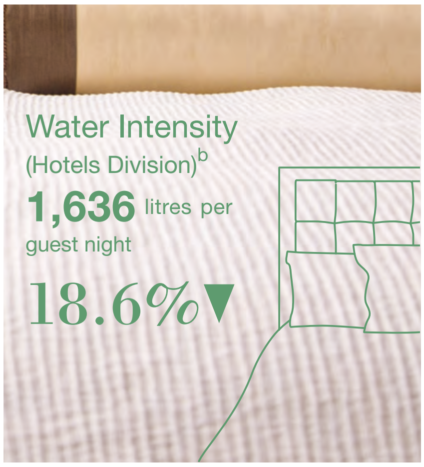
pp Denotes percentage points

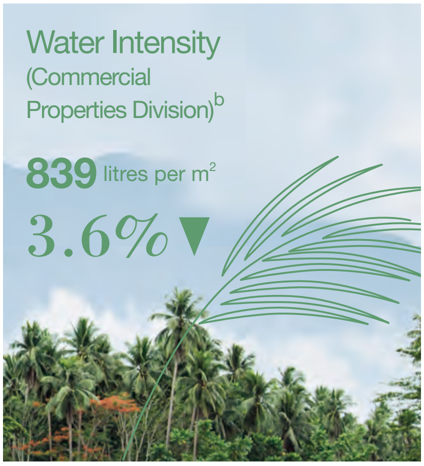
Non-Financial Highlights

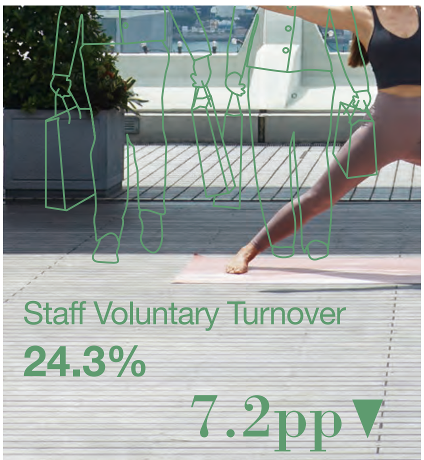
During the pandemic, despite our best efforts to remain reactive and agile, in some cases we had to temporarily close operations for months at a time. These operational changes have negatively impacted the progress of our sustainability activities as well as collaborations with our partners, many of whom faced similar challenges. As a result, our corporate responsibility and sustainability (CRS) metrics are skewed or negatively affected. Please bear this in mind when reading the CRS statistics in this year's annual report. We will continue to closely monitor our sustainability performance, implement group and property-level initiatives, and continue to contribute to our long-term sustainability goals guided by our newly launched *Sustainable Luxury Vision 2030*. Our CRS performance is discussed in more detail in the CRS Report, and explanations for significant data changes are included in the footnotes below.











a Percentage change refers to year-on-year movement: Green denotes improvement and white denotes worsening. Refer to the Sustainability Data Statements on page 226 or the online 2021 CRS Report for more details.

b Data is skewed due to extended closure of some operations and suspension of certain facilities or services within our properties as a result of COVID-19.

c Lost day rate increased due to several prolonged injury cases of staff ranging from strains, fractures, bruises and burns that were carried forward from 2020 and several new prolonged cases reported in 2021. Over 99% of the reported incidents did not require a hospital stay, and thus not considered severe injuries.

d Monetary donations reduced significantly as the charitable meal-for-meal programme was completed in early 2021. In-kind donations from the company decreased due to cancellation of charity events during the pandemic e.g. auction, fund raising and gala. In addition, cost saving measures have been implemented in light of the challenging business environment in 2021.

Financial Review Summary

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

The group reported a positive consolidated EBITDA of HK$394 million compared to an EBITDA loss of HK$61 million in 2020. Excluding pre-opening and project expenses in respect of the new hotels under development, the group's consolidated EBITDA amounted to HK$457 million compared to an EBITDA loss of HK$11 million in 2020.

The breakdown of EBITDA by business segment and by geographical segment is set out on page 72 of the Financial Review.

❷ Revenue

The group's consolidated revenue and combined revenue, including the group's effective share of revenue of associates and joint venture, increased by 28% to HK$3,461 million and by 32% to HK$3,885 million respectively.

The hotels division is the largest contributor of the group's combined revenue. In view of the COVID situation, the Peninsula hotels in New York, Paris and Bangkok were temporarily closed during the year. There is a significant inconsistency in each country's travel restrictions, quarantine requirements and preventative measures and as such we are seeing different paces of recovery for the group's hotels within the division. At the time of writing, social distancing and quarantine measures in Hong Kong and mainland China remain the strictest in the world. In the US and Europe, with the gradual easing of government restrictions, the Peninsula hotels in Paris and New York reopened for business in March 2021 and June 2021 respectively. The Peninsula Bangkok also reopened in November 2021 following a closure of seven months. Overall, the combined revenue of the hotel division increased by 47% to HK$2,687 million, with the US and Europe segment achieving the highest revenue growth.

Revenue from the commercial properties division decreased by 10% to HK$698 million, mainly due to the unfavourable performances of The Repulse Bay Complex (TRB) and The Peak Tower (TPT). TRB is the largest contributor of revenue, accounting for over 77% of the division's revenue. At TRB, rental revenue was under pressure as the luxury residential market in Hong Kong continued to experience a decline in demand. At TPT, the property reported a 38% decrease in revenue, mainly due to the decline in commercial rental and sharp decrease in visitors to the Sky Terrace following the suspension of the Peak Tram service in June 2021.

For the clubs and services division, despite the temporary suspension of the Peak Tram service from 28 June 2021, revenue increased by 47% to HK$500 million. This favourable result was mainly attributable to the record revenue achieved by Quail Lodge & Golf Club for its signature motor car event and the significant increase in mooncakes sales achieved by Peninsula Merchandising.

Details of the operating performances of the group's individual operations are set out on pages 35 to 61 of the Operational Review.

Consolidated Statement of Financial Position at 1.1.2021

	HK$m
Net assets	
Fixed assets	45,656
Properties under development for sale	4,264
Other long-term investments	2,357
Deferred tax assets	70
Cash at banks and in hand	520
Other current assets	812
	53,679
Bank borrowings	(11,182)
Derivative financial instruments	(10)
Deferred tax liabilities	(607)
Other liabilities	(1,462)
Lease liabilities	(3,266)
	37,152
Capital and reserves	
Share capital	5,837
Retained profits	30,940
Hedging, exchange and other reserves	67
	36,844
Non-controlling interests	308
	37,152

Consolidated Statement of Cash Flows for the year ended 31.12.2021

		HK$m
❶ EBITDA before before pre-opening and project expenses		457
Pre-opening and project expenses		(63)
❶ EBITDA		394
Changes in other working capital		(6)
Tax payment		(70)
Capital expenditure on existing assets		(334)
Capital expenditure on new projects		(2,254)
Advance to associates		(11)
Net financing charges and dividends paid		(161)
Net increase in bank borrowings		2,542
Net withdrawal of interest-bearing bank deposits with maturity of more than three months		1
Lease rental paid		(141)
Net cash outflow for the year		(40)
Cash at banks and in hand	520	
Less: Bank deposits maturing more than 3 months	(14)	
Cash & cash equivalents at 1.1.2021		506
Effect of changes in exchange rates		–
Cash & cash equivalents at 31.12.2021*		466
* Representing:		
Cash at banks and in hand		479
Bank deposits maturing more than 3 months		(13)
		466

Consolidated Statement of profit or loss for the year ended 31.12.2021

	HK$m
❷ Revenue	3,461
Operating costs before depreciation and amortisation	(3,004)
EBITDA before pre-opening and project expenses	457
Pre-opening and project expenses	(63)
EBITDA	394
Depreciation and amortisation	(499)
Operating loss	(105)
Net financing charges	(153)
Loss after net financing charges	(258)
❸ Share of result of joint ventures	(4)
❹ Share of results of associates	(11)
❺ Increase in fair value of investment properties	670
❻ Impairment provision	(679)
Taxation	(37)
Non-controlling interests	199
Loss attributable to shareholders	(120)

Consolidated Retained Profits for the year ended 31.12.2021

	HK$m
Retained profits at 1.1.2021	30,940
Loss attributable to shareholders for the year	(120)
Retained profits at 31.12.2021	30,820

Consolidated Statement of Financial Position at 31.12.2021

	HK$m
Net assets	
Fixed assets	46,825
Properties under development for sale	4,954
Other long-term investments	2,352
Deferred tax assets	110
Derivative financial instruments	53
Cash at banks and in hand	479
Other current assets	912
	55,685
Bank borrowings	(13,379)
Derivative financial instruments	(15)
Deferred tax liabilities	(608)
Other liabilities	(1,715)
Lease liabilities	(3,103)
	36,865
Capital and reserves	
Share capital	5,837
Retained profits	30,820
Hedging, exchange and other reserves	105
	36,762
Non-controlling interests	103
	36,865

Underlying loss attributable to shareholders for the year ended 31.12.2021

	HK$m
Loss attributable to shareholders	(120)
Non-operating and non-recurring items	(198)
Pre-opening and project expenses	63
❼ Underlying loss	(255)

❸ Share of result of joint ventures

The group has a 50% interest in The Peninsula Shanghai (PSH). As domestic travel gradually resumed in mainland China, there was a substantial improvement of the operating performance in 2021. Inclusive of hotel and arcade operations, and residential leasing, PSH generated an EBITDA of HK$157 million compared to an EBITDA of HK$79 million in 2020. After accounting for depreciation, interest and the unrealised loss on revaluation of the hotel shopping arcade, PSW recorded an accounting loss amounting to HK$7 million, of which the group's share of loss amounted to HK$4 million.

❹ Share of results of associates

The group has a 20% interest in each of The Peninsula Beverly Hills and The Peninsula Paris. The group's share of net loss of these two hotels for 2021 amounted to HK$11 million.

❺ Increase in fair value of investment properties

The group states its investment properties at fair value and gain or loss arising from the change in fair value of investment properties is recognised in the consolidated statement of profit or loss. The year end revaluation of the group's investment properties has resulted in an unrealised revaluation gain of HK$670 million, principally attributable to the increase in the appraised market value of The Repulse Bay Complex.

❻ Impairment provision

Given the substantial uncertainty in the economic and business environment in Myanmar, the group agreed with the joint venture partner to stop work on The Peninsula Yangon project as of June 2021 and we will continue to evaluate the situation in Myanmar. An impairment review was conducted by the management at the year end. As the project's fair value as appraised by the independent valuer was lower than its book value as at 31 December 2021, the directors considered it appropriate to write down the hotel's work in progress value, resulting in an impairment provision of HK$679 million.

❼ Underlying loss

To provide additional insight into the performance of its business operations, the group presents underlying loss by excluding non-operating items such as any change in fair value of investment properties, impairment provisions and pre-opening and project expenses. Details of the reconciliation from reported loss to underlying loss are set out on page 68 of the Financial Review.

Ten Year Operating Statistics

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
a) THE PENINSULA HOTELS (Note 1 & 2)										
Hong Kong										
Occupancy rate	**35%**	23%	50%	70%	75%	72%	73%	75%	72%	79%
Average room rate (HK$)	**3,204**	3,153	5,401	5,845	4,875	4,843	4,760	5,144	5,170	5,133
RevPAR (HK$)	**1,106**	727	2,706	4,082	3,659	3,473	3,477	3,870	3,731	4,072
Other Asia (excluding Hong Kong) (Note 3)										
Occupancy rate	**28%**	35%	72%	73%	68%	67%	70%	65%	66%	63%
Average room rate (HK$)	**2,933**	2,889	2,851	2,694	2,661	2,599	2,265	2,146	2,065	2,179
RevPAR (HK$)	**831**	1,008	2,059	1,966	1,802	1,753	1,581	1,390	1,361	1,367
United States of America and Europe										
Occupancy rate	**48%**	34%	72%	72%	70%	71%	68%	74%	74%	72%
Average room rate (HK$)	**6,484**	5,456	5,892	5,997	5,861	5,625	5,807	5,471	4,858	4,627
RevPAR (HK$)	**3,098**	1,843	4,243	4,333	4,130	3,993	3,962	4,059	3,573	3,346
b) RESIDENTIAL (Note 1, 2, 4 & 5)										
Occupancy rate	**80%**	89%	96%	95%	94%	91%	93%	85%	89%	92%
Average monthly yield per square foot (HK$)	**48**	50	50	49	49	49	49	49	47	45
c) SHOPPING ARCADES (Note 1, 2, 4 & 6)										
Occupancy rate	**91%**	84%	86%	87%	89%	93%	95%	97%	99%	99%
Average monthly yield per square foot (HK$)	**141**	160	192	194	195	199	214	212	191	181
d) OFFICES (Note 1, 2, 4 & 5)										
Occupancy rate	**96%**	96%	98%	99%	95%	100%	99%	97%	92%	96%
Average monthly yield per square foot (HK$)	**65**	68	64	63	58	56	55	54	51	47
e) PEAK TRAM										
Annual patronage ('000)	**609**	1,001	3,159	6,050	6,179	6,259	6,359	6,325	6,272	5,918
Average fare (HK$)	**22**	20	24	23	20	19	19	19	19	19
f) FULL TIME HEADCOUNT (as at 31 December)										
Hotels	**4,806**	4,570	6,063	6,186	6,147	6,135	6,201	6,308	5,878	5,617
Commercial Properties	**323**	338	356	358	359	360	363	362	347	333
Clubs and Services	**737**	760	1,079	1,088	1,052	993	1,318	1,317	1,325	1,260
Total headcount	**5,866**	5,668	7,498	7,632	7,558	7,488	7,882	7,987	7,550	7,210

Notes:
1. Occupancy rates, average room rates, RevPAR and average monthly yield per square foot are weighted averages in each grouping.
2. Occupancy rates for hotels are calculated based on the number of rooms sold divided by the number of rooms available whereas occupancy rates for residential properties, shopping arcades and offices are calculated based on net occupied area divided by net available area.
3. The saleable inventory in The Peninsula Beijing was reduced from the start of 2015 to Aug 2017 for renovation, impacting Occupancy Rate and RevPAR.
4. Average monthly yield per square foot is calculated based on average monthly rent divided by the average number of square feet rented out.
5. 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: being The Landmark, Vietnam; The Peninsula Residences, Shanghai; 21 avenue Kléber, Paris; and 1-5 Grosvenor Place, London (demolished in 2017).
6. 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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Consolidated Statement of Profit or Loss (HK$m)										
Combined revenue	**3,885**	2,947	6,378	6,753	6,313	6,150	6,257	6,297	5,886	5,520
Revenue	**3,461**	2,710	5,874	6,214	5,782	5,631	5,741	5,838	5,508	5,178
EBITDA	**394**	(61)	1,390	1,680	1,555	1,420	1,572	1,672	1,453	1,369
Operating (loss)/profit	**(105)**	(614)	801	1,079	988	894	1,061	1,154	958	868
(Loss)/profit attributable to shareholders	**(120)**	(1,940)	494	1,216	1,128	647	994	1,143	1,706	1,549
(Loss)/earnings per share (HK$)	**(0.07)**	(1.18)	0.30	0.76	0.71	0.42	0.65	0.76	1.14	1.04
Underlying (loss)/profit	**(255)**	(814)	480	738	774	618	710	977	505	433
Dividends	**–**	–	212	338	318	297	308	349	240	210
Dividends per share (HK cents)	**–**	–	13	21	20	19	20	23	16	14
Dividend cover (times)	**–**	–	2.3x	2.2x	2.4x	2.1x	2.3x	2.8x	2.1x	2
Cash interest cover (times)	**1.6x**	–1.2x	10.4x	12.8x	11.9x	13.8x	21.2x	25.5x	11.5x	16.9x
Weighted average interest rate	**1.5%**	1.9%	2.2%	2.3%	2.2%	2.1%	2.2%	2.3%	2.9%	3.2%
Consolidated Statement of Financial Position (HK$m)										
Total assets	**55,685**	53,679	53,061	51,724	51,254	48,499	46,934	44,335	43,601	40,367
Total liabilities	**(18,820)**	(16,527)	(13,332)	(12,524)	(12,801)	(12,143)	(10,454)	(8,357)	(8,397)	(7,095)
Non-controlling interests	**(103)**	(308)	(675)	(536)	(527)	(215)	(233)	(250)	(269)	(289)
Audited net assets attributable to shareholders	**36,762**	36,844	39,054	38,664	37,926	36,141	36,247	35,728	34,935	32,983
Adjusted net assets attributable to shareholders	**40,871**	40,607	42,808	42,411	41,476	39,493	39,447	39,323	38,316	36,229
Audited net assets per share (HK$)	**22.29**	22.34	23.90	23.97	23.86	23.06	23.49	23.56	23.26	21.96
Adjusted net assets per share (HK$)	**24.79**	24.63	26.20	26.29	26.10	25.20	25.57	25.93	25.51	24.12
Net external borrowings	**(12,900)**	(10,662)	(6,827)	(5,917)	(5,521)	(4,911)	(3,273)	(3,004)	(3,992)	(1,989)
Funds from operations to net external debt	**3%**	–1%	20%	28%	28%	29%	48%	56%	36%	69%
Net external debt to equity attributable to shareholders	**35%**	29%	17%	15%	15%	14%	9%	8%	11%	6%
Net external debt to total assets	**23%**	20%	13%	11%	11%	10%	7%	7%	9%	5%
Consolidated Statement of Cash Flows (HK$m)										
Net cash generated from/(used in) operations before taxation and working capital movements	**394**	(61)	1,390	1,680	1,555	1,420	1,572	1,672	1,453	1,369
Capital expenditure on existing assets	**(334)**	(399)	(564)	(426)	(601)	(1,000)	(476)	(370)	(928)	(875)
Capital expenditure on new projects	**(2,254)**	(1,771)	(1,330)	(1,208)	(1,097)	(1,580)	(916)	(39)	(2,293)	–
Share Information (HK$)										
Highest share price	**8.50**	8.91	12.08	13.48	17.12	9.49	12.20	12.60	14.20	11.92
Lowest share price	**6.67**	5.62	7.35	10.00	8.27	7.15	8.00	10.08	10.38	8.63
Year end closing share price	**6.83**	6.90	8.35	11.10	11.60	8.60	8.64	11.50	10.52	10.82

The bases of calculation of the following items are disclosed in the Financial Highlights on page 10

1 Underlying (loss)/profit
2 Dividend cover
3 Cash interest cover
4 Adjusted net assets attributable to shareholders and adjusted net assets per share
5 Funds from operations to net external debt

Letter from the Chairman

The Hon. Sir Michael Kadoorie
Chairman

Dear Shareholders,

Our company has continued to face considerable challenges in 2021. The global hospitality industry remained seriously impacted by the COVID-19 pandemic, with setbacks caused by variant strains of the COVID-19 virus emerging during the fourth quarter of the year. Unfortunately, business in our home market of Hong Kong remained very weak as the HKSAR Government continued to impose one of the world's most stringent quarantine regimes, and borders have been mostly closed to non-residents since March 2020. This negatively affected our hotels and tourism-related businesses, and we had to significantly adapt our strategies and continue to implement cost-saving measures across the group. Overall, considering the difficult situation we have faced, our company's financial results were creditable.

We are a company that looks to the long term and our resilience has been proven over more than 155 years of history. While the current situation might feel endless as we live through it, we should remember that all pandemics throughout history eventually come to an end. I am certain that the day will come when we can once again expect a return to normality. In hospitality we have a culture of taking care of people, guests and staff alike, and it is important to recognise the suffering that many people have gone through over the past few years, whether physical or mental. It is more important than ever to take care of our employees, our families, and the needy in our local communities, and we have outlined in the following pages how we have worked to achieve this.

I believe we can be optimistic for the medium to long-term future of the hospitality industry, which is showing signs of recovery in the countries where government restrictions have eased. There is pent-up demand for travel, particularly in the high-end business sector, and we believe our guests will continue to seek The Peninsula's warm hospitality, luxurious comfort and personal attention to detail as the world emerges to live with COVID-19.

There are always lessons to be learned from any crisis and as we emerge from the pandemic, we must become more adept at managing risks and threats to our business. Aside from health concerns, we face cybersecurity threats, geopolitical uncertainty and climate change risks. These are a key concern of the Board and our Group Risk Committee, which meets regularly to discuss our approach to these and other operational concerns. More details about our approach to risk management can be read on pages 120 to 122.

Environmental, social and governance (ESG) criteria are more important than ever, with climate change and sea level rises of particular concern in some of the countries where we operate. With this in mind, we continue to be committed to delivering on our sustainability strategy, *Sustainable Luxury Vision 2030*, which is described together with our group's social and environmental performance in our Corporate Responsibility and Sustainability Report.

> "Despite this being one of the most difficult periods we have ever faced as a group, I am proud of the resilience and dedication of our people"

Letter from the Chairman

We continue to create long-term shareholder value through the development of new hotel projects and by consistently improving our existing assets. After some pandemic-related delays, construction of our Peninsula hotel projects in London and Istanbul is progressing and we expect both properties to open in the first half of 2023. Due to the unfortunate situation in Myanmar, we agreed with our partner to stop work on The Peninsula Yangon and we will continue to assess the situation. In Hong Kong, we completed the renovation of The Peninsula Arcade and the Peak Tram upgrade project will be launched in the first half of 2022. More details on these projects can be read on page 35.

Despite this being one of the most difficult periods that we have ever faced, as a group, I am proud of the resilience and dedication of our people, which is reflected in The Peninsula Hotels being among the most admired luxury hotel brands in the world. On behalf of the Board, I would like to express my appreciation and sincere thanks for the leadership of Clement Kwok and his management team, and for the hard work and dedication of the entire group for their efforts in delivering a truly world-class service for our guests in the most challenging circumstances.

I would also like to sincerely thank each and every one of our shareholders for your support and contribution to our company, and wish you all good health for the year ahead.

The Hon. Sir Michael Kadoorie
16 March 2022

CEO Statement and Strategic Review

Clement Kwok
Chief Executive Officer

1. Managing the COVID-19 Crisis

2021 was another very challenging year for our group and for the hospitality industry due to the continued impact of the COVID-19 pandemic, particularly in our home market of Hong Kong, which had already suffered from serious social unrest and mass protests in 2019 and early 2020.

As mentioned in our 2020 annual report, we had expected that the rollout of vaccines would lead to the gradual resumption of travel around the world, but unfortunately the level of recovery in 2021 was not what we had hoped for.

The situation is still very unstable and we are concerned about the impact of the Omicron variant. At the time of writing, stringent social distancing measures and lengthy quarantine regimes in Hong Kong and the Chinese mainland remain the strictest in the world, and this has dramatically impacted tourism arrivals into Hong Kong for the past two years. The restrictions continue to seriously affect our business at The Peninsula Hong Kong and the Peak Complex, although our residential leasing business at The Repulse Bay has been less affected. During the year, several of our properties in key markets had to temporarily close, including The Peninsula New York, The Peninsula Bangkok and The Peninsula Manila. We saw a promising recovery in our US and Chinese mainland hotels during 2021, and Paris is starting to show signs of business resuming and tourists returning. Business remained weak in Tokyo and our hotel in Bangkok was closed for an extensive period.

We made significant efforts to control costs, drive local business and manage the rollercoaster of ever-changing regulations to the best of our ability. In the light of the very difficult market environment which we continued to face, our financial results were creditable, with a strong rebound from a combined EBITDA loss of HK$53 million in 2020 to a positive combined EBITDA of HK$526 million. It should be noted that the cashflow from existing operations after tax, normal capital expenditure and interest (excluding cash expended on the two new hotel projects and the Peak Tram upgrade project and related interest) was positive HK$69 million as compared to a cash outflow of HK$808 million in 2020.

CEO Statement and Strategic Review

Our immediate development focus remains on delivering our new Peninsula hotel projects in London and Istanbul, as well as the Peak Tram upgrade project, which have suffered pandemic-related delays and other project challenges, as explained in section 4 of this review.

The group came into this crisis with low gearing and considerable liquidity, which we bolstered by arranging further facilities to cover our group's cash needs. Together with the actions that we have taken to minimise our operating cash outflows, we believe our financial resources are currently sufficient to meet the group's operating cash requirements. Further details of the group's liquidity position are discussed on page 80 of the Financial Review section.

The pandemic has been particularly hard on our people, following last year's painful job losses and voluntary unpaid leave across the group. I believe our staff members' combined efforts, perseverance and loyalty to the company, in spite of the current business environment, has been commendable and this has significantly contributed to the group's stability during this crisis period.

In terms of business strategy, we are a company that focuses on the very long term, and we must be prepared to weather the downturns that are inevitable when one looks to invest over periods of fifty years or more. As a long-term investor, thanks to our people and culture, we have proven to be resilient and will be able to withstand downturns such as the one we are currently experiencing and I am confident that we will see better years ahead. This resilience is part of our long-term strategy as we move towards a global recovery. I will summarise this strategy in the following pages.

2. Our culture, vision and development strategy

The Hongkong and Shanghai Hotels, Limited has a heritage of more than 155 years. Whilst we have witnessed profound political and economic changes since we were first established in 1866, both in our home market of Hong Kong and around the world, our company remains steadfast in our key philosophies and values which are:

- to conduct business with the highest levels of integrity;
- to build on our heritage while continuing to invest in and develop our people;
- to maintain and enhance the quality of our assets;
- to continuously improve the service we offer to our guests, and
- to contribute positively to the cities in which we operate.

Maintaining a unique and robust company culture is very important to us and we are fortunate to have a family-like culture where our employees are proud to work for the company. Our culture and values help us to deliver on our vision which is: *to develop, own and operate a small number of the highest quality hotels and luxury properties which we believe are considered to be amongst the finest in the world.*

Having ownership or part-ownership of each hotel is an important part of our strategy and allows us to maintain an appropriate degree of control over the design, quality, operations and capital spending in our hotels. By taking such a long-term view and by maintaining and enhancing the quality of our assets and operations, we seek to create significant value for our shareholders from the long-term appreciation in the capital value of our properties, as well as from the increasing operating yield as each property grows 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 and today is valued at over HK$12 billion.

This is the approach which we believe has enabled us to establish and sustain a brand which is now recognised as being possibly the leading luxury hotel brand in the world.

3. Business overview

Our group currently owns and operates ten Peninsula hotels which are located in Hong Kong, Shanghai, Beijing, Tokyo, New York, Chicago, Beverly Hills, Paris, Bangkok and Manila. Throughout the years we have maintained a significant investment programme to enhance the physical condition and quality of these properties, for example, by completing major renovations at The Peninsula Hong Kong in 2014, The Peninsula Chicago in 2016 and The Peninsula Beijing in 2017. In 2021 we undertook a major renovation of the Peninsula Arcade in Hong Kong with the objective of providing high-end lifestyle amenities and retail offerings for local guests. We are in the midst of an ambitious hotel expansion programme, with investment in two new Peninsula hotel development projects in London and Istanbul.

Our strategy is to operate only one Peninsula hotel in each city and we have the ability to take a long-term view on real estate capital appreciation. Our hotels are considered “trophy assets” in these cities and will continue to create value over time, while generating additional returns from shopping arcades or residential apartments as part of the hotel complex. We enter into long-term partnerships with our co-owners who value the benefits of creating a high quality long-term asset. Our objective is to build up a long-term loyal clientele who are willing to pay premium prices for a superior luxury product and services. We achieve this by offering a high level of personalised service and attention to detail.

CEO Statement and Strategic Review

In the group's commercial properties division we take a similar investment approach and seek long-term returns on our exceptionally well-located properties. We own high-end residential property including The Repulse Bay in Hong Kong's exclusive South side and we lease commercial space to tenants at various Peninsula hotels, the Repulse Bay Arcade and the Peak Tower. Sky Terrace 428 at The Peak Tower gives tourists the opportunity to enjoy Hong Kong's panoramic views and this has been highly successful as a source of revenue. We also hold commercial properties in Hong Kong, Paris and Ho Chi Minh City.

Peninsula Merchandising Limited develops and distributes Peninsula-branded merchandise including the famous Peninsula Mooncakes, as well as artisanal chocolates and high-quality tea. We operate Peninsula Boutiques in key gateway cities in China, Asia and the US, including boutiques at Hong Kong International Airport and several Peninsula hotels. We opened new retail outlets and pop-up stores in 2021 and online business was very successful in 2021, as such, we are planning to expand the business further, particularly in the Chinese mainland market.

Our clubs and services division includes the Peak Tram, one of Hong Kong's most popular tourist attractions, which has been under our group for 130 years. The Peak Tram is currently undergoing a HK$799 million upgrade project which is being funded by our company and will be completed in mid-2022.

Having a diverse portfolio helps to diversify investment risks generally associated with the luxury hospitality industry. The more 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.

More details about the business performance of each operation can be read in the Operational Review on pages 35 to 64.

4. Projects Update

The Peninsula London, The Peninsula Istanbul and the Peak Tram upgrade project together form the most substantial capital expenditure projects in our company's history and are currently the major strategic focus of the senior management team. We are spending a considerable amount of time and effort on strategic planning, solving issues and making every effort to mitigate the delays and associated cost implications as a priority.

The Peninsula London

In July 2013, HSH entered into agreements with Grosvenor whereby as 50/50 leaseholders, HSH and Grosvenor would develop a prime site in Belgravia, London into a mixed-use building comprising The Peninsula London Hotel and Residences. The leasehold of 150 years with Grosvenor as the landlord commenced in February 2012. In 2016, the leasehold was further restructured as a result of which HSH became the 100% leaseholder, with Grosvenor remaining as the freeholder.

The property is in a high-profile location at the gateway to Belgravia, overlooking Hyde Park Corner, the Wellington Arch, Green Park and the gardens of Buckingham Palace. We are developing a 190-room Peninsula hotel with 25 luxury Peninsula-branded residential apartments for sale also integrated into the development.

Since the original agreements were signed in 2013, the project has encountered many challenges and changes. The process of design and obtaining local authorities' approvals took several years, following which construction of the project commenced in 2017. In 2018, an opportunity was taken to enhance the design and increase the useable area of the hotel by adding two additional basements to the project, which had the effect of creating additional revenue-generating spaces such as the junior ballroom, an additional food and beverage outlet and other functional spaces.

The project has been materially affected in 2020 and 2021 by delays caused by the COVID-19 pandemic which resulted in labour shortages and site closures, as well as significant design and project coordination issues arising in key areas of the hotel. Throughout these challenges, the HSH projects team has worked closely with the London development manager, the construction management company, the consultants and the trade contractors to address and resolve problems as quickly and effectively as possible.

Unfortunately, despite these efforts and the engagement of the various teams, the project has suffered additional time delays causing significant cost overruns. As at the time of writing, the practical completion date of the project and the soft opening date of the hotel has been further delayed from 2022 to the first half of 2023.

The cost consequences of this further delay are currently being assessed but we expect there to be an upward adjustment in the indicated total project budget of £800 million (including both hotel and residential apartments). However, the prices at which we have transacted the sales of residential apartments to date have been in line with our original expectations.

CEO Statement and Strategic Review

The Peninsula Istanbul

In July 2015, together with our partners Doğuş Holding and BLG, we entered into a shareholders' agreement to form a joint venture partnership, of which HSH has a 50% share, for a hotel development in Istanbul, Turkey. It was agreed with the joint venture partners to jointly develop the property with an investment commitment of approximately €300 million, of which HSH is responsible for 50%.

The Peninsula Istanbul will form part of the wider Galataport project being developed by our partners, which incorporates a promenade, museums, art galleries, restaurants, boutiques, retail units, parks and public spaces for the local community as well as a cruise passenger terminal. This entire Galataport project is subject to a 30-year operating right commencing February 2014 for which The Peninsula Istanbul has been granted a corresponding 30-year fixed term lease.

The Peninsula Istanbul will have 177 rooms, a ballroom with sweeping views of the Bosphorus, indoor and outdoor swimming pools, a Spa and a verdant garden area on the waterfront.

The COVID-19 situation has caused some delay to this project, with quarantine constraints on site. Progress towards the completion date has been satisfactory with handover of almost all rooms for fit out. Construction completion of the project has been delayed and is currently targeted to be towards end of 2022, with a soft opening in the first half of 2023. Despite challenges which include COVID-19, supply chain issues, construction issues, and devaluation of the lira coupled with hyperinflation in Turkey, the project cost – denominated in euros – remains on budget.

The Peninsula Yangon

The company entered into a shareholders' agreement with Yoma Strategic Investments Ltd. and First Myanmar Investment Public Company Limited in January 2014 to acquire a 70% majority interest for a proposed hotel development on the site of the former headquarters of the Myanmar Railway Company in central Yangon, Myanmar.

Unfortunately, we have agreed with our partners to stop work on The Peninsula Yangon project as of June 2021 and we will continue to evaluate the situation in Myanmar to establish a suitable time to recommence works.

5. Financial results and financial planning

Our business model as an owner-operator is a capital intensive one, but it allows us to have an appropriate degree of control or joint control over the upgrading of our existing assets and making investments in new developments, to ensure a high level of quality and consistency in our product and offer a bespoke, tailored guest experience.

As a result of our continuous investment into and enhancement of our property assets, the company's revalued net asset value per share has more than doubled in the last two decades to HK$24.79 per share in 2021.

We are currently investing for the future and our focus for the coming year will be on the successful delivery of our new Peninsula hotel developments in London and Istanbul as well as the Peak Tram upgrade project. All of the projects have been affected by disruptions to the construction labour force and supply chains due to the COVID-19 outbreak, and we are expecting delays and a potential increase in the project budgets.

With the substantial capital commitments that these projects entail, currently amounting to HK$3 billion over the next two years, we continue to carefully monitor our company's financial position and we continuously take a proactive approach to forecasting future funding requirements. We maintain sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to ensure funds are available to finance our growth and development. Our net debt to total assets ratio is currently 23%, which we believe to be acceptable considering the financial obligations of our new developments.

Due to the severity of the pandemic on our business, we are reporting a weak set of financial results for 2021, however, we believe these are creditable in the light of the difficult market situation we faced. The company's combined EBITDA, including the group's effective share of EBITDA of our associates and joint ventures, amounted to HK$526 million compared to an EBITDA loss of HK$53 million last year. The group generated a cash inflow from existing operations after tax, normal capital expenditure and interest of HK$69 million as compared to a cash outflow of HK$808 million in 2020.

The company's underlying loss attributable to shareholders amounted to HK$255 million compared to a loss of HK$814 million over the same period last year.

The current year net loss attributable to shareholders is inclusive of the impairment provision of HK$679 million in respect of The Peninsula Yangon, which had to be suspended due to the substantial uncertainty in the economic and business environment since 1 February 2021. Excluding the post-tax effects of the revaluation movements of investment properties, impairment provisions and pre-opening and project expenses, our underlying loss amounted to HK$255 million, compared to an underlying loss of HK$814 million in 2020.

More details can be read in the Financial Review on page 68.

CEO Statement and Strategic Review

6. Driving business

We believe the fundamentals of luxury hospitality do not change over time and I am confident that when we emerge from the pandemic, demand for high quality service will resume.

The group's diverse portfolio of assets helps to balance the cyclical nature of the hotel industry. During the year a major focus of our strategy was to focus on attracting and retaining retail tenants in our arcades, particularly in Hong Kong, Beijing and Shanghai, and we were pleased with the level of interest received and new leases signed. Although the market for luxury residential leasing was softer in Hong Kong due to the weak business environment, The Repulse Bay is widely recognised as one of the most attractive luxury residences on the South side, and our rental contracts remained relatively stable.

For our hotels, our strategy was to stay engaged with our guests and listen to their needs despite some of our properties being temporarily closed, and we developed innovative new online promotions for local guests and social media engagements. Recognising that most of our regular guests cannot travel, we adapted our marketing strategies to our local domestic markets and we invited Peninsula guests to experience their "home" destination with special staycation promotions for local cuisine, art, fashion and culture, wellness and the local community.

We upgraded the user experience of The Peninsula Hotels group and property websites, providing an enhanced virtual experience. We launched a new Greater China customer relationship management programme with a customised design using WeChat, allowing us to engage with our customers in Hong Kong, Beijing and Shanghai by providing unique benefits and experiences across our hotels, shopping arcades and boutiques.

Appreciation of art and supporting local artists is a key part of our strategic marketing plan. The Peninsula provides guests and visitors the opportunity to engage with immersive, experiential art, creating memories that will last for a lifetime.

On the sales side, we continued to focus on strengthening our relationships with PenClub members, our in-house preferred travel partner programme by holding webinar hotel tours, cultural programmes and virtual cocktail gatherings.

Our company has its own in-house research and technology department which focuses on researching and developing the latest innovation for guest rooms and enhancing the customer experience. With leadership from the Technology Steering Committee, the team is exploring developments in voice recognition, the Internet of Things, robotics, and the latest technological innovations.

7. Managing risk

Operating a business in ten different jurisdictions, given the unpredictable nature of the hotel industry, requires an agile yet measured approach to risk management. Our Group Risk Committee (GRC), chaired by the CFO, regularly reviews the risk registers of our operations and new development projects, as well as monitors the principal risks and emerging risks of the group. We evaluate key risks and controls and using a 5-step risk management methodology we ensure the risk assessment process and internal controls remain current.

In 2021, the global COVID-19 pandemic continued to impact on the risk landscape by creating new organisational risks, particularly a global labour shortage in the hospitality sector, and elevating existing risks such as cybersecurity threats and geopolitical tensions. Climate change risks particularly sea level rise has also become a major focus for us and our GRC will continue to look into enhancement of internal controls to manage the strategic risks of the group. We will also focus on enhancing communication, inspiring greater awareness and ownership of risks and controls across the group, and further improvements to 5-step risk management methodology.

Pages 129 to 133 of our GRC Report explains further details on how we manage against our principal risks.

CEO Statement and Strategic Review

8. Our people

2021 has been a challenging year for our Human Resources team, particularly with regards to retaining talented staff and the global labour shortage in the hospitality sector, as mentioned above. As a company with a very long history, we understand that employee morale and engagement is even more important in times of crisis.

We have undertaken major initiatives across the group to encourage our staff to get vaccinated, including an incentive programme in Hong Kong offering cash, paid leave and pre-vaccination medical check-ups. Some 94% of our global operations are fully vaccinated and 98% of staff in Hong Kong were fully vaccinated by end of December 2021.

During the pandemic, we launched a global survey "Let's Check In – How are you doing?" in September 2021 to understand the sentiment and overall well-being of our employees. The anonymous survey achieved a voluntary response rate of over 80%. Against the challenging year, results from the survey reflected the continued HR efforts with high engagement scores especially across the US and China operations. We are particularly pleased that 84% of our employees feel great pride in working for the company despite the cost cutting and reduction of our workforce we have had to undergo in the last 2 years.

Building a team of exceptional people is the key to executing our strategies. The culture of our company has cultivated a loyal and committed team spirit which has resulted in a stable and cohesive management team. This team spirit starts at the top of the organisation with our majority owners the Kadoorie Family and we adhere to a core set of values and integrity that permeates through all levels of the company. We continue to safeguard this culture as the pandemic continues and as we will add more than a thousand new team members to our group, with two new hotels coming on board in the next 12 months.

I am pleased to report that in 2021 we initiated a new "Peninsula Services Principles" framework for all employees in our hotel operations, which will focus on creating stronger emotional connections with guests while offering the highly personalised service that our guests have come to expect from The Peninsula. To further support this important programme, we have launched our HSH Core Principles across the group to encourage all our colleagues to support these service principles.

Our WorkPlace 2025 initiative, which is focused on our people, culture and empowerment, aims to create effective transformation for our teams and modernise our workplace. Despite the challenging business situation, we remain committed to innovation and empowerment and we will be launching "Work Improvement Teams" globally and encourage creative idea sharing amongst the properties on best practice ideas. We continue to focus on developing strong leaders, implementing mental and physical well-being programmes, and to improve our engagement strategies.

Earlier this year we launched an "eHR Suite" which is an integrated HR Talent solution to attract, develop, retain the right talent and manage the employee lifecycle, and this solution has received positive feedback from our employees as we continue to automate our HR processes and to go paperless.

We have also enhanced our health benefits programme by adding psychology and counselling services in order to assist with the mental health toll of the pandemic. I am so proud of my colleagues and their dedication and commitment through a very challenging time.

Longer term, our focus is to attract and retain top talent and we will strive to maintain our culture while adding thousands of people to our workforce with the opening of two new hotel projects.

As of 31 December 2021, there were 5,866 full time employees in the group.

9. Sustainable luxury in a post-pandemic world

We believe we have the opportunity to offer our guests sustainable choices without compromising on the high quality of our products and services. During the year we embarked on the next ten-year phase of our sustainability strategy, which we are calling *Sustainable Luxury Vision 2030 (Vision 2030)*, which incorporates corporate responsibility and sustainability into our wider business strategy. Our new strategy leverages the strengths of our business, focusing on issues requiring significant and urgent attention. We seek to address key issues we are facing in our business and in society through *Vision 2030* by focusing on our three stakeholder pillars of (i) enhancing our guest experience, (ii) empowering our people and (iii) enriching our communities, underpinned by 10 key commitments.

During 2021, socioeconomic issues such as unemployment, poverty, social inequality and supply chain disruption were exacerbated by the pandemic. Unusual climate events occurred in some parts of the world where we have hotels, and we are becoming increasingly concerned about the risks posed by climate change and sea level rises to our ecosystems, businesses and human health. We were pleased to see more ambitious targets and net-zero commitments from countries and businesses as a result of COP26, and as a group we are exploring how to mitigate our own impact on the environment and to tackle the issues of water and sea level rises. We are also exploring more opportunities for sustainable finance as well as increasing our offering at our hotels for plant-based diets.

CEO Statement and Strategic Review

Despite the operational challenges we are facing, we will continue to closely monitor our sustainability performance, implement group and property-level initiatives, and continue to contribute to our long-term sustainability goals guided by our newly launched CRS strategy.

