The Hongkong and Shanghai Hotels, Limited

Annual Report 2022

In this year's annual report, we continue to adopt the principles of integrated reporting, which 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.

HOPE for TÜRKİYE

The Peninsula announced the launch of a global fundraising initiative, "Hope for Türkiye", across our hotels for the victims of the Kahramanmaras earthquakes in Türkiye. From 13 February until 31 December 2023, for every room night at The Peninsula (including hotels in Hong Kong, Shanghai, Beijing, Tokyo, New York, Chicago, London, Istanbul, Bangkok, and Manila), a donation equal to the local currency of €10 per night will be made. In addition to these donations, each hotel will offer opportunities for guests to make contributions to charitable organisations whose funds go directly to the victims. All proceeds from "Hope for Türkiye" will be donated to non-profit and government funded organisations that provide vital resources and investment for the redevelopment of the most affected areas.

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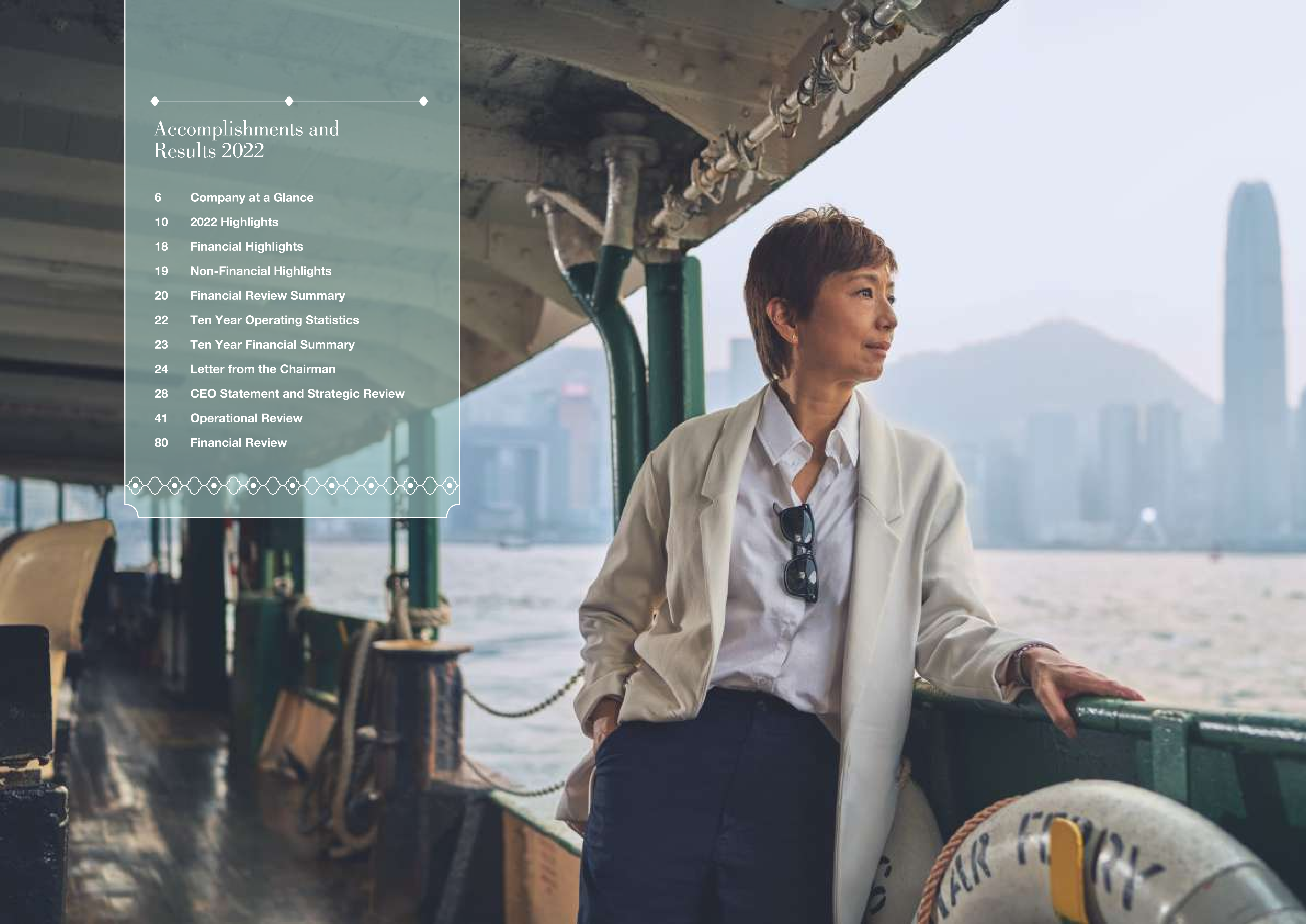


Accomplishments and Results 2022

Company at a Glance

Number of Rooms | Ownership

HOTELS

Established: 1928 300 | 100%

THE PENINSULA HONG KONG

Established: 2009 235 | 50%

THE PENINSULA SHANGHAI

Acquired: 1989 230 | 76.6%

THE PENINSULA BEIJING

Established: 2007 314 | 100%

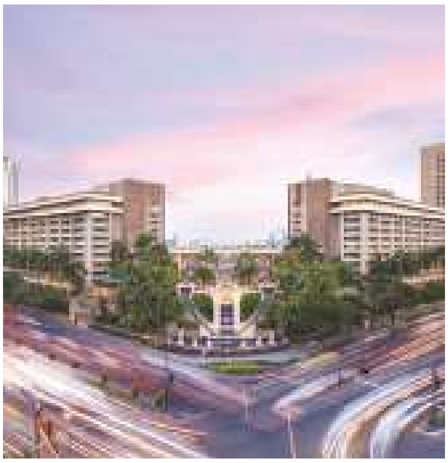
THE PENINSULA TOKYO

Established: 1998 370 | 100%

THE PENINSULA BANGKOK

Acquired: 1976 351 | 77.4%

THE PENINSULA MANILA



Acquired: 1988 233 | 100%

THE PENINSULA NEW YORK

Established: 2001 339 | 100%

THE PENINSULA CHICAGO

Established: 1991 195 | 20%

THE PENINSULA BEVERLY HILLS

Established: 2014 200 | 20%

THE PENINSULA PARIS

Established: 2023 177 | 50%

THE PENINSULA ISTANBUL

GFA (sq. ft.) | Ownership

THE PENINSULA ARCADES

77,654 | 100%

THE PENINSULA HONG KONG

87,995 | 50%

THE PENINSULA SHANGHAI

95,753 | 76.6%

THE PENINSULA BEIJING

Ownership

PROJECTS UNDER DEVELOPMENT

THE PENINSULA LONDON | 100%

Company at a Glance

GFA (sq. ft.) | Ownership

COMMERCIAL PROPERTIES

Established: 1994 79,651 | 100%

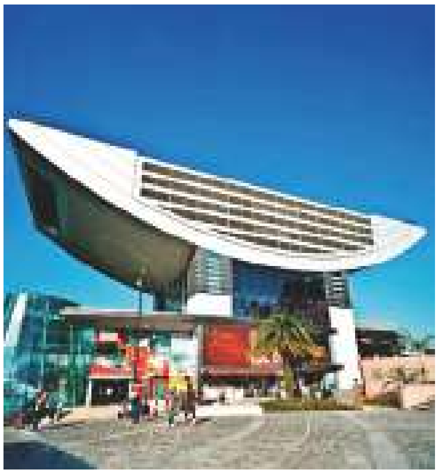
THE PENINSULA OFFICE TOWER
HONG KONG

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)



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)

Established: 1994 176,766 | 70%

THE LANDMARK
HO CHI MINH CITY, VIETNAM
(office and residential)

Ownership

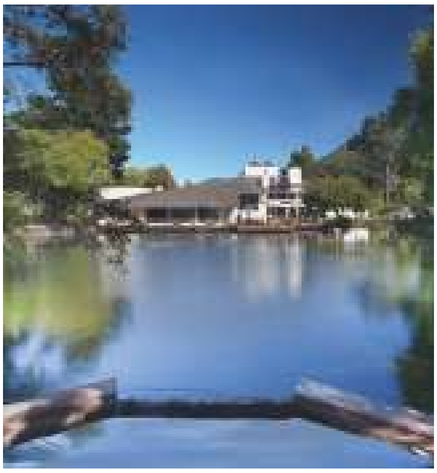
CLUBS AND SERVICES

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

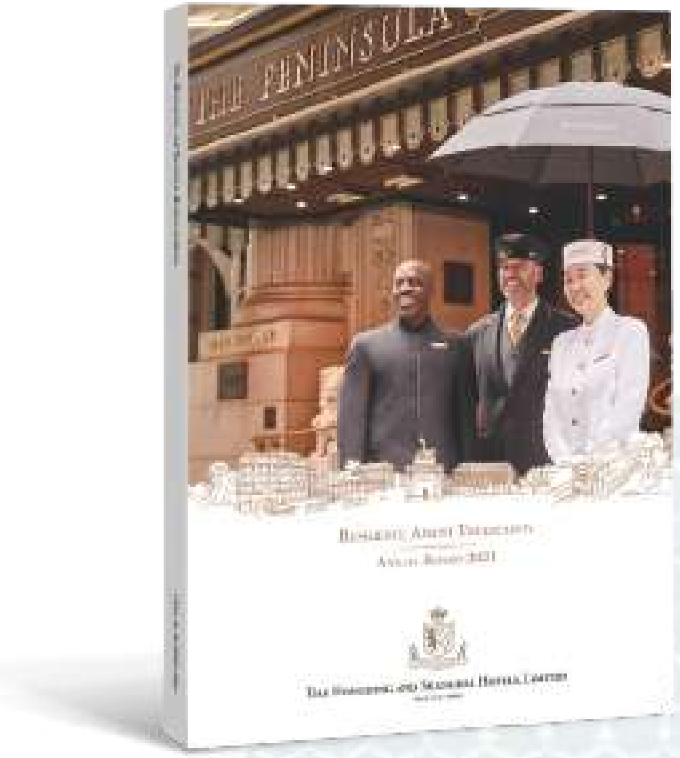
2022 Highlights

7 February - The Peninsula Chicago was selected the Number One Hotel out of 6,000 American hotels in U.S. News & World Report's 12th annual prestigious Best Hotels rankings.

19 April - The Peninsula Hotels launched a comprehensive new wellness platform, "Life Lived Best".

15 June - Peak Tramways Company, Limited unveiled a stunning sculpture named Eye of Infinity by Australian artist Lindy Lee.

2022 Highlights



9 September - The Hongkong and Shanghai Hotels won Grand Awards for “Best of Hong Kong” in the 36th ARC Awards for Annual Report 2021 and “Best of Cover Design” in Photography for our Corporate Responsibility and Sustainability Report 2021.

20 October - The Hongkong and Shanghai Hotels signed GBP 675 million Three-Year Term Green Loan Facility for Refinancing for The Peninsula London project.

3 October - Anne Coruble, Head Pastry Chef at The Peninsula Paris, won 2022’s “Best Dessert” in the Prix de l’Excellence Gastronomique Awards by Guide Lebey, the premier guide to Parisian restaurateurs and chefs, for her inventive creation featuring Tahitian vanilla and tobacco leaf.

2022 Highlights

1 November - The French Government bestowed the distinction of Chevalier dans l'Ordre du Mérite Agricole on Florian Trento, Group Executive Chef.

7 November - The Peninsula Istanbul, the newest addition to The Peninsula Hotels' portfolio, accepted reservations in advance of its opening on 14 February 2023.

2022 Highlights

14 November - Maria Zec, Managing Director of The Peninsula Chicago and Regional Vice President for The Peninsula Hotels, was selected as "The Independent Hotelier of the World" by Hotels Magazine.

2 December – The Hongkong and Shanghai Hotels hosted the Grand Opening Ceremony of the 6th Generation Peak Tram.

31 December - The Hongkong and Shanghai Hotels successfully launched "Work Improvement Teams", a global internal competition to generate innovative ideas and best practices. We received more than 500 applications and ideas. Winners were announced on 16 Jan 2023.

Financial Highlights

	2022	2021	Increase/ (Decrease)
PROFIT OR LOSS HIGHLIGHTS (HK$m)			
Combined revenue^	**4,587**	3,885	18%
Revenue	**4,198**	3,461	21%
EBITDA	**399**	394	1%
EBITDA before pre-opening and project expenses^^	**518**	457	13%
Operating loss*	**(53)**	(105)	50%
Loss attributable to shareholders	**(488)**	(120)	(307%)
Loss per share (HK$)	**(0.30)**	(0.07)	(329%)
Underlying loss**	**(205)**	(255)	20%
Dividends	**–**	–	–
Dividends per share (HK cents)	**–**	–	–
Cash interest cover (times)$^{\Delta}$	**0.8x**	1.6x	(51%)
Weighted average interest rate	**2.2%**	1.5%	0.7pp
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)			
Total assets	**56,581**	55,685	2%
Audited net assets attributable to shareholders	**36,016**	36,762	(2%)
Adjusted net assets attributable to shareholders#	**40,341**	40,871	(1%)
Audited net assets per share (HK$)	**21.84**	22.29	(2%)
Adjusted net assets per share (HK$)#	**24.46**	24.79	(1%)
Net external borrowings	**14,607**	12,900	13%
Funds from operations to net external debt##	**3%**	3%	0pp
Net external debt to equity attributable to shareholders	**41%**	35%	6pp
Net external debt to total assets	**26%**	23%	3pp
CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)			
Net cash generated from operations before taxation and working capital movements	**399**	394	
Capital expenditure on operating assets	**(200)**	(141)	
Capital expenditure on new projects	**(2,625)**	(2,447)	
SHARE INFORMATION (HK$)			
Highest share price	**9.26**	8.50	
Lowest share price	**6.05**	6.67	
Year end closing share price	**8.12**	6.83	

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

^^ Pre-opening and project expenses are unrelated to the group's operating hotels and properties and are non-recurring in nature. Pre-opening expenses represent the recruitment, payroll, marketing and administrative expenses incurred by the pre-opening office of The Peninsula London and The Peninsula Istanbul. Project expenses represent the specific expenses incurred by the group to support the development of the two hotel projects in London and Istanbul, including payroll of the project team specifically hired for the local project offices, travelling and accommodation, and other administrative expenses incurred by the project teams. No additional project expenses will be incurred upon the completion of the projects

* Being EBITDA minus depreciation and amortisation

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

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

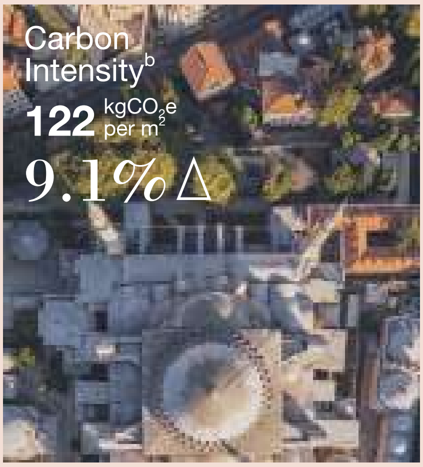
\## Being EBITDA as a percentage of net external debt

pp Denotes percentage points

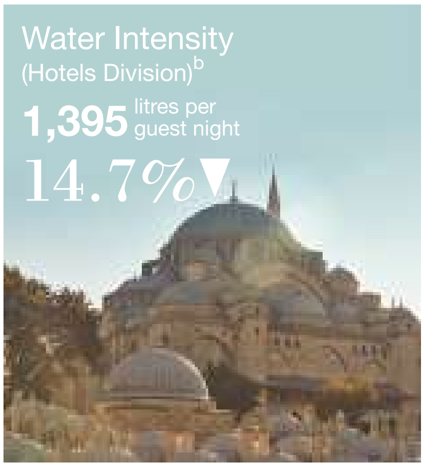
Non-Financial Highlights

As the pandemic continued into 2022 in some of our key markets, we had to temporarily make adjustments to our operations in response to local COVID-19 measures. Despite our best efforts to remain agile, 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, some of 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 *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.

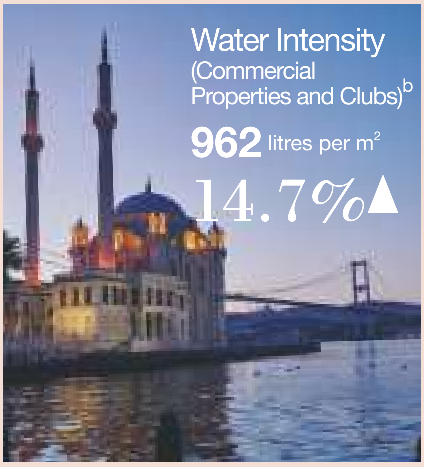
Energy Intensity[b]
1,097 MJ per m²
8.4% △



Carbon Intensity[b]
122 kgCO₂e per m²
9.1% △



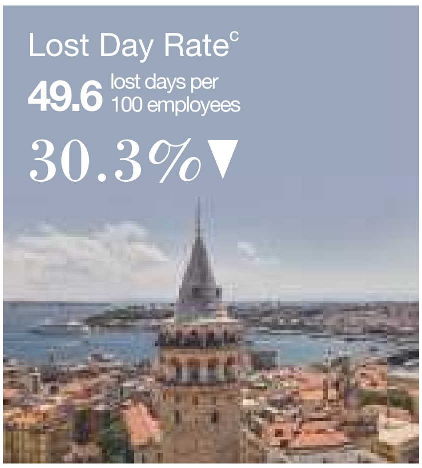
Water Intensity (Hotels Division)[b]
1,395 litres per guest night
14.7% ▼



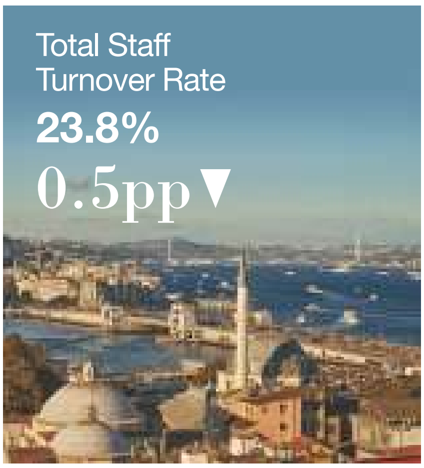
Water Intensity (Commercial Properties and Clubs)[b]
962 litres per m²
14.7% ▲

Waste Diversion Rate
52.7% 4.4pp ▲

Injury Rate[c]
3.6 injury cases per 100 employees
20.2% △
Severe cases only: 0.07 injury cases per 100 employees



Lost Day Rate[c]
49.6 lost days per 100 employees
30.3% ▼



Total Staff Turnover Rate
23.8%
0.5pp ▼

Total Community Contributions[d]
$6,099,167
34.1% ▲

[a] Percentage change refers to year-on-year movement: White border denotes improvement and pink border denotes worsening. Refer to the Sustainability Data Statements on page 262 or the online 2022 CRS Report for more details.

[b] Data is skewed as the pandemic impacted our business in disproportionate ways in 2022.

[c] Increased injury rates mainly attributable to more staff returning to full work capacity upon hotels resuming operations in 2022. Over 98% of the reported incidents did not require a hospital stay, and thus not considered severe injuries.

[d] This figure includes monetary and in-kind donations to support local charities and NGOs, as well as contributions made to non-charitable organisations on projects supporting the wider community. Total community contributions increased as many charitable events resumed post pandemic.

Financial Review Summary

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

The group's EBITDA* and combined EBITDA*, including the group's effective share of EBITDA of associates and joint venture, amounted to HK$518 million and HK$591 million respectively (2021: HK$457 million and HK$589 million respectively).

The breakdown of EBITDA* by business segment and by geographical segment is set out on pages 86 to 87 of the Financial Review.

* excluding non-recurring pre-opening and project expenses which are unrelated to the group's operating hotels and properties

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 21% to HK$4,198 million and by 18% to HK$4,587 million respectively.

The hotels division is the largest contributor of the group's combined revenue. Due to the outbreak of the fifth wave of COVID-19 in Hong Kong and the zero-COVID strategy adopted by the Chinese government, our hotels in Hong Kong and mainland China suffered a decline in revenue for the year ended 31 December 2022. In the US and Europe, following the lifting of travel and social distancing restrictions, revenue of these geographic segments enjoyed a significant rebound. Overall, the combined revenue of the hotel division increased by 26% to HK$3,384 million.

Revenue from the commercial properties division decreased by 2% to HK$686 million, mainly due to the unfavourable performance of The Repulse Bay Complex (TRB), which is the largest contributor of revenue accounting for over 76% 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.

For the clubs and services division, revenue increased by 3% to HK$517 million. The favourable result was mainly attributable to the re-opening of the Peak Tram in August 2022 and the excellent revenue achieved by Quail Lodge & Golf Club for its signature events.

Details of the operating performances of the group's individual operations are set out on pages 41 to 73 of the Operational Review.

Consolidated Statement of Financial Position at 1.1.2022

	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

Consolidated Statement of Cash Flows for the year ended 31.12.2022

		HK$m
❶ EBITDA before pre-opening and project expenses		518
Pre-opening and project expenses		(119)
EBITDA		399
Changes in other working capital		89
Tax payment		(71)
Capital expenditure on operating assets		(200)
Capital expenditure on new projects		(2,625)
Net increase in bank borrowings		2,911
Net financing charges and dividends paid		(289)
Lease rental paid		(167)
Other receipts from associates, joint ventures and non-controlling interests		88
Net deposit of interest-bearing bank deposits with maturity of more than three months		(2)
Net cash inflow for the year		133
Cash at banks and in hand	479	
Less: Bank deposits maturing more than 3 months	(13)	
Cash & cash equivalents at 1.1.2022		466
Effect of changes in exchange rates		(29)
Cash & cash equivalents at 31.12.2022*		570
*Representing:		
Cash at banks and in hand		585
Bank deposits maturing more than 3 months		(15)
		570

Consolidated Statement of profit or loss for the year ended 31.12.2022

	HK$m
❷ Revenue	4,198
Operating costs before depreciation and amortisation	(3,680)
EBITDA before pre-opening and project expenses	518
Pre-opening and project expenses	(119)
EBITDA	399
Depreciation and amortisation	(452)
Operating loss	(53)
Net financing charges	(198)
Loss after net financing charges	(251)
❸ Share of result of joint ventures	(54)
❹ Share of results of associates	(11)
❺ Decrease in fair value of investment properties	(152)
Taxation	(17)
Non-controlling interests	(3)
Loss attributable to shareholders	(488)

Consolidated Retained Profits for the year ended 31.12.2022

	HK$m
Retained profits at 1.1.2022	30,820
Loss attributable to shareholders for the year	(488)
Retained profits at 31.12.2022	30,332

Consolidated Statement of Financial Position at 31.12.2022

	HK$m
Net assets	
Fixed assets	47,130
Properties under development for sale	5,169
Other long-term investments	2,287
Deferred tax assets	148
Derivative financial instruments	349
Cash at banks and in hand	585
Other current assets	913
	56,581
Bank borrowings	(15,192)
Deferred tax liabilities	(657)
Other liabilities	(1,820)
Lease liabilities	(2,792)
	36,120
Capital and reserves	
Share capital	5,837
Retained profits	30,332
Hedging, exchange and other reserves	(153)
	36,016
Non-controlling interests	104
	36,120

Underlying loss attributable to shareholders for the year ended 31.12.2022

	HK$m
Loss attributable to shareholders	(488)
Non-operating and non-recurring items	150
Pre-opening and project expenses	119
Share of PIT's pre-opening expenses	14
❻ Underlying loss	(205)

❸ Share of result of joint ventures

The business of PSW was severely disrupted as the Puxi area of Shanghai was subject to various lockdowns with mandated closure of hotel restaurants, spas and pools for a number of months during 2022. Despite the innovative strategies introduced to drive revenue and the tight control of costs, PSW's hotel revenue and EBITDA declined by 39% and 65% to HK$298 million and HK$57 million respectively. During the year, PSW sold an apartment and generated a net sale proceeds of HK$45 million. After accounting for the gain on apartment sold, depreciation, interest and the unrealised loss on revaluation of the hotel shopping arcade, PSW recorded an accounting loss of HK$80 million (2021: loss of HK$7 million) and the group's share of loss amounted to HK$40 million (2021: loss of HK$4 million).

The group also owns a 50% interest in The Peninsula İstanbul indirectly through PIT Istanbul Otel İşletmeciliği Anonim Şirketi (PIT), a joint venture incorporated in Türkiye. 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. Our partners have secured an extension to the 30-year operating right to 49 years from February 2014. We are negotiating with our partners on extending the fixed term lease for the hotel. During the year, PIT incurred pre-opening expenses of HK$28 million (2021: nil) of which HK$14 million was shared by the group.

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 2022 amounted to HK$11 million.

❺ Decrease in fair value of investment properties

The investment properties of the group were revalued as at 31 December 2022 by independent firms of valuers based on an income capitalisation approach. The revaluation deficit of HK$152 million was mainly due to the drop in appraised market value of the shopping arcade of The Peninsula Hong Kong and The Repulse Bay.

❻ 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 82 of the Financial Review.

Ten Year Operating Statistics

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
a) THE PENINSULA HOTELS (Note 1 & 2)										
Hong Kong										
Occupancy rate	**22%**	35%	23%	50%	70%	75%	72%	73%	75%	72%
Average room rate (HK$)	**3,819**	3,204	3,153	5,401	5,845	4,875	4,843	4,760	5,144	5,170
RevPAR (HK$)	**827**	1,106	727	2,706	4,082	3,659	3,473	3,477	3,870	3,731
Other Asia (excluding Hong Kong) (Note 3)										
Occupancy rate	**37%**	28%	35%	72%	73%	68%	67%	70%	65%	66%
Average room rate (HK$)	**2,361**	2,933	2,889	2,851	2,694	2,661	2,599	2,265	2,146	2,065
RevPAR (HK$)	**864**	831	1,008	2,059	1,966	1,802	1,753	1,581	1,390	1,361
United States of America and Europe										
Occupancy rate	**57%**	48%	34%	72%	72%	70%	71%	68%	74%	74%
Average room rate (HK$)	**7,880**	6,484	5,456	5,892	5,997	5,861	5,625	5,807	5,471	4,858
RevPAR (HK$)	**4,490**	3,098	1,843	4,243	4,333	4,130	3,993	3,962	4,059	3,573
b) RESIDENTIAL (Note 1, 2, 4 & 5)										
Occupancy rate	**78%**	80%	89%	96%	95%	94%	91%	93%	85%	89%
Average monthly yield per square foot (HK$)	**46**	48	50	50	49	49	49	49	49	47
c) SHOPPING ARCADES (Note 1, 2, 4 & 6)										
Occupancy rate	**92%**	91%	84%	86%	87%	89%	93%	95%	97%	99%
Average monthly yield per square foot (HK$)	**134**	141	160	192	194	195	199	214	212	191
d) OFFICES (Note 1, 2, 4 & 5)										
Occupancy rate	**93%**	96%	96%	98%	99%	95%	100%	99%	97%	92%
Average monthly yield per square foot (HK$)	**64**	65	68	64	63	58	56	55	54	51
e) PEAK TRAM										
Annual patronage ('000)	**867**	609	1,001	3,159	6,050	6,179	6,259	6,359	6,325	6,272
Average fare (HK$)	**29**	22	20	24	23	20	19	19	19	19
f) FULL TIME HEADCOUNT (as at 31 December)										
Hotels	**5,344**	4,806	4,570	6,063	6,186	6,147	6,135	6,201	6,308	5,878
Commercial Properties	**327**	323	338	356	358	359	360	363	362	347
Clubs and Services	**768**	737	760	1,079	1,088	1,052	993	1,318	1,317	1,325
Total headcount	**6,439**	5,866	5,668	7,498	7,632	7,558	7,488	7,882	7,987	7,550

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Consolidated Statement of Profit or Loss (HK$m)										
Combined revenue	**4,587**	3,885	2,947	6,378	6,753	6,313	6,150	6,257	6,297	5,886
Revenue	**4,198**	3,461	2,710	5,874	6,214	5,782	5,631	5,741	5,838	5,508
EBITDA	**399**	394	(61)	1,390	1,680	1,555	1,420	1,572	1,672	1,453
Operating (loss)/profit	**(53)**	(105)	(614)	801	1,079	988	894	1,061	1,154	958
(Loss)/profit attributable to shareholders	**(488)**	(120)	(1,940)	494	1,216	1,128	647	994	1,143	1,706
(Loss)/earnings per share (HK$)	**(0.30)**	(0.07)	(1.18)	0.30	0.76	0.71	0.42	0.65	0.76	1.14
Underlying (loss)/profit	**(205)**	(255)	(814)	480	738	774	618	710	977	505
Dividends	**–**	–	–	212	338	318	297	308	349	240
Dividends per share (HK cents)	**–**	–	–	13	21	20	19	20	23	16
Dividend cover (times)	**–**	–	–	2.3x	2.2x	2.4x	2.1x	2.3x	2.8x	2.1x
Cash interest cover (times)	**0.8x**	1.6x	–1.2x	10.4x	12.8x	11.9x	13.8x	21.2x	25.5x	11.5x
Weighted average interest rate	**2.2%**	1.5%	1.9%	2.2%	2.3%	2.2%	2.1%	2.2%	2.3%	2.9%
Consolidated Statement of Financial Position (HK$m)										
Total assets	**56,581**	55,685	53,679	53,061	51,724	51,254	48,499	46,934	44,335	43,601
Total liabilities	**(20,461)**	(18,820)	(16,527)	(13,332)	(12,524)	(12,801)	(12,143)	(10,454)	(8,357)	(8,397)
Non-controlling interests	**(104)**	(103)	(308)	(675)	(536)	(527)	(215)	(233)	(250)	(269)
Audited net assets attributable to shareholders	**36,016**	36,762	36,844	39,054	38,664	37,926	36,141	36,247	35,728	34,935
Adjusted net assets attributable to shareholders	**40,341**	40,871	40,607	42,808	42,411	41,476	39,493	39,447	39,323	38,316
Audited net assets per share (HK$)	**21.84**	22.29	22.34	23.90	23.97	23.86	23.06	23.49	23.56	23.26
Adjusted net assets per share (HK$)	**24.46**	24.79	24.63	26.20	26.29	26.10	25.20	25.57	25.93	25.51
Net external borrowings	**(14,607)**	(12,900)	(10,662)	(6,827)	(5,917)	(5,521)	(4,911)	(3,273)	(3,004)	(3,992)
Funds from operations to net external debt	**3%**	3%	–1%	20%	28%	28%	29%	48%	56%	36%
Net external debt to equity attributable to shareholders	**41%**	35%	29%	17%	15%	15%	14%	9%	8%	11%
Net external debt to total assets	**26%**	23%	20%	13%	11%	11%	10%	7%	7%	9%
Consolidated Statement of Cash Flows (HK$m)										
Net cash generated from/(used in) operations before taxation and working capital movements	**399**	394	(61)	1,390	1,680	1,555	1,420	1,572	1,672	1,453
Capital expenditure on existing assets	**(361)**	(334)	(399)	(564)	(426)	(601)	(1,000)	(476)	(370)	(928)
Capital expenditure on new projects and investments	**(2,464)**	(2,254)	(1,771)	(1,330)	(1,208)	(1,097)	(1,580)	(916)	(39)	(2,293)
Share Information (HK$)										
Highest share price	**9.26**	8.50	8.91	12.08	13.48	17.12	9.49	12.20	12.60	14.20
Lowest share price	**6.05**	6.67	5.62	7.35	10.00	8.27	7.15	8.00	10.08	10.38
Year end closing share price	**8.12**	6.83	6.90	8.35	11.10	11.60	8.60	8.64	11.50	10.52

The bases of calculation of the following items are disclosed in the Financial Highlights on page 18

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

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

Letter from the Chairman

The Hon. Sir Michael Kadoorie
Chairman

Dear Shareholders,

With our exceptional heritage, we are renowned as a long-term investor and as a company that stands the test of time. This means staying resilient through the inevitable downturns that long-term cycles bring and reaping the benefits once the adversity has passed. 2022 was another mixed year in which we saw both good and bad times, and it is this uncertainty that truly tests the mettle of a long-term investor. Overall, I remain hopeful that we have emerged from the worst of the global pandemic and are moving towards recovery in many of our key markets as our guests return to enjoy The Peninsula's world-class service and hospitality.

While some of our properties in the US and Europe achieved record high rates, the financial results of our tourism-related businesses in Hong Kong and mainland China remained weak due to COVID restrictions. Towards the end of 2022, we were pleased to see some resurgence in business when the social distancing regulations and quarantine regimes were lifted in Hong Kong and mainland China, where life gradually returned to some sense of normalcy, with pent-up demand emerging. Business is bouncing back at varying levels in our other Asian markets.

