# 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

**2019 Annual Results**

## HIGHLIGHTS

### Key financial results

- The unforeseen social unrest in our core market of Hong Kong and heightened US-China trade tensions created a difficult operating environment for the company in 2019
- The impact was felt more acutely because of our planned service suspension of the Peak Tram during the first phase of its major upgrade project, as well as the higher group costs associated with supporting our on-going new hotel projects in London, Istanbul and Yangon
- Revenue and EBITDA amounted to HK$5,874 million (2018: HK$6,214 million) and HK$1,390 million (2018: HK$1,680 million) respectively
- Profit attributable to shareholders amounted to HK$494 million (2018: HK$1,216 million), inclusive of net property revaluation gain of HK$83 million (2018: HK$523 million). Excluding the non-cash investment property movements, our underlying profit* amounted to HK$480 million (2018: HK$738 million)
- Our underlying earnings per share was HK$0.30 (2018: HK$0.46)
- Our gearing remains low with 13% net external debt to total assets and 19% net debt (including lease liabilities) to total assets
- We are declaring a final dividend of 9 HK cents per share (2018: 16 HK cents per share), making a total dividend of 13 HK cents per share for 2019 (2018: 21 HK cents per share)
- Shareholders' funds as at 31 December 2019 amounted to HK$39,054 million (2018: HK$38,664 million) or HK$23.90 per share (2018: HK$23.97 per share)

**Outlook**

- The outbreak of the COVID-19 coronavirus started to significantly negatively impact our operations in Greater China in late January 2020, and this has now spread all over the world, affecting all of our global operations. Our hotels have seen substantial room cancellations and restaurant closures as a result of government travel restrictions, quarantines and lockdowns. As at the time of writing, we have seen a devastating revenue decline in all of our hotel operations as well as at the Peak Complex and Peninsula Merchandising. We are now focused on all possible operational cost containment options, as well as deferring capital spend where possible. We continue to monitor the Group's financial and liquidity position which remains healthy.

- We are hopeful that the spread of the coronavirus will be brought under control in the next few months and that the impact of this on the travel trade will recede. However, we continue to be concerned about the political situation in Hong Kong and the possibility that the social unrest may continue and escalate again in 2020. Besides the Hong Kong political situation, various other global uncertainties may continue to affect our business, such as the impact of Brexit, the political situation in France and uncertainties in Turkey and Syria

- The unaudited revenue of the group for the two months ended 29 February 2020 was down by 21% compared to the same period in 2019. Based on the information currently available, management estimates that the group will sustain an operating loss in the first quarter of 2020, despite measures to contain costs. The actual impact may differ from these estimates as the situation continues to evolve

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

## FINANCIAL HIGHLIGHTS

| | 2019 | 2018 (restated) | Increase/ (Decrease) |
|---|---|---|---|
| **CONSOLIDATED STATEMENT OF PROFIT OR LOSS (HK$m)** | | | |
| Revenue | **5,874** | 6,214 | (5%) |
| EBITDA | **1,390** | 1,680 | (17%) |
| Operating profit | **801** | 1,079 | (26%) |
| Profit attributable to shareholders | **494** | 1,216 | (59%) |
| Earnings per share (HK$) | **0.30** | 0.76 | (61%) |
| Underlying profit* | **480** | 738 | (35%) |
| Dividends | **212** | 338 | (37%) |
| Dividends per share (HK cents) | **13** | 21 | (38%) |
| Dividend cover (times)** | **2.3x** | 2.2x | 5% |
| Interest cover (times)Δ | | | |
| – Excluding financing charges on lease liabilities | **20.5x** | 20.8x | (1%) |
| – Including financing charges on lease liabilities | **5.7x** | 7.1x | (20%) |
| Cash interest cover (times)ΔΔ | **10.4x** | 12.8x | (19%) |
| Weighted average gross interest rate | **2.2%** | 2.3% | (0.1pp) |
| **CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)** | | | |
| Total assets | **53,061** | 51,724 | 3% |
| Audited net assets attributable to shareholders | **39,054** | 38,664 | 1% |
| Adjusted net assets attributable to shareholders# | **42,808** | 42,411 | 1% |
| Audited net assets per share (HK$) | **23.90** | 23.97 | – |
| Adjusted net assets per share (HK$)# | **26.20** | 26.29 | – |
| Net external borrowings | **6,827** | 5,917 | 15% |
| Net borrowings (including lease liabilities) | **9,976** | 8,940 | 12% |
| Funds from operations to net external debt## | **18%** | 23% | (5pp) |
| Funds from operations to net debt (including lease liabilities)## | **12%** | 14% | (2pp) |
| Net external debt to equity attributable to shareholders | **17%** | 15% | 2pp |
| Net debt (including lease liabilities) to equity attributable to shareholders | **26%** | 23% | 3pp |
| Net external debt to total assets | **13%** | 11% | 2pp |
| Net debt (including lease liabilities) to total assets | **19%** | 17% | 2pp |
| **CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)** | | | |
| Net cash generated from operating activities before taxation | **1,017** | 1,564 | (35%) |
| Capital expenditure on existing assets | **(564)** | (426) | 32% |
| Capital expenditure on new projects and investments | **(1,330)** | (1,208) | 10% |
| **SHARE INFORMATION (HK$)** | | | |
| Highest share price | **12.08** | 13.48 | |
| Lowest share price | **7.35** | 10.00 | |
| Year end closing share price | **8.35** | 11.10 | |

* 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 charges.

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

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

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

pp Denotes percentage points.

# CEO'S STRATEGIC REVIEW

## 1. Introduction

2019 was a very difficult year in our home city of Hong Kong due to the serious social unrest and mass protests on the streets. No matter what one's political beliefs are, the violence and destruction was heartbreaking to witness and it is fair to say that a wide divide has emerged amongst Hong Kong's usually peace-loving, family-oriented society.

On the business front, the situation had a very negative effect on our group. As the bulk of our group's earnings are derived from Hong Kong, we had to urgently implement a widespread range of cost savings and financial management measures. On the operations side, we rapidly adopted crisis monitoring and handling procedures, with our number one priority being the safety of our guests and staff. At the time of writing in early 2020 we are currently facing a very concerning situation with the outbreak of the COVID-19 coronavirus which has had a devastating impact on the Chinese mainland and has spread around the world. Amidst the downturn in business brought about by these crises, we are striving to preserve jobs as a key priority. I would like to express my appreciation for all my colleagues around the world for their loyalty and their hard work at such a difficult time.

Even in difficult times like the present, we remain focused on the long term. Our financial and resources commitment to our development programme, comprising the new Peninsula projects in London, Istanbul and Yangon and the Peak Tram upgrade project, remains unaffected. I am positive that with our Peninsula team spirit we can survive and come through better and stronger than before. It is this spirit, and our culture, that lies at the heart of our business strategy and I will summarise this strategy for our shareholders' reference in the following pages.

## 2. Our heritage, vision and development strategy

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

– to conduct business with the highest levels of integrity

– to build on our heritage while continuing to invest in and develop our people

– to maintain and enhance the quality of our assets

– to continuously improve the service we offer to our guests

– to contribute positively to the cities in which we operate

These values distill into a simple vision: *to develop, own and operate a small number of the highest quality hotels and luxury properties which we believe are considered to be amongst the finest in the world.*

Having ownership or part-ownership of each hotel is an important part of our strategy and allows us to maintain an appropriate degree of control over the design, quality, operations and capital spending in our hotels. We are therefore not willing to undertake hotels on a management contract-only basis. By taking such a long-term view and by maintaining and enhancing the quality of our assets and operations, we seek to create significant value for our shareholders from the long-term appreciation in the capital value of our properties, as well as from the increasing operating yield as each property grows its income over time.

The best example of this is our flagship property, The Peninsula Hong Kong, which in 1928 was built for what was regarded in those days as an enormous sum of HK$3 million and today is valued at more than HK$12 billion.

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

## 3. Business overview

Our group currently owns and operates ten Peninsula hotels which are located in 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. We are in the midst of an ambitious expansion programme, with investment in three new Peninsula hotel development projects in London, Istanbul and Yangon.

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

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

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 China, 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, Taiwan, Shenzhen and Guangzhou.

Our clubs and services division includes the Peak Tram, one of Hong Kong's most popular tourist attractions, which has been under our group for 130 years. The Peak Tram is currently undergoing a HK$684 million upgrade project which is entirely funded by our company and will be completed in 2021.

Having a diverse portfolio helps to diversify investment risks generally associated with the luxury hospitality industry. The more stable returns of the commercial properties division and, to a smaller extent, the clubs and services division help to offset the cyclical nature of the hotel business.

## 4. Financial results and financial planning

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

As a result of our continuous investment into and enhancement of our property assets, the company's revalued net asset value per share has grown from HK$10.03 per share in 2002 to HK$26.20 per share in 2019.

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 substantial capital commitments that these projects entail, amounting to some HK$7 billion over the next two years, 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 external debt to total assets ratio is currently 13%, which we believe to be comfortable taking into account the expected financial obligations of our new developments.

Due to the adverse situation in Hong Kong, we are reporting an unfavourable set of financial results for 2019. The company's combined EBITDA, including the group's effective share of EBITDA of our associates and joint ventures, decreased by 17% from the previous year to HK$1,510 million. The company's net profit attributable to shareholders decreased by 59% from the previous year to HK$494 million, inclusive of the revaluation gain on the group's investment properties of HK$83 million (2018: HK$523 million). Our underlying earnings amounted to $480 million compared to HK$738 million in 2018.

Much of the cash invested in our new projects during the year was provided by funds generated from operations which amounted to HK$1,366 million as compared to our normal capital expenditures of HK$395 million and the Peak Tram upgrade and new project expenditures of HK$1,499 million. The net cash outflow of the company after taking account of all capital expenditures, interest and dividends paid amounted to HK$794 million.

## 5. Driving business

We believe the fundamentals of luxury hospitality do not change over time. Our strategy is to attract and engage our guests and we aim to generate a high percentage of repeat business. We offer a high level of personalised service, attention to detail and warm hospitality. In 2019, this was demonstrated by our achievement of receiving the highly coveted Forbes 5-star rating for all ten of The Peninsula Hotels in operation, becoming the first and only hotel company in the world to obtain this accolade for all its hotels. We receive significant recognition and accolades for our services from other prestigious publications and organisations.

In addition to the personal touch, we recognise that guests require access to the most up-to-date technology and platforms to make their experience and journey with us as seamless as possible.

The relatively small size of our hotels means that we can personalise the attention we give to guests and cater to each guest arrival and their individual preferences. However, we understand that we must continually improve and in 2019 we undertook a major review of our Peninsula service standards. We have engaged external consultants and conducted guest surveys to better understand their expectations and how we can stay at the forefront of luxury hospitality. We have streamlined our stringent behavioural standards into nine core principles with the objective of empowering our staff to go above and beyond to engage with guests. This programme will be rolled out in 2020.

During the year we have invested in refreshed marketing collateral, content and partnerships to present the brand in a more meaningful, relevant and engaging way, while building on our rich history and heritage.

We operate our own in-house research and development facility which designs bespoke in-room technology for our guestrooms. In 2016 we 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. Projects under development in 2019 and 2020 include back-of-house automation, food waste management solutions, air purification systems and behavioural analysis for enhanced personalisation, as well as data analytics and digital marketing capabilities.

Our startup programme, Kaleidoscope Lab, was developed in collaboration with Stanford Research Institute, under the direction of our Technology Steering Committee, and this provides an additional avenue to explore ways to integrate innovative technology into our business.

Appreciation of art and supporting local artists is a key part of our strategic marketing plan. The Peninsula provides guests and visitors the opportunity to engage with immersive, experiential art, creating memories that will last for a lifetime. In March 2019, a multi-year global contemporary art programme, *Art in Resonance* was launched during Art Basel Hong Kong. We are committed to promoting the rich and vibrant cultural aspects of our destination cities – such as hosting local artists as part of our 'Artist in Residence' programme which is designed to support emerging artists while also providing guests access to culturally-representative pieces.

In June we partnered with world-leading independent arts charity BAFTA (the British Academy of Film and Television Arts) in Shanghai for the launch of their new programme 'BAFTA Breakthrough China'. This was an initiative designed to identify and nurture the next generation of creative talent in Asia.

On the sales side we continued to focus on strengthening our relationships with PenClub members, our in-house preferred travel partner programme. Increasing guest direct business is a key goal for the sales and marketing team and we are placing a particular emphasis on driving business from the Chinese mainland. We will focus on adding value to our Greater China Shopping Arcade business and will adopt WeChat as a preferred communication platform. During the year we hosted quarterly Greater China regional meetings with senior executives who review the group's Chinese mainland business and brand loyalty for the Greater China operations.

## 6. Managing risk

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

In 2019 there were some changes in the identified principal risks, including increased risk of our business portfolio concentration and increased reputational and financial risk due to the volatile nature of the social unrest in Hong Kong. The global trend of tightening privacy laws such as the EU's GDPR and the California Consumer Privacy Act has increased the challenge of compliance. The increasing rise in cybercrimes has also exposed us to higher risks of data security breaches.

## 7. Investing in our people

Building a team of exceptional people is the key to executing our strategies. The culture of our company has cultivated a loyal and committed team spirit which has resulted in a stable and cohesive management team. This team spirit starts at the top of the organisation with our majority owners the Kadoorie family and we adhere to a core set of values and integrity that permeates through all levels of the company. We believe it is important to safeguard this culture as we add significant numbers of new people to our group, with three new hotel properties coming on board. In addition to attracting and retaining talented individuals, our key objective is to develop our existing talent and to harness their potential, allowing us to become more agile and nimble as a group.

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 experiences a high turnover of staff, however, we are pleased to report a relatively low voluntary staff turnover rate compared with the industry.

We conducted an employee engagement survey during the year and the results were encouraging, with responses in every category ranking well above the global average. We had a very high voluntary response rate of 89%, while 91% of our employees stated they felt proud to work for the company, and 85% were "extremely satisfied" with the company as a good place to work (both results were 11% higher than the global average).

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 2019 we continued to develop 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.

As of 31 December 2019, there were 7,451 full time employees in the group.

## 8. A vision for sustainable luxury

We are committed to sustainability in an environmental as well as a business context. We believe that our long-term success is linked to the success of the cities and the communities in which we live and work. We have created awareness and buy-in towards sustainability throughout our company, and we hope that it becomes a 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 in environmental initiatives, and we look at what overall value 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. Our sustainability strategy, originally developed as Sustainable Luxury Vision 2020 (Vision 2020), has been revamped our approach to focus on the three key stakeholders central to the success of our business: *Our Guests, Our People and Our Cities*.

In 2019, over 89% of the goals set in Vision 2020 were on track to be achieved. Looking beyond 2020, we are developing our next sustainability strategy with a focus on further business integration and we are taking a regenerative and proactive approach. Our new strategy will leverage the strengths of our business, focusing on issues requiring significant and urgent attention, scaling positive benefits from our business, while effectively reducing our environmental impact.

## 9. Outlook

Since its outbreak in January 2020 and its subsequent spread to countries outside China, the COVID-19 novel coronavirus has led to global travel advisories and unprecedented airline cancellations. This has led to a significant decline in tourist arrivals to Hong Kong and the Chinese mainland and has impacted other Asian markets, the US, and Europe.

Many large-scale events have been cancelled in the region and this is having a substantial negative impact on our business. We are implementing emergency measures to keep our staff and guests safe as a priority, and financial management and stringent cost controls are being implemented for the year ahead. We have reviewed our group's liquidity position and we can confirm that we have a significant buffer in place even if the impact of the virus continues for some time. However, despite these cost control efforts, we estimate that the group will sustain an operating loss in the first quarter of 2020 due to the continuing global spread of the coronavirus and the devastating impact on tourism.

