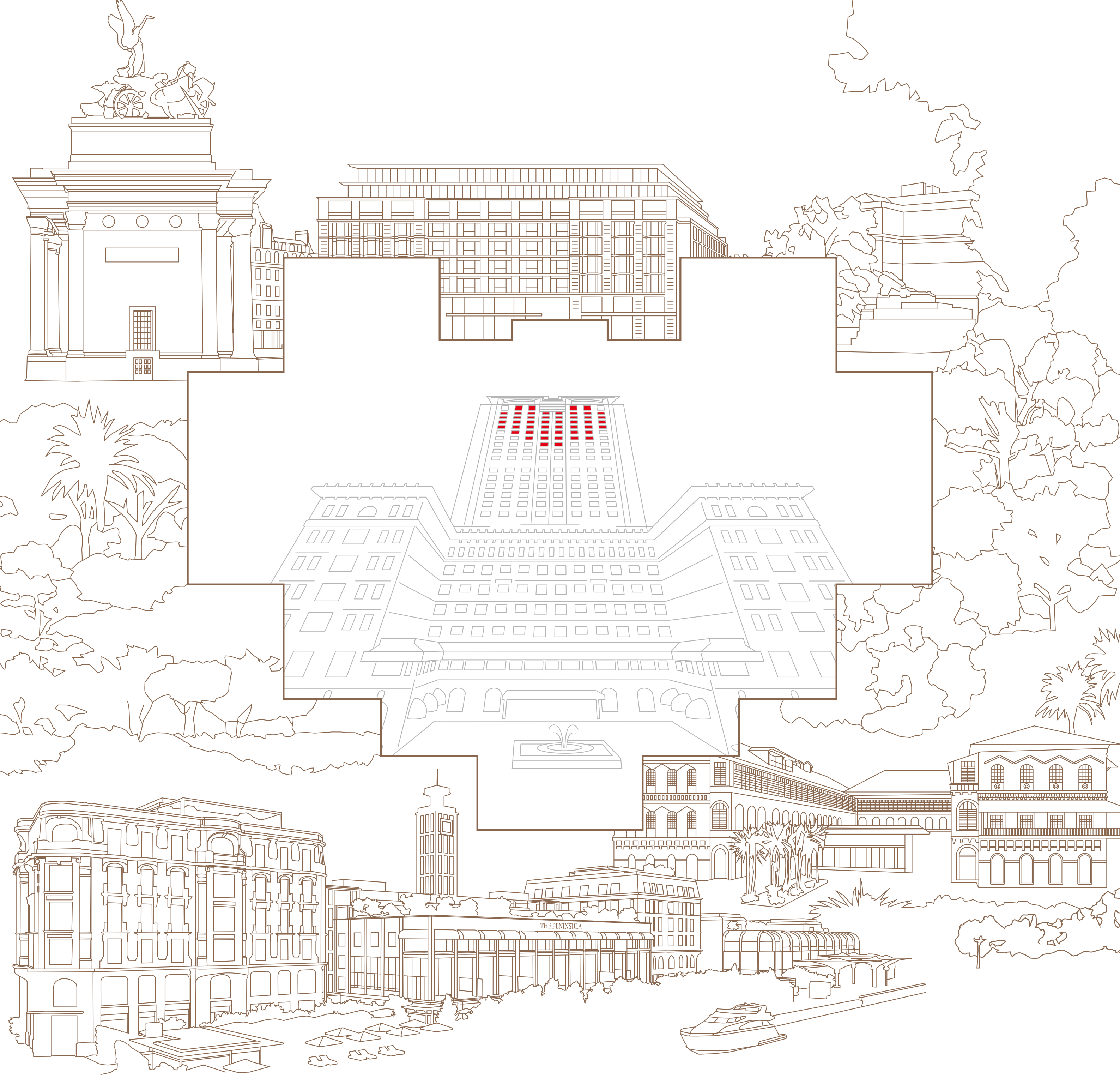


Overcoming Adversity; Building for the Future

ANNUAL REPORT 2020

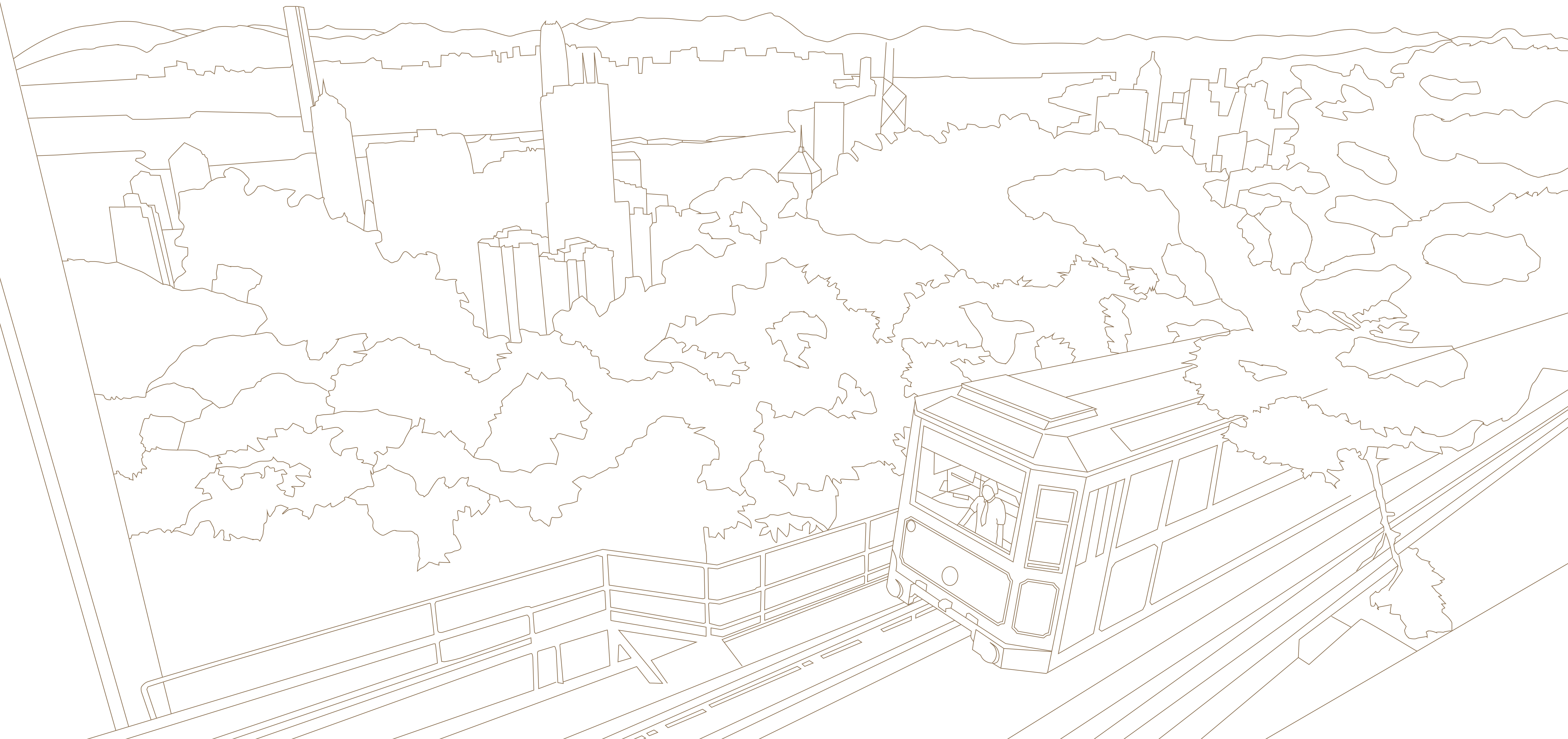
THE HONGKONG AND SHANGHAI HOTELS, LIMITED

Stock Code: 00045

In this year's annual report, we have moved further towards integrated reporting as envisaged by the International Integrated Reporting Council. The spirit of an integrated report is to bring together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organisation demonstrates stewardship and how it creates and sustains value.

The objective of our approach is to provide a connected view of the different aspects of our financial as well as our environmental, social and governance performance by publishing this annual report, and a separate Corporate Responsibility and Sustainability Report to demonstrate our sustainability vision, strategy and achievements in detail. Alongside our company website, the two reports enable our stakeholders to have a more informed assessment of our company.

As we aspire to go beyond compliance and continue to enhance our integrated reporting approach and disclosure, your feedback is welcome. Please share your views with us by post or email.



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Accomplishments and Results 2020

Company at a Glance

HOTELS

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

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

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

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

The Peninsula Bangkok
Established: 1998
Rooms: 370 Ownership: 100%

The Peninsula Manila
Established: 1976
Rooms: 351 Ownership: 77.4%

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

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

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

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

PROJECTS UNDER DEVELOPMENT

The Peninsula London
Ownership: 100%

The Peninsula Istanbul
Ownership: 50%

The Peninsula Yangon
Ownership: 70%

Company at a Glance

COMMERCIAL PROPERTIES

The Repulse Bay
Hong Kong (residential and arcade)
Established: 1976 &1989

GFA: 1,058,455 sq. ft. Ownership: 100%

The Peninsula Office Tower
Hong Kong
Established: 1994

GFA: 75,082 sq. ft. Ownership: 100%

The Peak Tower
Hong Kong (retail)
Established: 1996

GFA: 116,768 sq. ft. Ownership: 100%

21 avenue Kléber
Paris, France (office and retail)
Acquired: 2013

GFA: 44,218 sq. ft. Ownership: 100%

St. John's Building
Hong Kong (office)
Established: 1983

GFA: 71,400 sq. ft. Ownership: 100%

The Landmark
Ho Chi Minh City, Vietnam
(office and residential)
Established: 1994

GFA: 175,903 sq. ft. Ownership: 70%

CLUBS AND SERVICES

The Peak Tram
Hong Kong
Established: 1888

Ownership: 100%

Quail Lodge & Golf Club
Carmel, USA
Acquired: 1997

Ownership: 100%

Peninsula Clubs and
Consultancy Services
Established: 1977

Ownership: 100%

Peninsula Merchandising
Established: 2003

Ownership: 100%

Tai Pan Laundry
Hong Kong
Established: 1980

Ownership: 100%

Financial Highlights

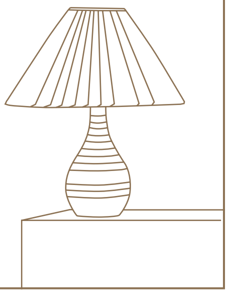
	2020	2019	Increase/ (Decrease)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS (HK$m)			
Revenue	**2,710**	5,874	(54%)
EBITDA	**(61)**	1,390	n/a
Operating (loss)/profit	**(614)**	801	n/a
(Loss)/profit attributable to shareholders	**(1,940)**	494	n/a
(Loss)/earnings per share (HK$)	**(1.18)**	0.30	n/a
Underlying (loss)/profit*	**(864)**	480	n/a
Dividends	**–**	212	(100%)
Dividends per share (HK cents)	**–**	13	(100%)
Dividend cover (times)**	**n/a**	2.3x	n/a
Interest cover (times)$^{\Delta}$	**–14.6x**	20.5x	n/a
Cash interest cover (times)$^{\Delta\Delta}$	**–1.2x**	10.4x	n/a
Weighted average interest rate	**1.9%**	2.2%	(0.3pp)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)			
Total assets	**53,679**	53,061	1%
Audited net assets attributable to shareholders	**36,844**	39,054	(6%)
Adjusted net assets attributable to shareholders#	**40,607**	42,808	(5%)
Audited net assets per share (HK$)	**22.34**	23.90	(7%)
Adjusted net assets per share (HK$)#	**24.63**	26.20	(6%)
Net external borrowings	**10,662**	6,827	56%
Funds from operations to net external debt##	**–4%**	18%	n/a
Net external debt to equity attributable to shareholders	**29%**	17%	12pp
Net external debt to total assets	**20%**	13%	7pp
CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)			
Net cash (used in)/generated from operations before taxation and working capital movements	**(61)**	1,390	n/a
Capital expenditure on existing assets	**(399)**	(564)	(29%)
Capital expenditure on new projects and investments	**(1,771)**	(1,330)	33%
SHARE INFORMATION (HK$)			
Highest share price	**8.91**	12.08	
Lowest share price	**5.62**	7.35	
Year end closing share price	**6.90**	8.35	

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

Non-Financial Highlights

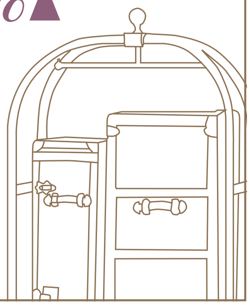
The global pandemic has had a significant negative impact on our operations throughout 2020. This impact means that our Corporate Responsibility and Sustainability (CRS) metrics for the year are skewed. However, despite these operational challenges, over 91% of the goals set in our CRS strategy, *Sustainable Luxury Vision 2020*, were achieved or are on track. Our CRS performance is discussed in more detail in the CRS Report, and explanations for significant data changes are included in the footnotes below.