10. Outlook

With the variant strains of COVID-19 emerging, it remains difficult to predict when international travel can resume to normal levels and the outlook for a business recovery remains uncertain. Although we have seen some good recoveries when restrictions have been eased in certain markets, such as the Chinese mainland and the United States, the flare-ups of variants means that the recoveries may not be sustainable. At the time of writing, our home market in Hong Kong is facing its worst Covid crisis following the outbreak of the Omicron fifth wave, with ongoing severe restrictions on incoming travellers and stringent local social distancing requirements. It is unclear as to when these restrictions will be lifted. In the meantime, it is a priority to get vaccination rates to increase substantially amongst the most vulnerable in our society. We are pleased that 98% of our staff in Hong Kong are vaccinated.

Besides the COVID-19 pandemic, various other geopolitical uncertainties may continue to affect our business, including the Russia-Ukraine conflict, US-China tensions, the impact of Brexit, and financial market instability in Turkey. Climate change issues are an increasing concern. Globally, sourcing labour continues to be a significant challenge for the hospitality industry, with a particular shortage in culinary and housekeeping roles. We will continue to explore ways to attract and retain bright young talent.

Despite some pressure on leases, we are optimistic for our retail arcades with satisfactory leasing renewals and beautiful new lifestyle options having opened in The Peninsula Arcades in Hong Kong and Beijing.

We remain focused on doing what we can to help our operations and our people recover from the devastation of the global pandemic. Our unique company culture is one of our greatest assets and I am personally involved in driving our internal transformation project, Workplace 2025, as mentioned above.

Despite the current downturn, we are committed to ensuring that with the rapid development of technology we are keeping pace with the needs and opportunities of our business.

Enhanced health and hygiene in our operations will continue to be a priority and we are looking at the latest technologies and innovation to assist with these high standards.

We expect that from 2023 onwards, the new hotels in London and Istanbul will further enhance our brand presence. We are focused on managing the cost and programme implications of COVID-19 as well as other project challenges that we have faced, in order to minimise the budget and time impact of the unavoidable delays.

The Peak Tram is undergoing its second phase of temporary suspension and we expect the project will be completed in mid-2022. After completion, we believe it will significantly improve the visitor experience and enhance Hong Kong's tourism image as well as generate significant revenues once the Hong Kong tourism market recovers.

Overall, our company has maintained a strong balance sheet and has closely managed our operating costs and maintained its liquidity position during this crisis. We are fortunate to have a highly motivated and dedicated team of management and staff who are committed to our long-term vision.

I would like to thank each member of my team for their loyalty and dedication during one of the most challenging periods our group has faced. I am confident that if we continue to focus on offering excellent service to our guests, business recovery will follow in due course.

Clement Kwok
16 March 2022

Operational Review

Business Performance

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

Hotels Division

Hotels	Revenue HK$m	Variance In HK$	Year-on-Year In Local Currency
Consolidated hotels			
The Peninsula Hong Kong	**728**	+21%	+21%
The Peninsula Beijing	**245**	+27%	+20%
The Peninsula New York	**376**	+96%	+96%
The Peninsula Chicago	**437**	+170%	+170%
The Peninsula Tokyo	**325**	+6%	+10%
The Peninsula Bangkok	**31**	–48%	–46%
The Peninsula Manila	**39**	–8%	–9%
Non-consolidated hotels			
The Peninsula Shanghai	**489**	+46%	+37%
The Peninsula Beverly Hills	**544**	+134%	+134%
The Peninsula Paris	**348**	+209%	+198%

Operational Review

The Peninsula Hong Kong*

Revenue HK$728m
+21%

Occupancy
+11pp

Average Room Rate
+2%

RevPAR
+52%

* *The Peninsula Hong Kong stayed open for the full year 2021*

The Peninsula Hong Kong

The Hong Kong hospitality market continued to be negatively affected by stringent travel restrictions, border closures and social distancing measures which have been in place for the past two years. **The Peninsula Hong Kong** implemented a number of innovative "staycation" offers and marketing promotions including "Journey the World: New Encounters" to attract the local market and offer unique experiences for local residents. We collaborated with various luxury brands including Aston Martin, Louis Vuitton and Chanel in *The Lobby* to encourage guests to visit. As a result, compared to the same period in 2020, The Peninsula Hong Kong achieved improved revenue, occupancy and RevPAR compared to the same period last year. Food and beverage revenue also improved compared to 2020 but continued to be restricted by social distancing measures imposed by the HKSAR Government, which led to restricted dining hours and the cancellation of many large functions and weddings. To mitigate this, in the fourth quarter we implemented some innovative dining offers and events such as the "Great Gatsby immersive dinner" at *Felix* to attract guests and drive revenue.

We were delighted to receive the accolade of 'Best Business Hotel in the World' by *Business Traveller Asia-Pacific* and we were pleased that *Gaddi's* was awarded one Michelin star for the second consecutive year, while *Spring Moon* garnered one Michelin star for the fifth year in a row.

The Peninsula Office Tower was 97% occupied in 2021, and the immediate outlook is stable. The Peninsula Arcade occupancy was 84%. We are delighted that Chanel, one of our luxury anchor tenants, expanded their space. The Peninsula Arcade renovation was completed in 2021, creating a high-end lifestyle retail area focused on the domestic market which includes an Italian gourmet deli, a high-end whisky store, a sushi bar, a men's grooming salon, high-end audio equipment store and a new and expanded *Peninsula Boutique & Café* which opened in May 2021.

We continued to support the local community and charities by partnering with Impact HK and offering a "one meal for one meal" programme to support the homeless and needy in Hong Kong.

Operational Review

* The Peninsula Shanghai stayed open for the full year 2021

The Peninsula Shanghai

The Peninsula Shanghai reported pleasing results during 2021, despite an uncertain situation at the start of the year with occasional minor COVID-19 outbreaks reported in the city. Business levels rebounded quickly and stabilised once the outbreak was brought under control. The hotel remains the market leader in average room rates in the city and was number one in RevPAR in 2021. Occupancy and revenue significantly improved compared to the same period last year.

International tourist arrivals to the Chinese mainland remain restricted and therefore the domestic market continued to be our largest revenue driver. Demand was robust for large-scale events, weddings, banquets and groups business, which helped drive catering revenue from the second quarter onwards. We held several collaborations with luxury brands and enjoyed good market share for luxury events despite intense competition in the city. Demand for suites was healthy although rates are still lower than their pre-pandemic levels. The Peninsula Shanghai also successfully attracted a younger demographic through their innovative social media campaigns.

The Peninsula Shanghai remains the only hotel in the Chinese mainland to have two restaurants with Michelin stars.

The Peninsula Arcade was 94% occupied during 2021.

The group owns a 50% interest in The Peninsula Shanghai Complex which comprises a hotel, a shopping arcade and a residential tower of 39 apartments. As at 31 December 2021, a total of 31 apartment units have been sold.

Operational Review

The Peninsula Beijing*

Revenue RMB202m
+20%

Occupancy
-6pp

Average Room Rate
+28%

RevPAR
+6%

The Peninsula Beijing stayed open for the full year 2021

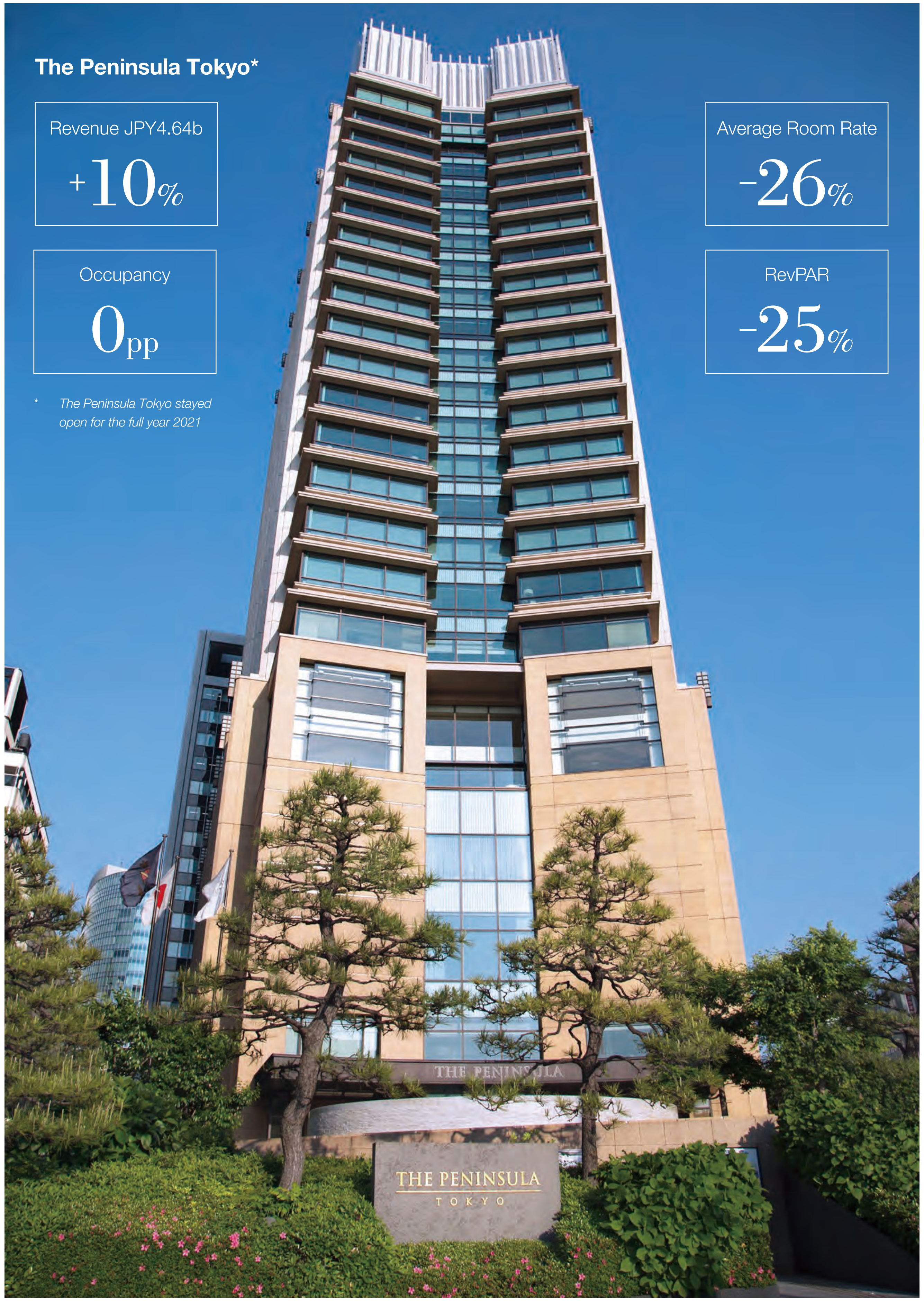
The Peninsula Beijing

The Peninsula Beijing had a stable year with a satisfactory increase in revenue and room rates although the hotel reported a slight drop in occupancy. International tourist arrivals to the Chinese mainland remained restricted during 2021 and therefore the domestic market continued to be our largest revenue driver, with some high-level diplomatic business contributing revenue.

Food and beverage performed well and we were delighted to receive a Michelin star for our French fine dining restaurant *Jing*. The hotel's rooftop bar, *Yun Summer Lounge*, reopened in summer 2021 and performed well due to the increasing popularity of open-air dining experiences during the pandemic. The hotel implemented some innovative staycation packages and marketing campaigns to drive suite business.

The Peninsula Arcade was 93% occupied and in addition to some anchor tenants expanding their retail space, we opened a new lifestyle living space in the basement in late summer 2021, which comprises a space of approximately 3,000 sqm.

Operational Review



The Peninsula Tokyo*

Revenue JPY4.64b
+10%

Average Room Rate
-26%

Occupancy
0pp

RevPAR
-25%

* *The Peninsula Tokyo stayed open for the full year 2021*

The Peninsula Tokyo

The Peninsula Tokyo was negatively impacted by "State of Emergency" restrictions for Tokyo which were in place for the majority of the year, combined with government social distancing measures, a ban on international travellers and a ban on alcohol sales. In June, the Japanese Government announced that spectators would be banned from the Tokyo Olympics, which was disappointing for anticipated tourist arrivals in Japan and significant international Olympic group business.

All dining outlets at the hotel remained open during the year but were negatively affected by the government's restrictions on dining hours and alcohol, which barred residents from dining out after 8pm. To counteract this downturn, we implemented a variety of local "staycation" packages with a focus on families and innovative "pet pampering" packages which were very well received. We also offered dining credits as part of the hotel deals as per local market practice. We operated an outdoor street café and offered Peninsula Culinary "To Go" and "Banquets at Home" takeaway dining packages to attract local business and corporates.

The group marketing campaign of "Peninsula Time" which allows flexible check in and check out times proved particularly popular with the local Tokyo market and helped drive occupancy. We also focused on improving our domestic guests' satisfaction ratings which resulted in improved loyalty and repeat business.

Despite the soft business environment, we were pleased to welcome several new tenants to The Peninsula Arcade in 2021, with a new anti-aging clinic which opened in summer 2021 and a popular teppanyaki restaurant bringing in additional rental revenue.

Operational Review

The Peninsula Bangkok*

Revenue THB129m
-46%

Occupancy
-14pp

Average Room Rate
-54%

RevPAR
-74%

* *The Peninsula Bangkok was temporarily closed from 18 April to 8 November 2021*

The Peninsula Bangkok

At **The Peninsula Bangkok** the beginning of the year started reasonably well, with the launch of attractive local staycation packages. However, with the rapid increase in COVID cases in Thailand from April 2021, the decision was made to close the hotel again. During closure we continued to engage with our loyal customers until reopening in November 2021. With health and wellness as a priority, we further developed our health and wellness programme with a series of plant-based dining offers and a quarterly Wellness Festival.

Revenue during closure was derived from signature Peninsula Mooncake retail sales and deliveries to guests. Upon reopening to international tourists, the Thai Government announced the start of "We Travel Together" which subsidises room bookings for hotels. Following the success of the Phuket "sandbox" model, at the end of October the "Test and Go" arrangement for tourists was also announced, allowing travellers with a negative PCR test to enter Thailand without quarantine. As a result, we experienced a strong November and December with improved revenue and average rates and we hope to welcome more international guests in 2022.

Operational Review

The Peninsula Manila*

Revenue PHP249m	Occupancy	Average Room Rate	RevPAR
-9%	-22pp	-27%	-74%

* The Peninsula Manila stayed open for the full year 2021 but partially operated as a quarantine hotel from July 2021

The Peninsula Manila

The Peninsula Manila experienced a very challenging year due to stringent government restrictions which remained in effect until May 2021, and community quarantine guidelines for certain cities in the National Capital Region. The hotel operated with minimal services and was unable to welcome guests to the majority of F&B outlets or the Spa due to restrictions. We reopened *The Lobby* and *Spices* in May 2021 and were able to welcome some local guests for staycations from May onwards. To drive revenue we also offered takeout delivery services and valet laundry services which was positively received by the local community.

Due to the unique structure of The Peninsula Manila with two separate towers, we were granted permission by the Philippines Department of Tourism to allow quarantine guests in Ayala Tower from 1 July 2021. This quarantine package attracted high-end business travellers and diplomatic guests who were required to undergo 7-10 days of quarantine upon returning to The Philippines, depending on their original departure location. The Makati Tower will continue to be available for local staycation guests.

Operational Review

The Peninsula New York

The Peninsula New York reopened in June 2021 after a prolonged temporary closure. The hotel received substantial positive media coverage about its reopening and business has been satisfactory in the second half, driven by diplomatic groups, transient, entertainment and group business.

To help raise awareness of the reopening of the hotel, we launched a multimedia art installation titled *Life en Route* and hosted Dutch neo-expressionist painter Peter Riezebos in-house for the summer of 2021 as part of our *Art in Resonance* programme. In November 2021 we reopened The Peninsula Spa.

New York City reopened to international travellers in the second half of the year and the city's tourism board launched a dynamic campaign titled "It's Time for New York City!" which was successful in encouraging visitors to return. Large diplomatic events and New York Fashion Week returned to the city in the second half following cancellations during the pandemic. Stringent vaccination requirements across the city had a positive impact for food and beverage outlets. At The Peninsula New York, food and beverage revenue was strong, particularly on the catering side, and *Clement* performed well.

Operational Review

The Peninsula Chicago*

Revenue US$56m
+170%

Occupancy
+21pp

Average Room Rate
+20%

RevPAR
+110%

The Peninsula Chicago stayed open for the full year 2021

The Peninsula Chicago

The Peninsula Chicago had a positive year overall with increased revenue, occupancy and average room rates, despite a challenging environment especially in the first few months of 2021. Travel restrictions were fully lifted by the summer and the city of Chicago rebounded strongly with a few large-scale concerts, corporate groups, and smaller conventions and art exhibitions being held in Chicago, driving hotel occupancy. A dynamic "Seize your Summer" tourism campaign by Choose Chicago generated hotel revenue and increased tourism spending across the city.

With strong demand for suites and groups business, we achieved some of the highest rates in the history of the hotel, which celebrated its 20th anniversary in 2021. The hotel's restaurants and dining outlets reopened in February 2021 with some limitations in dining hours, with the exception of *Pierrot Gourmet* which will reopen in 2022.

To mark the 20th anniversary of the hotel, we introduced special anniversary packages with 20% discounts on rooms and suites, and special menus to celebrate culinary favourites from the past two decades, titled "Culinary Classics Revised". For every meal purchased we donated one meal to The Greater Chicago Food Depository. In September 2021 we hosted an exciting art installation featuring Chicago artist Bob Faust titled *with all, and still*, which brought Chicago neighbourhoods to life through a vibrant series of contemporary art panels.

We were delighted to receive the accolade of "No 1 Best Hotel in the US" by *US News & World Report*, and the "Most Romantic Hotel in Chicago" by *USA Today*.

The labour market remains challenging in the hospitality sector and we are suffering from staff shortages at various levels across the hotel, and recruitment of key positions is a top priority for the coming months.

Operational Review

The Peninsula Beverly Hills

The Peninsula Beverly Hills experienced a very positive 2021 overall with significant revenue increase year-on-year, despite a slow start due to the coronavirus Shelter-in-Place restrictions implemented by the California state government for the first few months of 2021.

The majority of our business was domestic although we were pleased to welcome international guests in the second half as travel restrictions eased, particularly from the Middle East market. Food and beverage performed well and we implemented cost efficiencies by reducing opening hours, although we ensured our guests enjoyed the usual luxury service levels and had access to 24-hour dining options upon request.

The Hollywood awards season, which traditionally would result in full occupancy for our hotel, was held virtually this year which negatively impacted our results as we usually have a loyal clientele from the entertainment sector.

In the second half, business levels exceeded expectations and continued to improve with the easing of local restrictions and with an increase in the rate of vaccinations. We were delighted to celebrate our 30th anniversary in 2021 which included a "Beverly Hills Dreaming" package to attract visitors and we welcomed New Orleans pop-artist Ashley Longshore in residence.

The labour market remains challenging with staff shortages in the hospitality and restaurant sectors amid intense competition in the Beverly Hills area, although we were delighted to welcome back almost all our loyal staff who had previously been on furlough. The hotel management endeavoured to help employees during this critical time by providing essential groceries and food. We kept employee's medical benefits active during furlough and we also have an in-house doctor to ensure staff have access to professional medical advice at all times. The Peninsula Beverly Hills also donated food packages and meals to frontline workers particularly the fire and police department personnel of Beverly Hills.

We were pleased to achieve the accolade of 'No 1 Best Hotel in California' and 'No 1 Best Hotel in Los Angeles' by *US News & World Report*, and were voted the No 1 Hotel in the United States by *Global Traveler Magazine*.

Operational Review

The Peninsula Paris

The Peninsula Paris reopened on 1 March 2021 for rooms business and has gradually expanded the services available to guests with the relaxing of government restrictions and curfews.

We are fortunate to have beautiful alfresco dining spaces at *La Terrasse Kléber* and our rooftop restaurant *L'Oiseau Blanc*, which was awarded one Michelin star in 2020. Alfresco dining venues have been particularly popular with Parisians keen to celebrate events which had been postponed during the pandemic. We implemented new dining experiences and Sunday brunch offers to attract local guests, although unseasonably bad weather in May temporarily affected this trend. The hotel's indoor dining outlets reopened in June 2021, with the exception of *LiLi* which reopened in September 2021.

International guests began to return to Paris from June onwards, mainly from the Middle East and the US, which helped drive suite business.

During the year Paris reported an impressive recovery following stringent vaccination requirements, with large events and Paris Fashion Week returning as well as a large new luxury department store opening.

Operational Review

Commercial Properties Division

Commercial Properties	Revenue HK$m	Variance In HK$	Year-on-Year In Local Currency
The Repulse Bay Complex	**541**	–8%	–8%
The Peak Tower	**39**	–38%	–38%
St. John's Building	**52**	–6%	–6%
The Landmark	**36**	–3%	–4%
21 avenue Kléber	**23**	+5%	+2%
The Peninsula Shanghai Apartments	**7**	+17%	+8%

Our largest commercial property, **The Repulse Bay Complex**, experienced a weaker property climate compared to the previous year. Residential revenue and occupancy declined compared to the same period last year due to the challenging environment in Hong Kong, with the lack of international arrivals affecting the luxury residential leasing market.

The HKSAR Government social distancing measures continued to affect the performance of The Repulse Bay's food and beverage outlets, and while catering revenue improved compared to the previous year, it still remains weak due to the restrictions on large functions and events. The Repulse Bay, with its beautiful ocean views, is one of Hong Kong's most popular venues for weddings but unfortunately many were cancelled or postponed due to the social distancing restrictions.

The Repulse Bay Shopping Arcade, which offers a diverse range of lifestyle amenities and services, reported reasonably stable occupancy and revenue and we are planning a strategic review of the arcade in order to offer unique and enhanced facilities to guests.

The Peak Tower experienced a challenging year, significantly impacted by the lack of foreign visitors to Hong Kong and the ongoing upgrade project for the Peak Tram which also affected traffic to the Peak. Revenue and occupancy declined and we had to offer rental concessions due to the very difficult situation our tenants are facing, with some temporarily closing or going out of business. Visitors to Sky Terrace 428 also declined even further as compared to the previous year. We have implemented a number of sales and marketing strategies to continue to drive local business and to encourage local residents to visit the Peak Tower, which has remained open during the renovation and temporary suspension of the Peak Tram.

Operational Review

St. John's Building is located above the lower terminus of the Peak Tram and offers an excellent location for office space. Revenue dropped slightly but occupancy remained stable at 96% during 2021.

The Landmark, a 16-storey residential and office property, is located on a prime riverfront site in the central business district of Ho Chi Minh City, Vietnam. Revenue and occupancy for the offices remained stable year-on-year despite intense competition, but residential revenue and occupancy declined compared to the previous year, impacted by the COVID-19 situation in Vietnam with stringent restrictions and social distancing measures implemented in the second half.

21 avenue Kléber offers a prime location immediately adjacent to The Peninsula Paris on Avenue Kléber, just steps from the Arc de Triomphe. The property has achieved international BREEAM Excellent and HQE Outstanding environmental certifications which are the highest level of sustainable building assessments in Europe. We have successfully leased the entire office space, and both of the two retail spaces. Rental revenue was stable compared to the previous year.

Clubs and Services Division

Clubs and Services	Revenue HK$m	Variance In HK$	Year-on-Year In Local Currency
The Peak Tram	**13**	–34%	–34%
Quail Lodge & Golf Club	**173**	+127%	+127%
Peninsula Clubs & Consultancy Services	**4**	–30%	–30%
Peninsula Merchandising	**275**	+53%	+53%
Tai Pan Laundry	**35**	+25%	+25%

The Peak Tram is one of Hong Kong's most popular tourist attractions and has been in operation since 1888. The tram and support facilities are undergoing a major upgrade which will result in a significantly improved lower terminus, featuring covered queueing and waiting areas with entertainment features for up to 1,300 passengers. The new tramcars will carry up to 210 passengers instead of the previous capacity of 120 and visitors' waiting time will be significantly reduced.

During 2021, the upgrade project was negatively impacted by unforeseen ground conditions and the global coronavirus pandemic, which affected the planning of the works, the supply chain and the manufacturing of our new tramcars and equipment. As a result, there was a delay in the second phase of service suspension, which commenced on 28 June 2021 with the retirement of the fifth generation Peak Tram. The total cost of the upgrade project is HK$799 million, which has increased from HK$734 million in 2021 due to the unforeseen ground conditions and pandemic-related delays.

The Peak Tram reported increased patronage and revenue during the last month of operation before temporary suspension, as a result of well received publicity campaigns, marketing promotions and deals for local residents. We expect to launch the sixth generation Peak Tram in mid-2022.

Operational Review

Quail Lodge & Golf Club reported a strong year with revenue increasing by 127% year on year and a significant increase in average rates and RevPAR compared to pre-COVID 2019 levels. Golf membership was strong, with 81 new memberships signed in 2021. This was a pleasing result in the light of the shelter-in-place restrictions in California for several months in 2021.

Quail Lodge & Golf Club hosts The Peninsula Signature Events. We unfortunately had to cancel *The Quail Motorcycle Gathering* in May, but we were delighted to proceed with *The Quail*: *A Motorsports Gathering* in August 2021, which is considered one of the world's leading concours events for classic motoring *aficionados* and brought significant sponsorship revenue in 2021. We were delighted to receive the accolade of "World's Best Concours for 2021" from The Historic Motoring Awards in association with *Octane magazine*.

Photo credit: David Coyne

Peninsula Clubs & Consultancy Services (PCCS) manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and The Refinery. PCCS reported a decline in revenue compared to the same period last year, impacted by the effects of the pandemic in Hong Kong. The Hong Kong Bankers Club successfully reopened in January 2021 in a new location in Central and has received positive feedback from members.

Revenue at **Peninsula Merchandising** substantially increased over the same period last year, mainly due to stronger online sales and robust corporate, wholesale and travel retail business in the Chinese mainland and contribution from our Japan stores. In May 2021 we opened a new Peninsula Boutique & Café in the basement of The Peninsula Arcade which received positive media coverage.

The Peninsula Boutique is renowned for its signature Mooncakes which performed well during the mid-Autumn festival and the festive season was successful with a 40% increase in online sales. This division is undergoing expansion in several markets including the Chinese mainland. The Hong Kong International Airport boutique has been temporarily closed since March 2020 and sales in our Japanese boutiques have been affected by reduced operating hours during the "State of Emergency" in Tokyo.

Tai Pan Laundry revenue increased by 25% compared to the same period last year, due to the reopening of some hotels, clubs and gyms which had been closed during the same period last year.

Operational Review

PROJECTS UNDER DEVELOPMENT

The Peninsula London

In July 2013, HSH entered into agreements with Grosvenor whereby as 50/50 leaseholders, HSH and Grosvenor would develop a prime site in Belgravia, London into a mixed-use building comprising The Peninsula London Hotel and Residences. The leasehold of 150 years with Grosvenor as the landlord commenced in February 2012. In 2016, the leasehold was further restructured as a result of which HSH became the 100% leaseholder, with Grosvenor remaining as the freeholder.

The property is in a high-profile location at the gateway to Belgravia, overlooking Hyde Park Corner, the Wellington Arch, Green Park and the gardens of Buckingham Palace. We are developing a 190-room Peninsula hotel with 25 luxury Peninsula-branded residential apartments for sale also integrated into the development.

Since the original agreements were signed in 2013, the project has encountered many challenges and changes. The process of design and obtaining local authorities' approvals took several years, following which construction of the project commenced in 2017. In 2018, an opportunity was taken to enhance the design and increase the useable area of the hotel by adding two additional basements to the project, which had the effect of creating additional revenue-generating spaces such as the junior ballroom, an additional food and beverage outlet and other functional spaces. The project has also been materially affected in 2020 and 2021 by delays caused by the COVID-19 pandemic which resulted in labour shortages and site closures, as well as significant design and project coordination issues arising in key areas of the hotel. Throughout these challenges, the HSH projects team has worked closely with the London development manager, the construction management

company, the consultants and the trade contractors to address and resolve problems as quickly and effectively as possible. Unfortunately, despite these efforts and the engagement of the various teams, the project has suffered additional time delays causing significant cost overruns. As at the time of writing, the practical completion date of the project and the soft opening date of the hotel has been further delayed from 2022 to the first half of 2023.

The cost consequences of this further delay are currently being assessed but we expect there to be an upward adjustment in the indicated total project budget of £800 million (including both hotel and residential apartments). However, the prices at which we have transacted the sales of residential apartments to date have been in line with our original expectations.

The Peninsula Istanbul

In July 2015, together with our partners Doğuş Holding and BLG, we entered into a shareholders' agreement to form a joint venture partnership, of which HSH has a 50% share, for a hotel development in Istanbul, Turkey. It was agreed with the joint venture partner to jointly develop the property with an investment commitment of approximately €300 million, of which HSH is responsible for 50% or approximately €150 million.

The Peninsula Istanbul will form part of the wider Galataport project being developed by our partners, which incorporates a promenade, museums, art galleries, restaurants, boutiques, retail units, parks and public spaces for the local community as well as a cruise passenger terminal. This entire Galataport project is subject to a 30-year operating right commencing February 2014 for which The Peninsula Istanbul has been granted a corresponding 30-year fixed term lease.

Operational Review

The Peninsula Istanbul will have 177 rooms, a ballroom with sweeping views of the Bosphorus, indoor and outdoor swimming pools, a Spa and a verdant garden area on the waterfront.

The COVID-19 situation has caused some delay to The Peninsula Istanbul project, with quarantine constraints on site. Progress towards the completion date has been satisfactory with handover of almost all rooms for fit out. Construction completion of the project has been delayed and is currently targeted to be towards end of 2022, with a soft opening in the first half of 2023. Despite challenges which include COVID-19, supply chain issues, construction issues, and devaluation of the lira coupled with hyperinflation in Turkey, the project cost – denominated in euros – remains on budget.

The Peninsula Yangon

The company entered into a shareholders' agreement with Yoma Strategic Investments Ltd. and First Myanmar Investment Public Company Limited in January 2014 to acquire a 70% majority interest for a proposed hotel development on the site of the former headquarters of the Myanmar Railways Company in central Yangon, Myanmar.

Unfortunately, we have agreed with our partners to stop work on The Peninsula Yangon project as of June 2021 and we will continue to evaluate the situation in Myanmar. The project's fair value was deemed to be lower than its book value as at 31 December 2021, resulting in an impairment provision of HK$679 million.

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.

Financial Review

During 2021, the new variant strains of the COVID-19 coronavirus continued to affect the hospitality industry. Despite the challenging environment, business volumes started to pick up in the second quarter of the year as vaccination rates increased and some travel began to resume in the US and Europe. In mainland China, whilst international tourist arrivals remained restricted, business levels also improved in 2021 due to the increase in domestic demand. As a result, the group's hotels division reported reasonable revenue growth. However, the group's commercial properties division reported a decrease in revenue as demand in luxury residential market remained subdued. Overall, the group's consolidated revenue for the year increased by 28% to HK$3,461 million. Coupled with effective cost control measures, the group reported a positive consolidated EBITDA of HK$394 million compared to an EBITDA loss of HK$61 million in 2020. Excluding pre-opening and project expenses in respect of the new hotels under development, the group's consolidated EBITDA amounted to HK$457 million compared to an EBITDA loss of HK$11 million in 2020.

Whilst the residential leasing market remained challenging, the group recognised a net revaluation surplus of HK$670 million on investment properties, principally attributable to the increase in appraised market value of The Repulse Bay Complex which was in line with the increase in luxury residential prices in Hong Kong. However, the revaluation surplus was offset by the impairment provision of HK$679 million in respect of The Peninsula Yangon due to the substantial uncertainty in the economic and business environment in Myanmar since 1 February 2021.

As at 31 December 2021, the group's financial position remained robust, with net debt to total assets at an acceptable level of 23% in the light of the capital commitments of our new projects. During the year, the group renewed a total of HK$1.6 billion banking facilities and further obtained committed facilities of HK$2 billion. This ensures sufficient liquidity is available to meet the group's working capital requirements in its existing operations and to fund the group's capital commitments in respect of its development projects in London and Istanbul, as well as the Peak Tram upgrade project.

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, but not at fair value.

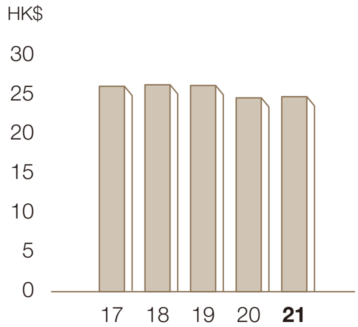
Accordingly, we have commissioned an independent third-party fair valuation of the group's hotels and golf courses as at 31 December 2021, the details of which are set out on page 76. If these assets were to be stated at fair value, the group's net assets attributable to shareholders would increase by 11% to HK$40,871 million as indicated in the table below.

HK$m	2021		2020	
Net asset value attributable to shareholders per the audited statement of financial position		**36,762**		36,844
Adjusting the value of hotels and golf courses to fair value	**4,350**		3,892	
Less: Related deferred tax and non-controlling interests	**(241)**		(129)	
		4,109		3,763
Adjusted net asset attributable to shareholders		**40,871**		40,607
Audited net asset per share (HK$)		**22.29**		22.34
Adjusted net asset per share (HK$)		**24.79**		24.63

Adjusted NAV +1%

HK$40,871m

Adjusted NAV per share

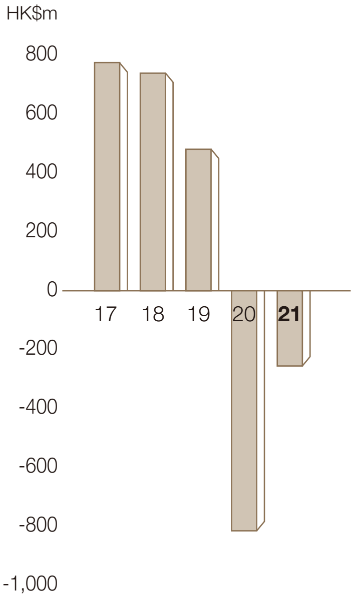


Financial Review

Underlying loss +69%

(HK$255m)

Underlying (loss)/profit



The group's underlying profit or loss

Our operating results are mainly derived from the operation of hotels; leasing and sale of luxury residential apartments; leasing of office and retail properties; operation of the Peak Tram and retail merchandising. 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-recurring and non-operating items, such as any changes in the fair value of investment properties and impairment provisions, in our consolidated statement of profit or loss. To reflect the underlying operating performance of the group, we have provided a calculation of the underlying loss attributable to shareholders. This is determined by excluding the pre-opening and project expenses, the post-tax effects of the revaluation movements of investment properties and impairment provisions in respect of non-investment properties.

The group's underlying loss attributable to shareholders for the year ended 31 December 2021 amounted to HK$255 million compared to an underlying loss of HK$814 million for the year ended 31 December 2020.

HK$m	**2021**	2020
Loss attributable to shareholders	**(120)**	(1,940)
Revaluation (gain)/loss of investment properties#	**(674)**	708
Impairment provisions*	**476**	329
Share of revaluation gains on apartments sold by The Peninsula Shanghai Waitan Hotel Company Limited (PSW)Δ	**–**	39
Pre-opening and project expenses	**63**	50
Underlying loss	**(255)**	(814)

\# Including the group's share of revaluation movement of The Peninsula Shanghai, net of tax and non-controlling interests

* The 2021 figure represents the impairment provision attributable to the shareholders in respect of the construction in progress of The Peninsula Yangon. The 2020 figure includes the impairment provision for The Peninsula Manila and the group's share of impairment in respect of The Peninsula Istanbul which is held by a joint venture

Δ PSW is a 50% joint venture which owns The Peninsula Shanghai Complex. In 2017, PSW reclassified its apartments from investment properties which were stated at fair value as inventory held for sale. The group's underlying loss is calculated by excluding the post-tax effect of unrealised property revaluation movements, including those relating to the apartments held by PSW. On disposal of such apartments, the unrealised revaluation gains became realised gains and were therefore added back to arrive at the underlying loss

Statement of profit or loss

The group's consolidated statement of profit or loss for the year ended 31 December 2021 is set out on page 159. The following table summarises the key components of the group's loss attributable to shareholders. This table should be read in conjunction with the commentary set out on pages 69 to 74 of this Financial Review.

HK$m	2021	2020	2021 vs 2020 favourable/ (unfavourable)
Revenue	**3,461**	2,710	28%
Operating costs	**(3,004)**	(2,721)	(10%)
EBITDA before pre-opening and project expenses	**457**	(11)	n/a
Pre-opening and project expenses	**(63)**	(50)	(26%)
EBITDA	**394**	(61)	n/a
Depreciation and amortisation	**(499)**	(553)	10%
Net financing charges	**(153)**	(144)	(6%)
Share of results of joint ventures	**(4)**	(269)	99%
Share of results of associates	**(11)**	(97)	89%
Increase/(decrease) in fair value of investment properties	**670**	(732)	n/a
Impairment provision	**(679)**	(93)	(630%)
Taxation	**(37)**	(31)	(19%)
Loss for the year	**(319)**	(1,980)	84%
Non-controlling interests	**199**	40	398%
Loss attributable to shareholders	**(120)**	(1,940)	94%

Revenue

The group's hotel revenue is derived from our ten luxury hotels under The Peninsula brand in Asia, the US and Europe, two of which are held by the group's associates and one by a joint venture. In addition to the hotel division, the group also operates a commercial properties division which is engaged in the development and sale or leasing of luxury residential apartments, and leasing of office and retail buildings in prime city-centre locations in Asia and Europe. The group's third business division is engaged in the provision of tourism and leisure, retail and wholesale of merchandise, club management and other services, including the Peak Tram, one of Hong Kong's most popular tourist attractions.

With a mild recovery of the hotel markets in the United States and Europe, the group's combined revenue for the year ended 31 December 2021 increased by 32% to HK$3,885 million. A breakdown of the group's total revenue, including its effective share of revenue of associates and joint venture by business segment and geographical segment is set out in the tables of the following page.

Financial Review

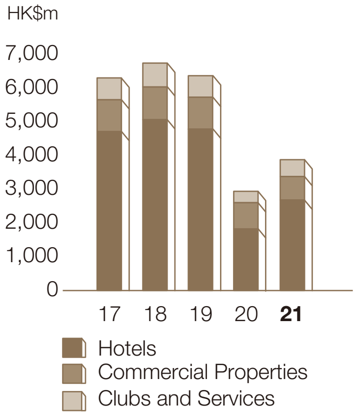
Consolidated Revenue +28%
HK$3,461m

Hotels +42%
HK$2,263m

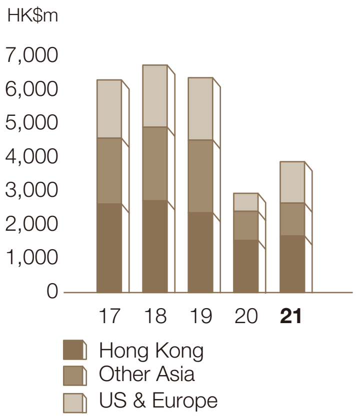
Commercial Properties -10%
HK$698m

Clubs and Services +47%
HK$500m

Combined Revenue*
by Business Segment



Combined Revenue*
by Geographical segment



* Including the group's effective share of revenue of associates and joint venture

Revenue by business segment

HK$m	2021 Group's subsidiaries	2021 Associates and joint venture (effective share)	2021 Combined total	2020 Group's subsidiaries	2020 Associates and joint venture (effective share)	2020 Combined total	2021 vs 2020
Hotels	2,263	424*	2,687	1,594	237*	1,831	47%
Commercial Properties	698	–	698	777	–	777	(10%)
Clubs and Services	500	–	500	339	–	339	47%
	3,461	424	3,885	2,710	237	2,947	32%

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

Revenue by geographical segment

HK$m	2021 Group's subsidiaries	2021 Associates and joint venture (effective share)	2021 Combined total	2020 Group's subsidiaries	2020 Associates and joint venture (effective share)	2020 Combined total	2021 vs 2020
Hong Kong	1,678	–	1,678	1,548	–	1,548	8%
Other Asia	733	245*	978	697	168*	865	13%
US and Europe	1,050	179	1,229	465	69	534	130%
	3,461	424	3,885	2,710	237	2,947	32%

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

The hotels division is the largest contributor of the group's combined revenue. In view of the COVID situation, the Peninsula hotels in New York, Paris and Bangkok were temporarily closed during the year. There is a significant inconsistency in each country's travel restrictions, quarantine requirements and preventative measures and as such we are seeing different paces of recovery for the group's hotels within the division. At the time of writing, social distancing and quarantine measures in Hong Kong and mainland China remain the strictest in the world. In the US and Europe, with the gradual easing of government restrictions, the Peninsula hotels in Paris and New York reopened for business in March 2021 and June 2021 respectively. The Peninsula Bangkok also reopened in November 2021 following a closure of seven months. Overall, the combined revenue of the hotel division increased by 47% to HK$2,687 million, with the US and Europe segment achieving the highest revenue growth.

Revenue from the commercial properties division decreased by 10% to HK$698 million, mainly due to the unfavourable performances of The Repulse Bay Complex (TRB) and The Peak Tower (TPT). TRB is the largest contributor of revenue, accounting for over 77% of the division's revenue. At TRB, rental revenue was under pressure as the luxury residential market in Hong Kong continued to experience a decline in demand. At TPT, the property reported a 38% decrease in revenue, mainly due to the decline in commercial rental and sharp decrease in visitors to the Sky Terrace following the suspension of the Peak Tram service in June 2021.

For the clubs and services division, despite the temporary suspension of the Peak Tram service from 28 June 2021, revenue increased by 47% to HK$500 million. This favourable result was mainly attributable to the record revenue achieved by Quail Lodge & Golf Club for its signature motor car event and the significant increase in mooncakes sales achieved by Peninsula Merchandising.

Details of the operating performances of the group's individual operations are set out on pages 35 to 61 of the Operational Review.

