THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 00045) website: www.hshgroup.com

2018 Annual Results

HIGHLIGHTS

Key financial results

- Revenue grew by 7% to HK$6,214 million (2017: HK$5,782 million) and EBITDA grew by 9% to HK$1,550 million (2017: HK$1,422 million)
- Profit attributable to shareholders amounted to HK$1,243 million (2017: HK$1,155 million), inclusive of net property revaluation gain of HK$523 million (2017: HK$609 million)
- Earnings per share was HK$0.78 (2017: HK$0.73)
- Underlying profit* amounted to HK$765 million (2017: HK$801 million), inclusive of the Group's share of gain on apartments sold by its joint venture in Shanghai of HK$25 million (2017: HK$150 million). Excluding this gain, the Group's underlying profit increased by 14% to HK$740 million (2017: HK$651 million)
- Our balance sheet remains strong with 12% net debt to total assets and 12.8 times cash interest cover
- Final dividend of 16 HK cents per share (2017: 16 HK cents per share), making a total dividend of 21 HK cents per share for 2018 (2017: 20 HK cents per share)
- Shareholders' funds as at 31 December 2018 amounted to HK$38,941 million (2017: HK$38,175 million) or HK$24.14 per share (2017: HK$24.02 per share)

* Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items.

FINANCIAL HIGHLIGHTS

	2018	2017	Increase/ (Decrease)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS (HK$m)			
Revenue	**6,214**	5,782	7%
EBITDA	**1,550**	1,422	9%
Operating profit	**1,008**	919	10%
Profit attributable to shareholders	**1,243**	1,155	8%
Earnings per share (HK$)	**0.78**	0.73	7%
Underlying profit*	**765**	801	(4%)
Dividends	**338**	318	6%
Dividends per share (HK cents)	**21**	20	5%
Dividend cover (times)**	**2.3x**	2.5x	(8%)
Interest cover (times)$^{\Delta}$	**19.4x**	10.6x	83%
Cash interest cover (times)$^{\Delta\Delta}$	**12.8x**	11.9x	8%
Weighted average gross interest rate	**2.3%**	2.2%	0.1pp
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)			
Total assets	**48,992**	48,520	1%
Audited net assets attributable to shareholders	**38,941**	38,175	2%
Adjusted net assets attributable to shareholders #	**42,688**	41,725	2%
Audited net assets per share (HK$)	**24.14**	24.02	–
Adjusted net assets per share (HK$) #	**26.46**	26.26	1%
Net borrowings	**5,917**	5,521	7%
Funds from operations to net debt ##	**21%**	21%	–
Net debt to equity attributable to shareholders	**15%**	14%	1pp
Net debt to total assets	**12%**	11%	1pp
CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)			
Net cash generated from operating activities before taxation	**1,436**	1,369	5%
Capital expenditure on existing assets	**(426)**	(601)	(29%)
Capital expenditure on new projects and investments	**(1,208)**	(1,097)	10%
SHARE INFORMATION (HK$)			
Highest share price	**13.48**	17.12	
Lowest share price	**10.00**	8.27	
Year end closing share price	**11.10**	11.60	

* *Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items.*

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

Δ *Interest cover is calculated based on operating profits divided by net financing changes.*

$\Delta\Delta$ *Cash interest cover is calculated based on EBITDA divided by net interest paid.*

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

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

pp *Denotes percentage points.*

CEO'S STRATEGIC REVIEW

1. Our heritage, vision and development strategy

The Hongkong and Shanghai Hotels has enjoyed a long and established history spanning more than 150 years since its establishment in 1866 and we believe our company to be the oldest hotel company in the world that has been in continuous operation. Our flagship hotel property The Peninsula Hong Kong celebrated its 90th anniversary in 2018, which we have highlighted as a key theme of this report.

Whilst we have witnessed profound political and economic changes over this long period 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.

These values distill into a simple vision for us, which has not changed in the 17 years that I have been CEO of this group: *to develop, own and operate a small number of the highest quality hotels 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 control or joint control over the design, quality, operations and capital spending in our hotels. We are therefore not willing to undertake hotels on a management contract-only basis without ownership. 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.

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

2. Business overview

Our group currently owns and operates ten Peninsula hotels which are located in the key gateway cities of Hong Kong, Shanghai, Beijing, Tokyo, New York, Chicago, Los Angeles, Paris, Bangkok and Manila. Throughout the years we have maintained a significant investment programme to enhance the physical condition and quality of these properties, most recently by completing major renovations at The Peninsula Hong Kong in 2014, The Peninsula Chicago in 2016 and The Peninsula Beijing in 2017. The level of quality in our hotels is such that in February 2019 we were awarded Forbes Five-star ratings for all ten of our hotels; the only hotel group in the world to achieve such a rating across its entire hotel portfolio.

In 2018, particular highlights in the hotels division included strong operating results for The Peninsula Hong Kong and The Peninsula Tokyo as well as some recovery in Bangkok and Paris. After the recent major renovations at The Peninsula Beijing and The Peninsula Chicago, I am pleased to report improved earnings for both hotels, with The Peninsula Chicago being named as the "No. 1 Luxury Hotel in the US" by Tripadvisor in February 2019. The other Peninsula Hotels in Shanghai, Beverly Hills, New York and Manila all reported satisfactory results in the light of their market circumstances.

We continued to make progress in the construction of our three Peninsula hotel development projects in London, Istanbul and Yangon and we will be celebrating the topping-out ceremony of The Peninsula London in June 2019.

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

With the objective of diversifying our revenue sources and increasing brand recognition in markets where we do not operate a Peninsula hotel, we established Peninsula Merchandising Limited which is included in our clubs and services division. This subsidiary 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 Asia and the US, including boutiques at Hong Kong International Airport and several Peninsula hotels. A selection of merchandise is also available for purchase online and delivery in Hong Kong, Japan and Taiwan.

Our clubs and services division includes the Peak Tram, one of Hong Kong's most popular tourist attractions with more than six million visitors per year, which has been under our group for 130 years. In October 2018, we received approval for an additional ten-year operating right for the Peak Tram up to 2035, paving the way for us to commence a HK$684 million upgrade project which will be entirely funded by our company and planned to be completed in 2021.

Having a diverse portfolio within the luxury hospitality niche helps to mitigate investment risks generally associated with the 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.

3. Financial results and financial planning

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

We create significant long-term value for our shareholders from the long-term appreciation in capital value of our properties, as well as from the increasing operating yield as the income from our assets continue to grow 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 more than HK$12 billion.

As a result of our continuous investment into and enhancement of our property assets, the company's revalued net asset value per share has grown from HK$10.03 per share in 2002 to HK$26.46 per share in 2018.

We are currently investing for the future and our focus for the next few years will be on the successful delivery of our new Peninsula hotel developments in London, Istanbul and Yangon as well as the Peak Tram upgrade project. With the significant capital commitments that these projects entail, we continue to carefully monitor our company's financial position. We have a strong treasury management strategy and a proactive approach is taken 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 12%, which we believe to be comfortable taking into account the expected financial obligations of our new developments.

I am pleased that we have been able to achieve a good set of financial results for 2018. The company's combined EBITDA, including the group's effective share of EBITDA of our associates and joint ventures, increased by 6% from the previous year to HK$1,680 million. The company's net profit attributable to shareholders increased by 8% from the previous year to HK$1,243 million, inclusive of the revaluation gain on the group's investment properties of HK$523 million (2017: HK$609 million). Our underlying earnings amounted to HK$765 million compared to HK$801 million in 2017, inclusive of the group's share of gain of apartment sales from our joint venture in Shanghai of HK$25 million (2017: HK$150 million). Excluding the company's share of realised gain on apartments, our underlying earnings increased by 14% from the previous year to HK$740 million.

Much of the cash invested in our new projects during the year was provided by funds generated from operations which amounted to HK$1,383 million as compared to our normal capital expenditures of HK$426 million and new project expenditures of HK$1,208 million. The net cash outflow of the company after taking account of all capital expenditures, interest and dividends paid amounted to HK$393 million.

4. Driving business

We believe the fundamentals of luxury hospitality do not change over time. In addition to the beautiful décor, large spaces and elegant design of Peninsula hotel guestrooms and the specifications and attention to detail of both our front of house and back of house facilities, we seek to provide our guests a high level of personalised service, attention to detail, graciousness, and warm hospitality. We receive significant recognition and accolades for our services from prestigious publications and organisations.

Although people always come first, we use technological developments to enhance the way in which we serve our guests. We have set up a Technology Steering Committee with a wide brief including exploring and developing the “hotel room of the future”, looking at robotics and data analytics, and fostering entrepreneurship and innovation. We operate our own in-house research and development facility which designs bespoke in-room technology for our guestrooms. Like many other hotel groups, we have developed database systems for understanding guest histories and preferences. However, it makes a difference to have staff who genuinely know the guest and will think about how to apply this information in their service. The relatively small size of our hotels means that we can personalise the attention we give to guests and guest arrivals and preferences are reviewed individually and confidentially in the hotel management morning meetings every day.

Data collection makes personalisation and customisation possible and desirable, but with ever-increasing cybersecurity threats, privacy, safety and security are more important than ever before and we must ensure our guests trust us and they are comfortable with how their data is being used. We recognise that we must be completely transparent and accountable in this regard, with General Data Protection Regulation (GDPR) compliance being a top priority.

One of the initiatives we launched in 2018 to help drive innovation was the Kaleidoscope Lab, we believe the first luxury hospitality ignition programme of its kind to be developed in collaboration with SRI International (Stanford Research Institute), under the direction of our Technology Steering Committee. We are looking forward to seeing the results and capabilities of the two innovative startups who were selected to join the first programme.

Another important part of our guest experience is to embrace the local culture, style and history of the country where the hotel is located. Nowadays a hotel stay has become much more than being somewhere to sleep and eat. Our high-end customers are looking for unique experiences to enhance their entire travel journey and we have developed Peninsula Academy Programmes for our guests to experience and enjoy. It is important to us that the stay in our hotel forms an important part of the guest’s experience of visiting that particular country, with references to local architecture, artwork and culture. Appreciation of art and supporting local artists is a key part of our strategic marketing plan over the next few years, and we have designed and developed a global contemporary art programme, Art in Resonance, which is being launched in March 2019.

We offer various Peninsula signatures which are designed to attract attention and a special identity for our brand. These include the Peninsula Afternoon Tea served in our lobbies, the Peninsula Pages, the Peninsula door lions, and the provision of a variety of transport options including helicopter landing facilities on the roofs of several of our hotels. In 2018 we launched a new Peninsula Yacht at The Peninsula Hong Kong which is available for guests to hire, to add to the Peninsula Yacht operating in Shanghai.

We are focused on generating business from the Chinese mainland and we host quarterly Greater China regional meetings with senior executives who review the group’s Chinese business and brand loyalty for the Greater China operations. We launched online payment capabilities at The Peninsula Shanghai and The Peninsula Beijing, with The Peninsula Hong Kong soon to follow. We are consolidating our Greater China sales and marketing activities, expanding our PenClub Chinese partners (our in-house preferred travel partner programme), and placing an increased focus on driving our retail arcades business in China.

Globally, we are enhancing our food and beverage experience to allow Peninsula guests to discover new cuisines, new beverages and new stories. The group's signature restaurants offer sophistication, quality, and elegance, but we are also evolving to ensure our restaurants are accessible and a place where people want to come back for special experiences time and again. The group is currently defining a future strategy for its signature restaurants to define the "guest experience" as a prerequisite to development. In 2018 we launched *Z Bar* at The Peninsula Chicago, an innovative new rooftop bar with a contemporary interior and city skyline views, which has achieved an influential social media following.

In 2018 we invested in our digital marketing efforts, upgrading and enhancing the peninsula.com website with 360-video capabilities and additional functionality for visitors, as well as integration of user generated content from social media.

5. Managing risk

The nature of our business means that we are subject to risks and uncertainties in the execution of our business strategy. During the past year we saw the conditions surrounding a number of these risks change, resulting in a need to revisit and fine-tune the way we manage these risks for the future.

Our Group Risk Committee (GRC), chaired by the CFO, 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 regularly evaluate the risk management and controls in response to such risks and use a 5-step risk management methodology to ensure the risk assessment process and internal controls remain current.

In 2018, we introduced a more comprehensive analysis on the risks facing each operation, and we conducted a series of risk workshops to train more than 200 senior employees across the group.

There were some changes in the principal risks, including a growing likelihood of extreme weather patterns such as super typhoons in Hong Kong due to climate change and a global trend of tightening privacy laws such as GDPR has increased the challenge of compliance. The rise in cybercrimes also exposed us to higher risks of data security breaches.

6. Investing in our people

The people who deliver the services to guests represent the face of the Peninsula brand to the outside world, providing high quality personalised services to our guests, anticipating their needs or surprising them with unexpected initiatives, whilst at the same time carefully managing and maintaining our assets and operational standards.

Our unique culture seeks to keep us unified as one team and one family. To motivate and engage our team we place a significant focus on training, career development, genuine caring for our staff, empowerment and providing a proud, confident and happy working environment. The travel and tourism sector often suffers from high turnover of staff, however, we are pleased to report a relatively low voluntary staff turnover rate compared with the industry. We are proud that at the Peninsula Hong Kong, more than one-third of our employees have over 10 years of service and in several cases, three generations of the same family have worked at the same time in the hotel.

Prior to the openings of new Peninsula hotels, we select and appoint a team of local "Peninsula ambassadors" to undergo an extensive training program in other Peninsula hotels before returning to the new hotel to be part of the opening team. They are then able to act as leaders and spread and instill Peninsula culture and practices in their colleagues working around them.

We work hard to engage and attract high potential people to work with us, and we target world-class hotel schools in our recruitment efforts. Our Corporate Management Trainee programme attracts hundreds of applicants and after a stringent hiring process, we select the best talent to participate in the programme to become our future leaders. We are committed to employing a diverse workforce and we hire people from ethnic minorities in Hong Kong through our Ethnic Minority programme.

During 2018 we embarked on a new global employer branding campaign to assist with our recruitment efforts for the three new projects as well as each operation, targeted to their own hiring needs. We have also developed an employee experience survey and a new "onboarding" and "offboarding" process to allow us to gain insights on how we can continue to enhance our employees' working experience. At the corporate level we are implementing a change management programme aimed at modernising our workplace, titled WorkPlace 2025, to improve internal communications, embrace our unique culture and allow us to become more nimble and agile.

As of 31 December 2018, there were 7,594 full time employees in the group.