Energy Intensity[b]
885 MJ per m^2
30.4%▼

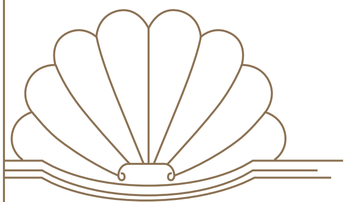


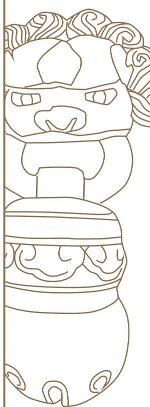
Carbon Intensity[b]
105 $kgCO_2e$ per m^2
29.1%▼

Water Intensity
(Hotels Division)[b]
2,010 litres per guest night
98.2%▲



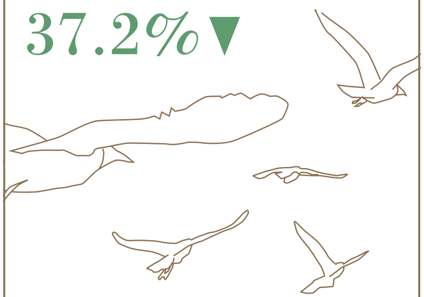
Water Intensity
(Commercial Properties Division)[b]
870 litres per m^2
9.3%▼



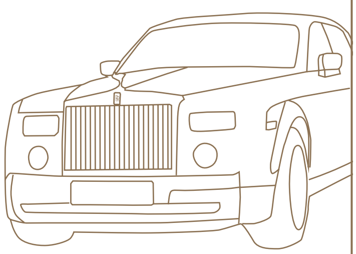


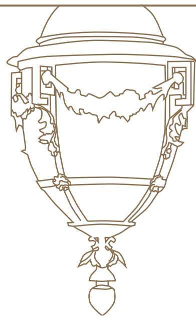
Waste Diversion Rate
48.8%
2.2pp▼

Injury Rate[c]
2.5 injury cases per 100 employees
Severe cases only: 0.06 injury cases per 100 employees
37.2%▼



Lost Day Rate[c]
47.4 lost days per 100 employees
36.3%▼





Staff Voluntary Turnover
12.3%
3.4pp▼

Total Community Contributions[d]
$5,524,950
49.9%▼

[a] Percentage change refers to year-on-year movement: Green denotes improvement and Red denotes worsening. Refer to the Sustainability Data Statements on page 218 or the online 2020 CRS Report for more details.
[b] Data is skewed due to extended closure of some operations and suspension of certain facilities or services within our properties as a result of COVID-19.
[c] Injury rate and lost day rate decreased significantly due to reduced working hours of our staff and increased awareness on injury prevention. 98% of the reported incidents are those that did not require a hospital stay, and thus not considered a severe injury.
[d] Decrease in cash and in-kind donations from the company due to cancellation of gala and charity events. In addition, cost saving measures have been implemented in light of the challenging business environment of 2020.

Financial Review Summary

❶ Earnings before interest, taxation, depreciation and amortisation ("EBITDA")

The group's EBITDA loss and combined EBITDA loss, including the group's effective share of EBITDA of associates and joint venture, amounted to HK$61 million and HK$53 million respectively, with the group's combined EBITDA margin of -2%.

The breakdown of EBITDA by business segment and by geographical segment is set out on page 69 of the Financial Review.

❷ Revenue

The group's consolidated revenue and combined revenue, including the group's effective share of revenue of associates and joint venture, both decreased by 54% to HK$2,710 million and HK$2,947 million respectively.

The hotels division is the largest contributor to the group's combined revenue. Due to public health concerns, travel bans, government directives and community lockdowns, six Peninsula hotels in New York, Chicago, Paris, Tokyo, Bangkok and Manila were temporarily closed from March 2020. As at 31 December 2020, The Peninsula New York and The Peninsula Paris remained closed. Whilst the Peninsula hotels in Hong Kong, Beijing, Shanghai and Beverly Hills continued to operate throughout the year, the RevPAR and food and beverage revenues of these hotels were significantly lower than 2019. The rental revenues of the Peninsula Arcades in Hong Kong, Beijing, Shanghai and New York were also significantly lower due to rental concessions given to tenants. As a result, the combined revenue of the hotels division declined by 62% to HK$1,831 million.

Revenue of the commercial properties division decreased by 18%, principally due to the unfavourable performances of The Repulse Bay Complex (TRB) and The Peak Tower (TPT). TRB is the largest contributor of revenue, accounting for over 76% of the division's revenue. Due to the ongoing COVID-19 pandemic, the luxury residential market experienced a decline in demand, resulting in a decrease in rental revenue at TRB. Food and beverage and catering revenue at TRB also decreased due to social distancing arrangements and restrictions imposed on bars and restaurants by Hong Kong government. At TPT, due to rental concessions granted to tenants and the sharp decrease in visitors to the Sky Terrace, the property reported a 59% decrease in revenue.

The decrease in revenue of the clubs and services division of 47% was mainly due to the sharp decline in fare income experienced by the Peak Tram, softer mooncake sales for Peninsula Merchandising and the temporary closure of Quail Lodge & Golf Club.

Details of the operating performances of the group's individual operations are set out on pages 33 to 59 of the Operational Review.

Consolidated Statement of Financial Position at 1.1.2020

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

Consolidated Statement of Cash Flows for the year ended 31.12.2020

		HK$m
❶ EBITDA		**(61)**
Changes in other working capital		**(197)**
Tax payment		**(179)**
Capital expenditure on existing assets		**(399)**
Capital expenditure on new projects and investments		**(1,771)**
Cash injected from a non-controlling shareholder		**30**
Advance to associates		**(21)**
Net financing charges and dividends paid		**(212)**
Net increase in bank borrowings		**3,339**
Net withdrawal of interest-bearing bank deposits with maturity of more than three months		**3**
Lease rental paid		**(144)**
Cash consideration paid and other acquisition costs for additional interests in a subsidiary		**(571)**
Net cash outflow for the year		**(183)**
Cash at banks and in hand	**697**	
Less: Bank deposits maturing more than 3 months	**(17)**	
Cash & cash equivalents at 1.1.2020		**680**
Effect of changes in exchange rates		**9**
Cash & cash equivalents at 31.12.2020*		**506**
* Representing:		
Cash at banks and in hand		**520**
Bank deposits maturing more than 3 months		**(14)**
		506

Consolidated Statement of profit or loss for the year ended 31.12.2020

	HK$m
❷ Revenue	**2,710**
Operating costs before depreciation and amortisation	**(2,771)**
EBITDA	**(61)**
Depreciation and amortisation	**(553)**
Operating loss	**(614)**
Net financing charges	**(144)**
Loss after net financing charges	**(758)**
❸ Share of results of joint ventures	**(269)**
❹ Share of results of associates	**(97)**
❺ Decrease in fair value of investment properties	**(732)**
❻ Impairment provision	**(93)**
Taxation	**(31)**
Non-controlling interests	**40**
Loss attributable to shareholders	**(1,940)**

Consolidated Retained Profits for the year ended 31.12.2020

	HK$m
Retained profits at 1.1.2020	**33,705**
Loss attributable to shareholders for the year	**(1,940)**
Dividends distributed during the year	**(147)**
Share transaction with non-controlling shareholders	**(678)**
Retained profits at 31.12.2020	**30,940**

Consolidated Statement of Financial Position at 31.12.2020

	HK$m
Net assets	
Fixed assets	**45,656**
Properties under development for sale	**4,264**
Other long-term investments	**2,357**
Deferred tax assets	**70**
Cash at banks and in hand	**520**
Other current assets	**812**
	53,679
Bank borrowings	**(11,182)**
Derivative financial instruments	**(10)**
Deferred tax liabilities	**(607)**
Other liabilities	**(1,462)**
Lease liabilities	**(3,266)**
	37,152
Capital and reserves	
Share capital	**5,837**
Retained profits	**30,940**
Hedging, exchange and other reserves	**67**
	36,844
Non-controlling interests	**308**
	37,152

Underlying loss attributable to shareholders for the year ended 31.12.2020

	HK$m
Loss attributable to shareholders	**(1,940)**
Non-operating and non-recurring items	**1,076**
❼ Underlying loss	**(864)**

❸ Share of results of joint ventures

The amount included the group's share of 50% impairment provision in respect of The Peninsula Istanbul of HK$236 million. Considering the uncertain economic climate, ongoing geopolitical tensions, sharp decline of the local currency, and an expected delay of the hotel opening, management has conducted an impairment assessment and engaged an independent valuer to re-appraise the value of The Peninsula Istanbul. Due to the hotel's lower appraised value relative to the development cost, the directors have deemed it appropriate to write down the book value of the project by HK$472 million (of which 50% was shared by the group).

❹ Share of results of associates

The group has a 20% interest in each of The Peninsula Beverly Hills and The Peninsula Paris. The Group's share of net loss of these two hotels for 2020 amounted to HK$97 million. The Peninsula Paris remained closed as at 31 December 2020.

❺ Decrease in fair value of investment properties

The group states its investment properties at fair value and gain or loss arising from the change in fair value of investment properties is recognised in the consolidated statement of profit or loss. The year end revaluation of the group's investment properties has resulted in an unrealised revaluation loss of HK$732 million, principally attributable to the decrease in the appraised market value of The Repulse Bay Complex, Peninsula arcades in Hong Kong, Beijing and New York as well as The Peak Tower.

❻ Impairment provision

The Peninsula Manila is subject to a land lease with a relatively short remaining lease term. In view of this and the severe economic slowdown from the pandemic, an impairment review has been conducted by management and an independent valuer has been engaged to appraise the fair market value of the hotel. Given the hotel's appraised value was lower than its book value as at 31 December 2020, the directors considered it appropriate to write down the hotel's value resulting in an impairment provision of HK$93 million.

❼ Underlying loss

To provide additional insight into the performance of its business operations, the group presents underlying loss by excluding non-operating items such as any change in fair value of investment properties. Details of the reconciliation from reported loss to underlying loss are set out on page 65 of the Financial Review.

Ten Year Operating Statistics

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
a) The Peninsula Hotels (Note 1)										
Hong Kong										
Occupancy rate	**23%**	50%	70%	75%	72%	73%	75%	72%	79%	74%
Average room rate (HK$)	**3,153**	5,401	5,845	4,875	4,843	4,760	5,144	5,170	5,133	4,503
RevPAR (HK$)	**727**	2,706	4,082	3,659	3,473	3,477	3,870	3,731	4,072	3,347
Other Asia (excluding Hong Kong) (Note 2)										
Occupancy rate	**35%**	72%	73%	68%	67%	70%	65%	66%	63%	57%
Average room rate (HK$)	**2,889**	2,851	2,694	2,661	2,599	2,265	2,146	2,065	2,179	2,156
RevPAR (HK$)	**1,008**	2,059	1,966	1,802	1,753	1,581	1,390	1,361	1,367	1,221
United States of America and Europe										
Occupancy rate	**34%**	72%	72%	70%	71%	68%	74%	74%	72%	69%
Average room rate (HK$)	**5,456**	5,892	5,997	5,861	5,625	5,807	5,471	4,858	4,627	4,550
RevPAR (HK$)	**1,843**	4,243	4,333	4,130	3,993	3,962	4,059	3,573	3,346	3,135
b) Residential (Note 1 & 3)										
Occupancy rate	**89%**	96%	95%	94%	91%	93%	85%	89%	92%	91%
Average monthly yield per square foot (HK$)	**45**	48	46	46	45	45	42	42	41	38
c) Shopping Arcades (Note 1 & 4)										
Occupancy rate	**84%**	86%	87%	89%	93%	95%	97%	99%	99%	97%
Average monthly yield per square foot (HK$)	**135**	165	169	174	184	202	206	191	179	168
d) Offices (Note 1 & 3)										
Occupancy rate	**96%**	98%	99%	95%	100%	99%	97%	92%	96%	100%
Average monthly yield per square foot (HK$)	**65**	63	62	55	56	55	52	48	45	45
e) Peak Tram										
Patronage ('000)	**1,001**	3,159	6,050	6,179	6,259	6,359	6,325	6,272	5,918	5,777
Average fare (HK$)	**20**	24	23	20	19	19	19	19	19	19
f) Full Time Headcount (as at 31 December)										
Hotels	**4,511**	6,016	6,148	6,123	6,121	6,201	6,308	5,878	5,617	5,475
Commercial Properties	**338**	356	358	359	360	363	362	347	333	323
Clubs and Services	**760**	1,079	1,088	1,052	993	1,318	1,317	1,325	1,260	1,224
Total headcount	**5,609**	7,451	7,594	7,534	7,474	7,882	7,987	7,550	7,210	7,022

Notes:

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

Ten Year Financial Summary

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Consolidated Statement of Profit or Loss (HK$m)										
Revenue	**2,710**	5,874	6,214	5,782	5,631	5,741	5,838	5,508	5,178	5,009
EBITDA	**(61)**	1,390	1,680	1,555	1,420	1,572	1,672	1,453	1,369	1,380
Operating (loss)/profit	**(614)**	801	1,079	988	894	1,061	1,154	958	868	886
(Loss)/profit attributable to shareholders	**(1,940)**	494	1,216	1,128	647	994	1,143	1,706	1,549	2,250
(Loss)/earnings per share (HK$)	**(1.18)**	0.30	0.76	0.71	0.42	0.65	0.76	1.14	1.04	1.52
Underlying (loss)/profit	**(864)**	480	738	774	618	710	977	505	433	455
Dividends	**–**	212	338	318	297	308	349	240	210	208
Dividends per share (HK cents)	**–**	13	21	20	19	20	23	16	14	14
Dividend cover (times)	**n/a**	2.3x	2.2x	2.4x	2.1x	2.3x	2.8x	2.1x	2.1x	2.2x
Interest cover (times)	**–14.6x**	20.5x	20.8x	11.4x	9.3x	15.6x	17.4x	10.2x	10.2x	10.1x
Cash interest cover (times)	**–1.2x**	10.4x	12.8x	11.9x	13.8x	21.2x	25.5x	11.5x	16.9x	13.8x
Weighted average interest rate	**1.9%**	2.2%	2.3%	2.2%	2.1%	2.2%	2.3%	2.9%	3.2%	3.1%
Consolidated Statement of Financial Position (HK$m)										
Total assets	**53,679**	53,061	51,724	51,254	48,499	46,934	44,335	43,601	40,367	38,943
Total liabilities	**(16,527)**	(13,332)	(12,524)	(12,801)	(12,143)	(10,454)	(8,357)	(8,397)	(7,095)	(7,363)
Non-controlling interests	**(308)**	(675)	(536)	(527)	(215)	(233)	(250)	(269)	(289)	(283)
Audited net assets attributable to shareholders	**36,844**	39,054	38,664	37,926	36,141	36,247	35,728	34,935	32,983	31,297
Adjusted net assets attributable to shareholders	**40,607**	42,808	42,411	41,476	39,493	39,447	39,323	38,316	36,229	34,545
Audited net assets per share (HK$)	**22.34**	23.90	23.97	23.86	23.06	23.49	23.56	23.26	21.96	21.00
Adjusted net assets per share (HK$)	**24.63**	26.20	26.29	26.10	25.20	25.57	25.93	25.51	24.12	23.18
Net external borrowings	**(10,662)**	(6,827)	(5,917)	(5,521)	(4,911)	(3,273)	(3,004)	(3,992)	(1,989)	(2,335)
Funds from operations to net external debt	**–4%**	18%	23%	23%	25%	39%	49%	32%	56%	49%
Net external debt to equity attributable to shareholders	**29%**	17%	15%	15%	14%	9%	8%	11%	6%	7%
Net external debt to total assets	**20%**	13%	11%	11%	10%	7%	7%	9%	5%	6%
Consolidated Statement of Cash Flows (HK$m)										
Net cash (used in)/generated from operations before taxation and working capital movements	**(61)**	1,390	1,680	1,555	1,420	1,572	1,672	1,453	1,369	1,380
Capital expenditure on existing assets	**(399)**	(564)	(426)	(601)	(1,000)	(476)	(370)	(928)	(875)	(312)
Capital expenditure on new projects and investments	**(1,771)**	(1,330)	(1,208)	(1,097)	(1,580)	(916)	(39)	(2,293)	–	(578)
Share Information (HK$)										
Highest share price	**8.91**	12.08	13.48	17.12	9.49	12.20	12.60	14.20	11.92	14.74
Lowest share price	**5.62**	7.35	10.00	8.27	7.15	8.00	10.08	10.38	8.63	8.10
Year end closing share price	**6.90**	8.35	11.10	11.60	8.60	8.64	11.50	10.52	10.82	8.61

