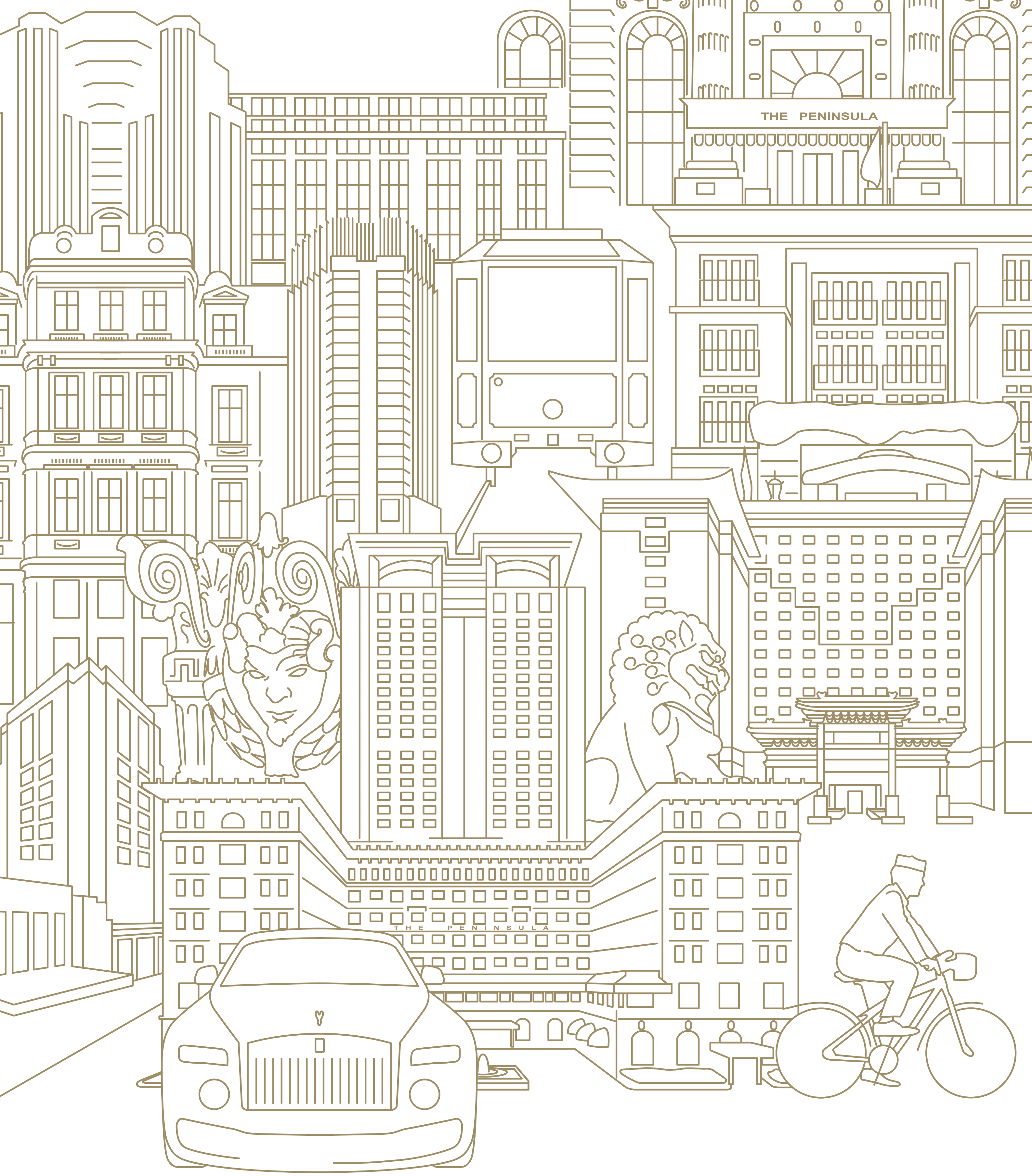
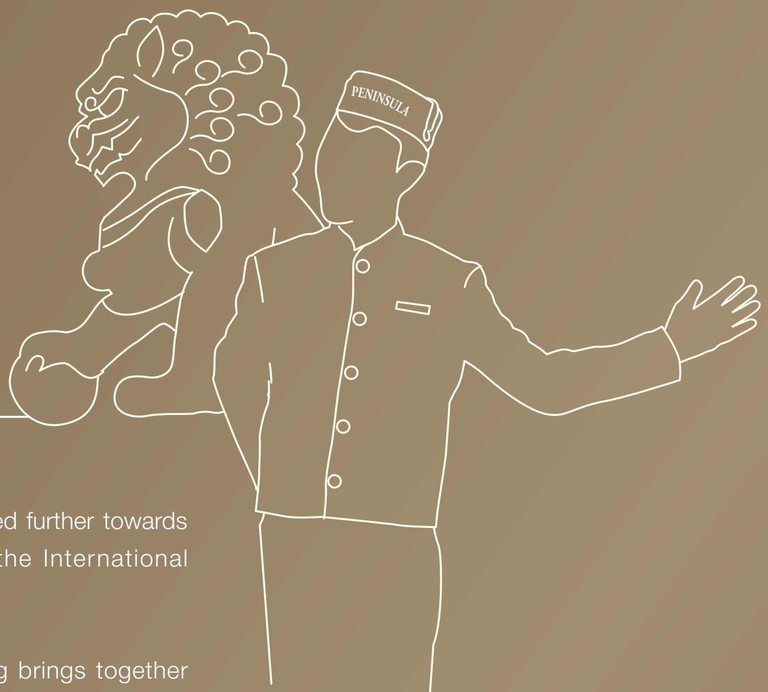


BUILDING A SUSTAINABLE LEGACY

ANNUAL REPORT 2019

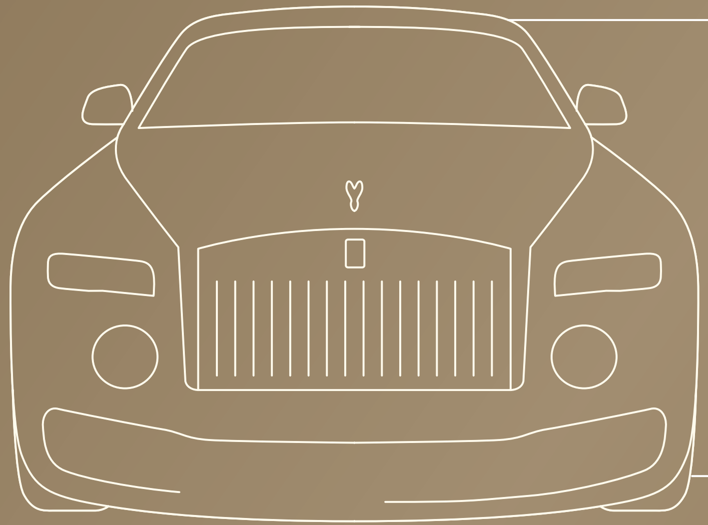
THE HONGKONG AND SHANGHAI HOTELS, LIMITED

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).

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".

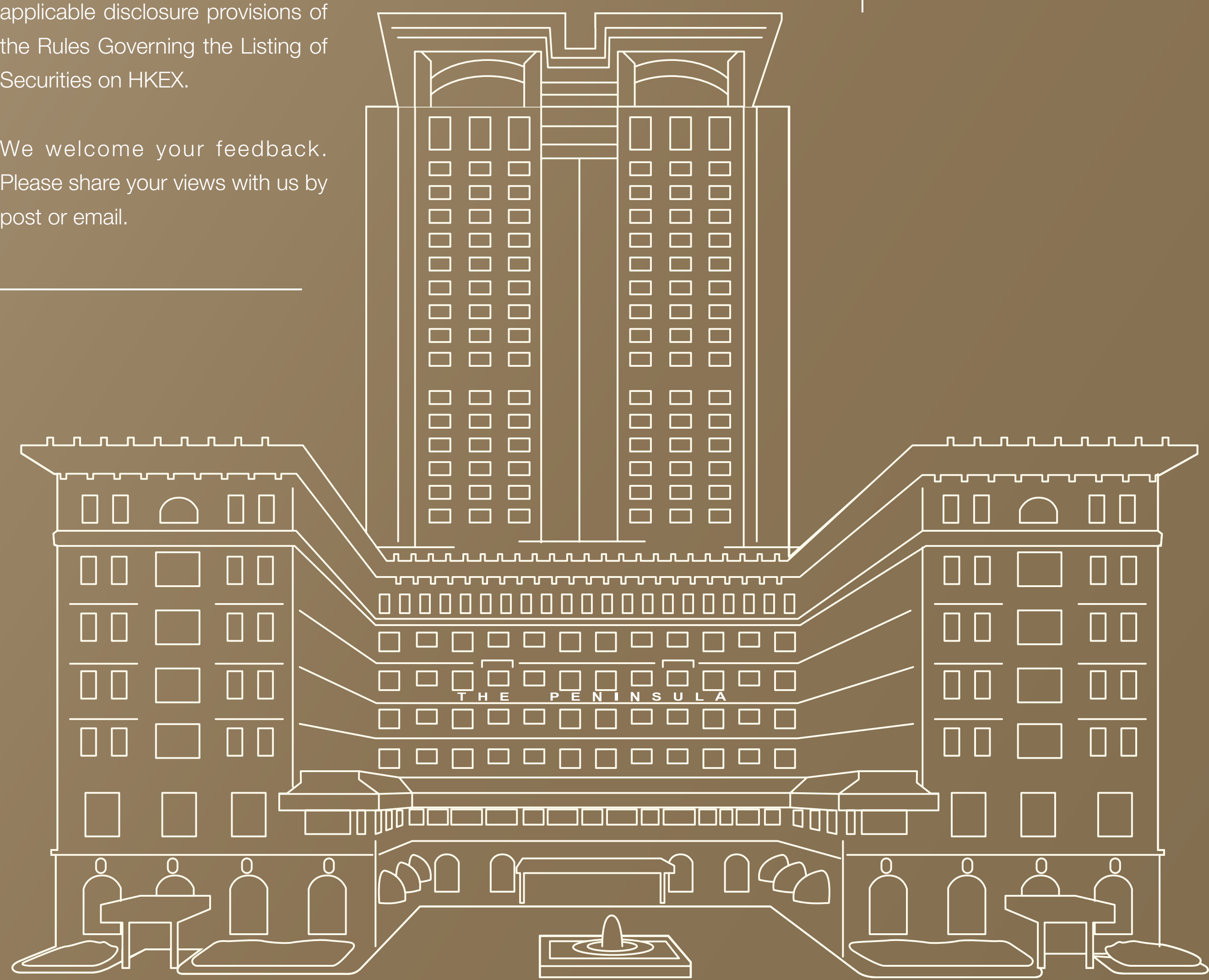


The objective of our approach is to provide a connected view of the different aspects of our performance by publishing this Annual Report and a separate Corporate Responsibility and Sustainability Report to highlight our vision, strategy and our achievements in 2019. Together with our company's website, 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 (ESG Guide), the Hong Kong Institute of Certified Public Accountants' (HKICPA) approach on corporate governance disclosure, and the Global Reporting Initiative Sustainability Reporting Standards.

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.



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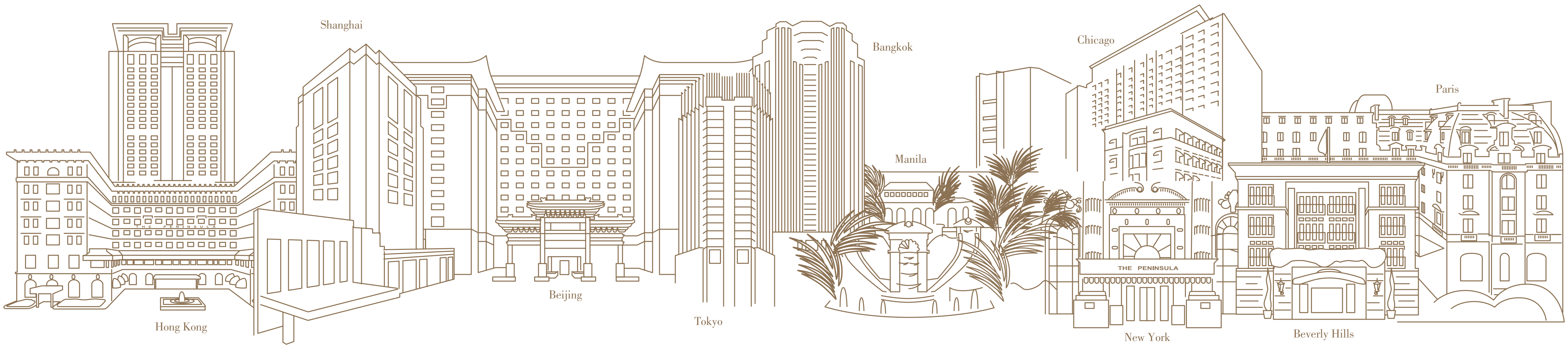


Accomplishments and Results 2019

Creating Stakeholder Value

Governance

Financial and Sustainability Data Statements

Additional Information

Accomplishments and Results 2019

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
Acquired: 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: 351 Ownership: 77.4%

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

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.

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%

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%

2019 Highlights

In February 2019, The Peninsula Hotels became the first and only luxury hotel brand in the world to achieve a Forbes Travel Guide Five-Star Rating for every hotel in its portfolio. This was the first time in the 61-year history of Forbes Travel Guide that a single brand has achieved this status.

The construction of The Peninsula London made good progress and in June 2019, a ceremony was held to celebrate the topping-out of the first core of the building.

In March 2019, The Peninsula Hotels, as the Official Hotel Partner of Art Basel Hong Kong, hosted a gala event to celebrate the launch of Art in Resonance, a multi-year global contemporary art programme.

2019 Highlights

In November 2019, **HSH Chief Operating Officer Mr Peter Borer**, who has been with the company since 1981, was honoured with a Lifetime Achievement Award from the Alumni Network of Ecole hôtelière de Lausanne (AEHL). EHL is the leading hospitality management school in Switzerland and is consistently regarded as one of the most prestigious hospitality schools in the world.

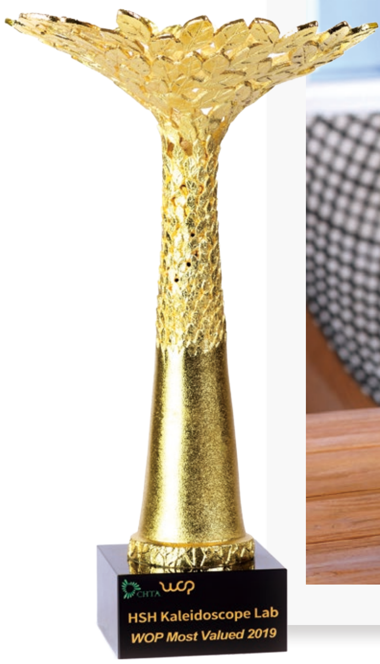
We made good progress on the HK$684 million upgrade project of The Peak Tram, which will create a more exciting and comfortable journey for Peak Tram visitors, with enhanced waiting areas and entertainment features for up to 1,300 passengers. The new tramcars will be able to carry 210 passengers (currently 120). A temporary service platform has been built to allow operations to continue during construction.

Gaddi's at The Peninsula Hong Kong earned a Michelin Star and our refined Cantonese restaurant Spring Moon retained its Michelin Star for the fourth consecutive year.

2019 Highlights

In June 2019, The Peninsula Hotels partnered with world-leading independent arts charity BAFTA (The British Academy of Film and Television Arts) on the launch of their new programme 'BAFTA Breakthrough China' – an initiative designed to identify and nurture the next generation of creative talent in Asia. The inaugural programme was launched at the historical No. 1 Waitanyuan, managed and operated by The Peninsula Shanghai. Pictured is actor Tom Hiddleston and BAFTA Chief Executive Amanda Berry.

In June 2019, **Kaleidoscope Lab**, our innovative incubation programme for startups, won the **Innovation Award at the China Hospitality and Travel Innovation Association's Future Travellers** event in Shanghai, attended by senior executives from the top 100 hospitality and travel companies.



THE PENINSULA
BEIJING
王府半島酒店

The year 2019 marked the 30th anniversary of The Peninsula Beijing. We held a number of celebratory events, including special promotions for guests born in 1989, the hotel's opening year, to celebrate their 30th birthdays together. In October we welcomed Russian artist Max Goshko-Dankov to produce a birthday-themed 'Colouring Wall' installation.

Financial Highlights

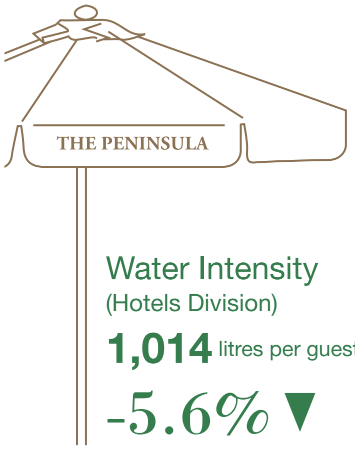
	2019	2018 (restated)	Increase/ (Decrease)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS (HK$m)			
Revenue	**5,874**	6,214	(5%)
EBITDA	**1,390**	1,680	(17%)
Operating profit	**801**	1,079	(26%)
Profit attributable to shareholders	**494**	1,216	(59%)
Earnings per share (HK$)	**0.30**	0.76	(61%)
Underlying profit*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

* Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items.
** Dividend cover is calculated based on underlying profit divided by dividends.
Δ Interest cover is calculated based on operating profits divided by net financing charges.
$\Delta\Delta$ Cash interest cover is calculated based on EBITDA less lease payments divided by net interest on bank loans paid.
\# Adjusted net assets attributable to shareholders and adjusted net assets per share are calculated by adjusting the group's hotels and golf courses to fair market value based on the valuation conducted by independent property valuers, net of tax.
\## Being EBITDA less tax paid and net interest paid as a percentage of net debt.
pp Denotes percentage points.

Non-Financial Highlights

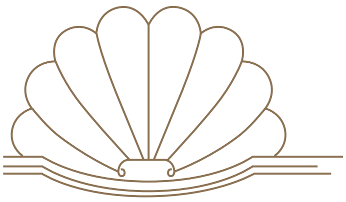
Energy Intensity
1,278 MJ per m²
-3.5% ▼

Carbon Intensity
150 kgCO_2e per m²
-2.7% ▼

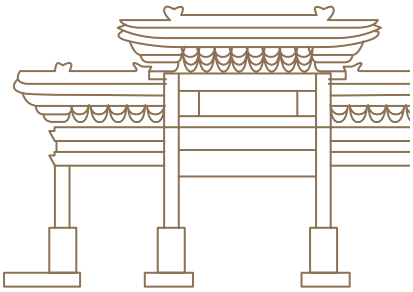


Water Intensity
(Hotels Division)
1,014 litres per guest night
-5.6% ▼

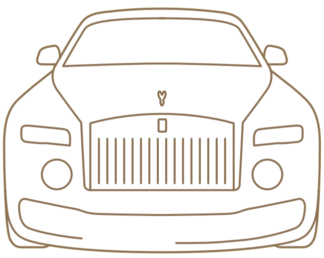
Water Intensity
(Commercial Properties Division)
1,184 litres per m²
+4.7% ▲



Waste Diversion Rate
50.7%
-0.1pp ▼

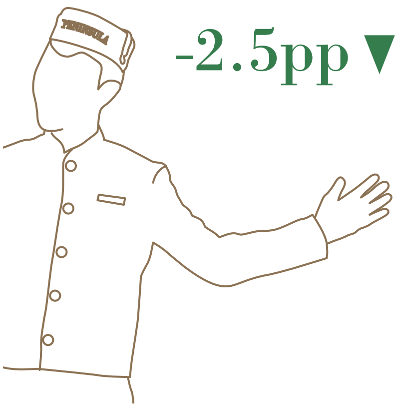


Injury Rate**
3.9 injury cases per 100 employees
Severe cases only: 0.14 injury cases per 100 employees
+11.0% ▲

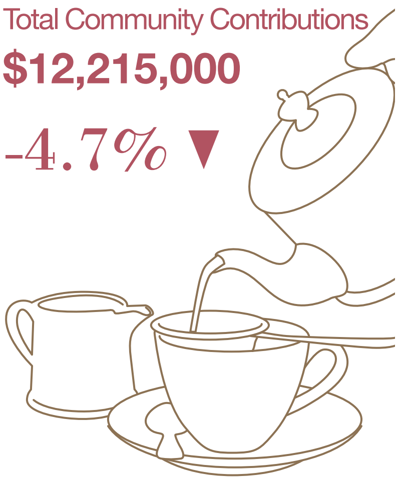


Lost Day Rate
74.4 lost days per 100 employees***
+29.1% ▲

Staff Voluntary Turnover
15.7%
-2.5pp ▼



Total Community Contributions
$12,215,000
-4.7% ▼



* Percentage change refers to year-on-year movement and green denotes improvement. More details can be read in the sustainability data statements on pages 35 to 37 of the online 2019 CRS Report.

** Due to revised methodology in 2019, minor incidents only requiring first aid have been excluded in the scope in line with accepted reporting methodologies. Injury rate increased significantly due to an overall increase of injuries and reporting of these incidents of which over 96% are those that did not require a hospital stay, and thus not considered severe injuries.

*** For easier reference, this means 0.744 lost day per employee in a year; lost day rate significantly increased due to several prolonged injury cases of staff ranging from strains, fractures, bruises and burns that were carried forward from 2018 and several new prolonged cases reported in 2019.

Financial Review Summary

❶ Restatement of Comparative Figures Under the Adoption of HKFRS 16, *Leases*

The group changed its accounting policy in respect of assets leased from third party landlords using the full retrospective approach to conform to the new accounting standard, HKFRS 16, *Leases*, which became effective on 1 January 2019. Accordingly, certain comparative figures have been restated. Further details of the change in accounting policy are disclosed in note 35 to the Financial Statements.

❷ 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, both decreased by 17% to HK$1,390 million and HK$1,510 million respectively. The group's combined EBITDA margin of 24% represented a decrease of three percentage points over 2018.

The breakdown of EBITDA by business segment and by geographical segment is set out on pages 72 and 73 of the Financial Review.

❸ Revenue

The group's consolidated revenue and combined revenue, including the group's effective share of revenue of associates and joint venture, decreased by 5% and 6% to HK$5,874 million and HK$6,378 million respectively.

The hotels division is the main contributor to the group's combined revenue, accounting for 75% (2018: 75%) of the total revenue. The decrease in revenue of the hotels division was mainly due to the decline in revenue reported by The Peninsula Hong Kong resulting from the impact of the social unrest that started in June 2019.

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

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

Details of the operating performances of the group's individual operations are set out on pages 37 to 63 of the Operational Review.

Consolidated Statement of Financial Position at 1.1.2019❶

	HK$m (restated)
Net assets	
Fixed assets	**44,276**
Properties under development for sale	**3,121**
Other long-term investments	**2,256**
Deferred tax assets	**49**
Cash at banks and in hand	**1,178**
Other current assets	**844**
	51,724
Bank overdrafts	**(4)**
Bank borrowings	**(7,091)**
Derivative financial instruments	**(7)**
Deferred tax liabilities	**(658)**
Other liabilities	**(1,741)**
Lease liabilities	**(3,023)**
	39,200
Capital and reserves	
Share capital	**5,509**
Retained profits	**33,534**
Hedging, exchange and other reserves	**(379)**
	38,664
Non-controlling interests	**536**
	39,200

Consolidated Statement of Cash Flows for the year ended 31.12.2019

		HK$m
❷ EBITDA		**1,390**
Changes in other working capital		**(7)**
Tax payment		**(17)**
Capital expenditure on existing assets		**(564)**
Capital expenditure on new projects and investments		**(1,330)**
Cash injected from a non-controlling shareholder		**103**
Distribution from an associate		**3**
Net financing charges and dividends paid		**(227)**
Net increase in bank borrowings		**319**
Net withdrawal of interest-bearing bank deposits with maturity of more than three months		**59**
Lease rental paid		**(145)**
Net cash outflow for the year		**(416)**
Cash at banks and in hand	**1,178**	
Less: Bank deposits maturing more than 3 months	**(76)**	
Less: Bank overdrafts	**(4)**	
Cash & cash equivalents at 1.1.2019		**1,098**
Effect of changes in exchange rates		**(2)**
Cash & cash equivalents at 31.12.2019		**680**
Representing:		
Cash at banks and in hand		**697**
Bank deposits maturing more than 3 months		**(17)**
Bank overdrafts		**–**
		680

Consolidated Statement of profit or loss for the year ended 31.12.2019

	HK$m
❸ Revenue	**5,874**
Operating costs before depreciation and amortisation	**(4,484)**
EBITDA	**1,390**
Depreciation and amortisation	**(589)**
Operating profit	**801**
Net financing charges	**(140)**
Profit after net financing charges	**661**
❹ Share of result of a joint venture	**(17)**
❺ Share of results of associates	**(32)**
❻ Increase in fair value of investment properties	**83**
Taxation	**(192)**
Non-controlling interests	**(9)**
Profit attributable to shareholders	**494**

Consolidated Retained Profits for the year ended 31.12.2019

	HK$m
Retained profits at 1.1.2019 (restated)	**33,534**
Profit attributable to shareholders for the year	**494**
Dividends distributed during the year	**(323)**
Retained profits at 31.12.2019	**33,705**

Consolidated Statement of Financial Position at 31.12.2019

	HK$m
Net assets	
Fixed assets	**45,533**
Properties under development for sale	**3,624**
Other long-term investments	**2,279**
Deferred tax assets	**72**
Cash at banks and in hand	**697**
Other current assets	**856**
	53,061
Bank overdrafts	**–**
Bank borrowings	**(7,524)**
Derivative financial instruments	**(29)**
Deferred tax liabilities	**(737)**
Other liabilities	**(1,893)**
Lease liabilities	**(3,149)**
	39,729
Capital and reserves	
Share capital	**5,732**
Retained profits	**33,705**
Hedging, exchange and other reserves	**(383)**
	39,054
Non-controlling interests	**675**
	39,729

Underlying profit attributable to shareholders for the year ended 31.12.2019

	HK$m
Profit attributable to shareholders	**494**
Non-operating and non-recurring items	**(14)**
❼ Underlying profit	**480**

❹ 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 2019 and generated a profit before non-operating items of HK$11 million. However, PSH's profit was offset by non-operating items which mainly included the unrealised loss on revaluation of the hotel commercial arcade, resulting in a reported loss of HK$35 million of which the Group's share of loss amounted to HK$17 million.

❺ 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 2019 amounted to HK$32 million.

❻ 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$83 million, principally attributable to the increase in the appraised market value of The Repulse Bay Complex which was partly offset by the decrease in appraised market value of the shopping arcades at The Peninsula Beijing and The Peak Tower.

❼ 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 69 of the Financial Review.

Ten Year Operating Statistics

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
a) The Peninsula Hotels (Note 1)										
Hong Kong										
Occupancy rate	**50%**	70%	75%	72%	73%	75%	72%	79%	74%	70%
Average room rate (HK$)	**5,401**	5,845	4,875	4,843	4,760	5,144	5,170	5,133	4,503	4,197
RevPAR (HK$)	**2,706**	4,082	3,659	3,473	3,477	3,870	3,731	4,072	3,347	2,926
Other Asia (excluding Hong Kong) (Note 2)										
Occupancy rate	**72%**	73%	68%	67%	70%	65%	66%	63%	57%	58%
Average room rate (HK$)	**2,851**	2,694	2,661	2,599	2,265	2,146	2,065	2,179	2,156	2,100
RevPAR (HK$)	**2,059**	1,966	1,802	1,753	1,581	1,390	1,361	1,367	1,221	1,214
United States of America and Europe										
Occupancy rate	**72%**	72%	70%	71%	68%	74%	74%	72%	69%	65%
Average room rate (HK$)	**5,892**	5,997	5,861	5,625	5,807	5,471	4,858	4,627	4,550	4,403
RevPAR (HK$)	**4,243**	4,333	4,130	3,993	3,962	4,059	3,573	3,346	3,135	2,856
b) Residential (Notes 1 & 3)										
Occupancy rate	**96%**	95%	94%	91%	93%	85%	89%	92%	91%	92%
Average monthly yield per square foot (HK$)	**48**	46	46	45	45	42	42	41	38	36
c) Shopping Arcades (Notes 1 & 4)										
Occupancy rate	**86%**	87%	89%	93%	95%	97%	99%	99%	97%	96%
Average monthly yield per square foot (HK$)	**165**	169	174	184	202	206	191	179	168	153
d) Offices (Notes 1 & 3)										
Occupancy rate	**98%**	99%	95%	100%	99%	97%	92%	96%	100%	98%
Average monthly yield per square foot (HK$)	**63**	62	55	56	55	52	48	45	45	42
e) Peak Tram										
Patronage ('000)	**3,159**	6,050	6,179	6,259	6,359	6,325	6,272	5,918	5,777	5,385
Average fare (HK$)	**24**	23	20	19	19	19	19	19	19	17
f) Full Time Headcount (as at 31 December)										
Hotels	**6,016**	6,148	6,123	6,121	6,201	6,308	5,878	5,617	5,475	5,444
Commercial Properties	**356**	358	359	360	363	362	347	333	323	331
Clubs and Services	**1,079**	1,088	1,052	993	1,318	1,317	1,325	1,260	1,224	1,180
Total headcount	**7,451**	7,594	7,534	7,474	7,882	7,987	7,550	7,210	7,022	6,955

Notes:

1. Occupancy rates, average room rates, RevPAR and average monthly yield per square foot are weighted averages in each grouping.
2. The saleable inventory in The Peninsula Beijing was reduced from the start of 2015 to Aug 2017 for renovation, impacting Occupancy Rate and RevPAR.
3. 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).
4. 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

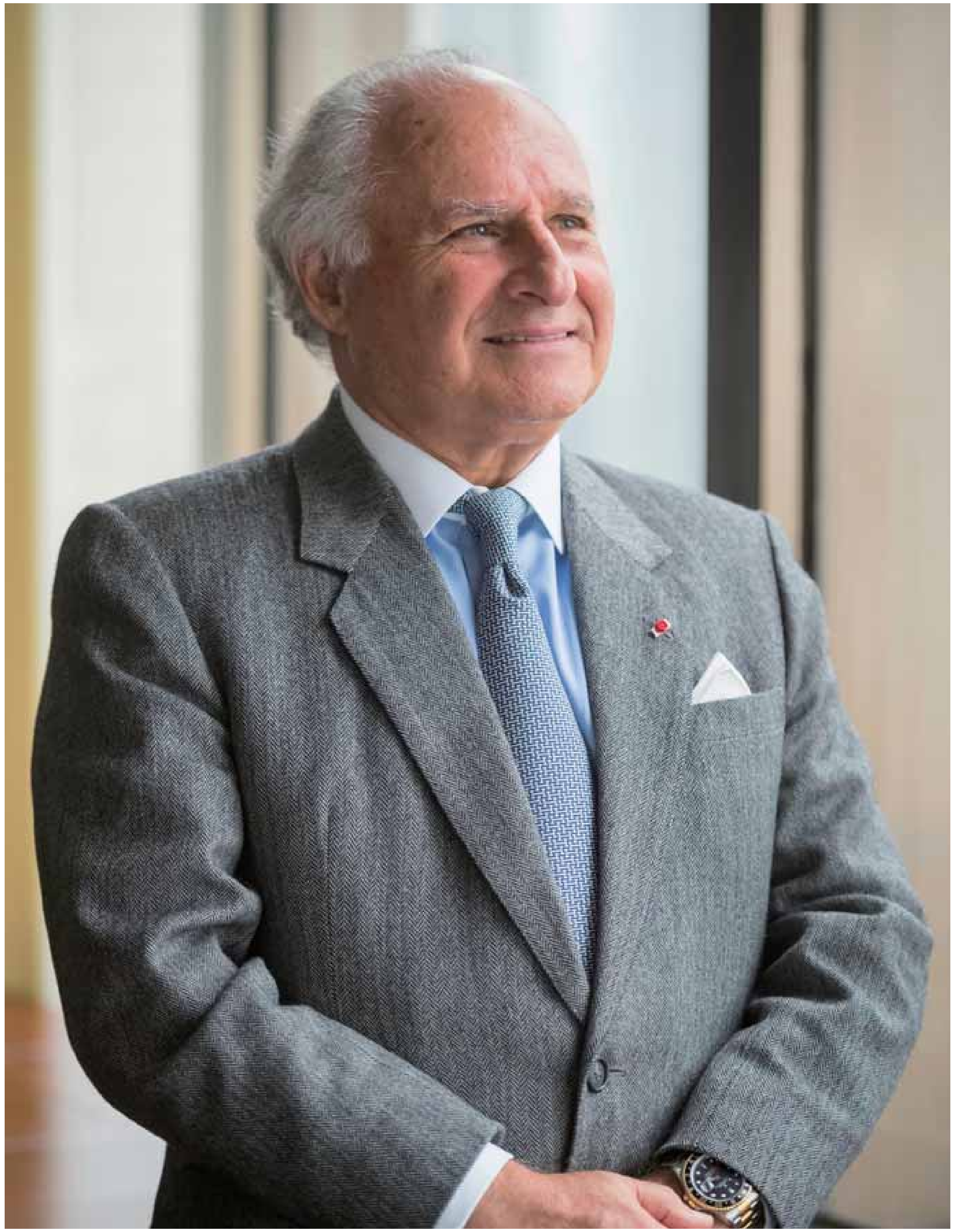
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Consolidated Statement of Profit or Loss (HK$m)										
Revenue	**5,874**	6,214	5,782	5,631	5,741	5,838	5,508	5,178	5,009	4,707
EBITDA	**1,390**	1,680	1,555	1,420	1,572	1,672	1,453	1,369	1,380	1,303
Operating profit	**801**	1,079	988	894	1,061	1,154	958	868	886	845
Profit attributable to shareholders	**494**	1,216	1,128	647	994	1,143	1,706	1,549	2,250	2,997
Earnings per share (HK$)	**0.30**	0.76	0.71	0.42	0.65	0.76	1.14	1.04	1.52	2.03
Underlying profit	**480**	738	774	618	710	977	505	433	455	397
Dividends	**212**	338	318	297	308	349	240	210	208	177
Dividends per share (HK cents)	**13**	21	20	19	20	23	16	14	14	12
Dividend cover (times)	**2.3x**	2.2x	2.4x	2.1x	2.3x	2.8x	2.1x	2.1x	2.2x	2.2x
Interest cover (times)	**20.5x**	20.8x	11.4x	9.3x	15.6x	17.4x	10.2x	10.2x	10.1x	7.9x
Cash interest cover (times)	**10.4x**	12.8x	11.9x	13.8x	21.2x	25.5x	11.5x	16.9x	13.8x	9.9x
Weighted average gross interest rate	**2.2%**	2.3%	2.2%	2.1%	2.2%	2.3%	2.9%	3.2%	3.1%	3.2%
Consolidated Statement of Financial Position (HK$m)										
Total assets	**53,061**	51,724	51,254	48,499	46,934	44,335	43,601	40,367	38,943	37,396
Total liabilities	**(13,332)**	(12,524)	(12,801)	(12,143)	(10,454)	(8,357)	(8,397)	(7,095)	(7,363)	(7,459)
Non-controlling interests	**(675)**	(536)	(527)	(215)	(233)	(250)	(269)	(289)	(283)	(981)
Audited net assets attributable to shareholders	**39,054**	38,664	37,926	36,141	36,247	35,728	34,935	32,983	31,297	28,956
Adjusted net assets attributable to shareholders	**42,808**	42,411	41,476	39,493	39,447	39,323	38,316	36,229	34,545	31,741
Audited net assets per share (HK$)	**23.90**	23.97	23.86	23.06	23.49	23.56	23.26	21.96	21.00	19.57
Adjusted net assets per share (HK$)	**26.20**	26.29	26.10	25.20	25.57	25.93	25.51	24.12	23.18	21.45
Net external borrowings	**(6,827)**	(5,917)	(5,521)	(4,911)	(3,273)	(3,004)	(3,992)	(1,989)	(2,335)	(1,674)
Funds from operations to net external debt	**18%**	23%	23%	25%	39%	49%	32%	56%	49%	62%
Net external debt to equity attributable to shareholders	**17%**	15%	15%	14%	9%	8%	11%	6%	7%	6%
Net external debt to total assets	**13%**	11%	11%	10%	7%	7%	9%	5%	6%	4%
Consolidated Statement of Cash Flows (HK$m)										
Net cash generated from operating activities before taxation	**1,017**	1,564	1,502	1,444	1,576	1,733	1,548	1,301	1,314	1,333
Capital expenditure on existing assets	**(564)**	(426)	(601)	(1,000)	(476)	(370)	(928)	(875)	(312)	(276)
New projects and investments	**(1,330)**	(1,208)	(1,097)	(1,580)	(916)	(39)	(2,293)	–	(578)	–
Share Information (HK$)										
Highest share price	**12.08**	13.48	17.12	9.49	12.20	12.60	14.20	11.92	14.74	14.90
Lowest share price	**7.35**	10.00	8.27	7.15	8.00	10.08	10.38	8.63	8.10	10.32
Year end closing share price	**8.35**	11.10	11.60	8.60	8.64	11.50	10.52	10.82	8.61	13.32

The bases of calculation of the following items are disclosed in the Financial Highlights on page 16

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 external debt

The group changed its accounting policy in respect of assets leased from third parties using the full retrospective approach to conform to the new accounting standard, HKFRS 16, *Leases*, which became effective on 1 January 2019. Accordingly, certain comparative figures for 2010-2018 have been restated. Further details of the change in accounting policy are disclosed in note 35 to the Financial Statements.

