Financial Review

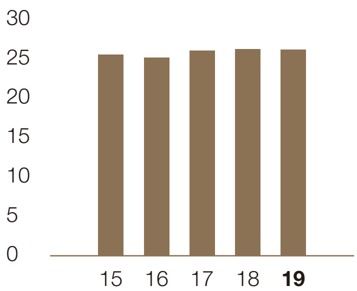
Adjusted NAV

HK$42,808m

+1%

Adjusted NAV per Share

HK$



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.

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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.

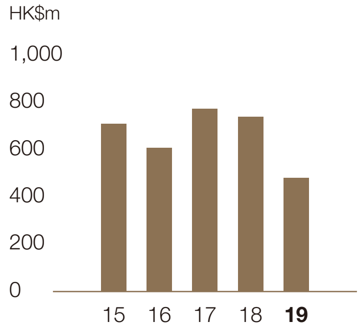
Δ In 2017, PSW reclassified its apartments as inventory held for sale from investment properties, which were stated at fair value. The group's underlying profit is calculated by excluding the post-tax effect of unrealised property revaluation movements, including those relating to the apartments held 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%

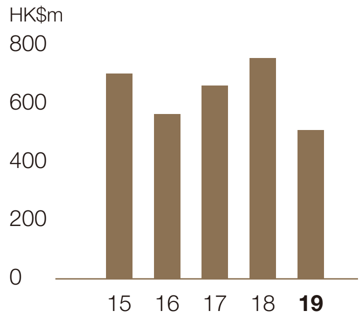
Underlying Profit



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

HK$480m

-33%



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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.

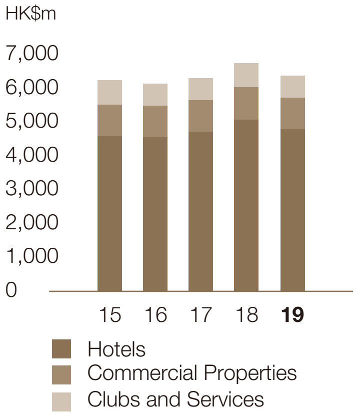
Consolidated Revenue
HK$5,874m
-5%

Hotels
HK$4,288m
-5%

Commercial Properties
HK$946m
-3%

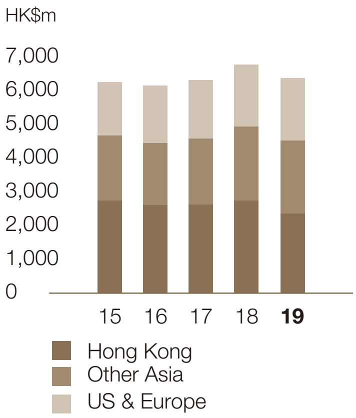
Clubs and Services
HK$640m
-10%

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

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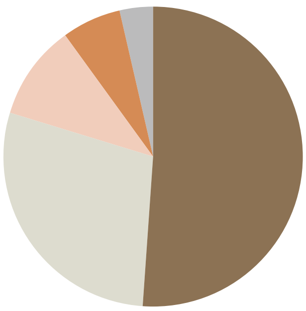
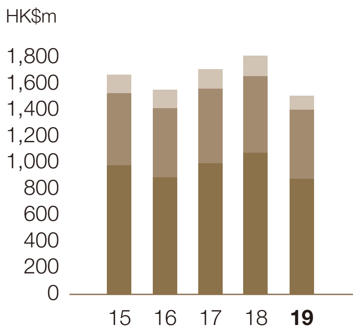
Operating Costs

HK$4,484m

-1%



Combined EBITDA by Business Segment



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.

EBITDA by business segment

	2019			2018 (restated)			
HK$m	**Group's subsidiaries**	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	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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		2019		2018	
		Value of 100% of the property (HK$m)			
	Group's interest	**Fair value valuation**	**Book value***	Fair value valuation	Book value*
Hotel properties**					
The Peninsula Hong Kong	100%	**12,252**	**9,919**	12,360	9,954
The Peninsula New York	100%	**2,278**	**1,686**	2,356	1,689
The Peninsula Beijing	76.6%$^{\Delta}$	**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%$^{\Delta\Delta}$	**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

$^{\Delta}$ 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

$^{\Delta\Delta}$ 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.