The bases of calculation of the following items are disclosed in the Financial Highlights on page 10

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

Letter from the Chairman


The Hon. Sir Michael Kadoorie
Chairman

Dear Shareholders,

In 2020 the world witnessed millions of deaths and economic devastation due to the COVID-19 coronavirus, and as a result we have all faced extraordinary challenges. Governments around the world have struggled to balance public health with the economy, and the resulting global travel restrictions, quarantine and social distancing measures meant that the hospitality and tourism industry was one of the sectors most severely impacted. Hong Kong's borders have been closed to non-residents since March 2020, leading to a drop of 94% in tourist arrivals, so it is no surprise that our company's financial results have been severely affected.

Our company has been in existence since 1866, and we have weathered many crises and hardships, including military occupation during World War Two, and the previous pandemic of SARS in our home market of Hong Kong in 2003. Experience has taught us that all crises eventually pass, and with the world's scientists, innovators and health professionals doing their utmost to develop vaccinations as quickly as possible, I am hopeful that the situation will start to improve in the near future.

Regrettably, the pandemic has forced the layoff and furlough of a number of staff, and I am saddened at the loss of those colleagues, some of whom have been with us for many years. This is a painful situation, and the group's Directors, management and frontline staff must be complimented on maintaining cohesion, resilience and courage in the face of these abnormal times. Although this suffering was inevitable in these circumstances, all staff members contributed to the financial well-being of the group with an admirable spirit that has brought us closer together as we embrace new innovations, particularly in the areas of health and safety.

The experience of the past year has been humbling and a reminder of what is truly important. I believe we must always look to the long term and maintain uncompromising standards of integrity as we build a legacy for future generations to come. Environmental, social and governance criteria are more important than ever, and with this in mind we have extended our sustainability strategy for the next ten years as *Sustainable Luxury Vision 2030*, which is described together with our group's social and environmental performance in our Corporate Responsibility and Sustainability Report on pages 2 to 49.

In addition to the challenges of the global pandemic, we also face geopolitical uncertainty, cybersecurity threats and climate change concerns. These developments imply a higher level of reputational and operational risk to our group, which are a key concern of the Board. More details about our approach to risk management can be read on pages 115 to 117.

We continue to create long-term shareholder value by investing in new hotel projects and improving our existing assets. Despite delays caused by supply chain issues and construction staff shortages due to the pandemic, we continue to make progress with the development and construction of our Peninsula hotel projects in London, Istanbul and Yangon. The Peak Tram upgrade project also experienced delays and the project budget increased. The new tram and lower terminus is on track to be formally launched in 2021. More details on these projects can be read on pages 60 to 62.

“The experience of the past year has been humbling and a reminder of what is truly important. I believe we must always look to the long term and maintain uncompromising standards of integrity as we build a legacy for future generations to come.”

Letter from the Chairman

In August 2020 we came to an agreement with our Thai partners that our group would assume full ownership of The Peninsula Bangkok and its surrounding land, and HSH would cease to have any responsibility over the ownership and operations of the Thai Country Club. I would like to thank the staff of Thai Country Club for their hard work and dedication over the past 24 years. I should emphasise that we remain fully committed to The Peninsula Bangkok as a long-term investment.

Despite this being one of the most difficult years in recent memory, I am proud that our colleagues have shown the true meaning of passion and loyalty. On behalf of the Board I would like to express my appreciation and sincere thanks for the leadership of Clement Kwok and his management team. My fellow Directors have shown great support and wisdom, for which I am most grateful.

I am hopeful that we can meet again soon in person and not just through electronic means, and I am optimistic that the time will come when the overwhelming challenges we faced in 2020 will become a distant memory. I would like to sincerely thank each and every one of our shareholders for your support and contribution to our company, particularly during this challenging era.

The Hon. Sir Michael Kadoorie
17 March 2021

CEO's Strategic Review

Clement Kwok
Chief Executive Officer

1. Managing the COVID-19 Crisis

2020 was an extremely difficult year for our company and none of us could have envisaged that the impact of the COVID-19 coronavirus would be so severe, prolonged and widespread. The global tourism industry has been devastated, with more than 143 million jobs lost during the year, according to the World Travel and Tourism Council (WTTC). Although it is our fundamental belief that demand for high-end luxury hotels will return once the global economy recovers, we expect that global travel restrictions, quarantine and safety concerns will continue to deter people from travelling for the foreseeable future and that a full recovery will take several years.

We have felt the severe impact of the pandemic across almost all of our global portfolio of assets, particularly our hotels and tourism-related assets. Outside of Greater China, our hotels started the year in a strong position but experienced a sharp deterioration in demand as the pandemic began to spread on a global scale. In March 2020, we temporarily closed our hotels in New York, Chicago, Paris, Tokyo, Bangkok and Manila, as well as the Thai Country Club and Quail Lodge & Golf Club. The Peninsula Tokyo and the golf clubs reopened in June; The Peninsula Chicago reopened in July; The Peninsula Bangkok and The Peninsula Manila reopened in November. The Peninsula New York remains closed and The Peninsula Paris reopened in March 2021.

The situation for the hospitality industry was particularly challenging in our home market of Hong Kong, which had already suffered from serious social unrest and mass protests in 2019 and early 2020. As the bulk of our group's earnings are derived from Hong Kong, we had to urgently implement a widespread range of cost savings and financial management measures, including reduction of staff costs, inventory and other operating expenses. Our cost saving efforts which amounted to a total cost saving of 38% year-on-year are detailed in the Financial Review, page 68.

The group came into this crisis with low gearing and considerable liquidity, which we bolstered by arranging further facilities to cover our group's operating cash burn. Together with the actions that we have taken to minimise our operating cash outflows, we believe our financial resources are currently sufficient to meet the group's operating cash requirements for well over the next two years. Further details of the group's liquidity position are discussed on pages 79 and 80 of the Financial Review section.

CEO’s Strategic Review

On the operations side, we enhanced and strengthened our stringent hygiene and safety protocols, with our number one priority being the safety of our guests and staff. We endeavoured to stay connected to our guests and to drive local domestic business as much as possible, developing “staycation” packages and offering takeaway meals where local regulations allowed us to do so. To support our local communities, we offered free meals to frontline medical and emergency workers, and we partnered with local charities to implement a global “one meal for one meal” campaign to help the homeless and needy in our local cities.

We had to balance our cost saving efforts with the welfare of our staff and we undertook a detailed review of each market situation and local conditions to analyse how to look after our staff. We recognise that the global pandemic has caused hardship for our people, some of whom have been affected by the virus or lost family members to the disease. During the year we developed virtual training sessions to keep people motivated and engaged, with a strong focus on mental health and managing stress and anxiety, and tips on working from home, staying fit and sharing best practices with regards to hygiene and self-care. We have also enhanced our health benefits programme by adding psychology and counselling services in order to assist with the mental health toll of the pandemic.

Unfortunately the global hospitality sector was particularly hard hit in terms of unemployment, and, while we did our utmost to preserve as many jobs as possible, it was with great regret that we had to furlough and lay off some of our staff and to request staff to take voluntary unpaid leave during the year. Where possible, if we had to lay off staff, we kept their medical benefits and health insurance active for as long as possible to minimise the financial burden. I would like to express my appreciation for all our staff for their understanding, support and hard work at such a difficult time. For staff who have been furloughed or laid off, we hope that we will be able to re-employ many of them once business demand recovers.

As our Chairman noted, our company has been through many crises during its long history of more than 150 years. As a long-term investor, we have proven to be resilient and will be able to withstand downturns such as these and I am confident that we will see better years ahead. We remain focused on our development programme, comprising the new Peninsula projects in London, Istanbul and Yangon and the Peak Tram upgrade project, which have suffered some delays due to the pandemic, but our commitment to these projects remains unaffected.

Throughout this difficult and unfortunate year, my colleagues have remained in a very committed and cooperative spirit and I believe we can survive and come through better and stronger than before. Our long-term vision lies at the heart of our business strategy. I will summarise this strategy for our shareholders' reference in the following pages.

2. Our heritage, vision and development strategy

The Hongkong and Shanghai Hotels, Limited has a heritage of more than 150 years. Whilst we have witnessed profound political and economic changes since we were first established in 1866, both in our home market of Hong Kong and around the world, our company remains steadfast in our key philosophies and values which are:

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

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

Having ownership or part-ownership of each hotel is an important part of our strategy and allows us to maintain an appropriate degree of control over the design, quality, operations and capital spending in our hotels. By taking such a long-term view and by maintaining and enhancing the quality of our assets and operations, we seek to create significant value for our shareholders from the long-term appreciation in the capital value of our properties, as well as from the increasing operating yield as each property grows its income over time.

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

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

CEO's Strategic Review

Update on the ownership of The Peninsula Bangkok

In August 2020, we reached an agreement with our Thai partners for our group to assume full ownership over The Peninsula Bangkok and its surrounding land. HSH ceased to have any responsibility over the ownership and operations of the Thai Country Club. This was a difficult decision and one that was taken in the light of the very challenging global and domestic market circumstances and the legal dispute between the partners. We are sad to no longer own and operate Thai Country Club and would like to express our heartfelt appreciation for the staff's support, hard work and dedication to making the Club one of the finest golf clubs in the country over the past 24 years of operation. We remain deeply committed to The Peninsula Bangkok as a long-term investment.

3. Business overview

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

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

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

Peninsula Merchandising Limited develops and distributes Peninsula-branded merchandise including the famous Peninsula Mooncakes, as well as artisanal chocolates and high-quality tea. We operate Peninsula Boutiques in key gateway cities in China, Asia and the US, including boutiques at Hong Kong International Airport and several Peninsula hotels. We opened six new retail outlets in 2020.

Our clubs and services division includes the Peak Tram, one of Hong Kong's most popular tourist attractions, which has been under our group for 130 years. The Peak Tram is currently undergoing a HK$734 million upgrade project which is being funded by our company and will be completed in 2021.

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

4. Financial results and financial planning

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

As a result of our continuous investment into and enhancement of our property assets, the company's revalued net asset value per share has more than doubled in the last two decades to HK$24.63 per share in 2020.

CEO's Strategic Review

We are currently investing for the future and our focus for the next year will be on the successful delivery of our new Peninsula hotel developments in London, Istanbul and Yangon as well as the Peak Tram upgrade project. All of the projects have been affected by disruptions to the construction labour force and supply chains due to the COVID-19 outbreak, and we are expecting delays and a potential increase in the project budgets.

With the substantial capital commitments that these projects entail, currently amounting to HK$5.8 billion over the next two years, we continue to carefully monitor our company's financial position and we continuously take a proactive approach to forecasting future funding requirements. We maintain sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to ensure funds are available to finance our growth and development. Our net debt to total assets ratio is currently 20%, which we believe to be acceptable considering the financial obligations of our new developments.

Due to the severity of the pandemic on our business, we are reporting a highly unfavourable set of financial results for 2020. The company's combined EBITDA loss, including the group's effective share of EBITDA of our associates and joint ventures, amounted to HK$53 million compared to an EBITDA gain of HK$1,510 million last year. The company's loss attributable to shareholders amounted to HK$1,940 million compared to a profit attributable to shareholders of HK$494 million over the same period last year. The current year loss is inclusive of the revaluation loss on the group's investment properties, impairment provision of The Peninsula Manila and the group's share of impairment provision in respect of the hotel development project in Istanbul, which totalled HK$1,061 million. Excluding the post-tax effects of the revaluation movements of investment properties and impairment provisions, our underlying loss amounted to HK$864 million, compared to an underlying profit of HK$480 million in 2019.

More details can be read in the Financial Review on page 65.

5. Driving business

We believe the fundamentals of luxury hospitality do not change over time and I am confident that when we emerge from the pandemic, demand for high quality service will resume.

The group's diverse portfolio of assets helps to balance the cyclical nature of the hotel industry. During the year a major focus of our strategy was to focus on attracting and retaining retail tenants in our arcades, particularly in Hong Kong, Beijing and Shanghai, and we were pleased with the level of interest received and new leases signed. Although the market for luxury residential leasing was softer in Hong Kong due to the weak business environment, The Repulse Bay is widely recognised as one of the most attractive luxury residences on the South Side, and our rental contracts remained relatively stable.