We are hopeful that the spread of the coronavirus will be brought under control in the next few months and that the impact of this on the travel trade will recede. However, we continue to be concerned about the political situation in Hong Kong and the possibility that the social unrest may continue and escalate again in 2020. Besides the Hong Kong political situation, various other global uncertainties may continue to affect our business, such as the impact of Brexit, the political situation in France and uncertainties in Turkey and Syria.

In these challenging times, our priority is to maintain a strong financial position for the group in order to fund our large capital commitments for The Peninsula London, The Peninsula Istanbul and The Peninsula Yangon new hotel projects, as well as the Peak Tram expansion. Our commitment to the long-term development of the group and in particular the Peninsula brand remains unchanged. We take a very long-term view of the investments that we make and we expect the new hotels in London, Istanbul and Yangon to enhance our brand presence when they open from 2021 onwards, and to create value for stakeholders over time.

On the property side, we were encouraged by a pleasing number of rental renewals at our arcades at The Peninsula in Hong Kong, Shanghai and Beijing in 2019, although the short-to-medium term impact of the coronavirus may have a negative effect on our tenants and we are working with them to find solutions. We are currently experiencing stable demand for our luxury residential lettings in Hong Kong. The Peak Tram business will continue to be negatively impacted in 2020 during its improvement and upgrade programme that was previously announced to shareholders. 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 stable financial position. We are proactive in managing the group's liquidity. In the first three months of 2020, we have further obtained committed facilities to ensure the group's capital commitments are fully funded and have sufficient liquidity to support us through this period of business downturn.

We have a highly motivated and dedicated team of management and loyal staff who are committed to our long-term vision. I am proud that our company 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

2019 was a challenging year for our group operational results, although we had some positive results among our diverse portfolio. We benefit 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 and other businesses offer stability against the cyclical nature of the hotel industry. The major negative impact on our financial results was caused by the social unrest in Hong Kong, combined with ongoing uncertainty over the US-China trade war, which affected our tourism-related businesses in our home market of Hong Kong. Our commercial properties, clubs and Peninsula hotel properties in the US and the rest of Asia were generally stable during the year.

At the time of writing, the outbreak of the COVID-19 coronavirus has resulted in widespread travel advisories and airline cancellations. This has significantly negatively impacted the group's tourism-related businesses in Hong Kong including the Peak Tram and Peak Tower, and particularly our three hotels in Hong Kong, Shanghai and Beijing. Other markets around the world are also being impacted. We are very concerned about the outlook for the first half of 2020.

## 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 | 1,104 | –18% | –18% |
| The Peninsula Beijing | 323 | –1% | 3% |
| The Peninsula New York | 716 | –1% | –1% |
| The Peninsula Chicago | 639 | 2% | 2% |
| The Peninsula Tokyo | 876 | 1% | 0% |
| The Peninsula Bangkok | 293 | 0% | –4% |
| The Peninsula Manila | 235 | –1% | –3% |
| **Non-consolidated hotels** | | | |
| The Peninsula Shanghai | 539 | –10% | –6% |
| The Peninsula Beverly Hills | 593 | –3% | –3% |
| The Peninsula Paris | 578 | –1% | 4% |

## The Peninsula Hong Kong

| The Peninsula Hong Kong | | |
|---|---|---|
| Revenue | HK$1,104m | –18% |
| Occupancy | | –20pp |
| Average Room Rate | | –8% |
| RevPAR | | –34% |

2019 was an extremely challenging year for our flagship hotel, **The Peninsula Hong Kong**. Although the hotel was the market leader in average rate in the first half of 2019, this position slipped in the second half due to the social unrest and mass protests which took place in the city from June onwards. Government travel advisories from many countries including our key segments of the United States and Japan severely impacted tourist arrivals in Hong Kong, leading to an overall decline of 18.8% in overnight arrivals in the city and this negatively impacted our business. In response to the soft demand, we offered special “staycation” rates for the local market and incentives to corporate clients and partners, as well as implementing stringent cost control measures.

One of the highlights during the year was the inaugural *Art in Resonance* at The Peninsula Hong Kong in March 2019, coinciding with Art Basel Hong Kong, one of the world’s premier art fairs for modern and contemporary art. The Peninsula Hotels worked alongside respected curators to carefully select contemporary artists Janet Echelman, Iván Navarro, Timothy Paul Myers and the Shanghai-based architecture collective MINAX. The Gala event was well received in the art community and by global media.

We were delighted that *Gaddi’s* was awarded a Michelin star in December 2019, and our Cantonese restaurant *Spring Moon* achieved its Michelin star for the fourth consecutive year.

The Peninsula Office Tower was 96% occupied throughout 2019. The Peninsula Arcade occupancy was 84% and the overall environment in Hong Kong for luxury retail remained soft. We collaborated with a high-end luxury jewellery brand to design a bespoke Signature Afternoon Tea and to help promote the Arcade to guests.

It is thanks to the efforts of our colleagues that The Peninsula Hong Kong received many accolades including “Best Business Hotel in the World” by *Business Traveller UK*, “Best Business Hotel in Hong Kong” by *Business Traveller China* and “Number 2 Best City Hotel in Hong Kong” by *Travel + Leisure* magazine.

### The Peninsula Shanghai

| **The Peninsula Shanghai** | | |
|---|---|---|
| Revenue | RMB476m | –6% |
| Occupancy | | +1pp |
| Average Room Rate | | –6% |
| RevPAR | | –6% |

**The Peninsula Shanghai** remains the market leader in average room rate in the city. It enjoys a unique location on the historic Bund and is the only hotel in China with two Michelin-starred restaurants. We were delighted to be named as the "No. 1 Best Hotel in Shanghai" by *Travel + Leisure* magazine and "Best Luxury Hotel in China" by *City Travel*.

Occupancy slightly increased year-on-year. However, the hotel reported a softer 2019 in terms of average rate and RevPAR, due to intense competition and increased supply of luxury hotels compared to 2018.

The domestic Chinese mainland market continued to be our largest revenue driver and we enhanced our marketing activities on local platforms. We also recorded increasing arrivals from the Russia and Middle East markets. The US-China trade war negatively impacted corporate travel and groups business from the US market. We initiated a number of promotions at *Yi Long Court* and *Sir Elly's*, as well as a newly themed The Peninsula Afternoon Tea to attract more food and beverage business.

In June 2019, we were proud to partner with world-leading independent arts charity BAFTA (the British Academy of Film and Television Arts) on the launch of their new programme "BAFTA Breakthrough China" at No. 1 Waitanyuan, the property which we operate adjacent to the hotel. This is an initiative designed to identify and nurture the next generation of creative talent in Asia.

In addition to the hotel, The Peninsula Shanghai Complex also comprises a shopping arcade and a residential tower of 39 apartments. By the end of 2019, a total of 29 residential units have been sold (although no apartments were sold in 2019) and The Peninsula Arcade was 94% occupied, with recent leasing momentum remaining stable.

### The Peninsula Beijing

| **The Peninsula Beijing** | | |
|---|---|---|
| Revenue | RMB285m | +3% |
| Occupancy | | +1pp |
| Average Room Rate | | –3% |
| RevPAR | | –2% |

**The Peninsula Beijing** reported positive revenue growth for 2019, although the recovery following the hotel's major transformation in 2018 has been slower than expected. The hotel was the rate leader in our competitive set for the year and we were delighted to be included in the Verified List for the "World's Best Hotel Rooms in 2019" by *Forbes Travel Guide* and No 2 "World's Best Hotels in Beijing" by *Travel + Leisure*.

As the only luxury all-suite hotel in the Chinese capital, we were proud to celebrate the hotel's 30th anniversary year in 2019 by inviting guests born in 1989, the hotel's opening year, to celebrate their 30th birthdays together with a range of promotions.

The Chinese mainland domestic market was the main driver of revenue; however the ongoing US-China trade war negatively impacted business from the United States. We are implementing a strategy to focus on diplomatic and group bookings for the coming year and are proud to have welcomed several heads of state during 2019.

Following the renovation of our dining outlets and new positioning of *Jing*, we have launched new marketing campaigns to drive our food and beverage business.

The Peninsula Arcade was 67% occupied and has welcomed a number of new luxury brands to the Arcade which have been well received by guests.

**The Peninsula Tokyo**

| **The Peninsula Tokyo** | | |
|---|---|---|
| Revenue | JPY12.22b | +0% |
| Occupancy | | –3pp |
| Average Room Rate | | +11% |
| RevPAR | | +7% |

We were delighted to report a strong year for rooms business at **The Peninsula Tokyo** with double digit growth in average rates and increased RevPAR. The peak *sakura* (cherry blossom) season was particularly robust and we reported increasing arrivals from the US, Chinese mainland and the domestic Japanese market. The Middle East market continues to grow at a healthy pace.

Food and beverage revenue was soft compared to the same period last year, due to weak demand from the wedding market and the general Meetings, Incentives, Conferences and Exhibitions (MICE) market. We launched a number of marketing initiatives to boost revenue. In April 2019 we welcomed a new tenant restaurant, *Sushi Wakon*, featuring two Michelin-starred Chef Rei Masuda. We also launched an exclusive high-end, limited-edition Peninsula whisky which sold out within months of its release. In November and December, our signature contemporary grill restaurant, *Peter*, partnered with Blue Note Tokyo, the city's premier location for live jazz performances, which proved highly popular with guests.

We continued our efforts to drive family business by expanding our children's programme in a collaboration with The Pokémon Company, a long-time partner of the hotel. The Peninsula Spa revenue continues to remain strong due to the launch of an exclusive line of treatments and retail products.

Our "Keys to the City" programme offers The Peninsula Tokyo guests insider access to "Only-in-Tokyo" moments and experiences.

**The Peninsula Bangkok**

| The Peninsula Bangkok | | |
|---|---|---|
| Revenue | THB1,154m | –4% |
| Occupancy | | –5pp |
| Average Room Rate | | +10% |
| RevPAR | | +2% |

**The Peninsula Bangkok** experienced mixed results in 2019, impacted by a slower economy and uncertainty over the country's first elections since 2014. Our hotel was also negatively affected by extensive roadworks adjacent to our property which impacted our food and beverage and catering business, although in the long term this will benefit our hotel as the construction relates to a new monorail station to access ICONSIAM, one of Bangkok's largest shopping malls.

Despite these challenges, the hotel reported positive growth in average rates. Our strategy continued to focus on driving MICE business and suite bookings. We were delighted to position the hotel at the forefront of Thailand's thriving arts scene by becoming the first luxury hotel in Bangkok to offer an Artist in Residence programme, which welcomed Thai and international artists to live and work for two months in a custom-created studio at the hotel. In summer, we launched an innovative "The Art and Augmented Reality (AR) Afternoon Tea".

A legal dispute between HSH and the Phataraprasit shareholders, who own 50% of the property, is ongoing. The partners have been taking legal and other actions with the objective of teminating Peninsula's management of The Peninsula Bangkok. HSH will vigorously defend its rights in this dispute. Pending the outcome of the appeal and other legal processes which are ongoing, The Peninsula Bangkok continues to be operated by The Peninsula under the hotel management agreement which continues to be legally binding.

**The Peninsula Manila**

| The Peninsula Manila | | |
|---|---|---|
| Revenue | Php1,548m | –3% |
| Occupancy | | +4pp |
| Average Room Rate | | –1% |
| RevPAR | | +4% |

The Philippines experienced a 15.2% increase in foreign tourist arrivals year-on-year, with the Korean market remaining No 1 and the Chinese mainland being the fastest-growing inbound market with a double-digit year-over-year growth. The re-opening of Boracay Island further boosted tourism into the Philippines for 2019, highlighting "sustainable tourism" as a key focus.

**The Peninsula Manila** increased its occupancy and RevPAR during the year despite intense and increasing competition in a highly price-sensitive market, albeit with a reduced room inventory as part of its renovation programme. We commenced our room refurbishment in April 2019, with refreshed décor in our guest rooms and suites and The Peninsula's most updated in-house technology. We unveiled *The Gallery Club Lounge*, a new 90-seat guest lounge accessible to suite guests, featuring a range of food and live music.

Manila continues to develop as a high-end culinary destination. We launched a partnership with three of Manila's top chefs who will bring 15 of Asia's Top Chefs for a series of luxury dinners throughout the year. Our food and beverage operations performed satisfactorily with nearly all outlets achieving positive revenue growth as compared to last year. We were delighted to receive the accolade of "World's Best Hotel Bars" by *Forbes Travel Guide* for *The Bar*, which was the only bar in the Philippines to achieve such an award.

**The Peninsula New York**

| **The Peninsula New York** | | |
|---|---|---|
| Revenue | US$92m | –1% |
| Occupancy | | –3pp |
| Average Room Rate | | +2% |
| RevPAR | | –1% |

New York City reported a strong year in term of tourist arrivals in 2019, mostly coming from the US domestic market and Canada, Chinese mainland and the UK. However, the Middle East market segment overall continues to be impacted by the US Administration's travel restrictions and geopolitical tensions, and this also impacted our hotel business, although corporate business from other markets was stable. Overall, **The Peninsula New York** had a challenging rooms business in 2019 with a slight decline in RevPAR.

The Peninsula New York's food and beverage performance improved in 2019 over the previous year. In *Gotham Lounge* we introduced a limited-edition collaboration with Ladurée Paris to enhance our signature Afternoon Tea. The hotel's rooftop bar, *Salon de Ning*, reported increased revenue from a glamorous new feature, *Chalet de Ning*, which was launched in November and comprised two chalet-inspired heated domes, which proved popular with guests and attracted significant positive media coverage.

In April 2019, we presented *Home*, an art exhibition honoring the notions of home, identity and community, as an ode to The Peninsula's larger commitment to celebrating family and heritage. The exhibition featured a curated selection of original works by artists including Do Ho Suh, Catherine Opie, Angel Otero, Ashley Bickerton and Heidi Bucher, among others.

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. Amongst other accolades, we were delighted to achieve the 2019 Positive Luxury Award for "Excellence in Sustainability".

**The Peninsula Chicago**

| The Peninsula Chicago | | |
|---|---|---|
| Revenue | US$82m | +2% |
| Occupancy | | +0pp |
| Average Room Rate | | –1% |
| RevPAR | | –1% |

Chicago is a city that is highly dependent on the convention industry which tends to move in biannual cycles. In 2019 the city experienced a slowdown in large-scale events, with group business declining 7.3% in overall occupancy year-on-year, although this is expected to pick up again in 2020. Choose Chicago, the official tourism organisation for Chicago, relaunched its website and increased its focus on attracting international and LGBT visitors to the city, which is usually heavily dependent on the domestic US market. Chicago supply continued to increase with the additions of luxury and popular boutique hotels entering the market creating a 3.6% growth in supply. Over the past five years Chicago has seen an 11% growth in room supply to the city.

Despite the challenging environment, **The Peninsula Chicago** reported a stable year, achieving #1 RevPAR and average rate leader amongst our competitive set, despite the significant new supply in the city.

We were delighted to receive many accolades throughout the year, including "No 1 Best Luxury Hotel in the US" by *Tripadvisor*, "No 2 Best Hotel in the US" by *Global Traveler* as well as "No 1 hotel in Illinois" and "No 2 in the United States" from *U.S. News and World Report* respectively, which is a testament to the popularity of the hotel following its extensive renovation in 2016. Our rooftop bar Z Bar which opened in 2018 was awarded "The World's Best Hotel Bars" by *Forbes Travel Guide*.

