

CELEBRATING  
THE PENINSULA  
90 YEARS OF  
LUXURY HOSPITALITY



THE HONGKONG AND SHANGHAI HOTELS, LIMITED

ANNUAL REPORT 2018

Stock Code: 00045

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

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

The objective of our approach is to provide a connected view of the different aspects of our performance by publishing this Annual Report and a separate Corporate Responsibility and Sustainability Report to highlight our vision, strategy and our achievements in 2018. Together with our company's website, the two reports enable our stakeholders to have a more informed assessment of our company.

Our integrated approach encapsulates a number of different reference guidelines, including the International Integrated Reporting Framework published by the International Integrated Reporting Council, The Stock Exchange of Hong Kong Limited's (HKEx) Environmental, Social and Governance



Reporting Guide, the Hong Kong Institute of Certified Public Accountants' (HKICPA) approach on corporate governance disclosure, and the Global Reporting Initiative Sustainability Reporting Guidelines.

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

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



# Contents

## Accomplishments and Results 2018

6	Company at a Glance
10	2018 Highlights
18	Financial Highlights
19	Non-Financial Highlights
20	Financial Review Summary
22	Ten Year Operating Statistics
23	Ten Year Financial Summary
24	Letter from the Chairman
28	CEO's Strategic Review
39	Operational Review
72	Financial Review

## Creating Stakeholder Value

90	The Peninsula Hong Kong – 90 Years of Luxury Hospitality
98	Our People – The Heart and Soul of Our Company
108	Our Cities – A Masterpiece in the Art of Hospitality
112	Our Guests – A New Age of Innovation
116	Engaging Our Stakeholders
118	Awards in 2018



## Governance

124	Chairman's Governance Overview
126	Our Leadership — Board Members
132	Our Leadership — Senior Management and Key Functions
134	Our Leadership — Diversity
136	Corporate Governance Report
154	Group Risk Committee Report
162	Group Corporate Responsibility Committee Report
164	Audit Committee Report
166	Nomination Committee Report
168	Remuneration Committee Report
172	Directors' Report

## Financial and Sustainability Data Statements

180	Independent Auditor's Report
185	Financial Statements
252	Independent Assurance Report
254	Sustainability Data Statements

## Additional Information

256	Glossary
258	Shareholder Information
259	Reservations and Contact Addresses

90



98



108



112

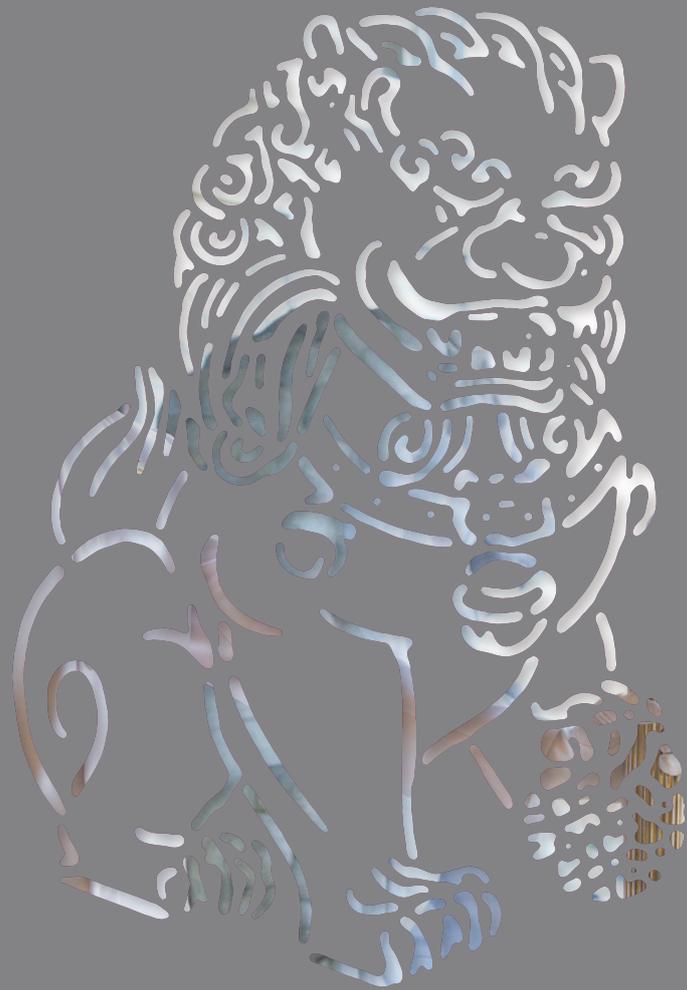




## Accomplishments and Results 2018

6	Company at a Glance
10	2018 Highlights
18	Financial Highlights
19	Non-Financial Highlights
20	Financial Review Summary
22	Ten Year Operating Statistics
23	Ten Year Financial Summary
24	Letter from the Chairman
28	CEO's Strategic Review
39	Operational Review
72	Financial Review







## The Peninsula Door Lions

Chinese door lions are believed to have powerful mythic protective powers, and traditionally stood in front of Chinese Imperial palaces and temples. The door lions always appear as a pair, one male and one female, sitting on each side of doorways or entrances. The lion and the lioness must be placed on the correct side of the entrance to ensure *feng shui* harmony. The Peninsula Hong Kong was the first hotel in Asia to adopt the idea of having the Chinese door lions at its grand entrance and today the tradition continues with the entrances to all Peninsula hotels guarded by these traditional architectural ornaments.

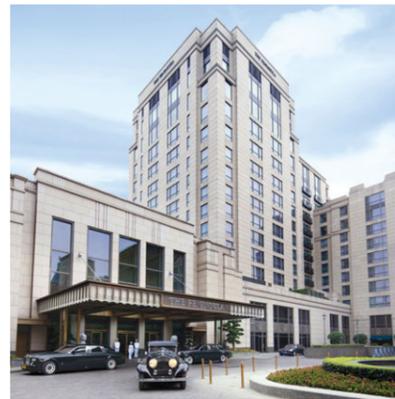


# COMPANY AT A GLANCE

## HOTELS



The Peninsula Hong Kong  
Established: 1928  
Rooms: 300 Ownership: 100%



The Peninsula Shanghai  
Established: 2009  
Rooms: 235 Ownership: 50%



The Peninsula Beijing  
Established: 1989  
Rooms: 230 Ownership: 76.6%



The Peninsula Tokyo  
Established: 2007  
Rooms: 314 Ownership: 100%



The Peninsula Bangkok  
Established: 1998  
Rooms: 370 Ownership: 50%



The Peninsula Manila  
Established: 1976  
Rooms: 469 Ownership: 77.4%



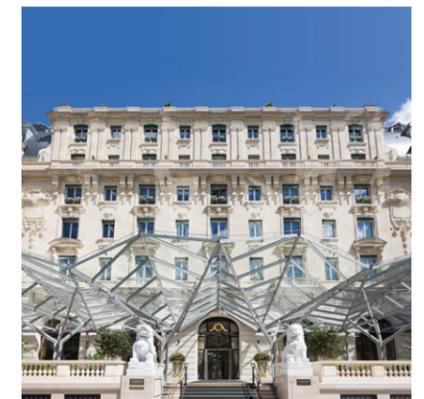
The Peninsula New York  
Established: 1988  
Rooms: 235 Ownership: 100%



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



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



The Peninsula Paris  
Established: 2014  
Rooms: 200 Ownership: 20%



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

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

## Company at a Glance

### COMMERCIAL PROPERTIES



The Repulse Bay  
Hong Kong (residential and arcade)  
Established: 1976 & 1989  
GFA: 1,058,455 sq. ft. Ownership: 100%



The Peninsula Office Tower  
Hong Kong  
Established: 1994  
GFA: 75,082 sq. ft. Ownership: 100%



The Peak Tower  
Hong Kong (retail)  
Established: 1996  
GFA: 116,768 sq. ft. Ownership: 100%



21 avenue Kléber  
Paris, France (office and retail)  
Acquired: 2013  
GFA: 44,218 sq. ft. Ownership: 100%



St. John's Building  
Hong Kong (office)  
Established: 1983  
GFA: 71,400 sq. ft. Ownership: 100%



The Landmark  
Ho Chi Minh City, Vietnam  
(office and residential)  
Established: 1994  
GFA: 175,903 sq. ft. Ownership: 70%

## CLUBS AND SERVICES



The Peak Tram  
 Hong Kong  
 Established: 1888  
 Ownership: 100%



Thai Country Club  
 Bangkok, Thailand  
 Established: 1996  
 Ownership: 50%



Quail Lodge & Golf Club  
 Carmel, USA  
 Acquired: 1997  
 Ownership: 100%



Peninsula Clubs and  
 Consultancy Services  
 Established: 1977  
 Ownership: 100%



Peninsula Merchandising  
 Established: 2003  
 Ownership: 100%



Tai Pan Laundry  
 Hong Kong  
 Established: 1980  
 Ownership: 100%

## PROJECTS UNDER DEVELOPMENT



The Peninsula London  
 Ownership : 100%



The Peninsula Istanbul  
 Ownership : 50%



The Peninsula Yangon  
 Ownership : 70%

## 2018 HIGHLIGHTS



With 130 years of service as one of the most popular tourist attractions in Hong Kong, we were delighted to receive approval from the Hong Kong Government to extend the operating right of **The Peak Tram** by 10 years from 2026 to 2035, paving the way for the HK\$684 million upgrade project to begin, which will create a more exciting and comfortable experience for Peak Tram visitors. 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.



The construction of **The Peninsula London** made good progress in 2018. Hoardings with Peninsula branding and historical information were constructed to introduce the Peninsula brand to the local community. The Topping-Out ceremony will be held in June 2019.



## 2018 Highlights

Our **2017 annual report** was awarded Best of Show – *World's Best Annual Report*, the highest honour granted by The International ARC Awards Competition, along with 5 Grand Awards, 12 Gold Awards, 6 Silver Awards and 2 Bronze Awards. The annual report was also recognised by the Hong Kong Institute of Certified Public Accountants and Hong Kong Management Association with Platinum and Bronze awards respectively.



In June 2018, **Peninsula Merchandising** launched A Journey to Treasure, a pop-up exhibition celebrating The Peninsula Boutique's wonderful collection of gourmet and lifestyle gifts, at The Peninsula Hong Kong. The event was well attended by media friends, socialites, influencers and our VIP guests.



Z Bar, the new rooftop lounge at **The Peninsula Chicago**, opened on June 18 to an unrivalled mix of flavours, sights and sounds from Chicago and around the globe. The name “Z Bar” is a tribute to Maria Zec, The Peninsula Hotels’ first-ever female general manager, and General Manager of The Peninsula Chicago for the past 17 years.



**The Peninsula Beijing** achieved a “good” Building Research Establishment Environmental Assessment Method (BREEAM) certification, the first in Beijing for a newly renovated hotel.

## 2018 Highlights



We celebrated **The Peninsula Hong Kong's 90<sup>th</sup> anniversary** with an exciting array of events and initiatives. In October 2018, The Peninsula Yacht was launched for guests to hire for private events or cruises with the backdrop of stunning views of Victoria Harbour – one of the world's most iconic destinations. From April to October, we reintroduced The Afternoon Tea Dance, once a famed afternoon ritual in The Lobby, as part of the celebration. Throughout 2018, we were delighted to have the honour of presenting nine paintings and five sculptures by internationally renowned Colombian artist Fernando Botero for guests to appreciate and enjoy at their leisure.



In collaboration with SRI International (Stanford Research Institute), we launched **Kaleidoscope Lab**, a 12-week mentorship-driven ignition programme for startups, the first of its kind in the luxury hospitality sector. The programme aims to discover, nurture and accelerate new innovation.



We implemented a **ban on plastic straws** in November 2018 in our operations around the world. This is a first step in the company's global approach to transition away from single-use plastics, including water bottles, packaging and bathroom amenities by 2020.

## 2018 Highlights



The year 2018 marked the 20<sup>th</sup> anniversary of **The Peninsula Bangkok**. We offered 20 curated and unique experiences that were designed to offer deeply immersive and authentic adventures in Bangkok.

We celebrated **The Peninsula New York's 30<sup>th</sup> anniversary** with a unique art exhibition of original works from prominent 1980s artists including Andy Warhol, Francesco Clemente, Keith Haring, Jean-Michel Basquiat, Barbara Kreuger and Michael Halsband.

# FINANCIAL HIGHLIGHTS

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

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

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

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

ΔΔ Cash interest cover is calculated based on EBITDA divided by net interest paid.

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

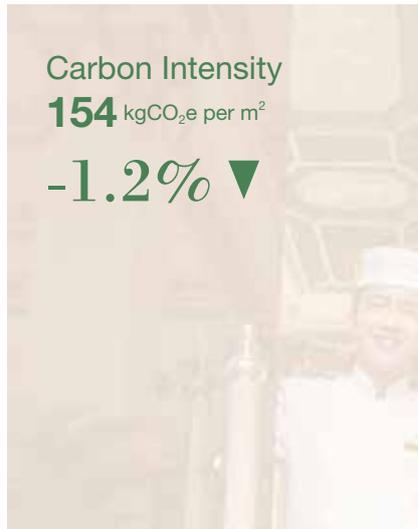
## Being EBITDA less tax paid and net interest paid as a percentage of net debt.

pp Denotes percentage points.

# NON-FINANCIAL HIGHLIGHTS



**Energy Intensity**  
**1,325** MJ per m<sup>2</sup>  
**-0.1% ▼**



**Carbon Intensity**  
**154** kgCO<sub>2</sub>e per m<sup>2</sup>  
**-1.2% ▼**



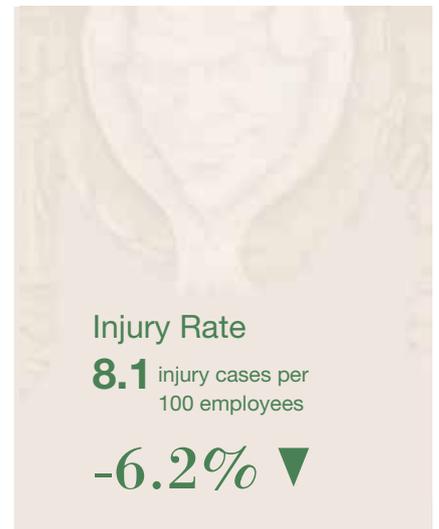
**Water Intensity**  
 (Hotels Division)  
**1,075** litres per guest night  
**-2.3% ▼**



**Water Intensity**  
 (Commercial Properties Division)  
**1,131** litres per m<sup>2</sup>  
**-7.8% ▼**



**Waste Diverted**  
**50.8%**  
**+3.3pp ▲**



**Injury Rate**  
**8.1** injury cases per 100 employees  
**-6.2% ▼**



**Lost Day Rate**  
**58.7** lost days per 100 employees\*\*  
**+23.7% ▲**



**Total Staff Turnover**  
 (voluntary)  
**18.5%**  
**+1.1pp ▲**



**Total Service Hours**  
 (since 2013)  
**90,883** hours

\* Percentage change refers to year-on-year movement and green text indicates improvement. More details can be read in the sustainability data statements on page 254 or the online 2018 Corporate Responsibility and Sustainability Report.

\*\* For easier reference, this means 0.587 lost days per employee in a year; lost day rate increased due to several long-term injury cases carried over from 2017 and prolonged injury cases of staff in 2018.

# FINANCIAL REVIEW SUMMARY

## 1 Earnings Before Interest, Taxation, Depreciation and Amortisation (“EBITDA”)

The group's EBITDA and combined EBITDA, including the group's effective share of EBITDA of associates and joint venture, increased by 9% and 6% to HK\$1,550 million and HK\$1,680 million respectively. The group's combined EBITDA margin remained flat at 25%.

The breakdown of EBITDA by business segment and by geographical segment is set out on pages 76 and 77 of the Financial Review.

## 2 Revenue

The group's consolidated revenue and combined revenue, including the group's effective share of revenue of associates and joint venture, both increased by 7% to HK\$6,214 million and HK\$6,753 million respectively.

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

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

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

Details of the operating performances of the Group's individual operations are set out on pages 39 to 67 of the Operational Review.

## Consolidated Statement of Financial Position at 1.1.2018

	HK\$m
<b>Net assets</b>	
Fixed assets	43,355
Other long-term investments	2,318
Deferred tax assets	38
Cash at banks and in hand	1,922
Other current assets	887
	<b>48,520</b>
Bank overdrafts	(7)
Bank borrowings	(7,436)
Derivative financial instruments	(4)
Deferred tax liabilities	(659)
Other liabilities	(1,712)
	<b>38,702</b>
<b>Capital and reserves</b>	
Share capital	5,224
Retained profits	32,902
Hedging, exchange and other reserves	49
	<b>38,175</b>
Non-controlling interests	527
	<b>38,702</b>

## Consolidated Statement of Cash Flows for the year ended 31.12.2018

	HK\$m
<b>1 EBITDA</b>	<b>1,550</b>
Changes in other working capital	26
Tax payment	(193)
Capital expenditure on existing assets	(426)
Capital expenditure on new projects and investments	(1,208)
Cash injected from a non-controlling shareholder	28
Distribution from an associate	6
Net financing charges and dividends paid	(176)
Net decrease in bank borrowings	(340)
Net withdrawal of interest-bearing bank deposits with maturity of more than three months	179
Net cash outflow for the year	<b>(554)</b>
Cash at banks and in hand	<b>1,922</b>
Less: Bank deposits maturing more than 3 months	(255)
Less: Bank overdrafts	(7)
Cash & cash equivalents at 1.1.2018	<b>1,660</b>
Effect of changes in exchange rates	(8)
Cash & cash equivalents at 31.12.2018*	<b>1,098</b>
* Representing:	
Cash at banks and in hand	1,178
Bank deposits maturing more than 3 months	(76)
Bank overdrafts	(4)
	<b>1,098</b>

## Consolidated Statement of profit or loss for the year ended 31.12.2018

	HK\$m
<b>2 Revenue</b>	<b>6,214</b>
Operating costs before depreciation and amortisation	(4,664)
EBITDA	<b>1,550</b>
Depreciation and amortisation	(542)
Operating profit	<b>1,008</b>
Net financing charges	(52)
Profit after net financing charges	<b>956</b>
<b>3 Share of result of a joint venture</b>	<b>(24)</b>
<b>4 Share of results of associates</b>	<b>(29)</b>
<b>5 Increase in fair value of investment properties</b>	<b>523</b>
Taxation	(184)
Non-controlling interests	1
Profit attributable to shareholders	<b>1,243</b>

## Consolidated Retained Profits for the year ended 31.12.2018

	HK\$m
Retained profits at 1.1.2018	<b>32,902</b>
Profit attributable to shareholders for the year	<b>1,243</b>
Dividends distributed during the year	(335)
Retained profits at 31.12.2018	<b>33,810</b>

## Consolidated Statement of Financial Position at 31.12.2018

	HK\$m
<b>Net assets</b>	
Fixed assets	41,529
Properties under development for sale	3,121
Other long-term investments	2,257
Deferred tax assets	49
Cash at banks and in hand	1,178
Other current assets	858
	<b>48,992</b>
Bank overdrafts	(4)
Bank borrowings	(7,091)
Derivative financial instruments	(7)
Deferred tax liabilities	(672)
Other liabilities	(1,741)
	<b>39,477</b>
<b>Capital and reserves</b>	
Share capital	5,509
Retained profits	33,810
Hedging, exchange and other reserves	(378)
	<b>38,941</b>
Non-controlling interests	536
	<b>39,477</b>

## Underlying profit attributable to shareholders for the year ended 31.12.2018

	HK\$m
Profit attributable to shareholders	<b>1,243</b>
Non-operating and non-recurring items	(478)
<b>6 Underlying profit</b>	<b>765</b>

## 3 Share of Result of a Joint Venture

The group has a 50% interest in The Peninsula Shanghai (PSH). PSH remained the market leader in terms of average room rate and RevPAR in 2018 and generated a profit before tax of HK\$27 million. However, PSH's profit was fully offset by the unrealised loss on revaluation of the hotel commercial arcade amounting to HK\$75 million, resulting in a reported loss of HK\$48 million of which the group's share of loss amounted to HK\$24 million.

## 4 Share of Results of Associates

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

## 5 Increase in Fair Value of Investment Properties

The group states its investment properties at fair value and gain or loss arising from the change in fair value of investment properties is recognised in the consolidated statement of profit or loss. The year end revaluation of the group's investment properties has resulted in a non-operating gain of HK\$523 million, principally attributable to the increase in the appraised market value of The Repulse Bay Complex, The Peninsula Office Tower, the shopping arcade at The Peninsula Hong Kong, The Peak Tower and St. John's Building.

## 6 Underlying Profit

To provide additional insight into the performance of its business operations, the group presents underlying profit by excluding non-operating items such as any change in fair value of investment properties. Details of the reconciliation from reported profit to underlying profit are set out on page 73 of the Financial Review.

# TEN YEAR OPERATING STATISTICS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>a) The Peninsula Hotels (Note 1)</b>										
<b>Hong Kong</b>										
Occupancy rate	<b>70%</b>	75%	72%	73%	75%	72%	79%	74%	70%	57%
Average room rate (HK\$)	<b>5,845</b>	4,875	4,843	4,760	5,144	5,170	5,133	4,503	4,197	4,176
RevPAR (HK\$)	<b>4,082</b>	3,659	3,473	3,477	3,870	3,731	4,072	3,347	2,926	2,401
<b>Other Asia (excluding Hong Kong) (Note 2)</b>										
Occupancy rate	<b>73%</b>	68%	67%	70%	65%	66%	63%	57%	58%	48%
Average room rate (HK\$)	<b>2,694</b>	2,661	2,599	2,265	2,146	2,065	2,179	2,156	2,100	1,904
RevPAR (HK\$)	<b>1,966</b>	1,802	1,753	1,581	1,390	1,361	1,367	1,221	1,214	920
<b>United States of America and Europe</b>										
Occupancy rate	<b>72%</b>	70%	71%	68%	74%	74%	72%	69%	65%	59%
Average room rate (HK\$)	<b>5,997</b>	5,861	5,625	5,807	5,471	4,858	4,627	4,550	4,403	4,292
RevPAR (HK\$)	<b>4,333</b>	4,130	3,993	3,962	4,059	3,573	3,346	3,135	2,856	2,511
<b>b) Residential (Notes 1 &amp; 3)</b>										
Occupancy rate	<b>95%</b>	94%	91%	93%	85%	89%	92%	91%	92%	88%
Average monthly yield per square foot (HK\$)	<b>46</b>	46	45	45	42	42	41	38	36	37
<b>c) Shopping Arcades (Notes 1 &amp; 4)</b>										
Occupancy rate	<b>87%</b>	89%	93%	95%	97%	99%	99%	97%	96%	95%
Average monthly yield per square foot (HK\$)	<b>169</b>	174	184	202	206	191	179	168	153	168
<b>d) Offices (Notes 1 &amp; 3)</b>										
Occupancy rate	<b>99%</b>	95%	100%	99%	97%	92%	96%	100%	98%	91%
Average monthly yield per square foot (HK\$)	<b>62</b>	55	56	55	52	48	45	45	42	36
<b>e) Peak Tram</b>										
Patronage ('000)	<b>6,050</b>	6,179	6,259	6,359	6,325	6,272	5,918	5,777	5,385	4,862
Average fare (HK\$)	<b>23</b>	20	19	19	19	19	19	19	17	16
<b>f) Full Time Headcount (as at 31 December)</b>										
Hotels	<b>6,148</b>	6,123	6,121	6,201	6,308	5,878	5,617	5,475	5,444	5,489
Commercial Properties	<b>358</b>	359	360	363	362	347	333	323	331	339
Clubs and Services	<b>1,088</b>	1,052	993	1,318	1,317	1,325	1,260	1,224	1,180	998
Total headcount	<b>7,594</b>	7,534	7,474	7,882	7,987	7,550	7,210	7,022	6,955	6,826

## Notes:

- Occupancy rates, average room rates, RevPAR and average monthly yield per square foot are weighted averages in each grouping.
- The saleable inventory in The Peninsula Beijing was reduced from the start of 2015 to Aug 2017 for renovation, impacting Occupancy Rate and RevPAR.
- The operating statistics for residential and offices do not include information for operations that are not consolidated or whose results are not material in the group context, being The Landmark, Vietnam; The Peninsula Residences, Shanghai; 21 avenue Kléber, Paris; and 1-5 Grosvenor Place, London (demolished in 2017).
- The group's most significant shopping arcades are located in The Peninsula hotels in Hong Kong, Shanghai, Beijing, New York, as well as The Repulse Bay Complex and The Peak Tower.

# TEN YEAR FINANCIAL SUMMARY

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Consolidated Statement of Profit or Loss (HK\$m)</b>										
Revenue	<b>6,214</b>	5,782	5,631	5,741	5,838	5,508	5,178	5,009	4,707	4,218
EBITDA	<b>1,550</b>	1,422	1,288	1,440	1,528	1,306	1,201	1,211	1,143	924
Operating profit	<b>1,008</b>	919	824	1,014	1,105	911	817	834	794	586
Profit attributable to shareholders	<b>1,243</b>	1,155	675	1,000	1,146	1,712	1,555	2,259	3,008	2,660
Earnings per share (HK\$)	<b>0.78</b>	0.73	0.43	0.65	0.76	1.14	1.04	1.52	2.04	1.82
Underlying profit*	<b>765</b>	801	646	716	980	511	439	464	408	323
Dividends	<b>338</b>	318	297	308	349	240	210	208	177	132
Dividends per share (HK cents)	<b>21</b>	20	19	20	23	16	14	14	12	9
Dividend cover (times)	<b>2.3x</b>	2.5x	2.2x	2.3x	2.8x	2.1x	2.1x	2.2x	2.3x	2.4x
Interest cover (times)	<b>19.4x</b>	10.6x	8.6x	14.9x	16.7x	9.7x	9.6x	9.5x	7.4x	6.8x
Cash interest cover (times)	<b>12.8x</b>	11.9x	13.8x	21.2x	25.5x	11.5x	16.9x	13.8x	9.9x	7.5x
Weighted average gross interest rate	<b>2.3%</b>	2.2%	2.1%	2.2%	2.3%	2.9%	3.2%	3.1%	3.2%	3.2%
<b>Consolidated Statement of Financial Position (HK\$m)</b>										
Total assets	<b>48,992</b>	48,520	45,870	45,089	43,982	43,144	39,807	38,233	36,587	32,872
Total liabilities	<b>(9,515)</b>	(9,818)	(9,296)	(8,429)	(7,831)	(7,770)	(6,368)	(6,490)	(6,498)	(5,817)
Non-controlling interests	<b>(536)</b>	(527)	(215)	(233)	(250)	(269)	(289)	(283)	(981)	(908)
Audited net assets attributable to shareholders	<b>38,941</b>	38,175	36,359	36,427	35,901	35,105	33,150	31,460	29,108	26,147
Adjusted net assets attributable to shareholders	<b>42,688</b>	41,725	39,711	39,627	39,496	38,486	36,396	34,708	31,893	28,571
Audited net assets per share (HK\$)	<b>24.14</b>	24.02	23.20	23.61	23.67	23.37	22.07	21.11	19.67	17.79
Adjusted net assets per share (HK\$)	<b>26.46</b>	26.26	25.34	25.68	26.04	25.62	24.23	23.29	21.55	19.44
Net borrowings	<b>(5,917)</b>	(5,521)	(4,911)	(3,273)	(3,004)	(3,992)	(1,989)	(2,335)	(1,674)	(1,990)
Funds from operations to net debt	<b>21%</b>	21%	22%	35%	44%	28%	48%	42%	52%	33%
Net debt to equity attributable to shareholders	<b>15%</b>	14%	14%	9%	8%	11%	6%	7%	6%	8%
Net debt to total assets	<b>12%</b>	11%	11%	7%	7%	9%	5%	6%	5%	6%
<b>Consolidated Statement of Cash Flows (HK\$m)</b>										
Net cash generated from operating activities before taxation	<b>1,436</b>	1,369	1,312	1,444	1,589	1,401	1,133	1,145	1,173	904
Capital expenditure on existing assets	<b>(426)</b>	(601)	(1,000)	(476)	(370)	(928)	(875)	(312)	(276)	(269)
New projects and investments	<b>(1,208)</b>	(1,097)	(1,580)	(916)	(39)	(2,293)	–	(578)	–	(1,157)
<b>Share Information (HK\$)</b>										
Highest share price	<b>13.48</b>	17.12	9.49	12.20	12.60	14.20	11.92	14.74	14.90	11.98
Lowest share price	<b>10.00</b>	8.27	7.15	8.00	10.08	10.38	8.63	8.10	10.32	4.26
Year end closing share price	<b>11.10</b>	11.60	8.60	8.64	11.50	10.52	10.82	8.61	13.32	11.36

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

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

- 1 Underlying profit
- 2 Dividend cover
- 3 Interest cover and cash interest cover
- 4 Adjusted net assets attributable to shareholders and adjusted net assets per share
- 5 Funds from operations to net debt

## LETTER FROM THE CHAIRMAN



**The Hon. Sir Michael Kadoorie**  
Chairman

**“It is this continuity of management, uncompromising standards of integrity, commitment to quality, and belief in the long term that underpins our success.”**

Dear Shareholders,

Having been established in 1866, The Hongkong and Shanghai Hotels, Limited has an impressive heritage as the oldest Hong Kong registered company still active today, and we believe it is also the world's oldest hotel group that has remained in continuous operation. It is this continuity of management, uncompromising standards of integrity, commitment to quality, and belief in the long term that underpins our success. We are proud of the value the group has delivered over more than a century and a half – to our shareholders, employees, guests, and to the cities and communities in which we operate around the world. We are committed to preserving and improving our assets for future generations. This philosophy forms the basis of our investment and sustainability strategy as one of the world's finest luxury hospitality brands.

In 2018, the year under review, our commitment to the long term remains steadfast, reflecting our vision to own and operate a small group of the world's best hotels and commercial properties. We continually invest in our people and training to ensure that the service we deliver is exemplary. I am pleased that the Peninsula continues to be recognised as one of the finest luxury hotel brands in the world, with a history dating back 90 years to 1928 when The Peninsula Hong Kong first opened its doors. In February 2019, all ten Peninsula hotels were awarded Forbes Five-Star ratings. We believe we are the only hotel group in the world to achieve this for all of its hotels.

During the year, many of our key markets experienced uncertainty and, as always, we faced strong competition in the luxury sector. To remain competitive, we continually evaluate how to better serve our guests and to improve their experience. We seek to respond quickly to new demands and expectations, using data to our advantage, and managing actual and potential risks.

Today's true luxury is time. We are working to improve the entire guest journey from reservation to checkout and even beyond the walls of our hotel. We invest in technology and enhanced services to ensure the guest's stay with us is seamless, giving back precious hours. In 2018, we launched a new Kaleidoscope Lab programme to attract innovative startups and bring new technology ideas into our group.

Unfortunately, in the world of increasing digitisation and high-tech convenience, we face increasing threats from cybersecurity and this remains a key concern of the Board. More details about our approach to risk management can be read on pages 154 to 161.

## Letter from the Chairman



I am delighted to report that in 2018 our Group's performance was strong and we delivered a pleasing set of results in the face of intense competition in many of our key markets. The Financial Statements can be viewed on page 185 to 251.

In our home market of Hong Kong, the city had a robust year for overnight tourist arrivals and the market for luxury retail stabilised, which is reflected in the pleasing results of The Peninsula Hong Kong. In October, we received approval from the Chief Executive in Council for an additional ten-year operating right for the Peak Tram, paving the way for the HK\$684 million upgrade project, which will greatly benefit visitors to Hong Kong and its international image.

We continue to make good progress with the development and construction of our Peninsula hotel projects in London, Yangon and Istanbul. More details can be read on page 68. Construction is well under way in London and we expect to have a topping-out ceremony by mid-2019.

It is important to us that our company has a positive influence in the local communities in which we operate, and we have outlined our social and environmental performance and the impact of our businesses in our Corporate Responsibility and Sustainability Report. One significant highlight was the banning of plastic straws in our global operations from 1 November 2018, which is a further step in our journey towards eliminating waste and single-use plastics.

I am proud that The Peninsula Hotels are among the most admired in luxury hospitality. I attribute much of this to the steadfast leadership within the company, a commitment to the long term and the passion and hard work of all our staff, who are the company's most valuable assets. On behalf of the Board, I would like to express my deep appreciation and heartfelt thanks for the leadership of Clement Kwok and his management team, and for the hard work and dedication of the entire Group for their efforts in delivering a truly world-class service for our guests.

From generation to generation, we preserve for the future a unique heritage that has become synonymous with our company legacy, and I sincerely thank you, our shareholders, for your contribution to this journey.

The Hon. Sir Michael Kadoorie  
14 March 2019

## CEO'S STRATEGIC REVIEW



**Clement K.M. Kwok**  
Chief Executive Officer

## Our heritage, vision and development strategy

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

Whilst we have witnessed profound political and economic changes over this long period both in our home market of Hong Kong and around the world, our company remains steadfast in our key philosophies and values which are:

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

These values distil into a simple vision for us, which has not changed in the 17 years that I have been CEO of this group: *to develop, own and operate a small number of the highest quality hotels which we believe are considered to be amongst the finest in the world.*

Having ownership or part-ownership of each hotel is an important part of our strategy and allows us to maintain control or joint control over the design, quality, operations and capital spending in our hotels. We are therefore not willing to undertake hotels on a management contract-only basis without ownership. By taking such a long-term view and by maintaining and enhancing the quality of our assets and operations, we seek to create significant value for our shareholders from the long-term appreciation in the capital value of our properties, as well as from the increasing operating yield as each property grows its income over time.

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



## CEO's Strategic Review

### Business overview

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

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

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

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

With the objective of diversifying our revenue sources and increasing brand recognition in markets where we do not operate a Peninsula hotel, we established Peninsula

Merchandising Limited which is included in our clubs and services division. This subsidiary develops and distributes Peninsula-branded merchandise including the famous Peninsula Mooncakes, as well as artisanal chocolates and high-quality tea. We operate Peninsula Boutiques in key gateway cities in Asia and the US, including boutiques at Hong Kong International Airport and several Peninsula hotels. A selection of merchandise is also available for purchase online and delivery in Hong Kong, Japan and Taiwan.

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

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

More details about the business performance of each operation and project can be read in the Operational Review on pages 39 to 70.

### Financial results and financial planning

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

We create significant long-term value for our shareholders from the long-term appreciation in capital value of our properties, as well as from the increasing operating yield as the income from our assets continue to grow over time. The best example of this is our flagship property, The Peninsula Hong Kong, which in 1928 was built for what was regarded in those days as an enormous sum of HK\$3 million and today is valued at more than HK\$12 billion.



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

We are currently investing for the future and our focus for the next few years will be on the successful delivery of our new Peninsula hotel developments in London, Istanbul and Yangon as well as the Peak Tram upgrade project. With the significant capital commitments that these projects entail, we continue to carefully monitor our company's financial position. We have a strong treasury management strategy and a proactive approach is taken to forecasting future funding requirements. We maintain sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to ensure funds are available to finance our growth and development. Our net debt to total assets ratio is currently 12%, which we believe to be comfortable taking into account the expected financial obligations of our new developments.

I am pleased that we have been able to achieve a good set of financial results for 2018. The company's combined EBITDA, including the group's effective share of EBITDA of our associates and joint ventures, increased

by 6% from the previous year to HK\$1,680 million. The company's net profit attributable to shareholders increased by 8% from the previous year to HK\$1,243 million, inclusive of the revaluation gain on the group's investment properties of HK\$523 million (2017: HK\$609 million). Our underlying earnings amounted to HK\$765 million compared to HK\$801 million in 2017, inclusive of the group's share of gain of apartment sales from our joint venture in Shanghai of HK\$25 million (2017: HK\$150 million). Excluding the company's share of realised gain on apartments, our underlying earnings increased by 14% from the previous year to HK\$740 million.

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

More details can be read in the Financial Review on page 72.

## CEO's Strategic Review

### Driving business

We believe the fundamentals of luxury hospitality do not change over time. In addition to the beautiful décor, large spaces and elegant design of Peninsula hotel guestrooms and the specifications and attention to detail of both our front of house and back of house facilities, we seek to provide our guests a high level of personalised service, attention to detail, graciousness, and warm hospitality. We receive significant recognition and accolades for our services from prestigious publications and organisations (see Awards, page 118).

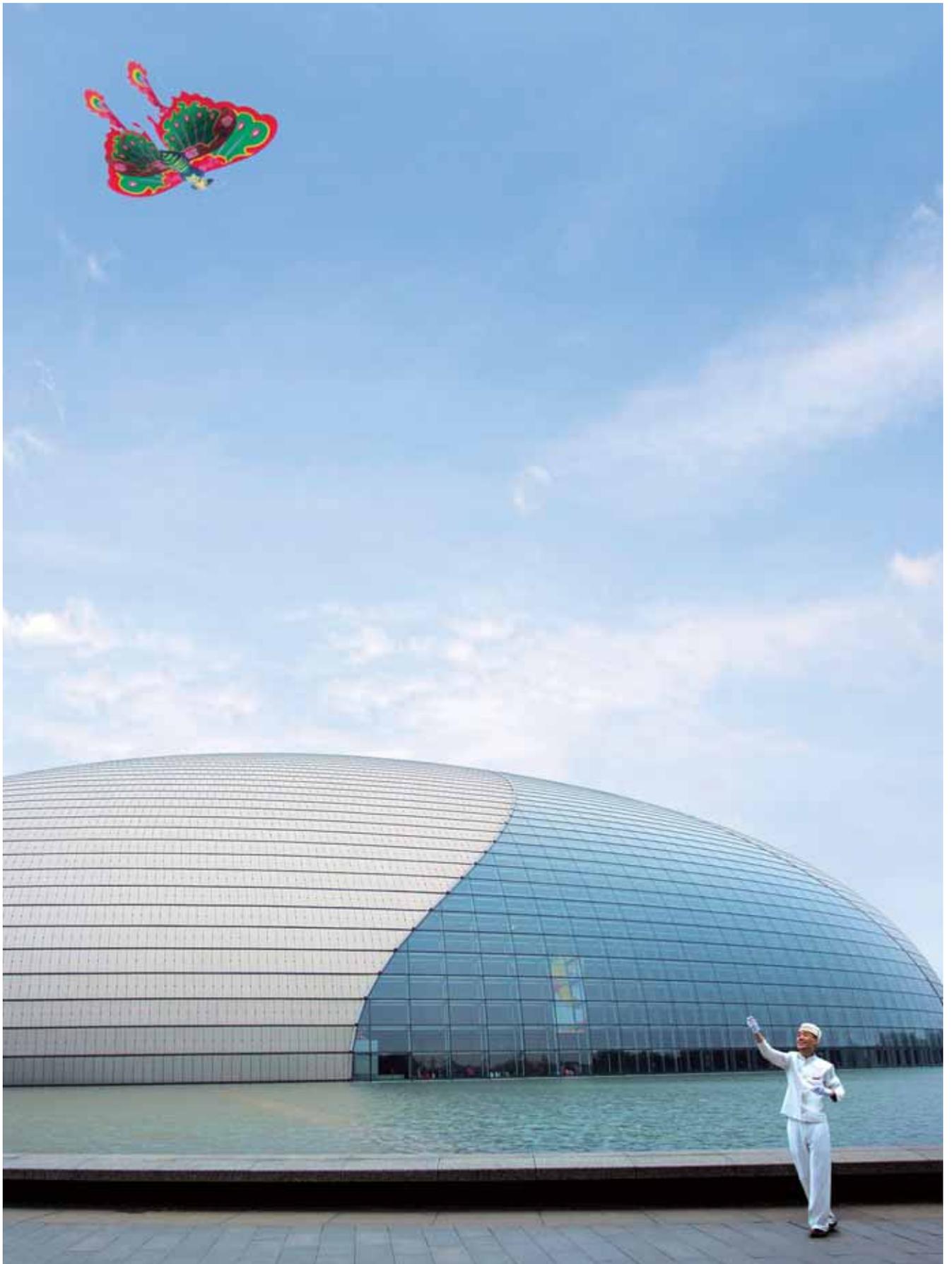
Although people always come first, we use technological developments to enhance the way in which we serve our guests. We have set up a Technology Steering Committee with a wide brief including exploring and developing the “hotel room of the future”, looking at robotics and data analytics, and fostering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

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

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

Another important part of our guest experience is to embrace the local culture, style and history of the country where the hotel is located. Nowadays a hotel stay has become much more than being somewhere to sleep and eat. Our high-end customers are looking for unique experiences to enhance their entire travel journey and we have developed Peninsula Academy Programmes for our guests to experience and enjoy. It is important to us that the stay in our hotel forms an important part of the guest's experience of visiting that particular country, with references to local architecture, artwork and culture. Appreciation of art and supporting local artists is a key part of our strategic marketing plan over the next few years, and we have designed and developed a global contemporary art programme, *Art in Resonance*, which is being launched in March 2019. More details about our commitment to art can be read on page 108.

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



## CEO's Strategic Review



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

Globally, we are enhancing our food and beverage experience to allow Peninsula guests to discover new cuisines, new beverages and new stories. The group's

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

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

## Managing risk

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

Our Group Risk Committee (GRC), chaired by the CFO, reviews the risk registers of our operations and new development projects, as well as monitors the principal risks and emerging risks of the group. We regularly evaluate the risk management and controls in response to such risks and use a 5-step risk management methodology to ensure the risk assessment process and internal controls remain current.

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

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

Pages 154 to 161 of our GRC Report has further details on how we manage against our principal risks.



## CEO's Strategic Review

### Investing in our people

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

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

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

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

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

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





## A vision for sustainable luxury

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

We have the opportunity to offer our guests sustainable choices without compromising on the high quality of our products and services. In 2018, we took the significant step of announcing a global ban on plastic straws in our operations. This is the first phase of our plan to eliminate single-use plastics by 2020 which we believe is necessary to address the significant issue of plastics pollution. We strive to source only sustainable seafood and we have

created a *Naturally Peninsula* range of dishes focusing on healthy, nutritious cuisine from locally harvested sources. We are also focusing on ways to reduce food waste. We strive to use only Forest Stewardship Council (FSC)-certified paper for all our products and packaging.

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

More details can be read in the CRS Report which is available online and in the Group Corporate Responsibility Committee (GCRC) report on page 162.

## CEO's Strategic Review

### Outlook

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

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

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

We have been encouraged by a number of new lettings and renewals at our arcades at The Peninsula in Hong Kong, Shanghai and Beijing. We are experiencing

good demand for our luxury residential lettings in Hong Kong. Our Peak Tram business will be negatively impacted in 2019 as it will undergo several months of suspension during the first phase of its improvement and upgrade programme that was previously announced to shareholders. We expect this to affect our results in 2019 and 2020, however, in the long term we believe it will significantly improve the visitor experience and enhance Hong Kong's tourism image.

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



**Clement Kwok**

14 March 2019

## OPERATIONAL REVIEW

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

### Business Performance

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

### HOTELS

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

\* Excluding proceeds from sale of apartments



## Operational Review

### The Peninsula Hong Kong



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

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

Best Awards. The Peninsula Hong Kong's Cantonese restaurant *Spring Moon* retained its Michelin star in December 2018.

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

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

The Peninsula Arcade was 89% occupied and leasing momentum was positive. The Peninsula Office Tower continues to perform well and was 97% occupied throughout 2018, and the immediate outlook is stable.



## Operational Review

### The Peninsula Shanghai

Revenue RMB508m

-3%

Average Room Rate

+2%

Occupancy

-2pp

RevPAR

-1%

Proceeds from sale of apartments

RMB105m



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

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

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

in 2018. The Peninsula Shanghai also remained the only hotel in mainland China to have two restaurants with Michelin stars.