For our hotels, our strategy was to stay engaged with our guests and listen to their needs despite some of our properties being closed for business, and we developed innovative new online promotions and social media engagements. Recognising that most of our regular guests cannot travel, we adapted our marketing strategies to our local domestic markets and we invited Peninsula guests to experience their "home" destination with special promotions for local cuisine, art, fashion and culture, wellness and the local community.

In June, we launched a dedicated website page highlighting our COVID-19 hygiene and safety protocols to support the safety, health and wellbeing of our guests and our employees, such as the distancing of tables, face masks worn by employees and temperature checks.

In the second half of 2020, "The Peninsula Promise" was introduced including a range of new special offers such as "Peninsula Time," which provides guests a newly extended and flexible schedule for check-in and check-out. Other benefits include a new collection of eco-friendly, bespoke scented guestroom amenities, guaranteed connecting rooms at the time of booking on peninsula.com, reservation flexibility, a new online platform for gift cards, and contactless services.

For the second year in a row we achieved the coveted Forbes 5-star rating for all ten of The Peninsula Hotels in operation. We are pleased that our efforts to look after our guests are recognised in the numerous accolades we receive for our services from prestigious publications and organisations (see Awards, pages 86 to 89).

CEO's Strategic Review

In addition to the personal touch, we recognise that guests require access to the most up-to-date technology and platforms to make their experience and journey with us as seamless as possible. We operate our own in-house research and development facility which designs bespoke in-room technology for our guestrooms. In 2016 we set up a Technology Steering Committee with a wide brief including exploring and developing the "hotel room of the future", looking at robotics and data analytics, air purification systems and behavioural analysis for enhanced personalisation. We have been focusing on hygiene and safety technology during 2020 and we will continue to explore how to integrate technology into our business while keeping the personal touch that our guests expect.

The relatively small size of our hotels means that we can personalise the attention we give to guests and cater to each guest arrival and their individual preferences. However, we understand that we must continually improve and in 2020 we continued our major review of The Peninsula service standards. Our previous standards have been updated into a new set of Peninsula Service Principles, focusing on serving guests from the heart rather than a rigid list of checkboxes and standards, with the objective of empowering our staff to go above and beyond to engage with guests. This programme is being rolled out in early 2021.

Increasing guest engagement and direct business remains a key goal of sales and marketing with preparations to launch a global CRM programme this year. Particular emphasis is being focused on Greater China with a customised CRM programme offering incentives across our Greater China hotels, shopping arcades and Peninsula boutique retail shops. We continued to focus on strengthening our relationships with PenClub members, our in-house preferred travel partner programme, by holding webinar hotel tours, cultural programmes and virtual cocktail gatherings.

6. Managing risk

Operating a business in ten different jurisdictions, given the unpredictable nature of the hotel industry, requires an agile yet measured approach to risk management. Our Group Risk Committee (GRC), chaired by the Chief Financial Officer, regularly reviews the risk registers of our operations and new development projects, as well as monitors the principal risks and emerging risks of the group. We evaluate key risks and controls and using a 5-step Risk Management Methodology we ensure the risk assessment process and internal controls remain current.

In 2020, the global COVID-19 pandemic produced a far-reaching impact on the risk landscape by creating new organisational risks and elevating existing ones. The GRC will continue to focus on enhancement of internal controls to manage the strategic risks of the group, especially those leading to the recovery from the pandemic as well as our development projects. We will also focus on enhancing communication, inspiring greater awareness and ownership of risks and controls across the group, and further improvements to 5-step risk management methodology.

Pages 124 to 128 of our GRC Report explains further details on how we manage against our principal risks.

7. Our people

2020 has been a particularly challenging year for our Human Resources team and as mentioned, we have been working hard to ensure the wellbeing of our staff during this very difficult year.

Longer term, our focus is to attract and retain top talent and we will strive to maintain our culture while adding thousands of people to our workforce with the opening of three new hotel projects.

The travel and tourism sector often experiences a high turnover of staff, however, we are pleased to report a relatively low voluntary staff turnover rate compared with the industry. Unfortunately in 2020 our involuntary turnover rate increased significantly due to the unfortunate situation of the pandemic, when we had to lay off and furlough some of our staff.

Despite the challenging environment this year, our WorkPlace 2025 initiative continues in which our focus is to create effective transformation for our teams and modernise our workplace. While we currently have a hiring freeze in place due to the global pandemic, we remain committed to developing strong leaders, implementing mental and physical well-being programmes, and the improvement of our engagement strategies.

As of 31 December 2020, there were 5,609 full time employees in the group as compared to 7,451 a year ago. The substantial drop is due to a combination of layoffs and furloughs across the group as a result of the pandemic, a hiring freeze and natural attrition, and the change in ownership of Thai Country Club.

CEO's Strategic Review

8. A new vision for sustainable luxury

We are committed to sustainability in an environmental as well as a business context. We believe that our long-term success is linked to the success of the cities and the communities in which we live and work. With our current sustainability strategy *Sustainable Luxury Vision 2020*, we have created awareness and buy-in towards sustainability throughout our company, and we believe it has become a topic that matters personally to our employees and is integral to how we conduct all our businesses and operations. We also approach sustainability in a way that makes business sense where possible. We calculate paybacks and returns on investments in environmental initiatives, and we look at what overall value our sustainability initiatives could contribute. We believe we have the opportunity to offer our guests sustainable choices without compromising on the high quality of our products and services. In 2020, over 91% of the goals set in *Sustainable Luxury Vision 2020* were on track to be achieved.

Moving beyond 2020, we have developed our updated sustainability strategy, which we are calling *Sustainable Luxury Vision 2030*, with a focus on further business integration. As we seek to deliver sustainable luxury and follow on from the groundwork laid by *Sustainable Luxury Vision 2020*, the key topics which we think will have the most impact on business and the societies in which we operate, and which we address in *Vision 2030* are:

- diminishing natural resources such as energy, food and water;
- climate change; and
- growing social and political instabilities and inequalities.

We will seek to address these interlinking issues and pursue our Vision 2030 by focusing on our three stakeholder pillars of (i) enhancing our guest experience, (ii) empowering our people and (iii) enriching our communities, underpinned by 10 key commitments as set out in our vision.

More details can be read in the Corporate Responsibility and Sustainability Report which is available online and in the GCRC report on pages 129 to 132.

9. Outlook

The COVID-19 pandemic continues to have a devastating impact in almost all countries where we operate, although mainland China is seeing some recovery. We believe we will continue to see a substantial negative impact on our business for the foreseeable future, unless there is a significant turnaround in the coronavirus situation. We have implemented emergency measures to keep our staff and guests safe as a priority, and financial management and stringent cost controls are continuing for the year ahead. We have reviewed our group's liquidity position and we can confirm that we have a significant buffer in place even if the impact of the virus continues for some time. However, despite these cost control efforts, it is expected that the group may sustain an operating loss in 2021 due to the ongoing effects of the coronavirus and its devastating impact on tourism.

Besides the COVID-19 pandemic, various other geopolitical uncertainties may continue to affect our business, including the US-China trade war, the impact of Brexit, social unrest in Thailand, and political developments in Myanmar which have led to the military declaring a state of emergency for one year. We have noted the recent violence and chaos with great concern and we continue to evaluate both the immediate actions required and the longer-term decisions that need to be made in respect of this project.

In these challenging times, our priority is to maintain a strong financial position for the group in order to fund our large capital commitments for The Peninsula London, The Peninsula Istanbul and The Peninsula Yangon new hotel projects, as well as the Peak Tram expansion. Our commitment to the long-term development of the group and in particular the Peninsula brand remains unchanged. We take a very long-term view of the investments that we make and we expect the new hotels in London, Istanbul and Yangon to enhance our brand presence when they open from 2022 onwards, and to create value for stakeholders over time.

On the property side, we are working with our tenants in the retail arcades at The Peninsula Hotels in Hong Kong, Shanghai and Beijing to find solutions to the significant drop in visitors and we recognise they are also suffering. We have offered some rental concessions on a case by case basis. We are currently experiencing stable demand for our luxury residential lettings in Hong Kong. The Peak Tram business will continue to be negatively impacted in 2021 as it will undergo the second phase of suspension during its expansion programme that was previously announced to shareholders. However, once the expansion project is completed, the capacity of each tramcar will almost double and we believe it will significantly improve the visitor experience and enhance Hong Kong's tourism image.

Overall, our company remains in a stable financial position. In early 2021, we have further obtained committed facilities to ensure the group's capital commitments are fully funded and that we have sufficient liquidity to cover our project commitments and support us through this challenging time.

We have a highly motivated and dedicated team of management and loyal staff who are committed to our long-term vision. I am proud that despite the significant challenges we are facing, our company consistently lives up to its unique brand proposition. I am confident that if we continue to focus on offering excellent service to our guests, business recovery will follow in due course. I would like to thank each member of my team who contributes to our company's success year after year.

Clement Kwok
17 March 2021


MP 2549
MP 3477

Operational Review

Business Performance

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

Hotels Division

Hotels	Revenue	Variance	
	HK$m	In HK$	In Local Currency
Consolidated hotels			
The Peninsula Hong Kong	**603**	–45%	–45%
The Peninsula Beijing	**193**	–40%	–41%
The Peninsula New York	**192**	–73%	–73%
The Peninsula Chicago	**162**	–75%	–75%
The Peninsula Tokyo	**305**	–65%	–66%
The Peninsula Bangkok	**60**	–80%	–79%
The Peninsula Manila	**42**	–82%	–82%
Non-consolidated hotels			
The Peninsula Shanghai	**336**	–38%	–38%
The Peninsula Beverly Hills	**234**	–61%	–61%
The Peninsula Paris	**112**	–81%	–80%

Operational Review

The Peninsula Hong Kong

Revenue HK$603m	Occupancy	Average Room Rate	RevPAR
–45%	–27pp	–42%	–73%

The Peninsula Hong Kong's operating results were severely impacted by the Hong Kong SAR Government's stringent travel restrictions and lengthy quarantine measures in Hong Kong, which led to a decline of 94% in overall arrivals to the city year-on-year. The Government also implemented strict social distancing measures with limited operating hours for restaurants, bars, Spas and swimming pools to be closed, which affected our ability to attract guests.

Nevertheless, we focused on the local domestic market and developed a number of "staycation" offers and marketing promotions including "The Eight Loves of The Peninsula Hong Kong" to promote art, culture and dining to local residents. Food and beverage revenue declined due to social distancing measures imposed by the Hong Kong Government and we temporarily closed the Spa, *The Verandah, Gaddi's* and *Felix* at various times throughout the year. At the time of writing, all dine-in service at restaurants remains restricted by the government and bars remain closed, although spas have reopened.

The Peninsula Office Tower was 95% occupied in 2020, with a stable immediate outlook. The Peninsula Arcade occupancy was 78% as the overall environment in Hong Kong for luxury retail has remained soft. We are taking the opportunity to renovate The Peninsula Arcade at a cost of around HK$140 million, which includes a repositioning of the basement arcade to create a more open and attractive lifestyle retail and food and beverage area. We have already signed a number of new retail and F&B tenants as well as a luxury male grooming salon.

In addition, a new Peninsula Boutique incorporating a café will be unveiled in 2021, designed by Conran and Partners.

It is thanks to the efforts of our colleagues that The Peninsula Hong Kong received many accolades including "Best Business Hotel in the World" by *Business Traveller UK*, "No 1 Top Ten Hotels in Hong Kong" by *Condé Nast Traveler* Reader's Choice Awards; "Number 2 Best City Hotel in Hong Kong" by *Travel + Leisure* magazine, and "No 1 Best Hotels in Hong Kong" by *DestinAsian* Readers Choice Awards.

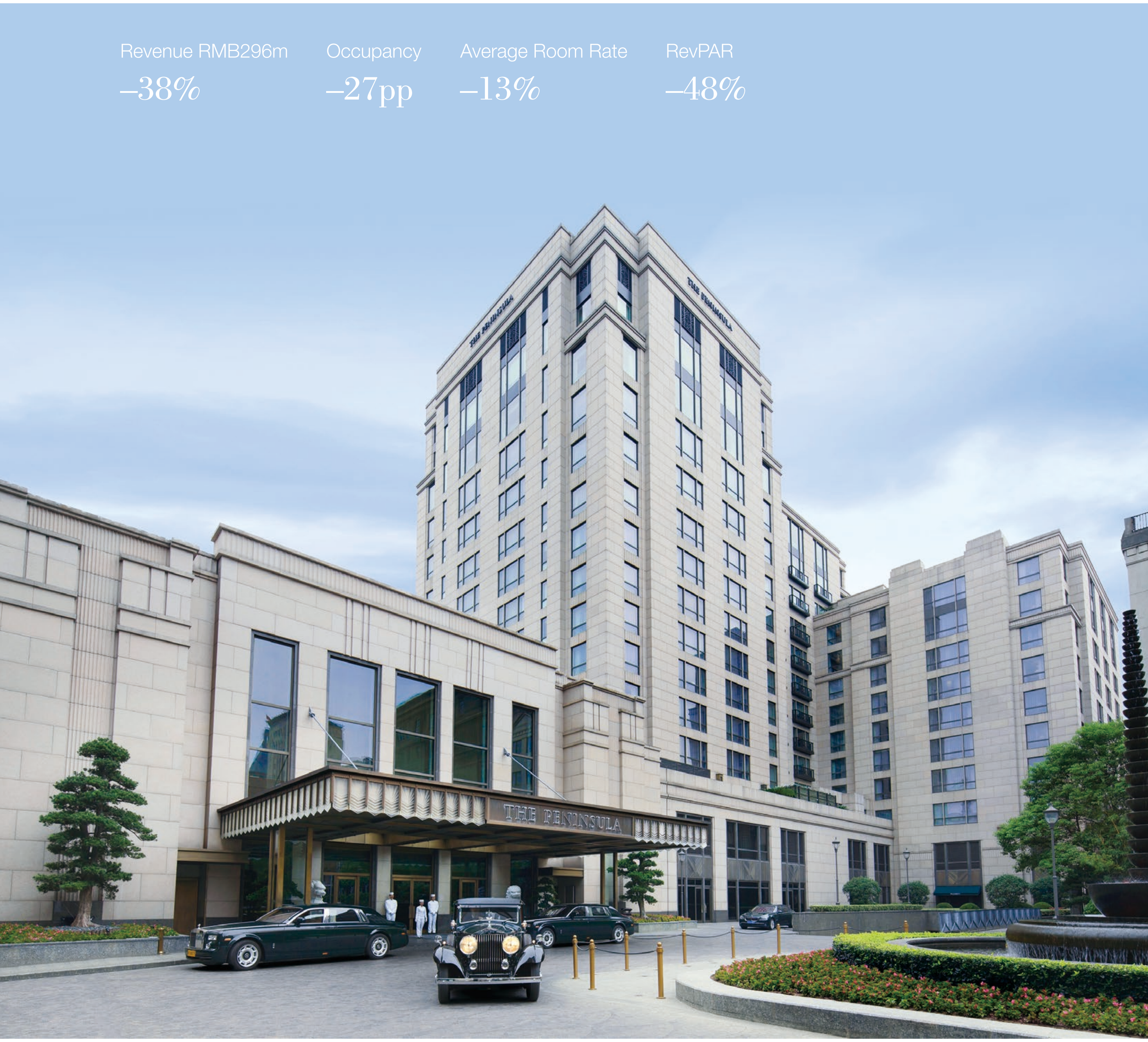
We were delighted that *Gaddi's* achieved a Michelin star for the second year and our Cantonese restaurant *Spring Moon* achieved its Michelin star for the fifth consecutive year.