On the commercial property side, residential leasing remains under pressure due to the soft business environment. We are reviewing options to enhance the retail arcades at The Repulse Bay and the Peak Tower, and we remain optimistic for the long-term attractiveness and value of these well-positioned assets.

Considering the formidable challenges we faced in the earlier part of the year in our home market and in the Chinese mainland, I believe that our company's financial results were creditable.

Whilst this has been a productive year in terms of our recovery from the pandemic, we remain conscious of the need for continued vigilance towards managing other significant risks and threats to our business. Our current priorities in terms of managing risks are the global labour shortage in the hospitality industry, inflation and rising interest rates, and managing ongoing geopolitical uncertainties, particularly with regards to the US and China, and the effects of the Russia-Ukraine conflict. Cybersecurity threats and climate change risks remain a concern for our business. Our Board members and Group Risk Committee meet regularly to discuss our approach to these and other operational risks.

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.

I remain hopeful that we have emerged from the worst of the global pandemic and are moving towards recovery in many of our key markets as our guests return to enjoy The Peninsula's world-class service and hospitality.

Letter from the Chairman

Enhancing shareholder value remains a key objective and we strive to achieve this through the development of new hotel projects and continually improving our existing assets. I am pleased to report that The Peninsula Istanbul opened for business on 14 February 2023 in a stunning location on the Bosphorus and we are optimistic about the long-term prospects for our beautiful new Turkish property. We were very sad to learn about the devastating earthquake in the south of Turkiye in early February 2023 and we send our condolences to all those who have been affected.

Construction of The Peninsula London continues at pace and we expect to open later in 2023. In Hong Kong, we welcomed the brand-new sixth generation Peak Tram after its major upgrade project and we are delighted to see that the Hong Kong public has warmly embraced this new icon of the city.

Looking to the future, we will welcome a new Non-Executive Director, my son-in-law Mr Diego González Morales, who has been appointed to the Board with effect from 31 March 2023. Mr William Mocatta will retire with effect from 31 March 2023 after 37 years with the group. On behalf of the Board I would like to share my sincere gratitude for his dedication and commitment to our company. We look forward to welcoming Diego to the Board and I am confident he will bring new ideas and perspectives.

On behalf of the Board, I would like to express my appreciation and sincere thanks for the leadership of Clement Kwok, who has been our CEO for 21 years, and Peter Borer, our COO, who has served the group for 42 years, together with their management teams. The hard work, dedication and loyalty of everyone in our company during the challenges of the past few years has been exceptional and I recognise their contribution to creating one of the world's best luxury hospitality brands.

I would also like to sincerely thank each and every one of our shareholders for your ongoing trust and support, and wish you all a prosperous year ahead.

The Hon. Sir Michael Kadoorie
15 March 2023

CEO Statement and Strategic Review

Clement Kwok
Chief Executive Officer

1. Emerging from the COVID-19 Crisis

At the beginning of 2019, our company had a robust balance sheet with net debt of HK$5.9 billion as compared to total assets of HK$52 billion, annual group EBITDA of around HK$1.6 billion, and we were excited to be delivering the exceptional new Peninsula Hotel developments in London, Istanbul and Yangon for a total investment commitment of around HK$12.5 billion, which we believed to be well within our financing capability. In the intervening four years, our operating cashflows have been seriously depleted by the effects of COVID-19 which had a devastating impact on our hospitality earnings around the world, as well as the social unrest in our most important market of Hong Kong in 2019. Our businesses in Greater China and Asia were especially hard hit due to the length and stringency of the COVID-related restrictions. At the same time, our expected project costs have increased substantially, especially in London, due to COVID-related factors as well as issues with design and project management in London.

Given the unprecedented circumstances described above, I am proud to be able to report that we have navigated the challenges well. Our total net debt level has increased to HK$14.6 billion as compared to HK$56.6 billion of total assets, but we believe this gearing is still manageable and will shortly be materially reduced upon the release of the sales proceeds of The Peninsula London Residences. We have throughout maintained a healthy committed financing horizon of at least three years to cover our upcoming cash needs. Our group operating EBITDA, which was negative in 2020, has returned to being positive in 2022 at HK$518 million if one excludes the one-off costs associated with the opening of the two new hotel projects. Most importantly, my team and I have managed to navigate through this difficult period with strong staff morale, loyalty and engagement. We have also maintained the highest levels of quality and our strong Peninsula brand reputation is flying as high as ever. For this, I am truly grateful to all our management and staff.

Turning to 2022 and especially towards the end of the year, we have seen some positive momentum compared to the very challenging situation in the same period in 2021. However, our key markets of Hong Kong and mainland China continued to suffer from stringent COVID-19 travel restrictions for much of the year, negatively affecting our hotels business, as well as the Peak Complex. Our residential leasing business at The Repulse Bay was also under pressure although we have retained a reasonably high occupancy level. One of the highlights of the year was the sixth generation Peak Tram launch in August 2022, which significantly expanded its capacity and improved its service offering, and was positively received by the local market in the absence of tourists.

CEO Statement and Strategic Review

We believe our strong brand, attention to detail, and world-renowned service standards have held us in good stead during this crisis. There has been some pent-up demand and so-called 'revenge spending' although it remains to be seen how long this can continue. This has in some part contributed to a relatively fast rebound particularly in the US and Paris, with rates reaching high levels. Manila experienced a good recovery, whereas Bangkok's recovery remains muted, and Tokyo had a slow start to the year but built momentum towards the end of 2022.

Although there is a high degree of uncertainty in the near term, our long-term philosophies and values remain steadfast. 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 close-knit culture and 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 one of the leading luxury hotel brands in the world.

3. Business overview

Our group currently owns and operates eleven Peninsula hotels which are located in Hong Kong, Shanghai, Beijing, Tokyo, New York, Chicago, Beverly Hills, Paris, Istanbul, Bangkok

and Manila, with The Peninsula London to be opened later in 2023. 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.

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.

In the group's commercial properties division we take a similar investment approach and seek long-term returns on our 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 visitors 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 a boutique at Hong Kong International Airport which reopened in December 2022, and several Peninsula hotels. We opened new pop-up stores in 2022 and online business was successful during the year. We are planning to expand the business further, particularly in the Chinese mainland market.

CEO Statement and Strategic Review

Our clubs and services division includes the Peak Tram, which was first established in 1888 and has been under our group for more than 130 years. The Peak Tram reopened in August 2022 following a comprehensive HK$799 million upgrade project and has been very well received by local Hong Kong people.

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 41 to 78.

4. Projects Update

The Peninsula London and The Peninsula Istanbul as well as the Peak Tram project which was completed in 2022, together form the most substantial capital expenditure programme in our company's history. The Peninsula London is 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 since 2020 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. As at the time of writing, we are targeting a soft opening of the hotel later in 2023.

As we announced in October 2022, the revised budget of The Peninsula London is GBP1,020 million (including both hotel and residential apartments). We are satisfied to report that the prices at which we have transacted the sales of residential apartments to date have met our original expectations, and more than two-thirds of the residences have been sold.

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, Türkiye. 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 forms part of the wider Galataport project which has been developed by our partners, and 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. Our partners have recently secured an extension to the 30-year operating right to 49 years from February 2014. We are negotiating with our partners on our share of payment for extending the fixed term lease for the hotel.

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

We are delighted to report that the soft opening of the hotel was held on 14 February 2023, with two buildings ready for guest stays and the magnificent Lobby open for business. The rooftop restaurant Gallada will open in summer 2023.

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.

CEO Statement and Strategic Review

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$24.46 per share in 2022.

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. With the substantial capital commitments that these projects entail, including the Peak Tram which has been completed, currently amounting to HK$3.9 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 26%, which we believe to be acceptable considering the financial obligations of our new developments. With the re-opening of the border between Hong Kong and the mainland, continued recovery of the hotel industry in the US and Europe, and the gradual handover of our purchased London residences, it is expected that the group's gearing will reduce in the coming year.

Despite the severity of the pandemic on our business, we are reporting an improved set of operating results for 2022, which we consider to be creditable in the light of the continued difficult market situation we faced in Hong Kong and mainland China.

With the recovery of our business in the US and Europe, we saw an increase in consolidated revenue by 21% to HK$4.2 billion and an increase in consolidated EBITDA before pre-opening and project expenses by 13% to HK$518 million.

However, with the new hotel projects coming closer to completion, the group's pre-opening and project expenses directly related to supporting the new projects for the year amounted to HK$119 million compared to HK$63 million in 2021. Pre-opening and project expenses are unrelated to the group's operating hotels and properties and are non-recurring in nature and as such, these expenses are excluded to arrive at the group's underlying loss which amounted to HK$205 million compared to HK$255 million last year. The full year net loss attributable to shareholders of HK$488 million included an unrealised loss in fair value of investment properties held in Hong Kong, which is in line with general market movements.

Despite the accounting losses, the operating net cash surplus generated by the group before interest and lease payments for the year was HK$336 million, representing an increase of 40% over 2021.

More details can be read in the Financial Review on page 92.

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. Our main revenue sources derive from our hotel rooms, driven by global distribution systems, digital marketing and website revenue, as well as agents and online platforms. On the retail side, we maintain good relationships with our tenants and engage in joint promotions to encourage traffic into our arcades. We also derive significant revenue from residential leasing in our luxury property portfolio.

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 mix of tenants achieved during the year and renewed interest from anchor tenants. 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 we are undertaking a strategic review of our retail business and arcades in that property. We are also reviewing the retail mix at the Peak Tower following the reopening of the Peak Tram.

For our hotels, we continued to personalise the guest experience, inviting them to experience "Life Lived Best". This initiative provides guests at all Peninsula properties with opportunities to pursue their fitness, mindfulness, and nutritional goals, with access through a dedicated Wellness Portal and 24-hour Wellness Concierge service.

We continued to enhance our customer relationship management programme with the launch of the "Mobile PenKey Concierge", which provides 24-7 access to a team of lifestyle management experts.

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.

With travel restrictions lifted, our Sales teams were once again able to meet in person with PenClub members, our in-house travel partners, and begin attending key worldwide travel tradeshows.

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, artificial intelligence, robotics, and the latest technological innovations.

CEO Statement and Strategic Review

7. Managing risk

Operating a business in eleven different jurisdictions, given the unpredictable nature of the hotel industry, requires an agile yet measured approach to risk management. Our Group Risk Committee, 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 2022, as we emerged from the pandemic we continued to navigate issues such as a global labour shortage in the hospitality sector, rising inflation and energy costs, geopolitical tensions and continued threats such as cybersecurity threats. Climate change risks, including rising sea levels, has also become a major focus and our Group Risk Committee 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 164 to 167 of our GRC Report explains further details on how we manage against our principal risks.

8. Our people

Despite some relaxation of COVID-19 restrictions in 2022, the pandemic continued to present considerable challenges for our People and Culture team. The global labour shortage in the hospitality sector persists, while additional efforts are required in retaining our talent as they are attracted by competitive remuneration packages and other industries offering more flexible work arrangements.

We focused on the enhancement of our talent acquisition, on-boarding, employee engagement and career development experience to cultivate a team of exceptional people to have long-term careers with us. We are implementing a number of measures to better appeal to today's workforce and create better work life effectiveness for our employees. Among the measures are flexible work arrangements for applicable employees to work from home for the corporate office, enhancement of global benefits offerings such as carers' leave in Hong Kong, and budgeting of a competitive annual salary increase globally. Additionally, we have reviewed and increased our People and Culture staffing globally to ensure that every employee is afforded a caring and positive employee experience.

We want to enable and support the career and professional growth of our people. I am happy to share that we have re-launched the Executive Development Programme and the Emerging Managers Programme, which identifies high-potential individuals and strengthen their skill sets and capabilities for future leadership roles.

Developing the next generation of leaders in our organisation is a key focus as we prepare for the opening of two new hotels. Besides the various development programmes, we have also enhanced our succession management framework to create a strong pipeline of talented employees and kickstarted succession planning in the last quarter of 2022. Employees will be able to express their aspirations and role they would like to attain in the process. Through meaningful ACE (Aspiration, Career, Experience) Conversation with their manager, they will be able to understand the development gaps and their readiness to step into their desired roles.

On the opening of our new hotels in Istanbul and London, we are well advanced in our recruitment of around 1,200 new employees, with 241 on board in London and 423 in Istanbul. We have specifically curated programmes that are unique in those markets to enhance our profile as an employer of choice. The programmes support their entire workplace journey as well as their well-being.

In December 2022, we welcomed the first cohort of The Peninsula Istanbul employees with a newly designed orientation experience which lasts for one week as they learned about the company, our history, the Peninsula Services Principles, etc. We also hosted the first-ever Peninsula EXPO, which stands for EXperiencing Peninsula Operations, a new and bespoke programme that took the learning outside of the classroom as our new colleagues visited the various departments of the property to connect and experience the duties of each department.

Globally, we have continued the deployment of the revised HSH Core Principles Framework across our operations. The Core Principles support and help build a solid foundation for the Peninsula Services Principles (PSP) framework for all employees in our hotel operations. We have enhanced our selection process and incorporated our Core Principles in the hiring process as well. We have also improved our PSP materials to better facilitate adoption in our non-hotel operations such as Peninsula Merchandising Limited.

CEO Statement and Strategic Review

Our WorkPlace 2025 initiative is ongoing as we work to modernise our workplace and effectively transform our teams through innovation and empowerment. I am very pleased to share that the first edition of the "Work Improvement Teams" programme saw over 500 creative ideas from around our global operations on improvements and best practices. The team from The Peninsula Shanghai and their proposal of incorporating artificial intelligence and automation into daily operations was selected as the champion.

Looking forward, our focus continues to be talent acquisition, career development and retention. We want to build an inclusive workplace where our employees feel a strong sense of belonging and purpose.

As of 31 December 2022, there were 5,885 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 continued the implementation of our sustainability strategy, *Sustainable Luxury Vision 2030 (Vision 2030)*, which incorporates corporate responsibility and sustainability into our wider business strategy. This 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 2022, 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 as mentioned in our risk section, we are becoming increasingly concerned about the risks posed by climate change and sea level rises to our ecosystems, businesses and human health. 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 increasing our offering at our hotels for plant-based diets.

10. Outlook

We expect that the recent relaxation of COVID-related travel and mask-wearing restrictions in Hong Kong will have a positive impact on our businesses in Hong Kong, which usually contribute the majority of our group's earnings. Our earnings in Hong Kong arise principally from rooms and food and beverage business and shopping arcade rentals at The Peninsula Hong Kong, residential leasing income at The Repulse Bay and tourism-related revenue from the Peak Tower and Peak Tram, which are all expected to benefit from the recovery of international business and tourism in Hong Kong. We believe that Hong Kong continues to be a very attractive destination for both business and leisure travellers.

We have also seen the recent relaxation of COVID-related restrictions in the Chinese mainland, which we expect will benefit our hotels in Beijing and Shanghai, where we are already seeing some return of international business in addition to the strong domestic client base.

We are enjoying high room rates in Tokyo, Paris, New York, Chicago and Beverly Hills and the outlook remains good, although there continues to be wage inflationary pressures in the hospitality industry. The recent soft opening of The Peninsula Istanbul in February 2023 will start to bring revenue to that property, although its initial business has been affected by the sad and devastating earthquakes in Türkiye.

Our immediate development focus remains on delivering our new Peninsula hotel projects in London as explained later in the operational sections of this review. This has been an immensely challenging project in terms of delays and cost overruns, however, we believe when it opens from 2023 onwards, together with our new hotel in Istanbul and our existing hotel in Paris, it will have a significant impact on our brand presence in Europe.

Various other geopolitical uncertainties may continue to affect our business. These include US-China tensions, the impact of Brexit which is impacting the labour market in the UK, and we are also monitoring the effects of financial market instability in Türkiye. Climate change issues are an increasing concern. A key issue for our industry remains the significant labour shortage, particularly in the US, Europe and Japan, and this is still preventing many of our rooms and outlets operating at full capacity. We will continue to explore ways to attract and retain bright young talent. Inflation and rising energy costs remain a concern in the majority of our markets.

We are committed to ensuring that with the rapid development of technology we are keeping pace with the needs and opportunities of our business and we will place a renewed focus on technology transformation in the year ahead.

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 passion, loyalty and hard work over the past very difficult few years. The Peninsula spirit and our service principles are apparent, and I believe this enhances the guest experience, and upholds our reputation as one of the finest luxury hotel brands in the world.

Clement Kwok
15 March 2023

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$m	Variance HK$	Year-on-Year Local Currency
Consolidated hotels			
The Peninsula Hong Kong	**687**	–6%	–6%
The Peninsula Beijing	**201**	–18%	–14%
The Peninsula New York	**712**	+89%	+89%
The Peninsula Chicago	**579**	+32%	+32%
The Peninsula Tokyo	**439**	+35%	+62%
The Peninsula Bangkok	**140**	+349%	+393%
The Peninsula Manila	**156**	+301%	+341%
Non-consolidated hotels			
The Peninsula Shanghai	**298**	–39%	–36%
The Peninsula Beverly Hills	**640**	+18%	+18%
The Peninsula Paris	**559**	+61%	+78%

Operational Review

The Peninsula Hong Kong

Revenue HK$687m	Occupancy	Average Room Rate	RevPAR
-6%	-13pp	+19%	-25%

The Peninsula Hong Kong

For most of 2022, **The Peninsula Hong Kong** continued to be negatively impacted by stringent travel restrictions, quarantine and social distancing measures imposed by the HKSAR Government, particularly during the city's "fifth wave" of COVID-19 from January until May 2022.

Operational Review

Although occupancy declined compared to the previous year, we were able to achieve a double-digit increase in average rates, as local guests who decided to treat themselves to "staycations" at home in Hong Kong were willing to spend more on suites, upgrades and luxury experiences. Food and beverage revenue was robust throughout the year; Hong Kong has a "dining out" culture and The Peninsula Hong Kong is a destination venue for special events. We implemented marketing strategies to attract local residents, including *Penfare at Home* delivery services when the dining bans were in place, and a *Studio 54* themed dinner theatre experience in the winter months. Once dining restrictions were eased from May onwards, we saw a strong rebound in previously cancelled events, banquets and weddings.

We were delighted to receive the accolade of "Top 500 Hotels in the World 2022" by *Travel + Leisure* and we were pleased that *Gaddi's* was awarded one Michelin star for the third consecutive year, while *Spring Moon* garnered one Michelin star for the sixth year in a row. During the festive season we created "immersive experiences" for our guests and collaborated with a luxury brand for our festive decorations in the *Lobby*.

We expect that the hospitality industry in Hong Kong will continue to improve with the easing of inbound travel restrictions, especially from the Chinese mainland, although long haul markets will require a longer time to recover. We support the Hong Kong Tourism Board's efforts to drive business and welcome tourists back to Hong Kong.

On the leasing side, The Peninsula Office Tower was 94% occupied in 2022, and the outlook is stable. The Peninsula Arcade occupancy was 92%. Although commercial leasing remains under pressure due to the soft retail environment, we implemented retail incentives together with our tenants which resulted in strong foot traffic in the Peninsula Arcade, with our anchor tenants experiencing queues for the first time since before the pandemic. We believe that our recently renovated Peninsula Arcade basement will continue to offer an attractive retail environment for tenants, with an eclectic mix of lifestyle and culinary amenities.

We continued to support the local community and charities by partnering with Impact HK to support the homeless and needy in Hong Kong.

Operational Review

The Peninsula Shanghai*

Revenue RMB260m	Occupancy	Average Room Rate	RevPAR
-36%	-28pp	-3%	-53%

* *The Peninsula Shanghai was subject to a mandatory lockdown in April-June 2022*

The Peninsula Shanghai

The Peninsula Shanghai faced a challenging 2022 due to the stringent COVID restrictions imposed across the city. Sporadic COVID resurgences disrupted business and the situation was exacerbated by the perception of the severity of the situation, which deterred domestic visitors from outside Shanghai. Despite the weak environment, we remained RevPAR leader amongst our competitive set.

Operational Review

We experienced a serious deterioration in business as various lockdowns commenced and government regulations mandated the hotel to close all restaurants, the Spa and the pool in June 2022 even after the citywide lockdown was lifted. We also suffered from many cancellations of large events and weddings due to the instability of the situation, with corporates unwilling to risk spending on non-critical activities.

From April to June 2022, the Puxi area of the city, where our hotel is located, went into full lockdown and this was devastating for our operational results. We implemented a strict cost cutting policy and implemented innovative strategies to drive revenue. For example, for Shanghai residents also experiencing lockdown in their residential complex, we offered high-end culinary delivery services and engaged "KOL" influencers to promote our offers to the local market, with good results.

During the festive season, year-end parties and events resumed when the zero-Covid restrictions were eased, but came to an abrupt halt when 80% of the city's population tested positive for COVID-19 in late December.

The Peninsula Arcade was 94% occupied during 2022 and aside from the lockdown periods, the retail outlets experienced robust foot traffic and in some cases, queues outside their stores.

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 2022, a total of 32 apartment units have been sold.

Operational Review

The Peninsula Beijing

Revenue RMB174m	Occupancy	Average Room Rate	RevPAR
-14%	-12pp	+5%	-38%

The Peninsula Beijing

The Peninsula Beijing experienced an extremely challenging year due to severe government restrictions and lockdowns, with lengthy quarantines resulting in almost zero international travellers coming to Beijing.

Operational Review

The Winter Olympics was successfully held in February 2022, with "bubble zones" maintained in key areas of Beijing to protect visitors and athletes. This naturally led to a decline in domestic arrivals to the city and business outside of these bubble zones was weak. The same situation occurred during the 20th Party Congress in November 2022.

From April 2022 and for a period of several months, business came to a complete standstill and hotels were not permitted to host events or dining, and this occurred again in December when the city was under lockdown.

During the summer months we were able to achieve a slight improvement in food and beverage revenue due to the popularity of our rooftop bar *Yun Summer Lounge*. We were delighted that our fine dining restaurant *Jing* retained its one Michelin star, making it the only Michelin-starred French restaurant in the city.

The end of the year was extremely challenging and despite Covid restrictions suddenly easing, three-quarters of our staff fell ill with COVID-19 in the same week and while our focus was on ensuring their return to good health, our ability to serve guests was inevitably impacted.

During the year, The Peninsula Arcade was 98% occupied and business in the retail outlets was robust. Some of our anchor tenants are undergoing expansions of their space.

We are optimistic for the outlook for the coming year as we believe luxury travel in China will rebound due to pent-up demand in both leisure and corporate markets as guests seek to re-establish government, diplomatic and business relationships in the nation's capital.

Operational Review

The Peninsula Tokyo

Revenue JPY7.49b

+62%

Occupancy

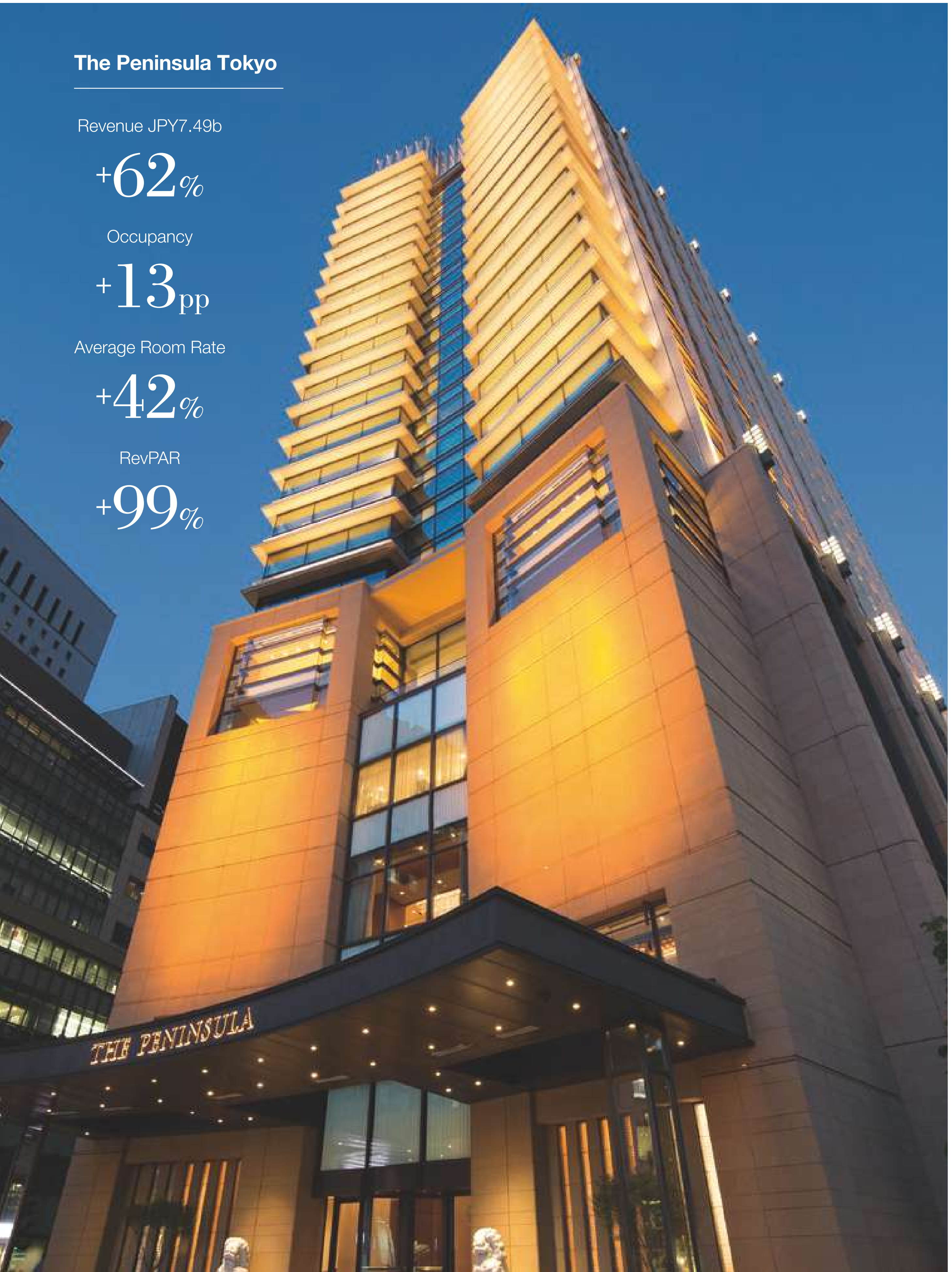
+13pp

Average Room Rate

+42%

RevPAR

+99%



The Peninsula Tokyo

The Peninsula Tokyo ended the year on a high note after a relatively weak start to 2022 when the hotel was still impacted by "State of Emergency" restrictions which were imposed across the city.

From spring onwards, the Japanese Government started to ease their border policies, firstly by issuing international business visas again. From June 2022, overseas small tour groups and business visitors were allowed back into Japan and finally all restrictions were lifted by October 2022.

The gradual easing of restrictions resulted in a significant increase in occupancy, revenue and room rates in the fourth quarter with high room rates achieved in December 2022. Our international guest mix quickly recovered and we were pleased to see overseas guests returning, mostly from the US and Hong Kong.

In terms of local customer spending, we saw a strong increase in demand and the number of general banquets and large events in the second half increased due to pent-up demand, with less "Covid anxiety" associated with very large banquets.

We have been adjusting space for small to mid-sized luxury events and this has been well received. There has been a noticeable shift in local guest behaviour since the pandemic, with after-work business entertainment decreasing, which has impacted our outlets and bar business.

The Peninsula Arcade business remained stable with 100% occupancy and we welcomed a new healthcare tenant in May 2022 which has been well received.

Operational Review

The Peninsula Bangkok

Revenue THB637m	Occupancy	Average Room Rate	RevPAR
+393%	+17pp	+90%	+273%

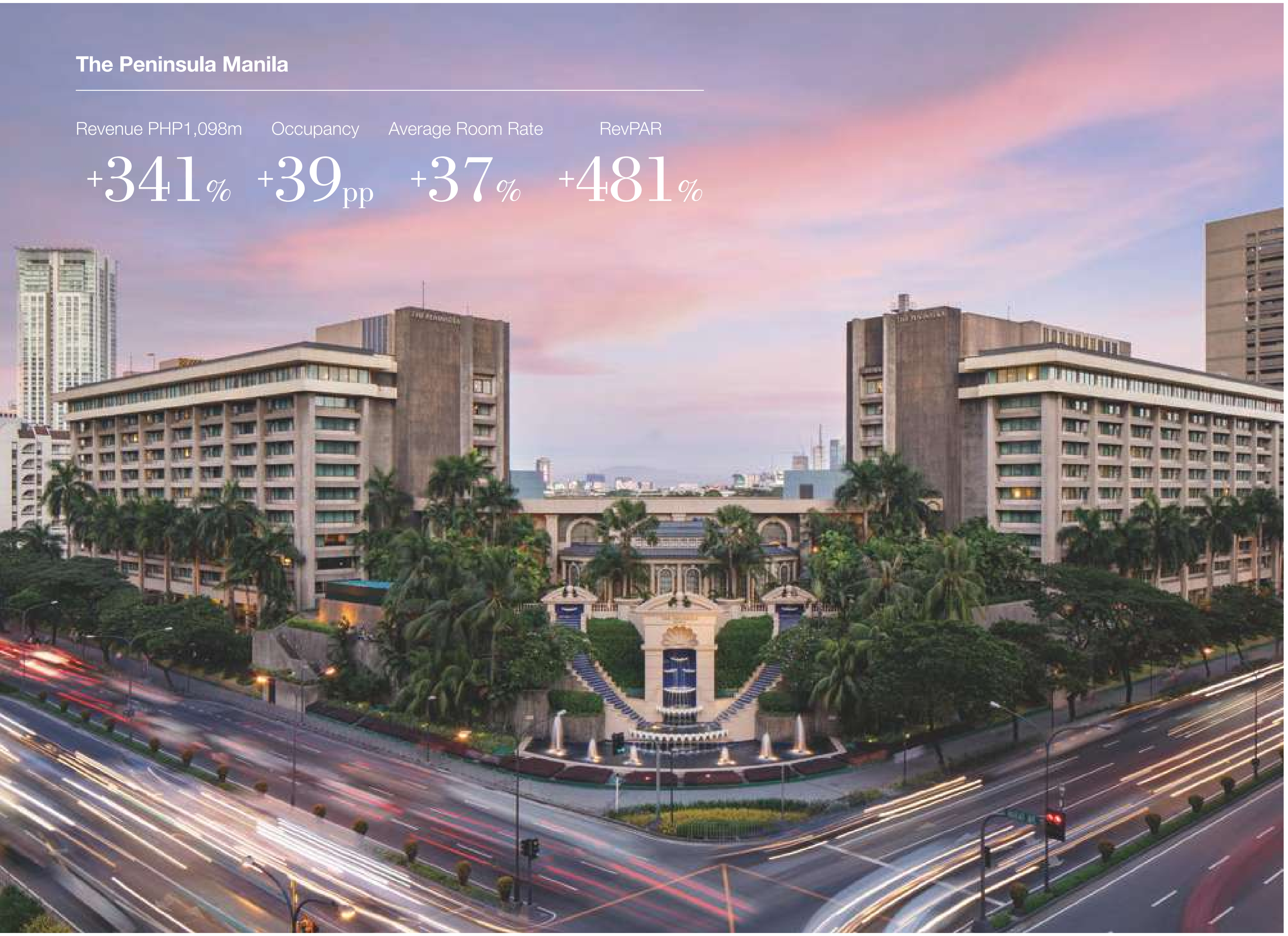
The Peninsula Bangkok

The Peninsula Bangkok experienced a strong second half mainly due to the removal of all Government restrictions from July onwards, and the removal of mask mandates from October. This encouraged international travellers to return to Thailand, with the key markets including the US, Europe, South Korea and Singapore. The Thai Government's subsidised "We Travel Together" initiative helped drive business from the domestic market in the first half. The APEC conference in November 2022 brought more overseas business visitors to Bangkok although the main beneficiary was the downtown business district rather than the riverside.

Rooms, food and beverage and banqueting business picked up gradually throughout the year and December was particularly strong in terms of high rates. Corporate group bookings are coming back to the city and comprising both regional and long-haul visitors.

We have achieved good results and positive guest feedback from our positioning as a luxury riverside "urban resort", with a major focus on wellness programmes including quarterly "Wellness Festivals" as well as Peninsula's Life Lived Best initiative. We are also strongly positioned in terms of art appreciation programmes with 'artist in residence' and 'writer in residence' programmes, which have been popular with guests as well as supporting local artists and the art community in Bangkok.