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

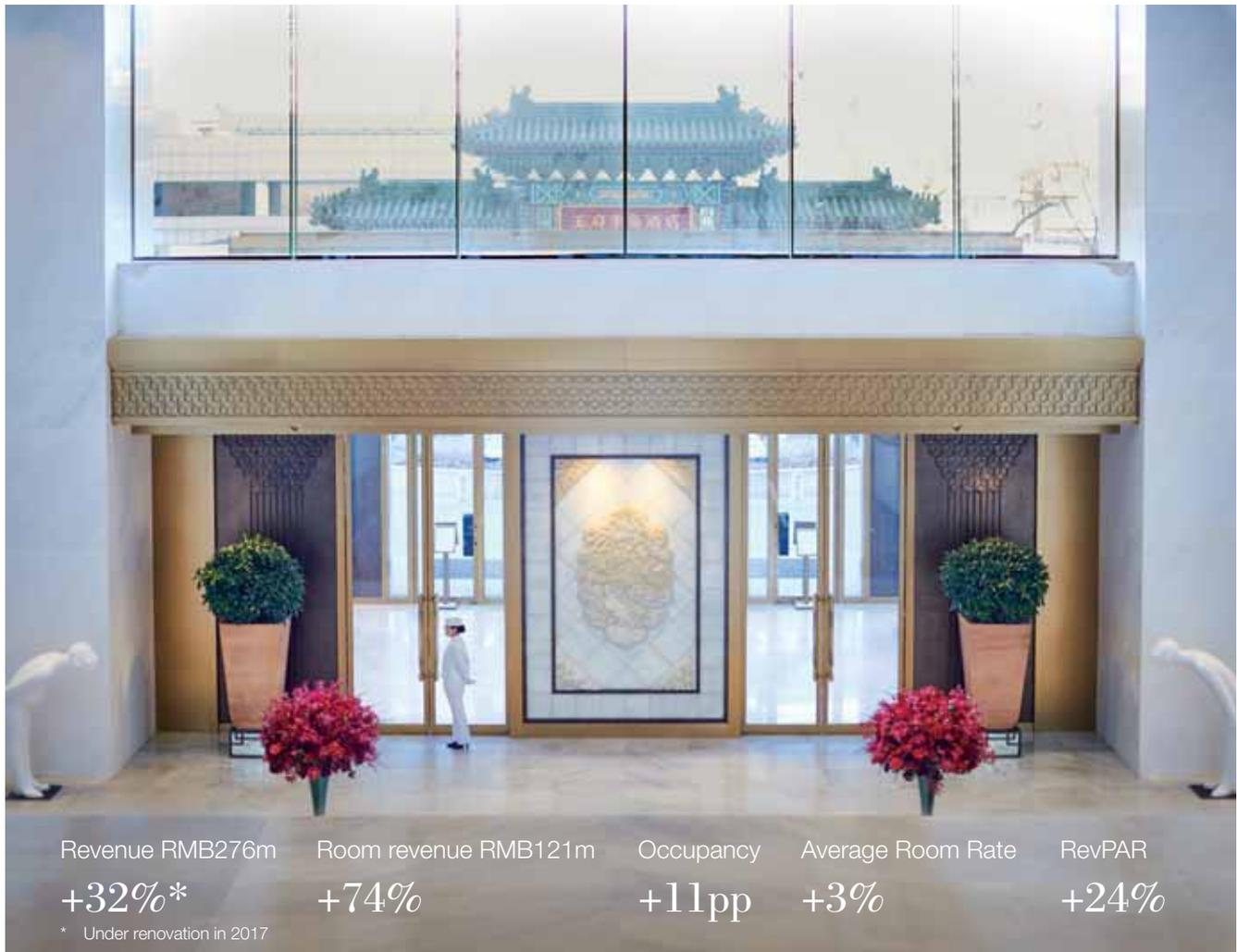
The Peninsula Shanghai continued its efforts to engage the local community during the year with our second Mega Yoga Event and co-hosting a charitable concert "Maestro Xu Zhong and his friends" at No 1 Waitanyuan, with proceeds benefiting local Chinese mainland charities.

The group owns a 50% interest in The Peninsula Shanghai Complex which comprises a hotel, a shopping arcade and a residential tower of 39 apartments. By the end of 2018, a total of 29 units have been sold, including one in 2018.

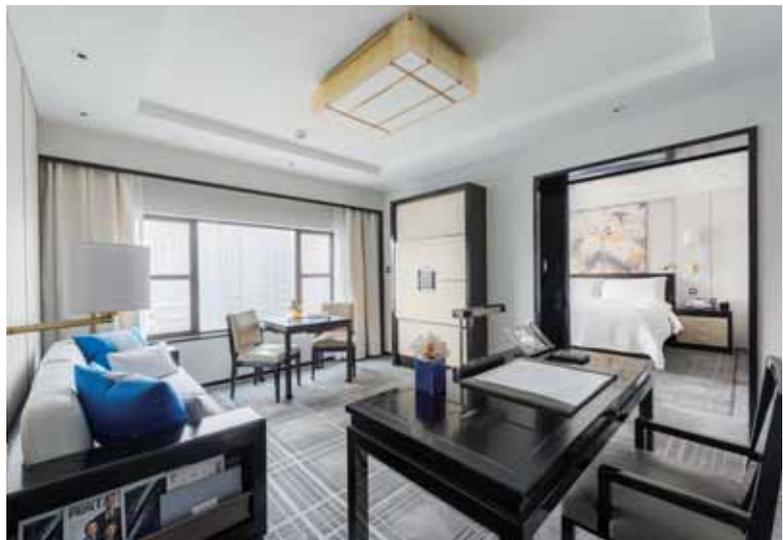


## Operational Review

### The Peninsula Beijing



**The Peninsula Beijing** was completely transformed in 2017 with an extensive renovation converting 525 rooms into 230 elegant suites, which are the largest in Beijing and among the most spacious luxury hotel rooms in China. Following the renovation, we were delighted to be included in the *2018 Condé Nast Traveler* Hot List as well as *Town & Country's* "Best New Hotels in the World – Asia and Indian Ocean", an elite selection of the best hotel openings from the past year. The hotel's RevPAR and occupancy showed positive growth year on year and we were the rate leader in our competitive set for 2018, driven by a focus on diplomatic and high-level group business.





In June 2018 the newly renovated rooftop bar *YUN Summer Lounge* opened, offering sweeping city views. The Peninsula Arcade has retained most of its top luxury tenants and has welcomed chic new luxury brands to the Arcade which have been well received by guests.

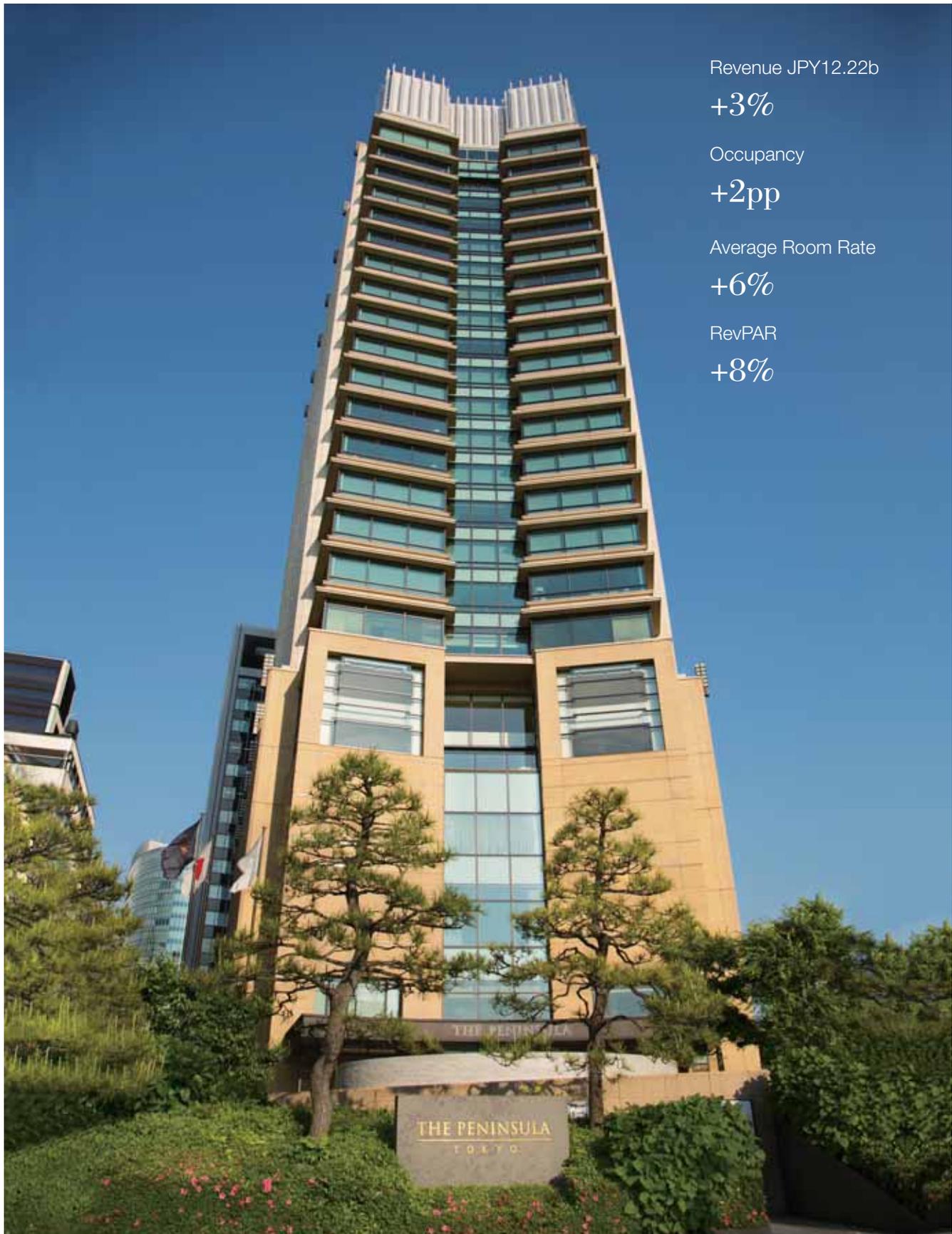
We were delighted to receive the first-ever BREEAM “good” certification in Beijing for a newly renovated building, which is a significant achievement aligned with our strategy to promote sustainable luxury. This included

the implementation of energy efficient LEDs, sustainably sourced wood for most of the wood work and furniture, as well as avoiding harmful glues, paints, wall coverings and carpeting.

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

# Operational Review

## The Peninsula Tokyo



Revenue JPY12.22b

**+3%**

Occupancy

**+2pp**

Average Room Rate

**+6%**

RevPAR

**+8%**



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

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

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

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

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

## Operational Review

### The Peninsula Bangkok



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

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



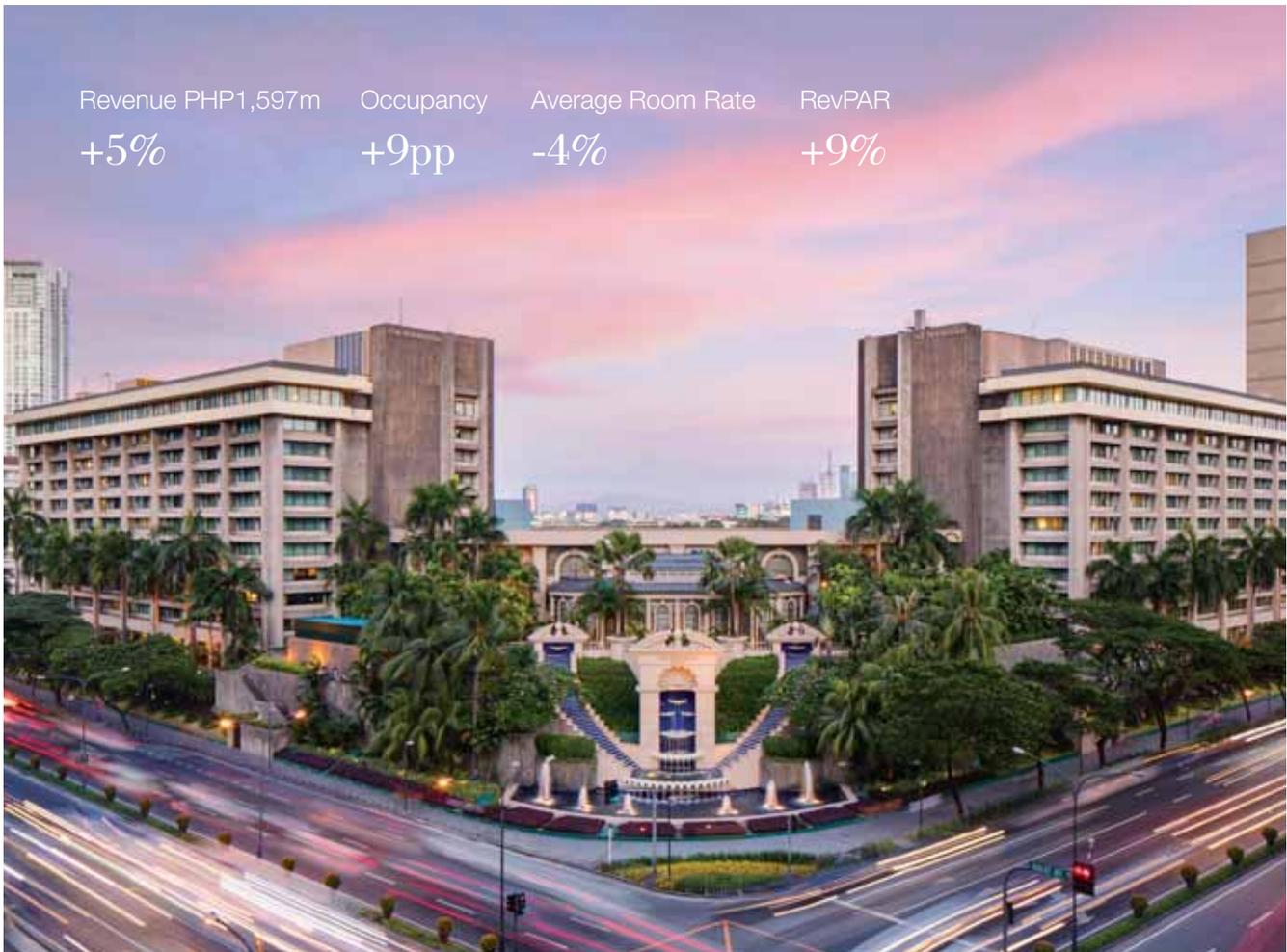
The hotel welcomed increasing numbers of visitors from Korea, Japan, Singapore and Australia and our strategy continued to focus on driving MICE (Meetings, Incentives, Conferences and Exhibitions) business and suite bookings. Food and beverage performed well with double-digit revenue growth, with strong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

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

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

## Operational Review

### The Peninsula Manila

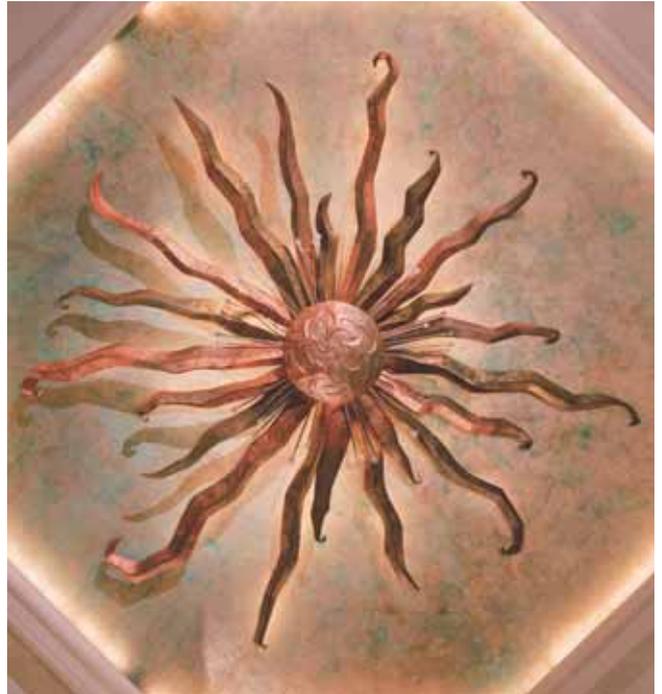


The Philippines experienced a robust year for international tourist arrivals, with growth of more than 7% year on year, despite the six-month closure of top island destination Boracay. Strong arrival numbers were seen from South Korea, mainland China, US and Japan. This, along with a revised rate strategy,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

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

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

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



## Operational Review

### The Peninsula New York



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

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

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

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



## Operational Review

### The Peninsula Chicago



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

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

We opened a beautiful new rooftop bar, *Z Bar*, in June 2018, which was designed by Yabu Pushelberg with a contemporary interior and city skyline views and brings together teams of chefs, mixologists and specialists.

The name was a tribute to Maria Zec, The Peninsula Chicago’s general manager for the past 17 years. *Z Bar* has been well received by guests and has achieved an influential social media following.

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

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



# Operational Review

## The Peninsula Beverly Hills



Revenue US\$78m	Occupancy	Average Room Rate	RevPAR
-3%	-1pp	-2%	-3%

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

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



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

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

## Operational Review

### The Peninsula Paris

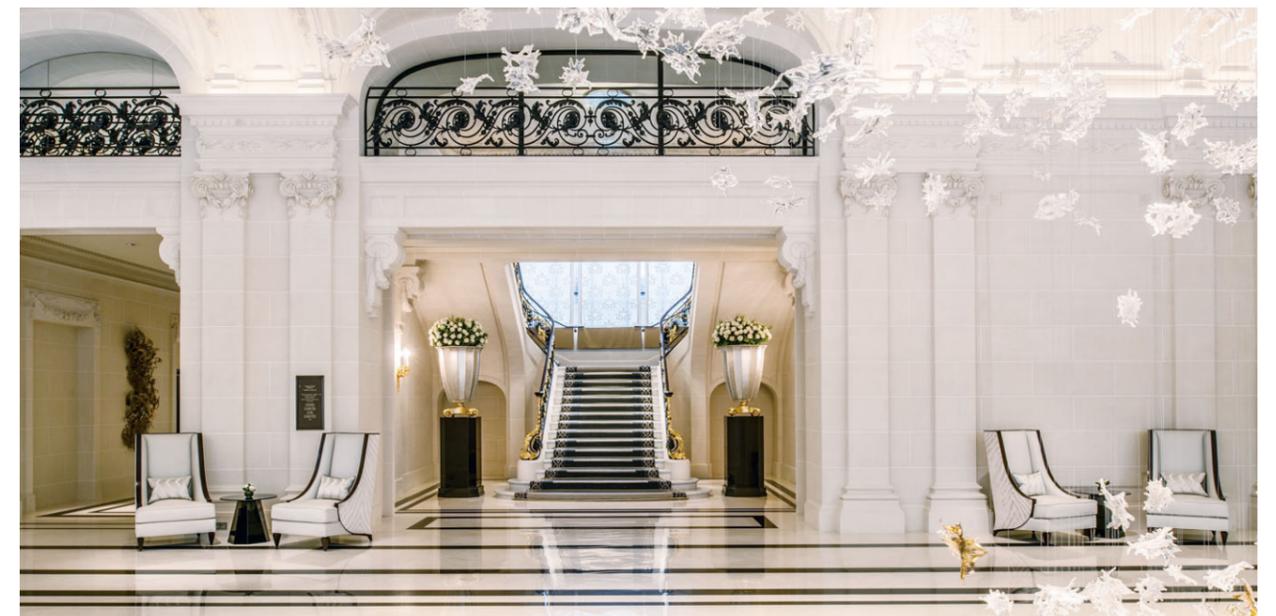


In 2018 Paris saw record tourist arrivals and improving sentiment for the first half, although the *gilets jaunes* protests unfortunately affected the city in the fourth quarter. This also impacted our operating results as some of the protests occurred in the immediate vicinity of our hotel. We believe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

Overall **The Peninsula Paris** reported improved results with a double digit increase in RevPAR and improved revenue, occupancy and rates despite intense competition amongst the other “Palace” hotels in the city. Food and beverage revenue was satisfactory, particularly from the rooftop restaurant *L’Oiseau Blanc* which offers spectacular views from the Sacre-Coeur to the Eiffel Tower and has become well established in the local market as the location for numerous high-profile

events. *Le Bar Kléber* also performed well and we are implementing new marketing initiatives and positioning for our Chinese restaurant *Lili*. The geopolitical tensions in the Middle East have created uncertainty for our business from that region although we welcomed increasing numbers of guests from Qatar and the United Arab Emirates to offset the decline from Saudi Arabia.

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



## Operational Review

### COMMERCIAL PROPERTIES

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



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

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

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

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

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



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



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

**The Landmark**, a 16-storey residential and office property, is located on a prime riverfront site in the central business district of Ho Chi Minh City, Vietnam. The complex has 65 serviced apartments, a fully equipped Health Club, as well as 100,000 square feet of first class office space for leasing. Revenue remained stable year-on-year despite intense competition. The Landmark maintains its popularity and leadership in a competitive market, and continues to attract awards for its management and facilities.

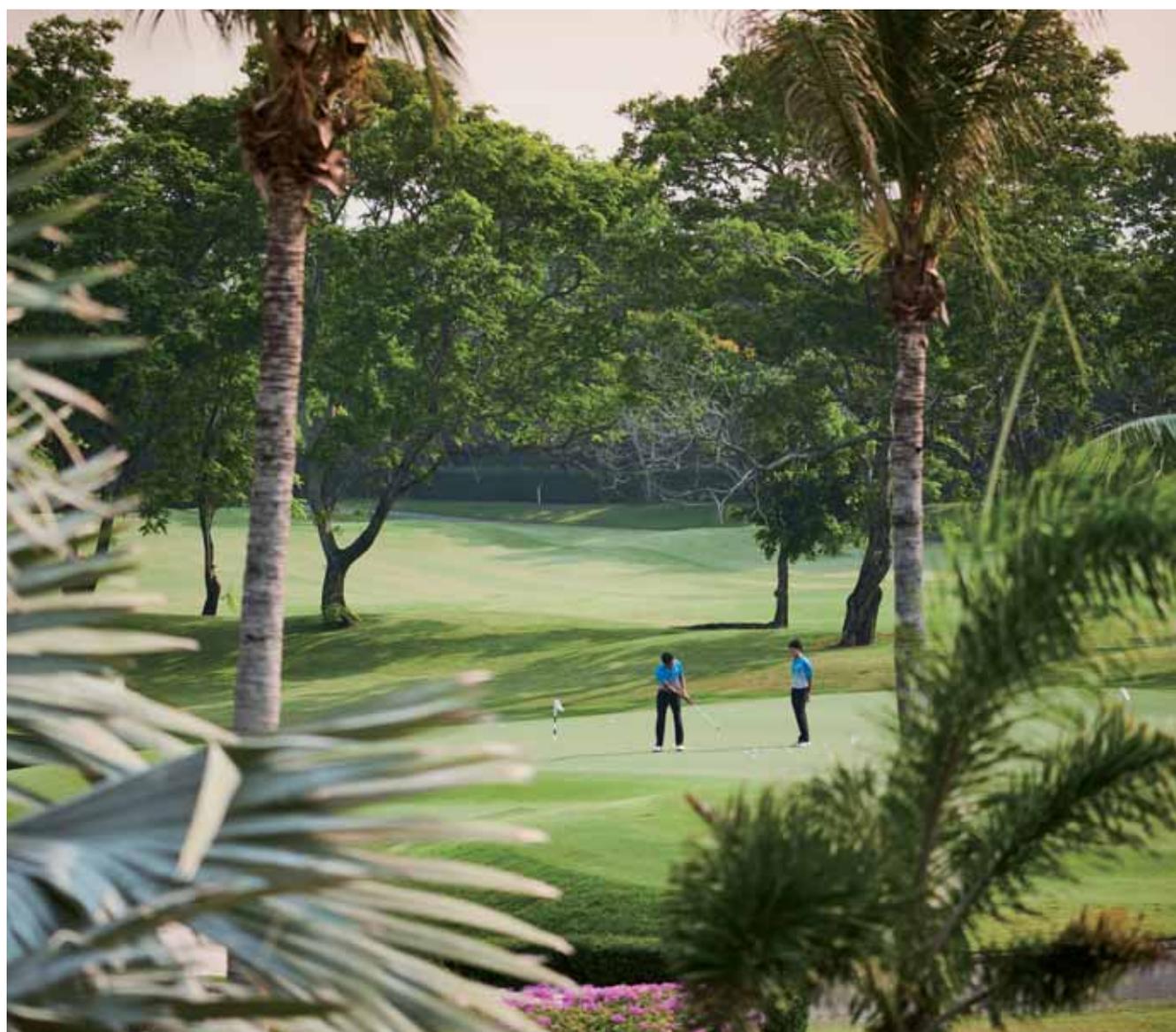
**21 avenue Kléber** offers a prime location immediately adjacent to The Peninsula Paris on avenue Kléber, just steps from the Arc de Triomphe. The building has been restored in keeping with its heritage, while opening up and modernising the internal space into contemporary offices, spacious terraces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



## Operational Review

### CLUBS AND SERVICES

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





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

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

## Operational Review

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



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





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

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

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



## Operational Review

### PROJECTS UNDER DEVELOPMENT

#### The Peninsula London



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

The property is in a high-profile location at the gateway to Belgravia, overlooking Hyde Park Corner, the Wellington Arch, Green Park and the gardens of Buckingham Palace. We are developing a 189-room Peninsula hotel with 26 luxury Peninsula-branded residential apartments for sale also integrated into the development. The

construction budget for the project is in the region of £650 million.

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

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

## The Peninsula Istanbul



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

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

The project has encountered some unforeseen site conditions and challenges with the heritage building which has caused some delays. Completion of the project is currently targeted to be in 2021. There will be

approximately 180 rooms, a ballroom with sweeping views of the Bosphorus, indoor and outdoor swimming pools, Spa and verdant garden area on the waterfront.

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

## Operational Review

### The Peninsula Yangon



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

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

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

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

THE PENINSULA



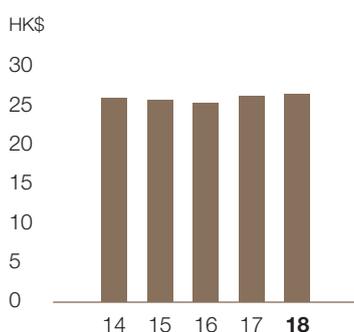
# FINANCIAL REVIEW

## Adjusted NAV

**HK\$42,688m**

+2%

## Adjusted NAV per Share

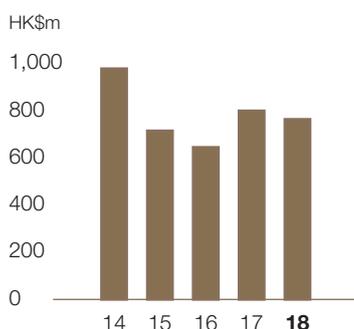


## Underlying profit

**HK\$765m**

-4%

## Underlying Profit



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

## The group's adjusted net asset value

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

Accordingly, we have commissioned an independent third-party fair valuation of the group's hotels and golf courses as at 31 December 2018, the details of which are set out on page 81. If these assets were to be stated at fair value, the group's net assets attributable to shareholders would increase by 10% to HK\$42,688 million as indicated in the table below.

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

## The group's underlying profit

Our operating results are mainly derived from the operation of hotels; the leasing and sale of luxury residential apartments; the leasing of office and retail properties; the operation of the Peak Tram and retail merchandising. We manage the group's operations with principal reference to their underlying operating cash flows and recurring earnings. However, to comply with the applicable accounting standards, we are required to include non-operating items, such as any changes in the fair value of investment properties and the related deferred tax movements, in our statement of profit or loss. To reflect the actual performance of the group, we have provided a calculation of the underlying profit. This is determined by excluding the post-tax effects of property revaluation movements and other non-operating items.

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

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

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

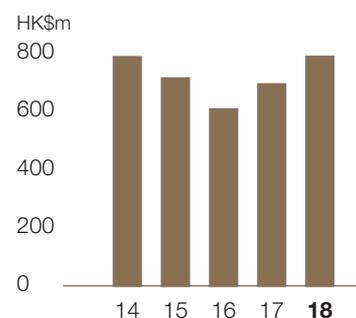
\* Including the group's share of property revaluation movements and other non-operating items of PSW.

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

Adjusted underlying profit  
(excluding the group's share of  
gain on apartments sold by PSW)

**HK\$740m**

+14%



## Financial Review

### Statement of profit or loss

The group's consolidated statement of profit or loss for the year ended 31 December 2018 is set out on page 185. 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 74 to 79 of this Financial Review.

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

### Revenue

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

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

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

#### Revenue by business segment

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

#### Revenue by geographical segment

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

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

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

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

#### Consolidated Revenue

**HK\$6,214m**

+7%

#### Hotels

**HK\$4,534m**

+8%

#### Commercial Properties

**HK\$971m**

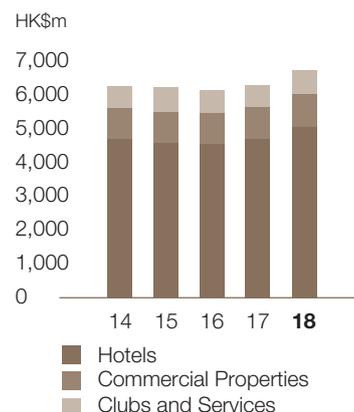
+3%

#### Clubs and Services

**HK\$709m**

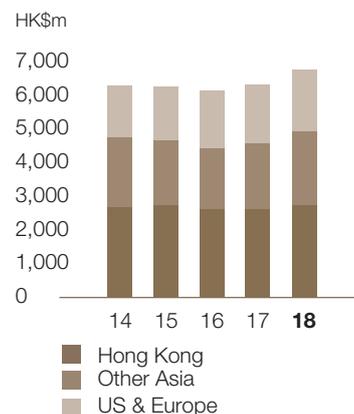
+9%

#### Combined Revenue\* by Business Segment



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

#### Combined Revenue\* by Geographical Segment



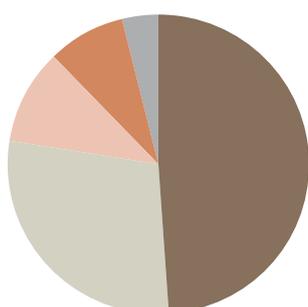
\* Including the group's effective share of revenue of associates and joint venture

## Financial Review

### Operating Costs

**HK\$4,664m**

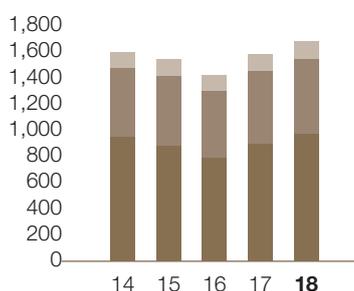
+7%



- Staff costs and related expenses
- Others
- Cost of inventories
- Rent
- Utilities

### Combined EBITDA by Business Segment

HK\$m



- Hotels
- Commercial Properties
- Clubs and Services

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

Details of the operating performances of the group's individual operations are set out on pages 39 to 67 of the Operational Review.

### Operating costs

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

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

### EBITDA and EBITDA Margin

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

#### EBITDA by business segment

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

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

## EBITDA by geographical segment

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

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

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

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

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

## Financial Review

### **Depreciation and amortisation**

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

### **Increase in fair value of investment properties**

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

### **Share of results of a joint venture**

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

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

It is worth noting that any unrealised accumulated appreciation in fair value of the apartments will become realised gains upon disposal. Accordingly, adjustments should be made to reflect the actual underlying profit realised by the group when the apartments are sold. Further details of the adjustments are set out on page 73 of this Financial Review.

Details of the operating performance of The Peninsula Shanghai are set out in the Operational Review section on pages 42 and 43.

### Share of results of associates

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

Details of the operating performances of The Peninsula Beverly Hills and The Peninsula Paris are set out in the Operational Review section on pages 56 to 59.

## Statement of financial position

The group's financial position as at 31 December 2018 remained strong and net assets attributable to shareholders amounted to HK\$38,941 million, representing a per share value of HK\$24.14 compared to HK\$24.02 in 2017. The consolidated statement of financial position of the group as at 31 December 2018 is presented on page 187 and the key components of the group's assets and liabilities are set out in the following table.

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

## Financial Review

### **Summary of Hotel, Commercial and Other Properties**

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

The group's hotel properties and investment properties are dealt with under different accounting policies as required by the relevant accounting standards. The hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties (including shopping arcades and offices within the hotels) are stated at fair value appraised by independent valuers. In order to provide users of the financial statements with additional information on the fair value of the group's properties, independent valuers have been engaged to conduct a valuation of the hotel properties and golf courses as at 31 December 2018.

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

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

\* Including the shopping arcades and offices within the hotels

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

△ 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

## Financial Review

### **Properties under development for sale**

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

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

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

### **Other long-term assets**

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

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

As at 31 December 2018, the group's cash at banks and in hand and interest-bearing borrowings amounted to HK\$1,178 million (2017: HK\$1,922 million) and HK\$7,095 million (2017: HK\$7,443 million) respectively, resulting in a net borrowings of HK\$5,917 million (2017: HK\$5,521 million). The increase in net borrowings was mainly due to the capital expenditure incurred on ongoing projects under development. A breakdown of the group's capital expenditure for the year ended 31 December 2018 is set out on pages 83.

### Cash flows

The consolidated statement of cash flows of the group for the year ended 31 December 2018 is set out on page 189. The following table summarises the key cash movements for the year ended 31 December 2018.

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

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

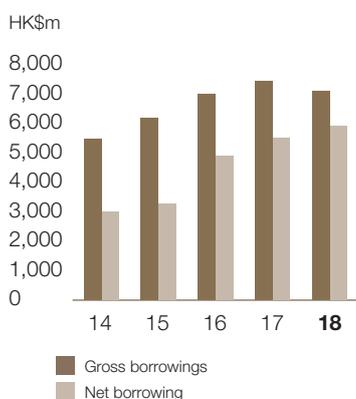
HK\$m	2018	2017
Hotels		
The Peninsula Beijing	<b>56</b>	250
The Peninsula Chicago (including the new rooftop bar)	<b>105</b>	31
Others	<b>187</b>	137
Commercial properties		
21 avenue Kléber	<b>8</b>	68
Others	<b>29</b>	57
Clubs and services	<b>41</b>	58
	<b>426</b>	601

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

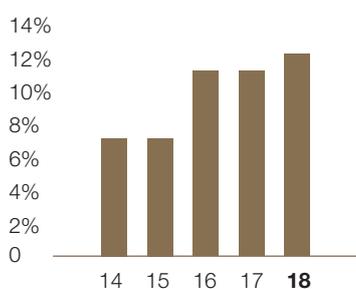
HK\$m	2018	2017
The Peninsula London	<b>951</b>	449
The Peninsula Yangon	<b>148</b>	181
Capital injection into the joint venture in Turkey	<b>109</b>	44
Acquisition of 5 apartment units in Shanghai	<b>–</b>	423
	<b>1,208</b>	1,097

## Financial Review

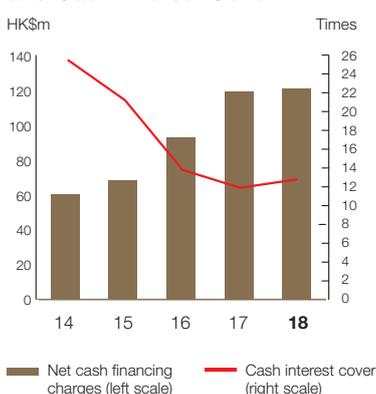
### Gross and Net Borrowings



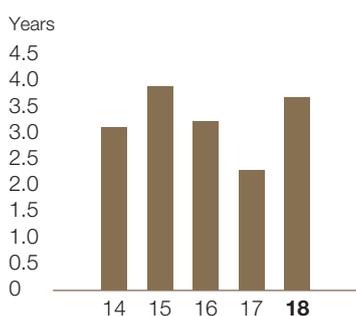
### Net Borrowings to Total Assets



### Net Cash Financing Charges and Cash Interest Cover



### Weighted Average Debt Maturity



## Capital and Treasury Management

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

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

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

### Liquidity/Financing

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

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

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

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

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

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

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

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

\* Represents HSH's attributable share of borrowings.

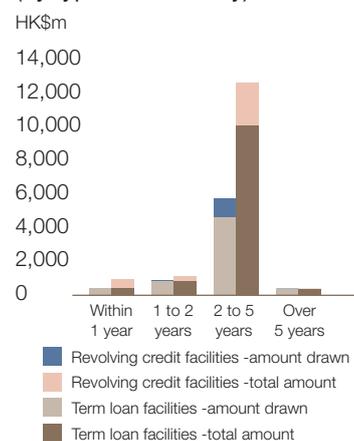
### Foreign Exchange

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

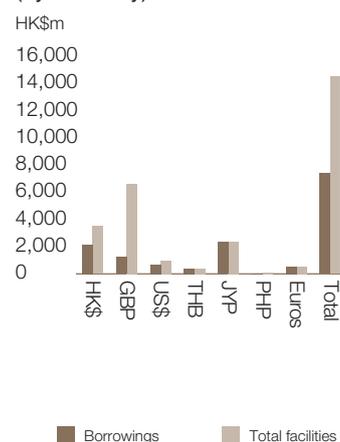
All of the group's borrowings are denominated in the functional currency of the operations to which they relate. As at 31 December 2018, Japanese yen and HK dollar borrowings represented 32% and 30% of total borrowings respectively. Other balances were mainly in US dollars, GBP and other local currencies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

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

### Banking Facilities and Borrowings (by type and maturity)

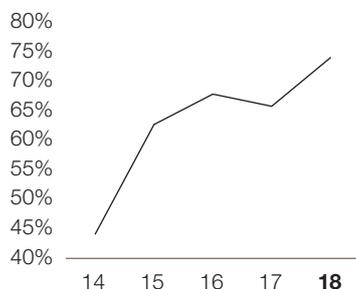


### Banking Facilities and Borrowings (by currency)

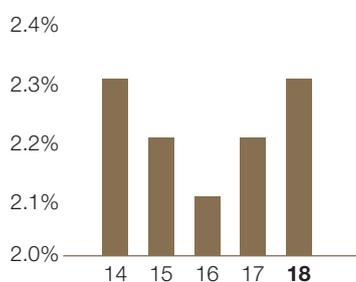


## Financial Review

### Percentage of fixed rate borrowings to total borrowings (adjusted for the hedging effect)



### Weighted Average Gross Interest Rate



### Interest Rate Risk

The group has an interest rate risk management policy which focuses on reducing the group's exposure to changes in interest rates by maintaining a prudent mix of fixed and floating rate liabilities. In addition to raising funds directly on a fixed rate basis, the group also uses interest rate swaps or cross currency interest rate swaps in managing its long-term interest rate exposure.

As at 31 December 2018, the group's fixed to floating interest rate ratio increased to 73% (2017: 65%). The weighted average gross interest rate for the year increased slightly from 2.2% to 2.3%.

### Credit Risk

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

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

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

## Dividends

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

The company's Board of Directors has recommended a final dividend payable on 21 June 2019 of 16 HK cents per share. Together with the 2018 interim dividend of 5 HK cents per share paid on 12 October 2018, the total dividend in respect of 2018 financial year will be 21 HK cents per share, representing an increase of 5% compared to 2017.

## Share information

At market close on 14 March 2019, the company's share price stood at HK\$11.34, giving a market capitalisation of HK\$18.3 billion (US\$2.3 billion). This reflects a discount of 53% to net assets attributable to shareholders of the company, or a discount of 57% to the adjusted net assets attributable to shareholders (see page 72).

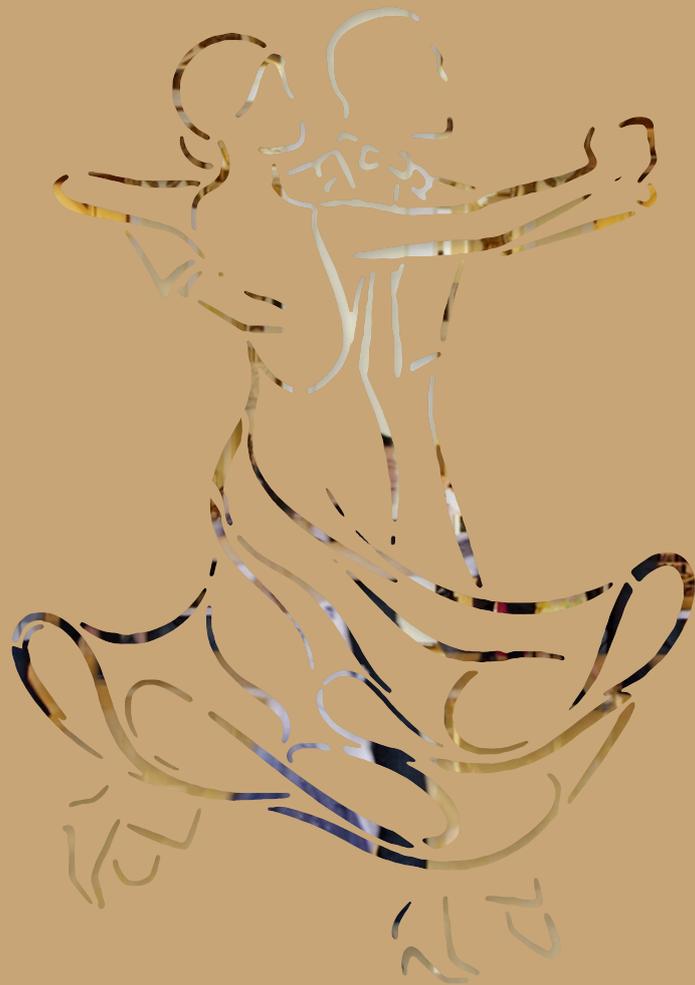
The average closing price during 2018 was HK\$11.59, with the highest price of HK\$13.48 achieved on 12 June 2018 and the lowest price of HK\$10.00 recorded on 16 August 2018.



## Creating Stakeholder Value

- 90 | The Peninsula Hong Kong  
– 90 Years of Luxury Hospitality
- 98 | Our People  
– The Heart and Soul of Our Company
- 108 | Our Cities  
– A Masterpiece in the Art of Hospitality
- 112 | Our Guests  
– A New Age of Innovation
- 116 | Engaging Our Stakeholders
- 118 | Awards in 2018







## The Peninsula Afternoon Tea Dance

When The Peninsula Hong Kong opened its doors on 11 December 1928, its lobby became a lively, colourful “crossroads of the East” following the introduction of Afternoon Tea – a quintessentially English ritual. The Peninsula Hong Kong was the first hotel in Hong Kong to serve Afternoon Tea, which was complemented by popular tea dances every Sunday. We are proud to continue the tradition of our signature Peninsula Afternoon Tea in all of our magnificent hotel lobbies around the world.



## 90 YEARS OF LUXURY HOSPITALITY

The Peninsula Hong Kong officially opened to the public on 11 December 1928, becoming the latest hotel venture of The Hongkong and Shanghai Hotels, which at the time owned the Hong Kong Hotel, the Repulse Bay Hotel and the Peak Hotel in Hong Kong, as well as The Palace Hotel, the Majestic Hotel and The Astor House in Shanghai.



## 90 Years of Luxury Hospitality

*The Peninsula Hong Kong's story is one of vision and evolution. If walls could talk, they would tell of glittering, exuberant parties; society weddings; elegant tea dances in the roaring twenties; great love stories and magnificent memories. The hotel has witnessed the excitement and glamour of the earliest days of intercontinental air travel, the dark days of military occupation, the swinging sixties, China's rise as an economic superpower and the digital technology transformation. Every aspect of life in all its varieties has taken place within its walls.*

Sir Wilfrid Thomas Southorn CMG, Governor of Hong Kong, remarked at the opening ceremony in 1928: *"The success of this hotel is not a thing of today or tomorrow. The inspiration which gave rise to this building is the inspiration of the future; it stands as an outward and visible testimony of the faith which is in us all; that Hong Kong is in the future and not in the past."*

Sir Wilfrid's words have continued to resonate throughout the last nine decades. The Peninsula Hong Kong has endured as a remarkable example of vision and evolution in the hospitality industry, and to this day, remains an irrepressible icon of the city.

It was an audacious plan to build "the finest hotel east of Suez". Despite initial fears that Kowloon was not a suitable location for a luxury hotel, it was evident that the vision of the Company's directors was sound, as the grand hotel soon became the centre of vibrant social life in Hong Kong.

The opening of The Peninsula Hong Kong saw a steady stream of elegantly dressed men and women travelling across the Fragrant Harbour by Star Ferry, junk or sampan, and then onwards to the hotel by rickshaw or on foot. Pageboys clad in neat black uniforms and distinctive pillbox hats opened the great doors with a flourish, welcoming Hong Kong to the greatest party of the decade.



The first guests were awestruck by the hotel's 7,500 square-foot *cinquecento* Lobby and marvelled at the soaring marble pillars, the elaborate chandeliers, and the perfect staircase which inspired grand entrances from perfectly-coiffed ladies. There was an incredible variety of dining possibilities afforded by the Moorish Bar, the domed Main Banqueting Hall, the Children's Dining Room, the Tea Lounge, the Roof Garden and the Rose Room.

Following its spectacular opening, The Peninsula's reputation rapidly spread beyond Hong Kong. Hollywood arrived in the form of Charlie Chaplin and Paulette Goddard, Ella Fitzgerald, Peter O'Toole, Kirk Douglas, Douglas Fairbanks Jr., Rex Harrison, William Holden, and Elizabeth Taylor. The Peninsula was firmly entrenched as the film set and celebrity haven, and as jet travel became more affordable, American visitors sought out the hotel made famous by its movie-star guests.

Hong Kong's elite were also attracted to The Peninsula's never-ending medley of events. The hotel put on breathtaking Christmas and New Year programmes of dinner dances and buffet lunches, St. Patrick's nights, Chinese New Year carnivals, balls and galas. Tea dances, held daily in the Rose Room, were "constantly filled to overflowing, being the scene of Hong Kong's daily fashion parade."

Dancing and tea of course were the perfect partners, and The Peninsula Afternoon Tea has become a celebrated and much-loved signature feature in The Lobby of every Peninsula hotel around the world. In the 1920s, the inaugural mid-afternoon feast at The Peninsula Hong Kong set customers back all of HK\$4 (US50 cents).



## 90 Years of Luxury Hospitality



In 1936, the first Clipper seaplane to land in Hong Kong was piloted by Pan American's President, Mr. Juan Trippe. In a foreshadowing of the role the hotel was to play in aviation developments, Trippe, his passengers and crew, who were travelling around the world scouting possible new routes, stayed the night at The Peninsula, beginning a long association with the hotel that lasted throughout the golden age of aviation and beyond.

The 1940s saw the devastation of World War II and military occupation of the hotel until 1945.

Good times returned again in the 1950s and an outdoor terrace was enclosed to form a restaurant. Originally called "The Playpen", it was later renamed as *The Verandah*.



The opening of The Peninsula Tower extension in December 1994 enabled it to “greet the new century with pride and confidence,” said Chairman The Hon. Sir Michael Kadoorie at the launch party. Mr Peter Borer, who joined the Group in 1981 and is now the Group Chief Operating Officer, oversaw the construction of the new Tower in 1994.