Letter from the Chairman



The Hon. Sir Michael Kadoorie
Chairman

"Our young people are Hong Kong's future and I firmly believe they comprise the world's most creative and innovative talent."

Dear Shareholders,

We believe The Hongkong and Shanghai Hotels, Limited is the world's oldest hotel group in continuous operation, having been established in 1866. With an enduring legacy of more than a century and a half, our company has experienced many highs and lows. Over this very long period, we have managed to overcome adversity with grace and courage, to emerge stronger and more resilient.

In 2019, the year in review, our home market of Hong Kong experienced one of the most turbulent periods in its recent history. There were shocking scenes of conflict and social unrest on our streets. I was disheartened to witness the severe divisions forming in our society, some of which I fear may take generations to recover. At the time of writing in early 2020, an outbreak of COVID-19 coronavirus has had a devastating impact on the world. We sympathise with the families of those affected by this disease and our thoughts are with those who have lost their loved ones.

However, my faith in our home and in the long-term prospects for China remains undiminished. As I wrote in a Letter to the People of Hong Kong in September 2019, "Our city's spirit that we have long valued is our ability to find solutions with mutual respect, understanding and open dialogue." Our young people are Hong Kong's future and I firmly believe they comprise the world's most creative and innovative talent.

Business and government leaders alike have a responsibility to communicate with and engage our young people, give them hope, and to ensure they have opportunities for a brighter future. My son Philip and I participate in open-dialogue sessions with our staff from different backgrounds and professions, with the purpose of seeking their insights and candid views on the future. Our CEO Clement Kwok also regularly holds interactive dialogue sessions with colleagues, including the younger generation, to discuss a wide range of issues. As an immediate priority, we are also exploring a variety of initiatives in collaboration with other industry players to try to bring visitors back to Hong Kong at the appropriate time.

The negative impact of the events of the past year on Hong Kong's economy has been substantial, particularly for the tourism sector. Our company's financial results for 2019 were adversely affected by the social unrest and we believe 2020 will be extremely challenging due to the effects of the coronavirus. More details in the Operational Review and Financial Statements can be read on pages 37 and 173 respectively.

Over its long history, our group has been steadfast in delivering value to our people, our guests and to the cities and communities in which we operate around the world. I believe this is due to the continuity of management and the passion of our employees, our uncompromising standards of integrity, our commitment to the highest quality, and our firm belief in the importance of building a long-term sustainable legacy.

Around the world, environmental, social and governance criteria will play an increasingly critical role in the allocation of financial capital and investment decisions. We believe companies should deliver a sense of purpose and help to address social issues of importance to all of their stakeholders, not only their shareholders. We have outlined our social and environmental performance and the impact of our businesses in our Corporate Responsibility and Sustainability Report online.

In the diverse markets in which we operate, in addition to the global shock of the coronavirus, we are also facing geopolitical uncertainty, cybersecurity threats and climate change concerns. These developments inevitably bring increasing reputational and operational risks to our group, which remain a key concern of the Board. More details about our approach to risk management can be read on pages 140 to 147 of the Group Risk Committee Report.

Letter from the Chairman

A legal dispute is ongoing in Thailand with our Thai partner, the Phataraprasit shareholders, who own 50% of The Peninsula Bangkok and the Thai Country Club. The partners have been taking legal and other actions with the objective of terminating Peninsula's management of The Peninsula Bangkok. HSH is vigorously defending our rights, which are based on legal agreements entered into more than 20 years ago, and we continue to try to work towards a mutually acceptable solution.

Looking to the future, we continue to create shareholder value by investing in new hotel projects and improving our existing assets. The Peak Tram is making good progress with its HK$684 million upgrade project and the new tram and lower terminus will be formally launched in 2021. We are making significant progress with the development and construction of our Peninsula hotel projects in London, Istanbul and Yangon. We held a topping-out ceremony for The Peninsula London in June 2019 and this project is on track to becoming one of the most remarkable hotels in London when it opens in 2021. More details on these projects can be read on page 64.

During the year, our Board held an offsite meeting as part of its continued strategic review, in order to help us meet the ongoing challenges and safeguard our future. We will continue to seek opportunities to grow by leveraging our brand and through continued innovation. We are enhancing and investing in key strategic initiatives including corporate responsibility and sustainability, technology transformation, a workplace modernisation programme titled "WorkPlace 2025" and exploring ways to diversify and expand our business streams. We recognise innovation and agility start with corporate culture and we are putting an increased emphasis on talent development, with a mission to ignite potential and empower our people.

The achievements of 2019, despite a difficult business environment, reflect the passion and hard work of our people. 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. I would also like to express my gratitude to the wisdom and guidance offered by my fellow Directors.

We should always remember that the future is built on the past, and we have a great legacy which provides the foundation for our success, despite the challenges we face. I would like to sincerely thank each and every one of our shareholders for your support and contribution to this legacy.

The Hon. Sir Michael Kadoorie
17 March 2020

CEO's Strategic Review

Clement K.M. Kwok
Chief Executive Officer

1. Introduction

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

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

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

2. Our heritage, vision and development strategy

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

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

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

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

CEO's Strategic Review

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

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

3. Business overview

Our group currently owns and operates ten Peninsula hotels which are located in the key gateway cities of Hong Kong, Shanghai, Beijing, Tokyo, New York, Chicago, Los Angeles, Paris, Bangkok and Manila. Throughout the years we have maintained a significant investment programme to enhance the physical condition and quality of these properties, most recently by completing major renovations at The Peninsula Hong Kong in 2014, The Peninsula Chicago in 2016 and The Peninsula Beijing in 2017. We are in the midst of an ambitious expansion programme, with investment in three new Peninsula hotel development projects in London, Istanbul and Yangon.

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

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

With the objective of diversifying our revenue sources and increasing brand recognition in markets where we do not operate a Peninsula hotel, we established Peninsula Merchandising Limited which is included in our clubs and services division. This subsidiary develops and distributes Peninsula-branded merchandise including the famous Peninsula Mooncakes, as well as artisanal chocolates and high-quality tea. We operate Peninsula Boutiques in key gateway cities in China, Asia and the US, including boutiques at Hong Kong International Airport and several Peninsula hotels. A selection of merchandise is also available for purchase online and delivery in Hong Kong, Japan, Taiwan, Shenzhen and Guangzhou.

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

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

More details about the business performance of each operation and project can be read in the Operational Review on pages 37 to 66.

4. Financial results and financial planning

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

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

We are currently investing for the future and our focus for the next few years will be on the successful delivery of our new Peninsula hotel developments in London, Istanbul and Yangon as well as the Peak Tram upgrade project. With the substantial capital commitments that these projects entail, amounting to some HK$7 billion over the next two years, we continue to carefully monitor our company's financial position. We have a strong treasury management strategy and a proactive approach is taken to forecasting future funding requirements. We maintain sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to ensure funds are available to finance our growth and development. Our net external debt to total assets ratio is currently 13%, which we believe to be comfortable taking into account the expected financial obligations of our new developments.

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

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

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

CEO's Strategic Review

5. Driving business

We believe the fundamentals of luxury hospitality do not change over time. Our strategy is to attract and engage our guests and we aim to generate a high percentage of repeat business. We offer a high level of personalised service, attention to detail and warm hospitality. In 2019, this was demonstrated by our achievement of receiving the highly coveted Forbes 5-star rating for all ten of The Peninsula Hotels in operation, becoming the first and only hotel company in the world to obtain this accolade for all its hotels. We receive significant recognition and accolades for our services from other prestigious publications and organisations (see Awards, page 104).

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

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

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

We operate our own in-house research and development facility which designs bespoke in-room technology for our guestrooms. In 2016 we set up a Technology Steering Committee with a wide brief including exploring and developing the "hotel room of the future", looking at robotics and data analytics, and fostering entrepreneurship and innovation. Projects under development in 2019 and 2020 include back-of-house automation, food waste management solutions, air purification systems and behavioural analysis for enhanced personalisation, as well as data analytics and digital marketing capabilities.

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

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

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

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

6. Managing risk

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

In 2019 there were some changes in the identified principal risks, including increased risk of our business portfolio concentration and increased reputational and financial risk due to the volatile nature of the social unrest in Hong Kong. The global trend of tightening privacy laws such as the EU's GDPR and the California Consumer Privacy Act has increased the challenge of compliance. The increasing rise in cybercrimes has also exposed us to higher risks of data security breaches. Pages 140 to 147 of our GRC Report has further details on how we manage against our principal risks.

CEO's Strategic Review

7. Investing in our people

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

To motivate and engage our team we place a significant focus on training, career development, genuine caring for our staff, empowerment and providing a proud, confident and happy working environment. The travel and tourism sector often experiences a high turnover of staff, however, we are pleased to report a relatively low voluntary staff turnover rate compared with the industry.

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

Our Corporate Management Trainee programme attracts hundreds of applicants and after a stringent hiring process, we select the best talent to participate in the programme to become our future leaders. We are committed to employing a diverse workforce and we hire people from ethnic minorities in Hong Kong through our Ethnic Minority programme (more details are available in our CRS report online).

During 2019 we continued to develop a new global employer branding campaign to assist with our recruitment efforts for the three new projects as well as each operation, targeted to their own hiring needs. We have also developed an employee experience survey and a new "onboarding" and "offboarding" process to allow us to gain insights on how we can continue to enhance our employees' working experience.

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

8. A vision for sustainable luxury

We are committed to sustainability in an environmental as well as a business context. We believe that our long-term success is linked to the success of the cities and the communities in which we live and work. We have created awareness and buy-in towards sustainability throughout our company, and we hope that it becomes a topic that matters personally to our employees and is integral to how we conduct all our businesses and operations. We also approach sustainability in a way that makes business sense where possible. We calculate paybacks and returns on investments in environmental initiatives, and we look at what overall value our sustainability initiatives could contribute.

We have the opportunity to offer our guests sustainable choices without compromising on the high quality of our products and services. Our sustainability strategy, originally developed as Sustainable Luxury Vision 2020 (Vision 2020), has been revamped our approach to focus on the three key stakeholders central to the success of our business: *Our Guests, Our People and Our Cities*.

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

More details can be read in the Corporate Responsibility and Sustainability Report which is available online and in the GCRC report on page 148.

CEO's Strategic Review

9. Outlook

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

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

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

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

On the property side, we were encouraged by a pleasing number of rental renewals at our arcades at The Peninsula in Hong Kong, Shanghai and Beijing in 2019, although the short-to-medium term impact of the coronavirus may have a negative effect on our tenants and we are working with them to find solutions. We are currently experiencing stable demand for our luxury residential lettings in Hong Kong. The Peak Tram business will continue to be negatively impacted in 2020 during its improvement and upgrade programme that was previously announced to shareholders. In the long term we believe it will significantly improve the visitor experience and enhance Hong Kong's tourism image.

Overall, our company remains in a stable financial position. We are proactive in managing the group's liquidity. In the first three months of 2020, we have further obtained committed facilities to ensure the group's capital commitments are fully funded and have sufficient liquidity to support us through this period of business downturn.

We have a highly motivated and dedicated team of management and loyal staff who are committed to our long-term vision. I am proud that our company consistently lives up to its unique brand proposition. I would like to thank each member of my team who contributes to our company's success year after year.

Clement Kwok
17 March 2020

Operational Review

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

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

Business Performance

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

Hotels Division

Hotels	**Revenue**	Variance	
	HK$m	In HK$	In Local Currency
Consolidated hotels			
The Peninsula Hong Kong	**1,104**	–18%	–18%
The Peninsula Beijing	**323**	–1%	3%
The Peninsula New York	**716**	–1%	–1%
The Peninsula Chicago	**639**	2%	2%
The Peninsula Tokyo	**876**	1%	0%
The Peninsula Bangkok	**293**	0%	–4%
The Peninsula Manila	**235**	–1%	–3%
Non-consolidated hotels			
The Peninsula Shanghai	**539**	–10%	–6%
The Peninsula Beverly Hills	**593**	–3%	–3%
The Peninsula Paris	**578**	–1%	4%

Operational Review

The Peninsula Hong Kong

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

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

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

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

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

Operational Review

The Peninsula Shanghai

Revenue RMB476m
–6%

Occupancy
+1pp

Average Room Rate
–6%

RevPAR
–6%

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

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

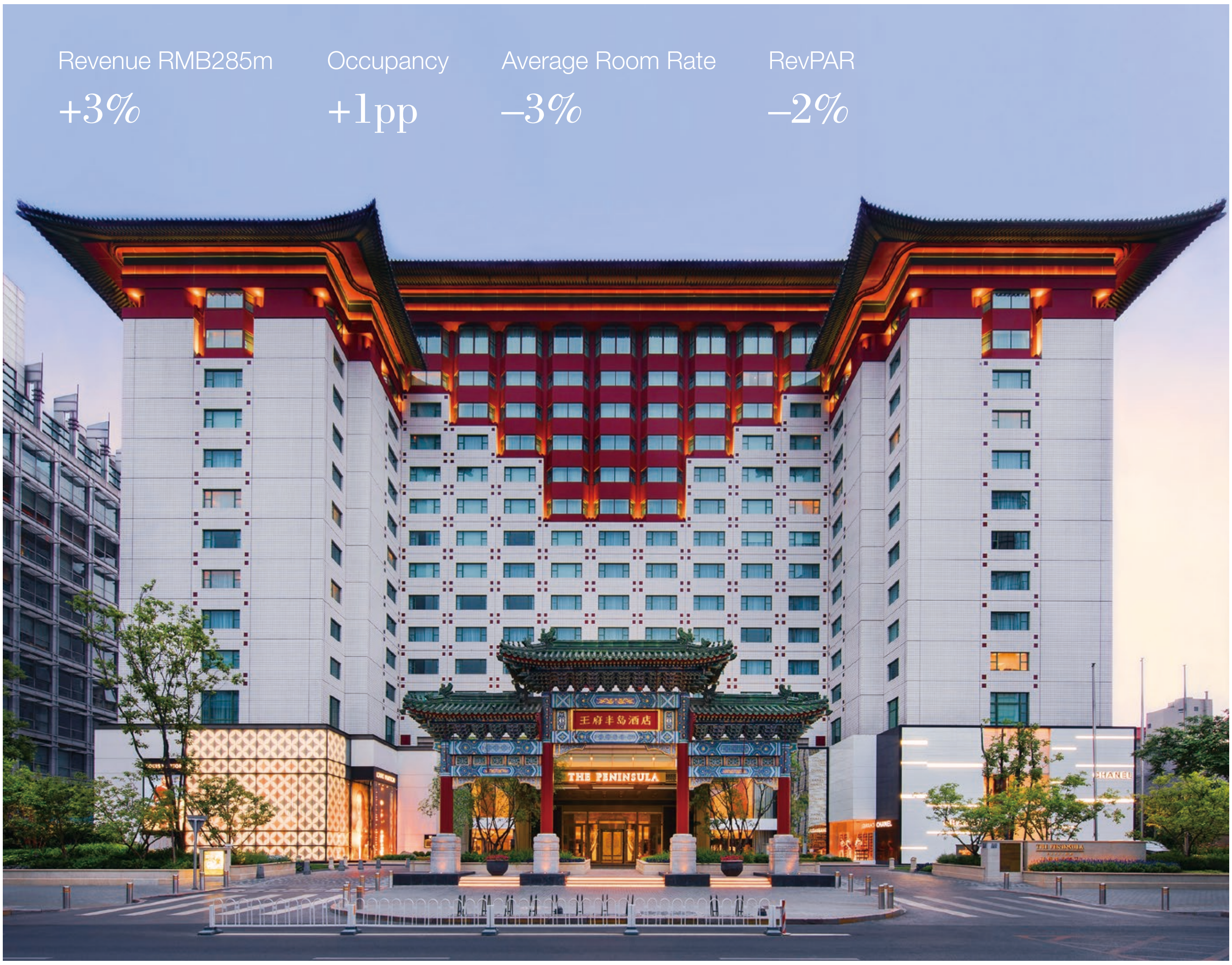
The domestic Chinese mainland market continued to be our largest revenue driver and we enhanced our marketing activities on local platforms. We also recorded increasing arrivals from the Russia and Middle East markets. The US-China trade war negatively impacted corporate travel and groups business from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

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

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

Operational Review

The Peninsula Beijing



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

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

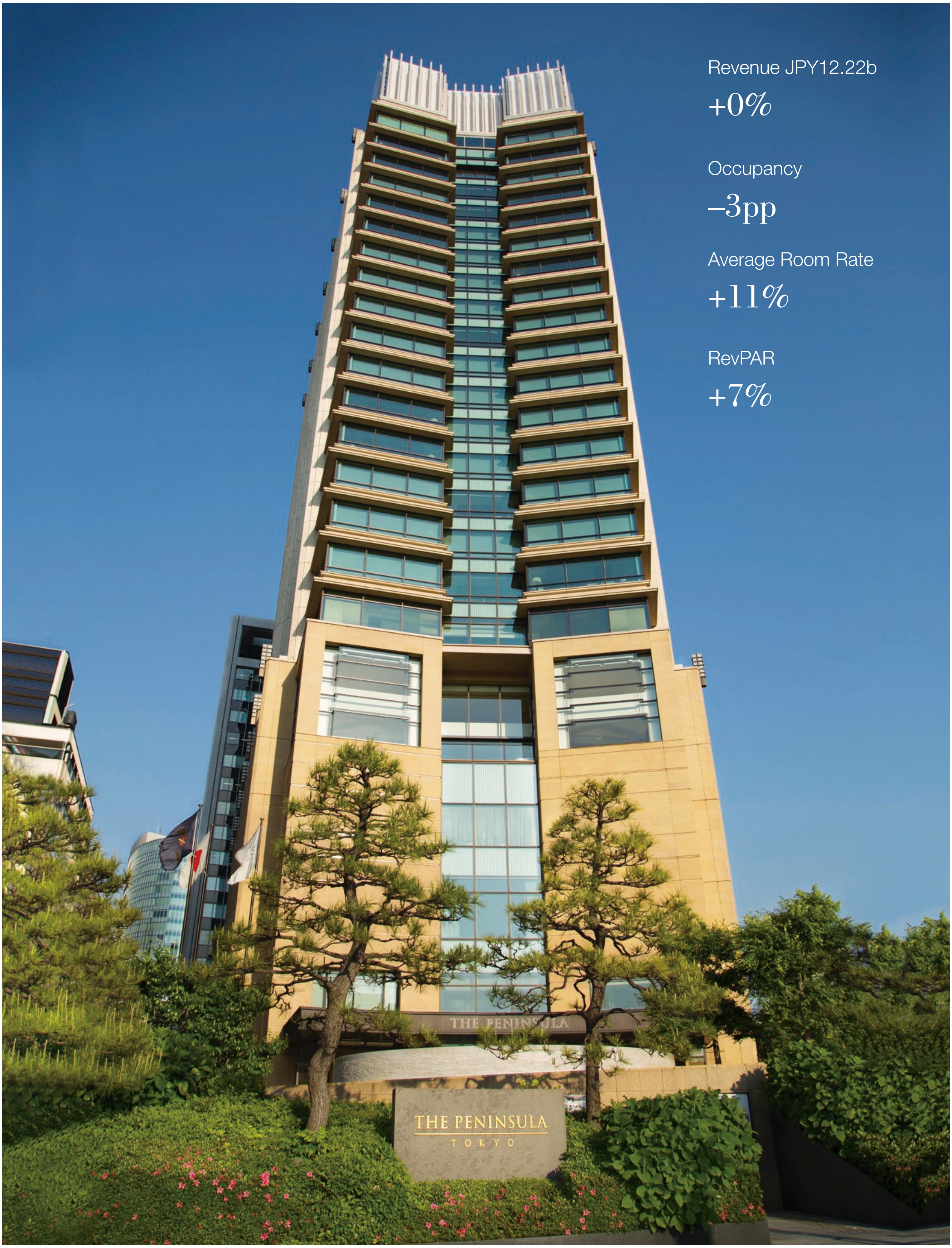
The Chinese mainland domestic market was the main driver of revenue; however the ongoing US-China trade war negatively impacted business from the United States. We are implementing a strategy to focus on diplomatic and group bookings for the coming year and are proud to have welcomed several heads of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

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

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

Operational Review

The Peninsula Tokyo



Revenue JPY12.22b
+0%

Occupancy
–3pp

Average Room Rate
+11%

RevPAR
+7%

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

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

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

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

Operational Review

The Peninsula Bangkok

Revenue THB1,154m
–4%

Occupancy
–5pp

Average Room Rate
+10%

RevPAR
+2%

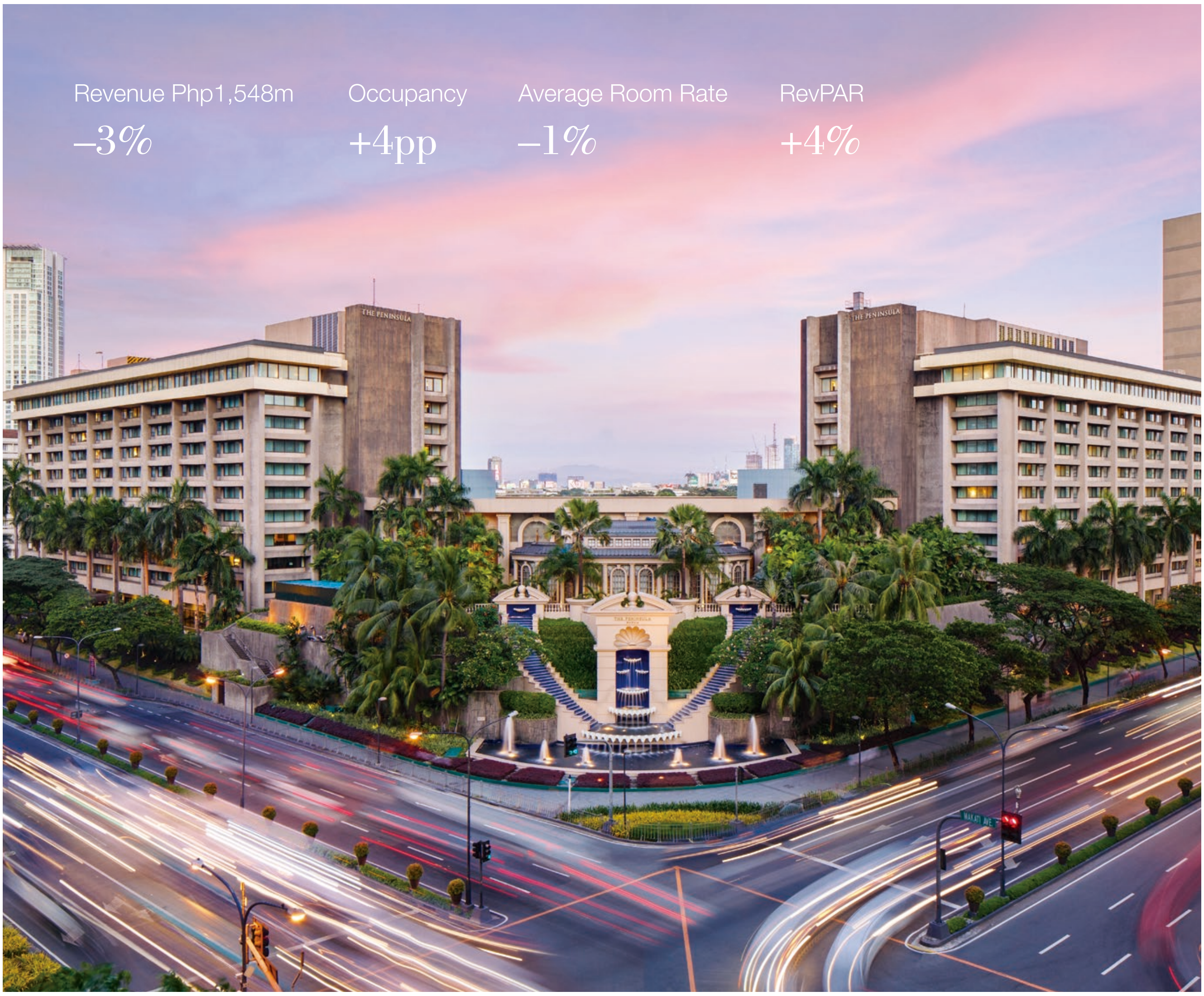
The Peninsula Bangkok experienced mixed results in 2019, impacted by a slower economy and uncertainty over the country's first elections since 2014. Our hotel was also negatively affected by extensive roadworks adjacent to our property which impacted our food and beverage and catering business, although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

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

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

Operational Review

The Peninsula Manila



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

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

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

Operational Review

The Peninsula New York

Revenue US$92m
–1%

Occupancy
–3pp

Average Room Rate
+2%

RevPAR
–1%

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

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

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

The Peninsula New York continued to work closely with the local community and supported The New York Center for Children, our local charity partner which helps vulnerable children to achieve their full potential. Amongst other accolades, we were delighted to achieve the 2019 Positive Luxury Award for "Excellence in Sustainability".

Operational Review

The Peninsula Chicago

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

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

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

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

Operational Review

The Peninsula Beverly Hills

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

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

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

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

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

Operational Review

The Peninsula Paris

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

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

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

Operational Review

Commercial Properties Division

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

Our largest residential property, **The Repulse Bay Complex**, reported a positive year in 2019 with revenue increasing by 4% over the previous year despite a very challenging market in Hong Kong. We believe The Repulse Bay, with its beautiful ocean views and convenient access to the city, is one of the finest luxury residential properties in the area, and we have seen satisfactory rental renewals despite the soft market across the city.

Food and beverage revenue increased in the first half due to a number of promotions and initiatives to drive F&B business, including revamping our afternoon tea offering and promoting Spices as a venue for corporate events. *The Verandah* continues to attract excellent wedding business given the spectacular location and views of Repulse Bay. *Breeze*, our new outdoor venue which opened in 2018, has been popular with residents and visitors. We launched our first-ever public art exhibition to coincide with Art Basel, titled *Art @the Bay*: *Time and Transformation* featuring two sculptures and seven installations by Hong Kong artist Matthew Tsang.

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

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

Operational Review

St John's Building, located at the lower terminus of the Peak Tram, offers an excellent location for office space. The property was fully let in 2019.

The Landmark, a 16-storey residential and office property, is located on a prime riverfront site in the central business district of Ho Chi Minh City, Vietnam. The complex has 65 serviced apartments, a fully equipped Health Club, and 100,000 square feet of first-class office space for leasing. Revenue increased by 4% year-on-year despite intense competition in the city. The Landmark maintains its popularity and leadership in a competitive market and continues to attract awards for its management and facilities.

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

Clubs and Services Division

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

The Peak Tram is one of Hong Kong's most popular tourist attractions with a long history of more than 130 years in operation. From April to July 2019 we temporarily suspended the service of the Peak Tram to enable us to carry out construction work as part of the previously announced upgrade project, which was approved by the Hong Kong Government in 2018. The upgrade project will result in covered, temperature-controlled queueing and waiting areas with entertainment features for up to 1,300 passengers. The new tramcars will be able to carry 210 passengers instead of 120 at present and visitors' waiting time will be significantly reduced. The full cost of the HK$684 million upgrade project, which is scheduled to be completed in 2021, is being fully funded by HSH.

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

Operational Review

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

Quail Lodge & Golf Club had a strong year with revenue increasing by 4%. This was due to a successful marketing strategy to drive last-minute bookings, online travel agency (OTA) promotions, as well as improved golf membership sales and golf rounds. *The Quail Motorcycle Gathering*, a Peninsula Signature event, continues to grow in popularity with more than 2,000 visitors in May. This event complements the successful *The Quail: A Motorsports Gathering* event, which occurs in August and has become one of the world's leading concours events for classic car aficionados. In 2019 we welcomed more than 5,000 visitors to the event, bringing the Peninsula brand to the attention of leading car enthusiasts.

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

Peninsula Clubs & Consultancy Services manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and The Refinery (formerly Butterfield's). The Bankers Club will move from its current location in the Landmark, Central to Nexxus Building on Connaught Road, Central in October 2020.

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

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

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 or an additional cash consideration of £107.5 million. Grosvenor will remain as the landlord under the 150-year lease.