Operating costs (inclusive of pre-opening and project expenses)

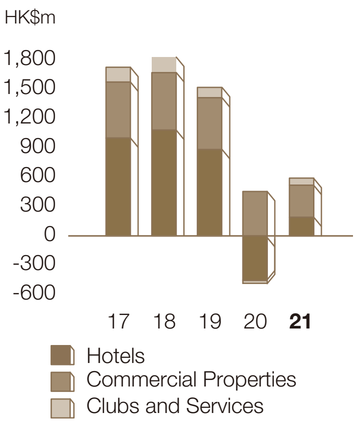
Whilst the group's consolidated revenue increased by 28%, the group managed to limit the increase in operating costs (excluding pre-opening and project expenses) to 10%. The following table summarises the key components of the group's operating costs.

HK$m	2021	2020	2021 vs 2020 favourable/ (unfavourable)
Cost of inventories	310	213	(46%)
Staff costs and related expenses	1,562	1,511	(3%)
Rent and utilities	373	373	–
Advertising and promotions	89	74	(20%)
Credit card and room commissions	107	73	(47%)
Guest supplies and laundry expenses	146	97	(51%)
IT and telecommunication expenses	83	76	(9%)
Property maintenance and insurance	183	150	(22%)
Other operating expenses	214	204	(5%)
	3,067	2,771	(11%)
Represented by:			
Operating costs	3,004	2,721	(10%)
Pre-opening and project expenses	63	50	(26%)
	3,067	2,771	(11%)

Given the nature of operating high-end luxury hotels, staff costs continued to be the largest portion of our operating costs. During the year, a total of HK$82 million in employment related government subsidies was received by the US and other Asian properties (2020: HK$130 million received by the Hong Kong and other Asian properties) and the amount was credited to the statement of profit or loss as a reduction of staff costs. Excluding the government subsidies, staff costs and related expenses would have been flat compared to 2020. The increases in other operating costs were mainly driven by the increase in business volumes from the hotels division and the clubs and services division.

Financial Review

Combined EBITDA*
by Business Segment



EBITDA* and EBITDA* Margin

The breakdown of the group's combined EBITDA* (earnings before interest, taxation, depreciation and amortisation) by business segment and by geographical segment is set out in the following tables.

* Excluding pre-opening and project expenses

EBITDA* by business segment

HK$m	2021 Group's subsidiaries	2021 Associates and joint venture (effective share)	2021 Combined total	2020 Group's subsidiaries	2020 Associates and joint venture (effective share)	2020 Combined total	2021 vs 2020
Hotels	58	132	190	(452)	8	(444)	n/a
Commercial Properties	327	–	327	452	–	452	(28%)
Clubs and Services	72	–	72	(11)	–	(11)	n/a
	457	132	589	(11)	8	(3)	n/a

EBITDA* by geographical segment

HK$m	2021 Group's subsidiaries	2021 Associates and joint venture (effective share)	2021 Combined total	2020 Group's subsidiaries	2020 Associates and joint venture (effective share)	2020 Combined total	2021 vs 2020
Hong Kong	460	–	460	579	–	579	(21%)
Other Asia	(206)	79	(127)	(257)	40	(217)	41%
US and Europe	203	53	256	(333)	(32)	(365)	n/a
	457	132	589	(11)	8	(3)	n/a

* Excluding pre-opening and project expenses

EBITDA* margin

	2021			2020		
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total
Hotels	3%	31%	7%	–28%	3%	–24%
Commercial Properties	47%	–	47%	58%	–	58%
Clubs and Services	14%	–	14%	–3%	–	–3%
Overall EBITDA* margin	13%	31%	15%	0%	3%	0%
By region						
Hong Kong	27%	–	27%	37%	–	37%
Other Asia	–28%	32%	–13%	–37%	24%	–25%
US and Europe	19%	30%	21%	–72%	–46%	–68%

The group reported a combined EBITDA of HK$589 million and an overall EBITDA margin of 15% compared to an EBITDA loss of HK$3 million and an EBITDA margin of 0% in 2020. These favourable results were due to the revenue growth achieved by the group and the effective cost control measures undertaken during the year.

Increase/(decrease) in fair value of investment properties

The investment properties of the group were revalued as at 31 December 2021 by independent firms of valuers based on an income capitalisation approach. The revaluation surplus of HK$670 million was mainly attributable to the increase in appraised market value of The Repulse Bay (TRB). Whilst demand in the residential leasing market remained weak, the prices of luxury residential apartments continued to pick up throughout 2021, resulting in a revaluation gain for TRB.

Impairment provision

Given the substantial uncertainty in the economic and business environment in Myanmar since 1 February 2021, the group agreed with the joint venture partner to suspend all work on The Peninsula Yangon project in June 2021 and we will continue to evaluate the situation in Myanmar. An impairment review was conducted by the management at the year end. As the project's fair value as appraised by the independent valuer was lower than its book value as at 31 December 2021, the directors considered it appropriate to write down the hotel's work in progress value, resulting in an impairment provision of HK$679 million.

The impairment provision for 2020 related to the write-down of the book value of The Peninsula Manila.

Financial Review

Share of result of joint ventures

The group, through its joint venture The Peninsula Shanghai Waitan Hotel Company Limited (PSW), owns a 50% interest in The Peninsula Shanghai Complex which comprises The Peninsula Shanghai hotel and shopping arcade and the adjoining Peninsula Residences apartment tower. Apart from earning hotel revenue, PSW also earns leasing income from the residential apartments as well as sales proceeds when the apartments are sold. At the end of 2021, PSW owned 8 remaining apartments which are held for sale.

It is worth noting that any unrealised accumulated appreciation in fair value of the apartments will become realised gains upon disposal. Accordingly, adjustments should be made to reflect the actual underlying profit realised by the group when the apartments are sold. Further details of the adjustments are set out on page 68 of this Financial Review.

As domestic travel gradually resumed in mainland China, there was a substantial improvement of the operating performance of PSW in 2021. Inclusive of hotel and arcade operations, and residential leasing, PSW generated an EBITDA of HK$157 million compared to an EBITDA of HK$79 million in 2020. After accounting for depreciation, interest and the unrealised loss on revaluation of the hotel shopping arcade, PSW recorded an accounting loss amounting to HK$7 million (2020: loss of HK$67 million) and the group’s share of loss amounted to HK$4 million (2020: loss of HK$33 million).

Details of the operating performance of The Peninsula Shanghai are set out in the Operational Review section on pages 38 and 39.

The group also owns a 50% interest in The Peninsula Istanbul indirectly through PIT İstanbul Otel İşletmeciliği Anonim Şirketi, a joint venture incorporated in Turkey. The Peninsula Istanbul is subject to a 30 year fixed term lease agreement granted by our partners who in turn have a 30 year operating right over the entire Galataport Project commencing 2014. In 2020, an impairment provision of HK$472 million was made for The Peninsula Istanbul by the management given the fair value of the hotel under development as appraised by the independent valuer was lower than the book value. The group’s share of impairment provision amounting to HK$236 million was included in share of results of joint ventures in 2020.

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 hotels amounted to HK$11 million (2020: HK$97 million).

Details of the operating performances of The Peninsula Beverly Hills and The Peninsula Paris are set out in the Operational Review section on pages 52 to 55.

Statement of financial position

The consolidated statement of financial position of the group as at 31 December 2021 is presented on page 161 and the key components of the group's assets and liabilities are set out in the following table. As reflected in the table, the group's financial position as at 31 December 2021 remained robust with shareholders' funds amounting to HK$36,762 million, representing a per share value of HK$22.29.

HK$m	2021	2020	2021 vs 2020 favourable/ (unfavourable)
Fixed assets	**46,825**	45,656	3%
Properties under development for sale	**4,954**	4,264	16%
Other long-term assets	**2,515**	2,427	4%
Cash at banks and in hand	**479**	520	(8%)
Other assets	**912**	812	12%
	55,685	53,679	4%
Interest-bearing borrowings	**(13,379)**	(11,182)	(20%)
Lease liabilities	**(3,103)**	(3,266)	5%
Other liabilities	**(2,338)**	(2,079)	(12%)
	(18,820)	(16,527)	(14%)
Net assets	**36,865**	37,152	(1%)
Represented by:			
Shareholders' fund	**36,762**	36,844	(0%)
Non-controlling interests	**103**	308	67%
Total equity	**36,865**	37,152	(1%)

Summary of hotel, commercial and other properties

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

The group's hotel properties and investment properties are dealt with under different accounting policies as required by the relevant accounting standards. The hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties (including shopping arcades and offices within the hotels) are stated at fair value as appraised by independent valuers. In order to provide users of the financial statements with additional information on the fair value of the group's properties, independent valuers have been engaged to conduct a valuation of the hotel properties and golf courses as at 31 December 2021.

A summary of the group's hotel, commercial and other properties showing both the book value and the fair value as at 31 December 2021 is set out in the table on the following page.

Financial Review

		2021		2020	
		Value of 100% of the property (HK$m)			
	2021 Group's interest	**Fair value valuation**	**Book value**	Fair value valuation	Book value
Hotel properties *					
The Peninsula Hong Kong	100%	**12,062**	**9,622**	11,968	9,639
The Peninsula New York	100%	**2,114**	**1,562**	2,075	1,576
The Peninsula Beijing	76.6%[Δ]	**1,306**	**1,302**	1,363	1,361
The Peninsula Tokyo	100%	**1,572**	**1,306**	1,737	1,504
The Peninsula Chicago	100%	**1,240**	**1,083**	1,200	1,150
The Peninsula Bangkok	100%	**653**	**583**	715	669
The Peninsula Manila	77.4%	**45**	**37**	50	47
The Peninsula Shanghai[#]	50%	**3,122**	**2,437**	3,016	2,455
The Peninsula Paris[#]	20%	**4,786**	**4,539**	5,158	5,082
The Peninsula Beverly Hills[#]	20%	**2,523**	**284**	2,449	328
		29,423	**22,755**	29,731	23,811
Commercial properties					
The Repulse Bay Complex	100%	**18,488**	**18,488**	17,792	17,792
The Peak Tower	100%	**1,320**	**1,320**	1,348	1,348
St. John's Building	100%	**1,202**	**1,202**	1,197	1,197
Apartments in Shanghai	100%	**416**	**416**	403	403
21 avenue Kléber	100%	**688**	**688**	743	743
The Landmark	70%[ΔΔ]	**36**	**36**	46	46
		22,150	**22,150**	21,529	21,529
Other properties					
Quail Lodge resort, golf course and vacant land	100%	**286**	**274**	286	276
Vacant land in Thailand	100%	**89**	**89**	100	100
Other properties for own use	100%	**399**	**198**	381	205
		774	**561**	767	581
Properties under development[##]					
The Peninsula London Hotel	100%	**4,946**	**4,946**	3,392	3,392
The Peninsula London Residences	100%	**4,954**	**4,954**	4,264	4,264
The Peninsula Yangon	70%	**125**	**125**	679	679
The Peninsula Istanbul[#]	50%	**1,000**	**1,000**	799	799
		11,025	**11,025**	9,134	9,134
Total market/book value		**63,372**	**56,491**	61,161	55,055

* Including the shopping arcades and offices within the hotels

Δ 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

ΔΔ 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

These properties are held by associates/joint ventures

The directors consider that the fair value of all properties under development approximates their book value

Properties under development for sale

Properties under development for sale comprise the 25 apartments which are part of The Peninsula London development. The planned gross floor area of the apartments is approximately 119,000 square feet.

As at 31 December 2021, the cost of properties under development for sale amounting to HK$4,954 million (2020: HK$4,264 million) was capitalised on the balance sheet and such amount will be recovered through sales completions and be recognised as cost of inventories. Reservation fees and pre-sale deposits paid by buyers of the apartments are held in escrow accounts in accordance with the local regulations in the UK and therefore, such fees and deposits are not reflected in the consolidated statement of financial position.

Other long-term assets

The other long-term assets as at 31 December 2021 of HK$912 million (2020: HK$812 million) comprised the group's 50% interest in The Peninsula Shanghai, the group's 20% interest and the value of its operating right in The Peninsula Beverly Hills, the group's 20% interest and the value of its operating right in The Peninsula Paris and the group's 50% interest in The Peninsula Istanbul which is under development.

Cash at banks and in hand and interest-bearing borrowings

As at 31 December 2021, the group's cash at banks and in hand and interest-bearing borrowings amounted to HK$479 million (2020: HK$520 million) and HK$13,379 million (2020: HK$11,182 million) respectively, resulting in a net borrowing of HK$12,900 million (2020: HK$10,662 million). The HK$2,238 million increase in net borrowings was mainly due to the capital expenditure in relation to the group's on-going projects under development. A breakdown of the group's capital expenditure on on-going projects for the year ended 31 December 2021 is set out on page 78.

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Cash flows

Excluding project-related cash flows and pre-opening expenses, the group generated a cash inflow from existing operations after tax, normal capital expenditure, interest and hotel lease payments of HK$69 million as compared to a cash outflow of HK$808 million in 2020. The following table summarises the key cash movements for the year ended 31 December 2021.

HK$m	2021	2020
Operating EBITDA (before pre-opening and project expenses)	457	(11)
Tax payment*	(70)	(179)
Changes in working capital**	(6)	(197)
Normal capital expenditure on existing assets (excluding projects)	(141)	(238)
Net cash inflow/(outflow) after normal capital expenditure	240	(625)
Interest attributable to the existing operations	(30)	(39)
Lease payments attributable to existing operations	(141)	(144)
Net cash inflow/(outflow) from operations	69	(808)
Project-related cash flows		
Capital expenditure on new projects	(2,254)	(1,771)
Capital expenditure on Peak Tram upgrade project	(193)	(161)
Pre-opening and project expenses	(63)	(50)
Interest incurred on projects	(125)	(126)
Cash outflow for projects	(2,635)	(2,108)
Net cash outflow before dividends and other payments	(2,566)	(2,916)
Dividends paid to shareholders of the company	–	(42)
Dividends paid to holders of non-controlling interests	(6)	(5)
Cash consideration and other related costs in respect of the restructuring of the joint venture arrangements in Thailand	–	(571)
Other payments and receipts	(11)	9
Net cash outflow before borrowings	(2,583)	(3,525)

* The amount of tax paid in 2020 largely related to the group's Hong Kong profits tax liabilities in respect of the year ended 31 December 2019 due to the late issuance of tax assessment notices by the Inland Revenue Department

** The 2020 figure mainly comprised the bonuses accrued in 2019 which were paid in 2020 as well as guest and rental deposits refunded to customers during the year

The breakdown of the group's capital expenditure on new projects is analysed below.

HK$m	2021	2020
The Peninsula London	2,087	1,378
The Peninsula Yangon	58	135
Capital injection into The Peninsula Istanbul's joint venture	109	258
	2,254	1,771

Capital commitments

Whilst the global hospitality industry has been significantly affected by the COVID pandemic, the group's long-term commitment to investing for the future remains unchanged.

The group has committed to the most significant capital projects in its history, with two new hotels under development in London and Istanbul as well as the Peak Tram upgrade project in Hong Kong. We were developing a Peninsula hotel in Yangon but in light of the substantial uncertainty in the economic and business environment in Myanmar since 1 February 2021, the group agreed with its joint venture partners to suspend the Yangon hotel project in June 2021.

The group's budgeted investment in respect of the hotel development projects in London and Istanbul are approximately GBP800 million and EUR150 million. These projects have been affected by disruptions to the construction labour force and supply chains since the outbreak of the COVID pandemic and we are still working with our contractors and cost consultants to assess the cost impact. Further details on the status of the development projects in London and Istanbul are set out on pages 62 to 64 of the Operational Review.

For the Peak Tram upgrade project, the overall budget increased by HK$65 million to HK$799 million. The budget uplift was mainly due to unforeseen underground, structural and MEP conditions, COVID-related delays, additional scope, government-imposed conditions as well as delayed completion and delivery of the new tramcars.

The group's total capital commitments as at 31 December 2021 are summarised in the table below.

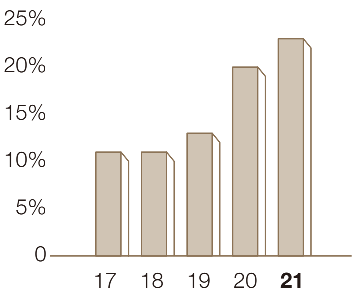
HK$m	2021	2020
Normal capital expenditures in respect of existing properties, including the group's share of capital expenditures of a joint venture and associates	**386**	216
New and special projects		
– The Peak Tram upgrade	**198**	332
– The Peninsula London	**1,943**	4,044
– The Peninsula Istanbul	**569**	707
– The Peninsula Yangon	**594***	705
	3,690	6,004

* Being the remaining portion of the authorised budget available for spending on The Peninsula Yangon project when the development resumes in the future

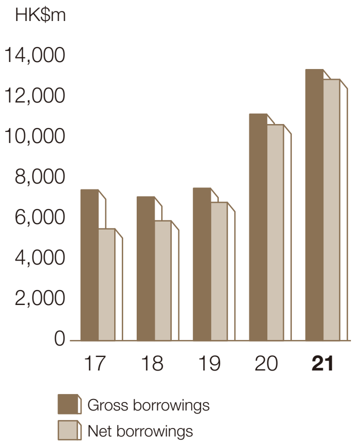
As at 31 December 2021, the group's undrawn committed facilities and cash at banks amounted to HK$6.6 billion (2020: HK$7.0 billion). Given the group's robust balance sheet and strong liquidity position, the Directors believe that the group will be able to meet the above capital commitments as well as the working capital requirements of its operations.

Financial Review

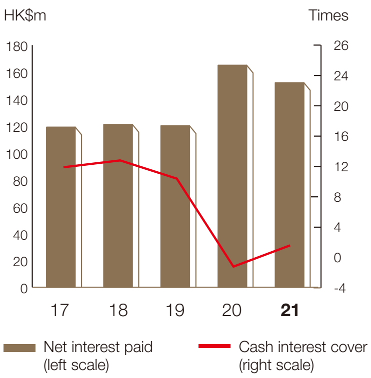
Net Borrowings to Total Assets



Gross and Net Borrowings



Net interest Paid
and Cash Interest Cover



Capital and treasury management

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

The group manages treasury activities centrally at its corporate office in Hong Kong. The group regularly reviews its capital structure and actively monitors current and expected liquidity requirements to ensure there is ample headroom for its obligations and commitments. The group also maintains adequate committed borrowing facilities from major financial institutions to ensure funds are available to meet its future financial obligations and to finance its growth and development. A centralised strategy is adopted by concentrating committed borrowing facilities at the corporate office in Hong Kong.

The group has established liquidity structure consists of notional cash pooling and domestic cash pooling so that global cash balances can be concentrated back to head office efficiently for strategic cash management.

Liquidity and Financing

In 2021 the group has further obtained committed facilities of HK$2 billion to support group capital expenditures and general working capital.

We take a proactive approach to manage the group's liquidity to ensure ample headroom to cover our capital commitments and protect against business volatility, such as that created by the global coronavirus outbreak.

The group is committed to integrating sustainability elements into its business and financing strategy. During the year the group converted its existing EUR 60 million and HK$450 million facilities into a green loan and a sustainability-linked loan respectively. The group also signed a new sustainability-linked loan facility of HK$800 million. The sustainability-linked loans are aligned to the group's sustainability targets.

The group monitors its capital structure on the basis of its net borrowings (defined as interest-bearing borrowings less cash at banks and in hand) to total assets and monitors its liquidity through cash interest cover and funds availability.

In 2021, gross borrowings increased to HK$13.4 billion (2020: HK$11.2 billion) mainly due to construction payments in respect of the projects in London and Istanbul. Consolidated net debt increased to HK$12.9 billion as compared to HK$10.7 billion in 2020. As at December 2021, the group's unused committed facilities amounted HK$6.1 billion (2020: HK$6.5 billion). The group's net borrowings to total assets increased by three percentage points to 23%. This ratio remains acceptable in the light of our capital commitments for the new projects.

During the year, the group also refinanced its maturing loans in HKD, USD and JPY with new maturity tenors of 1 to 3 years. The average debt maturity for the year decreased from 2.1 years to 1.7 years. We are also in discussion with our banks to renew and refinance the facilities of HK$3.5 billion which are due to expire in 2022. Given the group's robust financial position and in view of our long-term relationship with our banks, we have confident that we will be able to renew and refinance the maturing facilities with reasonable terms.

Despite an increase in borrowings, net interest paid in 2021 decreased by 6% to HK$155 million (2020: HK$165 million) due to a decrease in interest rates globally. Cash interest cover (EBITDA less lease payments divided by net interest paid) was 1.6 times (2020: –1.2 times) due to EBITDA improvement in 2021.

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

The consolidated and non-consolidated borrowings as at 31 December 2021 are summarised as follows:

	2021						2020
HK$m	Hong Kong	Other Asia	United States of America	Europe	UK	Total	Total
Consolidated gross borrowings	3,618	2,561	498	529	6,173	13,379	11,182
Non-consolidated gross borrowings attributable to the Group*:							
The Peninsula Shanghai (50%)	-	483	-	-	-	483	504
The Peninsula Beverly Hills (20%)	-	-	195	-	-	195	194
The Peninsula Paris (20%)	-	-	-	401	-	401	427
Non-consolidated borrowings	-	483	195	401	-	1,079	1,125
Consolidated and non-consolidated gross borrowings	3,618	3,044	693	930	6,173	14,458	12,307

* Represents HSH's attributable share of borrowings

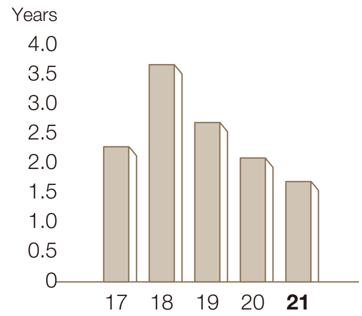
Foreign Exchange

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

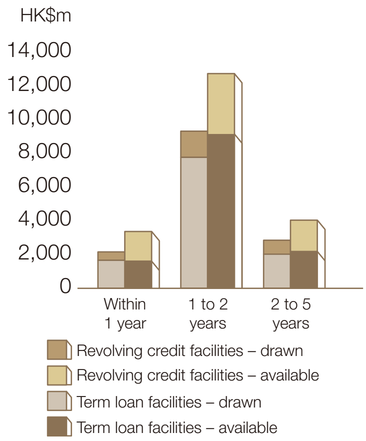
During the year, the group had also entered into forward exchange contracts to hedge Euro exposures against GBP, TRY exposures against EUR arising from construction payments for The Peninsula London and The Peninsula Istanbul projects.

All of the group's borrowings are denominated in the functional currency of the operations to which they relate. As at 31 December 2021, GBP, HK dollar and Japanese yen borrowings represented 46%, 27% and 18% of total borrowings, respectively. Other balances were in other local currencies of the group's entities.

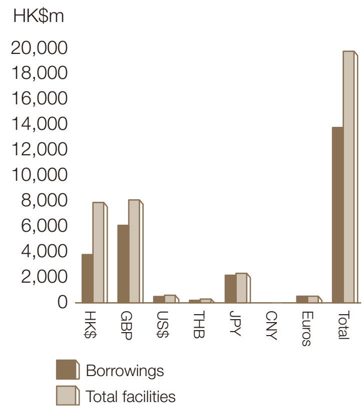
Weighted Average Debt Maturity



Banking Facilities and Borrowings (by type and maturity)

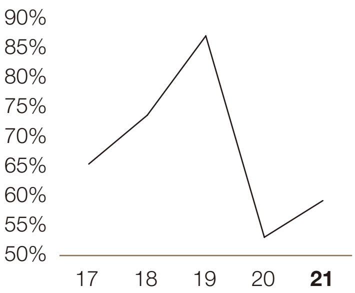


Banking Facilities and Borrowings (by currency)

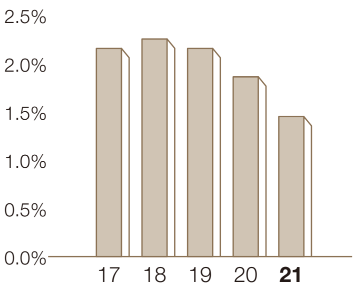


Financial Review

Percentage of Fixed Borrowings to Total Borrowings (adjusted for the hedging effect)



Weighted Average Gross Interest Rate



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.

As at 31 December 2021, the group has increased the fixed to floating interest rate ratio to 59% (2020: 53%) based on signs of global tightening of interest rates. The weighted average gross interest rate for the year decreased from 1.9% to 1.5%.

Credit risk

The group manages its exposure to non-performance of counterparties by transacting with lenders with a credit rating of at least investment grade. However, in developing countries, it may be necessary to deal with lenders of lower credit ratings.

Due to long term risk profiles, derivatives are used solely for hedging purposes and not for speculation and the group only enters into such derivative transactions with counterparties with investment grade ratings only.

As at 31 December 2021, derivatives with a notional amount of HK$5,450 million (2020: HK$3,243 million) were transacted.

Dividends

The company adopts a dividend policy of providing its shareholders with a stable and sustainable dividend stream, linked to the cash flows from operating activities and underlying earnings achieved. As an alternative to receive cash dividend, the company offers a scrip dividend programme which enables its shareholders to elect to receive new fully paid shares.

As the group sustained an underlying loss for the year ended 31 December 2021, the Board of Directors has resolved not to declare an interim dividend or a final dividend.

Share information

At market close on 16 March 2022, the company's share price stood at HK$7.98, giving a market capitalisation of HK$13.2 billion (US$1.7 billion). This reflects a discount of 64% to net assets attributable to shareholders of the company, or a discount of 68% to the adjusted net assets attributable to shareholders (see page 67).

The average closing price during 2021 was HK$7.47, with the highest price of HK$8.5 achieved on 28 June 2021 and the lowest price of HK$6.67 recorded on 20 December 2021.

Creating Stakeholder Value

Engaging with Our Stakeholders

Engaging with and responding to our stakeholders is a key part of our overall governance and management approach. We proactively engage with a wide range of key stakeholders including employees, customers, regulators, lenders, shareholders and investors, non-governmental organisations, media and others. It is important for us to capture and understand how their views change and ultimately how we can implement improvements to the business today and in the future.

Stakeholder Group	Why and how we engage	Examples in 2021
Our Guests	Engaging with our guests and ensuring their satisfaction is critical to how we run our business. We continue to develop a best in class booking and E-Commerce experience that drives increasing room bookings, while demonstrating differentiated brand values. On the sales side, we continue to focus on nurturing our relationships with PenClub members, our in-house preferred travel partner programme. Enriching the lives of our guests is important and for this reason, The Peninsula provides guests and visitors the opportunity to engage with immersive, experiential art, allowing them to create memories that they will carry for a lifetime. Through refreshed marketing collateral, content and partnerships we can present the brand in a more meaningful, relevant and engaging way. This entails not only creating continuity in our existing materials, but also using our rich history and heritage to mine new stories that will elevate the brand.	• E-Commerce focused and launched website design upgrades to improve the usability and user experience (UX) of The Peninsula Hotels group and property websites, providing a more virtual experience, greater visual impact and additional display options for rooms, dining and wellness. • Digital Customer Experience launched the Greater China CRM programme with a customised design using WeChat's mini programme as the platform, allowing us to engage with our Greater China customers by providing unique benefits and experiences across our Hong Kong, Beijing and Shanghai hotels, shopping arcades and boutiques. • Brand Marketing continued to focus on The Peninsula Hotels' global art programme, 'Art in Resonance,' which collaborates with ground-breaking artists around the world to offer hotel guests uniquely immersive artistic experiences at the property level: o The Peninsula Paris mounted a dazzling art exhibit in the public spaces of its historic Beaux-Arts property, in collaboration with one of Paris's most esteemed modern-art galleries, Galerie Templon. The installation featured works by critically acclaimed Chilean sculptor Iván Navarro – whose pieces employ neon, fluorescent, and incandescent light to create an absorbing, almost hypnotic effect. During the three-month exhibition, the hotel hosted round-table discussions, moderated by art experts, to further facilitate dialogue between artists and their audiences. o The Peninsula New York, long affiliated with the international art world, welcomed renowned Dutch artist Peter Riezebos for a series of immersive and interactive events. While in residence, Riezebos set-up a temporary painting studio in the hotel's Gotham Lounge, held live talks with Q&A sessions, and created three specially commissioned paintings in his characteristic neo-expressionist style, whose bold dynamism and use of rebus evoke the work of Basquiat and de Kooning.

Stakeholder Group	Why and how we engage	Examples in 2021
		o The Peninsula Bangkok introduced 'Gravity of Thoughts,' an installation of embroidered artworks by local artist Narissara Pianwimungsa that contemplates the power of nature and fragility of life. The installation's focal point was a fabric sculpture dramatically suspended from the ceiling of the hotel's artist studio. Meticulously weighted to ensure its precise balance, the piece has a draped, undulating shape, and is embroidered with imagery depicting open eyes. The striking, sculptural embroidered works were completed during her stay as at The Peninsula Bangkok. • We continued to focus on strengthening our relationships with PenClub members, our in-house preferred travel partner programme by holding webinar hotel tours, cultural programmes and virtual cocktail gatherings.
Our People	Our staff continued to face pandemic-related challenges during 2021. Our Human Resources team have made an enormous effort to preserve as many jobs and livelihoods as possible, ensuring our staff remain engaged despite working from home and with furlough continuing in various countries. We continue to focus on developing strong leaders, implementing mental and physical well-being programmes, and to improve our engagement strategies. We increased two-way communication with senior management through discussion forums and webinars. We explored best practices to reward and recognise high performing staff.	• Major initiatives were undertaken across the group to encourage our staff to get vaccinated, including an incentive programme in Hong Kong offering cash, paid leave and pre-vaccination medical check-ups. • Launched a global survey "Let's Check In – How are you doing?" in September 2021 to understand the sentiment and overall well-being of our employees • Our CEO conducted a global "CEO Town Hall" online to connect with employees around the world and answer their questions • Rolled out a new "Peninsula Services Principles" framework for all employees in our hotel operations, which focuses on creating stronger emotional connections with guests while offering the highly personalised service that our guests have come to expect from The Peninsula • Launched our HSH Core Principles across the group to encourage all our colleagues to support these service principles • Launched "Work Improvement Teams" globally under our WorkPlace 2025 programme to encourage creative idea sharing amongst the properties on best practice ideas • Launched an "eHR Suite" which is an integrated HR Talent solution to attract, develop, retain the right talent and manage the employee lifecycle • See pages 30 and 31 for more details on our employee engagement strategy

Engaging with Our Stakeholders

Stakeholder Group	Why and how we engage	Examples in 2021
Our Communities: Governments	Our Executive Directors and Chairman regularly meet with senior Hong Kong Government leaders and Legislative Council members to discuss areas of concern for the tourism and property sectors. Our Chief Executive Officer is a member of the World Travel & Tourism Council (WTTC) which actively engages with governments around the world on industry issues on behalf of members. Our project team members in London and Istanbul with select local government representatives, diplomats and relevant stakeholders to discuss local issues and enhance cooperation ahead of our project hotel openings.	• Engaged with Hong Kong Government departments and senior tourism officials on how to rebuild tourism in Hong Kong as well as updates on recovery efforts after the pandemic • Membership of WTTC • Created and collaborated with other Hong Kong hotel brands as part of the Heritage Tourism brands initiative to promote "tourism at home" • Engaged with local government representatives and diplomats in London and Istanbul
Financial Analysts and Investors	Our Investor Relations team and our Executive Directors meet regularly with financial analysts and investors, as well as participate in non-deal investor road shows, post-results briefings and the AGM	• Investor Conferences in Hong Kong and Mainland China • Financial reports and website • Annual General Meeting (AGM) • One-on-one meetings and conference calls • Regular briefings with research analysts
Media	While many events were cancelled in 2021, the Peninsula Hotels Marketing team conducts regular press briefings and attends high profile trade shows in all our key markets as well as emerging markets. The HSH Corporate Affairs team organises press briefings with Executive Directors at annual/interim results and individual interviews throughout the year in Hong Kong. We host regular press groups from the world's most prestigious travel, luxury and business publications to visit the cities in which we operate.	• HSH financial results press releases and AGM (press conferences had to be cancelled due to social distancing requirements) • Media engagement programmes
Community and NGOs	Our Corporate Responsibility and Sustainability team meets with non-profit organisations, academia and industry advocacy groups regularly throughout the year to keep ourselves informed of the latest developments on sustainability issues, and contributes to the sustainability development of the wider community by sharing HSH's experience at various local and regional conferences and industry committees. We continue to participate in membership of like-minded organisations to support global issues such as climate change and single use plastics. This engagement also includes our support to different charities around the world. Our operations also engage with local charities to provide support where possible.	• Member of We Mean Business Coalition, Global Tourism Plastics Initiative, Mekong Club and the HK Sustainable Seafood Coalition, Hong Kong General Chamber of Commerce Environment and Sustainability Committee • Climate Action Focus Group, organised by WTTC to help develop decarbonisation action plans for the tourism and hotel industry

Stakeholder Group	Why and how we engage	Examples in 2021
Partners and Suppliers	Our partners are also key to our growth, as they help us to ensure the successful operation of our properties in their local markets. Sustainable guidelines such as the Building Research Establishment Environmental Assessment Method (BREEAM) were incorporated since the beginning of project planning, for the construction of the new hotels and renovation projects.	• The Peninsula Istanbul is undergoing a highly complex restoration and construction project on the banks of the Bosphorus, in collaboration with local authorities and Heritage Board. • The Peninsula London and Istanbul are referencing international green building standards during their development

We always seek to improve on the area of stakeholder engagement and we are compiling a thorough stakeholder engagement profile for our project markets in 2021.

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

Awards in 2021

Operations	Awards	Organisers
The Hongkong and Shanghai Hotels – Annual Report 2020	2021 ARC Awards, Silver Award – Overall Presentation – Traditional Format – Hotel & Leisure	MerComm, Inc.
	2021 ARC Awards, Bronze Award – Feature Categories – Cover Photo/Design – Hotel & Leisure	MerComm, Inc.
	2021 ARC Awards, Honor Award – Overall Presentation – Traditional Format – Tourism – Feature Categories – Photography – Tourism – Feature Categories – Cover Photo/Design – Tourism – Feature Categories – Graphics – CSR – Corporate Social Responsibility Report	MerComm, Inc.
	Best Corporate Governance Awards 2021 – Platinum Award in the Most Sustainable Companies and Organisations (MSCO) section (Non-Hang Seng Index (Medium Market Capitalisation) Category)	Hong Kong Institute of Certified Public Accountants
	2021 Best Annual Reports Awards – Silver Award in "General" Category	Hong Kong Management Association
The Hongkong and Shanghai Hotels	The Hang Seng University of Hong Kong Junzi Corporation Awards 2020	The Hang Seng University of Hong Kong
	1st Greater China Hotel Business Sustainability Index – Top 10 (Performer)	The Chinese University of Hong Kong (CUHK) Business School's Centre for Business Sustainability (CBS)
The Peninsula Hong Kong	Michelin One Star – Spring Moon Michelin One Star – Gaddi's	The Michelin Guide Hong Kong Macau 2021
	2021 World's Best Awards – The Top 500 Hotels in the World – The Top 5 Hotels in China (No.3)	Travel + Leisure
	Best Restaurant 2021 – Gaddi's – Chesa – Spring Moon	Tatler Hong Kong
	Black Pearl Restaurant Guide 2021 – Spring Moon	Black Pearl Restaurant Guide
	Forbes Travel Guide 2021 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa – Five Star Rating Awards – Restaurant – Gaddi's	Forbes Travel Guide
	Business Traveller Asia-Pacific 2021 Awards – Best Business Hotel in the World – Best Business Hotel in Asia-Pacific	Business Traveller Asia-Pacific
	100 Top Tables 2021 – Gaddi's	South China Morning Post

Operations	Awards	Organisers
The Peninsula Shanghai	2021 World's Best Awards – The Top 500 Hotels in the World	Travel + Leisure (US Edition)
	2021 China Travel Awards – Top 100 Hotels in China	Travel + Leisure China
	China's Wine List of The Year Award 2021 – Yi Long Court – Sir Elly's	Asia Wine Institute
	Michelin One Star – Yi Long Court Michelin One Star – Sir Elly's	The Michelin Guide Shanghai 2022
	Luxury Hotel of the Year	TimeOut Hospitality Awards
	The Best City Luxury Hotel	Shanghai Toutiao
	Forbes Travel Guide 2021 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa	Forbes Travel Guide
	Top 100 Suites in the World – The Peninsula Suite	Elite Traveler
	The Top 100 Hotels in China	The Best D.E.S.I.G.N. Hotels Award
	2021 Gold List – China Top 10 Hotels	Condé Nast Traveler
The Peninsula Beijing	2021 China's Top 100 Hotels	Travel + Leisure
	Forbes Travel Guide 2021 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
	Michelin One Star – Jing	Michelin Guide Beijing 2021
	CHA Hotel Awards 2021 – Annual Best Hotel Award	Lifestyle
	Best Hotel & Resort Value Awards 2021 – Best Luxury Hotel	Voyage
	METROPOLITAN Hotels & Restaurants Awards 2021 – Best Hotel of the Year 2021	Metropolitan
	Premium Traveler Resorts and Hotel Awards – Annual Luxury Hotel in Great China 2021	Premium Traveler
	Target Taste 2021 – Top Luxury Hotel of the Year	Target
	Golden Awards 2021 – Best Business Hotel	National Georgraphic Traveller
	2021 Rayli Trend Award – Annual Co-branding Trend Hotel	Rayli
	Life Elements 2021 – Best Luxury Hotel 2021	Life Element
	The 7th Best BANG Awards – Best Luxury Hotel of the Year	Beijing BANG
	The Fox Guide 2021 – Best Spa Hotel of the Year	Sohu Travel
	The 5th Hotel Discovery Awards – Best Spa Hotel	Hotel Discovery
	Travel & Life Awards 2021 – Luxury Hotel of the Year	Enjoyable Travel

Awards in 2021

Operations	Awards	Organisers
The Peninsula Tokyo	Forbes Travel Guide 2021 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa	Forbes Travel Guide
The Peninsula Bangkok	2021 World's Best Awards – The Top 500 Hotels in the World – The Top 5 Bangkok Hotels 2021 (No.5)	Travel+Leisure
	Forbes Travel Guide 2021 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
The Peninsula Manila	2021 World's Best Awards – The Top 100 Hotels in the World (No. 25)	Travel + Leisure
The Peninsula New York	2021 Best Hotels in the USA Awards – Best Hotel in New York City (No.1)	U.S. News & World Report
	2021 Forbes Travel Guide Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa	Forbes Travel Guide
	2021 AAA Five Diamond Hotels	Automobile Association of America (AAA)
	Travelers' Choice 2021	TripAdvisor
The Peninsula Chicago	2021 Gold List – Best Hotels and Resorts in the US and Canada	Condé Nast Traveler
	Forbes Travel Guide 2021 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
	Best Hotel in the USA (No.1)	U.S. News & World Report
	Best Holiday Hotel in Chicago (No.1) Best Holiday Hotel in USA (No.2) Most Romantic Hotel (No.1)	USA Today
	2021 AAA Five Diamond Hotels	Automobile Association of America (AAA)
The Peninsula Beverly Hills	Forbes Travel Guide 2021 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
	Travelers' Choice 2021	TripAdvisor
	2021 AAA Five Diamond Hotel	Automobile Association of America (AAA)
	Best Hotels in Los Angeles (No.1) Best Hotels in California (No.1)	U.S. News & World Report

Operations	Awards	Organisers
The Peninsula Paris	– Michelin One Star – L'Oiseau Blanc – Dessert Passion Selection (Anne Coruble, Pastry Sour-Chef selected for Top 11 of Pastry Chef & Sous-Chef)	Michelin Red Guide 2021
	Traveler Readers' Choice Awards 2021 – Best Hotel in Paris (No.1)	Condé Nast Traveler
	France's Leading Luxury Hotel 2021	World Travel Awards
	Forbes Travel Guide 2021 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
The Repulse Bay	Home & Living Awards 2021 – Best Luxury Residential Complex	Hong Kong Living
	SCMP 100 Top Tables award 2021 – The Verandah	South China Morning Post
	Quality Water Supply Scheme for Buildings – Fresh Water (Management System) (2020–2022)	Water Supplies Department
Quail Lodge & Golf Club	2021 Best Playing Conditions, Central California	GreensKeeper.org
	NBC GolfPass Golfers' Choice 2021 – Top 25 U.S. Courses for Course Conditions (No.1) – Best Golf Courses in California (No.2)	GolfPass
	Best Of Monterey County 2021 – Best Restaurant on a Golf Course – Covey Grill	Monterey County Weekly's
	The Historic Motoring Awards 2021 – Concours Event of the Year – The Quail, A Motorsports Gathering	The Historic Motoring Awards 2021

Governance

Chairman's Governance Overview

"I believe it is our people, our family-oriented culture and our high standards of corporate governance that help us to deliver our strategy and live up to our brand proposition in the face of great challenges."

Dear Shareholders,

Resilience and Recovery

Our company continued to face considerable challenges in 2021 due to the ongoing effects of the global pandemic. As one of the world's oldest hospitality companies still in operation, we have faced many difficulties over the years and I am confident that we have the strength and resilience to come through the current trials and tribulations, and that the day will come when we can once again expect normality.

Today, The Hongkong and Shanghai Hotels, Limited is considered one of the world's leading luxury hospitality companies. I believe it is our people, our family-oriented culture, and our dedication and commitment to high standards of corporate governance that help us to deliver our strategies and live up to our brand proposition in the face of great challenges.

A governance framework at the heart of our culture

The Board leads a governance framework which is at the heart and soul of our company culture and upholds our values and principles of integrity, accountability and transparency. We operate within a well-established framework of policies, processes and management systems that we believe will ensure the long-term success of the group. As a relatively small company, we have a close-knit culture in which we genuinely consider our employees to be part of our extended family and we strive to support each other in every way possible. Our key philosophy of acting with integrity not only underpins our brand and reputation; it is the key to sustaining a place where our employees are proud to work, where we show respect for one another, and where we always strive to "do the right thing".

Adapting our governance practices to mitigate the impact of the pandemic and managing risks

We regularly review and seek improvements to our governance processes, policies and procedures to ensure they are in line with global regulatory requirements and best practice. In 2021, using this sound governance framework, the focus continued to be on efforts to mitigate the impact of the global COVID-19 pandemic. The Board closely monitored the company's COVID-19 response plan formulated by management, as well as our strategy to stay connected to guests, employees and shareholders. As we started to move from the "survival" phase to recovery, the Board continually reviewed the progress of the measures taken and the impact of COVID-19 on our business.