The crowning glory on top of the tower was the creation of *Felix* restaurant named after former General Manager Felix Bieger. Helipads were installed on the rooftop and the China Clipper aviation lounge was established to welcome guests prior to a helicopter ride.

Today, The Peninsula Hong Kong stands as an enduring testament to the 1920s golden age, when HSH set impressive new standards of hospitality, and as a glimpse into an increasingly globalised and exciting future. It remains the heartbeat of The Peninsula Hotels brand, exuding classical grandeur and timeless elegance.

## 90 Years of Luxury Hospitality

### A YEAR OF CELEBRATION

We hosted a calendar of special events to celebrate 90 years of The Peninsula Hong Kong.

#### 90<sup>th</sup> Anniversary Nostalgia Package

The 90<sup>th</sup> Anniversary Nostalgia Package included three nights of accommodation in The Peninsula Suite and three days of non-stop immersive experiences, including a yacht trip and helicopter package.

#### Afternoon Tea Dance Revival

From April to October, The Peninsula Hong Kong recalled the late 1920s and 1930s when the hotel was the stage for frequent elegant tea dances. Guests and visitors were invited to take to the dance floor to waltz, cha-cha and tango whilst enjoying the famed signature Peninsula Afternoon Tea and reliving days gone by.

#### The Archive Room

Few people have known of the existence of The Archive Room at The Peninsula Hong Kong, which houses a fine collection of historical objects and memorabilia collected over the 90 years of the hotel's existence. The collection includes original menus from the restaurants that have come and gone, or indeed, remained within the hotel's walls, photographs of iconic Hollywood celebrities who have resided at The Peninsula, and items of china and silverware that have graced tables throughout the hotel over the years. This unique space was officially opened to guests of the hotel following its launch by Archive Ambassador and respected historian, Mr. Peter Hibbard, MBE.

#### Master Botero's Work In Residence

The Peninsula Hong Kong had the honour of presenting nine paintings and five sculptures by Colombian artist Fernando Botero for guests to appreciate and enjoy at their leisure.

#### Giving Back To The Community

In keeping with the community spirit of The Peninsula Hotels, in June The Peninsula Hong Kong hosted a special afternoon tea gathering at Felix for a group of ladies and gentlemen aged 90 and above. Attendees will be able to enjoy the signature traditional Peninsula Afternoon Tea alongside live performances and activities.





# OUR PEOPLE



# The Heart and Soul of Our Company

**“Of course it takes more than an elegant façade and tasteful deco to inspire the loyalty and affection that people feel for The Peninsula Hong Kong. The reassurance of the hotel’s continual presence is an important factor, but it is the people who are the heart and soul of the hotel, and it is they who infuse the place with a generous spirit and pride. ”**

The Hongkong and Shanghai Hotels places a great emphasis on recruiting and retaining the best people. To ensure that we remain successful and with a sustainable business model for the years to come, we recognise that we need to keep adapting and evolving to stay relevant. The Group Management Board has developed a plan called “WorkPlace 2025” with the aim of modernising and adapting to keep up with the enormous changes happening in today’s fast-paced world. The mission of this programme has developed three key pillars of Respecting our Culture and Heritage, Embracing Innovation, and Driving Business Performance. We aim to get to know our customers better by delivering the world’s best service.

Not only has The Peninsula brought unique and memorable experiences to its guests, but also to the people who have worked there tirelessly and proudly presenting the finest of Hong Kong to the world over the last 90 years. In recognition of the exceptional service provided by the staff, in 2018 the hotel invited selected members of its team to tell their own personal stories, representing the fact that this is not simply an iconic establishment, but a place where special moments are captured and invisibly carved into its beloved walls.



## Our People



Johnny Chung Kam Hung is something of a legend in his own lifetime. As The Peninsula Hong Kong's longest living employee, he has loyally served the hotel for over 60 years, since joining in 1957 at the tender age of 15 as a messenger boy, whilst his father worked for eight years as a Captain in The Peninsula's famed Lobby.

Johnny's story has been well documented, most notably for his encounter with Hollywood screen legend Clark Gable, who taught him how to make a 'Screwdriver'. The Bar at The Peninsula went through a number of transformations and relocations within the hotel, each chapter of which Johnny was a part. "Our regular guests would always return to us wherever we were. It was the service that kept them coming back, not just the drinks."

Now 76, Johnny still puts in his hours at the place he calls home. "The Peninsula has always held a special place in my heart; and even though a number of hotels tried to poach me, especially during the 1960s, I chose to stay, as this has always been my home, and the people here are my family."



On the recurring subject of family, Food and Beverage Concierge Lam Siu Ping and his son Security Officer Lam Tat Yeung represent two generations of family working at The Peninsula Hong Kong. The pair is just one example of two or more family members employed at the hotel, also long known for placing emphasis on a sense of family within the workplace on a wider scale.

Siu Ping says that his F&B education has come purely from what he refers to as 'The University of The Peninsula'. "Here I have learned a lot about life, the right way to treat people, and about the correct way of doing things. When I was a waiter, we prepared coffee and a croissant for our supervisor every morning. He told me that I should always try the coffee before serving it to a guest, to make sure that it was good, so I did that for 40 years."

"Through working at the same company, I have learned more about my father," adds Tat Yeung. "I never knew before that he was such a respected figure at work, and I'm really proud of him for that."



## Our People

In 2018, The Peninsula Bangkok celebrated its 20<sup>th</sup> anniversary, and a number of employees have been at the hotel since day one.

When asked what has kept him at The Peninsula for two decades, Page Khun Chaiya's answer is multi-faceted. "Firstly, the hotel treats us like one big family. Then of course there are excellent benefits – healthcare, meals at the staff canteen, and various training opportunities. I have been able to improve my English and also learn basic Mandarin. Language ability is very important in terms of being able to communicate effectively with our guests."



Concierge Officer Khun Chaiya Suriyant recalls the highlight of his career at the hotel, saying, "The most special moment for me was when *Travel & Leisure* magazine announced that The Peninsula Bangkok was the Best Hotel in the World. Even our GM had no idea until he received a phone call from the head office in Hong Kong!"





## Our People



2018 also saw the 30<sup>th</sup> anniversary of The Peninsula New York where General Manager Jonathan Crook first started his career with The Peninsula Hotels in the year 2000. "I salute the loyal, friendly, hard-working staff who have become a part of the Peninsula family over the years. The camaraderie and special sense of purpose demonstrated by all reflect the bond between our staff and our valued guests who come back year after year. This is a true testament to our brand and I am honoured to be a part of this team of talented individuals."

Bell Captain Patrick Wong is equally as enthusiastic as his General Manager. "There are so many familiar faces that I love to see; guests who have stayed with us for the last three decades. I also appreciate the great management. We really are encouraged to stay five-star strong in everything we do and that makes me proud."

At The Repulse Bay, Lilian Ng, a Senior Cook at The Verandah restaurant says, “The happiest thing about my job is that I met my husband here, and I was also able to refer my younger brother for a job at the company.”



Karen Tang, Customer Service Officer at The Peak Tower, enthuses that the view from The Peak is as stunning as any scenic spot in the world. “I’m so happy to see this beautiful scenery every day when I go to work; it’s just like having a small fortune!”

## Our People



HSH continues to welcome a diverse and inclusive culture, and recognises the different backgrounds and experiences of all its employees. The company is committed to providing equal opportunities in employment, with all applicants and employees receiving equal treatment, regardless of age, race, colour, national origin, appearance, religion, gender, sexual orientation, pregnancy, marital, family or veteran status, and disability.

Cheung Yik Ching has been employed as a Technical Worker at Tai Pan Laundry since 2010. Following a serious illness

contracted at the age of two, Ching became deaf and now in her early 30s, she hasn't been able to hear since. Through a discussion via text message, she states that she is incredibly grateful to have had the opportunity to work at Tai Pan. "For a long time, I thought I would never be able to find a job because I can neither hear nor speak. But this company has given me hope and confidence, and every day I am happy to come to work, especially as I can now look after my parents in their old age."



## OUR CITIES

# A Masterpiece in the Art of Hospitality

2018 witnessed yet more exciting developments in the ongoing partnership between The Hongkong and Shanghai Hotels and the dynamic world of contemporary art. We believe our discerning guests appreciate beauty and we are pleased to support local contemporary artists in the communities in which we operate, as well as celebrating timeless classics.

Coinciding with The Peninsula Hong Kong's 90<sup>th</sup> anniversary, a veritable treasure trove of 18 paintings and sculptures by Colombian artist Fernando Botero took up residence at the hotel for most of the year, garnering a significant amount of attention from both guests and visitors alike.

Botero's romance with The Peninsula actually began in November 2015, when the artist staged an exhibition of large proportions – "Botero in China" – at the National Museum of China in Beijing, near Tiananmen Square. The exhibition then moved south to the China Art Palace in Shanghai in January 2016, and it was at this time that The Peninsula Shanghai partnered with UBS to present the exhibition, additionally hosting a series of events in the artist's honour.

Following the overwhelming success of the "Botero Sojourn" at The Peninsula Hong Kong throughout 2018, the hotel has announced the extension of this iconic artist's exhibition in June 2019, which will feature 13 different pieces.

With the continuing success of Art Basel, Art Central and other major art fairs in Hong Kong, local artists and galleries are actively connecting with art-loving audiences. The Peninsula Hong Kong's "An Art Dialogue with Hong Kong" Academy programme allows guests to actively engage with the city's thriving contemporary art scene by visiting artists' studios, galleries and conversing with a local art expert.

“The purpose of art is washing the dust of daily life off our souls”  
 – Pablo Picasso



## Our Cities



At The Peninsula Beijing, the hotel's art gallery displays innovative exhibitions showcasing works by the current resident artist. Meetings in the top floor art studio with the artist-in-residence can be arranged for a closer look at the creative process and one-on-one discussions.

Not only does the hotel host a variety of art-appreciation cocktail parties at the gallery, it also has deep connections to the key players in Beijing's contemporary art scene. Private tours to notable institutions and invitations to exclusive art dinners and exhibition previews can all be arranged through The Peninsula Beijing's "Keys to the City" programme.

2018 marked Turkish Tourism Year in China and with The Peninsula Istanbul under construction it was fitting that The Peninsula Beijing supported this occasion through art. With the support of the Ministry of Foreign Affairs, the Ministry of Culture and Tourism of Turkey, the Turkish Embassy in Beijing and Turkish Airlines, the hotel welcomed four renowned Turkish artists – Devrim Erbil, Yalcin Gokcebag, Ahmet Yesil, and Metin Kalkizoglu – to take up art residencies at the hotel.

Through its Academy programme "A Window on Chinese Contemporary Art", The Peninsula Beijing gives guests the opportunity to visit two selected art studios in the city to watch the artists at work, ask questions and learn more about their techniques and inspirations. Artists include Peng Wei (multi-media), Wu Qiong (painting), Gao Xiao Wu (sculpture), and Zhou Ying Chao (painting).

2018 saw a successful partnership between The Peninsula Bangkok and the inaugural Bangkok Art Biennale, which in its first edition aimed to promote art as an inclusive expression of human emotions and to celebrate the power of paintings, installations, video and performance art to inspire pleasure and positivity in challenging times. Throughout the four-month event, The Peninsula was an official partner venue, and showcased an eclectic collection of art pieces, enabling hotel guests to interact with thought-provoking installations by both local and international artists.

In the US, as part of its 30<sup>th</sup> anniversary celebrations in 2018, The Peninsula New York presented a specially-curated art



exhibition featuring exceptionally prominent artists of the 1980s. From the moment guests arrive to the hotel, they were greeted with museum-quality works of art which included original pieces by Andy Warhol, Keith Haring, Jean-Michael Basquiat, Barbara Krueger, Francesco Clemente and Michael Halsband. Notable pieces in the show included Keith Haring's *Untitled*, a work from 1984, along with Andy Warhol's collection of *10 Campbell's Soup Cans*, previously on view in the upper lobby seating area of the hotel.

The exhibition was part of Circa 1881's ongoing partnership with The Peninsula Hotels to present rotating art exhibitions of world-class contemporary art, consisting of inventory from private collections that the company has under management. In addition, The Peninsula New York partnered with Martos Gallery and a variety of additional private collectors.

For the fourth consecutive year, The Peninsula Chicago hosted a contemporary art exhibition to coincide with the seventh edition of Expo Chicago, the International Exposition of Contemporary & Modern Art.

Entitled "But I'm on The Guest List!", the exhibition was curated by The FLAG Art Foundation and brought together the work of contemporary artists including Jennifer Dalton, Elmgreen & Dragset, Ewan Gibbs, Awol Erizku, Josephine Meckseper, Tom Sachs, Cindy Sherman, Yuken Teruya and Chicago's own Carlos Rolón. The selection of artworks playfully peppered the hotel's public spaces, mingling form and function, high and low culture, and humorously commenting on the trappings of VIP status.

Chicago-based Rolón had two site-specific installations, one of which was his gold leaf and oil painting, *Gild the Lily (Decadence upon Decadence IV)*. The second was an intimate Caribbean seating area entitled *Bochinche* after a Spanish slang term for "gossip," responding to the aesthetic beauty and functionality of the space.

"I was truly delighted to present my recent work at The Peninsula Chicago," said Rolón. "As a Chicago-based artist, it gave me so much pleasure to show in my hometown, and the beautiful environment of the hotel served as the perfect backdrop."

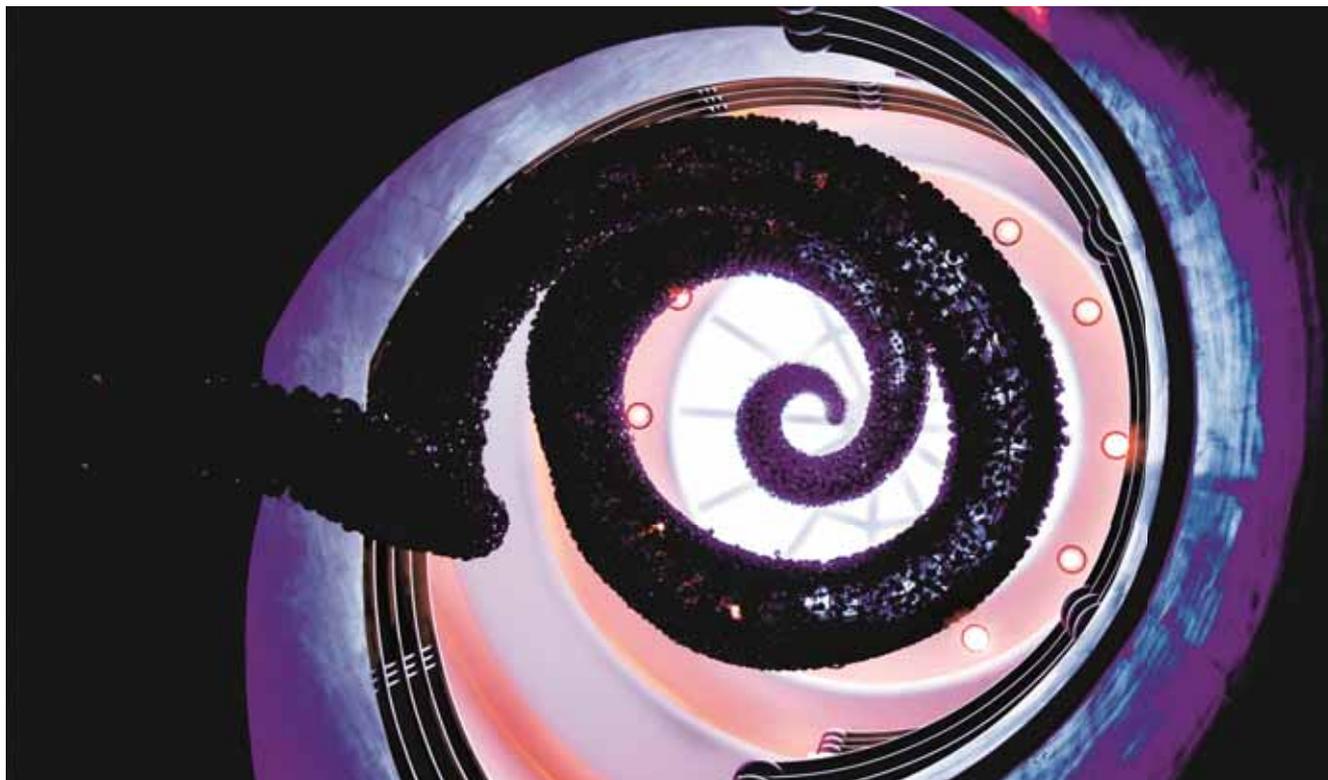
## OUR GUESTS

# A New Age of Innovation

“Innovation distinguishes between a leader and a follower”



The Hongkong and Shanghai Hotels is one of the world's best luxury hotel groups, renowned for our luxury hospitality and personalised service. We are a brand with an established history, but in today's fast-paced world we recognise that we need to keep our vision firmly set on the future.



HSH has set up a dedicated team, the Technology Steering Committee, committed to exploring the latest developments in the technology world and to seek to understand and answer some of these questions:

- How do we achieve a “360-degree view” of our guest”?
- How can we personalise each and every guest’s stay and exceed their expectations, while maintaining strict privacy regulations?
- Who are our guests of tomorrow and what are they seeking?
- What can people expect from the hotel room of the future – look, feel, scent, ambience, virtual reality experiences?
- How will guests feel when they arrive and when they leave a hotel?
- How is technology shaping the future of hospitality in the trillion-dollar industries of wellness and sleep, and how can hotels play a role?

The Technology Steering Committee is led by our CEO Clement Kwok and Group Director of Information Technology Shane Izaks, who are responsible for driving technology transformation across the group. There are five departmental pillars that shape the committee – Operations, Sales & Marketing, R&T, Finance and HR. The ambition is for our company to transition from current best practice into a truly data-driven company where the guest and operations experience is enhanced by digitisation and data analytics.

As Mr Izaks notes, “Our objective is to embark on a journey that allows us to prepare for the needs of tomorrow. It is a journey where we will use the latest technology and business data tools to enhance the service we offer our guests, as well as understanding more deeply which areas of our hotel activity and retail services are most valuable to guests.”.

“Today’s real luxury is time and we want to give our customers back their precious time. We are asking ourselves the question of how we can help our staff to serve our customers even better in the future. We all know that it is only through innovation that we can transform our operations and secure our future. Smart hotel rooms, voice recognition, personalised service and customisation are fast becoming a part of the luxury hotel room offering. We are planning to take the very best of contemporary best practice, combining digital technology and deploying it to enhance the way we work and create a better guest experience.”

## Our Guests

In 2016, the TSC established a five-year roadmap to meet its goals and to bring cohesion to our tech development and strategies.

All of these factors require more than just introducing the power of data and analytics and computing into our operations or e-commerce; it is about how we use technology to enhance how we work: not by replacing people, but becoming more efficient and by facilitating a better guest experience.

Through the implementation of changes behind the scenes, we aim to be able to dedicate more time for our concierges, housekeeping staff and front desk personnel to attend to our guests in the most personalised way possible.



2016/17 Putting the initial business tools in place for Data Analysis – BigDATA; Uploading our data into contemporary cloud-based services

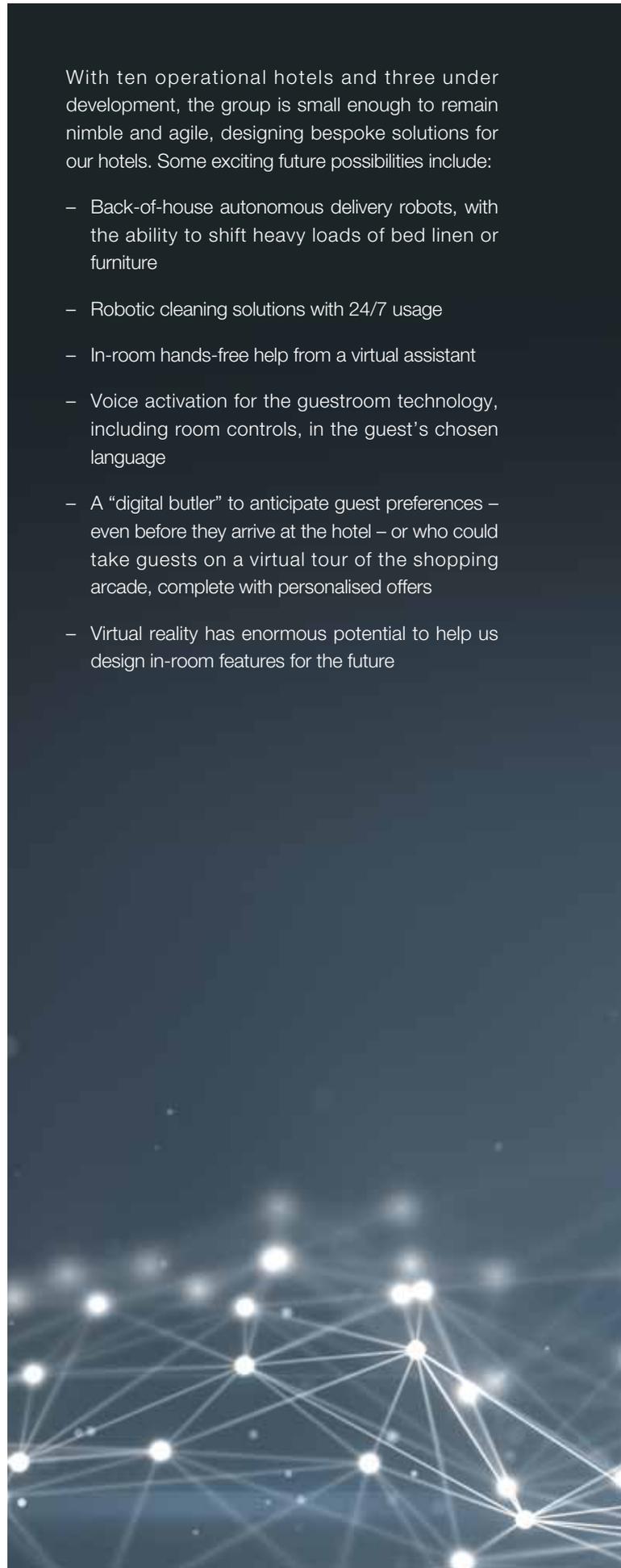
2017/18 The start of Digital Transformation, looking at Business Intelligence software, data analytics & adapting organisational structure to fit.

2018/19 Enhancing Customer Relationship Management (CRM)

2019/20 Roll out to all operations with multiple levels of users. Continue enhancements to refine the data

With ten operational hotels and three under development, the group is small enough to remain nimble and agile, designing bespoke solutions for our hotels. Some exciting future possibilities include:

- Back-of-house autonomous delivery robots, with the ability to shift heavy loads of bed linen or furniture
- Robotic cleaning solutions with 24/7 usage
- In-room hands-free help from a virtual assistant
- Voice activation for the guestroom technology, including room controls, in the guest’s chosen language
- A “digital butler” to anticipate guest preferences – even before they arrive at the hotel – or who could take guests on a virtual tour of the shopping arcade, complete with personalised offers
- Virtual reality has enormous potential to help us design in-room features for the future



Our hotels are the perfect testing ground for much of this new technology. AI (artificial intelligence) or VR (virtual reality) devices and applications are already becoming mainstream. We are working towards the following:

- Staff using wearables or smart watches to assist in back-of-house communications
- By integrating data from every touchpoint in the hotel we could improve service, reduce cost and tailor personal services
- A new generation of in-ear technology (“hearables”) that could give instant translation for housekeeping or front desk to communicate more easily with guests
- Robotic Process Automation to bring efficiency to back-of-house

These enhancements to operations will be matched on the digital side of our business in our e-commerce and Customer Relationship Management (CRM):

- Personalisation with features based on a single customer view
- Personalised direct booking experience
- Identify new guests and target audiences

The result is one that we hope will improve our guest experience, while enhancing the service values that are at the heart of what HSH promises.



**KALEIDOSCOPE LAB**

As part of HSH's ongoing investment in hospitality technology, in the summer of 2018, the group launched the Kaleidoscope Lab ignition programme – the latest component of the TSC's five-year roadmap which it will deliver across HSH group businesses.

This is the world's first bespoke luxury hospitality project of its kind, developed in conjunction with SRI International (Stanford Research Institute). With the objective of discovering, nurturing and accelerating new innovation for the luxury hospitality sector, the project also marked the first collaboration for SRI International in Hong Kong. The Kaleidoscope Lab programme initially attracted over 70 applicants and six shortlisted finalists subsequently pitched their ideas to a panel of HSH executives and industry experts in February 2019. Following the pitches, ASA Innovation & Technology Ltd and Neoma were announced as the joint winners.

They will also be connected with venture capitalists, industry experts and legal advisors in order to ensure that they have all the tools that they need to build and manifest their respective products. At the end of the programme, the startups will then be given the opportunity to pitch their product to HSH to secure a pilot or commercial deal with the group.

# ENGAGING OUR STAKEHOLDERS

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

Stakeholder Group	Why and how we engage	Examples in 2018
 <p><b>Guests</b></p>	<p>Engaging our guests and ensuring their satisfaction is critical to how we run our business.</p> <p>In 2018 we continued to drive digital engagement by revamping peninsula.com for a better user experience, including 360-degree video content, and producing engaging social media content with influences.</p> <p>WeChat is a very important channel for the China market, and we use this to highlight Peninsula destinations and also as a room booking channel.</p> <p>On the sales side, we focused heavily on expanding and enhancing our relationships with global travel agencies who can help interact with potential customers.</p> <p>We continued to expand PenClub, our in-house preferred travel partner programme with 48 new travel partners from China, Japan, Canada, Israel, Europe and the United States.</p>	<ul style="list-style-type: none"> <li>• Peninsula.com was revamped with a new visual design to better showcase each property with greater impact, providing improved navigation clarity and easier paths to the booking process, integration of User Generated Content (UGC) galleries from social media and integration of 360-degree panorama views of guest rooms, restaurants and facilities.</li> <li>• <i>The Peninsula Classics Best of the Best Award</i> brought together eight of the world’s finest classic cars – the best of show winners from the top international <i>concours</i> – to compete for the title of the most exceptional motor car in the world.</li> <li>• The Peninsula New York celebrated its 30th Anniversary with a curated art exhibition celebrating artists who were prominent in the 1980s, including Andy Warhol.</li> <li>• The festive season was brought to life at each of our ten Peninsula hotels around the globe under the theme, ‘Stories from the Tree.’ US\$5 from each purchase of a character was donated between Make-A-Wish Foundation and a local charity.</li> </ul>
 <p><b>Employees</b></p>	<p>In 2018, we placed a greater emphasis on attracting and retaining employees, as well as rewards and recognition, employer branding, and staff engagement. We conducted a series of employer branding campaigns and videos and shared on our corporate website and social media.</p> <p>Increased two-way communication with senior management through discussion forums and Open House meetings.</p> <p>Explored best practices to reward and recognise high performing staff.</p>	<ul style="list-style-type: none"> <li>• Launched a global employer branding and recruitment campaign across all our properties worldwide which is aligned with Human Resources and business goals</li> <li>• Promoted the use of Microsoft Yammer as a communication tool across the group</li> <li>• Explored best practices and reward and recognition programmes</li> <li>• See pages 98 to 107 for more details on our employee engagement strategy</li> </ul>
 <p><b>Governments</b></p>	<p>Our Executive Directors and Chairman regularly meet with senior Hong Kong Government leaders and Legislative Council members to discuss areas of concern for the tourism and property sectors. Our Chief Executive Officer and senior executives are members of the World Travel &amp; Tourism Council (WTTC) which actively engages with governments around the world on industry issues on behalf of members.</p> <p>Our project team members in London, Istanbul and Yangon meet with select local government representatives, diplomats and relevant stakeholders to discuss local issues and enhance cooperation ahead of our three project hotel openings.</p>	<ul style="list-style-type: none"> <li>• Engaged with Hong Kong Government departments on tourism initiatives particularly with regards to the new developments in West Kowloon and the Kowloon Waterfront</li> <li>• Membership of WTTC</li> <li>• Engaged with local government representatives and diplomats in London, Istanbul and Yangon</li> </ul>

Stakeholder Group	Why and how we engage	Examples in 2018
 <p><b>Financial Analysts and Investors</b></p>	<p>Our Investor Relations team and our Executive Directors meet regularly with financial analysts and investors, as well as participate in non-deal investor road shows, post-results briefings and the AGM</p>	<ul style="list-style-type: none"> <li>◆ Investor Conferences</li> <li>◆ Financial reports and website</li> <li>◆ Annual General Meeting (AGM)</li> <li>◆ One-on-one and group briefings</li> </ul>
 <p><b>Media</b></p>	<p>The Peninsula Hotels Marketing team conducts regular press briefings and attends high profile trade shows in all our key markets as well as emerging markets, and the HSH Corporate Affairs team organises press conferences with Executive Directors at annual/interim results and individual interviews throughout the year in Hong Kong. We host regular press groups from the world's most prestigious travel, luxury and business publications to visit the cities in which we operate.</p>	<ul style="list-style-type: none"> <li>◆ International Luxury Travel Market (ILTM) in Cannes</li> <li>◆ HSH financial results press conferences at The Peninsula Hong Kong and AGM</li> <li>◆ High-profile media programmes</li> </ul>
 <p><b>Community and NGOs</b></p>	<p>Our Corporate Responsibility and Sustainability team meets with non-profit organisations, academia and industry advocacy groups regularly throughout the year to keep ourselves informed of the latest developments on sustainability issues, and contributes to the sustainability development of the wider community by sharing HSH's experience at various local and regional conferences and industry committees.</p> <p>This engagement also includes our support to different charities around the world. Our operations also engage with local charities to provide support where possible.</p>	<ul style="list-style-type: none"> <li>◆ Membership of Business for Social Responsibility</li> <li>◆ Partnership with WWF Hong Kong</li> <li>◆ Partnership with The Hong Kong Council of Social Service</li> <li>◆ Membership of Hong Kong Council for Sustainable Development's Support Group for Promotion of Sustainable Use of Biological Resources</li> <li>◆ Membership of Responsible Luxury Initiative, Business Women for Action, Mekong Club and the HK Sustainable Seafood Coalition</li> <li>◆ Participation in several sharing sessions organised by the think-tank China Water Risk on the topic of water stress</li> </ul>
 <p><b>Partners and Suppliers</b></p>	<p>Our partners are also key to our growth, as they help us to ensure the successful operation of our properties in their local markets.</p> <p>Sustainable guidelines such as the Building Research Establishment Environmental Assessment Method (BREEAM) were incorporated since the beginning of project planning, for the construction of the new hotels and renovation projects.</p>	<ul style="list-style-type: none"> <li>◆ The Peninsula Yangon has been undertaking an extensive restoration and heritage preservation, cataloguing to preserve the history and heritage of Myanmar. The Peninsula Istanbul is undergoing a highly complex restoration and construction project on the banks of the Bosphorus, in collaboration with local authorities and Heritage Board.</li> <li>◆ The Peninsula London, Istanbul and Yangon are referencing international green building standards during their development</li> </ul>

We always seek to improve on the area of stakeholder engagement and we are compiling a thorough stakeholder engagement profile for our three project markets in 2018.

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

# AWARDS IN 2018

Operation	Awards	Organisers
The Hongkong and Shanghai Hotels Annual Report 2017	2018 ARC Awards – Best of Show	MerComm. Inc.
	2018 ARC Awards, Grand Award - Best of Hong Kong - Traditional Annual Reports - Hong Kong - Unique Treatment - Chairman's Letter - Interior Design - Printing & Production	MerComm. Inc.
	2018 ARC Awards, Gold Award - Overall Presentation - Traditional Format - Hotel & Leisure - Feature Categories - Interior Design - Hotel & Leisure - Feature Categories - Printing & Production - Hotel & Leisure - Feature Categories - Chairman's/President's Letter - Hotel & Leisure - Feature Categories - Photography - Hotel & Leisure - Overall Presentation - Traditional Format - Tourism - Feature Categories - Cover Photo/Design - Tourism - Feature Categories - Photography - Tourism - Overall Presentation - Traditional Format - Diversified Business - Feature Categories - Cover Photo/Design - Diversified Business - Feature Categories - Chairman's/President's Letter - Diversified Business - Feature Categories - Photography - CSR - Corporate Social Responsibility Report - Feature Categories - Infographics - CSR - Corporate Social Responsibility Report	MerComm. Inc.
	2018 ARC Awards, Silver Award - Feature Categories - Cover Photo/Design - Hotel & Leisure - Feature Categories - Interior Design - Tourism - Feature Categories - Cover Photo/Design - Tourism - Feature Categories - Infographics - Tourism - Feature Categories - Printing & Production - Diversified Business - Feature Categories - Cover Photo/Design - CSR - Corporate Social Responsibility Report	MerComm. Inc.
	2018 ARC Awards, Bronze Award - Feature Categories - Infographics - Hotel & Leisure - Overall Presentation - Specialized Annual Reports - CSR - Corporate Social Responsibility Report	MerComm. Inc.
	IADA Award 2018, Gold Award - Traditional Format – Diversified Business - Integrated Presentation - Traditional Format – Health & Pharmaceuticals - Hotel & Catering - Integrated Presentation	The International Annual Report Design Awards
	IADA Award 2018, Silver Award - Traditional Format - Diversified Business - Cover Design - Traditional Format – Diversified Business - Interior Design - Traditional Format - Diversified Business - Photography - Traditional Format - Health & Pharmaceuticals - Hotel & Catering - Cover Design	The International Annual Report Design Awards
	2018 Best Corporate Governance Awards - Platinum Award in the Non-Hang Seng Index (Medium Market Capitalisation) Category	Hong Kong Institute of Certified Public Accountants
	2018 Best Annual Reports Awards - Bronze Award in "General" Category	Hong Kong Management Association

Operation	Awards	Organisers
The Hongkong and Shanghai Hotels	Most Engaging Employer Brand 2018 - Bronze	LinkedIn
	FT Asia-Pacific Innovative Lawyers Awards 2018 - Highly commended - Business of Law: New business & service delivery models - Commended - Business of Law: Technology and Data - Overall: Most Innovative In-House Legal Teams No.15	Financial Times (UK)
	WEF Awards - Women of the Decade 2018 - for Ms Janice Lao, Director, Group Corporate Responsibility and Sustainability	Women Economic Forum (Switzerland)
	edie Sustainability Leaders Awards 2019 - Sustainability Leader of the Year - for Ms Janice Lao, Director, Group Corporate Responsibility and Sustainability	Faversham House (UK)
The Peninsula Hotels	2019 Forbes Travel Guide Five Star Rating for our entire hotel portfolio	Forbes Travel Guide (US)
	2018 GT Tested Reader Survey Awards - Best Hotel Website No.1	Global Traveler (US)
	29th Annual Hotel Investment Conference Asia Pacific - Sustainable Hotel Award	Hotel Investment Conference Asia Pacific
	2018 Asia eCommerce Awards, Gold Award - Best Adwords Ecomm Campaign (Driving Direct Hotel Bookings Through Search) - Best Cross-border Ecomm Campaign (Localized Strategy Towards OTA Competition)	Marketing Magazine (Singapore)
The Peninsula Hong Kong	2018 Travel + Leisure World's Best Awards - The Top 5 Hong Kong City Hotels No.1	Travel+Leisure (US)
	2018 Marco Polo Club Members' Choice Awards - Best Hong Kong Hotel	Discovery (Hong Kong)
	Forbes Travel Guide 2018 Star Award Five-star Hotel The Peninsula Spa Five-star rating Gaddi's Five-star restaurant rating	Forbes Travel Guide (US)
	25th World Travel Awards - Asia's Leading Heritage Hotel 2018 - Asia's Leading Luxury Hotel 2018 - Hong Kong's Leading Luxury Hotel 2018	World Travel Awards™ (US)
	Business Traveller Awards Asia Pacific 2018 - Best Business Hotel in the World No.2	Business Traveller (Asia)
	2018 The Ultra Travel Awards - Best Hotel in Asia No.2	The National UltraTravel (Middle East)
	Our Favorite Hotels in the World: Gold List 2018	Condé Nast Traveler (US)
	Michelin One Star - Spring Moon	2019 Michelin Guide Hong Kong and Macau
The Peninsula Shanghai	Our Favorite Hotels in the World: Gold List 2018	Condé Nast Traveler (US)
	Forbes Travel Guide 2018 Star Award Five-star Hotel The Peninsula Spa Five-star rating Yi Long Court Recommended Restaurant	Forbes Travel Guide (US)
	2018 The Ultra Travel Awards - Best Hotel in Asia No.2	The National UltraTravel (Middle East)
	Michelin Two Stars – Yi Long Court Michelin One Star – Sir Elly's	2019 Michelin Guide Shanghai

## Awards in 2018

Operation	Awards	Organisers
The Peninsula Beijing	2018 Hot List - Best New Hotels in the World - Asia	Condé Nast Traveler (US)
	Forbes Travel Guide 2018 Star Award Five-star Hotel	Forbes Travel Guide (US)
	2018 Town & Country Hotel Awards - The Best New Hotels in the World - Asia & Indian Ocean	Town & Country (US)
	Building Research Establishment Environmental Assessment Method (BREEAM) - Good rating	BRE Group
	HICAP 2018 Sustainable Hotel Award Winners: Sustainable Design Category	Hotel Investment Conference Asia Pacific
The Peninsula Tokyo	2018 Travel + Leisure World's Best Awards - The Top 5 Tokyo City Hotels No.1	Travel+Leisure (US)
	Forbes Travel Guide 2018 Star Award Five-star Hotel The Peninsula Spa Five-star rating	Forbes Travel Guide (US)
The Peninsula Bangkok	2018 Travel + Leisure World's Best Awards - The Top 5 Bangkok Hotels No.2	Travel+Leisure (US)
	Forbes Travel Guide 2018 Star Award Five-star Hotel	Forbes Travel Guide (US)
The Peninsula Manila	25th World Travel Awards - Philippines' Leading Business Hotel 2018 - Philippines' Leading Hotel Suite 2018	World Travel Awards™
The Peninsula New York	2018 AAA Five Diamond Hotels	AAA (US)
	Forbes Travel Guide 2018 Star Award Five-star Hotel The Peninsula Spa Five-star rating	Forbes Travel Guide (US)
The Peninsula Chicago	No 1 Luxury Hotel in the US 2019	TripAdvisor (US)
	No 2 Best Hotel in the US 2018	U.S. News & World Report (US)
	2018 AAA Five Diamond Hotels	AAA (US)
	Forbes Travel Guide 2018 Star Award Five-star Hotel	Forbes Travel Guide (US)
	2018 Travel + Leisure World's Best Awards - The Top 10 Hotels in Chicago No.2	Travel+Leisure (US)
	The Ultra Travel Awards - Best Hotel in the Americas	The National UltraTravel (Middle East)
	The World's Best Hotels, Resorts, and Cruises: The 2019 Gold List The Best Hotels and Resorts in the U.S. and Canada: The 2019 Gold List	Condé Nast Traveler (US)
	Our Favorite Hotels in the World: Gold List 2018	Condé Nast Traveler (US)
The Peninsula Beverly Hills	2018 AAA Five Diamond Hotels	AAA (US)
	2018 GT Tested Reader Survey Awards - Best Hotel in the United States No.1	Global Traveler (US)
	Forbes Travel Guide 2018 Star Award Five-star Hotel	Forbes Travel Guide (US)

Operation	Awards	Organisers
The Peninsula Paris	2018 Travel + Leisure World's Best Awards - The Top 10 Europe City Hotels No.2 - The Top 10 Paris Hotels No.2	Travel+Leisure (US)
	Forbes Travel Guide 2018 Star Award Five-star Hotel	Forbes Travel Guide (US)
The Repulse Bay	Southside Readers' Choice Awards 2018 - Best Residential Complex (The Repulse Bay Complex) - Best Fine Dining (The Verandah)	Southside Magazine (Hong Kong)
The Landmark Vietnam	The Guide Awards 2017-2018 - Certificate of Excellence	Vietnam Economic Times + The Guide
Thai Country Club	Asian Golf Awards 2018 - Asia Pacific order of Zenith - Best Food and Beverage Experience in Asia Pacific - Best Managed Golf Club in Asia Pacific (1st Runner Up) - Asia Pacific Golf 101 the Sustainability Citation	Asia Pacific Golf Group (Singapore)
Quail Lodge & Golf Club	Best Playing Conditions Public Course 2017	Northern California Superintendents Association (US)
	2018 Best Playing Conditions in Central California	GreensKeeper.org
	2018 Best of Monterey County Awards - Editors' Picks - Best New Sign of Intelligent Life in the Universe - Waypoint Bar & Deck	Monterey County Weekly (US)
	VMA Showcase Awards 2018 - Silver Award for Printing and Design Excellence - The Quail Magazine	Visual Media Alliance (US)
Peninsula Merchandising Limited	2018 Fair Trade Corporate Label Award - Gold Award - The Most Fairness Award	Fairtrade Hong Kong
	2018 Asia eCommerce Awards - Gold: Best E-Commerce Design / Re-Design - Bronze: Best E-Commerce Merchant / Hospitality & Travel	Marketing Magazine (Singapore)
Tai Pan Laundry	2018 Social Capital Builder Logo Award	Labour & Welfare Bureau (Hong Kong)
	2018 Caring Elders Award	Social Welfare Department (Hong Kong)





## Governance

124	Chairman's Governance Overview
126	Our Leadership - Board Members
132	Our Leadership - Senior Management and Key Functions
134	Our Leadership - Diversity
136	Corporate Governance Report
154	Group Risk Committee Report
162	Group Corporate Responsibility Committee Report
164	Audit Committee Report
166	Nomination Committee Report
168	Remuneration Committee Report
172	Directors' Report







## The Peninsula Rolls-Royce Fleet

The Peninsula Hong Kong and Rolls-Royce have had a record-breaking partnership since 1970, when the hotel first bought seven Silver Shadow Rolls-Royce cars, followed by eight Silver Shadow II's in 1980, eight Rolls-Royce Silver Spirits in 1987 and 14 new Extended Wheelbase Phantoms in 2006. The hotel also owns one 1934 Rolls-Royce Phantom II. As James Bond was informed in the 1970s film *The Man with the Golden Gun*: "Everyone knows all the green Rolls-Royces belong to The Peninsula."



## CHAIRMAN'S GOVERNANCE OVERVIEW



**“ We uphold our core values and principles of integrity, accountability and transparency, with a focus on the long-term future. ”**

Dear Shareholders,

### Building a legacy for a sustainable future

We are proud that our company, The Hongkong and Shanghai Hotels Limited, which has an exceptional heritage of 150 years, is the owner and operator of The Peninsula Hotels which is considered to be one of the world's leading luxury hospitality brands. In 2018 we celebrated 90 years of history at The Peninsula Hong Kong and this anniversary is the feature theme of this report, in which we celebrate our guests, our people, and the cities in which we live and work.

The continuous enhancement of our assets, our practices and our people is one of our key philosophies to build a legacy for a sustainable future. Our sustainability framework of “Our Guests, Our People and Our Cities” forms an integral part of the group's long-term business strategy, which is supported and endorsed by the Board. Good corporate governance is at the heart of this strategy. We uphold the core values and principles of integrity, accountability and transparency, with a focus on the long-term future. We ensure that our values permeate throughout every level of our group, with the aim that every employee lives and breathes an ethos of always “doing the right thing”. In 2018, we held a mandatory group-wide training for our updated Code of Conduct, which is entitled “Tradition of Integrity”, with the aim of instilling our values into each staff member and applying them to our business practices.

Overseeing all aspects of our strategy and enabling this culture to succeed is our dynamic Board, which has a diverse range and balance of skills, expertise and experience and works effectively and constructively in challenging the Executive Directors and management. We regularly review our governance processes, policies, procedures and practices to ensure they are in line with global regulatory requirements and best practices.

Throughout 2018 the Board monitored the progress of the London, Istanbul and Yangon projects as well as the upgrade of The Peak Tram. Driving innovation remains a key focus on our management team and in the summer of 2018 the Board endorsed the Kaleidoscope Lab, which is the first programme of its kind in the luxury hospitality sector. The programme is aimed at attracting innovative startups and is run in collaboration with SRI International (Stanford Research Institute) (more details can be read on page 115). We believe our partnership will ultimately lead to a better guest experience by enhancing our technology offering.

In 2018 the Board continued to ensure that we invest in our people by evaluating the company's succession plans as well as training and selection for key management positions. We also continuously enhanced our risk management process across the projects to improve the effectiveness of our controls. The identified principal and emerging risks facing the group and their mitigation methods were closely monitored by the Group Risk Committee and reviewed by Audit Committee and the Board. More details can be read on pages 154 to 161 of this report.

### Compliance

As a Hong Kong listed company, we are reporting in the context of the Stock Exchange's Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules. However, we do not review corporate governance as simply a compliance exercise but as an evolving and core discipline which underpins the success of the company. This report sets out our approach to corporate governance, how we have applied the main principles and whether we have complied with the relevant provisions. It also shows the structure of our Board and Board Committees, the roles that they play, how they operate, and our risk management structure and processes.

### A commitment to long-term success

Overall, I am pleased with the progress we have made in 2018 in the area of governance. We strive to continually improve and enhance our efforts and ensure the long-term success of the company.