7. A vision for sustainable luxury

We are deeply committed to sustainability in an environmental as well as a business context – we believe that our success is inextricably linked to the success of the cities and the communities in which we live and work. Through a variety of platforms, training workshops and initiatives, we aspire to create awareness and buy-in towards sustainability throughout our company so that it becomes a living and breathing topic that matters personally to our employees and is integral to how we conduct all our businesses and operations. We also approach sustainability in a way that makes business sense where possible. We calculate paybacks and returns on investments made into environmental initiatives, and we look at what value drivers our sustainability initiatives could contribute.

We have the opportunity to offer our guests sustainable choices without compromising on the high quality of our products and services. In 2018, we took the significant step of announcing a global ban on plastic straws in our operations. This is the first phase of our plan to eliminate single use plastics by 2020 which we believe is necessary to address the significant issue of plastics pollution. We strive to source only sustainable seafood and we have created a *Naturally Peninsula* range of dishes focusing on healthy, nutritious cuisine from locally harvested sources. We are also focusing on ways to reduce food waste. We strive to use only Forest Stewardship Council (FSC)-certified paper for all our products and packaging.

We reported a good outcome of our energy and water efficiency efforts and we continued to see progress in achieving over 85% of the commitments in our Sustainable Luxury Vision 2020 strategy, although we have encountered challenges which are outlined in the Corporate Responsibility and Sustainability (CRS) Report. Since the implementation of our Sustainable Luxury Vision 2020 strategy, we have become more aware of the systemic and multi-dimensional nature of sustainability issues. We reassessed our approach to sustainable luxury, recognising that addressing these challenges requires concerted efforts and collaborative solutions with other stakeholders. We decided to focus our efforts in three key areas of "Our Guests, Our People, and Our Cities" to echo our overall business and investment strategy.

8. Outlook

In terms of outlook for the coming year, although we are facing uncertainties around the world and geopolitical instability in some of the regions we operate in, our current business trends are generally stable and we are cautiously optimistic. As mentioned, we are implementing a number of new strategies to drive business in the year ahead, including promoting our Chinese mainland business, enhancing our food and beverage strategy and improving data analytics.

We are confident in the continued growth of Hong Kong's tourism sector and we believe the opening of the Hong Kong section of the Express Rail Link and the Hong Kong-Zhuhai-Macau Bridge will positively impact overnight tourism arrivals.

We are optimistic for Japan as the country prepares to welcome the Rugby World Cup in 2019 and the Tokyo Olympics in 2020, and we are already seeing advance bookings for these events. We believe there is a relatively stable outlook for luxury hospitality in the US and the Chinese mainland. We are committed to maximising the growth potential of The Peninsula Beijing following its major renovation. We continue to monitor the impact of the *gilets jaunes* or "yellow vests" in France which has been negatively affecting our hotel in Paris. We expect that the new hotels in London, Istanbul and Yangon will further enhance our brand presence when they open from 2021 onwards.

We have been encouraged by a number of new lettings and renewals at our arcades at The Peninsula in Hong Kong, Shanghai and Beijing. We are experiencing good demand for our luxury residential lettings in Hong Kong. Our Peak Tram business will be negatively impacted in 2019 as it will undergo several months of suspension during the first phase of its improvement and upgrade programme that was previously announced to shareholders. We expect this to affect our results in 2019 and 2020, however, in the long term we believe it will significantly improve the visitor experience and enhance Hong Kong's tourism image.

Overall, our company remains in a strong financial position with a highly motivated and dedicated team of management and staff who are committed to our long-term vision. We strongly believe that a top hospitality company is built on attention to detail, quality and an exceptional back-of-house. This passion for perfection is set by our leadership and translates through to the work of our general managers, our designers, project teams, operations teams and our partners, to create a truly prestigious brand that is celebrated across the world, and a company that consistently lives up to its unique brand proposition. I would like to thank each member of my team who contributes to our company's success year after year.

OPERATIONAL REVIEW

2018 was a pleasing year for our group operational results. We benefited from a strong brand in our hotels business, with the Peninsula being recognised as one of the finest hotel brands in the world, and our property business offers stability against the cyclical nature of the hotel industry. Despite some uncertainty over the US-China trade war, the ongoing Brexit negotiations and other global events, the markets in which we operate were generally stable during the year and we were able to achieve earnings growth in most of our businesses.

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**	**Variance**	
	HK$m	**In HK$**	**In Local Currency**
Consolidated hotels			
The Peninsula Hong Kong	1,352	4%	4%
The Peninsula Beijing	326	34%	32%
The Peninsula New York	720	3%	3%
The Peninsula Chicago	624	10%	10%
The Peninsula Tokyo	868	5%	3%
The Peninsula Bangkok	292	15%	10%
The Peninsula Manila	237	1%	5%
Non-consolidated hotels			
The Peninsula Shanghai	599*	–1%	–3%
The Peninsula Beverly Hills	610	–3%	–3%
The Peninsula Paris	584	12%	8%

* *Excluding proceeds from sale of apartments*

The Peninsula Hong Kong

The Peninsula Hong Kong		
Revenue	HK$1,352m	+4%
Occupancy		–5pp
Average Room Rate		+20%
RevPAR		+12%

The tourism market in Hong Kong continued to improve in 2018 and overnight visitor arrivals increased 4.9% year-on-year. We are optimistic that the development and re-opening of the Tsim Sha Tsui waterfront area will be an attractive destination for travellers and we are committed to working with industry peers and government departments to promote Kowloon and Hong Kong's tourism industry overall.

We were pleased to celebrate the 90th anniversary of **The Peninsula Hong Kong** as the flagship property of the group. We held a variety of community initiatives and events during the year, with a particular focus on honouring our long-serving team of colleagues who work hard to provide memorable experiences for our guests. It is thanks to the efforts of our colleagues that The Peninsula Hong Kong received the accolade of No.1 City Hotel in Hong Kong by *Travel + Leisure* 2018 World's Best Awards. The Peninsula Hong Kong's Cantonese restaurant *Spring Moon* retained its Michelin star in December 2018.

During the year, we were market leader in average room rate and we saw a strong improvement in RevPAR.

New initiatives included the launch of The Peninsula Yacht, a Sunseeker Manhattan 60 19-metre cruiser that is available for guests to hire for private events and harbour cruises. We also continued our commitment to showcasing innovative art with a collection of bronze sculptures and paintings by Colombian artist Fernando Botero which will continue into 2019.

The Peninsula Arcade was 87% occupied and leasing momentum was positive. The Peninsula Office Tower continues to perform well and was 97% occupied throughout 2018, and the immediate outlook is stable.

The Peninsula Shanghai

The Peninsula Shanghai		
Revenue	RMB508m	–3%
Occupancy		–2pp
Average Room Rate		+2%
RevPAR		–1%
Proceeds from sale of apartments		RMB105m

The Peninsula Shanghai remains the market leader in average room rate in the city, driven by a large number of suite bookings and high-end groups, although the hotel reported a softer 2018 in terms of occupancy and RevPAR due to intense competition.

Shanghai experienced a 2% increase in international inbound travelers compared to the previous year and a double-digit percentage increase in luxury hotel rooms. The domestic Chinese mainland market continued to be our largest revenue driver and the US and Hong Kong markets were robust, with good demand also from Japan, Singapore and Latin America. We expanded our presence on Chinese social media to attract additional guests through online platforms and as a result we have seen strong growth from the domestic Chinese mainland market during the year.

Banqueting revenue was softer in 2018 although the hotel's food and beverage offering continues to achieve positive reviews and accolades. We were delighted that *Sir Elly's Terrace* at The Peninsula Shanghai was the only bar in Mainland China to be recognised as one of "The 10 Best Rooftop Bars in the World" by *Conde Nast Traveler* in 2018. The Peninsula Shanghai also remained the only hotel in mainland China to have two restaurants with Michelin stars.

The Peninsula Arcade was 89% occupied for the full year and recent leasing momentum has been positive with some exciting new couture brands opening shops there. No.1 Waitanyuan, the former British Consulate building located adjacent to the hotel, has been fully managed and operated by The Peninsula Shanghai since 2017, diversifying our portfolio of services, facilities and event spaces.

The Peninsula Shanghai continued its efforts to engage the local community during the year with our second Mega Yoga Event and co-hosting a charitable concert "Maestro Xu Zhong and his friends" at No 1 Waitanyuan, with proceeds benefiting local Chinese mainland charities.

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. By the end of 2018, a total of 29 units have been sold, including one in 2018.

The Peninsula Beijing

The Peninsula Beijing* **under renovation in 2017**		
Revenue	RMB276m	+32%
Room revenue	RMB121m	+74%
Occupancy		+11pp
Average Room Rate		+3%
RevPAR		+24%

The Peninsula Beijing was completely transformed in 2017 with an extensive renovation converting 525 rooms into 230 elegant suites, which are the largest in Beijing and among the most spacious luxury hotel rooms in China. Following the renovation, we were delighted to be included in the 2018 *Conde Nast Traveler* Hot List as well as *Town & Country's* "Best New Hotels in the World – Asia and Indian Ocean", an elite selection of the best hotel openings from the past year. The hotel's RevPAR and occupancy showed positive growth year on year and we were the rate leader in our competitive set for 2018, driven by a focus on diplomatic and high-level group business. In June 2018 the newly renovated rooftop bar *YUN Summer Lounge* opened, offering sweeping city views. The Peninsula Arcade has retained most of its top luxury tenants and has welcomed chic new luxury brands to the Arcade which have been well received by guests.

We were delighted to receive the first-ever BREEAM "good" certification in Beijing for a newly renovated building, which is a significant achievement aligned with our strategy to promote sustainable luxury. This included the implementation of energy efficient LEDs, sustainably sourced wood for most of the wood work and furniture, as well as avoiding harmful glues, paints, wall coverings and carpeting.

2018 marked "Turkish Tourism Year in China" and The Peninsula Beijing supported the occasion through our appreciation of art: over the course of the year, the hotel welcomed four renowned Turkish artists to take up residency at the hotel and showcase their work.

The Peninsula Tokyo

The Peninsula Tokyo		
Revenue	JPY12.22b	+3%
Occupancy		+2pp
Average Room Rate		+6%
RevPAR		+8%

Japan reported a 20% surge in tourist arrivals in 2018 with retail spending and infrastructure investment increasing significantly ahead of the 2020 Olympic Games in Tokyo. Against this backdrop we were delighted to report a strong year for **The Peninsula Tokyo** and we were pleased to be awarded first place in the 'Top 5 City Hotels' in the *2018 Travel + Leisure World's Best Awards* for the second consecutive year.

2018 operating results were positive, the best results in the hotel's ten-year history, with improved RevPAR positioning, average rates and increased occupancy. This was due to our strategy to drive suite occupancy, which was particularly successful during the peak sakura (cherry blossom) season in the first quarter. Domestic travel was slightly softer although this was offset by increased business from the US, Middle East and Thailand, and the Chinese mainland also remained strong. We reported increased business from the Middle East and increased online sales for the hotel.

Peter restaurant, which has stunning city views over the Imperial Palace and Tokyo city skyline, performed well during the year, and we implemented an exciting collaboration with four award-winning Japanese artisan chefs during a limited-edition culinary series which was well received by guests. We are making preparations to open a new sushi restaurant in 2019 under the helm of two Michelin-starred Chef Rei Masuda. Spa revenue was strong due to a variety of innovative new treatments and exclusive product lines.

We are optimistic for the coming year as visitor arrivals to Japan continue to be healthy in the run-up to the Rugby World Cup in 2019 and the Tokyo Olympics in 2020. We have implemented a new "Keys to the City" programme which offers The Peninsula Tokyo guests insider access to "Only-in-Tokyo" moments and experiences.

Our employees volunteered for various community activities, including making *onigiri* rice balls for a local orphanage and donating soap to the Clean the World Foundation.

The Peninsula Bangkok

The Peninsula Bangkok		
Revenue	THB1,204m	+10%
Occupancy		+7pp
Average Room Rate		–1%
RevPAR		+10%

Thailand reported strong growth in arrivals in 2018 mainly from Korea, Japan and the US due to the visa-free agreements with these countries. The development of Bangkok's recently established Creative District as well as the opening of the high-end mixed-use shopping complex ICONSIAM on the banks of the Chao Praya River beside our hotel is expected to drive increasing traffic and visitors to this area.

The Peninsula Bangkok celebrated its 20th anniversary in 2018 by offering 20 immersive cultural experiences for guests throughout the year, ranging from a sunset helicopter journey and golf at Thai Country Club, to Thai wellness and spirituality experiences. The hotel reported double digit growth in RevPAR and improved occupancy, following the end of the one-year mourning period for His Majesty King Bhumibol Adulyadej of Thailand.

The hotel welcomed increasing numbers of visitors from Korea, Japan, Singapore and Australia and our strategy continued to focus on driving MICE (Meetings, Incentives, Conferences and Exhibitions) business and suite bookings. Food and beverage performed well with double-digit revenue growth, with strong business at *Thiptara* and the *River Café & Terrace*. During 2018, the hotel's Cantonese restaurant, *Mei Jiang*, introduced a 16-course degustation menu which was the first of its kind for a Chinese restaurant in Thailand and was well received by guests.

In the second half of the year, Bangkok was affected by a sharp decline in Chinese mainland arrivals following a tragic boating accident in Phuket which led to reduced group tourism to the country overall.

We continued to enhance our Peninsula Academy programme to include sustainability elements related to local Thai nature conservation; for example, guests can participate in a tour of Thailand's first urban Nature Education Centre, Bang Pu, guided by award-winning naturalists. We have also established local cultural initiatives including visiting a local heritage temple which offers Peninsula guests exclusive sunrise yoga as part of our Wellness initiative. We are positioning the hotel as an "urban luxury resort" concept, focusing on a resort experience with healthy options in spa, fitness and food.

The Peninsula Manila

The Peninsula Manila		
Revenue	Php1,597m	+5%
Occupancy		+9pp
Average Room Rate		–4%
RevPAR		+9%

The Philippines experienced a robust year for international tourist arrivals, with growth of more than 7% year on year, despite the six-month closure of top island destination Boracay. Strong arrival numbers were seen from South Korea, mainland China, US and Japan. This, along with a revised rate strategy, was reflected in the performance of **The Peninsula Manila** for 2018. While the oversupply of new hotels outpaced group business demands, we worked with our online travel agency and wholesale partners to offset the declining group market.

As a result, occupancy and RevPAR saw a healthy increase over the same period in 2017, though there was a slight decline in average rates. The country's economy continues to be one of the fastest growing in Southeast Asia, fuelled by domestic consumption and investment. The domestic tourism market in the Philippines was a key driver as the middle class continues to grow and is willing to spend on travel.