Managing risks across the group and seeking improvements on internal controls has always been a priority, and has become even more so given the challenges of the past two years. The global COVID-19 pandemic brought to light new organisational risks and elevated existing ones. Our Group Risk Committee concentrated on enhancement of internal controls to manage the pandemic and other strategic risks of the group, with particular focus on recovery measures, our development projects and increasing climate change risks. In 2021, we focused our discussion on the potential long-term consequences of sea level rises and coastal flood risks to the business at the Board level. This risk is one of the major impacts of climate change discussed in the 2021 United Nations Climate Change Conference (COP26) and the latest edition of Intergovernmental Panel on Climate Change (IPCC) Report. More details can be read on pages 129 to 133 of this report.

Commitment to corporate responsibility and sustainability

The Board is committed to the group's strategic approach to corporate responsibility and sustainability, ensuring our businesses have a positive social, economic, and environmental impact on the local communities and wider societies in which we operate. In 2021, we launched our new Corporate Responsibility and Sustainability (CRS) strategy, called *Sustainable Luxury Vision 2030*. Whilst the global pandemic continues to impact most parts of the world, we have seen rapid changes in our climate, as well as increasing inequality and division in societies. As stewards of our communities, we need to continue to do our part, to build on the progress we have made in the past decade, and to be prepared to overcome the future challenges brought about by the increasing environmental and social risks we all face. We believe that *Vision 2030* will guide us through the next decade and beyond, and help us safeguard against future volatility and unpredictable challenges. More details can be read in the Group Corporate Responsibility Committee Report on pages 134 to 137 of this report and our online CRS Report.

Compliance

As a Hong Kong listed company we are reporting in the context of the version of the Stock Exchange's Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules that was in force during the financial year end 2021. However, our philosophy is not to review corporate governance simply as a compliance exercise but as an evolving core discipline which underpins the success of the company. This report reinforces the commitment of Board and senior management to the high standards of our corporate governance, which supports the development of strong corporate culture throughout the group.

A commitment to long-term success

Overall, I believe that our governance structure has helped us manage the uncertainty of the world today. We continue to strive for improvement while learning from dealing with the current challenges to ensure the long-term success of the company.

The Hon. Sir Michael Kadoorie
16 March 2022

Our Leadership - Board Members

Non-Executive Chairman

The Hon. Sir Michael Kadoorie

N E

Age: 80 Appointed: November 1964

Key strengths and experience

Sir Michael was appointed as Chairman in 1985. He holds board-level positions in two other listed companies as well as directorships in private companies. With decades of international experience in different sectors including infrastructure, utilities, property and retail, Sir Michael has extensive knowledge of the hospitality and real estate sectors, a deep understanding of the environment in which the company operates, and a comprehensive appreciation of investor sentiment.

Titles, qualifications and education

GBS, Hon. LLD, Hon. DSc, 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

Other major offices

CLP Holdings Limited# (Chairman)
CK Hutchison Holdings Limited# (Independent Non-Executive Director)
Sir Elly Kadoorie & Sons Limited* (Director)

Other information

Substantial Shareholder of the company
Director of two of the group's entities
Father of Mr Philip Lawrence Kadoorie
Brother-in-law of Mr Ronald James McAulay, Honorary Life President

Non-Executive Deputy Chairman

Andrew Clifford Winawer Brandler

A R E F

Age: 65 Appointed: May 2014

Key strengths and experience

Mr Brandler has diverse board and committee senior leadership experience. He has served as Group Managing Director and Chief Executive Officer of CLP Holdings Limited, in addition to serving on listed company boards in the infrastructure, manufacturing, and real estate sectors. Mr Brandler has a background in banking, finance and investment with corporate finance expertise spanning the UK, Singapore and Hong Kong during his tenure at UK investment bank Schroders.

Titles, qualifications and education

Member of the Institute of Chartered Accountants in England and Wales
BA and MA, University of Cambridge
MBA, Harvard Business School

Other major offices

CLP Holdings Limited# (Non-Executive Director)
Tai Ping Carpets International Limited# (Non-Executive Director)
MTR Corporation# (Independent Non-Executive Director)
Sir Elly Kadoorie & Sons Limited* (Chairman)

Other information

Director of several of the group's entities

Governance Board Committees

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

Other Board Committees

E Executive Committee
F Finance Committee
● Chairman of the Committee

The securities of these companies are currently listed on the Hong Kong Stock Exchange

* *Sir Elly Kadoorie & Sons Limited oversees a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the substantial shareholders of the company*

Executive Directors

E F

Chief Executive Officer

Clement King Man Kwok

Age: 62 Appointed: February 2002

Key strengths and experience

Mr Kwok has two decades of hospitality and real estate experience as the Managing Director and Chief Executive Officer of the company, as well as board and committee experience for other listed entities. Mr Kwok's prior experience was in accounting, investment banking, and corporate and financial management. After qualifying as a Chartered Accountant with Price Waterhouse London in 1983, he had over 10 years of investment banking experience with Barclays de Zoete Wedd in London and Schroders Asia in Hong Kong, where he was appointed as Head of Corporate Finance in 1991. Mr Kwok then served as Finance Director of the MTR Corporation from 1996 to 2002.

Mr Kwok's knowledge of international markets, accounting, corporate risk management and compliance is enhanced by his experience serving on prominent regulatory bodies such as the Hong Kong Stock Exchange Listing Committee, the Hong Kong Takeovers and Mergers Panel and the Interpretations Committee of the International Accounting Standards Board. He was previously an Independent Non-Executive Director of Swire Pacific Limited and Orient Overseas (International) Limited.

Titles, qualifications and education

Chevalier dans l'Ordre National de la Légion d'Honneur
Member of Institute of Chartered Accountants in England and Wales
Member of Hong Kong Institute of Certified Public Accountants
Fellow of Hong Kong Management Association
BSc in Economics, London School of Economics

Other major offices

Hang Seng Bank Limited[#] (Independent Non-Executive Director)
World Travel & Tourism Council (Council Member)
Faculty of Business and Economics of The University of Hong Kong (Member of International Advisory Council)

Other information

Director of the majority of the group's entities

Chief Operating Officer

Peter Camille Borer

Age: 68 Appointed: April 2004

Key strengths and experience

Mr Borer joined the group in 1981 and has been responsible for developing and perfecting the group's high standards of customer service and operational excellence. Following various operational roles, he was appointed General Manager of The Peninsula Hong Kong in 1994, taking on additional regional responsibility for the group's Asia hotel portfolio in 1999. Mr Borer was appointed as Chief Operating Officer in April 2004 and oversees the operation of the group's assets globally.

Titles, qualifications and education

Chevalier dans l'Ordre National de la Légion d'Honneur
Chevalier dans l'Ordre du Mérite Agricole
Graduated from Ecole hôtelière de Lausanne, Switzerland

Other major offices

School of Hotel and Tourism Management of The Chinese University of Hong Kong (Advisory Board Member)
Gleneagles Hospital Hong Kong (Advisory Council Member)

Other information

Alumni Network of Ecole hôtelière de Lausanne (Lifetime Achievement Award)
Director of the majority of the group's entities

Our Leadership - Board Members

ⓕ

Chief Financial Officer

Christopher Shih Ming Ip

Age: 52 Appointed: January 2021

Key strengths and experience

Mr Ip's background is in investments, real estate transactions and corporate finance. Prior to joining HSH he worked for Phoenix Property Investors, Grosvenor Asia Pacific as well as several companies under the Jardine Matheson Group as Chief Financial Officer. He was also an investment banker in the M&A departments of Morgan Stanley and Deutsche Bank in New York and Hong Kong.

Titles, qualifications and education

BA in International Relations, Brown University
MBA, London Business School

Other information

Director of the majority of the group's entities

Non-Executive Directors

William Elkin Mocatta

Age: 69 Appointed: May 1985

Key strengths and experience

Mr Mocatta has a long association with the group and an intricate knowledge of the hospitality and real estate sectors, having served as Deputy Chairman of the Board from 1993 until May 2002. He is a seasoned C-suite executive with global market experience, serving in a number of executive and non-executive board-level roles in public and private companies. A qualified chartered accountant, Mr Mocatta has deep financial and strategic experience across a range of industries, including retail, utilities, property and infrastructure.

Titles, qualifications and education

Fellow of the Institute of Chartered Accountants in England and Wales

Other major offices

Sir Elly Kadoorie & Sons Limited* (Executive Director)
CLP Holdings Limited# (Non-Executive Vice Chairman)
CLP Power Hong Kong Limited (Non-Executive Chairman)
CLP Properties Ltd. (Non-Executive Chairman)
CLP Property Investment Limited (Non-Executive Chairman)
Castle Peak Power Company Limited (Non-Executive Chairman)
Hong Kong Pumped Storage Development Company, Limited (Non-Executive Chairman)
CK Hutchison Holdings Limited# (Alternate Director for The Hon. Sir Michael Kadoorie, Independent Non-Executive Director)

Other information

Director of several of the group's entities

ⓔ ⓕ

John Andrew Harry Leigh

Age: 68 Appointed: May 2006

Key strengths and experience

A long-serving non-executive director of the company, Mr Leigh has extensive knowledge of the hospitality industry. Mr Leigh is a solicitor with a background in private practice and has previously served as in-house senior legal advisor to the CLP group. He brings wide-ranging corporate governance and board-level global market experience across a number of industries, including property, aviation and utilities, with particular expertise in risk management and compliance.

Titles, qualifications and education

Graduate of Universities of London, Surrey and Macau
Solicitor of Hong Kong, England & Wales and Australia

Other major offices

CLP Holdings Limited# (Non-Executive Director)
Sir Elly Kadoorie & Sons Limited* (Director)
Metrojet Limited (Director)
Heliservices (Hong Kong) Limited (Director)

Nicholas Timothy James Colfer

Age: 62 Appointed: May 2006

Key strengths and experience

Mr Colfer has more than 35 years of experience in corporate management in the Asia Pacific region, principally in real estate, manufacturing and distribution. His tenure on the Board has provided Mr Colfer with a deep understanding of the group's business and the wider industry environment in which it operates. This, combined with his board-level experience in several other Hong Kong organisations, enables him to provide constructive leadership and support to the Board and wider management team.

Titles, qualifications and education

BA and MA, University of Oxford

Other major offices

Tai Ping Carpets International Limited# (Chairman)
Sir Elly Kadoorie & Sons Limited* (Director)

Other information

Director of one of the group's entities

James Lindsay Lewis

Age: 47 Appointed: December 2017

Key strengths and experience

Mr Lewis has experience in private equity, hotels, charity and aviation operations and currently serves on the Boards of private companies in the UK and Hong Kong. He has also served as an Independent Non-Executive Director of Hong Kong Aircraft Engineering Company Limited which was privatised in November 2018.

Titles, qualifications and education

Executive MBA program, Kellogg-HKUST
Master of Aviation Management, The University of Newcastle, Australia
Certification of Hospitality Management, Cornell University, U.S.A.
Member of The Society of Trust and Estate Practitioners

Other major offices

Sir Elly Kadoorie & Sons Limited* (Director)

Philip Lawrence Kadoorie

Age: 30 Appointed: December 2017

Key strengths and experience

Mr Kadoorie oversees a number of Kadoorie family interests in Hong Kong and overseas. Prior to his appointment to the Board, Mr Kadoorie completed various internships in commercial property companies in London and at CLP Group in Hong Kong. He holds two other Board positions and has developed strong expertise in the property sector.

Titles, qualifications and education

BSc in Communication, Boston University
FAA Commercial Pilot's License (Helicopter)

Other major offices

CLP Holdings Limited# (Non-Executive Director)
Sir Elly Kadoorie & Sons Limited* (Director)

Other information

Son of The Hon. Sir Michael Kadoorie
Nephew of Mr Ronald James McAulay, Honorary Life President

Our Leadership - Board Members

Independent Non-Executive Directors

N

Dr the Hon. Sir David Kwok Po Li

Age: 83 Appointed: October 1987

Key strengths and experience

Sir David is a prominent Hong Kong banker, having held senior executive level positions at various pre-eminent Hong Kong and overseas companies. Sir David's rich and varied experience enables him to bring a unique viewpoint to the Board. His expertise in multiple sectors provides a diverse skillset covering the entire spectrum of the group's business.

Titles, qualifications and education

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, 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, Fellow of the Hong Kong Academy of Finance

Other major offices

The Bank of East Asia, Limited# (Executive Chairman)
The Hong Kong and China Gas Company Limited# (Independent Non-Executive Director)
San Miguel Brewery Hong Kong Limited# (Independent Non-Executive Director)
Vitasoy International Holdings Limited# (Independent Non-Executive Director)
Guangdong Investment Limited# (Independent Non-Executive Director) (until March 2021)
The Friends of Cambridge University in Hong Kong Limited (Founding Chairman)
The Salvation Army, Hong Kong and Macau Command (Advisory Board Chairman)
St. James' Settlement (Executive Committee Chairman)
Council of the Treasury Markets Association (Member)

A R

Patrick Blackwell Paul, CBE

Age: 74 Appointed: February 2004

Key strengths and experience

Mr Paul is an experienced independent non-executive director, and the Chairman of the Audit and Remuneration Committees. He brings many years of leadership experience, having been senior partner at PwC in Hong Kong. His finance, accounting and tax expertise enables him to provide key strategic guidance to the company in its financial reviews, risk management, compliance and internal control framework.

Titles, qualifications and education

CBE
Fellow of the Institute of Chartered Accountants in England and Wales

Other major offices

Johnson Electric Holdings Limited# (Independent Non-Executive Director)
Pacific Basin Shipping Limited# (Independent Non-Executive Director)
British Chamber of Commerce in Hong Kong (Chairman of the Supervisory Board)

Pierre Roger Boppe

Age: 74 Appointed: May 1996

Key strengths and experience

Mr Boppe has a deep understanding of the group's business as he served as the Managing Director and Chief Executive Officer of the company from 1996 until 2002. He was re-designated from being a Non-Executive Director to an Independent Non-Executive Director in 2009. Mr Boppe continues to bring value to the Board through his wide spectrum of expertise and experience in the hotel and travel industries.

Titles, qualification and education

Chevalier dans l'Ordre National de la Légion d'Honneur
MSc, Swiss Federal Institute of Technology
MSc, Stanford University

N

Dr William Kwok Lun Fung, SBS, OBE, JP

Age: 73 Appointed: January 2011

Key strengths and experience

Dr Fung has diversified industry experience, and has provided valuable insight and advice to the Board since his appointment in 2011. In particular, Dr Fung's strong retail background, including his previous role as the Group Chairman at Li & Fung Limited, has enabled him to offer insight on luxury retail and the group's investment in Turkey, in addition to general management and risk management matters. Dr Fung was a Hong Kong SAR delegate to the Chinese People's Political Consultative Conference from 1998 to 2003.

Titles, qualifications and education

SBS, OBE, JP
BSc in Engineering, Princeton University
MBA, Harvard Graduate School of Business
Honorary Doctorate of Business Administration, The Hong Kong University of Science and Technology
Honorary Doctorate of Business Administration, The Hong Kong Polytechnic University
Honorary Doctorate of Business Administration, Hong Kong Baptist University
Honorary Doctorate of Letters, Wawasan Open University of Malaysia

Other major offices

Fung Group (Group Deputy Chairman)
Convenience Retail Asia Limited# (Non-Executive Chairman)
Global Brands Group Holding Limited (In Liquidation)# (Executive Chairman — re-designated as an Executive Director in August 2021)
VTech Holdings Limited# (Independent Non-Executive Director)
Sun Hung Kai Properties Limited# (Independent Non-Executive Director)

Our Leadership - Board Members

Dr Rosanna Yick Ming Wong, DBE, JP

Ⓡ

Age: 69 Appointed: February 2013

Key strengths and experience

Dr Wong provides invaluable and independent advice to the Board, with three decades of experience in the political and non-profit arenas, in addition to holding several Board positions in the private sector. She is particularly skilled in public sector, project management, change and risk management. Since her appointment in 2013, Dr Wong has provided significant contributions to the Board through her multi-faceted business background.

Titles, qualifications and education

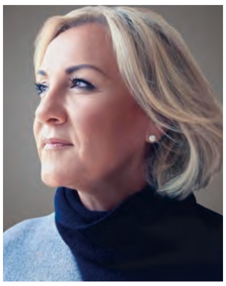
DBE, JP
PhD in Sociology, University of California, Davis
Honorary Doctorate from The Chinese University of Hong Kong
Honorary Doctorate from The Hong Kong Polytechnic University
Honorary Doctorate from The University of Hong Kong
Honorary Doctorate from The Hong Kong Institute of Education
Honorary Doctorate from The University of Toronto
Honorary Fellow of the London School of Economics and Political Science

Other major offices

National Committee of the Chinese People's Political Consultative Conference (Member)
CK Hutchison Holdings Limited# (Independent Non-Executive Director)
Hutchison Telecommunications Hong Kong Holdings Limited# (Independent Non-Executive Director)
The Hong Kong Jockey Club (Steward)
World Vision Hong Kong (Honorary Chairman)
The Hong Kong Federation of Youth Groups (Senior Advisor)
Asia International School Limited (Chairman)

Dr Kim Lesley Winser, OBE

Age: 63 Appointed: January 2016



Key strengths and experience

Dr Winser has a wide range of expertise and experience in e-commerce, luxury retail and international business. Her career has encompassed various executive roles in the consumer, digital and retail industries. She began her career with Marks & Spencer plc in the UK and became its first female commercial divisional board director as well as its youngest director in the 1990s. She went on to successfully deliver turnarounds for the iconic British heritage brands Pringle of Scotland as Chief Executive Officer and Aquascutum as President and Chief Executive Officer. Dr Winser was special board advisor to the global digital e-commerce business Net-a-Porter.

Titles, qualifications and education

OBE, Order of the British Empire
Doctorate from Heriot-Watt University for her work on British business

Other major offices

Winser London Limited, an online womenswear business (founder and CEO)

Other information

Former name was Kim Lesley Haresign

Ada Koon Hang Tse

Ⓐ

Age: 55 Appointed: December 2017

Key strengths and experience

Ms Tse has both a legal and a financial services background, enabling her to bring a unique combination of skills to the Board. A former lawyer at Sullivan and Cromwell in New York, Ms Tse also previously worked in financial advisory services and equity capital markets at Morgan Stanley in New York and Hong Kong. She currently serves as a Senior Advisor to PineBridge Investments Asia (formerly, AIG Investments Asia). She joined AIG in 1996 and was President and Chief Executive Officer of AIG Investments Asia before assuming an advisory role in 2011.

Titles, qualifications and education

BA in Applied Mathematics, Harvard University
JD, Harvard Law School

Other major offices

Solicitors Disciplinary Tribunal Panel of HKSAR Government (Member)
Advisory Committee on Arts Development of HKSAR Government (Member)
Municipal Services Appeals Board of HKSAR Government (Member)

Other information

Ms Tse runs her family's YangTse Foundation focusing on supporting education and arts initiatives

Honorary Life President

Ronald James McAulay

Age: 86 Appointed: May 1972

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

Our Leadership - Senior Management and Key Functions

Senior Management

Group Management Board (GMB)

Chaired by Mr Kwok, GMB is the principal decision-making body responsible for management and day-to-day business of the group. It carries out its management function under clear guidelines and delegated authorities granted by the Board. GMB meets weekly to discuss and manage the affairs of the company, as well as the group's business strategy. Financial and non-financial factors, including sustainability factors, are considered in day-to-day decision-making at GMB meetings. GMB also reflects on the current status and progress made. It steers the future direction of the group. Findings and recommendations are then communicated to the respective Board Committees or Board.

Members of the Group Management Board include Executive Directors, Clement Kwok, Peter Borer and Christopher Ip[1], and senior management, which include the Group Executives and other members. As Mr Martyn Sawyer, Group Director, Properties will retire in summer 2022, Ms Shirley Lam was appointed in March 2022 as a member of GMB.

Group Executives:

Christobelle Liao

Group Director, Corporate and Legal

Appointed to GMB: 2011

Age: 53

Main responsibilities held with the group

Ms Liao joined the group in 2002 as General Counsel and Company Secretary. As the Group Director, Corporate and Legal, she is responsible for general management, all corporate and legal matters as well as the group's investment in Istanbul. She holds additional responsibilities for risk management, general corporate management and organisational development strategies, such as WorkPlace 2025. Ms Liao is a qualified solicitor in Hong Kong and England & Wales. She is a Director of a number of the group's entities.

Martyn Sawyer

Group Director, Properties

Appointed to GMB: 2002 until retirement in 2022

Age: 64

Main responsibilities held with the group

Mr Sawyer joined the group in 1985 as Assistant Manager of Peninsula Clubs and Consultancy Services and was appointed as Group General Manager, Properties and Clubs in 1999. As the Group Director, Properties, he is responsible for the group's non-hotel properties and operations including The Repulse Bay Complex and The Peak Complex in Hong Kong, as well as management of the group's properties and clubs in Hong Kong, Vietnam, Shanghai and France. Mr Sawyer also oversees the group's investment in Yangon. He is a Director of a number of the group's entities. Mr Sawyer will retire in summer 2022 on completion of the Peak Tram upgrade project having handed over most of his other responsibilities to Ms Shirley Lam (whose profile is on page 107) on 31 March 2022.

1 Profiles of Clement Kwok, Peter Borer and Christopher Ip are disclosed on pages 99 and 100

Other members:

Joseph Chong

Regional Vice President, Asia, The Peninsula Hotels and Managing Director, The Peninsula Hong Kong

Appointed to GMB: 2019

Age: 54

Main responsibilities held with the group

Mr Chong joined the group in 2000 at The Peninsula Beijing and has held a variety of positions at The Peninsula Bangkok and The Peninsula Shanghai, including General Manager and Managing Director of The Peninsula Shanghai. He was appointed as Area Vice President and Managing Director of The Peninsula Hong Kong and The Peninsula Shanghai in 2017. Since 2020, he has taken on additional responsibilities and was appointed as Regional Vice President, Asia, The Peninsula Hotels and Managing Director of The Peninsula Hong Kong. In his current capacity, he oversees The Peninsula Hotels' Asian properties, including Hong Kong, Shanghai, Beijing, Tokyo, Bangkok and Manila along with the Hong Kong based Tai Pan Laundry. He is a Director of several of the group's entities.

Shane Izaks

Group Director, Information Technology

Appointed to GMB: 2015

Age: 59

Main responsibilities held with the group

Mr Izaks joined the group as General Manager, Information Technology in 1995 and has been a key member of the development and restructuring of the technology function within the group. He was appointed as Group General Manager, Information Technology in 2013. As the Group Director, Information Technology, he is responsible for formulating and implementing information technology strategy at both group and operational levels, as well as overseeing the strategy and development of innovation and technology transformation. He is also the Joint Chairman of the Technology Steering Committee.

Shirley Lam

Group Director, Properties

Appointed to GMB: March 2022

Age: 41

Main responsibilities held with the group

Ms Lam joined the group in March 2022 with extensive experience in commercial property and project development management. As the Group Director, Properties, she is responsible for the group's non-hotel properties and operations including The Repulse Bay Complex and The Peak Complex in Hong Kong, as well as management of the group's other properties in Hong Kong, Vietnam, Shanghai and France. She will be appointed as a Director of a number of the group's entities.

Our Leadership - Senior Management and Key Functions

Maria Razumich-Zec

Regional Vice President and Managing Director, The Peninsula Chicago

Appointed to GMB: 2007

Age: 64

Main responsibilities held with the group

Mrs Razumich-Zec joined the group as General Manager of The Peninsula Chicago in 2002. She was appointed as Regional Vice President – USA East Coast in 2007. As the Regional Vice President and General Manager, The Peninsula Chicago, she holds regional responsibilities covering The Peninsula Hotels in Chicago and New York, as well as overseeing Quail Lodge & Golf Club in Carmel, California. She is a Director of two of the group's entities.

Gareth Roberts

Group Director, Brand and Operations Support

Appointed to GMB: 2020

Age: 40

Main responsibilities held with the group

Mr Roberts joined the group in 2002 at The Peninsula Beverly Hills and later became Resident Manager in 2011. Mr Roberts relocated to China in 2013 as Hotel Manager of The Peninsula Shanghai. In 2015, he transferred to HSH Head Office where he was promoted to Group General Manager, Operations Planning and Support in November 2016. As the Group Director, Brand and Operations Support, he is responsible for overseeing sales and marketing, branding, guest experience and operations for both existing and future hotel developments for The Peninsula Hotels. In addition, he oversees Peninsula Merchandising Limited, which comprises The Peninsula Boutique retail business.

Sindy Tsui

Group Director, Human Resources

Appointed to GMB: 2011

Age: 53

Main responsibilities held with the group

Ms Tsui joined the group as General Manager, Human Resources in 2007. She has many years of experience in human resources management in hospitality industry. As the Group Director, Human Resources, she holds overall responsibility for the group's strategy on human resources and talent development. She is one of the key leaders of the group's organisational development strategies, WorkPlace 2025.

Key Functions

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

Theresa Au, *General Manager, Finance Systems & Operations Finance*

Olaf Born, *General Manager, The Repulse Bay Company, Limited and General Manager, Peninsula Clubs and Consultancy Services Limited*

Rolf Buehlmann, *General Manager, The Peninsula New York*

Christopher Chan, *General Manager, Research and Technology*

Ming Chen, *General Manager, Group Business Development*

Jisoo Chon, *General Manager, The Peninsula Shanghai*

Mark Choon, *General Manager, The Peninsula Tokyo*

Christopher Cribb, *Group General Manager, Projects*

Jonathan Crook, *Managing Director, The Peninsula Istanbul*

Aiden Fung, *Group Treasurer*

Alistair Gough, *General Manager, Projects*

Jason Hui, *General Manager, Group Security and Operational Risk*

Mark Kobayashi, *Senior Vice President, Sales and Marketing, The Peninsula Hotels*

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

Cecilia Lui, *Director, PRC Affairs and Vice President, Sales & Marketing, Greater China, The Peninsula Hotels*

Nadine Maurellet, *Group General Counsel and Group General Manager, Business Diversification*

John H. Miller, *Consultant Director of Design, Projects*

Lynne Mulholland, *General Manager, Group Corporate Affairs*

Louise Napier, *Vice President, Global Commercial Leasing*

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

Masahisa Oba, *General Manager, The Peninsula Manila*

Vincent Pimont, *Managing Director, The Peninsula Paris*

Guy Riddell, *General Manager, Peninsula Merchandising Limited*

Joseph Sampermans, *General Manager, The Peninsula Bangkok*

Ernest Tang, *Group General Manager, Group Finance*

May Tsang, *General Manager, The Peak Complex*

Sonja Vodusek, *Managing Director, The Peninsula London*

Kitty Wan, *Group General Manager, Audit & Risk Management and Head of Finance, The Peninsula London Project*

Joshua Wong, *Senior Manager, Corporate Responsibility and Sustainability*

Our Leadership - Diversity

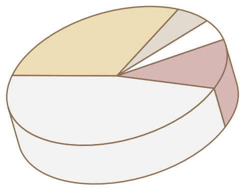
Board Diversity

A strong and effective Board requires an appropriate mix of skills, experience and diversity, in order to provide sound judgement on strategic issues and effective oversight of guidance to management and as such the Board believes that diversity should not be limited to gender. Each Board member's relevant skills and experience have been highlighted in their individual profiles[2]. The following charts indicate the diversity of the Board in terms of gender, nationality, age, and length of service.

Gender

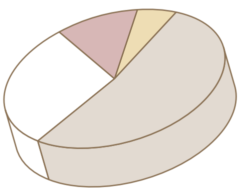
- Male: 14
- Female: 3

Age



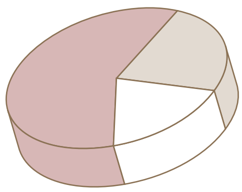
- ≤30: 1
- 41-50: 1
- 51-60: 2
- 61-70: 8
- >70: 5

Nationality



- British: 9
- Chinese: 5
- Swiss: 2
- Australian: 1

Length of Service



- <5 years: 4
- 5-10 years: 3
- >10 years: 10

Senior Management and Leaders of Key Functions Diversity

Our diversity philosophy is followed throughout the group. Gender diversity of the senior management and leaders of key functions as at the date of this report is set out below.

Gender of Senior Management*

Male: 7 Female: 4

Gender of Key Functions**

Male: 20 Female: 9

* Inclusive of three Executive Directors

** Key Functions include General Managers of Operations and Heads of Corporate Departments but do not include members of senior management

The company has taken, and continues to take, steps to promote diversity at all levels of our workforce and has policies on equal opportunities. We provide equal opportunity to all employees regardless of gender, race, age, nationality, religion, sexual orientation, disability, and other aspects of diversity and are against any forms of discrimination. As of 31 December 2021, our total workforce is comprised of 41% female employees and 59% male. Further detail and a breakdown of gender distribution between total workforce and management positions across all HSH operations and corporate offices are disclosed on page 36 of the CRS Report. While we are proud to have diversity representation in our company, we look forward to achieving even more with our Inclusive Workplace Strategy, which focuses on three pillars: Building an Inclusive Culture, Developing Inclusive Managers, and Creating Unbiased Talent Management Processes. This strategy is the blueprint for the company to foster an inclusive and respectful culture that empowers employees to learn and grow, and bring their authentic selves to work[3]. An inclusive culture drives the company to embrace more diversity, engage new talent pools, and become more agile and modern. We recognise this would in turn help the company to achieve better business outcome.

2 Details can be found on pages 98 to 105

3 Details of the strategy can be found on page 36 of the CRS Report

Corporate Governance Report

Culture and Values

The Board believes that corporate culture underpins the long-term business, economic success and sustainable growth of the group. A strong culture will endure in times of stress and help maintain resilience in challenging times, such as those we have faced over the last two years. A healthy corporate culture both protects and prioritises the company's goals and the values in which they are to be achieved. The culture and values of the company set the tone for the governance structure and they work hand-in-hand in sustaining the group over the long term through changing regulatory, market environment and business challenges. Our Board sees corporate governance as an integral part of our business strategy. By putting in place the right governance framework and ensuring strong emphasis on culture when senior management is recruited, our Board has incorporated a culture of integrity, accountability and transparency that permeates throughout the group. This in turn fosters productivity, strong branding and reputation which ultimately generates positive long-term shareholder value.

Guiding and promoting culture

The Board sets and promotes company culture based on "doing the right thing". The Board expects and requires senior and middle level management to reinforce this ethos. To support this, the culture and values are embedded in different governance policies, practices and controls across the group, including the following:

OUR ETHICS

Culture of integrity and compliance

Integrity underpins the way we do business and the HSH Core Principles Framework sets out nine principles relating to our culture and values. These are behavioural and service guidelines expected of our employees from respect, to being a team player, being passionate about excellence, mutual respect and others. These set of core principles are embedded in our HR practices, in the way we recruit, select and assess in our performance reviews. They form part of the language of how we communicate and set the foundation of what is expected on a daily basis.

Apart from behavioural and service guidelines, we also have policies related to compliance such as the Board-endorsed Code of Conduct, Anti-Bribery Policy and Corruption Policy and Anti-Fraud Policy and Fair Competition Policy. All of these are supported by way of mandatory e-learning courses available in local language with regular refresher training for all employees.

Culture of accountability

Employees at all levels are held accountable for their actions and decisions. The group's management structure fosters a culture of accountability, ensuring that management at each level of the business is subject to appropriate and effective scrutiny and oversight. Details of this management structure can be found under the Corporate Governance Framework section. The Board is ultimately accountable to the company's shareholders and stakeholders. It periodically reviews its effectiveness and accountability through a formal evaluation process.

Culture of communication and transparency

The Board recognises the importance of transparency, accessibility, and visibility for itself and senior management, involving regular and ad hoc dialogue and communication in between formal Board meetings. In terms of communications between management and employees, there is a regular CEO Webcast, which provides our employees with an overview of our business performance as well as an update on projects and areas of focus. In addition, interactive live sessions were organised this year providing employees globally an audience with the CEO with an opportunity to ask questions. In addition, operational General Managers also hold regular Townhall Meetings to share business updates, inspirational and encouraging messages with the employees. More broadly, the company maintains dialogue and engagement with all shareholders and stakeholders. Further details on such communications can be found on pages 124 and 125 and 86 to 89.

Corporate Governance Report

OUR PEOPLE

Culture of looking after our people

We acknowledge that our people are our most valuable asset and we have formalised our three-year HR Strategy with a key focus of People and Culture. Furthermore, we have dedicated one of the three pillars in our *Vision 2030* to Our People and through WorkPlace 2025 we are focused on modernising our workplace and being an employer of choice. A lot of our focus will be on wellness especially during the pandemic, ensuring a safe and inclusive workplace and strengthening employee engagement at all times.

Employee wellness

The health and safety of our employees remains paramount to the company's cultural values. Apart from general healthcare benefit, we also recognise the importance of mental health and well-being of our employees and provide active support to our employees in times of need, including employee assistance programmes. This was particularly valuable and beneficially to our employees during Covid times.

Modernised workplace and environment

We continue to implement our WorkPlace 2025[4] programme, which aims at modernising our workplace, working environment and company culture to attract and retain talent. It focuses on three key pillars: (i) ambience and well-being, (ii) technology and internal communication, and (iii) leadership, engagement and development. The Board recognises the importance of these three pillars for building and maintaining a healthy company culture which is aligned to the changing needs of the employees.

Culture of inclusivity and respect

We are committed to providing an inclusive and respectful workplace which provides equal opportunity to all employees. Our Diversity and Inclusion Strategy[5] is the blueprint for the company to foster an environment for employees to bring their best authentic selves to work and striving for an inclusive workplace.

Culture of listening

The Board recognises that the resilience of the company's culture can be tested during a crisis and the Board encourages management to be prepared, agile and proactive. Furthermore, it is important to get a pulse on how employees are feeling and what support they require during such challenging times. To that end, an online sentiment survey was carried out globally and the objective was to have a "health check" on the well-being of our employees and to understand the key drivers of resilience, well-being, and empowerment.

Our WorkPlace 2025 programme was built largely based on listening to employees, through a combination of surveys and focus groups. As part of the WorkPlace 2025 programme, a Work Improvement Team initiative was launched, allowing employees to be rewarded when they submit ideas, innovations and improvements in four key areas, one being culture. This gives our workforce an opportunity to be heard and to influence leaders about what matters to them most.

4 Details can be found on page 35 of our CRS Report

5 Details of the strategy can be found on page 36 of the CRS Report

OUR COMMUNITIES

Culture of corporate responsibility

The company strives to act as a responsible corporate citizen with a long-term perspective, which involves minimising its impact on the environment through a range of sustainability initiatives that have been implemented at our various properties. Each operation has a CRS committee and they champion global and local initiatives each year which are aligned to *Vision 2030*.

The communities where we live and work are our homes and an integral part of our business; we embrace the local culture and take care of our neighbours and the societies where we live. We have included communities as one of the three pillars in our *Vision 2030*. Our volunteering and community initiatives also emphasise the manner and importance of delivering care and contribution, a skill that is integral in our daily work[6].

More details of our CRS initiatives can be read in our online CRS Report.

Corporate Governance Framework

The Board has set a two-tiered structure where the Board and the management team are led by the Chairman and the Chief Executive Officer respectively. The Board and its committees oversee the corporate governance structure and give guidance to management on implementing good governance in our daily business, as described below. The diagram on page 115 illustrates how our corporate governance framework[7] supports the development of good governance practices throughout the group and help us to evaluate and manage risks and opportunities.

Board and Board Committees

The Board is responsible for setting the group's strategy and objectives for delivering long-term value, promoting its culture, overseeing its conduct and affairs and being accountable to the company's shareholders and stakeholders for the long-term success of the company. It discharges some of its responsibilities directly and others through the five Board Committees. The Audit, Nomination, and Remuneration Committees are Governance Board Committees under the Corporate Governance Code in Appendix 14 of the Listing Rules. Attendance and reports on main activities from the Governance Board Committees are included in this section. The Executive and Finance Committees are strategic and finance committees which are integral parts of the management process. Each Committee reports its decisions and recommendations to the Board and seeks the Board's prior approval on specific reserved matters.

Group Management Board and sub-committees

The Group Management Board (GMB), chaired by the Chief Executive Officer, is the focal point of the management of the group's business under the clear guidelines and delegated authorities of the Board. This management structure fosters accountability and provides the Board with high quality information and recommendations to enable informed decisions in all aspects of the company's business and strategy.

For the implementation of our business strategy, GMB is supported by three sub-committees, as well as General Managers and Heads of Operations and Functional Departments. Each GMB sub-committee has its own terms of reference or charter. The Group Risk Committee, Group Corporate Responsibility Committee and Technology Steering Committee report to GMB which in turn reports to the Board for oversight on risk management and environmental and social issues, as well as the group's innovation and technology strategy. In addition to the above three sub-committees, we also have the HSH Retirement Plan ORSO Committee which oversees the group's retirement plan.

Chairman and Chief Executive Officer

The Chairman and the Chief Executive Officer have clearly defined roles which are separate and distinct. The specific duties and the division of responsibilities between the Chairman and Chief Executive Officer have been agreed by the Board and are set out in the HSH Corporate Governance Code. Our Chairman and Chief Executive Officer do not have any financial, business, family or other material or relevant relationships with each other.

6 Details of our community initiatives can be found on pages 42 to 44 of our CRS Report
7 Details of responsibilities and memberships of the Board and Board committees can be found on HSH website: www.hshgroup.com/en/corporate-governance

Corporate Governance Report

Roles and responsibilities of Directors and Company Secretary

Their respective roles are set out in the table below.

Role	Responsibilities
Non-Executive Chairman *The Hon. Sir Michael Kadoorie*	• Leading the Board and monitoring its effectiveness • Fostering candid discussions from all Directors and ensuring constructive relationships among Directors • Reviewing management performance with the INEDs • Ensuring that good corporate practices and procedures are established and implemented throughout the group, with the assistance of the Company Secretary
Chief Executive Officer* *Clement Kwok* **supported by GMB[8]*	• Leading the management and GMB in the day-to-day running of the group's business • Developing strategies for the Board's approval • Executing strategies, policies and objectives agreed by the Board • Reporting to the Board on the performance of the business
Executive Directors *Clement Kwok* *Peter Borer* *Christopher Ip*	• Managing the day-to-day business of the entire group's operations • Being accountable for their specific executive functions to the Board • Communicating proactively with the NEDs and being open and responsive to any executive proposals and challenges made by the NEDs
Non-Executive Directors (NEDs) and Independent Non-Executive Directors (INEDs) *P.100 to 105*	• Evaluating the group's performance in achieving the agreed corporate goals and objectives • Ensuring clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effective • Providing constructive feedback on management decisions • Serving on the Board and Board Committees to give these committees the benefit of their skills, expertise, and varied backgrounds and qualifications • The INEDs, being independent, have the additional role of: – Bringing knowhow and business expertise that are supplementary to executive management, thereby providing independent insights and judgement – Helping to maintain objectivity in the Board's decisions when potential conflicts of interest arise
Company Secretary *Christobelle Liao*	• Reviewing, implementing, initiating and driving improvements on our corporate governance practices and processes • Advising and keeping the Board and Board Committees up to date on legislative, regulatory and governance matters • Facilitating induction and professional development of the Directors

8 Details of the GMB members and its function can be found on pages 106 to 108

Delegation

Accountability

THE BOARD

The Board's Role

1. Accountable to the company's shareholders and stakeholders for the long-term success of the group
2. Sets the group's strategy and objectives for delivering the long-term value
3. Leads and oversees the management of the company and provides effective challenge to management concerning the execution of the strategy set by the Board
4. Ensures the group maintaining an effective risk management and internal control systems

The Board's Key Reserved Matters

Strategic & Financial
- Long and short-term strategic directions
- Annual budgets and forecasts
- Significant changes in accounting policies
- Company's capital structure
- Dividend policy
- Material borrowings and expenditure
- Annual and interim reports

Leadership & Employees
- Director's appointment and re-election
- Succession planning for Board and senior management

Risk Management
- Risk management and internal control systems
- Principal and emerging risks

Corporate Governance
- Corporate governance functions
- Board evaluation

Sustainability
- Corporate responsibility and sustainability outlook, progress and issues

The Board delegates certain matters to the following

BOARD COMMITTEES

Governance Board Committees

Audit Committee
- Financial reporting
- Risk management
- and internal controls
- Internal and external audit process

Report P.138-140

Nomination Committee
- Board composition
- Board nomination
- Diversity Policy
- Nomination Policy

Report P.141-142

Remuneration Committee
- Remuneration philosophy and policies
- Directors and senior management remuneration

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Other Board Committees

Executive Committee
- Strategic opportunities
- Significant investment proposals
- Brand protection
- Implementation of strategic plans and investment proposals

Finance Committee
- Financial performance
- Financial aspects and budgets of significant acquisitions, investments, disposals and new projects
- Financial and annual operational plans, budget and forecast

CHIEF EXECUTIVE OFFICER

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

Audit & Risk Management Department
- Internal audit assurance
- Reports to Audit Committee and supports Group Risk Committee on risk management and internal controls

GROUP MANAGEMENT BOARD

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

Group Risk Committee

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Technology Steering Committee

Group Corporate Responsibility Committee

Report P.134-137

HSH Retirement Plan ORSO Committee

GENERAL MANAGERS OF OPERATIONS, HEADS OF CORPORATE DEPARTMENTS AND BUSINESS OPERATIONS

implement the group's strategy through day-to-day operations

Corporate Governance Report

2021 Board Activities

In the context of continued uncertainty arising from COVID-19, our 2021 Board meetings were largely focused on the group's response to the pandemic and its impact and how we might adapt our strategy to ensure we are well positioned to maximise the opportunity to generate long-term value across our business. Detailed steps taken by the Board and its Committees in relation to the pandemic can be found in our 2020 Annual Report on pages 110 and 111. Many of these steps were continued in 2021, with the additional focus on building resilience and working towards a long-term recovery.