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

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

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

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

The Peninsula Istanbul

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

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

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

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

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

Operational Review

The Peninsula Yangon

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

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

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

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

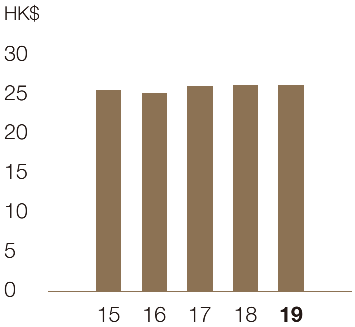
Financial Review

Adjusted NAV

HK$42,808m

+1%

Adjusted NAV per Share



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

Financial Review

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

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

The group's adjusted net 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 2019, the details of which are set out on page 76. If these assets were to be stated at fair value, the group's net assets attributable to shareholders would increase by 10% to HK$42,808 million as indicated in the table below.

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

* The group changed its accounting policy in respect of assets leased from third parties using the full retrospective approach to conform to the new accounting standard, HKFRS 16, *Leases*, which became effective on 1 January 2019. Accordingly, certain comparative figures have been restated. Further details of the change in accounting policy are disclosed in note 35 to the financial statements.

The group's underlying profit

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

The group's underlying profit for the year ended 31 December 2019 amounted to HK$480 million compared to HK$738 million last year. It is worth noting that last year's profit figure was inclusive of the group's share of gain of HK$25 million on apartments sold by The Peninsula Shanghai Waitan Hotel Company Limited (PSW). Excluding this gain, the group's adjusted underlying profit for the year represents a decrease of 33% compared to last year. Further details of the trading results by divisions and the performances of individual operations for the year ended 31 December 2019 are set out on pages 70 to 74 of this Financial Review and pages 37 to 63 of the Operational Review.

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

* The group changed its accounting policy in respect of assets leased from third parties using the full retrospective approach to conform to the new accounting standard, HKFRS 16, *Leases*, which became effective on 1 January 2019. Accordingly, certain comparative figures have been restated. Further details of the change in accounting policy are disclosed in note 35 to the financial statements.

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

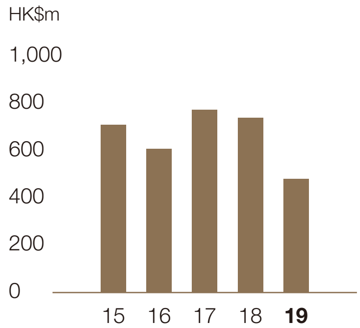
Δ In 2017, PSW reclassified its apartments as inventory held for sale from investment properties, which were stated at fair value. The group's underlying profit is calculated by excluding the post-tax effect of unrealised property revaluation movements, including those relating to the apartments held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

Underlying profit

HK$480m

-35%

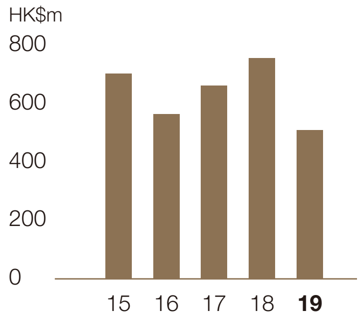
Underlying Profit



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

HK$480m

-33%



Financial Review

Statement of profit or loss

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

The group's consolidated statement of profit or loss for the year ended 31 December 2019 is set out on page 173. 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 70 to 74 of this Financial Review.

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

* The group changed its accounting policy in respect of assets leased from third parties using the full retrospective approach to conform to the new accounting standard, HKFRS 16, *Leases*, which became effective on 1 January 2019. Accordingly, certain comparative figures have been restated. Further details of the change in accounting policy are disclosed in note 35 to the financial statements.

Revenue

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

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

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

Revenue by business segment

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

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

Revenue by geographical segment

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

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

The hotels division is the main contributor to the group's combined revenue, accounting for 75% (2018: 75%) of the total revenue. The decrease in revenue of the hotels division was mainly due to the decline in revenue reported by The Peninsula Hong Kong resulting from the impact of the social unrest that started in June 2019.

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

Consolidated Revenue

HK$5,874m

-5%

Hotels

HK$4,288m

-5%

Commercial Properties

HK$946m

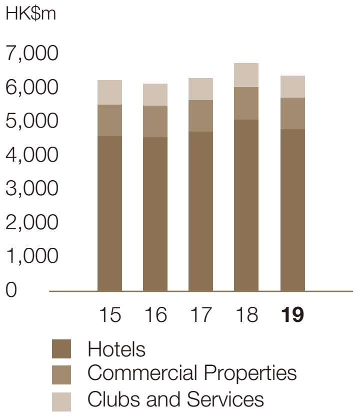
-3%

Clubs and Services

HK$640m

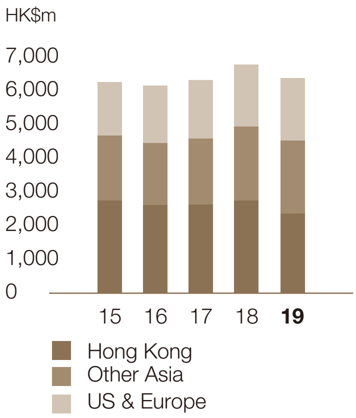
-10%

Combined Revenue*
by Business Segment



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

Combined Revenue*
by Geographical Segment



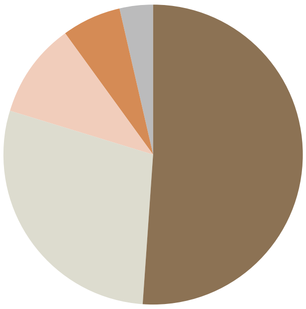
* Including the group's effective share of revenue of associates and joint venture

Financial Review

Operating Costs

HK$4,484m

-1%



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

Details of the operating performances of the group's individual operations are set out on pages 37 to 63 of the Operational Review.

Operating costs

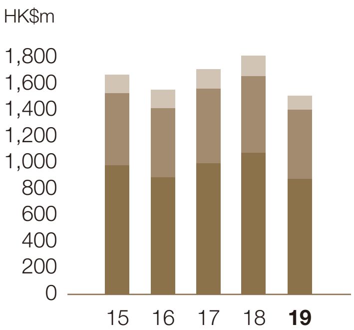
Despite the general inflation of wages and other costs, and the increase in project-related spending for the three Peninsula hotels under development, with various cost saving initiatives the group managed to reduce its operating costs by 1% to HK$4,484 million (2018: HK$4,534 million) in 2019.

Given the nature of operating high-end luxury hotels, staff costs continued to be the largest portion of our operating costs. Staff costs and related expenses for the year remained flat at HK$2,294 million (2018: HK$2,291 million), representing 51% (2018: 51%) of the group's operating costs and 39% (2018: 37%) of the group's consolidated revenue.

EBITDA and EBITDA Margin

EBITDA (earnings before interest, taxation, depreciation and amortisation), including the group's effective share of EBITDA of joint venture and associates, decreased by 17% to HK$1,510 million. The table below and on the following page sets out the breakdown of the group's EBITDA by business segment and by geographical segment.

Combined EBITDA by Business Segment



EBITDA by business segment

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

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

EBITDA by geographical segment

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

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

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

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

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

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Increase in fair value of investment properties

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

Share of result of a joint venture

The group, through its joint venture The Peninsula Shanghai Waitan Hotel Company Limited (PSW), owns a 50% interest in The Peninsula Shanghai Complex which comprises The Peninsula Shanghai hotel and shopping arcade and the adjoining Peninsula Residences apartment tower. The Peninsula Shanghai is the market leader in terms of average room rate in its competitor set. PSW also earns leasing income from the residential apartments as well as sales proceeds when the apartments are sold, however, there were no apartment sales during the year. In 2018, one apartment was sold for HK$119 million, realising a gain on disposal of HK$50 million and the group's share of the gain amounted to HK$25 million. At the end of 2019, PSW owned 10 remaining apartments which are held for sale.

Inclusive of hotel and arcade operations, and residential leasing and sales, PSW generated an EBITDA of HK$169 million (2018: HK$199 million). However, after accounting for depreciation, interest and the unrealised loss on revaluation of the hotel shopping arcade and other non-operating items, PSW sustained an accounting loss amounting to HK$35 million (2018: HK$47 million) and the group's share of loss amounted to HK$17 million (2018: share of loss of HK$23 million).

It is worth noting that any unrealised accumulated appreciation in fair value of the apartments will become realised gains upon disposal. Accordingly, adjustments should be made to reflect the actual underlying profit realised by the group when the apartments are sold. Further details of the adjustments are set out on page 69 of this Financial Review.

Details of the operating performance of The Peninsula Shanghai are set out in the Operational Review section on pages 40 and 41.

Share of results of associates

The group has a 20% interest in each of The Peninsula Paris and The Peninsula Beverly Hills. The group's share of net loss of these two hotels for 2019 amounted to HK$32 million (2018: loss of HK$29 million).

Details of the operating performances of The Peninsula Beverly Hills and The Peninsula Paris are set out in the Operational Review section on pages 54 to 57.

Statement of financial position

The group's financial position as at 31 December 2019 remained strong and net assets attributable to shareholders amounted to HK$39,054 million, representing a per share value of HK$23.90. The consolidated statement of financial position of the group as at 31 December 2019 is presented on page 175 and the key components of the group's assets and liabilities are set out in the following table.

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

* The group changed its accounting policy in respect of assets leased from third parties using the full retrospective approach to conform to the new accounting standard, HKFRS 16, *Leases*, which became effective on 1 January 2019. Accordingly, certain comparative figures have been restated. Further details of the change in accounting policy are disclosed in note 35 to the financial statements.

Summary of hotel, commercial and other properties

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

The group's hotel properties and investment properties are dealt with under different accounting policies as required by the relevant accounting standards. The hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties (including shopping arcades and offices within the hotels) are stated at fair value as appraised by independent valuers. In order to provide users of the financial statements with additional information on the fair value of the group's properties, independent valuers have been engaged to conduct a valuation of the hotel properties and golf courses as at 31 December 2019.

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

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

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

** Including the shopping arcades and offices within the hotels

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

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

\# These properties are held by associates/joint ventures

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

Properties under development for sale

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

As at 31 December 2019, the balance of properties under development for sale amounted to HK$3,624 million (2018: HK$3,121 million) and such amount will be recovered or recognised as cost of inventories after more than one year.

Other long-term assets

The other long-term assets as at 31 December 2019 of HK$2,351 million (2018: HK$2,305 million) comprise the group's 50% interest in The Peninsula Shanghai, the group's 20% interest and the value of its operating right in The Peninsula Paris and the group's 50% interest in The Peninsula Istanbul which is under development.

Cash at banks and in hand and interest-bearing borrowings

As at 31 December 2019, the group's cash at banks and in hand and interest-bearing borrowings amounted to HK$697 million (2018: HK$1,178 million) and HK$7,524 million (2018: HK$7,095 million) respectively, resulting in a net borrowings of HK$6,827 million (2018: HK$5,917 million). The increase in net borrowings was mainly due to the capital expenditure incurred on ongoing projects under development. A breakdown of the group's capital expenditure for the year ended 31 December 2019 is set out on page 78.

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Cash flows

The consolidated statement of cash flows of the group for the year ended 31 December 2019 is set out on page 177. The following table summarises the key cash movements for the year ended 31 December 2019.

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

* The group changed its accounting policy in respect of assets leased from third parties using the full retrospective approach to conform to the new accounting standard, HKFRS 16, *Leases*, which became effective on 1 January 2019. Accordingly, certain comparative figures have been restated. Further details of the change in accounting policy are disclosed in note 36 to the financial statements.

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

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

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

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

Capital commitments

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

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

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

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

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

Non-adjusting event after the balance sheet date

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

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

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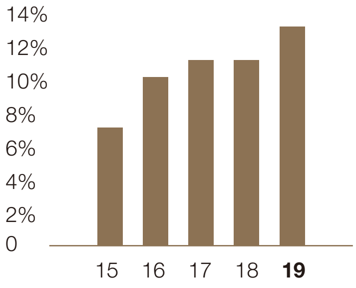
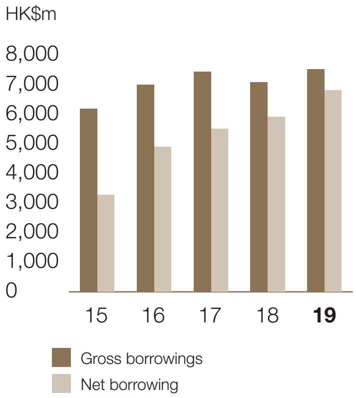
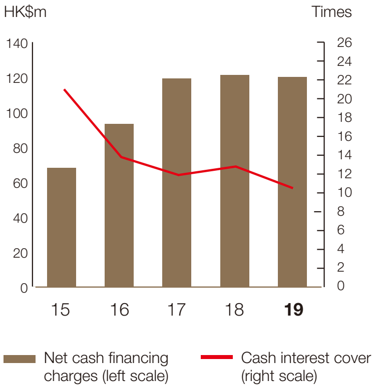
Net Borrowings to Total Assets



Gross and Net Borrowings



Net Cash Financing Charges and Cash Interest Cover



Capital and Treasury Management

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

The group manages treasury activities centrally at its corporate office in Hong Kong. The group also regularly reviews its capital structure and actively monitors current and expected liquidity requirements to ensure its obligations and commitments are met. In 2019 the group has streamlined its bank account structure and began implementation of a global cash pooling structure as the group expands globally. A proactive approach is taken to forecasting future funding requirements and, when funds are needed, market conditions and average debt portfolio duration are evaluated to determine the best form of finance to be secured.

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

Liquidity/Financing

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

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

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

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

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

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

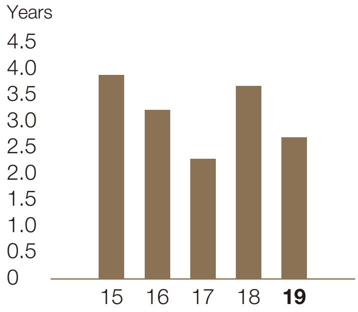
We continue to monitor our overall debt and cashflow positions closely and believe that the best defense against any unforeseen volatility in business levels is to maintain prudent financial ratios.

The consolidated and non-consolidated borrowings as at 31 December 2019 are summarised as follows:

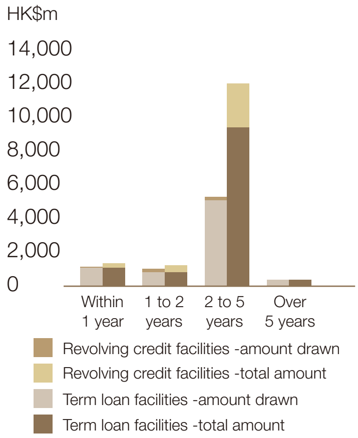
	2019						2018
HK$m	Hong Kong	Other Asia	United States of America	Europe	UK	Total	Total
Consolidated gross borrowings	1,283	2,615	690	523	2,413	7,524	7,095
Non-consolidated gross borrowings attributable to the Group*:							
The Peninsula Shanghai (50%)	-	531	-	-	-	531	608
The Peninsula Beverly Hills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

* Represents HSH's attributable share of borrowings

Weighted Average Debt Maturity



Banking Facilities and Borrowings (by type and maturity)



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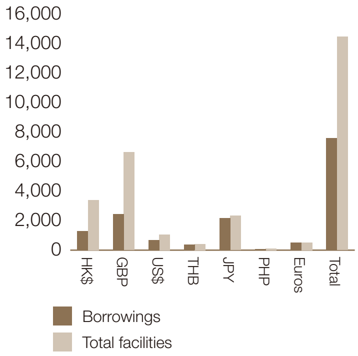
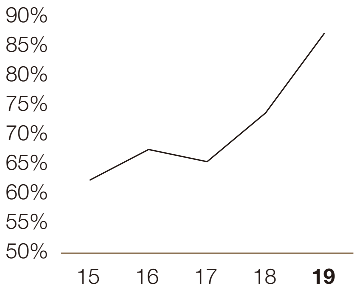
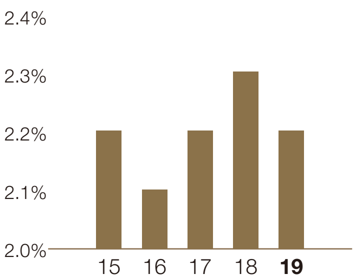
Banking Facilities and Borrowings (by currency)



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



Weighted Average Gross Interest Rate



Foreign Exchange

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

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

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

Interest rate risk

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

As at 31 December 2019, the group's fixed to floating interest rate ratio increased to 86% (2018: 73%). The weighted average gross interest rate for the year decreased slightly from 2.3% to 2.2%.

Credit risk

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

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

As at 31 December 2019, derivatives with notional amount of HK$3,442 million (2018: HK$3,452 million) were transacted with financial institutions with credit ratings of at least investment grade.

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 29 June 2020 of 9 HK cents per share. Together with the 2019 interim dividend of 4 HK cents per share paid on 11 October 2019, the total dividend in respect of 2019 financial year will be 13 HK cents per share.

Share information

At market close on 17 March 2020, the company's share price stood at HK$7.00, giving a market capitalisation of HK$11.4 billion (US$1.5 billion). This reflects a discount of 71% to net assets attributable to shareholders of the company, or a discount of 73% to the adjusted net assets attributable to shareholders (see page 68).

The average closing price during 2019 was HK$10.03, with the highest price of HK$12.08 achieved on 24 April 2019 and the lowest price of HK$7.35 recorded on 10 October 2019.

Creating Stakeholder Value

Our People

Instilling A Warm Culture

Over many generations we have created delightful memories for guests and stayed true to our heritage and for this we thank our dedicated employees.

As we look towards the future and expansion with three new hotels opening in the coming two years, we need to ensure that we remain successful and have a sustainable business model for the years to come. We recognise that we need to keep adapting and evolving to stay relevant and to attract and retain the best people. The Group Management Board continues to develop our "Workplace 2025" modernisation programme, and our key objective with regards to our people is to develop our existing talent and to harness their potential, allowing us to become more agile and nimble as a group.

At our global HR conference held in June 2019, we developed our "People Mission" which is *To ignite potential, passion and empower employees to foster opportunities for a purposeful career in a modernised workplace aligned to the growth of the company*.

To motivate and engage our team we place a significant focus on training, career development, genuine caring for our staff, empowerment and providing a proud, confident and happy working environment. The travel and tourism sector often experiences a high turnover of staff, however, we are pleased to report a relatively low voluntary staff turnover rate compared with the industry.

Our future strategy includes three main pillars:

1. The Future of Our Talent: succession planning for senior executive and management positions, building talent banks and a talent pool for critical and senior positions, and improved performance management

2. The Future of our People and Culture: becoming the employer of choice, implementing a change management programme aimed at modernising our workplace titled WorkPlace 2025, and to improve internal communications

3. Building HR Agility: investing in our HR team's own development with skills, mindset change and training.

HSH continues to welcome a diverse and inclusive culture and 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.

Our People

We are delighted to introduce some of our people from across the group and their thoughts on working with HSH:

Samir Ibrahim, Director of Rooms, The Peninsula New York

"On my first day of work I remember walking into The Lobby and just watching the staff serving some loyal guests that had been coming to New York for years, and noticing the joy, the passion and the excitement that they took in serving and helping these guests. At that moment I said to myself "Wow! I've found something special and I'm about to be a part of it." I truly am a big fan of cultivating the guest experience in providing this bespoke memorable experience. That's really what gets me excited each and every day, to come back to work and to be able to generate that type of smile from the guest that tells you, wow I'm at The Peninsula."

Joseph Chong, Area Vice President, Greater China and Managing Director, The Peninsula Hong Kong

"Every day is a brand-new adventure altogether. The fun part is dealing with people and for the guests to be able to acknowledge the service that they have received, and for our employees who can go home with pride to say, "You know what, today I've made someone very happy in their life" – and that's what matters most in the hotel industry."

Priscilla Nguessan, Receptionist, The Peninsula Paris

"To be honest, the first day was quite overwhelming, but one of my colleagues came to me and told me: "relax, you've got what it takes", and indeed I did, everything went well after that. What's nice about The Peninsula Paris is they will let you spread your wings and if you fall, they will be here to catch you – so you can make mistakes, it's alright."

Shun Wai, Duty Engineer, The Peak Tram

"I have loved cars, trains and amusement rides since I was a child and so I looked for jobs in this field when I grew up. I've been working for The Peak Tram for three years. I started as Technician and later was promoted to the current position as Duty Engineer. If you have a strong sense of responsibility and are not afraid of hard work, here you'll have a lot of opportunities to flourish."

Yammi Lai, Leasing Officer, The Repulse Bay

"From the initial approach to a client to a store opening, the whole process gives me immense satisfaction as I know can really make a difference and help the shopping centre, the company and our tenants to develop their business."

Our People

Edward Tong, Server – The Living Room, The Peninsula Beverly Hills

"I believe that at work you always want to make friends and have fun working with people that you like. So, when you come to work it's not really coming to work. It's really coming to your second home. I experience that every day with my fellow co-workers and I have a great time working here."

Kevin Francis, Pool Server, The Peninsula Beverly Hills

"I joined The Peninsula Hotel family because I really wanted to be a part of a group of individuals that provide that excellent quality of service. It gives me a sense of pride that I am able to work for a company like The Peninsula."

Brice Delclos, Hotel Manager, The Peninsula Paris

"I had an accident soon after I joined the company and I was hospitalised for a month. Just after this accident, I received messages of support and visits to the hospital from people I hadn't even met, not only from our hotel but also our corporate office in Hong Kong and all around the world. I can still today become very emotional about it, and can truly say that here at The Peninsula Paris, I found a new family."

Dennis Kerr, Golf Course Superintendent, Quail Lodge and Golf Club

"I remember when I first took this position I figured I'd be here for a couple of years but a couple of years has turned into almost 30! Time has gone by so fast that I've just enjoyed practically every day that I've worked here. Satisfying the customers' needs is very important to us."

Our Cities

An Icon is Reborn

The Peak Tram has proudly served Hong Kong since 1888 and is one of the most enduring emblems of Hong Kong's unique past. Its initial role served to transport residents between Central and Victoria Peak, with the particular aim of driving business to the Peak Hotel, which was also briefly owned by The Hongkong and Shanghai Hotels in the 1920s.

The Peak Tram was the first cable funicular in Asia and carried 150,000 passengers in its first year, compared to more than 6 million passengers in modern times. It offers a unique experience for visitors and tourists, with skyscrapers sliding past at incredible angles due to an optical illusion. It has an excellent reputation for efficiency, safety and world-class service.

Its popularity became one of its challenges, as the demand at peak times created long queues beyond the Lower Terminus due to significant space constraints.

With the group's long-term philosophy to build on our legacy and continually improve our assets and contribute to the cities in which we operate, we recognised that we needed to provide a better experience for visitors to our city, by offering a more comfortable and accessible journey on the Peak Tram. To achieve this, it was necessary to increase the number of passengers that the Peak Tram can transport at one time. We did not wish to increase the leisurely journey speed, which is important to allow everyone to enjoy the spectacular Hong Kong skyline views. We could not make the tram higher or wider due to the road bridges on the journey, so we decided to introduce longer tramcars with higher capacity, as well as larger and more comfortable queueing areas at the Lower Terminus.

With this objective, the company has embarked on a major improvement plan which entails a significant investment of HK$684 million, to ensure this iconic tourist attraction continues

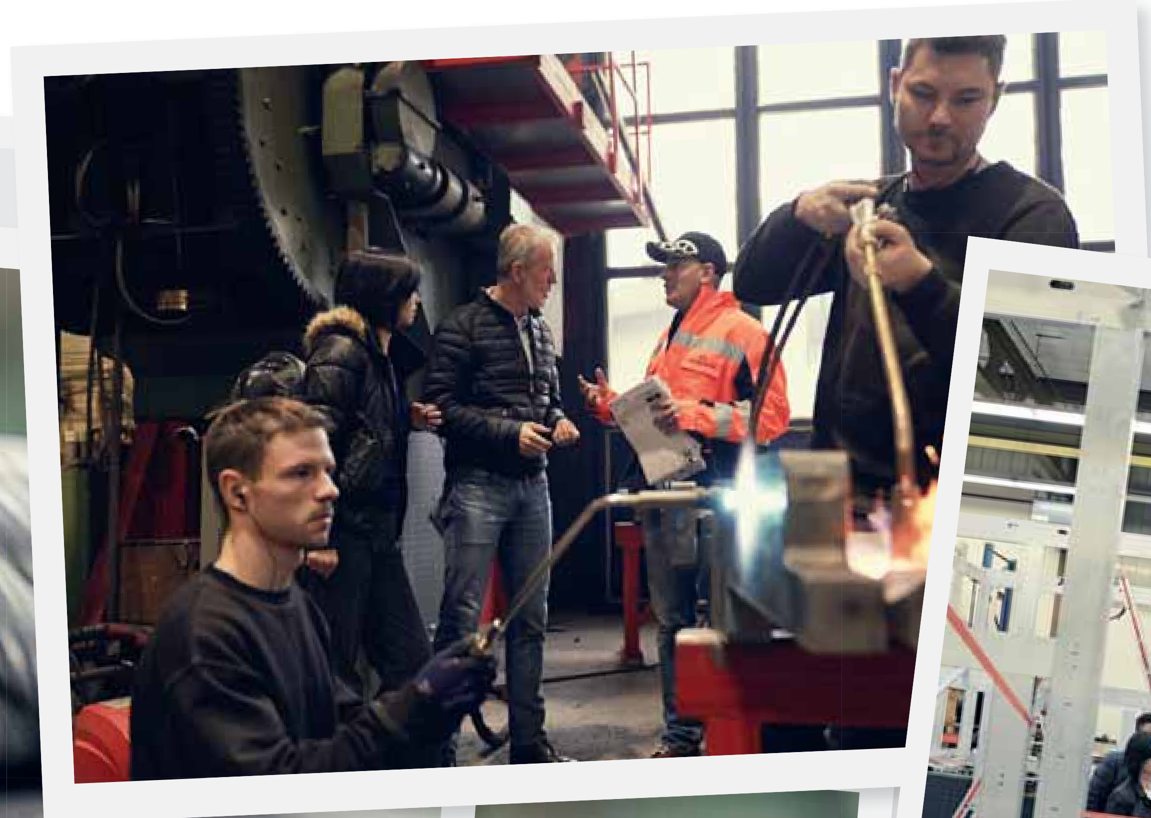
to grow together with Hong Kong for future generations. In 2019 the Peak Tram began its first phase of upgrade work which included improvements to parts of Tramway Path and the construction of new boarding and alighting platforms located 70 metres uphill from the former platforms. The longer tramcars mean that there is a need to completely replace all the haulage and control systems, lay new track rails and strengthen the track foundations and bridges, as well as extend the Lower Terminus.

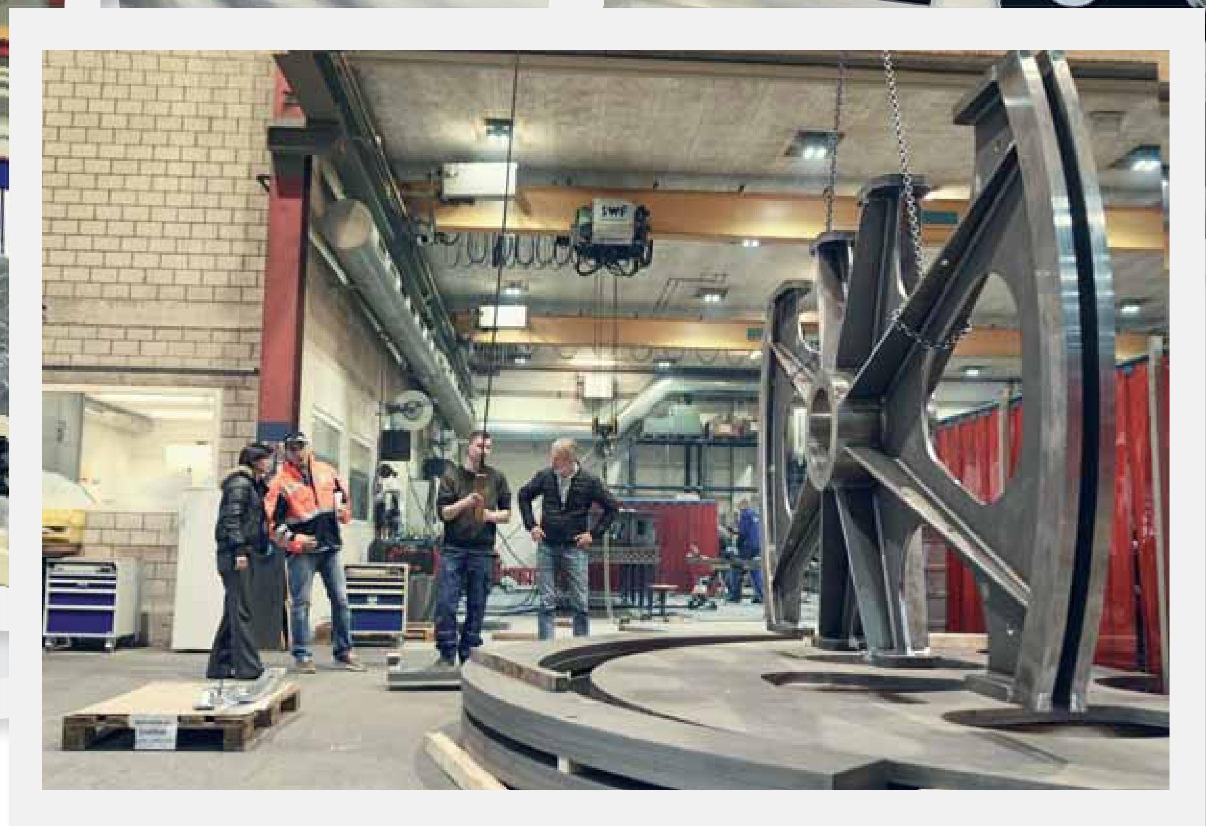
May Tsang, General Manager of The Peak Complex, said, “We have carefully designed an enhanced customer experience and have considered all aspects to minimise service disruption, whilst keeping sustainability factors a priority. The upgrade project will result in covered, improved queueing and waiting 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.”

Our Cities

The service is currently operating from a temporary platform to allow the Lower Terminus to be remodelled, until the second suspension in 2020, allowing the new tramcars, haulage and control systems to be installed.

The team is working with partners and funicular experts in Switzerland to manufacture the new tramcars which will be unveiled in 2021.





Our Guests

The Art of Hospitality

Earthtime 1.26, by Janet Echelman

> “Art is our one true global language. It knows no nation, it favours no race, and it acknowledges no class. It transcends our ordinary lives and lets us imagine what is possible.”

– Richard Kamler

Creating memorable experiences is what we strive to do for each and every one of our guests, adding value to their stay with us. In a world that is becoming ever-more chaotic and divisive, art truly transcends language and cultural boundaries, uniting people with a common experience.

In 2019, at a grand gala event at The Peninsula Hong Kong, as the Official Hotel Partner of Art Basel Hong Kong, The Peninsula Hotels launched “Art in Resonance”, a programme designed to showcase the best of experiential contemporary art, with newly-commissioned installations created by both emerging and mid-career artists.

Working alongside curators Bettina Prentice and Isolde Brielmaier, the Group Marketing team commissioned artists who “push the boundaries of their mediums and engage the senses”.

These included installations by US-based Janet Echelman, whose artwork floated above the historic forecourt of the hotel; Australian-born, US-based Timothy Paul Myers, Chilean-born Iván Navarro, and Chinese architectural group MINAX.

Alizarin, by Timothy Paul Myers

Our Guests

HOME, by Ivan Navarro

"As a global luxury hotel brand with a long and storied history, we understand the important place that art holds for humanity – it's an inclusive, universal language that crosses borders and builds connections," said Peter Borer, Chief Operating Officer, The Hongkong and Shanghai Hotels, Limited, owner and operator of The Peninsula Hotels. "Our greatest hope is that this multi-year programme will engage guests and the local public in a way that brings a smile to everyone's face or provokes a deeper response."

A selection of pieces from the Hong Kong launch also travelled to The Peninsula Paris in the autumn of 2019 during Paris Fashion Week, with Ivan Navarro's HOME being displayed together with pieces by Japan-born, New York-based artist Saya Woolfalk and local French artist, Elise Morin.

"We not only want to provide artists with a platform to exhibit, but we want to commission original pieces to support working artists and ensure the health of the cultural ecosystem within each of the hotels' local communities. To that end, we have robust programming around 'Art in Resonance' at each hotel, including artist talks, studio visits and panel discussions with leading artists, creatives and thinkers," said Mr Borer.

"The Peninsula Hotels is committed to promoting the cultural aspects of each of its destination cities, and encouraging creative-minded guests to experience and see the world through a new and exciting lens. The Art in Resonance campaign sets us apart, making us the only hotel company to commission original works that are painstakingly curated to comprise a travelling collection," said Carson Glover, Vice President of Brand Marketing and Communications, The Peninsula Hotels. "It was deeply gratifying to watch our artists' pieces stir the emotions of those who encountered them."

The group's commitment to contemporary art continued in Beijing with The Peninsula Beijing celebrating its 30th anniversary by welcoming Russian artist Max Goshko-Dankov (MGDankov), who produced a birthday-themed 'Colouring Wall' installation and created a special tapestry live at the hotel's art gallery in October 2019.

