

FINANCIAL REVIEW

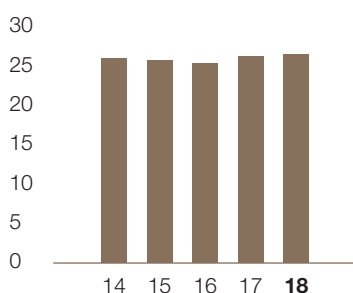
Adjusted NAV

HK\$42,688m

+2%

Adjusted NAV per Share

HK\$



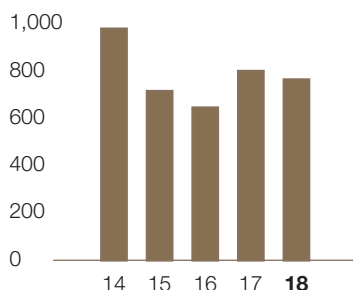
Underlying profit

HK\$765m

-4%

Underlying Profit

HK\$m



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

The group's adjusted net asset value

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

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

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

The group's underlying profit

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

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

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

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

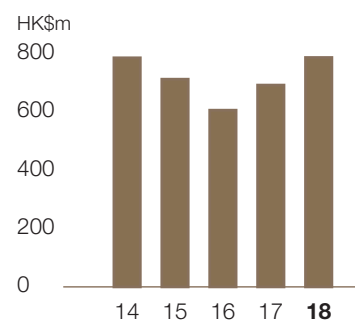
* Including the group's share of property revaluation movements and other non-operating items of PSW.

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

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

HK\$740m

+14%



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Statement of profit or loss

The group's consolidated statement of profit or loss for the year ended 31 December 2018 is set out on page 185. The following table summarises the key components of the group's profit attributable to shareholders. This table should be read in conjunction with the commentary set out on pages 74 to 79 of this Financial Review.

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

Revenue

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

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

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

Revenue by business segment

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

Revenue by geographical segment

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

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

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

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

Consolidated Revenue

HK\$6,214m

+7%

Hotels

HK\$4,534m

+8%

Commercial Properties

HK\$971m

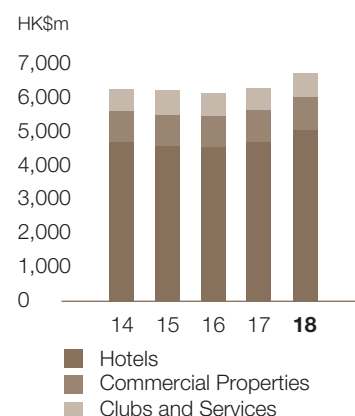
+3%

Clubs and Services

HK\$709m

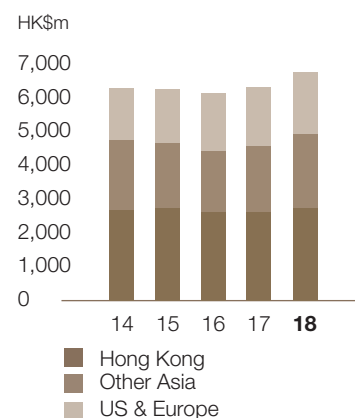
+9%

Combined Revenue* by Business Segment



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

Combined Revenue* by Geographical Segment



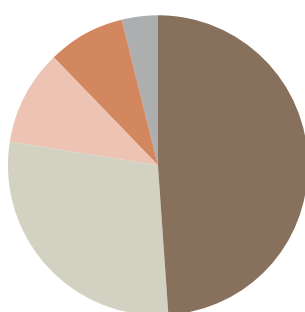
* Including the group's effective share of revenue of associates and joint venture

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Operating Costs

HK\$4,664m

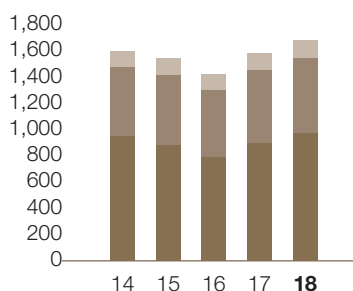
+7%



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

Combined EBITDA by Business Segment

HK\$m



- Hotels
- Commercial Properties
- Clubs and Services

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

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

Operating costs

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

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

EBITDA and EBITDA Margin

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

EBITDA by business segment

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

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

EBITDA by geographical segment

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

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

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

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

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

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Depreciation and amortisation

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

Increase in fair value of investment properties

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

Share of results of a joint venture

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

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

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

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

Share of results of associates

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

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

Statement of financial position

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

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

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Summary of Hotel, Commercial and Other Properties

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

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

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

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

* Including the shopping arcades and offices within the hotels

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

△ 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

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Properties under development for sale