Operational Review



The Peninsula Manila

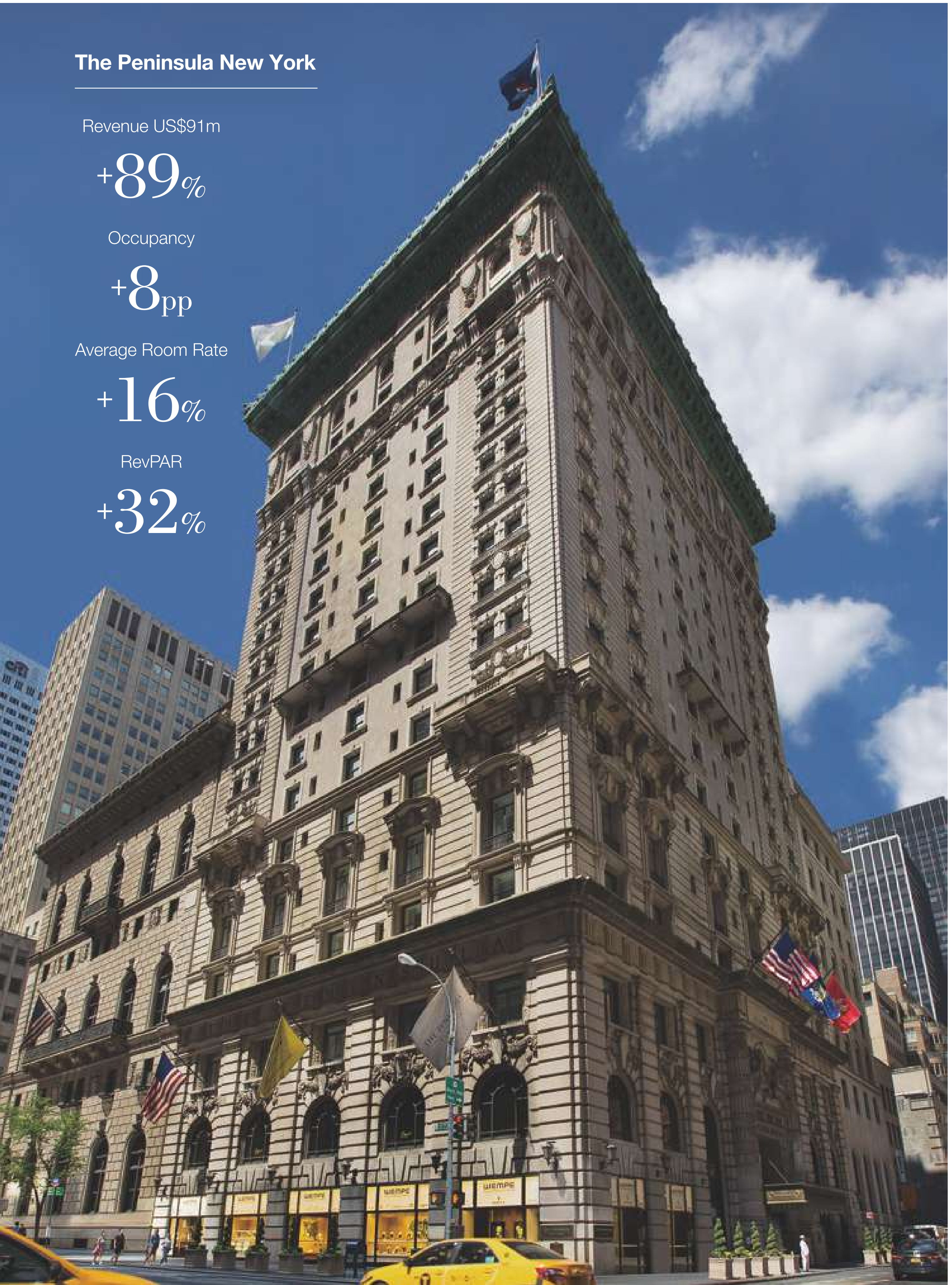
Revenue PHP1,098m	Occupancy	Average Room Rate	RevPAR
+341%	+39pp	+37%	+481%

The Peninsula Manila

The Peninsula Manila experienced a strong year after a relatively weak first two months. Occupancy, average rates and RevPAR all increased significantly after the Philippines Government opened international borders from February onwards. Guests returned from our traditional key markets of US, UK, Singapore, Japan and South Korea, with diplomatic and corporate business particularly strong following the election of the country's new President in June 2022. Domestic business also experienced a rebound and we continued to welcome guests from Manila as well as other parts of the Philippines for "staycations".

Suite business was good and our new Club Lounge brought in significant revenue. We enhanced our Ballroom Garden which is the only *al fresco* event venue in the area and it has proved popular with wedding guests. Food and beverage performance was robust. Our fine dining restaurant *Old Manila* was closed during 2022 but has reopened in early 2023 with a new chef and is receiving positive reviews from guests.

Operational Review



The Peninsula New York

Revenue US$91m

+89%

Occupancy

+8pp

Average Room Rate

+16%

RevPAR

+32%

The Peninsula New York

The Peninsula New York experienced a fast recovery and strong rebound for the full year 2022 after a slow start in the first two months of the year. The hotel achieved high average rates with strong demand for specialty suites. The speed of the recovery and the so-called "revenge travel spending" has exceeded our expectations.

Food and beverage revenue was good, with *Salon de Ning* performing well and Clement restaurant opened for breakfast and lunch. *Gotham Lounge* reopened in the fourth quarter and business performed well. In the winter months we partnered with St Moritz and Badrutt's Palace Hotel to feature "Chalet de Ning" at *Salon de Ning*, bringing a glamorous Swiss winter wonderland to New York, creating queues and a buzz on social media.

As part of our community efforts, The Peninsula New York was proud to be the Official Hotel Sponsor of MACBETH 2022 on Broadway, featuring Hollywood actors Daniel Craig and Ruth Negga, providing complimentary tickets for students from underserved communities.

Despite concerns about high costs of labour and talent shortages, our outlook is positive with high rates forecast.

Operational Review

The Peninsula Chicago

The Peninsula Chicago enjoyed a very strong 2022, with high occupancy and high average rates. We maintained our RevPAR leader position in the market. Business was boosted by strong demand for suites and increased banqueting demand from March onwards.

The hotel's restaurants and dining outlets reopened in 2022 with some limitations in dining hours, and *Pierrot Gourmet* reopened in September 2022 following a renovation. Staffing shortages remain a major concern in Chicago with a high number of vacant positions. Recruitment is a top priority.

Groups business was good, and several large-scale conferences and conventions were held in the city, although they were not yet held at full capacity.

As part of our commitment to promoting local artists, in April 2022, we were proud to present *I am Somebody*, a collection of works by AFRICOBRA (the African Commune of Bad Relevant Artists), an artist collective that was founded on the south side of Chicago in 1968. From December 2022 we are showcasing *Building Images*, an exhibit by Chicago artist Robert Chase Heishman in partnership with LATITUDE Chicago.

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

We remain concerned about levels of crime in Chicago and have taken additional protectional steps for the safety and security of our staff and guests, offering in-house car and transport options for their safety.

Operational Review

The Peninsula Beverly Hills

Revenue US$82m	Occupancy	Average Room Rate	RevPAR
+18%	+10pp	+18%	+39%

The Peninsula Beverly Hills

The Peninsula Beverly Hills enjoyed a successful 2022. Pent-up demand was high, with the so-called "revenge travel spending" phenomenon benefiting our hotels business. We received very high suite demand due to the Superbowl and the Milken Conference returning to Los Angeles, although The Hollywood awards season, which traditionally would result in full occupancy for our hotel, was not so robust in 2022, with major awards events moving to other cities. However, we are seeing a strong demand from the fashion industry and are working with luxury brands on securing large-scale events for their clients.

A good mix of business and leisure travel help to push rates, with robust demand for suites and luxury products, and we were pleased to see international guests returning from traditional markets such as Australia.

Food and beverage performed very well throughout the year, despite an unusually cold and wet winter with floods and heavy rain affecting the Los Angeles area. Banqueting and catering demand was strong due to many events being reorganised after being cancelled during the pandemic. We initiated a "pop-up" of *Sushi Nakazawa*, a famous high-end sushi bar from New York City. This initiative operated as an ultra-exclusive offering with very limited places, and this was successful, helping to generate significant revenue. We will continue this initiative with plant-based menus and more international pop-ups in the coming year.

We also held a number of high-end whisky dinners and other exciting events. To the best of our ability, we are still managing costs with *Belvedere* restaurant and the Spa opening five days per week.

Operational Review

The Peninsula Paris

Revenue EUR69m	Occupancy	Average Room Rate	RevPAR
+78%	+11pp	+39%	+93%

The Peninsula Paris

The Peninsula Paris experienced a difficult start to the year but from March 2022 onwards the French Government lifted all restrictions, and business rebounded. The US market was particularly robust, and we also welcomed many domestic French visitors. There was strong demand for suites and family travel, leading to the highest occupancy since the hotel opened in 2014 and strong average rates. Leisure demand was particularly good in May due to the UEFA Champions League event in the city. The month of June was the best performance in the history of the hotel since we opened in 2014.

We held several high-profile events which attracted local celebrities and VIPs, including the glamorous reopening party of *Le Rooftop* which achieved prominent local media coverage, and some events related to Paris Fashion Week.

Our commitment to culinary excellence is particularly high in Paris and we were delighted to achieve a second Michelin star for our rooftop restaurant, *L'Oiseau Blanc*. *Lili*, our Chinese restaurant, introduced a new brunch concept that was very successful and popular with local guests. Our Head Pastry Chef Anne Coruble won the coveted Lebey Award for "Best Dessert" at the annual Prix D'Excellence Gastronomique in October 2022.

Operational Review

Commercial Properties Division

Commercial Properties	Revenue HK$m	Variance HK$	Year-on-Year Local Currency
The Repulse Bay Complex	529	–2%	–2%
The Peak Tower	42	+6%	+6%
St. John's Building	48	–7%	–7%
The Landmark	39	+7%	+9%
21 avenue Kléber	21	–7%	+4%
The Peninsula Shanghai Apartments	7	–2%	+2%

Our largest commercial property, **The Repulse Bay Complex**, experienced a softer market compared to the previous year, with residential revenue and occupancy declining at 101 Repulse Bay, 109 Repulse Bay and de Ricou due to the challenging environment in Hong Kong. The lack of international arrivals affected the luxury residential leasing market although our long-term outlook is positive with the easing of restrictions for inbound travellers. The Repulse Bay continues to offer one of the most attractive luxury residential and lifestyle options in the coveted South Side of Hong Kong.

The HKSAR Government's social distancing measures continued to affect the performance of The Repulse Bay's food and beverage outlets in the first half, although catering revenue picked up in the second half when large events and banquets could be held again. The Repulse Bay is one of Hong Kong's most popular venues for weddings and these events were rescheduled following prior postponements due to COVID.

The Repulse Bay Shopping Arcade, which offers a diverse range of lifestyle amenities and services, reported lower occupancy and revenue, as well as some rental concessions to existing tenants due to the challenging environment.

Operational Review

The Peak Tower experienced an improvement in business compared to the previous year, although remains significantly impacted by the continued lack of foreign visitors to Hong Kong and the upgrade project for the Peak Tram which also affected traffic to the Peak Tower in the first half. Revenue and occupancy improved slightly, boosted by the reopening of the Peak Tram in August 2022 and increased visitors to Sky Terrace 428.

St John's Building is located above the Central terminus of the Peak Tram and offers an excellent location for office space. Revenue dropped slightly but occupancy remained stable at 92% during 2022.

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. Business performance was positive during 2022, with revenue and occupancy for the offices improving year-on-year, and residential revenue and occupancy also improved compared to the previous year.

Clubs and Services Division

Clubs and Services	Revenue HK$m	Variance HK$	Local Currency
The Peak Tram	**29**	+112%	+112%
Quail Lodge & Golf Club	**203**	+18%	+18%
Peninsula Clubs & Consultancy Services	**4**	–8%	–8%
Peninsula Merchandising	**244**	–11%	–11%
Tai Pan Laundry	**37**	+5%	+5%

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 improved slightly compared to the previous year in local currency.

The Peak Tram is one of Hong Kong's most popular tourist attractions and has been in operation since 1888. In August 2022 we were delighted to launch the brand new sixth generation tram following a major upgrade which incorporated a significantly improved Central terminus, with covered queueing and waiting areas with entertainment features for up to 1,300 passengers. The new tramcars are able to carry up to 210 passengers instead of the previous capacity of 120 and visitors' waiting time has been significantly reduced. We held a Grand Opening ceremony on 2 December 2022. Since reopening, the new Peak Tram has been very well received by local patrons and we are optimistic for the year ahead when international visitors start to return to Hong Kong.

Operational Review

Quail Lodge & Golf Club reported an excellent year with revenue increasing by 18% year on year and a significant increase in average rates and RevPAR compared to pre-COVID 2019 levels. Golf membership was strong, with 44 new memberships signed in 2022. *The Quail: A Motorsports Gathering* was held in August 2022 and is considered one of the world's leading concours events for classic motoring *aficionados*, bringing significant sponsorship revenue. The "Peninsula Classics Best of the Best Award" was also held at Quail in August 2022.

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, negatively impacted by the ongoing effects of the pandemic in Hong Kong. The Hong Kong Bankers Club is receiving positive reviews and is achieving good banqueting revenue following the relaxation of social distancing measures.

Revenue at **Peninsula Merchandising** decreased compared to the previous year, mainly driven by softer revenues for export to the Chinese mainland particularly for mooncakes and slower overall revenue in Hong Kong, however there was continued growth in our stores in Japan and within our online businesses and corporate sales and travel retail remained robust. The boutique at Hong Kong International Airport reopened in December, having been closed since March 2020 and initial revenues are encouraging.

The Peninsula Boutique is renowned for its signature mooncakes and initial forecasts for the forthcoming season are positive. The division is progressing with the expansion in several markets, including in the Chinese mainland and will start to directly operate retail boutiques and online sales channels. Sales in our boutiques in Japan continued to grow and additional boutiques are planned to further expand in this market.

We have introduced a new collection of fresh mooncake style pastries during Mid-Autumn which were well received, and during the year we launched a new website which was helping to drive additional traffic and improve the user experience. Additional product launches including The Peninsula hotel amenities and other new luxury product lines have been popular and appealed to loyal Peninsula guests and also introduced our brand in new markets.

Tai Pan Laundry revenue increased by 5% compared to the same period last year, which was a creditable result considered its business was hampered by stringent social distancing measures which led to the temporary closure or weak business of key customers including some hotels, clubs and gyms.

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 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 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 and leased food and beverage outlets.

The project was 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. The practical completion date of the project and the soft opening date of the hotel will be later in 2023.

As we announced in October 2022, the revised forecasted budget of The Peninsula London is GBP1,020 million (including both hotel and residential apartments). We are satisfied to report that the prices at which we have transacted the sales of residential apartments to date have met our original expectations, and over two-thirds of the residences have been sold.

Operational 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, Türkiye. 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. Many of the facilities have now been opened and the area already enjoys a high level of patronage from locals and visitors. The 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. Our partners have secured an extension to the 30-year operating right to 49 years from February 2014. We are therefore negotiating with our partners on extending the fixed term lease for the hotel.

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.

We are delighted to report that the soft opening of the hotel was held on 14 February 2023, with two buildings ready for guest stays and the magnificent Lobby open for business. The rooftop restaurant Gallada will open in summer 2023.

Operational Review

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.

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

The group's hotel division saw some positive momentum in 2022 with the lifting of travel restrictions in the US and Europe. However, business levels at our flagship hotel in Hong Kong and our two hotels in mainland China continued to be severely negatively impacted by strict travel restrictions, quarantine and social distancing measures following the outbreak of the fifth wave of COVID-19 in late January 2022. The commercial properties division also suffered a decline in revenue as the majority of our leasing income is generated by the group's investment properties in Hong Kong. On the positive side, the group's Clubs and Services division reported an increase in revenue with the re-opening of the Peak Tram in August 2022 following its upgrade project, as well as good revenue achieved by Quail Lodge and Golf Club. Overall, the group's consolidated revenue for the year increased by 21% to HK$4,198 million and the group's consolidated EBITDA before pre-opening and project expenses increased by 13% to HK$518 million. Breakdowns of the group's revenue and EBITDA by division are set out on pages 84 to 87 of this Financial Review.

Residential and retail property prices in Hong Kong remained stable in the first half of 2022. However, due to the outbreak of the fifth wave of COVID-19 in Hong Kong and interest rate hikes, the price of luxury residential and retail properties fell sharply in the second half of the year. As a result, a loss on revaluation of investment properties of HK$152 million was recognised by the group in 2022. This unrealised loss was principally attributable to the reduction in appraised market values of The Peninsula Hong Kong retail arcade and The Repulse Bay Complex.

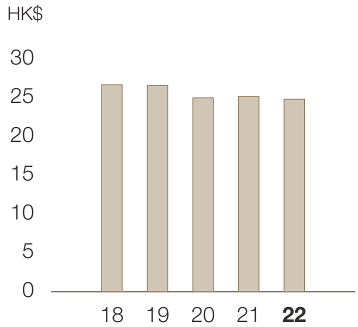
The group seeks to create value for its shareholders from the appreciation in capital value of the properties in the long term. The group has committed to its most significant capital projects in our history, with two new hotels under development in London and Istanbul as well as the Peak Tram upgrade project in Hong Kong. The Peninsula London complex comprises a 190-room Peninsula hotel and retail arcade and 25 luxury Peninsula-branded residential apartments. Based on the current development progress, we are targeting a soft opening of the London hotel later in 2023. For the residences, we have exchanged contracts for approximately 70% with an aggregate sale value of over HK$5 billion. We are also pleased to report that The Peninsula Istanbul held its soft opening on 14 February 2023. The Peak Tram upgrade project was completed last year with the new 210-passenger sixth generation tramcars being launched in August 2022.

As at 31 December 2022, the group's financial position remained stable, with a net debt to total assets ratio of 26% as at 31 December 2022. During the year, the group signed a GBP675 million (HK$6.35 billion) three-year term new green loan facility to refinance its existing GBP650 million club loan. The group also renewed facilities totalling HK$2.8 billion. These facilities ensure 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.

Adjusted NAV –1%

HK$40,341m

Adjusted NAV per share



The group's adjusted net asset value

In the financial statements, the group's hotels (other than shopping arcades and offices within the hotels) and golf courses are stated at depreciated cost less accumulated impairment losses, if any, 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 2022, the details of which are set out on page 90. If these assets were to be stated at fair value, the group's net assets attributable to shareholders would increase by 12% to HK$40,341 million as indicated in the table below.

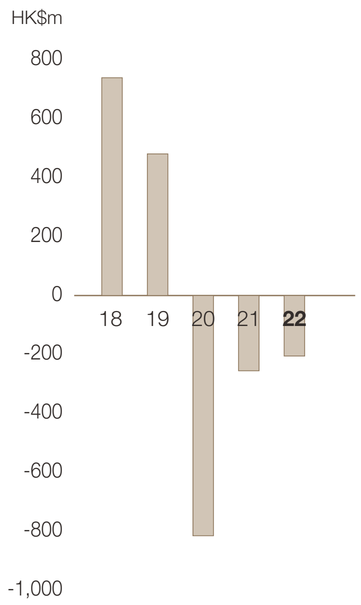
HK$m	**2022**		2021	
Net asset value attributable to shareholders per the audited statement of financial position		**36,016**		36,762
Adjusting the value of hotels and golf courses to fair value	**4,672**		4,350	
Less: Related deferred tax and non-controlling interests	**(347)**		(241)	
		4,325		4,109
Adjusted net assets attributable to shareholders		**40,341**		40,871
Audited net assets per share (HK$)		**21.84**		22.29
Adjusted net assets per share (HK$)		**24.46**		24.79

Financial Review

Underlying loss +20%

(HK$205m)

Underlying (loss)/profit



The group's underlying profit or loss

Our operating results are mainly derived from 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 2022 amounted to HK$205 million compared to an underlying loss of HK$255 million for the year ended 31 December 2021.

HK$m	2022	2021
Loss attributable to shareholders	**(488)**	(120)
Revaluation (gain)/loss of investment properties#	**149**	(674)
Impairment provisions*	**–**	476
Share of revaluation gains on apartments sold by The Peninsula Shanghai Waitan Hotel Company Limited (PSW)Δ	**1**	–
Pre-opening and project expensesΔΔ	**133**	63
Underlying loss	**(205)**	(255)

The underlying loss figure excludes the direct costs incurred in respect of the project teams hired specifically to support The Peninsula London and The Peninsula Istanbul development projects and the pre-opening costs of those hotel projects. Such costs were unrelated to the group's operating hotels and properties and were non-recurring in nature.

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.

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.

ΔΔ Pre-opening and project expenses are unrelated to the group's operating hotels and properties and are non-recurring in nature. Pre-opening expenses represent the recruitment, payroll, marketing, and administrative expenses incurred by the pre-opening offices of The Peninsula London and The Peninsula Istanbul. Project expenses represent the specific expenses incurred by the group to support the development of the two hotel projects, including payroll of the project teams specifically hired for the local project offices, travelling and accommodation, and other administrative expenses incurred by the project teams.

Statement of profit or loss

The group's consolidated statement of profit or loss for the year ended 31 December 2022 is set out on page 193. 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 83 to 88 of this Financial Review.

HK$m	2022	2021	2022 vs 2021 favourable/ (unfavourable)
Revenue	**4,198**	3,461	21%
Operating costs	**(3,680)**	(3,004)	(23%)
EBITDA before pre-opening and project expenses	**518**	457	13%
Pre-opening and project expenses	**(119)**	(63)	(89%)
EBITDA	**399**	394	1%
Depreciation and amortisation	**(452)**	(499)	9%
Net financing charges	**(198)**	(153)	(29%)
Share of results of joint ventures	**(54)**	(4)	(1,250%)
Share of results of associates	**(11)**	(11)	–
Increase/(decrease) in fair value of investment properties	**(152)**	670	n/a
Impairment provision	**–**	(679)	100%
Taxation	**(17)**	(37)	54%
Loss for the year	**(485)**	(319)	(52%)
Non-controlling interests	**(3)**	199	n/a
Loss attributable to shareholders	**(488)**	(120)	(307%)

As mentioned above, the pre-opening and project expenses have been incurred to support The Peninsula London and The Peninsula Istanbul projects and are unrelated to the group's operating hotels and properties and are non-recurring in nature.

The group's share of pre-opening and project expenses of The Peninsula Istanbul amounting to HK$14 million (2021: nil) are included in share of results of joint venture.

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 hotels 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.

Our key markets of Hong Kong and mainland China suffered from stringent COVID restrictions for much of the year and reported a decline in revenue. However, this decline was fully offset by the strong growth in revenue achieved by our properties in the US, Europe and other Asia as these markets enjoyed a robust rebound during the year. 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 tables on the following page.

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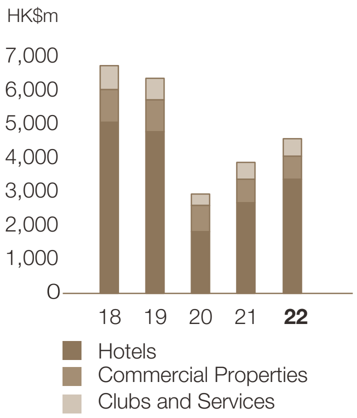
Consolidated Revenue +21%
HK$4,198m

Hotels +32%
HK$2,995m

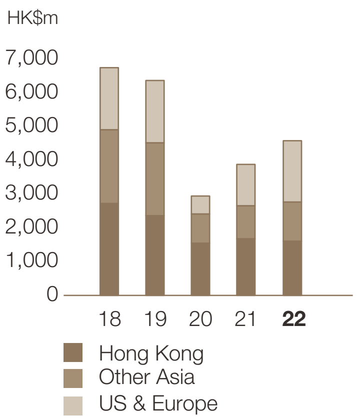
Commercial Properties -2%
HK$686m

Clubs and Services +3%
HK$517m

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	2022 Group's subsidiaries	2022 Associates and joint venture (effective share)	2022 Combined total	2021 Group's subsidiaries	2021 Associates and joint venture (effective share)	2021 Combined total	2022 vs 2021
Hotels	2,995	389*	3,384	2,263	424*	2,687	26%
Commercial Properties	686	-	686	698	–	698	(2%)
Clubs and Services	517	-	517	500	–	500	3%
	4,198	389	4,587	3,461	424	3,885	18%

* 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	2022 Group's subsidiaries	2022 Associates and joint venture (effective share)	2022 Combined total	2021 Group's subsidiaries	2021 Associates and joint venture (effective share)	2021 Combined total	2022 vs 2021
Hong Kong	1,607	-	1,607	1,678	–	1,678	(4%)
Other Asia	1,012	149*	1,161	733	245*	978	19%
US and Europe	1,579	240	1,819	1,050	179	1,229	48%
	4,198	389	4,587	3,461	424	3,885	18%

* 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. Due to the outbreak of the fifth wave of COVID-19 in Hong Kong and the zero-COVID strategy adopted by Chinese government, our hotels in Hong Kong and mainland China suffered a decline in revenue for the year ended 31 December 2022. In the US and Europe, following the lifting of travel and social distancing restrictions, revenue of these geographic segments enjoyed a significant rebound. Overall, the combined revenue of the hotel division increased by 26% to HK$3,384 million.

Revenue from the commercial properties division decreased by 2% to HK$686 million, mainly due to the unfavourable performance of The Repulse Bay Complex (TRB), which is the largest contributor of revenue accounting for over 76% 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.

For the clubs and services division, revenue increased by 3% to HK$517 million. The favourable result was mainly attributable to the re-opening of the Peak Tram in August 2022 and the excellent revenue achieved by Quail Lodge & Golf Club for its signature events.

Details of the operating performances of the group's individual operations are set out on pages 41 to 73 of the Operational Review.

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

During the year, the group's costs totalled HK$3,799 million. Excluding pre-opening and project expenses relating to the two hotels under development, the group's operating costs amounted to HK$3,680 million, representing a 23% increase over last year. The following table summarises the key components of the group's operating costs.

HK$m	2022	2021	2022 vs 2021 favourable/ (unfavourable)
Cost of inventories	**352**	310	(14%)
Staff costs and related expenses	**1,966**	1,562	(26%)
Rent and utilities	**370**	373	1%
Advertising and promotions	**158**	89	(78%)
Credit card and room commissions	**158**	107	(48%)
Guest supplies and laundry expenses	**184**	146	(26%)
IT and telecommunication expenses	**89**	83	(7%)
Property maintenance and insurance	**216**	183	(18%)
Other operating expenses	**306**	214	(43%)
	3,799	3,067	(24%)
Represented by:			
Operating costs	**3,680**	3,004	(23%)
Pre-opening and project expenses	**119**	63	(89%)
	3,799	3,067	(24%)

Given the nature of operating high-end luxury hotels, staff costs continued to be the largest portion of our operating costs. During the year, the group received a total of HK$43 million (2021: HK$82 million) in employment related government subsidies and the amount was credited to the statement of profit or loss as a reduction of staff costs. Excluding the government subsidies and the pre-opening payroll costs, the increase in staff costs and related expenses would have been 21%. Due to the rebound of businesses, especially for the properties in the US and other Asia as these markets gradually emerged from the COVID downturn, the group was required to restore its manpower to a level close to the pre-COVID level. In addition, the general economic inflation coupled with a global labour shortage in the hospitality industry has led to a widespread salary inflation for the year ended 2022. Taken these factors into account, the increase in staff costs and related expenses is considered reasonable as compared to a revenue growth of 21%. The increase in other operating costs was mainly driven by the increase in business volumes from the hotels and the clubs and services divisions as well as general inflation.

Project expenses and pre-opening expenses represent the non-recurring costs incurred by the group for the monitoring of the group's two hotel development projects in London and Istanbul, and the payroll, marketing and administrative expenses incurred by The Peninsula London's pre-opening office, respectively. With the progress of the development of the two projects and the approaching of the soft opening of The Peninsula London, additional resources were put in place during the year ended 31 December 2022, resulting in an increase in project and pre-opening expenses.

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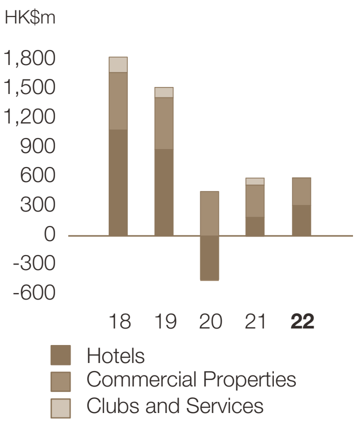
Combined EBITDA*
by Business Segment



* Excluding pre-opening and project expenses and the group's share of EBITDA in respect of the sale of apartments by the joint venture in Shanghai.

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.

EBITDA* by business segment

	2022			2021			
HK$m	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	2022 vs 2021
Hotels	238	73	311	58	132	190	64%
Commercial Properties	279	–	279	327	–	327	(15%)
Clubs and Services	1	–	1	72	–	72	(99%)
	518	73	591	457	132	589	0%

EBITDA* by geographical segment

	2022			2021			
HK$m	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	2022 vs 2021
Hong Kong	357	–	357	460	–	460	(22%)
Other Asia	(48)	28	(20)	(206)	79	(127)	84%
US and Europe	209	45	254	203	53	256	(1%)
	518	73	591	457	132	589	0%

* Excluding pre-opening and project expenses and the group's share of EBITDA in respect of the sale of apartments by the joint venture in Shanghai.

EBITDA* margin

	2022			2021		
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total
Hotels	8%	19%	9%	3%	31%	7%
Commercial Properties	41%	–	41%	47%	–	47%
Clubs and Services	0%	–	0%	14%	–	14%
Overall EBITDA* margin	12%	19%	13%	13%	31%	15%
By region						
Hong Kong	22%	–	22%	27%	–	27%
Other Asia	-5%	19%	-2%	-28%	32%	-13%
US and Europe	13%	19%	14%	19%	30%	21%

* Excluding pre-opening and project expenses and the group's share of EBITDA in respect of the sale of apartments by the joint venture in Shanghai.

The group achieved a combined EBITDA of HK$591 million compared to HK$589 million in 2021. The group's operations in different business segments and different geographic locations are subject to different cost bases. The decline in overall EBITDA margin was mainly driven by the decrease in EBITDA margin of the Clubs and Services division resulting from the drop in mooncake sales reported by Peninsula Merchandising and the higher operating costs incurred by Quail Lodge & Golf Club.

Increase/(decrease) in fair value of investment properties

The investment properties of the group were revalued as at 31 December 2022 by independent firms of valuers based on an income capitalisation approach. The revaluation deficit of HK$152 million was mainly due to the drop in appraised market value of the shopping arcade of The Peninsula Hong Kong and The Repulse Bay.

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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 2022, PSW owned 7 remaining apartments which are held for sale.

The business of PSW was severely disrupted as the Puxi area of Shanghai was subject to various lockdowns with mandated closure of hotel restaurants, spas and pools for a number of months during 2022. Despite the innovative strategies introduced to drive revenue and the tight control of costs, PSW's hotel revenue and EBITDA before apartment sales declined by 39% and 65% to HK$298 million and HK$57 million respectively. During the year, PSW sold an apartment and generated a net sale proceeds of HK$45 million. After accounting for the gain on apartment sold, depreciation, interest and the unrealised loss on revaluation of the hotel shopping arcade, PSW recorded an accounting loss of HK$80 million (2021: loss of HK$7 million) and the group's share of loss amounted to HK$40 million (2021: loss of HK$4 million).

Details of the operating performance of The Peninsula Shanghai are set out in the Operational Review section on pages 46 and 49.

The group also owns a 50% interest in The Peninsula Istanbul indirectly through PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT), a joint venture incorporated in Türkiye. 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. Our partners have secured an extension to the 30-year operating right to 49 years from February 2014 and we are negotiating with our partners on extending the fixed term lease for the hotel. During the year, PIT incurred pre-opening expenses of HK$28 million (2021: nil) of which HK$14 million was shared by the group.

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 (2021: HK$11 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 64 to 67.

Statement of financial position

The consolidated statement of financial position of the group as at 31 December 2022 is presented on page 195 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 2022 remained robust with shareholders' funds amounting to HK$36,016 million, representing a per share value of HK$21.84.

HK$m	2022	2021
Fixed assets	**47,130**	46,825
Properties under development for sale	**5,169**	4,954
Other long-term assets	**2,435**	2,462
Derivative financial instruments	**349**	53
Cash at banks and in hand	**585**	479
Other assets	**913**	912
	56,581	55,685
Interest-bearing borrowings	**(15,192)**	(13,379)
Lease liabilities	**(2,792)**	(3,103)
Other liabilities	**(2,477)**	(2,338)
	(20,461)	(18,820)
Net assets	**36,120**	36,865
Represented by:		
Shareholders' fund	**36,016**	36,762
Non-controlling interests	**104**	103
Total equity	**36,120**	36,865

Summary of hotel, commercial and other properties

The group has interests in ten operating hotels in Asia, US and Europe and two hotels are 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 2022.

A summary of the group's hotel, commercial and other properties showing both the book value and the fair value as at 31 December 2022 is set out in the table on the following page.