Manila is experiencing a culinary revival with a thriving dining scene in the city, and The Peninsula Manila at 42 years old remains a mainstay of Filipino high society for dining and events. To celebrate biodiversity, organic local produce and sustainable seafood, our fine dining restaurant Old Manila partnered with local Holy Carabao Farms to create a month-long series of signature dining experiences that celebrated the best of Philippine cuisine, which was well received by guests. For the first time, we partnered with one of Manila's premier wedding event organisers to co-host our Annual Bridal Fair and participated in a US-Philippines Wedding road show which helped to drive revenue.

Our commitment to the local art community continued in 2018 as we partnered and co-hosted two of the city's major public art events including Salcedo Auction's Annual "A Well Appointed Life" and The Museum Foundation of the Philippines' Annual MaArte Fair.

The Peninsula New York

The Peninsula New York		
Revenue	US$92m	+3%
Occupancy		0pp
Average Room Rate		+3%
RevPAR		+3%

The Peninsula New York reported an increase in revenue, average rates and RevPAR over the previous year, although occupancy remained flat. We were pleased to achieve these results despite experiencing intense competition in 2018 as a result of increased supply in Manhattan. The city welcomed record numbers of tourist arrivals in 2018 from the US domestic market, Chinese mainland and the UK. The Middle East market segment overall continues to be impacted by travel restrictions and geopolitical tensions, although our hotel saw an increase in high level visitors from this market in the first quarter.

The Peninsula New York celebrated its 30th anniversary in 2018 and we designed a series of 30 curated experiences for guests. We initiated a partnership with Rolls-Royce Motor Cars to launch their new 2018 Phantom in April 2018, and we held a popular "Summer Social Music Series" at the hotel's rooftop bar, *Salon de Ning*. As part of the 30th anniversary celebrations, we displayed a curated art exhibition celebrating artists who were prominent in the 1980s. The exhibition, installed throughout the public spaces of the hotel, featured a collection of original works of Andy Warhol, Francesco Clemente, Keith Haring, Jean-Michel Basquiat, Barbara Kreuger and Michael Halsband.

Our food and beverage performance was soft although *Clement* restaurant and the hotel's rooftop bar, *Salon de Ning*, performed well and the latter is consistently rated as one of the best bars in New York.

The Peninsula New York continued to work closely with the local community and supported The New York Center for Children, our local charity partner which helps vulnerable children to achieve their full potential.

The Peninsula Chicago

The Peninsula Chicago		
Revenue	US$80m	+10%
Occupancy		+4pp
Average Room Rate		+6%
RevPAR		+11%

The Peninsula Chicago reported a pleasing year with a double-digit increase in RevPAR, achieving RevPAR and average rate leader despite significant new supply in the city. Chicago experienced record tourist arrivals in 2018 with significant increases in domestic visitors and a small increase in international arrivals. *Conde Nast Traveler* voted Chicago "Best Big City in the US" and Mayor Rahm Emanuel has placed a focus on driving tourism to the city during his tenure.

Amidst intense competition, we were delighted to receive the accolade of "No 1 Best Luxury Hotel in the US" by *Tripadvisor*, which is a testament to the popularity of the hotel following its extensive renovation in 2016.

We opened a beautiful new rooftop bar, *Z Bar*, in June 2018, which was designed by Yabu Pushelberg with a contemporary interior and city skyline views and brings together teams of chefs, mixologists and specialists. The name was a tribute to Maria Zec, The Peninsula Chicago's general manager for the past 17 years. *Z Bar* has been well received by guests and has achieved an influential social media following.

As part of its commitment to supporting local art in the community, for the fourth consecutive year, The Peninsula Chicago hosted a contemporary art exhibition that coincided with Expo Chicago, the International Exposition of Contemporary & Modern Art. Entitled 'But I'm on The Guest List!', the exhibition brought together the vibrant and uplifting work of contemporary artists including Chicago's own Carlos Rolón.

We added exciting new activities to our "Keys to the City" programme in early 2018 for visitors to Chicago to enjoy exclusive activities and VIP access to Chicago's attractions. We remain optimistic for a positive year in 2019.

The Peninsula Beverly Hills

The Peninsula Beverly Hills		
Revenue	US$78m	–3%
Occupancy		–1pp
Average Room Rate		–2%
RevPAR		–3%

The Peninsula Beverly Hills was once again voted "The Best Hotel in the US" by *Global Traveler* magazine in 2018. The hotel has achieved AAA Five Diamond and Forbes Five Star ratings every year since 1993, and *The Belvedere* is the only AAA Five Diamond restaurant in Los Angeles.

The hotel reported softer rates and decreased revenue over the previous year, with occupancy declining slightly. We believe this was partly due to the ongoing political tensions in the Middle East region which led to decreased business from this market, as well as increased competition in the Beverly Hills area with the first five-star luxury hotel to open in more than eight years across the street from our hotel. However, we have a loyal clientele with a high rate of return and we will continue to nurture our long-term relationships with our guests. Leisure travel to Los Angeles and food and beverage revenue was negatively impacted by an unusually cold and rainy winter spell.

To manage the challenging year we implemented cost controls and carefully managed expenses. We implemented new marketing strategies targeting Mexico, Japan, the domestic market in Northern California, with a focus on groups business as well as food and beverage promotions for Belvedere. Our connections in the entertainment industry remain strong and we remain the hotel of choice for celebrities during awards season.

Our sustainability initiatives continued with an innovative "waterless carwash" staffed by employees with special needs. We continued to co-sponsor events with our local charity partner "A Place called Home" which provides a safe environment for underprivileged children in the LA community. From April 2018 we have implemented a policy of free valet parking for guests who drive "zero emission" electric cars.

The Peninsula Paris

The Peninsula Paris		
Revenue	EUR63m	+8%
Occupancy		+5pp
Average Room Rate		+1%
RevPAR		+10%

In 2018 Paris saw record tourist arrivals and improving sentiment for the first half, although the *gilets jaunes* protests unfortunately affected the city in the fourth quarter. This also impacted our operating results as some of the protests occurred in the immediate vicinity of our hotel. We believe the situation has calmed and we are cautiously optimistic for the outlook for 2019.

Overall **The Peninsula Paris** reported improved results with a double digit increase in RevPAR and improved revenue, occupancy and rates despite intense competition amongst the other "Palace" hotels in the city. Food and beverage revenue was satisfactory, particularly from the rooftop restaurant *L'Oiseau Blanc* which offers spectacular views from the Sacre-Coeur to the Eiffel Tower and has become well established in the local market as the location for numerous high-profile events. *Le Bar Kléber* also performed well and we are implementing new marketing initiatives and positioning for our Chinese restaurant *Lili*. The geopolitical tensions in the Middle East have created uncertainty to our business from that region although we welcomed increasing numbers of guests from Qatar and the United Arab Emirates to offset the decline from Saudi Arabia.

We hosted The Peninsula Classics Best of the Best Award in February 2018 which was well attended by classic car *aficionados* and celebrities and received extensive press coverage. In collaboration with The Peninsula Beverly Hills, The Peninsula Paris initiated a "Made in California" culinary adventure for summer 2018, taking inspiration from Californian culinary trends and healthy eating principles.

Commercial Properties Division

Commercial Properties	**Revenue**	**Variance**	
	HK$m	**In HK$**	**In Local Currency**
The Repulse Bay Complex	639	0%	0%
The Peak Tower	208	+3%	+3%
St. John's Building	55	+2%	+2%
The Landmark	38	–3%	0%
21 avenue Kléber	23	n/a	n/a

Our largest residential property, **The Repulse Bay Complex**, reported a steady year in 2018 with flat revenue as we saw a stabilisation of the luxury residential market in Hong Kong. We believe The Repulse Bay, with its beautiful ocean views and convenient access to the city, is one of the finest luxury residential properties in the area, and we have seen satisfactory rental renewals despite the soft market across the city.

Food and beverage revenue was stable and we upgraded our website as well as implemented a number of promotions and initiatives to drive F&B business, including revamping our afternoon tea offering and promoting *Spices* as a venue for corporate events. In partnership with the Mexican Consulate, *Spices* hosted a renowned Mexican chef Rigel Sotelo to help promote Mexican and Asian culinary fare, and the proceeds of this dinner benefited local charities in Hong Kong.

The Verandah continues to attract excellent wedding business given the spectacular location and views of Repulse Bay.

We opened a new outdoor venue, *breeze*, in early 2018 to take advantage of the beautiful views across the bay. We are also continuing to explore a variety of collaborations together with The Peninsula Hong Kong to drive cross-marketing revenue and improve brand recognition.

The Repulse Bay Shopping Arcade, which offers an eclectic blend of lifestyle amenities, health and wellness facilities and boutiques, was 93% occupied for most of the year. We are actively reviewing the right mix of tenants to suit this residential community and we have taken positive steps to fill the vacant spaces.

The Peak Tower was fully leased for most of the year in 2018 and revenue increased by 3%. The Peak Tower generates its revenue from commercial leasing, as well as revenue from admission fees to the open-air rooftop attraction of Sky Terrace 428 with its panoramic views of Hong Kong. Visitor numbers to Sky Terrace 428 reached record levels compared to the previous year, due to a strategy of “combo tickets” with the Peak Tram.

St John’s Building, located at the lower terminus of the Peak Tram, offers an excellent location for office space. The property was fully let for most of the year in 2018.

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. The complex has 65 serviced apartments, a fully equipped Health Club, as well as 100,000 square feet of first class office space for leasing. Revenue remained stable year-on-year despite intense competition. The Landmark maintains its popularity and leadership in a competitive market, and continues to attract awards for its management and facilities.

21 avenue Kléber offers a prime location immediately adjacent to The Peninsula Paris on avenue Kléber, just steps from the Arc de Triomphe. The building has been restored in keeping with its heritage, while opening up and modernising the internal space into contemporary offices, spacious terraces and a large courtyard. The property has achieved international BREEAM Excellent and HQE Outstanding environmental certifications which are the highest level of sustainable building assessments in Europe. We have successfully leased the entire office and the two retail spaces.

Clubs and Services Division

Clubs and Services	Revenue	Variance	
	HK$m	In HK$	In Local Currency
The Peak Tram	140	+10%	+10%
The Thai Country Club	70	+15%	+8%
Quail Lodge & Golf Club	177	+11%	+11%
Peninsula Clubs & Consultancy Services	5	–3%	–3%
Peninsula Merchandising	262	+9%	+9%
Tai Pan Laundry	55	0%	0%

The Peak Tram is one of Hong Kong's most popular tourist attractions and celebrated 130 years of operation under our group in 2018 with a variety of promotional initiatives and community outreach. Revenue increased by 10%, driven by a strategy to sell "combo" tickets for the Peak Tram and Sky Terrace 428, whilst tourist arrivals, particularly from India, Thailand and the Philippines improved.

In October 2018, the Chief Executive in Council approved an additional ten-year operating right from 2026 to 2035 and the upgrade project of the Peak Tram, under the Peak Tramway Ordinance. We have carefully designed an enhanced customer experience and have considered all aspects to minimise service disruption, whilst keeping sustainability factors a priority. The upgrade project will result in covered, temperature-controlled queueing and waiting areas with entertainment features for up to 1,300 passengers. The new tramcars will be able to carry 210 passengers instead of 120 at present and visitors' waiting time will be significantly reduced. The full cost of the HK$684 million upgrade project, which is scheduled to be completed in 2021, is being funded by HSH. This project will involve two service suspension periods of several months each which will negatively impact our earnings in 2019 and 2020.

The Thai Country Club which is located near Bangkok, recorded a positive 2018 due to increasing visitors, strong food and beverage revenue and increasing sales of memberships, as well as a strategy to control expenses. We hosted the Thailand Open in June 2018 which led to significant recognition for the club. We have implemented further cross-marketing initiatives with The Peninsula Bangkok to drive further awareness of the club. We were pleased to win "Best Managed Club in the Asia Pacific region" at the Asian Golf Awards in 2018.

Quail Lodge & Golf Club had a strong year with revenue increasing by 11%. This was due to a successful marketing strategy to drive last-minute bookings, online travel agency (OTA) promotions, as well as improved golf membership sales and golf rounds. *The Quail Motorcycle Gathering*, a Peninsula Signature event, continues to grow in popularity with more than 2,000 visitors in May. This event complements the very successful *The Quail: A Motorsports Gathering* event, which occurs in August and has become one of the world's leading concours events for classic car *aficionados*. In 2018 we welcomed more than 5,000 visitors to the event, bringing the Peninsula brand to the attention of leading car enthusiasts.

Peninsula Clubs & Consultancy Services manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and The Refinery (formerly Butterfield's). The Refinery opened at the end of 2017 after a significant renovation and has been well received by members.

Revenue at **Peninsula Merchandising** was 9% higher than the same period last year, driven by new marketing campaigns, increased business at The Peninsula Boutique store at Hong Kong International Airport and various pop-up promotions in leading retail outlets in Hong Kong. Peninsula Merchandising has implemented a strategy of a broader product range and seasonal promotions, which requires an initial investment in operating costs but is expected to lead to a long-term increase in earnings as well as a broader earnings base. In June 2018 we undertook a new brand relaunch, "A Journey to Treasure", which we expect will improve brand awareness and help drive sales.

Tai Pan Laundry revenue was flat during 2018 at HK$55 million, and the company is driving new business with marketing strategies and greater automation.

Projects under development

The Peninsula London

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

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 189-room Peninsula hotel with 26 luxury Peninsula-branded residential apartments for sale also integrated into the development. The construction budget for the project is in the region of £650 million.

To shorten the development period, we have deployed a 'top-down' construction methodology, whereby the above-ground superstructures and the basements are constructed at the same time. Construction of the project is progressing well, with the topping out of the building expected in mid-2019. The below-ground excavation and structural works will continue for some time.

Our ambition is for the hotel and residences to set new standards in luxury and service in the London market when complete, currently scheduled for 2021.

The Peninsula Istanbul

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

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

The project has encountered some unforeseen site conditions and challenges with the heritage building which has caused some delays. Completion of the project is currently targeted to be in 2021. There will be approximately 180 rooms, a ballroom with sweeping views of the Bosphorus, indoor and outdoor swimming pools, Spa and verdant garden area on the waterfront.

Istanbul is a beautiful historic city that embodies the meeting point of East and West, and the location of The Peninsula Istanbul on the Bosphorus is truly spectacular. The Peninsula Istanbul will form part of the wider *Galataport* project being developed by our partners, which incorporates a promenade, museums, art galleries, restaurants, boutiques, retail units, parks and public spaces for the local community as well as a cruise passenger terminal with global standards. We believe in the long-term future of Istanbul as one of the world's leading business and tourism destinations.