For the fifth consecutive year, we hosted a contemporary art exhibition that coincided with Expo Chicago, the International Exposition of Contemporary & Modern Art. We partnered with three extraordinary artists, James Nares, Ivan Navarro, and Naama Tsabar, whose practices explore movement, sound, and electricity, engaging with the rhythm and structure of the urban environment.

**The Peninsula Beverly Hills**

| The Peninsula Beverly Hills | | |
|---|---|---|
| Revenue | US$76m | –3% |
| Occupancy | | –3pp |
| Average Room Rate | | –1% |
| RevPAR | | –4% |

**The Peninsula Beverly Hills** achieved a plethora of recognition in 2019 including "The Best Hotel in the US" by *Global Traveler* magazine in 2019, "No. 1 hotel in Los Angeles" by *Tripadvisor*, "No. 1 Best City Hotel in Greater Los Angeles" by *Travel + Leisure*, and achieved the accolade of "World's Best Hotel Bars – The Club Bar" by *Forbes Travel Guide*. The hotel has achieved AAA Five Diamond and Forbes Five Star ratings every year since 1993.

In terms of financial results, 2019 was a challenging year and the hotel reported softer rates, occupancy and RevPAR over the previous year. *The Belvedere* and *The Club Bar* performed well.

The weaker performance was partly due to the decreasing arrivals from the Middle East and the UK, partly due to the political uncertainty in those regions. We also noted increased supply in the Beverly Hills area from online accommodation aggregators. Unseasonably cold weather was also a factor impacting leisure travel arrivals to Los Angeles.

To manage the challenging year we implemented cost controls and implemented new marketing strategies, with a focus on groups business. In May 2019 we redesigned the award-winning Peninsula Spa and introduced a new high-end product line which has been well received by guests. We launched an Emerging Artist Series on the Terrace to celebrate vibrant LA street art, with proceeds donated to an LGBT-focused mental health charity, The Trevor Project.

As the epitome of Hollywood glamour, we remain the hotel of choice for celebrities, particularly during awards season and our guest return rate is very high.

**The Peninsula Paris**

| **The Peninsula Paris** | | |
|---|---|---|
| Revenue | EUR66m | +4% |
| Occupancy | | +3pp |
| Average Room Rate | | –2% |
| RevPAR | | +4% |

In 2019, the city of Paris continued to be negatively impacted by the *gilets jaunes* protests which started in 2018. This impacted our operating results in the early part of 2019, as some of the protests occurred in the immediate vicinity of our hotel, although business improved in the remainder of the year.

Overall **The Peninsula Paris** reported improved RevPAR, occupancy although we saw a slight decline in average rates. We have focused on promoting groups and MICE business and we were honoured to welcome several diplomatic groups including a high-level state visit during the first half of the year. Food and beverage revenue was satisfactory, particularly from the rooftop restaurant *L'Oiseau Blanc* which offers spectacular views from Sacre-Coeur to the Eiffel Tower and has become well established among Parisian celebrities and high society. We were delighted to receive a Michelin star for *L'Oiseau Blanc* in early 2020. *Le Bar Kléber* also performed well and we are implementing new marketing initiatives and positioning for our Chinese restaurant *Lili*.

We hosted The Peninsula Classics Best of the Best Award in February 2019 which was well attended by classic car aficionados and celebrities and received extensive press coverage.

## Commercial Properties Division

| Commercial Properties | Revenue | Variance | |
|---|---|---|---|
| | HK$m | In HK$ | In Local Currency |
| The Repulse Bay Complex | 661 | 4% | 4% |
| The Peak Tower | 154 | –26% | –26% |
| St. John’s Building | 56 | +3% | +3% |
| The Landmark | 40 | +5% | +4% |
| 21 avenue Kléber | 23 | – | +5% |

Our largest residential property, **The Repulse Bay Complex**, reported a positive year in 2019 with revenue increasing by 4% over the previous year despite a very challenging 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 increased in the first half due to 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. *The Verandah* continues to attract excellent wedding business given the spectacular location and views of Repulse Bay. *Breeze*, our new outdoor venue which opened in 2018, has been popular with residents and visitors. We launched our first-ever public art exhibition to coincide with Art Basel, titled *Art @the Bay: Time and Transformation* featuring two sculptures and seven installations by Hong Kong artist Matthew Tsang.

The Repulse Bay Shopping Arcade, which offers an eclectic blend of lifestyle amenities, health and wellness facilities and boutiques, was 94% occupied for most of the year.

**The Peak Tower** was fully leased for most of the year and although rental revenue only slightly declined, overall revenue decreased by 26% due to a significant decline in visitors to Sky Terrace 428 as a result of the social unrest in Hong Kong.

**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 in 2019.

**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, and 100,000 square feet of first-class office space for leasing. Revenue increased by 4% year-on-year despite intense competition in the city. 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 retail spaces.

## Clubs and Services Division

| **Clubs and Services** | **Revenue** | **Variance** | |
|---|---|---|---|
| | **HK$m** | **In HK$** | **In Local Currency** |
| The Peak Tram | 76 | –46% | –46% |
| The Thai Country Club | 70 | – | –4% |
| Quail Lodge & Golf Club | 185 | +4% | +4% |
| Peninsula Clubs & Consultancy Services | 6 | +2% | +2% |
| Peninsula Merchandising | 253 | –3% | –3% |
| Tai Pan Laundry | 50 | –8% | –8% |

**The Peak Tram** is one of Hong Kong's most popular tourist attractions with a long history of more than 130 years in operation. From April to July 2019 we temporarily suspended the service of the Peak Tram to enable us to carry out construction work as part of the previously announced upgrade project, which was approved by the Hong Kong Government in 2018. 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 fully funded by HSH.

This suspension had a significant impact on our group earnings as forewarned in the 2018 annual report and the profit alert announcement in June 2019. Overall revenue for the year decreased by 46%, due to the impact of the suspension of the Tram, combined with the social unrest in the second half which significantly impacted tourist arrivals in Hong Kong.

**The Thai Country Club**, which is located near Bangkok, recorded a challenging 2019 with a decline in overseas visitors. We hosted the Thai Open in November which had originally been scheduled for March and this impacted revenue as this was our traditional high season, although it attracted significant positive publicity for the club. We have also continued to develop cross-marketing initiatives with The Peninsula Bangkok to drive further awareness of the club.

**Quail Lodge & Golf Club** had a strong year with revenue increasing by 4%. 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 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 2019 we welcomed more than 5,000 visitors to the event, bringing the Peninsula brand to the attention of leading car enthusiasts.

In June, we were granted permission by the County of Monterey to build a state-of-the-art solar facility, which will reduce our property's carbon footprint by half and represents our company's continued efforts in minimising our effect on the environment. This project will contribute to the California Green Act which aims to push the state to become 100% powered by renewable energy and carbon neutral by 2045.

**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 Bankers Club will move from its current location in the Landmark, Central to Nexxus Building on Connaught Road, Central in October 2020.

Revenue at **Peninsula Merchandising** declined by 3% over the same period last year, with retail sales having been impacted by the weak market situation in Hong Kong. This division produces the very popular Peninsula Mooncakes, although sales were softer this year due to reduced demand during the protests. However, we continued to focus on business expansion and driving brand awareness and we opened two new Peninsula boutiques in the Chinese mainland, in Shenzhen and Guangzhou. We also opened new locations in Taiwan and operated a successful Mid-Autumn pop-up in Central Hong Kong. In addition to our boutique at Hong Kong International Airport, we have also opened retail locations at West Kowloon high speed train station and Guangzhou airport. Looking forward to 2020, we will continue to open new boutiques in the Chinese mainland as well as entering the Japanese market. We will continue to focus on key seasonal promotions and launch a range of new gift items to drive revenue and build awareness across Greater China.

**Tai Pan Laundry** revenue declined 8% during 2019 to HK$50 million, due to decreased hotels business which was negatively impacted by the social unrest in Hong Kong.

## 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 or 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.

As we disclosed in our interim report, the development budget for this project was under review. That review has been completed and the revised budget for the project has increased from the previously reported £650 million to approximately £800 million. The increase in the budget can be attributed to an increase in the size of the hotel as we added an additional basement level as well as enhanced functional areas; additional costs associated with mitigating the supply chain from Brexit risks; unfavourable foreign currency movements relative to the British Pound; higher residential development costs (partially offset by higher residential sales values); and general cost pressures as the market in London for certain construction trades remains tight.

Construction of the project is progressing well and the topping out of the building was held in June 2019. The superstructure has now been completed and the basement is making good progress. Works have commenced fitting out the hotel rooms at the lower levels and the installation of the façade panelling has commenced.

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 the third quarter of 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 is currently tracking within budget.

The project has encountered some unforeseen site conditions and challenges with the heritage buildings which have caused some delays, although construction progress has improved over the last quarter. Excavation works are now completed and works to the heritage façades of two heritage buildings continue, whilst interior fit out works are also under preparation. Building superstructure is progressing in the third heritage building and topping out of the last new building is expected to finish by early April 2020.

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. (Yoma) and First Myanmar Investment Public Company Limited (FMI) 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 adjacent to the hotel by Meeyahta Development Limited which is a joint venture between our partners Yoma and FMI, Mitsubishi Corporation, Mitsubishi Estate Corporation, Asian Development Bank and International Finance Corporation.

Construction progress was delayed during 2018 due to the collapse of a small portion of the heritage building façade wall. We took immediate action in response to this issue, including claiming insurance, performing a peer review of the construction methodology and dealing with the relevant authorities. With excavation complete, the shell and core construction works continue to progress. Preparation for the installation of mechanical, electrical and plumbing equipment is underway and working drawings for fit-out works are being reviewed to ensure the best value is achieved prior to commencement in 2020.

The Peninsula Yangon will have 88 magnificent guestrooms with high ceilings, surrounded by tropical landscaped gardens with an outdoor swimming pool. We are expecting the project to be completed in 2021.

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 2019 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

2019 was extremely challenging and the group's financial performance was negatively impacted by the social unrest in Hong Kong, continued uncertainty over the US-China trade war and the planned service suspension of the Peak Tram during the first phase of its major upgrade project.

Despite a decline in profitability for the year, the group reported an increase in net asset value and the group's financial position as at 31 December 2019 remained strong.

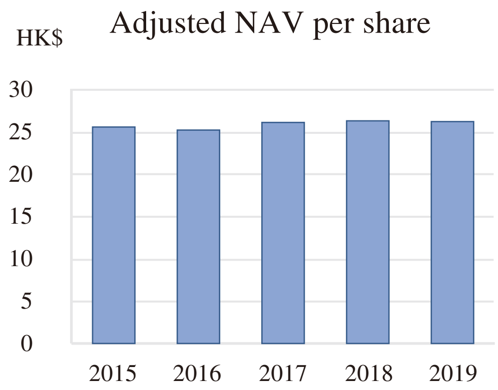
## The group's adjusted net assets value

**Adjusted NAV**

HK$42,808m ↑1%

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 2019, the details of which are set out on page 33. If these assets were to be stated at fair value, the group's net assets attributable to shareholders would increase by 10% to HK$42,808 million as indicated in the table below.




| HK$m | | 2019 | | 2018 (restated)* |
|---|---|---|---|---|
| Net asset value attributable to shareholders per the audited statement of financial position | | **39,054** | | 38,664 |
| Adjusting the value of hotels and golf courses to fair value | **4,109** | | 4,092 | |
| Less: Related deferred tax and non-controlling interests | **(355)** | | (345) | |
| | | **3,754** | | 3,747 |
| Adjusted net asset attributable to shareholders | | **42,808** | | 42,411 |
| Audited net asset per share (HK$) | | **23.90** | | 23.97 |
| Adjusted net asset per share (HK$) | | **26.20** | | 26.29 |

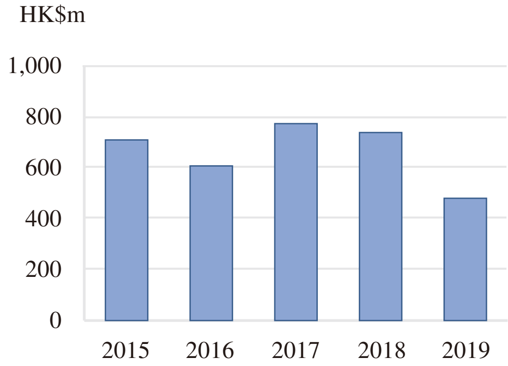
* *The group changed its accounting policy in respect of assets leased from third parties using the full retrospective approach to conform to the new accounting standard, HKFRS 16, Leases, which became effective on 1 January 2019. Accordingly, certain comparative figures have been restated. Further details of the change in accounting policy are disclosed in note 20 to the financial statements.*

## The group's underlying profit

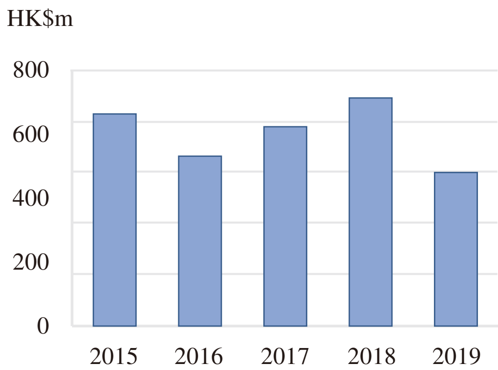
Our operating results are mainly derived from the operation of hotels, as well as the leasing and sale of luxury residential apartments, the leasing of office and retail properties, and the operation of the Peak Tram and retail merchandising. We manage the group's operations with principal reference 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, which 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 2019 amounted to HK$480 million compared to HK$738 million last year. It is worth noting that last year's profit figure was inclusive of the group's share of gain of HK$25 million on apartments sold by The Peninsula Shanghai Waitan Hotel Company Limited (PSW). Excluding this gain, the group's adjusted underlying profit for the year represents a decrease of 33% compared to last year. Further details of the trading results by divisions and the performances of individual operations for the year ended 31 December 2019 are set out on pages 26 to 31 of this Financial Review and pages 11 to 21 of the Operational Review.

**Underlying profit**
HK$480m ↓35%




**Adjusted underlying profit (excluding the group's share of gain on apartments sold by PSW)**
HK$480m ↓33%




| HK$m | 2019 | 2018 (restated)* | 2019 vs 2018 |
|---|---|---|---|
| **Profit attributable to shareholders** | **494** | 1,216 | (59%) |
| Less: Unrealised property revaluation movements and other non-operating items, net of tax and non-controlling interests# | **(14)** | (501) | (97%) |
| Add: Share of revaluation gains on apartments sold by PSW during the year Δ | **–** | 23 | n/a |
| **Underlying profit** | **480** | 738 | (35%) |

* *The group changed its accounting policy in respect of assets leased from third parties using the full retrospective approach to conform to the new accounting standard, HKFRS 16, Leases, which became effective on 1 January 2019. Accordingly, certain comparative figures have been restated. Further details of the change in accounting policy are disclosed in note 20 to the financial statements.*

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

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

## Statement of profit or loss

The group's results for the year ended 31 December 2019 were negatively affected by a number of factors, particularly from the disruption caused by the social unrest in Hong Kong. Rooms occupancy and food and beverage patronage at The Peninsula Hong Kong was negatively affected, as well as a decline in number of passengers at the Peak Tram. In addition, with the softening of the retail and residential markets, the group reported a lower increase in fair value of investment properties.