The Wonder Room, by MINAX

Our Guests

Also launched during Art Basel Hong Kong in March 2019, The Repulse Bay held its first-ever art exhibition, *Art @the Bay: Time and Transformation* featuring sculptures and installations by Hong Kong artist Matthew Tsang, pictured above and right.

Pictured far right: The Peninsula Manila

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 2019
Our Guests	Engaging our guests and ensuring their satisfaction is critical to how we run our business. We continue to develop a best in class booking and E-Commerce experience that drives increasing room bookings, while demonstrating differentiated brand values. On the sales side, we continue to focus on nurturing our relationships with PenClub members, our in-house preferred travel partner programme. Enriching the lives of our guests is important and for this reason, The Peninsula provides guests and visitors the opportunity to engage with immersive, experiential art, allowing them to create memories that they will carry for a lifetime. Through refreshed marketing collateral, content and partnerships we can present the brand in a more meaningful, relevant and engaging way. This entails not only creating continuity in our existing materials, but also using our rich history and heritage to mine new stories that will elevate the brand.	• A new responsive web booking engine was deployed to the peninsula.com and focused on customising the booking engine experience and features creating a per user bespoke E-Commerce experience focused on demonstrating brand values, while increasing conversion rates. • Annual PenClub partner targets were introduced to maintain status and access to the group's most valuable room benefits. • In March, a multi-year global contemporary art programme, Art in Resonance was launched during Art Basel Hong Kong. Since its founding, The Peninsula Hotels has been committed to promoting the rich and vibrant cultural aspects of the destination cities in which it resides – hosting local artists as part of its 'Artist in Residence' programme; which is designed to support emerging artists, while also providing guests access to culturally-representative pieces. 'Art in Resonance' references the programme and reflects a deeper commitment from The Peninsula Hotels to engage with the artistic sphere, not only as a venue but as an originator and innovator of culture. • In April, The Peninsula Beijing, commenced its landmark 30th anniversary year by inviting guests born in 1989, the hotel's opening year, to celebrate their 30th birthdays together through a range of promotions. • In June, The Peninsula Hotels partnered with world-leading independent arts charity BAFTA (the British Academy of Film and Television Arts) in Shanghai on the launch of their new programme 'BAFTA Breakthrough China' – an initiative designed to identify and nurture the next generation of creative talent in Asia and encourage mutual collaboration between practitioners. • In December, The Peninsula Hotels revealed enchanting festive moments for the family with 'Stories from the Tree'– themed events, including live storytelling, gingerbread baking classes and festive-themed fare to bring loved ones together and raise funds for children's charities.
Our People	In 2019, we placed a greater emphasis on attracting and retaining employees, as well as rewards and recognition, employer branding, and staff engagement. Our key objective over the next 3 years is to develop our existing talent and to harness their potential, allowing us to become more agile and nimble as a group. We increased two-way communication with senior management through discussion forums and Open House meetings. We explored best practices to reward and recognise high performing staff.	• Continued to develop a global employer branding and recruitment campaign across all our properties worldwide which is aligned with Human Resources and business goals • Promoted the use of Microsoft Yammer as a communication tool across the group • Explored best practices and reward and recognition programmes • See pages 86 and 91 for more details on our employee engagement strategy

Stakeholder Group	Why and how we engage	Examples in 2019
Our Cities: Governments	Our Executive Directors and Chairman regularly meet with senior Hong Kong Government leaders and Legislative Council members to discuss areas of concern for the tourism and property sectors. Our Chief Executive Officer and senior executives are members of the World Travel & Tourism Council (WTTC) which actively engages with governments around the world on industry issues on behalf of members. Our project team members in London, 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.	• Engaged with Hong Kong Government departments on tourism initiatives particularly with regards to the new developments in West Kowloon and the Kowloon Waterfront • Membership of WTTC • Engaged with local government representatives and diplomats in London, Istanbul and Yangon
Financial Analysts and Investors	Our Investor Relations team and our Executive Directors meet regularly with financial analysts and investors, as well as participate in non-deal investor road shows, post-results briefings and the AGM	• Investor Conferences in Hong Kong and China • Financial reports and website • Annual General Meeting (AGM) • One-on-one meetings and conference calls • Regular briefings with research analysts
Media	The Peninsula Hotels Marketing team conducts regular press briefings and attends high profile trade shows in all our key markets as well as emerging markets, 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.	• International Luxury Travel Market (ILTM) in Cannes • HSH financial results press conferences at The Peninsula Hong Kong and AGM • High-profile media programmes
Community and NGOs	Our Corporate Responsibility and Sustainability team meets with non-profit organisations, academia and industry advocacy groups regularly throughout the year to keep ourselves informed of the latest developments on sustainability issues, and contributes to the sustainability development of the wider community by sharing HSH's experience at various local and regional conferences and industry committees. In 2019, we expanded our membership to include participating in like-minded organisations to support global issues such as climate change, single use plastics, human rights, sustainable seafood etc. This engagement also includes our support to different charities around the world. Our operations also engage with local charities to provide support where possible.	• Member of Business for Social Responsibility, Responsible Luxury Initiative • Partnership with The Hong Kong Council of Social Service • Member of We Mean Business, Global Tourism Plastics Initiative, Mekong Club and the HK Sustainable Seafood Coalition • Participation in several sharing sessions organised by the think-tank China Water Risk on the topic of water stress
Partners and Suppliers	Our partners are also key to our growth, as they help us to ensure the successful operation of our properties in their local markets. Sustainable guidelines such as the Building Research Establishment Environmental Assessment Method (BREEAM) were incorporated since the beginning of project planning, for the construction of the new hotels and renovation projects.	• The Peninsula 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. • The Peninsula London, Istanbul and Yangon are referencing international green building standards during their development

We always seek to improve on the area of stakeholder engagement and we are compiling a thorough stakeholder engagement profile for our three project markets in 2019.

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

Awards in 2019

Operations	Awards	Organisers
The Hongkong and Shanghai Hotels – Annual Report 2018	2019 ARC Awards, Grand Award – Chairman's Letter (Hong Kong/PRC) – Cover Design (Die-Cut) – Traditional Annual Reports (Hong Kong– Special Treatment)	MerComm. Inc.
	2019 ARC Awards, Gold Award – Overall Presentation – Traditional Format – Hotel & Leisure – Feature Categories – Chairman's/President's Letter – Hotel & Leisure – Feature Categories – Cover Photo/Design – Hotel & Leisure – Feature Categories – Interior Design – Hotel & Leisure – Feature Categories – Printing & Production – Hotel & Leisure – Feature Categories – Cover Photo/Design – Tourism	MerComm. Inc.
	2019 ARC Awards, Silver Award – Overall Presentation – Traditional Format – Tourism – Feature Categories – Chairman's/President's Letter – Diversified Business – Feature Categories – Interior Design – Sustainability Report: Asia, Mid-East & Pacific – Feature Categories – Photography – Sustainability Report: Asia, Mid-East & Pacific – Feature Categories – Infographics – Sustainability Report: Asia, Mid-East & Pacific	MerComm. Inc.
	2019 ARC Awards, Bronze Award – Overall Presentation – Specialized Annual Reports – Sustainability Report: Asia, Mid-East & Pacific – Feature Categories – Infographics – Hotel & Leisure – Feature Categories – Photography – Hotel & Leisure – Feature Categories – Cover Photo/Design – Diversified Business – Feature Categories – Printing & Production – Tourism	MerComm. Inc.
	2019 ARC Awards, Honor Award – Feature Categories – Printing & Production – Diversified Business	MerComm. Inc.
	2019 Best Corporate Governance Awards – Platinum Award in the Non-Hang Seng Index (Medium Market Capitalisation) Category	Hong Kong Institute of Certified Public Accountants
	2019 Best Annual Reports Awards – Silver Award in "General" Category	Hong Kong Management Association
The Hongkong and Shanghai Hotels	Lifetime Achievement Award – for Mr Peter Borer, Chief Operating Officer	Alumni Network of Ecole hôtelière de Lausanne (AEHL)
	WOP Global Most Valued 2019 – for HSH Kaleidoscope Lab	China Hospitality Technology Alliance (CHTA)
	InnoESG Prize 2019 – Hotel	SocietyNext Foundation
	Eco-Business A-List 2019 – for Ms Janice Lao, Director, Group Corporate Responsibility and Sustainability	Eco-Business
	Women in Sustainability Leadership Awards – for Ms Janice Lao, Director, Group Corporate Responsibility and Sustainability	Green Building & Design (gb&d)
	edie Sustainability Leader Awards 2019 – Sustainability Leader of the Year – for Ms Janice Lao, Director, Group Corporate Responsibility and Sustainability	edie
The Peninsula Hotels	Best Luxury Hotel Brand No.1	Business Traveller UK
	Best Business Hotel Brand in Asia-Pacific No. 3	Business Traveller UK
	2019 Forbes Travel Guide Five Star Rating for our entire hotel portfolio	Forbes Travel Guide (US)

Operations	Awards	Organisers
The Peninsula Hong Kong	The 15th Business Traveller China awards – Best Business Hotel In Hong Kong	Business Traveller China
	Best Business Hotel Worldwide No.1	Business Traveller UK
	The World's Best Awards of 2019 – No. 2 Best City Hotels in Hong Kong	Travel+Leisure
	Smart Travel Asia 2019 Best in Travel Poll – Top 10 Luxury Hotels – Asia (No.3) – Top 25 Business Hotels – Asia (No.4) – Top 25 Spa Hotels (No.11)	Smart Travel Asia
	Michelin One Star – Spring Moon Michelin One Star – Gaddi's	The Michelin Guide Hong Kong and Macau 2020
	The Top 50 Honeymoon Destinations of 2019 (No.24)	Town & Country (USA)
	Forbes Travel Guide 2019 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa	Forbes Travel Guide
The Peninsula Shanghai	Best Luxury Hotel in China	City Travel
	iDEAL Luxury Hotel	Shanghai Daily iDEAL.
	Michelin One Star – Yi Long Court Michelin One Star – Sir Elly's	The Michelin Guide Shanghai 2020
	The World's Best Awards of 2019 – The Best Hotels in Shanghai (No.1)	Travel+Leisure
	Smart Travel Asia 2019 Best in Travel Poll – Top 25 Conference Hotels – Asia (No.6)	Smart Travel Asia
	Forbes Travel Guide 2019 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa	Forbes Travel Guide
	2019 Gold List – Best Hotels and Resorts in Asia	Condé Nast Traveler
The Peninsula Beijing	That's 2019 Hospitality Awards – Luxury Hotel of the Year	That's Magazine
	The World's Best Awards of 2019 – The World's Best Hotels in Beijing (No.2) – The 10 Best City Hotels in Asia (No.7)	Travel+Leisure
	Verified List for 2019's World's Best Hotel Rooms – One of the Best Rooms of 2019	Forbes Travel Guide
	Forbes Travel Guide 2019 Star Award – Five Star Rating Awards – Hotel – Four Star Rating Awards – Spa	Forbes Travel Guide
	Family Trust Brand of the Year	Voyage
	The Best Luxury Hotel	Artime
	Target – Best Urban Landmark Hotel of the Year – Jing Best French Cuisine	Target
	Luxury hotel of the Year	China Daily
	Classic Hotel Investment Awards	CHAT
	Jing The Michelin Plate	Michelin
	Timeout – Jing International Hotel Dining	Timeout
The Peninsula Tokyo	Forbes Travel Guide 2019 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa	Forbes Travel Guide
	2019 EarthCheck Standards, Gold Certified Achievement	EarthCheck
	2019 Wine Spectator Awards: Peter - Best of Award of Excellence Hei Fung Terrace - Award of Excellence	Wine Spectator
The Peninsula Bangkok	The World's Best Awards of 2019 – The Top 5 Hotels in Bangkok (No.3)	Travel+Leisure
	Smart Travel Asia 2019 Best in Travel Poll – Top 25 Spa Hotels – Asia (No.12)	Smart Travel Asia
	Forbes Travel Guide 2019 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide

Awards in 2019

Operations	Awards	Organisers
The Peninsula Manila	The World's Best Hotel Bars – The Bar	Forbes Travel Guide
	Verified List for 2019's World's Best Hotel Rooms – One of the Best Rooms of 2019	Forbes Travel Guide
	Five Star Rating Awards – Hotel	Forbes Travel Guide
The Peninsula New York	2019 Readers' Choice Awards – The Top Hotels in New York City (No.4)	Conde Nast Traveler
	The 15 Best Rooftop Bars in the U.S. – Salon de Ning	Conde Nast Traveler
	The 13 Best Hotels in New York	Elite Traveler
	2019 AAA Five Diamond Hotels	Automobile Association of America (AAA)
	2019 Best Hotels in the USA Awards – Best Hotel in New York City (No.11)	US News & World Report
	Positive Luxury Butterfly Mark 2020	Positive Luxury
	Forbes Travel Guide 2019 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa	Forbes Travel Guide
The Peninsula Chicago	"Best New Bars" in Chicago – Z Bar	Chicago Magazine
	10 Top Hotel Instagrams from Last Month	Forbes Travel Guide
	12 Best Rooftop Bars in Chicago	Conde Nast Traveler
	5 Magnificent Hotels in Chicago	Conde Nast Traveler
	Conde Nast Traveler 2019 Readers' Choice Awards – Top Hotel in Chicago (No.15)	Conde Nast Traveler
	Best Hotels and Resorts in the U.S. and Canada – Gold List 2019	Conde Nast Traveler
	The World's Best Hotel Bars – Z Bar	Forbes Travel Guide
	Verified List for 2019's World's Best Hotel Rooms – One of the Best Rooms of 2019	Forbes Travel Guide
	Forbes Travel Guide 2019 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
	The Best Hotels in Downtown Chicago	Forbes
	The 13 Best Spas in Chicago (No.1)	TimeOut Chicago
	The World's Best Awards of 2019 – The 10 Best Hotels in Chicago (No.4)	Travel+Leisure (USA)
	Top Luxury Hotels – US	Travel+Leisure (UK)
	Travelers' Choice® awards for Hotels – No 1 Luxury hotel in the US	TripAdvisor (USA)
	Top Finalist for the Community Service Award for the State of Illinois	Illinois Hotel Lodging Association
	No.2 Best Hotel in the U.S.	Global Traveler
	"Best New Bars" 2019	Chicago Magazine
	2019 Platinum List of Hotels	Celebrated Living
	"10 Best Hotels and Suites" list in Chicago	Elite Traveler
	Best Hotel in the United States (No.2)	U.S. News & World Report
	Best Hotel in Illinois (No.1)	U.S. News & World Report
	2019 AAA Five Diamond Hotels	Automobile Association of America (AAA)
	Trivago Awards 2019–5-Star Hotel in the USA	Trivago

Operations	Awards	Organisers
The Peninsula Beverly Hills	World’s Best Hotel Bars – The Club Bar	Forbes Travel Guide
	Verified List for 2019’s World’s Best Hotel Rooms – One of the Best Rooms of 2019	Forbes Travel Guide
	Forbes Travel Guide 2019 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
	The World’s Best Awards of 2019 – The Best 15 City Hotels in the Continental United States (No.14) – The Best 10 City Hotels in Greater Los Angeles (No.1)	Travel+Leisure
	Certificate of Excellence – No. 1 of 16 hotels in Beverly Hills	TripAdvisor
	The Best Hotel in the US	Global Traveler
	Awards of Excellence – Top Luxury Hotel in California	Luxury Travel Advisor
	The 11 Best Rooftop Hotel Bars in Los Angeles	Robb Report
	2019 AAA Five Diamond Hotel	Automobile Association of America (AAA)
The Peninsula Paris	The World’s Best Awards of 2019 – The Top 10 Paris City Hotels (No.3)	Travel+Leisure
	Positive Luxury Butterfly Mark 2020	Positive Luxury
	Forbes Travel Guide 2019 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
The Repulse Bay	Hong Kong Living Awards 2019 – Best Residential Complex	Hong Kong Living
	SCMP 100 Top Tables award 2019 – The Verandah	South China Morning Post
	Hong Kong Dining Awards 2020 – Best Restaurant for Date Night – The Verandah	Hong Kong Dining
	IAQ certificates (Excellent Class) for The Verandah/Spices/The Club/breakers	Environmental Protection Department
	Quality Water Supply Scheme for Buildings – Fresh Water (Management System)	Water Supplies Department
The Landmark Vietnam	Certificate of Excellence	Vietnam Economic Times’ The Guide Magazine
	Gold Circle Award Winner 2019	Agoda
Peninsula Merchandising Limited	Asia e-Commerce Awards 2019 – Best e-Commerce – Hospitality & Travel (Gold Award)	Marketing magazine
	Fair Trade Corporate Label – Gold Award	Fair Trade Hong Kong
	Caring Company 2019	The Hong Kong Council of Social Service
	2019 Dazhong Dianping Customer Review Award	Dazhong Dianping
Tai Pan Laundry	Social Captial Builder Awards	Labour & Welfare Bureau
	Caring Company	The Hong Kong Council of Social Service

Governance

Chairman's Governance Overview

> "During turbulent times such as those we have experienced in 2019, we believe it is our strong legacy, resilience and exceptional heritage which enables us to overcome adversity."

Dear Shareholders,

Building a legacy for a sustainable future

At HSH, we believe that excellent corporate governance is the foundation of a successful and sustainable company. As Chairman of the Board, I am committed to ensuring that HSH operates to the highest standards of corporate governance and by doing so, we are building a legacy for a sustainable future.

Our home market of Hong Kong has experienced an unprecedented period of social unrest and uncertainty. The effects of the outbreak of the COVID-19 coronavirus started to significantly negatively impact our operations in Greater China in late January 2020, this has now spread all over the world, affecting all of our global operations. During turbulent times such as those we have experienced in 2019, and as we weather the challenging times ahead, we believe it is our strong legacy, resilience and exceptional heritage of more than 150 years which enables us to overcome adversity. Good corporate governance underpins this resilience.

Improving our governance practices

With the objective of continually improving our governance practices, I am committed to ensuring that HSH has a dynamic Board with a diverse range and balance of skills, expertise and experience. Our Board members work 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.

In 2019, as part of its continuing strategic review, the Board held a full-day strategic offsite meeting to review and refine our group strategy, as well as explore ways to enhance creativity and innovation. This offsite provided a lively discussion forum for Board Members to share a vision on how we can stay globally relevant to safeguard our future. We will continue to seek opportunities to grow by leveraging our brand and explore potential diversification possibilities, while remaining committed to protecting our heritage and the culture of our group. During the year, we also conducted an evaluation on the Board's effectiveness with the assistance of an external facilitator.

Good corporate governance relies on having a sound framework and, most importantly, having the right people to accept accountability and align themselves to the values and strategic vision of the company. We recognise that inspiring our people to reinforce the company's values and mindset is a crucial aspect of corporate governance, and we have a clearly defined framework within our Code of Conduct and other policies and procedures that clearly sets out our group's ethical boundaries and the tradition of integrity at the heart of our corporate culture. The company seeks feedback regularly from our employees through increased engagement and improved internal communication.

The Board is committed to the group's strategic approach to corporate responsibility and sustainability (CRS) and we ensure we are minimising any adverse environmental impact on the cities in which we operate. More details can be read in the Group Corporate Responsibility Committee Report on pages 148 to 151 of this report and our online CRS Report.

We continuously enhanced our risk management process across the group to improve the effectiveness of our controls. The principal and emerging risks facing the group and how they might be mitigated were closely monitored by the Group Risk Committee and reviewed by the Audit Committee and the Board. As part of our risk management strategy we also take the opportunity to review the resilience of our business model, particularly considering the reliance of our group's income on the Hong Kong market. More details can be read on pages 140 to 147 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 the commitment of Board and senior management to high standards of corporate governance, and our corporate governance framework which supports the development of strong corporate governance culture throughout the Group.

A commitment to long-term success

Overall, I am pleased with the progress we have made in 2019 in the area of governance. We strive to continually improve and enhance our efforts and ensure the long-term success of the company. Our objectives for the Board this year are to ensure that it continues to support the execution of our strategy and the opportunities and challenges that we face.

The Hon. Sir Michael Kadoorie
17 March 2020

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	Other Board Committees
Ⓐ Audit Committee	Ⓔ Executive Committee
Ⓝ Nomination Committee	Ⓕ Finance Committee
Ⓡ Remuneration Committee	● Chairman of the Committee
● Chairman of the Committee	

Non-Executive Chairman

The Hon. Sir Michael Kadoorie

N E

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. 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 brother-in-law of the Honorary Life President, Mr Ronald James McAulay. He is 78 years old.

Non-Executive Deputy Chairman

Andrew Clifford Winawer Brandler

A R E F

Appointed a Director and Deputy Chairman in May 2014, Mr Brandler is also a Director of several 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 substantial 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 63 years old.

Executive Directors

Chief Executive Officer

Clement King Man Kwok

E F

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 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 and of Orient Overseas (International) 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 60 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. In 2019, he was recognised with a Lifetime Achievement Award from the Alumni Network of Ecole hôtelière de Lausanne. He is also a member of the Advisory Board of the School of Hotel and Tourism Management of The Chinese University of Hong Kong and a member of Advisory Council of Gleneagles Hong Kong Hospital. He is 66 years old.

Chief Financial Officer

Matthew James Lawson

(F)

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 46 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 substantial 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 67 years old.

John Andrew Harry Leigh

(E) (F)

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 substantial shareholders of the company. Previously, he worked in private practice as a solicitor in Hong Kong and the UK. He is 66 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 substantial 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 60 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 substantial 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 and Hong Kong. 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 45 years old.

Our Leadership - Board Members

Philip Lawrence Kadoorie

Appointed to the Board in December 2017, 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 substantial 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). Mr Kadoorie is the son of The Hon. Sir Michael Kadoorie and nephew of the Honorary Life President, Mr Ronald James McAulay. He is 28 years old.

Independent Non-Executive Directors

Dr the Hon. Sir David Kwok Po Li

N

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 Executive Chairman 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). Sir David was an Independent Non-Executive Director of PCCW Limited until December 2018. 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, Chairman of the Executive Committee of St. James' Settlement and a Fellow of the Hong Kong Academy of Finance. 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 81 years old.

Patrick Blackwell Paul, CBE

A R

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 72 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 72 years old.

Dr William Kwok Lun Fung, SBS, OBE, JP

N

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 and Sun Hung Kai Properties Limited. 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 and Honorary Doctorate degree of Letters from Wawasan Open University of Malaysia. He is 71 years old.

Dr Rosanna Yick Ming Wong, DBE, JP

R

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 and the Senior Advisor to The Hong Kong Federation of Youth Groups. She is the Chairman of the Asia International School Limited. 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 67 years old.

Dr Kim Lesley Winser, OBE

Appointed to the Board in January 2016, Dr Winser has substantive experience and expertise in the consumer, digital and retail industries. She began her career with Marks & Spencer plc in the UK and became its first female commercial divisional board director as well as its youngest director in the 1990s. She went on to successfully deliver turnarounds for the iconic British heritage brands Pringle of Scotland as Chief Executive Officer and Aquascutum as President and Chief Executive Officer. 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 61 years old.

Ada Koon Hang Tse

A

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, the 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 53 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 84 years old.

Our Leadership - Senior Management and Key Functions

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

Senior Management

Group Management Board (GMB)

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

The Group Management Board consists of Executive Directors including Messrs Clement Kwok, Peter Borer and Matthew Lawson[1], and senior management including the Group Executives and other members. In 2019, Mr Joseph Chong, Area Vice President, Greater China and Managing Director, The Peninsula Hong Kong was appointed to GMB.

1 Profiles of Messrs Clement Kwok, Peter Borer and Matthew Lawson are disclosed on pages 114 and 115

Group Executives:

Christobelle Liao

Group Director, Corporate and Legal

Appointed to GMB: 2011

Age: 51

Main responsibilities held with the group

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

Martyn Sawyer

Group Director, Properties

Appointed to GMB: 2002

Age: 62

Main responsibilities held with the group

Mr Sawyer joined the group in 1985 as Assistant Manager of Peninsula Clubs and Consultancy Services and was appointed as Group General Manager, Properties and Clubs in 1999. As the Group Director, Properties, he is responsible for the group's non-hotel properties and operations including The Repulse Bay Complex and The Peak Complex in Hong Kong, as well as management of the group's properties and clubs in Hong Kong, Vietnam, Thailand, Shanghai and France. Mr Sawyer also oversees the group's investment in Yangon. He is a Director of a number of the group's entities.

Other members:

Joseph Chong

Area Vice President, Greater China and Managing Director, The Peninsula Hong Kong

Appointed to GMB: 2019

Age: 52

Main responsibilities held with the group

Mr Chong joined the group in 2000 at The Peninsula Beijing and has held a variety of positions at The Peninsula Bangkok and The Peninsula Shanghai, including General Manager and Managing Director of The Peninsula Shanghai. He was appointed as Area Vice President and Managing Director of The Peninsula Hong Kong and The Peninsula Shanghai in 2017. As the Area Vice President, Greater China and Managing Director, The Peninsula Hong Kong, he holds area responsibilities for The Peninsula Hotels, steering three Greater China properties including Hong Kong, Shanghai and Beijing. He is a Director of one of the group's entities.

Shane Izaks

Group Director, Information Technology

Appointed to GMB: 2015

Age: 57

Main responsibilities held with the group

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

Maria Razumich-Zec

Regional Vice President and General Manager, The Peninsula Chicago

Appointed to GMB: 2007

Age: 62

Main responsibilities held with the group

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

Sindy Tsui

Group Director, Human Resources

Appointed to GMB: 2011

Age: 51

Main responsibilities held with the group

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

Our Leadership - Senior Management and Key Functions

Key Functions

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

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

Christopher Chan, *General Manager, Research and Technology*

Ming Chen, *General Manager, Group Business Development*

Jisoo Chon, *General Manager, The Peninsula Shanghai*

Mark Choon, *General Manager, The Peninsula Tokyo*

Christopher Cribb, *Group General Manager, Projects*

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

Alistair Gough, *General Manager, Projects*

Mauro Governato, *General Manager, The Peninsula Paris*

Judy Huang, *Director, Corporate Finance*

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

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

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

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

Cecilia Lui, *Director, PRC Affairs and Regional Director of Communications, Greater China*

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

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

Lynne Mulholland, *Director, Group Corporate Affairs*

Louise Napier, *Vice President, Global Commercial Leasing*

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

Masahisa Oba, *General Manager, The Peninsula Manila*

Vincent Pimont, *General Manager, The Peninsula Beijing*

Guy Riddell, *General Manager, Peninsula Merchandising Limited*

Gareth Roberts, *Group General Manager, Operations and Senior Vice President, Operations, The Peninsula Hotels*

Joseph Sampermans, *General Manager, The Peninsula Bangkok*

Ernest Tang, *Group General Manager, Group Finance*

May Tsang, *General Manager, The Peak Complex*

Sonja Vodusek, *Managing Director, The Peninsula London*

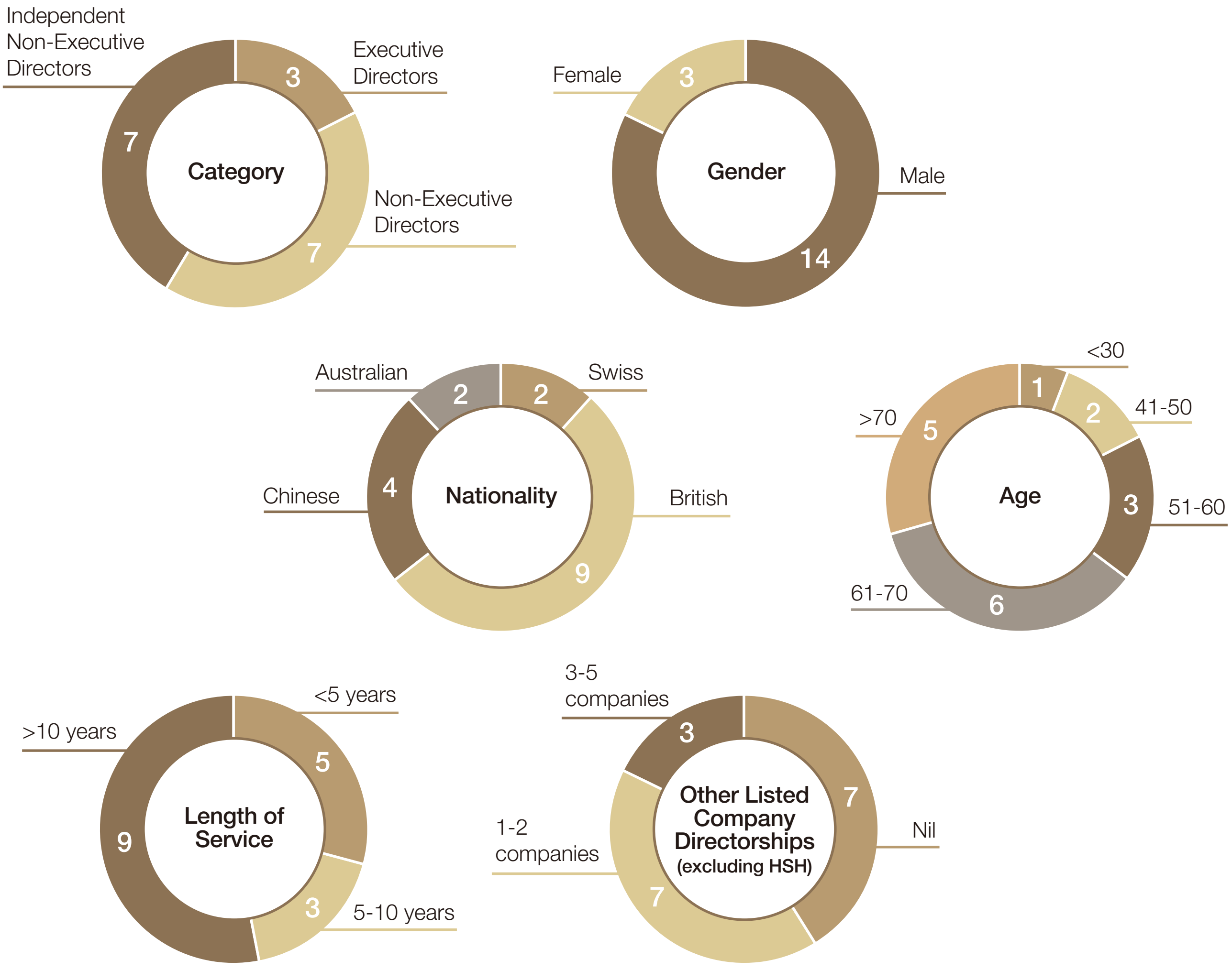
Kitty Wan, *Group General Manager, Audit & Risk Management*

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

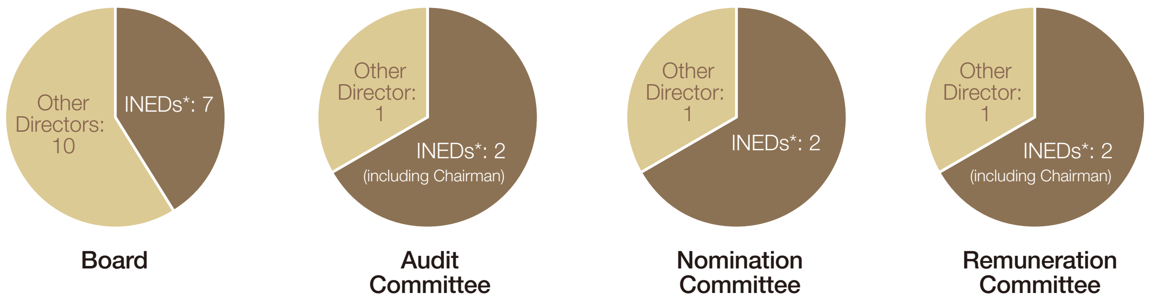
Our Leadership - Diversity

Board Composition and 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.