The Peninsula Yangon

The company entered into a shareholders' agreement with Yoma Strategic Investments Ltd. and First Myanmar Investment Co., Ltd. in January 2014 to acquire a 70% majority interest for a proposed hotel development on the site of the former headquarters of the Myanmar Railway Company in central Yangon, Myanmar. The existing building is being renovated to become The Peninsula Yangon and will be adjacent to a mixed-use development called Yoma Central, previously known as the Landmark Development. We will also receive branding fees on the sale and management of The Peninsula Residences Yangon, the luxury residential apartments being developed by Meeyahta Development Limited which is a joint venture between our partner Yoma, Mitsubishi Corporation, Mitsubishi Estate Corporation, Asian Development Bank and International Finance Corporation, adjacent to the hotel.

Construction progress was delayed during 2018 due to the collapse of a small portion of the heritage building façade wall. We have taken immediate action in response to this issue, including claiming insurance, performing a peer review of the construction methodology and dealing with the relevant authorities. Although the revised timeline has not yet been finalised, we are still expecting the project to be completed in 2021.

The Peninsula Yangon will have 88 magnificent guestrooms with high ceilings, surrounded by tropical landscaped gardens with an outdoor swimming pool.

The group's overall investment is around US$130 million, including the value of the leasehold interest and estimated development costs.

The financial information sets out in this results announcement has been reviewed by the company's Audit Committee and has been agreed by the company's auditor, KPMG, Certified Public Accountants. The financial figures in respect of the preliminary announcement of the group's results for the year ended 31 December 2018 have been compared by KPMG to the amounts set out in the group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

FINANCIAL REVIEW

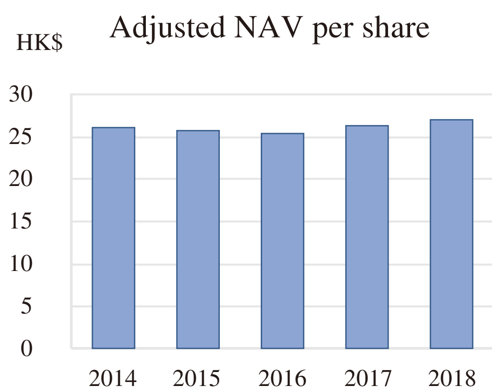
The group's adjusted net assets value

Adjusted NAV

HK$42,688m ↑2%

In the financial statements, the group's hotels (other than shopping arcades and offices within the hotels) and golf courses are stated at depreciated cost less accumulated impairment losses, if any, and not at fair value.

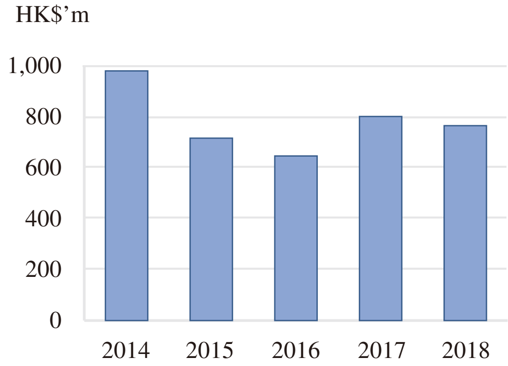
Accordingly, we have commissioned an independent third-party fair valuation of the group's hotels and golf courses as at 31 December 2018, the details of which are set out on page 31. If these assets were to be stated at fair value, the group's net assets attributable to shareholders would increase by 10% to HK$42,688 million as indicated in the table below.



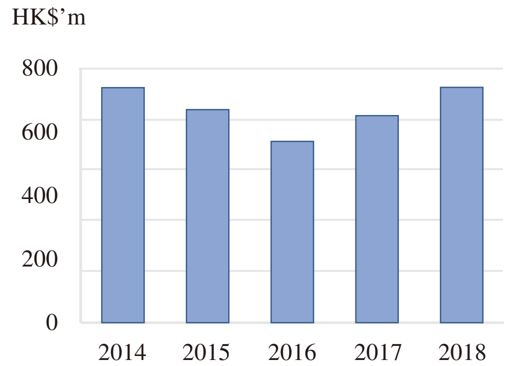
HK$m		**2018**		2017
Net assets attributable to shareholders per the audited statement of financial position		**38,941**		38,175
Adjusting the value of hotels and golf courses to fair value	**4,092**		3,876	
Less: Related deferred tax and non-controlling interests	**(345)**		(326)	
		3,747		3,550
Adjusted net assets attributable to shareholders		**42,688**		41,725
Audited net assets per share (HK$)		**24.14**		24.02
Adjusted net assets per share (HK$)		**26.46**		26.26

The group's underlying profit

Underlying Profit
HK$765m ↓4%



Adjusted underlying profit (excluding the group's share of gain on apartments sold by PSW)
HK$740m ↑14%



Our operating results are mainly derived from the operation of hotels; the leasing and sale of luxury residential apartments; the leasing of office and retail properties; the 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-operating items, such as any changes in the fair value of investment properties and the related deferred tax movements, in our statement of profit or loss. To reflect the actual performance of the group, we have provided a calculation of the underlying profit. This is determined by excluding the post-tax effects of property revaluation movements and other non-operating items.

The group's underlying profit for the year ended 31 December 2018 amounted to HK$765 million compared to HK$801 million in last year. It is worth noting that these profit figures were inclusive of the group's share of gain on apartments sold by The Peninsula Shanghai Waitan Hotel Company Limited (PSW), the group's 50% joint venture which owns a 100% interest in The Peninsula Shanghai Complex, which comprises The Peninsula Shanghai hotel and shopping arcade and the adjoining Peninsula Residences apartment tower with 39 apartment units held for sale.

During 2018, PSW sold one apartment (2017: 11 apartments) and realised a smaller gain relative to last year. Excluding the share of gain on apartments sold by PSW, the group's adjusted underlying profit increased by 14% to HK$740 million (2017: HK$651 million). The favourable result was mainly due to the increased contribution from the hotels division with The Peninsula Beijing operating with a full room inventory during the year after the completion of its extensive renovation in August 2017.

HK$m	2018	2017	2018 vs 2017
Profit attributable to shareholders	**1,243**	1,155	8%
Less: Unrealised property revaluation movements and other non-operating items, net of tax and non-controlling interests*	**(501)**	(504)	(1%)
Add: Share of revaluation gains on apartments sold by PSW during the year **	**23**	150	(85%)
Underlying profit	**765**	801	(4%)

* *Including the group's share of property revaluation movements and other non-operating items of PSW.*

** *The apartments held by PSW were previously classified as investment properties which were stated at fair value. On disposal, the revaluation gains became realised gains and were therefore added back to arrive at the underlying profit.*

Statement of profit or loss

The group's consolidated statement of profit or loss for the year ended 31 December 2018 is set out on page 38. The following table summarises the key components of the group's profit attributable to shareholders. This table should be read in conjunction with the commentary set out on pages 25 to 30 of this Financial Review.

HK$m	2018	2017	2018 vs 2017
Revenue	**6,214**	5,782	7%
Operating costs	**(4,664)**	(4,360)	7%
EBITDA	**1,550**	1,422	9%
Depreciation and amortisation	**(542)**	(503)	8%
Net financing charges	**(52)**	(87)	(40%)
Share of result of a joint venture	**(24)**	(97)	(75%)
Share of results of associates	**(29)**	(24)	21%
Increase in fair value of investment properties	**523**	609	(14%)
Taxation	**(184)**	(168)	10%
Profit for the year	**1,242**	1,152	8%
Non-controlling interests	**1**	3	(67%)
Profit attributable to shareholders	**1,243**	1,155	8%

Revenue

The group has interests in 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 operating hotels, 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, club management and other services, including the Peak Tram, one of Hong Kong's most popular tourist attractions.

The group's consolidated revenue in 2018 increased by 7% to HK$6,214 million. Total revenue, including the group's effective share of revenue of associates and joint venture amounted to HK$6,753 million, representing an increase of 7% over 2017.

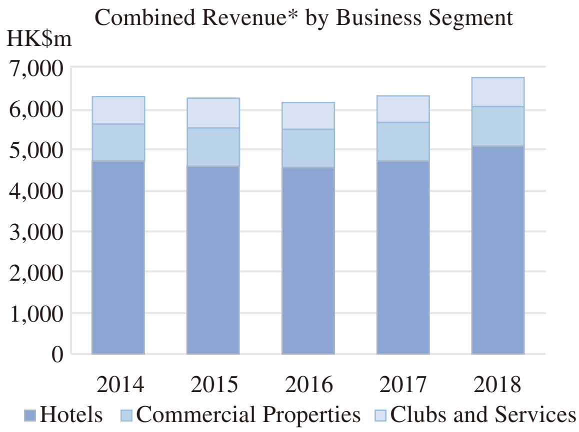
A breakdown of the group's total revenue, including its effective share of revenue of associates and joint venture by business segment and geographical segment is set out in the tables on the following page.

Consolidated Revenue
HK$6,214m ↑7%

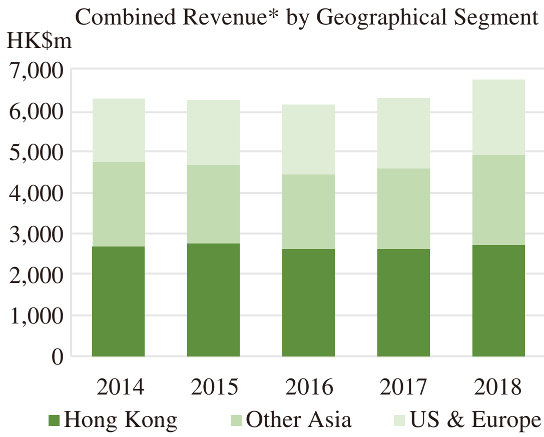
Hotels
HK$4,534m ↑8%

Commercial Properties
HK$971m ↑3%

Clubs and Services
HK$709m ↑9%



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



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

Revenue by business segment

HK$m	**2018**			2017			2018 vs 2017
	Group's subsidiaries	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hotels	**4,534**	**539***	**5,073**	4,189	531*	4,720	7%
Commercial Properties	**971**	**–**	**971**	943	–	943	3%
Clubs and Services	**709**	**–**	**709**	650	–	650	9%
	6,214	**539**	**6,753**	5,782	531	6,313	7%

Revenue by geographical segment

HK$m	**2018**			2017			2018 vs 2017
	Group's subsidiaries	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hong Kong	**2,724**	**–**	**2,724**	2,626	–	2,626	4%
Other Asia	**1,886**	**300***	**2,186**	1,656	302*	1,958	12%
US and Europe	**1,604**	**239**	**1,843**	1,500	229	1,729	7%
	6,214	**539**	**6,753**	5,782	531	6,313	7%

* *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 main contributor to the group's combined revenue, accounting for 75% (2017: 75%) of the total. The increase in revenue of the hotels division was mainly due to the return of a full room inventory of The Peninsula Beijing after the completion of its extensive renovation in August 2017 and the strong performances achieved by The Peninsula Hong Kong, The Peninsula Chicago and The Peninsula Bangkok.

The commercial properties division performed well with higher revenue achieved by the Peak Tower and St John's Building as well as full year rental income contributed from 21 avenue Kléber as from September 2017. The division reported a 3% revenue growth, although the 2017 results included four months of rental income from 1-5 Grosvenor Place which was demolished in May 2017 for The Peninsula London development.

For the clubs and services division, the increase in revenue was mainly due to higher fare income achieved by the Peak Tram and increased revenue from mooncakes and its wider range of new merchandising products achieved by The Peninsula Merchandising.

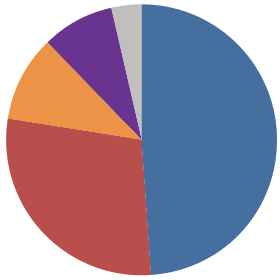
Details of the operating performances of the group's individual operations are set out on pages 10 to 20 of the Operational Review.

Operating costs

In 2018, our operating costs increased by 7% to HK$4,664m (2017: HK$4,360 million), due to the higher business levels attained by most of our operations.

Given the nature of operating high-end luxury hotels, staff costs continued to be the largest portion of our operating costs. Staff costs and related expenses for the year increased by 7% to HK$2,291 million (2017: HK$2,135 million), representing 49% (2017: 49%) of the group's operating costs and 37% (2017: 37%) of the group's consolidated revenue.

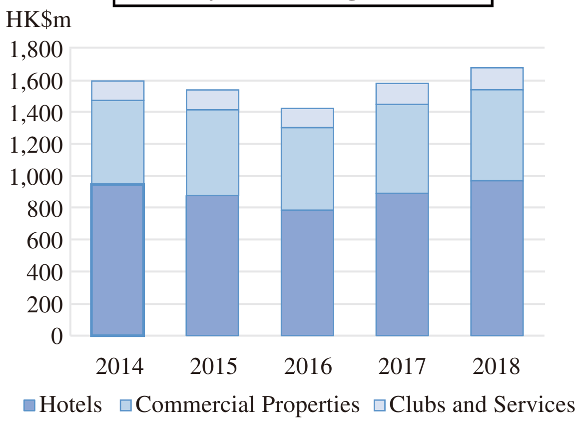
Operating Costs
HK$4,664m ↑7%



EBITDA and EBITDA Margin

EBITDA (earnings before interest, taxation, depreciation and amortisation), including the group's effective share of EBITDA of joint venture and associates, increased by 6% to HK$1,680 million. The table below and on the following page sets out the breakdown of the group's EBITDA by business segment and by geographical segment.

Combined EBITDA by Business Segment



EBITDA by business segment

HK$m	**2018**			2017			2018 vs 2017
	Group's subsidiaries	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hotels	**840**	**130***	**970**	732	161*	893	9%
Commercial Properties	**572**	**–**	**572**	558	–	558	3%
Clubs and Services	**138**	**–**	**138**	132	–	132	5%
	1,550	**130**	**1,680**	1,422	161	1,583	6%

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

EBITDA by geographical segment

HK$m	2018			2017			2018 vs 2017
	Group's subsidiaries	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hong Kong	**1,173**	**–**	**1,173**	1,169	–	1,169	–
Other Asia	**283**	**89***	**372**	167	118*	285	31%
US and Europe	**94**	**41**	**135**	86	43	129	5%
	1,550	**130**	**1,680**	1,422	161	1,583	6%

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

EBITDA margin

	2018			2017		
	Group's subsidiaries	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	Combined total
Hotels	**19%**	**24%***	**19%**	17%	30%*	19%
Commercial Properties	**59%**	**–**	**59%**	59%	–	59%
Clubs and Services	**19%**	**–**	**19%**	20%	–	20%
Overall EBITDA margin	**25%**	**24%**	**25%**	25%	30%	25%
By region						
Hong Kong	**43%**	**–**	**43%**	45%	–	45%
Other Asia	**15%**	**30%***	**17%**	10%	39%*	15%
US and Europe	**6%**	**17%**	**7%**	6%	19%	7%

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

The group's operations in different geographical locations are subject to different cost bases. In Hong Kong, the decrease in EBITDA margin was mainly due to the increase in cost of inventories and staff costs. In other Asia, the increase in EBITDA margin was mainly driven by the increase in revenue achieved by The Peninsula Beijing following the hotel's return of full room inventory whereas the decrease in the EBITDA margin of joint venture was due to the negative revenue growth reported by The Peninsula Shanghai. The group's subsidiaries and associates in the US and Europe are subject to higher cost base attributable to higher real estate taxes, employer's payroll taxes and benefit costs. Accordingly, the overall EBITDA margin of the group's operations in the US and Europe is the lowest among all locations.