Due to ongoing travel restrictions in 2021, the Board was unable to conduct a full-day strategic offsite meeting to review and refine our group strategy as mentioned in the 2020 Annual Report. However, the Board has not lost focus on the development of company strategy through other channels. Extensive discussions on short to medium term focus and longer term strategy took place at the Executive Committee and updated at Board meetings in 2021. In addition, management has assigned groups with specific areas of focus. These groups have identified potential blockers and key challenges alongside feasible developments. A strategy discussion framework has been prepared and discussed with the Executive Committee and this will be reviewed with the Board at the next physical strategic meeting.

Sound decisions based on clear, complete and reliable information

- Comprehensive Board papers for discussion
- A monthly update of HSH's businesses
- Board Minutes and Board Committee Minutes (except Finance Committee) to allow our Board members have visibility the discussions at various committees. Finance Committee discussion on financial aspects matters are included in the monthly and Board updates to Directors
- Access to senior management, Company Secretary and independent professional adviser for advice or additional information

In addition, the Board continued to cover all customary matters. We highlight below the Board's other main activities during 2021.

STRATEGY

- Monitored the progress of the group's business diversification discussions, which seek to explore alternative revenue generation opportunities
- Discussed strategy in relation to Peninsula Merchandising and potential expansion plans
- In-depth review of COVID-19 impact and path to recovery for The Peninsula Hotels in Shanghai and Chicago

FINANCIAL AND OPERATIONAL

- Reviewed the business of the operations and their challenges and opportunities and the financial position of the group
- Monitored and evaluated the progress, cost, key risks and mitigation measures relating to the London, Istanbul and Yangon projects, as well as the Peak Tram upgrade project
- Evaluated key themes for the 2022 budget process and ultimately approved the 2022 budget with different recovery scenarios expectations and necessary cost controls but taking into account investments for the future
- Reviewed and discussed the current methodology of property valuation
- Monitored the progress of the renovation of The Peninsula Hong Kong Arcade
- Conducted the post-implementation review of The Peninsula Beijing renovation project
- Reviewed The Peninsula Hong Kong's rooms business performance and initiatives taken between 2019 to 2021

LEADERSHIP AND EMPLOYEES

- Reviewed and discussed the competition in the labour market and measures to be taken to attract and retain key talent
- Discussed the results of HSH Sentiment Survey 2021 as well as the employee feedback collected from focus groups
- Reviewed initiatives to enhance health and hygiene at our hotels, engage with stakeholders, and to help drive business despite ongoing COVID restrictions
- Noted the staff vaccination rate of each operation and emphasised the importance of a high rate of vaccination across the workforce

CORPORATE GOVERNANCE

- Reviewed the regular updates from the Chairmen of the Governance Board Committees. These include key issues and topics raised at those meetings, as well as recommendations for Board approval
- Approved the reversion of fees for NEDs, INEDs and Governance Board Committees to a level equivalent to the period prior to the temporary waiver/reduction for the year 2022
- Approved the proposed changes to the terms of reference for the Remuneration Committee, to enable the Committee to focus more on the review of the remuneration policy for Directors and senior management
- Approved the Nomination Committee's decision not to set any express gender diversity quota or measurable objective for implementing the policy of gender diversity on the basis that diversity should not be limited to gender, whether for gender or otherwise
- Approved the proposed amendments to the company's Articles of Association to allow the company when necessary the flexibility to hold general meetings as hybrid meetings where shareholders may participate by means of electronic facilities as an alternative to physical attendance

RISK MANAGEMENT

- Conducted two in-depth reviews of the principal, key strategic and external risks impacting the operations, as well as ongoing projects risk, and risk mitigation measures of the group
- Monitored and reviewed the effectiveness of risk management and internal control systems through the Audit Committee

Corporate Governance Report

SUSTAINABILITY

- Reviewed the progress of *Sustainable Luxury Vision 2030 (Vision 2030)*, and identification and prioritisation of material issues through the Group Corporate Responsibility Committee
- Reviewed the corporate responsibility and sustainability initiatives of the group
- Discussed emerging climate change risk such as sea level rise and coastal flood risk regarding the group's different operations
- Discussed several transition risks for the group in light of the latest COP26 update and IPCC Report
- Approved the updated modern slavery statement[9], which explains the activities we have undertaken during the year to demonstrate our commitment to seeking to ensure that there are no unethical labour practices or human trafficking within any part of our business or within our supply chain

Board Evaluation

Our Board has traditionally evaluated its own performance every two years since 2013. The purpose of this review is to identify areas for enhancement and improving the Board's effectiveness. The last such review took place in 2019. In 2020, the Board reviewed the progress of the action points and recommendations emanating from the 2019 review.

The Board anticipates that it will be possible to schedule the next evaluation in 2022. At such upcoming evaluation, the Board will engage an independent facilitator to lead the process and similar methodology as the last review will be adopted.

In addition to the self-evaluation, as an annual exercise, the Chairman met with the INEDs before the October Board meeting without management to seek an independent view on matters relating to the company's business, how they saw the direction of the company and any comments relating to the management of the company or any other matters that the INEDs wanted to raise. Comments and suggestions by INEDs were then brought to discussion with the full Board in an open and constructive manner. In 2021, the topics raised included the company's medium to long term strategy and succession planning, which management will continue to address.

9 Posted on the company's website: www.hshgroup.com/en/sustainable-luxury

Directors' Attendance and Training and Development

The Board held five scheduled meetings and a Board resolution was approved by circulation in 2021. As a consequence of the COVID-19 pandemic, meetings have been held without physical attendance by all Directors and facilitated by digital tools. The attendance of Directors and the Company Secretary at the Annual General Meeting, Board and Governance Board Committee meetings and training and development records in the year 2021 are as follows:

	Board(1)	Audit Committee(2)	Nomination Committee	Remuneration Committee	Annual General Meeting(2)	Training & Development programme(6)
Non-Executive Directors						
The Hon. Sir Michael Kadoorie(3) *Non-Executive Chairman*	5(6)		2(2)		0(1)	✓
Mr Andrew C.W. Brandler *Non-Executive Deputy Chairman*	5(5)	4(4)		4(4)	1(1)	✓
Mr William E. Mocatta	5(5)				1(1)	✓
Mr John A.H. Leigh	5(5)				1(1)	✓
Mr Nicholas T.J. Colfer	5(5)				1(1)	✓
Mr James L. Lewis	5(5)				1(1)	✓
Mr Philip L. Kadoorie(3)	4(5)				0(1)	✓
Independent Non-Executive Directors						
Dr the Hon. Sir David K.P. Li	6(6)		2(2)		1(1)	✓
Mr Patrick B. Paul	6(6)	4(4)		4(4)	1(1)	✓
Mr Pierre R. Boppe	6(6)				1(1)	✓
Dr William K.L. Fung	6(6)		2(2)		1(1)	✓
Dr Rosanna Y.M. Wong	6(6)			4(4)	1(1)	✓
Dr Kim L. Winser(4)	5(6)				0(1)	✓
Ms Ada K.H. Tse	6(6)	4(4)			1(1)	✓
Executive Directors						
Mr Clement K.M. Kwok *Chief Executive Officer*	5(5)				1(1)	✓
Mr Peter C. Borer *Chief Operating Officer*	5(5)				1(1)	✓
Mr Christopher S.M. Ip *Chief Financial Officer*	5(5)				1(1)	✓
Company Secretary						
Ms Christobelle Liao(5)	5(5)	4(4)	2(2)	2(4)	1(1)	✓

Notes:

(1) Included an annual meeting where the Chairman met with INEDs only

(2) Representatives of the independent auditor participated in every Audit Committee meeting and the Annual General Meeting

(3) The Hon. Sir Michael Kadoorie and Mr Philip Kadoorie were unable to attend the Board meeting and Annual General Meeting due to family reasons

(4) Dr Kim L. Winser was unable to attend the Board meeting due to health reasons and Annual General Meeting due to other commitment

(5) Ms Christobelle Liao did not attend two Remuneration Committee meetings where matters included her and other Group Executives
During 2021, Ms Christobelle Liao undertook over 15 hours of professional training, meeting the requirement of the Listing Rules

(6) Directors who undertook training and development through attending seminars/conferences and webinars which are relevant to the business or directors duties arranged by the company or external organisations, and reading regulatory/corporate governance and industry related updates. In 2021 topics included: anti-bribery and corruption, corporate governance, sustainability, regulatory compliance and directors duties

Corporate Governance Report

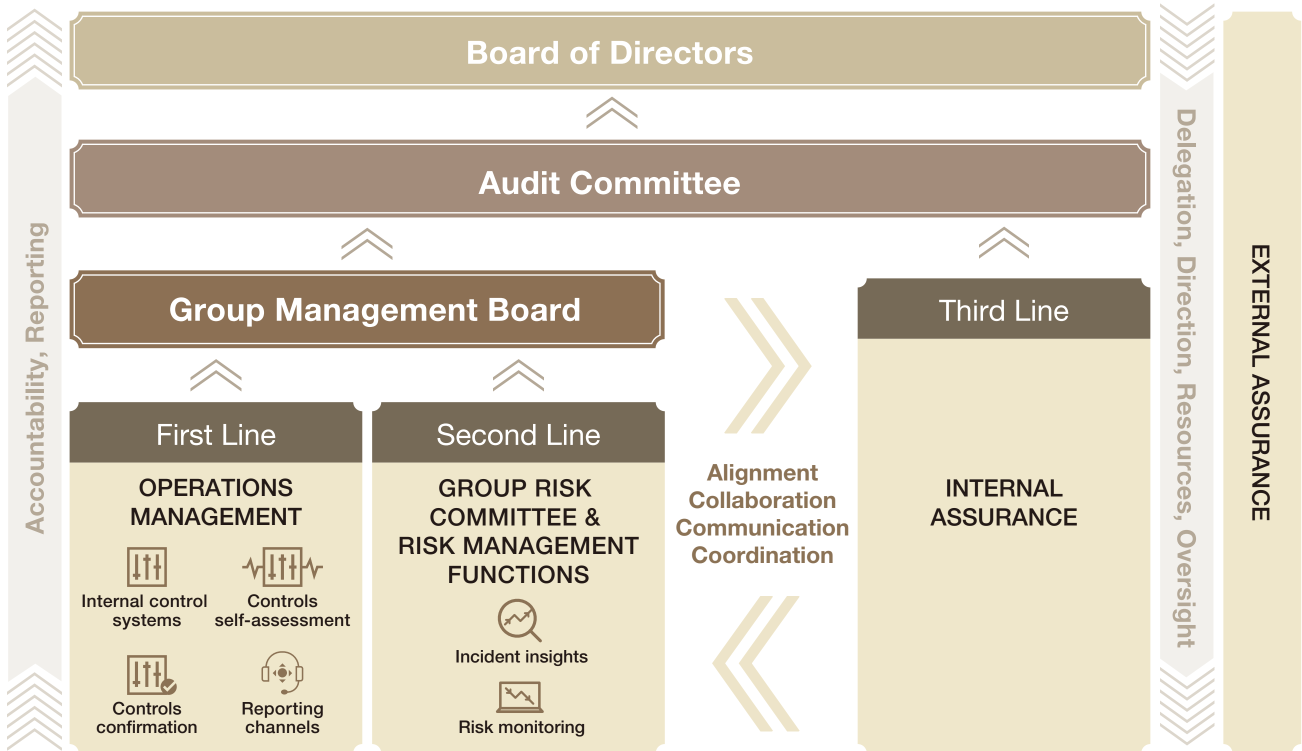
Risk Governance

Effective risk management plays an integral role in the overall achievement of the group's strategic objectives which are to ensure the resilience of our business for the long term, optimise the quality of our asset portfolio, deliver the highest standards of luxury, and to preserve the tradition of integrity and respect for our heritage.

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

Approach to risk governance

Our risk management framework is guided by the "Three Lines Model", as set out in the graphic below. This framework and its process are designed to manage and mitigate risks rather than eliminate all risks. As with all systems, it does not provide an absolute shield against risks such as natural catastrophes, fraud and errors of judgement, which are present in all businesses. Whilst each of the three lines has its distinct responsibilities, their activities are aligned with the objectives of the organisation. Such coherence is achieved through regular and effective coordination, collaboration and communication.



First Line: Operations management

The group has established a system of internal controls which is executed by operations management.

Internal control systems

Controls adopted by the group can be divided into entity level and process level controls. Entity level controls operate pervasively across and throughout the group to mitigate risks threatening the organisation as a whole and to provide assurance that organisational objectives are achieved. Examples include groupwide policies such as Code of Conduct & Speak Up Policy, Group Purchasing & Tendering Policy, Fair Competition Guide and Inside Information Policy and others.

Process level controls include operational standards such as the enhanced Hygiene & Sanitation Guidelines & Principles for our hotel operations, policies and procedures governing approval authority, due diligence requirements, safeguarding of assets and financial reporting and many others.

The group has implemented new controls and strengthened a number of existing controls to cope with the ever-changing regulatory and operational environment. Please refer to the GRC report on pages 129 to 133 for the key controls undertaken in 2021 to mitigate our principal risks.

The Inside Information Policy regulates the handling of inside information within the group, to ensure potential inside information is being captured and confidentiality is being maintained until disclosures are made.

Handing Inside Information Guide

- A user-friendly guide is shared on our intranet to promote staff awareness
- Non-compliance of the Guide is a breach of the Code of Conduct
- A system is in place to monitor what the market says about HSH and there is an inside information escalation process

Controls self-assessment

Our business and functional units are at the forefront of risk management and they form part of the group's risk management process by undertaking a "control self-assessment" (CSA). Formally conducted twice a year, the CSA process allows the group and each operation to identify new risks affecting their businesses, reassess magnitude of existing risks, and evaluate the effectiveness of controls in managing the risks. Enhancement plans with specified risk owners and time-bound action points are implemented for controls that are assessed as less effective.

Controls confirmation

General Managers, Hotel Managers and Directors of Finance or Financial Controllers of all operations confirm the effectiveness and adequacy of material internal controls (which include financial, operational and compliance controls) via General Representation Letters. In addition, operations are required to perform annual compliance and privacy checks and provide confirmations to Group Legal on statutory or best practices compliance.

Collectively, these internal control systems and processes form the basis by which management reviews and confirms the effectiveness of the risk management and internal control systems to the Audit Committee.

Reporting channels

The group has multiple channels to handle and communicate crises. The groupwide Incident Reporting Policy sets out the methodology for group companies to determine the severity level of an incident and the corresponding reporting requirements. This has enhanced the quality of information for the oversight of the group's internal control and risk management practices.

Corporate Governance Report

In addition, the Speak Up Policy[10] provides employees and other stakeholders a confidential reporting channel on suspected misconduct or malpractice within the group without fear of reprisal or victimisation. Reported allegations are logged, reviewed, independently validated and investigated as appropriate. Investigation results are communicated to the Executive Directors and the Audit Committee with approved recommendations implemented by responsible parties.

In 2021, four reports of potential integrity issues were received via Speak Up. All of these reports were investigated. Of the four reports: one was unfounded; two resulted in recommendations to enhance operational internal controls; one was still ongoing investigation at the time of writing.

Second Line: Risk management functions

Second line roles comprise relevant head office functions and the GRC which (i) oversees the risk landscape and risk management activities of the operations and development projects which is reported to the Audit Committee and the Board of Directors semi-annually, (ii) monitors the group's principal risks and emerging risks, and (iii) regularly evaluates the effectiveness of controls in response to such risks. A 5-step risk management methodology[11] is applied to ensure the risk assessment process and internal controls remain current, are adapted and modified as business conditions and the organisation change.

Incident insights

The GRC analyses common incidents across all operations and identifies any trend of root causes for further discussion with the Group Management Board as needed. Opportunities to improve key controls and share best practices are discussed and communicated across the group.

Risk monitoring

The GRC continued to strengthen its monitoring of risks to respond to changes and developments in both the external and internal environment, especially on risks posed by the COVID-19 pandemic. For actions taken in 2021, please refer to the GRC Report on pages 129 to 133.

Third Line: Internal assurance

ARM provides independent and objective internal assurance and advice on the adequacy and effectiveness of governance and risk management. It also promotes and facilitates continuous improvement through the competent application of systematic and disciplined processes, expertise, and insight.

Key processes are audited using an end-to-end approach thus control improvement opportunities can be readily identified and implemented. Since the company operates in a decentralised control environment, any common control weaknesses across the group are also assessed through an aggregation process so that group level recommendations can be initiated as needed.

The internal audit plan in 2021 included reviews of the efficiency of key business processes with a view to optimising efficiency and performance of the group and individual operations, with a focus on the two hotel development projects. Furthermore, an enhanced process to systematically and timely track the implementation status of recommendations across all operations continued to be in place.

External assurance

The external auditor of the group further complements the third line by independently auditing material internal controls over financial reporting of the group. Any material weaknesses are reported to the Audit Committee every six months.

Board confirmation

The Board has considered and endorsed the Audit Committee's assessment of the effectiveness of risk management and control systems in the group. Throughout 2021 no areas of concern which might materially affect the effectiveness of the group's operational, financial reporting and compliance controls were identified, and the existing risk management and internal control systems remained effective and adequate.

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

11 Details of 5-step risk management methodology can be found on page 130 of the GRC Report

Our Shareholders

HSH had 1,780 registered shareholders as at 31 December 2021. 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	537	30.168	68,698	0.004
501-1,000	192	10.786	153,144	0.009
1,001-10,000	598	33.596	2,458,337	0.149
10,001-100,000	356	20.000	11,420,865	0.692
100,001-500,000	66	3.708	13,187,474	0.800
Above 500,000	31	1.742	1,622,145,688	98.346
Total	**1,780**	**100.000**	**1,649,434,206**	**100.000**

Note: as at 31 December 2021, 36.42% of all HSH total number of shares in issue were held through CCASS

The Kadoorie family (including interests associated with the family but excluding interests held by charities associated with the family) has a combined shareholding of 59.98% as disclosed in "Interests of Directors" and "Interests of Substantial Shareholders" in Directors' Report on pages 149 to 151. The remaining HSH shares are mainly held by institutional and private investors, with a considerable number of those investors being Hong Kong residents.

After the year end, the interests of the Kadoorie family in the company were increased. Please refer to Note (vi) in the "Interests of Substantial Shareholders" in the Directors' Report.

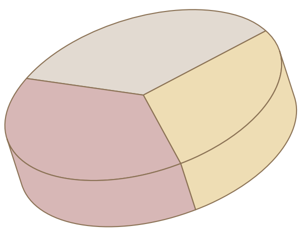
From publicly available information and within the knowledge of the Directors, HSH has maintained the required 25% public float throughout 2021 and up to the date of this report.

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[12] 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.

2021 Annual General Meeting



Total number of attendees: **21**

Shares voted: **70.68%** of total issued shares

- Individual Shareholders: **7**
- Proxies of HKSCC Nominees Limited: **6**
- Shareholders appointing representatives/proxies: **8**

The 2021 AGM was held on 21 May 2021 at The Peninsula Hong Kong. Prior to the meeting, a circular containing the notice of the AGM was distributed to all shareholders more than 20 clear business days prior to the AGM, setting out details of each proposed resolution and other relevant information. The company regards the AGM as an important event. It is also a main channel of communication between the Board and our shareholders. Our Directors, including the Chairman of the Audit and Remuneration Committees, were present at the 2021 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.

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

Corporate Governance Report

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[13] and the Stock Exchange's websites.

Separate resolutions were proposed on each issue, including the re-election of individual Directors. All resolutions proposed at the 2021 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 2020	**99.97%**
Re-election of seven retiring Directors: Dr the Hon. Sir David K.P. Li, Mr John A.H. Leigh, Mr Nicholas T.J. Colfer, Ms Ada K.H. Tse, Mr James L. Lewis, Mr Philip L. Kadoorie and Mr Christopher S.M. Ip as Directors of the company	**Ranging from 98.63% to 99.99% in respect of each individual resolution**
Re-appointment of KPMG as the independent auditor of the company and authorisation of the Directors to fix their remuneration	**99.36%**
Granting of the general mandate to Directors to allot, issue and deal with the company's shares	**95.12%**
Granting of the general mandate to Directors to buy-back the company's shares	**99.97%**
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	**95.17%**
Approving the amendments to the Articles of Association of the company as set out in Appendix III to the circular of the company dated 14 April 2021 and adopting of the new Articles of Association of the company	**99.99%**

Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 230.

The company's share price information as well as share and dividends per share information for the last ten years are disclosed on pages 82 and 15 respectively. In addition, the company's dividend policy is set out in note 10 to the financial statements.

Engaging with our Shareholders

The company attaches great importance in engaging with the investor community, including individuals and institutional shareholders and research analysts. We believe that continued engagement is key to building increased understanding between the company and the shareholders and sharing views, opinions and concerns with each other. Comments received from the different platforms and channels would be noted and discussed at management level and the Board as necessary.

The company utilises multiple platforms to engage investors:

- We encourage our shareholders to participate in our Annual General Meeting and directly communicate with our Directors
- Our Executive Directors and Investor Relations team engaged with shareholders and potential investors via one-on-one meetings and conference calls, as well as held regular briefings with research analysts
- We also participated in investor conferences to further engage existing and potential investors

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

- Our company's website[14] gives the public a window to who we are, what we do and how we are doing. There is a wealth of current and historical information such as webcasts of the announcements of the latest financial results along with presentation materials from such announcements, our financial reports, financial statistics, corporate governance practices
- Our Shareholder Communication Policy[15] has specified the various communication platforms to which our shareholders and stakeholders can access as well as various communication channels for them to communicate their views
- The company's branded social media sites provide investors and other stakeholders with regular updates on our business initiatives in The Peninsula Hotels, The Repulse Bay, and The Peak, as well as HSH community and employee initiatives on employer branding social media sites

For queries and additional information, shareholders and investors can send their requests to our Investor Relations email address at ir@hshgroup.com. On how we engage our stakeholders, please refer to Creating Stakeholder Value on pages 86 to 89.

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.

Throughout 2021 we have complied with all of the code provisions and recommended best practices in the CG Code 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 instead 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 provisions and disclosed the remuneration payable to senior management by band in our Remuneration Committee Report.

Environmental, Social and Governance Reporting Guide (ESG Guide)

Our Corporate Responsibility and Sustainability Report[16] has been prepared in accordance with the provisions as set out in Appendix 27 of the Stock Exchange's Environmental, Social and Governance Reporting Guide (ESG Guide) and the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards): Core option. The CRS Report references the International Integrated Reporting Framework from the International Integrated Reporting Council (IIRC), Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the Sustainability Accounting Standard Board (SASB) standards. KPMG was commissioned to conduct assurance and to provide an independent opinion on the identified elements of the CRS Report in accordance with the ESG Guide.

Regulatory and Privacy Compliance

We continue to monitor relevant regulatory changes which relate to our business and to ensure we operate consistently with applicable global regulatory requirements, such as the PRC's new Personal Information Protection Law and updates to the EU's Standard Contractual Clauses.

Given our continuing commitment to maintaining our guests' privacy in accordance with applicable laws, we keep our people updated on privacy legislation, compliance, challenges and risks in this complex and highly regulated area by conducting mandatory e-learning courses with refresher training for all employees. Our Group IT and Legal teams have jointly organised training sessions to relevant employees to provide them with an overview of the most relevant global privacy legislation and the latest cybersecurity threats, along with useful tips to mitigate the risks the group.

14 www.hshgroup.com/en/investors

15 Posted on the company's website: www.hshgroup.com/en/corporate-governance

16 Posted on the company's website: www.hshgroup.com/en/sustainable-luxury

Corporate Governance Report

Other Compliance Matters

Appointment and re-election of Directors

The appointment and re-election of Directors are governed by the Nomination Policy which is set out below. The company confirms that all Directors' re-elections were conducted in compliance with the CG Code in 2021. NEDs are appointed for a term of three years. All Directors are subject to a term of re-election every three years. Details of the Directors who will retire and offer themselves for re-election in the 2022 Annual General Meeting are set out in the Directors' Report on page 148.

Nomination Policy[17]

Our Board always recognises the benefits of diversity and ensures that the selection criteria including contribution and time commitment, nomination process and procedures set out in the Nomination Policy and summarised below are followed when proposing a candidate for nomination or a Director for re-election.

Nomination Committee	Board	Shareholders
• Proposes a candidate for nomination on a Director for re-election based on merit with reference to the Board Diversity Policy and Listing Rules requirements • Considers the contribution and time commitment of the candidate or Director put forward for re-election • Makes recommendations to the Board as appropriate	• **Newly appointed Directors** are subject to election by shareholders at the first general meeting following the appointment • **Existing Directors** are subject to re-election by shareholders every three years	• Approves the appointment or re-election of Directors at the company's general meeting • Separate resolution will be put to vote for individual appoint-ment or re-election

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 NEDs and INEDs, as well as service contracts for Executive Directors, contain guidelines on expected time commitments required for the affairs of the company. Each individual confirmed his or her understanding of such time commitment when the appointment was 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 2021. The Board is satisfied that the Directors had a strong commitment to the company and positively contributed to the company's affairs, discussions and decisions, as reflected in their participation in the Board and Governance Board Committee meetings during the year.

17 Posted on the company's website: www.hshgroup.com/en/corporate-governance

Independence of INEDs

The independence of the INEDs is relevant to Board balance and assessed on a regular basis to ensure they remain capable of providing unbiased and objective contribution to the Board discussion. The company has received written confirmations of independence from each of its seven INEDs who served in 2021. The Nomination Committee and the Board considered that all seven INEDs who served in 2021 were and continued 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 brings the right experience and is prepared to challenge the Board in a constructive fashion. The Nomination Committee and the Board continue to believe that it is not appropriate to apply an arbitrary period of service beyond which a director is assumed to have lost his or her independence. The Board will continue to review the independence of its INEDs by assessing whether they remain independent in character and judgement and continue to present an objective and constructive challenge to the assumptions and viewpoints presented by the management and the Board.

Directors' dealings with company securities

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

All Directors have confirmed their full compliance with the required standards set out in the Model Code and the Securities Code in 2021. Details of the shareholding interests held by the Directors of the company as at 31 December 2021 are set out on page 149.

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 106 to 108, and 150 respectively.

Directors' disclosure on conflict of interest

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

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

In 2021, all Directors have fulfilled these disclosure requirements.

We have also extended the annual disclosure requirements on potential conflict of interests to senior management (other than the three Executive Directors) and leaders of key functions, which have also been fulfilled.

In addition, all Directors are also required to declare the nature and extent of their interests, if any, in any transaction, arrangement or other proposal to be considered by the Board. In 2021, no potential conflict of interest was determined by the Board to be material. Nevertheless, the continuing connected transaction as disclosed in the Directors' Report on page 148, which was reviewed in the March Board meeting.

Onboarding for new Directors

All new Directors receive a comprehensive onboarding programme which is tailored to their individual roles and needs, which is designed to facilitate their understanding of our group, our purpose, culture, values and strategy, our corporate governance and the markets in which we operate. This structured programme includes meetings with Chairman, Executive Directors, Company Secretary and senior management, and visiting a number of the group's properties. In addition, the Company Secretary will provide a tailored onboarding pack and a library of reference materials covering key areas such as Board and Committee papers, governance and directors' duties, risk management and internal controls matters. Mr Christopher Ip who joined the Board in

Corporate Governance Report

January 2021 has completed his tailored and comprehensive onboarding programme to allow him to gain valuable insight into our business, our colleagues and stakeholders.

Directors training and development

Our Directors participate in continuous training and development activities that keep them up to date on developments in all areas pertaining to the business of the company and the performance of their duties as Directors. In addition to Quarterly governance updates and anti-bribery and corruption reading materials, relevant publications and e-learning from the Stock Exchange are provided to our Directors and keep them abreast of the relevant rules and regulations affecting our businesses. Directors who individually attend seminars or conferences associated with their expertise and responsibility update the company annually. The training and development records of Directors and the Company Secretary for 2021 are reflected on page 119.

Codes and terms of reference

Each year we review our governance and securities codes and the relevant terms of reference of the Board and each Board Committee[18] to ensure that they comply with the latest legal and regulatory requirements and reflect developments in best practices and the needs of the company. The HSH Code together with the terms of reference of the Board and Governance Board Committees were reviewed in 2021 and the terms of reference of Remuneration Committee were revised to enable the Committee to focus more on the review of the remuneration policy for Directors and senior management.

The full terms of reference of the Board and each Board Committee can be viewed on the company's website[19] and those of the Governance Board Committees[20] are also published on the Stock Exchange's website. The Governance Board Committees' reports are set out on pages from 138 to 146.

Internal control procedures on connected transactions

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

With respect to the connected transactions for the financial year of 2021, Audit & Risk Management Department has reviewed (i) the adequacy and effectiveness of the internal control procedures of connected transactions; and (ii) the continuing connected transaction of our office lease. Their findings are submitted to Audit Committee, please refer to the Directors' Report set out on page 148.

Annual Report and Corporate Responsibility and Sustainability Report

The annual report and CRS report are both important channels for the company to provide shareholders and stakeholders with a balanced assessment of our financial and non-financial performance as well as our commitment to the high standards of corporate governance and the evolving nature of our environmental, social and governance practices. We are constantly striving to improve the clarity and transparency of our reporting. This is recognised in the awards we received for our 2020 Annual Report and CRS Report. Details can be found in the "Awards in 2021" section on page 90.

In March, the Board reviewed and approved the 2021 Annual Report and Corporate Responsibility and Sustainability Report[21]. With respect to the Directors' responsibility for preparing the financial statements for the year ended 31 December 2021, please refer to the Directors' Report set out on page 152.

High Standards of Corporate Governance

Commitment to high standards of corporate governance and business integrity has seen us through years of operations and we continue to look for improvements in our corporate governance practices for the continued future success of the group.

By order of the Board

Christobelle Liao
Company Secretary
16 March 2022

18 Audit, Nomination, Remuneration, Executive and Finance Committees

19 www.hshgroup.com/en/corporate-governance/board-committees

20 Audit, Nomination and Remuneration Committees

21 Posted on the company's website: www.hshgroup.com/en/sustainable-luxury

Group Risk Committee Report

"Robust risk management processes embedded within the organisation have contributed to the effective, agile and proactive responses to risks posed to our business in an everchanging environment."

Christopher Ip
Chairman of the Group Risk Committee
16 March 2022

Composition	Chairman: Mr Christopher Ip, Chief Financial Officer Members: Group Director, Corporate and Legal Group Director, Properties Group Director, Information Technology Group Director, Brand and Operations Support Group General Manager, Audit & Risk Management
Meeting Frequency	• Quarterly • Four meetings in 2021
Responsibilities	• To identify and assess the principal risks at group level and their corresponding mitigating treatments, as well as monitor the actions required for critical and major incidents within the group • To facilitate the process whereby each operation and project defines its business objectives, addresses the risks identified, conducts self-assessment of internal control activities and tracks progress of mitigating plans • To regularly review, assess and update material risks and related contingency plans to Group Management Board (GMB) for endorsement by the Audit Committee and the Board

With our risk governance structure and the Three Lines Model described on pages 120 to 122 in place, we have adopted across the group a practical, easy to understand 5-step risk management methodology.

Group Risk Committee Report

5-Step Risk Management Methodology

Whilst risk management is an ongoing and continuous process embedded into day-to-day organisational activities, the formal evaluation of risk is a semi-annual process starting with the evaluation of the external and internal environment and the identification of risk factors which have impacted the strategic, operational, financial or compliance objectives of each business unit. This is followed by the analysis of the likelihood and magnitude or change of impact (both financial and non-financial – such as operational and reputational) of each risk. Controls in place or new actions to be implemented to mitigate the risks are then identified with their effectiveness assessed. Thereafter, each business unit is required to assess the level of residual risks. Further actions must be taken if controls are not in place to address the risks, or existing controls are not effective to reduce the risk to an acceptable level.

Assessments from all business units are ultimately aggregated to compile a portfolio view of risks. Such process allows swift action to be taken by assessing similar risks across the other businesses, and allows the sharing of best practices, forming of group strategy on specific risks and responding to significant changes in the business environment, such as the COVID-19 pandemic.

Key Focus in 2021

COVID-19 global pandemic

Since its global outbreak in 2020, the COVID-19 pandemic has aggravated the level of risk facing the group at all levels of the business, across a range of financial and operational issues. In particular, the pandemic has heightened the level of risk associated with the group's ongoing hotel operations, investments and capital projects. Government guidelines on social distancing and travel restrictions have brought about significant business uncertainty, and have led to restricted operations in a number of our hotels during the year. The resultant financial impact continues to pose a key risk to the business. In addition, the ongoing pandemic has also exacerbated our ability to attract and retain talent in the hospitality industry. This has become a new principal risk for the group.

Import/export restrictions and reduction in workforce around the globe have significantly impacted international supply chains. We have seen delays in securing products and services necessary for daily operations of our hotels, properties and construction sites. We are monitoring this emerging risk and overall impact to the group.

The Group Risk Committee (GRC) continued to oversee the strategies adopted to respond to the operational and financial risks arising from the global pandemic since early 2020. Some of the key actions aimed at managing the day-to-day impact of the pandemic on our business are noted below:

- Encourage staff to receive vaccination against COVID-19 by providing incentives

- Strict social distancing measures in line with government guidelines were administered, such as work from home arrangements, and suspension of dine-in services in F&B outlets,

- Hygiene & Sanitation Guidelines & Principles were revised to heighten minimum standards and promote best practices in providing a safe and worry-free environment for our guests

- Construction site hygiene, sanitation and social distancing measures were implemented on all the construction sites in London and Istanbul
- More flexible ways of working and dynamic allocation of talent were reinforced for stronger performance orientation and employee engagement
- Products were strategically adapted to stimulate domestic demand such as staycation packages, take-away and deliveries at F&B outlets and special seating arrangements for banquets
- Cost saving measures and actively searching for alternative and diversified revenue generators
- Business continuity capability assessment on working out of office for every head office department

Investment and project development risks

GRC continued to monitor the key risks surrounding The Peninsula London, The Peninsula Istanbul and the Peak Tram upgrade. The reporting process has been streamlined to focus on the time-bound mitigating actions to be taken by designated personnel. In addition, a project owner's risk register is reviewed quarterly to facilitate the identification and management of risks the group has been facing as the owner of the new hotels. Controls such as budget and resource planning, rephasing of fit-out and pre-opening schedules were implemented for the specific needs of each project.

Environmental and social (E&S) risks

The effects of climate change are observed in all parts of the world and has resulted in damage to our ecosystems, buildings, and to human health. As the global average temperature continues to rise, acute hazards (such as hurricanes, floods, or wildfires) are projected to increase both in frequency and severity, with longer-term impact (such as rising sea level and drought) expected to worsen. We need to ensure that the company is well-positioned to weather these impacts by continuing to monitor and deepen our understanding of the inter-related and complex nature of climate risks we are facing, embedding preventive measures to address these risks at all areas of our operations, and begin adaptation measures to strengthen resilience in a potentially volatile future.

In the past, we have completed an initial assessment of the risks related to the physical and reputational risks of climate change to our business. Regarding properties more susceptible to natural disasters and climate risks, our insurance costs are expected to increase and there is also the risk that it may negatively impact the value of our assets in very high risks areas. These risks may also lead to disruption of business operations and supply chains, affecting accessibility or attractiveness of a location resulting in reduced demand for our products and services, surges in operating costs and capital expenditure, as well as more stringent regulatory environment. In 2021, we focused on identifying the potential long-term consequences of sea level rises and coastal flood risks to the business. We have identified short and medium-term approaches to mitigate risks and building resilience across our portfolios.

Currently, we mitigate risk related to extreme climate events by (a) maintaining comprehensive insurance coverage for our properties, (b) enhancing the resilience of the physical structure through design, upgrade and regular maintenance, (c) establishing site and company level crisis management protocols. For long-term planning, we will integrate climate risks in the planning and design process of all future development and investment projects. Due to the cascading effects of climate change causing multiple risks, particularly the transitional and financial risks, we are committed to deepening our understanding of such impacts.

We are also aware of the multiplier effect and knock-on impact brought by climate change on other socioeconomic issues such as unemployment, poverty, social inequality, educational disparity, supply chain disruption, and more. The ongoing pandemic has also exacerbated these issues along with public health and safety concerns. *Vision 2030* will continue to guide our efforts in engaging with our local communities in meaningful ways[22].

GRC and the Board will continue to receive regular updates from the CRS Department to understand the evolving E&S risks in order to determine effective short-term responses, and develop long-term adaptation strategies. More details of our approach to climate change can be read on pages 50 to 52 of our CRS Report, referencing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

22 Details of our community volunteering and investment programmes can be found on pages 42 to 44 of our CRS Report

Group Risk Committee Report

Other Principal Risks

The principal risks of the group are monitored and reviewed on an ongoing basis, by focusing on the environment, business conditions and organisational changes. In 2021, specific focus in some areas of the principal risks were discussed in more details below:

Other disaster events

The global pandemic continued to be the most significant risk for our group in 2021 as discussed above. Other disaster events, such as natural disasters, fire and terrorism, may also affect some of our properties. We regularly review our crisis management plans and maintain insurance coverage on property damage and business interruption to minimise impact caused by natural disasters. Structure of insurance for disasters have also been reviewed this year. E&S risks were also assessed and mitigation actions taken as discussed above.

Business dependency on Hong Kong

A significant portion of our group earnings has historically been contributed by our operations in Hong Kong. Such business dependency implies that the economic and political outlook of the city, especially its ability to recover from the pandemic, would have a crucial impact on our business, as this would lower our earnings and impact our asset values. To manage this risk, we have implemented and begun to explore alternative revenue streams outside of Hong Kong.

Competition in all markets

With the global pandemic, our hotels have had to steer towards the domestic and staycation market to keep occupancy and covers at reasonable levels. It has been challenging to realise the desired gains in revenue due to the competitive nature of the markets that we operate in, as the vast majority of competing hotels were chasing after the same leisure segment. Our operations have had to innovate and develop more enhanced offerings and services and develop alternative revenue streams to attract and compete in highly competitive markets.

Our retail leasing business

Our leasing business has also been adversely affected by the pandemic. A decrease in foot traffic in our arcades has affected our retail tenants. Leasing have also been impacted by the economic downturn, particularly commercial leasing. As a result, we have continued to work with retail tenants and make appropriate adjustments to rental and other contractual requirements. We have also focused on our tenant mix in our commercial properties this year, particularly at The Peninsula Hong Kong and The Peninsula Beijing, bringing in luxury lifestyle element into our arcades. The renovated Peninsula Arcade in Hong Kong re-opened during the year to offer unique brand mix of lifestyle and fashion to boost traffic. One of our luxury anchor tenants, expanded and reconceptualized their boutique. The arcade basement space has also been upgraded to focus on high-end lifestyle retail to attract the domestic market and includes an Italian gourmet deli, a sushi bar, a men's grooming salon, high-end audio equipment store and a new and expanded Peninsula Boutique & Café which opened in May 2021.

Investments and developments

For our construction projects, the pandemic has resulted in site closures, social distancing and travel restrictions. All these have contributed to delays and increase in costs for The Peninsula London, The Peninsula Istanbul and the Peak Tram. In addition, we have encountered project management and other challenges. These risks are identified and mitigating measures are monitored by top level management. Task forces have been sent into London to ensure agile decision making in a timely manner. We implement enhanced oversight of tendering throughout project construction, and seek to develop clear pre-opening plans and early deployment of dedicated resources to support hotel openings. Where partners are involved, top level management are involved in partner relationships, particularly in managing the suspension of The Peninsula Yangon project.

Foreign exchange and interest rate fluctuations

Foreign exchange and interest rate fluctuations may lead to volatility in our financial statements and ratios. Unfavourable movements may increase our cost of securing financing. In particular Turkish Lira depreciated against US dollar by more than 40% during 2021. We regularly review major foreign exchange transactional and capital expenditure exposures, and adopt proactive management and balancing of fixed and floating rate loan exposures. To manage the uncertainty and construction payments for The Peninsula London and The Peninsula Istanbul projects, in 2021 we entered into forward exchange contracts to hedge Turkish Lira exposure against Euro and Euro exposure against Pound Sterling. We also conduct regular stress testing and calculation of value at risk to monitor the potential impact on the profit and loss, balance sheet and financial ratios.

Macroeconomic and political environment

As a multinational corporation, our business are impacted by geo-political influences. Incidents such as Russia-Ukraine conflict and US-China tensions may negatively impact the global economy, and may result in trade restrictions and sanctions. Regular risk and performance review of operations, properties and projects are carried out during the year. Political instability in countries such as Myanmar has impacted our investment. 2021's focus has been in managing the risks related to The Peninsula Yangon project.

Labour shortage in the hospitality industry

Finally, labour shortage in the hospitality industry has become an increasingly challenging problem. Apart from an overall decline in the attractiveness of the hospitality industry, the pandemic has also led talent to re-evaluate their career goals. This has resulted in staff resignations and difficulties in our recruitment efforts in most of our labour markets. This is further compounded by other industries that continued to do well during the pandemic increasingly offering more attractive pay and work practices.

To attract and retain our existing and future talent, we are conducting even more regular salary benchmarking exercises and ensuring our total remuneration, benefits and health insurance stay highly competitive and relevant. As a result of employee feedback and focus groups under WorkPlace 2025, we have implemented more flexibility in working hours and work from home in our corporate offices in Hong Kong. We will also look into the relaxation of dress code and rolling out carer's leave for all employees in Hong Kong to ensure they can take time to look after their immediate family if they are ill.

Most importantly, efforts are placed to enhance our employees' mental well-being and a strong sense of care and belonging in the company especially during these difficult times.

Principal Risk Movements in 2021

Principal Risk	Risk Category	Movement
DISASTER EVENTS	External	▶
BUSINESS DEPENDENCY	Strategic	▶
MACROECONOMIC AND POLITICAL	External	▼
INVESTMENTS AND DEVELOPMENTS	Strategic	▶
RETAIL, COMMERCIAL AND RESIDENTIAL LEASING	Financial	▶
COMPETITION	External	▼
FOREIGN EXCHANGE AND INTEREST RATES	Financial	▼
CYBERSECURITY	Operational	▲
DATA PRIVACY	Compliance	▶
BRAND AND REPUTATION	Strategic	▼
LABOUR SHORTAGE	Operational	new

2022 Major Initiatives

In 2022, the GRC's main focus will continue to be on (i) enhancement of internal controls to manage the strategic risks of the group, especially risks pertinent to the recovery from the pandemic and development projects, and (ii) a focus on communication, awareness and ownership of risks and controls across the group.