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	2022 Group's interest	**2022** Value of 100% of the property (HK$m) Fair value valuation	**2022** Book value	2021 Fair value valuation	2021 Book value
Hotel properties *					
The Peninsula Hong Kong	100%	**12,053**	**9,533**	12,062	9,622
The Peninsula New York	100%	**2,118**	**1,574**	2,114	1,562
The Peninsula Beijing	76.6%[Δ]	**1,163**	**1,123**	1,306	1,302
The Peninsula Tokyo	100%	**1,459**	**1,103**	1,572	1,306
The Peninsula Chicago	100%	**1,253**	**1,038**	1,240	1,083
The Peninsula Bangkok	100%	**632**	**532**	653	583
The Peninsula Manila	77.4%	**42**	**28**	45	37
The Peninsula Shanghai[#]	50%	**2,787**	**2,157**	3,122	2,437
The Peninsula Paris[#]	20%	**4,338**	**4,110**	4,786	4,539
The Peninsula Beverly Hills[#]	20%	**2,784**	**260**	2,523	284
		28,629	**21,458**	29,423	22,755
Commercial properties					
The Repulse Bay Complex	100%	**18,468**	**18,468**	18,488	18,488
The Peak Tower	100%	**1,308**	**1,308**	1,320	1,320
St. John's Building	100%	**1,203**	**1,203**	1,202	1,202
Apartments in Shanghai	100%	**380**	**380**	416	416
21 avenue Kléber	100%	**647**	**647**	688	688
The Landmark	70%[ΔΔ]	**25**	**25**	36	36
		22,031	**22,031**	22,150	22,150
Other properties					
Quail Lodge resort, golf course and vacant land	100%	**287**	**270**	286	274
Vacant land in Thailand	100%	**90**	**90**	89	89
Other properties for own use	100%	**395**	**211**	399	198
		772	**571**	774	561
Properties under development[##]					
The Peninsula London Hotel	100%	**6,043**	**6,043**	4,946	4,946
The Peninsula London Residences[###]	100%	**5,169**	**5,169**	4,954	4,954
The Peninsula Yangon	70%	**128**	**128**	125	125
The Peninsula Istanbul[#]	50%	**1,517**	**1,517**	1,000	1,000
		12,857	**12,857**	11,025	11,025
Total market/book value		**64,289**	**56,917**	63,372	56,491

* 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.

\### The Peninsula London Residences held for sale are stated at lower of cost and net realisable value instead of fair 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 2022, the cost of properties under development for sale amounting to HK$5,169 million (2021: HK$4,954 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 2022 of HK$2,435 million (2021: HK$2,462 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 and the value of trademark for The Peninsula Istanbul which is under development.

Derivative financial instruments

Derivative financial instruments represent the fair value of interest rate swaps and forward exchange contracts entered into by the group with financial institutions for hedging purposes. Under the interest rate swap arrangements, the group receives floating interest income and pays fixed interest expense. The increase in asset value of derivative financial instruments was mainly due to the increase in fair value of interest rate swaps resulting from the rising interest rates in the market.

Cash at banks and in hand and interest-bearing borrowings

As at 31 December 2022, the group's cash at banks and in hand and interest-bearing borrowings amounted to HK$585 million (2021: HK$479 million) and HK$15,192 million (2021: HK$13,379 million) respectively, resulting in a net borrowing of HK$14,607 million (2021: HK$12,900 million). The HK$1,707 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 2022 is set out on page 92.

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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$82 million compared to a cash inflow of HK$69 million in 2021. During the year, the most significant cash outflow of the group remained to be the capital expenditure on the new hotel projects in London and Istanbul and the Peak Tram upgrade project. The following table summarises the key cash movements for the year ended 31 December 2022.

HK$m	2022	2021
Operating EBITDA (before pre-opening and project expenses)	518	457
Tax payment	(71)	(70)
Changes in working capital	89	(6)
Normal capital expenditure on existing assets (excluding projects)	(200)	(141)
Net cash inflow after normal capital expenditure	336	240
Interest attributable to the existing operations	(87)	(30)
Lease payments attributable to existing operations	(167)	(141)
Net cash inflow from operations	82	69
Project-related cash flows		
Capital expenditure on new projects	(2,464)	(2,254)
Capital expenditure on Peak Tram upgrade project	(161)	(193)
Pre-opening and project expenses	(119)	(63)
Interest incurred on projects	(196)	(125)
Cash outflow for projects	(2,940)	(2,635)
Net cash outflow before dividends and other payments	(2,858)	(2,566)
Dividends paid to holders of non-controlling interests	(6)	(6)
Other payments and receipts	88	(11)
Net cash outflow before borrowings	(2,776)	(2,583)

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

HK$m	2022	2021
The Peninsula London	2,164	2,087
The Peninsula Yangon	10	58
Capital injection into The Peninsula Istanbul's joint venture	278	109
Trademark acquisition costs for The Peninsula Istanbul	12	–
	2,464	2,254

Capital commitments

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.

As announced on 28 October 2022, the group's budget in respect of The Peninsula London project has been revised from GBP800 million to GBP1,020 million (including both hotel and residential apartments). The budget uplift is largely due to construction delays resulting from the impact of COVID-19, significant design and project coordination issues arising in key areas of the hotel, supply chain issues, and higher labour and energy costs due to general inflation. Whilst The Peninsula Istanbul project also suffered some delays due to COVID-19 and certain unforeseen site conditions, with value engineering and other cost control measures, its budget remained unchanged at EUR150 million. Further details on the status of the development projects in London and Istanbul are set out on pages 75 to 77 of the Operational Review.

The group's total capital commitments as at 31 December 2022 are summarised in the table below.

HK$m	**2022**	2021
Normal capital expenditures in respect of existing properties, including the group's share of capital expenditures of a joint venture and associates	**885**	386
New and special projects		
– The Peak Tram upgrade	**60**	198
– The Peninsula London	**2,040**	1,943
– The Peninsula Istanbul	**326**	569
– The Peninsula Yangon	**592***	594
	3,903	3,690

* 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 2022, the group's undrawn committed facilities and cash at banks amounted to HK$4.1 billion (2021: HK$6.6 billion). Excluding the capital commitment relating to The Peninsula Yangon project which has been suspended, 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.

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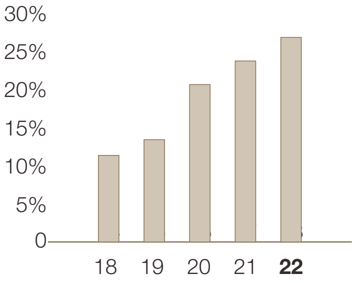
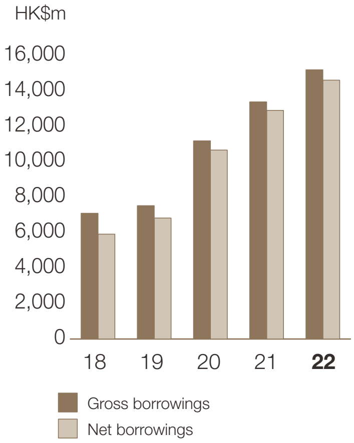
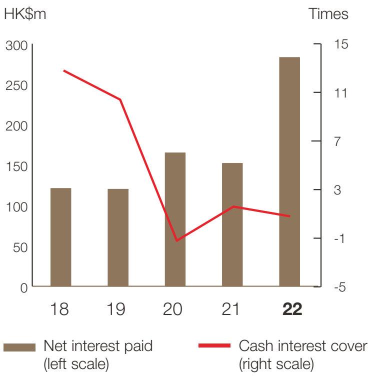
Net Borrowings to Total Assets



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

We take a proactive approach to manage the group's liquidity and refinancing risk to ensure ample headroom to cover our capital commitments and protect against business volatility.

During the year the group has signed a new GBP675 million three-year term facility with a group of nine banks to early refinance its existing GBP650 million club loan due in 2023. This facility is classified as green loan. As at 31 December 2022, 37% and 20% of the group's committed facility is classified as green loan and sustainability linked loan respectively. The group is committed to integrate ESG elements into our business and finance strategy.

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 2022, gross borrowings increased to HK$15.2 billion (2021: HK$13.4 billion) mainly due to construction payments for The Peninsula London. Consolidated net debt increased to HK$14.6 billion as compared to HK$12.9 billion in 2021. As at 31 December 2022 the group had HK$3.6 billion of unused committed facilities. The group's net borrowings to total assets increased to 26% as compared to 23% in 2021.

During the year, the group also refinanced its maturing loans in HKD, USD and JPY with new maturity tenors of 2 to 5 years. The average debt maturity for the year increased from 1.7 years to 2.2 years.

Net interest paid in 2022 increased to HK$283 million (2021: HK$155 million) as a result of higher net borrowings and interest rates globally. Cash interest cover (EBITDA less lease payments divided by net interest paid) was 0.8 times (2021: 1.6). Interest coverage ratio is expected to improve driven by reduction of net debt upon receiving London apartment sales proceeds as a major factor.

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 2022 are summarised as follows:

	2022						2021
HK$m	Hong Kong	Other Asia	United States of America	Europe	UK	Total	Total
Consolidated gross borrowings	4,181	2,369	279	499	7,864	15,192	13,379
Non-consolidated gross borrowings attributable to the group*:							
The Peninsula Shanghai (50%)	-	545	-	-	-	545	483
The Peninsula Beverly Hills (20%)	-	-	178	-	-	178	195
The Peninsula Paris (20%)	-	-	-	378	-	378	401
Non-consolidated borrowings	-	545	178	378	-	1,101	1,079
Consolidated and non-consolidated gross borrowings	4,181	2,914	457	877	7,864	16,293	14,458

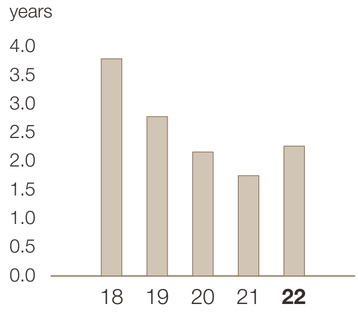
* Represents HSH's attributable share of borrowings

Foreign Exchange

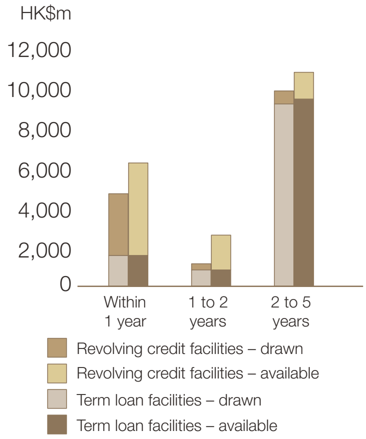
The group reports its financial results in Hong Kong dollars and does not hedge US dollar exposures in the light of the HK-US dollar peg. The group generally uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge foreign exchange exposure.

All of the group's borrowings are denominated in the functional currency of the operations to which they relate. As at 31 December 2022, GBP, HK dollar and Japanese yen borrowings represented 52%, 28% and 15% of total borrowings, respectively. Other balances were in other local currencies of the group's entities.

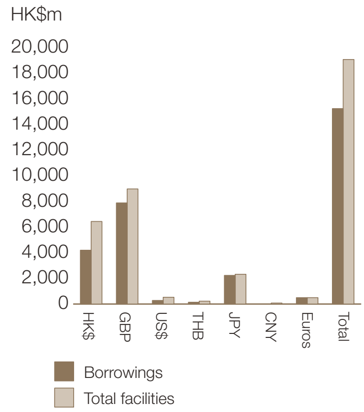
Weighted Average Debt Maturity



Banking Facilities and Borrowings (by type and maturity)

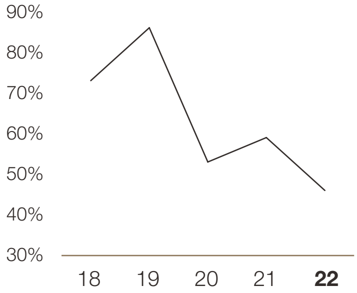


Banking Facilities and Borrowings (by currency)

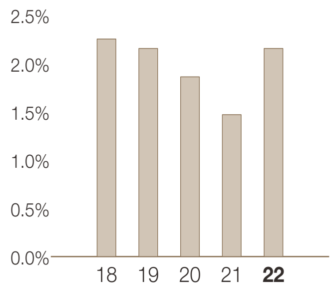


Financial Review

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 2022, the group has fixed to floating interest rate ratio of 46% (2021: 59%). With fixed rate hedging in place the weighted average gross interest rate for the year has only increased moderately from 1.50% to 2.15%.

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 invest grade ratings only.

As at 31 December 2022, derivatives with a notional amount of HK$5,406 million (2021: HK$5,450 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 2022, the Board of Directors has resolved not to declare an interim dividend or a final dividend.

Share information

At market close on 15 March 2023, the company's share price stood at HK$7.91, giving a market capitalisation of HK$13.0 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 81).

The average closing price during 2022 was HK$7.40, with the highest price of HK$9.26 achieved on 16 February 2022 and the lowest price of HK$6.05 recorded on 24 October 2022.

Creating Stakeholder Value

Feature Stories

Feature Stories

The Peninsula Istanbul

In anticipation of its opening on 14 February 2023, The Peninsula Istanbul revealed the innovative, mainly Turkish creators whose craftsmanship have helped to shape the stunning new property. The collaborative efforts of The Peninsula Istanbul's artisan partners have allowed every aspect of the new hotel – its gardens, its cuisine, its exclusive fragrance, the interior appointments of all public spaces and guest accommodations – to be impeccably curated. The results embody both distinctively Turkish style and the classic elegance characteristic of The Peninsula.

The Peninsula Istanbul

Feature Stories

The Peninsula Istanbul

The Peninsula Istanbul's creative partners include the following:

- **Zeynep Fadıllıoğlu**, an architectural and interior designer, has created inimitable public and private spaces throughout the Middle East, Asia, Europe and the US – including, most famously, Istanbul's own Şakirin Mosque. Her signature style integrates modern design elements with regional craftsmanship details, meticulously transforming them into forms of striking beauty, as seen in the elegant interiors of The Peninsula Istanbul.

Feature Stories

- Award-winning international landscape architect **Enzo Enea**, specialised in creating outdoor spaces and gardens in all climate zones worldwide, brought his expert eye and knowledge of native flora to The Peninsula Istanbul's sweeping, iconic property fronting the Bosphorus. The exceptional location was subject to thorough research: collecting information on shadow cast, rainfall, wind, and light conditions by season informed the design and layout of the landscape.

The Peninsula Istanbul

- **Çağla Saraç**, the Academic & Art Advisor at **Doğuş Holding**, one of Türkiye's largest business conglomerates, has worked extensively with the country's Ministry of Culture to protect and promote her home country's artistic treasures. She applied her deep expertise in modern and classical Turkish art to select the diverse collection of original artworks displayed throughout the communal spaces and guest lodgings at The Peninsula Istanbul.

- The collections of Turkish-born fashion designer **Arzu Kaprol** have regularly appeared at Paris Fashion Week and are carried at discerning retail outlets including Harrods in London, Bergdorf Goodman in New York, and Montaigne Market in Paris. Her exacting craftsmanship, combined with her modern sensibility and affinity for unusual fabrics, are evident in the bespoke wardrobe she has created for employees of The Peninsula Istanbul.

- **Nishane** founders; **Mert Güzel and Murat Katran**, both as passionate lovers of mysterious scents and the rich heritage of the city they were both born and raised, curated the exclusive fragrance "**Citrus Fig & Bosphorus Breeze**" for The Peninsula Istanbul's collection of in-room bath products. While creating the scent, Nishane focused on the fig trees of Istanbul which date back to Byzantine times.

- The first and only two Michelin-starred Turkish chef **Fatih Tutak** has enjoyed a globe-spanning career, during which he has achieved some of gastronomy's most prestigious accolades. Fatih Tutak spent a great deal of time in Hong Kong and mainland China where his passion for Asian and Silk Road cuisine began to flourish. He returned to his home city after 16 years and is now creating deliciously innovative Turk-Asian cuisine in his role as Chef Director of The Peninsula Istanbul's stunning rooftop restaurant, Gallada.

Feature Stories

The Peninsula London

Magnificently situated at Hyde Park Corner, The Peninsula London occupies one of the city's most prestigious addresses and is the result of collaborations with numerous British artisans. The newly-built hotel, impeccably designed by Hopkins Architects to harmonise with surrounding heritage architecture, embodies a sleek, spacious aesthetic that fills with natural light. Inside, the hotel's refined rooms, suites, and public spaces feature sumptuous appointments by architect Peter Marino, as well as exclusive bespoke offerings from top British artisans.

The Peninsula London

Feature Stories

The Peninsula London

Feature Stories

The Peninsula London

The creative partners include the following:

- **Jenny Packham**, whose fashion collections are favoured among international celebrities and dignitaries, has – in her first hotel partnership – designed an original, bespoke wardrobe for colleagues at The Peninsula London.
- Michelin-starred chef **Claude Bosi**, widely considered to be one of Britain's leading culinary lights, will bring his award-winning gastronomic artistry to The Peninsula London in his role as Chef Director at the dazzling rooftop restaurant, Brooklands.
- British-based perfumier **Timothy Han**, celebrated for his stylish and sustainable scents, has created a bespoke fragrance for The Peninsula London's collection of in-room bath products.
- More than 40 artists from **The Royal Drawing School** were commissioned by The Peninsula London to create original artwork for the hotel's interiors. Nearly 200 such works – all of which depict British landscapes in a variety of styles and media – now grace the property's guest rooms and suites.

Feature Stories

- Aiming to grow more in less space and bring down food miles whilst operating on 100% renewable energy, cutting edge AgTech company **Zero Carbon Farms** will provide The Peninsula London with a dedicated tenant plot in their first working farm in Clapham, London. Located in a disused air raid shelter some 33 m/108 ft underground, this future-proofed and sustainable solution for growing will supply purpose-grown salad greens and herbs to the hotel's food outlets.

- Designer **Richard Brendon** launched his brand in London's Notting Hill in 2013 and is known for designing distinctive yet beautifully functional bone china and crystal using handcrafted techniques from heritage industries. Mr. Brendon strives to create collections to be enjoyed by generations to come – including his bespoke line of porcelain dishware for The Peninsula London, embellished with an exclusive "concertina" pattern.

- Founded in Hampshire, UK, by friends Nicholas Coates and Christian Seely, English sparkling wine makers **Coates & Seely** produce wines that are, above all, an authentic expression of their English chalk terroir. Crafted to the highest winemaking standards, using traditional methods and latest technology, their award-winning sparkling wines are listed in royal palaces and Michelin-starred restaurants around the world. Two special cuvées – a Brut Reserve NV and a Rosé NV – have been exclusively selected for The Peninsula London.

FEATURE STORIES

The Peak Tram

The Peak Tram has become one of Hong Kong's most beloved icons since its establishment in 1888. In 2022, it opened a brand-new chapter in its long history following a HK$799 million upgrade project.

The comprehensive redevelopment has been meticulously engineered to offer Hong Kong people and overseas visitors a spectacular passenger journey.

The project included brand new tramcars, the replacement of all haulage, control and signalling systems, new ropes and track rails, and complete renovation of the termini to facilitate the beautiful new, larger capacity tramcars. The Central Terminus has been transformed to provide covered, temperature-controlled arrival and waiting areas for up to 1,300 people. Platforms and tramcar floor levels have been aligned to provide enhanced step-free access for people with disabilities.

The Peak Tram

Feature Stories

In addition to reducing passenger waiting times by over 70%, visitors will be greeted by a dynamic, engaging and brand-new entertainment experience. The new experience introduces 5 engaging zones that include: Eye of Infinity, The Beating Heart, An Icon is Born, Once Upon a Tram, and Go Wild at the Peak at the Central Terminus. A new and informative Audio-Visual display at the Peak Terminus has also been created. The comprehensive redevelopment has been meticulously engineered to offer local and non-local visitors a spectacular passenger experience.

"Since its establishment in 1888 the Peak Tram has been an enduring icon that has brought pleasure to generations of Hong Kong people and overseas visitors alike," said Sir Michael, speaking at the opening ceremony. "During that period it has experienced many changes, and we are particularly proud of this latest milestone, reflecting our belief in the Peak Tram's importance for Hong Kong as an integral part of our history. As the world "gets back to normal" we hope to see visitors returning, and the Peak Tram proudly resuming its place as one of the world's top visitor attractions."

The lighting ceremony of the *Eye of Infinity* – a 10-metre-tall sculpture by Australian artist Lindy Lee, which is installed at the main entrance of the Central Terminus, was also held as part of the ceremony.

"The psyche of Hong Kong is one of ascension," said Lindy Lee, when introducing her art installation. "The Peak is one of Hong Kong's ultimate summits, offering one of the world's most sublime vistas of city, sea and sky. *Eye of Infinity* is inspired by this spirit of ascension."

Lindy Lee is an Australian artist whose practice explores her Chinese ancestry through Taoism and Ch'an (Zen) Buddhism – philosophies that see humanity and nature as inextricably linked. Her artwork embodies the intimate connections between human existence and the cosmos. With a practice spanning over three decades, Lindy Lee has a well-established reputation in Australia, and enjoys widespread international recognition, exhibiting in Canada, mainland China, Hong Kong, Japan, Malaysia, New Zealand and Singapore.

The Peak Tram

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 2022
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, with particular attention on providing a more seamless room and dining booking experience. • Digital Customer Experience launched: o "Mobile PenKey Concierge", which provides 24-7 access to a team of lifestyle management experts. o "Life Lived Best", a brand-wide initiative providing guests at all Peninsula properties with unprecedented opportunities to pursue their fitness, mindfulness, and nutritional goals – and to access those opportunities whenever they wish through a dedicated Wellness Portal and 24-hour Wellness Concierge service. • 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 Chicago presented an art exhibit with works by Chicago artist, Robert Chase Heishman. Building Images is the latest exhibition of The Peninsula Hotels' 'Art in Resonance' programme, a global initiative in support of contemporary art. Working across photography, documentary, painting, and video/film, Robert Chase Heishman's artistic practice is predicated on the construction and exploration of a "point of view" – literally, figuratively, and narratively. The exhibition was made possible through a partnership with LATITUDE Chicago, where Heishman was an Artist in Residence in 2019. • We continued to focus on strengthening our relationships with PenClub members, our in-house preferred travel partner programme by hosting intimate in-person gatherings, cultural programmes, dinner events, and attending key worldwide travel tradeshows.

Stakeholder Group	Why and how we engage	Examples in 2022
Our People	We continue to focus on developing strong leaders, implementing mental and physical well-being programmes, and to improve our engagement strategies. The year continued to be challenging post-Covid for our People and Culture team, particularly with regards to retaining talent and the global labour shortage in the hospitality industry especially in the US and France. As a company, we needed to react quickly to the challenging labour market to attract talent. We explored best practices to reward and recognise high performing staff.	• In 2022 we completed the employee sentiment survey which was started in 2021, to include the operations that had been unable to participate due to their temporary closure in 2021. Taking the results for all of the properties surveyed in the last 2 years, we are proud that despite the stresses brought by the Covid crisis, 96% of employees said they feel great pride in working for the company, and despite the challenges 91% said they are extremely satisfied with the company. • We are continuing the momentum of launching the "Peninsula Services Principles" framework for all employees in our hotel operations, which will focus on creating closer emotional connections with guests. In 2022, we also extended the framework to our employees in The Peninsula Boutique & Café with emphasis on creating a more guest-centric experience. • 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. A "Work Improvement Teams" (WIT) programme was launched globally to encourage creative idea sharing from our employees in identifying ways for company efficiency, cost savings, revenue generation, health and safety improvement and strengthen company culture. Through Hackathon workshops and the WIT programme, hundreds of ideas were generated.
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. • Engaged with local government representatives and diplomats in London and Istanbul.

Engaging with Our Stakeholders

Stakeholder Group	Why and how we engage	Examples in 2022
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 (online). • Financial reports and website. • Annual General Meeting (AGM). • One-on-one meetings and conference calls. • Regular briefings with research analysts.
Media	The Peninsula Hotels Marketing team conducts regular press briefings and attends high profile trade shows in all our key markets as well as emerging markets. The HSH Corporate Affairs team organises press conferences 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. • New media outreach and briefings dedicated to our two new hotel openings.
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, single use plastics, and modern slavery. Our corporate responsibility and sustainability strategy, *Vision 2030* will continue to facilitate our response to climate change. We have set group-wide targets and commitments for greenhouse gas emissions, water efficiency, actions related to mitigation of climate change such as adopting sustainable building design, offering sustainable products and services within our businesses, and specific programmes to promote social inclusions and engage with our local communities in meaningful ways. 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, Cornell Hotel Sustainability Benchmarking Advisory Group, and Net Zero Methodology for Hospitality Advisory Group. • 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 2022
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. We articulate our expectations on environmental, social and ethical practices of suppliers and contractors through Supplier Code of Conduct (SCOC).	• 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. • Regular engagement with key suppliers to ensure compliance with the company's SCOC and discuss topics related to modern slavery.

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 2022.

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.

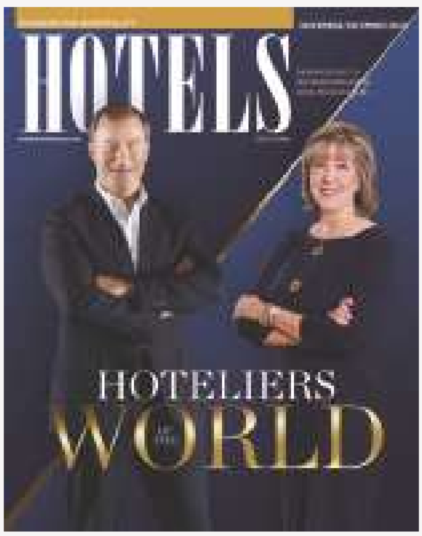
Awards in 2022

Operations	Awards	Organisers
The Hongkong and Shanghai Hotels – Annual Report 2021	2022 ARC Awards, Grand Award – Best of Hong Kong (Annual Report 2021) – Best of Cover Design in Photography (Corporate Responsibility and Sustainability Report 2021)	MerComm, Inc.
	2022 ARC Awards, Gold Award – Overall Presentation – Traditional Format – Tourism – Overall Presentation – Traditional Format – CSR – Corporate Social Responsibility Report – Feature Categories – Cover Photo/Design – CSR – Corporate Social Responsibility Report – Feature Categories – Photography – Hotel & Leisure – Feature Categories – Photography – Tourism	MerComm, Inc.
	2022 ARC Awards, Silver Award – Feature Categories – Chairman's/President's Letter – Tourism	MerComm, Inc.
	2022 ARC Awards, Honor Award – Overall Presentation – Traditional Format – Hotel & Leisure – Feature Categories – Chairman's/President's Letter – Hotel & Leisure – Feature Categories – Cover Photo/Design – Tourism	MerComm, Inc.
	Best Corporate Governance and ESG Awards 2022 – 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
	2022 Best Annual Reports Awards – Silver Award in "General" Category – Best Environmental, Social and Governance Report Award (Tourism & Hospitality)	Hong Kong Management Association
The Peninsula Hong Kong	Asia's Best Awards 2022 – Best Hotels in Hong Kong (No.5) – Best Hotel Pools in Hong Kong (No.4) – Best Hotel Spas in Hong Kong (No.6) – Best Special Occasion Restaurants in Hong Kong (No.8 for Gaddi's)	Travel + Leisure Asia
	2022 World's Best Awards – The Top 500 Hotels in the World	Travel + Leisure
	100 Top Tables 2022 – Gaddi's	South China Morning Post
	Forbes Travel Guide 2022 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa – Five Star Rating Awards – Restaurant – Gaddi's	Forbes Travel Guide (US)
	Traveller Review Awards 2022 –15 Best Rated Hotels in Hong Kong	Booking.com
	Hotel of the Year (No.3)	Destination Deluxe Awards 2022
	Time Out Hong Kong's recommended hotels and attractions for 2022	Time Out
	Business Traveller Asia-Pacific 2022 Awards – Best Business Hotel in the World (No.1)	Business Traveller Asia-Pacific
	2022 Readers' Choice Awards – Top 10 Hotels in Hong Kong (No.4)	Condé Nast Traveler
	MASTERCHEF Recommendation Restaurant 2022 – Gaddi's – Spring Moon	MASTERCHEF
	Michelin One Star – Spring Moon Michelin One Star – Gaddi's	The Michelin Guide Hong Kong Macau 2022

Operations	Awards	Organisers
The Peninsula Shanghai	Michelin One Star – Yi Long Court Michelin One Star – Sir Elly's	The Michelin Guide Shanghai 2022
	The Gold List 2022 – China Top 10 Hotels	Condé Nast Traveler China
	Shanghai 2022 Hospitality Awards – Luxury Hotel of the Year	Time Out
	Top 100 Suites in the World – The Peninsula Suite	Elite Traveler
	The Bund D.E.S.I.G.N. Hotel Awards – Best Luxury Hotel	The Bund
	2022 Top Dining Experience – Yi Long Court	Jiemian
	Forbes Travel Guide 2022 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa	Forbes Travel Guide
The Peninsula Beijing	Forbes Travel Guide 2022 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
	Michelin One Star – Jing	Micheline Guide Beijing 2022
	Michelin Selected Restaurant – Huang Ting	Micheline Guide Beijing 2022
	Michelin Service Award – Mr. Neils Li, Assistant Manager, Huang Ting	Micheline Guide Beijing 2022
	2022 China Travel Awards – 2022 China's Top 100 Hotels	Travel + Leisure
	Robb Report Best of the Best Restaurant Award 2022 – Huang Ting (the only one awarded restaurant in Beijing)	Robb Report
The Peninsula Tokyo	Forbes Travel Guide 2022 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa	Forbes Travel Guide

Awards in 2022

Operations	Awards	Organisers
The Peninsula Bangkok	Top 500 World's Best Hotels Awards in 2022 – The Top 5 Bangkok Hotels 2022 (No.5)	Travel+Leisure
	TTG Travel Awards 2022 – The Best Business Hotel (No.1)	TTG Asia
	Global Traveler 19th Annual GT Tested Reader Survey Award – The Best Hotel in Asia (No.1)	Global Traveler
	Forbes Travel Guide 2022 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
The Peninsula Manila	DestinAsian Readers' Choice Awards 2022 – Best Hotels in the Philippines (No.6)	DestinAsian
	Forbes Travel Guide 2022 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
The Peninsula New York	Best Hotel in Central New York City (No. 7)	U.S. News & World Report
	2022 Tripadvisor Travelers' Choice Awards	Tripadvisor Travelers' Choice
	2022 AAA Five Diamond Hotel	Automobile Association of America (AAA)
	Forbes Travel Guide 2022 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa	Forbes Travel Guide
The Peninsula Chicago	2022 World's Best Awards – The 15 Best City Hotels in the Continental U.S. (No.9) – The 10 Best Hotels in Chicago (No.2)	Travel+Leisure (USA)
	Forbes Travel Guide 2022 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
	Condé Nast Traveler's 2022 Gold List – The Best Hotels and Resorts in the World	Condé Nast Traveler
	Best Hotels in the USA (No.1)	U.S. News & World Report
	Independent Hotelier of the World – Maria Zec, Regional Vice President and Managing Director	HOTELS magazine
	Most Romantic Hotel in Chicago	USA Today
	2022 AAA Five Diamond Hotels	Automobile Association of America (AAA)

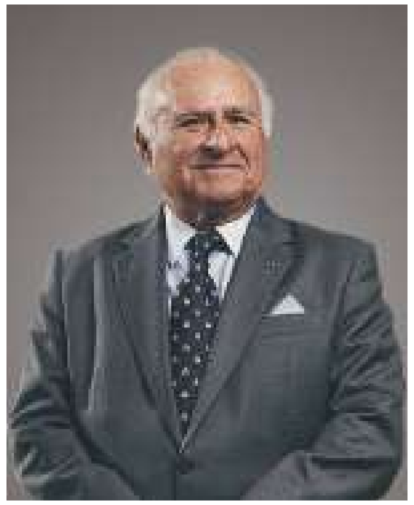


Operations	Awards	Organisers
The Peninsula Beverly Hills	Forbes Travel Guide 2022 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
	2022 World's Best Awards – The 15 Best Hotels in Greater Los Angeles (No.9)	Travel+Leisure (USA)
	2022 AAA Five Diamond Hotel	Automobile Association of America (AAA)
	Best Hotels in the USA (No.6) Best Hotels in California (No.3)	U.S. News & World Report
The Peninsula Paris	Michelin Two Star – L'Oiseau Blanc	Michelin Red Guide
	Prix de l'Excellence Gastronomique – Best Dessert – Anne Coruble, Head Pastry Chef	Guide Lebey
	2022 Top Suites – Bronze 2022 (Technology)	Elite Traveler
	2022 Readers' Choice Awards – Top 20 Best Hotels in Paris (No.10)	Condé Nast Traveler
	Forbes Travel Guide 2022 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
The Repulse Bay	ESDlife Bridal Award 2022 – Best Restaurant – Wedding Banquet	ESDlife
	100 Top Tables 2022 – The Verandah	South China Morning Post
Peninsula Merchandising Limited	Fair Trade Corporate Label – Platinum Award	Fair Trade Hong Kong
	U Magazine Food Awards 2022 – My Favourite New Restaurant Award – The Peninsula Boutique & Café	U Magazine


AIA

Governance

Chairman's Governance Overview



Our key philosophy of acting with integrity is reflected in our brand and reputation. It is also 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".