The group's consolidated statement of profit or loss for the year ended 31 December 2019 is set out on page 42. 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 27 to 31 of this Financial Review.

| HK$m | **2019** | 2018 (restated)* | 2019 vs 2018 |
|---|---|---|---|
| Revenue | **5,874** | 6,214 | (5%) |
| Operating costs | **(4,484)** | (4,534) | (1%) |
| EBITDA | **1,390** | 1,680 | (17%) |
| Depreciation and amortisation | **(589)** | (601) | (2%) |
| Net financing charges | **(140)** | (151) | (7%) |
| Share of result of a joint venture | **(17)** | (23) | (26%) |
| Share of results of associates | **(32)** | (29) | 10% |
| Increase in fair value of investment properties | **83** | 523 | (84%) |
| Taxation | **(192)** | (184) | 4% |
| Profit for the year | **503** | 1,215 | (59%) |
| Non-controlling interests | **(9)** | 1 | n/a |
| Profit attributable to shareholders | **494** | 1,216 | (59%) |

* *The group changed its accounting policy in respect of assets leased from third parties using the full retrospective approach to conform to the new accounting standard, HKFRS 16, Leases, which became effective on 1 January 2019. Accordingly, certain comparative figures have been restated. Further details of the change in accounting policy are disclosed in note 20 to the financial statements.*

## 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. 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 other 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 2019 decreased by 5% to HK$5,874 million. Total revenue, including the group's effective share of revenue of associates and joint venture amounted to HK$6,378 million, representing a decrease of 6% over 2018.

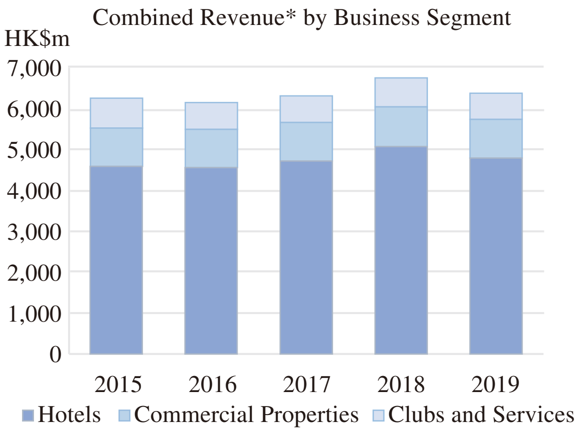
A breakdown of the group's total revenue, including its effective share of revenue of associates and joint venture by business segment and geographical segment is set out in the following tables.

**Consolidated Revenue**
HK$5,874m ↓5%

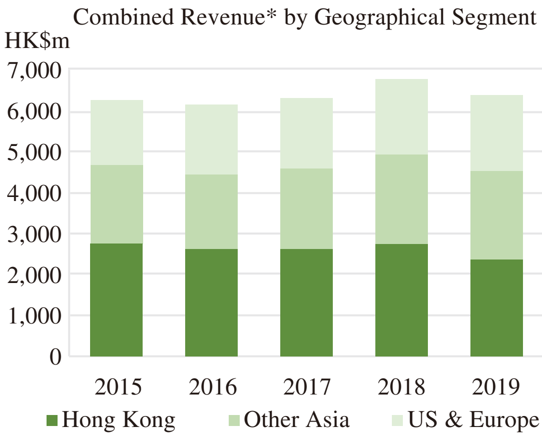
**Hotels**
HK$4,288m ↓5%

**Commercial Properties**
HK$946m ↓3%

**Clubs and Services**
HK$640m ↓10%




* *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 | 2019 | | | 2018 | | | 2019 vs 2018 |
|---|---|---|---|---|---|---|---|
| | **Group's subsidiaries** | **Associates and joint venture (effective share)** | **Combined total** | Group's subsidiaries | Associates and joint venture (effective share) | Combined total | |
| Hotels | **4,288** | **504*** | **4,792** | 4,534 | 539* | 5,073 | (6%) |
| Commercial Properties | **946** | **–** | **946** | 971 | – | 971 | (3%) |
| Clubs and Services | **640** | **–** | **640** | 709 | – | 709 | (10%) |
| | **5,874** | **504** | **6,378** | 6,214 | 539 | 6,753 | (6%) |

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

### Revenue by geographical segment

| HK$m | 2019 | | | 2018 | | | 2019 vs 2018 |
|---|---|---|---|---|---|---|---|
| | **Group's subsidiaries** | **Associates and joint venture (effective share)** | **Combined total** | Group's subsidiaries | Associates and joint venture (effective share) | Combined total | |
| Hong Kong | **2,368** | **–** | **2,368** | 2,724 | – | 2,724 | (13%) |
| Other Asia | **1,889** | **270*** | **2,159** | 1,886 | 300* | 2,186 | (1%) |
| US and Europe | **1,617** | **234** | **1,851** | 1,604 | 239 | 1,843 | – |
| | **5,874** | **504** | **6,378** | 6,214 | 539 | 6,753 | (6%) |

* *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% (2018: 75%) of the total revenue. The decrease in revenue of the hotels division was mainly due to the decline in revenue reported by The Peninsula Hong Kong resulting from the impact of the social unrest that started in June 2019.

With the exception of the Peak Tower, the commercial properties division remained relatively stable, with higher revenue achieved by The Repulse Bay Complex. Whilst the Peak Tower reported a slight decline in rental revenue, the admission income of Sky Terrace 428 was significantly lower than last year, partly due to the planned temporary service suspension of the Peak Tram for its major upgrade project, combined with the decrease in visitors resulting from the social unrest in Hong Kong.

For the clubs and services division, the decrease in revenue was mainly due to the reduction in fare income reported by the Peak Tram. This was due to the planned temporary service suspension as well as the decrease in visitors to Hong Kong. Peninsula Merchandising Limited also reported negative growth in revenue due to softer demand for Peninsula Mooncakes.

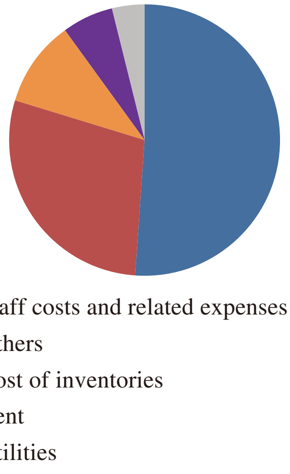
Details of the operating performances of the group's individual operations are set out on pages 11 to 21 of the Operational Review.

## Operating costs

Despite the general inflation of wages and other costs, and the increase in project-related spending for the three Peninsula hotels under development, with various cost saving initiatives the group managed to reduce its operating costs by 1% to HK$4,484 million (2018: HK$4,534 million) in 2019.

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 remained flat at HK$2,294 million (2018: HK$2,291 million), representing 51% (2018: 51%) of the group's operating costs and 39% (2018: 37%) of the group's consolidated revenue.

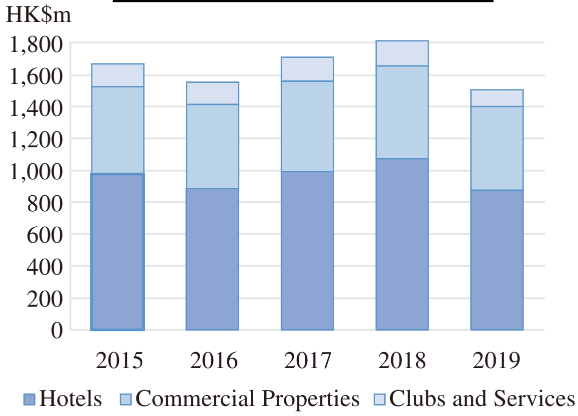
**Operating Costs**
HK$4,484m ↓1%




## 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, decreased by 17% to HK$1,510 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 | **2019** | | | 2018 (restated) | | | 2019 vs 2018 |
|---|---|---|---|---|---|---|---|
| | **Group's subsidiaries** | **Associates and joint venture (effective share)** | **Combined total** | Group's subsidiaries | Associates and joint venture (effective share) | Combined total | |
| Hotels | **758** | **120*** | **878** | 938 | 138* | 1,076 | (18%) |
| Commercial Properties | **527** | **–** | **527** | 584 | – | 584 | (10%) |
| Clubs and Services | **105** | **–** | **105** | 158 | – | 158 | (34%) |
| | **1,390** | **120** | **1,510** | 1,680 | 138 | 1,818 | (17%) |

* *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 | **2019** | | | 2018 (restated) | | | 2019 vs 2018 |
|---|---|---|---|---|---|---|---|
| | **Group's subsidiaries** | **Associates and joint venture (effective share)** | **Combined total** | Group's subsidiaries | Group's subsidiaries Associates and joint venture (effective share) | Combined total | |
| Hong Kong | **950** | **–** | **950** | 1,213 | – | 1,213 | (22%) |
| Other Asia | **322** | **85*** | **407** | 335 | 97* | 432 | (6%) |
| US and Europe | **118** | **35** | **153** | 132 | 41 | 173 | (12%) |
| | **1,390** | **120** | **1,510** | 1,680 | 138 | 1,818 | (17%) |

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

## EBITDA margin

| | **2019** | | | 2018 (restated) | | |
|---|---|---|---|---|---|---|
| | **Group's subsidiaries** | **Associates and joint venture (effective share)** | **Combined total** | Group's subsidiaries | Associates and joint venture (effective share) | Combined total |
| Hotels | **18%** | **24%*** | **18%** | 21% | 26%* | 21% |
| CommercialProperties | **56%** | **–** | **56%** | 60% | – | 60% |
| Clubs and Services | **16%** | **–** | **16%** | 22% | – | 22% |
| Overall EBITDA margin | **24%** | **24%** | **24%** | 27% | 26% | 27% |
| By region | | | | | | |
| Hong Kong | **40%** | **–** | **40%** | 45% | – | 45% |
| Other Asia | **17%** | **31%*** | **19%** | 18% | 32%* | 20% |
| US and Europe | **7%** | **15%** | **8%** | 8% | 17% | 9% |

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

In general, the operating costs of the group's operating units in Hong Kong and Asia are lower than that in the US and Europe. Despite the group's continuous efforts to contain costs, EBITDA margins fell short of last year, predominantly due to the revenue shortfalls reported by the group's operations in Hong Kong resulting from the social unrest and the planned service suspension of the Peak Tram.

## Increase in fair value of investment properties

The investment properties of the group were revalued as at 31 December 2019 by independent firms of valuers based on an income capitalisation approach. The net revaluation surplus of the group's investment properties amounted to HK$83 million (2018: HK$523 million), principally attributable to the increase in the appraised market value of The Repulse Bay Complex which was partly offset by the decrease in appraised market value of the shopping arcades at The Peninsula Beijing and The Peak Tower. The reduction in net revaluation surplus was a reflection of the general market conditions and the shortening of the lease term of The Peninsula Beijing.

## 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 in its competitor set. PSW also earns leasing income from the residential apartments as well as sales proceeds when the apartments are sold, however, there were no apartment sales during the year. In 2018, one apartment was sold for HK$119 million, realising a gain on disposal of HK$50 million and the group's share of the gain amounted to HK$25 million. At the end of 2019, 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$169 million (2018: HK$199 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$35 million (2018: HK$47 million) and the group's share of loss amounted to HK$17 million (2018: share of loss of HK$23 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 25 of this Financial Review.

Details of the operating performance of The Peninsula Shanghai are set out in the Operational Review section on page 13.

## 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 2019 amounted to HK$32 million (2018: loss of HK$29 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 17 to 18.

## Statement of financial position

The group's financial position as at 31 December 2019 remained strong and net assets attributable to shareholders amounted to HK$39,054 million, representing a per share value of HK$23.90. The consolidated statement of financial position of the group as at 31 December 2019 is presented on page 44 and the key components of the group's assets and liabilities are set out in the following table.

| HK$m | 2019 | 2018 (restated)* | 2019 vs 2018 |
|---|---|---|---|
| Fixed assets | **45,533** | 44,276 | 3% |
| Properties under development for sale | **3,624** | 3,121 | 16% |
| Other long-term assets | **2,351** | 2,305 | 2% |
| Cash at banks and in hand | **697** | 1,178 | (41%) |
| Other assets | **856** | 844 | 1% |
| | **53,061** | 51,724 | 3% |
| Interest-bearing borrowings | **(7,524)** | (7,095) | 6% |
| Lease liabilities | **(3,149)** | (3,023) | 4% |
| Other liabilities | **(2,659)** | (2,406) | 11% |
| | **(13,332)** | (12,524) | 6% |
| Net assets | **39,729** | 39,200 | 1% |
| *Represented by* | | | |
| Shareholders' funds | **39,054** | 38,664 | 1% |
| Non-controlling interests | **675** | 536 | 26% |
| Total equity | **39,729** | 39,200 | 1% |

* *The group changed its accounting policy in respect of assets leased from third parties using the full retrospective approach to conform to the new accounting standard, HKFRS 16, Leases, which became effective on 1 January 2019. Accordingly, certain comparative figures have been restated. Further details of the change in accounting policy are disclosed in note 20 to the financial statements.*

## 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 as appraised by independent valuers. In order to provide users of the financial statements with additional information on the fair value of the group's properties, independent valuers have been engaged to conduct a valuation of the hotel properties and golf courses as at 31 December 2019.

A summary of the group's hotel, commercial and other properties showing both the book value and the fair value as at 31 December 2019 is set out in the table on the following page.

| | Group's interest | 2019 Fair value valuation | 2019 Book value* | 2018 Fair value valuation | 2018 Book value* |
|---|---|---|---|---|---|
| | | **Value of 100% of the property (HK$m)** | | | |
| **Hotel properties**** | | | | | |
| The Peninsula Hong Kong | 100% | **12,252** | **9,919** | 12,360 | 9,954 |
| The Peninsula New York | 100% | **2,278** | **1,686** | 2,356 | 1,689 |
| The Peninsula Beijing | 76.6%[Δ] | **1,449** | **1,439** | 1,614 | 1,590 |
| The Peninsula Tokyo | 100% | **1,726** | **1,487** | 1,681 | 1,507 |
| The Peninsula Chicago | 100% | **1,332** | **1,207** | 1,332 | 1,253 |
| The Peninsula Bangkok | 50% | **744** | **668** | 676 | 615 |
| The Peninsula Manila | 77.4% | **140** | **134** | 109 | 108 |
| The Peninsula Shanghai[#] | 50% | **2,878** | **2,410** | 2,964 | 2,548 |
| The Peninsula Paris[#] | 20% | **5,125** | **4,828** | 5,357 | 5,133 |
| The Peninsula Beverly Hills[#] | 20% | **2,632** | **390** | 2,632 | 434 |
| | | **30,556** | **24,168** | 31,081 | 24,831 |
| **Commercial properties** | | | | | |
| The Repulse Bay Complex | 100% | **17,921** | **17,921** | 17,769 | 17,769 |
| The Peak Tower | 100% | **1,445** | **1,445** | 1,467 | 1,467 |
| St. John's Building | 100% | **1,207** | **1,207** | 1,198 | 1,198 |
| Apartments in Shanghai | 100% | **394** | **394** | 402 | 402 |
| 21 avenue Kléber | 100% | **698** | **698** | 711 | 711 |
| The Landmark | 70%[ΔΔ] | **52** | **52** | 56 | 56 |
| | | **21,717** | **21,717** | 21,603 | 21,603 |
| **Other properties** | | | | | |
| Thai Country Club golf course | 50% | **261** | **289** | 242 | 273 |
| Quail Lodge resort, golf course and vacant land | 100% | **298** | **284** | 296 | 277 |
| Vacant land in Thailand | 50% | **472** | **472** | 433 | 433 |
| Others | 100% | **390** | **210** | 392 | 214 |
| | | **1,421** | **1,255** | 1,363 | 1,197 |
| **Properties under development**[##] | | | | | |
| The Peninsula London | 100% | **5,856** | **5,856** | 4,465 | 4,465 |
| The Peninsula Yangon | 70% | **534** | **534** | 438 | 438 |
| The Peninsula Istanbul[#] | 50% | **843** | **843** | 594 | 594 |
| | | **7,233** | **7,233** | 5,497 | 5,497 |
| **Total market/book value** | | **60,927** | **54,373** | 59,544 | 53,128 |

* *Excluding the book value of right-of-use asses capitalised under HKFRS 16, Leases.*

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

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

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

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

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

## Properties under development for sale

Properties under development for sale comprise the 26 apartments which are part of The Peninsula London development. The planned gross floor area of the apartments is approximately 119,000 square feet.