We are supporting the local community by partnering with local charity Impact HK and offering a "one meal for one meal" programme to support the homeless and needy in Hong Kong.

Operational Review

The Peninsula Shanghai

Revenue RMB296m	Occupancy	Average Room Rate	RevPAR
–38%	–27pp	–13%	–48%



Despite being negatively impacted in the earlier months of 2020 due to the effects of the COVID-19 coronavirus, **The Peninsula Shanghai** remained the market leader in average room rates in the city. We are pleased to report that business improved in the second half of the year as life gradually returned to normal in mainland China's key cities. We focused our marketing strategies on the domestic market and the hotel remains the venue of choice for society events and luxury brands.

Catering business was significantly disrupted due to government advisories and *Sir Elly's*, *Compass Bar* and *Salon de Ning* as well as No 1 Waitanyuan had to be temporarily closed, but we started to see some recovery from June onwards.

We were delighted to be named as the Number 1 "Top City Hotel in Shanghai" by *Travel + Leisure* magazine, and The Peninsula Shanghai remains the only hotel in mainland China to have two restaurants with Michelin stars.

Due to ongoing travel restrictions, the domestic Chinese mainland market remained our largest revenue driver and we focused on driving business through Chinese social media and online channels.

The Peninsula Arcade was 95% occupied during 2020. As previously agreed by both parties, we ceased management of No 1 Waitanyuan in June upon reaching the end of the management agreement.

The group owns a 50% interest in The Peninsula Shanghai Complex which comprises a hotel, a shopping arcade and a residential tower of 39 apartments. As at 31 December 2020, a total of 31 units have been sold, including two during 2020. This generated gross proceeds of RMB238 million, which was utilised for loan repayment and working capital of the joint venture entity.

Operational Review

The Peninsula Beijing

The Peninsula Beijing was negatively impacted by international travel restrictions and city-wide lockdowns, particularly in the first half of 2020. Business started to improve in the second half and we were grateful to be able to host events during the festive season, as life gradually started to return to normal in the capital city. To capitalise on the resurgence of demand, we launched various staycation offers, including "The Eight Loves of The Peninsula Beijing", as well as dining promotions to attract the domestic market.

We were delighted to receive the recognition of "Best Business Hotel" by *National Geographic Traveller* and "Luxury Hotel of the Year" by *China Daily*.

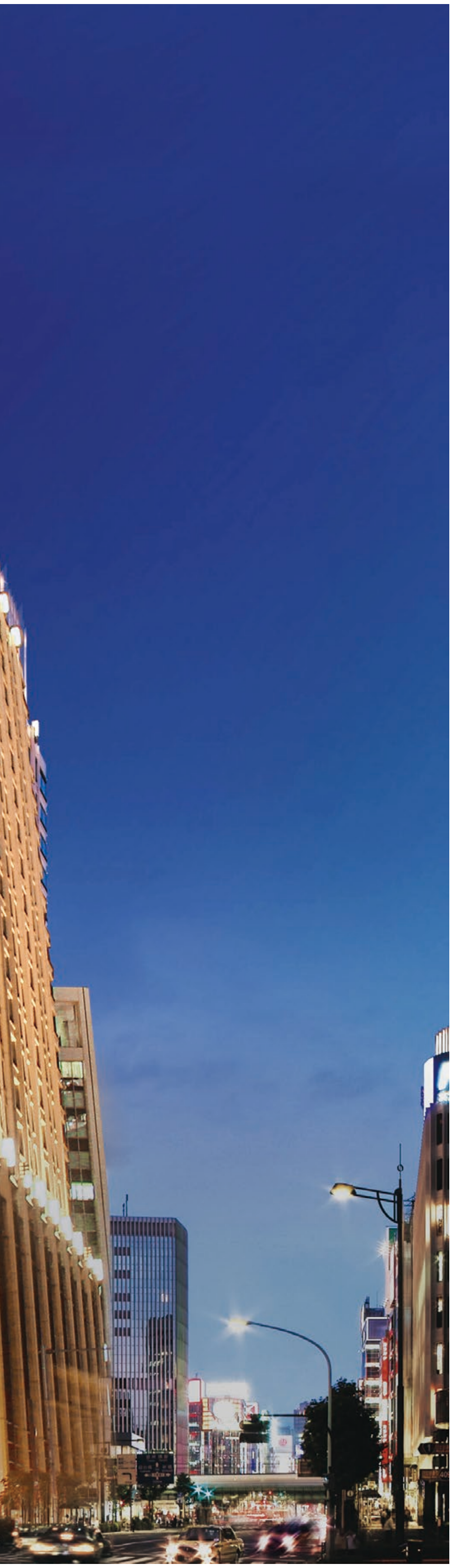
In The Peninsula Arcade, business remained healthy with anchor tenants performing well. We are pleased to have secured a new luxury lifestyle tenant that will be taking the entire lower level two of the hotel, which comprises a space of approximately 3,000 sqm. We expect that this lifestyle living space, which will open in summer 2021, will further position The Peninsula Arcade as the best luxury shopping destination in Beijing, and will also significantly enhance our retail occupancy in 2021.

Operational Review

The Peninsula Tokyo

Revenue JPY4.21b	Occupancy	Average Room Rate	RevPAR
–66%	–45pp*	–21%	–67%*

* *excluding the effect of reduction in room inventory during the hotel closure*



The Peninsula Tokyo had a strong start to 2020 although we began to receive cancellations just before the peak *sakura* (cherry blossom) season. The effects of the global coronavirus pandemic started to affect Tokyo in early 2020 which eventually led to the cancellation of the Tokyo Olympics. This was a major disappointment for our group business which had been fully booked for the event and surrounding months.

We temporarily closed the hotel on 28 March 2020 with health and safety considerations for our guests and staff as a top priority. The hotel reopened in June amidst strict global travel restrictions which resulted in a shift in our business mix from 90% international guests to an almost entirely domestic market.

Despite some of the business limitations imposed by the Japanese Government which restricted dining hours and limited capacity for banquets and events, we were supported by ongoing government subsidies for furloughed staff which helped reduce our overall payroll costs. In addition, the government's highly successful travel and dining campaign called "Go To Travel" generated 25 million overnight stays nationwide in the third quarter, before being cancelled in December due to the rising number of COVID-19 cases in Japan.

We continue to find opportunities to improve our overall food and beverage offerings to guests by utilising newly created spaces in the hotel. In addition to *Sushi Wakon* which opened in 2019, we have opened a new teppanyaki fine dining restaurant, *HIBIYA mon cher ton ton*, on 1 October 2020.

We continue to monitor the situation in Tokyo and as at the time of writing are awaiting news on the rescheduled Olympics.

Operational Review

The Peninsula Bangkok

Revenue THB240m

–79%

Occupancy

–38pp*

Average Room Rate

+8%

RevPAR

–51%*

* *excluding the effect of reduction in room inventory during the hotel closure*

The Peninsula Bangkok temporarily closed on 28 March 2020 following the guidance of the Thai Government, which issued an emergency decree in response to the COVID-19 crisis, and no foreigners have been allowed to enter Thailand since March 2020. The hotel reopened in November 2020.

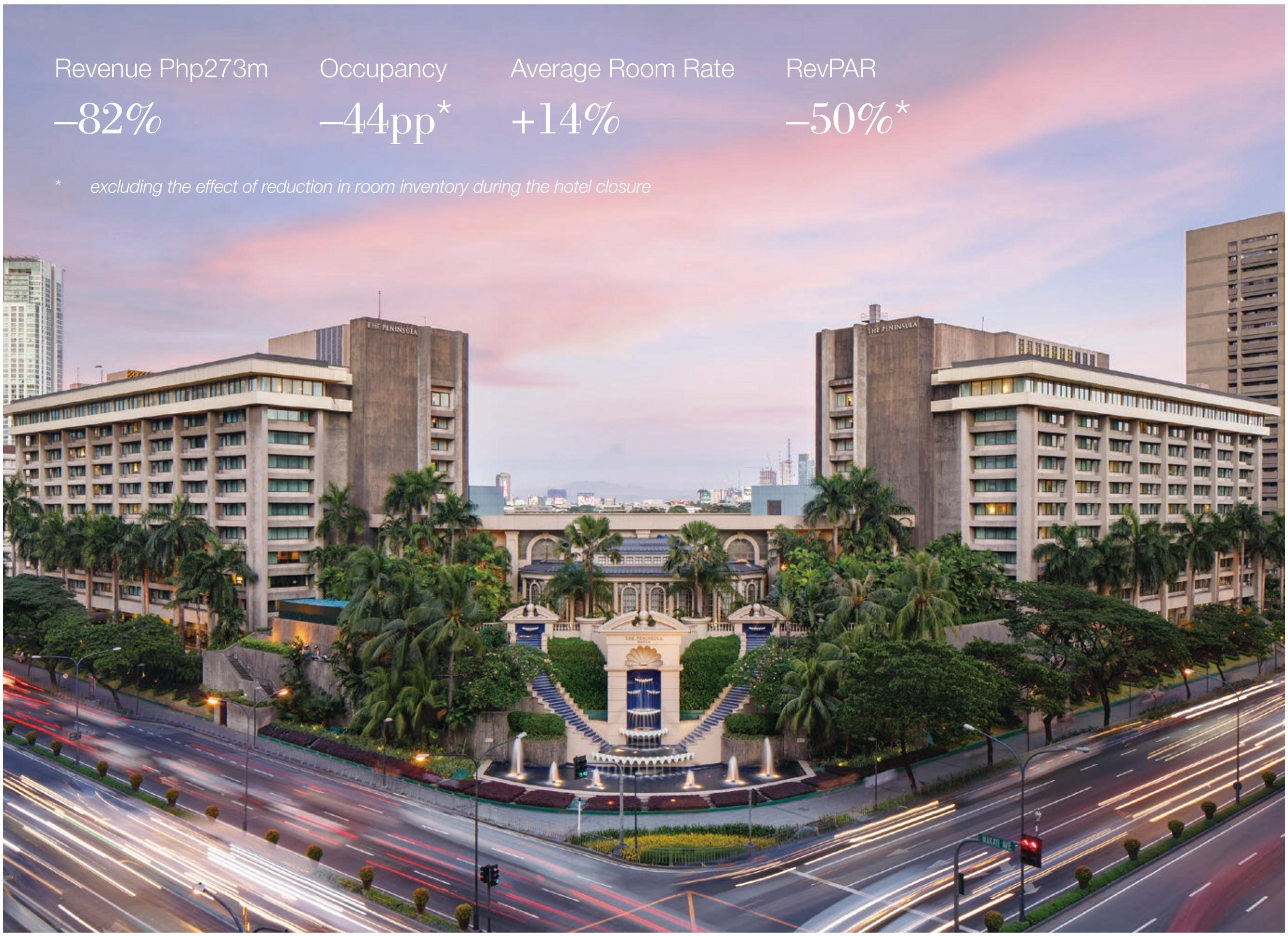
We are currently focusing on building up our Meetings, Incentives, Conventions and Exhibitions (MICE) business from the local domestic market, as well as encouraging wellness and health packages which we believe will be increasingly important in the future as we move towards a post-COVID-19 environment. We are positioning the hotel as an urban wellness retreat with a focus on plant-based food, mindfulness practices and better sleep and we are actively driving staycations and spa packages.

We were delighted to receive the accolade of "No 1 Best Hotel in Bangkok" and "No 5 Top 50 Best Hotels in the World" from *Condé Nast Traveler*.

In August 2020 we reached an agreement with our Thai partners for our group to assume full ownership over The Peninsula Bangkok and its surrounding land (more details on the restructuring agreement can be read on page 74 of the Financial Review). We remain deeply committed to The Peninsula Bangkok as a long-term investment.