Dear Shareholders,

As the world emerges from the effects of the global pandemic, and we slowly return to "business as usual", we have been reminded of the importance of corporate governance as the cornerstone of stability that holds a company in good stead to withstand the most challenging downturns, deliver our strategies and live up to our brand proposition in the face of adversity.

A governance framework at the heart of our culture

As Chairman of the Board, I am committed to ensuring that HSH operates to the highest standards of corporate governance. 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 and sustainability 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 is reflected in our brand and reputation. It is also 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 manage risks

We regularly review and seek improvements to our governance processes, policies and procedures to ensure that they are in line with global regulatory requirements and best practice. In 2022, using this sound governance framework, the focus continued to be on efforts to rebuild our business as we recover from the COVID-19 pandemic, and mitigate the impact in those markets where the effects were still significant, including Hong Kong and the Chinese mainland. The Board closely monitored the company's business recovery plan formulated by management, as well as our strategy to stay connected to guests, employees and shareholders.

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 three years. During the long road to recovery from pandemic we have become increasingly sensitive to new risks and have elevated existing ones. Our Group Risk Committee concentrated on enhancement of internal controls to manage our business as we emerge from the pandemic and other strategic risks of the group, with particular focus on recovery measures, the delivery of our new hotel projects and increasing climate change risks. Rising sea levels and coastal flood risks continue to be a concern for the Board. More details can be read in the Group Risk Committee Report on pages 164 to 167 of this report.

Board Effectiveness

We also took the opportunity to evaluate and measure the effectiveness of our Board during 2022 with an external facilitated evaluation, and to explore ways to enhance and improve our governance processes. The overall conclusion of the evaluation by the external facilitator was the Board is operating well with a healthy balance of discussion, debate and expertise. The evaluation noted that the Board is strong enough to enable the company to tackle and overcome the challenges that have arisen over the last few years.

I am pleased to welcome a new Non-Executive Director, Mr Diego González Morales, who has been appointed to the Board with effect from 31 March 2023. Mr William Mocatta will retire with effect from 31 March 2023 after 37 years with the group. On behalf of the Board I would like to record my sincere gratitude for his dedication and commitment to our company. At the same time we look forward to welcoming Diego to the Board.

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. We have adopted our new Corporate Responsibility and Sustainability (CRS) strategy, called *Sustainable Luxury Vision 2030* which was launched in 2021. We have seen rapid changes in our climate and corresponding severe weather events in many of the markets in which we operate. We are also concerned about increasing inequality and division in societies. As responsible corporate citizens and leaders in our local 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 168 to 171 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 in Appendix 14 of the Listing Rules that was in force during the financial year end 2022. 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 sustainability

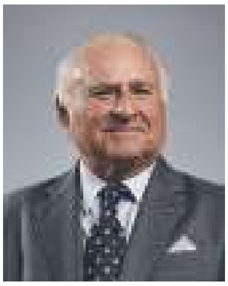
Overall, I believe that our governance structure has helped us manage the uncertainty of the world today. We continue to strive for improvement while learning from dealing with the current challenges to ensure the long-term success and sustainability of the company.

The Hon. Sir Michael Kadoorie
15 March 2023

Our Leadership - Board Members

Board Members

Non-Executive Chairman



The Hon. Sir Michael Kadoorie N E

Age: 81 Appointed: November 1964

Key strengths and experience

Sir Michael was appointed as Chairman in 1985. He holds board-level positions in one other listed company 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# (Non-Executive Chairman and Member of Nomination Committee)
CK Hutchison Holdings Limited# (Independent Non-Executive Director) (until December 2022)
Sir Elly Kadoorie & Sons Limited* (Director)

Other information

Substantial Shareholder of the company
Director of two of the group's entities
Father of Philip Lawrence Kadoorie
Father-in-law of Diego Alejandro González Morales
Brother-in-law of Ronald James McAulay

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*

Non-Executive Deputy Chairman

Andrew Clifford Winawer Brandler Ⓐ Ⓡ Ⓔ Ⓕ

Age: 66 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 Vice Chairman, Chairman of Finance & General Committee and Member of Sustainability Committee)
Tai Ping Carpets International Limited# (Non-Executive Director)
MTR Corporation# (Independent Non-Executive Director, Chairman of Finance & Investment Committee and Member of Audit & Risk Committee)
Sir Elly Kadoorie & Sons Limited* (Chairman)

Other information

Director of several of the group's entities

Executive Directors

Chief Executive Officer

Clement King Man Kwok Ⓔ Ⓕ

Age: 63 Appointed: February 2002

Key strengths and experience

Mr Kwok has over 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 and Chairman of Audit Committee)
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

Our Leadership - Board Members

Chief Operating Officer

Peter Camille Borer

Age: 69 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

Chief Financial Officer

Christopher Shih Ming Ip (F)

Age: 53 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: 70 Appointed: May 1985 (Retired on 31 March 2023)

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 February 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

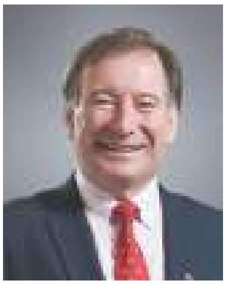
Fellow of the Institute of Chartered Accountants in England and Wales

Other major offices

Sir Elly Kadoorie & Sons Limited* (Executive Director)
CLP Holdings Limited# (Non-Executive Vice Chairman) (until December 2022)
CK Hutchison Holdings Limited# (Alternate Director for The Hon. Sir Michael Kadoorie, Independent Non-Executive Director) (until December 2022)

Other information

Director of several of the group's entities



John Andrew Harry Leigh Ⓔ Ⓕ

Age: 69 Appointed: May 2006

Key strengths and experience

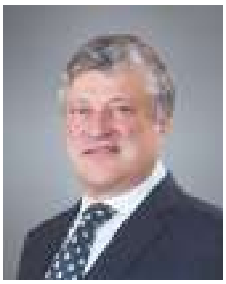
A long-serving non-executive director of the company, Mr Leigh has extensive knowledge of the hospitality industry. Mr Leigh is a solicitor with a background in private practice and has previously served as in-house senior legal advisor to the CLP group. He brings wide-ranging corporate governance and 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: 63 Appointed: May 2006

Key strengths and experience

Mr Colfer has over 40 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# (Non-Executive Chairman and Chairman of the Executive Committee and Nomination Committee)
Sir Elly Kadoorie & Sons Limited* (Director)

Other information

Director of one of the group's entities

Our Leadership - Board Members

James Lindsay Lewis

Age: 48 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.

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: 31 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 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

Other major offices

CLP Holdings Limited# (Non-Executive Director and Member of Sustainability Committee)
CK Hutchison Holdings Limited# (Independent Non-Executive Director)
Sir Elly Kadoorie & Sons Limited* (Director)

Other information

Son of The Hon. Sir Michael Kadoorie
Brother-in-law of Diego Alejandro González Morales
Nephew of Ronald James McAulay

Diego Alejandro González Morales

Age: 39 Appointed: 31 March 2023

Key strengths and experience

Mr González Morales has broad, cross-functional corporate expertise spanning the financial services, healthcare, energy, and entertainment industries. He was previously VP, Private Equity at CLSA Capital Partners in Hong Kong. He started his career with General Electric as a graduate of GE's Financial Management Program. He then took on various corporate roles including internal audit and controls, investigations, compliance and M&A across GE's industrial businesses, GE Capital and NBC Universal.

Titles, qualifications and education

Bachelor of Engineering and MSc, EPF Ecole d'ingénieurs, France
Certification of International Business, Universidad Pontificia Comillas de Madrid, Spain
MBA, IESE Business School in Barcelona, Spain

Other major offices

Sir Elly Kadoorie & Sons Limited* (Director)

Other information

Son-in-law of The Hon. Sir Michael Kadoorie
Brother-in-law of Philip Lawrence Kadoorie

Independent Non-Executive Directors

Dr the Hon. Sir David Kwok Po Li (N)

Age: 84 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 and Member of Nomination Committee)
The Hong Kong and China Gas Company Limited# (Independent Non-Executive Director, Chairman of Board Audit and Risk Committee and Remuneration Committee and Member of Nomination Committee)
San Miguel Brewery Hong Kong Limited# (Independent Non-Executive Director, Chairman of Audit Committee and Member of Nomination Committee and Remuneration Committee)
Vitasoy International Holdings Limited# (Independent Non-Executive Director, Chairman of Remuneration and Nomination Committee and Member of Audit Committee)
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)

Patrick Blackwell Paul, CBE (A) (R)

Age: 75 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, Chairman of Audit Committee and Member of Nomination and Corporate Governance Committee)
Pacific Basin Shipping Limited# (Independent Non-Executive Director) (until April 2022)

Our Leadership - Board Members

Pierre Roger Boppe

Age: 75 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, qualifications and education

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

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

Age: 74 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 Türkiye, 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, Chairman of Nomination Committee and Member of Remuneration Committee)
Global Brands Group Holding Limited (In Liquidation) (Executive Chairman) (until June 2022)
VTech Holdings Limited# (Independent Non-Executive Director, Chairman of Nomination Committee and Member of Audit Committee and Remuneration Committee)
Sun Hung Kai Properties Limited# (Independent Non-Executive Director)

Dr Rosanna Yick Ming Wong, DBE, JP Ⓡ

Age: 70 Appointed: February 2013

Key strengths and experience

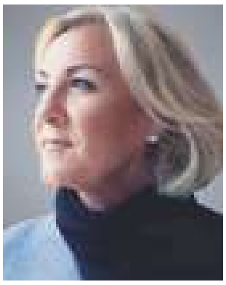
Dr Wong provides invaluable and independent advice to the Board, with over three decades of experience in the political and non-profit arenas, in addition to holding several Board positions in the private sector. She is particularly skilled in public sector, project management, change and risk management. Since her appointment in 2013, Dr Wong has provided significant contributions to the Board through her multi-faceted business background. Dr Wong was a Member of the National Committee of the Chinese People's Political Consultative Conference from 2003 to 2023.

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

CK Hutchison Holdings Limited# (Independent Non-Executive Director, Chairman of Nomination Committee and Remuneration Committee and Member of Sustainability Committee)
Hutchison Telecommunications Hong Kong Holdings Limited# (Independent Non-Executive Director, Chairman of Nomination Committee and Member of Audit Committee and Sustainability Committee)
The Hong Kong Jockey Club (Honorary 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: 64 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 and youngest commercial divisional board director.

She went on to successfully deliver turnarounds for the iconic British heritage brands Pringle of Scotland and Aquascutum as President and Chief Executive Officer, additionally served as special board advisor to the global digital e-commerce business Net-a-Porter.

Dr Winser holds an independent advisory role in two global companies, Spora Biotech, a company in Chile developing mushroom mycelium into planet friendly leather, and PTP, an Australian based fitness company.

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

Our Leadership - Board Members

Ada Koon Hang Tse Ⓐ

Age: 56 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. She is 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. Ms Tse also worked in investment banking at Morgan Stanley in New York and Hong Kong, and was previously a lawyer at Sullivan and Cromwell in New York. Ms Tse has served as Non-Executive Director on a number of corporate boards across the Asian region, such as President Chain Store Corp. (7-Eleven operator) in Taiwan and Biocon Limited (biopharmaceuticals) in India.

She was previously appointed to various Hong Kong government advisory bodies, including the Securities and Futures Commission Advisory Committee, the Land Planning Appeal Board and the Travel Industry Compensation Fund Management Board. In addition, she is active in non-profit organisations focused on education and the arts.

Titles, qualifications and education

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

Other major offices

Advisory Committee on Arts Development of HKSAR Government (Member)
Solicitors Disciplinary Tribunal Panel of HKSAR Government (Member)
Friends of Hong Kong Museum of Art (Chairman of the Board of Trustees)

Honorary Life President

Ronald James McAulay

Age: 87 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 and an uncle of Mr Philip Lawrence 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 Executive and other members.

Group Executive:

Christobelle Liao

Group Director, Corporate and Legal

Appointed to GMB: 2011

Age: 54

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 and also continues to hold the Company Secretary position.

Other members:

Joseph Chong

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

Appointed to GMB: 2019

Age: 55

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 as well as the Hong Kong based Tai Pan Laundry. He is a Director of several of the group's entities.

1 Profiles of Clement Kwok, Peter Borer and Christopher Ip are disclosed on pages 133 and 134

Our Leadership - Senior Management and Key Functions

Shirley Lam

Group Director, Properties

Appointed to GMB: 2022

Age: 42

Main responsibilities held with the group

Ms Lam joined the group in 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 is a Director of a number of the group's entities.

Maria Razumich-Zec

Regional Vice President and Managing Director, The Peninsula Chicago

Appointed to GMB: 2007

Age: 65

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: 41

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. He is a Director of several of the group's entities.

Sindy Tsui

Group Director, People and Culture

Appointed to GMB: 2011

Age: 54

Main responsibilities held with the group

Ms Tsui joined the group as General Manager, Human Resources (retitling to People and Culture) in 2007. She has many years of experience in human resources management in hospitality industry. As the Group Director, People and Culture, she holds overall responsibility for the group's strategy on employees experience 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.

Arnold Angeles, *Director, Research & Technology*

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*

Ming Chen, *General Manager, Group Business Development*

Jisoo Chon, *General Manager, The Peninsula Shanghai*

Mark Choon, *General Manager, The Peninsula Tokyo*

Jonathan Crook, *Managing Director, The Peninsula Istanbul*

Cameron Cundle, *General Manager, The Peninsula Beijing*

Aiden Fung, *General Manager, Corporate Finance and Investor Relations*

Michael Garcia, *Group General Manager, Technology*

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*

John 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*

Charlie Pojanartvichaikul, *General Manager, The Landmark Vietnam*

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*

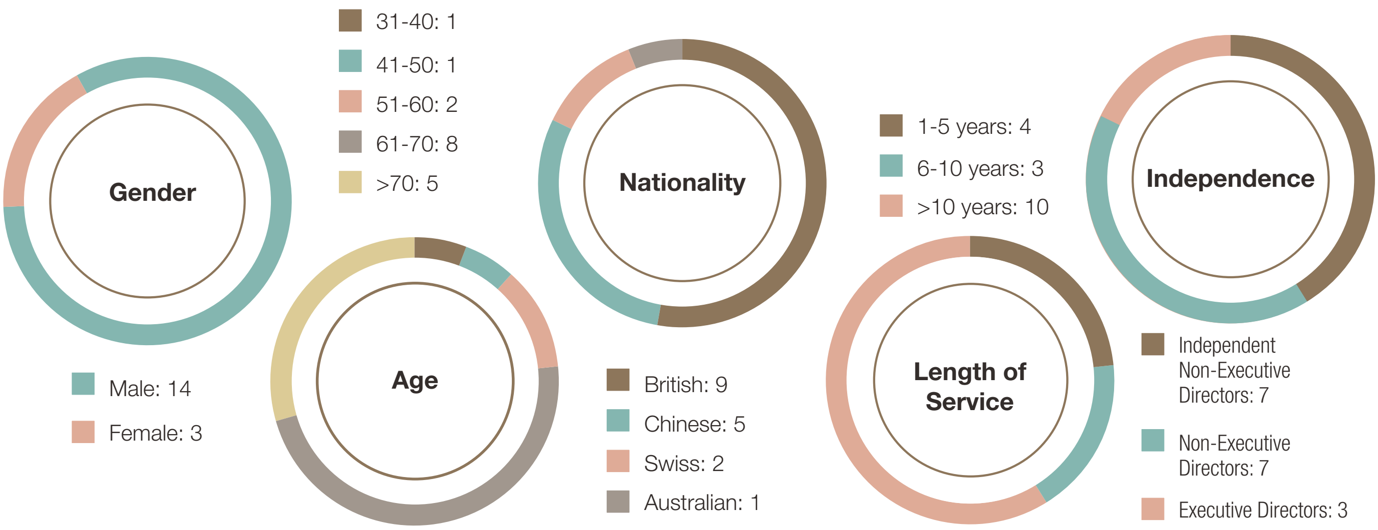
Kitty Wan, *Group General Manager, Audit & Risk Management and Head of Finance, The Peninsula London Project*

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

Our Leadership - Diversity

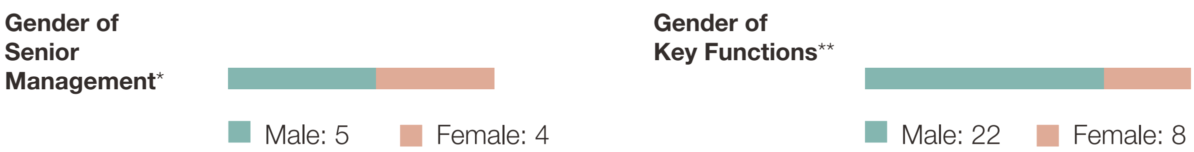
Board Composition & Diversity

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. The Board needs to be large enough to cover the broad array of skills required and encapsulate a diverse range of backgrounds and experience. The Board has determined that there will be no fewer than three female directors at all times and that other Board members should vary according to nationality, age, length of service and independence. Each Board member's relevant skills and experience have been highlighted in their individual profiles[2] and the following charts indicate the diversity of the Board in terms of gender, age, nationality, length of service and independence[3].



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.



* 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 2022, our total workforce is comprised of 41% female employees and 59% male. Given the dynamic nature of our business, we have not specified any quotas or similar measurable objectives for achieving gender diversity, rather our focus is on identifying the right person for the right role whilst taking into account diversity in a range of areas, including gender. Further detail and a breakdown of gender distribution between total workforce and management positions across all HSH operations and corporate offices are disclosed on pages 39 and 62 of the CRS Report.

2 Details can be found on pages 132 to 140

3 The charts reflect the position up to 15 March 2023

Corporate Governance Report

Culture and Values

The Board believes that our strong corporate culture, which is aligned with our purpose, values and strategy, is key to the economic success and sustainable growth of the group. The culture and values of the company provide a strong foundation for its core governance structure and work in tandem to sustain the group over the long term through business challenges, changing regulatory and market environment. By putting in place the right governance framework and ensuring strong emphasis on culture in the recruitment and conduct of senior management, 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

Integrity and compliance

Integrity is key to 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 mutual respect, to being a team player, being passionate about excellence and others. This set of core principles is embedded in our people and culture practices, in the way we recruit, select and assess in our performance reviews.

These principles are supplemented by a robust set of policies such as the Board-endorsed Code of Conduct, Anti-Bribery Policy and Corruption Policy and Anti-Fraud Policy and Fair Competition Policy. These policies are kept under constant review and are being updated to reflect the increasingly complex, global regulatory environment in which we operate. In light of the diverse nature of our workforce, mandatory training is being enhanced to ensure that key principles of compliance remain at the forefront in everything we do.

Accountability

The group's governance structure fosters a culture of accountability, which is led from the top by the Board (which is ultimately accountable to the company's shareholders and stakeholders), and to senior management, which ensures that each level of the business is subject to appropriate and effective scrutiny and oversight.

Communication and transparency

The Board recognises the importance of transparency, accessibility, and visibility for itself and senior management. The Board encourages regular and ad hoc dialogue and communication with its shareholders and stakeholders, including employees, conducted through both the Board and management. The regular CEO Webcast has been supplemented with an in-person "open house" meeting for Head Office employees, which provides an opportunity for the CEO to give an overview of our business performance as well as an update on projects and areas of focus. Operational General Managers also hold regular Townhall Meetings. The company also strives to maintain regular dialogue and engagement with shareholders and stakeholders. Further details on such communications can be found on pages 158 and 118 to 121.

Corporate Governance Report

OUR PEOPLE

People first

Our people continue to be first and foremost in our business approach and this is demonstrated by our three-year People and Culture Strategy. We continue to implement the WorkPlace 2025 programme and this involves a focus on modernising our workplace and being an employer of choice.

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 relevant during the fifth wave of COVID-19 in Hong Kong in early 2022, where we provided counselling for affected employees and a delivery service for those colleagues who were isolating. We have also run a virtual online global fitness challenge, and rolled out nutritional and health updates provided by a third-party specialist.

Modernised workplace and environment

Our WorkPlace 2025[4] programme, aims at modernising our workplace, working environment and company culture to attract and retain talent. During 2022, flexi-time, flexi-dress, work from home and lifestyle hubs were introduced. The purpose was to empower employees to take more control over their schedules and to provide more flexibility in line with other modern working environments. A communication and information hub will be rolled out and master classes and other training programmes are being provided which focus on "soft" skills.

Inclusivity and respect

We are committed to providing an inclusive and respectful workplace which provides equal opportunity to all employees. Our Inclusive Workplace Strategy[5] aims at fostering an environment for employees to learn and grow while leveraging their unique strengths. We have launched our Hiring for Success programme, a global initiative for all hiring managers to recruit the right talent with the right mindset that is best suited for the role. It ensures an equal platform without bias and discrimination to provide an enhanced experience for all candidates to feel welcomed in joining the HSH family. We completed retitling of job positions to gender-neutral titles where applicable, as well as on job advertisements for future roles. We also provide meaningful employment opportunities to people with disabilities.

Listening

The Board recognises that the resilience of the company's culture is dependent to a large extent on employee sentiment, and with that in mind it is important to get a pulse on how employees are feeling and what support they require. An online sentiment survey is carried out globally every two years, with the last one taking place in 2021. Three of the group's operations were unable to fully participate in 2021 and therefore completed their surveys in 2022. The results have helped the group foster a greater understanding of the well-being and sentiment of our employees and to understand the key drivers of resilience, contentment, and empowerment.

Our WorkPlace 2025 programme was built largely based on listening to employees, through a combination of surveys and focus groups. This approach continues as various tenets of the programme are introduced, fostering a collaborative and consultative environment when it comes to workplace improvements. This gives our workforce an opportunity to be heard and to influence leaders about what matters to them most. As part of the WorkPlace 2025 programme, a "Work Improvement Teams" programme was launched, enabling colleagues to create and share business ideas, out of which three were then selected by the Group Management Board for further development and implementation[6].

4 Details can be found on pages 36 and 37 of our CRS Report

5 Details of the strategy and related initiatives can be found on pages 38 and 39 of the CRS Report

6 Details can be found on pages 36 and 37 of our CRS Report

OUR COMMUNITIES

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*.

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 149 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 and sustainability 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. In December 2022, a Lifestyle Taskforce, was set up to identify business opportunities in Hong Kong for the group.

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.

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.132 to 140*	• 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 141 and 142

Delegation

Accountability

THE BOARD

The Board's Role

1. Accountable to the company's shareholders and stakeholders for the long-term success and sustainability 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

Corporate Governance
- Corporate governance functions
- Board evaluation

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

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
- Corporate Governance practices

Report P. 172-174

Nomination Committee
- Board composition
- Board nomination
- Diversity Policy
- Nomination Policy
- Board members contribution, training and development

Report P. 175-176

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

Report P. 177-180

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

Report P. 164-167

Technology Steering Committee

Group Corporate Responsibility Committee

Report P. 168-171

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

2022 Board Activities

Our 2022 Board meetings continued to focus largely on the long road to recovery from the pandemic and the successful execution of the group's projects in London and Istanbul. The Board continues to focus on the development of company strategy through other means. Discussions on short to medium term focus and longer term strategy took place during the Board meetings in 2022. Following the relaxation of social distancing measures in Hong Kong, regular Board lunches resumed in December 2022. This provided a good opportunity for our directors to interact with each other in an informal setting and to discuss a wide range of issues concerning the group.

In addition, the Board continued to cover all customary matters. We highlight below the Board's other main activities during 2022.

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

STRATEGY

- Discussed strategy in relation to Peninsula Merchandising and its China expansion plans
- Reviewed and noted the impact of the world politics on the business, particularly with respect to any impact on the group's external borrowing
- Reviewed new marketing campaigns to promote The Peninsula Hotels and the two new hotels
- Reviewed the expanded Technology Steering Committee role on technology related matters
- Formation of the Lifestyle Taskforce to look for business opportunities in Hong Kong for the group

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. This included the impact of depreciation of the Turkish Lira on The Peninsula Istanbul project costs, the additional project costs for The Peninsula London, and the suspension of the Yangon project
- Reviewed the best case and worst case financial forecasts for the group
- Evaluated key themes for the 2023 budget process and ultimately approved the 2023 budget with different recovery scenarios expectations and necessary cost controls, whilst taking into account investments for the future
- Approved the company's announcement on increase of The Peninsula London project cost

LEADERSHIP AND EMPLOYEES

- Reviewed the progress of WorkPlace 2025, a group-wide initiative to modernise our culture, work practices and working environment
- Reviewed initiatives of different operations on keeping up staff morale in the midst of COVID-19

CORPORATE GOVERNANCE

- Reviewed and discussed the Board evaluation results[9]
- 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 increase of fees for the Chairman and Members of Audit Committee in view of their additional role on corporate governance matters
- Approved the proposed changes to HSH Corporate Governance Code, the terms of reference for the Board, the Audit and Nomination Committees and Board Diversity Policy to align with the changes to the Listing Rules with effect from 1 January 2022
- Approved the Nomination Committee's decision to set a minimum requirement for three female Board members as the measurable objective for implementing the policy of gender diversity
- Noted the retirement of Mr William Mocatta and endorsed the appointment of Mr Diego González Morales as recommended by Nomination Committee

RISK MANAGEMENT

- Reviewed the principal risks to the business and their movement
- Conducted in-depth reviews of the cybersecurity risk including cybersecurity incidents, governance structure and measurement programmes implemented by management; global talent shortage and the group's approach to hiring talent; and rising interest rate risk for the group and current hedging strategy
- Monitored and reviewed the effectiveness of risk management and internal control systems through the Audit Committee

9 Details of Board evaluation can be found on pages 152 and 153

Corporate Governance Report

SUSTAINABILITY

- Reviewed the progress of Sustainable Luxury Vision 2030 *(Vision 2030)*, identification and prioritisation of material issues through the Group Corporate Responsibility Committee
- Reviewed the progress of corporate responsibility and sustainability initiatives of the group
- Discussed risks to the business brought about by climate change and measures taken by the group to mitigate such risks
- Reviewed the key outcomes of UN COP27 Climate Summit and the latest development on sustainability and climate-related disclosures and actions to be considered by the company
- Discussed the communication strategy of our corporate responsibility and sustainability efforts
- Approved the updated Modern Slavery Statement[10], which explains the activities we have undertaken during the year to demonstrate our commitment in ensuring there are no unethical labour practices or human trafficking within any part of our business or within our supply chain

Board Evaluation

In line with best practice, the performance and effectiveness of the Board is assessed every two years through a formal performance evaluation process. The purpose of this review is to identify areas for enhancement and improving the Board's effectiveness. In 2022, the Board again engaged an independent facilitator to lead the process and a similar methodology to the last review was adopted.

Process

The independent facilitator reviewed the company's corporate governance structure and Board documents, sought feedback from Deputy Chairman, Chief Executive Officer and Company Secretary, and circulated an extensive questionnaire to all Board members covering a variety of topical issues. A total of five one-on-one interviews were conducted, covering one Executive Director, one NED and three INEDs. The facilitator analysed the completed questionnaires and the interview findings, and presented these along with recommendations for discussion at the October Board meeting.

Questionnaire – Key Topics Discussion

- Group objectives, strategy and performance assessment
- Covid and Way forward
- Financial and Project Management
- Risk Management systems and process effectiveness
- Sustainability and Climate Change
- Governance Board Committees streamline the process of the Board
- Composition and effectiveness of the Board and Governance Board Committees
- Board relationship with management and staff
- Directors' Development and Compensation
- Individual Board member's performance

10 Posted on the company website: www.hshgroup.com/en/sustainable-luxury

Areas of focus

The overall conclusion of the Board evaluation was the Board is operating well with a healthy balance of discussion, debate and expertise. The evaluation noted that the Board is strong enough to enable the company to tackle and overcome the challenges that have arisen over the last few years. The Board has identified the following top priorities on which it wishes to focus in the short term.

Priorities	Actions to be taken
Succession and development	Introducing one or two younger members to the Board to provide new ideas and perspectives, in particular expertise in digital transformation and sustainability
Business performance	Continue to review and provide advice to management in terms of strengthening business performance
Overall Strategic direction	Face-to-face strategy meeting to discuss short-term and long-term strategies and priorities and new ideas New taskforce to look at possible new business opportunities
Financial management including debt management	To scrutinise and provide independent oversight over the group's financial planning and overall indebtedness
Risk Management	In-depth and focused discussion on critical risks which include financial and interest rate risks in current operating environment
Environment, Social and Governance	Continue to focus on employee engagement, human capital, public policy and community relations, group sustainability and climate change strategy

Other areas for improvement included administrative matters which management had taken into consideration for future planning of meetings and information sharing to the Board.

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 independent views 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 2022, the topics raised included enhancing our existing portfolio, completed project review, exploring business opportunities in new areas and the company's medium to long-term strategy and succession planning. Some of these topics were duplicated in the Board evaluation, which management will continue to address.

Corporate Governance Report

Directors' Attendance and Training and Development

The Board held five scheduled meetings and three Board resolutions were approved by circulation in 2022. Meetings have been held without physical attendance by all Directors and were 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 2022 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 *Non-Executive Chairman*	6(6)		2(2)		1(1)	✓
Mr Andrew C.W. Brandler[3] *Non-Executive Deputy Chairman*	5(5)	3(4)		2(2)	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[4]	4(5)				1(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)		2(2)	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)			2(2)	1(1)	✓
Dr Kim L. Winser	6(6)				1(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(2)	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) Mr Andrew Brandler was unable to attend the Audit Committee meeting due to a pre-existing commitment

(4) Mr Philip Kadoorie was unable to attend the Board meeting due to a pre-existing commitment

(5) During 2022, 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 2022 topics included: anti-bribery and corruption, corporate governance, sustainability, regulatory compliance and directors duties

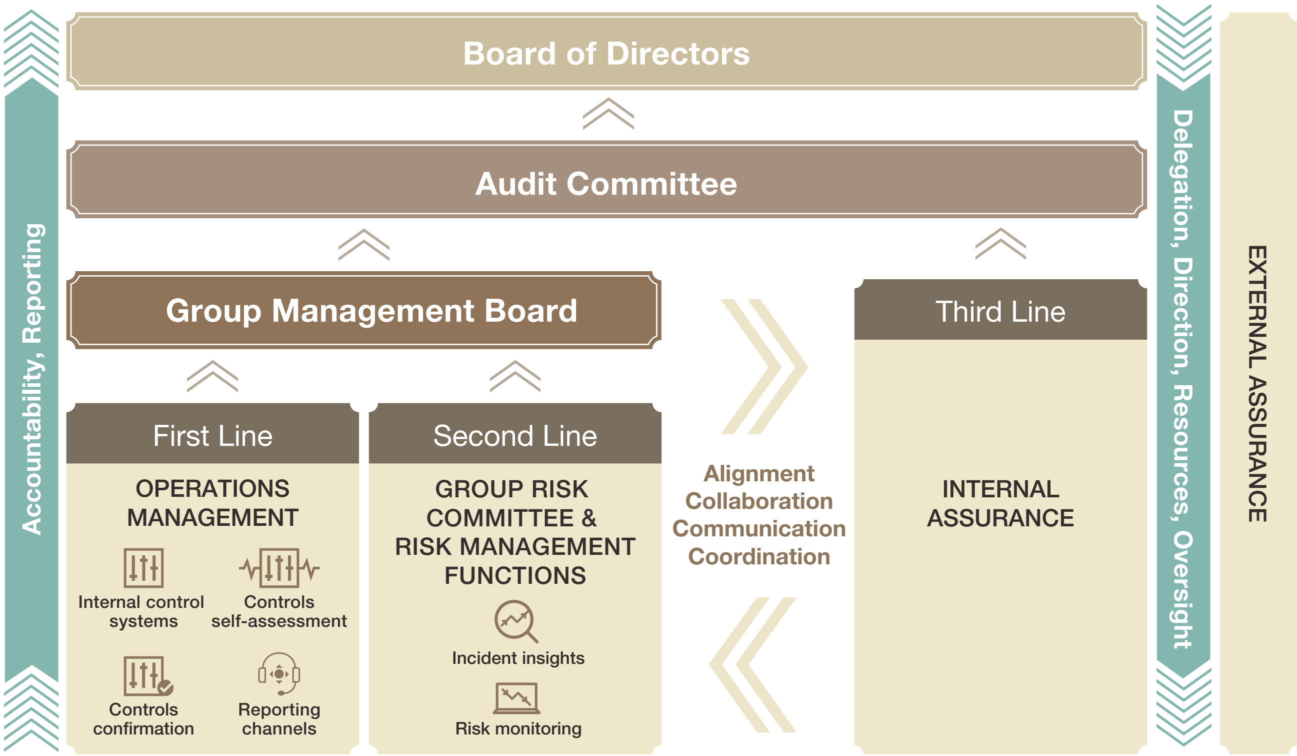
Risk Governance

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). A risk management report summarising the latest risk landscape and the key internal controls in place for each principal risk would be submitted to the Board every six months.