The Hon. Sir Michael Kadoorie  
14 March 2019

## OUR LEADERSHIP - BOARD MEMBERS



From left to right

Back row:

Peter Borer, James Lewis, John Leigh,  
Patrick Paul, Philip Kadoorie, Clement Kwok,  
Pierre Boppe, Dr William Fung, Nicholas Colfer,  
Matthew Lawson

Front row:

Ada Tse, William Mocatta, Andrew Brandler,  
The Hon. Sir Michael Kadoorie,  
Dr the Hon. Sir David Li, Dr Kim Winser,  
Dr Rosanna Wong

## Our Leadership - Board Members

### Governance Board Committees

-  Audit Committee
-  Nomination Committee
-  Remuneration Committee
-  Chairman of the Committee

### Other Board Committees

-  Executive Committee
-  Finance Committee
-  Chairman of the Committee

### Non-Executive Chairman

#### The Hon. Sir Michael Kadoorie



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

Appointed a Director in November 1964 and elected Chairman in 1985, Sir Michael is a substantial shareholder of the company within the meaning of the Securities and Futures Ordinance. He is a Director of a subsidiary of the company. He is also Chairman of CLP Holdings Limited, an Independent Non-Executive Director of CK Hutchison Holdings Limited, a Director of Sir Elly Kadoorie & Sons Limited, and he holds a number of other directorships. He was an Alternate Director of Hong Kong Aircraft Engineering Company Limited until May 2016. In addition, Sir Michael acts as a trustee for a number of notable local charitable organisations. He is the father of Mr Philip Lawrence Kadoorie, and the brother-in-law of the Honorary Life President, Mr Ronald James McAulay. He is 77 years old.

### Non-Executive Deputy Chairman

#### Andrew Clifford Winawer Brandler



Appointed a Director and Deputy Chairman in May 2014, Mr Brandler is also Chairman of two subsidiaries of the company. From May 2000 to September 2013, Mr Brandler was the Group Managing Director and Chief Executive Officer of CLP Holdings Limited and he remains a Non-Executive Director of this company. He is a Non-Executive Director of Tai Ping Carpets International Limited and an Independent Non-Executive Director of MTR Corporation Limited. As Chairman of Sir Elly Kadoorie & Sons Limited, he oversees a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the company. Prior to joining CLP Holdings Limited, Mr Brandler worked for Schroders, a UK investment bank, and was based in London, in Singapore and latterly in Hong Kong, where his last position was Head of Asia-Pacific Corporate Finance. He

was the Chairman of The Hong Kong General Chamber of Commerce between 2008 and 2010. He holds BA and MA degrees from the University of Cambridge, an MBA degree from Harvard Business School, and is a member of the Institute of Chartered Accountants in England and Wales. He is 62 years old.

### Executive Directors

#### Chief Executive Officer

#### Clement King Man Kwok



*Chevalier de la Légion d'Honneur*

Appointed to the Board as Managing Director and Chief Executive Officer in February 2002, Mr Kwok is also a Director of the majority of the group's entities. His career began with Price Waterhouse and Barclays de Zoete Wedd in the UK, following which he returned to Hong Kong in 1986 to work with Schroders Asia, where he was appointed as Head of Corporate Finance in 1991. From 1996 to 2002, Mr Kwok served as Finance Director of MTR Corporation. He was an Independent Non-Executive Director of Orient Overseas (International) Limited until August 2018. He is currently a Fellow of The Hong Kong Management Association, a Council member of the World Travel & Tourism Council, a member of the International Advisory Council of the Faculty of Business and Economics of The University of Hong Kong and an Honorary Adviser to the Financial Reporting Council. Over his long career in Hong Kong, he has served on the Stock Exchange Listing Committee, the Takeovers and Mergers Panel, the Securities and Futures Appeals Tribunal, the Hang Seng Index Advisory Committee, the Harbourfront Commission and the Interpretations Committee of the International Accounting Standards Board in London, as well as an Independent Non-Executive Director of Swire Pacific Limited. He holds a Bachelor of Science in Economics from the London School of Economics and is a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He is 59 years old.

### Chief Operating Officer

#### Peter Camille Borer

Appointed to the Board as an Executive Director in April 2004, Mr Borer is a Director of the majority of the group's entities. He joined the group in 1981 and was appointed General Manager of The Peninsula Hong Kong in 1994, taking on additional regional responsibility in 1999. He was appointed as Chief Operating Officer in April 2004. Mr Borer is a graduate of the Ecole hôtelière de Lausanne, Switzerland and is now a member of the International Advisory Board of the school. He is also a member of the Advisory Board of the School of Hotel and Tourism Management of The Chinese University of Hong Kong. He is 65 years old.

### Chief Financial Officer

#### Matthew James Lawson



Appointed to the Board as an Executive Director and Chief Financial Officer in May 2016, Mr Lawson is also a Director of the majority of the group's entities. Over the course of his career Mr Lawson has had extensive experience with hospitality and real estate transactions, investments and financing, including joint venture negotiations and structuring. He began his career with Arthur Andersen Corporate Finance in Sydney in 1998 and subsequently joined Deutsche Bank AG in Sydney in 2001 where he worked across Equity Capital Markets and Real Estate Investment Banking. Mr Lawson joined JPMorgan in Asia in 2006, where he held senior positions in Hong Kong and Singapore. Prior to his departure he was Managing Director and Head of JPMorgan's Real Estate, Gaming and Lodging investment banking practice in Asia. He is a member of CNBC Global CFO Council. He holds a Bachelor of International Business Relations from Griffith University and a Bachelor of Commerce from The University of Queensland. Mr Lawson has also completed various postgraduate studies in China, including at the Hopkins-Nanjing Center for Chinese and American Studies. He is 45 years old.

### Non-Executive Directors

#### William Elkin Mocatta

Appointed to the Board in May 1985, Mr Mocatta served as Deputy Chairman from 1993 until May 2002. He is also a Director of several subsidiaries of the company. Mr Mocatta is an Executive Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the company. He holds other non-

executive positions including Vice Chairman of CLP Holdings Limited and Chairman of CLP Power Hong Kong Limited, CLP Properties Ltd., CLP Property Investment Limited, Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited. Mr Mocatta is also an Alternate Director for The Hon. Sir Michael Kadoorie in CK Hutchison Holdings Limited. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He is 66 years old.

#### John Andrew Harry Leigh



Appointed to the Board in May 2006, Mr Leigh also serves on the Boards of CLP Holdings Limited and Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the company. Previously, he worked in private practice as a solicitor in Hong Kong and the UK. He is 65 years old.

#### Nicholas Timothy James Colfer

Appointed to the Board in May 2006, Mr Colfer is Chairman of Tai Ping Carpets International Limited and a Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the company. He also serves on several other corporate Boards in Hong Kong. He holds BA and MA degrees from the University of Oxford and has over 35 years of experience in corporate management in the Asia Pacific region, principally in real estate, manufacturing and distribution. He is 59 years old.

#### James Lindsay Lewis

Appointed to the Board in December 2017, Mr Lewis is a Director of Sir Elly Kadoorie & Sons Limited, being involved in a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the company. He was an Independent Non-Executive Director of Hong Kong Aircraft Engineering Company Limited which was privatised in November 2018. Mr Lewis has experience in private equity, hotel, charity and aviation operations and currently serves on the Boards of several private companies in the United Kingdom, Hong Kong and the Philippines. Mr Lewis is a graduate of the Kellogg-HKUST Executive MBA program, holds a Master of Aviation Management from The University of Newcastle, Australia, a Certification of Hospitality Management from Cornell University, U.S.A. and is a member of The Society of Trust and Estate Practitioners. He is 44 years old.

## Our Leadership - Board Members

### Philip Lawrence Kadoorie

Appointed to the Board in December 2017, Mr Kadoorie is the son of The Hon. Sir Michael Kadoorie. He is a Non-Executive Director of CLP Holdings Limited, and a Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the company. Mr Kadoorie holds a Bachelor of Science in Communication from Boston University. Prior to his appointment to the Board, Mr Kadoorie completed various internships in commercial property companies in London and at CLP Group in Hong Kong. He holds an FAA Commercial Pilot's License (Helicopter). He is 27 years old.

### Independent Non-Executive Director

#### Dr the Hon. Sir David Kwok Po Li



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

Appointed to the Board in October 1987, Sir David is the Chairman and Chief Executive of The Bank of East Asia, Limited (listed in Hong Kong). He is an Independent Non-Executive Director of Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, San Miguel Brewery Hong Kong Limited and Vitasoy International Holdings Limited (all listed in Hong Kong). He is also a Director of Hong Kong Interbank Clearing Limited. Sir David was an Independent Non-Executive Director of PCCW Limited and SCMP Group Limited (now known as Great Wall Pan Asia Holdings Limited) until December 2018 and June 2016 respectively. Sir David is a member of the Council of the Treasury Markets Association. He is Founding Chairman of The Friends of Cambridge University in Hong Kong Limited, Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command and Chairman of the Executive Committee of St. James' Settlement. He was a member of the Executive Council of Hong Kong from 2005 to 2008 and the Legislative Council of Hong Kong from 1985 to 2012. He is 80 years old.

### Patrick Blackwell Paul, CBE



Appointed to the Board in February 2004, Mr Paul began his career with Price Waterhouse in London in 1969. A resident of Hong Kong since 1980, he was Chairman and a senior partner of PricewaterhouseCoopers in Hong Kong from 1994 until 2001. He is an Independent Non-Executive Director of Johnson Electric Holdings Limited and Pacific Basin Shipping Limited. He is also the Chairman of the Supervisory Board of the British Chamber of Commerce in Hong Kong. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He is 71 years old.

### Pierre Roger Boppe

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

From May 1996 until January 2002, Mr Boppe was Managing Director and Chief Executive Officer of the group. He was re-designated from being a Non-Executive Director to an Independent Non-Executive Director in June 2009. Upon his return to Europe, Mr Boppe continues to be active in the hotel and travel industries. He holds Master of Science degrees from both the Swiss Federal Institute of Technology and Stanford University. Mr Boppe has held various executive positions with the international quality control company SGS. He is 71 years old.

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



Appointed to the Board in January 2011, Dr Fung is the Group Chairman of Li & Fung Limited and also serves as a Non-Executive Director of other Fung Group companies including Convenience Retail Asia Limited and Global Brands Group Holding Limited. Dr Fung is an Independent Non-Executive Director of VTech Holdings Limited, Shui On Land Limited and Sun Hung Kai Properties Limited. He was a Non-Executive Director of Trinity Limited until April 2018. He is a past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and Hong Kong Committee for the Pacific Economic Cooperation Council. He was a Hong Kong Special Administrative Region delegate to the Chinese People's Political Consultative Conference from 1998 to 2003. Dr Fung graduated from Princeton University with a Bachelor of Science degree in Engineering. He also holds an MBA degree from the Harvard Graduate School of Business. He was awarded Honorary Doctorate degrees of Business Administration from The Hong Kong University of Science and Technology, The Hong Kong Polytechnic University and Hong Kong Baptist University. He is 70 years old.

## Dr Rosanna Yick Ming Wong, DBE, JP



Appointed to the Board in February 2013, Dr Wong is a member of the National Committee of the Chinese People's Political Consultative Conference. She is an Independent Non-Executive Director of CK Hutchison Holdings Limited and Hutchison Telecommunications Hong Kong Holdings Limited. Dr Wong is also a Steward of The Hong Kong Jockey Club. In addition, she is Honorary Chairman of World Vision Hong Kong, a Global Advisor to Mars, Incorporated and the Senior Advisor to The Hong Kong Federation of Youth Groups. She is a member of The Hong Kong University of Science and Technology Business School Advisory Council. Dr Wong has extensive knowledge and over three decades of experience in the political and nonprofit arenas and from sitting on Boards in the private sector. She is particularly skilled in public sector, people, project, change and risk management. Dr Wong holds a Doctor of Philosophy degree in Sociology from University of California, Davis and has been awarded Honorary Doctorates from The Chinese University of Hong Kong, The Hong Kong Polytechnic University, The University of Hong Kong, The Hong Kong Institute of Education and The University of Toronto. She is 66 years old.

## Dr Kim Lesley Winser, OBE

Appointed to the Board in January 2016, Dr Winser has substantive experience and expertise in the consumer and retail industries. She began her career with Marks & Spencer plc in the UK and became its first female commercial divisional board director as well as its youngest director in the 1990s. She went on to successfully deliver turnarounds for the iconic British heritage brands Pringle of Scotland as Chief Executive Officer and Aquascutum as President and Chief Executive Officer. She became a senior adviser to 3i, a leading private equity firm in the UK, for its investments in the consumer and retail industries and became Chairman of one of their brands, Agent Provocateur. Dr Winser has also previously served as an adviser to Natalie Massenet at online retailer Net-a-Porter and a Non-Executive Director of The Edrington Group Limited. Dr Winser is the Founder and Chief Executive Officer of Winser London Limited, an online womenswear business. Appointed by the British Prime Minister, Dr Winser is a member of the Board of Trustees and the Chairwoman of Commercial Advisory Committee of the Natural History Museum in the UK. Dr Winser was awarded an Order of the British Empire (OBE) by Her Majesty The Queen and a Doctorate from Heriot-Watt University for her work on British business. Her former name was Kim Lesley Haresign and she is 60 years old.

## Ada Koon Hang Tse



Appointed to the Board in December 2017, Ms Tse is a Senior Advisor of PineBridge Investments Asia (formerly, AIG Investments Asia). She joined AIG in 1996 and was President and Chief Executive Officer of AIG Investments Asia before assuming an advisory role in 2011. Ms Tse previously worked in financial advisory services and equity capital markets at Morgan Stanley in New York and Hong Kong. Prior to joining Morgan Stanley, she worked as a lawyer with Sullivan and Cromwell in New York. Ms Tse now serves on the Solicitors Disciplinary Tribunal Panel, Appeal Board Panel (Town Planning) and the Municipal Services Appeals Board of the Hong Kong SAR Government. She has also served on the Securities and Futures Commission Advisory Committee, Film Censorship Review Board and Travel Industry Compensation Fund Management Board. In addition, she runs her family's YangTse Foundation focusing on supporting education and arts initiatives. Ms Tse holds a BA in Applied Mathematics from Harvard University and JD from Harvard Law School. She is 52 years old.

## Honorary Life President

### Ronald James McAulay

Mr McAulay served on the Board as a Non-Executive Director of the company for over 45 years until his retirement in May 2017. In recognition of his extensive contribution to the company, the Board conferred on Mr McAulay the title of Honorary Life President. He does not have any official responsibilities within the company. Mr McAulay is the brother-in-law of The Hon. Sir Michael Kadoorie. He is 83 years old.

## OUR LEADERSHIP - SENIOR MANAGEMENT AND KEY FUNCTIONS



From left to right  
 Back row: Maria Razumich-Zec, Shane Izaks, Martyn Sawyer, Christobelle Liao, Sindy Tsui  
 Front row: Matthew Lawson, Clement Kwok, Peter Borer

### Senior Management

#### Group Management Board

Group Management Board (GMB) consists of Executive Directors, Clement Kwok, Peter Borer and Matthew Lawson<sup>1</sup>, and senior management, namely the Group Executives and other members.

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

reference to the market and other conditions that may affect all areas of business. Findings and recommendations are then communicated to the Board.

#### Group Executives:

##### Christobelle Liao

Appointed to GMB in 2011, Ms Liao is a Group Executive and also a Director of a number of the group's entities. She is the Group Director, Corporate and Legal, and responsible for general management, all corporate and legal matters as well as the group's investment in Istanbul. Ms Liao joined the group in 2002 as General Counsel and Company Secretary, and through the years took on additional responsibilities from risk management to general corporate management and new projects. She is a qualified solicitor in Hong Kong and England & Wales. She is 50 years old.

<sup>1</sup> Profiles of Clement Kwok, Peter Borer and Matthew Lawson are disclosed on pages 128 and 129

## Martyn Sawyer

Appointed to the GMB in 2002, Mr Sawyer is a Group Executive and also a Director of a number of the group's entities. He is responsible for the group's non-hotel properties and operations including The Repulse Bay Complex and The Peak Complex in Hong Kong, as well as management of the group's properties and clubs in Hong Kong, Vietnam, Thailand, Shanghai and France. Mr Sawyer also oversees the group's investment in Yangon. He has served the group for over 30 years. He was appointed Group General Manager, Properties and Clubs in 1999, and became Group Director, Properties in 2013. He is 61 years old.

### Other members:

#### Shane Izaks

Appointed to GMB in 2015, Mr Izaks joined the group as General Manager, Information Technology in 1995 and has been a key member of the development and restructuring of the technology function within the group. In 2013 he was promoted to Group General Manager, Information Technology and in 2019 he became Group Director, Information Technology. He is responsible for formulating and implementing information technology strategy at both group and operational levels, as well as overseeing the strategy and development of innovation and technology transformation, including the launch of Kaleidoscope Lab in 2018. He is 56 years old.

#### Maria Razumich-Zec

Appointed to GMB in 2007, Mrs Razumich-Zec joined the group as General Manager of The Peninsula Chicago in 2002 and was promoted to the position of Regional Vice-President – USA East Coast in 2007, with regional responsibilities covering The Peninsula Hotels in Chicago and New York, and Quail Lodge & Golf Club in Carmel, California. She became Regional Vice-President and General Manager, The Peninsula Chicago in 2013. She is 61 years old.

#### Sindy Tsui

Appointed to GMB in 2011, Ms Tsui joined the group as General Manager, Human Resources in 2007. With many years of experience in human resources management in the hospitality industry, she is responsible for the group's strategy on human resources, organisational and talent development. She became Group Director, Human Resources in 2013. She is 50 years old.

## Key Functions

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

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

Julie Bourgeois, *General Manager, Peninsula Merchandising Limited*

Christopher Chan, *General Manager, Research and Technology*

Ming Chen, *General Manager, Group Business Development*

Jisoo Chon, *General Manager, The Peninsula Shanghai*

Joseph Chong, *Area Vice President and Managing Director, The Peninsula Hong Kong and The Peninsula Shanghai*

Mark Choon, *General Manager, The Peninsula Manila*

Christopher Cribb, *Group General Manager, Projects*

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

Brice Delclos, *Hotel Manager, The Peninsula Paris*

Jason Hui, *Director, Group Security and Operational Risk*

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

Janice Lao, *Director, Group Corporate Responsibility and Sustainability*

Suan Beng Lee, *Group Treasurer*

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

Mark Lomas, *Project Director, Project, The Peak Complex*

Cecilia Lui, *Director, PRC Affairs*

Nadine Maurellet, *General Counsel*

Lynne Mulholland, *Director, Group Corporate Affairs*

Louise Napier, *Vice President, Global Commercial Leasing*

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

Vincent Pimont, *General Manager, The Peninsula Beijing*

Gareth Roberts, *Senior Vice President, Operations, The Peninsula Hotels*

Joseph Sampermans, *General Manager, The Peninsula Bangkok*

Wilson So, *Group Chief Engineer*

Ernest Tang, *Group General Manager, Group Finance*

May Tsang, *General Manager, The Peak Complex*

Sonja Vodusek, *General Manager, The Peninsula Tokyo*

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

Tina Wong, *General Manager, The Repulse Bay Company, Limited*

# OUR LEADERSHIP - DIVERSITY

## Boardroom Diversity

A strong and effective Board requires an appropriate mix of skills, experience and diversity among its members, in order to provide sound judgement on strategic issues and effective oversight of guidance to management.

### CATEGORY



### GENDER



### AGE



### NATIONALITY



## INDEPENDENCE WEIGHTING OF HSH BOARD AND GOVERNANCE BOARD COMMITTEES



\* Independent Non-Executive Directors

## BOARD EXPERTISE AND SKILLS



## Senior Management and Management Diversity

Our diversity philosophy does not end at the Board level but is carried out throughout the group. Gender diversity of the senior management and management as at the date of this report is set out below:



\* Inclusive of 3 Executive Directors

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

The company has taken, and continues to take, steps to promote diversity, including gender diversity, at management levels. The company has policies on equal opportunities and policies against gender and other forms of discrimination. Active steps were taken in promoting diversity in recruitment.

Biographical details of all Directors and senior management are shown on pages 128 to 133 and Information on the Board Diversity Policy and Nomination Policy are set out in the Nomination Committee Report on pages 166 and 167.

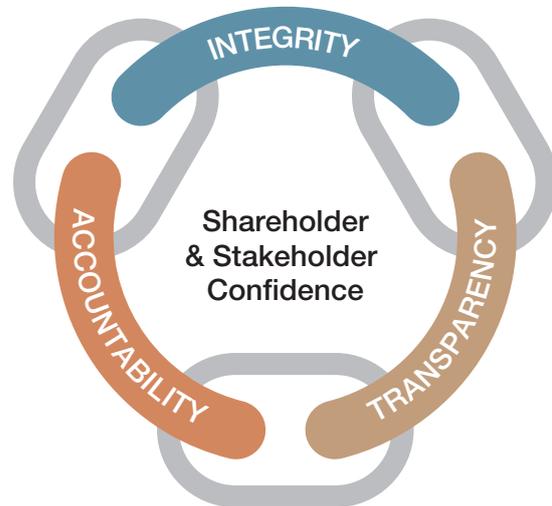
# CORPORATE GOVERNANCE REPORT

## Our Values

Good corporate governance is crucial to sustaining the group through the changing regulatory and market environment over the long term. Our Board sees corporate governance as an integral part of our business strategy. By putting in place the right governance framework, our Board 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 our company.

The annual report has been an important tool for us to provide our shareholders and stakeholders with a transparent picture of our business performance. Our commitment to continuously improve the clarity and transparency of our reporting is recognised in the list of awards we received for the annual report. The list can be found in the "Awards in 2018" section on page 118.

The Board recognises that our people are the key to maintaining good corporate governance and long-term sustainability of the company. The Corporate Responsibility and Sustainability Report<sup>2</sup> highlights our efforts in these areas in 2018.



## Corporate Governance Framework

The Board has set a two-tiered structure where the Board and the management team are led by the Chairman and the Chief Executive Officer respectively. The Board and its committees oversee the corporate governance structure and give guidance to management in implementing good governance in our daily business, as described below. The diagram on the next page illustrates how our corporate governance framework<sup>3</sup> supports the development of good governance practices throughout the group.

### Board and Board Committees

The Board has established five Board Committees in order to manage the company effectively. The Audit, Nomination, and Remuneration Committees are Governance Board Committees under the Corporate Governance Code in Appendix 14 of the Listing Rules. Attendance and reports on main activities from the Governance Board Committees are included in this section. The Executive and Finance Committees are strategic and finance committees which are integral parts of the management process. Each Committee reports its decisions and recommendations to the Board and seeks the Board's prior approval on specific reserved matters.

### Chief Executive Officer and Group Management Board and sub-Committees

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

For implementation of our business strategy, GMB is supported by four sub-committees, as well as General Managers and Heads of Operations and Functional Departments. Each GMB sub-committee has its own terms of reference or charter.

<sup>2</sup> Posted on the company's website: [www.hshgroup.com/en/sustainable-luxury](http://www.hshgroup.com/en/sustainable-luxury)

<sup>3</sup> Details of responsibilities and memberships of the committees can be found on HSH website: [www.hshgroup.com/en/corporate-governance](http://www.hshgroup.com/en/corporate-governance)



**BOARD**

responsible and accountable to the Company's shareholders and stakeholders for the long-term success of the group

**Governance Board Committees**

**Other Board Committees**

Audit Committee	Nomination Committee	Remuneration Committee	Executive Committee	Finance Committee
oversees the integrity of the group's financial reporting and the external and internal audit process ..... monitors and reviews the effectiveness of group's risk management and internal control systems	reviews the structure, size and composition of the Board ..... makes recommendations to the Board for appointments with reference to the Board Diversity Policy and Nomination Policy	makes recommendations to the Board on the remuneration philosophy and policies of the group ..... reviews and approves the remuneration packages of the Executive Directors and senior management ..... reviews and recommends to the Board the Non-Executive Directors' fees and the fees for serving on Board Committees	develops and reviews strategic opportunities and significant investment proposals ..... evaluates the group's competitive position and determines strategies to protect the brand, values and business principles of the group ..... oversees the implementation of strategic plans and investment proposals	reviews all financial aspects and budgets of significant acquisitions, investments, assets disposals and new project commitments of the group ..... reviews and approves the establishment of the financial and annual operational plans, budgets, forecasts and any revisions of the group ..... reviews the group's financial performance



**CHIEF EXECUTIVE OFFICER**

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



**GROUP MANAGEMENT BOARD (GMB)**

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

Group Risk Committee	Group Corporate Responsibility Committee	Technology Steering Committee	HSH Retirement Plan ORSO Committee	Audit & Risk Management
oversees top tier risks and mitigation plans of the group as well as monitors the actions required for critical and major incidents	monitors and oversees the implementation of the group's responsibility and sustainability policies and initiatives	oversees the strategic direction of the group's technology development	monitors and advises on strategic, administrative and operational aspect of the HSH Retirement Plan	provides Internal audit assurance ..... reports to Audit Committee and supports Group Risk Committee on risk management and internal controls



**GENERAL MANAGERS OF OPERATIONS AND HEADS OF CORPORATE DEPARTMENTS AS WELL AS BUSINESS OPERATIONS**

implements the group's strategy through its day-to-day operations

Delegation

Accountability

# Corporate Governance Report

## Our 2018 Corporate Governance Focus

Our 2018 corporate governance focus was driven by our commitment to quality and excellence and the sustainability of the company in the long term, as well as changes in the evolving external environment and regulatory landscape.

The company continues to adapt and refine its governance practices within the framework of evolving laws and the Listing Rules. We have reviewed our policies and practices and modified the HSH Corporate Governance Code, and terms of reference of the Nomination Committee. We adopted a nomination policy to formalise our criteria, process and procedures for nominating a Director in light of the changes to the corporate governance regime which have come into effect in 2019. We have also refined our terms of reference of the Audit Committee to reflect our current practice. In addition, the annual confirmation of independence by Independent Non-Executive Directors (INEDs) have been enhanced to cover the strengthened INED's independence criteria.

In addition, the Board recognises that in practice, governance requires the company to strike a balance between its commercial objectives in the near term with its overall business strategy and risk exposure. Our group seeks to achieve this by keeping Our Guests, Our People, and Our Cities in mind.

### Guest focus

While data privacy compliance is often seen as a regulatory driven requirement, the company has always valued the importance of our guests' privacy and has adopted a formal global privacy management programme since 2012. The programme has been and will continue to be refined over time as technology and business needs evolve and new legislation comes into force. In 2018, a thorough review of the framework was undertaken in light of the General Data Protection Regulations (GDPR). We undertook risk assessments of the data handling cycle and designed controls from early stages of vendor selection through to final implementation, as well as exploring how to prevent breaches. The measures taken were tailored in terms of what would have the least impact on services and the guest experience, and we received input from different functions and operations in the company. Training and good communication are key to the effective implementation of any new programme. The Data Privacy Champion at each operation and the global database management team took responsibility for communicating the changes. An information hub was set up on the company's intranet to share useful information. GMB and the Board were kept updated on the regulation changes and development of the group's privacy management programme.

### People focus

The sustainability of the company relies on its corporate governance framework and the implementation and evolution of governance relies on its people. Hence, our employees continue to be a key focus for our group and their input is valued in both the shaping and implementation of the company's business strategy. Aside from regular communication, at our global and regional conferences, the group sets aside time for the general managers and different functions to exchange their views on the group's strategic direction, objectives alignment and sharing of best practices. A discussion at the 2018 General Managers' Conference led to the launch of a groupwide programme called "WorkPlace 2025". The aim of this programme is to encourage our employees to come up with new ideas, formulate proposals to modernise our workplace, and to inspire innovation.

### Cities focus

The group operates in a number of cities around the world and our guests expect consistency and quality wherever we operate. The Group Corporate Responsibility Committee is responsible for setting the global approach on corporate responsibility and sustainability and monitoring the effectiveness of the initiatives and policies. International best practices are adopted where feasible. At a minimum, the group ensures compliance with local laws and regulations. Given that the group's strategy is to invest in quality assets in the long term, the group is also committed to contributing to the cities we operate in. For details on the group's corporate responsibility and sustainability activities and compliance with local environmental and social related laws in 2018, please refer to the Corporate Responsibility and Sustainability Report<sup>4</sup>.

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<sup>4</sup> Posted on the company's website: [www.hshgroup.com/en/sustainable-luxury](http://www.hshgroup.com/en/sustainable-luxury)

In terms of risk management, the Group Risk Committee is responsible for the group risk management system. Recognising that we operate in cities with different geopolitical risk exposure, we seek to achieve uniformity in the end goals rather than in mitigation measures. For example, for security risks, we adopted a group security policy statement and security standards in 2018. We have begun assessment of each operation’s security and operational plan and procedures, in order to adapt and develop tailored security measures to meet the objectives set out in the group’s standards. Proposed enhancement, including security intelligence information gathering, crisis management workshops and improved security operating systems, will be rolled out to ensure each operation is aligned on security standards and regularly conducts drills.

## How the Board operates

### The role of the Board

The Board leads and oversees the management of the company and our Directors are collectively responsible and accountable to the company’s shareholders and stakeholders for the long-term success of the group.

The Board has reserved its powers in strategic and significant matters of the group<sup>5</sup>, including oversight of:

 <b>Strategy and Financial</b>	<ul style="list-style-type: none"> <li>◆ Long and short-term strategic directions of the group</li> <li>◆ Annual budgets and forecasts</li> <li>◆ Significant changes in accounting policies</li> <li>◆ Company’s capital structure</li> <li>◆ Dividend policy</li> <li>◆ Material borrowings and expenditure</li> <li>◆ Annual and Interim reports</li> </ul>
 <b>Leadership and Employees</b>	<ul style="list-style-type: none"> <li>◆ Director’s appointment and re-election</li> <li>◆ Succession planning for the Board and senior management</li> </ul>
 <b>Corporate Governance</b>	<ul style="list-style-type: none"> <li>◆ Corporate governance functions</li> <li>◆ Board evaluation</li> </ul>
 <b>Risk Management</b>	<ul style="list-style-type: none"> <li>◆ Risk management and internal control systems</li> <li>◆ Principal and emerging risks</li> </ul>
 <b>Sustainability</b>	<ul style="list-style-type: none"> <li>◆ Corporate responsibility and sustainability outlook and progress</li> </ul>

Through the Board’s leadership and direction, GMB runs the group’s day-to-day business (as more specifically described on page 132).

<sup>5</sup> Details can be found on the terms of reference of the Board: [www.hshgroup.com/en/about/leadership](http://www.hshgroup.com/en/about/leadership)

# Corporate Governance Report

## The role of the Board members and Company Secretary

There is a clear division of the responsibilities in the company between the Chairman and the Chief Executive Officer and their division of responsibilities which was established in the HSH Corporate Governance Code. Our Chairman and Chief Executive Officer do not have any financial, business, family or other material or relevant relationships with each other.

Among our 14 Non-Executive Directors (NEDs), seven are Independent Non-Executive Directors (INEDs), independent of management. The other seven NEDs do not participate in the day-to-day business of the company, but are not considered independent due to their association with the substantial shareholders.

The Chief Executive Officer, Chief Operating Officer and Chief Financial Officer of the company serve as our Executive Directors. The Company Secretary reports to the Chairman and the Chief Executive Officer. Their respective roles are set out in the table below.

Role	Responsibilities
<b>Non-Executive Chairman</b> <i>The Hon. Sir Michael Kadoorie</i>	<ul style="list-style-type: none"> <li>◆ Leading the Board and monitoring its effectiveness</li> <li>◆ Fostering candid discussions and constructive relationships among Directors</li> <li>◆ Reviewing management performance with the NEDs<sup>6</sup></li> <li>◆ Safeguarding that good corporate practices and procedures are established and implemented throughout the group, with the assistance of the Company Secretary</li> </ul>
<b>Chief Executive Officer*</b> <i>Clement Kwok</i>  <i>*supported by GMB<sup>7</sup></i>	<ul style="list-style-type: none"> <li>◆ Leading the management in the day-to-day running of the group's business</li> <li>◆ Developing strategies for the Board's approval</li> <li>◆ Executing strategies, policies and objectives agreed by the Board</li> <li>◆ Reporting to the Board on the performance of the business</li> </ul>
<b>Non-Executive Directors and Independent Non-Executive Directors</b>  <i>see pages 129 to 131</i>	<ul style="list-style-type: none"> <li>◆ Evaluating the group's performance in achieving the agreed corporate goals and objectives</li> <li>◆ Ensuring clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effective</li> <li>◆ Providing constructive feedback on management decisions</li> <li>◆ Serving on the Board and Board Committees to give these Committees the benefit of their skills, expertise, and varied backgrounds and qualifications</li> <li>◆ The INEDs, being independent, have the additional role of:               <ul style="list-style-type: none"> <li>– Bringing knowhow and business expertise that are extrinsic to the management, thereby providing insights and independent judgement on the business</li> <li>– Helping to maintain objectivity in the Board's decisions when potential conflicts of interest arise</li> </ul> </li> </ul>
<b>Executive Directors</b> <i>Clement Kwok</i> <i>Peter Borer</i> <i>Matthew Lawson</i>	<ul style="list-style-type: none"> <li>◆ Managing the day-to-day business of the entire group's operations</li> <li>◆ Being accountable for their specific executive functions to the Board</li> <li>◆ Communicating proactively with the NEDs and being open and responsive to any executive proposals and challenges made by the NEDs</li> </ul>
<b>Company Secretary</b> <i>Christobelle Liao</i>	<ul style="list-style-type: none"> <li>◆ Reviewing, implementing and initiating improvements on our corporate governance practices and processes</li> <li>◆ Advising and keeping the Board and Board Committees up to date on legislative, regulatory and governance matters</li> <li>◆ Facilitating induction and professional development of the Directors</li> </ul>

<sup>6</sup> In 2019, Chairman will meet only with INEDs without other Directors present

<sup>7</sup> Details of the GMB members and its function can be found on pages 132 and 133

## Board processes

Our Board maintains effective control over the strategic, financial, operational, compliance, sustainability and corporate governance matters of the company through the adoption of clear and consistent board processes.

Sound decisions cannot be made unless Directors have accurate, clear, complete and reliable information. Directors are invited to include discussion items in the Board agenda and comprehensive Board papers are sent to all Directors in advance of each Board meeting or Board written resolutions to allow sufficient time for review of discussion topics. In addition, management provides Board members with a monthly update of our business operations. During the Board meetings, we ensure that all Directors are also given sufficient time for discussion on the items in the Board agenda. All Directors are entitled to unrestricted access to independent professional advice, as well as direct access to senior management. They are also given access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and for advising the Board on all legal and corporate matters.

Board decisions are made at Board meetings or by written resolutions. Board meetings are structured in a way to encourage open dialogue, frank debate and active participation by Directors. Whilst matters may be decided at meetings and are decided by a majority of votes from voting Directors, the Board typically strives to get unanimous consensus.

## 2018 Board Activities

In line with the agreed meeting schedule, the Board held five meetings and two Board resolutions were circulated for Board approval in 2018. The attendance of individual Directors at the Board meeting and the Governance Board Committees are set out on page 144.

In addition to the usual decision matters that are within the Board's terms of reference, the Board discussed and assessed the company's different businesses, financial performance and its strategic direction in light of our external environment. The table on next page highlights what the Board did during the year to address them and the challenges identified.

# Corporate Governance Report

Key areas of focus	Key Board activities in 2018
 <p><b>Strategy and Financial</b></p>	<ul style="list-style-type: none"> <li>♦ Monitored the group’s performance and the progress of London, Istanbul, and Yangon projects as well as the upgrade of The Peak Tram</li> <li>♦ Operational visit at The Peninsula Shanghai and discussed competition, challenges and opportunities with local management</li> <li>♦ Evaluated and approved budget and cost controls on all operations and new developments</li> <li>♦ Approved the changes to dividend policy in respect of the dividend payout ratio</li> <li>♦ Evaluated the group’s strategy of the retail, food and beverage businesses</li> <li>♦ Endorsed the Kaleidoscope Lab programme<sup>8</sup></li> </ul>
 <p><b>Leadership and Employees</b></p>	<ul style="list-style-type: none"> <li>♦ Discussed selection, training and succession planning for management</li> <li>♦ Discussed and evaluated on employee engagement, long-term talent plans and enlivening the workplace, including WorkPlace 2025<sup>9</sup></li> </ul>
 <p><b>Corporate Governance</b></p>	<ul style="list-style-type: none"> <li>♦ Monitored the follow-up actions for Board Evaluation</li> <li>♦ Discussed the next Board evaluation’s methodology</li> <li>♦ Approved changes to the HSH Corporate Governance Code, terms of references of the Audit and Nomination Committees</li> <li>♦ Adopted the New Nomination Policy</li> <li>♦ Endorsed the increase for the NEDs and INEDs fees and approved the fee increase for the Chairman of the Remuneration Committee</li> <li>♦ Reviewed the impact on the European data protection regulation and the relevant actions taken</li> </ul>
 <p><b>Risk Management</b></p>	<ul style="list-style-type: none"> <li>♦ Approved the principal risks, key controls and risk mitigation of the group</li> <li>♦ Monitored and reviewed the effectiveness of the risk management and internal control systems through Audit Committee</li> <li>♦ Assessed the risks of cyberattacks and the effectiveness of controls</li> </ul>
 <p><b>Sustainability</b></p>	<ul style="list-style-type: none"> <li>♦ Monitored the progress on our Sustainable Luxury Vision 2020 and the three key focuses: Our Guests, Our People and Our Cities through the Group Corporate Responsibility Committee</li> <li>♦ Participated in Sir Horace Kadoorie Youth Development Foundation which is aimed at developing underprivileged and at-risk youth in China<sup>10</sup></li> </ul>

8 Details can be found on page 115

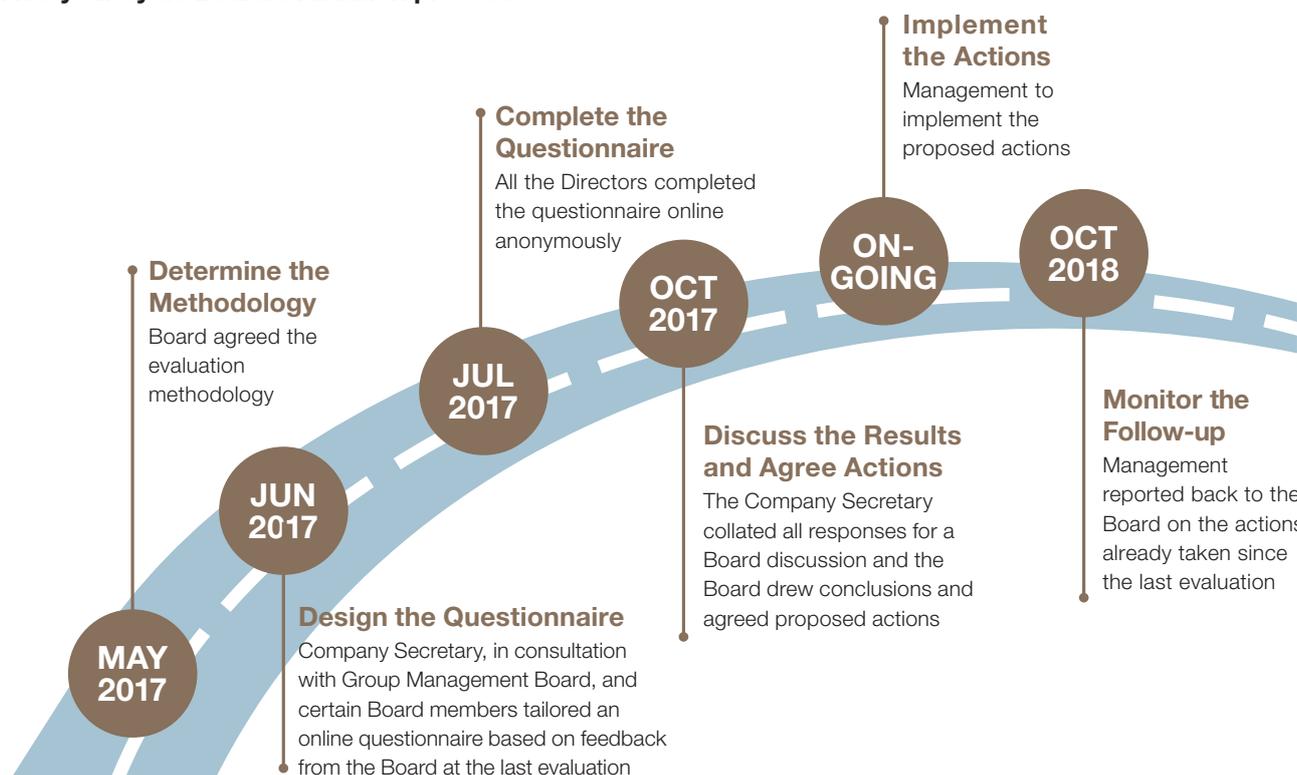
9 Details can be found on page 99

10 Details can be found on Corporate Responsibility and Sustainability Report posted on the company’s website: [www.hshgroup.com/en/sustainable-luxury](http://www.hshgroup.com/en/sustainable-luxury)

## Board Evaluation

Since 2013 our Board evaluates its own performance and that of its committees and individual Directors every two years with the aim of improving effectiveness. This review identifies area for improvement and focus.

### Two-year cycle Board evaluation process



The 2017 Board evaluation was positively received and provided the Board and management with constructive feedback. The Board has identified a number of focus areas for management to act upon, including succession planning, digital development, the group’s principal risks and mitigation factors as well as post-implementation reviews on key projects. During the year, management implemented and kept the Board informed of the actions already taken. The next Board evaluation is planned for 2019 and the Board is considering different evaluation means to supplement the current method.

In addition to self-evaluation, the Chairman met with NEDs before the October Board Meeting to evaluate management performance and discussed how we might enhance our governance practices. These discussions were communicated to management for response or implementation at the October Board Meeting. In view of the change of the Stock Exchange’s Corporate Governance Code, from 2019 onwards the Chairman will meet only with INEDs.

# Corporate Governance Report

## 2018 Board and Committee Attendance and Training Records

The attendance of Directors and the Company Secretary at the Annual General Meeting, Board and Governance Board Committee meetings and training records in the year 2018 are as follows:

	Board	Audit Committee <sup>(1)</sup>	Nomination Committee	Remuneration Committee	Annual General Meeting <sup>(1)</sup>	Types of Training
<b>Non-Executive Directors</b>						
The Hon. Sir Michael Kadoorie <i>Non-Executive Chairman</i>	●●●●●		●●		●	A,B,C
Mr Andrew C.W. Brandler <i>Non-Executive Deputy Chairman</i>	●●●●●	●●●●		●	●	A,B,C
Mr William E. Mocatta <sup>(2)</sup>	○●●●●				●	A,B,C
Mr John A.H. Leigh <sup>(3)</sup>	●●○●●				●	A,B,C
Mr Nicholas T.J. Colfer	●●●●●				●	A,B,C
Mr James L. Lewis	●●●●●				●	A,B,C
Mr Philip L. Kadoorie	●●●●●				●	A,B,C
<b>Independent Non-Executive Directors</b>						
Dr the Hon. Sir David K.P. Li	●●●●●		●●		●	A,C
Mr Patrick B. Paul <sup>(3)</sup>	○●●●●	●●●●		●	●	A,B,C
Mr Pierre R. Boppe	●●●●●				●	A,B,C
Dr William K.L. Fung <sup>(2)</sup>	●●●○●		●●		●	A,C
Dr Rosanna Y.M. Wong	●●●●●			●	●	A,B,C
Dr Kim L. Winser	●●●●●				●	A,B,C
Ms Ada K.H. Tse <sup>(2)</sup>	●●○●●	●●○●			●	A,B,C
<b>Executive Directors</b>						
Mr Clement K.M. Kwok <i>Chief Executive Officer</i>	●●●●●				●	A,B,C
Mr Peter C. Borer <i>Chief Operating Officer</i>	●●●●●				●	A,B,C
Mr Matthew J. Lawson <i>Chief Financial Officer</i>	●●●●●				●	A,B,C
<b>Company Secretary</b>						
Ms Christobelle Liao <sup>(4)</sup>	●●●●●	●●●●	●●	●	●	A,B,C

● Present      ○ Apology

Notes:

- (1) Representatives of the external auditor participated in all Audit Committee meetings and the Annual General Meeting
  - (2) Mr William E. Mocatta, Mr William K.L. Fung and Ms Ada K.H. Tse were unable to attend meetings of the Board and Audit Committee (for Ms Tse only) due to conflicting commitments
  - (3) Mr John A.H. Leigh and Mr Patrick B. Paul were unable to attend meetings of the Board due to illness
  - (4) During 2018, Ms Christobelle Liao undertook over 15 hours of professional training as required by the Listing Rules
- (A) Reading materials which covered relevant laws and regulations and group's business-related topics
- (B) Visiting operations such as The Peninsula Shanghai in October 2018
- (C) Seminars/conferences/webcast which are relevant to the business or Directors' duties in the following areas:
- ◆ Corporate governance matters
  - ◆ Social media
  - ◆ Data privacy
  - ◆ Sustainability
  - ◆ Digital marketing
  - ◆ Terrorist attack risk
  - ◆ Inside information

## Board Induction, Training and Development

### New Directors' induction



The company provides a comprehensive tailored induction programme for all newly-appointed Directors. The programme comprises a combination of briefings and meetings with Executive Directors, Company Secretary, and senior management, as well as visits to the group's major businesses in Hong Kong and overseas. Topics covered included Directors' duties, an overview of the group's business, its operations, risks and regulatory matters, governance, finance and investor relations. All corporate policies are explained and provided to new Directors by the Company Secretary. Ms Ada Tse, Mr James Lewis and Mr Philip Kadoorie who joined the Board in December 2017 have completed their tailored induction programmes in 2018 which allowed them to gain further insight into our business, our colleagues and stakeholders.