Operational Review

The Peninsula Manila



The Peninsula Manila achieved higher average room rates following the completion of its guestroom renovation and the opening of a new executive Club Lounge in early 2020. Unfortunately, due to the outbreak of the pandemic, the hotel temporarily closed in March 2020 following the guidance from the Philippine Government on "Enhanced Community Quarantine". We were able to generate some revenue with takeout and delivery services from *The Peninsula Boutique*, *The Lobby* and *Spices* which was well received by the local community. The hotel reopened for business in November 2020 and we are currently focusing on the local staycation market and special dining promotions to attract local guests, as travel restrictions remain in place for the Philippines.

The Peninsula Manila is subject to a land lease which is due to expire in 2026 and it has been agreed with the landlord to extend this land lease by four years. In view of the relatively short remaining lease term and the uncertain outlook of the local tourism market, a review was conducted by management and an independent third-party valuer, and since the hotel's appraised value was lower than its book value, the Directors considered it appropriate to write down the hotel's value resulting in an impairment provision of HK$93 million.

Operational Review

The Peninsula New York

Revenue US$25m
–73%

Occupancy
–21pp*

Average Room Rate
–11%

RevPAR
–35%*

* *excluding the effect of reduction in room inventory during the hotel closure*

The Peninsula New York started the year in a strong position as RevPAR market leader in January, with robust food and beverage revenue and strong diplomatic business. We were pleased to win the accolade of "No 1 Best Hotel in New York City" by *US News & World Report* as a testament to the excellent service offered by our staff when the hotel was operating as usual. However, due to the effects of the pandemic, the hotel temporarily closed on 20 March 2020 for the rest of the year. The hotel remains closed. We have regrettably had to lay off or furlough the majority of our staff. We kept all staff's medical insurance benefits active until the end of the year to help ease the financial burden on our affected colleagues.

Operational Review

The Peninsula Chicago

Revenue US$21m	Occupancy	Average Room Rate	RevPAR
–75%	–43pp*	–6%	–63%*

* *excluding the effect of reduction in room inventory during the hotel closure*

Chicago is traditionally heavily reliant on the conventions business. The effects of the COVID-19 coronavirus were devastating for the city, with an estimated deficit for the city of over US$2 billion due to cancellations of major conventions and events. **The Peninsula Chicago** was inevitably affected, despite having enjoyed a strong start to the year with the best results in its history in the first two months of 2020. However, due to the worsening pandemic in the state of Illinois, the hotel temporarily closed from March 2020 until July 2020.

During the closure, the hotel implemented various charitable and community initiatives such as live music broadcast from the *Z Bar* terrace on social media. We were pleased to receive the accolade of "No 1 City Hotel in Chicago" by *Travel + Leisure* as well as "No 1 Best Hotel in Chicago" and "No 3 Best Hotel in the United States" by *US World & News Report*.

We launched "The Seven Loves of The Peninsula Chicago" to drive bookings from the US domestic market. We have placed a number of staff on furlough and had to implement stringent and painful cost saving measures, including layoffs of a significant percentage of our staff. We kept all staff's medical insurance benefits active until the end of the year to help ease the financial burden for our colleagues.

In early 2021, we saw a mild recovery at The Peninsula Chicago and we are hoping for a continued recovery in the coming months.

Operational Review

The Peninsula Beverly Hills

Revenue US$30m	Occupancy	Average Room Rate	RevPAR
–61%	–47pp	–5%	–60%

Despite the challenging operating environment, **The Peninsula Beverly Hills** achieved significant accolades in 2020 including "The Best Hotel in the US" by *Global Traveler* magazine, and the hotel has achieved AAA Five Diamond and Forbes Five Star ratings every year since 1993.

For the majority of the year, The Peninsula Beverly Hills was significantly impacted by the coronavirus Shelter-in-Place restrictions implemented by the California state government. Following a satisfactory first quarter of 2020 during the traditional peak awards season, the effects of the pandemic began to be felt from mid-March onwards. All food and beverage outlets were temporarily closed from March to May 2020, and again from November 2020 onwards, as the epidemic situation worsened in the Los Angeles area. The Spa also had to be closed several times throughout the year according to government restrictions. All events were cancelled and the situation resulted in a significant decline in rooms revenue and food and beverage revenue.

We launched *Le Petit Belvedere* in July 2020 which was a very popular feature with our guests, allowing them to enjoy al fresco dining with a French menu and designs inspired by French luxury fashion brand Lanvin on our terrace. Unfortunately exterior and interior dining were banned from November which affected our service offering. During the year we offered takeaway and delivery services within the scope of the government regulations and when it was possible to do so.

With regret, we had to place a significant number of staff on furlough as well as lay off a number of our employees, although we continued their health insurance benefits until the end of 2020 to try to mitigate the financial burden on the affected colleagues. We also supplied groceries to the affected colleagues on furlough.

To benefit the local community, we implemented a "one meal for one meal" policy and delivered free takeaway meals to frontline medical and emergency workers and those in need in the community.

Operational Review

The Peninsula Paris

Revenue EUR13m	Occupancy	Average Room Rate	RevPAR
–80%	–21pp*	–5%	–39%*

* excluding the effect of reduction in room inventory during the hotel closure

France has been significantly negatively impacted by the effects of the coronavirus as well as travel restrictions in Europe. **The Peninsula Paris** started to see an impact in February and March and our hotel closed on 14 March 2020 due to French government directives. We reopened *La Terrasse Kléber* and *L'Oiseau Blanc* in the second half and we reopened the hotel for rooms business in March 2021.

We were delighted to receive a Michelin star for our rooftop restaurant *L'Oiseau Blanc* in early 2020. We hosted *The Peninsula Classics Best of the Best Award* in February 2020 which was well attended by classic car *aficionados* and celebrities and received extensive press coverage.

Operational Review

Commercial Properties Division

Commercial Properties	Revenue	Variance	
	HK$m	In HK$	In Local Currency
The Repulse Bay Complex	**590**	–11%	–11%
The Peak Tower	**63**	–59%	–59%
St. John's Building	**55**	–3%	–3%
The Landmark	**37**	–6%	–5%
21 avenue Kléber	**22**	–5%	–6%

Hong Kong's luxury leasing market was negatively impacted by the weak economic environment. Our largest residential property, **The Repulse Bay Complex** reported weaker revenue compared to the previous year, although residential revenue has held up well, declining by only 6% despite the current difficult environment. The immediate outlook remains fairly stable.

The Repulse Bay Shopping Arcade, which offers an eclectic blend of lifestyle amenities, health and wellness facilities and boutiques, was 95% occupied for the year.

The Peak Tower faced significant challenges during 2020. Rental revenue decreased and Sky Terrace 428 experienced a reduction of 86% revenue due to the substantial decline in visitor arrivals to Hong Kong. We have implemented a number of sales and marketing strategies to continue to drive business and to encourage local residents to visit the Peak.

Operational Review

St John's Building, located at the lower terminus of the Peak Tram, offers an excellent location for office space. The property was 97% occupied during 2020 and revenue remained stable.

The Landmark, a 16-storey residential and office property, is located on a prime riverfront site in the central business district of Ho Chi Minh City, Vietnam. Revenue for the offices slightly increased year-on-year while occupancy remained stable, which was a satisfactory result given the difficult business environment as a result of the global pandemic. However, the revenue for the residential portion was affected by the overall poor business environment and declined by 24%. The Landmark maintains its popularity and leadership in a competitive market and continues to attract awards for its management and facilities.

21 avenue Kléber offers an excellent location immediately adjacent to The Peninsula Paris on Avenue Kléber, near the Arc de Triomphe. The property has achieved international BREEAM Excellent and HQE Outstanding environmental certifications which are the highest level of sustainable building assessments in Europe. We have successfully leased the entire office but one of the two retail spaces has been vacated and we have been unable to show the property to potential tenants due to the lockdown in Paris. Revenue was further impacted due to rental concessions to the other retail tenant.

Clubs and Services Division

Clubs and Services	Revenue	Variance	
	HK$m	In HK$	In Local Currency
The Peak Tram	21	–73%	–73%
The Thai Country Club	29	–59%	–58%
Quail Lodge & Golf Club	76	–59%	–59%
Peninsula Clubs & Consultancy Services	6	–	–
Peninsula Merchandising	179	–29%	–29%
Tai Pan Laundry	28	–45%	–45%

The Peak Tram is one of Hong Kong's most popular tourist attractions and has been operated by HSH since 1888. The current upgrade project will result in a fully refurbished lower terminus which features covered queueing and waiting areas with entertainment features for up to 1,300 passengers. The new tramcars will be able to carry 210 passengers instead of 120 at present and visitors' waiting time will be significantly reduced. The full cost of the HK$734 million upgrade project, which is scheduled to be completed in 2021, is being fully funded by HSH.

In 2020, the upgrade project was negatively impacted by unforeseen ground conditions and the COVID-19 pandemic in terms of the sourcing of materials and production delays in Asia and Europe, which affected the manufacturing of our new tramcars and equipment. We believe this will affect the project in terms of its scheduled completion date and we have postponed the second phase of service suspension until end June 2021. The entire upgrade project is now planned to be completed by December 2021.

As forewarned in the 2019 annual report and the profit warning announcements in February 2020 and July 2020, overall revenue of The Peak Tram decreased by 73%, due to the suspension of the tram and the coronavirus which significantly impacted tourist arrivals in Hong Kong.

Operational Review

The Thai Country Club was temporarily closed due to the Government shutdown of all sports and entertainment facilities from March to May 2020. In August 2020, we reached an agreement with our Thai partners and HSH ceased to have any responsibility for the ownership and operations of the Thai Country Club from 28 October 2020. This was a difficult decision and one that was taken in the light of the very challenging global and domestic market circumstances and the legal dispute between the partners. We are sad to no longer own and operate Thai Country Club and would like to express our heartfelt appreciation for the staff's support, hard work and dedication to making the Club one of the finest golf clubs in the country over the past 24 years of operation.

Quail Lodge & Golf Club revenue decreased by 59% year on year mainly due to the shelter-in-place restrictions in California. The hotel and club facilities temporarily closed in March 2020, although the golf course reopened in May 2020 and the hotel in mid-June 2020. Business has been strong with the "staycation" market in California proving to be popular and the drive-in market was robust. In line with local regulations while still offering services for our guests, we implemented outdoor dining from Edgar's at the Quail Lodge deck and the Clubhouse patio. Golf rounds improved in the second half.

We successfully installed a solar farm during 2020 consisting of 1,920 solar panels. It is now operating at 100% capacity with an estimated annual output of 1,600,000 kWh and we expect it will significantly contribute to our cost saving efforts as well as being an important part of our sustainability strategy.

We unfortunately had to cancel both *The Quail Motorcycle Gathering* and *The Quail*, *A Motorsports Gathering* events, which usually occur in May and August respectively and are considered two of the world's leading concours events for classic motoring *aficionados*. This also negatively affected our revenue for this property.

Peninsula Clubs & Consultancy Services (PCCS)
PCCS manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and The Refinery (formerly Butterfield's). This business reported stable revenue compared to the same period last year, which was a satisfactory result considering the impact of the coronavirus outbreak in Hong Kong. The relocation project of the Hong Kong Bankers Club experienced some delay although the Club successfully reopened in January 2021 in a new location in Central.

Revenue at **Peninsula Merchandising** was 29% lower compared to the previous year, due to softer retail sales and the temporary closure of the Hong Kong International Airport boutique. Despite the weak market sentiment, Peninsula Merchandising's mooncake business was robust. Our wholesale business was satisfactory, driven by good performance from the Chinese mainland and Japan, and our online revenue was strong. Peninsula Merchandising opened six new retail outlets in 2020, including The Peninsula Boutique & Café at Isetan Shinjuku and Shin-Marunouchi Building respectively in Tokyo. Peninsula Merchandising is planning to expand in the Chinese mainland, and will open new boutiques in key cities and drive online sales, widen distribution channels and increase brand awareness to customers in the Greater China region.

Tai Pan Laundry revenue declined by 45% compared to the same period last year due to significantly reduced corporate business as a result of the coronavirus pandemic.

Operational Review

PROJECTS UNDER DEVELOPMENT

The Peninsula London

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

The property is in a high-profile location at the gateway to Belgravia, overlooking Hyde Park Corner, the Wellington Arch, Green Park and the gardens of Buckingham Palace. We are developing a 189-room Peninsula hotel with 26 luxury Peninsula-branded residential apartments for sale also integrated into the development. The construction budget for the project is in the region of £800 million.

As a result of the coronavirus pandemic, we decided to temporarily close the construction site to ensure the safety of our employees, contractors, and suppliers. The site reopened in May 2020, however, due to the ongoing serious situation and lockdowns in London, we are subject to social distancing requirements which means fewer construction workers are allowed on the site. We are working hard to mitigate the impact of the inevitable delay but we expect there will be a continued impact of the pandemic on the supply chain. Over the last few months, we have achieved a number of significant milestones. These include the conclusion of the basement excavation and the formation of the swimming pools and the entry courtyard. Fit out works continue to progress within the hotel guest rooms, residences and restaurants, and fit out to the hotel Lobby, ballrooms and Spa areas are due to commence shortly. The revised opening date of the hotel is now expected to be in 2022.

The Peninsula Istanbul

In July 2015, together with our partners Doğuş Holding and BLG, we entered into a shareholders' agreement to form a joint venture partnership, of which HSH has a 50% share, for a proposed hotel development in Istanbul, Turkey. The partners agreed to jointly develop the property with an investment commitment of approximately €300 million, of which HSH is responsible for 50%.

There will be approximately 180 rooms, a ballroom with sweeping views of the Bosphorus, indoor and outdoor swimming pools, Spa and verdant garden area on the waterfront. The Peninsula Istanbul will form part of the wider *Galataport* project being developed by our partners, which incorporates a promenade, museums, art galleries, restaurants, boutiques, retail units, parks and public spaces for the local community as well as a cruise passenger terminal.