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

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

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

Other long-term assets

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

Cash at banks and in hand and interest-bearing borrowings

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

Cash flows

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

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

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

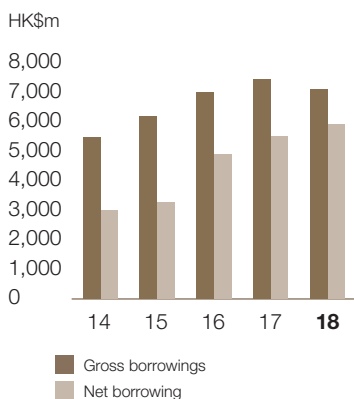
HK\$m	2018	2017
Hotels		
The Peninsula Beijing	56	250
The Peninsula Chicago (including the new rooftop bar)	105	31
Others	187	137
Commercial properties		
21 avenue Kléber	8	68
Others	29	57
Clubs and services	41	58
	426	601

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

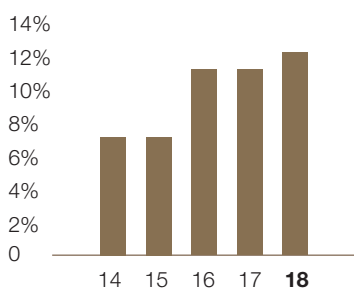
HK\$m	2018	2017
The Peninsula London	951	449
The Peninsula Yangon	148	181
Capital injection into the joint venture in Turkey	109	44
Acquisition of 5 apartment units in Shanghai	–	423
	1,208	1,097

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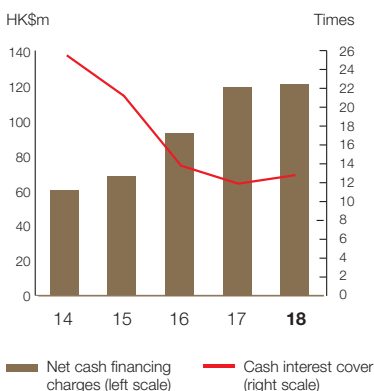
Gross and Net Borrowings



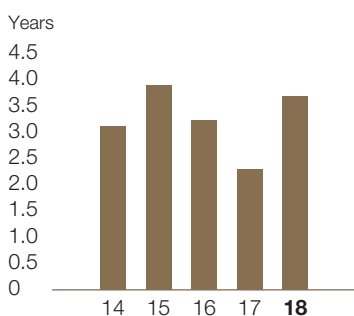
Net Borrowings to Total Assets



Net Cash Financing Charges and Cash Interest Cover



Weighted Average Debt Maturity



Capital and Treasury Management

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

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

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

Liquidity/Financing

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

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

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

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

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

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

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

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

* Represents HSH's attributable share of borrowings.

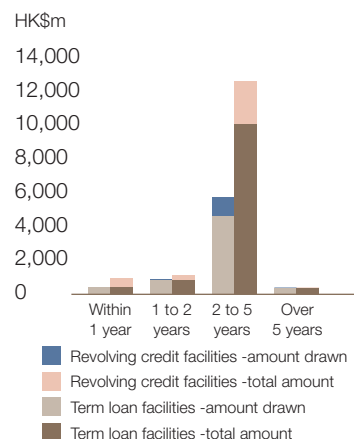
Foreign Exchange

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

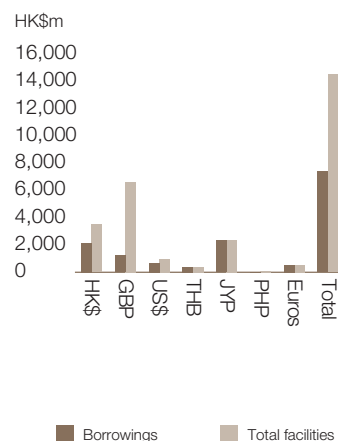
All of the group's borrowings are denominated in the functional currency of the operations to which they relate. As at 31 December 2018, Japanese yen and HK dollar borrowings represented 32% and 30% of total borrowings respectively. Other balances were mainly in US dollars, GBP and other local currencies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

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

Banking Facilities and Borrowings (by type and maturity)

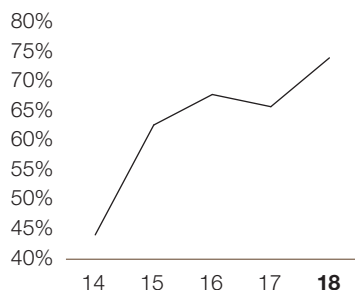


Banking Facilities and Borrowings (by currency)

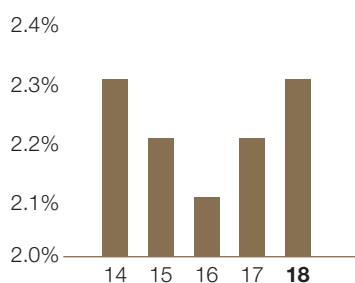


Financial Review

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



Weighted Average Gross Interest Rate



Interest Rate Risk

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

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

Credit Risk

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

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

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

Dividends

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

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

Share information

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

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