Depreciation and amortisation

The group's hotels (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less depreciation and impairment, if any. The depreciation and amortisation charge of the group amounted to HK$542 million (2017: HK$503 million). The increase was mainly due to the additional depreciation at The Peninsula Beijing following its renovation which was completed in August 2017. To monitor the group's spending of capital expenditure, a rolling 5-year capital expenditure plan is adopted which is reviewed regularly to monitor planned replacement of furniture, fixtures and equipment, purchase of new items and major upgrade or enhancement projects.

Increase in fair value of investment properties

The investment properties of the group were revalued as at 31 December 2018 by independent firms of valuers based on an income capitalisation approach. The increase in fair value represented the net revaluation surplus of the group's investment properties, which amounted to HK$523 million (2017: HK$609 million), principally attributable to the increase in the appraised market value of The Repulse Bay Complex, The Peninsula Office Tower, the shopping arcade at The Peninsula Hong Kong, the Peak Tower and St. John's Building.

Share of result of a joint venture

The group, through its joint venture The Peninsula Shanghai Waitan Hotel Company Limited (PSW), owns a 50% interest in The Peninsula Shanghai Complex which comprises The Peninsula Shanghai hotel and shopping arcade and the adjoining Peninsula Residences apartment tower. The Peninsula Shanghai is the market leader in terms of average room rate and RevPAR in its competitor set. PSW also earns leasing income from the residential apartments which remained unsold during the year as well as sales proceeds when the apartments are sold. During the year, one apartment was sold for HK$119 million (2017: 11 apartments sold for HK$773 million), realising a gain on disposal of HK$50 million (2017: HK$300 million). The net proceeds arising from the sales of the apartments were applied to repay the bank loan of PSW. As at the end of 2018, PSW owned 10 remaining apartments which are held for sale.

Inclusive of hotel and arcade operations, and residential leasing and sales, PSW generated an EBITDA of HK$182 million (2017: HK$235 million). However, after accounting for depreciation, interest and the unrealised loss on revaluation of the hotel shopping arcade and other non-operating items, PSW sustained an accounting loss amounting to HK$48 million (2017: loss of HK$195 million) and the group's share of loss amounted to HK$24 million (2017: share of loss of HK$97 million).

It is worth noting that any unrealised accumulated appreciation in fair value of the apartments will become realised gains upon disposal. Accordingly, adjustments should be made to reflect the actual underlying profit realised by the group when the apartments are sold. Further details of the adjustments are set out on page 24 of this Financial Review.

Details of the operating performance of The Peninsula Shanghai are set out in the Operational Review section on pages 11 and 12.

Share of results of associates

The group has a 20% interest in each of The Peninsula Paris and The Peninsula Beverly Hills. The group's share of net loss of these two hotels for 2018 amounted to HK$29 million (2017: loss of HK$24 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 16 to 17.

Statement of financial position

The group's financial position as at 31 December 2018 remained strong and net assets attributable to shareholders amounted to HK$38,941 million, representing a per share value of HK$24.14 compared to HK$24.02 in 2017. The consolidated statement of financial position of the group as at 31 December 2018 is presented on page 40 and the key components of the group's assets and liabilities are set out in the following table.

HK$m	**2018**	2017	2018 vs 2017
Fixed assets	**41,529**	43,355	(4%)
Properties under development for sale	**3,121**	–	n/a
Other long-term assets	**2,306**	2,356	(2%)
Cash at banks and in hand	**1,178**	1,922	(39%)
Other assets	**858**	887	(3%)
	48,992	48,520	1%
Interest-bearing borrowings	**(7,095)**	(7,443)	(5%)
Other liabilities	**(2,420)**	(2,375)	2%
	(9,515)	(9,818)	(3%)
Net assets	**39,477**	38,702	2%
Represented by			
Shareholders' funds	**38,941**	38,175	2%
Non-controlling interests	**536**	527	2%
Total equity	**39,477**	38,702	2%

Summary of Hotel, Commercial and Other Properties

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

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 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 2018.

A summary of the group's hotel, commercial and other properties showing both the book value and the fair value as at 31 December 2018 is set out in the table below.

		2018		2017	
		Value of 100% of the property (HK$m)			
	Group's interest	**Fair value valuation**	**Book value**	Fair value valuation	Book value
Hotel properties*					
The Peninsula Hong Kong	100%	**12,360**	**9,954**	12,142	9,931
The Peninsula New York	100%	**2,356**	**1,689**	2,366	1,710
The Peninsula Beijing	76.6%**	**1,614**	**1,590**	1,814	1,777
The Peninsula Tokyo	100%	**1,681**	**1,507**	1,640	1,468
The Peninsula Chicago	100%	**1,332**	**1,253**	1,331	1,225
The Peninsula Bangkok	50%	**676**	**615**	670	660
The Peninsula Manila	77.4%	**109**	**108**	126	124
The Peninsula Shanghai#	50%	**2,964**	**2,548**	3,207	2,808
The Peninsula Paris#	20%	**5,357**	**5,133**	5,861	5,534
The Peninsula Beverly Hills#	20%	**2,632**	**434**	2,640	485
		31,081	**24,831**	31,797	25,722
Commercial properties					
The Repulse Bay Complex	100%	**17,769**	**17,769**	17,362	17,362
The Peak Tower	100%	**1,467**	**1,467**	1,422	1,422
St. John's Building	100%	**1,198**	**1,198**	1,142	1,142
Apartments in Shanghai	100%	**402**	**402**	423	423
21 avenue Kléber	100%	**711**	**711**	741	741
The Landmark	70%Δ	**56**	**56**	62	62
		21,603	**21,603**	21,152	21,152
Other properties					
Thai Country Club golf course	50%	**242**	**273**	239	269
Quail Lodge resort, golf course and vacant land	100%	**296**	**277**	298	282
Vacant land in Thailand	50%	**433**	**433**	431	431
Others	100%	**392**	**214**	374	220
		1,363	**1,197**	1,342	1,202
Properties under development##					
The Peninsula London Complex	100%	**4,465**	**4,465**	3,640	3,640
The Peninsula Yangon	70%	**438**	**438**	279	279
The Peninsula Istanbul#	50%	**594**	**594**	479	479
		5,497	**5,497**	4,398	4,398
Total market / book value		**59,544**	**53,128**	58,689	52,474

* *Including the shopping arcades and offices within the hotels*

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

Δ *The group owns 50% economic interest of The Landmark with a reversionary interest to the Vietnamese partner in 2026 upon expiry of the joint venture period*

\# *These properties are held by associates/joint ventures*

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

Properties under development for sale

In 2013, the group acquired a 50% interest in the leasehold of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of GBP132.5 million. In 2016, the group assumed 100% ownership of the property by buying out Grosvenor's equity interest for an additional cash consideration of GBP107.5 million. Grosvenor will remain as the landlord under the 150-year lease.

The land area of the overall site of 1-5 Grosvenor Place is approximately 67,000 square feet. The site will be developed into a mixed use complex consisting of a 189-room Peninsula hotel and 26 luxury residential apartments. The planned gross floor area of the apartments is approximately 119,000 square feet.

With the commencement of the construction of the superstructure of this development during the year, the portion of the carrying value relating to the apartments was apportioned from fixed assets to properties under development for sale. As at 31 December 2018, the balance of properties under development for sale amounted to HK$3,121 million and such amount will be recovered or recognised as cost of inventories after more than one year.

Other long-term assets

The other long-term assets as at 31 December 2018 of HK$2,306 million (2017: HK$2,356 million) principally comprise the group's 50% interest in The Peninsula Shanghai, the group's 20% interest in The Peninsula Paris (PPR) and the related hotel operating right in respect of PPR and the group's 50% interest in The Peninsula Istanbul which is under development.

Cash at banks and in hand and interest-bearing borrowings

As at 31 December 2018, the group's cash at banks and in hand and interest-bearing borrowings amounted to HK$1,178 million (2017: HK$1,922 million) and HK$7,095 million (2017: HK$7,443 million) respectively, resulting in a net borrowings of HK$5,917 million (2017: HK$5,521 million). The increase in net borrowings was mainly due to the capital expenditure incurred on ongoing projects under development. A breakdown of the group's capital expenditure for the year ended 31 December 2018 is set out on pages 33.

Cash flows

The consolidated statement of cash flows of the group for the year ended 31 December 2018 is set out on page 42. The following table summarises the key cash movements for the year ended 31 December 2018.

HK$m	**2018**	2017
EBITDA	**1,550**	1,422
Net change in working capital	**26**	(53)
Tax payment	**(193)**	(153)
Net cash generated from operating activities	**1,383**	1,216
Capital expenditure on existing assets	**(426)**	(601)
Net cash inflow after normal capital expenditure	**957**	615
Capital expenditure on new projects	**(1,208)**	(1,097)
Net cash outflow before dividends and other payments	**(251)**	(482)
Dividends paid	**(55)**	(84)
Net interest and other payments/receipts	**(87)**	142
Net cash outflow before financing	**(393)**	(424)

The breakdown of the group's spending on its existing assets is analysed below.

HK$m	**2018**	2017
Hotels		
The Peninsula Beijing	**56**	250
The Peninsula Chicago (including the new rooftop bar)	**105**	31
Others	**187**	137
Commercial properties		
21 avenue Kléber	**8**	68
Others	**29**	57
Clubs and services	**41**	58
	426	601

The breakdown of the group's spending on new projects and investments is analysed below.

HK$m	**2018**	2017
The Peninsula London	**951**	449
The Peninsula Yangon	**148**	181
Capital injection into the joint venture in Turkey	**109**	44
Acquisition of 5 apartment units in Shanghai	**–**	423
	1,208	1,097

Capital and Treasury Management

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

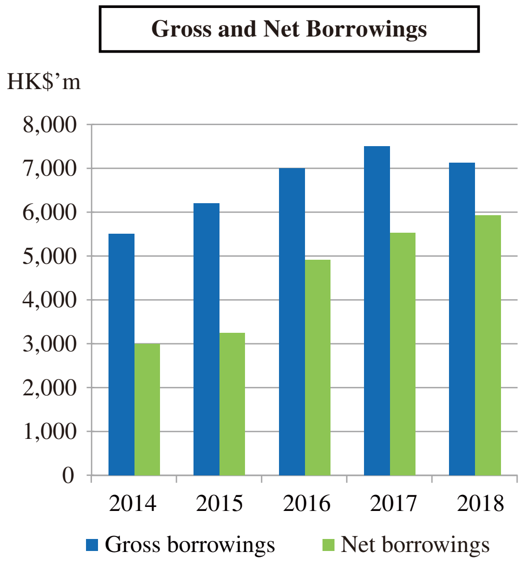
The group manages treasury activities centrally at its corporate office in Hong Kong. The group also regularly reviews its capital structure and actively monitors current and expected liquidity requirements to ensure its obligations and commitments are met. A proactive approach is taken to forecasting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

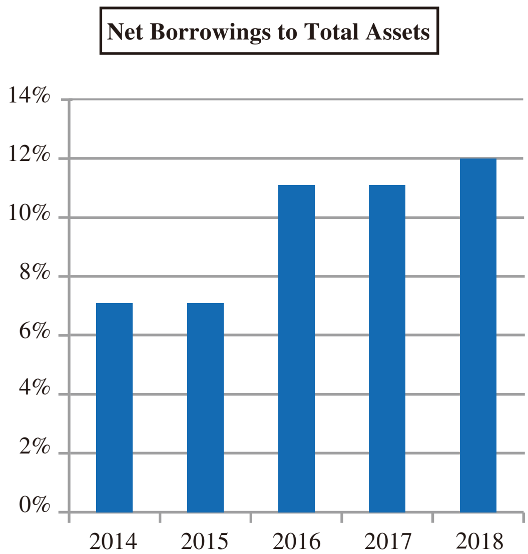
In addition, the group maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to ensure funds are available to meet its financial obligations and to finance its growth and development.

Liquidity/Financing

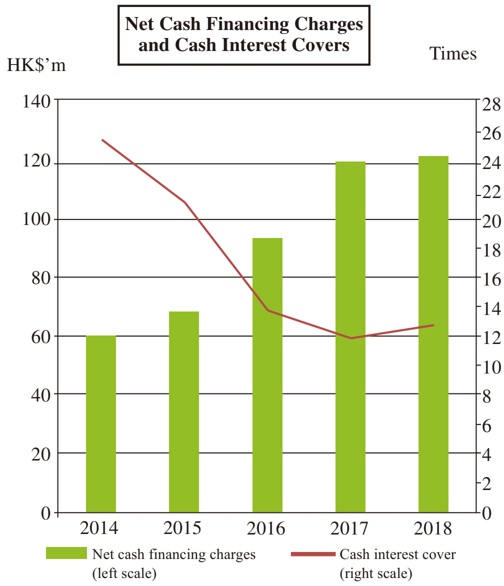
The group monitors its capital structure on the basis of its net borrowings (defined as interest-bearing borrowings less cash at banks and in hand) to the total of assets and monitors its liquidity through cash interest cover and funds availability.

In 2018, gross borrowings decreased to HK$7,095 million (2017: HK$7,443 million) mainly due to early repayment of HK$ and US$ loans from its cash balance. Consolidated net debt increased to HK$5,917 million as compared to HK$5,521 million in 2017, after paying for the construction cost of The Peninsula London. The group's net borrowings to total assets increased to 12% as compared to 11% in 2017. The ratio continues to reflect a healthy financial position for the group.