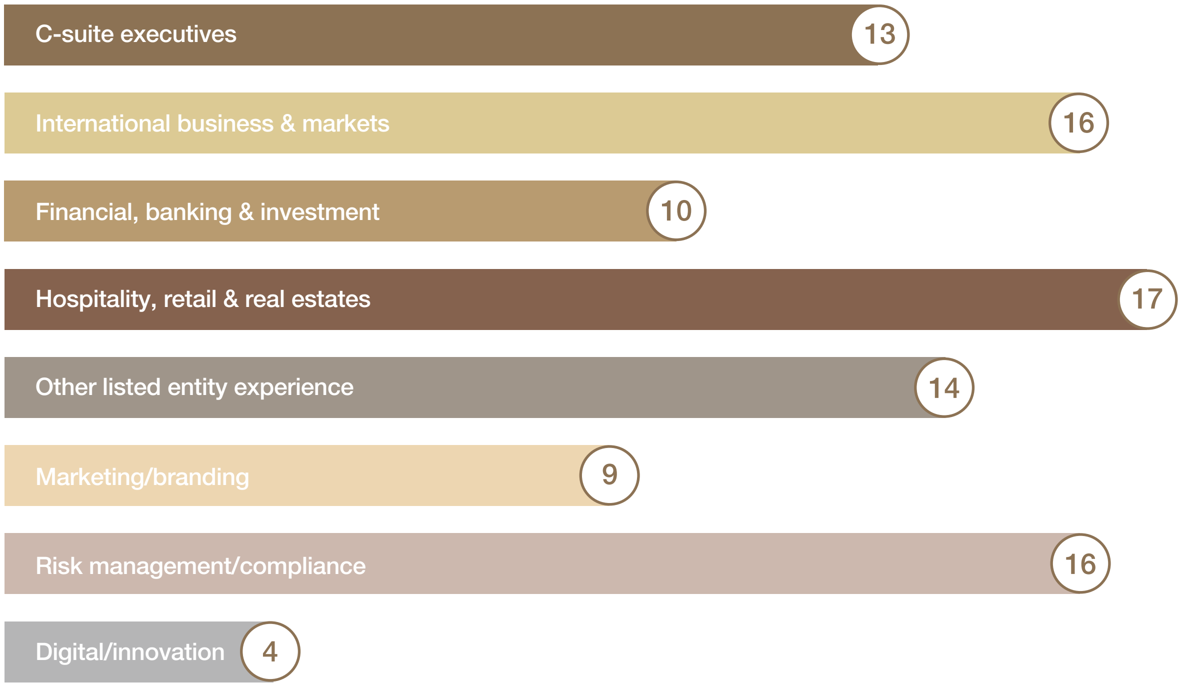
Independence weighting of HSH Board and Governance Board Committees



* Independent Non-Executive Directors

Our Leadership - Diversity

Board expertise and skills



Senior Management and Leaders of Key Functions 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 leaders of key functions as at the date of this report is set out below:

* Inclusive of three Executive Directors

** Leaders of 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 114 to 119 and information on the Board Diversity Policy and Nomination Policy are set out in the Nomination Committee Report on page 154 and also posted on the company's website[2].

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

Corporate Governance Report

Our Values

Good corporate governance sustains 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 is an important tool for the company to provide shareholders and stakeholders with a transparent picture of our business performance as well as our commitment to high standards of corporate governance. We are constantly striving to improve the clarity and transparency of our reporting. This is recognised in the awards we received for our 2018 Annual Report. Details can be found in the "Awards in 2019" section on page 104.

The Board recognises that our people are key to maintaining good corporate governance and long-term sustainability of the company. The Corporate Responsibility and Sustainability Report[3] highlights our efforts in these areas in 2019.

Corporate Governance Framework

The Board has set a two-tiered structure where the Board and the management team are led by the Chairman and the Chief Executive Officer respectively. The Board and its committees oversee the corporate governance structure and give guidance to management on implementing good governance in our daily business, as described below. The diagram on the next page illustrates how our corporate governance framework[4] 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 the implementation of our business strategy, GMB is supported by three sub-committees, as well as General Managers and Heads of Operations and Functional Departments. Each GMB sub-committee has its own terms of reference or charter. The Group Risk Committee, Group Corporate Responsibility Committee and Technology Steering Committee report to GMB, who in turn report to the Board for oversight on risk management and environmental and social issues, as well as the Group's technology strategy. In addition to the above three sub-committees, we also have the HSH Retirement Plan ORSO Committee which oversees the group's retirement plan.

3 Posted on the company's website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports
4 Details of responsibilities and memberships of the Board and Board Committees can be found on HSH website: www.hshgroup.com/en/corporate-governance

Corporate Governance Report

Delegation

THE BOARD

The Board's Role

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

The Board's Key Reserved Matters

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

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

Corporate Governance
- Corporate governance functions
- Board evaluation

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

Sustainability
- Corporate responsibility and sustainability outlook, progress and issues

Biographies P.114-117 **Board focus** P.127 **Attendance & training records** P.131

BOARD COMMITTEES

The Board delegates the following matters to

Governance Board Committees

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

Report P.152-153

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

Report P.154-155

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

Report P.156-159

Other Board Committees

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

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

CHIEF EXECUTIVE OFFICER

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

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

GROUP MANAGEMENT BOARD (GMB)

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

Group Risk Committee (GRC)
Report P.140-147

HSH Retirement Plan ORSO Committee

Group Corporate Responsibility Committee
Report P.148-151

Technology Steering Committee

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

Accountability

Our 2019 Corporate Governance Focus

Our commitment to quality, excellence and the sustainability of the company in the long term continued to drive our corporate governance focus in 2019. As part of its continuing strategic review, the Board held a full-day strategic offsite meeting to review and refine our group strategy in light of the evolving external environment and regulatory landscape, as well as explore ways to inspire creativity and innovation. Board members shared their vision and strategic ideas on how we can stay globally relevant to safeguard our future. In addition, the 2019 Board evaluation on its's effectiveness was conducted with the assistance of an external facilitator. More information on the Board Strategic meeting and Board evaluation can be found on pages 127 and 129 respectively.

The Group continues to implement its business strategy of balancing near-term commercial objectives and the sustainability of the company in the long term. We are also continually reviewing the resilience of the company in relation to our business concentration in Hong Kong, especially in the light of the recent social unrest and the COVID-19 coronavirus, and are exploring diversification and expansion options in other business streams.

Our business strategy has been organised in three pillars: Our Guests, Our People and Our Cities and we have aligned our corporate governance strategy with these pillars in mind.

Guest focus

Providing exceptional quality and services to our guests remains the foundation of the company's business. Apart from a regular review of service standards, the company seeks to improve its governance to safeguard our guests' interests and to enhance the guest journey from end to end. Our company continues to review and improve its controls on data privacy and take preventative measures to mitigate increasing cyber threats and data loss. In addition to complying with new laws and regulations such as the California Consumer Privacy Act (CCPA), which became effective in 2020, we engaged third party consultants to evaluate the adequacy of HSH data protection policies and processes. They conducted a customer data protection assessment of the hotel systems and business processes to determine the control gaps at the group and property level. In addition, we have implemented measures to strengthen our IT security plan, with a focus on four main areas:

(i) control and compliance;
(ii) data security;
(iii) cybersecurity awareness; and
(iv) cybersecurity incident detection and response.

We continue to provide data privacy and IT security online trainings to all relevant staff and drills have been carried out on responding to cybersecurity incidents.

People focus

Good corporate governance relies on having a sound framework and, most importantly, the right people to take accountability and align themselves to the values and strategic vision of the company. We recognise that inspiring our people to reinforce the company's values and mindset is a crucial aspect of corporate governance, and we have a clearly defined framework within our Code of Conduct and other policies and procedures that clearly sets out our group's ethical boundaries and the tradition of integrity at the heart of our corporate culture. We regularly conduct training workshops on our behavioural guidelines, service standards and practices and have enhanced our onboarding briefings for new colleagues to ensure everyone is aligned with the company's vision.

To preserve our corporate culture and promote our core values, continued employee engagement is high on the Board's agenda and the company seeks feedback regularly from our employees. In the 2019 employee engagement survey, we were encouraged to see a very positive response rate and high employee satisfaction levels overall, which indicates that our employees were happy working in the company. General Managers of operations and Head Office function heads discussed the survey results with their team members and action plans were formulated to seek further improvements.

Corporate Governance Report

At our annual global and regional conferences, the group's general managers, hotel managers, human resources function heads and directors of finance are given the opportunity to exchange their views on the group's strategic direction, align objectives and share best practices.

Meanwhile, we continue to work on the WorkPlace 2025 programme[5]. During the year, selected employees volunteered and designed strategic objectives to modernise and innovate our workplace. This involves the employees in the improvements of the company.

Cities focus

The group operates in a number of cities around the world and our guests expect consistency and quality wherever we operate. Through our Group Corporate Responsibility Committee, we set a global strategic approach to corporate responsibility and sustainability (CRS) and we regularly monitor the effectiveness of these initiatives and policies. International best practices are adopted where feasible. At the minimum, the group ensures compliance with local laws and regulations. Our group is committed to contributing to the cities we operate in and our strategy is to invest in quality assets for the long term. During the year, the Group Corporate Responsibility Committee undertook a review of the company's sustainability strategy, which was set in 2013. Looking beyond 2020, we are developing our next sustainability strategy with a focus on further business integration and we are taking a regenerative and proactive approach. Our new strategy will leverage the strengths of our business, focusing on issues requiring significant and urgent attention, scaling positive benefits from our business, while effectively reducing our impact. In this new strategy update, we are considering different stakeholder expectations such as human rights and modern slavery due diligence, reducing social inequality, increasing diversity and inclusion and outcome-based community investment. For details on the group's CRS activities and compliance with local environmental and social-related laws in 2019, please refer to the CRS Report[6].

Our Supplier Code of Conduct requires all suppliers to comply with all applicable anti-slavery and human trafficking laws. Modern slavery is a hot topic in the global economy, and we have organised group trainings for operations colleagues to raise awareness on detection and compliance. We continued to review the effectiveness of steps taken so far to ensure that there is no slavery or human trafficking in our supply chain. Our approach to prevent modern slavery and human trafficking can be found on our website[7].

Ongoing Improvements

We have undertaken additional measures to enhance our governance practices and processes, with an emphasis on improving operational efficiency and communication. For example, we have restructured the Finance group to better align key accounting and planning functions. This included organisational and system transformation which is in progress. We also reviewed and updated the Purchasing and Tendering Policy to improve operational efficiency whilst maintaining internal control and provided support to staff on implementation via the intranet and in-person workshops.

5 Details can be found on page 87 as well as page 25 of the CRS Report
6 Posted on the company's website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports
7 www.hshgroup.com/en/sustainable-luxury

2019 Board Focus

In this section, we highlight the issues our Board has discussed and assessed with respect to the company's different businesses, financial performance and its strategic direction in light of our external environment:

HIGHLIGHTS

Full Day ✓ Board Strategic meeting

External ✓ Board evaluation

In-depth Discussions

✓ Board meetings & Board lunches

A Fresh Approach

In 2019, the Board meeting format has been refined to allow more in-depth discussion on agenda topics. Board meetings are generally followed by Board lunches. Senior management and function heads are invited to update Directors on new trends, legislation and group's business. This provides a good opportunity for our directors, senior management and function heads to interact with each other in an informal setting and to discuss a wide range of issues including those concerning the group.

Strategy is always on the Board agenda and as part of its continuing strategic review, the Board held a full-day strategic offsite meeting to review and refine our group strategy, as well as explore ways to enhance creativity and innovation. The Deputy Chairman was the facilitator of the meeting and, together with the CEO, prepared a structure for discussion which covered key strategic issues that had been raised by Board members. This was an interactive session with different views raised and debated. Senior management also participated in the discussion on related topics. It was a very productive discussion and Board members shared their vision on how we can stay globally relevant to safeguard our future. It was agreed that we would continue to seek opportunities to grow by leveraging our brand and explore potential diversification possibilities, while remaining committed to protecting our heritage and the culture of our group. Management committed to give regular progress updates and agreed future strategy meetings would occur every two years.

STRATEGY AND FINANCIAL

- Monitored the group's performance and evaluated the cost, key risks and progress of London, Istanbul and Yangon projects as well as the Peak Tram upgrade project
- Approved the budget increase for London project
- Conducted post-implementation review of several renovation projects
- Evaluated and approved budget and cost controls on all operations under the challenging business environment in Hong Kong
- In-depth review of two main areas of business, The Peninsula retail arcades and food and beverage outlets
- Monitored partnership dispute and protect the group's investment in Thailand

LEADERSHIP AND EMPLOYEES

- Reviewed employee engagement survey results
- Reviewed updates on employee engagement wisdom on wellness (WOW) programme

CORPORATE GOVERNANCE

- Reviewed and discussed the Board evaluation results
- Affirmed additional discussion time on strategy, risks and budget matters
- Reviewed the steps taken by the group in addressing modern slavery and human trafficking and approved the modern slavery statement
- Approved the continuing connected transactions of renewal of tenancy agreements of the office premises and master agreement of carpet purchases

RISK MANAGEMENT

- Approved the principal risks, key controls and risk mitigation of the group
- Monitored and reviewed the effectiveness of the risk management and internal control systems through Audit Committee

SUSTAINABILITY

- Monitored progress on our Sustainable Luxury Vision 2020 and its three key focuses: Our Guests, Our People and Our Cities via the Group Corporate Responsibility Committee
- Reviewed the Corporate Responsibility and Sustainability initiatives of the group

Corporate Governance Report

Our Board

We have a diverse Board of 17 members with three Executive Directors and 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.

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

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

Role	Responsibilities
Non-Executive Chairman *The Hon. Sir Michael Kadoorie*	• Leading the Board and monitoring its effectiveness • Fostering candid discussions and constructive relationships among Directors • Reviewing management performance with the INEDs • Safeguarding that good corporate practices and procedures are established and implemented throughout the group, with the assistance of the Company Secretary
Chief Executive Officer* *Clement Kwok* **supported by GMB*[8]	• Leading the management in the day-to-day running of the group business • Developing strategies for the Board's approval • Executing strategies, policies and objectives agreed by the Board • Reporting to the Board on the performance of the business
Non-Executive Directors and Independent Non-Executive Directors *P. 114 to 117*	• Evaluating the group's performance in achieving the agreed corporate goals and objectives • Ensuring clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effective • Providing constructive feedback on management decisions • Serving on the Board and Board Committees to give these committees the benefit of their skills, expertise, and varied backgrounds and qualifications • The INEDs, being independent, have the additional role of: – bringing knowhow and business expertise that are supplementary to the management, thereby providing insights and independent judgement on the business – helping to maintain objectivity in the Board's decisions when potential conflicts of interest arise
Executive Directors *Clement Kwok* *Peter Borer* *Matthew Lawson*	• Managing the day-to-day business of the entire group's operations • Being accountable for their specific executive functions to the Board • Communicating proactively with the NEDs and being open and responsive to any executive proposals and challenges made by the NEDs
Company Secretary *Christobelle Liao*	• Reviewing, implementing and initiating improvements on our corporate governance practices and processes • Advising and keeping the Board and Board Committees up to date on legislative, regulatory and governance matters • Facilitating induction and professional development of the Directors

8 Details of the GMB members and its function can be found on pages 118 and 119

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.

Board meetings are scheduled one year in advance in order to facilitate attendance by Directors. 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 for review of discussion topics. Where Board meetings cannot be convened at short notice, Board written resolutions are also accompanied by detailed justifications and business case to allow sufficient time for review. In addition, management provides Board members with a monthly update of our business operations. Board minutes and Board Committees minutes, except Finance Committee are also sent to all Directors to allow our Board members have the visibility of the discussions at various committees. Finance Committee discussions on financial aspects matters are included in monthly and Board updates given to Directors. During the Board meetings, we ensure that all Directors are also given sufficient time for discussion on the items in the Board agenda. Taking into account the Directors' comments from the Board evaluation, more time has been devoted to strategy, risk and budget discussion. Whilst matters may be decided at meetings by a majority of votes from voting Directors, the Board typically seeks to get unanimous consensus.

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.

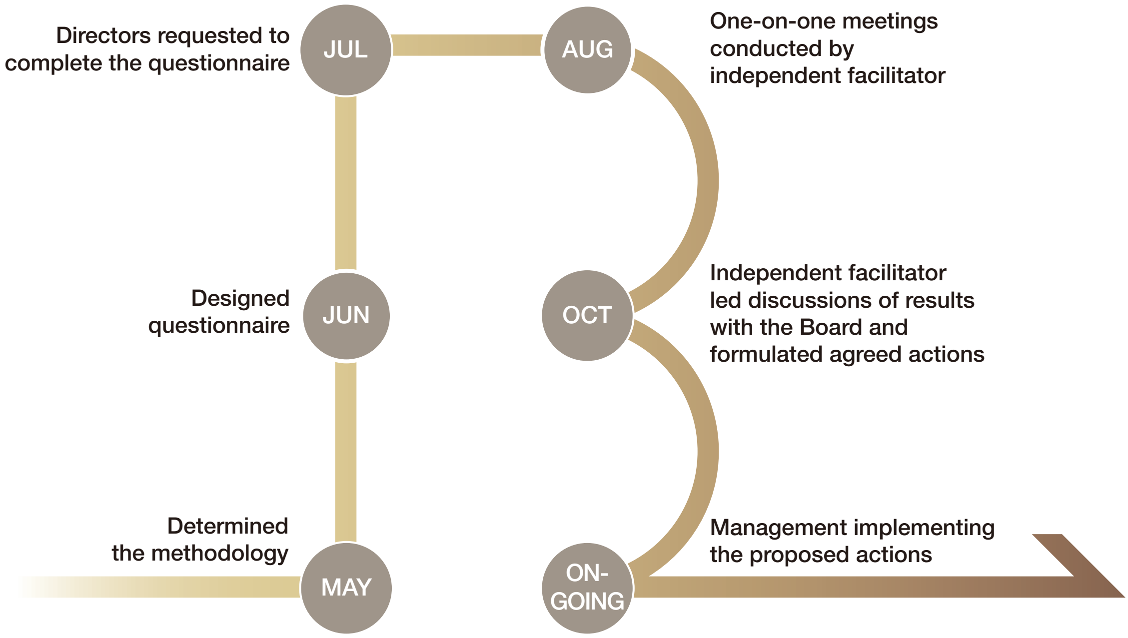
Board Evaluation

Our Board evaluates its own performance every two years. This review identifies areas for enhancement and improving the Board's effectiveness. Having conducted the review internally since 2013, this year our Board decided to engage an independent facilitator to facilitate the review which included a number of one-on-one meetings with individual Directors. The independent facilitator reviewed the company's corporate governance structure and Board documents, sought feedback from the Deputy Chairman, Chief Executive Officer and Company Secretary, and developed a questionnaire which encouraged open feedback. A total of eight interviews were conducted, covering a balance of one Executive Director, four NEDs and three INEDs. The facilitator analysed the detailed reports and led the Board discussion on the findings and recommendations at the October Board meeting.

The 2019 Board evaluation was positively received and the anonymous feedback confirmed that the Board continued to work effectively. Some of the agreed actions have already been implemented in the December Board meeting.

Corporate Governance Report

Stages of the Board evaluation review



Areas of enhancement

Enhancement	Actions
Ongoing and completed projects	Standardise all ongoing and completed projects review
Board discussion	Devote additional discussion time to strategy, risk and budget matters
Succession planning	Arrange mid-term review and continue to review the skill sets required when a Board vacancy arises in future
Refined Board processes and papers	Information packs/reports to directors are reformatted to include risks factors and mitigation

In addition to self-evaluation, the Chairman met with INEDs before the October Board meeting without management to discuss items that INEDs would like to raise at the meeting.

2019 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 2019 are as follows:

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

● Present ○ Apology

Notes:

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

(2) Mr Nicolas T.J. Colfer was unable to attend the Board meeting and the Annual General Meeting due to conflicting commitments

(3) Mr James L. Lewis and Dr Kim L. Winser were unable to attend the Board meeting due to illess and conflicting commitment respectively

(4) During 2019, Ms Christobelle Liao fulfilled the requirement under the Listing Rules by undertaking over 15 hours of professional training

(A) Reading materials which covered relevant laws and regulations and group's business-related topics

(B) Seminars/conferences/webcast which are relevant to the business or Directors' duties in the following areas:

- Anti-bribery and corruption
- Corporate governance matters
- Corporate responsibility and sustainability
- Data analytics and digital marketing
- Political and economic climate in Myanmar
- Revenue management

Corporate Governance Report

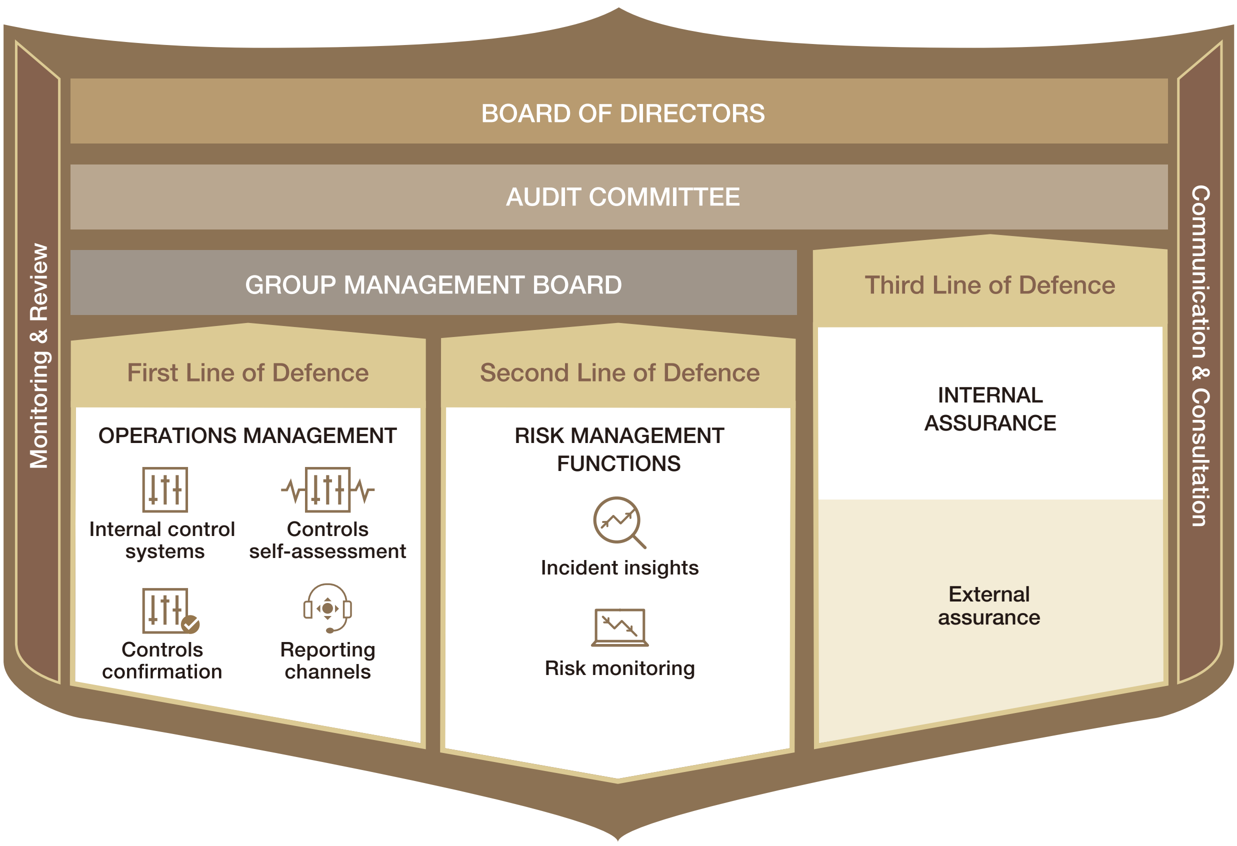
Risk Governance

Effective risk management plays an integral role in the overall achievement of the group's strategic objectives which are to optimise the quality of our asset portfolio in the long term, ensure the sustainability of our business, deliver a high standard of luxury, and 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 risks such as natural catastrophes, fraud and errors of judgement, which are present in all businesses.



First Line of Defence: Operations management

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

Internal control systems

Controls adopted by the group can be divided into entity level and process level controls. Entity level controls include but are not limited to a code of conduct, a speak up hotline, and Purchasing and Tendering Policy revamped and relaunched in 2019. Process level controls include appropriate operational standards, policies and procedures governing approval authority requirements, due diligence requirements, safeguarding of assets and reconciliation of account balances.

The group has implemented new controls and strengthened a number of existing controls to cope with the ever-changing regulatory and operational environment. For controls enhancement measures related to our principal risks undertaken in 2019, please refer to the GRC Report on pages 140 and 141.

Controls self-assessment

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

Controls confirmation

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

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

Reporting channels

The group has multiple channels to handle and communicate crises, including an online incident reporting platform that 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[9] 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. Furthermore, 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.

HSH Handling Inside Information Guide

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

9 Posted on the company's website: 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 relevant group functions and 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 effectiveness of controls in response to such risks. A 5-step risk management methodology is applied to ensure the risk assessment process and internal controls remain current, are adapted and modified as business conditions and the organisation change. In 2019, we strengthened our second line of defence by focusing on the validation and improvement of key control activities for the more prominent risks. Details can be found on page 140 in the GRC Report.

Incident insights

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

Risk monitoring

The GRC continued to strengthen its monitoring of risks to respond to changes and developments in both the external and internal environment, especially on ESG related risks. For the improvements taken in 2019, please refer to the GRC Report on pages 140 and 141.

Third Line of Defence: Internal assurance

The third line of defence is supported by internal assurance activities. ARM provides internal assurance by assessing the effectiveness of the group's internal control systems.

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

The internal audit plan in 2019 included reviews of the efficiency of key business processes with a view to optimising efficiency and performance of the group and individual operations. Audits of new development projects such as The Peninsula London were also conducted in 2019.

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. Details can be read in Audit Committee Report on page 152. Throughout 2019 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 1,837 registered shareholders as at 31 December 2019. 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	535	29.123	69,743	0.004
501-1,000	194	10.561	154,764	0.010
1,001-10,000	635	34.567	2,598,367	0.159
10,001-100,000	371	20.196	11,822,144	0.723
100,001-500,000	70	3.811	14,735,762	0.902
Above 500,000	32	1.742	1,605,042,111	98.202
Total	**1,837**	**100.000**	**1,634,422,891**	**100.000**

Note: as at 31 December 2019, 36.35% 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 59.78% as disclosed in "Interests of Directors" and "Interests of Substantial Shareholders" in Directors' Report on pages 162 to 164. The remaining HSH shares are mainly held by institutional and private investors, with a considerable number of those investors being Hong Kong residents.

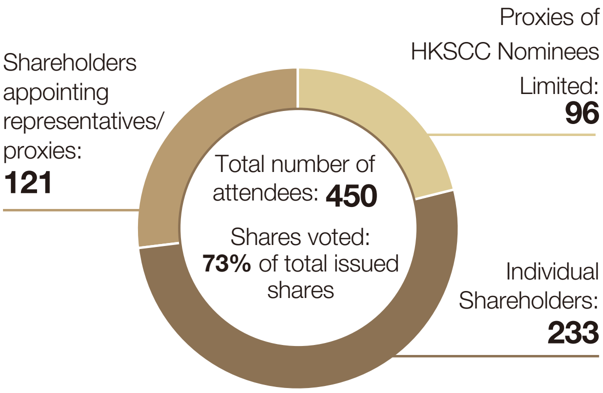
From publicly available information and within the knowledge of the Directors, HSH has maintained the required 25% public float throughout 2019 and up to the date of this report.

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[10] 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.

2019 Annual General Meeting



The 2019 AGM was held on 10 May 2019 at The Peninsula Hong Kong. Prior to the meeting, a circular containing the notice of the AGM was distributed to all shareholders more than 20 clear business days prior to the AGM, setting out details of each proposed resolution and other relevant information. The company regards the AGM as an important event. It is also a main channel of communication between the Board and our shareholders. Our Directors, including the Chairman of the Audit and Remuneration Committees, were present at the 2019 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[11] and the Stock Exchange's websites. Media representatives were invited to observe and report on the AGM.

10 www.hshgroup.com/en/corporate-governance/shareholders-rights
11 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 2019 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 2018	**99.99%**
Payment of final dividend of 16 HK cents per share for the year ended 31 December 2018	**99.99%**
Re-election of six retiring Directors: The Hon. Sir Michael Kadoorie, Mr Peter C Borer, Mr Matthew J. Lawson, Mr Patrick B. Paul, Dr Rosanna Y.M. Wong and Dr. Kim L. Winser as Directors of the company	**Ranging from 98.71% to 99.96% in respect of each individual resolution**
Re-appointment of KPMG as the auditor of the company and authorisation of the Directors to fix their remuneration	**99.95%**
Granting of the general mandate to Directors to allot, issue and deal with the company's shares	**91.43%**
Granting of the general mandate to Directors to buy-back the company's shares	**99.96%**
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	**91.46%**

Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 246.

The company's share price information as well as share and dividends per share information for the last ten years are disclosed on pages 83 and 21 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
- Our Executive Directors and Investor Relations team engaged with shareholders and potential investors via one-on-one meetings and conference calls, as well as held regular briefings with research analysts
- We also participated in investor conferences in Hong Kong and China to further engage existing and potential investors
- Our company's website[12] 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

12 www.hshgroup.com/en/investors

- Our Shareholder Communication Policy[13] has specified the various communication platforms to which our shareholders and stakeholders can access

- The company's branded social media sites provide investors and other stakeholders with regular updates on our business initiatives in The Peninsula Hotels, The Repulse Bay, and The Peak, as well as HSH community and employee initiatives on employer branding social media sites

For queries and additional information, shareholders and investors can send their requests to our Investor Relations email address at ir@hshgroup.com. On how we engage our stakeholders, please refer to Creating Stakeholder Value on pages 102 and 103.

Corporate Governance Code Compliance

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code) forms the basis of the HSH Corporate Governance Code (HSH Code). Our Board recognises the principles underlying the CG Code and have applied all of them to the HSH Code.

Throughout 2019, we have complied with all of the code provisions and recommended best practices in the CG Code with the exception of the following:

- ***Publication of quarterly financial results*** – The Board believes that the businesses of the group are characterised by their long-term and cyclical nature, while quarterly financial results reporting encourages a short-term view on performance. To keep our shareholders informed, we instead issue quarterly operating statistics setting out key operating information; and

- ***Disclosure of individual senior management remuneration*** – We do not disclose the remuneration of individual senior management. However, we have complied with CG Code provisions and disclosed the remuneration payable to senior management by band in our Remuneration Committee Report.

Environmental, Social and Governance Reporting Guide (ESG Guide)

The Stock Exchange issued an updated ESG Guide which only comes into effect for the financial years commencing on or after 1 July 2020. However, due to our commitment to promoting transparency in our reporting, our Corporate Responsibility and Sustainability Report[14] has been prepared in accordance with this updated ESG Guide.

Other Compliance Matters

Appointments and re-election of Directors

The appointment and re-election of Directors are governed by the Nomination Policy which is set out in the Nomination Committee Report on page 154. The company confirms that all Directors' re-elections were conducted in compliance with the CG Code in 2019. 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 2020 Annual General Meeting are set out in the Directors' Report on page 161.

Time commitment of Directors

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

All Directors have confirmed to the company that they have given sufficient time and attention to the company's affairs throughout 2019. The Board is satisfied that the Directors had a strong commitment to the company and positively contributed to the company's affairs, discussions and decisions, as reflected in their participation in the Board and Governance Board Committee meetings during the year.

13 Posted on the company's website: www.hshgroup.com/en/corporate-governance
14 Posted on the company's website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports

Corporate Governance Report

Independence of INEDs

The independence of the NEDs 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. The company has received written confirmations of independence from each of its seven INEDs who served in 2019. The Nomination Committee and the Board considered that all seven INEDs who served in 2019 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 right experience and is prepared to challenge the Board in a constructive fashion. The Nomination Committee and the Board continue to believe that it is not appropriate to apply an arbitrary period of service beyond which a director is assumed to have lost his or her independence. The Board will continue to review the independence of its INEDs by assessing whether they remain independent in character and judgement and continue to present an objective and constructive challenge to the assumptions and viewpoints presented by the management and the Board.

Directors' dealings with company securities

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

All Directors have confirmed their full compliance with the required standards set out in the Model Code and the Securities Code in 2019. Details of the shareholding interests held by the Directors of the company as at 31 December 2019 are set out on page 162.

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 118 and 162 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 2019, all Directors have fulfilled these disclosure requirements.

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

In addition, all Directors are also required to declare the nature and extent of their interests, if any, in any transaction, arrangement or other proposal to be considered by the Board. In 2019, no potential conflict of interest was determined by the Board to be material. However the continuing connected transactions as disclosed in the Directors' Report on page 161 were reviewed in the March Board meeting held in 2020.

New Directors' induction

The company provides new Directors with a comprehensive tailored induction programme which includes meetings with Executive Directors, Company Secretary, and senior management and visiting a number of Group's properties. 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.

Directors training and development

Our Directors participate in continuous training and development activities that keep them up to date on developments in all areas pertaining to the business of the company and their performance of duties as Directors. The training records of Directors and the Company Secretary for 2019 are reflected on page 131.

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[15] to ensure that they comply with the latest legal and regulatory requirements and reflect developments in best practices and the needs of the company. The HSH Code together with the terms of reference of the Board and Governance Board Committees were reviewed and confirmed remain relevant and no revision was required in 2019.

The full terms of reference of the Board and each Board Committee can be viewed at the company's website[16] and those of the Governance Board Committees[17] are also published on the Stock Exchange's website. The Governance Board Committees' reports are set out on pages from 152 to 159.

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 2019, 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 161.

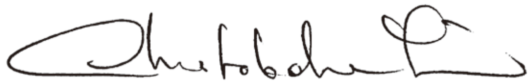
Annual Report and Corporate Responsibility and Sustainability Report

In March, the Board reviewed and approved the 2019 Annual Report and Corporate Responsibility and Sustainability Report[18]. With respect to the Directors' responsibility for preparing the financial statements for the year ended 31 December 2019, please refer to the Directors' Report set out on page 165.