We decided to temporarily close the construction site in April 2020 due to the coronavirus pandemic and while the site has reopened, the closure and social distancing requirements have led to some unforeseen delays. Despite COVID-19, we have made good progress on construction and two of the four buildings have mostly been handed over for fit-out works, with the remaining two buildings to follow in a few months' time. Completion of the project is currently targeted to be in 2022.

The Peninsula Istanbul is subject to a lease agreement which in turn is subject to a 30-year transfer of operating rights agreement that commenced in February 2014. The project has been hard hit by unforeseen delays due to the site conditions and the coronavirus pandemic. Coupled with the decline of the local currency, the uncertain economic climate arising from the geopolitical tensions and the expected delay of the hotel opening, management has engaged an independent valuer to re-appraise the value of The Peninsula Istanbul. Following the re-appraisal, the Directors deemed it appropriate to write down the book value of the project by HK$472 million (of which 50% was shared by the group), representing approximately 20% of the hotel's cost on completion.

Operational Review

The Peninsula Yangon

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

The Peninsula Yangon will have 88 magnificent guestrooms with high ceilings, surrounded by tropical landscaped gardens with an outdoor swimming pool. The group's overall investment is around US$130 million, including the value of the leasehold interest and estimated development costs. The project has experienced some delays as a result of the COVID-19 pandemic but shell and core works proceeded at a good pace and fit out of the benchmark room is underway.

Political developments on 1 February 2021 led to the military declaring a state of emergency for a period of one year. We have noted the recent violence and chaos with great concern and we continue to evaluate both the immediate actions required and the longer-term decisions that need to be made in respect of this project.


THE PENINSULA
B-KHS

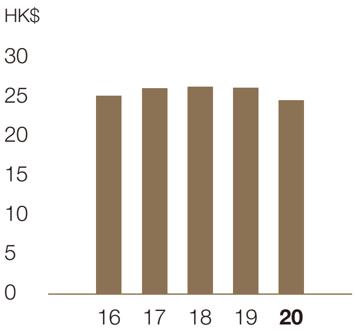
Financial Review

Adjusted NAV

HK$40,607m

-5%

Adjusted NAV per Share



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

Financial Review

The outbreak of the COVID-19 has placed substantial pressure on the group's operating performance, in particular the hotels division. From March 2020, six Peninsula hotels in New York, Chicago, Paris, Tokyo, Bangkok and Manila were temporarily closed due to global travel restrictions, public health concerns, quarantine and social distancing arrangements. The ongoing COVID-19 pandemic has also impacted the group's commercial properties division and clubs and services division due to the deterioration of the general economic environment. As a result, the group's consolidated revenue for the year ended 31 December 2020 decreased by 54% to HK$2,710 million.

Despite major efforts to contain costs and government subsidies made available to some of our operations, the group sustained an EBITDA loss and underlying loss of HK$61 million and HK$864 million respectively for the year ended 31 December 2020. However, the group's financial position as at 31 December 2020 remained robust. With undrawn committed facilities and cash at banks of HK$7 billion, the directors believe that the group will be able to meet the working capital requirements of its existing operations as well as the group's capital commitments, including the hotel development projects in London, Yangon and Istanbul, as well as the Peak Tram upgrade project.

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, but 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 2020, the details of which are set out on page 73. If these assets were to be stated at fair value, the group's net assets attributable to shareholders would increase by 10% to HK$40,607 million as indicated in the table below.

HK$m	**2020**		2019	
Net asset value attributable to shareholders per the audited statement of financial position		**36,844**		39,054
Adjusting the value of hotels and golf courses to fair value	**3,892**		4,109	
Less: Related deferred tax and non-controlling interests	**(129)**		(355)	
		3,763		3,754
Adjusted net asset attributable to shareholders		**40,607**		42,808
Audited net asset per share (HK$)		**22.34**		23.90
Adjusted net asset per share (HK$)		**24.63**		26.20

The group's underlying (loss)/profit

Our operating results are mainly derived from the operation of hotels; leasing and sale of luxury residential apartments; leasing of office and retail properties; 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 impairment provisions, in our consolidated statement of profit or loss. To reflect the true performance of the group, we have provided a calculation of the underlying (loss)/profit attributable to shareholders. This is determined by excluding the post-tax effects of the revaluation movements of investment properties and impairment provisions in respect of non-investment properties.

The group's underlying loss attributable to shareholders for the year ended 31 December 2020 amounted to HK$864 million compared to an underlying profit of HK$480 million for the year ended 31 December 2019.

HK$m	**2020**	2019
(Loss)/profit attributable to shareholders	**(1,940)**	494
Revaluation loss/(gain) of investment properties#	**708**	(14)
Impairment provisions*	**329**	–
Share of revaluation gains on apartments sold by the Peninsula Shanghai Waitan Hotel Company Limited (PSW)Δ	**39**	–
Underlying (loss)/profit	**(864)**	480

Including the group's share of revaluation movement of The Peninsula Shanghai, net of tax and non-controlling interest.

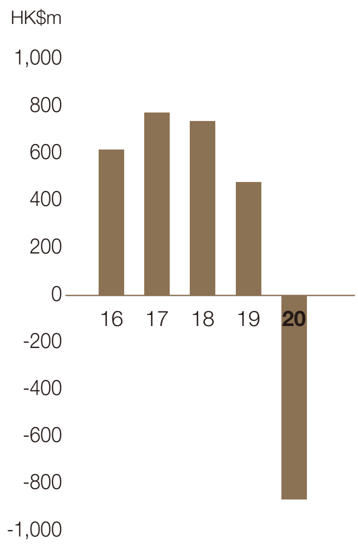
* Including the group's share of impairment of HK$236 million in respect of The Peninsula Istanbul which is held by a joint venture.

Δ PSW is a 50% joint venture which owns The Peninsula Shanghai Complex. In 2017, PSW reclassified its apartments from investment properties which were stated at fair value as inventory held for sale. The group's underlying (loss)/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 (loss)/profit.

Underlying loss

HK$864m

Underlying (loss)/profit



Financial Review

Statement of profit or loss

The group's consolidated statement of profit or loss for the year ended 31 December 2020 is set out on page 153. The following table summarises the key components of the group's (loss)/profit attributable to shareholders. This table should be read in conjunction with the commentary set out on pages 66 to 71 of this Financial Review.

HK$m	**2020**	2019	2020 vs 2019 favourable/ (unfavourable)
Revenue	**2,710**	5,874	(54%)
Operating costs	**(2,771)**	(4,484)	38%
EBITDA	**(61)**	1,390	n/a
Depreciation and amortisation	**(553)**	(589)	6%
Net financing charges	**(144)**	(140)	(3%)
Share of results of joint ventures*	**(269)**	(17)	(1,482%)
Share of results of associates	**(97)**	(32)	(203%)
(Decrease)/increase in fair value of investment properties	**(732)**	83	n/a
Impairment provision in respect of The Peninsula Manila**	**(93)**	–	n/a
Taxation	**(31)**	(192)	84%
(Loss)/profit for the year	**(1,980)**	503	n/a
Non-controlling interests	**40**	(9)	n/a
(Loss)/profit attributable to shareholders	**(1,940)**	494	n/a

* Including the group's share of revaluation loss of the Peninsula Arcade in Shanghai, net of tax, of HK$10 million and the group's share of impairment provision in respect of The Peninsula Istanbul of HK$236 million. The details of the latter are set out on page 71

** Details of the impairment provision in respect of The Peninsula Manila are set out on page 70

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 the hotels division, 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, retail and wholesale of merchandise, club management and other services, including the Peak Tram, one of Hong Kong's most popular tourist attractions.

The outbreak of the COVID-19 has had a devastating impact on the group's operations, particularly the hotels division and clubs and services division. Total revenue, including the group's effective share of revenue of associates and joint venture, decreased by 54% to HK$2,947 million.

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 on the following page.

Revenue by business segment

HK$m	2020 Group's subsidiaries	2020 Associates and joint venture (effective share)	2020 Combined total	2019 Group's subsidiaries	2019 Associates and joint venture (effective share)	2019 Combined total	2020 vs 2019
Hotels	1,594	237*	1,831	4,288	504*	4,792	(62%)
Commercial Properties	777	–	777	946	–	946	(18%)
Clubs and Services	339	–	339	640	–	640	(47%)
	2,710	237	2,947	5,874	504	6,378	(54%)

* 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	2020 Group's subsidiaries	2020 Associates and joint venture (effective share)	2020 Combined total	2019 Group's subsidiaries	2019 Associates and joint venture (effective share)	2019 Combined total	2020 vs 2019
Hong Kong	1,548	–	1,548	2,368	–	2,368	(35%)
Other Asia	697	168*	865	1,889	270*	2,159	(60%)
US and Europe	465	69	534	1,617	234	1,851	(71%)
	2,710	237	2,947	5,874	504	6,378	(54%)

* 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 largest contributor to the group's combined revenue. Due to public health concerns, travel bans, government directives and community lockdowns, six Peninsula hotels in New York, Chicago, Paris, Tokyo, Bangkok and Manila were temporarily closed from March 2020. As at 31 December 2020, The Peninsula New York and The Peninsula Paris remained closed. Whilst the Peninsula hotels in Hong Kong, Beijing, Shanghai and Beverly Hills continued to operate throughout the year, the RevPAR and food and beverage revenues of these hotels were significantly lower than 2019. The rental revenues of the Peninsula Arcades in Hong Kong, Beijing, Shanghai and New York were also significantly lower due to rental concessions given to tenants. As a result, the combined revenue of the hotels division declined by 62% to HK$1,831 million.

Revenue of the commercial properties division decreased by 18%, principally due to the unfavourable performances of The Repulse Bay Complex (TRB) and The Peak Tower (TPT). TRB is the largest contributor of revenue, accounting for over 76% of the division's revenue. Due to the ongoing COVID-19 pandemic, the luxury residential market experienced a decline in demand, resulting in a decrease in rental revenue at TRB. Food and beverage and catering revenue at TRB also decreased due to social distancing arrangements and restrictions imposed on bars and restaurants by Hong Kong government. At TPT, due to rental concessions granted to tenants and the sharp decrease in visitors to the Sky Terrace, the property reported a 59% decrease in revenue.

Consolidated Revenue

HK$2,710m

-54%

Hotels

HK$1,594m

-63%

Commercial Properties

HK$777m

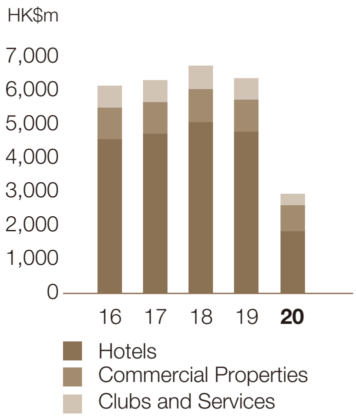
-18%

Clubs and Services

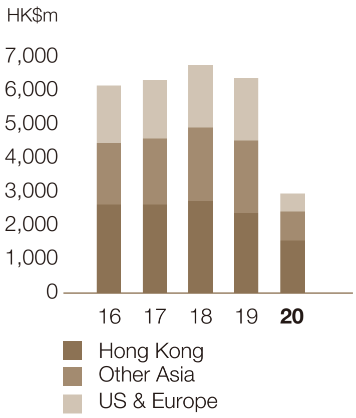
HK$339m

-47%

Combined Revenue*
by Business Segment



Combined Revenue*
by Geographical Segment



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

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The decrease in revenue of the clubs and services division of 47% was mainly due to the sharp decline in fare income experienced by the Peak Tram, softer mooncake sales for the Peninsula Merchandising and the temporary closure of Quail Lodge & Golf Club.

Details of the operating performances of the group's individual operations are set out on pages 33 to 59 of the Operational Review.

Operating costs

To combat the severe downturn in revenue, we have instigated stringent cost reduction measures across the group, including significant staff cost reduction. As a result, despite the increase in project-related spending for the three Peninsula hotels under development, the group's operating costs decreased by 38% to HK$2,771 million in 2020 (2019: HK$4,484 million). The following table summarises the key components of the group's operating costs, showing the reductions achieved.

HK$m	**2020**	2019	2020 vs 2019
Cost of inventories	**213**	457	(53%)
Staff costs and related expenses	**1,511**	2,294	(34%)
Rent and utilities	**373**	441	(15%)
Advertising and promotions	**74**	198	(63%)
Credit card and room commissions	**73**	205	(64%)
Guest supplies and laundry expenses	**97**	210	(54%)
IT and telecommunication expenses	**76**	94	(19%)
Property maintenance and insurance	**150**	208	(28%)
Other operating expenses	**204**	377	(46%)
	2,771	4,484	(38%)

Given the nature of operating high-end luxury hotels, staff costs continued to be the largest portion of our operating costs. During the year, a total of HK$130 million (2019: HK$nil) in employment related subsidies was received by the Hong Kong and Asian properties. The group achieved savings during the year through voluntary unpaid leave arrangements, a hiring freeze, and placing employees of the closed hotels on furlough. As a result, payroll and related expenses for the year reduced by 34% to HK$1,511 million (2019: HK$2,294 million), representing 55% (2019: 51%) of the group's operating costs.

EBITDA and EBITDA Margin

The breakdown of the group's combined EBITDA (earnings before interest, taxation, depreciation and amortisation) by business segment and by geographical segment is set out in the following tables.