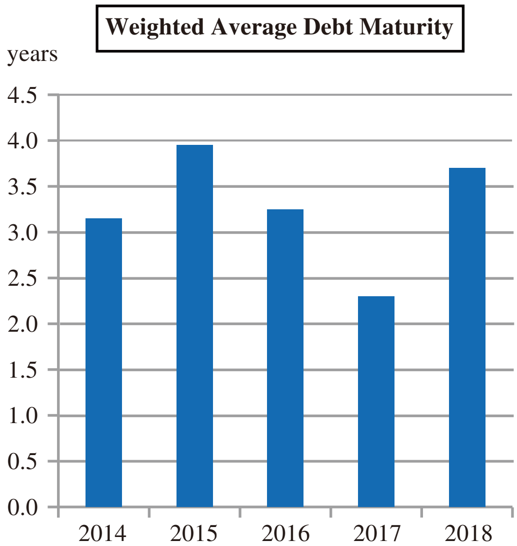


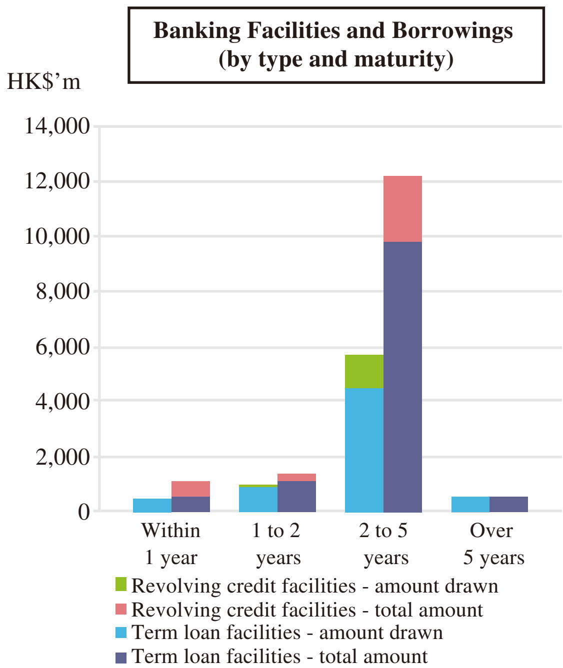
Net cash interest paid for 2018 amounted to HK$121 million (2017: HK$119 million). Cash interest cover (EBITDA divided by net interest paid) increased to 12.8 times (2017: 11.9 times) due to a higher EBITDA in 2018.



In March 2018, the group obtained a GBP650 million 5-year term loan facility from a consortia of five banks. The drawdown of this loan will be staggered to fund progress payments for the construction costs of The Peninsula London project. The loan is unsecured and bears interest at LIBOR plus a fixed margin.

During the year, the group also refinanced its maturing loans which are primarily denominated in HK dollars, Japanese Yen and Euro with new maturity tenors of 3 to 8 years. These increased the average debt maturity from 2.3 years to 3.7 years.





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

The consolidated and non-consolidated borrowings as at 31 December 2018 are summarised as follows

HK$m	2018						2017
	Hong Kong	**Other Asia**	**United States of America**	**Europe**	**UK**	**Total**	Total
Consolidated gross borrowings	**2,077**	**2,669**	**662**	**535**	**1,152**	**7,095**	7,443
Non-consolidated gross borrowings attributable to the group*:							
The Peninsula Shanghai (50%)	**–**	**608**	**–**	**–**	**–**	**608**	721
The Peninsula Beverly Hills (20%)	**–**	**–**	**203**	**–**	**–**	**203**	209
The Peninsula Paris (20%)	**–**	**–**	**–**	**401**	**–**	**401**	410
Non-consolidated borrowings	**–**	**608**	**203**	**401**	**–**	**1,212**	1,340
Consolidated and non-consolidated gross borrowings	**2,077**	**3,277**	**865**	**936**	**1,152**	**8,307**	8,783

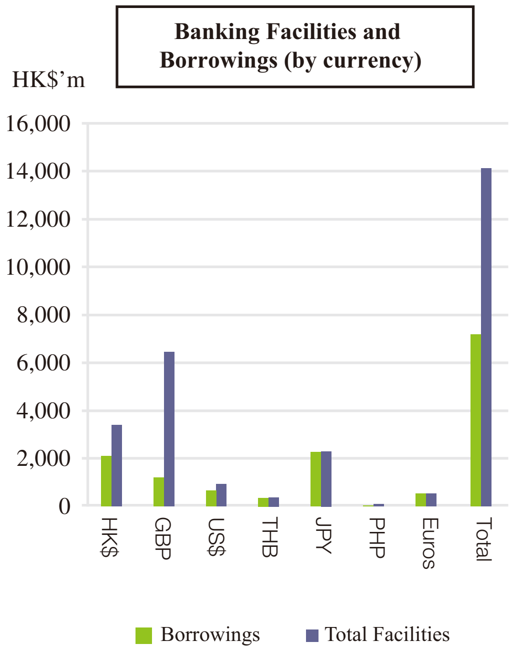
* *Represents HSH's attributable share of borrowings.*

Foreign Exchange

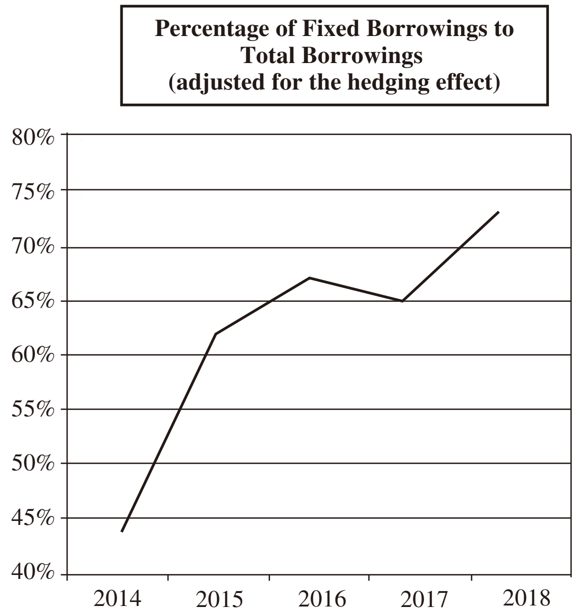
The group reports its financial results in Hong Kong dollars and does not hedge US dollar exposures in the light of the HK-US dollar peg. The group mostly uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge foreign exchange exposures.

All of the group's borrowings are denominated in the functional currency of the operations to which they relate. As at 31 December 2018, Japanese yen and HK dollar borrowings represented 32% and 30% of total borrowings respectively. Other balances were mainly in US dollars, GBP and other local currencies of the group's entities.

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

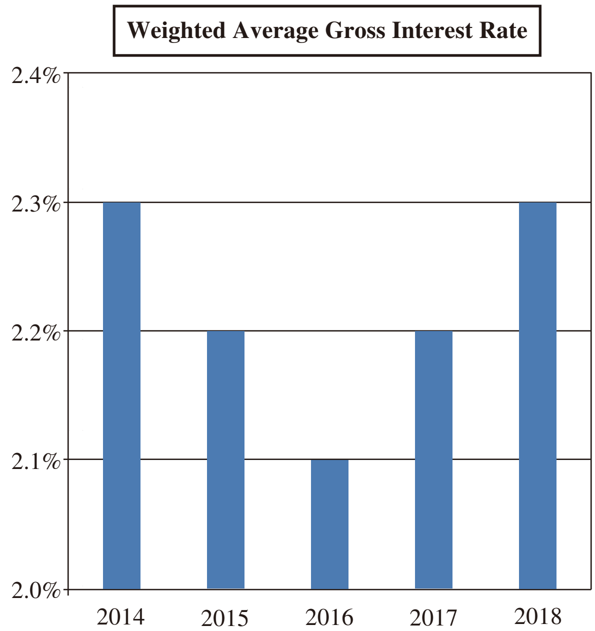


Interest Rate Risk



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 2018, the group's fixed to floating interest rate ratio increased to 73% (2017: 65%). The weighted average gross interest rate for the year increased slightly from 2.2% to 2.3%.



Credit Risk

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

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

As at 31 December 2018, bank deposits of HK$1,164 million (2017: HK$1,900 million) and derivatives with notional amount of HK$3,452 million (2017: HK$1,719 million) were transacted with financial institutions with credit ratings of at least investment grade.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (HK$M)

	Note	Year ended 31 December 2018	2017
Revenue	2	**6,214**	5,782
Cost of inventories		**(470)**	(433)
Staff costs and related expenses		**(2,291)**	(2,135)
Rent and utilities		**(567)**	(548)
Other operating expenses		**(1,336)**	(1,244)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)		**1,550**	1,422
Depreciation and amortisation		**(542)**	(503)
Operating profit		**1,008**	919
Interest income		**18**	22
Financing charges		**(70)**	(109)
Net financing charges		**(52)**	(87)
Profit after net financing charges		**956**	832
Share of results of joint ventures	9	**(24)**	(97)
Share of results of associates	10	**(29)**	(24)
Increase in fair value of investment properties		**523**	609
Profit before taxation		**1,426**	1,320
Taxation			
Current tax	3	**(180)**	(172)
Deferred tax	3	**(4)**	4
Profit for the year		**1,242**	1,152
Profit attributable to:			
Shareholders of the company		**1,243**	1,155
Non-controlling interests		**(1)**	(3)
Profit for the year		**1,242**	1,152
Earnings per share, basic and diluted(HK$)	4	**0.78**	0.73

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK$M)

	Year ended 31 December	
	2018	2017
Profit for the year	**1,242**	1,152
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	**(337)**	511
– financial statements of joint ventures	**(51)**	89
– loans to an associate	**(26)**	84
– hotel operating rights	**(20)**	62
	(434)	746
Cash flow hedges:		
– effective portion of changes in fair values	**(7)**	(8)
– transfer from equity to profit or loss	**6**	20
	(435)	758
Item that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit retirement obligations	**(5)**	(1)
Other comprehensive income	**(440)**	757
Total comprehensive income for the year	**802**	1,909
Total comprehensive income attributable to:		
Shareholders of the company	**816**	1,891
Non-controlling interests	**(14)**	18
Total comprehensive income for the year	**802**	1,909

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$M)

	Note	At 31 December 2018	2017
Non-current assets			
Investment properties		**33,077**	36,249
Other properties, plant and equipment		**8,452**	7,106
	7	**41,529**	43,355
Properties under development for sale	8	**3,121**	–
Interest in joint ventures	9	**1,089**	1,055
Interest in associates	10	**638**	699
Hotel operating rights	11	**530**	564
Deferred tax assets		**49**	38
		46,956	45,711
Current assets			
Inventories		**84**	77
Derivative financial instruments		**2**	–
Trade and other receivables	12	**715**	750
Amount due from a joint venture		**57**	60
Cash at banks and in hand	13	**1,178**	1,922
		2,036	2,809
Current liabilities			
Trade and other payables	14	**(1,441)**	(1,424)
Interest-bearing borrowings	15	**(403)**	(3,391)
Derivative financial instruments		**–**	(4)
Current taxation		**(26)**	(41)
		(1,870)	(4,860)
Net current assets/(liabilities)		**166**	(2,051)
Total assets less current liabilities		**47,122**	43,660
Non-current liabilities			
Interest-bearing borrowings	15	**(6,692)**	(4,052)
Trade and other payables	14	**(252)**	(230)
Net defined benefit retirement obligations		**(22)**	(17)
Derivative financial instruments		**(7)**	–
Deferred tax liabilities		**(672)**	(659)
		(7,645)	(4,958)
Net assets		**39,477**	38,702
Capital and reserves			
Share capital	16	**5,509**	5,224
Reserves		**33,432**	32,951
Total equity attributable to shareholders of the company		**38,941**	38,175
Non-controlling interests		**536**	527
Total equity		**39,477**	38,702

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (HK$M)

		Year ended 31 December							
		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 2017		5,005	(27)	(730)	32,111	31,354	36,359	215	36,574
Changes in equity for 2017:									
Profit for the year		–	–	–	1,155	1,155	1,155	(3)	1,152
Other comprehensive income		–	12	724	–	736	736	21	757
Total comprehensive income for the year		–	12	724	1,155	1,891	1,891	18	1,909
Dividends approved in respect of the previous year	5	165	–	–	(235)	(235)	(70)	–	(70)
Dividends approved in respect of the current year	5	54	–	–	(63)	(63)	(9)	–	(9)
Dividend paid to non-controlling interests		–	–	–	–	–	–	(5)	(5)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	–	125	125
Disposal of interest in subsidiaries to a non-controlling shareholder		–	–	70	(66)	4	4	174	178
Balance at 31 December 2017		5,224	(15)	64	32,902	32,951	38,175	527	38,702
Changes in equity for 2018:									
Profit for the year		**–**	**–**	**–**	**1,243**	**1,243**	**1,243**	**(1)**	**1,242**
Other comprehensive income		**–**	**(1)**	**(426)**	**–**	**(427)**	**(427)**	**(13)**	**(440)**
Total comprehensive income for the year		**–**	**(1)**	**(426)**	**1,243**	**816**	**816**	**(14)**	**802**
Dividends approved in respect of the previous year	5	**221**	**–**	**–**	**(255)**	**(255)**	**(34)**	**–**	**(34)**
Dividends approved in respect of the current year	5	**64**	**–**	**–**	**(80)**	**(80)**	**(16)**	**–**	**(16)**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Capital contribution from a non-controlling shareholder		**–**	**–**	**–**	**–**	**–**	**–**	**28**	**28**
Balance at 31 December 2018		**5,509**	**(16)**	**(362)**	**33,810**	**33,432**	**38,941**	**536**	**39,477**

CONSOLIDATED STATEMENT OF CASH FLOWS (HK$M)

	Note	Year ended 31 December 2018	2017
Operating activities			
Profit after net financing charges		**956**	832
Adjustments for:			
Depreciation	7(a)	**528**	489
Amortisation of hotel operating rights	11	**14**	14
Interest income		**(18)**	(22)
Financing charges		**70**	109
Operating profit before changes in working capital		**1,550**	1,422
Payment for the development of properties under development for sale		**(140)**	–
Changes in other working capital		**26**	(53)
Cash generated from operations		**1,436**	1,369
Net tax paid:			
Hong Kong profits tax		**(171)**	(142)
Overseas tax		**(22)**	(11)
Net cash generated from operating activities		**1,243**	1,216
Investing activities			
Acquisition of investment properties in Shanghai		**–**	(423)
Capital expenditure on property, plant and equipment and investment properties		**(426)**	(601)
Capital expenditure on projects under development		**(959)**	(630)
Cash injected from a non-controlling shareholder		**28**	22
Distribution from an associate		**6**	5
Capital injection into a joint venture		**(109)**	(44)
Net loan repayment from a joint venture		**–**	56
Net cash used in investing activities		**(1,460)**	(1,615)
Financing activities			
Drawdown of term loans		**1,331**	–
Repayment of term loans		**(3,373)**	–
Net increase in revolving loans		**1,702**	235
Net withdrawal/(placement) of interest-bearing bank deposits with maturity of more than three months		**179**	(125)
Interest paid and other financing charges		**(140)**	(140)
Interest received		**19**	21
Disposal of interest in subsidiaries to a non-controlling shareholder		**–**	178
Dividends paid to shareholders of the company		**(50)**	(79)
Dividends paid to holders of non-controlling interests		**(5)**	(5)
Net cash (used in)/generated from financing activities		**(337)**	85
Net decrease in cash and cash equivalents		**(554)**	(314)
Cash and cash equivalents at 1 January		**1,660**	1,955
Effect of changes in foreign exchange rates		**(8)**	19
Cash and cash equivalents at 31 December	13(a)	**1,098**	1,660

Notes to the Financial Statements

1. Statement of compliance

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary announcement of annual results does not constitute the company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2018 in due course.