### Directors training and development

To ensure the effective fulfilment of the roles of the Directors, various steps are taken to ensure that all Directors continually update and refresh their knowledge and skills, as well as familiarise themselves with the company by gaining access to its operations and employees.

Our Board aims to hold one Board meeting per year at one of the group's overseas assets and takes the opportunity to discuss business issues, risks and strategy with local management. The October 2018 Board meeting was held at The Peninsula Shanghai. Board members toured the facilities and met with local management to understand their business challenges and the local market environment. Such overseas site visits provide NEDs with deeper insight into the group's different businesses, thus enabling them to make sound decisions that are in line with the group's business strategy. In addition, presentations by General Managers of Operations and Heads of Corporate Departments were arranged after the Board Meeting to update our Directors on new trends, legislation and the group's business<sup>11</sup>.

Our Directors participate in continuous training and development activities that keep them up to date on developments in all areas pertaining to the business of the company and their performance of duties as Directors. The development programme records of Directors and the Company Secretary for 2018 are reflected on page 144.

<sup>11</sup> 2018 presentations to the Board included data privacy, digital marketing, inside information, social media and sustainability

# Corporate Governance Report

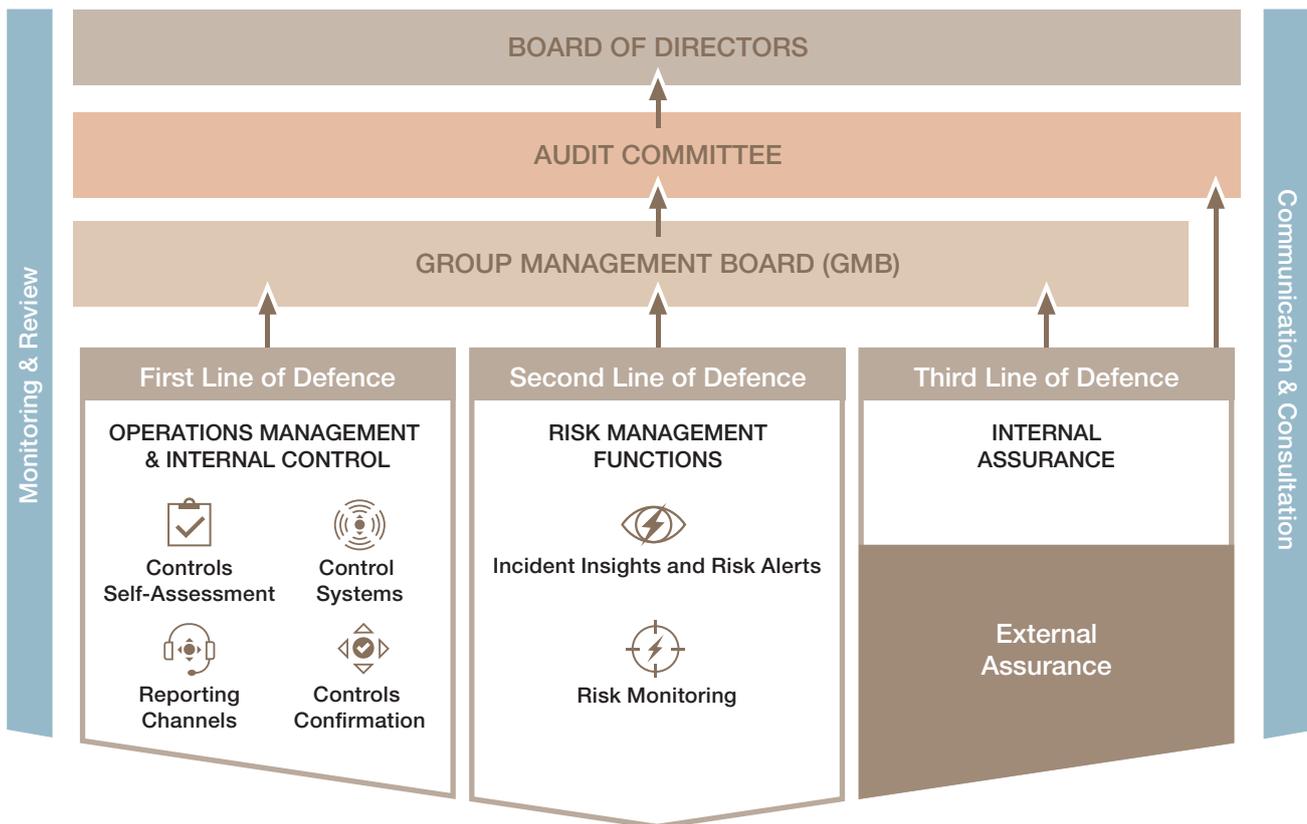
## Risk Governance

Effective risk management plays an integral role in the overall achievement of the group’s strategic objectives. Therefore, our risk management approach is shaped by our business strategy which is to optimise the quality of our asset portfolio in the long term, ensure the sustainability of our business, deliver a high standard of luxury, and to preserve the tradition of integrity and respect for our heritage.

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

### Approach to risk governance

Our risk management framework is guided by the model of “Three Lines of Defence”. This framework and its process are designed to manage and mitigate risks rather than eliminate all risks. As with all systems, it does not provide an absolute shield against factors such as unpredictable risks, uncontrollable events such as natural catastrophes, fraud, and errors of judgement.



## First line of defence: Operations management & internal control

The group's operations management and internal control systems includes group policies, procedures and practices, as well as internal control procedures.



### Controls self-assessment

Our business and functional units are at the forefront of risk management and they participate in assessing the group's risk management and control processes by undertaking a "control self-assessment" (CSA). Formally conducted twice a year, the CSA process allows the group and each operation to identify emerging risks affecting their businesses, assess the effectiveness of existing controls in managing the identified risks and if necessary, implement controls enhancement plans with designated persons-in-charge and timelines.



### Control systems

The controls adopted by the group include but are not limited to segregation of duties, financial analytical review of performance reports, approval and verifications of these reports, and periodical checks of physical assets.

The group has implemented new controls and strengthened a number of existing controls to cope with the ever-changing regulatory and operational environment. For the controls enhancement measures related to our principal risks undertaken in 2018, please refer to the GRC Report on pages 154 and 155.



### Reporting channels

The group's online incident reporting platform enables each operation to report timely and efficiently incidents that have a major or critical impact, so that prompt action can be taken by senior management as appropriate. This technology tool also facilitates analytics to support identification of trends and patterns which may be indicators of emerging risks.

In addition, the Speak Up Policy<sup>12</sup> provides employees and other stakeholders a confidential reporting channel on suspected misconduct or malpractice within the group without fear for reprisal or victimisation. Reported allegations are taken seriously and are independently validated and investigated. The HSH Inside Information Policy regulates the handling of inside information within the group, to ensure potential inside information is being captured and confidentiality is being maintained until disclosures are made. The Policy was revamped in 2018 with a more user-friendly guide.

#### HSH Handling Inside Information Guide

- ◆ Shared in our intranet to promote staff awareness
- ◆ Non-compliance of the Guide is a breach of the Code of Conduct
- ◆ A system to monitor what the market says about HSH and inside information escalation process
- ◆ Refresher training to our senior management
- ◆ Interactive discussion with key members of financial and operational management of all operations
- ◆ Training to our Board members in 2018



### Controls confirmation

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

The above operations management and internal control systems form the basis by which management reviews and confirms the effectiveness of the group's risk management and internal control systems to the Audit Committee.

12 Posted on the company's website: [www.hshgroup.com/en/corporate-governance/speak-up-policy](http://www.hshgroup.com/en/corporate-governance/speak-up-policy)

# Corporate Governance Report

## Second line of defence: Risk management functions

The second line of defence is overseen by the GRC which (i) reviews the risk registers of the operations and new development projects which, combined, form the Group Risk Management Report, (ii) monitors the principal risks and emerging risks, and (iii) regularly evaluates the risk management and controls in response to such risks. We use our 5-step risk management methodology to ensure the risk assessment process and internal controls remain current, are adapted and modified as business conditions and the organisation changes. In 2018, we enhanced our methodology by finetuning our risk concepts, and further considering the effectiveness of the mitigating controls.

### Incident insights and risk alerts

The GRC analyses common incidents across the operation and the group for similar root causes which are summarised in an “Incident Insights” report for further discussion with the Group Management Board on a semi-annual basis. Opportunities to improve key controls and share best practices are discussed and communicated across the group.

### Risk monitoring

The GRC continued to strengthen its monitoring of risks to respond to changes and developments in both the external and internal environment. For the improvements taken in 2018, please refer to the GRC Report on pages 154 and 155.

## Third line of defence: Internal assurance

The third line of defence is supported by internal assurance activities. ARM performs the group’s internal assurance by assessing the effectiveness of our risk management and internal control systems.

ARM applies a risk-based approach to identify key risks of the group and assess whether the material controls in mitigating those risks are effective. Key processes are audited using an end-to-end approach so that improvement opportunities contributing to internal control weaknesses or overall process inefficiencies can be readily identified and remediated.

The internal audit plan in 2018 included reviews of the efficiency of key business processes with a view to optimising efficiency and performance of the group and individual operations. A holistic view of internal controls across operations has been developed, enabling the identification of common control issues and facilitation of key recommendations.

## External assurance

The external auditor of the group further complements the third line of defence process by independently auditing material internal controls over financial reporting of the group. The external auditor would report on any material financial reporting control weakness to the Audit Committee.

## Board confirmation

The Board has considered and endorsed the Audit Committee’s assessment of the effectiveness of risk management and control systems in the group. Throughout 2018 there were no areas of concern identified which might materially affect the operational, financial reporting and compliance controls of the group, and the existing risk management and internal control systems remained effective and adequate.

## Our Shareholders

HSH had 1,834 registered shareholders as at 31 December 2018. The actual number of investors interested in HSH shares is likely to be much greater, as shares are being held through nominees, investment funds and the Central Clearing and settlement System (CCASS) of Hong Kong.

Size of registered shareholdings	Number of shareholders	% of shareholders	Number of shares held	% of total number of shares in issue
500 or below	513	27.972	65,457	0.004
501-1,000	194	10.578	155,960	0.010
1,001-10,000	646	35.223	2,664,833	0.165
10,001-100,000	378	20.611	12,081,007	0.749
100,001-500,000	70	3.817	14,670,821	0.909
Above 500,000	33	1.799	1,583,603,928	98.163
<b>Total</b>	<b>1,834</b>	<b>100.000</b>	<b>1,613,242,006</b>	<b>100.000</b>

Note: As at 31 December 2018, 36.64% of all HSH total number of shares in issue were held through CCASS.

The Kadoorie family (including interests associated with the family but excluding interests held by charities associated with the family) has a combined shareholding of 59.44% as disclosed in “Interests of Directors” and “Interests of Substantial Shareholders” in Directors’ Report on pages 174 to 176. The remaining HSH shares are mainly held by institutional and private investors, with a considerable number of those investors being Hong Kong residents.

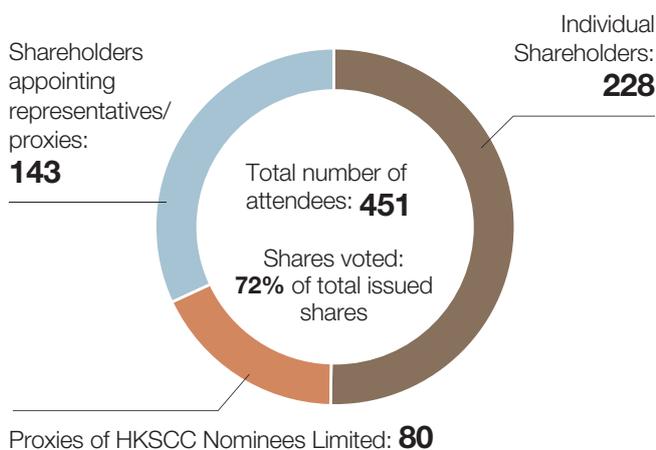
From publicly available information and within the knowledge of the Directors, HSH has maintained the required 25% public float throughout 2018 and up to the date of this report.

### Shareholders’ rights to general meetings

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

Our company’s website<sup>13</sup> sets out the procedures for shareholders to convene and present proposals at general meetings, including proposing a person for election as a Director, and to vote by poll at general meetings.

### 2018 Annual General Meeting



The 2018 AGM was held on 9 May 2018 at The Peninsula Hong Kong. Prior to the meeting, a circular containing the notice of the AGM was distributed to all shareholders more than 20 clear business days prior to the AGM, setting out details of each proposed resolution and other relevant information. The company regards the AGM as an important event. It is also a main channel of communication between the Board and our shareholders. All Directors, including the Chairman of the Audit and Remuneration Committees, were present at the 2018 AGM. KPMG, the company’s external auditor, was also present to answer questions from any shareholder relating to its audit of the company’s financial statements.

Procedures for conducting a poll were explained by the Chairman at the beginning of the AGM and Computershare Hong Kong Investor Services Limited, the company’s Share Registrar, was appointed as scrutineer for voting by poll to ensure the voting was properly counted. Results were posted on both the company’s<sup>14</sup> and the Stock Exchange’s websites. Media representatives were invited to observe and report on the AGM.

<sup>13</sup> [www.hshgroup.com/en/corporate-governance/shareholders-rights](http://www.hshgroup.com/en/corporate-governance/shareholders-rights)

<sup>14</sup> [www.hshgroup.com/en/investors/corporate-announcements](http://www.hshgroup.com/en/investors/corporate-announcements)

## Corporate Governance Report

Separate resolutions were proposed on each issue, including the re-election of individual Directors. All resolutions proposed at the 2018 AGM were passed. The matters discussed and the percentage of votes cast in favour of the resolutions were:

Matters Being Voted Upon	% of Affirmative Votes
Receipt of the audited financial statements and the Reports of the Directors and independent auditor for the year ended 31 December 2017	99.99%
Payment of final dividend of 16 HK cents per share for the year ended 31 December 2017	99.99%
Re-election of six retiring Directors: Dr The Hon. Sir David K.P. Li, Mr John A.H. Leigh, Mr Nicholas T.J. Colfer, Ms Ada K.H. Tse, Mr James L. Lewis and Mr Philip L. Kadoorie as Directors of the company	<b>Ranging from 93.99% to 99.99% in respect of each individual resolution</b>
Re-appointment of KPMG as the auditor of the company and authorisation of the Directors to fix their remuneration	99.97%
Granting of the general mandate to Directors to allot, issue and deal with the company's shares	91.15%
Granting of the general mandate to Directors to buy-back the company's shares	99.65%
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	91.50%
Determining the ordinary remuneration of Non-Executive Directors and Independent Non-Executive Directors	99.99%

### Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 258.

The company's share price information as well as share and dividends per share information for the last ten years are disclosed on pages 87 and 23 respectively. In addition, the company's dividend policy is set out in note 10 to the financial statements.

### Engaging our Shareholders

The Company attaches great importance in engaging with the investor community, including individuals and institutional shareholders and research analysts. We believe that continued engagement is key to building increased understanding between the company and the shareholders and sharing views, opinions and concerns with each other.

The company utilises multiple platforms to engage investors:

- ◆ We encourage our shareholders to participate in our Annual General Meeting and directly communicate with our Directors
- ◆ We participated in investor conferences in Hong Kong and China to engage existing and potential investors
- ◆ We arranged an "Analysts' Day" to engage existing and potential analysts by taking them to tour our Hong Kong properties and meeting the senior management in Hong Kong
- ◆ Throughout the year, our Executive Directors and Investor Relations team also held roadshows, regular meetings and conference calls with institutional shareholders, analysts and potential investors in and outside of Hong Kong
- ◆ Our company's website<sup>15</sup> gives the public a window to who we are, what we do and how we are doing. There is a wealth of current and historical information such as webcasts of the announcements of the latest financial results along with presentation materials from such announcements, our financial reports, financial statistics, corporate governance practices

15 [www.hshgroup.com/en/investors](http://www.hshgroup.com/en/investors)

- ◆ Our Shareholder Communication Policy<sup>16</sup> has specified the various communication platforms to which our shareholders and stakeholders can access
- ◆ The company's branded social media sites provide investors with regular updates on our business initiatives in The Peninsula Hotels, The Repulse Bay, and The Peak, as well as HSH community and employee initiatives on employer branding social media sites

For queries and additional information, shareholders and investors can send their requests to our Investor Relations email address at [ir@hshgroup.com](mailto:ir@hshgroup.com). On how we engage our stakeholders, please refer to Creating Stakeholder Value on pages 116 and 117.

## Corporate Governance Code Compliance

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code) forms the basis of the HSH Corporate Governance Code (HSH Code). Our Board recognises the principles underlying the CG Code and have applied all of them to the HSH Code. The HSH Code is updated from time to time, most recently in December 2018, reflecting the new CG Code requirements which took effect from 1 January 2019.

Throughout 2018, we have complied with all of the code provisions and recommended best practices in the CG Code with the exception of the following:

- ◆ **Publication of quarterly financial results** – The Board believes that the businesses of the group are characterised by their long-term and cyclical nature, while quarterly financial results reporting encourages a short-term view on performance. To keep our shareholders informed, we issue quarterly operating statistics setting out key operating information; and
- ◆ **Disclosure of individual senior management remuneration** – We do not disclose the remuneration of individual senior management. However, we have complied with CG Code code provisions and disclosed the remuneration payable to senior management by band in our Remuneration Committee Report.

## Other Compliance Matters

### Appointments and re-election of Directors

Our appointment is governed by the Nomination Policy which is set out in the Nomination Committee Report on pages 166 and 167. The company confirms that all Directors' re-elections were conducted in compliance with the CG Code in 2018. NEDs are appointed for a term of three years. All Directors are subject to a term of re-election every three years. Details of the Directors who will retire and offer themselves for re-election in the 2019 Annual General Meeting are set out in the Directors' Report on page 173.

### Time commitment of Directors

The Board recognises that it is important that all Directors should be able to dedicate sufficient time to the company to discharge their responsibilities. The letters of appointment for NEDs and INEDs, as well as service contracts for Executive Directors, contain guidelines on expected time commitments required for the affairs of the company. Each individual confirms his or her understanding of such time commitment when the appointment is accepted. In addition, the Board reviews annually the contributions required from the Directors and whether they are spending sufficient time performing their responsibilities.

All Directors have confirmed to the company that they have given sufficient time and attention to the company's affairs throughout 2018. The Board was satisfied that the Directors had a strong commitment to the company and positively contributed to the company's affairs, discussions and decisions, as reflected in their participation in the Board and Governance Board Committee meetings during the year.

16 Posted on the company's website: [www.hshgroup.com/en/corporate-governance](http://www.hshgroup.com/en/corporate-governance)

# Corporate Governance Report

## Independence of INEDs

The independence of the Non-Executive Directors is relevant to Board balance and considered on a regular basis to ensure they remain capable of providing unbiased and objective contribution to the Board discussion. In view of the changes to the Listing Rules we have revised our annual confirmation of independence to cover cross-directorships or significant links with other directors through involvements in other companies or bodies. The company has received written confirmations of independence from each of its seven INEDs who served in 2018. The Nomination Committee and the Board considered that all seven INEDs who served in 2018 were, and continued to be independent in accordance with the independence guidelines set out in rule 3.13 of the Listing Rules and that there were no business or other relationships or circumstances which are likely to affect the judgement of any of the INEDs.

Beyond the formal confirmation of independence referred to above, of overriding importance is that each INED has an independent mindset and brings great experience and is prepared to challenge the Board in a constructive fashion. The Board believes that it is not appropriate to apply an arbitrary period of service beyond which a director is assumed to have lost his or her independence. The Board will continue to review the independence of its INEDs by assessing whether they remain independent in character and judgement, and continue to present an objective and constructive challenge to the assumptions and viewpoints presented by the management and the Board.

## Directors' dealings with company securities

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

All Directors have confirmed their full compliance with the required standards set out in the Model Code and the Securities Code in 2018. Details of the shareholding interests held by the Directors of the company as at 31 December 2018 are set out on page 174.

Our Code for Dealing in the Company's Securities is extended to specified employees including senior management who may from time to time come across inside information. All specified employees have also confirmed their full compliance with the standards set out in the Code for Dealing in the Company's Securities by Specified Employees. Brief particulars and shareholding interests of the senior management are set out on pages 132 and 133, and 175 respectively.

## Directors' disclosure on conflict of interest

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

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

In 2018, all Directors have fulfilled these disclosure requirements.

We have also extended the annual disclosure requirements on potential conflict of interests to GMB members and key functions, which have also been fulfilled.

In addition, all Directors are also required to declare the nature and extent of their interests, if any, in any transaction, arrangement or other proposal to be considered by the Board in accordance with the HSH Code and the CG Code. In 2018, no potential conflict of interest was determined by the Board to be material except the continuing connected transactions as disclosed in the Directors' Report on page 173, which were reviewed in the March Board meeting.

### Codes and terms of reference

Each year we review our governance and securities codes and the relevant terms of reference of the Board and each Board Committee<sup>17</sup> to ensure that they comply with the latest legal and regulatory requirements and reflect developments in best practices and the needs of the company. The HSH Code together with the terms of reference of the Audit and Nomination Committees were revised in 2018 accordingly.

The full terms of reference of the Board and each Board Committee can be viewed at the company's website<sup>18</sup> and those of the Governance Board Committees<sup>19</sup> are also published on the Stock Exchange's website. The Governance Board Committees' reports are set out on pages from 164 to 171.

### Internal control procedures on connected transactions

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

With respect to the connected transactions for the financial year of 2018, Audit & Risk Management has reviewed (i) the adequacy and effectiveness of the internal control procedures of connected transactions; and (ii) the continuing connected transactions of our office leases. Their findings are submitted to Audit Committee, please refer to the Directors' Report set out on page 173.

## Annual Report and Corporate Responsibility and Sustainability Report

In March, the Board reviewed and approved the 2018 Annual Report and Corporate Responsibility and Sustainability Report<sup>20</sup>. With respect to the Directors' responsibility for preparing the financial statements for the year ended 31 December 2018, please refer to the Directors' Report set out on page 177.

## High Standards of Corporate Governance

Commitment to high standards of corporate governance and business integrity has seen us through our year of operations and we continue to maintain and develop our corporate governance standards for the continued future success of the group.

By order of the Board



Christobelle Liao  
Company Secretary  
14 March 2019

17 Audit, Nomination, Remuneration, Executive and Finance Committees

18 [www.hshgroup.com/en/corporate-governance/board-committees](http://www.hshgroup.com/en/corporate-governance/board-committees)

19 Audit, Nomination and Remuneration Committees

20 Posted on the company's website: [www.hshgroup.com/en/sustainable-luxury](http://www.hshgroup.com/en/sustainable-luxury)

# GROUP RISK COMMITTEE REPORT

 <b>Composition:</b>	<p>Chairman Mr Matthew Lawson, Chief Financial Officer</p> <p>Members Group General Manager, Audit &amp; Risk Management Select members of senior management Senior Vice President, Operations, The Peninsula Hotels</p>
 <b>Meeting Frequency:</b>	<ul style="list-style-type: none"> <li>Quarterly</li> <li>Four meetings in 2018</li> </ul>
 <b>Responsibilities:</b>	<ul style="list-style-type: none"> <li>To identify and assess the principal risks at group level and their corresponding mitigating treatments, as well as monitor the actions required for critical and major incidents within the group</li> <li>To facilitate the process whereby each operation and project defines its business objectives, addresses the risks identified, conducts self-assessment of internal control activities and tracks progress of mitigating plans</li> <li>To regularly review, assess and update the group risks and related contingency plans to Group Management Board (GMB) for further review by the Audit Committee and the Board</li> </ul>

The group's enhanced risk management process has formed a solid platform for us to focus on control effectiveness assessment and proactively address issues before they escalate.

A series of risk workshops were conducted in 2018, either in a face-to-face seminar or webinar format, with over 200 senior employees across all operations. Major topics of the workshops included an explanation of the group's risk management philosophy, an introduction of the enhanced risk management methodology and a brainstorming session on emerging risks arising from changes in internal and external environments.

In addition, we have improved the effectiveness of our controls in the following focus areas in 2018:

### Investment and project development risks

The Group Risk Committee (GRC) continued to monitor the risk governance process and review the key risks surrounding The Peninsula London, The Peninsula Istanbul, The Peninsula Yangon and The Peak Tram upgrade every quarter. Moreover, a project owner's risk register was set up during the year to facilitate the identification and management of risks that the group was facing as the owner of the three new hotels. Furthermore, pre-opening plans are being developed and implemented.

### Risk engineering survey

Our owner-operator business model is a capital intensive one and high attention is paid to protect and maintain our assets. To improve our assets' structural and engineering controls, our consultant has completed the second three-year cycle of risk engineering surveys in all our major properties during the year. Comparison of controls maturity across properties and sharing of best practices among the group will be conducted in 2019. Such comparison will assist us in formulating the next three-year plan by prioritising properties with a lower maturity to be inspected earlier in the upcoming cycle.

## 5-Step Risk Management Methodology



The 5-step risk management methodology continues to be applied across the group. Furthermore, in 2018, we enhanced our methodology with a focus on risk identification and analysis by finetuning our risk concepts, and further treatment by considering the effectiveness of the mitigating controls.



“The Group’s enhanced risk management process has formed a solid platform for us to focus on control effectiveness assessment and proactively address issues before they escalate.”

Matthew Lawson  
Chairman of  
the Group Risk Committee  
14 March 2019

### Security and operational risk capability assessment

Guest safety is a priority for management. To provide the highest level of security in our operations and ensure consistency in execution, the Security & Operation Risk Department rolled out a new Group Security Policy Statement, Group Standard Operating Procedures and Group Crisis Management Plan to all hotel operations in 2018, with reference to ISO31000 Risk Management. Gap analyses between existing practices and the new standard were performed in nine hotels during the year. Recommendations to enhance security measures were communicated to management at the operations and undertaken where possible.

### Cybersecurity and data privacy

A variety of further improvements have been carried out by the Information Technology Department and Legal Department throughout the year to strengthen our controls over cybersecurity and data privacy. These included penetration testing, gap assessment on Payment Card Industry compliance, online security training and phishing awareness exercises. Furthermore, in response to the implementation of the General Data Protection Regulation (GDPR) in the European Union, a GDPR Info Hub has been launched in the group's intranet to provide information updates, recommended workflows and processes to ensure compliance across operations.

## Principal Risks

The Board, with support from the Audit Committee and the GRC, has assessed the principal risks facing the group, taking into account those that would impact its strategies, future performance and long-term objectives.

Our principal risks are compiled through prioritisation of risks from a total group perspective. This process includes an ongoing review by GMB of the most significant risks facing the group, and the identification and evaluation of potential new risks.

### Understanding why and how our principal risks change

The ongoing review of the most significant risks faced by the group focuses on how changes may arise and how our controls need to be adapted in response to changing business conditions and organisational changes.

The movement of our principal risks since the publication of our 2017 Annual Report are shown on the next page.

## Emerging Risks

The aggravation of income inequality in the cities we operate could impact economic growth, the desirability for people to work in the hospitality industry and society's perception of our brand. We will continue to monitor the latest development in our societies and ensure our labour practices are the best in class.

### 2019 Major Initiatives

In 2019, the GRC's main focus will continue to be on (i) enhancement of internal controls to manage the strategic risks of the group; (ii) further improvements to 5-step risk management methodology to other areas of the group such as the functional divisions and (iii) a focus on communication, awareness and ownership of risks and controls across the group.

# Group Risk Committee Report

Investment and Development Projects					
<p><b>1</b></p>  <p><b>INVESTMENT AND DEVELOPMENT PROJECTS</b></p>	<p><b>What is the risk?</b></p> <p>Investment and development of properties carries inherent risks. Risks relating to capital allocation, funding, meeting budgets, project milestones, partnership relationships and competition for resources need to be managed. Challenges may arise in relation to obtaining planning or other consents and compliance with different jurisdictions' design and construction standards. Post construction, pre-opening and opening challenges also exist when entering new markets.</p>	<p><b>What is the impact?</b></p> <p>May result in a major impact on our capital, partnership relationships and reputation.</p>	<p><b>How do we manage it?</b></p> <ul style="list-style-type: none"> <li>Enhanced due diligence and a transparent tendering process throughout the construction procurement phase so as to mitigate potential escalation of construction costs</li> <li>Partnerships with experienced and reputable local partners</li> <li>Individual and aggregated Investment/development-related risk levels and a robust risk management process with an oversight by GRC</li> <li>Continuous monitoring and review of all aspects of a development and reporting on potential project risks</li> <li>Business stress testing under various downside scenarios</li> <li>Development of pre-opening plans, hiring of dedicated resources, enhancing resources in our Operations Planning &amp; Support Department in advance of hotel openings</li> </ul>	<p><b>Risk movement in 2018</b></p> <p>Increased</p> <hr/> <p><b>Why?</b></p> <p>Continued investment in London, Istanbul and Yangon and The Peak Tram as these projects move into construction phases</p>	
Cybersecurity					
<p><b>2</b></p>  <p><b>CYBERSECURITY</b></p>	<p><b>What is the risk?</b></p> <p>Financial loss, business disruption, damage to reputation from failure of information technology systems due to internal or external circumstances, either malicious or unintentional.</p>	<p><b>What is the impact?</b></p> <p>Inability to operate effectively may result in a loss of information and unavailability of critical systems. Significant costs may be incurred for data recovery and system restoration, and/or possible financial or other regulatory penalties, and the need to maintain reputational risk.</p>	<p><b>How do we manage it?</b></p> <ul style="list-style-type: none"> <li>Increased resources deployed for information technology security and risk</li> <li>Roll out of a group-wide online security awareness training</li> <li>Ongoing review of business-critical applications for disaster recovery plan and regular vulnerability assessments and penetration tests</li> <li>Systematic due diligence for third party solution/service providers</li> <li>Strengthen account authentication and password management for all employees</li> <li>Continued to enhance security measures and adopt cyber insurance against potential loss</li> </ul>	<p><b>Risk movement in 2018</b></p> <p>Increased</p> <hr/> <p><b>Why?</b></p> <p>Number of cybersecurity incidents increased globally in 2018</p>	
Data Privacy					
<p><b>3</b></p>  <p><b>DATA PRIVACY</b></p>	<p><b>What is the risk?</b></p> <p>Our business involves handling a large amount of personal data and given the nature of our global operations, we are regulated by privacy laws and regulations in all jurisdictions. We are also at risk from breaches occurring within our vendor network.</p>	<p><b>What is the impact?</b></p> <p>Compliance could increase our operating costs and impact our ability to directly market. Breaches, either through deliberate targeted actions or inadvertent errors, may adversely affect our brand and business and may result in regulatory investigations and potential fines.</p>	<p><b>How do we manage it?</b></p> <ul style="list-style-type: none"> <li>Continuous monitoring of privacy laws and regulations to enhance our data privacy policies and practices</li> <li>Revamped data privacy compliance programme in light of GDPR and conducted training to the Board and senior management, data privacy teams at operations and selected employees</li> <li>Maintenance of a comprehensive data register across the group covering all applications which collect and store personal information</li> <li>Ongoing communication and risk assessments with Data Privacy teams across operations</li> <li>Promoting employees' overall awareness from data capture standards, reporting channels and workflows for data processing requests and data breaches</li> </ul>	<p><b>Risk movement in 2018</b></p> <p>Increased</p> <hr/> <p><b>Why?</b></p> <p>Global trend of tightening privacy laws such as GDPR has increased compliance obligations. The rise in cybercrime also exposes us to higher risk of data security breaches</p>	
Retail Tenants					
<p><b>4</b></p>  <p><b>RETAIL TENANTS</b></p>	<p><b>What is the risk?</b></p> <p>Retail letting has become more difficult due to factors such as the increased proliferation of e-commerce changing consumers' shopping habits from offline to online, general decline in spending in the luxury segment, shifts in consumer preferences, and increased competition.</p>	<p><b>What is the impact?</b></p> <p>Revenue from our retail arcades may be under pressure.</p>	<p><b>How do we manage it?</b></p> <ul style="list-style-type: none"> <li>Identification of exclusive niche retail brands and creation of exclusive VIP or concept stores that benefit from co-locating within a Peninsula hotel</li> <li>Proactively working with tenants to jointly develop marketing and incentive plans to drive traffic and repeat customers</li> <li>Improvements in the utilisation of floor space to allow flexible usage and conversion possibilities to accommodate tenants</li> <li>Seasonal and tactical campaigns held at the three properties across Greater China to stimulate spending</li> </ul>	<p><b>Risk movement in 2018</b></p> <p>Remains broadly the same</p> <hr/> <p><b>Why?</b></p> <p>Continuation of the mentioned challenges</p>	

## Group Risk Committee Report

					Business Portfolio/Concentration	
<b>5</b>  <b>BUSINESS PORTFOLIO/ CONCENTRATION</b>	<b>What is the risk?</b> <p>Owing to the origin of the company, a significant portion of our group earnings is derived from our operations in Hong Kong.</p>	<b>What is the impact?</b> <p>Unfavourable events (e.g. pandemic, terrorism, natural disaster) in the city could severely disrupt our overall business, lower our revenues, and impact the valuation of our assets.</p>	<b>How do we manage it?</b> <ul style="list-style-type: none"> <li>• Focus on increasing overseas earnings contribution</li> <li>• Ongoing focus to strengthen our brand globally and in Hong Kong, being prepared to make prompt adjustment to our business strategies when necessary</li> <li>• Maintain comfortable level of gearing</li> </ul>	<b>Risk movement in 2018</b> <p>Remains broadly the same</p>	<b>Why?</b> <p>Group earnings still predominantly derive from Hong Kong operations despite increased contribution from the recently renovated The Peninsula Chicago and The Peninsula Beijing</p>	
					Competition	
<b>6</b>  <b>COMPETITION</b>	<b>What is the risk?</b> <p>Cyclical over-supply of luxury hotels and increased competition poses a significant competitive pressure to the business.</p>	<b>What is the impact?</b> <p>May result in a decline in market share, revenue and profit, and reduce partnership opportunities.</p>	<b>How do we manage it?</b> <ul style="list-style-type: none"> <li>• Drive revenue growth and strengthen our brand by continuously improving our product and developing unique guest experiences</li> <li>• Increased focus on digital marketing and e-commerce opportunities, recruitment of digital talent to contribute to the company's digital transformation</li> <li>• Continuously monitor and analyse competitive and market information in order to anticipate unfavourable changes</li> <li>• Increased focus on engaging directly with customers rather than through third party channels</li> <li>• Continue to focus on strengthening our people development platforms through training and cross exposure opportunities and promotions</li> </ul>	<b>Risk movement in 2018</b> <p>Remains broadly the same</p>	<b>Why?</b> <p>Competition level remained high during the year</p>	
					Disaster Events	
<b>7</b>  <b>DISASTER EVENTS</b>	<b>What is the risk?</b> <p>A major disaster, such as a natural catastrophe, extreme weather due to climate change impact, war or contagious diseases could impact our assets, business levels, level of travel activity, and therefore our ability to conduct business.</p>	<b>What is the impact?</b> <p>Major disaster events, although rare, may result in a severe impact on our customers, revenue and reputation.</p>	<b>How do we manage it?</b> <ul style="list-style-type: none"> <li>• Enhanced risk engineering control process by external risk engineering consultant and group engineering team on selected properties focusing on insurable risks</li> <li>• Launched Group Security Operational Risk Framework to standardise the group's approach to security and operational risks management in accordance with ISO31000</li> <li>• Performed gap analysis for all hotels to design a bespoke plan on how to align their current practice with the global framework and the timeline for implementation</li> <li>• Established a group level crisis command centre in Hong Kong to assist with global crisis</li> <li>• Deployed threat management platform collating and analysing security intelligence from both open and closed sources</li> <li>• Comprehensive property damage, business interruption and terrorism insurance scheme</li> </ul>	<b>Risk movement in 2018</b> <p>Slightly Increased</p>	<b>Why?</b> <p>Rising likelihood of occurrence of extreme weather conditions such as super typhoons in Hong Kong due to climate change</p>	

# Group Risk Committee Report

Foreign Exchange, Interest Rate and Funding Risk					
<p><b>8</b></p>  <p><b>FOREIGN EXCHANGE, INTEREST RATE AND FUNDING RISK</b></p>	<p><b>What is the risk?</b></p> <p>Exchange rate fluctuations could result in significant foreign currency losses and affect our capital projects. Significant floating rate liabilities could result in higher cost of financing if current interest rates increase.</p>	<p><b>What is the impact?</b></p> <p>May impact our refinancing requirements and increase our cost of capital.</p>	<p><b>How do we manage it?</b></p> <ul style="list-style-type: none"> <li>• Operations predominantly charging in local currencies and expending in local currency to minimise currency mismatch</li> <li>• The majority of borrowings are typically denominated in the functional currency of the operations to which they relate</li> <li>• Regular stress testing (ad hoc for projects, and yearly for the group's financial reporting)</li> <li>• Actively managing fixed/floating interest rate exposure</li> </ul>	<p><b>Risk movement in 2018</b></p> <p>Slightly Increased</p> <hr/> <p><b>Why?</b></p> <p>Depreciation in RMB and rising interest rates</p>	
Macroeconomic and Political					
<p><b>9</b></p>  <p><b>MACROECONOMIC AND POLITICAL</b></p>	<p><b>What is the risk?</b></p> <p>A global or regional economic downturn could lead to a reduction of global or country-specific travel activity, changes of travel patterns or business operating procedures.</p>	<p><b>What is the impact?</b></p> <p>May result in a decline in profit and cashflow, while inflation and currency fluctuation may increase operating costs. Changes to regulations may result in higher legal and compliance costs.</p>	<p><b>How do we manage it?</b></p> <ul style="list-style-type: none"> <li>• Diversification in terms of number and location of assets and target market segments we pursue</li> <li>• Continuous monitoring of macroeconomic, political and regulatory landscape</li> <li>• Close monitoring of operating costs and implementation of cost savings measures when required</li> </ul>	<p><b>Risk movement in 2018</b></p> <p>Remains broadly the same</p> <hr/> <p><b>Why?</b></p> <p>Macroeconomic and political risks in our operating locations remain at a similar level of uncertainty, particularly with the ongoing trade tensions between US and China</p>	
Brand and Reputation					
<p><b>10</b></p>  <p><b>BRAND AND REPUTATION</b></p>	<p><b>What is the risk?</b></p> <p>Adverse publicity in traditional or social media, which may be frivolous or misconceived, but could still result in brand and reputational damage.</p>	<p><b>What is the impact?</b></p> <p>May lead to a decline in loyalty of existing guests, tenants and/or customers, and impairment of the ability to attract new customers. It may also result in a decline of ability to recruit and retain talent, and increased cost for crisis management and potential legal costs.</p>	<p><b>How do we manage it?</b></p> <ul style="list-style-type: none"> <li>• A continuous effort on corporate branding, both in traditional media and digital platforms</li> <li>• Clear guidelines on incident communication and crisis management processes by Crisis Management team with clear roles and responsibilities for each operation</li> <li>• Implementation of group-wide social media usage guidelines to ascertain appropriate behaviour online when representing the company or commenting on social media posts</li> <li>• Our Code of Conduct and behavioural standards and policies which regulate staff and guests conduct emphasises the zero-tolerance of abusive behaviour and misconduct by staff or guests, and provide clear guidelines on the escalation process</li> <li>• Increased focus on employer branding to ensure awareness of HSH being a reputable listed company and considerate employer</li> </ul>	<p><b>Risk movement in 2018</b></p> <p>Remains broadly the same</p> <hr/> <p><b>Why?</b></p> <p>Reputational risk still exists, as data privacy and sexual harassment remained topical throughout the year</p>	

# GROUP CORPORATE RESPONSIBILITY COMMITTEE REPORT

 <b>Composition:</b>	<p><b>Chairman</b> Mr Clement Kwok, Chief Executive Officer</p> <p><b>Members</b> Director, Group Corporate Responsibility and Sustainability Select members of senior management General Managers of Operations and Heads of Corporate Departments covering engineering, projects, operational risks and safety, operations planning and support, sales and marketing, human resources, legal and corporate affairs functions</p>
 <b>Meeting frequency:</b>	<ul style="list-style-type: none"> <li>At least three meetings each year</li> <li>Four meetings in 2018</li> </ul>
 <b>Responsibilities:</b>	<ul style="list-style-type: none"> <li>To propose, recommend, monitor and report to the Group Management Board on corporate responsibility and sustainability (CRS) topics, including the implementation of the company's Sustainable Luxury Vision 2020</li> <li>To review practices, standards, trends, regulation, plans related to CRS topics that may impact on the operations of the group</li> </ul>

## Our CRS Approach

Being a responsible and sustainable business is critical to the short, medium and long-term success of our group. The Sustainable Luxury Vision 2020 (Vision 2020) is our blueprint for sustainable growth, supporting the overall business strategy and enabling the group's overall value creation. Vision 2020 has been reassessed to include three focus areas of Our Guests, Our People and Our Cities. This strategy is underpinned by specific commitments developed not only to minimise our environmental and social impact but also to ensure that we operate our business in an ethical and responsible manner, maximising the overall benefits of our business to our key stakeholders.

## Governance on CRS

Our CRS approach is managed and governed by the Committee, chaired by the Chief Executive Officer. The Committee reports to the Group Management Board, who in turn, reports to the Board for review and oversight. The Director of Group CRS also updates the Board and provides insights to the Group Risk Committee on environmental and social risks related to the business, including coordinating risk mitigation actions across the group. Each local operation has its own committee chaired by either the General Manager or the Hotel Manager, two of the most senior people in the local operations; with champions comprised of functional/department heads. Through direction from the Committee, these local committees develop and implement action plans, initiate actions and improve on the performance of our commitments.

## Reporting Approach

We continued to publish a detailed CRS Report online<sup>21</sup>; also available on the Hong Kong Stock Exchange (HKEx) website. The CRS Report complies with the "comply or explain" provisions in the HKEx's Environmental, Social and Governance

Reporting Guide (ESG Guide) which includes a number of relevant recommended disclosures and this report has been prepared in accordance with the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards): Core Option. As we aim to provide a connected view of our overall performance, we have increased discussion of the linkages of the different aspects of our business and the group's overall value creation, referring to International Integrated Reporting Framework from the International Integrated Reporting Council. KPMG was commissioned to conduct assurance and to provide an independent opinion on the CRS Report in accordance with ESG Guide<sup>22</sup>.

## 2018 Main Activities

We are working on further integrating sustainability into our operations to ensure it becomes an innate aspect of our business. We continued to monitor progress on our commitments and provided support and focused attention on those that needed more traction. With these objectives in mind, the Committee's work in 2018 revolved around clarity and enhanced implementation:

- Reviewed CRS performance data and recommended actions relating to energy, water and waste management, responsible sourcing, health and safety, workforce issues and ethical standards and community engagement
- Considered recent global and local trends. For example, single-use plastic, food waste, climate change, human rights and modern slavery, elderly demographic shift, increasing customer expectations on sustainability, cotton use and electric vehicles
- Reviewed progress of the implementation of commitments on energy, water and waste targets; status of Building Research Establishment Environmental Assessment Method (BREEAM) certification of new projects; and community investment



“We regard corporate sustainability as a sensible and necessary business practice that benefits the overall value of the group in both the short and long term. I chair the Group Corporate Responsibility Committee because senior management believes that a topic this important requires our serious attention and focus.”



Clement Kwok  
Chairman of the Group  
Corporate Responsibility  
Committee  
14 March 2019

- Oversaw and approved the launch and implementation of the group's global single-use plastics approach announced in June 2018
- Discussed and agreed on the approach on the development of the new CRS strategy post-2020
- Discussed and reviewed the internal and external CRS communication and engagement approach

In 2019, the Committee's focus is to develop the post-2020 CRS approach; to ensure the full implementation of Vision 2020 and to enhance the engagement activities, especially with guests. More information is in the CRS Report.

## Progress on Vision 2020

We continued to see good progress in achieving most of the Vision 2020 commitments, with more than 85% of commitments on track. Some key examples in 2018 are:

### Our Guests

- Increased focus on family and wellness through our offerings and Peninsula Academy Programme
- Re-launched *Naturally Peninsula* as the choice for sustainable, organic, and healthy fare for guests
- Achieved BREEAM, one of the world's leading sustainable building standards, in the major renovation of The Peninsula Beijing and this standard is being implemented in new projects in London, Istanbul and Yangon
- Implemented steps to increase diversion rates for key waste streams such as food waste
- Began conducting external-led energy and water audits for our hotels and properties

### Our People

- Published a consolidated list of all CRS guidelines to our staff in a readable, user-friendly manner called the 'CRS Concierge'
- Engaged with the Committee members globally on their views and insights regarding Vision 2020 and developing the post-2020 approach
- Launched CRS videos to increase awareness amongst staff and make CRS relevant and easily understood
- Completed gap analysis to improve on our safety and security approach

### Our Cities

- Around 18.7% of our staff volunteered their time benefiting around 240 organisations across our operations, working on key community areas such as youth development, elderly caring and meeting under-served needs
- Majority of the paper products, cleaning products, tea, chocolate and coffee are sourced sustainably/responsibly
- Launched and begun implementation of our global single-use plastics approach starting with plastics straws and stirrers in 2018
- Developed a supply chain check approach and updated the Supply Chain Code of Conduct to include and strengthen elements on anti-bribery, human rights, modern slavery and plastics use

We are gratified to see progress as implemented by our colleagues around the world. We remain committed to implementing our Vision 2020 objectives in as practicable a manner as possible. We look forward to reporting our progress in future reports as we near the end of our Vision 2020.