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.



Corporate Governance Report

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. The Group Purchasing & Tendering Policy was updated in October 2022 to strengthen procurement governance and operation efficiency across the group. Training was provided to staff regarding the new purchasing policy.

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 and strengthened a number of controls to cope with the ever-changing regulatory and operational environment. Please refer to the GRC report on pages 164 to 167 for the key controls undertaken in 2022 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.

Handling 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.

In addition, the Speak Up Policy[11] 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 2022, six reports of potential integrity issues were received via Speak Up. All of these reports were investigated. Of the six reports: three were closed with recommendations to enhance operational internal controls; two were closed with no follow-up required; and one was still ongoing 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[12] 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 2022, please refer to the GRC Report on pages 164 to 167.

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 2022 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 2022 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.

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

12 Details of 5-step risk management methodology can be found on page 165 of the GRC Report

Corporate Governance Report

Shareholders Engagement

The company values continuous engagement 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:

- **Annual General Meeting**
  The Annual General Meeting is the central focal point in the company's annual corporate governance calendar. We encourage our shareholders to participate in our Annual General Meeting and directly communicate with our Directors. Due to the uncertain development of the Covid-19 pandemic in Hong Kong in early 2022, we had made special arrangements for the Annual General Meeting to be held online. Shareholders attended, voted and asked questions on the relevant resolutions at the meeting via an online platform[13]. Our Directors, including the Chairman of the Audit and Remuneration Committees, were present at the 2022 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. In 2023 we plan to have a physical meeting unless there are government restrictions.

- **Investor relations activities**
  Our Executive Directors and Investor Relations team engaged with shareholders and potential investors via one-on-one meetings and conference calls, as well as holding regular briefings with research analysts.

- **Shareholder Communication Policy**
  Our Shareholder Communication Policy[15] has specified the various communication platforms which our shareholders and stakeholders can access as well as various communication channels for them to communicate their views. These details can also be found on the company website. For more information on how we engage our stakeholders, please refer to Creating Stakeholder Value on pages 118 to 121.

- **Company website**
  Our company 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.

- **Social media**
  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.

Reviewing and enhancing shareholder communications

Our Audit Committee reviewed the multiple platforms used for engaging with our investors and confirmed that the company has maintained sufficient channels to engage with our shareholders and our Shareholder Communication Policy remains effective.

13 The poll results are posted on the company website: www.hshgroup.com/en/investors/general-meetings

14 www.hshgroup.com/en/investors

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

Our Shareholders

HSH had 1,741 registered shareholders as at 31 December 2022. 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	536	30.787	68,650	0.004
501-1,000	189	10.856	151,018	0.009
1,001-10,000	580	33.314	2,378,102	0.144
10,001-100,000	345	19.816	11,067,160	0.671
100,001-500,000	60	3.446	11,757,664	0.713
Above 500,000	31	1.781	1,624,011,612	98.459
Total	**1,741**	**100.000**	**1,649,434,206**	**100.000**

Note: As at 31 December 2022, 36.60% 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 72.43% as disclosed in "Interests of Directors" and "Interests of Substantial Shareholders" in Directors' Report on pages 183 to 185. The remaining HSH shares are mainly held by institutional and private investors, with a considerable number of those investors being Hong Kong residents.

From publicly available information and within the knowledge of the Directors, HSH has maintained the required 25% public float throughout 2022 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 website[16] 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.

Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 266.

The company's share price information as well as share and dividends per share information for the last ten years are disclosed on pages 23 and 96 respectively. In addition, the company's dividend policy is set out in note 10 to the financial statements.

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 these principles to our corporate governance structure and practices, as disclosed in this Governance section.

Throughout 2022 we have complied with all of the code provisions and recommended best practices in the CG Code with the exception of the following:

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

Corporate Governance Report

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

Our Corporate Responsibility and Sustainability Report[17] 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 in reference to the updated Global Reporting Initiative Sustainability Reporting Standards (GRI Standards). The CRS Report also references the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the Sustainability Accounting Standard Board (SASB). KPMG was commissioned to conduct limited 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 Personal Information Protection Law and updates to the EU's and the UK's Standard Contractual Clauses. We remain committed to maintaining our guests' privacy in accordance with all applicable laws, and we keep our people regularly updated on privacy legislation, compliance, challenges and risks in this complex and highly regulated area.

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. In 2022, the nomination and appointment of Mr Diego González Morales followed the selection criteria as well as the nomination process and procedures of the Policy as disclosed in the next section. The company confirms that all Directors' re-elections were conducted in compliance with the CG Code in 2022. 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 2023 Annual General Meeting are set out in the Directors' Report on page 182.

Nomination Policy[18]

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.

17 Posted on the company website: www.hshgroup.com/en/sustainable-luxury

18 Posted on the company website: www.hshgroup.com/en/corporate-governance

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 annual 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 appointment 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 has tasked the Nomination Committee with the responsibility for reviewing annually the expected contributions 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 2022. The Nomination Committee is satisfied that the Directors had 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. The Board concurred with this conclusion.

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 contributions to the Board discussion. The company has received written confirmations of independence from each of its seven INEDs who served in 2022. Beyond the formal confirmation of independence, 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.

The Nomination Committee and the Board considered that all seven INEDs who served in 2022 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 and they continue to bring an independent view to our Board discussions and strategy oversight.

Mechanisms for ensuring independent views and input

The company has established channels for our INEDs to express their independent views and input to the Board and its Committees. These include INEDs having access to management at all times on any queries they may have. All INEDs are given regular updates, from monthly reports to minutes of all Governance Board Committees and the Executive Committee to allow them to make informed decisions. The Chairman meets INEDs annually to seek their independent views, and these views are then discussed at the Board. Board strategic meetings and Board evaluations are arranged every two years with the full participation of INEDs.

The Board has reviewed these channels and confirmed that the company has sufficient mechanisms to ensure independent views and input are available to the Board and these mechanisms remain effective.

Corporate Governance Report

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 2022. Details of the shareholding interests held by the Directors of the company as at 31 December 2022 are set out on page 183.

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 141 and 142, and 184 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 2022, 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 2022, 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 182, 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 Diego González Morales (who will join the Board in March 2023) will complete 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 2022 are reflected on page 154.

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[19] to ensure that they comply with the latest legal and regulatory requirements and reflect developments in best practices and the needs of the company. In light of the revised CG Code which came into effect on 1 January 2022, the company has undertaken a review on the HSH Code and the relevant terms of reference of the Board and each Board Committee and other relevant policies and revised them in line with the CG Code and our own governance practices.

The full terms of reference of the Board and each Board Committee can be viewed on the company website[20] and those of the Governance Board Committees[21] are also published on the Stock Exchange website. The Governance Board Committees' reports are set out on pages from 172 to 180.

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 2022, Audit and 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 182.

Annual Report and Corporate Responsibility and Sustainability Report

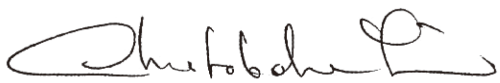
The annual report and CRS report are both important channels for the company to provide shareholders and stakeholders with a balanced assessment of our financial and non-financial performance as well as our commitment to the high standards of corporate governance and the evolving nature of our environmental, 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 2021 Annual Report and CRS Report. Details can be found in the "Awards in 2022" section on page 122.

In March, the Board reviewed and approved the 2022 Annual Report and Corporate Responsibility and Sustainability Report[22]. With respect to the Directors' responsibility for preparing the financial statements for the year ended 31 December 2022, please refer to the Directors' Report set out on page 186.

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
15 March 2023

19 Audit, Nomination, Remuneration, Executive and Finance Committees

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

21 Audit, Nomination and Remuneration Committees

22 Posted on the company website: www.hshgroup.com/en/sustainable-luxury

Group Risk Committee Report

"Effective risk management has enabled the organisation to evaluate risks, make better decisions and take appropriate actions in an increasingly complex and dynamic environment."

Christopher Ip
Chairman of the Group Risk Committee
15 March 2023

Composition	Chairman: Mr Christopher Ip, Chief Financial Officer Members: Group Director, Corporate and Legal Group Director, Properties Group Director, Brand and Operations Support Group General Manager, Audit & Risk Management Group General Manager, Technology
Meeting Frequency	• Quarterly • Four meetings in 2022
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 155 to 157 in place, we have adopted across the group a practical, easy to understand 5-step risk management methodology.

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 2022

Challenges post global pandemic recovery

Since its global outbreak in 2020, the COVID-19 pandemic had aggravated the level of risk facing the group at all levels of the business, across a range of financial and operational issues. The resultant financial impact had posed key risks to the business in the past two years. Since mid-2021, quarantine requirements and travel restrictions started to be relaxed or lifted in our markets in Europe and the USA, which slowly led our way to recovery. With the gradual easing of restrictions in Hong Kong in last quarter of 2022 and the opening of quarantine-free travel to and from mainland China in Q1 2023, the pandemic risk appeared to have moderated. Workforce shortages around the globe have also 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. During the year, the group has put much effort to attract and retain talent in the hospitality industry. We are monitoring these emerging risks 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 post-pandemic era. Some of the key actions aimed at managing the day-to-day impact on our business are noted below:

- Strict social distancing measures in line with government guidelines were administered, such as work from home arrangements
- More flexible and dynamic ways of working and allocation of talent were reinforced for stronger work performance and employee engagement
- Products were strategically adapted to stimulate domestic demand such as staycation packages, take-away and deliveries at food and beverage outlets and special seating arrangements for banquets
- Cost saving measures and actively searching for alternative revenue streams
- Business continuity capability assessment on working out of office for every head office department

Labour shortage in the hospitality industry

The pandemic has led to re-evaluations of personal career goals for talent within the industry. This has resulted in staff resignations and difficulties in securing manpower in most of our labour markets. This is further compounded by other industries that continued to do well during the pandemic offering increasingly attractive pay and more flexible work models.

To attract and retain talent, we are conducting more frequent salary benchmarking exercises and ensuring our total remuneration, benefits and health insurance stay highly competitive and relevant. One of the WorkPlace 2025 initiatives is to offer more flexibility in working hours and opportunity to work from home in our corporate offices in Hong Kong. We have also considered flexible leave for operational employees and rolled out talent development programmes to boost competitiveness and retention.

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 difficult times.

Group Risk Committee Report

Environmental and social (E&S) risks

The impacts of the climate crisis are evident. Climate risks and the associated social impacts continue to be widely discussed among world leaders in United Nations (UN) summits and within business communities. We must take a more proactive approach to assess and address E&S risks we may face, and ensure that the company is well-positioned to weather these impacts.

In the past year, we commenced work to undergo initial assessments of our buildings' physical risks. Properties more susceptible to natural disasters and extreme weather events such as typhoons, cyclones, heat waves, floods, wildfires, may expect to see increased insurance costs and asset valuation being negatively impacted due to exposure to longer term climate shift such as sea level rise, drought and temperature rise. Other possible impacts may include 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. We are aware of the multiplier effect and knock-on social impacts brought by climate change such as social inequality, educational disparity, involuntary migration, modern slavery, and more.

GRC and the Board receive regular updates from the Corporate Responsibility and Sustainability (CRS) Department to understand the evolving E&S risks in order to determine effective short-term mitigation responses, and develop long-term adaptation plans. Our CRS strategy, *Vision 2030* will continue to facilitate our response to these risks and future-proof our business. We have group-wide targets and commitments for greenhouse gas emissions, water efficiency, actions related to mitigation of climate change such as adopting sustainable building design, offering sustainable products and services within our businesses, and specific programmes to promote social inclusions and engage with our local communities in meaningful ways[23]. More details of our approach to climate change and climate risk mitigation measures can be read on pages 53 to 55 of our CRS Report, referencing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

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 2022, specific focus in some areas of the principal risks were discussed in more details below:

Macroeconomic and political environment

As a multinational corporation, our business are impacted by geo-political influences. Incidents such as the continuing Russia-Ukraine conflict and US-China tension may negatively impact the global economy, and may result in trade restrictions and sanctions. Moreover, expected economic downturns and energy price inflation could negatively impact revenue and operations of our properties. Regular risk and performance review of operations, properties and projects are carried out during the year.

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, the US Fed raised interest rates by 4.25% which is the largest rate increase since 1994. Interest rate increase is expected to continue for the coming year. Despite a rising interest rate environment, we entered interest rate swaps in early 2022 which has mitigated the adverse financial impact. In addition, we regularly review major foreign exchange transactional and capital expenditure exposures, and adopt proactive management, such as balancing of fixed and floating rate loan exposures, conducting regular stress testing and monitoring financial ratios.

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 after the relaxation of travel related restrictions in Q4 2022, would have a crucial impact on our business, earnings and asset values. To manage this risk, we have implemented and begun to explore alternative revenue streams outside of Hong Kong. For instance, our Greater China specific Sales & Marketing team has been developing specific sales and digital marketing approaches in the China market. Moreover, Peninsula Merchandising has embarked on a 5-year expansion plan in the Chinese mainland to penetrate deeper into six target cities and e-commerce channels.

Competition in all markets

With pandemic restrictions easing globally, our hotels have started to steer away from the domestic and staycation market and towards international travelers. We have seen significant increases in average daily rates in some markets. However, 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, the competition in the hospitality market has been relentless. In order to better understand our customers, our operations have had to adopt new technologies to identify customers' ever-changing needs and enhance digital customer experience. We have also strengthened our brand marketing and communications with our customers by implementing global initiatives and brand partnerships.

23 Details of *Vision 2030* commitments and specific initiatives can be found in our online CRS Report

Our leasing business

Our retail leasing business remained under pressure from lowered occupancy and unbudgeted rental concession offered to tenants. Foot traffic levels remained at low levels compared to the pre-Covid period which affected our retail tenants. For our hotel arcade leasing business, we have focused on promotion activities, such as 2022 Christmas Campaign for The Peninsula Hong Kong, The Peninsula Shanghai and The Peninsula Beijing to boost foot traffic. Commercial and residential leasing to a lesser extent, has also been impacted by the economic downturn. As a result, we have continued to work with tenants and make appropriate adjustments to rental and other contractual requirements.

Investments and developments

Delays and increase in costs caused by the pandemic continued to affect the construction projects of The Peninsula London, The Peninsula Istanbul (opened on 14 February 2023) and Peak Tramways (re-opened in Q3 2022). Mitigating measures have been strengthened throughout the year.

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.

Principal Risk Movements in 2022

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	↑

2023 Major Initiatives

In 2023, the GRC's main focus will continue to be on (i) overseeing risks pertinent to finishing projects and new hotel openings, (ii) enhancement of internal controls to manage the strategic risks of the group, especially risks associated with the recovery from the pandemic, and (iii) a focus on communication, awareness and ownership of risks and controls across the group.

Group Corporate Responsibility Committee Report

"We must take a more proactive approach to identify and manage our sustainability risks, step up our actions and contribute to global collaborative 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
15 March 2023

Composition	Chairman: Mr Clement Kwok, Chief Executive Officer Members: Group Director, Corporate and Legal Group Director, People and Culture 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 2022
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 and plans related to CRS topics that may have an impact on the operations of the group

Our Sustainability Approach

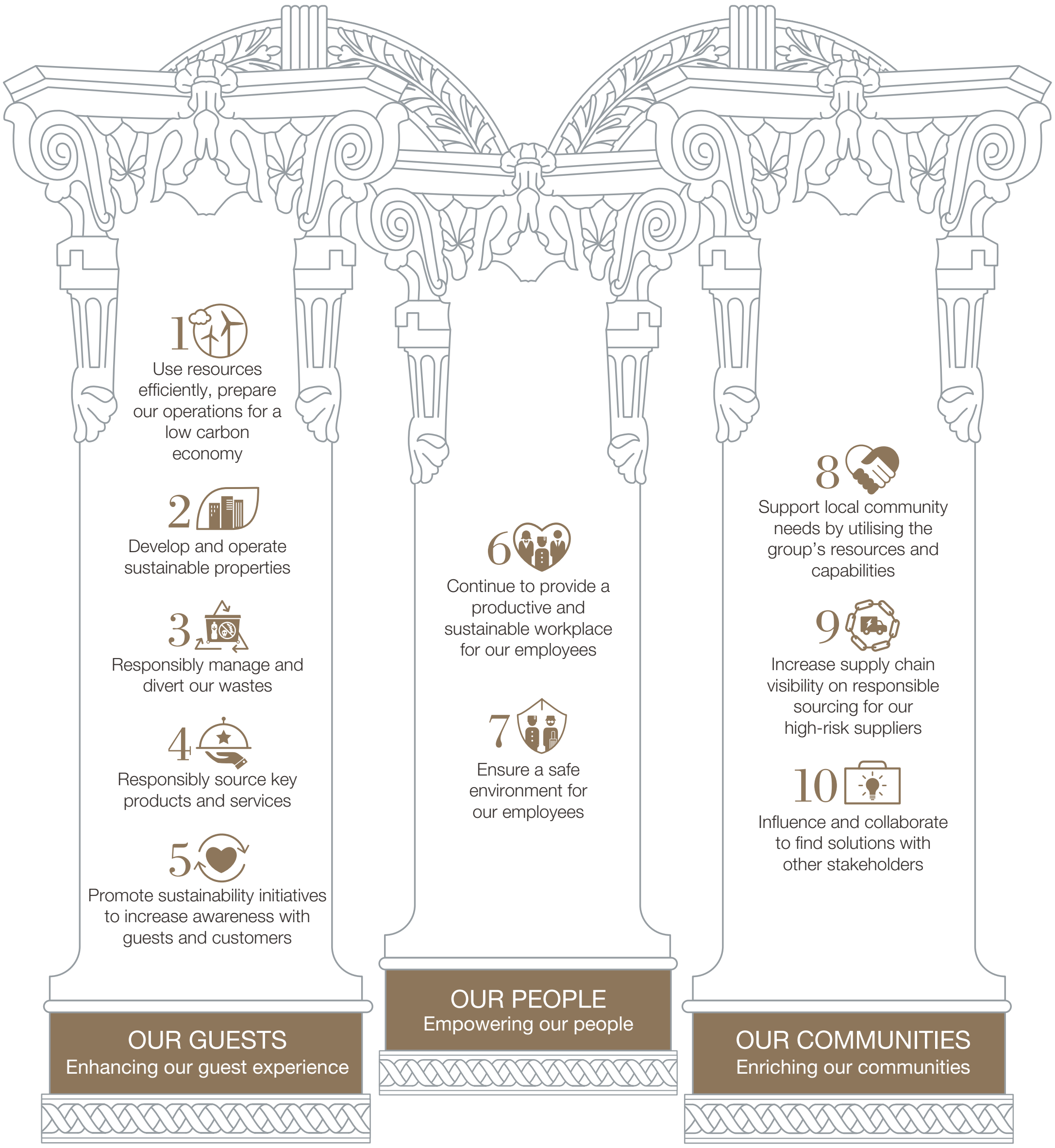
Sustainability issues are having an ever-increasing impact on businesses and societies at large, and businesses play a key role in facilitating an inclusive, low carbon transition. Our latest sustainability strategy, *Sustainable Luxury Vision 2030 (Vision 2030)* will continue to facilitate our response to the sustainability issues we are facing and guide us on navigating the environment in the coming decade.

The strategy incorporates a deeper focus on business integration and using regenerative and proactive approaches. We seek to leverage the strengths of our business, focusing on issues requiring urgent attention, ensuring our offerings bring positive benefits to the environment and our communities. 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.

We seek 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.

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 to enhancing our guests' experience, we look to provide sustainable luxury while not compromising on the well-being of our people, our communities or the environment. This means implementing sustainable design and practices to lower our environmental impact across our operations. 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. We will continue to promote and increase sustainability awareness with our guests and customers through knowledge sharing and interactive sustainable experiences.

Key initiatives

- On track to achieve BREEAM, one of the world's leading sustainable building standards, for our projects in London and Istanbul
- Hotels in Hong Kong, Tokyo, New York, Chicago, Shanghai and Paris received EarthCheck Certification, one of the world's leading benchmarking on sustainable tourism
- Launched new guestroom amenities featuring local scent and alternative packaging such as recycled aluminium and petroleum plastic-free materials
- Implemented energy saving and efficiency projects with a projected return on investment of less than three years
- Piloted our group's first on-site solar farm project at Quail Lodge & Golf Club
- Ensured that majority of paper products, cleaning products, tea, coffee and chocolate are sourced sustainably or responsibly
- Assessed market availability of cage-free eggs across our group, with 50% of our current egg spend coming from cage-free sources
- *Naturally Peninsula* menu re-launched to be fully plant-based
- Continue to support waste recovery projects such as oyster shells upcycling for marine restoration and research on recovering textile waste in Hong Kong

Our People: Empowering our people

At HSH, our people are the heart and soul of the company, and we want to build a lasting and genuine relationship with them. We continue to listen and respond to their needs, with the aim of empowering our people in the workplace. We 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.

Key initiatives

- Developed a comprehensive approach to diversity and inclusion
- Launched the new global wellness strategy focusing on employee mental wellbeing
- Launched group Occupational Safety and Health Management System (OSHMS)

Our Communities: Enriching our communities

Our communities are our homes – we stand to benefit when our communities thrive. *Vision 2030* will continue to guide our efforts in engaging with our local communities in meaningful ways, moving away from monetary-based to contributing time, expertise, vocational training opportunities, and other in-kind support. 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. 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.

Key initiatives

- Continued to support our local communities through vocational training, volunteering and donations, benefiting more than 160 charities and long-term partners, with a total of HK$3.65 million contribution and more than 7,100 volunteering hours in 2022
- 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 employment agents on the hiring of casual labour
- Sustainability-linked and Green loan totalling HK$10.5 billion which is directly linked to our sustainability targets and performance

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[25] 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 Group Executive and other 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 2022, overall climate risk management approach, key outcomes of the UN COP27 Climate Summit, and latest development on sustainability and climate-related disclosures were discussed with the Board.

Key Work in 2022

We continued to monitor progress on our commitments in *Vision 2030* and provided support and focused attention on areas that needed more traction. 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 market development (specifically on single-use plastics, electric vehicles, cage-free eggs, and others), technological innovations, emerging regulations and legislations, updates on reporting standards and management best practices
- Discussed the impact of environmental and social risks to our operations and supply chain referencing research and publications from globally respected organisations (such as the World Economic Forum and China Water Risk)
- Discussed climate risks management approach and decarbonisation roadmap
- Reviewed and approved our first Green Financing Framework

Looking Forward

In 2023, the GCRC's focus will be on (i) stakeholder engagement to better understand the evolving expectations from our external stakeholders, and raise awareness of sustainability topics across internal stakeholders and employees at all levels, (ii) assessing climate risks and setting a group net-zero carbon strategy to mitigate our climate impacts, (iii) continue to enhance our internal controls for sustainability-related compliance and risks, particularly on the upcoming changes in ESG reporting standards and requirements.

25 Sustainability topics reviewed and discussed at Board level can be found on page 152

Audit Committee Report

"The Audit Committee has continued to play a key role supporting the Board in matters relating to internal control, corporate governance, risk management, financial reporting and the rigorous independent assessment of the group's principal risks and risk tolerance."

Patrick Paul
Chairman of the Audit Committee
15 March 2023

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 2022	
Responsibilities	• To assist the Board in carrying out its responsibility of overseeing financial reporting, external audit, internal audit, risk management, internal controls and corporate governance	

Special Audits

Apart from the normal internal audit cycle, every year the Audit and Risk Management Department conducts special audits to ensure our business is conducted with the highest levels of integrity. During the year, the Audit Committee reviewed the group-wide audit on the preferred supplier process in the areas of accountability, control and transparency. The overall results indicate that the Group Purchasing & Tendering Policy remains effective. The Committee also reviewed the recruitment of contingent labour in the group's Asia operations. Internal control gaps in relation to the physical attendance of casual labour staff and performance issues were identified. Standard Operating Procedures coordinated by Operations Finance were rolled out to control the hiring of casual labour. Findings and recommendations on the two special audits are discussed at the Committee meetings and areas of improvements have been communicated to individual operations.

Corporate Governance

During the year, the Audit Committee was delegated with additional responsibilities on corporate governance matters. The Committee reviewed the latest Listing Rules requirements on corporate governance and endorsed the proposed changes to the HSH Corporate Governance Codes, terms of reference of Board and Audit Committee for Board approval and approved the updates on Shareholder Communication Policy and Speak Up Policy. In addition, the Committee reviewed the group's communication channels, shareholders and investors engagement activities conducted in 2022[26] and was satisfied with the implementation and effectiveness of the Shareholder Communication Policy.

26 Details on shareholders engagement can be found on page 158

Other Key Work in 2022

Annual/Interim Report and Financial Information

- Reviewed and endorsed the 2021 Annual Report, Corporate Responsibility and Sustainability Report, and the annual results announcement, as well as the 2022 Interim Report and the interim results announcement

Internal and external audits

- Approved the proposed 3-year internal audit plan commencing in 2023 focusing on cash and revenue management, compliance matters and payroll process following the implementation of new time and attendance and payroll system
- Reviewed the 2022 internal audit plan progress and the audit areas of focus. Due to travel restrictions, online reviews were conducted during the first half of the year and site based audits resumed during the second half of the year
- Reviewed the key internal audit findings and initiatives recommended to the relevant operations and Head Office departments and sharing of the best practices and good controls across the group
- Reviewed The Peninsula Istanbul audit findings, focusing on contracting strategy, procurement process and document retention
- Reviewed The Peninsula London audit findings, focusing on reporting, budget management, costs and savings strategies
- Reviewed and endorsed KPMG's audit report on the financial statements for the 2021 Annual Report and discussed the key observations identified by KPMG during the course of their audit and the related recommendations
- Reviewed 2022 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 roles and responsibilities, key accomplishments and priorities of the Finance Systems and Operations Finance team which was leading the global finance system project to improve operational efficiency and business support effectiveness
- Reviewed the valuation process and the methodology of revaluing the Hong Kong properties by independent valuers
- Discussed the impairment assessment for the existing hotels and hotel projects and agreed that no impairment would be required
- Reviewed the environmental and social risks that the group are facing and most of these risks are managed through 2030 sustainability initiatives
- Reviewed and approved the structure, adequacy of resources, staff qualifications and experience, training programmes of the group's accounting, internal audit, financial reporting and CRS functions
- Reviewed and endorsed semi-annually the Group Risk Management Report detailing the principal risks facing the group and any variances in 2022, 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 2021 Annual Report and Corporate Responsibility and Sustainability Report and 2022 Interim Report

Audit Committee Report

Governance

- Reviewed all connected transactions and related party transactions, including endorsing the connected transaction of tenancy agreement for the head office and continuing connected transaction of master agreement of carpet purchases for Board approval

- Discussed and reviewed reported speak up cases and investigations undertaken[27]

Other

- 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

As the Chairman of the Audit Committee, I have met separately with the Group General Manager, ARM and 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 operational, financial reporting and compliance controls, risk management and internal control systems for the group during 2022 to be effective and adequate. Issues raised by the internal and external auditors during 2022 have been, or are being addressed by management, and the Audit Committee advised the Board that there are no issues required to be raised to shareholders.

In February 2023, 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 2022, apart from audit work, the company also awarded non-audit work to KPMG including taxation and other services. In our first meeting in 2023, 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 2023 Annual General Meeting.

A summary of fees for audit and non-audit services to KPMG for the financial years ended 31 December 2022 and 2021 is as follows:

Nature of Services	**2022 HK$m**	2021 HK$m
Audit Services	**10**	10
Non-audit Services		
Taxation and other services	**3**	3

Looking Forward

The Committee has continued to provide crucial independent insight over the group's risk control measures in an increasingly volatile international business environment. Strong governance and appropriate risk mitigation measures must be rigorously and enforced in order to maintain the high standards of excellence expected by the group and its stakeholders. We expect that 2023 will bring additional challenges as we enter an uncertain global economic outlook, underlining the need for vigilance in respect of the group's financial and internal control mechanisms.

27 Details can be found on reporting channels on page 157
28 www.hshgroup.com/en/sustainable-luxury/sustainability-reports

Nomination Committee Report

"We are proud to have a Board which brings such a diverse range of skills, experience and personalities to successfully drive the group's strategy. I am also pleased that Mr Diego González Morales joins our Board as Non-Executive Director from March 2023, underlining our commitment to selecting and mentoring the next generation of leaders."

The Hon. Sir Michael Kadoorie
Chairman of the Nomination Committee
15 March 2023

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 2022
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 • To review the Board members contributions, and training and development

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, whilst not compromising on the central principle of appointments based on merit. Our Diversity Policy can be found on the company website[29].

With the retirement of Mr William Mocatta as a Non-Executive Director, Mr Diego González Morales, was appointed to the Board, both effective on 31 March 2023. Having regard to the Board's desire to appoint younger directors to bring a different mindset and insights to the business, the Committee considered that the appointment of Mr González Morales would bring fresh ideas and values to the Board with his expertise, background and experience. The process of appointment followed the selection criteria, nomination process and procedures set out in our Nomination Policy[30].

Mr González Morales has experience in internal audit and controls, investigations, compliance and M&A, covering financial services, healthcare, energy and entertainment. Having been invited to attend our Executive Committee meetings since April 2021 as an observer, Mr González Morales is closely acquainted with our business.

29 www.hshgroup.com/en/corporate-governance
30 Please also refer to pages 160 and 161 on Nomination Policy

Nomination Committee Report

The Nomination Committee reviews the composition, balance, skills and experience of the Board annually. 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.

The Committee also reviewed the appropriateness of an express diversity quota or measurable objective. It believes that the current large size of the Board enables it to benefit from a diverse set of views based on the different backgrounds and experiences of all Directors. In addition, given the current size of the Board, looking only at numerical targets for gender diversity on its own would be counter productive as the Committee continues to believe in identifying the right person for the role taking into account diversity including gender. On that basis, the Committee is currently of the view that the existing gender mix is sufficient, but is committed to keeping no less than three female Board members on the Board. In particular, three females out of seven INEDs, which is 43% represent independent views at the Board level. The gender mix will be reviewed on an annual basis and it is noted that the Board concurred with the views of the Committee.

Other Key Work in 2022

The Nomination Committee assessed and reviewed all INEDs' confirmations of independence and the cross-directorships of Dr Rosanna Wong[31] and Mr Philip Kadoorie (who replaced The Hon. Sir Michael Kadoorie on the Board of CK Hutchison Holdings Limited on 16 December 2022), 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 Nomination Committee reviewed and endorsed the changes to the Board Diversity Policy and its terms of reference in line with the changes to the Listing Rules and our own corporate governance practices. The Committee also reviewed the Nomination Policy and confirmed it remained relevant and no revision was required.

In March 2023, the Committee approved this report for inclusion into the company's 2022 Annual Report.

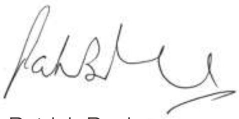
Looking Forward

The Nomination Committee continues to strengthen the array of skills, knowledge, and experience available on the Board, both through its process of new appointments and its oversight over continuous professional development of all Directors. The Nomination Committee will continue to promote diversity whilst not compromising on the level of skill and experience required to serve on our Board.

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 is focused on maintaining competitive levels of remuneration to attract and motivate senior talent whilst closely monitoring the company's financial capacity to navigate a challenging international economic environment."



Patrick Paul
Chairman of the Remuneration Committee
15 March 2023

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, People and Culture in attendance • Two meetings in 2022
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

HSH's Rewards philosophy is 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 latest review of the philosophy was carried out in 2021, with the aim of simplifying it with more focus on benefits and other career planning programmes considering the unprecedented and challenging labour market in the hospitality industry. 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

Remuneration Committee Report

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:

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 Group Executive is 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 2022 the Committee approved the continuation of the suspension of quality measurements in the light of the continuing covid disruptions.

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.

As disclosed in last year's annual report, the Committee endorsed management's proposal for the fees payable to NEDs and INEDs to revert to pre-pandemic levels from 1 January 2022. In November 2022, the Committee approved management's proposal for the fees payable to the Chairman and members of the Audit Committee to be respectively increased to HK$200,000 and HK$165,000 per annum with effect from 1 January 2023, given the additional responsibilities in respect of corporate governance matters. As the hospitality industry has yet to fully recover, the Committee endorsed all the other fees of the NEDs and INEDs be maintained at the current levels.