Group Corporate Responsibility Committee Report

"With rising environmental and social risks coming to the fore, we are ready to step up, do our part and contribute to collaborative global efforts, using *Vision 2030* as our blueprint to navigate the volatile environment arising in the coming decade."

Clement Kwok
Chairman of the Group Corporate Responsibility Committee
16 March 2022

Composition	Chairman	Mr Clement Kwok, Chief Executive Officer
	Members	Group Director, Corporate and Legal Group Director, Human Resources Group Director, Brand and Operations Support Head of Corporate Responsibility and Sustainability Select members of General Managers of operations and Heads of corporate departments
Meeting frequency	• At least three meetings each year • Four meetings in 2021	
Responsibilities	• To propose, recommend, monitor and report to the Group Management Board and support the Board of Directors on corporate responsibility and sustainability (CRS) topics, including the implementation of the company's *Sustainable Luxury Vision 2030* • To review practices, standards, trends, regulations, plans related to CRS topics that may have an impact on the operations of the group	

Our CRS Approach

In 2021, we launched our new CRS strategy *Sustainable Luxury Vision 2030 (Vision 2030)* to step into the next decade as a responsible corporate citizen and guide us in responding to our world's environmental and social challenges. As we write this report, many parts of the world continue to be impacted by the global pandemic. Whilst society and businesses are recovering from economic downturn and slowly adapting to the new normal, we continue to face socioeconomic difficulties and challenges. Yet as stewards of our communities, we need to continue to do our part to build on the progress we have made in the past decade, and be prepared to overcome the future challenges brought about by increasing environmental and social risks we may face.

CRS issues are having an ever-increasing impact on businesses and society at large, and we believe that as a responsible corporate citizen, we must work and collaborate with other key stakeholders to address our society's biggest problems. *Vision 2030* was developed through detailed benchmarking with industry peers and thought leadership studies to set ambitious, extensive internal and stakeholder engagements to ensure buy-in and feasibility analysis and assessments to enable implementation[23]. We seek to leverage the strengths of our business, focusing on issues requiring significant attention, scaling positive benefits from our offering, while effectively reducing our negative impacts. Our new strategy also incorporates a deeper focus on business integration and using regenerative and proactive approaches. The key topics we have identified which will have the most impact on our business and societies that are addressed in *Vision 2030* are:

- diminishing natural resources such as energy, water and food;
- the climate change crisis; and,
- growing social instabilities and inequalities.

23 More details of our stakeholder engagement and materiality approach can be found on pages 10 to 11 of our CRS Report

Vision 2030 seeks to address these issues by focusing on our three stakeholder pillars of (i) enhancing our guest experience, (ii) empowering our people and (iii) enriching our communities, underpinned by our 10 key commitments as set out below.

To enable our stakeholders to have a holistic view of our company, we continued to publish a detailed Corporate Responsibility and Sustainability Report online. Additional information on our CRS approach, initiatives and performance can be found in our CRS Report[24].

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

Group Corporate Responsibility Committee Report

Our Guests: Enhancing our guest experience

To uphold our commitment of enhancing our guests' experience, we look to provide sustainable luxury while creating a positive impact on our guests and the world around us. This means holding ourselves accountable for reducing our environmental footprint across our operations, while setting our sights to increase the use of renewable and regenerative energy and water sources. In particular, we will be addressing our stakeholders' expectations by developing medium to long-term strategies to move towards a low carbon future, undertaking holistic water assessments, and implementing the principles of "circularity" to divert waste sent to landfill in the coming decade. We recognise that we also have a role to play in effecting change among our stakeholders. We aim to influence our suppliers and partners by responsibly sourcing key products and services in alignment with our environmental, social and ethical standards. In our properties, we will continue to promote and increase sustainability awareness with our guests and customers through knowledge sharing and interactive sustainable experiences.

Our People: Empowering our people

At HSH, we acknowledge that our people are our most valuable asset. We will continue to listen to and respond to their needs, with the aim of empowering our people in the workplace. We will continue to be transparent and honest, committing to fair compensation for all our employees. This also means promoting a safe and inclusive workplace where our employees can thrive regardless of their gender, race, age, sexual orientation or culture. We are also expanding our focus on employee health and safety and work life balance to take a more holistic approach in supporting both the physical safety as well as overall mental and physical wellness of our staff.

Our Communities: Enriching our communities

Our communities are our homes – when our communities thrive, we thrive. *Vision 2030* will continue to guide our efforts in engaging with our local communities in meaningful ways, moving away from monetary-based to outcome-based community investment. We commit to prioritising our efforts in supporting our local communities in ways that will create long-term impact on their lives, focusing on youth development, elderly care and uplifting marginalised communities within cities we operate in. At HSH, we acknowledge that more minds are better than one in solving some of the most pressing issues we face. *Vision 2030* emphasises on forging partnerships and collaboration with like-minded businesses to drive sustainable change together.

Managing and Adapting to Climate Change

The impacts of the climate crisis are evident, we want to ensure we are well-positioned to weather these impacts by continuing to monitor and deepen our understanding of the inter-related and complex nature of the climate risks we are facing, embedding preventive measures to address climate risks in all areas of our operations, and begin adaptation measures to improve resilience in a potentially volatile future. We will remain vigilant to evaluate these risks on a yearly basis[25].

In 2021, we focused on identifying the potential long-term consequences of sea level rises and coastal flood risks to the business. We have identified short and medium-term approaches to mitigate risks and building resilience across our portfolios. We are also aware of the multiplier effect and knock-on impact brought by climate change on other socioeconomic issues. *Vision 2030* will continue to guide our efforts in engaging with our local communities in meaningful ways.

Governance on CRS

We regard the integration of sustainability as a sensible and necessary strategy that benefits the overall value of the group in both the short and long term. The Board oversees the management of sustainability issues through regular engagement and updates from the Group Corporate Responsibility Committee (GCRC). While we do not have a separate sustainability committee at board level, the Board considers this topic to be of substantial importance, warranting yearly review[26] of the group's sustainability approach, strategy and performance.

GCRC has been given responsibility by the Group Management Board (GMB) to manage all aspects of the implementation of our sustainability approach. GMB, also headed by the CEO and comprised of other group executives and senior management, is the principal decision-making body responsible for management and day-to-day business of the group. GCRC is supported by the Corporate Responsibility and Sustainability (CRS) Department, spearheaded by the Head of CRS, who reports directly to the CEO, to coordinate and formalise sustainability efforts across the group.

The Head of CRS regularly reports to the Board and GMB and updates the Group Risk Committee on environmental and social risks related to the business. The Head of CRS also coordinates CRS-related risk mitigation actions and adaptation strategies across the group. In 2021, the potential long-term consequences of sea level rise and coastal flood risk to the business was discussed with the Board.

25 More details of our approach to climate change can be read on pages 50 to 52 of the CRS Report, referencing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

26 Sustainability topics reviewed and discussed at Board level can be found on page 118

Key Work in 2021

We continued to monitor progress on our commitments and provided support and focused attention on those that needed more traction. With these objectives in mind, the Committee's work in 2021 revolved around launching our new CRS strategy *Vision 2030*. In addition, the Committee carried out the following:

- Reviewed CRS performance data and recommended actions relating to energy, water and waste management, responsible sourcing, health and safety, empowering our people in the workplace, ethical standards and community engagement
- Considered recent sustainability trends including latest marketing development (specifically on sustainable seafood, palm oil, cottons, cage-free eggs, and others), sustainability innovations, new legislations, updates on reporting and management best practices
- Discussed potential consequences of sea level rise and coastal flood risk to our properties and business
- Discussed potential transition risks for the group in light of latest research studies on climate change

Progress on Vision 2030

In 2021, we continued our ongoing CRS work and started identifying new initiatives for *Vision 2030*. Some key achievements and progress in 2021 include:

Our Guests

- On track to achieve BREEAM, one of the world's leading sustainable building standards for our new projects in London and Istanbul
- Continue to implement alternative packaging such as recycled aluminium and petroleum plastic-free materials for our new guest room amenities
- Explored several sustainable alternatives for food safety and hygiene items
- Commenced energy saving and efficiency projects with a projected return of investment within one year
- Ensured that majority of paper products, cleaning products, tea and coffee are sourced sustainably or responsibly
- Conducted baseline assessments and identified an implementation roadmap on sourcing cage-free eggs across our group
- Piloted projects to recover wastes such as upcycling retired pillow and repurposing oyster shells

Our People

- Developed a comprehensive approach on diversity and inclusion
- Launched the new global wellness approach focusing on mental wellbeing
- On-going gap analysis to improve our safety and security approach

Our Communities

- Continued to support our local communities focusing on areas of youth development, elderly care and uplifting marginalised communities, especially those most impacted by the global pandemic with a total of HK$4.5 million contribution and more than 6,000 volunteering hours
- Strengthened the group's approach on modern slavery, including the prevention of child labour, and human trafficking across our supply chain, particularly among high-risk suppliers such as those supplying seafood and cotton products, as well as engaging with employment agents in Hong Kong on the hiring of casual labour
- Secured our first sustainability-linked loan totalling HK$1.25 billion which is directly linked to our sustainability targets

We are grateful to see progress on these initiatives which are supported by our colleagues around the world even during such challenging times. We remain committed to implementing our *Vision 2030* objectives in as practicable a manner as possible. We look forward to creating more impactful programmes that would in turn drive more progress next year.

AUDIT COMMITTEE REPORT

"Robust risk management, internal control systems, financial reporting and audit processes are fundamental cornerstones of the group's governance. The Audit Committee provides independent and impartial oversight in relation to the group's overall approach to risk."

Patrick Paul
Chairman of the Audit Committee
16 March 2022

Composition	Chairman Mr Patrick Paul, INED Members Ms Ada Tse, INED Mr Andrew Brandler, NED
Meeting Frequency	• At least four times every year with senior management, the external auditor and Group General Manager, Audit & Risk Management in attendance by invitation • Four meetings in 2021
Responsibilities	• To assist the Board in carrying out its responsibility of overseeing financial reporting, external audit, internal audit, risk management and internal controls

COVID-19

The COVID-19 pandemic continues to present significant risks to the current operating environment, in light of new variants and unpredictable government imposed restrictions. The Audit Committee continues to review and monitor the risks and mitigation actions associated with the pandemic.

Development Projects

During the year, the Audit Committee reviewed the progress on The Peninsula London, The Peninsula Istanbul and the Peak Tram projects. The Committee also reviewed the management's impairment assessment in respect of the group's non-investment properties and projects under development, due to the continued uncertainty and the challenging outlook. As a result, in March 2022, the Committee endorsed the impairment provision for The Peninsula Yangon.

Other Key Work in 2021

Annual/Interim Report and Financial Information

- Reviewed and endorsed the 2020 Annual Report, Corporate Responsibility and Sustainability Report, and the annual results announcement, as well as the 2021 Interim Report and the interim results announcement

Internal and external audits

- Approved the proposed 3-year internal audit plan commencing in 2022 and assessed the proposed audit methodology

- Reviewed the 2021 internal audit plan progress and the audit areas of focus. The Audit Plan for 2021 was amended due to travel restrictions, prioritising those audits that could be performed remotely through desktop reviews

- Reviewed the key internal audit findings and initiatives recommended to the relevant operations and Head Office departments
- Reviewed the consulting projects undertaken by Audit & Risk Management, including the new global finance system, risks and controls
- Reviewed the IT Audit findings on the new global financial system before implementation, focusing on data integrity, access control and system interface
- Endorsed KPMG's audit report on the financial statements for the 2020 Annual Report and discussed the key observations identified by KPMG during the course of their audit and the related recommendations
- Reviewed 2021 audit plans and reports from the external auditor on its audit scope, approach and areas of focus, and the financial statements including accounting policies and areas of judgement and its comments on control matters
- Noted the external auditor's assurance of continuing connected transaction and Corporate Responsibility and Sustainability Report

Financial reporting system, risk management and internal control systems

- Reviewed the new global finance system project roadmap, project governance structure, key risks and mitigation measures Programme to improve operational efficiency and business support effectiveness
- In-depth review of the business of the Peninsula Clubs & Consultancy Services
- Discussed the valuation process and the methodology of revaluing the properties
- Reviewed and approved the structure, adequacy of resources, staff qualifications and experience, training programmes of the group's accounting, internal audit and financial reporting functions and CRS
- Reviewed and endorsed semi-annually the Group Risk Management Report detailing the COVID-19 risk, new perceived risk in terms of labour shortages, and other principal risks facing the group, mitigation controls and the adequacy and effectiveness of risk management and internal control systems.
- Considered summaries of the internal representation letters from business operations which in turn formed the basis by which management confirmed the effectiveness of the group's risk management and internal control systems; and approved the representation letters to the external auditor before issuance of the 2020 Annual Report and Corporate Responsibility and Sustainability Report and 2021 Interim Report

Governance

- Reviewed all connected transactions and related party transactions, including endorsing the continuing connected transaction of tenancy agreement for the head office for Board approval
- Reviewed the group's tax position and the impacts arising from the changes in the tax laws and regulations and the relevant actions being taken
- Discussed and reviewed reported speak up cases and investigations undertaken[27]

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

Based on the reports from Group General Manager, ARM, summaries of internal representation letters and reports of the external auditor, the Audit Committee considers the overall financial and operating controls, risk management and internal control systems for the group during 2021 to be effective and adequate. Issues raised by the internal and external auditors during 2021 have been, or are being addressed by management, and the Audit Committee advised the Board that there are no issues required to be raised to shareholders.

27 Details can be found on reporting channels on pages 121 and 122

Audit Committee Report

In March 2022, the Audit Committee reviewed and endorsed this annual report, the Corporate Responsibility and Sustainability Report, which is posted on the website[28] and the annual results announcement, and recommended the same to the Board for approval.

Ensuring the Independence of our External Auditor

The group's external auditor is KPMG. We believe the independence of our external auditor is crucial to the effectiveness of our corporate governance and should not be compromised. The issue of auditor independence is reviewed annually. In engaging the external auditor for non-audit work, we take into account the internal guideline adopted to monitor the amount of non-audit work given to the external auditor to ensure the provision of such services do not impair KPMG's independence or objectivity. In 2021, apart from audit work, the company also awarded non-audit work to KPMG including taxation and other services. In our first meeting in 2022, the Audit Committee reviewed the nature of non-audit work performed by KPMG and confirmed that it gave rise to no impairment of actual or perceived independence or objectivity of the audit work itself. The Committee has recommended to the Board the re-appointment of KPMG as independent auditor for Shareholders' approval at the 2022 Annual General Meeting.

A summary of fees for audit and non-audit services to KPMG for the financial years ended 31 December 2021 and 2020 is as follows:

Nature of Services	**2021 HK$m**	2020 HK$m
Audit Services	**10**	9
Non-audit Services		
Taxation and other services	**3**	2

Looking Forward

The past 12 months have continued to present heightened levels of business risk at all levels. The role of the Audit Committee and the function of the internal and external audit teams remains vital to ensuring that strong governance and appropriate risk mitigation measures are implemented and rigidly enforced in order to maintain sensible levels of risk to the business. We expect the Committee to continue to play an instrumental role as we navigate through these challenging times.

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

Nomination Committee Report

"We operate a global business with a diverse workforce and I believe we have a diverse Board with a truly global experience, mindset and knowledge to guide the company on its growth."

The Hon. Sir Michael Kadoorie
Chairman of the Nomination Committee
16 March 2022

Composition	Chairman	The Hon. Sir Michael Kadoorie, Non-Executive Chairman
	Members	Dr the Hon. Sir David Li, INED Dr William Fung, INED
Meeting frequency	• At least two meetings every year • Two meetings in 2021	
Responsibilities	• To evaluate the structure, size and composition of the Board. This includes selecting new Directors and/or maintaining an appropriate, adequate and balanced make-up of an effective Board and reviewing of independence of INEDs	

Board Composition and Diversity

A diverse Board brings constructive challenge and fresh perspectives to Board discussion. 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. Our Diversity Policy adopted since 2013 can be found on the company's website[29]. 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 which goes beyond gender. While we recognise that 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.

The Nomination Committee regularly reviews the composition, balance, skills and experience of the Board. It has confirmed that the Board has continued to contribute positively, with diverse views from each Director based on the wide mix of skills, knowledge, and experience.

In addition, the Committee also reviewed the appropriateness of an express diversity quota or measurable objective. On the basis that the company already has a large Board which contribute positively with diverse views to the Board's discussions and decisions, the Committee decided not to set any specific gender targets during 2021, with selection continuing to be based on merit, with reference to our diversity policy. Our policy takes into account skill set, experience, knowledge, expertise, culture, level of independence from the company, age, race, gender and others. This approach has been endorsed by the Board. However, the Committee has noted the provisions of the new Corporate Governance Code in respect of gender diversity and will be reviewing its diversity policy against it during 2022.

29 www.hshgroup.com/en/corporate-governance

Nomination Committee Report

Nomination Policy

In 2020, when selecting our new Chief Financial Officer, whilst recognising the benefits of gender diversity, we also followed the selection criteria and nomination process and procedures set out in our Nomination Policy[30]. The Nomination Committee reviewed the selection and assessment approach and endorsed the appointment of Mr Christopher Ip who joined the Board on 18 January 2021 as Chief Financial Officer.

Other Key Work in 2021

The Nomination Committee assessed and reviewed all INEDs' confirmations of independence and the cross-directorships of Dr Rosanna Wong[31] and The Hon. Sir Michael Kadoorie, who served on boards of the company and CK Hutchison Holdings Limited, and affirmed the Committee's view of their independence.

The Committee also evaluated the contribution and time commitment of Directors (including INEDs) put forward for re-election as well as their respective skills and experience and recommended them for re-election.

In addition, the Committee discussed the proposed changes to the Listing Rules which will have an impact on the Board composition.

In March 2022, the Committee approved this report for inclusion into the company's 2021 Annual Report.

Looking Forward

Diversity is a key aspect of a rich and varied approach to governance, and the Nomination Committee is proud of the range and breadth of experience the Board can offer, without yet having implemented quotas. The Nomination Committee will continue to monitor and make appropriate adjustments to the diversity of the Board to ensure its effectiveness.

30 Please also refer to page 126 on Nomination Policy
31 Dr Rosanna Wong serves as an INED and does not hold any shares in CK Hutchison Holdings Limited

Remuneration Committee Report

"The Remuneration Committee strives to strike the right balance between attracting, retaining and motivating high performing senior executive talent, and exercising financial prudence consistent with the environment in which we operate."

Patrick Paul
Chairman of the Remuneration Committee
16 March 2022

Composition	Chairman: Mr Patrick Paul, INED Members: Dr Rosanna Wong, INED; Mr Andrew Brandler, NED
Meeting Frequency	• At least two meetings every year with the Chief Executive Officer and Group Director, Human Resources in attendance • Four meetings in 2021
Responsibilities	• To review and approve remuneration packages for Executive Directors and senior management • To review and recommend proposals for Non-Executive Directors' fees and Board Committee Chairmen and members' fees for approval by shareholders and the Board respectively

HSH Rewards Philosophy

In 2021, we carried out a review and simplified the philosophy with more focus on benefits and other career planning programmes considering the unprecedented and challenging labour market in the hospitality industry. We continue to ensure that compensation and benefits designed for the group and its executives accord with an overall framework of guiding principles. We work within this framework to adjust compensation and benefits as appropriate in light of changing financial and market conditions. Our objective remains to attract and retain high performing talent by offering a mix of financial and non-financial rewards to stay competitive and meet our employees' expectations.

Key guiding principles

- Aim to pay a total remuneration package that is competitive with the relevant external market and achieves consistency and fairness with existing employees

- Design an appropriate mix of fixed and variable pay, taking into account the group's pay policy and market practice to incentivise management and individual performance

- Provide meaningful and competitive benefits that resonate with our corporate values on employee care and inclusion, encourage long-term careers, and brand HSH as an employer of choice

Remuneration for Executive Directors and Senior Management

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

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

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

Remuneration Committee Report

Basic compensation

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

Bonuses and incentives

The provision of appropriate bonus and incentive awards for performance is vital to the continued growth to the business. Executive Directors' bonuses consist of contractual and discretionary components while the two Group Executives are under a discretionary bonus plan to align with market practice. Other senior management participates in the HSH Management Bonus Plan[32] 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[33]
- Individual performance
- Share price

In 2020 the Committee approved the suspension of quality measurements in the light of the severe covid disruptions. It approved the proposal to develop an updated set of Peninsula Service Principles for the hotels. This methodology will be used to establish a revised set of quality measurements for the application of the Management Bonus plan to hotels operations. In light of the continuing pandemic, the Committee agreed that the roll out of this methodology be deferred until 2022.

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 or a local 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.

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

In light of the group's financial situation in 2021 caused by COVID-19, the Committee endorsed management's cost saving proposal to continue for 2021 the waiver of fees for NEDs and the reduction of 20% of fees for INEDs and Governance Board Committees. This was accepted by all the NEDs and INEDs. In November 2021, the Committee endorsed management's proposal for the fees payable to NEDs and INEDs to revert to pre-pandemic levels from 1 January 2022.

Other Key Work in 2021

2022 salary and 2021 bonus

In 2021, the Committee noted management's recommendation on a group-wide 2022 general salary increase and a 2021 discretionary bonus proposal for a certain operations considering the financial performance of the group, the COVID-19 environment, and other various factors including retention challenges, market pay trends and inflationary forecasts. Similar percentage salary and bonus awards to Executive Directors and senior management were approved by the Committee.

Remuneration of Group Director, Properties

The Committee reviewed and endorsed the remuneration package of the new Group Director, Properties, Shirley Lam, and gave careful consideration to the proposed remuneration in the context of her experience as well as market competitiveness.

Others

The Committee discussed its responsibilities and approved a change to its terms of reference to focus more on directors' and senior management's remuneration. It also approved the terms of the letters of appointment of two INEDs.

In March 2022, the Committee approved this report for inclusion into the company's 2021 Annual Report.

32 Senior staff also participates in the HSH Management Bonus Plan
33 A quality score measuring user experience and/or operational excellence against a set of standards

2021 Remuneration of Directors and Senior Management

The following information is an integral part of the audited financial statements for the year ended 31 December 2021.

Non-Executive Directors – remuneration

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[(1)] 2021**	Total[(1)] 2020
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	0	0	–	–	0	**0**	0
Mr Andrew C.W. Brandler	0	0	0	0	–	**0**	0
Mr William E. Mocatta	0	–	–	–	–	**0**	0
Mr John A.H. Leigh	0	0	–	–	–	**0**	0
Mr Nicholas T.J. Colfer	0	–	–	–	–	**0**	0
Mr James L. Lewis	0	–	–	–	–	**0**	0
Mr Philip L. Kadoorie	0	–	–	–	–	**0**	0
Independent Non-Executive Directors							
Dr the Hon. Sir David K.P. Li	300	–	–	–	32	**332**	332
Mr Patrick B. Paul	300	–	148	80	–	**528**	528
Mr Pierre R. Boppe	300	–	–	–	–	**300**	300
Dr William K.L. Fung	300	–	–	–	32	**332**	332
Dr Rosanna Y.M. Wong	300	–	–	48	–	**348**	348
Dr Kim L. Winser	300	–	–	–	–	**300**	300
Ms Ada K.H. Tse	300	–	120	–	–	**420**	420
	2,100	0	268	128	64	**2,560**	2,560

Executive Directors – remuneration

The remuneration paid to Executive Directors of the company in 2021 was as follows:

(HK$'000)	Basic compensation	Bonus	Contractual Share-based Payment	Deferred Share-based payment	Retirement benefits	Other benefits	**Total[(1)] 2021**	Total[(1)] 2020
Executive Directors								
Mr Clement K.M. Kwok	7,260	5,200	1,477	0	1,194	181	**15,312**	12,699
Mr Peter C. Borer	5,211	2,155	886	0	844	133	**9,229**	7,734
Mr Matthew J. Lawson[(2)]	0	0	0	0	0	0	**0**	5,003
Mr Christopher S.M. Ip[(3)]	4,924	840	1,221	0	802	203	**7,990**	–
	17,395	8,195	3,584	0	2,840	517	**32,531**	25,436

Notes:
(1) 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
(2) Mr Matthew J. Lawson resigned as a Director of the company with effect from 1 October 2020
(3) Mr Christopher S.M. Ip was appointed as a Director of the company with effect from 18 January 2021

Remuneration Committee Report

Senior Management – remuneration

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

	2021 Number	2020 Number
HK$2,500,001 – HK$5,000,000	**3**	4
HK$5,000,001 – HK$7,000,000	**3**	3
HK$7,000,001 – HK$9,000,000	**1**	0

* GMB, the company's management and operations' decision-making authority, comprises the three Executive Directors and seven (2020: seven) senior management who represent the various key functions and operations of the company

Individuals with highest remuneration

The five highest paid individuals of the group included three (2020: two) Executive Directors and two (2020: three) members of senior management. The remuneration of the three (2020: two) Executive Directors are set out above. The remuneration of the two (2020: three) individuals with highest remuneration are within the following bands:

	2021 Number	2020 Number
HK$5,000,001 – HK$5,500,000	**0**	1
HK$5,500,001 – HK$6,000,000	**0**	2
HK$6,000,001 – HK$6,500,000	**0**	0
HK$6,500,001 – HK$7,000,000	**1**	0
HK$7,000,001 – HK$7,500,000	**1**	0

The aggregate of the remuneration in respect of these two (2020: three) individuals is as follows:

(HK$'000)	2021	2020
Basic compensation	**10,816**	13,245
Bonus	**1,830**	0
Contractual Share-Based Payment	**0**	0
Deferred Share-Based Payment	**0**	1,808
Retirement benefits	**474**	1,042
Other benefits	**1,004**	911
	14,124	17,006
Number of Individuals	**2**	3

The Committee has reviewed the methodology and benchmarking of the remuneration disclosed above and has endorsed and approved the same.

2022 and beyond

The Committee endeavours to strike the right balance between the need for financial prudence in challenging times, and the need to attract and retain high-performing talent in an increasingly competitive market. The Committee's decisions in 2021 were made with this balance in mind, as we were expecting the worst effects of the pandemic to start receding as we move into 2022.

Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2021.

Principal Activities

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

Particulars of the principal subsidiaries of the company are set out in note 33 to the financial statements.

Business Review and Performance

A review of the business of the company and a discussion and analysis of the group's performance during the year and the material factors underlying its results and financial position, including analysis using financial key performance indicators, are provided in the Operational Review on pages 35 to 64 and Financial Review on pages 66 to 82. Description of the principal risks and uncertainties facing the group can be found throughout this annual report, particularly in Group Risk Committee Report on pages 129 to 133. The future development of the group's business is discussed throughout this annual report including in the CEO Statement and Strategic Review on pages 32 and 33.

Details regarding compliance with relevant laws and regulations which have a significant impact on the group can be found throughout this annual report and the Corporate Responsibility and Sustainability Report (CRS Report). Further details regarding the environment and social related policies and performance are provided in the CRS Report and an account of the group's relationships with its key stakeholders in Creating Stakeholder Value on pages 86 to 89.

The discussions with respect to the above topics in the annual report and CRS Report which is available online[34] 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 14 and 15.

Share Capital

Movements in the share capital of the company during the year are set out in note 25 to the financial statements.

Equity-linked Agreements

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

Purchase, Sale or Redemption of Listed Securities

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

Dividends

During 2021, given the underlying loss of the company, the Board of Directors has resolved not to declare an interim dividend (2020: nil) or a final dividend (2020: nil) and this is in line with our dividend policy which is linked to the cash flows from operating activities and underlying earnings.

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$1.43 million (2020: HK$3 million)[35].

Major Customers and Suppliers

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

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

35 The donations amount of HK$1.55 million (2020: HK$3.2 million) referred to in the Sustainability Data Statements on page 226 include donations by managed properties owned by a joint venture and associates and employees

Directors' Report

Connected Transactions

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

On 27 March 2019, HSH Management Services Limited (HMS), 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 2019 at a market rent of HK$2,385,830 per month plus a monthly service charge of HK$259,246.8. The rent and service charge incurred in 2021 amounted to HK$32 million (2020: HK$34 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 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 27 March 2019.

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

Material Related Party Transactions

Details of material related party transactions which were undertaken in the ordinary and usual course of business are set out in note 31 to the financial statements.

Directors

Biographical details of the Directors in office at the date of this report are shown on pages 98 to 105. All these Directors held office throughout 2021 with the exception of Mr Christopher Ip who was appointed as an Executive Director and Chief Financial Officer with effect from 18 January 2021.

In accordance with the Articles of Association of the company, all the Directors who will retire at the 2022 Annual General Meeting[36] and, being eligible, have agreed to offer themselves for re-election are The Hon. Sir Michael Kadoorie, Mr Peter Borer, Mr Patrick Paul, Dr Rosanna Wong and Dr Kim Winser.

None of the Directors proposed for re-election at the 2022 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.

36 Annual General Meeting will be held on 11 May 2022

Directors of Subsidiaries

The list of directors who have served on the boards of the subsidiaries of the company during the year and up to the date of this report is shown on the company's website[37].

Senior Management

Biographical details of senior management are shown on pages 106 to 108. All members of senior management held office throughout the year except Ms Shirley Lam who was appointed as a member of the Group Management Board with effect from 1 March 2022 replacing Mr Martyn Sawyer who will retire in summer 2022.

Interests of Directors

As at 31 December 2021, the interests or short positions of the Directors of the company in the shares, underlying shares and debentures of the company or any associated corporation, within the meaning of Part XV of the Securities and Futures Ordinance (SFO), as recorded in the register required to be kept under section 352 of the SFO, are as follows:

Long position in shares of the company

	Capacity	Number of shares held in the company	% of total number of shares in issue of the company
The Hon. Sir Michael Kadoorie	Note (a)	702,931,684	42.617
Mr Clement K.M. Kwok	Beneficial Owner	760,122	0.046
Mr Peter C. Borer	Beneficial Owner	378,936	0.023
Mr William E. Mocatta	Beneficial Owner	17,000	0.001
Mr John A.H. Leigh	Note (b)	85,220,232	5.167
Mr Philip L. Kadoorie	Note (c)	702,931,684	42.617
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,137,146	0.069
Mr Pierre R. Boppe	Beneficial Owner	30,000	0.002

Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 702,931,684 shares in the company. These shares were held in the following capacity:

(i) 356,666,831 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder; and

(ii) 346,264,853 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder.

After the year end, the deemed interests of The Hon. Sir Michael Kadoorie in the shares of the company were increased, please refer to Note (vi) in the "Interests of Substantial Shareholders".

(b) Mr John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 85,220,232 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 85,220,232 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 85,220,232 shares.

(c) Mr Philip L. Kadoorie was deemed (by virtue of the SFO) to be interested in 702,931,684 shares in the company. These shares were held in the following capacity:

(i) 356,666,831 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries; and

(ii) 346,264,853 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries.

After the year end, the deemed interests of Mr Philip L. Kadoorie in the shares of the company were increased, please refer to Note (vi) in the "Interests of Substantial Shareholders".

Messrs Andrew Brandler, Christopher Ip, Nicholas Colfer, James Lewis, Patrick Paul; Dr William Fung, Dr Rosanna Wong, Dr Kim Winser and Ms Ada Tse who are Directors of the company have each confirmed that they had no interests in the shares of the company or any of its associated corporations as at 31 December 2021.

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

Directors' Report

Certain Directors held qualifying shares in two subsidiaries of the company, on trust for the parent company of that subsidiaries.

Except as set out above, as at 31 December 2021, none of the Directors of the company (including their spouses and children under 18 years of age) had any interests or short positions in the shares, underlying shares and debentures of the company or its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept under section 352 of the SFO.

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

Interests of Senior Management

As at 31 December 2021, 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 2021, shareholders (other than Directors of the company) who had interests or short positions in the shares and underlying shares of the company as recorded in the register required to be kept under section 336 of the SFO, are as follows:

Long position in shares of the company

(a) Substantial shareholders

	Capacity	Number of shares held in the company	% of total number of shares in issue of the company
Acorn Holdings Corporation	Beneficiary	201,195,388	12.20(i) and (vi)
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	286,415,620	17.36(i) and (vi)
Guardian Limited	Beneficiary/Interest of controlled corporation	85,220,232	5.17(v)
Harneys Trustees Limited	Interests of controlled corporations	702,931,684	42.62(iii) and (vi)
Lawrencium Holdings Limited	Beneficiary	346,264,853	20.99(ii) and (vi)
Lawrencium Mikado Holdings Limited	Beneficiary	356,666,831	21.62(ii)
The Magna Foundation	Beneficiary	356,666,831	21.62(ii)
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	702,931,684	42.62(ii) and (vi)
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	85,220,232	5.17(iv)
Oak (Unit Trust) Holdings Limited	Trustee	85,220,232	5.17(i)
Oak HSH Limited	Beneficiary	85,220,232	5.17(iv)
Mr Richard Parsons	Trustee	85,220,232	5.17(v)

Notes:

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

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

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

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

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

(v) Mr Richard Parsons, in his capacity as one of the trustees of a trust, controlled Guardian Limited and therefore was deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 85,220,232 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
Seekers Partners Limited	Interest of controlled corporation	185,179,077	11.23[(vi)]
Mr Ng Chee Siong	Trustee	84,828,218	5.14[(vii)]
Mr Philip Ng Chee Tat	Trustee	84,828,218	5.14[(vii)]
Sino Hotels (Holdings) Limited	Interests of controlled corporations	84,828,218	5.14[(vii)]

Notes:

(vi) On 13 January 2022, Seekers Partners Limited, together with its subsidiary, Solis Capital Limited, entered into a conditional share sale and purchase agreement (Conditional SPA) with Acorn Holdings Corporation and Lawrencium Holdings Limited (which are trust structures/entities established for the benefit of the members of the Kadoorie family) selling 185,179,077 shares of the company. The Conditional SPA also included an additional 20,132,108 shares of the company held by undisclosed persons. Completion of the Conditional SPA took place on 11 February 2022. Details of the Conditional SPA and its completion were disclosed in the announcements dated 14 January and 11 February 2022[38].

(vii) Mr Ng Chee Siong and Mr Philip Ng Chee Tat, had trustee interest in their capacity as the co-executors of the estate of Mr Ng Teng Fong, who controlled Sino Hotels (Holdings) Limited and therefore they were both deemed to be interested in the 84,828,218 shares in which Sino Hotels (Holdings) Limited was deemed to be interested. Hence, the share interests of Mr Ng Chee Siong, Mr Philip Ng Chee Tat and Sino Hotels (Holdings) Limited as disclosed were duplicated.

Except as set out above, as at 31 December 2021, 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.

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

Directors' Report

Interests of Any Other Person

As at 31 December 2021, 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 2021 or at any time during the year.

Directors' Indemnities

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

Employee Retirement Benefits

Details of the group's employee retirement benefits are shown in note 27 to the financial statements.

Management Contracts

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

Corporate Governance Report

The Corporate Governance Report outlines the company's approach to governance is set out on pages 111 to 128.

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 2021, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

Auditor

The financial statements for the year ended 31 December 2021 have been audited by KPMG who will retire at the 2022 Annual General Meeting and, being eligible, offer themselves for re-appointment. A resolution to re-appoint KPMG (Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance) as auditor and authorise the Directors to fix their remuneration will be proposed at the 2022 Annual General Meeting.

By Order of the Board

Christobelle Liao
Company Secretary
16 March 2022

Financial Statements

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of The Hongkong and Shanghai Hotels, Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 159 to 223, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

(Refer to note 12, note 14, note 15 and note 34 to the consolidated financial statements)

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

Independent Auditor's Report

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

(Refer to note 12, note 14, note 15 and note 34 to the consolidated financial statements)

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

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yau Ngai Lun, Alan.

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

16 March 2022

Consolidated Statement of Profit or Loss (HK$m)

	Note	Year ended 31 December 2021	2020
Revenue	3	**3,461**	2,710
Cost of inventories		**(310)**	(213)
Staff costs and related expenses		**(1,562)**	(1,511)
Rent and utilities		**(373)**	(373)
Other operating expenses		**(822)**	(674)
Operating profit/(loss) before interest, taxation, depreciation and amortisation (EBITDA)		**394**	(61)
Depreciation and amortisation		**(499)**	(553)
Operating loss		**(105)**	(614)
Interest income		**4**	5
Financing charges	5	**(157)**	(149)
Net financing charges		**(153)**	(144)
Loss after net financing charges	4	**(258)**	(758)
Share of results of joint ventures	14	**(4)**	(269)
Share of results of associates	15	**(11)**	(97)
Provision for impairment	12(a)	**(679)**	(93)
Increase/(decrease) in fair value of investment properties	12(a)	**670**	(732)
Loss before taxation		**(282)**	(1,949)
Taxation			
Current tax	6	**(78)**	(62)
Deferred tax	6	**41**	31
Loss for the year		**(319)**	(1,980)
Loss attributable to:			
Shareholders of the company		**(120)**	(1,940)
Non-controlling interests		**(199)**	(40)
Loss for the year		**(319)**	(1,980)
Loss per share, basic and diluted (HK$)	9	**(0.07)**	(1.18)

The notes on pages 164 to 223 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income (HK$m)

		Year ended 31 December	
	Note	**2021**	2020
Loss for the year		**(319)**	(1,980)
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		**96**	217
– financial statements of joint ventures		**(21)**	90
– financial statements of and loans to an associate		**(40)**	48
– hotel operating rights		**(35)**	41
		–	396
Cash flow hedges:			
– effective portion of changes in fair values		**21**	(2)
– transfer from equity to profit or loss		**18**	21
– transfer to exchange reserve		**–**	9
		39	424
Item that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit retirement obligations		**(1)**	1
Other comprehensive income	8	**38**	425
Total comprehensive income for the year		**(281)**	(1,555)
Total comprehensive income attributable to:			
Shareholders of the company		**(82)**	(1,490)
Non-controlling interests		**(199)**	(65)
Total comprehensive income for the year		**(281)**	(1,555)

The notes on pages 164 to 223 form part of these Financial Statements.

Consolidated Statement of Financial Position (HK$m)

	Note	As at 31 December 2021	As at 31 December 2020
Non-current assets			
Investment properties		**33,077**	32,407
Other properties, plant and equipment		**13,748**	13,249
	12	**46,825**	45,656
Properties under development for sale	13	**4,954**	4,264
Interest in joint ventures	14	**1,349**	1,265
Interest in associates	15	**520**	560
Hotel operating rights	16	**483**	532
Derivative financial instruments	17	**53**	–
Deferred tax assets	18(b)	**110**	70
		54,294	52,347
Current assets			
Inventories	19	**75**	84
Trade and other receivables	20	**775**	669
Amount due from a joint venture	31(b)	**62**	59
Cash at banks and in hand	21(a)	**479**	520
		1,391	1,332
Current liabilities			
Trade and other payables	22	**(1,529)**	(1,289)
Interest-bearing borrowings	23	**(2,015)**	(1,897)
Derivative financial instruments	17	**(9)**	(5)
Current taxation	18(a)	**(42)**	(34)
Lease liabilities	24	**(163)**	(143)
		(3,758)	(3,368)
Net current liabilities		**(2,367)**	(2,036)
Total assets less current liabilities		**51,927**	50,311
Non-current liabilities			
Interest-bearing borrowings	23	**(11,364)**	(9,285)
Trade and other payables	22	**(120)**	(117)
Net defined benefit retirement obligations	27	**(24)**	(22)
Derivative financial instruments	17	**(6)**	(5)
Deferred tax liabilities	18(b)	**(608)**	(607)
Lease liabilities	24	**(2,940)**	(3,123)
		(15,062)	(13,159)
Net assets		**36,865**	37,152
Capital and reserves			
Share capital	25	**5,837**	5,837
Reserves		**30,925**	31,007
Total equity attributable to shareholders of the company		**36,762**	36,844
Non-controlling interests		**103**	308
Total equity		**36,865**	37,152

Approved by the Board of Directors on 16 March 2022 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Christopher S. M. Ip, Directors

The notes on pages 164 to 223 form part of these Financial Statements.

Consolidated Statement of Changes in Equity (HK$m)

		Attributable to shareholders of the company							
			Reserves						
	Note	Share capital	Hedging reserve	Exchange and other reserves	Retained profits	Total reserves	Total	Non-controlling interests	Total equity
At 1 January 2020		5,732	(38)	(345)	33,705	33,322	39,054	675	39,729
Changes in equity for 2020:									
Loss for the year		–	–	–	(1,940)	(1,940)	(1,940)	(40)	(1,980)
Other comprehensive income	8	–	28	422	–	450	450	(25)	425
Total comprehensive income for the year		–	28	422	(1,940)	(1,490)	(1,490)	(65)	(1,555)
Dividends approved in respect of the previous year	10	105	–	–	(147)	(147)	(42)	–	(42)
Dividend paid to non-controlling interests		–	–	–	–	–	–	(5)	(5)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	–	30	30
Transaction with non-controlling shareholders	31(d)	–	–	–	(678)	(678)	(678)	–	(678)
Reduction of non-controlling interests resulting from deconsolidation of a subsidiary	31(d)	–	–	–	–	–	–	(327)	(327)
Balance at 31 December 2020 and 1 January 2021		5,837	(10)	77	30,940	31,007	36,844	308	37,152
Changes in equity for 2021:									
Loss for the year		**–**	**–**	**–**	**(120)**	**(120)**	**(120)**	**(199)**	**(319)**
Other comprehensive income	8	**–**	**39**	**(1)**	**–**	**38**	**38**	**–**	**38**
Total comprehensive income for the year		**–**	**39**	**(1)**	**(120)**	**(82)**	**(82)**	**(199)**	**(281)**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Balance at 31 December 2021		**5,837**	**29**	**76**	**30,820**	**30,925**	**36,762**	**103**	**36,865**

The notes on pages 164 to 223 form part of these Financial Statements.