High Standards of Corporate Governance

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

By order of the Board



Christobelle Liao
Company Secretary
17 March 2020

15 Audit, Nomination, Remuneration, Executive and Finance Committees
16 www.hshgroup.com/en/corporate-governance/board-committees
17 Audit, Nomination and Remuneration Committees
18 Posted on the company's website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports

Group Risk Committee Report

Composition:	Chairman	Mr Matthew Lawson, Chief Financial Officer
	Members	Group Director, Corporate and Legal Group Director, Properties Group General Manager, Audit & Risk Management Group General Manager, Operations
Meeting Frequency:	• Quarterly • Four meetings in 2019	
Responsibilities:	• To identify and assess the principal risks at group level and their corresponding mitigating treatments, as well as monitor the actions required for critical and major incidents within the group • To facilitate the process whereby each operation and project defines its business objectives, addresses the risks identified, conducts self-assessment of internal control activities and tracks progress of mitigating plans • To regularly review, assess and update the group risks and related contingency plans to Group Management Board (GMB) for further review by the Audit Committee and the Board	

5-Step Risk Management Methodology

The 5-step risk management methodology continues to be applied across the group. In 2019, a focus was placed on the validation and improvement of key control activities for more prominent risks, including data privacy, cybersecurity, security and operational risks.

We have improved the effectiveness of our controls in the following focus areas in 2019:

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 project on a quarterly basis. A project owner's risk register is maintained to facilitate the identification and management of risks the group has been facing as the owner of the three new hotels. Furthermore, tailored pre-opening plans are being developed for the specific needs of the new hotel projects.

Cybersecurity and data privacy

A variety of enhancements and improvements have been conducted by the Group Information Technology and Group Legal throughout the year to strengthen our controls over cybersecurity and data privacy. These included penetration testing, cybersecurity incident response drills and the introduction of an online dashboard to measure compliance of computer and user account management at each operation. In addition, a data privacy assessment exercise was conducted in selected operations to assess the maturity of key compliance areas to identify any gaps and areas for improvement.

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.

"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
17 March 2020

The principal risks are monitored and reviewed on an ongoing basis, by focusing on how changes may arise and how our controls should be adapted in response to business conditions and organisational changes.

The movements of our principal risks since the publication of our 2018 Annual Report are described on pages 142 to 147.

Emerging Risks

The outbreak of the COVID-19 coronavirus in late 2019 started to significantly negatively impact the group's operations in Greater China in January 2020, and this has now spread all over the world, affecting all of the group's global operations. Most of the group's hotels have seen substantial room cancellations and restaurant closures as a result of government travel restrictions, quarantines and state and country lockdowns. The hotels division as well as The Peak Complex have seen a devastating revenue decline. The group is now focused on all possible operational cost containment options, as well as deferring capital spend where possible. The group continues to monitor its financial and liquidity position which remains healthy.

2020 Major Initiatives

In 2020, the GRC's main focus will continue to be on (i) enhancement of internal controls to manage the strategic risks of the group, especially risks pertinent to development projects and ESG risks (ii) a focus on communication, awareness and ownership of risks and controls across the group, and (iii) further improvements to 5-step risk management methodology by introduction of the framework to other areas of the group such as functional divisions and managed clubs.

Political environment in Hong Kong

The protests which Hong Kong has experienced since June 2019 have had a direct adverse impact on the hospitality and tourism industry with tourist arrivals reporting their sharpest drop in more than a decade. Our tourism-related operations in Hong Kong, namely The Peninsula Hong Kong and the Peak Tram, suffered the greatest financial impact. The Peninsula Hong Kong reported significantly lower occupancy and a decline in average rates. Revenues from the Peak Tram had been budgeted to decline during the three-month suspension period for the upgrade project. Nonetheless, in additional to this, ticket sales and patronage further declined unexpectedly as tourist arrivals dropped during the protest months. Although occupancy levels and rates at The Repulse Bay remained largely steady, the outlook for our overall Hong Kong business remains uncertain in 2020 and beyond.

In response to the adverse tourism situation and related reduction in revenue, major cost saving programs have been initiated throughout the group. These include a recruitment freeze for existing operations, reduction in the use of casual labour, select secondment of Hong Kong staff to overseas operations, deferment of certain capital investment programs and an overall curtailment on expenditure. Management will continue to monitor the situation closely and may consider stepping up certain mitigating actions if needed.

Security and safeguarding of our properties, people and customers has also been a major initiative and additional resources have been implemented to safeguard our Hong Kong properties.

Group Risk Committee Report

Overview of Principal Risks

1 Disaster Events

DISASTER EVENTS

What is the risk?

Disaster events, such as extreme weather events, natural disasters, war, terrorism and pandemics, may damage our properties or result in business interruption.

What is the impact?

Disaster events may result in physical harm to guests and employees, damage to property, and an increased perception of risk reducing business and leisure travel, investment, and general activity.

How do we manage it?

We maintain crisis management plans to manage severe business interruption caused by disaster events.

We maintain insurance coverage on property damage and business interruption for each operation.

With respect to terrorist risks, we leverage well established commercial, formal and informal security intelligence networks to provide advance warning of changes in the security and risk landscape.

2019 risk movement Increased

Why? Natural disasters, and local and international acts of terrorism contributed towards a rapidly changing threat and risk picture.

2 Business Dependency

BUSINESS DEPENDENCY

What is the risk?

A significant portion of our group earnings is derived from our operations in Hong Kong.

What is the impact?

Unfavourable events (e.g. protests, terrorism, pandemic, natural disaster) in the city could severely disrupt our overall business, lower our earnings, and impact the valuation of our assets.

How do we manage it?

We focus on increasing our overseas earnings contribution, by developing new assets and businesses outside Hong Kong, and increasing the profitability of our existing international businesses.

We maintain moderate levels of debt to insulate the business against earnings volatility.

We implement proactive cost savings and deferment of non-essential capital expenditure when required.

2019 risk movement Increased

Why? Decline in number of visitors due to social unrest in Hong Kong, suspension of the Peak Tram service for upgrade, and disruption caused by renovation of The Peninsula Hong Kong Arcade.

3 Macroeconomic and Political

MACROECONOMIC AND POLITICAL

What is the risk?

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. Local political instability, geopolitical instability, civil disobedience may occur and negatively impact our business.

What is the impact?

This 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. Local political instability and or geopolitical instability may result in risk, or the perception of risk, and lead to a reduction of business and tourist activity, which in turn reduces hospitality business levels.

How do we manage it?

We aim to increase diversification in terms of the number and location of assets and target market segments we pursue.

We exercise continuous monitoring of the macroeconomic, political and regulatory landscape and closely monitor operating costs, implementing cost savings measures when required.

2019 risk movement Increased

Why? The ongoing trade tensions between US and China, the Hong Kong political situation and social unrest, and simmering geopolitical tensions in other areas affected business and leisure travel.

4 Investment and Development Projects

INVESTMENT AND DEVELOPMENT PROJECTS

What is the risk?

Capital allocation, funding, meeting budgets, project milestones, partnership relationships and competition for resources are inherent risks to projects. Challenges may also 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. There may also be potential misalignment and disagreements with partners.

What is the impact?

This may result in a major impact on our capital, partnership relationships and reputation. Should partnership relationships deteriorate, this may also result in a loss of hotel management contracts, potential loss of value of investment or mobility to generate the expected returns and/or incurring legal fees.

How do we manage it?

We maintain continuous top level management of partnership relationships, as well as continuous monitoring and review of major aspects of a development and reporting on potential project risks.

We conduct business stress testing under various downside scenarios.

We implement enhanced oversight of tendering throughout project construction, and develop clear pre-opening plans and early deployment of dedicated resources to support hotel openings.

We counteract individual and aggregated investment or development-related risk levels and a robust risk management process by having a robust oversight by GRC.

2019 risk movement Increased

Why? We had an ongoing legal dispute with our Thai partner. We also faced increasing capital allocation to our new hotel projects in London, Istanbul and Yangon and the Peak Tram upgrade project, as construction on these projects continued to progress.

Group Risk Committee Report

5 Retail Tenants

RETAIL TENANTS

What is the risk?

Coupled with the uncertainty of the political and social environment in Hong Kong where most commercial revenue is generated, consumer shopping behaviour is also changing with increased online shopping activities. Competition is also increasing as a result as competitors are more creative with their aggressive marketing and promotion programs.

What is the impact?

Revenue from our retail arcades, which is a major source of income of the group, may be under pressure.

How do we manage it?

We continue our effort to work with key partners and emerging niche brands, making The Peninsula Arcades the "destination shopping venues".

We have launched a customer relationship management program in mainland China to support tenants' business and safekeep arcade revenue. Seasonal and tactical campaigns are planned for three properties across Greater China to create synergy and stimulate spending.

We work closely with key tenants to jointly develop marketing and promotion programs in order to drive traffic and improve shops business performance.

2019 risk movement	Increased
Why?	Social unrest through the second half of the year has adversely impacted commercial revenue. The sharp decline of tourists and retail spending forced shops to demand rent reduction.

6 Competition

COMPETITION

What is the risk?

Cyclical over-supply of luxury hotels and increased competition poses a significant competitive pressure to the business.

What is the impact?

This may result in a decline in market share, revenue and profit, and reduce partnership opportunities.

How do we manage it?

We have launched *Art in Resonance*, a global contemporary arts program that allows The Peninsula to engage with guests in a meaningful and authentic way, while increasing brand exposure.

We drive revenue growth and strengthen our brand by continuously improving our rooms, food and beverage and spa offerings by developing unique guest experiences.

We continuously monitor and analyse competitive and market intelligence in order to anticipate unfavourable changes.

We place an increased focus on engaging directly with customers rather than through third party channels.

We continue to focus on strengthening our people development platforms through training and cross exposure opportunities and promotions.

2019 risk movement	Slightly increased
Why?	Competition level remained high and new luxury hotels opened in cities we operate.

7 Forex, interest & funding

FOREX, INTEREST & FUNDING

What is the risk?

Our assets, investments and operations located in different parts of the world are exposed to foreign exchange and interest rate risks, as currency and interest rate may fluctuate in an unfavorable direction to the group.

What is the impact?

Exchange rate fluctuations may create volatility in our financial statements and ratios. Unfavourable movements in our financials may impact financing requirements and ultimately increase cost of capital. In addition, significant floating rate liabilities may result in higher cost of financing if current interest rates increase.

How do we manage it?

Our operations are predominantly charging and expending in local currencies to minimise currency mismatch. The majority of borrowings are denominated in the functional currency of the operations to which they relate.

We review and hedge major foreign exchange transactional and capital expenditure exposures, and actively manage fixed or floating interest rate exposure.

We conduct regular stress testing and calculation of value at risk to monitor foreign exchange and interest rate impact on the profit and loss, balance sheet and financial ratios.

2019 risk movement	Increased
Why?	The volatility in the foreign exchange rates of Chinese Renminbi and Pound Sterling to Hong Kong Dollars, and the fluctuation of the Hong Kong Interbank Offered Rate have created movements in our financials.

Group Risk Committee Report

8 Cybersecurity

CYBERSECURITY

What is the risk?

Failure of information technology systems due to internal or external circumstances, either malicious or unintentional may result in financial loss, business disruption, damage to reputation.

What is the impact?

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.

How do we manage it?

We have increased resources deployed for information technology security and risk, and conducted group-wide online security awareness training to all employees having access to IT systems.

We conduct an ongoing review of business-critical applications for our disaster recovery plan and regular vulnerability assessments and penetration tests.

We conduct systematic due diligence for third party solution/service providers, strengthened account authentication and password management for all employees.

We continuously enhance security measures and adopt cybersecurity insurance against potential loss.

2019 risk movement Remains broadly the same

Why? The number of cybersecurity incidents remained globally high in 2019.

9 Data Privacy

DATA PRIVACY

What is the risk?

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.

What is the impact?

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.

How do we manage it?

We carry out continuous monitoring of privacy laws and regulations to enhance our data privacy policies and practices, and conduct independent third party assessments of our data privacy policies and processes in key locations.

Mandatory e-training for all relevant staff members is conducted at regular intervals, with targeted training sessions where it is deemed beneficial.

We conduct maintenance and review of a comprehensive data register across the group covering all applications which collect and store personal information.

We have ongoing communication and risk assessments with Data Privacy teams across operations. We promote employees' overall awareness from data capture standards, reporting channels and work flows for data processing requests and data breaches.

2019 risk movement Slightly increased

Why? Jurisdictions around the world continue to strengthen existing privacy legislation or implement new legal frameworks. This includes jurisdictions which previously had a lesser focus on privacy legislation, such as Thailand. This is in turn necessitates an increased focus on local laws and leads to increasing overall compliance obligations.

10 Brand and Reputation

BRAND AND REPUTATION

What is the risk?

Adverse publicity in traditional or social media, which may be frivolous or misconceived, could result in brand and reputational damage.

What is the impact?

This 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.

How do we manage it?

We place a continuous effort on corporate branding, both in traditional media and digital platforms, and have established clear guidelines on incident communication and crisis management processes by the Crisis Management team with clear roles and responsibilities for each operation.

We have formalised a new public communications and media policy to ensure appropriate interactions with journalists, and implemented new guidelines related to the Hong Kong political situation and how to communicate with team members and in public.

We have increased monitoring of social media sites and traditional media for potentially sensitive issues relating to our brand.

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 provides clear guidelines on the escalation process.

2019 risk movement Increased

Why? There was is a heightened risk of reputational damage due to political uncertainty in Hong Kong, with risks of our actions or public statements being misinterpreted by the public, and risks of being targeted by either side of the political divide have increased.

Group Corporate Responsibility Committee Report

Composition:	Chairman	Mr Clement Kwok, Chief Executive Officer
	Members	Director, Group Corporate Responsibility and Sustainability Select members of senior management General Managers of Operations and Heads of Corporate Departments covering engineering, projects, security and operational risks, operations planning and support, sales and marketing, human resources, legal and corporate affairs functions
Meeting frequency:	• At least three meetings each year • Four meetings in 2019	
Responsibilities:	• To propose, recommend, monitor and report to the Group Management Board and the Board of Directors on corporate responsibility and sustainability (CRS) topics, including the implementation of the company's Sustainable Luxury Vision 2020 • To review practices, standards, trends, regulation, plans related to CRS topics that may impact on the operations of the group	

Our CRS Approach

Being a responsible and sustainable business is vital to the success of our group. The Sustainable Luxury Vision 2020 (Vision 2020) is our blueprint to being a sustainable business, strengthening our overall strategy and enabling significant value creation not only for our shareholders, but also our key stakeholders who benefit and are impacted by our business for now and into the future. Vision 2020 has three focus areas highlighting our key stakeholders: 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.

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 regularly reports to the Board and GMB and updates the Group Risk Committee on environmental and social risks related to the business. The Director of Group CRS also coordinates CRS-related risk mitigation actions across the group. Depending on the severity of these risks, these can be escalated to the Audit Committee and Board for reference or action. At the local level, each operation has its own committee chaired by either the General Manager or the Hotel Manager, the most senior people in the local operations; with champions comprised of functional or department heads. They meet regularly to develop and implement action plans and improve on the performance of our commitments.

While we do not have a separate sustainability committee at board level, throughout the year, the Board considers this topic to be of substantial importance warranting Board review of the group's sustainability approach, strategy and performance. In 2019, CRS topics reviewed at Board level included the CRS Report, Vision 2020 performance, sustainability communications, approach to the new strategy, materiality process and results (refer to page 11 of the online CRS Report[19]) and anti-modern slavery statement. Specifically, on our Vision 2020 progress, the Board is provided with a yearly update, with the Executive Committee receiving detailed reports on our progress including commentary on a quarterly basis.

"While we remain committed to doing our part, we realise this is no longer enough. We must work with others and bring others with us so we can move the needle on sustainability faster, together."

Clement Kwok
Chairman of the Group Corporate Responsibility Committee
17 March 2020

Reporting Approach

We continued to publish a detailed CRS Report online[19]; which is also available on the Stock Exchange website. This report has been prepared in accordance with the December 2019 updated "comply or explain" provisions in the Stock Exchange's Environmental, Social and Governance Reporting Guide (ESG Guide)[20] and 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 the International Integrated Reporting Framework from the International Integrated Reporting Council (IIRC), as well as the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Transparency Board (SASB). KPMG was commissioned to conduct assurance and to provide an independent opinion on the identified elements of the CRS Report in accordance with the updated ESG Guide[21].

19 www.hshgroup.com/en/sustainable-luxury/sustainability-reports
20 For disclosures where HSH is unable to provide information, according to the ESG Guide, an explanation (such as an issue not being material or a commitment to provide this data in the future) will be provided on pages 38 to 46 on the CRS Report
21 KPMG Independent Assurance Report can be read on pages 33 and 34 on the CRS Report

Group Corporate Responsibility Committee Report

Main Activities

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 2019 revolved around deepening external engagement and preparing for the new post 2020 strategy:

- 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, the rise of "conscious capitalism", single use plastic, agricultural crisis, food waste, climate change and action, cotton use and electric vehicles
- Evaluated progress towards our Vision 2020 commitments, particularly on the energy, water and waste targets; status of Building Research Establishment Environmental Assessment Method (BREEAM) certification of new projects; and community investment
- Approved the external CRS communication and engagement approach, such as the CRS webpage in The Peninsula and HSH websites and the CRS video in-room and in social media channels
- Discussed the outcomes of an initial climate change adaptation study outlining the physical and regulatory impacts of climate change on the business
- Presented and discussed a comprehensive diversity and inclusion approach for the group

In 2020, the Committee's focus will continue to be developing the post-2020 CRS approach; to ensure the full implementation of Vision 2020 and to enhance effective implementation towards mitigating our impacts. 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 89% of commitments on track. Some key examples in 2019 are:

Our Guests

- Rolled out a CRS video in-room and in social media channels, with updated CRS information on the Peninsula and HSH websites
- Enhanced guest activities related to heritage preservation and/or nature conservation through new guest programmes in *The Peninsula Academy*
- On track to achieve BREEAM, one of the world's leading sustainable building standards for our new projects in London, Istanbul and Yangon
- Implemented alternatives and upcycling and recycling initiatives for mooncake and laundry packaging, in-room complimentary bottled water and other key items
- Final phase of implementation for our renewable energy project at Quail Lodge & Golf Club and assessing similar options in our other properties
- Conducted external-led energy and water audits for our hotels and properties

Our People

- Developing a comprehensive diversity and inclusion programme
- Rolled out WorkPlace 2025, a group-wide initiative to inspire innovation, and modernise our workplace and the way that we work
- 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 19% of our staff volunteered their time benefiting around 530 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 and coffee are sourced sustainably/responsibly with several restaurants and operations in the group fully complying with these specifications
- Rolled out an endangered species policy referring to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and developed a sustainable seafood tool to improve sustainable sourcing, one of the first hotel companies to do so
- Conducted training globally on our human rights and anti-modern slavery approach
- Strengthened the group's approach related to modern slavery, including the prevention of child trafficking and prostitution and identifying high-risk suppliers for monitoring

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 next year as we conclude Vision 2020.

Audit Committee Report

Composition	Chairman Members	Mr Patrick Paul, INED Ms Ada Tse, INED Mr Andrew Brandler, NED
Meeting Frequency	• At least four times every year with senior management, the external auditor and the Group General Manager, ARM in attendance by invitation • Four meetings in 2019	
Responsibilities	To assist the Board in carrying out its responsibility of overseeing financial reporting, external audit, internal audit, risk management and internal controls	

2019 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 2018 Annual Report and Corporate Responsibility and Sustainability Report and the annual results announcement, and the 2019 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 endorsing the continuing connected transactions of renewal of tenancy agreements of the office premises and the master agreement of carpet purchases for Board approval

Internal and external audits

- Reviewed the 2019 internal audit plan progress and approved the proposed 3-year internal audit plan commencing 2020 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 2018 Annual Report
- Endorsed 2019 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 2018 as described below, assessed the performance and endorsed the re-appointment of KPMG as the company's independent auditor for 2019
- 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 approved 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 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 formed the basis by which management confirmed the effectiveness of the group's risk management and internal control systems; and approved the representation letters to the external auditor before issuance of the 2018 Annual Report and Corporate Responsibility and Sustainability Report and 2019 Interim Report

Others

- Reviewed the impacts and requirements of the new lease accounting standards
- Reviewed the group's tax position and the impacts arising from the changes in the tax laws and regulations and the relevant actions being taken

"The Committee provides valuable independent challenge and assists the Board in fulfilling its oversight responsibilities on the group's financial reporting, its risk management and internal controls, including the assessment of the group's principal risks and risk tolerance, and the external and internal audit process."

Patrick Paul
Chairman of the Audit Committee
17 March 2020

- Reviewed the cybersecurity risks and preventive measures taken
- Reviewed the key changes to the Purchasing and Tendering Procedures and acknowledged the implementation across the group in January 2020
- Reviewed and confirmed the terms of reference of the Committee remained relevant and no revision was required

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

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 2019 to be effective and adequate. Issues raised by the internal and external auditors during 2019 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 March 2020, the Audit Committee reviewed and endorsed this annual report, the Corporate Responsibility and Sustainability Report, which is posted on the website[22], 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 2019, apart from audit work, the company also awarded non-audit work to KPMG including taxation and other services. In our first meeting in 2020, 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 2020 Annual General Meeting.

A summary of fees for audit and non-audit services to KPMG for the financial years ended 31 December 2019 and 2018 is as follows:

Nature of Services	**2019 HK$m**	2018 HK$m
Audit Services	**10**	11
Non-audit Services		
Taxation and other services	**4**	4

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

Nomination Committee Report

Composition	Chairman Members	The Hon. Sir Michael Kadoorie, Non-Executive Chairman Dr the Hon. Sir David Li, INED Dr William Fung, INED
Meeting Frequency		• At least two meetings every year • Two meetings in 2019
Responsibilities		To evaluate the structure, size and composition of the Board. This includes selecting new Directors and/or maintaining an appropriate, adequate and balanced make-up of an effective Board and reviewing of independence of INEDs

Board Composition and Diversity[23]

A diverse Board brings constructive challenge and fresh perspectives to Board discussion. The company approaches diversity in the broadest sense, recognising the benefits of a diverse mix of skills, knowledge, age, race, gender and experience on its Board. Our Diversity Policy adopted since 2013 can be found on the company's website[24]. 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 regularly reviews the composition, balance, skills and experience of the Board and confirmed that the HSH Board has continued in place a diverse mix of skills, knowledge and experience, as well as the gender diversity with three female members on the Board to fulfil its role effectively. As part of the Board evaluation described on page 129, the Committee has identified areas where we could further improve our diversity balance, principally our skills and knowledge diversity, when Board vacancy arises in future.

Furthermore, the Committee reviewed the appropriateness of an express diversity quota or measurable objective. The Committee concluded not to set any specific target and our 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

Our Board always recognises the benefits of diversity and ensures that the selection criteria including contribution and time commitment, nomination process and procedures set out in the Nomination Policy are followed when proposing a candidate for nomination or a Director for re-election. This policy can be found on the company's website[24]. We set out below a diagram on our nomination process.

Nomination Committee

- Proposes a candidate for nomination or a Director for re-election based on merit with reference to the Board Diversity Policy and Listing Rules requirements
- Considers the contribution and time commitment of the candidate or Director put forward for re-election
- Makes recommendations to the Board as appropriate

Board

- **Newly appointed Directors** are subject to election by shareholders at the first general meeting following the appointment
- **Existing Directors** are subject to re-election by shareholders every three years

Shareholders

- Approves the appointment or re-election of Directors at the company's general meeting
- Separate resolution will be put to vote for individual appointment or re-election

23 Please also refer to page 121 on Board Composition and Diversity
24 www.hshgroup.com/en/corporate-governance

"Our Board has appropriate skills, knowledge and experience to operate effectively and deliver our strategy."

The Hon. Sir Michael Kadoorie
Chairman of the Nomination Committee
17 March 2020

2019 Main Activities

In 2019, the Nomination Committee conducted the following business:

Year-end matters and re-election

- Assessed and reviewed all INEDs' confirmations of independence and cross-directorships and affirmed the Committee's view of their independence
- Evaluated the contribution and time commitment of Directors (including INEDs) put forward for re-election as well as the respective skills and experience of the INEDs and recommended them for re-election
- Reviewed the 2018 Nomination Committee Report

Board structure and diversity

- Reviewed and confirmed that 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 that 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

- Reviewed the terms of reference of the Committee, Nomination Policy and Board Diversity Policy and confirmed that they remained relevant and no revision was required

Remuneration Committee Report

Composition	Chairman Members	Mr Patrick Paul, INED Dr Rosanna Wong, INED Mr Andrew Brandler, NED
Meeting Frequency	• At least two meetings every year with the Chief Executive Officer and Group Director, Human Resources in attendance • Two meetings in 2019	
Responsibilities	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' expectations.

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 management
- Designing a total cash package with an appropriate mix of fixed and variable pay, taking into account the group's pay policy and market practice to incentivise management and individual performance

Remuneration for Executive Directors and Senior Management

The Committee recognises that there is a competitive market for successful executive talent and believes that remuneration packages being offered must be set competitively with the market in order to attract, retain and motivate the 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 and other allowances and the general policy is to set them at the level required to retain and motivate, taking into account the scope and complexity of responsibilities, market pay levels in the defined markets, as well as individual performance.

Bonuses and incentives

The provision of appropriate bonus and incentive awards for performance is vital to the continued growth to the business. Executive Directors' bonuses consist of contractual and discretionary components while the two Group Executives are under a discretionary bonus plan to align with market practice. Other senior management participates in the HSH Management Bonus Plan[25] 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[26]
- Individual performance
- Share Price

In 2018, the Committee approved the management proposal to simplify the administrative procedures and the methodology for business units' quality measurement and individual performance within HSH Management Bonus Plan. The Committee also approved changing the bonus approval basis to a percentage

25 Senior staff also participates in the HSH Management Bonus Plan
26 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 2019 Report. The Committee has continued to play a key role to ensure that our financial and non-financial rewards remain competitive and can continue to attract, retain and motivate the company's executives."

Patrick Paul
Chairman of the Remuneration Committee
17 March 2020

of underlying profit which allows the Committee to focus more on the total bonus pool and its relation to the group's performance. These revisions were implemented in 2019 with the first bonus payout in 2020.

Retirement benefits

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

Other benefits

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

Remuneration for Non-Executive Directors

Fees 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 into account in this process include estimated time spent in the discharge of these duties and benchmarking against other Hong Kong listed companies of similar size and activities as well as other international companies. After review, the Committee makes recommendations to the Board. No director approves his or her own remuneration. The Committee endorsed management's proposal after benchmarking not to recommend any changes to the fees of NEDs in 2019.

2019 Main Activities

The Remuneration Committee conducted the following business in 2019:

Remuneration

- Reviewed and endorsed management's proposals for the fees for NEDs to remain unchanged in 2019
- Reviewed and approved the 2018 proposed bonus pool for senior staff
- Reviewed and approved the 2018 annual discretionary bonus proposal for Executive Directors and Group Executives
- Reviewed and approved the revision of discretionary bonus range for Chief Executive Officer
- Noted the group-wide 2020 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 2020 salary of Executive Directors and senior management
- Reviewed and noted the remuneration of senior staff in grades A and B

Remuneration Committee Report

Others

- Reviewed and approved the 2018 Remuneration Committee Report
- Reviewed and confirmed that the terms of reference of the Committee remained relevant and no revision was required
- Reviewed and approved the letter of appointment for an INED

2019 Remuneration of Directors and Senior Management

The following information is an integral part of the Audited financial statements for the year ended 31 December 2019.

Non-Executive Directors – remuneration

The fees paid to each of our NEDs in 2019 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)	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	**Total* 2019**	Total* 2018
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	325	100	–	–	40	**465**	456
Mr Andrew C.W. Brandler	325	100	150	60	–	**635**	626
Mr William E. Mocatta	325	–	–	–	–	**325**	316
Mr John A.H. Leigh	325	100	–	–	–	**425**	416
Mr Nicholas T.J. Colfer	325	–	–	–	–	**325**	316
Mr James L. Lewis[2]	325	–	–	–	–	**325**	316
Mr Philip L. Kadoorie[3]	325	–	–	–	–	**325**	316
Independent Non-Executive Directors							
Dr the Hon. Sir David K.P. Li	375	–	–	–	40	**415**	406
Mr Patrick B. Paul	375	–	185[c]	100[c]	–	**660**	646
Mr Pierre R. Boppe	375	–	–	–	–	**375**	366
Dr William K.L. Fung	375	–	–	–	40	**415**	406
Dr Rosanna Y.M. Wong	375	–	–	60	–	**435**	426
Dr Kim L. Winser	375	–	–	–	–	**375**	366
Ms Ada K.H. Tse	375	–	150	–	–	**525**	516
	4,900	300	485	220	120	**6,025**	5,894

Executive Directors – remuneration

The remuneration paid to Executive Directors of the company in 2019 was as follows:

(HK$'000)	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	**Total* 2019**	Total* 2018
Executive Directors						
Mr Clement K.M. Kwok	7,260	7,213	1,194	186	**15,853**	16,548
Mr Peter C. Borer	5,211	3,363	844	137	**9,555**	9,710
Mr Matthew J. Lawson	4,822	2,385	791	186	**8,184**	8,505
	17,293	12,961	2,829	509	**33,592**	34,763

* 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:

	2019 Number	2018 Number
HK$4,000,001 – HK$5,000,000	**1**	1
HK$5,000,001 – HK$6,000,000	**3**	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 six (2018: five) senior management who represent the various key functions and operations of the company

Individuals with highest remuneration

The five highest paid individuals in the group included three Executive Directors and two (2018: two) other members of senior management. The remuneration of the three Executive Directors are set out above. The remuneration of the two (2018: two) other individuals with highest remuneration are within the following bands:

	2019 Number	2018 Number
HK$6,500,001 – HK$7,000,000	**1**	1
HK$7,000,001 – HK$7,500,000	**1**	–
HK$7,500,001 – HK$8,000,000	**–**	1

The aggregate of the remuneration in respect of these two (2018: two) individuals is as follows:

(HK$'000)	**2019**	2018
Basic compensation	**9,024**	8,475
Bonuses and incentives	**4,191**	5,173
Retirement benefits	**902**	847
Other benefits	**239**	225
	14,356	14,720

The Committee has reviewed the methodology and benchmarking of the remuneration disclosed above and has endorsed and approved the same. The Committee remains committed to careful oversight of the remuneration policies of the company.

Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2019.

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 37 to 66 and Financial Review on pages 68 to 83. 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 140 to 147. Particulars of important events affecting the group that have occurred since the end of the financial year 2019 are set out in note 37 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 pages 34 and 35.

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 102 and 103.

The discussions with respect to the above topics in the annual report and CRS Report which is available online[27] form part of this Directors' Report.

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

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 20 and 21.

Share Capital

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

Equity-linked Agreements

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

Purchase, Sale or Redemption of Listed Securities

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

Dividends

An interim dividend of 4 HK cents per share (2018: 5 HK cents per share) in respect of the year ending 31 December 2019 was paid during the year 2019. The Directors have recommended a final dividend of 9 HK cents per share (2018: 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 14 May 2020 (2020 Annual General Meeting), such dividends will be payable on 29 June 2020 to shareholders whose names appear on the register of members on 22 May 2020.

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

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend on 27 May 2020.

Borrowings

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

Charitable Donations

Cash donations made by the group for charitable purposes during the year amounted to HK$1.8 million (2018: HK$2.1 million)[28].

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 27 March 2019, 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 2019 at a market rent of (i) HK$172,980 per month plus a monthly service charge of HK$18,795.6 and (ii) HK$2,385,830 per month plus a monthly service charge of HK$259,246.8 respectively. The rents and services charges incurred in 2019 amounted to HK$32 million (2018: 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 27 March 2019.

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 31 to the financial statements.

Directors

Biographical details of the Directors in office at the date of this report are shown on pages 114 to 117. All these Directors held office throughout 2019.

In accordance with the Articles of Association of the company, the Directors who will retire at the 2020 Annual General Meeting and, being eligible, have agreed to offer themselves for re-election are Mr Andrew Brandler, Mr Clement Kwok, Mr William Mocatta, Mr Pierre Boppe and Dr William Fung.

28 The donations amount of HK$2 million (2018: HK$2.5 million) referred to in the Sustainability Data Statements on page 242 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 2020 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[29].

Senior Management

Biographical details of senior management are shown on pages 118 and 119. All members of senior management held office throughout the years except Mr Joseph Chong who was appointed as a member of the Group Management Board with effect from 1 June 2019.