Other Key Work in 2022

2023 salaries

In 2022, the Committee noted management's recommendation on a group-wide 2023 general salary increase.

2022 bonuses

In 2022, the Committee reviewed and approved the bonus awards to Executive Directors and senior management as well as the HSH Management Bonus Plan proposal after considering the financial performance of the group, the COVID-19 environment, and other various factors including retention challenges, market pay trends and inflationary forecasts.

Others

The Committee reviewed and confirmed its terms of reference remained relevant and no revision was required. It also approved the terms of the letter of appointment of an INED.

In February 2023, the Committee approved this report for inclusion into the company's 2022 Annual Report.

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

2022 Remuneration of Directors and Senior Management

The following information is an integral part of the Audited financial statements for the year ended 31 December 2022.

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* 2022**	Total* 2021
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	325	100	–	–	40	**465**	0
Mr Andrew C.W. Brandler	325	100	150	60	–	**635**	0
Mr William E. Mocatta	325	–	–	–	–	**325**	0
Mr John A.H. Leigh	325	100	–	–	–	**425**	0
Mr Nicholas T.J. Colfer	325	–	–	–	–	**325**	0
Mr James L. Lewis	325	–	–	–	–	**325**	0
Mr Philip L. Kadoorie	325	–	–	–	–	**325**	0
Independent Non-Executive Directors							
Dr the Hon. Sir David K.P. Li	375	–	–	–	40	**415**	332
Mr Patrick B. Paul	375	–	185	100	–	**660**	528
Mr Pierre R. Boppe	375	–	–	–	–	**375**	300
Dr William K.L. Fung	375	–	–	–	40	**415**	332
Dr Rosanna Y.M. Wong	375	–	–	60	–	**435**	348
Dr Kim L. Winser	375	–	–	–	–	**375**	300
Ms Ada K.H. Tse	375	–	150	–	–	**525**	420
	4,900	300	485	220	120	**6,025**	2,560

Executive Directors – remuneration

The remuneration of Executive Directors of the company for 2022 was as follows:

(HK$'000)	Basic compensation	Bonus	Contractual Share-based Payment	Retirement benefits	Other benefits	**Total* 2022**	Total* 2021
Executive Directors							
Mr Clement K.M. Kwok	7,406	6,200	1,487	1,218	202	**16,513**	15,312
Mr Peter C. Borer	5,315	2,583	892	861	121	**9,772**	9,229
Mr Christopher S.M. Ip#	5,263	857	892	857	231	**8,100**	7,990
	17,984	9,640	3,271	2,936	554	**34,385**	32,531

* 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

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:

	2022 Number	2021 Number
HK$2,500,001 – HK$5,000,000	**4**	3
HK$5,000,001 – HK$7,000,000	**3**	3
HK$7,000,001 – HK$9,000,000	**1**	1

* GMB, the company's management and operations' decision-making authority, comprises the three Executive Directors and eight (2021: 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 (2021: three) Executive Directors whose remuneration is set out above. The remuneration of the other two (2021: two) individuals with highest remuneration are within the following bands:

	2022 Number	2021 Number
HK$6,500,001 – HK$7,000,000	**0**	1
HK$7,000,001 – HK$7,500,000	**1**	1
HK$7,500,001 – HK$8,000,000	**1**	0

The aggregate of the remuneration in respect of these two (2021: two) individuals is as follows:

(HK$'000)	2022	2021
Basic compensation	**9,848**	10,816
Bonus	**3,745**	1,830
Retirement benefits	**476**	474
Other benefits	**924**	1,004
	14,993	14,124
Number of Individuals	**2**	2

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

2023 and beyond

2023 is likely to be a challenging economic environment on a global scale with a number of our key markets predicted to enter into recession. With that in mind, the Committee will continue to maintain the delicate balance between the need for financial prudence and the need to maintain fair and market competitive remuneration packages.

Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2022.

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 41 to 78 and Financial Review on pages 80 to 96. 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 164 to 167. The future development of the group's business is discussed throughout this annual report including in the CEO Statement and Strategic Review on page 39.

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 118 to 121.

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 22 and 23.

Share Capital

There was no movement in the share capital of the company during the year.

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 2022, given the underlying loss of the company, the Board of Directors has resolved not to declare an interim dividend (2021: nil) or a final dividend (2021: 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$0.75 million (2021: HK$1.43 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$0.94 million (2021: HK$1.55 million) referred to in the Sustainability Data Statements on page 262 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 for the period from 1 January to 31 March 2022 amounted to HK$7.9 million.

KEL is the agent of the registered owner of the Office Premises. The registered owner is ultimately controlled by certain substantial shareholders of the company. The lease constituted continuing connected transaction of the company and subject to annual reviews by Independent Non-Executive Directors and the auditor 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.

On 28 March 2022, HMS entered into a new tenancy agreement with KEL to renew the Office Premises for two years commencing on 1 April 2022 at a market rent of HK$1,747,098 per month plus a monthly service charge of HK$259,246.8. In accordance with HKFRS 16 "Leases", the transaction under the new tenancy agreement had been regarded as an acquisition of asset by the group and the value of the right-of-use asset recognised by the group was HK$41 million. The lease constituted a connected transaction of the company and details of the transaction were disclosed in the announcement dated 28 March 2022.

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 are shown on pages 132 to 140. All of them held office throughout 2022 and up to the date of this report, with the exception of Mr William Mocatta who will retire as a Non-Executive Director and Mr Diego González Morales who will join the Board, both with effect from 31 March 2023.

In accordance with the Articles of Association of the company, all the Directors who will retire at the 2023 Annual General Meeting[36] and, being eligible, have agreed to offer themselves for re-election. They include Mr Andrew Brandler, Mr Clement Kwok, Mr Pierre Boppe, Dr William Fung and Mr Diego González Morales.

None of the Directors proposed for re-election at the 2023 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 10 May 2023

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 website[37].

Senior Management

Biographical details of senior management are shown on pages 141 and 142. 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 retired on 31 August 2022. Mr Shane Izaks retired in May 2022 and will continue in his role as Consultant Director of Information Technology for the group for one year.

Interests of Directors

As at 31 December 2022, 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)	848,805,369	51.460
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)	84,170,232	5.103
Mr Philip L. Kadoorie	Note (c)	848,805,369	51.460
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 848,805,369 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) 492,138,538 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder.

(b) Mr John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 84,170,232 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 84,170,232 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 84,170,232 shares.

(c) Mr Philip L. Kadoorie was deemed (by virtue of the SFO) to be interested in 848,805,369 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) 492,138,538 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries.

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 2022.

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 2022, 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 2022, 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 2022, 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	261,682,888	15.87(i)
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	345,853,120	20.97(i)
Guardian Limited	Beneficiary/Interest of controlled corporation	84,170,232	5.10(iii)
Harneys Trustees Limited	Trustee/Interests of controlled corporations	932,975,601	56.56(iii)
Lawrencium Holdings Limited	Beneficiary	492,138,538	29.84(ii)
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	848,805,369	51.46(ii)
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	84,170,232	5.10(iv)
Oak (Unit Trust) Holdings Limited	Trustee	84,170,232	5.10(i)
Oak HSH Limited	Beneficiary	84,170,232	5.10(iv)

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 was deemed to be interested in the shares in which The Mikado Private Trust Company Limited and Guardian Limited were deemed to be interested, either by virtue of having direct or indirect control over such companies and/or in the capacity as one of the trustees of a discretionary trust.

The shares in which Guardian Limited was deemed to be interested was duplicated within the interests attributed to Mr John A.H. Leigh in his capacity as one of the trustees of a discretionary trust as disclosed in "Interests of Directors".

(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.

(b) Other substantial shareholders

	Capacity	Number of shares held in the company	% of total number of shares in issue of the company
Mr Ng Chee Siong	Trustee	84,828,218	5.14[(i)]
Mr Philip Ng Chee Tat	Trustee	84,828,218	5.14[(i)]
Sino Hotels (Holdings) Limited	Interests of controlled corporations	84,828,218	5.14[(i)]

Note:

(i) 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 2022, the company had not been notified of any substantial shareholder (other than Directors of the company) who had interests or short positions in the shares or underlying shares of the company that were recorded in the register required to be kept under section 336 of the SFO.

Interests of Any Other Person

As at 31 December 2022, 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' Report

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 2022 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 145 to 163.

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 2022, 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 2022 have been audited by KPMG who will retire at the 2023 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 Accounting and Financial Reporting Council Ordinance) as auditor and authorise the Directors to fix their remuneration will be proposed at the 2023 Annual General Meeting.

By Order of the Board

Christobelle Liao
Company Secretary
15 March 2023

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 193 to 259, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022 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)

<table>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>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.</td><td>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.</td></tr>
</table>

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

15 March 2023

Consolidated Statement of Profit or Loss (HK$m)

		Year ended 31 December	
	Note	**2022**	2021
Revenue	3	**4,198**	3,461
Cost of inventories		**(352)**	(310)
Staff costs and related expenses		**(1,966)**	(1,562)
Rent and utilities		**(370)**	(373)
Other operating expenses		**(1,111)**	(822)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)		**399**	394
Depreciation and amortisation		**(452)**	(499)
Operating loss		**(53)**	(105)
Interest income		**6**	4
Financing charges	5	**(204)**	(157)
Net financing charges		**(198)**	(153)
Loss after net financing charges	4	**(251)**	(258)
Share of results of joint ventures	14	**(54)**	(4)
Share of results of associates	15	**(11)**	(11)
Provision for impairment	12(a)	**–**	(679)
(Decrease)/increase in fair value of investment properties	12(a)	**(152)**	670
Loss before taxation		**(468)**	(282)
Taxation			
Current tax	6	**(48)**	(78)
Deferred tax	6	**31**	41
Loss for the year		**(485)**	(319)
Loss attributable to:			
Shareholders of the company		**(488)**	(120)
Non-controlling interests		**3**	(199)
Loss for the year		**(485)**	(319)
Loss per share, basic and diluted (HK$)	9	**(0.30)**	(0.07)

The notes on pages 198 to 259 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income (HK$m)

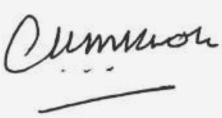
		Year ended 31 December	
	Note	**2022**	2021
Loss for the year		**(485)**	(319)
Other comprehensive income for the year, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**(387)**	96
– financial statements of joint ventures		**(144)**	(21)
– financial statements of and loans to an associate		**(29)**	(40)
– hotel operating rights and trademarks		**(26)**	(35)
		(586)	–
Cash flow hedges:			
– effective portion of changes in fair values		**280**	21
– transfer from equity to profit or loss		**(22)**	18
		258	39
Items that will not be reclassified to profit or loss:			
Surplus on revaluation of land and buildings held for own use upon transfer to investment properties	12	**63**	–
Remeasurement of net defined benefit retirement obligations		**4**	(1)
		67	(1)
Other comprehensive income	8	**(261)**	38
Total comprehensive income for the year		**(746)**	(281)
Total comprehensive income attributable to:			
Shareholders of the company		**(749)**	(82)
Non-controlling interests		**3**	(199)
Total comprehensive income for the year		**(746)**	(281)

The notes on pages 198 to 259 form part of these Financial Statements.

Consolidated Statement of Financial Position (HK$m)

	Note	**As at 31 December 2022**	As at 31 December 2021
Non-current assets			
Investment properties		**32,895**	33,077
Other properties, plant and equipment		**14,235**	13,748
	12	**47,130**	46,825
Properties under development for sale	13	**–**	4,954
Interest in joint ventures	14	**1,372**	1,349
Interest in associates	15	**459**	520
Hotel operating rights and trademarks	16	**456**	483
Derivative financial instruments	17/28(b)	**334**	53
Deferred tax assets	18(b)	**148**	110
		49,899	54,294
Current assets			
Properties under development for sale	13	**5,169**	–
Derivative financial instruments	17/28(b)	**15**	–
Inventories	19	**87**	75
Trade and other receivables	20	**826**	775
Amount due from a joint venture	31(b)	**–**	62
Cash at banks and in hand	21(a)	**585**	479
		6,682	1,391
Current liabilities			
Trade and other payables	22	**(1,684)**	(1,529)
Interest-bearing borrowings	23	**(4,544)**	(2,015)
Derivative financial instruments	17/28(b)	**–**	(9)
Current taxation	18(a)	**(22)**	(42)
Lease liabilities	24	**(165)**	(163)
		(6,415)	(3,758)
Net current assets/(liabilities)		**267**	(2,367)
Total assets less current liabilities		**50,166**	51,927
Non-current liabilities			
Interest-bearing borrowings	23	**(10,648)**	(11,364)
Trade and other payables	22	**(96)**	(120)
Net defined benefit retirement obligations	27	**(18)**	(24)
Derivative financial instruments	17/28(b)	**–**	(6)
Deferred tax liabilities	18(b)	**(657)**	(608)
Lease liabilities	24	**(2,627)**	(2,940)
		(14,046)	(15,062)
Net assets		**36,120**	36,865
Capital and reserves			
Share capital	25	**5,837**	5,837
Reserves		**30,179**	30,925
Total equity attributable to shareholders of the company		**36,016**	36,762
Non-controlling interests		**104**	103
Total equity		**36,120**	36,865

Approved by the Board of Directors on 15 March 2023 and signed on its behalf by:


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

The notes on pages 198 to 259 form part of these Financial Statements.

Consolidated Statement of Changes In Equity (HK$m)

	Note	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 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 and 1 January 2022		5,837	29	76	30,820	30,925	36,762	103	36,865
Changes in equity for 2022:									
Loss for the year		**–**	**–**	**–**	**(488)**	**(488)**	**(488)**	**3**	**(485)**
Other comprehensive income	8	**–**	**258**	**(519)**	**–**	**(261)**	**(261)**	**–**	**(261)**
Total comprehensive income for the year		**–**	**258**	**(519)**	**(488)**	**(749)**	**(749)**	**3**	**(746)**
Transfer to fixed assets		**–**	**3**	**–**	**–**	**3**	**3**	**–**	**3**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Capital contributions from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**4**	**4**
Balance at 31 December 2022		**5,837**	**290**	**(443)**	**30,332**	**30,179**	**36,016**	**104**	**36,120**

The notes on pages 198 to 259 form part of these Financial Statements.

Consolidated Statement of Cash Flows (HK$m)

	Note	Year ended 31 December 2022	2021
Operating activities			
Loss after net financing changes		**(251)**	(258)
Adjustments for:			
Depreciation	12(a)	**439**	485
Amortisation of hotel operating rights	16	**13**	14
Interest income	4	**(6)**	(4)
Financing charges	5	**204**	157
EBITDA		**399**	394
Changes in other working capital		**89**	(6)
Cash generated from operations		**488**	388
Net tax paid:			
Hong Kong profits tax		**(61)**	(61)
Overseas tax		**(10)**	(9)
Net cash generated from operating activities		**417**	318
Investing activities			
Development costs for the Peninsula London Residences		**(669)**	(646)
Capital expenditure on the Peninsula hotels in London and Yangon		**(1,505)**	(1,499)
Capital expenditure on the Peak Tram upgrade project		**(161)**	(193)
Capital injection into The Peninsula Istanbul joint venture		**(278)**	(109)
Trademark acquisition cost for The Peninsula Istanbul		**(12)**	–
Capital expenditure on operating assets		**(200)**	(141)
Cash injected from the non–controlling shareholder of The Peninsula Yangon		**4**	–
Receipt from/(advance to) associates		**21**	(11)
Repayment of shareholder's loans from the Peninsula Shanghai joint venture		**63**	–
Net cash used in investing activities		**(2,737)**	(2,599)
Financing activities			
Drawdown of term loans		**7,848**	3,660
Repayment of term loans		**(6,231)**	(1,490)
Net increase in revolving loans		**1,294**	372
Net (deposit)/withdrawal of interest–bearing bank deposits with maturity of more than three months		**(2)**	1
Interest paid and other financing charges		**(289)**	(159)
Interest received		**6**	4
Capital element of lease rental paid		**(72)**	(41)
Interest element of lease rental paid		**(95)**	(100)
Dividends paid to holders of non–controlling interests		**(6)**	(6)
Net cash generated from financing activities		**2,453**	2,241
Net increase/(decrease) in cash and cash equivalents		**133**	(40)
Cash and cash equivalents at 1 January		**466**	506
Effect of changes in foreign exchange rates		**(29)**	–
Cash and cash equivalents at 31 December	21(a)	**570**	466

The notes on pages 198 to 259 form part of these Financial Statements.

Notes to the Financial Statements

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

	Note	At 31 December 2022	2021
Non-current asset			
Investment in subsidiaries	33	**–**	–
Current assets			
Amounts due from subsidiaries		**16,358**	16,028
Other receivables		**7**	7
Cash at banks and in hand		**19**	3
		16,384	16,038
Current liabilities			
Amounts due to subsidiaries		**(50)**	(79)
Other payables and accruals		**(25)**	(23)
		(75)	(102)
Net assets		**16,309**	15,936
Capital and reserves			
Share capital	25	**5,837**	5,837
Reserves	26(a)	**10,472**	10,099
Total equity		**16,309**	15,936

Approved by the Board of Directors on 15 March 2023 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 2022 and 2021:

	2022				2021			
	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	**–**	**1,284**	**–**	**1,284**	–	808	–	808
– Food and beverage	**892**	**–**	**–**	**892**	683	–	–	683
– Shopping arcades and offices	**–**	**36**	**496**	**532**	–	35	484	519
– Others	**207**	**80**	**–**	**287**	173	80	–	253
	1,099	**1,400**	**496**	**2,995**	856	923	484	2,263
Commercial properties								
– Residential properties	**–**	**47**	**355**	**402**	–	42	380	422
– Offices	**–**	**10**	**85**	**95**	–	10	91	101
– Shopping arcades and others	**89**	**33**	**67**	**189**	76	34	65	175
	89	**90**	**507**	**686**	76	86	536	698
Clubs and Services								
– Golf club	**117**	**86**	**–**	**203**	100	73	–	173
– Peak Tram operation	**29**	**–**	**–**	**29**	13	–	–	13
– Peninsula Merchandising	**244**	**–**	**–**	**244**	275	–	–	275
– Others	**37**	**4**	**–**	**41**	35	4	–	39
	427	**90**	**–**	**517**	423	77	–	500
				4,198				3,461

Notes to the Financial Statements

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

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

	2022	2021
Amortisation	**13**	14
Depreciation		
Other properties, plant and equipment	**391**	427
Right-of-use assets	**48**	58
Auditor's remuneration:		
Audit services	**10**	10
Taxation and other services	**3**	3
Interest income	**(6)**	(4)
Rentals receivable from investment properties less direct		
outgoings of HK$27 million (2021: HK$27 million)	**(976)**	(993)
Government grants	**(45)**	(96)

5. Financing charges (HK$m)

	2022	2021
Interest on bank borrowings	**284**	116
Interest on lease liabilities	**139**	149
Other borrowing costs	**47**	45
Total interest expenses on financial liabilities carried at amortised cost	**470**	310
Derivative financial instruments:		
– cash flow hedges, transfer from equity (note 8)	**(26)**	21
	444	331
Less: Interest expenses capitalised into		
– properties under development*	**(196)**	(125)
– right-of-use assets#	**(44)**	(49)
	204	157

* The borrowing costs have been capitalised at an average rate of 2.45% in 2022 (2021: 1.94%).

\# Interest on lease liabilities have been capitalised at an average rate of 4.8% in 2022 (2021: 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:

	2022	2021
Current tax - Hong Kong profits tax		
Provision for the year	**42**	62
(Over)/under-provision in respect of prior years	**(9)**	1
	33	63
Current tax - Overseas		
Provision for the year	**13**	11
Under-provision in respect of prior years	**2**	4
	15	15
	48	78
Deferred tax		
Decrease in net deferred tax liabilities relating to revaluation of overseas investment properties	**(1)**	(5)
Decrease in net deferred tax liabilities relating to other temporary differences	**(30)**	(36)
	(31)	(41)
Total	**17**	37

The provision for Hong Kong profits tax for 2022 is calculated at 16.5% (2021: 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:

	2022	2021
Loss before taxation	**(468)**	(282)
Notional tax at the domestic income tax rate of 16.5%	**(77)**	(47)
Tax effect of non-deductible impairment provision	**–**	112
Tax effect of non-deductible expenses	**3**	4
Tax effect of non-taxable income	**(8)**	(1)
Tax effect of share of losses of joint ventures and associates	**11**	3
Tax effect of non-deductible/(non-taxable) fair value change on Hong Kong investment properties	**23**	(113)
Tax effect of tax losses not recognised	**63**	77
Effect of different tax rates of subsidiaries operating in other jurisdictions	**6**	(2)
(Over)/under-provision in respect of prior years	**(7)**	5
Others	**3**	(1)
Actual tax expense	**17**	37

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 eight (2021: seven) senior management. The total remuneration of the key management personnel is shown below:

	2022		2021	
	Executive and Non-executive Directors	**GMB members other than Executive Directors**	Executive and Non-executive Directors	GMB members other than Executive Directors
Directors' fees	**6,025**	**–**	2,560	–
Basic compensation	**17,984**	**28,534**	17,395	27,752
Bonuses and incentives	**12,911**	**9,888**	11,779	7,165
Retirement benefits	**2,936**	**2,524**	2,840	2,571
Other benefits	**554**	**928**	517	872
	40,410	**41,874**	35,091	38,360

Further details of the remuneration of the Directors (on a named basis) and senior management, and remuneration to the five highest paid individuals by bands are disclosed in the "2022 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)

	2022			2021		
	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	**(387)**	**–**	**(387)**	96	–	96
– financial statements of joint ventures	**(144)**	**–**	**(144)**	(21)	–	(21)
– financial statements of and loans to an associate	**(29)**	**–**	**(29)**	(40)	–	(40)
– hotel operating rights	**(26)**	**–**	**(26)**	(35)	–	(35)
	(586)	**–**	**(586)**	–	–	–
Cash flow hedges:						
– effective portion of changes in fair values	**334**	**(54)**	**280**	26	(5)	21
– transfer from equity to profit or loss	**(26)**	**4**	**(22)**	21	(3)	18
	308	**(50)**	**258**	47	(8)	39
Surplus on revaluation of land and buildings held for own use upon transfer to investment properties	**63**	**–**	**63**	–	–	–
Remeasurement of net defined benefit retirement obligations	**4**	**–**	**4**	(1)	–	(1)
Other comprehensive income	**(211)**	**(50)**	**(261)**	46	(8)	38

9. Loss per share

(a) Loss per share – basic

	2022	2021
Loss attributable to shareholders of the company (HK$m)	**(488)**	(120)
Weighted average number of shares in issue (million shares)	**1,649**	1,649
Loss per share (HK$)	**(0.30)**	(0.07)

(b) Loss per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2022 and 2021 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

No dividends were approved or paid to shareholders of the company during the years ended 31 December 2022 and 2021. No final dividends were proposed after the end of the reporting period (2021: Nil).

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 2022 and 2021 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
Reportable segment revenue*	**2,995**	2,263	**686**	698	**517**	500	**4,198**	3,461
Reportable segment operating profit before interest, taxation, depreciation and amortisation (EBITDA)	**238**	58	**279**	327	**1**	72	**518**	457
Depreciation and amortisation	**(390)**	(451)	**(22)**	(26)	**(40)**	(22)	**(452)**	(499)
Pre-opening and project expenses	**(119)**	(63)	**–**	–	**–**	–	**(119)**	(63)
Segment operating (loss)/profit	**(271)**	(456)	**257**	301	**(39)**	50	**(53)**	(105)
Provision for impairment loss	**–**	(679)	**–**	–	**–**	–	**–**	(679)

Reconciliation of consolidated segment operating loss to the loss before taxation in the consolidated statement of profit or loss is not presented, since the consolidated segment operating loss 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 2022 and 2021 are set out as follows:

	Note	**2022**	2021
Reportable segment assets			
Hotels		**26,907**	26,623
Commercial properties		**27,410**	27,321
Clubs and services		**1,182**	1,037
		55,499	54,981
Unallocated assets			
Derivative financial instruments	17	**349**	53
Deferred tax assets	18(b)	**148**	110
Amount due from a joint venture	31(b)	**–**	62
Cash at banks and in hand	21(a)	**585**	479
Consolidated total assets		**56,581**	55,685

(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 properties under development for sales and total reportable non-current assets.

	Revenue from external customers		Reportable non-current assets	
	2022	2021	**2022**	2021
Hong Kong	**1,607**	1,678	**31,632**	31,580
Other Asia *	**1,012**	733	**5,322**	6,167
United States of America and Europe	**1,579**	1,050	**17,632**	16,384
	4,198	3,461	**54,586**	54,131

* 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 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
At 1 January 2022	**695**	**3,133**	**8,609**	**4,929**	**6,378**	**23,744**	**33,077**	**56,821**
Exchange adjustments	**(16)**	**(322)**	**(379)**	**(153)**	**(572)**	**(1,442)**	**(140)**	**(1,582)**
Additions	**–**	**74**	**21**	**116**	**1,855**	**2,066**	**38**	**2,104**
Disposals	**–**	**–**	**–**	**(18)**	**–**	**(18)**	**–**	**(18)**
Surplus on revaluation	**–**	**–**	**63**	**–**	**–**	**63**	**–**	**63**
Transfer	**–**	**–**	**(67)**	**740**	**(745)**	**(72)**	**72**	**–**
Fair value adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**(152)**	**(152)**
At 31 December 2022	**679**	**2,885**	**8,247**	**5,614**	**6,916**	**24,341**	**32,895**	**57,236**
Representing:								
Cost	**679**	**2,885**	**8,247**	**5,614**	**6,916**	**24,341**	**–**	**24,341**
Valuation – 2022	**–**	**–**	**–**	**–**	**–**	**–**	**32,895**	**32,895**
	679	**2,885**	**8,247**	**5,614**	**6,916**	**24,341**	**32,895**	**57,236**
Accumulated depreciation and impairment losses:								
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
At 1 January 2022	**254**	**363**	**4,547**	**4,153**	**679**	**9,996**	**–**	**9,996**
Exchange adjustments	**(8)**	**(19)**	**(166)**	**(118)**	**–**	**(311)**	**–**	**(311)**
Charge for the year	**–**	**48**	**162**	**229**	**–**	**439**	**–**	**439**
Written back on disposals	**–**	**–**	**–**	**(18)**	**–**	**(18)**	**–**	**(18)**
At 31 December 2022	**246**	**392**	**4,543**	**4,246**	**679**	**10,106**	**–**	**10,106**
Net book value:								
At 31 December 2022	**433**	**2,493**	**3,704**	**1,368**	**6,237**	**14,235**	**32,895**	**47,130**
At 31 December 2021	441	2,770	4,062	776	5,699	13,748	33,077	46,825

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$356 million (2021: HK$335 million), of which HK$181 million related to The Peak Tram upgrade project. The group also incurred development costs for the hotel project in London amounting to HK$1,660 million. In August 2022, the Peak Tram upgrade project was substantially completed and construction in progress in respect of the project of HK$730 million was transferred to motor vehicles, plant and equipment. During the year, certain areas of the Peninsula hotels in Hong Kong and Tokyo were converted into office and retail spaces to generate rental income. The relevant areas were revalued and the surplus on revaluation of HK$63 million was recognised in other comprehensive income in accordance with the accounting policy as disclosed in note 34(f).

The net book for other items of properties, plant and equipment disposed of during the year ended 31 December 2022 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).

For the year ended 31 December 2021, the directors considered that, due to the substantial uncertainty in the economic and business environment in Myanmar, 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.

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 2022. 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 2022:

Valuation parameters	Range
Capitalisation rate	
– Shopping arcades	3.85% – 6.30% (2021: 3.85% – 6.30%)
– Offices	3.85% – 3.90% (2021: 3.85% – 3.90%)
– Residential properties	2.60% – 3.35% (2021: 2.60% – 3.35%)
Expected monthly market rental per square foot	
– Shopping arcades	HK$32 – HK$1,200 (2021: HK$33 – HK$1,200)
– Offices	HK$25 – HK$52 (2021: HK$25 – HK$53)
– Residential properties	HK$39 – HK$72 (2021: HK$39 – HK$72)

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:

	2022	2021
Within one year	**731**	740
After one year but within two years	**466**	404
After two years but within three years	**355**	275
After three years but within four years	**240**	225
After four years but within five years	**193**	145
After five years	**395**	483
	2,380	2,272

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:

	2022	2021
Classified as properties leased for own use, carried at depreciated cost	**2,493**	2,770
Included in construction in progress	**117**	117
	2,610	2,887

The analysis of expense items in relation to leased properties charged to the consolidated statement of profit or loss is as follows:

	2022	2021
Depreciation charge of right-of-use assets for properties leased for own use	**48**	58
Interest on lease liabilities	**139**	149
Variable lease payments not included in the measurement of lease liabilities	**8**	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 Repulse Bay, 109 Repulse Bay Road	Residential and commercial rentals
Repulse Bay Garage, 60 Repulse Bay Road	Commercial rentals
Short term lease (less than 10 years):	
The Peak Tower, 128 Peak Road	Commercial rentals
Held in Mainland China:	
Medium term lease (between 10 and 50 years):	
The Peninsula Beijing,	
8 Goldfish Lane, Wangfujing, Beijing	Hotel and commercial rentals
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

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 Vietnam:	
Short term lease (less than 10 years):	
The Landmark, 5B Ton Duc Thang Street,	
District 1, Ho Chi Minh City	Residential and commercial rentals
Held in the United States of America:	
Freehold:	
Quail Lodge Golf Club	Golf club
Quail Lodge Resort	
8205 Valley Greens Drive, Carmel, California	Resort
Vacant land, near Quail Lodge	Undetermined
The Peninsula Chicago,	
108 East Superior Street	
(at North Michigan Avenue), Chicago, Illinois	Hotel
Long term lease (over 50 years):	
The Peninsula New York,	
700 Fifth Avenue at 55th Street, New York	Hotel and commercial rentals
Held in France:	
Freehold:	
21 avenue Kléber, Paris	Commercial rentals
21 Rue de Longchamp, Paris	Residential
Held in the United Kingdom:	
Long term lease (over 50 years):	
1-5 Grosvenor Place,	
London SW1X 7YL	Under redevelopment
Held in Myanmar:	
Medium term lease (between 10 and 50 years):	
371-380 Bogyoke Aung San Road, Yangon	Under redevelopment

13. Properties under development for sale (HK$m)

	2022	2021
At 1 January	**4,954**	4,264
Addition	**760**	717
Exchange adjustment	**(545)**	(27)
At 31 December	**5,169**	4,954

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 development of these apartments is expected to be substantially completed in 2023 and as such, properties under development for sale has been reclassified as current assets in the balance sheet.

As at 31 December 2022, we have exchanged contracts for approximately 70% of the apartments with an aggregate sales value of over HK$5 billion (GBP0.5 billion).

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.

Notes to the Financial Statements

14. Interest in joint ventures (HK$m)

	2022	2021
Share of net assets	**914**	828
Loans to PSW (note 31(b))	**458**	521
	1,372	1,349

(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 2021: US$117,500,000)	50%	Hotel investment and apartments held for sale
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)*	Incorporated	Türkiye	TRY2,390,697,428 (31 December 2021: TRY1,161,618,600)	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, Türkiye. 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 2022 mainly comprised property under development and cash at bank and in hand of HK$1,517 million (2021: HK$1,000 million) and HK$69 million (2021: HK$75 million) respectively.

(b) Türkiye has been considered a hyperinflationary economy. Accordingly, the financial information of PIT with functional currency of Turkish Lira has been prepared in accordance with HKAS 29, *Financial reporting in hyperinflationary economies*. As required by HKAS 29, PIT's financial information for the year ended 31 December 2022 is adjusted based on the current purchasing power by reference to the local customer price index before translation into HK Dollars for reporting under the accounting policy as disclosed in note 34(c) of these financial statements. For the year ended 31 December 2022, the customer price index of Türkiye increased by 64% compared to the last year.

(c) PSW has pledged its properties inclusive of the land use rights as security for an initial loan facility amounting to RMB1,220 million (HK$1,366 million) (2021: RMB2,500 million (HK$3,060 million)). As at 31 December 2022, the loan drawdown amounted to RMB974 million (HK$1,090 million) (2021: RMB789 million (HK$966 million)). The net carrying amount of these pledged assets amounted to RMB2,348 million (HK$2,628 million) (2021: RMB2,445 million (HK$2,993 million)).