The company's auditor has reported on the financial statements of the group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by the way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

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.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group. These developments do not have material impact on the group's Financial Statements.

The group has not applied any new standards or interpretations that are not yet effective for the current accounting year.

2. 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.

2. Revenue (HK$m) *continued*

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*, except for rental revenue derived from the hotels' shopping arcade and offices and commercial properties which is recognised under the scope of HKAS 17, *Leases*. The amount of each significant category of revenue recognised during the year is as follows:

	2018	2017
Hotels		
– Rooms	**2,141**	1,912
– Food and beverage	**1,330**	1,246
– Shopping arcades and offices	**625**	643
– Others	**438**	388
	4,534	4,189
Commercial properties		
– Residential properties	**500**	489
– Offices	**102**	90
– Shopping arcades	**369**	364
	971	943
Clubs and Services		
– Golf clubs	**247**	221
– Peak Tram operation	**140**	128
– Peninsula Merchandising	**262**	240
– Others	**60**	61
	709	650
	6,214	5,782

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

	2018	2017
Current tax – Hong Kong profits tax		
Provision for the year	**166**	160
Over–provision in respect of prior years	**(2)**	(1)
	164	159
Current tax – Overseas		
Provision for the year	**18**	13
Over-provision in respect of prior years	**(2)**	–
	16	13
	180	172
Deferred tax		
Decrease in net deferred tax liabilities relating to revaluation of overseas investment properties	**(13)**	(16)
Increase in net deferred tax liabilities relating to other temporary differences	**17**	13
Effect of decrease in tax rates on deferred tax balances	**–**	(1)
	4	(4)
Total	**184**	168

The provision for Hong Kong profits tax for 2018 is calculated at 16.5% (2017: 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.

4. Earnings per share

(a) Earnings per share – basic

	2018	2017
Profit attributable to shareholders of the company (HK$m)	**1,243**	1,155
Weighted average number of shares in issue (million shares)	**1,600**	1,578
Earnings per share (HK$)	**0.78**	0.73

	2018 (million shares)	*2017 (million shares)*
Issued shares at 1 January	***1,589***	*1,567*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2017 final dividend and 2018 interim dividend	***11***	*11*
Weighted average number of shares at 31 December	***1,600***	*1,578*

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2018 and 2017 and hence the diluted earnings per share is the same as the basic earnings per share.

5. 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 consideration in respect of the new shares issued under the scrip dividend scheme is retained as capital of the company.

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

	2018	2017
Interim dividend declared and paid of 5 HK cents per share (2017: 4 HK cents per share)	**80**	63
Final dividend proposed after the end of the reporting period of 16 HK cents per share (2017: 16 HK cents per share)	**258**	255
	338	318

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

5. Dividends (HK$m) *continued*

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

	2018	2017
Final dividend in respect of the previous financial year, approved and paid during the year, of 16 HK cents per share (2017: 15 HK cents per share)	**255**	235

6. 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 2018 and 2017 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Reportable segment revenue*	**4,534**	4,189	**971**	943	**709**	650	**6,214**	5,782
Reportable segment operating profits before interest, taxation, depreciation and amortisation (EBITDA)	**840**	732	**572**	558	**138**	132	**1,550**	1,422
Depreciation and amortisation	**(492)**	(457)	**(12)**	(10)	**(38)**	(36)	**(542)**	(503)
Segment operating profit	**348**	275	**560**	548	**100**	96	**1,008**	919

* *Analysis of segment revenue is disclosed in note 2.*

6. Segment reporting (HK$m) *continued*

(a) Segment results *continued*

Reconciliation of segment operating profit to the profit before taxation in the consolidated statement of profit or loss is not presented, since the segment operating profit is the same as the operating profit presented in the consolidated statement of profit or loss.

(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 2018 and 2017 are set out as follows:

	Note	**2018**	2017
Reportable segment assets			
Hotels		**19,855**	22,250
Commercial properties		**25,019**	21,417
Clubs and services		**1,105**	1,079
		45,979	44,746
Unallocated assets			
Interest in joint ventures	9	**1,089**	1,055
Interest in associates	10	**638**	699
Deferred tax assets		**49**	38
Amount due from a joint venture		**57**	60
Derivative financial instruments		**2**	–
Cash at banks and in hand	13(a)	**1,178**	1,922
Consolidated total assets		**48,992**	48,520

(c) Geographical information

The following table sets out information about the geographical location of (i) the group's revenue from external customers and (ii) the group's total specified non-current assets (excluding deferred tax assets). The geographical location of revenue is analysed based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment and properties under development held for sale, the location of the operation to which they are allocated in the case of hotel operating rights and the location of operations in the case of interests in joint ventures and associates.

	Revenue from external customers		**Specified non-current assets**	
	2018	2017	**2018**	2017
Hong Kong	**2,724**	2,626	**30,795**	30,255
Other Asia*	**1,886**	1,656	**6,184**	6,298
United States of America and Europe	**1,604**	1,500	**9,928**	9,120
	6,214	5,782	**46,907**	45,673

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

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

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

	Land	Hotel and other buildings held for own use	Motor vehicles, plant and equipment	Construction in progress	Sub-total	Investment properties	Investment property held for redevelopment	Total
Cost or valuation:								
At 1 January 2017	828	7,965	4,418	485	13,696	31,313	2,583	47,592
Exchange adjustments	54	278	93	14	439	191	293	923
Additions	–	45	91	681	817	496	514	1,827
Disposals	–	–	(36)	–	(36)	–	–	(36)
Transfer	–	319	172	(741)	(250)	–	250	–
Fair value adjustment	–	–	–	–	–	609	–	609
At 31 December 2017	882	8,607	4,738	439	14,666	32,609	3,640	50,915
Representing:								
Cost	882	8,607	4,738	439	14,666	–	–	14,666
Valuation - 2017	–	–	–	–	–	32,609	3,640	36,249
	882	8,607	4,738	439	14,666	32,609	3,640	50,915
At 1 January 2018	**882**	**8,607**	**4,738**	**439**	**14,666**	**32,609**	**3,640**	**50,915**
Exchange adjustments	**4**	**(33)**	**(9)**	**(52)**	**(90)**	**(83)**	**(92)**	**(265)**
Additions	**19**	**116**	**138**	**643**	**916**	**28**	**546**	**1,490**
Disposals	**–**	**(7)**	**(86)**	**–**	**(93)**	**–**	**–**	**(93)**
Transfer	**–**	**73**	**24**	**929**	**1,026**	**–**	**(4,094)**	**(3,068)***
Fair value adjustment	**–**	**–**	**–**	**–**	**–**	**523**	**–**	**523**
At 31 December 2018	**905**	**8,756**	**4,805**	**1,959**	**16,425**	**33,077**	**–**	**49,502**
Representing:								
Cost	**905**	**8,756**	**4,805**	**1,959**	**16,425**	**–**	**–**	**16,425**
Valuation - 2018	**–**	**–**	**–**	**–**	**–**	**33,077**	**–**	**33,077**
	905	**8,756**	**4,805**	**1,959**	**16,425**	**33,077**	**–**	**49,502**
Accumulated depreciation and impairment losses:								
At 1 January 2017	324	3,588	2,968	–	6,880	–	–	6,880
Exchange adjustments	31	131	64	–	226	–	–	226
Charge for the year	–	182	307	–	489	–	–	489
Written back on disposals	–	–	(35)	–	(35)	–	–	(35)
At 31 December 2017	355	3,901	3,304	–	7,560	–	–	7,560
At 1 January 2018	**355**	**3,901**	**3,304**	**–**	**7,560**	**–**	**–**	**7,560**
Exchange adjustments	**3**	**(25)**	**(2)**	**–**	**(24)**	**–**	**–**	**(24)**
Charge for the year	**–**	**202**	**326**	**–**	**528**	**–**	**–**	**528**
Written back on disposals	**–**	**(6)**	**(85)**	**–**	**(91)**	**–**	**–**	**(91)**
At 31 December 2018	**358**	**4,072**	**3,543**	**–**	**7,973**	**–**	**–**	**7,973**
Net book value:								
At 31 December 2018	**547**	**4,684**	**1,262**	**1,959**	**8,452**	**33,077**	**–**	**41,529**
At 31 December 2017	527	4,706	1,434	439	7,106	32,609	3,640	43,355

* *The net movement represents the carrying value of The Peninsula London residential portion which was apportioned from fixed assets to properties under development for sale (note 8).*

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

continued

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

continued

The additions in 2018 mainly related to the development costs incurred for the projects in London and Yangon and the renovation costs incurred by the group's hotels.

The Peninsula London development comprises a mixed use complex consisting of a Peninsula hotel and luxury residential apartments. With the commencement of the construction of the superstructure of this development during the year, the portion of the carrying value relating to the apartments was apportioned from investment property held for redevelopment to properties under development for sale (note 8). The portion relating to the hotel remains in the properties, plant and equipment and is accounted for as construction in progress.

The group assessed the recoverable amounts of its other properties, plant and equipment at the reporting date in accordance with the accounting policy. Based on the assessment, the directors considered that no provision for or reversal of impairment was required as at 31 December 2018 and 2017.

(b) All investment properties of the group were revalued as at 31 December 2018. 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, office and residential apartments	Colliers	Members of the Royal Institution of Chartered Surveyors

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

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

	2018	2017
Apportioned from investment property held for redevelopment *(note 7(a))*	**3,068**	–
Addition during the year	**150**	–
Exchange adjustments	**(97)**	–
	3,121	–

In 2013, the group acquired a 50% interest in the leasehold of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of HK$1,564 million (GBP132.5 million). In 2016, the group assumed 100% ownership of the property by buying out Grosvenor's equity interest for an additional cash consideration of HK$1,087 million (GBP107.5 million). Grosvenor will remain as the landlord under the 150-year lease.

With the commencement of the construction of the superstructure of this development during the year, the portion of the carrying value relating to the apartments was apportioned from investment property held for redevelopment to properties under development for sale. As at 31 December 2018, the balance of properties under the development amounted to HK$3,121 million and such amount will be recovered or recognised as cost of inventories after more than one year.

Reservation fees and pre-sale deposits, if any, paid by buyers of the apartments will be 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.

9. Interest in joint ventures (HK$m)

	2018	2017
Share of net assets	**568**	534
Loans to a joint venture	**521**	521
	1,089	1,055

(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 2017: US$117,500,000)	50%	Hotel investment and apartments held for sale
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)*	Incorporated	Turkey	TRY288,300,000 (31 December 2017: TRY171,700,000)	50%	Hotel investment

* *PIT was incorporated on 10 February 2016 and the group's interest in this joint venture is held indirectly by the company. PIT has redevelopment and operating rights in respect of a property within the Salıpazarı Port Project Area in Istanbul, Turkey. The group, together with its joint venture partner, intends to redevelop the property into The Peninsula Istanbul. The net assets of PIT at 31 December 2018 mainly comprised property under development and cash at bank and in hand of HK$594 million (2017: HK$479 million) and HK$3 million (2017: HK$9 million) respectively.*

(b) PSW has pledged its properties inclusive of the land use rights as security for an initial loan facility amounting to RMB2,500 million (HK$2,847 million) (2017: RMB2,500 million (HK$2,991 million)). As at 31 December 2018, the loan drawn down amounted to RMB1,068 million (HK$1,216 million) (2017: RMB1,205 million (HK$1,442 million)). The net carrying amount of these pledged assets amounted to RMB2,728 million (HK$3,106 million) (2017: RMB2,905 million (HK$3,475 million)).

9. Interest in joint ventures (HK$m) *continued*

(c) Set out below is a summary of the financial information on PSW, of which the group has a 50% share:

	2018	2017
Non-current assets	**2,548**	2,808
Cash at bank and in hand	**161**	154
Apartments held for sale and other current assets	**670**	738
Current liabilities	**(368)**	(341)
Non-current liabilities	**(2,526)**	(2,748)
Net assets	**485**	611
Proceeds from sale of apartments	**119**	773
Hotel revenue and rental income	**599**	603
	718	1,376
Carrying value of apartments sold *	**(115)**	(773)
Hotel cost of inventories and operating expenses	**(421)**	(368)
	(536)	(1,141)
EBITDA	**182**	235
Depreciation	**(87)**	(85)
Net financing charges	**(68)**	(95)
Profit before non-operating items	**27**	55
Non-operating items, net of tax Δ	**(75)**	(250)
Loss for the year	**(48)**	(195)
The group's share of result of PSW	**(24)**	(97)

* *The apartments were previously accounted for as investment properties, which were stated at fair value, and reclassified to apartments held for sale in 2017. The unrealised gains of the apartments arising from revaluation were recognised as non-operating items in the previous years. The carrying value of apartments sold during the year included cumulative revaluation gains, net of tax, of HK$46 million (2017: HK$300 million) which were realised upon disposal.*

Δ *The non-operating items in 2018 mainly represented the unrealised loss on revaluation of the hotel's commercial arcade, net of tax (2017: unrealised loss in respect of the provision of PRC land appreciation tax and other transaction costs resulting from the reclassification of the remaining 20 apartments held for rental from investment properties to apartments held for sale and the unrealised loss on revaluation of the hotel's commercial arcade, net of tax).*

10. Interest in associates (HK$m)

	2018	2017
Interest in associates	**638**	699

(a) Details of the principal unlisted associates, which are accounted for using the equity method in the group's consolidated financial statements, are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
19 Holding SAS (19 Holding)**	Incorporated	France	EUR1,000	20%	Investment holding
Majestic EURL (Majestic)	Incorporated	France	EUR80,000,000	20%	Hotel investment and investment holding
Le 19 Avenue Kléber	Incorporated	France	EUR100,000	20%	Hotel operation
The Belvedere Hotel Partnership (BHP)#	Partnership	United States of America	US$46,500,000	20%	Hotel investment

* *The group's effective interest is held indirectly by the company.*

** *19 Holding holds a 100% direct interest in Majestic which owns The Peninsula Paris.*

\# *BHP holds a 100% interest in The Peninsula Beverly Hills.*

(b) Included in the balance of interest in associates are long-term unsecured loans to 19 Holding of HK$451 million (2017: HK$467 million). These loans were made pro rata to the group's shareholding in 19 Holding and bear interest rates related to the rates published by the French tax authorities.