Consolidated Statement of Cash Flows (HK$m)

	Note	Year ended 31 December 2021	2020
Operating activities			
Loss after net financing charges		**(258)**	(758)
Adjustments for:			
Depreciation	12(a)	**485**	539
Amortisation of hotel operating rights	16	**14**	14
Interest income	4	**(4)**	(5)
Financing charges	5	**157**	149
EBITDA		**394**	(61)
Changes in other working capital		**(6)**	(197)
Cash generated from/(used in) operations		**388**	(258)
Net tax paid:			
Hong Kong profits tax		**(61)**	(165)
Overseas tax		**(9)**	(14)
Net cash generated from/(used in) operating activities		**318**	(437)
Investing activities			
Development costs for The Peninsula London Residences		**(646)**	(425)
Capital expenditure on the Peninsula hotels in London and Yangon		**(1,499)**	(1,088)
Capital injection into The Peninsula Istanbul joint venture		**(109)**	(258)
Capital expenditure on existing assets		**(334)**	(399)
Cash injected from the non-controlling shareholder of The Peninsula Yangon		**–**	30
Advance to associates		**(11)**	(21)
Cash consideration paid and other acquisition costs for additional interest in The Peninsula Bangkok		**–**	(571)
Net cash used in investing activities		**(2,599)**	(2,732)
Financing activities			
Drawdown of term loans		**3,660**	2,216
Repayment of term loans		**(1,490)**	(1,044)
Net increase in revolving loans		**372**	2,167
Net withdrawal of interest-bearing bank deposits with maturity of more than three months		**1**	3
Interest paid and other financing charges		**(159)**	(168)
Interest received		**4**	3
Capital element of lease rental paid		**(41)**	(44)
Interest element of lease rental paid		**(100)**	(100)
Dividends paid to shareholders of the company		**–**	(42)
Dividends paid to holders of non-controlling interests		**(6)**	(5)
Net cash generated from financing activities		**2,241**	2,986
Net decrease in cash and cash equivalents		**(40)**	(183)
Cash and cash equivalents at 1 January		**506**	680
Effect of changes in foreign exchange rates		**–**	9
Cash and cash equivalents at 31 December	21(a)	**466**	506

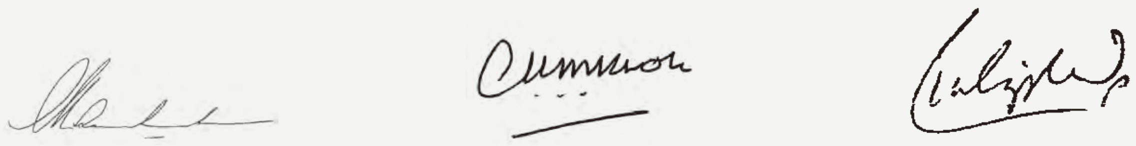
The notes on pages 164 to 223 form part of these Financial Statements.

Notes to the Financial Statements

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

	Note	At 31 December 2021	2020
Non-current assets			
Investment in subsidiaries	33	**–**	–
Current assets			
Amounts due from subsidiaries		**16,028**	15,556
Other receivables		**7**	7
Cash at banks and in hand		**3**	1
		16,038	15,564
Current liabilities			
Amounts due to subsidiaries		**(79)**	(44)
Other payables and accruals		**(23)**	(16)
		(102)	(60)
Net assets		**15,936**	15,504
Capital and reserves			
Share capital	25	**5,837**	5,837
Reserves	26(a)	**10,099**	9,667
Total equity		**15,936**	15,504

Approved by the Board of Directors on 16 March 2022 and signed on its behalf by:



The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Christopher S. M. Ip, Directors

2. Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the group are disclosed in note 34.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the group. Note 35 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements.

3. Revenue (HK$m)

The company is an investment holding company; its subsidiary companies, joint ventures and associates are engaged in the ownership, management and operation of hotels, commercial properties and clubs and services.

Revenue represents the consideration expected to be received in respect of the transfer of goods and services in accordance with HKFRS 15, *Revenue from contracts with customers* and rental income derived from the hotels' shopping arcade and offices and commercial properties recognised in accordance with HKFRS 16, *Leases*. Note 34(s) further describes the accounting policy in relation to each revenue stream, including point in time and over time measurement basis. Set out below is a breakdown of the group's revenue for the years ended 31 December 2021 and 2020:

	2021				2020			
	Recognise at a point in time	**Recognise over-time**	**Rental income on leases**	**Total**	Recognise at a point in time	Recognise over-time	Rental income on leases	Total
Hotels								
– Rooms	**–**	**808**	**–**	**808**	–	470	–	470
– Food and beverage	**683**	**–**	**–**	**683**	448	–	–	448
– Shopping arcades and offices	**–**	**35**	**484**	**519**	–	33	478	511
– Others	**173**	**80**	**–**	**253**	130	35	–	165
	856	**923**	**484**	**2,263**	578	538	478	1,594
Commercial properties								
– Residential properties	**–**	**42**	**380**	**422**	–	53	439	492
– Offices	**–**	**10**	**91**	**101**	–	10	92	102
– Shopping arcades and others	**76**	**34**	**65**	**175**	68	30	85	183
	76	**86**	**536**	**698**	68	93	616	777
Clubs and Services								
– Golf club	**100**	**73**	**–**	**173**	45	60	–	105
– Peak Tram operation	**13**	**–**	**–**	**13**	21	–	–	21
– Peninsula Merchandising	**275**	**–**	**–**	**275**	179	–	–	179
– Others	**35**	**4**	**–**	**39**	28	6	–	34
	423	**77**	**–**	**500**	273	66	–	339
				3,461				2,710

Notes to the Financial Statements

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

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

	2021	2020
Amortisation	**14**	14
Depreciation		
Other properties, plant and equipment	**427**	476
Right-of-use assets	**58**	63
Auditor's remuneration:		
Audit services	**10**	9
Taxation and other services	**3**	2
Interest income	**(4)**	(5)
Rentals receivable from investment properties less direct outgoings of HK$27 million (2020: HK$27 million)	**(993)**	(1,067)
Government grants	**(96)**	(138)

5. Financing charges (HK$m)

	2021	2020
Interest on bank borrowings	**116**	104
Interest on lease liabilities	**149**	146
Other borrowing costs	**45**	44
Total interest expenses on financial liabilities carried at amortised cost	**310**	294
Derivative financial instruments:		
– cash flow hedges, transfer from equity (note 8)	**21**	25
	331	319
Less: Interest expenses capitalised into		
– properties under development*	**(125)**	(126)
– right-of-use assets#	**(49)**	(44)
	157	149

* The borrowing costs have been capitalised at an average rate of 1.94% in 2021 (2020: 2.34%)

\# Interest on lease liabilities have been capitalised at an average rate of 4.9% in 2021 (2020: 4.9%)

6. Income tax in the consolidated statement of profit or loss (HK$m)

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

	2021	2020
Current tax – Hong Kong profits tax		
Provision for the year	**62**	56
Under/(over)-provision in respect of prior years	**1**	(1)
	63	55
Current tax – Overseas		
Provision for the year	**11**	7
Under-provision in respect of prior years	**4**	–
	15	7
	78	62
Deferred tax		
Decrease in net deferred tax liabilities relating to revaluation of overseas investment properties	**(5)**	(31)
Decrease in net deferred tax liabilities relating to other temporary differences	**(36)**	–
	(41)	(31)
Total	**37**	31

The provision for Hong Kong profits tax for 2021 is calculated at 16.5% (2020: 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 loss at applicable tax rates:

	2021	2020
Loss before taxation	**(282)**	(1,949)
Notional tax at the domestic income tax rate of 16.5%	**(47)**	(322)
Tax effect of non-deductible impairment provision	**112**	15
Tax effect of non-deductible expenses	**4**	18
Tax effect of non-taxable income	**(1)**	(14)
Tax effect of share of losses of a joint venture and associates	**3**	60
Tax effect of (non-taxable)/non-deductible fair value change on Hong Kong investment properties	**(113)**	87
Tax effect of tax losses not recognised	**77**	184
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2)**	5
Under/(over)-provision in respect of prior years	**5**	(1)
Others	**(1)**	(1)
Actual tax expense	**37**	31

Notes to the Financial Statements

7. Remuneration 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). GMB comprises the Executive Directors and seven (2020: seven) senior management. The total remuneration of the key management personnel is shown below:

	2021		2020	
	Executive and Non-executive Directors	**GMB members other than Executive Directors**	Executive and Non-executive Directors	GMB members other than Executive Directors
Directors' fees	**2,560**	**–**	2,560	–
Basic compensation	**17,395**	**27,752**	15,191	25,586
Bonuses and incentives	**11,779**	**7,165**	7,202	1,808
Retirement benefits	**2,840**	**2,571**	2,620	2,569
Other benefits	**517**	**872**	423	883
	35,091	**38,360**	27,996	30,846

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 "2021 Remuneration of Directors and Senior Management" section of the Remuneration Committee Report, which forms an integral part of these audited financial statements.

8. Other comprehensive income and the related tax effects (HK$m)

	2021			2020		
	Gross amount before tax	**Tax (expense)/ benefit**	**Net-of-tax amount**	Gross amount before tax	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– financial statements of overseas subsidiaries	**96**	**–**	**96**	217	–	217
– financial statements of joint ventures	**(21)**	**–**	**(21)**	90	–	90
– financial statements of and loans to an associate	**(40)**	**–**	**(40)**	48	–	48
– hotel operating rights	**(35)**	**–**	**(35)**	41	–	41
	–	**–**	**–**	396	–	396
Cash flow hedges:						
– effective portion of changes in fair values	**26**	**(5)**	**21**	(3)	1	(2)
– transfer from equity to profit or loss	**21**	**(3)**	**18**	25	(4)	21
– transfer to exchange reserve	**–**	**–**	**–**	9	–	9
Remeasurement of net defined benefit retirement obligations	**(1)**	**–**	**(1)**	1	–	1
Other comprehensive income	**46**	**(8)**	**38**	428	(3)	425

9. Loss per share

(a) Loss per share – basic

	2021	2020
Loss attributable to shareholders of the company (HK$m)	**(120)**	(1,940)
Weighted average number of shares in issue (million shares)	**1,649**	1,642
Loss per share (HK$)	**(0.07)**	(1.18)

	2021 **(million shares)**	2020 (million shares)
Issued shares at 1 January	***1,649***	*1,634*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2019 final dividend	**–**	*8*
Weighted average number of shares at 31 December	***1,649***	*1,642*

(b) Loss per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2021 and 2020 and hence the diluted loss per share is the same as the basic loss per share.

10. Dividends (HK$m)

(a) Dividend policy

The company adopts a dividend policy of providing its shareholders with a stable and sustainable dividend stream, which is linked to the cash flows from operating activities and underlying earnings achieved. The company also offers a scrip dividend alternative to its shareholders. The total amount of scrip dividends in respect of the new shares issued under the scrip dividend scheme is retained as capital of the company.

(b) Dividends payable to shareholders of the company attributable to the year

	2021	2020
Interim dividend declared and paid (2020: Nil)	**–**	–
Final dividend proposed after the end of the reporting period (2020: Nil)	**–**	–
	–	–

(c) Dividends payable to shareholders of the company attributable to the previous financial year, approved and paid during the year

	2021	2020
Final dividend in respect of the previous financial year, approved and paid during the year (2020: 9 HK cents per share)	**–**	147

Notes to the Financial Statements

11. Segment reporting (HK$m)

The group is organised on a divisional basis. In a manner consistent with the way in which information is reported internally to the group's senior executive management for the purposes of resource allocation and performance assessment, the group's reportable segments are as follows:

Hotels	This segment includes revenue generated from operating hotels, leasing of commercial shopping arcades and office premises located within the hotel buildings.
Commercial Properties	This segment is engaged in the development, leasing and sale of luxury residential apartments, leasing of retail and office premises (other than those in hotel properties), as well as operating food and beverage outlets in such premises.
Clubs and Services	This segment is engaged in the operation of golf courses, the Peak Tram, wholesaling and retailing of food and beverage products, laundry services and the provision of management and consultancy services for clubs.

No operating segments have been aggregated to form the reportable segments.

(a) Segment results

The results of the group's reportable segments for the years ended 31 December 2021 and 2020 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Reportable segment revenue*	**2,263**	1,594	**698**	777	**500**	339	**3,461**	2,710
Reportable segment operating profit/(loss) before interest, taxation, depreciation and amortisation (EBITDA)	**58**	(452)	**327**	452	**72**	(11)	**457**	(11)
Depreciation and amortisation	**(451)**	(494)	**(26)**	(26)	**(22)**	(33)	**(499)**	(553)
Pre-opening and project expenses	**(63)**	(50)	**–**	–	**–**	–	**(63)**	(50)
Segment operating (loss)/profit	**(456)**	(996)	**301**	426	**50**	(44)	**(105)**	(614)
Provision for impairment loss	**(679)**	(93)	**–**	–	**–**	–	**(679)**	(93)

Reconciliation of segment operating (loss)/profit to the loss before taxation in the consolidated statement of profit or loss is not presented, since the segment operating (loss)/profit is the same as the operating loss presented in the consolidated statement of profit or loss.

* Analysis of segment revenue is disclosed in note 3

11. Segment reporting (HK$m) continued

(b) Segment assets

Segment assets include all tangible and current assets and hotel operating rights held directly by the respective segments. The group's segment assets and unallocated assets as at 31 December 2021 and 2020 are set out as follows:

	Note	**2021**	2020
Reportable segment assets			
Hotels		**26,623**	26,190
Commercial properties		**27,321**	26,029
Clubs and services		**1,037**	811
		54,981	53,030
Unallocated assets			
Derivative financial instruments	17	**53**	–
Deferred tax assets	18(b)	**110**	70
Amount due from a joint venture	31(b)	**62**	59
Cash at banks and in hand	21(a)	**479**	520
Consolidated total assets		**55,685**	53,679

(c) Geographical information

The following table sets out information about the geographical location of (i) the group's revenue from external customers and (ii) the group's total reportable non-current assets.

	Revenue from external customers		Reportable non-current assets	
	2021	2020	**2021**	2020
Hong Kong	**1,678**	1,548	**31,580**	30,750
Other Asia *	**733**	697	**6,167**	7,263
United States of America and Europe	**1,050**	465	**16,384**	14,264
	3,461	2,710	**54,131**	52,277

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

Notes to the Financial Statements

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

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

	Land	Right-of-use assets (note 12(e))	Hotel and other buildings held for own use	Motor vehicles, plant and equipment	Construction in progress	Sub-total	Investment properties (notes 12(b), (c) & (d))	Total
Cost or valuation:								
At 1 January 2020	950	3,121	8,981	5,007	3,113	21,172	33,219	54,391
Exchange adjustments	(10)	118	178	54	134	474	111	585
Additions	–	44	25	97	1,362	1,528	101	1,629
Disposals	(205)	(20)	(247)	(99)	–	(571)	(354)	(925)
Transfer	–	–	(105)	60	(38)	(83)	62	(21)
Fair value adjustment	–	–	–	–	–	–	(732)	(732)
At 31 December 2020	735	3,263	8,832	5,119	4,571	22,520	32,407	54,927
Representing:								
Cost	735	3,263	8,832	5,119	4,571	22,520	–	22,520
Valuation – 2020	–	–	–	–	–	–	32,407	32,407
	735	3,263	8,832	5,119	4,571	22,520	32,407	54,927
At 1 January 2021	**735**	**3,263**	**8,832**	**5,119**	**4,571**	**22,520**	**32,407**	**54,927**
Exchange adjustments	**(40)**	**(180)**	**(293)**	**(108)**	**(49)**	**(670)**	**(49)**	**(719)**
Additions	**–**	**55**	**15**	**66**	**1,918**	**2,054**	**51**	**2,105**
Disposals	**–**	**(5)**	**(7)**	**(148)**	**–**	**(160)**	**(2)**	**(162)**
Transfer	**–**	**–**	**62**	**–**	**(62)**	**–**	**–**	**–**
Fair value adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**670**	**670**
At 31 December 2021	**695**	**3,133**	**8,609**	**4,929**	**6,378**	**23,744**	**33,077**	**56,821**
Representing:								
Cost	**695**	**3,133**	**8,609**	**4,929**	**6,378**	**23,744**	**–**	**23,744**
Valuation – 2021	**–**	**–**	**–**	**–**	**–**	**–**	**33,077**	**33,077**
	695	**3,133**	**8,609**	**4,929**	**6,378**	**23,744**	**33,077**	**56,821**
Accumulated depreciation and impairment losses:								
At 1 January 2020	384	270	4,349	3,855	–	8,858	–	8,858
Exchange adjustments	(6)	6	58	39	–	97	–	97
Charge for the year	–	63	196	280	–	539	–	539
Written back on disposals	(100)	(16)	(105)	(74)	–	(295)	–	(295)
Transfer	–	–	(36)	15	–	(21)	–	(21)
Impairment	–	–	67	26	–	93	–	93
At 31 December 2020	278	323	4,529	4,141	–	9,271	–	9,271
At 1 January 2021	**278**	**323**	**4,529**	**4,141**	**–**	**9,271**	**–**	**9,271**
Exchange adjustments	**(24)**	**(13)**	**(150)**	**(92)**	**–**	**(279)**	**–**	**(279)**
Charge for the year	**–**	**58**	**175**	**252**	**–**	**485**	**–**	**485**
Written back on disposals	**–**	**(5)**	**(7)**	**(148)**	**–**	**(160)**	**–**	**(160)**
Impairment	**–**	**–**	**–**	**–**	**679**	**679**	**–**	**679**
At 31 December 2021	**254**	**363**	**4,547**	**4,153**	**679**	**9,996**	**–**	**9,996**
Net book value:								
At 31 December 2021	**441**	**2,770**	**4,062**	**776**	**5,699**	**13,748**	**33,077**	**46,825**
At 31 December 2020	457	2,940	4,303	978	4,571	13,249	32,407	45,656

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 the year, the group acquired items of fixed assets for its existing operations with a cost of HK$335 million, of which HK$201 million related to The Peak Tram upgrade project. The group also incurred development costs for the hotel projects in London and Yangon amounting to HK$1,599 million and HK$116 million respectively. Given the substantial uncertainty in the economic and business environment in Myanmar since 1 February 2021, the group agreed with the joint venture partners to stop work on the Yangon projects in June 2021.

The net book value for other items of properties, plant and equipment disposed of during the year ended 31 December 2021 was insignificant in value.

The group assessed the recoverable amounts of its other properties, plant and equipment and construction in progress at the reporting date in accordance with the accounting policy as disclosed in note 34(i). Based on the assessment, the directors considered that, due to the substantial uncertainty in the economic and business environment in Myanmar since 1 February 2021, the recoverable amount of The Peninsula Yangon was lower than its carrying value. As a result, the carrying value of the corresponding construction in progress was written down to its recoverable amount and an impairment loss of HK$679 million was recognised for the year ended 31 December 2021. The recoverable amount of The Peninsula Yangon was estimated based on its fair value less cost of disposal under income capitalisation approach by applying a discount rate of 11% and terminal growth rate of 2%.

The Peninsula Manila is subject to a land lease which is due to expired in 2026. Pursuant to an agreement entered into between the group and the landlord in January 2021, the land lease is extended by four years to 2030. For the year ended 31 December 2020, due to the disruption of business by the outbreak of the COVID-19 coronavirus and in view of the relatively short remaining lease term, The Peninsula Manila's recoverable amount was lower than its carrying value. As a result, the carrying value of The Peninsula Manila was written down to its recoverable amount and an impairment loss of HK$93 million was recognised.

The fair value on which the recoverable amount is based on is categorised as a Level 3 measurement (based on significant unobservable inputs) in accordance with HKFRS 13.

Notes to the Financial Statements

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

(b) All investment properties of the group were revalued as at 31 December 2021. The changes in fair value of the investment properties during the year were accounted for in the consolidated statement of profit or loss. The valuations were carried out by valuers independent of the group who have staff with recent experience in the location and category of the property being valued. Discussions have been held with the valuers on the valuation assumptions and valuation results when the valuation is performed at each reporting date. Details of the valuers are as follows:

Description of investment properties	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong		
Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited (Savills)	Members of the Hong Kong Institute of Surveyors
Other Asia *		
Retail shops, offices, residential apartments and vacant land	Savills	Members of the Hong Kong Institute of Surveyors
	Colliers International Consultancy & Valuation (Singapore) Pte. Limited (Colliers)	Members of the Royal Institution of Chartered Surveyors
United States of America		
Retail shops and vacant land	Colliers	Members of the Royal Institution of Chartered Surveyors
Europe		
Retail shops, offices and residential apartments	Colliers	Members of the Royal Institution of Chartered Surveyors

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

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

(c) Fair value measurement of investment properties

The fair value of the group's investment properties is mainly determined using the income capitalisation approach by applying the expected rental income with a capitalisation rate adjusted for the quality and location of the buildings. The following table summarises the valuation parameters adopted by the valuers in assessing the fair value of the group's investment properties as at 31 December 2021:

Valuation parameters	Range
Capitalisation rate	
– Shopping arcades	3.8% – 6.3% (2020: 3.8% – 6.6%)
– Offices	3.8% – 3.9% (2020: 3.9% – 4.1%)
– Residential properties	2.6% – 3.4% (2020: 2.9% – 3.7%)
Expected monthly market rental per square foot	
– Shopping arcades	HK$33 – HK$1,200 (2020: HK$38 – HK$1,200)
– Offices	HK$25 – HK$53 (2020: HK$29 – HK$54)
– Residential properties	HK$39 – HK$72 (2020: HK$42 – HK$74)

Details of the movement of the group's investment properties are disclosed in note 12(a) above.

The net fair value adjustment of investment properties is recognised as a non-operating item in the consolidated statement of profit or loss.

(d) Investment properties rented out under operating leases

The group rents out its investment properties to third party tenants for rental income under operating leases. The rental agreements with tenants typically run for an initial period of one to five years, with or without options to renew after that date at which time all terms are renegotiated. Certain rental agreements include variable rentals that are based on the revenue of tenants.

Undiscounted rentals receivable by the group under non-cancellable operating lease arrangements at the reporting date are as follows:

	2021	2020
Within one year	**740**	750
After one year but within two years	**404**	435
After two years but within three years	**275**	309
After three years but within four years	**225**	229
After four years but within five years	**145**	201
After five years	**483**	611
	2,272	2,535

Notes to the Financial Statements

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

(e) Right-of-use assets

The group is the lessee in respect of a number of properties which are leased from third party landlords. Pursuant to its accounting policy, the group capitalises the present value of the future minimum lease payments of its leased properties as right-of-use assets. A majority of the carrying value of the right-of-use assets is attributable to the hotel in New York which has a lease term of 90 years commencing in 1988, the hotel in Tokyo which has a lease term of 70 years commencing in 2015 and the development project in London which has a lease term of 146 years commencing in 2016. The right-of-use assets are depreciated on a straight line basis from the lease commencement date to the earlier of the end of their respective useful life or the end of the lease term.

The net book value of right-of-use assets by class of underlying asset is analysed as follows:

	2021	2020
Classified as properties leased for own use, carried at depreciated cost	**2,770**	2,940
Included in construction in progress	**117**	117
	2,887	3,057

The analysis of expense items in relation to leased properties charged to the consolidated statement of profit or loss is as follows:

	2021	2020
Depreciation charge of right-of-use assets for properties leased for own use	**58**	63
Interest on lease liabilities	**149**	146
Variable lease payments not included in the measurement of lease liabilities	**2**	2

Details of total cash outflow for leased assets, the maturity analysis of lease liabilities and the future cash outflows arising from leased assets that are not yet commenced are set out in notes 21(b), 24 and 28(c), respectively.

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

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

	Usage
Held in Hong Kong:	
Long term leases (over 50 years):	
The Peninsula Hong Kong, Salisbury Road	Hotel and commercial rentals
The Peninsula Office Tower, 18 Middle Road	Office
Repulse Bay Apartments, 101 Repulse Bay Road	Residential
St. John's Building, 33 Garden Road	Office
Medium term lease (between 10 and 50 years):	
The Peak Tower, 128 Peak Road	Commercial rentals
The Repulse Bay, 109 Repulse Bay Road	Residential and commercial rentals
Repulse Bay Garage, 60 Repulse Bay 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
The Peninsula Shanghai apartments, No. 32 The Bund, 32 Zhong Shan Dong Yi Road, Shanghai	Residential
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
Held in The Philippines:	
Short term lease (less than 10 years):	
The Peninsula Manila, Corner of Ayala and Makati Avenues, 1226 Makati City, Metro Manila	Hotel and commercial rentals
Held in Vietnam:	
Short term lease (less than 10 years):	
The Landmark, 5B Ton Duc Thang Street, District 1, Ho Chi Minh City	Residential and commercial rentals

Notes to the Financial Statements

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

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

	Usage
Held in the United States of America:	
Freehold:	
Quail Lodge Golf Club	Golf club
Quail Lodge Resort	
8205 Valley Greens Drive, Carmel, California	Resort
Vacant land, near Quail Lodge	Undetermined
The Peninsula Chicago,	
108 East Superior Street	
(at North Michigan Avenue), Chicago, Illinois	Hotel
Long term lease (over 50 years):	
The Peninsula New York,	
700 Fifth Avenue at 55th Street, New York	Hotel and commercial rentals
Held in France:	
Freehold:	
21 avenue Kléber, Paris	Commercial rentals
21 Rue de Longchamp, Paris	Residential
Held in the United Kingdom:	
Long term lease (over 50 years):	
1-5 Grosvenor Place, London SW1X 7YL	Under redevelopment
Held in Myanmar:	
Medium term lease (between 10 and 50 years):	
371-380 Bogyoke Aung San Road, Yangon	Under redevelopment

13. Properties under development for sale (HK$m)

	2021	2020
At 1 January	**4,264**	3,624
Addition	**717**	489
Exchange adjustment	**(27)**	151
At 31 December	**4,954**	4,264

Properties under development for sale comprise 25 luxury apartments which are part of The Peninsula London development project. The land area of the overall site is approximately 67,000 square feet and the planned gross floor area of the apartments is approximately 119,000 square feet.

The balance of properties under development for sale will be recovered or recognised as cost of inventories after more than one year.

Reservation fees and pre-sale deposits paid by buyers of the apartments are held in escrow accounts in accordance with the local regulations in the UK and therefore, such fees and deposits are not reflected in the consolidated statement of financial position.

14. Interest in joint ventures (HK$m)

	2021	2020
Share of net assets	**828**	744
Loans to PSW (note 31(b))	**521**	521
	1,349	1,265

(a) Details of the joint ventures, which are accounted for using the equity method in the group's consolidated financial statements, are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Shanghai Waitan Hotel Company Limited (PSW)	Incorporated	PRC	US$117,500,000 (31 December 2020: US$117,500,000)	50%	Hotel investment and apartments held for sale
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)*	Incorporated	Turkey	TRY1,161,618,600 (31 December 2020: TRY921,251,400)	50%	Hotel investment

* PIT was incorporated on 10 February 2016 and the group's interest in this joint venture is held indirectly by the company. PIT has redevelopment and operating rights in respect of a property within the Salıpazarı Port Project Area in Istanbul, Turkey. The group, together with its joint venture partner, intends to redevelop the property into The Peninsula Istanbul. The net assets of PIT at 31 December 2021 mainly comprised property under development and cash at bank and in hand of HK$1,000 million (2020: HK$799 million) and HK$75 million (2020: HK$97 million) respectively

(b) For the year ended 31 December 2020, an impairment provision amounting to HK$472 million was made by PIT in respect of its development in The Peninsula Istanbul, the progress of which has been affected by unforeseen delays due to the site conditions and the outbreak of the COVID-19 coronavirus. The group's share of impairment provision amounting to HK$236 million was included in share of results of joint ventures in the consolidated statement of profit or loss in 2020.

(c) PSW has pledged its properties inclusive of the land use rights as security for an initial loan facility amounting to RMB2,500 million (HK$3,060 million) (2020: RMB2,500 million (HK$2,971 million)). As at 31 December 2021, the loan drawdown amounted to RMB789 million (HK$966 million) (2020: RMB849 million (HK$1,009 million)). The net carrying amount of these pledged assets amounted to RMB2,445 million (HK$2,993 million) (2020: RMB2,535 million (HK$3,013 million)).

Notes to the Financial Statements

14. Interest in joint ventures (HK$m) continued

(d) Set out below is a summary of the financial information of PSW, of which the group has a 50% share:

Statement of financial position	**2021**	2020
Non-current assets	**2,585**	2,617
Cash at bank and in hand	**156**	128
Apartments held for sale and other current assets	**457**	472
Current liabilities	**(429)**	(389)
Non-current liabilities	**(2,291)**	(2,386)
Net assets	**478**	442

Statement of profit or loss	**2021**	2020
Proceeds from sale of apartments	**–**	266
Hotel revenue and rental income	**489**	336
	489	602
Carrying value of apartments sold	**–**	(248)
Hotel cost of inventories and operating expenses	**(332)**	(257)
	(332)	(505)
EBITDA	**157**	97
Depreciation	**(98)**	(92)
Net financing charges	**(55)**	(52)
Profit/(loss) before non-operating items	**4**	(47)
Non-operating items, net of tax *	**(11)**	(20)
Loss for the year	**(7)**	(67)
The group's share of result of PSW	**(4)**	(33)

* The non-operating items mainly represented the unrealised loss on revaluation of the hotel's commercial arcade, net of tax

(e) The group's share of results of joint ventures are summarised below:

	2021	2020
Share of result of PSW	**(4)**	(33)
Share of impairment provision of PIT	**–**	(236)
	(4)	(269)

15. Interest in associates (HK$m)

	2021	2020
Interest in associates	**520**	560

(a) Details of the principal unlisted associates, which are accounted for using the equity method in the group's consolidated financial statements, are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
19 Holding SAS (19 Holding)**	Incorporated	France	EUR1,000	20%	Investment holding
Majestic EURL (Majestic)	Incorporated	France	EUR80,000,000	20%	Hotel investment and investment holding
Le 19 Avenue Kléber	Incorporated	France	EUR100,000	20%	Hotel operation
The Belvedere Hotel Partnership (BHP) #	Partnership	United States of America	US$46,500,000	20%	Hotel investment

* The group's effective interest is held indirectly by the company

** 19 Holding holds a 100% direct interest in Majestic which owns The Peninsula Paris

\# BHP holds a 100% interest in The Peninsula Beverly Hills

(b) Included in the balance of interest in associates are long-term unsecured loans to 19 Holding of HK$464 million (2020: HK$496 million). These loans were made pro rata to the group's shareholding in 19 Holding and are interest bearing at 3.25%. The loans are repayable on 31 December 2022 and expecting to renew for more than 1 year.

(c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR227 million (HK$2,005 million) (2020: EUR224 million (HK$2,136 million)). As at 31 December 2021, the loan drawdown amounted to EUR227 million (HK$2,005 million) (2020: EUR224 million (HK$2,136 million)). As at 31 December 2021, the net carrying amount of the pledged asset amounted to EUR514 million (HK$4,539 million) (2020: EUR533 million (HK$5,082 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) (2020: US$145 million (HK$1,131 million)). As at 31 December 2021, the loan drawdown amounted to US$125 million (HK$975 million) (2020: US$125 million (HK$975 million)). The net carrying amount of the pledged asset amounted to US$36 million (HK$284 million) (2020: US$42 million (HK$328 million)).

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

	2021	2020
EBITDA	**264**	(162)
Depreciation	**(230)**	(243)
Interest	**(86)**	(81)
Net loss from continuing operations	**(52)**	(486)
Other comprehensive income	**–**	–
Total comprehensive income	**(52)**	(486)
The group's share of results of the associates	**(11)**	(97)

Notes to the Financial Statements

16. Hotel operating rights (HK$m)

	2021	2020
Cost		
At 1 January	**735**	688
Exchange adjustments	**(41)**	47
At 31 December	**694**	735
Accumulated amortisation		
At 1 January	**(203)**	(183)
Exchange adjustments	**6**	(6)
Amortisation for the year	**(14)**	(14)
At 31 December	**(211)**	(203)
Net book value	**483**	532

Hotel operating rights represent the cost attributable to securing the group's rights to operate The Peninsula Beverly Hills and The Peninsula Paris which will expire in 2036 and 2064 respectively.

The amortisation charge for the year is included in "Depreciation and amortisation" in the consolidated statement of profit or loss.

17. Derivative financial instruments (HK$m)

	2021		2020	
	Assets	**Liabilities**	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	**53**	**(6)**	–	(10)
Forward exchange contracts	**–**	**(9)**	–	–
	53	**(15)**	–	(10)
Less: Portion to be settled within one year				
Cash flow hedges:				
Interest rate swaps	**–**	**–**	–	(5)
Forward exchange contracts	**–**	**(9)**	–	–
	–	**(9)**	–	(5)
Amount to be settled after one year	**53**	**(6)**	–	(5)

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

(a) Current taxation

	2021	2020
Provision for Hong Kong profits tax net provisional profits tax paid	**31**	29
Provision for overseas taxes	**6**	1
	37	30
Represented by:		
Tax recoverable (note 20)	**(5)**	(4)
Current tax payable	**42**	34
	37	30

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	Depreciation of right-of-use assets and interest on lease liabilities	Total
Deferred tax arising from:							
At 1 January 2020	363	806	(21)	(434)	(5)	(44)	665
Exchange adjustments	3	4	–	(7)	–	(2)	(2)
Charged to reserve	–	–	–	–	3	–	3
Charged/(credited) to profit or loss	(54)	33	15	(19)	–	(6)	(31)
Others	(57)	(41)	–	–	–	–	(98)
At 31 December 2020 and at 1 January 2021	**255**	**802**	**(6)**	**(460)**	**(2)**	**(52)**	**537**
Exchange adjustments	**(2)**	**(14)**	**–**	**7**	**–**	**3**	**(6)**
Charged to reserve	**–**	**–**	**–**	**–**	**8**	**–**	**8**
Charged/(credited) to profit or loss	**4**	**50**	**(17)**	**(71)**	**–**	**(7)**	**(41)**
At 31 December 2021	**257**	**838**	**(23)**	**(524)**	**6**	**(56)**	**498**

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.

	2021	2020
Deferred tax assets	**110**	70
Deferred tax liabilities	**(608)**	(607)
	(498)	(537)

Notes to the Financial Statements

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

(b) Deferred tax assets and liabilities recognised continued

In accordance with the accounting policy set out in note 34(q), the group has not recognised deferred tax assets totalling HK$615 million (2020: HK$599 million) in respect of certain accumulated tax losses of HK$2,224 million (2020: HK$2,204 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:

	2021	2020
Expiring in one year	**292**	290
After one year but within five years	**748**	905
After five years but within 20 years	**1,145**	962
Without expiry date	**39**	47
	2,224	2,204

The group does not have any deferred tax liabilities arising from any undistributable profit in 2021 and 2020.

19. Inventories (HK$m)

	2021	2020
Food and beverage and others	**75**	84

The cost of inventories recognised as expenses in the consolidated statement of profit or loss amounted to HK$310 million (2020: HK$213 million).

20. Trade and other receivables (HK$m)

	2021	2020
Trade debtors	**311**	240
Rental deposits, payments in advance and other receivables	**459**	425
Tax recoverable (note 18(a))	**5**	4
	775	669

20. Trade and other receivables (HK$m) continued

The amount of the group's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK$185 million (2020: HK$167 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

The ageing analysis of trade debtors is as follows:

	2021	2020
Current	**287**	220
Less than one month past due	**13**	13
One to three months past due	**5**	3
More than three months but less than 12 months past due	**6**	4
Amounts past due	**24**	20
	311	240

Trade debtors are normally due within 30 days from the date of billing. Further details on the group's credit policy and credit risk arising from trade debtors are set out in note 28(d).

21. Cash and cash equivalents and other cash flow information (HK$m)

(a) Cash at banks and in hand

	2021	2020
Interest-bearing bank deposits	**182**	340
Cash at banks and in hand	**297**	180
Total cash at banks and in hand	**479**	520
Less: Bank deposits with maturity of more than three months	**(13)**	(14)
Cash and cash equivalents in the consolidated statement of cash flows	**466**	506

Cash at banks and in hand at the end of the reporting period include amounts of HK$234 million (2020: HK$267 million) held by overseas subsidiaries which are subject to regulatory and foreign exchange restrictions.

Notes to the Financial Statements

21. Cash and cash equivalents and other cash flow information (HK$m) continued

(b) Reconciliation of liabilities arising from financing activities

	Interest-bearing borrowings (note 23)	Lease liabilities (note 24)	Derivative financial instruments (note 17)	Interest payable (note 22)	Total
As at 1 January 2020	7,524	3,149	29	8	10,710
Changes from financing cashflows					
Drawdown of term loans	2,216	–	–	–	2,216
Repayment of term loans	(1,044)	–	–	–	(1,044)
Net increase in revolving loans	2,167	–	–	–	2,167
Interest paid and other financing charges	(22)	(100)	–	(146)	(268)
Capital element of lease rental paid	–	(44)	–	–	(44)
Changes in fair value					
Effective portion of changes in fair values	–	–	2	–	2
Other changes					
Exchange difference	313	115	–	–	428
Financing charges	28	102	–	19	149
Capitalised borrowing costs (note 5)	–	44	–	126	170
Transfer from equity to profit or loss	–	–	(21)	–	(21)
As at 31 December 2020 and 1 January 2021	**11,182**	**3,266**	**10**	**7**	**14,465**
Changes from financing cashflows					
Drawdown of term loans	**3,660**	**–**	**–**	**–**	**3,660**
Repayment of term loans	**(1,490)**	**–**	**–**	**–**	**(1,490)**
Net increase in revolving loans	**372**	**–**	**–**	**–**	**372**
Interest paid and other financing charges	**(13)**	**(100)**	**–**	**(146)**	**(259)**
Capital element of lease rental paid	**–**	**(41)**	**–**	**–**	**(41)**
Changes in fair value					
Effective portion of changes in fair values	**–**	**–**	**(48)**	**–**	**(48)**
Other changes					
Exchange difference	**(364)**	**(176)**	**–**	**–**	**(540)**
Financing charges	**32**	**100**	**–**	**25**	**157**
Capitalised borrowing costs (note 5)	**–**	**49**	**–**	**125**	**174**
Increase in lease liabilities from entering into new leases during the year	**–**	**5**	**–**	**–**	**5**
Transfer from equity to profit or loss	**–**	**–**	**–**	**–**	**–**
As at 31 December 2021	**13,379**	**3,103**	**(38)**	**11**	**16,455**

22. Trade and other payables (HK$m)

	2021	2020
Trade creditors	**123**	79
Interest payable	**11**	7
Accruals for properties, plant and equipment and properties under development for sale	**359**	243
Tenants' deposits	**308**	320
Guest deposits and gift vouchers	**171**	176
Other payables	**677**	581
Financial liabilities measured at amortised cost	**1,649**	1,406
Less: Non-current portion of trade and other payables	**(120)**	(117)
Current portion of trade and other payables	**1,529**	1,289

As at 31 December 2021, trade and other payables of the group expected to be settled or recognised as income after more than one year amounted to HK$257 million (2020: HK$210 million). The other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

The ageing analysis of trade creditors is as follows:

	2021	2020
Less than three months	**117**	73
Three to six months	**5**	3
More than six months	**1**	3
	123	79

Notes to the Financial Statements

23. Interest-bearing borrowings (HK$m)

	2021	2020
Total facilities available:		
Term loans and revolving credits	**19,390**	17,750
Uncommitted facilities, including bank overdrafts	**390**	416
	19,780	18,166
Utilised at 31 December:		
Term loans and revolving credits	**13,270**	11,234
Uncommitted facilities, including bank overdrafts	**160**	13
	13,430	11,247
Less: Unamortised financing charges	**(51)**	(65)
	13,379	11,182
Represented by:		
Long-term bank loans, repayable within one year	**2,015**	1,897
Short-term bank loans and overdrafts, repayable on demand	**–**	–
	2,015	1,897
Long-term bank loans, repayable:		
Between one and two years	**8,818**	2,640
Between two and five years	**2,597**	6,334
Over five years	**–**	376
	11,415	9,350
Less: Unamortised financing charges	**(51)**	(65)
Non-current portion of long-term bank loans	**11,364**	9,285
Total interest-bearing borrowings	**13,379**	11,182

All of the interest-bearing borrowings are unsecured. The group intends to refinance these loan facilities upon their maturities.

24. Lease liabilities (HK$m)

The group is the lessee in respect of a number of properties which are leased from third party landlords. Pursuant to its accounting policy, the group capitalises the present value of the future minimum lease payments of its leased properties as right-of-use assets (note 12(e)) and the corresponding credit is recognised as lease liabilities. The group remeasures its lease liabilities at each accounting period end to reflect the interest accrued on the outstanding lease liabilities and the lease payments made.

The following table shows the remaining contractual maturities of the group's minimum lease liabilities at the end of the current and previous reporting periods:

	2021	2020
Carrying value		
Current portion	**163**	143
Non-current portion	**2,940**	3,123
	3,103	3,266
Contractual undiscounted cash outflow		
Within one year	**163**	143
After one year but within two years	**156**	168
After two years but within five years	**312**	322
After five years	**12,970**	13,497
	13,601	14,130

25. Share capital

	2021		2020	
	No. of shares (million)	**HK$m**	No. of shares (million)	HK$m
Ordinary shares, issued and fully paid:				
At 1 January	**1,649**	**5,837**	1,634	5,732
Shares issued under scrip dividend scheme (note)	**–**	**–**	15	105
At 31 December	**1,649**	**5,837**	1,649	5,837

In accordance with Section 135 of the Companies Ordinance, the ordinary shares of the company do not have a par value.