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	**2022**	2021
Non-current assets	**2,332**	2,585
Cash at bank and in hand	**77**	156
Apartments held for sale and other current assets	**397**	457
Current liabilities	**(254)**	(429)
Non-current liabilities	**(2,269)**	(2,291)
Net assets	**283**	478

Statement of profit or loss	**2022**	2021
Proceeds from sale of an apartment	**45**	–
Hotel revenue and rental income	**298**	489
	343	489
Cost of inventories and operating expenses (including the carrying value of apartment sold)	**(274)**	(332)
EBITDA	**69**	157
Depreciation	**(90)**	(98)
Net financing charges	**(52)**	(55)
(Loss)/profit before non-operating items	**(73)**	4
Non-operating items, net of tax *	**(7)**	(11)
Loss for the year	**(80)**	(7)
The group's share of result of PSW	**(40)**	(4)

* The non-operating items mainly represented the unrealised loss on revaluation of the hotel's commercial arcade, net of tax.

Notes to the Financial Statements

14. Interest in joint ventures (HK$m) continued

(e) The group's share of results of joint ventures are summarised below:

	2022	2021
Share of result of PSW	**(40)**	(4)
Share of pre-opening expenses of PIT	**(14)**	–
	(54)	(4)

15. Interest in associates (HK$m)

	2022	2021
Interest in associates	**459**	520

(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.

15. Interest in associates (HK$m) continued

(b) Included in the balance of interest in associates are long-term unsecured loans to 19 Holding of HK$426 million (2021: HK$464 million). These loans were made pro rata to the group's shareholding in 19 Holding and are interest bearing at 3.25%. The terms of the loans are under review. The original loan maturity date was 31 December 2022. It is expected that the loan will be renewed for more than 1 year.

(c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR227 million (HK$1,887 million) (2021: EUR227 million (HK$2,005 million)). As at 31 December 2022, the loan drawdown amounted to EUR227 million (HK$1,887 million) (2021: EUR227 million (HK$2,005 million)). As at 31 December 2022, the net carrying amount of the pledged asset amounted to EUR495 million (HK$4,114 million) (2021: EUR514 million (HK$4,539 million)).

(d) BHP has pledged its hotel property to an independent financial institution as security for BHP's loan facility, amounting to US$114 million (HK$889 million) (2021: US$145 million (HK$1,131 million)). As at 31 December 2022, the loan drawdown amounted to US$114 million (HK$889 million) (2021: US$125 million (HK$975 million)). The net carrying amount of the pledged asset amounted to US$33 million (HK$260 million) (2021: US$36 million (HK$284 million)).

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

	2022	2021
EBITDA	**223**	264
Depreciation	**(198)**	(230)
Interest	**(83)**	(86)
Net loss from continuing operations	**(58)**	(52)
Other comprehensive income	**–**	–
Total comprehensive income	**(58)**	(52)
The Group's share of results of the associates	**(11)**	(11)

Notes to the Financial Statements

16. Hotel operating rights and trademarks (HK$m)

	2022	2021
Cost		
At 1 January	**694**	735
Additions	**12**	-
Exchange adjustments	**(30)**	(41)
At 31 December	**676**	694
Accumulated amortisation		
At 1 January	**(211)**	(203)
Exchange adjustments	**4**	6
Amortisation for the year	**(13)**	(14)
At 31 December	**(220)**	(211)
Net book value	**456**	483

Hotel operating rights and trademarks represent the cost attributable to securing the group's rights to operate The Peninsula Beverly Hills and The Peninsula Paris as well as the cost of acquisition of certain trademarks for The Peninsula Istanbul. Hotel operating rights and trademarks are amortised on a straight-line basis over the terms of the relevant operating periods of The Peninsula Beverly Hills, The Peninsula Paris and The Peninsula Istanbul 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)

	2022		2021	
	Assets	**Liabilities**	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	**349**	**–**	53	(6)
Forward exchange contracts	**–**	**–**	–	(9)
	349	**–**	53	(15)
Less: Portion to be settled within one year				
Cash flow hedges:				
Interest rate swaps	**(15)**	**–**	–	–
Forward exchange contracts	**–**	**–**	–	(9)
	(15)	**–**	–	(9)
Amount to be settled after one year	**334**	**–**	53	(6)

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

(a) Current taxation

	2022	2021
Provision for Hong Kong profits tax		
net provisional profits tax paid	**2**	31
Provision for overseas taxes	**8**	6
	10	37
Represented by:		
Tax recoverable (note 20)	**(12)**	(5)
Current tax payable	**22**	42
	10	37

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 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 and at 1 January 2022	**257**	**838**	**(23)**	**(524)**	**6**	**(56)**	**498**
Exchange adjustments	**(11)**	**(16)**	**1**	**13**	**–**	**5**	**(8)**
Charged to reserve	**–**	**–**	**–**	**–**	**50**	**–**	**50**
Charged/(credited) to profit or loss	**7**	**44**	**(4)**	**(75)**	**–**	**(3)**	**(31)**
At 31 December 2022	**253**	**866**	**(26)**	**(586)**	**56**	**(54)**	**509**

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.

	2022	2021
Deferred tax assets	**148**	110
Deferred tax liabilities	**(657)**	(608)
	(509)	(498)

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$563 million (2021: HK$615 million) in respect of certain accumulated tax losses of HK$2,039 million (2021: HK$2,224 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:

	2022	2021
Expiring in one year	**121**	292
After one year but within five years	**618**	748
After five years but within 20 years	**1,237**	1,145
Without expiry date	**63**	39
	2,039	2,224

The group does not have any deferred tax liabilities arising from any undistributable profit in 2022 and 2021.

19. Inventories (HK$m)

	2022	2021
Food and beverage and others	**87**	75

The cost of inventories recognised as expenses in the consolidated statement of profit or loss amounted to HK$352 million (2021: HK$310 million).

20. Trade and other receivables (HK$m)

	2022	2021
Trade debtors	**345**	311
Rental deposits, payments in advance and other receivables	**469**	459
Tax recoverable (note 18(a))	**12**	5
	826	775

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$177 million (2021: HK$185 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:

	2022	2021
Current	**298**	287
Less than one month past due	**22**	13
One to three months past due	**9**	5
More than three months but less than 12 months past due	**16**	6
Amounts past due	**47**	24
	345	311

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

	2022	2021
Interest-bearing bank deposits	**361**	182
Cash at banks and in hand	**224**	297
Total cash at banks and in hand	**585**	479
Less: Bank deposits with maturity of more than three months	**(15)**	(13)
Cash and cash equivalents in the consolidated statement of cash flows	**570**	466

Cash at banks and in hand at the end of the reporting period include amounts of HK$175 million (2021: HK$234 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 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
As at 31 December 2021 and 1 January 2022	**13,379**	**3,103**	**(38)**	**11**	**16,455**
Changes from financing cashflows					
Drawdown of term loans	**7,848**	**–**	**–**	**–**	**7,848**
Repayment of term loans	**(6,231)**	**–**	**–**	**–**	**(6,231)**
Net increase in revolving loans	**1,294**	**–**	**–**	**–**	**1,294**
Interest paid and other financing charges	**(34)**	**(95)**	**–**	**(255)**	**(384)**
Capital element of lease rental paid	**–**	**(72)**	**–**	**–**	**(72)**
Changes in fair value					
Effective portion of changes in fair values	**–**	**–**	**(311)**	**–**	**(311)**
Other changes					
Exchange difference	**(1,102)**	**(314)**	**–**	**–**	**(1,416)**
Financing charges	**38**	**95**	**–**	**71**	**204**
Capitalised borrowing costs (note 5)	**–**	**44**	**–**	**196**	**240**
Increase in lease liabilities from entering into new leases during the year	**–**	**31**	**–**	**–**	**31**
As at 31 December 2022	**15,192**	**2,792**	**(349)**	**23**	**17,658**

22. Trade and other payables (HK$m)

	2022	2021
Trade creditors	**137**	123
Interest payable	**23**	11
Accruals for properties, plant and equipment and properties under development for sale	**398**	359
Tenants' deposits	**279**	308
Guest deposits and gift vouchers	**181**	171
Other payables	**762**	677
Financial liabilities measured at amortised cost	**1,780**	1,649
Less: Non-current portion of trade and other payables	**(96)**	(120)
Current portion of trade and other payables	**1,684**	1,529

As at 31 December 2022, trade and other payables of the group expected to be settled or recognised as income after more than one year amounted to HK$175 million (2021: HK$257 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:

	2022	2021
Less than three months	**125**	117
Three to six months	**5**	5
More than six months	**7**	1
	137	123

Notes to the Financial Statements

23. Interest-bearing borrowings (HK$m)

	2022	2021
Total facilities available:		
Term loans and revolving credits	**18,659**	19,390
Uncommitted facilities, including bank overdrafts	**413**	390
	19,072	19,780
Utilised at 31 December:		
Term loans and revolving credits	**15,098**	13,270
Uncommitted facilities, including bank overdrafts	**142**	160
	15,240	13,430
Less: Unamortised financing charges	**(48)**	(51)
	15,192	13,379
Represented by:		
Long-term bank loans, repayable within one year	**4,544**	2,015
Short-term bank loans and overdrafts, repayable on demand	**–**	–
	4,544	2,015
Long-term bank loans, repayable:		
Between one and two years	**1,067**	8,818
Between two and five years	**9,629**	2,597
Over five years	**–**	–
	10,696	11,415
Less: Unamortised financing charges	**(48)**	(51)
Non-current portion of long-term bank loans	**10,648**	11,364
Total interest-bearing borrowings	**15,192**	13,379

All of the interest-bearing borrowings are unsecured. The group intends to refinance these loan facilities upon their maturities.

As at 31 December 2022, the group's committed facilities included a green loan and sustainability linked loan facilities of HK$6,844 million (2021: nil) and HK$3,654 million (2021: HK$1,250 million) respectively. The discount of interest margin applicable to the sustainability linked loan facilities are determined by reference to the key performance indicators relating to the group's carbon intensity, energy intensity, waste diversion and status of sustainability certificates.

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:

	2022	2021
Carrying value		
Current portion	**165**	163
Non-current portion	**2,627**	2,940
	2,792	3,103
Contractual undiscounted cash outflow		
Within one year	**165**	163
After one year but within two years	**149**	156
After two years but within five years	**289**	312
After five years	**11,715**	12,970
	12,318	13,601

25. Share capital

	2022		2021	
	No. of shares (million)	**HK$m**	No. of shares (million)	HK$m
Ordinary shares, issued and fully paid				
At 1 January and 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 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

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 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
At 1 January 2022	**4,975**	**5,124**	**10,099**
Profit for the year	**–**	**373**	**373**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**373**	**373**
At 31 December 2022	**4,975**	**5,497**	**10,472**

(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 arising upon their transfer to investment properties. The relevant accounting policies for which are set out in note 34(p) and 34(f) respectively.

26. Reserves (HK$m) continued

(c) Reserves available for distribution

At 31 December 2022, 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$5,497 million (2021: HK$5,124 million). The Directors do not propose a final dividend for the reporting period of 2022 and 2021.

(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 2022 and 2021 are as follows:

	2022	2021
Interest-bearing borrowings	**15,192**	13,379
Less: Cash at banks and in hand	**(585)**	(479)
Net borrowings per the statement of financial position	**14,607**	12,900
Share of net borrowings of non-consolidated entities	**972**	908
Net borrowings adjusted for non-consolidated entities	**15,579**	13,808
Equity attributable to shareholders of the company per the consolidated statement of financial position	**36,016**	36,762
Net debt to equity attributable to shareholders ratio based on the consolidated financial statements	**41%**	35%
Net debt to equity attributable to shareholders ratio adjusted for non-consolidated entities	**43%**	38%

During 2022, the group continued to operate within its long term treasury management guidelines.

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 2022. 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 336 employees (2021: 359 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 2022 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 2022.

27. Employee retirement benefits (HK$m) continued

(a) Defined benefit retirement obligations continued

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

	2022	2021
Present value of wholly or partly funded obligations	**24**	29
Fair value of plan assets	**(6)**	(5)
	18	24
Fair value of plan assets as a percentage of obligations	**25%**	17%

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

The principal actuarial assumptions used as at 31 December 2022 and 2021 are as follows:

	2022	2021
Discount rate	**from 3.1% to 7.1%**	from 2.1% to 6.5%
Future salary increases	**4%**	from 3% to 4%

The analysis below shows how the defined benefit obligations as at 31 December 2022 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 1,354 employees (2021: 1,283 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 12% (2021: 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 143 employees (2021: 145 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 1,955 employees (2021: 1,498 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$127 million (2021: HK$112 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:

	2022				2021			
	(million)		**(million)**		(million)		(million)	
Notional amount								
- Buy EUR with GBP	**EUR**	**–**	**GBP**	**–**	EUR	2	GBP	2
- Buy TRY with EUR	**TRY**	**–**	**EUR**	**–**	TRY	34	EUR	3
- Buy HKD with JPY	**HKD**	**–**	**JPY**	**–**	HKD	79	JPY	1,160

	2022	2021
Carrying amount		
- Liability	**–**	9

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:

	2022	2021
Balance at 1 January	**(8)**	–
Effective portion of the cash flow hedge recognised in other comprehensive income	**6**	(9)
Amounts transferred to fixed assets	**3**	–
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	**5**	(8)
Effective portion of the cash flow hedge recognised in other comprehensive income	**5**	(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 2022 and 2021, 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)	**2022** United States Dollars	**2022** Euro	2021 United States Dollars	2021 Euro
Trade and other receivables	**39**	**6**	50	1
Cash at banks and in hand	**7**	**1**	7	2
Trade and other payables	**(59)**	**–**	(51)	–
Net exposure arising from recognised assets and liabilities	**(13)**	**7**	6	3

Based on the sensitivity analysis performed as at 31 December 2022, it was estimated that an increase/decrease of 10% (2021: 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 2022, the group had interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK$5,406 million (2021: HK$5,326 million) maturing over the next five years (2021: five years). Changes in fair value of these swaps accounted for as cash flow hedges are recognised in the hedging reserve. The group locked in the following ranges of fixed rates by the swaps at 31 December 2022:

	31 December 2022	31 December 2021
Euros	**0.4%**	0.4%
Pounds	**0.28% to 1.0%**	0.28% to 1.0%
Hong Kong dollars	**0.78% to 2.89%**	0.78% to 1.3%

Notes to the Financial Statements

28. Financial risk management and fair values continued

(b) Interest rate risk continued

The net fair value of all the swaps entered into by the group at 31 December 2022 and 2021 was as follows (HK$m):

	2022	2021
Cash flow hedges (note 17)	**349**	47

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:

	2022	2021
Balance at 1 January	**37**	(10)
Effective portion of the cash flow hedge recognised in other comprehensive income	**301**	56
Related tax	**(48)**	(9)
Balance at 31 December	**290**	37
Change in fair value of the interest rate swap during the year	**275**	29
Transfer from equity to profit or loss	**(22)**	18
Transfer to exchange reserve	**–**	–
Effective portion of the cash flow hedge recognised in other comprehensive income	**253**	47

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.

	2022		2021	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**2.3%**	**6,979**	1.7%	7,921
Floating rate borrowings:				
Bank loans	**4.5%**	**8,213**	1.2%	5,458
Total interest-bearing borrowings		**15,192**		13,379
Fixed rate borrowings as a percentage of total borrowings		**46%**		59%

28. Financial risk management and fair values continued

(b) Interest rate risk continued

On the other hand, as at 31 December 2022 and 2021, 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:

	2022		2021	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Floating rate instruments:				
Bank deposits	**1.96%**	**361**	0.92%	182

Sensitivity analysis

The following table indicates the approximate changes in the group's (loss)/profit after taxation (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the interest rates, with all other variables held constant, to which the group has significant exposure at the end of the reporting period. As at 31 December 2022 and 2021, 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.

	2022			2021		
	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**	**(14)**	**47**	100	–	49
	(100)	**14**	**(39)**	(100)	–	(44)
Renminbi	**100**	**1**	**–**	100	2	–
	(100)	**(1)**	**–**	(100)	(2)	–
Thai Baht	**100**	**(1)**	**–**	100	(1)	–
	(100)	**1**	**–**	(100)	1	–
Japanese Yen	**50**	**(6)**	**–**	50	(3)	–
	(50)	**6**	**–**	(50)	3	–
US Dollars	**100**	**(3)**	**–**	100	(3)	–
	(100)	**3**	**–**	(100)	3	–
Euros	**100**	**(1)**	**–**	100	(1)	3
	(100)	**1**	**–**	(100)	1	–
GBP	**100**	**–**	**48**	100	–	86
	(100)	**–**	**(49)**	(100)	–	(74)

The sensitivity analysis above indicates the instantaneous change in the group's (loss)/profit after taxation (and retained profits) and other components of consolidated equity that would have arisen, assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the group and which expose the group to fair value interest rate risk at the end of the reporting period. In respect of exposure to cash flow interest rate risk arising from the floating rate non-derivative financial instruments (which include bank borrowings and deposits) held by the group at the end of the reporting period, the impact on the group's (loss)/profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such changes in interest rates. The analysis has been performed on the same basis as for 2021.

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 2022, total available borrowing facilities amounted to HK$19,072 million (2021: HK$19,780 million), of which HK$15,240 million (2021: HK$13,430 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totaled HK$3,561 million (2021: HK$6,120 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:

	2022						2021					
		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	**137**	**137**	**137**	**-**	**-**	**-**	123	123	123	–	–	–
Interest payable	**23**	**23**	**23**	**-**	**-**	**-**	11	11	11	–	–	–
Accruals for property, plant and equipment	**398**	**398**	**398**	**-**	**-**	**-**	359	359	359	–	–	–
Tenants' deposits	**279**	**279**	**184**	**45**	**26**	**24**	308	308	188	62	37	21
Guest deposits and gift vouchers	**181**	**181**	**181**	**-**	**-**	**-**	171	171	171	–	–	–
Other payables	**762**	**762**	**762**	**-**	**-**	**-**	677	677	677	–	–	–
Lease liabilities	**2,792**	**12,318**	**165**	**149**	**289**	**11,715**	3,103	13,601	163	156	312	12,970
Interest-bearing borrowings	**15,192**	**16,618**	**5,110**	**1,552**	**9,956**	**-**	13,379	13,676	2,146	8,882	2,648	–
Interest rate swaps (net settled)	**(349)**	**(375)**	**(128)**	**(109)**	**(138)**	**-**	(47)	(49)	2	(16)	(35)	–
Forwarded foreign exchange contracts held as cash flow hedging instruments												
- outflow	**-**	**-**	**-**	**-**	**-**	**-**	–	125	125	–	–	–
- inflow	**-**	**-**	**-**	**-**	**-**	**-**	–	(119)	(119)	–	–	–
Current taxation	**22**	**22**	**22**	**-**	**-**	**-**	42	42	42	–	–	–
	19,437	**30,363**	**6,854**	**1,637**	**10,133**	**11,739**	18,126	28,925	3,888	9,084	2,962	12,991

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 2022, cash at banks and in hand amounted to HK$585 million (2021: HK$480 million), of which HK$216 million (2021: HK$118 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 2022 is summarised in note 20. The expected credit losses for these balances were not material at 31 December 2022, therefore no loss allowance was provided at 31 December 2022.

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 2022. 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.

28. Financial risk management and fair values continued

(f) Estimation of fair values continued

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

	31 December 2022	31 December 2021
Euros	**2.3% to 2.7%**	–0.5% to –0.4%
Pounds	**3.4% to 4.4%**	0.2% to 1.1%
Hong Kong dollars	**4.1% to 5.0%**	0.3% to 1.3%

29. Commitments (HK$m)

Capital commitments outstanding as at 31 December 2022 and 2021 not provided for in the financial statements were as follows:

	2022			2021		
	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	**238**	**3,281**	**3,519**	1,471	1,639	3,110
The group's share of capital commitments of joint ventures and associates	**235**	**149**	**384**	362	218	580
	473	**3,430**	**3,903**	1,833	1,857	3,690

The group's capital commitments as at 31 December 2022 included the outstanding development costs for The Peninsula London and the outstanding capital expenditure in respect of the Peak Tram upgrade project of HK$2,040 million (2021: HK$1,943 million) and HK$60 million (2021: HK$198 million) respectively.

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 2022 and 2021.

Notes to the Financial Statements

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 a three-year tenancy agreement which commenced on 1 April 2019, a wholly owned subsidiary of the company, HSH Management Services Limited (HMS), leased 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$2,385,830 per month plus a monthly service charge of HK$259,247 from Kadoorie Estates Limited (KEL), which is controlled by one of the substantial shareholders of the company.

The above lease was renewed for 2 years commencing from 1 April 2022 at a monthly rent of HK$1,747,098 and service charge of HK$259,247. The present value of the future rentals of HK$41 million was recognised as an addition of right-of-use assets on the date of tenancy agreement 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 new tenancy agreement falls under the Listing Rules as connected transaction whilst the previous tenancy agreement falls as continued connected transaction. The company has complied with the disclosure requirements governing continuing connected transaction under the Listing Rules. Details of these transactions are disclosed in the Directors' Report.

(b) Unsecured and interest free shareholder's loans amounting to US$58.75 million (HK$458 million) (2021: 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 2022, shareholder's loans amounting to US$58.75 million (HK$458 million) (2021: 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) and the balance was fully repaid in 2022.

(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 2022, unsecured and interest-free loans amounting to US$35 million (HK$274 million) (2021: 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.

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 activities
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 2022 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. The cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling that 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.

Notes to the Financial Statements

34. Significant accounting policies continued

(s) Revenue continued

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.

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.

When the functional currency of a foreign operation is the currency of a hyperinflationary economy, the foreign operation's financial statements are restated according to the accounting policy as disclosed in note 34(y). All amounts in the foreign operation's financial statements are then translated into the group's reporting currency using applicable exchange rate at the current reporting date. Comparative figures are not restated.

34. Significant accounting policies continued

(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.

(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.

Notes to the Financial Statements

34. Significant accounting policies continued

(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.

(y) Financial reporting in hyperinflationary economies

When an entity's functional currency is the currency of a hyperinflationary economy, the historical cost of the entity's non-monetary assets, liabilities and equity items are adjusted to reflect the changes in purchasing power due to hyperinflation by reference to the change in general price index during the reporting period. Monetary items are not restated. All items in the statement of comprehensive income are restated by applying the change in general price index when the items were initially recorded in the financial statements. Gain or loss on net monetary position of the entity is included in the group's consolidated statement of profit or loss.

35. Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the group:

- Amendment to HKAS 16, *Property, plant and equipment: Proceeds before intended use*

- Amendment to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract*

None of these developments have had a material effect on how the group's results and financial position for the current or prior periods have been prepared or presented. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The group has a 50% interest in PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT) which is incorporated in Türkiye. PIT's functional and reporting currency is Turkish Lira.

35. Changes in accounting policies continued

Türkiye has been considered a hyperinflationary economy. Accordingly, the group's interest in PIT is accounted for under HKAS 29, *Financial Reporting in Hyperinflationary Economies*, in the consolidated financial statements. Impacts on the adoption of HKAS 29 are discussed below:

Application of HKAS 29 – *Financial Reporting in Hyperinflationary Economies*

HKAS 29 requires the financial information of PIT for the year ended 31 December 2022 be stated in terms of the current purchasing power by reference to the general consumer price index of Türkiye as at 31 December 2022. Details of the accounting policy are disclosed in note 34(y).

The group's comparative information with respect to the year ended 31 December 2022 has not been restated. The impact on the adoption of HKAS 29 to the consolidated financial statements is immaterial.

36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 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 HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current*	1 January 2023
Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*	1 January 2023
Amendments to HKAS 12, *Income taxes: 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 practitioner's limited 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 2022 of HSH (further referred to as "the Report") for the year ended 31 December 2022 being prepared in accordance with the Applicable Criteria as explained below.

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 50, and the following data points as included in the Sustainability Data Statement on page 262 of this Annual Report ("Sustainability Information")
- Allocation of green loan proceeds to Eligible Project Categories as presented on page 56 of the Report ("Green Loan Information")

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

Community

Monetary donations
In-kind donations
Other contributions for community development

Safety

Injury rate
Lost day rate

Environment

Greenhouse gas emissions
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 of the Identified Elements in accordance with the Applicable 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") in respect of Sustainability Information, and the HSH Green Financing Framework in respect of Green Loan Information. This responsibility includes the design, implementation and maintenance internal control relevant to the preparation of Identified Elements.

Inherent limitations

Greenhouse gas quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

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.

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 management

We have complied with the independence and other ethical 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.

The firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Work performed

A limited assurance engagement undertaken involves assessing the suitability in the circumstances of HSH's use of Applicable Criteria as the basis for the preparation of the Identified Elements, assessing the risks of material misstatement of the Identified Elements whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the Identified Elements.

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;

- Reading the Sustainability Reporting Content Index on page 64 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.

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. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

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 2022 of HSH for the year ended 31 December 2022, are not prepared, in all material respects, in accordance with the Applicable Criteria.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
15 March 2023

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.

As the pandemic continued into 2022 in some of our key markets, we had to temporarily make adjustments to our operations in response to local COVID-19 measures. Despite our best efforts to remain agile, 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, some of 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. 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 *Sustainable Luxury Vision 2030*.

1. Performance Highlights (1)

			2022	2021	2020	2019	2018	2010 Baseline
Economic	**Revenue (incl. interest income)**	HK$m	**4,204**	3,465	2,715	5,888	6,232	
	Operating costs	HK$m	**1,706**	1,388	1,133	2,049	2,241	
	Employee wage and benefits	HK$m	**1,966**	1,562	1,511	2,294	2,291	
	Capital expenditure	HK$m	**2,030**	2,050	1,585	1,590	1,490	
	Payments to providers of capital	HK$m	**295**	165	215	242	195	
	Tax payments to governments (2)	HK$m	**261**	229	355	330	486	
	Total floor area	'000 m²	**647**	646	646	652	652	
	Total number of guest nights (3)	'000	**790**	604	384	1,277	1,333	
Workforce	**Headcount** (4)		**6,439**	5,866	5,609	7,451	7,594	
	Turnover (4)	%	**23.8%**	24.3%	31.5%	19.7%	21.9%	
	Headcount by Gender	% Female	**41.0%**	40.5%	40.5%	41.6%	42.6%	
	Injury rate (5)	incidents per 100 employees	**3.6**	3.0	2.5	3.9	3.5	
	Lost day rate (5)	days per 100 employees	**49.6**	71.1	47.4	74.4	57.7	
Environment (6)	**Greenhouse gas emissions**	'000 tCO_2e	**79**	72	68	96	99	124
	Group carbon intensity	kg CO_2e per m²	**122**	112	105	148	153	213
	Total energy use (7)	'000 GJ	**710**	654	572	822	853	884
	Energy intensity (7)	MJ per m²	**1,097**	1,012	885	1,272	1,320	1,518
	Direct water consumption	'000 m³	**1,302**	1,168	941	1,526	1,673	1,674
	Water intensity							
	Hotels Division (8)	litres per guest night	**1,395**	1,636	2,010	1,014	1,075	1,346
	Commercial Properties and Clubs	litres per m²	**962**	839	870	959	907	962
	Water recycled and other water sources	'000 m³	**382**	337	372	484	448	142
	Waste diversion rate (9)	%	**52.7%**	48.3%	48.8%	51.0%	51.1%	
Community	**Monetary Donations** (10)	HK$'000	**941**	1,549	3,157	2,025	2,519	
	In-kind Donations (10)	HK$'000	**2,706**	1,807	1,988	7,403	7,502	
	Other contributions for community development (11)	HK$'000	**2,451**	1,193	380	1,606	2,796	

Footnotes:

(1) Please refer to page 62 of the Corporate Responsibility and Suitability Report 2022 for the scope of businesses covered in the reporting of workforce, environment and community performance. 2010 baseline year for carbon, energy and water metrics has been adjusted to exclude Thai Country Club for more accurate benchmarking, as we ceased ownership and operational control of the property from 2020 onwards. Construction projects including The Peninsula London, The Peninsula Istanbul and the Peak Tram Upgrade were not included in data reported in this Report unless specified.

(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 2022. 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 20.1%.

(5) Increased injury rates mainly attributable to more staff returning to full work capacity upon hotels resuming operations in 2022. Over 98% of the reported incidents did not require a hospital stay, and thus not considered severe injuries. The injury rate for severe cases is at 0.07 per 100 employees. There was no incident of occupational disease recorded.

(6) As hotel business slowly recovered, there were more guests staying at our hotel leading to an increase of total energy and water use by 8% and 12% respectively. Hotel water intensity reduced by 15% as the data was normalised by increased guest nights, while water intensity for commercial properties, clubs & services increased by 15% due to business recovery. Please refer to pages 12 to 15 of the CRS Report 2022 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 donation decreased from last year as several covid-19 relief programmes ended in 2021. In contrast, in-kind donation increased by 50% from last year as we support charities through sponsorship, fund raising and gala or other forms of contributions that are able to benefit the local community directly.

(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 that are mostly based in Hong Kong.

GLOSSARY

Terms

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 and Sustainability (CRS)	Refers to integrated strategy that minimise negative impact to the environment and the wider communities, while promoting business growth and creating long-term stakeholder value through implementation of initiatives that align with evolving governance, ethical, social and environmental standards. HSH convened its first CRS committee back in 2007 and launched its CRS strategy, *Sustainable Luxury Vision* in 2013.
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
Global Reporting Initiative (GRI)	A non-profit organisation that produces the prevalent standards for sustainability reporting widely adopted by companies worldwide
Green Bond Principles (GBP)	Published by the International Capital Market Association (ICMA), GBP is a set of voluntary recommendations for Green Bond issuers to report on the use of Green Bond proceeds and other relevant transparent green credentials alongside an investment opportunity.
GRI Standards	Global Reporting Initiative Sustainability Reporting Standards enables any organisation to understand and publicly report on the impacts of their activities on the economy, environment and people in a structured way that is transparent to stakeholders and other interested parties.

Terms

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: $\frac{\text{Rooms sold}}{\text{Rooms available}} \times 100\%$
PP	Percentage points
RevPAR	The figure reflects the revenue generating ability of the Group's hotels from available rooms, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms available}}$
SASB Standards	Sustainability Accounting Standard Board standards identify the environmental, social, and governance issues most relevant to financial performance in each of 77 industries. They are designed to help companies disclose financially-material sustainability information to investors.
Stakeholders	Group or individuals that are affected by or can affect a company's activities
TCFD Recommendations	Task Force on Climate-related Financial Disclosures (TCFD) Recommendations guides the types of information that organisation should disclosure on climate-related risks and opportunities, aiming to support investors, lenders, insurance and financial institutions in appropriately assessing and pricing a specific set of climate risks.
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 2023

2022 annual results announcement	15 March
Dispatch of Annual Report	13 April
For entitlement to attend and vote at Annual General Meeting	
– Last day to register	4 May 4:30 p.m.
– Closure of register of members	5 May to 10 May (both days inclusive)
– Record date	10 May
Annual General Meeting	10 May 12:00 noon
2023 interim results announcement	August
Financial year end	31 December

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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.

Reservations and Contact Addresses

Hotels

The Peninsula Hong Kong
Salisbury Road, Kowloon
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Tel: +852 2920 2888
Fax: +852 2722 4170
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Email: reservationptk@peninsula.com

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Makati Avenues
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Republic of The Philippines
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The Peninsula New York
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Australia 1 800 116 888
Bahrain 800 065 90
Brazil 0800 891 9601
Canada 1866 308 8881
Mainland China 4001 200 618
France 0800 915 980
Germany 0800 181 8418
India 000 800 852 1388
Italy 800 789 365
Japan 0120 348 288
South Korea 00798 8521 6388
Mexico 01 800 123 4646
Saudi Arabia* 800 865 6047
Singapore 800 8526288
Spain 900 931 106
Switzerland 0800 562 923
Taiwan 00801856908
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Türkiye 00 80049240880005
UAE 800 065 0628
United Kingdom 08007830388
United States of America 1 866 382 8388

* Toll free access number is only available through Saudi Telecom Company

Reservations and Contact Addresses

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The Peak Tower and The Peak Tram

No. 1 Lugard Road, The Peak, Hong Kong
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Email: info@thepeak.com.hk

St. John's Building

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Ho Chi Minh City, Vietnam
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Tai Pan Laundry & Dry Cleaning Services, Limited

Unit 2, 1/F, Block B, Po Yip Building
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Websites

The Hongkong and Shanghai Hotels, Limited

www.hshgroup.com

The Peninsula Hotels

www.peninsula.com

The Repulse Bay

www.therepulsebay.com

The Peak Tower and The Peak Tram

www.thepeak.com.hk

The Landmark

www.thelandmarkvietnam.com

Quail Lodge & Golf Club

www.quaillodge.com

Peninsula Merchandising Limited

www.peninsulaboutique.com

Tai Pan Laundry & Dry Cleaning Services, Limited

www.taipanlaundry.com

Concept, design and printing: iONE Financial Press Limited. Website: www.ione.com.hk

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