As at 31 December 2019, the balance of properties under development for sale amounted to HK$3,624 million (2018: 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 2019 of HK$2,351 million (2018: HK$2,305 million) comprise the group's 50% interest in The Peninsula Shanghai, the group's 20% interest and the value of its operating right in The Peninsula Paris and the group's 50% interest in The Peninsula Istanbul which is under development.

## Cash at banks and in hand and interest-bearing borrowings

As at 31 December 2019, the group's cash at banks and in hand and interest-bearing borrowings amounted to HK$697 million (2018: HK$1,178 million) and HK$7,524 million (2018: HK$7,095 million) respectively, resulting in a net borrowings of HK$6,827 million (2018: HK$5,917 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 2019 is set out on page 35.

## Cash flows

The consolidated statement of cash flows of the group for the year ended 31 December 2019 is set out on page 46. The following table summarises the key cash movements for the year ended 31 December 2019.

| HK$m | **2019** | 2018 (restated)* |
|---|---|---|
| EBITDA | **1,390** | 1,680 |
| Net change in working capital | **(7)** | 24 |
| Tax payment | **(17)** | (193) |
| Net cash generated from operating activities | **1,366** | 1,511 |
| Capital expenditure on existing assets | **(564)** | (426) |
| Net cash inflow after normal capital expenditure | **802** | 1,085 |
| Capital expenditure on new projects | **(1,330)** | (1,208) |
| Net cash outflow before dividends and other payments | **(528)** | (123) |
| Dividends paid | **(107)** | (55) |
| Net interest and other payments/receipts | **(159)** | (215) |
| Net cash outflow before borrowings | **(794)** | (393) |

* *The group changed its accounting policy in respect of assets leased from third parties using the full retrospective approach to conform to the new accounting standard, HKFRS 16, Leases, which became effective on 1 January 2019. Accordingly, certain comparative figures have been restated. Further details of the change in accounting policy are disclosed in note 20 to the financial statements.*

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

| HK$m | **2019** | 2018 |
|---|---|---|
| Hotels | | |
| The Peninsula Beijing | **72** | 56 |
| The Peninsula Chicago (including the new rooftop bar) | **38** | 105 |
| The Peninsula Hong Kong | **63** | 50 |
| Others | **152** | 137 |
| Commercial properties | **42** | 37 |
| Clubs and services | | |
| Peak Tram | **169** | 22 |
| Others | **28** | 19 |
| | **564** | 426 |

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

| HK$m | **2019** | 2018 |
|---|---|---|
| The Peninsula London | **1,074** | 951 |
| The Peninsula Yangon | **114** | 148 |
| Capital injection into the joint venture in Turkey | **142** | 109 |
| | **1,330** | 1,208 |

## Capital commitments

With three new hotels under development in London, Istanbul and Yangon as well as the Peak Tram upgrade project, the company has committed to its most significant capital expenditure programme in its history. As at 31 December 2019, the group's capital commitments amounted to HK$7,936 million (2018: HK$8,642 million) – this represents about 15% of the group's total assets. The company has been able to pursue such a significant capital expenditure programme in part due to the scale of its asset base and the relatively low level of leverage.

The capital expenditure projects are generally funded by operating cashflow and borrowings. Over the past several years the group has completed renovations and upgrades of several of its key properties. Now the focus is on the new hotel projects and the Peak Tram upgrade project.

The group's capital commitments as at 31 December 2019 are summarised in the table below.

| HK$m | **2019** | 2018 |
|---|---|---|
| Normal capital expenditures in respect of existing properties, including the group's share of capital expenditures of a joint venture and associates | **607** | 898 |
| New and special projects | | |
| – The Peak Tram upgrade | **441** | 613 |
| – The Peninsula London | **5,211** | 5,172 |
| – The Peninsula Yangon | **849** | 947 |
| – The Peninsula Istanbul | **828** | 1,012 |
| | **7,936** | 8,642 |

As at 31 December 2019, the group's undrawn committed facilities amounted to HK$6,878 million (2018: HK$6,957 million). Subsequent to the balance sheet date, the group has obtained further committed facilities of HK$1,826 million giving a total HK$8,704 million in undrawn commited facilities which is sufficent to meet the company's capital commitments.

## Non-adjusting event after the balance sheet date

The outbreak of the COVID-19 coronavirus started to significantly negatively impact the group's operations in Greater China in late January 2020, and this has now spread all over the world, affecting all of the group's global operations. Most of the group's hotels have seen substantial room cancellations and restaurant closures as a result of government travel restrictions, quarantines and lockdowns. The hotels division as well as at the Peak Complex and Peninsula Merchandising have seen a devastating revenue decline. The group is now focused on all possible operational cost containment options, as well as deferring capital spend where possible. The group continues to monitor its financial and liquidity position which remains healthy.

The unaudited revenue of the group for the two months ended 29 February 2020 was down by 21% compared to the same period in 2019. Based on the information currently available, management estimates that the group will sustain an operating loss in the first quarter of 2020, despite measures to contain costs. The actual impact may differ from these estimates as the situation continues to evolve.

## 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. In 2019 the group has streamlined its bank account structure and began implementation of a global cash pooling structure as the group expands globally. A proactive approach is taken to forecasting future funding requirements and, when funds are needed, market conditions and average debt portfolio duration are evaluated to determine the best form of finance to be secured.

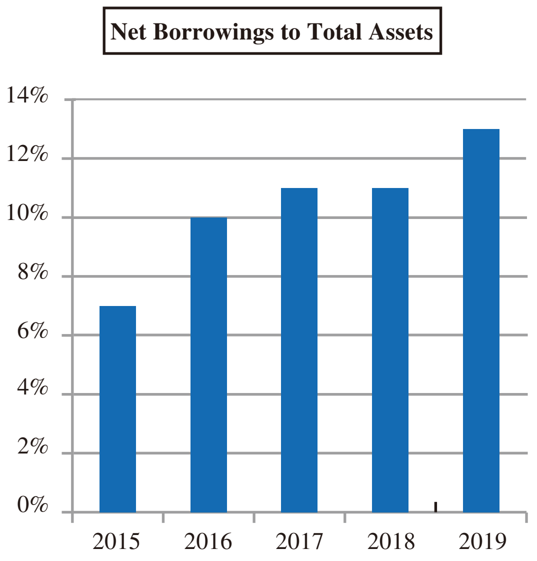
In addition, the group maintains adequate committed borrowing facilities from major financial institutions to ensure funds are available to meet its financial obligations and to finance its growth and development. The group adopts a centralisation strategy with an aim to concentrate committed borrowing facilities with the corporate office in Hong Kong, such that unutilised borrowing facilities can be shared intragroup.

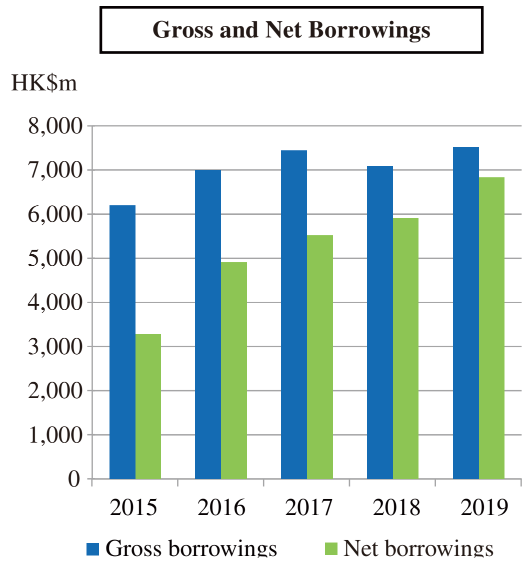
## Liquidity/Financing

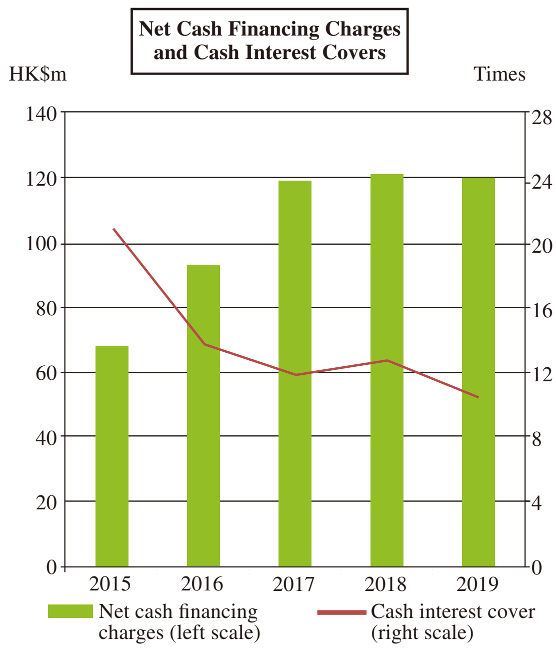
The group monitors its capital structure on the basis of its net borrowings (defined as interest-bearing borrowings less cash at banks and in hand) to total assets and monitors its liquidity through cash interest cover and funds availability.

In 2019, gross borrowings increased to HK$7,524 million (2018: HK$7,095 million) mainly due to construction payments for The Peninsula London, offset partially by repayment of HK$ and US$ loans via active cash management. Consolidated net debt increased to HK$6,827 million as compared to HK$5,917 million in 2018. The group's net external borrowings to total assets increased to 13% as compared to 11% in 2018. The ratio continues to reflect a healthy financial position for the group.

Net interest paid for 2019 decreased to HK$120 million (2018: HK$121 million) despite higher net borrowings due to a lower borrowing costs in GBP compared to HK$. Cash interest cover (EBITDA less lease payments divided by net interest paid) decreased to 10.4 times (2018: 12.8 times) due to a lower EBITDA in 2019.

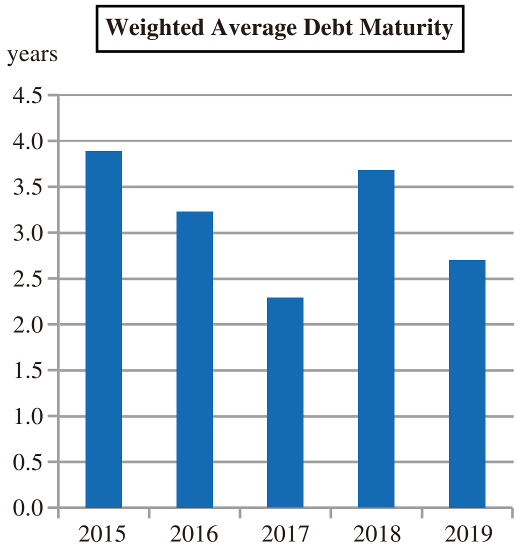


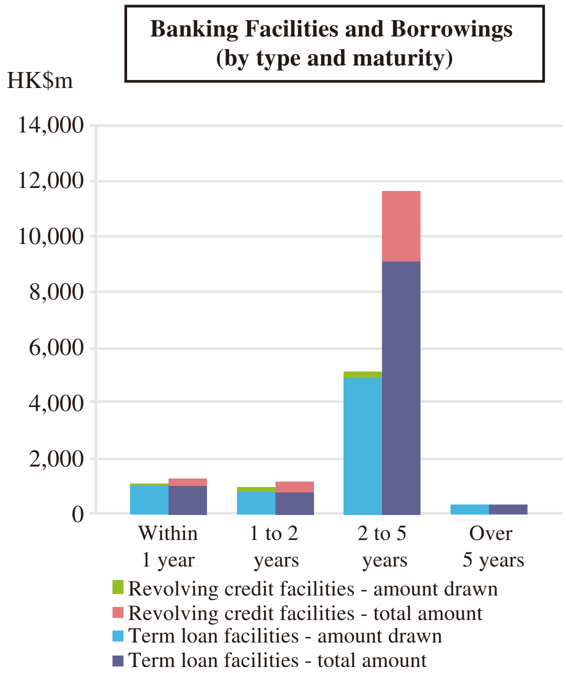



During the year, the group also refinanced its maturing loans (primarily denominated in US dollar and Thai baht) with new maturity tenors of 1 to 3 years.

Average debt maturity for the year decreased from 3.7 years to 2.7 years in part due to the shortening duration of the GBP term loan facility.




We take a proactive approach to managing the group's liquidity to ensure ample headroom to cover our capital commitments and protect against business volatility. This has proved valuable in the current market context as the business is impacted in the immediate term by the Hong Kong protests and global coronavirus outbreak. In the first three months of 2020, the group has further obtained committed facilities of GBP 120 million to cater for the increase in development budget for The Peninsula London and HK$ 600 million to support group capital expenditures and for general working capital. With these in place, we are fully funded through our commitments for the three new hotel developments as well as the Peak Tram upgrade project.

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 2019 are summarised as follows:

| HK$m | **2019** | | | | | | 2018 |
|---|---|---|---|---|---|---|---|
| | **Hong Kong** | **Other Asia** | **United States of America** | **Europe** | **UK** | **Total** | Total |
| Consolidated gross borrowings | **1,283** | **2,615** | **690** | **523** | **2,413** | **7,524** | 7,095 |
| Non-consolidated gross borrowings attributable to the Group*: | | | | | | | |
| The Peninsula Shanghai (50%) | **–** | **531** | **–** | **–** | **–** | **531** | 608 |
| The Peninsula Beverly Hills (20%) | **–** | **–** | **197** | **–** | **–** | **197** | 203 |
| The Peninsula Paris (20%) | **–** | **–** | **–** | **391** | **–** | **391** | 401 |
| Non-consolidated borrowings | **–** | **531** | **197** | **391** | **–** | **1,119** | 1,212 |
| Consolidated and non-consolidated gross borrowings | **1,283** | **3,146** | **887** | **914** | **2,413** | **8,643** | 8,307 |

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

## Foreign Exchange

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

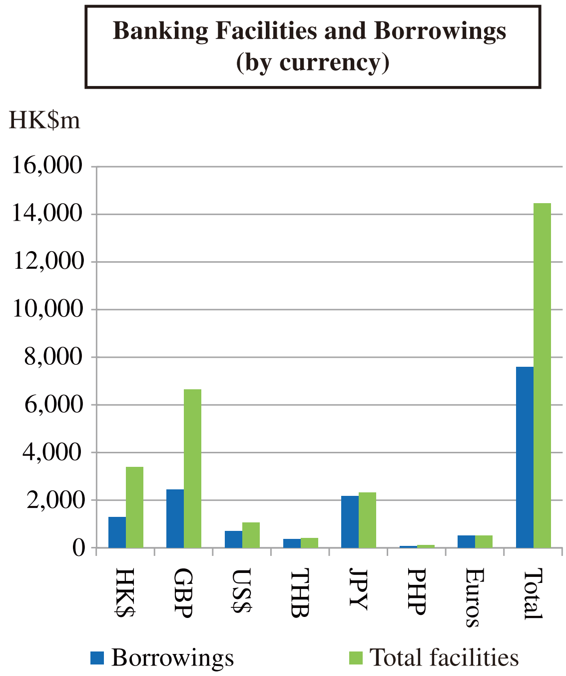
All of the Group's borrowings are denominated in the functional currency of the operations to which they relate. As at 31 December 2019, GBP, Japanese yen, and HK dollar borrowings represented 32%, 29% and 17% of total borrowings respectively. Other balances were mainly in US dollars, and other local currencies of the Group's entities.