(c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR224 million (HK$2,007 million) (2017: EUR220 million (HK$2,053 million)). As at 31 December 2018, the loan drawn down amounted to EUR224 million (HK$2,007 million) (2017: EUR220 million (HK$2,053 million)). As at 31 December 2018, the net carrying amount of the pledged asset amounted to EUR573 million (HK$5,133 million) (2017: EUR593 million (HK$5,531 million)).

(d) BHP has pledged its hotel property to an independent financial institution as security for BHP's loan facility, amounting to US$145 million (HK$1,131 million) (2017: US$145 million (HK$1,131 million)). As at 31 December 2018, the loan drawn down amounted to US$130 million (HK$1,014 million) (2017: US$134 million (HK$1,044 million). The net carrying amount of the pledged asset amounted to US$56 million (HK$437 million) (2017: US$62 million (HK$485 million)).

10. Interest in associates (HK$m) *continued*

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

	2018	2017
EBITDA	**207**	214
Depreciation	**(268)**	(243)
Interest	**(85)**	(91)
Net loss from continuing operations	**(146)**	(120)
Other comprehensive income	**–**	–
Total comprehensive income	**(146)**	(120)
The group's share of results of the associates	**(29)**	(24)

11. Hotel operating rights (HK$m)

	2018	2017
Cost		
At 1 January	**723**	657
Exchange adjustments	**(22)**	66
At 31 December	**701**	723
Accumulated amortisation		
At 1 January	**(159)**	(142)
Exchange adjustments	**2**	(3)
Amortisation for the year	**(14)**	(14)
At 31 December	**(171)**	(159)
Net book value	**530**	564

The amortisation charge for the year is included in "Depreciation and amortisation" in the consolidated statement of profit or loss.

Hotel operating rights represent the cost attributable to securing the group's rights to operate The Peninsula Beverly Hills and The Peninsula Paris.

12. Trade and other receivables (HK$m)

	2018	2017
Trade debtors	**319**	285
Rental deposits, payments in advance and other receivables	**393**	461
Tax recoverable	**3**	4
	715	750

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$122 million (2017: HK$111 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:

	2018	2017
Current	**278**	253
Less than one month past due	**34**	25
One to three months past due	**6**	6
More than three months but less than 12 months past due	**1**	1
Amounts past due	**41**	32
	319	285

Trade debtors are normally due within 30 days from the date of billing.

13. Cash and cash equivalents and other cash flow information (HK$m)

(a) Cash at banks and in hand

	2018	2017
Interest-bearing bank deposits	**924**	1,658
Cash at banks and in hand	**254**	264
Total cash at banks and in hand	**1,178**	1,922
Less: Bank deposits with maturity of more than three months	**(76)**	(255)
Bank overdrafts	**(4)**	(7)
Cash and cash equivalents in the consolidated statement of cash flows	**1,098**	1,660

Cash at banks and in hand at the end of the reporting period include amounts of HK$188 million (2017: HK$218 million) held by overseas subsidiaries which are subject to regulatory and foreign exchange restrictions.

13. Cash and cash equivalents and other cash flow information (HK$m) *continued*

(b) Reconciliation of liabilities arising from financing activities

	Interest-bearing borrowings (note 15)	Derivative financial instruments	Interest payable	Total
As at 1 January 2017	6,998	16	7	7,021
Net increasing in revolving loans	235	–	–	235
Exchange difference	194	–	1	195
Financing charge	16	–	93	109
Capitalised borrowing costs	–	–	48	48
Effective portion of changes in fair values	–	10	–	10
Transfer from equity to profit or loss	–	(22)	–	(22)
Interest paid and other financing charges	–	–	(140)	(140)
As at 31 December 2017 and 1 January 2018	**7,443**	**4**	**9**	**7,456**
Drawdown of term loans	**1,331**	**–**	**–**	**1,331**
Repayment of term loans	**(3,373)**	**–**	**–**	**(3,373)**
Net increase in revolving loans	**1,702**	**–**	**–**	**1,702**
Decrease in bank overdraft	**(3)**	**–**	**–**	**(3)**
Exchange difference	**(31)**	**–**	**–**	**(31)**
Financing charge	**26**	**–**	**44**	**70**
Capitalised borrowing costs	**–**	**–**	**95**	**95**
Effective portion of changes in fair values	**–**	**7**	**–**	**7**
Transfer from equity to profit or loss	**–**	**(6)**	**–**	**(6)**
Interest paid and other financing charges	**–**	**–**	**(140)**	**(140)**
As at 31 December 2018	**7,095**	**5**	**8**	**7,108**

14. Trade and other payables (HK$m)

	2018	2017
Trade creditors	**152**	140
Interest payable	**8**	9
Accruals for property, plant and equipment	**195**	172
Tenants' deposits	**367**	360
Guest deposits and gift vouchers	**158**	155
Golf membership deposits	**84**	89
Other payables	**729**	729
Financial liabilities measured at amortised cost	**1,693**	1,654
Less: Non-current portion of trade and other payables	**(252)**	(230)
Current portion of trade and other payables	**1,441**	1,424

As at 31 December 2018, trade and other payables of the group expected to be settled or recognised as income after more than one year amounted to HK$346 million (2017: HK$321 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:

	2018	2017
Less than three months	**147**	130
Three to six months	**1**	4
More than six months	**4**	6
	152	140

15. Interest-bearing borrowings (HK$m)

	2018	2017
Total facilities available:		
Term loans and revolving credits	**14,127**	9,310
Uncommitted facilities, including bank overdrafts	**429**	429
	14,556	9,739
Utilised at 31 December:		
Term loans and revolving credits	**7,170**	7,466
Uncommitted facilities, including bank overdrafts	**15**	12
	7,185	7,478
Less: Unamortised financing charges	**(90)**	(35)
	7,095	7,443
Represented by:		
Long-term bank loans, repayable within one year	**399**	3,379
Short-term bank loans and overdrafts, repayable on demand	**4**	12
	403	3,391
Long-term bank loans, repayable:		
Between one and two years	**858**	488
Between two and five years	**5,569**	3,599
Over five years	**355**	–
	6,782	4,087
Less: Unamortised financing charges	**(90)**	(35)
Non-current portion of long-term bank loans	**6,692**	4,052
Total interest-bearing borrowings	**7,095**	7,443

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

All of the group's banking facilities are subject to the fulfilment of covenants relating to some of the group's consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the group were to breach the covenants, the drawn down facilities would become payable on demand. The group regularly monitors its compliance with these covenants. As at 31 December 2018 and 2017, none of the covenants relating to drawn down facilities had been breached.

16. Share capital

	2018 No. of shares (million)	2018 HK$m	2017 No. of shares (million)	2017 HK$m
Ordinary shares, issued and fully paid:				
At 1 January	**1,589**	**5,224**	1,567	5,005
Shares issued under scrip dividend scheme *(note)*	**24**	**285**	22	219
At 31 December	**1,613**	**5,509**	1,589	5,224

In accordance with Section 135 of the Companies Ordinance, the ordinary shares of the company do not have a par value.

All ordinary shares issued during 2018 rank pari passu in all respects with the existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

Note
During 2018, the company issued and allotted new shares which were fully paid under the scrip dividend scheme as follows:

	Number of shares (million)	**Scrip price HK$**	**Increase in share capital HK$m**
2017 final scrip dividend	18	11.972	221
2018 interim scrip dividend	6	11.264	64
	24		285

17. Commitments (HK$m)

(a) Capital commitments outstanding as at 31 December 2018 not provided for in the financial statements were as follows:

	2018 Contracted for	2018 Authorised but not contracted for	2018 Total	2017 Contracted for	2017 Authorised but not contracted for	2017 Total
Capital commitments in respect of existing properties and new projects	**1,799**	**5,805**	**7,604**	1,616	7,363	8,979
The group's share of capital commitments of joint ventures and associates	**429**	**609**	**1,038**	525	649	1,174
	2,228	**6,414**	**8,642**	2,141	8,012	10,153

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

The group's share of development cost in respect of The Peninsula Istanbul is included in the share of capital commitments of joint ventures.

(b) At 31 December 2018, the total future minimum lease amounts under non-cancellable operating leases of the group in respect of land and buildings are as follows:

	Amounts receivable 2018	Amounts receivable 2017	Amounts payable 2018	Amounts payable 2017
Within one year	**(945)**	(866)	**134**	150
After one year but within five years	**(1,266)**	(1,086)	**569**	522
After five years	**(706)**	(812)	**12,919**	13,349
	(2,917)	(2,764)	**13,622**	14,021

The group's future minimum lease payable under non-cancellable operating leases after five years mainly relate to the undiscounted lease liabilities in respect of its hotels in Tokyo and New York, which have remaining lease terms of 67 years and 60 years respectively, as well as the undiscounted fixed rent payable for 140 years from January 2022 in respect of the development project in London.

In addition, the group is the lessee in respect of a number of other properties under operating leases. These leases typically run for an initial period of two to four years, with an option to renew the lease upon expiry when all terms are renegotiated. None of these leases include contingent rentals.

18. Non-adjusting post reporting period events

After the end of the reporting period, the Directors proposed a final dividend, the details of which are disclosed in note 5.

OTHER CORPORATE INFORMATION

Corporate governance

Good corporate governance is crucial to sustaining the group through the changing regulatory and market environment over the long term. The Board of Directors of the company sees corporate governance as an integral part of its business strategy. By putting in place the right governance framework, the Board of Directors has set a culture of integrity, accountability and transparency that permeates throughout the group. This in turn fosters and maintains shareholders' and stakeholders' confidence in the company. The Governance section in the 2018 Annual Report outlines the company's approach to governance and its focus and activities.

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). The Board of Directors recognises the principles underlying the CG Code and have applied all of them to the HSH Code. Throughout 2018, the company has complied with all of the code provisions and recommended best practices in the CG Code, save for the recommended best practices including publication of quarterly financial results and disclosure of individual senior management remuneration, as disclosed in the Corporate Governance Report.

Corporate responsibility and sustainability

The group's Sustainable Luxury Vision 2020 guides our commitment to managing sustainability risks and opportunities. With three key areas of focus – Our Guests, Our People, and Our Cities, covering all divisions of our business – Vision 2020 sets out specific economic, social and environmental goals that we are targeting to achieve by year 2020.

The 2018 Corporate Responsibility and Sustainability Report (CRS Report) discusses in detail our progress towards Vision 2020 and specific material issues that contribute to the sustainable development of the group. The CRS Report discloses the group's corporate responsibility and sustainability performance which complies with the "comply or explain" provisions in the Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide (ESG Guide) in Appendix 27 of the Listing Rules, which includes a number of relevant recommended disclosures. It has also been prepared in accordance with the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards): Core option, and references the International Integrated Reporting Framework from the International Integrated Reporting Council (IIRC) (read together with the Annual Report) and Task Force on Climate-related Financial Disclosures (TCFD). KPMG was commissioned to conduct assurance and an independent opinion on the CRS Report in accordance with the ESG Guide. The CRS Report is available on the websites of the company and the Stock Exchange together with the 2018 Annual Report.

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 2018.

Dealings in the company's securities by Directors and specified employees

The company has adopted its Code for Dealing in the Company's Securities by Directors (Securities Code) on terms no less exacting than the required 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).

The company has made specific enquiries with all the Directors regarding any non-compliance with the Model Code and the Securities Code during the year 2018. The Directors have confirmed their full compliance with the required standard set out in the Model Code and the Securities Code.

The company has further extended the Securities Code 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 required standards set out in the adopted Code for Dealing in the Company's Securities by Specified Employees throughout the year 2018.

Final dividend

The Board has recommended a final dividend of 16 HK cents per share (2017: 16 HK cents per share) for the year ended 31 December 2018. Subject to the approval by shareholders at the forthcoming Annual General Meeting (AGM), such dividend will be payable on 21 June 2019 to shareholders whose names appear on the register of members on 21 May 2019.

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

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend on 24 May 2019.

Closure of register of members

<u>For shareholders' entitlement to attend, speak and vote at the AGM:</u>

Latest time to lodge transfer documents	4:30pm on 6 May 2019
Closure of register of members	7 May to 10 May 2019 (both days inclusive)
Record date	10 May 2019
AGM	10 May 2019

<u>For shareholders' entitlement to receive the final dividend:</u>

Latest time to lodge transfer documents	4:30pm on 16 May 2019
Closure of register of members	17 May to 21 May 2019 (both days inclusive)
Record date	21 May 2019
Deadline for return of scrip dividend election forms	4:30pm on 11 June 2019
Final dividend payment date	21 June 2019

During the closure of register of members, no transfers of shares will be registered. In order to qualify for the right to attend, speak and vote at the AGM and for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the company's share registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before the above latest time to lodge transfer documents.

AGM and Annual Report

The AGM will be held at The Peninsula Hong Kong on 10 May 2019 at 12 noon. The Notice of AGM and 2018 Annual Report will be dispatched to the shareholders as well as published on the websites of the company and the Stock Exchange on or about 29 March 2019.

By Order of the Board
Christobelle Liao
Company Secretary

Hong Kong, 14 March 2019

As at the date of this announcement, the Board of Directors of the company comprises the following Directors:

Non-Executive Chairman
The Hon. Sir Michael Kadoorie

Non-Executive Deputy Chairman
Andrew Clifford Winawer Brandler

Executive Directors
Managing Director and Chief Executive Officer
Clement King Man Kwok

Chief Operating Officer
Peter Camille Borer

Chief Financial Officer
Matthew James Lawson

Non-Executive Directors
William Elkin Mocatta
John Andrew Harry Leigh
Nicholas Timothy James Colfer
James Lindsay Lewis
Philip Lawrence Kadoorie

Independent Non-Executive Directors
Dr the Hon. Sir David Kwok Po Li
Patrick Blackwell Paul
Pierre Roger Boppe
Dr William Kwok Lun Fung
Dr Rosanna Yick Ming Wong
Dr Kim Lesley Winser
Ada Koon Hang Tse