21 [www.hshgroup.com/en/sustainable-luxury](http://www.hshgroup.com/en/sustainable-luxury)

22 KPMG Independent Assurance Report can be read on pages 252 and 253

# AUDIT COMMITTEE REPORT

 <b>Composition</b>	Chairman Mr Patrick Paul, INED Members Ms Ada Tse, INED Mr Andrew Brandler, NED
 <b>Meeting Frequency</b>	<ul style="list-style-type: none"> <li>At least four times every year with senior management, the external auditor and the Group General Manager, ARM in attendance by invitation</li> <li>Four meetings in 2018</li> </ul>
 <b>Responsibilities</b>	To assist the Board in carrying out its responsibility of overseeing financial reporting, external audit, internal audit, risk management and internal controls

## 2018 Main Activities

During the year, Audit Committee continued to oversee and consider matters arising from the financial reporting and audit process, risk management and internal controls and compliance as stated below:

### Annual/Interim Report and Financial Information

- Reviewed and endorsed the 2017 Annual Report and Corporate Responsibility and Sustainability Report and the annual results announcement, and the 2018 Interim Report and the interim results announcement
- Reviewed the valuations of the properties by independent valuers
- Reviewed all connected transactions and related party transactions including the continuing connected transactions of renewal of tenancy agreements of the office premises and the master agreement of carpet purchases

### Internal and external audits

- Reviewed the 2018 internal audit plan progress and the proposed three-year audit plan commencing 2019 and assessed the proposed audit methodology
- Reviewed the key internal audit findings and initiatives recommended to the relevant operations and Head Office departments
- Endorsed KPMG's audit report on the financial statements for the 2017 Annual Report
- Considered 2018 audit plans and reports from the external auditor on its audit and its review of the financial statements including accounting policies and areas of judgement and its comments on control matters

- Reviewed and endorsed the external auditor's audit and non-audit fees for 2017 as described below, assessed the performance and endorsed the reappointment of KPMG as the company's independent auditor for 2018

- Discussed the key observations identified by KPMG during the course of their audit and the related recommendations

### Financial reporting system, risk management and internal control systems

- Reviewed and confirmed the structure, adequacy of resources, staff qualifications and experience, training programmes and budget of the group's accounting, internal audit and financial reporting functions
- Reviewed the risk dashboard of each operation and approved the changes to the principal risk map
- Reviewed and endorsed semi-annually the Group Risk Management Report detailing the principal risks facing the group, mitigation controls and the adequacy and effectiveness of risk management and internal control systems
- Considered summaries of the internal representation letters from business operations which in turn forms one of the bases by which management confirms the effectiveness of the group's risk management and internal control systems; and approved the representation letters to the external auditor before issuance of the 2017 Annual Report and Corporate Responsibility and Sustainability Report and 2018 Interim Report

### Others

- Reviewed possible impacts of all new accounting standards, in particular, the requirements under the new lease accounting standard



“The Committee has continued to play a key role supporting the Board in matters relating to financial reporting, internal control and risk management, including the assessment of the group's principal risks and risk tolerance.”

Patrick Paul  
Chairman of the  
Audit Committee  
14 March 2019

- Reviewed the group's tax position and the impacts arising from the changes in the tax laws and regulations
- Endorsed the proposed changes to the terms of reference of the Committee
- Reviewed reported speak up cases and investigations

As the Chairman of the Audit Committee, I have met separately with the Group General Manager, Audit & Risk Management (ARM) and the Committee has met the external auditor without management being present.

Based on the reports from Group General Manager, ARM, summaries of internal representation letters and reports of the external auditor, the Audit Committee considers the overall financial and operating controls, risk management and internal control systems for the group during 2018 to be effective and adequate. Issues raised by the internal and external auditors during 2018 have been, or are being addressed by management, and the Audit Committee advised the Board that there are no issues required to be raised to shareholders.

In February 2019, the Audit Committee reviewed and endorsed this annual report, the Corporate Responsibility and Sustainability Report, which is posted on the website<sup>23</sup>, and the annual results announcement, and recommended the same to the Board for approval.

### Ensuring the Independence of our External Auditor

The group's external auditor is KPMG. We believe the independence of our external auditor is crucial to the effectiveness of our corporate governance and should not be compromised. The issue of auditor independence is reviewed annually. In engaging the external auditor for non-audit work, we take into account the internal guideline adopted to monitor the amount of non-audit work given to the external auditor to ensure the provision of such services do not impair KPMG's independence or objectivity. In 2018, apart from audit work, the company also awarded non-audit work to KPMG including taxation and other services. In our first meeting in 2019, the Audit Committee reviewed the nature of non-audit work performed by KPMG and confirmed that it gave rise to no impairment of actual or perceived independence or objectivity of the audit work itself. The Committee has recommended to the Board the re-appointment of KPMG as independent auditor for Shareholders' approval at the 2019 Annual General Meeting.

A summary of fees for audit and non-audit services to KPMG for the financial years ended 31 December 2018 and 2017 is as follows:

Nature of Services	2018	2017
	HK\$m	HK\$m
Audit Services	11	10
Non-audit Services		
Taxation and other services	4	4

## NOMINATION COMMITTEE REPORT

 <b>Composition</b>	Chairman Members	The Hon. Sir Michael Kadoorie, Non-Executive Chairman Dr the Hon. Sir David Li, INED Dr William Fung, INED
 <b>Meeting Frequency</b>		<ul style="list-style-type: none"> <li>At least two meetings every year</li> <li>Two meetings in 2018</li> </ul>
 <b>Responsibilities</b>		To evaluate the size, structure and composition of the Board. This includes selecting new Directors and/or maintaining an appropriate, adequate and balanced make-up of an effective Board and reviewing of independence of INEDs

### Boardroom Diversity<sup>24</sup>

We believe that having variety in composition is important for a healthy and effective Board. The company approaches diversity in the broadest sense, recognising the benefits of a diverse mix of skills, knowledge, age, race, gender and experience on its Board. The Board has since 2013 adopted a diversity policy, which can be found on the company's website<sup>25</sup>. The Nomination Committee, when considering Board composition and in its process of recommending Board appointments, is guided by the principles of the company's policy on diversity. While we recognise the gender diversity at Board level can be improved and this is taken into consideration, we continue to apply the principle of appointments based on merit. The Nomination Committee evaluated the Board composition and considered that the HSH Board has in place a diverse mix of skills, knowledge and experience, as well as increased gender diversity with three female members on the Board. The three Directors who joined the Board in December 2017 bring constructive challenges and fresh perspectives to the Board discussion throughout 2018.

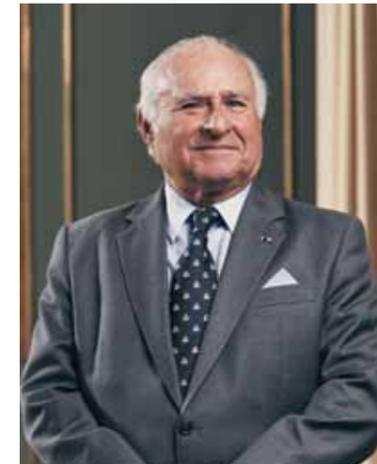
Furthermore, the Committee reviewed the appropriateness of an express diversity quota or measurable objective and concluded that it was unnecessary. The selection would continue to be based on merit with reference to our diversity policy in terms of skill set, experience, knowledge, expertise, culture, level of independence from the company, age, race and gender. This approach has been approved by the Board.

### Nomination Policy

In 2017, when selecting the three Directors for the Board, while recognising the benefits of diversity, we also ensured that the selection criteria including contribution and time commitment, nomination process and procedures adopted by the Nomination Committee were followed. In 2018, the Committee formalised its current practices on nomination and set it out into a nomination policy for Board adoption giving our shareholders transparency on our nomination process. This policy can be found on the company's website.<sup>25</sup> We set out on next page a diagram on our nomination process.

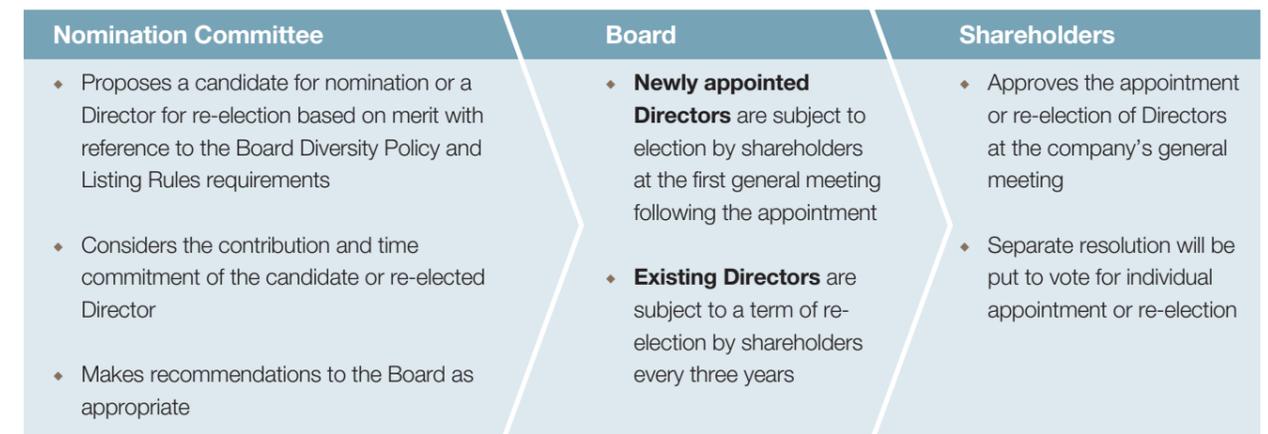
<sup>24</sup> Please also refer to page 134 on Boardroom Diversity

<sup>25</sup> [www.hshgroup.com/en/corporate-governance](http://www.hshgroup.com/en/corporate-governance)



“At HSH, we ensure that appointments to our Board are made solely on merit with the overriding objective of ensuring that the Board has the desired skills, knowledge and experience to successfully determine the group's strategy.”

The Hon. Sir Michael Kadoorie  
Chairman of the  
Nomination Committee  
14 March 2019



### 2018 Main Activities

In 2018, the Committee also conducted the following business:

#### Year-end matters and re-election

- Assessed and reviewed all INEDs' confirmations of independence and affirmed the Committee's view over their independence
- Recommended the re-election of retiring Directors as these Directors continue to contribute effectively
- Reviewed the 2017 Nomination Committee Report

#### Board structure and diversity

- Reviewed and confirmed the structure, size and composition of the Board and the split between number of INEDs, NEDs and Executive Directors remained appropriate for it to perform its duties
- Reviewed and confirmed the Board has a diverse mix of skills, knowledge, experience and gender
- Reviewed the value of having measurable objectives for implementing the Board Diversity Policy

#### Governance

- Endorsed the Nomination Policy and proposed amendment to the terms of reference of the Committee including the Nomination Policy for adoption by the Board
- Reviewed the Board Diversity Policy remained relevant and no revision was required

# REMUNERATION COMMITTEE REPORT

 <b>Composition</b>	Chairman Mr Patrick Paul, INED Members Dr Rosanna Wong, INED Mr Andrew Brandler, NED
 <b>Meeting Frequency</b>	<ul style="list-style-type: none"> <li>At least two meetings every year with the Chief Executive Officer and Group Director, Human Resources in attendance</li> <li>One meeting and one meeting by written resolutions circulated for approval in 2018</li> </ul>
 <b>Responsibilities</b>	To exercise oversight of all aspects of the group's remuneration policies, in particular to review and approve the proposals for the basic compensation and bonuses for Executive Directors and senior management, as well as the application of the group's bonus scheme for senior staff

## HSH Rewards Philosophy

This philosophy is to ensure that compensation and benefits programmes are designed for the group and its executives according to an overall framework setting out various guiding principles. Our objective is to attract talent and retain good performers by offering a mix of financial and non-financial rewards to remain competitive and meet our employees' needs.

### Key guiding principles

- Providing benefits that are competitive and support the long-term objective of caring for our employees and ensuring these benefits are legally compliant, locally relevant and globally consistent
- Formulating weightings of variable pay such as bonus and incentive targets, taking into account the business performance of the group and the particular business unit
- Recognising and encouraging long-term careers within HSH through appropriate rewards and succession planning programmes
- Designing a pay mix of the total cash package with an appropriate mix of fixed pay and variable pay, taking into account the group's pay policy and market practice to incentivise management and individual performance

## Remuneration for Executive Directors and Senior Management

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

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

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

### Basic compensation

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

### Bonuses and incentives

The provision of appropriate bonus and incentive awards for performance is vital to the continued growth to the business. Executive Directors' bonuses consist of contractual and discretionary components. To align with market practice, we have also put two Group Executives under a discretionary bonus plan starting in 2018. Other senior management continues to participate in the HSH Management Bonus Plan<sup>26</sup> which is a short-term incentive scheme calculated by reference to financial and non-financial considerations as follows:

- The group's financial performance
- The Business Units' quality measurement<sup>27</sup>
- Individual performance
- Share Price

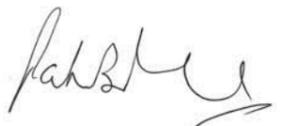
In 2018, management continued to review the HSH Management Bonus Plan and proposed the Plan to remain largely intact subject to a few refinement areas for the Committee's approval. The main purpose of the proposal

<sup>26</sup> Senior staff also participates in the HSH Management Bonus Plan

<sup>27</sup> A quality score measuring user experience and/or operational excellence against a set of standards



“On behalf of the Remuneration Committee, I am pleased to present our 2018 Report. This year we continued to review the HSH Management Bonus Plan looking for improvements and the Committee approved the proposed areas for refinement submitted by management. The revised plan will be implemented for the 2020 bonus payout.”

  
 Patrick B. Paul  
 Chairman of the  
 Remuneration Committee  
 14 March 2019

is to simplify the administrative procedures of the Plan. The proposal includes changing the Committee's approval basis to a percentage of underlying profit which allows the Committee to focus more on the total bonus pool and its relation to the group's performance. The proposal also includes simplifying the methodology for business units' quality measurement and individual performance. These revisions will be implemented starting in 2019 with the first bonus payout in 2020.

### Retirement benefits

The Executive Directors and most of the senior management participate in the company's retirement plan which is a scheme set up under the Occupational Retirement Scheme Ordinance of Hong Kong – The Hongkong and Shanghai Hotels, Limited 1994 Retirement Plan. The employer contributions to the company's plan for the Executive Directors, senior management and all other Hong Kong employees are made according to the plan's defined contribution level and vesting conditions. Employees can opt to pay contributions. One member of the senior management participates in a local plan instead of the company's plan due to the local requirements.

### Other benefits

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

## Remuneration for Non-Executive Directors

Fees of Non-Executive Directors (NEDs) are fixed by shareholders at shareholders general meetings, while any additional fees of NEDs for serving on Board Committees are fixed by the Board. The Committee has the responsibility of reviewing management's annual recommendations for these

fees. Factors taken account in this process include estimated time spent in the discharge of these duties and benchmarking against other Hong Kong listed companies of similar size and activities as well as other international companies. After review, the Committee makes recommendations to the Board. No director approves his or her own remuneration.

In line with the annual fee review, the Board in March 2018 approved the proposal from the Committee (i) the fees of NEDs and INEDs be fixed at the rate of HK\$325,000 and HK\$375,000 respectively per annum; and (ii) a revision of the fees payable to the Chairman of the Remuneration Committee would be HK\$100,000 per annum. The NED and INED fees were approved by shareholders at the Annual General Meeting on 9 May 2018. These revised fees, took effect on 9 May 2018 and were paid to the NEDs and INEDs and Chairman of the Remuneration Committee on a pro rata basis for the financial year ended 31 December 2018.

## 2018 Main Activities

The Remuneration Committee conducted the following business in 2018:

### Remuneration

- Reviewed management's proposals for fees for NEDs and INEDs and additional fees for the same to serve on Board Committees in 2018, and recommended to the Board changes on NEDs and INEDs and Chairman of Remuneration Committee's fees
- Reviewed and approved the 2017 proposed bonus pool for senior staff

## Remuneration Committee Report

- Reviewed and approved the 2017 annual discretionary bonus proposal for Executive Directors and Group Executives
- Reviewed and approved the proposed change in the discretionary bonus plan for Group Executives
- Reviewed the group-wide 2019 general salary increase proposal taking into account various factors including market pay trends, inflationary forecasts, labour market outlook and the group financial performance
- Reviewed and approved the 2019 salary increases of Executive Directors and senior management
- Reviewed and approved the proposed changes to the HSH Management Bonus Plan

### Others

- Reviewed and approved the 2017 Remuneration Committee Report
- Reviewed and confirmed the terms of reference of the Committee
- Reviewed and approved the letters of appointment for two NEDs and two INEDs

### 2018 Remuneration of Directors and Senior Management

The following information is an integral part of the Audited financial statements for the year ended 31 December 2018.

#### Non-Executive Directors – remuneration

The fees paid to each of our NEDs in 2018 for their service on the company's Board and, where applicable, on its Board Committees are set out below.

Higher levels of fees were paid to the Chairmen of the Audit Committee and the Remuneration Committee indicated by "C". Executive Directors serving on the Board and Board Committees are not entitled to any Directors' fees.

(HK\$'000)	Executive Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	Total <sup>(6)</sup> 2018	Total <sup>(6)</sup> 2017
<b>Non-Executive Directors</b>							
The Hon. Sir Michael Kadoorie	316	100	–	–	40	456	440
Mr Andrew C.W. Brandler	316	100	150	60	–	626	604
Mr Ronald J. McAulay <sup>(1)</sup>	–	–	–	–	–	–	106
Mr William E. Mocatta	316	–	–	–	–	316	300
Mr John A.H. Leigh	316	100	–	–	–	416	400
Mr Nicholas T.J. Colfer	316	–	–	–	–	316	300
Mr James L. Lewis <sup>(2)</sup>	316	–	–	–	–	316	25
Mr Philip L. Kadoorie <sup>(3)</sup>	316	–	–	–	–	316	25
<b>Independent Non-Executive Directors</b>							
Dr the Hon. Sir David K.P. Li	366	–	–	–	40	406	390
Mr Patrick B. Paul	366	–	185 <sup>(4)</sup>	95 <sup>(4)</sup>	–	646	618
Mr Pierre R. Boppe	366	–	–	–	–	366	350
Dr William K.L. Fung <sup>(4)</sup>	366	–	–	–	40	406	521
Dr Rosanna Y.M. Wong	366	–	–	60	–	426	410
Dr Kim L. Winser	366	–	–	–	–	366	350
Ms Ada K.H. Tse <sup>(5)</sup>	366	–	150	–	–	516	42
	4,774	300	485	215	120	5,894	4,881

#### Notes:

- Mr Ronald J. McAulay resigned as a Director of the company with effect from 8 May 2017
- Mr James L. Lewis was appointed as a Director of the company with effect from 1 December 2017
- Mr Philip L. Kadoorie was appointed as a Director of the company with effect from 1 December 2017
- Dr William K.L. Fung resigned as a member of the Audit Committee of the company with effect from 1 December 2017
- Ms Ada K.H. Tse was appointed as a Director and a member of the Audit Committee of the company with effect from 1 December 2017
- In line with industry practice, the group operates a scheme which encourages Directors and senior management to use the facilities of the group to promote its business. For this purpose, discount cards are issued to the Directors. The remuneration disclosed does not include the amount of discounts offered to the Directors and senior management

### Executive Directors – remuneration

The remuneration paid to Executive Directors of the company in 2018 was as follows:

(HK\$'000)	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	Total' 2018	Total' 2017
<b>Executive Directors</b>						
Mr Clement K.M. Kwok	7,015	8,156	1,154	223	16,548	15,593
Mr Peter C. Borer	4,808	3,984	779	139	9,710	9,475
Mr Matthew J. Lawson	4,659	2,903	764	179	8,505	7,806
	16,482	15,043	2,697	541	34,763	32,874

\* In line with industry practice, the group operates a scheme which encourages Directors and senior management to use the facilities of the group to promote its business. For this purpose, discount cards are issued to the Directors. The remuneration disclosed does not include the amount of discounts offered to the Directors and senior management

### Senior management – remuneration

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

	2018 Number	2017 Number
HK\$4,000,001 – HK\$5,000,000	1	2
HK\$5,000,001 – HK\$6,000,000	2	2
HK\$6,000,001 – HK\$7,000,000	1	1
HK\$7,000,001 – HK\$8,000,000	1	1

\*\* GMB, the company's management and operations' decision-making authority, comprises the three Executive Directors and five (2017: six) senior management who represent the various key functions and operations of the company

### Individuals with highest emoluments

The five highest paid individuals in the group included three Executive Directors and two members of senior management (2017: two members of senior management). The emoluments of the two (2017: two) individuals with highest emoluments are within the following bands:

	2018 Number	2017 Number
HK\$6,000,001 – HK\$6,500,000	–	1
HK\$6,500,001 – HK\$7,000,000	1	–
HK\$7,000,001 – HK\$7,500,000	–	1
HK\$7,500,001 – HK\$8,000,000	1	–

The aggregate of the emoluments in respect of these two (2017: two) individuals is as follows:

(HK\$'000)	2018	2017
Basic compensation	8,475	8,188
Bonuses and incentives	5,173	4,337
Retirement benefits	847	819
Other benefits	225	270
	14,720	13,614

The Remuneration Committee remains committed to careful oversight of the remuneration policies of the company and to continued transparent disclosure on these matters.

# DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2018.

## Principal Activities

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

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

## Business Review and Performance

A review of the business of the company and a discussion and analysis of the group's performance during the year and the material factors underlying its results and financial position, including analysis using financial key performance indicators, are provided in the Operational Review on pages 39 to 70 and Financial Review on pages 72 to 87. Description of the principal risks and uncertainties facing the group can be found throughout this annual report, particularly in Group Risk Committee Report on pages 154 to 161. Particulars of an important event affecting the group that has occurred since the end of the financial year 2018 are set out in note 31 to the financial statements. The future development of the group's business is discussed throughout this annual report including in the CEO's Strategic Review on page 38.

Details regarding compliance with relevant laws and regulations which have a significant impact on the group can be found throughout this annual report and the Corporate Responsibility and Sustainability Report (CRS Report). Further details regarding the sustainability and environment related policies and performance are provided in the CRS Report and an account of the group's relationships with its key stakeholders in Creating Stakeholder Value on pages 116 and 117.

The discussions with respect to the above topics in the annual report and CRS Report which is available online<sup>28</sup> form part of this Directors' Report.

## Ten Year Operating Statistics and Financial Summary

The group's key operating statistics and financial data for the last ten years are set out on pages 22 and 23.

## Share Capital

Movements in the share capital of the company during the year are set out in note 24 to the financial statements.

## Equity-linked Agreements

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

## Purchase, Sale or Redemption of Listed Securities

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

## Dividends

An interim dividend of 5 HK cents per share (2017: 4 HK cents per share) in respect of the year ending 31 December 2018 was paid during the year 2018. The Directors have recommended a final dividend of 16 HK cents per share (2017: 16 HK cents per share) and this is in line with our 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. Subject to the approval by shareholders at the Annual General Meeting to be held at The Peninsula Hong Kong on 10 May 2019 (2019 Annual General Meeting), such dividends will be payable on 21 June 2019 to shareholders whose names appear on the register of members on 21 May 2019.

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

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

## Borrowings

Particulars of all borrowings are set out in note 23 to the financial statements.

## Charitable Donations

Cash donations made by the group for charitable purposes during the year amounted to HK\$2.1 million (2017: HK\$3 million)<sup>29</sup>.

## Major Customers and Suppliers

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

## Connected Transactions

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

On 21 March 2016, HSH Management Services Limited, an indirect wholly-owned subsidiary of the company, entered into two tenancy agreements with Kadoorie Estates Limited (KEL) to renew the office leases of (i) Room 408 and (ii) 7th and 8th Floors of St. George's Building, 2 Ice House Street, Central, Hong Kong (Office Premises) for three years commencing on 1 April 2016 at a market rent of (i) HK\$120,000 per month plus a monthly service charge of HK\$15,663 (revised to HK\$17,570 with effect from 1 January 2018) and (ii) HK\$1,655,000 per month plus a monthly service charge of HK\$216,039 (revised to HK\$242,339 with effect from 1 January 2018) respectively. The rents and services charges incurred in 2018 amounted to HK\$24 million (2017: HK\$24 million).

KEL is the agent of the registered owner of the Office Premises. The registered owner is controlled by one of the substantial shareholders of the company. The leases constituted continuing

connected transactions of the company and subject to the disclosure requirements under the Listing Rules. Details of the transactions were disclosed in the announcement dated 21 March 2016.

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

- (i) in the ordinary and usual course of business of the group;
- (ii) on normal commercial terms; and
- (iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the company as a whole.

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

## Material Related Party Transactions

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

## Directors

Biographical details of the Directors in office at the date of this report are shown on pages 128 to 131. All these Directors held office throughout 2018.

In accordance with the Articles of Association of the company, the Directors who will retire at the 2019 Annual General Meeting and, being eligible, have agreed to offer themselves for re-election are The Hon. Sir Michael Kadoorie, Mr Peter Borer, Mr Matthew Lawson, Mr Patrick Paul, Dr Rosanna Wong and Dr Kim Winsler.

<sup>29</sup> The donations amount of HK\$2.5 million (2017: HK\$3.2 million) referred to in the Sustainability Data Statements on page 254 include donations by managed properties owned by a joint venture and associates and employees.

## Directors' Report

None of the Directors proposed for re-election at the 2019 Annual General Meeting has a service contract with the company which is not determinable by the company within one year without payment of compensation, other than statutory compensation.

### Directors of Subsidiaries

The list of directors who have served on the boards of the subsidiaries of the company during the year and up to the date of this report is shown on the company's website<sup>30</sup>.

### Senior Management

Biographical details of senior management are shown on pages 132 and 133. All members of senior management held office throughout the year.

### Interests of Directors

As at 31 December 2018, the interests and short positions of the Directors of the company in the shares, underlying shares and debentures of the company or any associated corporation, within the meaning of Part XV of the Securities and Futures Ordinance (SFO), as recorded in the register required to be kept under section 352 of the SFO, are as follows:

#### Long position in shares of the company

	Capacity	Number of shares held in the company	% of total number of shares in issue of the company
The Hon. Sir Michael Kadoorie	Note (a)	875,942,523	54.297
Mr Clement K.M. Kwok	Beneficial Owner	736,428	0.046
Mr Peter C. Borer	Beneficial Owner	367,125	0.023
Mr Matthew J. Lawson	Beneficial Owner	200,000	0.012
Mr William E. Mocatta	Beneficial Owner	17,000	0.001
Mr John A.H. Leigh	Note (b)	83,018,747	5.146
Mr Philip L. Kadoorie	Note (c)	681,019,042	42.214
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,101,698	0.068
Mr Pierre R. Boppe	Beneficial Owner	30,000	0.002

#### Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 875,942,523 shares in the company. These shares were held in the following capacity:

- (i) 194,923,481 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;
- (ii) 345,548,381 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder; and
- (iii) 335,470,661 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder.

For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 875,942,523 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. She has no legal or beneficial interest in those shares otherwise.

(b) Mr John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 83,018,747 shares in the company. These shares were ultimately held by a discretionary trust. Mr John A.H. Leigh was deemed to be interested in such 83,018,747 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 83,018,747 shares.

(c) Mr Philip L. Kadoorie was deemed (by virtue of the SFO) to be interested in 681,019,042 shares in the company. These shares were held in the following capacity:

- (i) 345,548,381 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries; and
- (ii) 335,470,661 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries.

Messrs Andrew Brandler, Nicholas Colfer, James Lewis, Patrick Paul; Dr William Fung, Dr Rosanna Wong, Dr Kim Winser and Ms Ada Tse who are Directors of the company have each confirmed that they had no interests in the shares of the company or any of its associated corporations as at 31 December 2018.

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

Except as set out above, as at 31 December 2018, none of the Directors of the company (including their spouses and children under 18 years of age) had any interests or short positions in the shares, underlying shares and debentures of the company or its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept under section 352 of the SFO.

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

## Interests of Senior Management

As at 31 December 2018, none of the senior management (other than Directors) had any interests in the shares and underlying shares of the company.

## Interests of Substantial Shareholders

So far as is known to any Director of the company, as at 31 December 2018, shareholders (other than Directors of the company) who had interests or short positions in the shares and underlying shares of the company as recorded in the register required to be kept under section 336 of the SFO, are as follows:

### Long position in shares of the company

#### (a) Substantial shareholders

	Capacity	Number of shares held in the company	% of total number of shares in issue of the company
Acorn Holdings Corporation	Beneficiary	194,923,481	12.08 <sup>(i)</sup>
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	277,942,228	17.23 <sup>(i)</sup>
Guardian Limited	Beneficiary/Interest of controlled corporation	83,018,747	5.15 <sup>(iv)</sup>
Harneys Trustees Limited	Interests of controlled corporations	681,019,042	42.21 <sup>(ii)</sup>
Lawrencium Holdings Limited	Beneficiary	335,470,661	20.79 <sup>(ii)</sup>
Lawrencium Mikado Holdings Limited	Beneficiary	345,548,381	21.42 <sup>(ii)</sup>
The Magna Foundation	Beneficiary	345,548,381	21.42 <sup>(ii)</sup>
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	681,019,042	42.21 <sup>(ii)</sup>
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	83,018,747	5.15 <sup>(iv)</sup>
Oak (Unit Trust) Holdings Limited	Trustee	83,018,747	5.15 <sup>(i)</sup>
Oak HSH Limited	Beneficiary	83,018,747	5.15 <sup>(iv)</sup>
Mr Richard Parsons	Trustee	83,018,747	5.15 <sup>(iv)</sup>

## Directors' Report

### Notes:

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

The interests of Bermuda Trust Company Limited in the shares of the company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie is among the discretionary objects as disclosed in "Interests of Directors".

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

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

- (iii) Harneys Trustees Limited controlled The Mikado Private Trust Company Limited and was therefore deemed to be interested in the shares in which such company was deemed to be interested.
- (iv) The Oak Private Trust Company Limited was deemed to be interested in the shares in which Oak HSH Limited was deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such company.
- (v) Mr Richard Parsons, in his capacity as one of the trustees of a trust, controlled Guardian Limited and therefore was deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 83,018,747 shares in which Guardian Limited was interested was duplicated within the interests attributed to Mr Richard Parsons and was also duplicated within the interests attributed to Mr John A.H. Leigh as disclosed in "Interests of Directors".

### (b) Other substantial shareholders

	Capacity	Number of shares held in the company	% of total number of shares in issue of the company
Satinu Resources Group Ltd.	Interest of controlled corporation	185,179,077	11.48
Mr Ng Chee Siong	Trustee	78,402,393	5.00 <sup>(i)</sup>
Mr Philip Ng Chee Tat	Trustee	78,402,393	5.00 <sup>(i)</sup>
Sino Hotels (Holdings) Limited	Interests of controlled corporations	78,402,393	5.00 <sup>(i)</sup>

### Note:

- (i) Mr Ng Chee Siong and Mr Philip Ng Chee Tat, had trustee interest in their capacity as the co-executors of the estate of Mr Ng Teng Fong, who controlled Sino Hotels (Holdings) Limited and therefore they were both deemed to be interested in the 78,402,393 shares in which Sino Hotels (Holdings) Limited was deemed to be interested. Hence, the share interests of Mr Ng Chee Siong, Mr Philip Ng Chee Tat and Sino Hotels (Holdings) Limited as disclosed were duplicated. The nature, number and the percentage of shares held by all of them are based on the substantial shareholder notices filed with the Stock Exchange on 8 May 2017.

Except as set out above, as at 31 December 2018, the company had not been notified of any substantial shareholder (other than Directors of the company) who had interests or short positions in the shares or underlying shares of the company that were recorded in the register required to be kept under section 336 of the SFO.

## Interests of Any Other Person

As at 31 December 2018, the company had not been notified of any person other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the company, which are required to be recorded in the register required to be kept under section 336 of the SFO.

## Directors' Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract of significance to which the company or its subsidiaries was a party and in which a Director of the company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted as at 31 December 2018 or at any time during the year except the continuing connected transactions as disclosed in Connected Transactions and material related party transactions in note 30 to the financial statements.

## Directors' Indemnities

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

## Employee Retirement Benefits

Details of the group's employee retirement benefits are shown in note 26 to the financial statements.

## Management Contracts

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

## Corporate Governance Report

The Corporate Governance Report outlines the company's approach to governance is set out on pages 136 to 153.

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

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

## Directors' Responsibilities for the Financial Statements

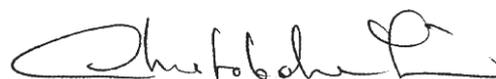
The Directors are responsible for preparing the financial statements for each financial period. These financial statements must present a true and fair view of the state of affairs of the group and of the results and cash flows of the relevant period. The Directors are also responsible for ensuring that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

In preparing the financial statements for the year ended 31 December 2018, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

## Auditor

The financial statements for the year ended 31 December 2018 have been audited by KPMG who will retire at the 2019 Annual General Meeting and, being eligible, offer themselves for re-appointment. A resolution to re-appoint KPMG as auditor and authorise the Directors to fix their remuneration will be proposed at the 2019 Annual General Meeting.

By Order of the Board



Christobelle Liao  
Company Secretary  
14 March 2019



# FINANCIAL STATEMENTS

Independent Auditor's Report	180
Consolidated Statement of Profit or Loss	185
Consolidated Statement of Comprehensive Income	186
Consolidated Statement of Financial Position	187
Consolidated Statement of Changes in Equity	188
Consolidated Statement of Cash Flows	189
Notes to the Financial Statements	
1. Company-level statement of financial position	190
2. Statement of compliance	191
3. Revenue	191
4. Profit after net financing charges	192
5. Financing charges	192
6. Income tax in the consolidated statement of profit or loss	193
7. Emoluments of key management personnel	194
8. Other comprehensive income and the related tax effects	194
9. Earnings per share	195
10. Dividends	195
11. Segment reporting	196
12. Investment properties and other properties, plant and equipment	198
13. Properties under development for sale	203
14. Interest in joint ventures	204
15. Interest in associates	206
16. Hotel operating rights	207
17. Derivative financial instruments	208
18. Income tax in the consolidated statement of financial position	208
19. Inventories	210
20. Trade and other receivables	210
21. Cash and cash equivalents and other cash flow information	211
22. Trade and other payables	212
23. Interest-bearing borrowings	213
24. Share capital	214
25. Reserves	214
26. Employee retirement benefits	217
27. Financial risk management and fair values	220
28. Commitments	229
29. Contingent liabilities	230
30. Material related party transactions	230
31. Non-adjusting post reporting period events	231
32. Key sources of estimation uncertainty	231
33. Investment in subsidiaries	232
34. Significant accounting policies	234
35. Changes in accounting policies and disclosures	249
36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018	250

# INDEPENDENT AUDITOR’S REPORT

## **Independent auditor’s report to the members of The Hongkong and Shanghai Hotels, Limited**

*(incorporated in Hong Kong with limited liability)*

### Opinion

We have audited the consolidated financial statements of The Hongkong and Shanghai Hotels, Limited (“the company”) and its subsidiaries (together “the group”) set out on pages 185 to 251, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### Basis for Opinion

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

### Key Audit Matters

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

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

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

The Key Audit Matter	How the matter was addressed in our audit
<p>The group owns interests in various hotel properties around the world either directly or through its investments in a joint venture and associates. These hotel properties, which are stated at cost less accumulated depreciation and impairment, are significant to the group in terms of their values.</p> <p>At the year end management assesses if there are any indicators of potential impairment of hotel properties. In such cases, management assesses the recoverability of the carrying value of hotel properties based on valuations prepared by an external property valuer in accordance with recognised industry standards.</p> <p>The valuation of hotel properties is complex and involves a significant degree of judgement and estimation, particularly given the diverse locations of the hotel properties and the particular economic and political circumstances at each location which can affect, inter alia, occupancy rates, revenue per available room and future growth rates.</p> <p>We identified assessing the recoverability of the carrying value of hotel properties owned by the group and its investees as a key audit matter because of the complexity of the valuations and because of the significant judgement and estimation required and the potential for management bias in the selection of the assumptions.</p>	<p>Our audit procedures to assess the recoverability of the carrying value of hotel properties owned by the group and its investees included the following:</p> <ul style="list-style-type: none"> <li>◆ discussing triggering events and/or indicators of potential impairment of hotel properties with management and inspecting the operating results and cash flow forecasts of the respective hotels;</li> <li>◆ where such triggering events or indicators were determined to exist: <ul style="list-style-type: none"> <li>– meeting the external property valuer, independent of management, to discuss the valuations and assess the valuation methodology applied and considering the valuer’s qualifications, expertise in the properties being valued, objectivity and independence;</li> <li>– challenging the key estimates and assumptions adopted in the valuations, including occupancy rates, revenue per available room, future growth rates and the discount rates applied, by comparing these with budgets approved by the directors, market available data for comparable properties and the current year’s operating results; and</li> <li>– performing sensitivity analyses by making adjustments to the key estimates and assumptions to assess the risk of possible management bias in the valuation exercise.</li> </ul> </li> </ul>

## Independent Auditor’s Report

### Valuation of investment properties owned by the group and a joint venture

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

The Key Audit Matter	How the matter was addressed in our audit
<p>The group holds a portfolio of investment properties comprising office, residential and commercial properties in various locations around the world. These investment properties, which are stated at fair value, are significant to the group in terms of their values.</p> <p>Management’s assessment of the fair value of investment properties is based on valuations performed by external property valuers in accordance with recognised industry standards.</p> <p>These valuations are complex and involve a significant degree of judgement and estimation in respect of capitalisation rates and market rents, particularly given the number and diversity of locations and nature of the investment properties.</p> <p>We identified assessing the valuation of investment properties owned by the group and a joint venture as a key audit matter because of the complexity of the valuations and because of the significant judgement and estimation required.</p>	<p>Our audit procedures to assess the valuation of investment properties owned by the group and a joint venture included the following:</p> <ul style="list-style-type: none"> <li>◆ discussing with management their assessment of the valuations, including the key assumptions adopted and recent market developments at each location where the investment properties are situated;</li> <li>◆ meeting the external property valuers, independent of management, to discuss the valuations and assess the valuation methodologies applied and considering the valuers’ qualifications, expertise in the properties being valued, objectivity and independence;</li> <li>◆ with the assistance of our property valuations specialists, challenging the key estimates and assumptions adopted in the valuations, including the capitalisation rates and market rents, by comparing the key estimates with market available data, government produced market statistics and the current year’s operating results.</li> </ul>

### Information Other Than the Consolidated Financial Statements and Auditor’s Report Thereon

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

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

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

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

## Responsibilities of the Directors for the Consolidated Financial Statements

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

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

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

## Auditor's Responsibility for the Audit of the Consolidated Financial Statements

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

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

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

- ◆ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- ◆ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ◆ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

## Independent Auditor’s Report

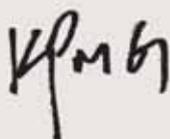
- ◆ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ◆ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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



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

14 March 2019

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS (HK\$m)

	Note	Year ended 31 December	
		2018	2017
<b>Revenue</b>	3	<b>6,214</b>	5,782
Cost of inventories		<b>(470)</b>	(433)
Staff costs and related expenses		<b>(2,291)</b>	(2,135)
Rent and utilities		<b>(567)</b>	(548)
Other operating expenses		<b>(1,336)</b>	(1,244)
<b>Operating profit before interest, taxation, depreciation and amortisation (EBITDA)</b>		<b>1,550</b>	1,422
Depreciation and amortisation		<b>(542)</b>	(503)
<b>Operating profit</b>		<b>1,008</b>	919
Interest income		<b>18</b>	22
Financing charges	5	<b>(70)</b>	(109)
Net financing charges		<b>(52)</b>	(87)
<b>Profit after net financing charges</b>	4	<b>956</b>	832
Share of results of joint ventures	14	<b>(24)</b>	(97)
Share of results of associates	15	<b>(29)</b>	(24)
Increase in fair value of investment properties	12	<b>523</b>	609
<b>Profit before taxation</b>		<b>1,426</b>	1,320
Taxation			
Current tax	6	<b>(180)</b>	(172)
Deferred tax	6	<b>(4)</b>	4
<b>Profit for the year</b>		<b>1,242</b>	1,152
<b>Profit attributable to:</b>			
Shareholders of the company		<b>1,243</b>	1,155
Non-controlling interests		<b>(1)</b>	(3)
<b>Profit for the year</b>		<b>1,242</b>	1,152
<b>Earnings per share, basic and diluted (HK\$)</b>	9	<b>0.78</b>	0.73

The notes on pages 190 to 251 form part of these financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK\$m)

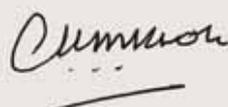
	Note	Year ended 31 December	
		2018	2017
<b>Profit for the year</b>		<b>1,242</b>	1,152
<b>Other comprehensive income for the year, net of tax:</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries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

The notes on pages 190 to 251 form part of these financial statements.

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

		At 31 December	
	Note	2018	2017
<b>Non-current assets</b>			
Investment properties		<b>33,077</b>	36,249
Other properties, plant and equipment		<b>8,452</b>	7,106
	12	<b>41,529</b>	43,355
Properties under development for sale	13	<b>3,121</b>	–
Interest in joint ventures	14	<b>1,089</b>	1,055
Interest in associates	15	<b>638</b>	699
Hotel operating rights	16	<b>530</b>	564
Deferred tax assets	18(b)	<b>49</b>	38
		<b>46,956</b>	45,711
<b>Current assets</b>			
Inventories	19	<b>84</b>	77
Derivative financial instruments	17	<b>2</b>	–
Trade and other receivables	20	<b>715</b>	750
Amount due from a joint venture	30(b)	<b>57</b>	60
Cash at banks and in hand	21(a)	<b>1,178</b>	1,922
		<b>2,036</b>	2,809
<b>Current liabilities</b>			
Trade and other payables	22	<b>(1,441)</b>	(1,424)
Interest-bearing borrowings	23	<b>(403)</b>	(3,391)
Derivative financial instruments	17	<b>–</b>	(4)
Current taxation	18(a)	<b>(26)</b>	(41)
		<b>(1,870)</b>	(4,860)
<b>Net current assets/(liabilities)</b>			
		<b>166</b>	(2,051)
<b>Total assets less current liabilities</b>			
		<b>47,122</b>	43,660
<b>Non-current liabilities</b>			
Interest-bearing borrowings	23	<b>(6,692)</b>	(4,052)
Trade and other payables	22	<b>(252)</b>	(230)
Net defined benefit retirement obligations	26(a)	<b>(22)</b>	(17)
Derivative financial instruments	17	<b>(7)</b>	–
Deferred tax liabilities	18(b)	<b>(672)</b>	(659)
		<b>(7,645)</b>	(4,958)
<b>Net assets</b>			
		<b>39,477</b>	38,702
<b>Capital and reserves</b>			
Share capital	24	<b>5,509</b>	5,224
Reserves		<b>33,432</b>	32,951
<b>Total equity attributable to shareholders of the company</b>			
		<b>38,941</b>	38,175
Non-controlling interests		<b>536</b>	527
<b>Total equity</b>			
		<b>39,477</b>	38,702

Approved by the Board of Directors on 14 March 2019 and signed on its behalf by:


The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Matthew Lawson, Directors  
The notes on pages 190 to 251 form part of these financial statements.