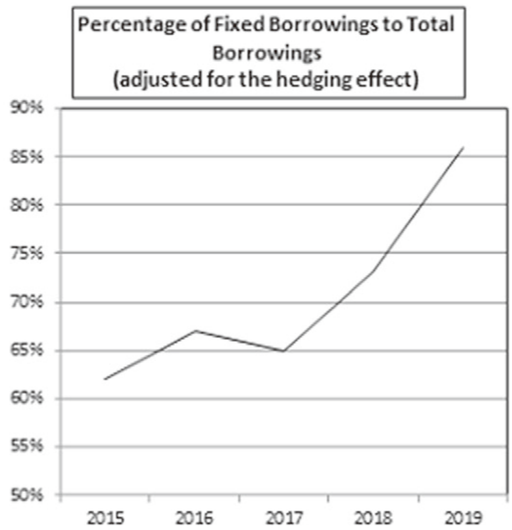
During the year, the Group had also entered into forward exchange contracts to hedge Euro exposures against GBP arising from construction payments for The Peninsula London project.

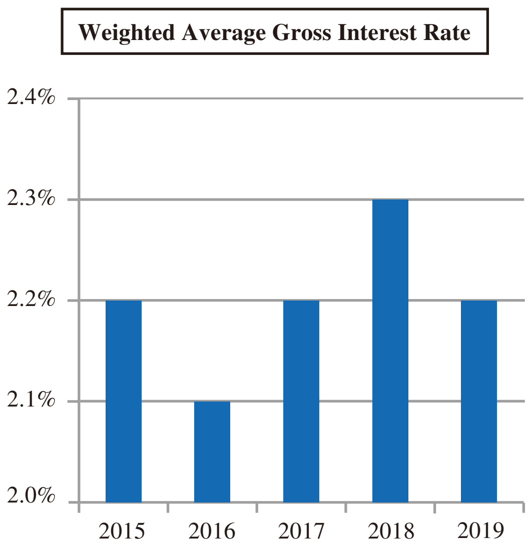
## Interest rate risk

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 2019, the group's fixed to floating interest rate ratio increased to 86% (2018: 73%). The weighted average gross interest rate for the year decreased slightly from 2.3% to 2.2%.



## 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 2019, derivatives with notional amount of HK$3,442 million (2018: HK$3,452 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 2019 | 2018 (restated) |
|---|---|---|---|
| **Revenue** | 2 | **5,874** | 6,214 |
| Cost of inventories | | **(457)** | (470) |
| Staff costs and related expenses | | **(2,294)** | (2,291) |
| Rent and utilities | | **(441)** | (437) |
| Other operating expenses | | **(1,292)** | (1,336) |
| **Operating profit before interest, taxation, depreciation and amortisation (EBITDA)** | | **1,390** | 1,680 |
| Depreciation and amortisation | | **(589)** | (601) |
| **Operating profit** | | **801** | 1,079 |
| Interest income | | **14** | 18 |
| Financing charges | | **(154)** | (169) |
| Net financing charges | | **(140)** | (151) |
| **Profit after net financing charges** | | **661** | 928 |
| Share of results of joint ventures | 9 | **(17)** | (23) |
| Share of results of associates | 10 | **(32)** | (29) |
| Increase in fair value of investment properties | 7 | **83** | 523 |
| **Profit before taxation** | | **695** | 1,399 |
| Taxation | | | |
| Current tax | 3 | **(146)** | (180) |
| Deferred tax | 3 | **(46)** | (4) |
| **Profit for the year** | | **503** | 1,215 |
| **Profit attributable to:** | | | |
| Shareholders of the company | | **494** | 1,216 |
| Non-controlling interests | | **9** | (1) |
| **Profit for the year** | | **503** | 1,215 |
| **Earnings per share, basic and diluted** (HK$) | 4 | **0.30** | 0.76 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK$m)

| | Year ended 31 December | |
|---|---|---|
| | **2019** | 2018 (restated) |
| **Profit for the year** | **503** | 1,215 |
| **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 | **106** | (338) |
| – financial statements of joint ventures | **(27)** | (51) |
| – loans to an associate | **(15)** | (26) |
| – hotel operating rights | **(12)** | (20) |
| | **52** | (435) |
| Cash flow hedges: | | |
| – effective portion of changes in fair values | **(29)** | (7) |
| – transfer from equity to profit or loss | **7** | 6 |
| | **30** | (436) |
| Item that will not be reclassified to profit or loss: | | |
| Remeasurement of net defined benefit retirement obligations | **–** | (5) |
| Other comprehensive income | **30** | (441) |
| **Total comprehensive income for the year** | **533** | 774 |
| **Total comprehensive income attributable to:** | | |
| Shareholders of the company | **490** | 788 |
| Non-controlling interests | **43** | (14) |
| **Total comprehensive income for the year** | **533** | 774 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)

| | Note | As at 31 December 2019 | As at 31 December 2018 (restated) | As at 1 January 2018 (restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Investment properties | | **33,219** | 33,077 | 36,249 |
| Other properties, plant and equipment | | **12,314** | 11,199 | 9,855 |
| | 7 | **45,533** | 44,276 | 46,104 |
| Properties under development for sale | 8 | **3,624** | 3,121 | – |
| Interest in joint ventures | 9 | **1,186** | 1,088 | 1,053 |
| Interest in associates | 10 | **588** | 638 | 699 |
| Hotel operating rights | 11 | **505** | 530 | 564 |
| Deferred tax assets | | **72** | 49 | 38 |
| | | **51,508** | 49,702 | 48,458 |
| **Current assets** | | | | |
| Inventories | | **89** | 84 | 77 |
| Derivative financial instruments | | **–** | 2 | – |
| Trade and other receivables | 12 | **711** | 701 | 737 |
| Amount due from a joint venture | | **56** | 57 | 60 |
| Cash at banks and in hand | 13(a) | **697** | 1,178 | 1,922 |
| | | **1,553** | 2,022 | 2,796 |
| **Current liabilities** | | | | |
| Trade and other payables | 14 | **(1,480)** | (1,441) | (1,424) |
| Interest-bearing borrowings | 15 | **(1,114)** | (403) | (3,391) |
| Derivative financial instruments | | **(8)** | - | (4) |
| Current taxation | | **(152)** | (26) | (41) |
| Lease liabilities | 16 | **(143)** | (121) | (125) |
| | | **(2,897)** | (1,991) | (4,985) |
| **Net current (liabilities)/assets** | | **(1,344)** | 31 | (2,189) |
| **Total assets less current liabilities** | | **50,164** | 49,733 | 46,269 |
| **Non-current liabilities** | | | | |
| Interest-bearing borrowings | 15 | **(6,410)** | (6,692) | (4,052) |
| Trade and other payables | 14 | **(234)** | (252) | (230) |
| Net defined benefit retirement obligations | | **(27)** | (22) | (17) |
| Derivative financial instruments | | **(21)** | (7) | – |
| Deferred tax liabilities | | **(737)** | (658) | (646) |
| Lease liabilities | 16 | **(3,006)** | (2,902) | (2,871) |
| | | **(10,435)** | (10,533) | (7,816) |
| **Net assets** | | **39,729** | 39,200 | 38,453 |
| **Capital and reserves** | | | | |
| Share capital | 17 | **5,732** | 5,509 | 5,224 |
| Reserves | | **33,322** | 33,155 | 32,702 |
| **Total equity attributable to shareholders of the company** | | **39,054** | 38,664 | 37,926 |
| Non-controlling interests | | **675** | 536 | 527 |
| **Total equity** | | **39,729** | 39,200 | 38,453 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (HK$m)

| | | Attributable to shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | |
| | Note | Share capital | Hedging reserve | Exchange and other reserves | Retained profits | Total reserves | Total | Non-controlling interests | Total equity |
| **At 1 January 2018, as previously reported** | | 5,224 | (15) | 64 | 32,902 | 32,951 | 38,175 | 527 | 38,702 |
| Impact of change in accounting policies on adoption of HKFRS 16 | | – | – | – | (249) | (249) | (249) | – | (249) |
| **Balance at 1 January 2018 (restated)** | | 5,224 | (15) | 64 | 32,653 | 32,702 | 37,926 | 527 | 38,453 |
| Changes in equity for 2018: | | | | | | | | | |
| Profit for the year (restated) | | – | – | – | 1,216 | 1,216 | 1,216 | (1) | 1,215 |
| Other comprehensive income (restated) | | – | (1) | (427) | – | (428) | (428) | (13) | (441) |
| Total comprehensive income for the year (restated) | | – | (1) | (427) | 1,216 | 788 | 788 | (14) | 774 |
| 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) |
| Dividends paid to non-controlling interests | | – | – | – | – | – | – | (5) | (5) |
| Capital contribution from a non-controlling shareholder | | – | – | – | – | – | – | 28 | 28 |
| **Balance at 31 December 2018 and 1 January 2019 (restated)** | | 5,509 | (16) | (363) | 33,534 | 33,155 | 38,664 | 536 | 39,200 |
| **Changes in equity for 2019:** | | | | | | | | | |
| **Profit for the year** | | **–** | **–** | **–** | **494** | **494** | **494** | **9** | **503** |
| **Other comprehensive income** | | **–** | **(22)** | **18** | **–** | **(4)** | **(4)** | **34** | **30** |
| **Total comprehensive income for the year** | | **–** | **(22)** | **18** | **494** | **490** | **490** | **43** | **533** |
| **Dividends approved in respect of the previous year** | 5 | **179** | **–** | **–** | **(258)** | **(258)** | **(79)** | **–** | **(79)** |
| **Dividends approved in respect of the current year** | 5 | **44** | **–** | **–** | **(65)** | **(65)** | **(21)** | **–** | **(21)** |
| **Dividend paid to non-controlling interests** | | **–** | **–** | **–** | **–** | **–** | **–** | **(7)** | **(7)** |
| **Capital contribution from a non-controlling shareholder** | | **–** | **–** | **–** | **–** | **–** | **–** | **103** | **103** |
| **Balance at 31 December 2019** | | **5,732** | **(38)** | **(345)** | **33,705** | **33,322** | **39,054** | **675** | **39,729** |

# CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)

| | Note | Year ended 31 December 2019 | 2018 (restated) |
|---|---|---|---|
| **Operating activities** | | | |
| Profit after net financing charges | | **661** | 928 |
| Adjustments for: | | | |
| Depreciation | 7(a) | **576** | 587 |
| Amortisation of hotel operating rights | 11 | **13** | 14 |
| Interest income | | **(14)** | (18) |
| Financing charges | | **154** | 169 |
| **Operating profit before changes in working capital** | | **1,390** | 1,680 |
| Payment for the development of properties under development for sale | | **(366)** | (140) |
| Changes in other working capital | | **(7)** | 24 |
| **Cash generated from operations** | | **1,017** | 1,564 |
| Net tax paid: | | | |
| Hong Kong profits tax | | **(1)** | (171) |
| Overseas tax | | **(16)** | (22) |
| **Net cash generated from operating activities** | | **1,000** | 1,371 |
| **Investing activities** | | | |
| Capital expenditure on property, plant and equipment and investment properties | | **(564)** | (426) |
| Capital expenditure on projects under development | | **(822)** | (959) |
| Cash injected from a non-controlling shareholder | | **103** | 28 |
| Distribution from an associate | | **3** | 6 |
| Capital injection into a joint venture | | **(142)** | (109) |
| **Net cash used in investing activities** | | **(1,422)** | (1,460) |
| **Financing activities** | | | |
| Drawdown of term loans | | **1,388** | 1,331 |
| Repayment of term loans | | **(398)** | (3,373) |
| Net (decrease)/increase in revolving loans | | **(671)** | 1,702 |
| Net withdrawal of interest-bearing bank deposits with maturity of more than three months | | **59** | 179 |
| Interest paid and other financing charges | | **(135)** | (140) |
| Interest received | | **15** | 19 |
| Capital element of lease rental paid | | **(51)** | (38) |
| Interest element of lease rental paid | | **(94)** | (90) |
| Dividends paid to shareholders of the company | | **(100)** | (50) |
| Dividends paid to holders of non-controlling interests | | **(7)** | (5) |
| **Net cash generated from / (used in) financing activities** | | **6** | (465) |
| Net decrease in cash and cash equivalents | | **(416)** | (554) |
| Cash and cash equivalents at 1 January | | **1,098** | 1,660 |
| Effect of changes in foreign exchange rates | | **(2)** | (8) |
| **Cash and cash equivalents at 31 December** | 13(a) | **680** | 1,098 |

## Notes to the Financial Statements

### 1. Statement of compliance

The financial information relating to the years ended 31 December 2019 and 2018 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 2018 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 2019 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. Note 20 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements.

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* and rental income derived from the hotels' shopping arcade and offices and commercial properties recognised in accordance with HKFRS 16, *Leases*. The amount of each significant category of revenue recognised during the year is as follows:

| | **2019** | 2018 |
|---|---|---|
| Hotels | | |
| – Rooms | **2,014** | 2,141 |
| – Food and beverage | **1,229** | 1,330 |
| – Shopping arcades and offices | **618** | 625 |
| – Others | **427** | 438 |
| | **4,288** | 4,534 |
| Commercial properties | | |
| – Residential properties | **526** | 500 |
| – Offices | **103** | 102 |
| – Shopping arcades | **317** | 369 |
| | **946** | 971 |
| Clubs and Services | | |
| – Golf clubs | **255** | 247 |
| – Peak Tram operation | **76** | 140 |
| – Peninsula Merchandising | **253** | 262 |
| – Others | **56** | 60 |
| | **640** | 709 |
| | **5,874** | 6,214 |

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

| | **2019** | 2018 |
|---|---|---|
| **Current tax – Hong Kong profits tax** | | |
| Provision for the year | **122** | 166 |
| Over-provision in respect of prior years | **(1)** | (2) |
| | **121** | 164 |
| **Current tax – Overseas** | | |
| Provision for the year | **23** | 18 |
| Under/(over) provision in respect of prior years | **2** | (2) |
| | **25** | 16 |
| | **146** | 180 |
| **Deferred tax** | | |
| Decrease in net deferred tax liabilities relating to revaluation of overseas investment properties | **(7)** | (13) |
| Increase in net deferred tax liabilities relating to other temporary differences | **53** | 17 |
| | **46** | 4 |
| **Total** | **192** | 184 |

The provision for Hong Kong profits tax for 2019 is calculated at 16.5% (2018: 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

| | **2019** | 2018 (restated) |
|---|---|---|
| Profit attributable to shareholders of the company (HK$m) | **494** | 1,216 |
| Weighted average number of shares in issue (million shares) | **1,623** | 1,600 |
| Earnings per share (HK$) | **0.30** | 0.76 |

| | ***2019 (million shares)*** | *2018 (million shares)* |
|---|---|---|
| *Issued shares at 1 January* | ***1,613*** | *1,589* |
| *Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2018 final dividend and 2019 interim dividend* | ***10*** | *11* |
| *Weighted average number of shares at 31 December* | ***1,623*** | *1,600* |

### (b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2019 and 2018 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

| | **2019** | 2018 |
|---|---|---|
| Interim dividend declared and paid of 4 HK cents per share (2018: 5 HK cents per share) | **65** | 80 |
| Final dividend proposed after the end of the reporting period of 9 HK cents per share (2018: 16 HK cents per share) | **147** | 258 |
| | **212** | 338 |

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

| | **2019** | 2018 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of 16 HK cents per share (2018: 16 HK cents per share) | **258** | 255 |

## 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 2019 and 2018 are set out as follows:

| | **Hotels** | | **Commercial Properties** | | **Clubs and Services** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|
| | **2019** | 2018 (restated) | **2019** | 2018 (restated) | **2019** | 2018 (restated) | **2019** | 2018 (restated) |
| **Reportable segment revenue*** | **4,288** | 4,534 | **946** | 971 | **640** | 709 | **5,874** | 6,214 |
| **Reportable segment operating profits before interest, taxation, depreciation and amortisation (EBITDA)** | **758** | 938 | **527** | 584 | **105** | 158 | **1,390** | 1,680 |
| Depreciation and amortisation | **(512)** | (531) | **(24)** | (19) | **(53)** | (51) | **(589)** | (601) |
| **Segment operating profit** | **246** | 407 | **503** | 565 | **52** | 107 | **801** | 1,079 |

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.