Interests of Directors

As at 31 December 2019, 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)	892,692,080	54.618
Mr Clement K.M. Kwok	Beneficial Owner	750,509	0.046
Mr Peter C. Borer	Beneficial Owner	374,144	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)	84,423,462	5.165
Mr Philip L. Kadoorie	Note (c)	694,041,320	42.464
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,122,764	0.069
Mr Pierre R. Boppe	Beneficial Owner	30,000	0.002

Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 892,692,080 shares in the company. These shares were held in the following capacity:

(i) 198,650,760 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;

(ii) 352,155,870 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) 341,885,450 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 892,692,080 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 84,423,462 shares in the company. These shares were ultimately held by a discretionary trust. Mr John A.H. Leigh was deemed to be interested in such 84,423,462 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 84,423,462 shares.

(c) Mr Philip L. Kadoorie was deemed (by virtue of the SFO) to be interested in 694,041,320 shares in the company. These shares were held in the following capacity:

(i) 352,155,870 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries; and

(ii) 341,885,450 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 2019.

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

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 2019, 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 2019, 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 2019, 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	198,650,760	12.15(i)
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	283,074,222	17.32(i)
Guardian Limited	Beneficiary/Interest of controlled corporation	84,423,462	5.17(v)
Harneys Trustees Limited	Interests of controlled corporations	694,041,320	42.46(iii)
Lawrencium Holdings Limited	Beneficiary	341,885,450	20.92(ii)
Lawrencium Mikado Holdings Limited	Beneficiary	352,155,870	21.55(ii)
The Magna Foundation	Beneficiary	352,155,870	21.55(ii)
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	694,041,320	42.46(ii)
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	84,423,462	5.17(iv)
Oak (Unit Trust) Holdings Limited	Trustee	84,423,462	5.17(i)
Oak HSH Limited	Beneficiary	84,423,462	5.17(iv)
Mr Richard Parsons	Trustee	84,423,462	5.17(v)

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 84,423,462 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	11.33
Mr Ng Chee Siong	Trustee	78,402,393	5.00(i)
Mr Philip Ng Chee Tat	Trustee	78,402,393	5.00(i)
Sino Hotels (Holdings) Limited	Interests of controlled corporations	78,402,393	5.00(i)

Note:

(i) Mr Ng Chee Siong and Mr Philip Ng Chee Tat, had trustee interest in their capacity as the co-executors of the estate of Mr Ng Teng Fong, who controlled Sino Hotels (Holdings) Limited and therefore they were both deemed to be interested in the 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 2019, 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 2019, 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 2019 or at any time during the year.

Directors' Indemnities

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

Employee Retirement Benefits

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

Management Contracts

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

Corporate Governance Report

The Corporate Governance Report outlines the company's approach to governance is set out on pages 123 to 139.

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 2019, 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 2019 have been audited by KPMG who will retire at the 2020 Annual General Meeting and, being eligible, offer themselves for re-appointment. A resolution to re-appoint KPMG (Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance) as auditor and authorise the Directors to fix their remuneration will be proposed at the 2020 Annual General Meeting.

By Order of the Board

Christobelle Liao
Company Secretary
17 March 2020

Financial Statements

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of The Hongkong and Shanghai Hotels, Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 173 to 239, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

17 March 2020

Consolidated Statement of Profit or Loss (HK$m)

	Note	Year ended 31 December 2019	2018 (restated)
Revenue	3	**5,874**	6,214
Cost of inventories		**(457)**	(470)
Staff costs and related expenses		**(2,294)**	(2,291)
Rent and utilities		**(441)**	(437)
Other operating expenses		**(1,292)**	(1,336)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)		**1,390**	1,680
Depreciation and amortisation		**(589)**	(601)
Operating profit		**801**	1,079
Interest income		**14**	18
Financing charges	5	**(154)**	(169)
Net financing charges		**(140)**	(151)
Profit after net financing charges	4	**661**	928
Share of results of joint ventures	14	**(17)**	(23)
Share of results of associates	15	**(32)**	(29)
Increase in fair value of investment properties	12	**83**	523
Profit before taxation		**695**	1,399
Taxation			
Current tax	6	**(146)**	(180)
Deferred tax	6	**(46)**	(4)
Profit for the year		**503**	1,215
Profit attributable to:			
Shareholders of the company		**494**	1,216
Non-controlling interests		**9**	(1)
Profit for the year		**503**	1,215
Earnings per share, basic and diluted (HK$)	9	**0.30**	0.76

The notes on pages 178 to 239 form part of these financial statements.

Consolidated Statement of Comprehensive Income (HK$m)

	Note	Year ended 31 December 2019	2018 (restated)
Profit for the year		**503**	1,215
Other comprehensive income for the year, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**106**	(338)
– financial statements of joint ventures		**(27)**	(51)
– loans to an associate		**(15)**	(26)
– hotel operating rights		**(12)**	(20)
		52	(435)
Cash flow hedges:			
– effective portion of changes in fair values		**(29)**	(7)
– transfer from equity to profit or loss		**7**	6
		30	(436)
Item that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit retirement obligations		**–**	(5)
Other comprehensive income	8	**30**	(441)
Total comprehensive income for the year		**533**	774
Total comprehensive income attributable to:			
Shareholders of the company		**490**	788
Non-controlling interests		**43**	(14)
Total comprehensive income for the year		**533**	774

The notes on pages 178 to 239 form part of these financial statements.

Consolidated Statement of Financial Position (HK$m)

	Note	As at 31 December 2019	As at 31 December 2018 (restated)	As at 1 January 2018 (restated)
Non-current assets				
Investment properties		**33,219**	33,077	36,249
Other properties, plant and equipment		**12,314**	11,199	9,855
	12	**45,533**	44,276	46,104
Properties under development for sale	13	**3,624**	3,121	–
Interest in joint ventures	14	**1,186**	1,088	1,053
Interest in associates	15	**588**	638	699
Hotel operating rights	16	**505**	530	564
Deferred tax assets	18(b)	**72**	49	38
		51,508	49,702	48,458
Current assets				
Inventories	19	**89**	84	77
Derivative financial instruments	17	**–**	2	–
Trade and other receivables	20	**711**	701	737
Amount due from a joint venture	31(b)	**56**	57	60
Cash at banks and in hand	21(a)	**697**	1,178	1,922
		1,553	2,022	2,796
Current liabilities				
Trade and other payables	22	**(1,480)**	(1,441)	(1,424)
Interest-bearing borrowings	23	**(1,114)**	(403)	(3,391)
Derivative financial instruments	17	**(8)**	–	(4)
Current taxation	18(a)	**(152)**	(26)	(41)
Lease liabilities	24	**(143)**	(121)	(125)
		(2,897)	(1,991)	(4,985)
Net current (liabilities)/assets		**(1,344)**	31	(2,189)
Total assets less current liabilities		**50,164**	49,733	46,269
Non-current liabilities				
Interest-bearing borrowings	23	**(6,410)**	(6,692)	(4,052)
Trade and other payables	22	**(234)**	(252)	(230)
Net defined benefit retirement obligations	27	**(27)**	(22)	(17)
Derivative financial instruments	17	**(21)**	(7)	–
Deferred tax liabilities	18(b)	**(737)**	(658)	(646)
Lease liabilities	24	**(3,006)**	(2,902)	(2,871)
		(10,435)	(10,533)	(7,816)
Net assets		**39,729**	39,200	38,453
Capital and reserves				
Share capital	25	**5,732**	5,509	5,224
Reserves		**33,322**	33,155	32,702
Total equity attributable to shareholders of the company		**39,054**	38,664	37,926
Non-controlling interests		**675**	536	527
Total equity		**39,729**	39,200	38,453

Approved by the Board of Directors on 17 March 2020 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Matthew Lawson, Directors

The notes on pages 178 to 239 form part of these Financial Statements.

Consolidated Statement of Changes in Equity (HK$m)

		Attributable to shareholders of the company							
			Reserves						
	Note	Share capital	Hedging reserve	Exchange and other reserves	Retained profits	Total reserves	Total	Non-controlling interests	Total equity
At 1 January 2018, as previously reported		5,224	(15)	64	32,902	32,951	38,175	527	38,702
Impact of change in accounting policies on adoption of HKFRS 16		–	–	–	(249)	(249)	(249)	–	(249)
Balance at 1 January 2018 (restated)		5,224	(15)	64	32,653	32,702	37,926	527	38,453
Changes in equity for 2018:									
Profit for the year (restated)		–	–	–	1,216	1,216	1,216	(1)	1,215
Other comprehensive income (restated)	8	–	(1)	(427)	–	(428)	(428)	(13)	(441)
Total comprehensive income for the year (restated)		–	(1)	(427)	1,216	788	788	(14)	774
Dividends approved in respect of the previous year	10	221	–	–	(255)	(255)	(34)	–	(34)
Dividends approved in respect of the current year	10	64	–	–	(80)	(80)	(16)	–	(16)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(5)	(5)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	–	28	28
Balance at 31 December 2018 and 1 January 2019 (restated)		5,509	(16)	(363)	33,534	33,155	38,664	536	39,200
Changes in equity for 2019:									
Profit for the year		**–**	**–**	**–**	**494**	**494**	**494**	**9**	**503**
Other comprehensive income	8	**–**	**(22)**	**18**	**–**	**(4)**	**(4)**	**34**	**30**
Total comprehensive income for the year		**–**	**(22)**	**18**	**494**	**490**	**490**	**43**	**533**
Dividends approved in respect of the previous year	10	**179**	**–**	**–**	**(258)**	**(258)**	**(79)**	**–**	**(79)**
Dividends approved in respect of the current year	10	**44**	**–**	**–**	**(65)**	**(65)**	**(21)**	**–**	**(21)**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Capital contribution from a non-controlling shareholder		**–**	**–**	**–**	**–**	**–**	**–**	**103**	**103**
Balance at 31 December 2019		**5,732**	**(38)**	**(345)**	**33,705**	**33,322**	**39,054**	**675**	**39,729**

The notes on pages 178 to 239 form part of these Financial Statements.

Consolidated Statement of Cash Flows (HK$m)

	Note	Year ended 31 December 2019	2018 (restated)
Operating activities			
Profit after net financing charges		**661**	928
Adjustments for:			
Depreciation	12(a)	**576**	587
Amortisation of hotel operating rights	16	**13**	14
Interest income	4	**(14)**	(18)
Financing charges	5	**154**	169
Operating profit before changes in working capital		**1,390**	1,680
Payment for the development of properties under development for sale		**(366)**	(140)
Changes in other working capital		**(7)**	24
Cash generated from operations		**1,017**	1,564
Net tax paid:			
Hong Kong profits tax		**(1)**	(171)
Overseas tax		**(16)**	(22)
Net cash generated from operating activities		**1,000**	1,371
Investing activities			
Capital expenditure on property, plant and equipment and investment properties		**(564)**	(426)
Capital expenditure on projects under development		**(822)**	(959)
Cash injected from a non-controlling shareholder		**103**	28
Distribution from an associate		**3**	6
Capital injection into a joint venture		**(142)**	(109)
Net cash used in investing activities		**(1,422)**	(1,460)
Financing activities			
Drawdown of term loans		**1,388**	1,331
Repayment of term loans		**(398)**	(3,373)
Net (decrease)/increase in revolving loans		**(671)**	1,702
Net withdrawal of interest-bearing bank deposits with maturity of more than three months		**59**	179
Interest paid and other financing charges		**(135)**	(140)
Interest received		**15**	19
Capital element of lease rental paid		**(51)**	(38)
Interest element of lease rental paid		**(94)**	(90)
Dividends paid to shareholders of the company		**(100)**	(50)
Dividends paid to holders of non-controlling interests		**(7)**	(5)
Net cash generated from/(used in) financing activities		**6**	(465)
Net decrease in cash and cash equivalents		**(416)**	(554)
Cash and cash equivalents at 1 January		**1,098**	1,660
Effect of changes in foreign exchange rates		**(2)**	(8)
Cash and cash equivalents at 31 December	21(a)	**680**	1,098

The notes on pages 178 to 239 form part of these Financial Statements.

Notes to the Financial Statements

1. Company-Level Statement of Financial Position (HK$m)

	Note	At 31 December 2019	2018
Non-current assets			
Investment in subsidiaries	33	**–**	–
Current assets			
Amounts due from subsidiaries		**14,995**	14,354
Other receivables		**6**	6
Cash at banks and in hand		**3**	47
		15,004	14,407
Current liabilities			
Amounts due to subsidiaries		**(63)**	(64)
Other payables and accruals		**(28)**	(23)
		(91)	(87)
Net assets		**14,913**	14,320
Capital and reserves			
Share capital	25	**5,732**	5,509
Reserves	26(a)	**9,181**	8,811
Total equity		**14,913**	14,320

Approved by the Board of Directors on 17 March 2020 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* and rental income derived from the hotels' shopping arcade and offices and commercial properties recognised in accordance with HKFRS 16, *Leases*. The amount of each significant category of revenue recognised during the year is as follows:

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

Notes to the Financial Statements

4. Profit After Net Financing Charges (HK$m)

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

	2019	2018 (restated)
Amortisation	**13**	14
Depreciation		
Other properties, plant and equipment	**506**	528
Right-of-use assets	**70**	59
Auditor's remuneration:		
audit services	**10**	11
taxation and other services	**4**	4
Interest income	**(14)**	(18)
Rentals receivable from investment properties less direct outgoings of HK$25 million (2018: HK$20 million)	**(1,236)**	(1,211)

5. Financing Charges (HK$m)

	2019	2018 (restated)
Interest on bank borrowings	**113**	120
Interest on lease liabilities	**143**	141
Other borrowing costs	**39**	39
Total interest expenses on financial liabilities carried at amortised cost	**295**	300
Derivative financial instruments:		
– cash flow hedges, transfer from equity (note 8)	**7**	6
	302	306
Less: Interest expenses capitalised into properties under development*	**(106)**	(95)
Right-of-use asset#	**(42)**	(42)
	154	169

* The borrowing costs have been capitalised at an average rate of 2.7% in 2019 (2018: 3.0%).

\# Interest on lease liabilities have been capitalised at an average rate of 4.9% in 2019 (2018: 4.9%).

6. Income Tax in the Consolidated Statement of Profit or Loss (HK$m)

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

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

The provision for Hong Kong profits tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019	2018 (restated)
Profit before taxation	**695**	1,399
Notional tax at the domestic income tax rate of 16.5% (2018: 16.5%)	**115**	231
Tax effect of non-deductible expenses	**14**	14
Tax effect of non-taxable income	**(2)**	(3)
Tax effect of share of losses of a joint venture and associates	**8**	9
Tax effect of fair value gain on Hong Kong investment properties	**(18)**	(95)
Tax effect of recognition of previously unrecognised tax losses	**(12)**	(8)
Tax effect of tax losses not recognised	**57**	31
Effect of different tax rates of subsidiaries operating in other jurisdictions	**26**	3
Under/(over)-provision in respect of prior years	**1**	(4)
Others	**3**	6
Actual tax expense	**192**	184

Notes to the Financial Statements

7. Remuneration of Key Management Personnel (HK$000)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company and the group. It comprises the Board of Directors of the company and the Group Management Board (GMB). Members of the GMB comprise the Executive Directors and six (2018: five) senior management. The total remuneration of the key management personnel is shown below:

	2019		2018	
	Executive and Non-executive Directors	**GMB members other than Executive Directors**	Executive and Non-executive Directors	GMB members other than Executive Directors
Directors' fees	**6,025**	**–**	5,894	–
Basic compensation	**17,293**	**24,432**	16,482	19,606
Bonuses and incentives	**12,961**	**7,068**	15,043	8,290
Retirement benefits	**2,829**	**2,281**	2,697	1,664
Other benefits	**509**	**941**	539	727
	39,617	**34,722**	40,655	30,287

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 "2019 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)

	2019			2018 (restated)		
	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	**106**	**–**	**106**	(338)	–	(338)
– financial statements of joint ventures	**(27)**	**–**	**(27)**	(51)	–	(51)
– loans to an associate	**(15)**	**–**	**(15)**	(26)	–	(26)
– hotel operating rights	**(12)**	**–**	**(12)**	(20)	–	(20)
	52	**–**	**52**	(435)	–	(435)
Cash flow hedges:						
– effective portion of changes in fair values	**(33)**	**4**	**(29)**	(7)	–	(7)
– transfer from equity to profit or loss	**7**	**–**	**7**	6	–	6
Remeasurement of net defined benefit retirement obligations	**–**	**–**	**–**	(5)	–	(5)
Other comprehensive income	**26**	**4**	**30**	(441)	–	(441)

9. Earnings per Share

(a) Earnings per share – basic

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

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

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2019 and 2018 and hence the diluted earnings per share is the same as the basic earnings per share.

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

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

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

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

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

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 2019 and 2018 are set out as follows:

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

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

* Analysis of segment revenue is disclosed in note 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 2019 and 2018 are set out as follows:

	Note	**As at 31 December 2019**	As at 31 December 2018 (restated)	As at 1 January 2018 (restated)
Reportable segment assets				
Hotels		**25,231**	24,300	26,721
Commercial properties		**25,677**	25,014	21,419
Clubs and services		**1,328**	1,124	1,094
		52,236	50,438	49,234
Unallocated assets				
Deferred tax assets	18(b)	**72**	49	38
Amount due from a joint venture	31(b)	**56**	57	60
Derivative financial instruments	17	**–**	2	–
Cash at banks and in hand	21(a)	**697**	1,178	1,922
Consolidated total assets		**53,061**	51,724	51,254

(c) Geographical information

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

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

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

Notes to the Financial Statements

12. Investment Properties and Other Properties, Plant and Equipment (HK$m)

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

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

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

The group assessed the recoverable amounts of its other properties, plant and equipment at the reporting date in accordance with the accounting policy 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 2019 and 2018.

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

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

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

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 2019:

Valuation parameters	Range
Capitalisation rate	
– Shopping arcades	3.8% – 6.6% (2018: 3.8% – 6.6%)
– Offices	3.9% – 4.1% (2018: 3.9% – 4.1%)
– Residential properties	2.9% – 3.7% (2018: 2.9% – 3.7%)
Expected monthly market rental per square foot	
– Shopping arcades	HK$41 – HK$1,300 (2018: HK$43 – HK$1,300)
– Offices	HK$29 – HK$53 (2018: HK$30 – HK$54)
– Residential properties	HK$40 – HK$73 (2018: HK$41 – HK$74)

Details of the movement of the group's investment properties are disclosed in note 12(a) above.

The net fair value adjustment of investment properties is recognised as a non-operating item in the consolidated statement of profit or loss.

(d) Investment properties rented out under operating leases

The group rents out its investment properties to third party tenants for rental income under operating leases. The rental agreements with tenants typically run for an initial period of one to five years, with or without options to renew after that date at which time all terms are renegotiated. Certain rental agreements include variable rentals that are based on the revenue of tenants.

Undiscounted rentals receivable by the group under non-cancellable operating lease arrangements at the reporting date are as follows:

	2019	2018
Within one year	**901**	945
After one year but within two years	**558**	521
After two years but within three years	**412**	357
After three years but within four years	**294**	230
After four years but within five years	**204**	158
After five years	**684**	706
	3,053	2,917

12. Investment Properties and Other Properties, Plant and Equipment (HK$m) continued

(e) Right-of-use assets

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

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

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

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

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

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

Details of total cash outflow for leased assets, the maturity analysis of lease liabilities and the future cash outflows arising from leased assets that are not yet commenced are set out in notes 21(b), 24 and 28(c), respectively.

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:

	Usage
Held in Hong Kong:	
Long term leases (over 50 years):	
The Peninsula Hong Kong, Salisbury Road	Hotel and commercial rentals
The Peninsula Office Tower, 18 Middle Road	Office
Repulse Bay Apartments, 101 Repulse Bay Road	Residential
St. John's Building, 33 Garden Road	Office
Medium term lease (between 10 and 50 years):	
The Peak Tower, 128 Peak Road	Commercial rentals
The Repulse Bay, 109 Repulse Bay Road	Residential and commercial rentals
Repulse Bay Garage, 60 Repulse Bay Road	Commercial rentals
Held in Mainland China:	
Medium term lease (between 10 and 50 years):	
The Peninsula Beijing,	
8 Goldfish Lane, Wangfujing, Beijing	Hotel and commercial rentals
Shanghai apartments,	
No. 32 The Bund,	
32 Zhong Shan Dong Yi Road, Shanghai	Residential
Held in Japan:	
Long term lease (over 50 years):	
The Peninsula Tokyo,	
1-8-1 Yurakucho, Chiyoda-ku, Tokyo	Hotel and commercial rentals
Held in Thailand:	
Freehold:	
The Peninsula Bangkok,	
333 Charoennakorn Road, Klongsan, Bangkok 10600	Hotel
Vacant land, near The Peninsula Bangkok	Undetermined
Thai Country Club, Bangna-Trad, Chachoengsao	Golf club
Land plots, Bangpakong District, Chachoengsao	Undetermined
Held in The Philippines:	
Short term lease (less than 10 years):	
The Peninsula Manila,	
Corner of Ayala and Makati Avenues,	
1226 Makati City, Metro Manila	Hotel and commercial rentals
Held in Vietnam:	
Short term lease (less than 10 years):	
The Landmark, 5B Ton Duc Thang Street,	
District 1, Ho Chi Minh City	Residential and commercial rentals

12. Investment Properties and Other Properties, Plant and Equipment (HK$m) continued

(f) Hotel and investment properties, all held through subsidiaries, are as follows: continued

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

(g) The net book value of the group's hotels and golf courses as at 31 December 2019 amounted to HK$6,139 million (2018: HK$6,282 million). To provide additional information for shareholders, the Directors commissioned an independent valuation of these properties as at 31 December 2019.

The total valuation placed on these properties amounted to HK$9,506 million (2018: HK$9,682 million) as at 31 December 2019. It is important to note that the surplus of HK$3,367 million (2018: HK$3,400 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
Hong Kong, the United States of America and other Asia		
Hotels and golf courses	Colliers	Members of the Royal Institution of Chartered Surveyors

Notes to the Financial Statements

13. Properties Under Development for Sale (HK$m)

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

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

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

Reservation fees and pre-sale deposits, if any, paid by buyers of the apartments will be held in escrow accounts in accordance with the local regulations in the UK and therefore, such fees and deposits are not reflected in the consolidated statement of financial position.

14. Interest in Joint Ventures (HK$m)

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

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

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Shanghai Waitan Hotel Company Limited (PSW)	Incorporated	PRC	US$117,500,000 (31 December 2018: US$117,500,000)	50%	Hotel investment and apartments held for sale
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)*	Incorporated	Turkey	TRY487,800,000 (31 December 2018: TRY288,300,000)	50%	Hotel investment

* PIT was incorporated on 10 February 2016 and the group's interest in this joint venture is held indirectly by the company. PIT has redevelopment and operating rights in respect of a property within the Salıpazarı Port Project Area in Istanbul, Turkey. The group, together with its joint venture partner, intends to redevelop the property into The Peninsula Istanbul. The net assets of PIT at 31 December 2019 mainly comprised property under development and cash at bank and in hand of HK$843 million (2018: HK$594 million) and HK$5 million (2018: HK$3 million) respectively.

(b) PSW has pledged its properties inclusive of the land use rights as security for an initial loan facility amounting to RMB2,500 million (HK$2,786 million) (2018: RMB2,500 million (HK$2,847 million)). As at 31 December 2019, the loan drawn down amounted to RMB953 million (HK$1,062 million) (2018: RMB1,068 million (HK$1,216 million)). The net carrying amount of these pledged assets amounted to RMB2,653 million (HK$2,957 million) (2018: RMB2,728 million (HK$3,106 million)).

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:

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

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

Notes to the Financial Statements

15. Interest in Associates (HK$m)

	2019	2018
Interest in associates	**588**	638

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

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

* The group's effective interest is held indirectly by the company.
** 19 Holding holds a 100% direct interest in Majestic which owns The Peninsula Paris.
\# BHP holds a 100% interest in The Peninsula Beverly Hills.

(b) Included in the balance of interest in associates are long-term unsecured loans to 19 Holding of HK$439 million (2018: HK$451 million). These loans were made pro rata to the group's shareholding in 19 Holding and bear interest rates related to the rates published by the French tax authorities.

(c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR224 million (HK$1,956 million) (2018: EUR224 million (HK$2,007 million)). As at 31 December 2019, the loan drawn down amounted to EUR224 million (HK$1,956 million) (2018: EUR224 million (HK$2,007 million)). As at 31 December 2019, the net carrying amount of the pledged asset amounted to EUR553 million (HK$4,828 million) (2018: EUR573 million (HK$5,133 million)).

(d) BHP has pledged its hotel property to an independent financial institution as security for BHP's loan facility, amounting to US$145 million (HK$1,131 million) (2018: US$145 million (HK$1,131 million)). As at 31 December 2019, the loan drawn down amounted to US$127 million (HK$991 million) (2018: US$130 million (HK$1,014 million)). The net carrying amount of the pledged asset amounted to US$50 million (HK$390 million) (2018: US$56 million (HK$437 million)).

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

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

16. Hotel Operating Rights (HK$m)

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

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

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

17. Derivative financial instruments (HK$m)

	2019		2018	
	Assets	**Liabilities**	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	**–**	**(21)**	–	(7)
Forward exchange contracts	**–**	**(8)**	2	–
	–	**(29)**	2	(7)
Less: Portion to be settled within one year				
Cash flow hedges:				
Interest rate swaps	**–**	**–**	–	–
Forward exchange contracts	**–**	**(8)**	2	–
	–	**(8)**	2	–
Amount to be settled after one year	**–**	**(21)**	–	(7)

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

(a) Current taxation:

	2019	2018
Provision for Hong Kong profits tax net provisional profits tax paid	**139**	19
Provision for overseas taxes	**11**	4
	150	23
Represented by:		
Tax recoverable	**(2)**	(3)
Current tax payable (included in current liabilities)	**152**	26
	150	23

Notes to the Financial Statements

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

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities of the group recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Revaluation of investment properties	Tax allowances in excess of the related depreciation	Provisions and others	Tax losses	Cash flow hedges	Depreciation of right-of-use assets and interest on lease liabilities	Total
Deferred tax arising from:							
At 1 January 2018 (as reported)	380	713	(28)	(443)	(1)	–	621
Impact on initial application of HKFRS 16 (note 35)	–	–	–	18	–	(31)	(13)
At 1 January 2018 (as restated)	380	713	(28)	(425)	(1)	(31)	608
Exchange adjustments	(3)	(1)	–	1	–	–	(3)
Charged/(credited) to profit or loss (restated)	(14)	48	(1)	(23)	–	(6)	4
At 31 December 2018 and at 1 January 2019 (as restated)	**363**	**760**	**(29)**	**(447)**	**(1)**	**(37)**	**609**
Exchange adjustments	**1**	**9**	**–**	**1**	**–**	**(1)**	**10**
Charged/(credited) to reserve	**4**	**–**	**–**	**–**	**(4)**	**–**	**–**
Charged/(credited) to profit or loss	**(5)**	**37**	**8**	**12**	**–**	**(6)**	**46**
At 31 December 2019	**363**	**806**	**(21)**	**(434)**	**(5)**	**(44)**	**665**

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.

	As at 31 December 2019	As at 31 December 2018 (restated)	As at 1 January 2018 (restated)
Deferred tax assets	**72**	49	38
Deferred tax liabilities	**(737)**	(658)	(646)
	(665)	(609)	(608)

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

(b) Deferred tax assets and liabilities recognised continued

In accordance with the accounting policy set out in note 34(q), the group has not recognised deferred tax assets totalling HK$347 million (2018: HK318 million) in respect of certain accumulated tax losses of HK$1,299 million (2018: HK$1,184 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:

	2019	2018
Expiring in one year	**112**	134
After one year but within five years	**997**	870
After five years but within 20 years	**139**	81
Without expiry date	**51**	99
	1,299	1,184

The group does not have any deferred tax liabilities arising from any undistributable profit in 2019 and 2018.

19. Inventories (HK$m)

	2019	2018
Food and beverage and others	**89**	84

The cost of inventories recognised as expenses in the consolidated statement of profit or loss amounted to HK$457 million (2018: HK$470 million).

20. Trade and other receivables (HK$m)

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

Notes to the Financial Statements

20. Trade and other receivables (HK$m) continued

The amount of the group's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK$137 million (2018: HK$122 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

The ageing analysis of trade debtors is as follows:

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

Trade debtors are normally due within 30 days from the date of billing. Further details on the group's credit policy and credit risk arising from trade debtors are set out in note 28(d).

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

(a) Cash at banks and in hand

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

Cash at banks and in hand at the end of the reporting period include amounts of HK$295 million (2018: HK$188 million) held by overseas subsidiaries which are subject to regulatory and foreign exchange restrictions.

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

(b) Reconciliation of liabilities arising from financing activities

	Interest-bearing borrowings (note 23)	Lease liabilities (note 24)	Derivative financial instruments (note 17)	Interest payable (note 22)	Total
As at 1 January 2018 (as reported)	7,443	–	4	9	7,456
Impact on initial application of HKFRS 16 (note 35)	–	2,996	–	–	2,996
As at 1 January 2018 (as restated)	7,443	2,996	4	9	10,452
Changes from financing cashflows					
Drawdown of term loans	1,331	–	–	–	1,331
Repayment of term loans	(3,373)	–	–	–	(3,373)
Net increase in revolving loans	1,702	–	–	–	1,702
Decrease in bank overdrafts	(3)	–	–	–	(3)
Interest paid and other financing charges	–	(90)	–	(140)	(230)
Capital element of lease rental paid	–	(38)	–	–	(38)
Changes in fair value					
Effective portion of changes in fair values	–	–	7	–	7
Other changes					
Exchange difference	(31)	10	–	–	(21)
Financing charges	26	99	–	44	169
Capitalised borrowing costs (note 5)	–	42	–	95	137
Capitalisation of operating leases	–	4	–	–	4
Transfer from equity to profit or loss	–	–	(6)	–	(6)
As at 31 December 2018 and 1 January 2019 (as restated)	**7,095**	**3,023**	**5**	**8**	**10,131**
Changes from financing cashflows					
Drawdown of term loans	**1,388**	**–**	**–**	**–**	**1,388**
Repayment of term loans	**(398)**	**–**	**–**	**–**	**(398)**
Net decrease in revolving loans	**(671)**	**–**	**–**	**–**	**(671)**
Decrease in bank overdrafts	**(4)**	**–**	**–**	**–**	**(4)**
Interest paid and other financing charges	**–**	**(94)**	**–**	**(135)**	**(229)**
Capital element of lease rental paid	**–**	**(51)**	**–**	**–**	**(51)**
Changes in fair value					
Effective portion of changes in fair values	**–**	**–**	**31**	**–**	**31**
Other changes					
Exchange difference	**90**	**36**	**–**	**–**	**126**
Financing charges	**24**	**101**	**–**	**29**	**154**
Capitalised borrowing costs (note 5)	**–**	**42**	**–**	**106**	**148**
Capitalisation of operating lease	**–**	**92**	**–**	**–**	**92**
Transfer from equity to profit or loss	**–**	**–**	**(7)**	**–**	**(7)**
As at 31 December 2019	**7,524**	**3,149**	**29**	**8**	**10,710**

Notes to the Financial Statements

22. Trade and other payables (HK$m)

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

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

The Directors consider that the carrying amount of all trade and other payables approximates their fair value.

The ageing analysis of trade creditors is as follows:

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

23. Interest-bearing borrowings (HK$m)

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

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

All of the group's banking facilities are subject to the fulfilment of covenants relating to some of the group's consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the group were to breach the covenants, the drawn down facilities would become payable on demand. The group regularly monitors its compliance with these covenants. Further details of the group's management of liquidity risk are set out in note 28(c). As at 31 December 2019 and 2018, none of the covenants relating to drawn down facilities had been breached.

Notes to the Financial Statements

24. Lease liabilities (HK$m)

The group is the lessee in respect of a number of properties which are leased from third party landlords. Pursuant to its accounting policy, the group capitalises the present value of the future minimum lease payments of its leased properties as right-of-use assets (note 12(e)) and the corresponding credit is recognised as lease liabilities. The group remeasures its lease liabilities at each accounting period end to reflect the interest accrued on the outstanding lease liabilities and the lease payments made.

The following table shows the remaining contractual maturities of the group's minimum lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16 (note 35):

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

25. Share capital

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

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

All ordinary shares issued during 2019 rank pari passu in all respects with the existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

Note
During 2019, 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
2018 final scrip dividend	16	11.284	179
2019 interim scrip dividend	5	8.208	44
	21		223

26. Reserves (HK$m)

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the company's individual components of equity between the beginning and the end of the year are set out below:

(a) Company

	Capital reserve	Retained profits	Total
At 1 January 2018	4,975	3,531	8,506
Profit for the year	–	640	640
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	640	640
Dividends approved in respect of the previous year	–	(255)	(255)
Dividends approved in respect of the current year	–	(80)	(80)
At 31 December 2018	4,975	3,836	8,811
At 1 January 2019	**4,975**	**3,836**	**8,811**
Profit for the year	**–**	**693**	**693**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**693**	**693**
Dividends approved in respect of the previous year	**–**	**(258)**	**(258)**
Dividends approved in respect of the current year	**–**	**(65)**	**(65)**
At 31 December 2019	**4,975**	**4,206**	**9,181**

(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.