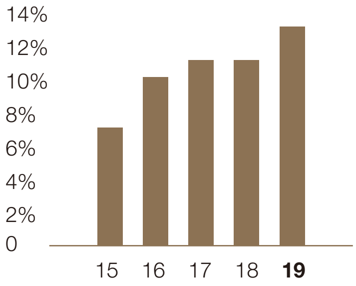
Non-adjusting event after the balance sheet date

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.

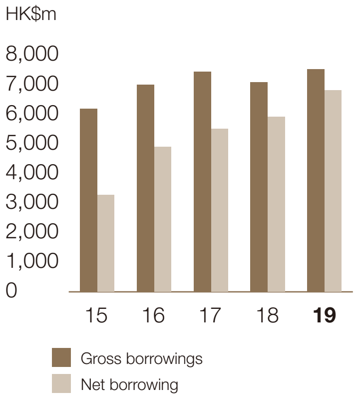
The unaudited revenue of the group for the two months ended 29 February 2020 was down by 21% compared to the same period in 2019. Based on the information currently available, management estimates that the group will sustain an operating loss in the first quarter of 2020, despite measures to contain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

Financial Review

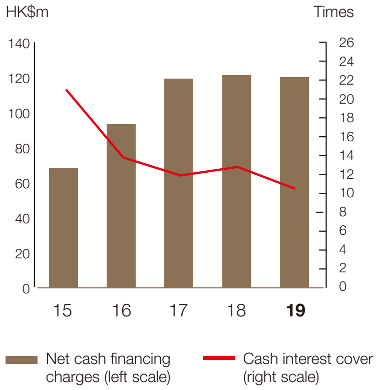
Net Borrowings to Total Assets



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.

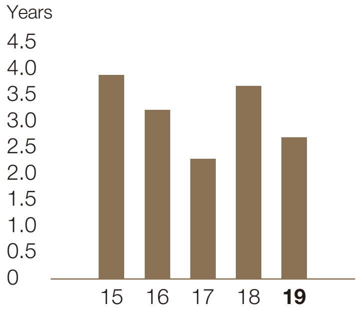
We continue to monitor our overall debt and cashflow positions closely and believe that the best defense against any unforeseen volatility in business levels is to maintain prudent financial ratios.

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

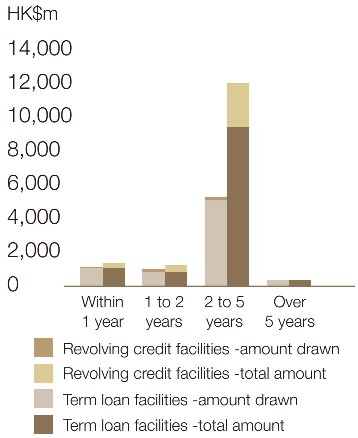
	2019						2018
HK$m	Hong Kong	Other Asia	United States of America	Europe	UK	Total	Total
Consolidated gross borrowings	1,283	2,615	690	523	2,413	7,524	7,095
Non-consolidated gross borrowings attributable to the Group*:							
The Peninsula Shanghai (50%)	-	531	-	-	-	531	608
The Peninsula Beverly Hills (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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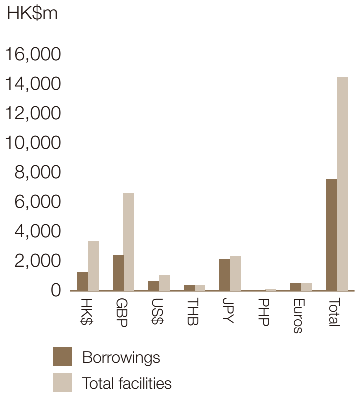
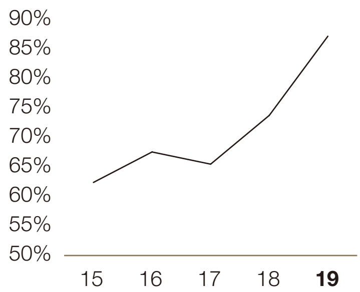
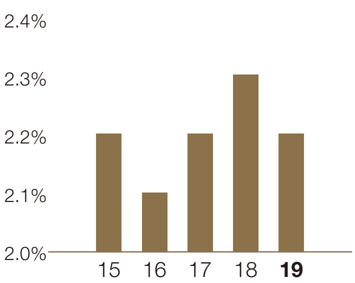
Banking Facilities and Borrowings (by currency)



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.