


GROUP RISK COMMITTEE REPORT

	Composition:	Chairman Members	Mr Matthew Lawson, Chief Financial Officer Group Director, Corporate and Legal Group Director, Properties Group General Manager, Audit & Risk Management Group General Manager, Operations
	Meeting Frequency:		<ul style="list-style-type: none">QuarterlyFour meetings in 2019
	Responsibilities:		<ul style="list-style-type: none">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 groupTo 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 plansTo 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.

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 addition 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.

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Overview of Principal Risks

1	Disaster Events				
 DISASTER EVENTS	What is the risk?	What is the impact?	How do we manage it?	2019 risk movement	Increased
	Disaster events, such as extreme weather events, natural disasters, war, terrorism and pandemics, may damage our properties or result in business interruption.	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.	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.	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?	What is the impact?	How do we manage it?	2019 risk movement	Increased
	A significant portion of our group earnings is derived from our operations in Hong Kong.	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.	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.	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?	What is the impact?	How do we manage it?	2019 risk movement	Increased
	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.	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.	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.	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?	What is the impact?	How do we manage it?	2019 risk movement	Increased
	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.	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.	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.	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.

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5	Retail Tenants				
<div></div> <div>RETAIL TENANTS</div>	What is the risk?	What is the impact?	How do we manage it?	2019 risk movement	Increased
	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.	Revenue from our retail arcades, which is a major source of income of the group, may be under pressure.	<p>We continue our effort to work with key partners and emerging niche brands, making The Peninsula Arcades the “destination shopping venues”.</p> <p>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.</p> <p>We work closely with key tenants to jointly develop marketing and promotion programs in order to drive traffic and improve shops business performance.</p>	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				
<div></div> <div>COMPETITION</div>	What is the risk?	What is the impact?	How do we manage it?	2019 risk movement	Slightly increased
	Cyclical over-supply of luxury hotels and increased competition poses a significant competitive pressure to the business.	This may result in a decline in market share, revenue and profit, and reduce partnership opportunities.	<p>We have launched <i>Art in Resonance</i>, a global contemporary arts program that allows The Peninsula to engage with guests in a meaningful and authentic way, while increasing brand exposure.</p> <p>We drive revenue growth and strengthen our brand by continuously improving our rooms, food and beverage and spa offerings by developing unique guest experiences.</p> <p>We continuously monitor and analyse competitive and market intelligence in order to anticipate unfavourable changes.</p> <p>We place an increased focus on engaging directly with customers rather than through third party channels.</p> <p>We continue to focus on strengthening our people development platforms through training and cross exposure opportunities and promotions.</p>	Why?	Competition level remained high and new luxury hotels opened in cities we operate.
7	Forex, interest & funding				
<div></div> <div>FOREX, INTEREST & FUNDING</div>	What is the risk?	What is the impact?	How do we manage it?	2019 risk movement	Increased
	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.	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.	<p>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.</p> <p>We review and hedge major foreign exchange transactional and capital expenditure exposures, and actively manage fixed or floating interest rate exposure.</p> <p>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.</p>	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.

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8	Cybersecurity				
 CYBERSECURITY	What is the risk?	What is the impact?	How do we manage it?	2019 risk movement	Remains broadly the same
	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.	Inability to operate effectively may result in a loss of information and unavailability of critical systems. Significant costs may be incurred for data recovery and system restoration, and/or possible financial or other regulatory penalties, and the need to maintain reputational risk.	<p>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.</p> <p>We conduct an ongoing review of business-critical applications for our disaster recovery plan and regular vulnerability assessments and penetration tests.</p> <p>We conduct systematic due diligence for third party solution/service providers, strengthened account authentication and password management for all employees.</p> <p>We continuously enhance security measures and adopt cybersecurity insurance against potential loss.</p>	Why?	The number of cybersecurity incidents remained globally high in 2019.
9	Data Privacy				
 DATA PRIVACY	What is the risk?	What is the impact?	How do we manage it?	2019 risk movement	Slightly increased
	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.	Compliance could increase our operating costs and impact our ability to directly market. Breaches, either through deliberate targeted actions or inadvertent errors, may adversely affect our brand and business and may result in regulatory investigations and potential fines.	<p>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.</p> <p>Mandatory e-training for all relevant staff members is conducted at regular intervals, with targeted training sessions where it is deemed beneficial.</p> <p>We conduct maintenance and review of a comprehensive data register across the group covering all applications which collect and store personal information.</p> <p>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.</p>	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?	What is the impact?	How do we manage it?	2019 risk movement	Increased
	Adverse publicity in traditional or social media, which may be frivolous or misconceived, could result in brand and reputational damage.	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.	<p>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.</p> <p>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.</p> <p>We have increased monitoring of social media sites and traditional media for potentially sensitive issues relating to our brand.</p> <p>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.</p>	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.