All ordinary shares issued during 2020 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 to the Financial Statements

25. Share capital continued

Note:

During 2020, the company issued and allotted new shares which were fully paid under the scrip dividend scheme as follows:

	Number of shares (million)	Scrip price HK$	Increase in share capital HK$m
2020 final scrip dividend	–	n/a	–
2020 comparative:			
2019 final scrip dividend	15	7.026	105

26. Reserves (HK$m)

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the company's individual components of equity between the beginning and the end of the year are set out below:

(a) Company

	Capital reserve	Retained profits	Total
At 1 January 2020	4,975	4,206	9,181
Profit for the year	–	633	633
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	633	633
Dividends approved in respect of the previous year	–	(147)	(147)
At 31 December 2020	4,975	4,692	9,667
At 1 January 2021	**4,975**	**4,692**	**9,667**
Profit for the year	**–**	**432**	**432**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**432**	**432**
At 31 December 2021	**4,975**	**5,124**	**10,099**

26. 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 34(d).

Exchange and other reserves

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 34(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 building held for own use transfer to investment properties. The relevant accounting policies for which are set out in note 34(p) and 34(f) respectively.

(c) Reserves available for distribution

At 31 December 2021, 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$5,124 million (2020: HK$4,692 million). The Directors do not propose a final dividend for the reporting period of 2021 and 2020.

(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.

Notes to the Financial Statements

26. Reserves (HK$m) continued

(d) Capital management continued

The group monitors its capital structure based on the ratio of net debt to equity attributable to shareholders. The group's share of net borrowings of the non-consolidated entities (associates and joint ventures), if any, are also taken into account. The calculations of the ratios of net debt to equity attributable to shareholders before and after the non-consolidated entities as at 31 December 2021 and 2020 are as follows:

	2021	2020
Interest-bearing borrowings	**13,379**	11,182
Less: Cash at banks and in hand	**(479)**	(520)
Net borrowings per the statement of financial position	**12,900**	10,662
Share of net borrowings of non-consolidated entities	**908**	1,003
Net borrowings adjusted for non-consolidated entities	**13,808**	11,665
Equity attributable to shareholders of the company per the consolidated statement of financial position	**36,762**	36,844
Net debt to equity attributable to shareholders ratio based on the consolidated financial statements	**35%**	29%
Net debt to equity attributable to shareholders ratio adjusted for non-consolidated entities	**38%**	32%

During 2021, the group continued to operate within its long term treasury management guidelines. Operating and investment decisions are made by reference to the group's long term cash flow forecasts to ensure that the guidelines are followed.

The group is subject to certain covenants that are commonly found in lending arrangements with financial institutions. The group complied with such covenants for the years ended 31 December 2021 and 2020. Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

27. Employee retirement benefits (HK$m)

(a) Defined benefit retirement obligations

The group maintains a non-contributory defined benefit retirement plan covering 359 employees (2020: 426 employees) of Manila Peninsula Hotel, Inc. (MPHI), a Philippine subsidiary of the company. Such plan is administered by an independent trustee with the assets, if any, held separately from those of the group. The defined benefit retirement obligations as at 31 December 2021 of MPHI are estimated by qualified staff of Actuarial Advisers, Inc. who are members of the Actuarial Society of the Philippines using the projected unit credit method. The present value of the uncovered obligations was fully provided for as at 31 December 2021.

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

	2021	2020
Present value of wholly or partly funded obligations	**29**	28
Fair value of plan assets	**(5)**	(6)
	24	22
Fair value of plan assets as a percentage of obligations	**17%**	21%

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 principal actuarial assumptions used as at 31 December 2021 and 2020 are as follows:

	2021	2020
Discount rate	**from 2.1% to 6.5%**	from 1.6% to 6.5%
Future salary increases	**from 3% to 4%**	from 2.5% to 4%

The analysis below shows how the defined benefit obligations as at 31 December 2021 would have increased/(decreased) as a result of changes in the significant actuarial assumptions:

	Defined benefit obligations	
	Increase	Decrease
Discount rate (0.5% change)	(1)	1
Future salary (1% change)	2	(2)

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.

Notes to the Financial Statements

27. Employee retirement benefits (HK$m) continued

(b) Defined contribution retirement plans

The group has a defined contribution retirement plan covering 1,283 employees (2020: 1,403 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 14% (2020: 14%).

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 145 employees (2020: 154 employees) in Hong Kong who are not covered by the above defined contribution retirement plan. The MPF Scheme is a defined contribution retirement plan administrated by independent trustees. Contributions at a fixed rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 per employee, are made to the Scheme by both the employer and the employee and vest immediately.

The group also operates several defined contribution retirement plans, including union pension schemes for its overseas subsidiaries covering 1,498 employees (2020: 1,185 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$112 million (2020: HK$105 million) and was charged to the consolidated statement of profit or loss during the year.

28. 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.

28. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Hedge of foreign exchange risk in forecast transactions

In respect of committed future transactions and highly probable forecast transactions, the group usually hedges its 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.

The group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instruments and the highly probable forecast transactions based on their currency amounts and the timing of their respective cash flows.

The main source of ineffectiveness in these hedging relationships are:

(i) the effect of the counterparty's and the group's own credit risk on the fair value of the forward exchange contracts which is not reflected in the change in the value of the hedged cash flows attributable to the forward rate; and

(ii) changes in the timing of the hedging transactions.

The following table details the forward exchange contracts that have been designated as cash flow hedges of the group's highly probable forecast transactions at the end of the reporting period:

	2021				2020			
	(million)		**(million)**		(million)		(million)	
Notional amount								
– Buy EUR with GBP	**EUR**	**2**	**GBP**	**2**	EUR	13	GBP	12
– Buy TRY with EUR	**TRY**	**34**	**EUR**	**3**		–		–
– Buy HKD with JPY	**HKD**	**79**	**JPY**	**1,160**		–		–

	2021	2020
Carrying amount		
– Liability	**9**	–

The forward exchange contracts have a maturity of less than one year from the reporting date and have an average exchange rate of 0.9071 between EUR and GBP, 12.0654 between TRY and EUR, 14.6947 between HKD and JPY.

Notes to the Financial Statements

28. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Hedge of foreign exchange risk in forecast transactions continued

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2021	2020
Balance at 1 January	**–**	(8)
Effective portion of the cash flow hedge recognised in other comprehensive income	**(9)**	9
Related tax	**1**	(1)
Balance at 31 December	**(8)**	–
Hedge ineffectiveness recognised in profit or loss	**–**	–
Change in fair value of the forward exchange contracts during the year	**(8)**	8
Effective portion of the cash flow hedge recognised in other comprehensive income	**(8)**	8

Recognised assets and liabilities

The group has foreign currency monetary assets and liabilities that are denominated in a currency other than the functional currency of the operations to which they relate. Exchange differences arising on settling or translating these foreign currency monetary items at rates different from those at dates of transactions giving rise to these monetary items are recognised in the statement of profit or loss.

The group usually hedges most of the foreign exchange exposures arising from significant foreign currency monetary assets and liabilities, including foreign currency borrowings. The group mainly uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge this type of foreign exchange risk and classifies these derivative financial instruments as cash flow hedges or at fair value through profit or loss, depending on whether the future foreign currency cash flows are fixed or not.

Changes in the fair value of these cash flow hedges or derivative financial instruments at fair value through profit or loss are recognised in the hedging reserve or the statement of profit or loss respectively.

All of the group’s borrowings are denominated in the functional currency of the operations to which they relate. Given this, it is not expected that there will be any significant currency risk associated with the group’s borrowings.

Net investment in foreign subsidiaries

At 31 December 2021 and 2020, the group did not hedge any net investment in foreign subsidiaries.

28. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Exposure to foreign exchange risk

The following table details the group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The amounts of the exposure are shown in original currency. Differences resulting from the translation of the financial statements of the foreign operations into the group's presentation currency and exposures arising from inter-company balances which are denominated in a foreign currency and is considered to be in the nature of investment in the subsidiary, joint ventures and associates are excluded.

(million)	2021 United States Dollars	2021 Euro	2020 United States Dollars	2020 Euro
Trade and other receivables	**50**	**1**	49	–
Cash at banks and in hand	**7**	**2**	4	2
Trade and other payables	**(51)**	**–**	(47)	–
Net exposure arising from recognised assets and liabilities	**6**	**3**	6	2

Based on the sensitivity analysis performed as at 31 December 2021, it was estimated that an increase/decrease of 10% (2020: 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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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.

The group seeks to hedge the benchmark interest rate component only. As at 31 December 2021, the group had interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK$5,326 million (2020: HK$3,119 million) maturing over the next five years (2020: three years). Changes in fair value of these swaps accounted for as cash flow hedges are recognised in the hedging reserve. The group locked in the following ranges of fixed rates by the swaps at 31 December 2021:

	31 December 2021	31 December 2020
Japanese Yen	**–**	–0.1%
Euros	**0.4%**	0.4%
Pounds	**0.28% to 1.0%**	1.1% to 1.2%
Hong Kong dollars	**0.78% to 1.3%**	–

The net fair value of all the swaps entered into by the group at 31 December 2021 and 2020 was as follows (HK$m):

	2021	2020
Cash flow hedges (note 17)	**47**	(10)

Notes to the Financial Statements

28. Financial risk management and fair values continued

(b) Interest rate risk continued

The existence of an economic relationship between the interest rate swaps and the variable rate borrowings is determined by matching their critical contract terms, including the reference interest rates, tenors, interest repricing dates, maturity dates, interest payment and/or receipt dates, the notional amounts of the swaps and the outstanding principal amounts of the loans. The main source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the group's own credit risk on the fair value of the swaps which is not reflected in the fair value of the hedged cash flows attributable to the change in interest rates.

The following table provides a reconciliation of the hedging reserve in respect of interest rate risk and shows the effectiveness of the hedging relationships:

	2021	2020
Balance at 1 January	**(10)**	(30)
Effective portion of the cash flow hedge recognised in other comprehensive income	**56**	22
Related tax	**(9)**	(2)
Balance at 31 December	**37**	(10)
Change in fair value of the interest rate swap during the year	**29**	(10)
Transfer from equity to profit or loss	**18**	21
Transfer to exchange reserve	**–**	9
Effective portion of the cash flow hedge recognised in other comprehensive income	**47**	20

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.

	2021		2020	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**1.7%**	**7,921**	1.8%	5,971
Floating rate borrowings:				
Bank loans	**1.2%**	**5,458**	1.1%	5,211
Total interest-bearing borrowings		**13,379**		11,182
Fixed rate borrowings as a percentage of total borrowings		**59%**		53%

28. Financial risk management and fair values continued

(b) Interest rate risk continued

On the other hand, as at 31 December 2021 and 2020, 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. The interest rate profile of these bank deposits at the end of the reporting period is summarised as follows:

	2021		2020	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Floating rate instruments:				
Bank deposits	**0.92%**	**182**	0.33%	340

Sensitivity analysis

The following table indicates the approximate changes in the group's loss 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 2021 and 2020, 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.

	2021			2020		
	Increase/ (decrease) in interest rates (basis points)	**(Increase)/ decrease in loss after taxation and increase/ (decrease) in retained profits (HK$m)**	**Increase/ (decrease) in other components of equity (HK$m)**	Increase/ (decrease) in interest rates (basis points)	(Increase)/ decrease in loss after taxation and increase/ (decrease) in retained profits (HK$m)	Increase/ (decrease) in other components of equity (HK$m)
HK Dollars	**100**	**–**	**49**	100	–	–
	(100)	**–**	**(44)**	(100)	–	–
Renminbi	**100**	**2**	**–**	100	1	–
	(100)	**(2)**	**–**	(100)	(1)	–
Thai Baht	**100**	**(1)**	**–**	100	(2)	–
	(100)	**1**	**–**	(100)	2	–
Japanese Yen	**50**	**(3)**	**–**	50	(3)	–
	(50)	**3**	**–**	(50)	3	–
US Dollars	**100**	**(3)**	**–**	100	(6)	–
	(100)	**3**	**–**	(100)	6	–
Euros	**100**	**(1)**	**3**	100	(1)	5
	(100)	**1**	**–**	(100)	1	–
GBP	**100**	**–**	**86**	100	–	1
	(100)	**–**	**(74)**	(100)	–	–

The sensitivity analysis above indicates the instantaneous change in the group's loss 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 loss 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 2020.

Notes to the Financial Statements

28. Financial risk management and fair values continued

(c) Liquidity risk

Borrowings and cash management, including short term investment of surplus cash, are arranged centrally to cover expected cash 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 2021, total available borrowing facilities amounted to HK$19,780 million (2020: HK$18,166 million), of which HK$13,430 million (2020: HK$11,247 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totaled HK$6,120 million (2020: HK$6,516 million).

The following table details the remaining contractual maturities at the end of the reporting period of the group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the group can be required to pay:

	2021						2020					
		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	**123**	**123**	**123**	**-**	**-**	**-**	79	79	79	–	–	–
Interest payable	**11**	**11**	**11**	**-**	**-**	**-**	7	7	7	–	–	–
Accruals for property, plant and equipment	**359**	**359**	**359**	**-**	**-**	**-**	243	243	243	–	–	–
Tenants' deposits	**308**	**308**	**188**	**62**	**37**	**21**	320	320	203	31	74	12
Guest deposits and gift vouchers	**171**	**171**	**171**	**-**	**-**	**-**	176	176	176	–	–	–
Other payables	**677**	**677**	**677**	**-**	**-**	**-**	581	581	581	–	–	–
Lease liabilities	**3,103**	**13,601**	**163**	**156**	**312**	**12,970**	3,266	14,130	143	168	322	13,497
Interest-bearing borrowings	**13,379**	**13,676**	**2,146**	**8,882**	**2,648**	**-**	11,182	11,443	1,993	2,707	6,366	377
Interest rate swaps (net settled)	**(47)**	**(49)**	**2**	**(16)**	**(35)**	**-**	10	10	7	2	1	–
Forwarded foreign exchange contracts held as cash flow hedging instruments												
– outflow	**-**	**125**	**125**	**-**	**-**	**-**	–	125	103	22	–	–
– inflow	**-**	**(119)**	**(119)**	**-**	**-**	**-**	–	(125)	(103)	(22)	–	–
Current taxation	**42**	**42**	**42**	**-**	**-**	**-**	34	34	34	–	–	–
	18,126	**28,925**	**3,888**	**9,084**	**2,962**	**12,991**	15,898	27,023	3,466	2,908	6,763	13,886

28. Financial risk management and fair values continued

(d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. 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 2021, cash at banks and in hand amounted to HK$480 million (2020: HK$520 million), of which HK$118 million (2020: HK$143 million) was placed as time deposits with financial institutions with credit ratings of no less than BBB (issued by Standard & Poor's Rating Services (S&P)) or Baa2 (issued by Moody's Investors Services, Inc.(Moody's)) and there was no significant concentration risk to any single counterparty.

For derivative financial instruments, the credit ratings of the financial institutions were no less than A (S&P) or A1 (Moody's).

The group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. Credit evaluations are performed for all significant customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Credit limits are set for customers based on their credit worthiness and past history. Trade receivables are normally due within 30 days from the date of billing. In respect of the group's rental income from operating leases, rentals are normally received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. Other than this, as such, the group normally does not obtain collateral from its customers. The ageing of trade debtors at 31 December 2021 is summarised in note 20. The expected credit losses for these balances were not material at 31 December 2021, therefore no loss allowance was provided at 31 December 2021.

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 consolidated 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.

Notes to the Financial Statements

28. Financial risk management and fair values continued

(e) Fair values

(i) Financial instruments carried at fair value

HKFRS 13, *Fair value measurement* requires disclosure of the fair value of the group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

All derivative financial instruments carried at fair value are categorised as falling under Level 2 of the fair value hierarchy.

(ii) Fair values of financial instruments carried at other than fair value

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2021. Advances to the joint venture are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair values. The group has no intention of disposing these loans.

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Derivative financial instruments

Forward foreign exchange contracts and foreign exchange swaps are either marked to market using listed market prices, or by discounting the contractual forward price and deducting the current spot rate. The fair values of interest rate swaps and cross currency interest rate swaps are the estimated amount that the group would receive or pay to terminate the swaps at the end of the reporting period, taking into account current interest rates, foreign exchange rates and the current creditworthiness of the swap counterparties.

When discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period. Where other pricing models are used, inputs are based on market related data at the end of the reporting period.

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

	31 December 2021	31 December 2020
Euros	**–0.5% to –0.4%**	–0.5%
Pounds	**0.2% to 1.1%**	0.04% to 0.05%
Hong Kong dollars	**0.3% to 1.3%**	N/A

29. Commitments (HK$m)

Capital commitments outstanding as at 31 December 2021 and 2020 not provided for in the financial statements were as follows:

	2021			2020		
	Contracted for	**Authorised but not contracted for**	**Total**	Contracted for	Authorised but not contracted for	Total
Capital commitments in respect of existing properties and new projects	**1,471**	**1,639**	**3,110**	3,141	2,154	5,295
The group's share of capital commitments of joint ventures and associates	**362**	**218**	**580**	375	334	709
	1,833	**1,857**	**3,690**	3,516	2,488	6,004

The group's capital commitments mainly comprise the outstanding development costs for The Peninsula London and the outstanding capital expenditure in respect of The Peak Tram major upgrade project.

The group's share of development cost in respect of The Peninsula Istanbul is included in the share of capital commitments of joint ventures.

30. Contingent liabilities

The Directors consider that there being no material contingent liabilities for the group as at 31 December 2021 and 2020.

31. Material related party transactions

Other than the Directors' remuneration and the loans advanced to an associate as disclosed in note 15, material related party transactions are set out as follows:

(a) Under two three-year tenancy agreements which commenced on 1 April 2019, a wholly owned subsidiary of the company, HSH Management Services Limited (HMS), leased an office unit on the 4th floor and the entire storey on the 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rent of HK$2,558,810 per month plus a monthly service charge of HK$278,042 from Kadoorie Estates Limited (KEL), which is controlled by one of the substantial shareholders of the company. On 31 March 2020, HMS early terminated the lease in respect of the office on the 4th floor of St. George's Building and made a compensation of HK$1.5 million to KEL.

The present value of the future rentals of HK$89 million was recognised as right-of-use assets on 1 April 2019 in accordance with the group's accounting policy (note 34(h)) whereas the monthly service charges paid during the year were recognised as expenses in the company's consolidated statement of profit or loss.

The above tenancy agreements fall under the Listing Rules as continuing connected transactions. The company has complied with the disclosure requirements governing continuing connected transaction under the Listing Rules. Further details of these continuing connected transactions are disclosed in the Directors' Report.

The total amount of payments made to KEL in 2021 amounted to HK$32 million (2020: HK$34 million, inclusive of the termination compensation).

Notes to the Financial Statements

31. Material related party transactions (HK$m)

(b) Unsecured and interest free shareholder's loans amounting to US$66.85 million (HK$521 million) (2020: US$66.85 million (HK$521 million)) were granted by Peninsula International Investment Holdings Limited (PIIHL), a wholly owned subsidiary of the company, to the holding company of The Peninsula Shanghai Waitan Hotel Company Limited (PSW), a foreign owned enterprise incorporated in the People's Republic of China, of which the group has a 50% indirect interest. PSW is engaged in the operation of The Peninsula Shanghai Complex. As at 31 December 2021, shareholder's loans amounting to US$58.75 million (HK$458 million) (2020: US$58.75 million (HK$458 million)) had been contributed as capital of PSW.

In addition, pursuant to a tripartite entrustment loan agreement dated 12 December 2011 entered into among The Palace Hotel Co., Ltd. (TPH), a sino-foreign co-operative joint venture established in the People's Republic of China, which holds a 100% interest in The Peninsula Beijing, PSW and a PRC branch of an international bank (the agent bank), entrustment loans totalling RMB150 million were on-lent by TPH to PSW via the agent bank. As at 31 December 2021, the balance of entrustment loans amounted to RMB50 million (HK$62 million) (2020: RMB50 million (HK$59 million)). The remaining balance of entrustment loans bears an annual interest of 3.5% and is repayable on 15 June 2022. The interest was fixed by reference to the deposit rate published by The People's Bank of China on the day on which the draw down was made plus a margin of 200 basis points.

(c) The company owns a 70% indirect interest in Peninsula Yangon Holdings Pte. Limited (PYH), a company incorporated in Singapore, which in turn holds a 100% direct interest in Peninsula Yangon Limited (PYL). PYL is incorporated in Myanmar and is engaged in the development and future operation of The Peninsula Yangon. As at 31 December 2021, unsecured and interest-free loans amounting to US$35 million (HK$274 million) (2020: US$35 million (HK$274 million)) were advanced to PYH by Yoma Strategic Investments Ltd. and First Myanmar Investment Public Company Limited, the 30% non-controlling shareholders of PYH. Such loans were fully injected by PYH into PYL to fund the development of The Peninsula Yangon.

(d) The company's wholly-owned subsidiary PIIHL and the Phataraprasit family, the joint venture partners, had entered into 50/50 joint venture arrangements since 1997 in HSH-Siam Chaophraya Holdings Company Limited (HSH-SCH) to own and for Peninsula to manage The Peninsula Bangkok (PBK) and the Thai Country Club (TCC). On 8 October 2020, PIIHL entered into agreements with the Phataraprasit family to terminate the joint venture relationship and to restructure the parties' respective shareholdings in the assets of HSH-SCH. To acquire the 50% remaining interest in PBK and the surrounding land from the Phataraprasit family, the company agreed to pay a total consideration of the 50% economic interest in TCC and its adjacent land and a cash consideration of US$70 million (HK$546 million). The total consideration was arrived at after arm's length negotiations among the parties and having regard to the market values of PBK and its surrounding land, the market values of TCC and its land parcels and consideration to resolve all existing and contingent disputes between the company and the Thai partners.

On 28 October 2020, all conditions precedent under the transaction agreements were satisfied and the joint venture relationship was terminated. As a result of the restructuring, the company's indirect interest in PBK increased to 100% whereas TCC was deconsolidated from the company's consolidated financial statements. As set out in the company's consolidated statement of changes in equity on page 162, the restructuring has resulted in a reduction of equity attributable to shareholders of the company by HK$678 million and a reduction of non-controlling interests by HK$327 million respectively for the year ended 31 December 2020.

32. Key sources of estimation uncertainty

Notes 27(a) and 28 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 consolidated statement of financial position at their open market value, which is assessed semi-annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential. The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

(b) Estimated useful lives of other properties, plant and equipment

The group estimates the useful lives of its other 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 34(i) and as explained in note 12(a). 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.

Notes to the Financial Statements

33. Investment in subsidiaries

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

Company name	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
The Peninsula Hotel Limited	Hong Kong	2 shares	100%	Hotel investment
The Repulse Bay Apartments Limited	Hong Kong	2 shares	100%	Property investment
The Repulse Bay Company, Limited	Hong Kong	2 shares	100%	Property investment
The Peak Tower Limited	Hong Kong	2 shares	100%	Property investment
Peak Tramways Company, Limited	Hong Kong	450,000 shares	100%	Tramway operation
St. John's Building Limited	Hong Kong	2 shares	100%	Property investment
Peninsula Merchandising Limited	Hong Kong	2 shares	100%	Wholesaling and retailing of merchandise
Tai Pan Laundry & Dry Cleaning Services, Limited	Hong Kong	5,000,000 shares	100%	Laundry and dry cleaning services
HSH Financial Services Limited	Hong Kong	1 share	100%	Lending and borrowing of funds
Peninsula Clubs and Consultancy Services Limited	Hong Kong	1,000,000 shares	100%	Club management
HSH Management Services Limited	Hong Kong	10,000 shares	100%	Management and marketing services
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	100%#	Hotel investment
International Burotel Company Limited	Vietnam	Registered capital of US$6,866,667	70%##	Property investment
Le 21 Avenue Kléber SNC	France	1,801,000 shares of EUR1 each	100%	Property investment
Peninsula London, LP	United Kingdom	Contributed capital of GBP1,000	100%	Property investment and hotel development
Peninsula Yangon Limited	Myanmar	43,900,000 shares of US$1 each	70%	Hotel investment

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

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

\# Siam Chaophraya Holdings Company Limited (SCH) owns 100% interest in The Peninsula Bangkok

\## 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

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

34. Significant accounting policies

(a) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the company and its subsidiaries (together referred to as the group) and the group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

i) investment properties, including interest in leasehold/freehold land and buildings held as investment properties where the group is the registered owner of the property interest (see note 34(f)); and

ii) derivative financial instruments (see note 34(d)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that may have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the company.

Notes to the Financial Statements

34. 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 34(c)).

In the company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 34(i)), unless the investment is classified as held for sale.

(c) Associates and joint ventures

An associate is an entity in which the group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the group 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). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the group's equity investment. 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 34(i)). Any acquisition-date excess over costs, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the group's share of losses exceeds its interest in the associates or the joint ventures, 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 any other 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.

34. Significant accounting policies continued

(d) Derivative financial instruments

Derivative financial instruments are recognised 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 hedge accounting.

The group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and variable rate borrowings (cash flow hedges).

Cash flow hedges

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss. The amount accumulated in the hedging reserve is reclassified from equity to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss (such as when a forecast sale occurs or interest expense is recognised).

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve 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 amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

(e) Properties, plant and equipment

Hotel and other properties held for own use (including buildings held for own use which are situated on leasehold land), right-of-use assets arising from leases over freehold or leasehold properties where the group is not registered owner of the property interest and plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 34(i)).

The cost of self-constructed items of properties, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 34(u)).

Notes to the Financial Statements

34. Significant accounting policies continued

(e) Properties, plant and equipment continued

Depreciation is calculated to write off the cost 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 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. No depreciation is provided on properties under development.

(f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 34(h)) to earn rental income and/or for capital appreciation. These include land held for currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated 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 34(s).

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 34(e) up to the date of change in use, and any difference at the date between the carrying amount and the fair value of the property is accounted for as movements in the asset revaluation reserve (under exchange and other reserves). 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.

34. Significant accounting policies continued

(g) Hotel operating rights

Costs incurred for securing the group's rights to operate hotels are capitalised and are stated at cost less accumulated amortisation and impairment losses (see note 34(i)).

Amortisation of the operating rights is charged to profit or loss on a straight-line basis over the terms of the relevant operating periods.

(h) Leased assets

At inception of a contract, the group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the group, are primarily laptops and office furniture. When the group enters into a lease in respect of a low-value asset, the group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 34(e) and 34(i)), except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 34(f);

– right-of-use assets related to leasehold land and buildings where the group is the registered owner of the leasehold interest are carried at fair value;

– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 34(j).

Notes to the Financial Statements

34. Significant accounting policies continued

(h) Leased assets continued

(i) As a lessee continued

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term liabilities is determined as contractual payments that are due to be settled within twelve months after the reporting date.

The group presents right-of-use assets that do not meet the definition of investment properties in "property, plant and equipment" and presents lease liabilities separately in the statement of financial position.

(ii) As a lessor

When the group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 34(s).

When the group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the group applies the exemption described in note 34(h)(i), then the group classifies the sub-lease as an operating lease.

34. Significant accounting policies continued

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

The group recognises a loss allowance for expected credit losses (ECLs) on the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables) and lease receivables.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

In measuring ECLs, the group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated based on the group’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Notes to the Financial Statements

34. Significant accounting policies continued

(i) Credit losses and impairment of assets continued

(i) Credit losses from financial instruments and lease receivables continued

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held). The group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Write-off policy

The gross carrying amount of a financial asset and lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

34. Significant accounting policies continued

(i) Credit losses and impairment of assets continued

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the investments in associates and joint ventures accounted for under the equity method (see note 34(c)), other non-financial assets, investment in subsidiaries in the company's statement of financial position 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

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 34(i)).

(j) Inventories

Inventory are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services. 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.

Notes to the Financial Statements

34. Significant accounting policies continued

(k) Properties under development for sale

Property under development for sale comprises leasehold lands and construction-in-progress and is carried at the lower of cost and net realisable value. Properties under development for sale included in the current assets when it is expected to be realised or is intended for sale in the normal operating cycle.

(l) Trade and other receivables

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before the payment of that consideration is due. If revenue has been recognised before the group has unconditional right to receive consideration, the amount is presented as a contrast asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 34(i)(i)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs using effective interest method. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost. Interest expense is recognised in accordance with the group’s accounting policy for borrowing cost (see note 34(u)).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and 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. Cash and cash equivalents are assessed for expected credit losses in accordance with policy set out in note 34(i).

34. Significant accounting policies continued

(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.

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.

Notes to the Financial Statements

34. Significant accounting policies continued

(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.

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 34(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances and movements therein, are presented separately from each other and are not offset.

34. Significant accounting policies continued

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the group 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.

Onerous contracts

An onerous contract exists when the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(s) Revenue

Revenue is recognised when control over a product or service is transferred to the customer, or the leasee has the right to use the asset, at the amount of promised consideration to which the group is expected to be entitled, excluding those amounts collected on behalf of third parties. Further details of the group's revenue recognition policies are as follows:

Hotel operation

Revenue is recognised on a basis that reflects the timing, nature and value when the relevant services are transferred to the customer. Revenue in respect of hotel management and related services is recognised over time during the period when management services are delivered to the hotels. Hotel revenue from room rental is recognised over time during the period of stay for the hotel guests. Revenue from food and beverage sales and other ancillary services is recognised at the point in time when the services are rendered.

Golf club operation

Revenue in respect of membership income is recognised over time during the membership period. Revenue from other golf club operations, including food and beverage sales and pro shop sales, is recognised at the point in time when the services are rendered.

Sale of residential apartments

Revenue arising from the sale of residential apartments is recognised upon the completion of title transfer, which is the point in time when the customer has the ability to direct the use of the residential apartment and obtain substantially all of the remaining benefits of the residential apartment.

Sale of goods and wholesaling

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer takes possession of and accepts 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. Variable lease payments that do not depend on an index or a rate 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.

Notes to the Financial Statements

34. Significant accounting policies continued

(s) Revenue continued

Contract liabilities

A contract liability is recognised when the customer pays consideration before the group recognises the related revenue. Non-refundable golf membership deposits, gift vouchers and other deposits are recognised as contract liabilities in the group's financial statements. Non-refundable golf membership deposits are amortised as revenue in equal instalments over the duration of the membership. Other non-refundable deposits and gift vouchers sold are recognised as revenue when the conditions of forfeiture are met and when the gift vouchers are redeemed for goods or services respectively.

(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 transaction date is the date on which the group initially recognises such non-monetary assets or liabilities.

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.

(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.

34. Significant accounting policies continued

(v) Related parties continued

(2) An entity is related to the group if any of the following conditions applies:

i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

vi) The entity is controlled or jointly controlled by a person identified in (1).

vii) The entity identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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.

(x) Government grants

Government grants are recognised in the consolidated statement of profit or loss initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

Notes to the Financial Statements

35. Changes in accounting policies

The group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*
- Amendment to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – phase 2*

Other the amendment to HKFRS 16, the group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021 (2021 amendment)*

The group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The group has early adopted the 2021 amendment in this financial year. There is no impact on the opening balance of equity at 1 January 2021.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – phase 2*

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("IBOR reform").

The amendments do not have an impact on these financial statements.

36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to HKAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to HKAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendment to HKAS 1, *Classification of liabilities as current or non-current*	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statements, *Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8, *Definition of accounting estimates*	1 January 2023
Amendments to HKAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023

The group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Independent Assurance Report

Independent assurance report to the Directors of The Hongkong and Shanghai Hotels, Limited

KPMG was engaged by The Hongkong and Shanghai Hotels, Limited ("HSH") to undertake a limited assurance engagement on identified elements ("Identified Elements") of the Corporate Responsibility and Sustainability Report and Data Statements 2021 of HSH (further referred to as "the Report") for the year ended 31 December 2021 being prepared in accordance with the Reporting Criteria.

Identified Elements of the Report

The Identified Elements are as follows:
- The following data points and relevant narratives included in the Report on pages 2 to 49.
- The following data points as included in the Data table on page 226 of this report.

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

People
- Total headcount
- Headcount by gender
- Total staff turnover

Safety
- Injury rate
- Lost day rate

Community
- Monetary donations
- In-kind donations
- Other contributions for community development

Environment
- Greenhouse gas emissions
- Group carbon intensity
- Total energy use
- Energy intensity
- Direct water consumption
- Water intensity
- Water recycled and other water sources
- Waste generated
- Waste diverted

Responsibilities of the Directors of The Hongkong and Shanghai Hotels, Limited

The Directors of HSH are responsible for the preparation and presentation of the Report specifically ensuring that in all material respects the Report is prepared and presented in accordance with the Reporting Criteria, being the Environmental, Social and Governance Reporting Guide, Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEX ESG Guide"). This responsibility also includes designing, implementing and maintaining internal controls relevant to the preparation of the Report that is free from material misstatement whether due to fraud or error.

Responsibilities of the independent assurance provider

Our responsibility is to express a conclusion to the Directors of HSH based on our limited assurance procedures referred to below as performed over the Identified Elements of the Report. Our independent limited assurance report is made solely to HSH in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the Directors of HSH those matters we have been engaged to state in this independent limited assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than HSH for our work, for this independent limited assurance report, or for the conclusion we have reached. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Basis of our work

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information and ISAE 3410 Assurance Engagements on Greenhouse Gas Statements. These standards require the assurance team to possess the appropriate knowledge, skills and professional competencies needed to perform the assurance engagement.

Our independence and quality control

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We have complied with the independence and other requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Work performed

Our limited assurance engagement on the Identified Elements of the Report consists of making inquiries, primarily of persons responsible for the preparation of Identified Elements presented in the Corporate Responsibility and Sustainability Report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures include:

- Conducting interviews with management and staff responsible for the collection and review of Identified Elements at HSH Head Office and selected business unit level to obtain an understanding of the information collection process;
- Examining and evaluating the systems and processes in place to generate, aggregate and report the Identified Elements;
- Agreeing the Identified Elements, on a sample basis, to underlying calculations and supporting schedules;
- Performing an analytical review of data provided by each operation and investigating, through discussion with management, key movements compared to prior year, expectations and targets;
- Comparing the definitions as included in the HKEX ESG Guide against the definitions used by HSH to prepare the metrics;
- Reading the Sustainability Reporting Content Index on pages 58 to 66 of the Report to determine whether it is in line with our understanding of HKEX ESG Guide;
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of the sustainability performance of HSH.

Conclusion

Based on the limited assurance procedures and the evidence obtained, nothing has come to our attention that causes us to believe that the Identified Elements, as described above, of the Corporate Responsibility and Sustainability Report and Data Statements 2021 of HSH for the year ended 31 December 2021, are not prepared, in all material respects, in accordance with the Reporting Criteria.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
16 March 2022

Sustainability Data Statements

This section provides statistical information on the group's sustainability performance. To facilitate stakeholders in understanding and benchmarking our corporate responsibility performance, our reporting follows the HKEX ESG Guide and GRI Standards.

During the pandemic, despite our best efforts to remain reactive and agile, in some cases we had to temporarily close operations for months at a time. These operational changes have negatively impacted the progress of our sustainability activities as well as collaborations with our partners, many of whom faced similar challenges. As a result, our corporate responsibility and sustainability (CRS) metrics are skewed or negatively affected. Please bear this in mind when reading the CRS statistics in this year's annual report, explanations for significant data changes are included in the footnotes below or can be found in the CRS Report. We will continue to closely monitor our sustainability performance, implement group and property-level initiatives, and continue to contribute to our long-term sustainability goals guided by our newly launched *Sustainable Luxury Vision 2030*.

1. Performance Highlights (1)

			2021	2020	2019	2018	2017	2010 Baseline
Economic	**Revenue (incl. interest income)**	HK$m	**3,465**	2,715	5,888	6,232	5,804	
	Operating costs	HK$m	**1,388**	1,133	2,049	2,241	2,102	
	Employee wage and benefits	HK$m	**1,562**	1,511	2,294	2,291	2,135	
	Capital expenditure	HK$m	**2,050**	1,585	1,590	1,490	1,827	
	Payments to providers of capital	HK$m	**165**	215	242	195	224	
	Tax payments to governments (2)	HK$m	**229**	355	330	486	442	
	Total floor area	'000 m^2	**646**	646	652	652	652	
	Total number of guest nights (3)	'000	**604**	384	1,277	1,333	1,240	
Workforce	**Headcount (4)**		**5,866**	5,609	7,451	7,594	7,534	
	Turnover (4)	%	**24.3%**	31.5%	19.7%	21.9%	21.3%	
	Headcount by Gender	% Female	**40.5%**	40.5%	41.6%	42.6%	41.9%	
	Injury rate (5)	incidents per 100 employees	**3.0**	2.5	3.9	3.5	3.1	
	Lost day rate (5)	days per 100 employees	**71.1**	47.4	74.4	57.7	43.9	
Environment (6)	**Greenhouse gas emissions**	'000 tCO_2e	**72**	68	96	99	100	126
	Group carbon intensity	kg CO_2e per m^2	**112**	105	148	153	154	215
	Total energy use (7)	'000 GJ	**654**	572	822	853	853	895
	Energy intensity (7)	MJ per m^2	**1,012**	885	1,272	1,320	1,320	1,522
	Direct water consumption	'000 m^3	**1,168**	941	1,526	1,673	1,625	1,689
	Water intensity							
	Hotels Division (8)	litres per guest night	**1,636**	2,010	1,014	1,075	1,100	1,346
	Commercial Properties, Clubs & Services Division	litres per m^2	**839**	870	959	907	964	1,064
	Water recycled and other water sources	'000 m^3	**337**	372	484	448	489	142
	Waste diversion rate (9)	%	**48.3%**	48.8%	51.0%	51.1%	54.3%	
Community	**Monetary Donations (10)**	HK$'000	**1,549**	3,157	2,025	2,519	3,250	
	In-kind Donations (10)	HK$'000	**1,807**	1,988	7,403	7,502	6,684	
	Other contributions for community development (11)	HK$'000	**1,193**	380	1,606	2,796	2,730	

Footnotes:

(1) Please refer to About This Report within the CRS Report for the scope of businesses covered in the reporting of workforce, environment and community performance. With the launch of *Sustainable Luxury Vision 2030*, baseline year for carbon, energy and water metrics has been updated to year 2010.

(2) Inclusive of corporate income tax, property and real estate tax, payroll tax and other corporate taxes.

(3) Calculation based on actual number of guests that occupied each of the rooms and suites in the relevant year.

(4) Year-end data as at 31 Dec 2021. Headcount data only covers full-time employees working full number of hours per week for that particular position. Voluntary turnover rate, which covers full-time employees left employment based on their own decision to resign stands at 20.7%.

(5) Injury lost day rates increased due to several prolonged injury cases of staff ranging from strains, fractures, bruises and burns that were carried forward from 2020 and several new prolonged cases reported in 2021. Over 99% of the reported incidents did not require a hospital stay, and thus not considered severe injuries. The injury rate for severe cases is at 0.02 per 100 employees. There was no incident of occupational disease recorded.

(6) As hotel business recovering slowly, there were more guests staying at our hotel leading to an increase of total energy and water use by 14% and 24% respectively. Hotel water intensity reduced by 19% as the data was normalised by increased guest nights. Please refer to pages 14 to 17 of the CRS Report for detailed explanation of the changes.

(7) Vehicle fuel consumption is not included in the total energy use and energy intensity reported.

(8) Includes all water uses in the hotels, not just those used by guests directly.

(9) Grease trap waste, hazardous waste and construction waste were not included in the waste data reported.

(10) Monetary donations reduced significantly as the charitable meal-for-meal programme was completed in early 2021. In-kind donations from the company decreased due to cancellation of charity events during the pandemic e.g. auction, fund raising and gala. In addition, cost saving measures have been implemented in light of the challenging business environment in 2021.

(11) Relates to contributions made to non-charitable organisations on projects supporting the wider community, for example, the Hong Kong Heritage Project, an archive project for preserving valuable historical records of the Kadoorie family and its businesses, mostly based in Hong Kong.

Glossary

Terms

Absentee rate	Represents the number of absentee days per year. It is calculated as total absentee days, which include sick days and lost days due to injury and occupational diseases, divided by total work days for the year
Average room rate	This reveals the average rate charged per occupied room, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms sold}}$
Adjusted net assets	The figure provides an adjusted value assessment of the Group's assets based on current market valuation
Back-of-house	Staff-only areas, usually in a hotel
BREEAM	Building Research Establishment Environmental Assessment Method is a UK-based environmental assessment and certification scheme on sustainable building
Corporate Responsibility	A systematic approach whereby a business monitors and ensures its compliance with the law, ethical standards, and international standards relating to the environment, consumers, employees, communities, and other stakeholders
EarthCheck	An internationally recognised sustainability benchmarking and certification programme for the hospitality sector
EBITDA	The figure reflects the profitability of the operations of the Group before interest, tax, depreciation and amortisation
Front-of-house	Areas of a hotel that are in sight of guests/customers

Terms

Global Reporting Initiative (GRI)	A non-profit organisation that produces the prevalent standards for sustainability reporting widely adopted by companies worldwide
Interest cover	The ratio reflects the ability of the Group to meet its net financing costs expressed as a multiple of its operating profit
Cash interest cover	The ratio reflects the ability of the Group to meet its net interest paid expressed as a multiple of its EBITDA less lease payments
Occupancy rate	This reveals the extent of rooms being occupied, calculated based on the following formula: $\frac{\text{Rooms sold}}{\text{Rooms available}} \text{ X } 100\%$
PP	Percentage points
RevPAR	The figure reflects the revenue generating ability of the Group's hotels from available rooms, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms available}}$
Stakeholders	Group or individuals that are affected by or can affect a company's activities
Underlying (loss)/profit attributable to shareholders	The figure reflects the (loss)/profit of the Group arising from its operations by excluding non-operating and non-recurring items

Shareholder Information

Financial Calendar 2022

2021 annual results announcement	16 March
Dispatch of Annual Report	7 April
For entitlement to attend and vote at Annual General Meeting	
– Last day to register	4 May 4:30pm
– Closure of register of members	5 May to 11 May (both days inclusive)
– Record date	11 May
Annual General Meeting	11 May 12:00 noon
2022 interim results announcement	August
Financial year end	31 December

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Corporate Responsibility and Sustainability Enquiries

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Share Information

Stock Code: 00045

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
Online Enquiries:
www.computershare.com/hk/en/online_feedback

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. The Request Form may be downloaded from the company website at www.hshgroup.com.

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