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

Year ended 31 December  
Attributable to shareholders of the company

	Note	Reserves					Total reserves	Non-controlling interests	Total equity
		Share capital	Exchange		Retained profits	Total reserves			
			Hedging reserve	and other reserves					
<b>At 1 January 2017</b>		5,005	(27)	(730)	32,111	31,354	36,359	215	36,574
Changes in equity for 2017:									
Profit for the year		–	–	–	1,155	1,155	1,155	(3)	1,152
Other comprehensive income	8	–	12	724	–	736	736	21	757
Total comprehensive income for the year		–	12	724	1,155	1,891	1,891	18	1,909
-----									
Dividends approved in respect of the previous year	10	165	–	–	(235)	(235)	(70)	–	(70)
Dividends approved in respect of the current year	10	54	–	–	(63)	(63)	(9)	–	(9)
Dividend paid to non-controlling interests		–	–	–	–	–	–	(5)	(5)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	–	125	125
Disposal of interest in subsidiaries to a non-controlling shareholder		–	–	70	(66)	4	4	174	178
<b>Balance at 31 December 2017</b>		5,224	(15)	64	32,902	32,951	38,175	527	38,702
<b>Changes in equity for 2018:</b>									
<b>Profit for the year</b>		–	–	–	1,243	1,243	1,243	(1)	1,242
<b>Other comprehensive income</b>	8	–	(1)	(426)	–	(427)	(427)	(13)	(440)
<b>Total comprehensive income for the year</b>		–	(1)	(426)	1,243	816	816	(14)	802
-----									
Dividends approved in respect of the previous year	10	221	–	–	(255)	(255)	(34)	–	(34)
Dividends approved in respect of the current year	10	64	–	–	(80)	(80)	(16)	–	(16)
Dividend paid to non-controlling interests		–	–	–	–	–	–	(5)	(5)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	–	28	28
<b>Balance at 31 December 2018</b>		5,509	(16)	(362)	33,810	33,432	38,941	536	39,477

The notes on pages 190 to 251 form part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS (HK\$m)

		Year ended 31 December	
	Note	2018	2017
<b>Operating activities</b>			
Profit after net financing charges		956	832
Adjustments for:			
Depreciation	12(a)	528	489
Amortisation of hotel operating rights	16	14	14
Interest income	4	(18)	(22)
Financing charges	5	70	109
<b>Operating profit before changes in working capital</b>		<b>1,550</b>	1,422
Payment for the development of properties under development for sale		(140)	–
Changes in other working capital		26	(53)
<b>Cash generated from operations</b>		<b>1,436</b>	1,369
Net tax paid:			
Hong Kong profits tax		(171)	(142)
Overseas tax		(22)	(11)
<b>Net cash generated from operating activities</b>		<b>1,243</b>	1,216
<b>Investing activities</b>			
Acquisition of investment properties in Shanghai		–	(423)
Capital expenditure on property, plant and equipment and investment properties		(426)	(601)
Capital expenditure on projects under development		(959)	(630)
Cash injected from a non-controlling shareholder		28	22
Distribution from an associate		6	5
Capital injection into a joint venture		(109)	(44)
Net loan repayment from a joint venture		–	56
<b>Net cash used in investing activities</b>		<b>(1,460)</b>	(1,615)
<b>Financing activities</b>			
Drawdown of term loans		1,331	–
Repayment of term loans		(3,373)	–
Net increase in revolving loans		1,702	235
Net withdrawal/(placement) of interest-bearing bank deposits with maturity of more than three months		179	(125)
Interest paid and other financing charges		(140)	(140)
Interest received		19	21
Disposal of interest in subsidiaries to a non-controlling shareholder		–	178
Dividends paid to shareholders of the company		(50)	(79)
Dividends paid to holders of non-controlling interests		(5)	(5)
<b>Net cash (used in)/generated from financing activities</b>		<b>(337)</b>	85
Net decrease in cash and cash equivalents		(554)	(314)
Cash and cash equivalents at 1 January		1,660	1,955
Effect of changes in foreign exchange rates		(8)	19
<b>Cash and cash equivalents at 31 December</b>	21(a)	<b>1,098</b>	1,660

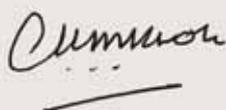
The notes on pages 190 to 251 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Company-Level Statement of Financial Position (HK\$m)

	Note	At 31 December	
		2018	2017
<b>Non-current assets</b>			
Investment in subsidiaries	33	–	–
<b>Current assets</b>			
Amounts due from subsidiaries		14,354	14,155
Other receivables		6	7
Cash at banks and in hand		47	289
		<b>14,407</b>	14,451
<b>Current liabilities</b>			
Amounts due to subsidiaries		(64)	(696)
Other payables and accruals		(23)	(25)
		<b>(87)</b>	(721)
<b>Net assets</b>			
		<b>14,320</b>	13,730
<b>Capital and reserves</b>			
Share capital	24	5,509	5,224
Reserves	25(a)	8,811	8,506
<b>Total equity</b>			
		<b>14,320</b>	13,730

Approved by the Board of Directors on 14 March 2019 and signed on its behalf by:


The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Matthew Lawson, Directors

## 2. Statement of Compliance

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

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

## 3. Revenue (HK\$m)

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

Revenue represents the consideration expected to be received in respect of the transfer of goods and services in accordance with HKFRS 15, *Revenue from contracts with customers*, except for rental revenue derived from the hotels' shopping arcade and offices and commercial properties which is recognised under the scope of HKAS 17, *Leases*. The amount of each significant category of revenue recognised during the year is as follows:

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

## Notes to the Financial Statements

### 4. Profit After Net Financing Charges (HK\$m)

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

	2018	2017
Amortisation	14	14
Depreciation	528	489
Auditor's remuneration:		
audit services	11	10
taxation and other services	4	4
Minimum operating lease charges for properties, including contingent rent of HK\$12 million (2017: HK\$13 million)	175	175
Interest income	(18)	(22)
Rentals receivable from investment properties less direct outgoings of HK\$20 million (2017: HK\$20 million)	(1,211)	(1,229)

### 5. Financing Charges (HK\$m)

	2018	2017
Interest on bank borrowings	120	116
Other borrowing costs	39	19
Total interest expenses on financial liabilities carried at amortised cost	159	135
Derivative financial instruments:		
– cash flow hedges, transfer from equity (note 8)	6	22
	165	157
Less: Interest expenses capitalised into properties under development*	(95)	(48)
	70	109

\* The borrowing costs have been capitalised at an average rate of 3.0% in 2018 (2017: 2.4%).

## 6. Income Tax in the Consolidated Statement of Profit or Loss (HK\$m)

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

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

The provision for Hong Kong profits tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

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

	2018	2017
Profit before taxation	1,426	1,320
Notional tax at the domestic income tax rate of 16.5% (2017: 16.5%)	235	218
Tax effect of non-deductible expenses	10	8
Tax effect of non-taxable income	(3)	(6)
Tax effect of share of losses of a joint venture and associates	9	20
Tax effect of fair value gain on Hong Kong investment properties	(95)	(113)
Tax effect of (recognition)/utilisation of previously unrecognised tax losses	(8)	9
Tax effect of tax losses not recognised	31	28
Effect of different tax rates of subsidiaries operating in other jurisdictions	3	3
Effect of change in tax rates on deferred tax balances as at 1 January	–	(2)
Over-provision in respect of prior years	(4)	(1)
Others	6	4
Actual tax expense	<b>184</b>	168

## Notes to the Financial Statements

### 7. Emoluments of Key Management Personnel (HK\$'000)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company and the group. It comprises the Board of Directors of the company and the group Management Board (GMB). Members of the GMB include the Executive Directors and five (2017: six) senior management. The total remuneration of the key management personnel is shown below:

	2018		2017	
	Executive and Non-executive Directors	GMB members other than Executive Directors	Executive and Non-executive Directors	GMB members other than Executive Directors
Directors' fees	5,894	–	4,881	–
Basic compensation	16,482	19,606	16,144	22,523
Bonuses and incentives	15,043	8,290	13,548	8,008
Retirement benefits	2,697	1,664	2,641	2,137
Other benefits	539	727	541	945
	<b>40,655</b>	<b>30,287</b>	37,755	33,613

Further details of the remuneration of the Directors (on a named basis) and senior management, and remuneration paid to the five highest paid individuals by bands are disclosed in the “2018 Remuneration of Directors and Senior Management” section of the Remuneration Committee Report, which forms an integral part of these audited financial statements.

### 8. Other Comprehensive Income and the Related Tax Effects (HK\$m)

	2018			2017		
	Gross amount before tax	Tax (expense)/benefit	Net-of-tax amount	Gross amount before tax	Tax (expense)/benefit	Net-of-tax amount
Exchange differences on translation of:						
– financial statements of overseas subsidiaries	(337)	–	(337)	511	–	511
– financial statements of joint ventures	(51)	–	(51)	89	–	89
– loans to an associate	(26)	–	(26)	84	–	84
– hotel operating rights	(20)	–	(20)	62	–	62
	<b>(434)</b>	–	<b>(434)</b>	746	–	746
Cash flow hedges:						
– effective portion of changes in fair values	(7)	–	(7)	(10)	2	(8)
– transfer from equity to profit or loss	6	–	6	22	(2)	20
Remeasurement of net defined benefit retirement obligations	(5)	–	(5)	(1)	–	(1)
<b>Other comprehensive income</b>	<b>(440)</b>	–	<b>(440)</b>	757	–	757

## 9. Earnings per Share

### (a) Earnings per share – basic

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

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

### (b) Earnings per share – diluted

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

## 10. Dividends (HK\$m)

### (a) Dividend policy

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

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

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

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

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

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

## Notes to the Financial Statements

### 11. Segment Reporting (HK\$m)

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

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

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

#### (a) Segment results

The results of the group's reportable segments for the years ended 31 December 2018 and 2017 are set out as follows:

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

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 3.

## 11. Segment Reporting (HK\$m) continued

### (b) Segment assets

Segment assets include all tangible and current assets and hotel operating rights held directly by the respective segments. The group's segment assets and unallocated assets as at 31 December 2018 and 2017 are set out as follows:

	Note	2018	2017
Reportable segment assets			
Hotels		<b>19,855</b>	22,250
Commercial properties		<b>25,019</b>	21,417
Clubs and services		<b>1,105</b>	1,079
		<b>45,979</b>	44,746
Unallocated assets			
Interest in joint ventures	14	<b>1,089</b>	1,055
Interest in associates	15	<b>638</b>	699
Deferred tax assets	18(b)	<b>49</b>	38
Amount due from a joint venture	30(b)	<b>57</b>	60
Derivative financial instruments	17	<b>2</b>	–
Cash at banks and in hand	21(a)	<b>1,178</b>	1,922
Consolidated total assets		<b>48,992</b>	48,520

### (c) Geographical information

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

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

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

## Notes to the Financial Statements

### 12. Investment Properties and Other Properties, Plant and Equipment (HK\$m)

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

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

\* The net movement represents the carrying value of The Peninsula London residential portion which was apportioned from fixed assets to properties under development for sale (note 13).

## 12. Investment Properties and Other Properties, Plant and Equipment (HK\$m) continued

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

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

The Peninsula London development comprises a mixed use complex consisting of a Peninsula hotel and luxury residential apartments. With the commencement of the construction of the superstructure of this development during the year, the portion of the carrying value relating to the apartments was apportioned from investment property held for redevelopment to properties under development for sale (note 13). The portion relating to the hotel remains in the properties, plant and equipment and is accounted for as construction in progress.

The group assessed the recoverable amounts of its other properties, plant and equipment at the reporting date in accordance with the accounting policy as disclosed in note 34(i). Based on the assessment, the directors considered that no provision for or reversal of impairment was required as at 31 December 2018 and 2017.

- (b) All investment properties of the group were revalued as at 31 December 2018. The changes in fair value of the investment properties during the year were accounted for in the consolidated statement of profit or loss. The valuations were carried out by valuers independent of the group who have staff with recent experience in the location and category of the property being valued. Discussions have been held with the valuers on the valuation assumptions and valuation results when the valuation is performed at each reporting date. Details of the valuers are as follows:

Description of investment properties	Name of valuer	Qualification of the staff of the valuer conducting the valuation
<b>Hong Kong</b>		
Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited (Savills)	Members of the Hong Kong Institute of Surveyors
<b>Other Asia *</b>		
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
<b>United States of America</b>		
Retail shops and vacant land	Colliers	Members of the Royal Institution of Chartered Surveyors
<b>Europe</b>		
Retail shops, office and residential apartments	Colliers	Members of the Royal Institution of Chartered Surveyors

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

## Notes to the Financial Statements

### 12. Investment Properties and Other Properties, Plant and Equipment (HK\$m) continued

#### (c) Fair value measurement of investment properties

The fair value of the group's investment properties is mainly determined using the income capitalisation approach by applying the expected rental income with a capitalisation rate adjusted for the quality and location of the buildings. The following table summarises the valuation parameters adopted by the valuers in assessing the fair value of the group's investment properties as at 31 December 2018:

Valuation parameters	Range
Capitalisation rate	
– Shopping arcades	3.8% – 6.6% (2017: 3.8% – 6.6%)
– Offices	3.9% – 4.1% (2017: 3.9% – 4.1%)
– Residential properties	2.9% – 3.7% (2017: 2.9% – 3.7%)
Expected monthly market rental per square foot	
– Shopping arcades	HK\$43 – HK\$1,300 (2017: HK\$44 – HK\$1,300)
– Offices	HK\$30 – HK\$54 (2017: HK\$29 – HK\$54)
– Residential properties	HK\$41 – HK\$74 (2017: HK\$40 – HK\$74)

Details of the movement of the group's investment properties are disclosed in note 12(a) above.

The net fair value adjustment of investment properties is recognised as a non-operating item in the consolidated statement of profit or loss.

#### (d) Investment properties leased out under operating leases

The group leases its investment properties under operating leases. The leases typically run for an initial period of one to five years, with or without options to renew the leases after that date at which time all terms are renegotiated.

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

## 12. Investment Properties and Other Properties, Plant and Equipment (HK\$m) continued

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

		2018	2017
Hong Kong	– Long term leases	17,606	28,124
	– Medium term lease	12,644	1,551
Other Asia *	– Freehold	1,234	1,238
	– Long term lease	1,347	1,318
	– Medium term lease	2,228	1,947
	– Short term lease	125	139
USA	– Freehold	1,282	1,192
	– Long term lease	1,546	1,570
Europe	– Freehold	734	763
	– Long term lease	1,344	3,640
		<b>40,090</b>	41,482

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

#### Representing:

Land and buildings carried at fair value (investment properties)	33,077	36,249
Land and buildings carried at cost	7,013	5,233
	<b>40,090</b>	41,482

### (f) Hotel and investment properties, all held through subsidiaries, are as follows:

	Usage
<b>Held in Hong Kong:</b>	
Long term leases (over 50 years):	
The Peninsula Hong Kong, Salisbury Road	Hotel and commercial rentals
The Peninsula Office Tower, 18 Middle Road	Office
Repulse Bay Apartments, 101 Repulse Bay Road	Residential
Repulse Bay Garage, 60 Repulse Bay Road	Commercial rentals
St. John's Building, 33 Garden Road	Office
Medium term lease (between 10 and 50 years):	
The Peak Tower, 128 Peak Road	Commercial rentals
The Repulse Bay, 109 Repulse Bay Road	Residential and commercial rentals
<b>Held in Mainland China:</b>	
Medium term lease (between 10 and 50 years):	
The Peninsula Beijing, 8 Goldfish Lane, Wangfujing, Beijing	Hotel and commercial rentals
Shanghai apartments,	
No. 32 The Bund, 32 Zhong Shan Dong Yi Road, Shanghai	Residential
<b>Held in Japan:</b>	
Long term lease (over 50 years):	
The Peninsula Tokyo, 1-8-1 Yurakucho, Chiyoda-ku, Tokyo	Hotel and commercial rentals

## Notes to the Financial Statements

### 12. Investment Properties and Other Properties, Plant and Equipment (HK\$m) continued

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

	Usage
<b>Held in Thailand:</b>	
Freehold:	
The Peninsula Bangkok, 333 Charoennakorn Road, Klongsan, Bangkok 10600	Hotel
Vacant land, near The Peninsula Bangkok	Undetermined
Thai Country Club, Bangna-Trad, Chachoengsao	Golf club
Land plots, Bangpakong District, Chachoengsao	Undetermined
<b>Held in The Philippines:</b>	
Short term lease (less than 10 years):	
The Peninsula Manila, Corner of Ayala and Makati Avenues, 1226 Makati City, Metro Manila	Hotel and commercial rentals
<b>Held in Vietnam:</b>	
Short term lease (less than 10 years):	
The Landmark, 5B Ton Duc Thang Street, District 1, Ho Chi Minh City	Residential and commercial rentals
<b>Held in the United States of America:</b>	
Freehold:	
Quail Lodge Golf Club	Golf club
Quail Lodge Resort 8205 Valley Greens Drive, Carmel, California	Resort
Vacant land, near Quail Lodge	Undetermined
The Peninsula Chicago, 108 East Superior Street (at North Michigan Avenue), Chicago, Illinois	Hotel
Long term lease (over 50 years):	
The Peninsula New York, 700 Fifth Avenue at 55th Street, New York	Hotel and commercial rentals
<b>Held in France:</b>	
Freehold:	
21 avenue Kléber, Paris	Commercial rentals
21 Rue de Longchamp, Paris	Residential
<b>Held in the United Kingdom:</b>	
Long term lease (over 50 years):	
1-5 Grosvenor Place, London SW1X 7YL	Under redevelopment
<b>Held in Myanmar:</b>	
Medium term lease (between 10 and 50 years):	
371-380 Bogyoke Aung San Road, Yangon	Under redevelopment

## 12. Investment Properties and Other Properties, Plant and Equipment (HK\$m) continued

- (g) The net book value of the group's hotels and golf courses as at 31 December 2018 amounted to HK\$6,282 million (2017: HK\$6,476 million). To provide additional information for shareholders, the Directors commissioned an independent valuation of these properties as at 31 December 2018.

The total valuation placed on these properties amounted to HK\$9,682 million (2017: HK\$9,656 million) as at 31 December 2018. It is important to note that the surplus of HK\$3,400 million (2017: HK\$3,180 million) and the related deferred taxation and non-controlling interests, if any, have not been incorporated in the consolidated financial statements but are provided for additional information only.

The fair value of the group's hotel properties and golf courses is determined based on the discounted cash flow approach by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates.

The valuations were carried out by valuers independent of the group, details of which are as follows:

Description of hotels and golf courses	Name of valuer	Qualification of the staff of the valuer conducting the valuation
<b>Hong Kong, the United States of America and other Asia</b>		
Hotels and golf courses	Colliers	Members of the Royal Institution of Chartered Surveyors

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

	2018	2017
Apportioned from investment property held for redevelopment (note 12(a))	<b>3,068</b>	–
Addition during the year	<b>150</b>	–
Exchange adjustments	<b>(97)</b>	–
	<b>3,121</b>	–

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

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

Reservation fees and pre-sale deposits, if any, paid by buyers of the apartments will be held in escrow accounts in accordance with the local regulations in the UK and therefore, such fees and deposits are not reflected in the consolidated statement of financial position.

## Notes to the Financial Statements

### 14. Interest in Joint Ventures (HK\$m)

	2018	2017
Share of net assets	568	534
Loans to a joint venture (note 30(b))	521	521
	<b>1,089</b>	1,055

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

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Shanghai Waitan Hotel Company Limited (PSW)	Incorporated	PRC	US\$117,500,000 (31 December 2017: US\$117,500,000)	50%	Hotel investment and apartments held for sale
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)*	Incorporated	Turkey	TRY288,300,000 (31 December 2017: TRY171,700,000)	50%	Hotel investment

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

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

## 14. Interest in Joint Ventures (HK\$m) continued

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

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

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

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

## Notes to the Financial Statements

### 15. Interest in Associates (HK\$m)

	2018	2017
Interest in associates	<b>638</b>	699

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

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

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

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

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

- (b) Included in the balance of interest in associates are long-term unsecured loans to 19 Holding of HK\$451 million (2017: HK\$467 million). These loans were made pro rata to the group's shareholding in 19 Holding and bear interest rates related to the rates published by the French tax authorities.
- (c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR224 million (HK\$2,007 million) (2017: EUR220 million (HK\$2,053 million)). As at 31 December 2018, the loan drawn down amounted to EUR224 million (HK\$2,007 million) (2017: EUR220 million (HK\$2,053 million)). As at 31 December 2018, the net carrying amount of the pledged asset amounted to EUR573 million (HK\$5,133 million) (2017: EUR593 million (HK\$5,531 million)).
- (d) BHP has pledged its hotel property to an independent financial institution as security for BHP's loan facility, amounting to US\$145 million (HK\$1,131 million) (2017: US\$145 million (HK\$1,131 million)). As at 31 December 2018, the loan drawn down amounted to US\$130 million (HK\$1,014 million) (2017: US\$134 million (HK\$1,044 million)). The net carrying amount of the pledged asset amounted to US\$56 million (HK\$437 million) (2017: US\$62 million (HK\$485 million)).

## 15. Interest in Associates (HK\$m) continued

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

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

## 16. Hotel Operating Rights (HK\$m)

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

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

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

## Notes to the Financial Statements

### 17. Derivative Financial Instruments (HK\$m)

	2018		2017
	Assets	Liabilities	Liabilities
Cash flow hedges:			
Interest rate swaps	–	(7)	(4)
Forward exchange contracts	2	–	–
	<b>2</b>	<b>(7)</b>	(4)
Less: Portion to be settled within one year			
Cash flow hedges:			
Interest rate swaps	–	–	(4)
Forward exchange contracts	2	–	–
	<b>2</b>	<b>–</b>	(4)
Amount to be settled after one year	–	<b>(7)</b>	–

### 18. Income Tax in the Consolidated Statement of Financial Position (HK\$m)

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

	2018	2017
Provision for Hong Kong profits tax net provisional profits tax paid	<b>19</b>	26
Provision for overseas taxes	<b>4</b>	11
	<b>23</b>	37
<i>Represented by:</i>		
Tax recoverable (note 20)	<b>(3)</b>	(4)
Current tax payable (included in current liabilities)	<b>26</b>	41
	<b>23</b>	37

## 18. Income Tax in the Consolidated Statement of Financial Position (HK\$m) continued

### (b) Deferred tax assets and liabilities recognised

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

	Revaluation of investment properties	Tax allowances in excess of the related depreciation	Provisions and others	Tax losses	Cash flow hedges	Total
<b>Deferred tax arising from:</b>						
At 1 January 2017	492	698	(24)	(560)	(1)	605
Exchange adjustments	18	10	–	(8)	–	20
Charged/(credited) to profit or loss	(130)	5	(4)	125	–	(4)
<b>At 31 December 2017 and at 1 January 2018</b>	<b>380</b>	<b>713</b>	<b>(28)</b>	<b>(443)</b>	<b>(1)</b>	<b>621</b>
<b>Exchange adjustments Charged/(credited) to profit or loss</b>	<b>(3)</b>	<b>(1)</b>	<b>–</b>	<b>2</b>	<b>–</b>	<b>(2)</b>
<b>At 31 December 2018</b>	<b>363</b>	<b>760</b>	<b>(29)</b>	<b>(470)</b>	<b>(1)</b>	<b>623</b>

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

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

	2018	2017
Deferred tax assets	49	38
Deferred tax liabilities	(672)	(659)
	<b>(623)</b>	(621)

In accordance with the accounting policy set out in note 34(q), the group has not recognised deferred tax assets totalling HK\$318 million (2017: HK\$382 million) in respect of certain accumulated tax losses of HK\$1,184 million (2017: HK\$1,354 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The expiry dates of these tax losses are as follows:

	2018	2017
Expiring in one year	134	79
After one year but within five years	870	672
After five years but within 20 years	81	537
Without expiry date	99	66
	<b>1,184</b>	1,354

The group does not have any deferred tax liabilities arising from any undistributable profit in 2018 and 2017.

## Notes to the Financial Statements

### 19. Inventories (HK\$m)

	2018	2017
Food and beverage and others	84	77

The cost of inventories recognised as expenses in the consolidated statement of profit or loss amounted to HK\$470 million (2017: HK\$433 million).

### 20. Trade and Other Receivables (HK\$m)

	2018	2017
Trade debtors	319	285
Rental deposits, payments in advance and other receivables	393	461
Tax recoverable (note 18(a))	3	4
	<b>715</b>	750

The amount of the group's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK\$122 million (2017: HK\$111 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

The ageing analysis of trade debtors is as follows:

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

Trade debtors are normally due within 30 days from the date of billing. Further details on the group's credit policy and credit risk arising from trade debtors are set out in note 27(d).

## 21. Cash and Cash Equivalents and Other Cash Flow Information (HK\$m)

### (a) Cash at banks and in hand

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

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

### (b) Reconciliation of liabilities arising from financing activities

	Interest-bearing borrowings (note 23)	Derivative financial instruments (note 17)	Interest payable (note 22)	Total
As at 1 January 2017	6,998	16	7	7,021
Net increasing in revolving loans	235	–	–	235
Exchange difference	194	–	1	195
Financing charges	16	–	93	109
Capitalised borrowing costs (note 5)	–	–	48	48
Effective portion of changes in fair values (note 8)	–	10	–	10
Transfer from equity to profit or loss (note 8)	–	(22)	–	(22)
Interest paid and other financing charges	–	–	(140)	(140)
<b>As at 31 December 2017 and 1 January 2018</b>	<b>7,443</b>	<b>4</b>	<b>9</b>	<b>7,456</b>
<b>Drawdown of term loans</b>	<b>1,331</b>	<b>–</b>	<b>–</b>	<b>1,331</b>
<b>Repayment of term loans</b>	<b>(3,373)</b>	<b>–</b>	<b>–</b>	<b>(3,373)</b>
<b>Net increase in revolving loans</b>	<b>1,702</b>	<b>–</b>	<b>–</b>	<b>1,702</b>
<b>Decrease in bank overdrafts</b>	<b>(3)</b>	<b>–</b>	<b>–</b>	<b>(3)</b>
<b>Exchange difference</b>	<b>(31)</b>	<b>–</b>	<b>–</b>	<b>(31)</b>
<b>Financing charges</b>	<b>26</b>	<b>–</b>	<b>44</b>	<b>70</b>
<b>Capitalised borrowing costs (note 5)</b>	<b>–</b>	<b>–</b>	<b>95</b>	<b>95</b>
<b>Effective portion of changes in fair values (note 8)</b>	<b>–</b>	<b>7</b>	<b>–</b>	<b>7</b>
<b>Transfer from equity to profit or loss (note 8)</b>	<b>–</b>	<b>(6)</b>	<b>–</b>	<b>(6)</b>
<b>Interest paid and other financing charges</b>	<b>–</b>	<b>–</b>	<b>(140)</b>	<b>(140)</b>
<b>As at 31 December 2018</b>	<b>7,095</b>	<b>5</b>	<b>8</b>	<b>7,108</b>

## Notes to the Financial Statements

### 22. Trade and Other Payables (HK\$m)

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

As at 31 December 2018, trade and other payables of the group expected to be settled or recognised as income after more than one year amounted to HK\$346 million (2017: HK\$321 million). The other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

The ageing analysis of trade creditors is as follows:

	2018	2017
Less than three months	147	130
Three to six months	1	4
More than six months	4	6
	<b>152</b>	140

## 23. Interest-Bearing Borrowings (HK\$m)

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

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

All of the group's banking facilities are subject to the fulfilment of covenants relating to some of the group's consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the group were to breach the covenants, the drawn down facilities would become payable on demand. The group regularly monitors its compliance with these covenants. Further details of the group's management of liquidity risk are set out in note 27(c). As at 31 December 2018 and 2017, none of the covenants relating to drawn down facilities had been breached.

## Notes to the Financial Statements

### 24. Share Capital

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

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

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

Note

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

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

### 25. Reserves (HK\$m)

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the company's individual components of equity between the beginning and the end of the year are set out below:

#### (a) Company

	Capital reserve	Retained profits	Total
At 1 January 2017	4,975	3,224	8,199
Profit for the year	–	605	605
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	605	605
Dividends approved in respect of the previous year	–	(235)	(235)
Dividends approved in respect of the current year	–	(63)	(63)
At 31 December 2017	4,975	3,531	8,506
<b>At 1 January 2018</b>	<b>4,975</b>	<b>3,531</b>	<b>8,506</b>
<b>Profit for the year</b>	<b>–</b>	<b>640</b>	<b>640</b>
<b>Other comprehensive income</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>640</b>	<b>640</b>
<b>Dividends approved in respect of the previous year</b>	<b>–</b>	<b>(255)</b>	<b>(255)</b>
<b>Dividends approved in respect of the current year</b>	<b>–</b>	<b>(80)</b>	<b>(80)</b>
<b>At 31 December 2018</b>	<b>4,975</b>	<b>3,836</b>	<b>8,811</b>

## 25. Reserves (HK\$m) continued

### (b) Nature and purpose of reserves

#### Capital reserve

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

#### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges in note 34(d).

#### Exchange and other reserves

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 34(t). Other reserves mainly comprise other comprehensive income recognised for the remeasurement of net defined benefit retirement obligations and the surplus on revaluation of land and building held for own use transfer to investment properties. The relevant accounting policies for which are set out in note 34(p) and 34(f) respectively.

### (c) Reserves available for distribution

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was HK\$3,836 million (2017: HK\$3,531 million). After the end of the reporting period, the Directors proposed a final dividend of 16 HK cents per share (2017: 16 HK cents per share), amounting to HK\$258 million (2017: HK\$255 million). This dividend has not been recognised as a liability at the end of the reporting period.

### (d) Capital management

The group takes a long term view of its business and consequently the planning of the use of capital. The group's primary objectives when managing its capital are to safeguard the group's ability to continue as a going concern, to secure access to finance at a reasonable cost relative to risk and to provide an appropriate return to shareholders. In so doing, it seeks to achieve an appropriate balance between shareholders' equity and external debt by taking into account the cost of capital and the efficiency of using the capital.

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

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

## Notes to the Financial Statements

### 25. Reserves (HK\$m) continued

#### (d) Capital management continued

The group monitors its capital structure on the basis of its gearing ratio, which is expressed as the percentage of net borrowings (defined as interest-bearing borrowings less cash at bank and in hand) to the total of net borrowings and equity attributable to shareholders of the company. The group's share of net borrowings and equities of the non-consolidated entities (such as the associates and joint ventures), if any, are also taken into account. The calculations of gearing ratios before and after the non-consolidated entities as at 31 December 2018 and 2017 are as follows:

	2018	2017
Interest-bearing borrowings	7,095	7,443
Less: Cash at banks and in hand	<b>(1,178)</b>	(1,922)
Net borrowings per the statement of financial position	<b>5,917</b>	5,521
Share of net borrowings of non-consolidated entities	<b>1,109</b>	1,239
Net borrowings adjusted for non-consolidated entities	<b>7,026</b>	6,760
Equity attributable to shareholders of the company per the consolidated statement of financial position	<b>38,941</b>	38,175
Equity plus net borrowings per the consolidated statement of financial position	<b>44,858</b>	43,696
Equity plus net borrowings adjusted for non-consolidated entities	<b>45,967</b>	44,935
Gearing ratio based on the consolidated financial statements	<b>13%</b>	13%
Gearing ratio adjusted for non-consolidated entities	<b>15%</b>	15%

During 2018, the group continued to operate within its long term treasury management guidelines. Operating and investment decisions are made by making reference to the group's long term cash flow forecasts to ensure that the guidelines are followed.

The group is subject to covenants imposed by the lenders of the interest-bearing borrowings based on the group's borrowings and other indebtedness, as well as the amount of equity attributable to shareholders of the company. The group complied with the imposed loan covenants on capital requirements for the years ended 31 December 2018 and 2017. Except for the above, neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 26. Employee Retirement Benefits (HK\$m)

### (a) Defined benefit retirement obligations

The group maintains several defined benefit retirement plans covering 498 employees (2017: 550 employees) of Quail Lodge, Inc. (QLI), a US subsidiary of the company and Manila Peninsula Hotel, Inc. (MPHI), a Philippine subsidiary of the company. Such plans are administered by independent trustees with the assets, if any, held separately from those of the group.

QLI has retirement compensation agreements with certain employees which provide, among other things, that during the employees' lifetime after retirement, QLI will pay such employees retirement compensation equal to 30% of the average salaries of the final three years of employment.

QLI has not funded the above retirement compensation arrangement and the liability in respect of its obligations is fully recognised in its financial statements at each reporting period, based on independent actuarial valuation prepared by qualified staff of Bartel Associates, LLC, who are members of the American Academy of Actuaries, using the projected unit credit method as at 31 December 2018.

In addition, MPHI operates a non-contributory defined benefit retirement plan which covers all its employees. The plan is administered by an independent trustee with the assets held separately from those of MPHI.

The above plan is funded by contributions from MPHI in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The latest independent actuarial valuation of the plan was prepared by qualified staff of Actuarial Advisers, Inc., who are members of the Actuarial Society of the Philippines, using the projected unit credit method as at 31 December 2018. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were 48% (2017: 77%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2018.

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

	2018	2017
Present value of wholly or partly funded obligations	<b>34</b>	45
Fair value of plan assets	<b>(12)</b>	(28)
	<b>22</b>	17

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The group expects to pay HK\$4 million (2018: HK\$4 million) in contributions to defined benefit retirement plans in 2019.

## Notes to the Financial Statements

### 26. Employee Retirement Benefits (HK\$m) *continued*

#### (a) Defined benefit retirement obligations *continued*

Plan assets consist of the following:

	2018	2017
Debt instruments	7	20
Investment funds	4	3
Equity investment and others	1	5
	<b>12</b>	28

The group's assets – liabilities matching objective is to match maturities of the plan assets to the retirement benefit obligations as they fall due.

Movements in the present value of the defined benefit obligations:

	2018	2017
At 1 January	45	46
Exchange adjustments	(1)	1
Benefits paid by the plans	(19)	(7)
Current service cost	3	3
Interest cost	3	2
Actuarial loss	3	–
At 31 December	<b>34</b>	45

Movements in plan assets:

	2018	2017
At 1 January	28	30
Exchange adjustments	(1)	1
Group's contributions paid to the plans	4	4
Benefits paid by the plans	(19)	(7)
Interest income	2	1
Return on plan assets, excluding interest income	(2)	(1)
At 31 December	<b>12</b>	28

## 26. Employee Retirement Benefits (HK\$m) continued

### (a) Defined benefit retirement obligations continued

Amounts recognised in “staff costs and related expenses” in the consolidated statement of profit or loss and statement of comprehensive income are as follows:

	2018	2017
Consolidated statement of profit or loss		
Current service cost	3	3
Interest cost	3	2
Interest income	(2)	(1)
	<b>4</b>	4
Consolidated statement of comprehensive income		
Actuarial loss on:		
Remeasurement of plan assets	2	1
Remeasurement of defined benefit obligations	3	–
	<b>5</b>	1

The principal actuarial assumptions used as at 31 December 2018 are as follows:

	2018	2017
Discount rate	<b>from 2.75% to 7.73%</b>	from 2.5% to 6.5%
Future salary increases	<b>4%</b>	4%

The analysis below shows how the defined benefit obligations as at 31 December 2018 would have increased/(decreased) as a result of changes in the significant actuarial assumptions:

	Defined benefit obligations	
	Increase	Decrease
Discount rate (0.5% change)	–	–
Future salary increases (1% change)	1	(1)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

## Notes to the Financial Statements

### 26. Employee Retirement Benefits (HK\$m) continued

#### (b) Defined contribution retirement plans

The group has a defined contribution retirement plan covering 1,583 employees (2017: 1,554 employees), most of whom are in Hong Kong. The defined contribution retirement plan is formally established under an independent trust with the assets of the funds held separately from those of the group by an independent trustee. The plan is registered under the Occupational Retirement Schemes Ordinance in Hong Kong and is exempted under the Mandatory Provident Fund Schemes (Exemption) Regulation. Employees covered by this plan are not required to make contributions and funds contributed by employers are fully vested with their employees immediately. The average contribution rate against employees' relevant income for the year was 13% (2017: 13%).

In addition, the group participates in the Mandatory Provident Fund Scheme (the MPF Scheme) under the Mandatory Provident Fund Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, which is operated by an independent service provider to cover 210 employees (2017: 210 employees) in Hong Kong who are not covered by the above defined contribution retirement plan. The MPF Scheme is a defined contribution retirement plan administrated by independent trustees. Contributions at a fixed rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000 per employee, are made to the Scheme by both the employer and the employee and vest immediately.

The group also operates several defined contribution retirement plans, including union pension schemes for its overseas subsidiaries covering 2,202 employees (2017: 2,219 employees) in other Asian countries and the United States of America, in accordance with the respective applicable labour regulations.

Total contributions to all of the above defined contribution retirement plans made by the group amounted to HK\$127 million (2017: HK\$116 million) and was charged to the consolidated statement of profit or loss during the year.

### 27. Financial risk management and fair values

The group is exposed to foreign exchange, interest rate, liquidity and credit risks in its normal course of business. The group's exposure to these risks, as well as various techniques and derivative financial instruments used to manage these risks, are described below.

#### (a) Foreign exchange risk

The group manages its foreign exchange exposure with a view to protecting its net assets and profitability against adverse fluctuations in exchange rates. The company reports its results in Hong Kong Dollars. In the light of the Hong Kong Dollar peg, the group does not hedge United States Dollar exposures and it aims to preserve its value in Hong Kong Dollar and/or United States Dollar terms.

Foreign exchange risk may arise in sale and purchase transactions which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars, Euros, Great Britain Pounds, Renminbi, Japanese Yen, Thai Baht and Philippine Pesos.

## 27. Financial Risk Management and Fair Values continued

### (a) Foreign exchange risk continued

#### Hedge of foreign exchange risk in forecast transactions

In respect of committed future transactions and highly probable forecast transactions, the group usually hedges its estimated foreign currency transaction exposures if the foreign exchange risk of these exposures is considered to be significant. The group mainly uses forward exchange contracts to hedge this type of foreign exchange risk and classifies these contracts as cash flow hedges.

The group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instruments and the highly probable forecast transactions based on their currency amounts and the timing of their respective cash flows.

The main source of ineffectiveness in these hedging relationships are:

- (i) the effect of the counterparty's and the group's own credit risk on the fair value of the forward exchange contracts which is not reflected in the change in the value of the hedged cash flows attributable to the forward rate; and
- (ii) changes in the timing of the hedging transactions.

The following table details the forward exchange contracts that have been designated as cash flow hedges of the group's highly probable forecast transactions at the end of the reporting period:

	2018		2017	
	(million)	(million)	(million)	(million)
Notional amount				
– Buy US Dollars with GBP	<b>USD4</b>	<b>GBP3</b>	–	–
– Buy EUR with GBP	<b>EUR15</b>	<b>GBP13</b>	–	–

	2018	2017
	(HK\$m)	(HK\$m)
Carrying amount		
– Asset	<b>2</b>	–

The forward exchange contracts have a maturity of less than one year from the reporting date and have an average exchange rate of 0.8930 and 0.7716 between EUR and GBP and between US dollar and GBP respectively.

## Notes to the Financial Statements

### 27. Financial Risk Management and Fair Values continued

#### (a) Foreign exchange risk continued

##### Hedge of foreign exchange risk in forecast transactions continued

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2018	2017
Balance at 1 January	–	–
Effective portion of the cash flow hedge recognised in other comprehensive income	2	–
Related tax	–	–
Balance at 31 December	2	–
Hedge ineffectiveness recognised in profit or loss	–	–
Change in fair value of the forward exchange contracts during the year	2	–
Effective portion of the cash flow hedge recognised in other comprehensive income	2	–

##### Recognised assets and liabilities

The group has foreign currency monetary assets and liabilities that are denominated in a currency other than the functional currency of the operations to which they relate. Exchange differences arising on settling or translating these foreign currency monetary items at rates different from those at dates of transactions giving rise to these monetary items are recognised in the statement of profit or loss.

The group usually hedges most of the foreign exchange exposures arising from significant foreign currency monetary assets and liabilities, including foreign currency borrowings. The group mainly uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge this type of foreign exchange risk and classifies these derivative financial instruments as cash flow hedges or at fair value through profit or loss, depending on whether the future foreign currency cash flows are fixed or not.

Changes in the fair value of these cash flow hedges or derivative financial instruments at fair value through profit or loss are recognised in the hedging reserve or the statement of profit or loss respectively.

All of the group's borrowings are denominated in the functional currency of the operations to which they relate. Given this, it is not expected that there will be any significant currency risk associated with the group's borrowings.

##### Net investment in foreign subsidiaries

At 31 December 2018 and 2017, the group did not hedge any net investment in foreign subsidiaries.

## 27. Financial Risk Management and Fair Values continued

### (a) Foreign exchange risk continued

#### Exposure to foreign exchange risk

The following table details the group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The amounts of the exposure are shown in original currency. Differences resulting from the translation of the financial statements of the foreign operations into the group's presentation currency and exposures arising from inter-company balances which are denominated in a foreign currency and is considered to be in the nature of investment in the subsidiary, joint ventures and associates are excluded.

(million)	2018				2017		
	United States Dollars	Euro	Reminbi	Philippine Pesos	United States Dollars	Euro	Philippine Pesos
Trade and other receivables	32	1	17	–	28	2	–
Cash at banks and in hand	11	4	–	5	43	–	5
Trade and other payables	(53)	–	–	–	(41)	–	–
Net exposure arising from recognised assets and liabilities	(10)	5	17	5	30	2	5

Based on the sensitivity analysis performed as at 31 December 2018, it was estimated that an increase/decrease of 10% in foreign exchange rate in respect of financial instruments denominated in currency other than the functional currencies, with all other variables held constant, would not have significant impact on the group's post-tax profits and other components of equity.

### (b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group's interest rate risk arises primarily from borrowings. Borrowings bearing floating interest rates that are reset on a regular basis as market interest rates change expose the group to cash flow interest rate risk.

At 31 December 2018, the group had interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK\$3,287 million (2017: HK\$1,719 million) maturing over the next five years (2017: three years). Changes in fair value of these swaps accounted for as cash flow hedges are recognised in the hedging reserve. The group locked in the following ranges of fixed rates by the swaps at 31 December 2018:

	31 December 2018	31 December 2017
Hong Kong Dollars	–	1.5% to 1.6%
Japanese Yen	0.1%	0.1%
Euros	0.4%	1.2%
Pounds	1.1% to 1.2%	–

## Notes to the Financial Statements

### 27. Financial risk management and fair values continued

#### (b) Interest rate risk continued

The net fair value of all the swaps entered into by the group at 31 December 2018 was as follows (HK\$m):

	2018	2017
Cash flow hedges (note 17)	(7)	(4)

The group seeks to hedge the benchmark interest rate component only and applies a hedge ratio of 1:1. The existence of an economic relationship between the interest rate swaps and the variable rate borrowings is determined by matching their critical contract terms, including the reference interest rates, tenors, interest repricing dates, maturity dates, interest payment and/or receipt dates, the notional amounts of the swaps and the outstanding principal amounts of the loans. The main source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the group's own credit risk on the fair value of the swaps which is not reflected in the fair value of the hedged cash flows attributable to the change in interest rates.

The following table provides a reconciliation of the hedging reserve in respect of interest rate risk and shows the effectiveness of the hedging relationships:

	2018	2017
Balance at 1 January	(15)	(27)
Effective portion of the cash flow hedge recognised in other comprehensive income	(3)	12
Related tax	–	–
Balance at 31 December	(18)	(15)
Change in fair value of the interest rate swap during the year	(9)	(8)
Transfer from equity to profit or loss	6	20
Effective portion of the cash flow hedge recognised in other comprehensive income	(3)	12

The following table details the profile of the group's borrowings at the end of the reporting period, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments.

	2018		2017	
	Effective interest rate	HK\$m	Effective interest rate	HK\$m
<b>Fixed rate borrowings:</b>				
Bank loans	1.9%	5,213	2.0%	4,844
<b>Floating rate borrowings:</b>				
Bank loans	2.6%	1,882	2.3%	2,599
<b>Total interest-bearing borrowings</b>		<b>7,095</b>		7,443
<b>Fixed rate borrowings as a percentage of total borrowings</b>		<b>73%</b>		65%

## 27. Financial risk management and fair values continued

### (b) Interest rate risk continued

On the other hand, as at 31 December 2018 and 2017, the group had short term bank deposits. Since these deposits are placed for short term liquidity purposes, the group has no intention to lock in their interest rates for the long term. The interest rate profile of these bank deposits at the end of the reporting period is summarised as follows:

	2018		2017	
	Effective interest rate	HK\$m	Effective interest rate	HK\$m
<b>Floating rate instruments:</b>				
Bank deposits	1.8%	924	1.2%	1,658

#### Sensitivity analysis

The following table indicates the approximate changes in the group's profit after taxation (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the interest rates, with all other variables held constant, to which the group has significant exposure at the end of the reporting period. As at 31 December 2018 and 2017, the effects were attributable to changes in interest income and expense relating to floating rate financial instruments and gains or losses resulting from changes in the fair value of derivative financial instruments.

	2018			2017		
	Increase/(decrease) in			Increase/(decrease) in		
	Interest rates (basis points)	Profit after taxation and retained profits (HK\$m)	Other components of equity (HK\$m)	Interest rates (basis points)	Profit after taxation and retained profits (HK\$m)	Other components of equity (HK\$m)
Renminbi	100 (100)	1 (1)	- -	100 (100)	1 (1)	- -
Thai Baht	100 (100)	(3) 3	- -	100 (100)	(3) 3	- -
Japanese Yen	50 (50)	(1) 1	1 -	50 (50)	(1) 1	4 -
HK Dollars	100 (100)	5 (5)	- -	100 (100)	(2) 2	8 (8)
US Dollars	100 (100)	1 (1)	- -	100 (100)	1 (1)	- -
Euros	100 (100)	(1) -	11 (5)	100 (100)	(1) 1	2 (2)
GBP	100 (100)	- -	32 (27)	100 (100)	(2) 2	- -

The sensitivity analysis above indicates the instantaneous change in the group's profit after taxation (and retained profits) and other components of consolidated equity that would have arisen, assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the group and which expose the group to fair value interest rate risk at the end of the reporting period. In respect of exposure to cash flow interest rate risk arising from the floating rate non-derivative financial instruments (which include bank borrowings and deposits) held by the group at the end of the reporting period, the impact on the group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such changes in interest rates. The analysis has been performed on the same basis as for 2017.

## Notes to the Financial Statements

### 27. Financial risk management and fair values *continued*

#### (c) Liquidity risk

Borrowings and cash management, including short term investment of surplus cash, are arranged centrally to cover expected cash requirements. The group's policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that it maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to meet its obligations and commitments in the short and longer term.

At 31 December 2018, total available borrowing facilities amounted to HK\$14,556 million (2017: HK\$9,739 million), of which HK\$7,185 million (2017: HK\$7,478 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK\$6,957 million (2017: HK\$1,844 million).