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

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

## (b) Segment assets

Segment assets include all tangible and current assets and hotel operating rights held directly by the respective segments. The group's segment assets and unallocated assets as at 31 December 2019 and 2018 are set out as follows:

| | Note | **As at 31 December 2019** | As at 31 December 2018 (restated) | As at 1 January 2018 (restated) |
|---|---|---|---|---|
| Reportable segment assets | | | | |
| Hotels | | **25,231** | 24,300 | 26,721 |
| Commercial properties | | **25,677** | 25,014 | 21,419 |
| Clubs and services | | **1,328** | 1,124 | 1,094 |
| | | **52,236** | 50,438 | 49,234 |
| Unallocated assets | | | | |
| Deferred tax assets | | **72** | 49 | 38 |
| Amount due from a joint venture | | **56** | 57 | 60 |
| Derivative financial instruments | | **–** | 2 | – |
| Cash at banks and in hand | 13(a) | **697** | 1,178 | 1,922 |
| Consolidated total assets | | **53,061** | 51,724 | 51,254 |

## (c) Geographical information

The following table sets out information about the geographical location of (i) the group's revenue from external customers and (ii) the group's total reportable non-current assets.

| | **Revenue from external customers** | | **Reportable non-current assets** | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Hong Kong | **2,368** | 2,724 | **31,142** | 30,822 |
| Other Asia * | **1,889** | 1,886 | **7,847** | 7,837 |
| United States of America and Europe | **1,617** | 1,604 | **12,447** | 10,994 |
| | **5,874** | 6,214 | **51,436** | 49,653 |

* *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 | Right-of-use assets *(note 7(c))* | Hotel and other buildings held for own use | Motor vehicles, plant and equipment | Construction in progress | Sub-total | Investment properties *(notes 7(b))* | Investment property held for redevelopment | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | | | | | |
| At 1 January 2018 (as reported) | 882 | – | 8,607 | 4,738 | 439 | 14,666 | 32,609 | 3,640 | 50,915 |
| *Impact on initial application of HKFRS 16 (Note 20)* | – | 2,978 | – | – | (4) | 2,974 | – | – | 2,974 |
| At 1 January 2018 (as restated) | 882 | 2,978 | 8,607 | 4,738 | 435 | 17,640 | 32,609 | 3,640 | 53,889 |
| Exchange adjustments | 4 | (4) | (33) | (9) | (52) | (94) | (83) | (92) | (269) |
| Additions (restated) | 19 | 65 | 116 | 138 | 641 | 979 | 28 | 546 | 1,553 |
| Disposals | – | (35) | (7) | (86) | – | (128) | – | – | (128) |
| Transfer | – | – | 73 | 24 | 929 | 1,026 | – | (4,094) | (3,068) |
| Fair value adjustment | – | – | – | – | – | – | 523 | – | 523 |
| At 31 December 2018 | 905 | 3,004 | 8,756 | 4,805 | 1,953 | 19,423 | 33,077 | – | 52,500 |
| **Representing:** | | | | | | | | | |
| Cost | 905 | 3,004 | 8,756 | 4,805 | 1,953 | 19,423 | – | – | 19,423 |
| Valuation – 2018 | – | – | – | – | – | – | 33,077 | – | 33,077 |
| | 905 | 3,004 | 8,756 | 4,805 | 1,953 | 19,423 | 33,077 | – | 52,500 |
| **At 1 January 2019 (restated)** | **905** | **3,004** | **8,756** | **4,805** | **1,953** | **19,423** | **33,077** | **–** | **52,500** |
| **Exchange adjustments** | **45** | **37** | **131** | **42** | **68** | **323** | **(3)** | **–** | **320** |
| **Additions** | **–** | **134** | **86** | **203** | **1,105** | **1,528** | **62** | **–** | **1,590** |
| **Disposals** | **–** | **(54)** | **–** | **(48)** | **–** | **(102)** | **–** | **–** | **(102)** |
| **Transfer** | **–** | **–** | **8** | **5** | **(13)** | **–** | **–** | **–** | **–** |
| **Fair value adjustment** | **–** | **–** | **–** | **–** | **–** | **–** | **83** | **–** | **83** |
| **At 31 December 2019** | **950** | **3,121** | **8,981** | **5,007** | **3,113** | **21,172** | **33,219** | **–** | **54,391** |
| **Representing:** | | | | | | | | | |
| **Cost** | **950** | **3,121** | **8,981** | **5,007** | **3,113** | **21,172** | **–** | **–** | **21,172** |
| **Valuation – 2019** | **–** | **–** | **–** | **–** | **–** | **–** | **33,219** | **–** | **33,219** |
| | **950** | **3,121** | **8,981** | **5,007** | **3,113** | **21,172** | **33,219** | **–** | **54,391** |
| **Accumulated depreciation and impairment losses:** | | | | | | | | | |
| At 1 January 2018 (as reported) | 355 | – | 3,901 | 3,304 | – | 7,560 | – | – | 7,560 |
| *Impact on initial application of HKFRS 16 (Note 20)* | – | 225 | – | – | – | 225 | – | – | 225 |
| At 1 January 2018 (as restated) | 355 | 225 | 3,901 | 3,304 | – | 7,785 | – | – | 7,785 |
| Exchange adjustments | 3 | 2 | (25) | (2) | – | (22) | – | – | (22) |
| Charge for the year | – | 59 | 202 | 326 | – | 587 | – | – | 587 |
| Written back on disposals | – | (35) | (6) | (85) | – | (126) | – | – | (126) |
| At 31 December 2018 | 358 | 251 | 4,072 | 3,543 | – | 8,224 | – | – | 8,224 |
| **At 1 January 2019 (restated)** | **358** | **251** | **4,072** | **3,543** | **–** | **8,224** | **–** | **–** | **8,224** |
| **Exchange adjustments** | **26** | **2** | **91** | **40** | **–** | **159** | **–** | **–** | **159** |
| **Charge for the year** | **–** | **70** | **186** | **320** | **–** | **576** | **–** | **–** | **576** |
| **Written back on disposals** | **–** | **(53)** | **–** | **(48)** | **–** | **(101)** | **–** | **–** | **(101)** |
| **At 31 December 2019** | **384** | **270** | **4,349** | **3,855** | **–** | **8,858** | **–** | **–** | **8,858** |
| **Net book value:** | | | | | | | | | |
| **At 31 December 2019** | **566** | **2,851** | **4,632** | **1,152** | **3,113** | **12,314** | **33,219** | **–** | **45,533** |
| At 31 December 2018 | 547 | 2,753 | 4,684 | 1,262 | 1,953 | 11,199 | 33,077 | – | 44,276 |
| At 1 January 2018 | 527 | 2,753 | 4,706 | 1,434 | 435 | 9,855 | 32,609 | 3,640 | 46,104 |

## 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 2019 mainly related to the development costs incurred for the projects in London and Yangon and the Peak Tram upgrade project.

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 2019 and 2018.

**(b)** All investment properties of the group were revalued as at 31 December 2019. The changes in fair value of the investment properties during the year were accounted for in the consolidated statement of profit or loss. The valuations were carried out by valuers independent of the group who have staff with recent experience in the location and category of the property being valued. Discussions have been held with the valuers on the valuation assumptions and valuation results when the valuation is performed at each reporting date. Details of the valuers are as follows:

| Description of investment properties | Name of valuer | Qualification of the staff of the valuer conducting the valuation |
|---|---|---|
| **Hong Kong** | | |
| Retail shops, offices and residential apartments | Savills Valuation and Professional Services Limited (Savills) | Members of the Hong Kong Institute of Surveyors |
| **Other Asia *** | | |
| Retail shops, offices, residential apartments and vacant land | Savills | Members of the Hong Kong Institute of Surveyors |
| | Colliers International Consultancy & Valuation (Singapore) Pte. Limited (Colliers) | Members of the Royal Institution of Chartered Surveyors |
| **United States of America** | | |
| Retail shops and vacant land | Colliers | Members of the Royal Institution of Chartered Surveyors |
| **Europe** | | |
| Retail shops, offices and residential apartments | Colliers | Members of the Royal Institution of Chartered Surveyors |

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

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

*continued*

### (c) Right-of-use assets

The group is the lessee in respect of a number of properties which are leased from third party landlords. Pursuant to its accounting policy, the group capitalises the present value of the future minimum lease payments of its leased properties as right-of-use assets. A majority of the carrying value of the right-of-use assets is attributable to the hotel in New York which has a lease term of 90 years commencing in 1988, the hotel in Tokyo which has a lease term of 70 years commencing in 2015 and the development project in London which has a lease term of 146 years commencing in 2016. The right-of-use assets are depreciated on a straight line basis from the lease commencement date to the earlier of the end of their respective useful life or the end of the lease term.

The net book value of right-of-use assets by class of underlying asset is analysed as follows:

| | **2019** | 2018 |
|---|---|---|
| Classified as properties leased for own use, carried at depreciated cost | **2,851** | 2,753 |
| Included in construction in progress | **117** | 117 |
| | **2,968** | 2,870 |

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

| | **2019** | 2018 |
|---|---|---|
| Depreciation charge of right-of-use assets for properties leased for own use | **70** | 59 |
| Interest on lease liabilities | **143** | 141 |
| Variable lease payments not included in the measurement of lease liabilities | **12** | 12 |

During the year, additions to right-of-use assets amounted to HK$134 million (2018: HK$65 million). This amount primarily related to the capitalised lease payments in respect of certain office premises payable under new tenancy agreements.

Details of total cash outflow for leased assets and the maturity analysis of lease liabilities are set out in notes 13(b) and 16 respectively.

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

| | **2019** | 2018 |
|---|---|---|
| At 1 January | **3,121** | – |
| Apportioned from investment property held for redevelopment | **–** | 3,068 |
| Addition | **407** | 150 |
| Exchange adjustment | **96** | (97) |
| At 31 December | **3,624** | 3,121 |

Properties under development for sale comprise 26 luxury apartments which are part of The Peninsula London development project. The land area of the overall site is approximately 67,000 square feet and the planned gross floor area of the apartments is approximately 119,000 square feet.

The balance of properties under development for sale will be recovered or recognised as cost of inventories after more than one year.

Reservation fees and pre-sale deposits, 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)

| | **As at 31 December 2019** | As at 31 December 2018 (restated) | As at 1 January 2018 (restated) |
|---|---|---|---|
| Share of net assets | **665** | 567 | 532 |
| Loans to a joint venture | **521** | 521 | 521 |
| | **1,186** | 1,088 | 1,053 |

(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 2018: US$117,500,000) | 50% | Hotel investment and apartments held for sale |
| PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)* | Incorporated | Turkey | TRY487,800,000 (31 December 2018: TRY288,300,000) | 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 2019 mainly comprised property under development and cash at bank and in hand of HK$843 million (2018: HK$594 million) and HK$5 million (2018: HK$3 million) respectively.*

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

(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$2,786 million) (2018: RMB2,500 million (HK$2,847 million)). As at 31 December 2019, the loan drawn down amounted to RMB953 million (HK$1,062 million) (2018: RMB1,068 million (HK$1,216 million)). The net carrying amount of these pledged assets amounted to RMB2,653 million (HK$2,957 million) (2018: RMB2,728 million (HK$3,106 million)).

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

| | **As at 31 December 2019** | As at 31 December 2018 (restated) | As at 1 January 2018 (restated) |
|---|---|---|---|
| Non-current assets | **2,410** | 2,571 | 2,847 |
| Cash at bank and in hand | **95** | 161 | 154 |
| Apartments held for sale and other current assets | **607** | 670 | 738 |
| Current liabilities | **(248)** | (383) | (355) |
| Non-current liabilities | **(2,447)** | (2,537) | (2,776) |
| **Net assets** | **417** | 482 | 608 |
| Proceeds from sale of apartments | **–** | 119 | |
| Hotel revenue and rental income | **539** | 599 | |
| | **539** | 718 | |
| Carrying value of apartments sold | **–** | (115) | |
| Hotel cost of inventories and operating expenses | **(370)** | (404) | |
| | **(370)** | (519) | |
| EBITDA | **169** | 199 | |
| Depreciation | **(98)** | (101) | |
| Net financing charges | **(60)** | (70) | |
| Profit before non-operating items | **11** | 28 | |
| Non-operating items, net of tax * | **(46)** | (75) | |
| **Loss for the year** | **(35)** | (47) | |
| **The group's share of result of PSW** | **(17)** | (23) | |

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

## 10. Interest in associates (HK$m)

| | 2019 | 2018 |
|---|---|---|
| Interest in associates | **588** | 638 |

(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$439 million (2018: HK$451 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$1,956 million) (2018: EUR224 million (HK$2,007 million)). As at 31 December 2019, the loan drawn down amounted to EUR224 million (HK$1,956 million) (2018: EUR224 million (HK$2,007 million)). As at 31 December 2019, the net carrying amount of the pledged asset amounted to EUR553 million (HK$4,828 million) (2018: EUR573 million (HK$5,133 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) (2018: US$145 million (HK$1,131 million)). As at 31 December 2019, the loan drawn down amounted to US$127 million (HK$991 million) (2018: US$130 million (HK$1,014 million)). The net carrying amount of the pledged asset amounted to US$50 million (HK$390 million) (2018: US$56 million (HK$437 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:

| | **2019** | 2018 |
|---|---|---|
| EBITDA | **173** | 207 |
| Depreciation | **(249)** | (268) |
| Interest | **(84)** | (85) |
| Net loss from continuing operations | **(160)** | (146) |
| Other comprehensive income | **–** | – |
| Total comprehensive income | **(160)** | (146) |
| **The group's share of results of the associates** | **(32)** | (29) |

## 11. Hotel operating rights (HK$m)

| | **2019** | 2018 |
|---|---|---|
| **Cost** | | |
| At 1 January | **701** | 723 |
| Exchange adjustments | **(13)** | (22) |
| At 31 December | **688** | 701 |
| **Accumulated amortisation** | | |
| At 1 January | **(171)** | (159) |
| Exchange adjustments | **1** | 2 |
| Amortisation for the year | **(13)** | (14) |
| At 31 December | **(183)** | (171) |
| Net book value | **505** | 530 |

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)

| | As at 31 December 2019 | As at 31 December 2018 | As at 1 January 2018 |
|---|---|---|---|
| Trade debtors | **300** | 319 | 285 |
| Rental deposits, payments in advance and other receivables | **409** | 379 | 448 |
| Tax recoverable | **2** | 3 | 4 |
| | **711** | 701 | 737 |

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$137 million (2018: HK$122 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:

| | 2019 | 2018 |
|---|---|---|
| Current | **263** | 278 |
| Less than one month past due | **23** | 34 |
| One to three months past due | **10** | 6 |
| More than three months but less than 12 months past due | **4** | 1 |
| Amounts past due | **37** | 41 |
| | **300** | 319 |