Notes to the Financial Statements

26. Reserves (HK$m) continued

(c) Reserves available for distribution

At 31 December 2019, 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$4,206 million (2018: HK$3,836 million). After the end of the reporting period, the Directors proposed a final dividend of 9 HK cents per share (2018: 16 HK cents per share), amounting to HK$147 million (2018: HK$258 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.

26. Reserves (HK$m) continued

(d) Capital management continued

The group monitors its capital structure based on the ratio of net debt to equity attributable to shareholders. The group's share of net borrowings of the non-consolidated entities (associates and joint ventures), if any, are also taken into account. The calculations of the ratio of net debt to equity attributable to shareholders before and after the non-consolidated entities as at 31 December 2019 and 2018 are as follows:

	2019	2018 (restated)
Interest-bearing borrowings	**7,524**	7,095
Less: Cash at banks and in hand	**(697)**	(1,178)
Net borrowings per the statement of financial position	**6,827**	5,917
Share of net borrowings of non-consolidated entities	**1,070**	1,109
Net borrowings adjusted for non-consolidated entities	**7,897**	7,026
Equity attributable to shareholders of the company per the consolidated statement of financial position	**39,054**	38,664
Net debt to equity attributable to shareholders ratio based on the consolidated financial statements	**17%**	15%
Net debt to equity attributable to shareholders ratio adjusted for non-consolidated entities	**20%**	18%

During 2019, the group continued to operate within its long term treasury management guidelines. Operating and investment decisions are made by reference to the group's long term cash flow forecasts to ensure that the guidelines are followed.

The group is subject to 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 2019 and 2018. Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

27. Employee retirement benefits (HK$m)

(a) Defined benefit retirement obligations

The group maintains non-contributory defined benefit retirement plans covering 492 employees (2018: 498 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.

The defined benefit retirement obligations as at 31 December 2019 of QLI and MPHI are estimated by qualified staff of Bartel Associates, LLC and Actuarial Advisers, Inc, respectively who are members of the America Academy of Actuaries and the Actuarial Society of the Philippines using the projected unit credit method. The actuarial valuations indicated that 27% (2018: 35%) of such obligations was covered by the plan assets held by independent trustees. The present value of the uncovered obligations was fully provided for as at 31 December 2019.

Notes to the Financial Statements

27. Employee retirement benefits (HK$m) continued

(a) Defined benefit retirement obligations continued

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

	2019	2018
Present value of wholly or partly funded obligations	**37**	34
Fair value of plan assets	**(10)**	(12)
	27	22

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 (2019: HK$4 million) in contributions to defined benefit retirement plans in 2020.

Plan assets consist of the following:

	2019	2018
Debt instruments	**6**	7
Investment funds	**3**	4
Equity investment and others	**1**	1
	10	12

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:

	2019	2018
At 1 January	**34**	45
Exchange adjustments	**1**	(1)
Benefits paid by the plans	**(5)**	(19)
Current service cost	**3**	3
Past service cost	**2**	–
Interest cost	**2**	3
Actuarial loss	**–**	3
At 31 December	**37**	34

27. Employee retirement benefits (HK$m) continued

(a) Defined benefit retirement obligations continued

Movements in plan assets:

	2019	2018
At 1 January	12	28
Exchange adjustments	–	(1)
Group's contributions paid to the plans	2	4
Benefits paid by the plans	(5)	(19)
Interest income	1	2
Return on plan assets, excluding interest income	–	(2)
At 31 December	10	12

Amounts recognised in "staff costs and related expenses" in the consolidated statement of profit or loss and statement of comprehensive income are as follows:

	2019	2018
Consolidated statement of profit or loss		
Current service cost	**3**	3
Past service cost	**2**	–
Interest cost	**2**	3
Interest income	**(1)**	(2)
	6	4
Consolidated statement of comprehensive income		
Actuarial loss on:		
Remeasurement of plan assets	**–**	2
Remeasurement of defined benefit obligations	**–**	3
	–	5

The principal actuarial assumptions used as at 31 December 2019 are as follows:

	2019	2018
Discount rate	**from 1.75% to 6.5%**	from 2.75% to 7.73%
Future salary increases	**from 3.5% to 4%**	4%

The analysis below shows how the defined benefit obligations as at 31 December 2019 would have increased/(decreased) as a result of changes in the significant actuarial assumptions:

	Defined benefit obligations	
	Increase	Decrease
Discount rate (0.5% change)	(1)	1
Future salary 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

27. Employee retirement benefits (HK$m) continued

(b) Defined contribution retirement plans

The group has a defined contribution retirement plan covering 1,532 employees (2018: 1,583 employees), most of whom are in Hong Kong. The defined contribution retirement plan is formally established under an independent trust with the assets of the funds held separately from those of the group by an independent trustee. The plan is registered under the Occupational Retirement Schemes Ordinance in Hong Kong and is exempted under the Mandatory Provident Fund Schemes (Exemption) Regulation. Employees covered by this plan are not required to make contributions and funds contributed by employers are fully vested with their employees immediately. The average contribution rate against employees' relevant income for the year was 14% (2018: 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 196 employees (2018: 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 2,296 employees (2018: 2,202 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$132 million (2018: HK$127 million) and was charged to the consolidated statement of profit or loss during the year.

28. Financial risk management and fair values

The group is exposed to foreign exchange, interest rate, liquidity and credit risks in its normal course of business. The group's exposure to these risks, as well as various techniques and derivative financial instruments used to manage these risks, are described below.

(a) Foreign exchange risk

The group manages its foreign exchange exposure with a view to protecting its net assets and profitability against adverse fluctuations in exchange rates. The company reports its results in Hong Kong Dollars. In the light of the Hong Kong Dollar peg, the group does not hedge United States Dollar exposures and it aims to preserve its value in Hong Kong Dollar and/or United States Dollar terms.

Foreign exchange risk may arise in sale and purchase transactions which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars, Euros, Great Britain Pounds, Renminbi, Japanese Yen, Thai Baht and Philippine Pesos.

28. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Hedge of foreign exchange risk in forecast transactions

In respect of committed future transactions and highly probable forecast transactions, the group usually hedges its estimated foreign currency transaction exposures if the foreign exchange risk of these exposures is considered to be significant. The group mainly uses forward exchange contracts to hedge this type of foreign exchange risk and classifies these contracts as cash flow hedges.

The group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instruments and the highly probable forecast transactions based on their currency amounts and the timing of their respective cash flows.

The main source of ineffectiveness in these hedging relationships are:

(i) the effect of the counterparty's and the group's own credit risk on the fair value of the forward exchange contracts which is not reflected in the change in the value of the hedged cash flows attributable to the forward rate; and

(ii) changes in the timing of the hedging transactions.

The following table details the forward exchange contracts that have been designated as cash flow hedges of the group's highly probable forecast transactions at the end of the reporting period:

	2019				2018			
	(million)		**(million)**		(million)		(million)	
Notional amount								
– Buy EUR with GBP	**EUR**	**11**	**GBP**	**10**	EUR	15	GBP	13
– Buy US Dollars with GBP		**–**		**–**	USD	4	GBP	3

	2019	2018
Carrying amount		
– (Liability)/asset	**(8)**	2

The forward exchange contracts have a maturity of less than one year from the reporting date and have an average exchange rate of 0.9219 between EUR and GBP.

Notes to the Financial Statements

28. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Hedge of foreign exchange risk in forecast transactions continued

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2019	2018
Balance at 1 January	**2**	–
Effective portion of the cash flow hedge recognised in other comprehensive income	**(12)**	2
Related tax	**2**	–
Balance at 31 December	**(8)**	2
Hedge ineffectiveness recognised in profit or loss	**–**	–
Change in fair value of the forward exchange contracts during the year	**(10)**	2
Effective portion of the cash flow hedge recognised in other comprehensive income	**(10)**	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 2019 and 2018, the group did not hedge any net investment in foreign subsidiaries.

28. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Exposure to foreign exchange risk

The following table details the group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The amounts of the exposure are shown in original currency. Differences resulting from the translation of the financial statements of the foreign operations into the group's presentation currency and exposures arising from inter-company balances which are denominated in a foreign currency and is considered to be in the nature of investment in the subsidiary, joint ventures and associates are excluded.

	2019			2018			
(million)	**United States Dollars**	**Euro**	**Reminbi**	United States Dollars	Euro	Reminbi	Philippine Pesos
Trade and other receivables	**34**	**1**	**12**	32	1	17	–
Cash at banks and in hand	**7**	**6**	**–**	11	4	–	5
Trade and other payables	**(51)**	**–**	**–**	(53)	–	–	–
Net exposure arising from recognised assets and liabilities	**(10)**	**7**	**12**	(10)	5	17	5

Based on the sensitivity analysis performed as at 31 December 2019, it was estimated that an increase/decrease of 10% (2018: 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 2019, the group had interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK$3,348 million (2018: HK$3,287 million) maturing over the next five years (2018: five years). Changes in fair value of these swaps accounted for as cash flow hedges are recognised in the hedging reserve. The group locked in the following ranges of fixed rates by the swaps at 31 December 2019:

	31 December 2019	31 December 2018
Japanese Yen	**0.1%**	0.1%
Euros	**0.4%**	0.4%
Pounds	**1.1% to 1.2%**	1.1% to 1.2%

Notes to the Financial Statements

28. Financial risk management and fair values continued

(b) Interest rate risk continued

The net fair value of all the swaps entered into by the group at 31 December 2019 was as follows (HK$m):

	2019	2018
Cash flow hedges (note 17)	**(21)**	(7)

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:

	2019	2018
Balance at 1 January	**(18)**	(15)
Effective portion of the cash flow hedge recognised in other comprehensive income	**(14)**	(3)
Related tax	**2**	–
Balance at 31 December	**(30)**	(18)
Change in fair value of the interest rate swap during the year	**(19)**	(9)
Transfer from equity to profit or loss	**7**	6
Effective portion of the cash flow hedge recognised in other comprehensive income	**(12)**	(3)

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.

	2019		2018	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**1.9%**	**6,471**	1.9%	5,213
Floating rate borrowings:				
Bank loans	**2.7%**	**1,053**	2.6%	1,882
Total interest-bearing borrowings		**7,524**		7,095
Fixed rate borrowings as a percentage of total borrowings		**86%**		73%

28. Financial risk management and fair values continued

(b) Interest rate risk continued

On the other hand, as at 31 December 2019 and 2018, 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:

	2019		2018	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Floating rate instruments:				
Bank deposits	**0.92%**	**397**	1.8%	924

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 2019 and 2018, 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.

	2019 Increase/(decrease) in			2018 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	–
	(100)	**–**	**–**	(100)	(1)	–
Thai Baht	**100**	**(3)**	**–**	100	(3)	–
	(100)	**3**	**–**	(100)	3	–
Japanese Yen	**50**	**–**	**–**	50	(1)	1
	(50)	**–**	**–**	(50)	1	–
HK Dollars	**100**	**–**	**–**	100	5	–
	(100)	**–**	**–**	(100)	(5)	–
US Dollars	**100**	**(1)**	**–**	100	1	–
	(100)	**1**	**–**	(100)	(1)	–
Euros	**100**	**(1)**	**10**	100	(1)	11
	(100)	**1**	**(1)**	(100)	–	(5)
GBP	**100**	**–**	**22**	100	–	32
	(100)	**–**	**(14)**	(100)	–	(27)

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 2018.

Notes to the Financial Statements

28. Financial risk management and fair values continued

(c) Liquidity risk

Borrowings and cash management, including short term investment of surplus cash, are arranged centrally to cover expected cash requirements. The group's policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that it maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to meet its obligations and commitments in the short and longer term.

At 31 December 2019, total available borrowing facilities amounted to HK$14,872 million (2018: HK$14,556 million), of which HK$7,593 million (2018: HK$7,185 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$6,878 million (2018: HK$6,957 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:

	2019						2018					
		Contractual undiscounted cash outflow/(inflow)						Contractual undiscounted cash outflow/(inflow)				
(HK$m)	Statement of financial position carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Statement of financial position carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Trade creditors	147	147	147	-	-	-	152	152	152	–	–	–
Interest payable	8	8	8	-	-	-	8	8	8	–	–	–
Accruals for property, plant and equipment	212	212	212	-	-	-	195	195	195	–	–	–
Tenants' deposits	361	361	228	48	73	12	367	367	216	55	84	12
Guest deposits and gift vouchers	228	228	228	-	-	-	158	158	158	–	–	–
Golf membership deposits	84	84	-	-	-	84	84	84	–	–	–	84
Other payables	674	674	657	-	-	17	729	729	712	–	–	17
Lease liabilities	3,149	13,873	143	142	321	13,267	3,023	13,719	121	112	266	13,220
Interest-bearing borrowings	7,524	7,887	1,220	1,071	5,234	362	7,095	7,609	519	963	5,767	360
Interest rate swaps (net settled)	21	21	15	4	2	-	7	8	6	2	–	–
Forwarded foreign exchange contracts held as cash flow hedging instruments												
– outflow	8	102	102	-	-	-	–	164	164	–	–	–
– inflow	-	(94)	(94)	-	-	-	(2)	(166)	(166)	–	–	–
Current taxation	152	152	152	-	-	-	26	26	26	–	–	–
	12,568	23,655	3,018	1,265	5,630	13,742	11,842	23,053	2,111	1,132	6,117	13,693

28. Financial risk management and fair values continued

(d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group's credit risk is primarily attributable to bank deposits, trade and other receivables and derivative financial instruments and is monitored on an ongoing basis.

To minimise credit exposure for bank deposits and derivative financial instruments, the group transacts with financial institutions with good credit ratings and diversifies its exposure to various financial institutions in accordance with group guidelines. All bank deposits are subject to a single counterparty exposure limit and a composite counterparty exposure limit. The credit ratings of the financial institutions are closely monitored throughout the lives of the transactions.

At 31 December 2019, cash at banks and in hand amounted to HK$697 million (2018: HK$1,178 million), of which HK$195 million (2018: HK$753 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 2019 is summarised in note 20. The expected credit losses for these balances were not material at 31 December 2019, therefore no loss allowance was provided at 31 December 2019.

The group's exposure to credit risk is influenced mainly by individual characteristics of each customer rather than the industry or country in which the customers operate; therefore, it is considered that there is no concentration of credit risk as the group has no significant exposure to individual customers given the large number of customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including the derivative financial instruments, in the consolidated statement of financial position after deducting any impairment allowance. The group does not provide any other guarantee which would expose the group to any material credit risk.

Notes to the Financial Statements

28. Financial risk management and fair values continued

(e) Fair values

(i) Financial instruments carried at fair value

HKFRS 13, *Fair value measurement* requires disclosure of the fair value of the group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

All derivative financial instruments carried at fair value are categorised as falling under Level 2 of the fair value hierarchy.

(ii) Fair values of financial instruments carried at other than fair value

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2019. Advances to the joint venture are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair values. The group has no intention of disposing these loans.

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Derivative financial instruments

Forward foreign exchange contracts and foreign exchange swaps are either marked to market using listed market prices, or by discounting the contractual forward price and deducting the current spot rate. The fair values of interest rate swaps and cross currency interest rate swaps are the estimated amount that the group would receive or pay to terminate the swaps at the end of the reporting period, taking into account current interest rates, foreign exchange rates and the current creditworthiness of the swap counterparties.

When discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period. Where other pricing models are used, inputs are based on market related data at the end of the reporting period.

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

	31 December 2019	31 December 2018
Japanese Yen	**–0.1%**	–0.1%
Euros	**–0.4%**	–0.4% to 0%
Pounds	**0.6% to 0.7%**	0.7% to 0.8%

29. Commitments (HK$m)

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

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

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

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

30. Contingent liabilities (HK$m)

The Directors consider there being no material contingent liabilities for the group at 31 December 2019 and 2018.

31. Material related party transactions

Other than the Directors' remuneration and the loans advanced to an associate as disclosed in note 15, material related party transactions are set out as follows:

(a) Under two three-year tenancy agreements which commenced on 1 April 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 controlled by one of the substantial shareholders of the company. With effect from 1 January 2019, the monthly service charges for the 4th, 7th and 8th floors of St. George's Building were revised to HK$278,042.

The above leases were renewed for three years on 1 April 2019 at a total market rent of HK$2,558,810 per month plus service charge of HK$278,042 per month. The present value of the future rentals of HK$89 million was recognised as right-of-use assets on 1 April 2019 in accordance with the group's accounting policy (note 34(h)) whereas the monthly service charges paid during the year were recognised as expenses in the company's consolidated statement of profit or loss. The total amount of payments made to KEL in 2019 amounted to HK$32 million (2018: HK$24 million).

Despite the different accounting treatments for rentals and service charges, the above tenancy agreements fall under the Listing Rules as continuing connected transactions. The company has complied with the disclosure requirements governing continuing connected transaction under the Listing Rules. Further details of these continuing connected transactions are disclosed in the Directors' Report.

Notes to the Financial Statements

31. Material related party transactions continued

(b) Unsecured and interest free shareholder's loans amounting to US$66.85 million (HK$521 million) (2018: 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 2019, shareholder's loans amounting to US$58.75 million (HK$458 million) (2018: 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 2019, the balance of entrustment loans amounted to RMB50 million (HK$56 million) (2018: RMB50 million (HK$57 million)). The remaining balance of entrustment loans bears an annual interest of 3.5% and is repayable on 15 June 2020. 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 2019, unsecured and interest-free loans amounting to US$31 million (HK$243 million)(2018: US$18 million (HK$140 million))were advanced to PYH by Yoma Strategic Investments Ltd. and First Myanmar Investment Public Company Limited, the 30% non-controlling shareholders of PYH. Such loans were fully injected by PYH into PYL to fund the development of The Peninsula Yangon.

32. Key sources of estimation uncertainty

Notes 27(a) and 28 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Valuation of investment properties

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed semi-annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential. The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

(b) Estimated useful lives of other properties, plant and equipment

The group estimates the useful lives of its other properties, plant and equipment based on the periods over which the assets are expected to be available for use. The group reviews annually their estimated useful lives, based on factors that include asset utilisation, internal technical evaluation, technological changes as well as environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of properties, plant and equipment would increase depreciation charges and decrease non-current assets.

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.

(e) Determining the lease term

As explained in policy note 34(h), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the group, the group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

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

Notes to the Financial Statements

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 Clubs and Consultancy Services Limited	Hong Kong	1,000,000 shares	100%	Club management
HSH Management Services Limited	Hong Kong	10,000 shares	100%	Management and marketing services
Peninsula New York Hotel LLC	United States of America	Contributed capital of US$323,500,000	100%	Hotel investment
Peninsula Chicago LLC	United States of America	Contributed capital of US$57,038,089	100%	Hotel investment
Quail Lodge, Inc.	United States of America	10,652 shares of US$100 each	100%	Golf club, resort and property investment
Peninsula of Tokyo Limited	Japan	200 shares of JPY50,000 each	100%	Hotel investment
The Palace Hotel Co., Ltd.	People's Republic of China	Registered capital of US$161,921,686	76.6%**	Hotel investment
Manila Peninsula Hotel, Inc.	The Philippines	111,840,386 shares of Pesos 10 each	77.36%	Hotel investment
Siam Chaophraya Holdings Company Limited	Thailand	250,000 ordinary shares of THB2,000 each	50%	Hotel investment
Town and Country Sport Club Company Limited	Thailand	1,250,000 ordinary shares of THB100 each Δ	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	43,900,000 shares of US$1 each	70%	Hotel investment

* Except for HSH Financial Services Limited, all subsidiaries are indirectly held.

** The Palace Hotel Co., Ltd. is a sino-foreign co-operative joint venture with a reversionary interest to the PRC party at the end of the joint venture period.

\# 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.

Δ 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.

34. Significant accounting policies

(a) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the company and its subsidiaries (together referred to as the group) and the group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

i) investment properties, including interest in leasehold land and buildings held as investment properties where the group is the registered owner of the property interest (see note 34(f)); and

ii) derivative financial instruments (see note 34(d)).

The preparation of financial statements in conformity with 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.

Notes to the Financial Statements

34. Significant accounting policies continued

(b) Subsidiaries and non-controlling interests continued

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 34(c)).

In the company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 34(i)), unless the investment is classified as held for sale.

(c) Associates and joint ventures

An associate is an entity in which the group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see note 34(i)). Any acquisition-date excess over costs, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the group's share of losses exceeds its interest in the associates or the joint ventures, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the group's interest is the carrying amount of the investment under the equity method, together with the any other long-term interests that, in substance, form part of the group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of a financial asset.

34. Significant accounting policies continued

(d) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify as cash flow hedge accounting.

The group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and variable rate borrowings (cash flow hedges).

Cash flow hedges

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss. The amount accumulated in the hedging reserve is reclassified from equity to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss (such as when a forecast sale occurs or interest expense is recognised).

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

(e) Properties, plant and equipment

Hotel and other properties held for own use (including buildings held for own use which are situated on leasehold land classified as held under operating leases), right-of-use assets arising from leases over freehold or leasehold properties where the group is not registered owner of the property interest and plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 34(i)).

The cost of self-constructed items of properties, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 34(u)).

Notes to the Financial Statements

34. Significant accounting policies continued

(e) Properties, plant and equipment continued

Depreciation is calculated to write off the cost of items of properties, plant and equipment, less their estimated residual values, if any, on a straight line basis over the shorter of the unexpired period of the land lease and the anticipated remaining useful lives of the assets. The useful lives which have been adopted are summarised as follows:

- leasehold land 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).

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.

34. Significant accounting policies continued

(g) Hotel operating rights

Costs incurred for securing the group's rights to operate hotels are capitalised and are stated at cost less accumulated amortisation and impairment losses (see note 34(i)).

Amortisation of the operating rights is charged to profit or loss on a straight-line basis over the terms of the relevant operating periods.

(h) Leased assets

At inception of a contract, the group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the group, are primarily laptops and office furniture. When the group enters into a lease in respect of a low-value asset, the group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 34(e) and 34(i)), except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 34(f);

– right-of-use assets related to leasehold land and buildings where the group is the registered owner of the leasehold interest are carried at fair value;

– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 34(j).

Notes to the Financial Statements

34. Significant accounting policies continued

(h) Leased assets continued

(i) As a lessee continued

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The group presents right-of-use assets that do not meet the definition of investment properties in "property, plant and equipment" and presents lease liabilities separately in the statement of financial position.

(ii) As a lessor

When the group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 34(s).

When the group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the group applies the exemption described in note 34(h)(i), then the group classifies the sub-lease as an operating lease.

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

The group recognises a loss allowance for expected credit losses (ECLs) on the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables) and lease receivables.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

34. Significant accounting policies continued

(i) Credit losses and impairment of assets continued

(i) Credit losses from financial instruments and lease receivables continued

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.

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.

Notes to the Financial Statements

34. Significant accounting policies continued

(i) Credit losses and impairment of assets continued

(i) Credit losses from financial instruments and lease receivables continued

Significant increases in credit risk continued

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.

(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)).

34. Significant accounting policies continued

(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.

(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).

Notes to the Financial Statements

34. Significant accounting policies continued

(p) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined benefit retirement plan obligations

The group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense (income) on the net defined liability (asset) are recognised in profit or loss and allocated by nature as part of "staff costs and related expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in other reserves. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

Termination benefits

Termination benefits are recognised when and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

34. Significant accounting policies continued

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities and are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 34(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances and movements therein, are presented separately from each other and are not offset.

Notes to the Financial Statements

34. Significant accounting policies continued

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Onerous contracts

An onerous contract exists when the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(s) Revenue

Revenue is recognised when control over a product or service is transferred to the customer, or the leasee has the right to use the asset, at the amount of promised consideration to which the group is expected to be entitled, excluding those amounts collected on behalf of third parties. Further details of the group’s revenue recognition policies are as follows:

Hotel 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. Except for golf club membership income which is recognised overtime, revenue for hotel and golf club operations is recognised at a single point in time.

Sale of residential apartments

Revenue arising from the sale of residential apartments is recognised upon the completion of title transfer, which is the point in time when the customer has the ability to direct the use of the residential apartment and obtain substantially all of the remaining benefits of the residential apartment.

Sale of goods and wholesaling

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer takes possession of and accepts the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

Interest income

Interest income is recognised as it accrues using the effective interest method.

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

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

HKFRS 16, *Leases*

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

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

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

a) New definition of a lease

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

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

b) Lessee accounting

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

Notes to the Financial Statements

35. Changes in accounting policies continued

HKFRS 16, *Leases* continued

b) Lessee accounting continued

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

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

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

c) Lessor accounting

The group leases out its investment properties for rentals.

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

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

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

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

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

35. Changes in accounting policies continued

HKFRS 16, *Leases* continued

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

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

Notes to the Financial Statements

35. Changes in accounting policies continued

HKFRS 16, *Leases* continued

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

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

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

36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The group is in the process of making an assessment of what the impact of these developments is expected to be in period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

37. Non-adjusting events after the balance sheet date

a) After the end of the reporting period, the Directors proposed a final dividend, the details of which are disclosed in note 10.

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

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

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 2019 of HSH (further referred to as "the Report") for the year ended 31 December 2019 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 35
- The following data points as included in the Data table on page 35

Economic

Revenue (incl. interest income)
Operating costs
Employee wage and benefits
Capital expenditure
Payments to providers of capital
Tax payments to governments
Total floor area
Total number of guest nights

People

Total headcount
Headcount by gender
Total staff turnover

Safety

Injury rate
Lost day rate

Community

Monetary donations
In-kind donations
Other contributions for community development

Environment

Greenhouse gas emissions
Group carbon intensity
Total energy use
Energy Intensity
Direct water consumption
Water intensity
Water recycled and other water sources
Waste generated
Waste diverted

Responsibilities of the Directors of The Hongkong and Shanghai Hotels, Limited

The Directors of HSH are responsible for the preparation and presentation of the Report specifically ensuring that in all material respects the Report is prepared and presented in accordance with the Reporting Criteria, being the Environmental, Social and Governance Reporting Guide, Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEX ESG Guide"). This responsibility also includes designing, implementing and maintaining internal controls relevant to the preparation of the Report that is free from material misstatement whether due to fraud or error.

Responsibilities of the independent assurance provider

Our responsibility is to express a conclusion to the Directors of HSH based on our limited assurance procedures referred to below as performed over the Identified Elements of the Report. Our independent limited assurance report is made solely to HSH in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the Directors of HSH those matters we have been engaged to state in this independent limited assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than HSH for our work, for this independent limited assurance report, or for the conclusion we have reached. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

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 38 to 46 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 2019 of HSH for the year ended 31 December 2019, 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
17 March 2020

Sustainability Data Statements

This section provides statistical information on the Group’s sustainability performance. To facilitate stakeholders in understanding and benchmarking our corporate responsibility performance, our reporting follows the HKEX ESG Guide and GRI Standards.

Performance Highlights [1]

			2019	2018	2017	2016	2015	2006-08 baseline
Economic	**Revenue (incl. interest income)**	HK$m	**5,888**	6,232	5,804	5,668	5,797	–
	Operating costs	HK$m	**2,049**	2,241	2,102	2,134	2,142	–
	Employee wage and benefits	HK$m	**2,294**	2,291	2,135	2,108	2,063	–
	Capital expenditure	HK$m	**1,590**	1,490	1,827	2,479	1,379	–
	Payments to providers of capital	HK$m	**242**	195	224	239	217	–
	Tax payments to governments[2]	HK$m	**330**	486	442	410	480	–
	Total floor area	’000 m^2	**652**	652	652	651	651	518
	Total number of guest nights[3]	’000	**1,277**	1,333	1,240	1,190	1,256	1,119
People	**Headcount[4]**		**7,451**	7,594	7,534	7,985	8,447	–
	Turnover	%	**19.7%**	21.9%	21.3%	22.0%	22.6%	–
	Headcount by Gender	% Female	**41.6%**	42.6%	41.9%	42.6%	42.8%	–
Health and Safety	**Injury rate[4][5]**	incidents per 100 employees	**3.9**	3.5	3.1	3.9	3.4	–
	Lost day rate[4][5]	days per 100 employees	**74.4**	57.7	43.9	45.2	57.0	–
Environment	**Greenhouse gas emissions**	’000 tCO2e	**98**	101	102	103	107	117
	Group carbon intensity	kg CO2e per m^2	**150**	154	156	158	164	226
	Total energy use [6]	’000 GJ	**834**	864	864	866	892	858
	Energy intensity [6]	MJ per m^2	**1,278**	1,325	1,326	1,329	1,369	1,658
	Direct water consumption	’000 m^3	**1,559**	1,705	1,662	1,651	1,765	1,807
	Water intensity							
	Hotels Division[7]	litres per guest night	**1,014**	1,075	1,100	1,154	1,168	1,373
	Commercial Properties, Clubs & Services Division	litres per m^2	**1,184**	1,131	1,226	1,173	1,247	1,280
	Water recycled and other water sources	’000 m^3	**566**	448	489	613	137	–
	Waste diversion rate[8]	%	**50.7%**	50.8%	47.5%	42.2%	42.1%	–
Community	**Monetary Donations[4][9]**	HK$ ’000	**2,025**	2,519	3,250	4,232	6,273	–
	In-kind Donations[4][9]	HK$ ’000	**7,403**	7,502	6,684	9,048	7,115	–
	Other contributions for community development[10]	HK$ ’000	**2,787**	2,796	2,730	2,125	2,447	–

Footnotes:

(1.) Please refer to Reporting Scope on inside front cover of 2019 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. The decrease in the 2019 figure was mainly due to a timing difference arising from the late issuance of corporate income tax demand notes by the Hong Kong government. Therefore, the majority of Hong Kong corporate income tax relating to 2019 was not due or paid until 2020.

(3.) Calculation based on actual number of guests that occupied each of the rooms and suites in the relevant year.

(4.) There have been changes on reporting scope and methodology for people, health and safety, and community, please refer to page 37 of 2019 CRS Report for details. (Footnote 1 for people; footnote 4 for health and safety; footnote 19 for community).

(5.) Due to revised methodology in 2019, minor incidents only requiring first aid have been excluded in the scope in line with accepted reporting methodologies. We have restated the numbers from 2015 onwards as these changes were significant. Injury rate increased significantly due to an overall increase of injuries and reporting of these incidents of which over 96% are those that did not require a hospital stay, and thus not considered severe injuries. The injury rate for severe cases is at 0.14 per 100 employees. Lost day rates increased due to several prolonged injury cases of staff ranging from strains, fractures, bruises and burns that were carried forward from 2018 and several new prolonged cases reported in 2019. There was no incident of occupational disease recorded.

(6.) Vehicle fuel consumption is not included in the total energy use and energy intensity reported.

(7.) Includes all water uses in the hotels, not just those used by guests directly.

(8.) Grease trap waste, hazardous waste and construction waste were not included in the waste data reported.

(9.) Decrease in donations is due to the social and civil unrest in Hong Kong that led to a drop in guest donations (with the new methodology, refer to page footnote 19 in page 37 of 2019 CRS Report) and cancellation of gala and charity events. In addition, cost saving measures have been implemented due to the challenging business environment in 2019. We have also restated previous years data from 2015 to 2018 to include additional in-kind donations that were not included in previous years.

(10.) 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

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 less lease payments
Occupancy rate	This reveals the extent of rooms being occupied, calculated based on the following formula: $\frac{\text{Rooms sold}}{\text{Rooms available}} \times 100\%$
PP	Percentage points
RevPAR	The figure reflects the revenue generating ability of the Group's hotels from available rooms, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms available}}$
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 2020

2019 annual results announcement	17 March
Dispatch of Annual Report	3 April
For entitlement to attend and vote at Annual General Meeting	
– Last day to register	8 May 4:30pm
– Closure of register of members	11 May to 14 May (both days inclusive)
– Record date	14 May
Annual General Meeting	14 May 12:00 noon
Ex-dividend date for final dividend	18 May
For entitlement to receive final dividend	
– Last day to register	19 May 4:30pm
– Closure of register of members	20 May to 22 May (both days inclusive)
– Record date	22 May
Dispatch of scrip dividend circular and election form	27 May
Last day to return scrip dividend election form	16 June 4:30pm
Dispatch of dividend warrants and share certificates for final dividend	On or about 29 June
2020 interim results announcement	August
2020 interim dividend payment date	October
Financial year end	31 December

Company Website

www.hshgroup.com
Email: corpaffairs@peninsula.com

Investor Enquiries

www.hshgroup.com/investors
Email: ir@hshgroup.com

Corporate Responsibility and Sustainability Enquiries

www.hshgroup.com/sustainable-luxury
Email: 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
2019 Interim Dividend: 4 HK cents per share
2019 Final Dividend: 9 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 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
Email: 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.

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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
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Singapore 800 8526288
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Thailand 1800011888
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* Toll free access number is only available through Saudi Telecom Company

Reservations And Contact Addresses

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The Peak Tower and The Peak Tram

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The Landmark

www.thelandmarkvietnam.com

Thai Country Club

www.thaicountryclub.com

Quail Lodge & Golf Club

www.quaillodge.com

Peninsula Merchandising Limited

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