The following table details the remaining contractual maturities at the end of the reporting period of the group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the group can be required to pay:

(HK\$m)	2018						2017					
	Statement of financial position carrying amount	Contractual undiscounted cash outflow/(inflow)					Statement of financial position carrying amount	Contractual undiscounted cash outflow/(inflow)				
		Total	Within 1 year or on demand	More than 1 year but less than	More than 2 years but less than	More than 5 years		Total	Within 1 year or on demand	More than 1 year but less than	More than 2 years but less than	More than 5 years
				2 years	5 years					2 years	5 years	
Trade creditors	152	152	152	-	-	-	140	140	140	-	-	-
Interest payable	8	8	8	-	-	-	9	9	9	-	-	-
Accruals for property, plant and equipment	195	195	195	-	-	-	172	172	172	-	-	-
Tenants' deposits	367	367	216	55	84	12	360	360	236	43	75	6
Guest deposits and gift vouchers	158	158	158	-	-	-	155	155	155	-	-	-
Golf membership deposits	84	84	-	-	-	84	89	89	-	-	-	89
Other payables	729	729	712	-	-	17	729	729	729	-	-	-
Interest-bearing borrowings	7,095	7,609	519	963	5,767	360	7,443	7,748	3,512	551	3,685	-
Interest rate swaps (net settled)	7	8	6	2	-	-	4	6	6	-	-	-
Forwarded foreign exchange contracts held as cash flow hedging instruments												
- outflow	-	164	164	-	-	-	-	-	-	-	-	-
- inflow	(2)	(166)	(166)	-	-	-	-	-	-	-	-	-
Current taxation	26	26	26	-	-	-	41	41	41	-	-	-
	8,819	9,334	1,990	1,020	5,851	473	9,142	9,449	5,000	594	3,760	95

## 27. Financial risk management and fair values continued

### (d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group's credit risk is primarily attributable to bank deposits, trade and other receivables and derivative financial instruments and is monitored on an ongoing basis.

To minimise credit exposure for bank deposits and derivative financial instruments, the group transacts with financial institutions with good credit ratings and diversifies its exposure to various financial institutions in accordance with group guidelines. All bank deposits are subject to a single counterparty exposure limit and a composite counterparty exposure limit. The credit ratings of the financial institutions are closely monitored throughout the lives of the transactions.

At 31 December 2018, cash at banks and in hand amounted to HK\$1,178 million (2017: HK\$1,922 million), of which HK\$753 million (2017: HK\$1,393 million) was placed as time deposits with financial institutions with credit ratings of no less than BBB (issued by Standard & Poor's Rating Services (S&P)) or Baa2 (issued by Moody's Investors Services, Inc. (Moody's)) and there was no significant concentration risk to any single counterparty.

For derivative financial instruments, the credit ratings of the financial institutions were no less than A (S&P) or A1 (Moody's).

The group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. Credit evaluations are performed for all significant customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Credit limits are set for customers based on their credit worthiness and past history. Trade receivables are normally due within 30 days from the date of billing. In respect of the group's rental income from operating leases, rentals are normally received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. Other than this, as such, the group normally does not obtain collateral from its customers. The ageing of trade debtors at 31 December 2018 is summarised in note 20. The expected credit losses for these balances were not material at 31 December 2018, therefore no loss allowance was provided at 31 December 2018.

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. No impairment is considered necessary for any of the trade debtors including those that are past due as they relate to a wide range of independent customers that have a good track record with the group, with no recent history of default and are considered by the management to be fully recoverable.

The group's exposure to credit risk is influenced mainly by individual characteristics of each customer rather than the industry or country in which the customers operate; therefore, it is considered that there is no concentration of credit risk as the group has no significant exposure to individual customers given the large number of customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including the derivative financial instruments, in the consolidated statement of financial position after deducting any impairment allowance. The group does not provide any other guarantee which would expose the group to any material credit risk.

## Notes to the Financial Statements

### 27. Financial risk management and fair values *continued*

#### (e) Fair values

##### (i) Financial instruments carried at fair value

HKFRS 13, *Fair value measurement* requires disclosure of the fair value of the group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

All derivative financial instruments carried at fair value are categorised as falling under Level 2 of the fair value hierarchy.

##### (ii) Fair values of financial instruments carried at other than fair value

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2018. Advances to the joint venture are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair values. The group has no intention of disposing these loans.

#### (f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

##### Derivative financial instruments

Forward foreign exchange contracts and foreign exchange swaps are either marked to market using listed market prices, or by discounting the contractual forward price and deducting the current spot rate. The fair values of interest rate swaps and cross currency interest rate swaps are the estimated amount that the group would receive or pay to terminate the swaps at the end of the reporting period, taking into account current interest rates, foreign exchange rates and the current creditworthiness of the swap counterparties.

When discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period. Where other pricing models are used, inputs are based on market related data at the end of the reporting period.

## 27. Financial risk management and fair values continued

### (f) Estimation of fair values continued

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

	<b>31 December 2018</b>	31 December 2017
Hong Kong Dollars	–	1.2% to 1.4%
Japanese Yen	<b>– 0.1%</b>	–0.1% to 0%
Euros	<b>–0.4% to 0%</b>	–0.3%
Pounds	<b>0.7% to 0.8%</b>	–

## 28. Commitments (HK\$m)

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

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

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

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

## Notes to the Financial Statements

### 28. Commitments (HK\$m) continued

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

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

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

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

### 29. Contingent liabilities (HK\$m)

The Directors consider there being no material contingent liabilities for the group at 31 December 2018 and 2017.

### 30. Material related party transactions

Other than the Directors' remuneration and the loans advanced to an associate as disclosed in note 15, material related party transactions are set out as follows:

- (a) Under two three-year tenancy agreements which commenced on 1 April 2016, a wholly owned subsidiary of the company, HSH Management Services Limited (HMS), leased the 4th, 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rent of HK\$1,775,000 per month plus a monthly service charge of HK\$231,702 from Kadoorie Estates Limited (KEL), which is the agent of the registered owner which is controlled by one of the substantial shareholders of the company. With effect from 1 January 2018, the monthly service charges for the 4th, 7th and 8th floors of St. George's Building were revised to HK\$259,909.

The rent and service charges incurred in 2018 amounted to HK\$24 million (2017: HK\$24 million). These tenancy agreements fall under the Listing Rules as continuing connected transactions. The company has complied with the disclosure requirements governing continuing connected transaction under the Listing Rules. Further details of these continuing connected transactions are disclosed in the Directors' Report.

### 30. Material related party transactions continued

- (b) Unsecured and interest free shareholder's loans amounting to US\$66.85 million (HK\$521 million) (2017: US\$66.85 million (HK\$521 million)) were granted by Peninsula International Investment Holdings Limited (PIIHL), a wholly owned subsidiary of the company, to the holding company of The Peninsula Shanghai Waitan Hotel Company Limited (PSW), a foreign owned enterprise incorporated in the People's Republic of China, of which the group has a 50% indirect interest. PSW is engaged in the operation of The Peninsula Shanghai Complex. As at 31 December 2018, shareholder's loans amounting to US\$58.75 million (HK\$458 million) (2017: US\$58.75 million (HK\$458 million)) had been contributed as capital of PSW.

In addition, pursuant to a tripartite entrustment loan agreement dated 12 December 2011 entered into among The Palace Hotel Co., Ltd. (TPH), a sino-foreign co-operative joint venture established in the People's Republic of China, which holds a 100% interest in The Peninsula Beijing, PSW and a PRC branch of an international bank (the agent bank), entrustment loans totalling RMB150 million were on-lent by TPH to PSW via the agent bank. As at 31 December 2018, the balance of entrustment loans amounted to RMB50 million (HK\$57 million) (2017: RMB50 million (HK\$60 million)). The remaining balance of entrustment loans bears an annual interest of 3.3% and is repayable on 14 June 2019. The interest was fixed by reference to the deposit rate published by The People's Bank of China on the day on which the draw down was made plus a margin of 200 basis points.

- (c) The company owns a 70% indirect interest in Peninsula Yangon Holdings Pte. Limited (PYH), a company incorporated in Singapore, which in turn holds a 100% direct interest in Peninsula Yangon Limited (PYL). PYL is incorporated in Myanmar and is engaged in the development and future operation of The Peninsula Yangon. As at 31 December 2018, unsecured and interest-free loans amounting to US\$18 million (HK\$140 million) (2017: US\$14 million (HK\$112 million)) were advanced to PYH by Yoma Strategic Investments Ltd. and First Myanmar Investment Co., Ltd., the 30% non-controlling shareholders of PYH. Such loans were fully injected by PYH into PYL to fund the development of The Peninsula Yangon.

### 31. Non-adjusting post reporting period events

After the end of the reporting period, the Directors proposed a final dividend, the details of which are disclosed in note 10.

### 32. Key sources of estimation uncertainty

Notes 26(a) and 27 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

#### (a) Valuation of investment properties

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed semi-annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential. The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

#### (b) Estimated useful lives of other properties, plant and equipment

The group estimates the useful lives of its other properties, plant and equipment based on the periods over which the assets are expected to be available for use. The group reviews annually their estimated useful lives, based on factors that include asset utilisation, internal technical evaluation, technological changes as well as environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of properties, plant and equipment would increase depreciation charges and decrease non-current assets.

## Notes to the Financial Statements

### 32. Key sources of estimation uncertainty *continued*

#### (c) Asset impairment

The group assesses the impairment of assets in accordance with the accounting policy set out in note 34(i). The factors that the group considers important in identifying indications of impairment and in assessing the impairment include the following:

- significant under-performance relative to expected historical or projected future operating results; and
- significant negative industry or economic trends.

#### (d) Deferred tax assets

The group reviews the carrying amounts of deferred taxes at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. However, there is no assurance that the group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilised.

### 33. Investment in subsidiaries

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

Company name	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
The Peninsula Hotel Limited	Hong Kong	2 shares	100%	Hotel investment
The Repulse Bay Apartments Limited	Hong Kong	2 shares	100%	Property investment
The Repulse Bay Company, Limited	Hong Kong	2 shares	100%	Property investment
The Peak Tower Limited	Hong Kong	2 shares	100%	Property investment
Peak Tramways Company, Limited	Hong Kong	450,000 shares	100%	Tramway operation
St. John's Building Limited	Hong Kong	2 shares	100%	Property investment
Peninsula Merchandising Limited	Hong Kong	2 shares	100%	Wholesaling and retailing of merchandise
Tai Pan Laundry & Dry Cleaning Services, Limited	Hong Kong	5,000,000 shares	100%	Laundry and dry cleaning services
HSH Financial Services Limited	Hong Kong	1 share	100%	Lending and borrowing of funds
Peninsula Clubs and Consultancy Services Limited	Hong Kong	1,000,000 shares	100%	Club management
HSH Management Services Limited	Hong Kong	10,000 shares	100%	Management and marketing services
Peninsula New York Hotel LLC	United States of America	Contributed capital of US\$323,500,000	100%	Hotel investment
Peninsula Chicago LLC	United States of America	Contributed capital of US\$57,038,089	100%	Hotel investment
Quail Lodge, Inc.	United States of America	10,652 shares of US\$100 each	100%	Golf club, resort and property investment

### 33. Investment in subsidiaries continued

Company name	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
Peninsula of Tokyo Limited	Japan	200 shares of JPY50,000 each	100%	Hotel investment
The Palace Hotel Co., Ltd.	People's Republic of China	Registered capital of US\$161,921,686	76.6%**	Hotel investment
Manila Peninsula Hotel, Inc.	The Philippines	111,840,386 shares of Pesos 10 each	77.36%	Hotel investment
Siam Chaophraya Holdings Company Limited	Thailand	250,000 ordinary shares of THB2,000 each	50%	Hotel investment
Town and Country Sport Club Company Limited	Thailand	1,250,000 ordinary shares of THB100 each <sup>Δ</sup>	50%	Golf club and property investment
International Burotel Company Limited	Vietnam	Registered capital of US\$6,866,667	70%#	Property investment
Le 21 Avenue Kléber SNC	France	1,801,000 shares of EUR1 each	100%	Property investment
Peninsula London, LP	United Kingdom	Contributed capital of GBP1,000	100%	Property investment and hotel development
Peninsula Yangon Limited	Myanmar	43,696,426 shares of US\$1 each	70%	Hotel investment

\* Except for HSH Financial Services Limited, all subsidiaries are indirectly held.

\*\* The Palace Hotel Co., Ltd. is a sino-foreign co-operative joint venture with a reversionary interest to the PRC party at the end of the joint venture period.

# The group owns 50% of the economic interest of International Burotel Company Limited with a reversionary interest to the Vietnam partner at the end of the joint venture period.

<sup>Δ</sup> 5,000 shares are fully paid up and the remaining 1,245,000 shares are partially paid up at THB25 each.

The non-controlling interests in individual subsidiaries are considered immaterial to the group.

## Notes to the Financial Statements

### 34. Significant accounting policies

#### (a) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the company and its subsidiaries (together referred to as the group) and the group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- i) investment properties (see note 34(f)); and
- ii) derivative financial instruments (see note 34(d)).

The preparation of financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that may have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

#### (b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the company.

## 34. Significant accounting policies continued

### (b) Subsidiaries and non-controlling interests continued

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 34(c)).

In the company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 34(i)), unless the investment is classified as held for sale.

### (c) Associates and joint ventures

An associate is an entity in which the group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see note 34(i)). Any acquisition-date excess over costs, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the group's share of losses exceeds its interest in the associates or the joint ventures, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the group's interest is the carrying amount of the investment under the equity method, together with the any other long-term interests that, in substance, form part of the group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of a financial asset.

## Notes to the Financial Statements

### 34. Significant accounting policies *continued*

#### (d) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify as cash flow hedge accounting.

The group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and variable rate borrowings (cash flow hedges). The hedge accounting policy applied from 1 January 2018 is similar to that applicable prior to 1 January 2018. However, under the new hedge accounting policy, depending on the complexity of the hedge, the group applies a more qualitative approach to assessing hedge effectiveness, and the assessment is always forward-looking.

##### Cash flow hedges

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss. The amount accumulated in the hedging reserve is reclassified from equity to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss (such as when a forecast sale occurs or interest expense is recognised).

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

#### (e) Properties, plant and equipment

Hotel and other properties held for own use (including buildings held for own use which are situated on leasehold land classified as held under operating leases) and plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 34(i)).

The cost of self-constructed items of properties, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 34(u)).

### 34. Significant accounting policies continued

#### (e) Properties, plant and equipment continued

Depreciation is calculated to write off the cost of items of properties, plant and equipment, less their estimated residual values, if any, on a straight line basis over the shorter of the unexpired period of the land lease and the anticipated remaining useful lives of the assets. The useful lives which have been adopted are summarised as follows:

- ◆ leasehold land classified as held under finance leases is depreciated over the unexpired term of lease
- ◆ hotel buildings 75 to 150 years
- ◆ other buildings 50 years
- ◆ golf courses 100 years
- ◆ external wall finishes, windows, roofing and glazing works 10 to 40 years
- ◆ major plant and machinery 15 to 25 years
- ◆ furniture, fixtures and equipment 3 to 20 years
- ◆ operating equipment 3 to 5 years
- ◆ motor vehicles 5 to 10 years

No depreciation is provided on freehold land as it is deemed to have an indefinite life.

Where parts of an item of properties, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided on properties under development.

#### (f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 34(h)) to earn rental income and/or for capital appreciation. These include land held for currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the reporting date and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 34(s).

## Notes to the Financial Statements

### 34. Significant accounting policies *continued*

#### (f) Investment properties *continued*

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 34(h)) and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 34(h).

If a property occupied by the group as an owner-occupied property becomes an investment property, the group accounts for such property as described in note 34(e) up to the date of change in use, and any difference at the date between the carrying amount and the fair value of the property is accounted for as movements in the asset revaluation reserve. On disposal of a revalued assets, the relevant portion of the asset revaluation reserve realised in respect of previous valuation is transferred to retained profits as a movement in reserves.

#### (g) Hotel operating rights

Costs incurred for securing the group's rights to operate hotels are capitalised and are stated at cost less accumulated amortisation and impairment losses (see note 34(i)).

Amortisation of the operating rights is charged to profit or loss on a straight-line basis over the terms of the relevant operating periods.

#### (h) Leased assets

##### Classification of assets leased to the group

Assets that are held by the group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases, with the following exceptions:

- ◆ property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 34(f)); and
- ◆ land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the group, or taken over from the previous lessee.

##### Operating lease charges

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

## 34. Significant accounting policies continued

### (i) Credit losses and impairment of assets

#### (i) Credit losses from financial instruments and lease receivables

##### (A) Policy applicable from 1 January 2018

The group recognises a loss allowance for expected credit losses (ECLs) on the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables) and lease receivables.

##### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

In measuring ECLs, the group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

## Notes to the Financial Statements

### 34. Significant accounting policies *continued*

#### (i) Credit losses and impairment of assets *continued*

##### (i) Credit losses from financial instruments and lease receivables *continued*

###### (A) Policy applicable from 1 January 2018 *continued*

###### Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held). The group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

###### Write-off policy

The gross carrying amount of a financial asset and lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

## 34. Significant accounting policies continued

### (i) Credit losses and impairment of assets continued

#### (i) Credit losses from financial instruments and lease receivables continued

##### (B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an “incurred loss” model was used to measure impairment losses on financial assets not classified as at fair value through profit or loss (e.g. trade and other receivables). Under the “incurred loss” model, an impairment loss was recognised only where there was objective evidence of impairment. Objective evidence of impairment included:

- ◆ significant financial difficulty of the debtor;
- ◆ a breach of contract, such as a default or delinquency in interest or principal payments;
- ◆ it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- ◆ significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- ◆ a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

- ◆ For trade and other receivables and other financial assets carried at amortised cost, the impairment loss was measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. An impairment loss for trade and other receivables carried at amortised cost is calculated as the difference between the financial asset’s carrying amount and the present value of the estimated future cash flows discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset’s carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

## Notes to the Financial Statements

### 34. Significant accounting policies *continued*

#### (i) Credit losses and impairment of assets *continued*

##### (ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the investments in associates and joint ventures accounted for under the equity method (see note 34(c)), other non-financial assets, investment in subsidiaries in the company's statement of financial position may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

An impairment loss is reversed to profit or loss if the recoverable amount of an asset, or the cash-generating unit to which it belongs, exceeds its carrying amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

##### (iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 34(i)).

#### (j) Inventories

Inventory are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

#### (k) Properties under development for sale

Property under development for sale comprises leasehold lands and construction-in-progress and is carried at the lower of cost and net realisable value. Properties under development for sale included in the current assets when it is expected to be realised or is intended for sale in the normal operating cycle.

## 34. Significant accounting policies continued

### (l) Trade and other receivables

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before the payment of that consideration is due. If revenue has been recognised before the group has unconditional right to receive consideration, the amount is presented as a contrast asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 34(i)(i)).

### (m) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs using effective interest method. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost. Interest expense is recognised in accordance with the group's accounting policy for borrowing cost (see note 34(u)).

### (n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (o) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses in accordance with policy set out in note 34(i).

### (p) Employee benefits

#### Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### Defined benefit retirement plan obligations

The group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

## Notes to the Financial Statements

### 34. Significant accounting policies *continued*

#### (p) Employee benefits *continued*

##### Defined benefit retirement plan obligations *continued*

Service cost and net interest expense (income) on the net defined liability (asset) are recognised in profit or loss and allocated by nature as part of “staff costs and related expenses”. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the group’s obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in other reserves. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

##### Termination benefits

Termination benefits are recognised when and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

#### (q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities and are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

## 34. Significant accounting policies continued

### (q) **Income tax** continued

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 34(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances and movements therein, are presented separately from each other and are not offset.

### (r) **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### Onerous contracts

An onerous contract exists when the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

## Notes to the Financial Statements

### 34. Significant accounting policies *continued*

#### (s) Revenue

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the group is expected to be entitled, excluding those amounts collected on behalf of third parties. Further details of the group's revenue recognition policies are as follows:

##### Hotel and golf club operations

Revenue is recognised on a basis that reflects the timing, nature and value when the relevant services are transferred to the customer.

##### Sale of residential apartments

Revenue arising from the sale of residential apartments is recognised upon the completion of title transfer, which is the point in time when the customer has the ability to direct the use of the residential apartment and obtain substantially all of the remaining benefits of the residential apartment.

##### Sale of goods and wholesaling

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer takes possession of and accepts the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

##### Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

##### Interest income

Interest income is recognised as it accrues using the effective interest method.

##### Contract liabilities

A contract liability is recognised when the customer pays consideration before the group recognises the related revenue. Non-refundable golf membership deposits, gift vouchers and other deposits are recognised as contract liabilities in the group's financial statements. Non-refundable golf membership deposits are amortised as revenue in equal instalments over the duration of the membership. Other non-refundable deposits and gift vouchers sold are recognised as revenue when the conditions of forfeiture are met and when the gift vouchers are redeemed for goods or services respectively.

### 34. Significant accounting policies continued

#### (t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities and non-monetary assets and liabilities that are stated at fair values and are denominated in foreign currencies, are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

#### (u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to become ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

#### (v) Related parties

- (1) A person, or a close member of that person's family, is related to the group if that person:
  - i) has control or joint control over the group;
  - ii) has significant influence over the group; or
  - iii) is a member of the key management personnel of the group or the group's Parent.

## Notes to the Financial Statements

### 34. Significant accounting policies *continued*

#### (v) Related parties *continued*

- (2) An entity is related to the group if any of the following conditions applies:
- i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is member).
  - iii) Both entities are joint ventures of the same third party.
  - iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.
  - vi) The entity is controlled or jointly controlled by a person identified in (1).
  - vii) The entity identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

#### (w) Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 35. Changes in accounting policies and disclosures

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the group. Of these, the following developments are relevant to the group's financial statements:

- i) HKFRS 9, *Financial instruments*
- ii) HKFRS 15, *Revenue from contracts with customers*

### **HKFRS 9 *Financial instruments***

HKFRS 9 sets out the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, hedge accounting and impairment of financial assets. HKFRS 9 replaces HKAS 39 *Financial Instruments: Recognition and Measurement*.

#### i) Classification and measurement

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. These supersede HKAS 39's categories of held-to maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at fair value through profit or loss. The adoption of HKFRS 9 has not had a material impact on the results of the group.

#### ii) Impairment of financial assets

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. The new impairment model applies to financial assets measured at amortised cost and contract assets. The financial assets held by the group that are subject to the new credit loss model include cash and cash equivalents, trade receivables, amounts and loans due from related parties and other receivables.

The group is required to revise the impairment methodology under HKFRS 9 for each of these classes of assets. The change in methodology did not have a material impact on the results of the group.

### **HKFRS 15, *Revenue from contracts with customers***

HKFRS 15 provides single revenue recognition model based on the transfer of goods and services and the consideration expected to be received in return for that transfer.

The adoption of HKFRS 15 has resulted in a change in accounting policy for revenue, recognition associated with inventory disposals, such that revenue is recognised on transfer of control of the asset rather than the transfer of the significant risks and rewards associated with the asset. This change has not had a material impact on the revenue, profit and net assets reported in previous period.

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

## Notes to the Financial Statements

### 36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the group:

	Effective for accounting periods beginning on or after
HKFRS 16, <i>Leases</i>	1 January 2019
HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, <i>Long-term interest in associates and joint ventures</i>	1 January 2019

The group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the group has identified the adoption of HKFRS 16 may have a significant impact on the consolidated financial statements and the details are set out below.

#### **HKFRS 16, *Leases***

As disclosed in note 34(h), currently the group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the group’s accounting as a lessee of leases for certain hotel properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease.

### 36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 continued

#### **HKFRS 16, Leases** continued

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The group plans to elect to apply the full retrospective approach for the adoption of HKFRS 16 and will adjust the opening balance of equity at 1 January 2019 and restate the comparative information. As disclosed in note 28(b), at 31 December 2018 the group's future minimum lease payments under non-cancellable operating leases amounted to HK\$13.6 billion, most of which is payable in more than 5 years after the reporting date. These minimum lease payments mainly relate to the undiscounted lease liabilities in respect of the group's hotels in Tokyo and New York with remaining lease term of 67 years and 60 years respectively as well as the undiscounted fixed rent payable for 140 years from January 2022 in respect of the development project in London.

Other than the recognition of lease liabilities and right-of-use assets, the group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material.

# INDEPENDENT ASSURANCE REPORT

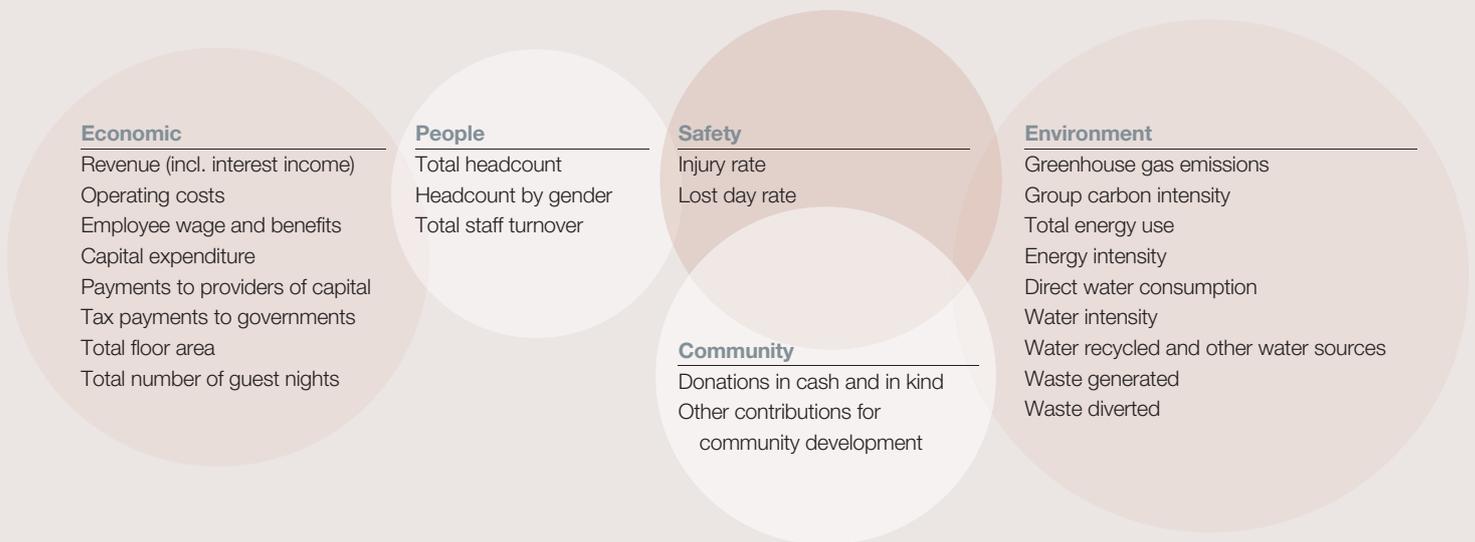
## Independent assurance report to the Directors of The Hongkong and Shanghai Hotels, Limited

KPMG was engaged by The Hongkong and Shanghai Hotels, Limited (“HSH”) to undertake a limited assurance engagement on identified elements (“Identified Elements”) of the Corporate Responsibility and Sustainability Report and Data Statements 2018 of HSH (further referred to as “the Report”) for the year ended 31 December 2018 being prepared in accordance with the Reporting Criteria.

## Identified Elements of the Report

The Identified Elements are as follows:

- The following data points and relevant narratives included in the Report on pages 2 to 30.
- The following data points as included in the Data table on page 254.



## Responsibilities of the Directors of The Hongkong and Shanghai Hotels, Limited

The Directors of HSH are responsible for the preparation and presentation of the Report specifically ensuring that in all material respects the Report is prepared and presented in accordance with the Reporting Criteria, being the Environmental, Social and Governance Reporting Guide, Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“HKEx ESG Guide”). This responsibility also includes designing, implementing and maintaining internal controls relevant to the preparation of the Report that is free from material misstatement whether due to fraud or error.

## Responsibilities of the independent assurance provider

Our responsibility is to express a conclusion to the Directors of HSH based on our limited assurance procedures referred to below as performed over the Identified Elements of the Report. Our independent limited assurance report is made solely to HSH in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the Directors of HSH those matters we have been engaged to state in this independent limited assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than HSH for our work, for this independent limited assurance report, or for the conclusion we have reached. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

# Independent Assurance Report

## Basis of our work

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information and ISAE 3410 Assurance Engagements on Greenhouse Gas Statements. These standards require the assurance team to possess the appropriate knowledge, skills and professional competencies needed to perform the assurance engagement.

## Our independence and quality control

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We have complied with the independence and other requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

## Work performed

Our limited assurance engagement on the Identified Elements of the Report consists of making inquiries, primarily of persons responsible for the preparation of Identified Elements presented in the Corporate Responsibility and Sustainability Report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures include:

- Conducting interviews with management and staff responsible for the collection and review of Identified Elements at HSH Head Office to obtain an understanding of the information collection process;
- Attending a site visit to understand the data collection processes used to gather and review Identified Elements included in the Report;
- Examining and evaluating the systems and processes in place to generate, aggregate and report the Identified Elements;
- Agreeing the Identified Elements, on a sample basis, to underlying calculations and supporting schedules;
- Performing an analytical review of data provided by each operation and investigating, through discussion with management, key movements compared to prior year, expectations and targets;
- Comparing the definitions as included in the HKEx ESG Guide against the definitions used by HSH to prepare the metrics;
- Reading the Sustainability Reporting Content Index on pages 36 to 42 of the Report to determine whether it is in line with our understanding of HKEx ESG Guide;
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of the sustainability performance of HSH.

## Conclusion

Based on the limited assurance procedures and the evidence obtained, nothing has come to our attention that causes us to believe that the Identified Elements, as described above, of the Corporate Responsibility and Sustainability Report and Data Statements 2018 of HSH for the year ended 31 December 2018, are not prepared, in all material respects, in accordance with the Reporting Criteria.

KPMG  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
14 March 2019

# SUSTAINABILITY DATA STATEMENTS

This section provides statistical information on the Group's sustainability performance. To facilitate stakeholders in understanding and benchmarking our corporate responsibility performance, our reporting follows the HKEx ESG and GRI Standards.

## Performance Highlights <sup>(1)</sup>

			2018	2017	2016	2015	2014	2006-08 baseline
Economic	<b>Revenue (incl. interest income)</b>	HK\$m	<b>6,232</b>	5,804	5,668	5,797	5,903	–
	<b>Operating costs</b>	HK\$m	<b>2,241</b>	2,102	2,134	2,142	2,168	–
	<b>Employee wage and benefits</b>	HK\$m	<b>2,291</b>	2,135	2,108	2,063	2,052	–
	<b>Capital expenditure</b>	HK\$m	<b>1,490</b>	1,827	2,479	1,379	354	–
	<b>Payments to providers of capital</b>	HK\$m	<b>195</b>	224	239	217	211	–
	<b>Tax payments to governments <sup>(2)</sup></b>	HK\$m	<b>486</b>	442	410	480	458	–
	<b>Total floor area</b>	'000 m <sup>2</sup>	<b>652</b>	652	651	651	651	518
	<b>Total number of guest nights</b>	'000	<b>1,333</b>	1,240	1,190	1,256	1,277	1,119
People	<b>Headcount <sup>(3)</sup></b>		<b>7,594</b>	7,534	7,985	8,447	8,728	–
	<b>Turnover</b>	%	<b>21.9%</b>	21.3%	22.0%	22.6%	19.9%	–
	<b>Headcount by Gender</b>	% Female	<b>42.6%</b>	41.9%	42.6%	42.8%	42.3%	–
Health and Safety	<b>Injury rate <sup>(3)(4)</sup></b>	incidents per 100 employees	<b>8.1</b>	8.7	8.7	8.3	7.3	–
	<b>Lost day rate <sup>(3)(4)</sup></b>	days per 100 employees	<b>58.7</b>	47.4	47.8	59.4	75.3	–
Environment	<b>Greenhouse gas emissions</b>	'000 tCO <sub>2</sub> e	<b>101</b>	102	103	107	116	117
	<b>Group carbon intensity</b>	kg CO <sub>2</sub> e per m <sup>2</sup>	<b>154</b>	156	158	164	178	226
	<b>Total energy use <sup>(5)</sup></b>	'000 GJ	<b>864</b>	864	866	892	871	858
	<b>Energy intensity <sup>(5)</sup></b>	MJ per m <sup>2</sup>	<b>1,325</b>	1,326	1,329	1,369	1,338	1,658
	<b>Direct water consumption <sup>(3)</sup></b>	'000 m <sup>3</sup>	<b>1,705</b>	1,662	1,651	1,765	1,747	1,807
	<b>Water intensity</b>							
	Hotels Division <sup>(6)</sup>	litres per guest night	<b>1,075</b>	1,100	1,154	1,168	1,132	1,373
	Commercial Properties, Clubs & Services Division <sup>(6)</sup>	litres per m <sup>2</sup>	<b>1,131</b>	1,226	1,173	1,247	1,276	1,280
	<b>Water recycled and other water sources</b>	'000 m <sup>3</sup>	<b>448</b>	489	613	137	124	–
<b>Waste generated <sup>(3)(7)</sup></b>	tonnes	<b>6,895</b>	7,605	7,746	7,832	7,778	–	
<b>Waste diverted <sup>(3)(7)</sup></b>	tonnes	<b>3,505</b>	3,610	3,270	3,294	3,219	–	
Community	<b>Monetary Donations <sup>(8)</sup></b>	HK\$'000	<b>2,519</b>	3,250	4,232	6,273	4,197	–
	<b>In-kind Donations <sup>(8)</sup></b>	HK\$'000	<b>7,189</b>	6,370	9,040	7,115	7,196	–
	<b>Other contributions for community development <sup>(9)</sup></b>	HK\$'000	<b>2,796</b>	2,730	2,125	2,447	2,689	–

### Footnotes:

- (1) Please refer to Reporting Scope on the inside front cover of the CRS Report for the scope of businesses covered in the reporting of employee, health and safety, community and environmental performance.
- (2) Inclusive of corporate income tax, property and real estate tax, payroll tax and other corporate taxes.
- (3) There have been changes on reporting scope and methodology for people, health and safety, environmental and community data, please refer to page 35 of 2018 CRS Report for details. (footnote 1 for people; footnote 5 and 6 for health and safety; footnote 12 for water and waste; footnote 21 for community)
- (4) Injuries recorded include from minor first aid incidents to more severe incidents that required hospitalisation. There was no incident of occupational disease recorded in 2018.
- (5) Vehicle fuel consumption is not included in the total energy use and energy intensity reported.
- (6) Includes all water uses in the hotels, not just those used by guests directly.
- (7) Group waste diversion rate in 2018 was 50.8%. Grease trap waste, hazardous waste and construction waste were not included in the waste data reported.
- (8) Decrease in cash donations and increase in-kind donations are aligned to our new community donation strategy where we provide more discounted or pro-bono products and services as required by community needs.
- (9) Relates to contributions made to non-charitable organisations on projects supporting the wider community, for example, the Hong Kong Heritage Project, an archive project for preserving valuable historical records of the Kadoorie family and its businesses, mostly based in Hong Kong.



# GLOSSARY

## Terms

Absentee rate	Represents the number of absentee days per year. It is calculated as total absentee days, which include sick days and lost days due to injury and occupational diseases, divided by total work days for the year
Average room rate	This reveals the average rate charged per occupied room, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms sold}}$
Adjusted net assets	The figure provides an adjusted value assessment of the Group's assets based on current market valuation
Back-of-house	Staff-only areas, usually in a hotel
BREEAM	Building Research Establishment Environmental Assessment Method is a UK-based environmental assessment and certification scheme on sustainable building
Corporate Responsibility	A systematic approach whereby a business monitors and ensures its compliance with the law, ethical standards, and international standards relating to the environment, consumers, employees, communities, and other stakeholders
EarthCheck	An internationally recognised sustainability benchmarking and certification programme for the hospitality sector
EBITDA	The figure reflects the profitability of the operations of the Group before interest, tax, depreciation and amortisation
Front-of-house	Areas of a hotel that are in sight of guests/customers
General Data Protection Regulation (GDPR)	The European Union (EU) Regulation 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data. This regulation constitutes the European Economic Area (EEA) legislation and came into effect on 25 May 2018. It sets out comprehensive requirements in relation to data privacy governance and the protection of personal data of EU data subjects, as well as addresses the export of personal data outside EU and EEA areas.
Global Reporting Initiative (GRI)	A non-profit organisation that produces the prevalent standards for sustainability reporting widely adopted by companies worldwide

# Glossary

## Terms

Interest cover	The ratio reflects the ability of the Group to meet its net financing costs expressed as a multiple of its operating profit
Cash interest cover	The ratio reflects the ability of the Group to meet its net interest expenses paid expressed as a multiple of its EBITDA
Occupancy rate	This reveals the extent of rooms being occupied, calculated based on the following formula: $\frac{\text{Rooms sold}}{\text{Rooms available}} \times 100\%$
PP	Percentage points
RevPAR	The figure reflects the revenue generating ability of the Group's hotels from available rooms, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms available}}$
Stakeholders	Group or individuals that are affected by or can affect a company's activities
Underlying profit attributable to shareholders	The figure reflects the profitability of the Group arising from its operations by excluding non-operating and non-recurring items

# SHAREHOLDER INFORMATION

## Financial Calendar 2019

2018 annual results announcement	14 March
Annual Report available	29 March
For entitlement to attend, speak and vote at Annual General Meeting	
– Last day to register	6 May 4:30pm
– Closure of register of members	7 May to 10 May (both days inclusive)
– Record date	10 May
Annual General Meeting	10 May 12:00 noon
Ex-dividend date for final dividend	15 May
For entitlement to receive final dividend	
– Last day to register	16 May 4:30pm
– Closure of register of members	17 May to 21 May (both days inclusive)
– Record date	21 May
Scrip dividend scheme circular and/or election form available	24 May
Last day to return scrip dividend election form	11 June 4:30pm
Dividend warrants and share certificates for final dividend available	On or about 21 June
2019 interim results announcement (tentative)	August
2019 interim dividend payment date (tentative)	October
Financial year end	31 December

## Company Website

www.hshgroup.com  
E-mail: corpaffairs@peninsula.com

## Investor Enquiries

www.hshgroup.com/investors  
E-mail: ir@hshgroup.com

## Corporate Responsibility and Sustainability Enquiries

www.hshgroup.com/sustainable-luxury  
E-mail: cr@hshgroup.com

## Registered Office

8th Floor, St. George's Building,  
2 Ice House Street, Central, Hong Kong  
Tel: (852) 2840 7788  
Fax: (852) 2810 4306

## Share Information

Stock Code: 00045  
2018 Interim Dividend: 5 HK cents per share  
2018 Final Dividend: 16 HK cents per share

## Request for Feedback

To improve the quality of our annual reporting, we welcome your feedback via email to [ir@hshgroup.com](mailto:ir@hshgroup.com) or by post to our registered office.

## Shareholder Services

For enquiries about share transfer and registration, please contact the Company's Share Registrar:

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor, Hopewell Centre,  
183 Queen's Road East, Wanchai, Hong Kong  
Customer Services Hotline: (852) 2862 8555  
Fax: (852) 2865 0990/2529 6087  
E-mail: [hkinfo@computershare.com.hk](mailto:hkinfo@computershare.com.hk)

Shareholders may at any time change their choice of language or means of receipt of the Company's corporate communications by notice in writing to the Company's Share Registrar at the address above. The Request Form may be downloaded from the Company's website at [www.hshgroup.com](http://www.hshgroup.com).

# RESERVATIONS AND CONTACT ADDRESSES

## Hotels

### The Peninsula Hong Kong

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

### The Peninsula Shanghai

No. 32 The Bund  
32 Zhong Shan Dong Yi Road  
Shanghai 200002  
The People's Republic of China  
Tel: +86-21 2327 2888  
Fax: +86-21 2327 2000  
Email: reservationpsh@peninsula.com

### The Peninsula Beijing

8 Goldfish Lane, Wangfujing  
Beijing 100006  
The People's Republic of China  
Tel: +86-10 8516 2888  
Fax: +86-10 6510 6311  
Email: reservationpbj@peninsula.com

### The Peninsula Tokyo

1-8-1 Yurakucho, Chiyoda-ku  
Tokyo, 100-0006, Japan  
Tel: +81-3 6270 2888  
Fax: +81-3 6270 2000  
Email: reservationptk@peninsula.com

### The Peninsula Bangkok

333 Charoennakorn Road  
Klongsan, Bangkok 10600 Thailand  
Tel: +66-2 020 2888  
Fax: +66-2 020 2889  
Email: reservationpbk@peninsula.com

### The Peninsula Manila

Corner of Ayala and  
Makati Avenues  
1226 Makati City, Metro Manila  
Republic of The Philippines  
Tel: +63-2 887 2888  
Fax: +63-2 815 4825  
Email: reservationpmn@peninsula.com

### The Peninsula New York

700 Fifth Avenue at 55th Street  
New York, NY 10019, USA  
Tel: +1-212 956 2888  
Fax: +1-212 903 3949  
Toll Free: +1-800 262 9467 (USA only)  
Email: reservationpny@peninsula.com

### The Peninsula Chicago

108 East Superior Street  
(at North Michigan Avenue)  
Chicago, Illinois 60611, USA  
Tel: +1-312 337 2888  
Fax: +1-312 751 2888  
Toll Free: +1-866 288 8889 (USA only)  
Email: reservationpch@peninsula.com

### The Peninsula Beverly Hills

9882 South Santa Monica  
Boulevard, Beverly Hills  
California 90212, USA  
Tel: +1-310 551 2888  
Fax: +1-310 788 2319  
Toll Free: +1-800 462 7899  
(USA and Canada only)  
Email: reservationpbh@peninsula.com

### The Peninsula Paris

19 avenue Kléber  
Paris, France, 75116  
Tel: +33 1 5812 2888  
Fax: +33 1 5812 2999  
Email: reservationppr@peninsula.com

### Global Customer Service Centre

The Peninsula Hong Kong  
Salisbury Road, Kowloon  
Hong Kong  
Tel: +852 2926 2888  
Fax: +852 2732 2933  
Email: reservationgcsc@peninsula.com

### Toll free from

Argentina 0800 888 7227  
Australia 1 800 116 888  
Bahrain 800 065 90  
Brazil 0800 891 9601  
Canada 1866 308 8881  
Mainland China 4001 200 618  
France 0800 915 980  
Germany 0800 181 8418  
India 000 800 852 1388  
Italy 800 789 365  
Japan 0120 348 288  
South Korea 00798 8521 6388  
Mexico 01 800 123 4646  
Russia 8 800 333 4680  
Saudi Arabia\* 800 865 6047  
Singapore 800 8526288  
Spain 900 937 652  
Switzerland 0800 562 923  
Taiwan 00801856908  
Thailand 1800011888  
UAE 800 065 0628  
United Kingdom 08007830388  
United States of America 1 866 382 8388

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

## Reservations And Contact Addresses

### Commercial Properties

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**The Repulse Bay**

109 Repulse Bay Road, Hong Kong  
Tel: +852 2292 2888  
Fax: +852 2812 2176  
Email: marketingtrb@peninsula.com

**The Peak Tower and  
The Peak Tram**

No. 1 Lugard Road, The Peak,  
Hong Kong  
Tel: +852 2849 7654  
Fax: +852 2849 6237  
Email: info@thepeak.com.hk

**St. John's Building**

33 Garden Road, Central, Hong Kong  
Tel: +852 2849 7654  
Fax: +852 2849 6237  
Email: sjbmanagement@peninsula.com

**The Landmark**

5B Ton Duc Thang Street, District 1  
Ho Chi Minh City, Vietnam  
Tel: +84-28 3822 2098  
Email: info@thelandmarkvietnam.com

### Clubs and Services

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**Thai Country Club**

88 Moo 1, Bangna-Trad Km. 35.5  
Thambon Pimpa, Bangpakong District  
Chachoengsao 24130, Thailand  
Tel: +66 38 562 700  
Fax: +66 38 570 225  
Email: inquiry@thaicountryclub.com

**Quail Lodge & Golf Club**

8205 Valley Greens Drive, Carmel  
California 93923, USA  
Tel: +1-831 624 2888  
Fax: +1-831 624 4621  
Toll Free: +1-866 675 1101 (USA only)  
Email: lodgedesk@quailodge.com

**Peninsula Merchandising Limited**

Suite 1002, Tower 6  
China Hong Kong City  
33 Canton Road, Tsim Sha Tsui,  
Kowloon, Hong Kong  
Tel: +852 2193 6901  
Fax: +852 2193 6900  
Email: pml@peninsula.com

**Tai Pan Laundry & Dry Cleaning  
Services, Limited**

Unit 2, 1/F, Block B, Po Yip Building  
62-70 Texaco Road, Tsuen Wan  
Hong Kong  
Tel: +852 2612 2008  
Fax: +852 2419 0505  
Email: tpl@peninsula.com

### Websites

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**The Hongkong and  
Shanghai Hotels, Limited**

[www.hshgroup.com](http://www.hshgroup.com)

**The Peninsula Hotels**

[www.peninsula.com](http://www.peninsula.com)

**The Repulse Bay**

[www.therepulsebay.com](http://www.therepulsebay.com)

**The Peak Tower and  
The Peak Tram**

[www.thepeak.com.hk](http://www.thepeak.com.hk)

**The Landmark**

[www.thelandmarkvietnam.com](http://www.thelandmarkvietnam.com)

**Thai Country Club**

[www.thaicountryclub.com](http://www.thaicountryclub.com)

**Quail Lodge & Golf Club**

[www.quailodge.com](http://www.quailodge.com)

**Peninsula Merchandising Limited**

[www.peninsulaboutique.com](http://www.peninsulaboutique.com)

**Tai Pan Laundry & Dry Cleaning  
Services, Limited**

[www.taipanlaundry.com](http://www.taipanlaundry.com)





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