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

| | 2019 | 2018 |
|---|---|---|
| Interest-bearing bank deposits | **397** | 924 |
| Cash at banks and in hand | **300** | 254 |
| Total cash at banks and in hand | **697** | 1,178 |
| Less: Bank deposits with maturity of more than three months | **(17)** | (76) |
| Bank overdrafts | **–** | (4) |
| Cash and cash equivalents in the consolidated statement of cash flows | **680** | 1,098 |

Cash at banks and in hand at the end of the reporting period include amounts of HK$295 million (2018: HK$188 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) | Lease liabilities (note 16) | Derivative financial instruments | Interest payable (note 14) | Total |
|---|---|---|---|---|---|
| As at 1 January 2018 (as reported) | 7,443 | – | 4 | 9 | 7,456 |
| *Impact on initial application of HKFRS 16 (note 20)* | – | 2,996 | – | – | 2,996 |
| As at 1 January 2018 (as restated) | 7,443 | 2,996 | 4 | 9 | 10,452 |
| *Changes from financing cashflows* | | | | | |
| 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 overdrafts | (3) | – | – | – | (3) |
| Interest paid and other financing charges | – | (90) | – | (140) | (230) |
| Capital element of lease rental paid | – | (38) | – | – | (38) |
| *Changes in fair value* | | | | | |
| Effective portion of changes in fair values | – | – | 7 | – | 7 |
| *Other changes* | | | | | |
| Exchange difference | (31) | 10 | – | – | (21) |
| Financing charges | 26 | 99 | – | 44 | 169 |
| Capitalised borrowing costs | – | 42 | – | 95 | 137 |
| Capitalisation of operating leases | – | 4 | – | – | 4 |
| Transfer from equity to profit or loss | – | – | (6) | – | (6) |
| **As at 31 December 2018 and 1 January 2019 (as restated)** | **7,095** | **3,023** | **5** | **8** | **10,131** |
| ***Changes from financing cashflows*** | | | | | |
| **Drawdown of term loans** | **1,388** | **–** | **–** | **–** | **1,388** |
| **Repayment of term loans** | **(398)** | **–** | **–** | **–** | **(398)** |
| **Net decrease in revolving loans** | **(671)** | **–** | **–** | **–** | **(671)** |
| **Decrease in bank overdrafts** | **(4)** | **–** | **–** | **–** | **(4)** |
| **Interest paid and other financing charges** | **–** | **(94)** | **–** | **(135)** | **(229)** |
| **Capital element of lease rental paid** | **–** | **(51)** | **–** | **–** | **(51)** |
| ***Changes in fair value*** | | | | | |
| **Effective portion of changes in fair values** | **–** | **–** | **31** | **–** | **31** |
| ***Other changes*** | | | | | |
| **Exchange difference** | **90** | **36** | **–** | **–** | **126** |
| **Financing charges** | **24** | **101** | **–** | **29** | **154** |
| **Capitalised borrowing costs** | **–** | **42** | **–** | **106** | **148** |
| **Capitalisation of operating lease** | **–** | **92** | **–** | **–** | **92** |
| **Transfer from equity to profit or loss** | **–** | **–** | **(7)** | **–** | **(7)** |
| **As 31 December 2019** | **7,524** | **3,149** | **29** | **8** | **10,710** |

## 14. Trade and other payables (HK$m)

| | **2019** | 2018 |
|---|---|---|
| Trade creditors | **147** | 152 |
| Interest payable | **8** | 8 |
| Accruals for property, plant and equipment | **212** | 195 |
| Tenants' deposits | **361** | 367 |
| Guest deposits and gift vouchers | **228** | 158 |
| Golf membership deposits | **84** | 84 |
| Other payables | **674** | 729 |
| Financial liabilities measured at amortised cost | **1,714** | 1,693 |
| Less: Non-current portion of trade and other payables | **(234)** | (252) |
| Current portion of trade and other payables | **1,480** | 1,441 |

As at 31 December 2019, trade and other payables of the group expected to be settled or recognised as income after more than one year amounted to HK$328 million (2018: HK$346 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:

| | **2019** | 2018 |
|---|---|---|
| Less than three months | **134** | 147 |
| Three to six months | **8** | 1 |
| More than six months | **5** | 4 |
| | **147** | 152 |

## 15. Interest-bearing borrowings (HK$m)

| | 2019 | 2018 |
|---|---|---|
| Total facilities available: | | |
| Term loans and revolving credits | **14,465** | 14,127 |
| Uncommitted facilities, including bank overdrafts | **407** | 429 |
| | **14,872** | 14,556 |
| Utilised at 31 December: | | |
| Term loans and revolving credits | **7,587** | 7,170 |
| Uncommitted facilities, including bank overdrafts | **6** | 15 |
| | **7,593** | 7,185 |
| Less: Unamortised financing charges | **(69)** | (90) |
| | **7,524** | 7,095 |
| Represented by: | | |
| Long-term bank loans, repayable within one year | **1,114** | 399 |
| Short-term bank loans and overdrafts, repayable on demand | **–** | 4 |
| | **1,114** | 403 |
| Long-term bank loans, repayable: | | |
| Between one and two years | **984** | 858 |
| Between two and five years | **5,137** | 5,569 |
| Over five years | **358** | 355 |
| | **6,479** | 6,782 |
| Less: Unamortised financing charges | **(69)** | (90) |
| Non-current portion of long-term bank loans | **6,410** | 6,692 |
| **Total interest-bearing borrowings** | **7,524** | 7,095 |

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 2019 and 2018, none of the covenants relating to drawn down facilities had been breached.

## 16. Lease liabilities (HK$m)

The group is the lessee in respect of a number of properties which are leased from third party landlords. Pursuant to its accounting policy, the group capitalises the present value of the future minimum lease payments of its leased properties as right-of-use assets (note 7(c)) and the corresponding credit is recognised as lease liabilities. The group remeasures its lease liabilities at each accounting period end to reflect the interest accrued on the outstanding lease liabilities and the lease payments made.

The following table shows the remaining contractual maturities of the group's minimum lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16 (note 20):

| | **As at 31 December 2019** | As at 31 December 2018 | As at 1 January 2018 |
|---|---|---|---|
| *Carrying value* | | | |
| Current portion | **143** | 121 | 125 |
| Non-current portion | **3,006** | 2,902 | 2,871 |
| | **3,149** | 3,023 | 2,996 |
| *Contractual undiscounted cash outflow* | | | |
| Within one year | **143** | 121 | 125 |
| After one year but within two years | **142** | 112 | 107 |
| After two years but within five years | **321** | 266 | 216 |
| After five years | **13,267** | 13,220 | 13,648 |
| | **13,873** | 13,719 | 14,096 |

## 17. Share capital

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | **No. of shares (million)** | **HK$m** | **No. of shares (million)** | **HK$m** |
| **Ordinary shares, issued and fully paid:** | | | | |
| At 1 January | **1,613** | **5,509** | 1,589 | 5,224 |
| Shares issued under scrip dividend scheme *(note)* | **21** | **223** | 24 | 285 |
| At 31 December | **1,634** | **5,732** | 1,613 | 5,509 |

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 2019 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.

## 18. Commitments (HK$m)

Capital commitments outstanding as at 31 December 2019 not provided for in the financial statements were as follows:

| | **2019 Contracted for** | **2019 Authorised but not contracted for** | **2019 Total** | 2018 Contracted for | 2018 Authorised but not contracted for | 2018 Total |
|---|---|---|---|---|---|---|
| Capital commitments in respect of existing properties and new projects | **2,962** | **4,139** | **7,101** | 1,799 | 5,805 | 7,604 |
| The group's share of capital commitments of joint ventures and associates | **347** | **488** | **835** | 429 | 609 | 1,038 |
| | **3,309** | **4,627** | **7,936** | 2,228 | 6,414 | 8,642 |

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.

## 19. Non-adjusting events after the balance sheet date

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

b) The outbreak of the COVID-19 coronavirus started to significantly negatively impact the group's operations in Greater China in late January 2020, and this has now spread all over the world, affecting all of the group's global operations. Most of the group's hotels have seen substantial room cancellations and restaurant closures as a result of government travel restrictions, quarantines and lockdowns. The hotels division as well as at the Peak Complex and Peninsula Merchandising have seen a devastating revenue decline. The group is now focused on all possible operational cost containment options, as well as deferring capital spend where possible. The group continues to monitor its financial and liquidity position which remains healthy.

The unaudited revenue of the group for the two months ended 29 February 2020 was down by 21% compared to the same period in 2019. Based on the information currently available, management estimates that the group will sustain an operating loss in the first quarter of 2020, despite measures to contain costs. The actual impact may differ from these estimates as the situation continues to evolve.

## 20. Changes in accounting policies and disclosures

The HKICPA has issued a new financial reporting standard, namely, HKFRS 16, *Leases* and a number of new amendments to HKFRSs that are effective for the current accounting period of the group. Except for HKFRS 16 *Leases*, none of the developments have had a material impact on how the group's results and financial position for the current or prior periods have been prepared and presented in this financial statements.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

**HKFRS 16, *Leases***

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease.* It introduces a single accounting model for lessees, which requires lessees to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The accounting requirements for lessors, which are brought forward from HKAS 17, are substantially unchanged.

The group has initially applied HKFRS 16 on 1 January 2019 using the full retrospective approach. Accordingly, the group has recognised the cumulative effect of applying HKFRS 16 at the start of the earliest comparative period as if the accounting requirements under the new accounting standard had always been applied and restated the comparative information of the financial statements.

Further details of the nature and effect of the changes to the previous accounting policies are set out below:

**a) New definition of a lease**

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The group applies the new definition of a lease in HKFRS 16 retrospectively to all contracts except for short-term leases and leases of low-value assets.

## 20. Changes in accounting policies and disclosures *continued*

### b) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the group is concerned, these capitalised leases are primarily in relation to the group's hotels in New York and Tokyo which have lease terms of 90 years commencing in 1988 and 70 years commencing in 2015 respectively, as well as the development project in London which has a lease term of 146 years commencing in 2016.

Where a lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate at the inception of the lease. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

## 20. Changes in accounting policies and disclosures *continued*

### c) Lessor accounting

The group leases out its investment properties for rentals.

The accounting policies applicable to the group as a lessor remain substantially unchanged from those under HKAS 17. The adoption of HKFRS 16 does not have a significant impact on the group's financial statements for leases in which it acts as a lessor.

### d) Impact on the financial results, segment results and cash flows of the group

After the initial recognition of right-of-use assets and lease liabilities at the inception of the leases, the group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the EBITDA in the group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the accounting period.

In the condensed consolidated statement of cash flows, the group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a change in presentation of cash flows within the consolidated statement of cash flows.

## 20. Changes in accounting policies and disclosures *continued*

### d) Impact on the financial results, segment results and cash flows of the group *continued*

The following table reconciles the group's financial results, segment results and cash flows for the year ended 31 December 2018 as previously reported to the restated results on adoption of HKFRS 16.

| | As previously reported HK$ million | Effect of adoption of HKFRS 16 HK$ million | As restated HK$ million |
|---|---|---|---|
| *Consolidated statement of profit or loss for the corresponding year ended 31 December 2018:* | | | |
| Rent and utilities | (567) | 130 | (437) |
| EBITDA | 1,550 | 130 | 1,680 |
| Depreciation and amortisation | (542) | (59) | (601) |
| Operating profit | 1,008 | 71 | 1,079 |
| Financing charges | (70) | (99) | (169) |
| Share of result of joint ventures | (24) | 1 | (23) |
| Profit for the year | 1,242 | (27) | 1,215 |
| Profit attributable to the shareholders of the company | 1,243 | (27) | 1,216 |
| Earnings per share (HK dollar) | 0.78 | (0.02) | 0.76 |
| *Reportable segment results for the corresponding year ended 31 December 2018:* | | | |
| EBITDA | | | |
| – Hotels | 840 | 98 | 938 |
| – Commercial properties | 572 | 12 | 584 |
| – Clubs and services | 138 | 20 | 158 |
| Depreciation and amortisation | | | |
| – Hotels | (492) | (39) | (531) |
| – Commercial properties | (12) | (7) | (19) |
| – Clubs and services | (38) | (13) | (51) |
| *Consolidated statement of cash flows for the corresponding year ended 31 December 2018:* | | | |
| Net cash generated from operating activities | 1,243 | 128 | 1,371 |
| Capital element of lease rentals paid | – | (38) | (38) |
| Interest element of lease rentals paid | – | (90) | (90) |
| Net cash used in financing activities | (337) | (128) | (465) |

## 20. Changes in accounting policies and disclosures *continued*

### e) Impact on the consolidated statement of financial position of the group

The following table summarises the impact of the adoption of HKFRS 16 on the group's financial positions as at 1 January 2018 and 31 December 2018.

| | As previously reported HK$ million | Effect of adoption of HKFRS 16 HK$ million | As restated HK$ million |
|---|---|---|---|
| *Consolidated statement of financial position as at 31 December 2018:* | | | |
| Other properties, plant and equipment | 8,452 | 2,747 | 11,199 |
| Interest in joint ventures | 1,089 | (1) | 1,088 |
| Trade and other receivables | 715 | (14) | 701 |
| Lease liabilities – current | – | (121) | (121) |
| Lease liabilities – non-current | – | (2,902) | (2,902) |
| Deferred tax liabilities | (672) | 14 | (658) |
| Exchange and other reserves | 362 | 1 | 363 |
| Retained profits | (33,810) | 276 | (33,534) |
| *Consolidated statement of financial position as at 1 January 2018:* | | | |
| Other properties, plant and equipment | 7,106 | 2,749 | 9,855 |
| Interest in joint ventures | 1,055 | (2) | 1,053 |
| Trade and other receivables | 750 | (13) | 737 |
| Lease liabilities - current | - | (125) | (125) |
| Lease liabilities - non-current | - | (2,871) | (2,871) |
| Deferred tax liabilities | (659) | 13 | (646) |
| Retained profits | (32,902) | 249 | (32,653) |

# OTHER CORPORATE INFORMATION

## Corporate governance

Good corporate governance sustains 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 2019 Annual Report sets out the commitment of the Board of Directors and senior management to high standards of corporate governance, and the group's corporate governance framework which supports the development of strong governance culture throughout the group.

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 2019, 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 set out 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 2019 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 has been prepared in accordance with the December 2019 updated "comply or explain" provisions in the Stock Exchange's Environmental, Social and Governance Reporting Guide (ESG Guide) and 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), Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Transparency Board (SASB). KPMG was commissioned to conduct assurance and to provide an independent opinion on the identified elements of the CRS Report in accordance with the updated ESG Guide. The CRS Report is available on the websites of the company and the Stock Exchange together with the 2019 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 2019.

## 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 2019. 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 2019.

## Final dividend

The Board has recommended a final dividend of 9 HK cents per share (2018: 16 HK cents per share) for the year ended 31 December 2019. Subject to the approval by shareholders at the forthcoming Annual General Meeting (AGM), such dividend will be payable on 29 June 2020 to shareholders whose names appear on the register of members on 22 May 2020.

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 27 May 2020.

## 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 8 May 2020 |
| Closure of register of members | 11 May to 14 May 2020<br>(both days inclusive) |
| Record date | 14 May 2020 |
| AGM | 14 May 2020 |

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

| | |
|---|---|
| Latest time to lodge transfer documents | 4:30pm on 19 May 2020 |
| Closure of register of members | 20 May to 22 May 2020<br>(both days inclusive) |
| Record date | 22 May 2020 |
| Deadline for return of scrip dividend election forms | 4:30pm on 16 June 2020 |
| Final dividend payment date | 29 June 2020 |

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 14 May 2020 at 12 noon. The Notice of AGM and 2019 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 3 April 2020.

By Order of the Board
**Christobelle Liao**
*Company Secretary*

Hong Kong, 17 March 2020

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