EBITDA by business segment

HK$m	2020 Group's subsidiaries	2020 Associates and joint venture (effective share)	2020 Combined total	2019 Group's subsidiaries	2019 Associates and joint venture (effective share)	2019 Combined total	2020 vs 2019
Hotels	(487)	8*	(479)	758	120*	878	n/a
Commercial Properties	440	-	440	527	–	527	(17%)
Clubs and Services	(14)	-	(14)	105	–	105	n/a
	(61)	8	(53)	1,390	120	1,510	n/a

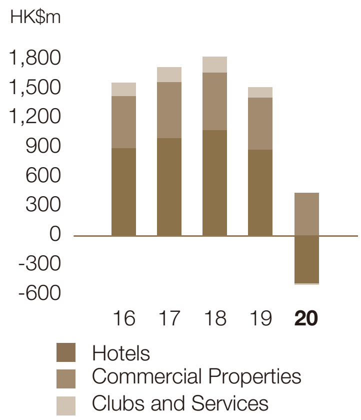
* Excluding the group's share of EBITDA in respect of the sale of apartments by the joint venture in Shanghai

EBITDA by geographical segment

HK$m	2020 Group's subsidiaries	2020 Associates and joint venture (effective share)	2020 Combined total	2019 Group's subsidiaries	2019 Associates and joint venture (effective share)	2019 Combined total	2020 vs 2019
Hong Kong	557	-	557	950	–	950	(41%)
Other Asia	(264)	40*	(224)	322	85*	407	n/a
US and Europe	(354)	(32)	(386)	118	35	153	n/a
	(61)	8	(53)	1,390	120	1,510	n/a

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

Combined EBITDA by Business Segment



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EBITDA margin

	2020 Group's subsidiaries	2020 Associates and joint venture (effective share)	2020 Combined total	2019 Group's subsidiaries	2019 Associates and joint venture (effective share)	2019 Combined total
Hotels	–31%	3%*	–26%	18%	24%*	18%
Commercial Properties	57%	–	57%	56%	–	56%
Clubs and Services	–4%	–	–4%	16%	–	16%
Overall EBITDA margin	–2%	3%	–2%	24%	24%	24%
By region						
Hong Kong	36%	–	36%	40%	–	40%
Other Asia	–38%	24%*	–26%	17%	31%*	19%
US and Europe	–76%	–46%	–72%	7%	15%	8%

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

A majority of the group's operating costs is fixed in nature, including payroll and related expenses, real estate taxes, insurance and certain contracted services. As explained in the previous section, with the introduction of various cost control measures and the receipt of certain government subsidies, the group's operating costs decreased by 38%. However, the decrease was insufficient to offset the revenue shortfall sustained by the group. Overall, the group reported a combined EBITDA loss of HK$53 million.

(Decrease)/increase in fair value of investment properties

The investment properties of the group were revalued as at 31 December 2020 by independent firms of valuers based on an income capitalisation approach. The revaluation deficit of HK$732 million (2019: revaluation gain of HK$83 million) was principally attributable to the decrease in the appraised market value of The Repulse Bay Complex, Peninsula arcades in Hong Kong, Beijing and New York as well as The Peak Tower. The decrease in appraised market value of these investment properties was a reflection of the current subdued market environment for luxury residential and retail, as well as the depressed economy and outlook.

Impairment provision in respect of The Peninsula Manila

The Peninsula Manila is subject to a land lease with a relatively short remaining lease term. In view of the short remaining lease term and the severe economic slowdown from the pandemic, an impairment review was conducted by management and an independent valuer was engaged to appraise the fair market value of the hotel at the interim period ended 30 June 2020. Given the hotel's appraised value was lower than its book value as at 30 June 2020, the directors considered it appropriate to write down the hotel's value resulting in an impairment provision of HK$93 million. Subsequent to the year ended 31 December 2020, the land lease was extended by four years to 31 December 2030. However, it is expected that the lease extension will not significantly impact on the hotel's appraised value. Accordingly, no adjustment to impairment provision has been made at the year end.

Share of result of joint ventures

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. In 2020, two (2019: nil) apartments were sold for HK$266 million (2019: HK$nil) with a realised gain on disposal of HK$96 million (2019: HK$nil) and the group's share of the gain amounted to HK$48 million (2019: HK$nil). At the end of 2020, PSW owned 8 remaining apartments which are held for sale.

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 65 of this Financial Review.

Inclusive of hotel and arcade operations, and residential leasing and sales, PSW generated an EBITDA of HK$97 million (2019: HK$169 million). However, after accounting for depreciation, interest and the unrealised loss on revaluation of the hotel shopping arcade, PSW sustained an accounting loss amounting to HK$67 million (2019: HK$35 million) and the group's share of loss amounted to HK$33 million (2019: HK$17 million).

Details of the operating performance of The Peninsula Shanghai are set out in the Operational Review section on pages 36 and 37.

The group also owns a 50% interest in The Peninsula Istanbul indirectly through PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT), a joint venture incorporated in Turkey. The Peninsula Istanbul is subject to a 30-year fixed term lease commencing February 2014. Development progress of the hotel has been affected by unforeseen delays due to the site conditions and the outbreak of the COVID-19 coronavirus. Considering the uncertain economic climate, ongoing geopolitical tensions, sharp decline of the local currency, and an expected delay of the hotel opening, management has conducted an impairment assessment and engaged an independent valuer to re-appraise the value of The Peninsula Istanbul. Due to the hotel's lower appraised value relative to the development cost, the directors have deemed it appropriate to write down the book value of the project by HK$472 million (of which 50% was shared by the group), representing approximately 20% of the hotel's expected cost on completion.

Share of results of associates

The group has a 20% interest in each of The Peninsula Beverly Hills and The Peninsula Paris. The group's share of net loss of these hotels amounted to HK$97 million (2019: HK$32 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 50 to 53.

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Statement of financial position

The consolidated statement of financial position of the group as at 31 December 2020 is presented on page 155 and the key components of the group's assets and liabilities are set out in the following table. Despite the loss attributable to shareholders of HK$1,940 million incurred during the year, the group's financial position as at 31 December 2020 remained robust with shareholders' funds amounting to HK$36,844 million, representing a per share value of HK$22.34.

HK$m	2020	2019	2020 vs 2019
Fixed assets	**45,656**	45,533	–
Properties under development for sale	**4,264**	3,624	18%
Other long-term assets	**2,427**	2,351	3%
Cash at banks and in hand	**520**	697	(25%)
Other assets	**812**	856	(5%)
	53,679	53,061	1%
Interest-bearing borrowings	**(11,182)**	(7,524)	49%
Lease liabilities	**(3,266)**	(3,149)	4%
Other liabilities	**(2,079)**	(2,659)	(22%)
	(16,527)	(13,332)	24%
Net assets	**37,152**	39,729	(6%)
Represented by			
Shareholders' funds	**36,844**	39,054	(6%)
Non-controlling interests	**308**	675	(54%)
Total equity	**37,152**	39,729	(6%)

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 2020.

A summary of the group's hotel, commercial and other properties showing both the book value and the fair value as at 31 December 2020 is set out in the table on the following page.

	2020 Group's interest	**2020** Fair value valuation	**2020** Book value	2019 Fair value valuation	2019 Book value
		Value of 100% of the property (HK$m)			
Hotel properties *					
The Peninsula Hong Kong	100%	**11,968**	**9,639**	12,252	9,919
The Peninsula New York	100%	**2,075**	**1,576**	2,278	1,686
The Peninsula Beijing	76.6%Δ	**1,363**	**1,361**	1,449	1,439
The Peninsula Tokyo	100%	**1,737**	**1,504**	1,726	1,487
The Peninsula Chicago	100%	**1,200**	**1,150**	1,332	1,207
The Peninsula Bangkok	100%**	**715**	**669**	744	668
The Peninsula Manila	77.4%	**50**	**47**	140	134
The Peninsula Shanghai#	50%	**3,016**	**2,455**	2,878	2,410
The Peninsula Paris#	20%	**5,158**	**5,082**	5,125	4,828
The Peninsula Beverly Hills#	20%	**2,449**	**328**	2,632	390
		29,731	**23,811**	30,556	24,168
Commercial properties					
The Repulse Bay Complex	100%	**17,792**	**17,792**	17,921	17,921
The Peak Tower	100%	**1,348**	**1,348**	1,445	1,445
St. John's Building	100%	**1,197**	**1,197**	1,207	1,207
Apartments in Shanghai	100%	**403**	**403**	394	394
21 avenue Kléber	100%	**743**	**743**	698	698
The Landmark	70%ΔΔ	**46**	**46**	52	52
		21,529	**21,529**	21,717	21,717
Other properties					
Thai Country Club golf course	n/a**	**n/a**	**n/a**	261	289
Quail Lodge resort, golf course and vacant land	100%	**286**	**276**	298	284
Vacant land in Thailand	100%**	**100**	**100**	472	472
Others	100%	**381**	**205**	390	210
		767	**581**	1,421	1,255
Properties under development##					
The Peninsula London	100%	**7,656**	**7,656**	5,856	5,856
The Peninsula Yangon	70%	**679**	**679**	534	534
The Peninsula Istanbul#	50%	**799**	**799**	843	843
		9,134	**9,134**	7,233	7,233
Total market/book value		**61,161**	**55,055**	60,927	54,373

* Including the shopping arcades and offices within the hotels.

** The group's interest in Thai Country Club and its adjacent land was held indirectly through a Thai subsidiary, Town and Country Sport Club Company Limited (TCS). Following a restructuring of the Thai joint venture arrangements, TCS was deconsolidated on 28 October 2020. Details of the transaction are set out on page 74 of this Financial review.

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

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

\# These properties are held by associates/joint ventures.

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

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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 2020, the balance of properties under development for sale amounted to HK$4,264 million (2019: HK$3,624 million) and such amount will either be recovered through sales completions or recognised as cost of inventories. Reservation fees and pre-sale deposits paid by buyers of the apartments are held in escrow accounts in accordance with the local regulations in the UK and therefore, such fees and deposits are not reflected in the consolidated statement of financial position.

Restructuring of joint venture arrangements in Thailand

The company's wholly-owned subsidiary, Peninsula International Investment Holdings Limited (PIIHL) and the Phataraprasit family, the Thai joint venture partners, had entered into 50/50 joint venture arrangements since 1997 in HSH-Siam Chaophraya Holdings Company Limited (HSH-SCH) to own and for Peninsula to manage The Peninsula Bangkok (PBK) and the Thai Country Club (TCC). On 8 October 2020, PIIHL entered into transaction agreements with the Phataraprasit family to terminate the joint venture relationship and to restructure the parties' respective shareholdings in the assets of HSH-SCH. To acquire the 50% remaining interest in PBK and the surrounding land from the Phataraprasit family, the company agreed to pay a total consideration of the 50% economic interest in TCC and its adjacent land and a cash consideration of US$70 million (HK$546 million). The total consideration was arrived at after arm's length negotiations among the parties and having regard to the market values of PBK and its surrounding land, the market values of TCC and its land parcels and consideration to resolve all existing and contingent disputes between the company and Thai partners.

On 28 October 2020, all conditions precedent under the transaction agreements were satisfied and the joint venture relationship was terminated. As a result of the restructuring, the company's indirect interest in PBK increased to 100% whereas TCC was deconsolidated from the company's consolidated financial statements. As set out in the statement of changes in equity on page 156 of the company's consolidated financial statements, the restructuring has resulted in a reduction of equity attributed to shareholders of the company by HK$678 million and a reduction of non-controlling interests by HK$327 million respectively. It should be noted that the aforesaid reduction in equity attributable to shareholders was calculated in accordance with the applicable accounting standards using the existing book value, instead of the fair market value, of PBK and its surrounding land. The amount of reduction would be substantially less if PBK and its surrounding land were adjusted to fair market value.

Other long-term assets

The other long-term assets as at 31 December 2020 of HK$2,427 million (2019: HK$2,351 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 Beverly Hills, 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 2020, the group's cash at banks and in hand and interest-bearing borrowings amounted to HK$520 million (2019: HK$697 million) and HK$11,182 million (2019: HK$7,524 million) respectively, resulting in a net borrowings of HK$10,662 million (2019: HK$6,827 million). The increase in net borrowings was mainly due to the capital expenditure in relation to the group's existing assets, the ongoing projects under development and the restructuring of the joint venture arrangements in Thailand. A breakdown of the group's capital expenditure for the year ended 31 December 2020 is set out on page 76.

Cash flows

The consolidated statement of cash flows of the group for the year ended 31 December 2020 is set out on page 157. The following table summarises the key cash movements for the year ended 31 December 2020.

HK$m	**2020**	2019
EBITDA	**(61)**	1,390
Tax payment*	**(179)**	(17)
Net cash (used in)/generated from operating activities before net working capital movement	**(240)**	1,373
Changes in working capital**	**(197)**	(7)
Capital expenditure on existing assets	**(399)**	(564)
Net cash (outflow)/inflow after normal capital expenditure	**(836)**	802
Capital expenditure on new projects	**(1,771)**	(1,330)
Net cash outflow before dividends and other payments	**(2,607)**	(528)
Dividends paid	**(47)**	(107)
Cash consideration and other related costs in respect of the restructuring of the joint venture arrangements in Thailand	**(571)**	–
Net interest and other payments	**(300)**	(159)
Net cash outflow before borrowings	**(3,525)**	(794)

* The amount of tax paid in 2020 largely related to the group's Hong Kong profits tax liabilities in respect of the year ended 31 December 2019 due to the late issuance of tax assessment notices by the Inland Revenue Department.

** The 2020 figure mainly comprised the bonuses accrued in 2019 which were paid in 2020 as well as guest and rental deposits refunded to customers during the year.

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

HK$m	**2020**	2019
Hotels		
The Peninsula Hong Kong	**91**	63
The Peninsula Beijing	**5**	72
Others	**97**	190
Commercial properties	**29**	42
Clubs and services		
Peak Tram	**161**	169
Others	**16**	28
	399	564

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

HK$m	**2020**	2019
The Peninsula London	**1,378**	1,074
The Peninsula Yangon	**135**	114
Capital injection into the joint venture in Turkey	**258**	142
	1,771	1,330

Due to the outbreak of the COVID-19 coronavirus, there were inevitable delays in the progress of our hotel projects in London, Istanbul and Yangon. Construction sites were temporarily closed and supply chains were disrupted, leading to a lower than expected spend in 2020. We are working with our contractors and suppliers to mitigate the impact of these delays as much as possible.

For the Peninsula hotels in London and Istanbul, completion of development is expected to be in 2022. For The Peninsula Yangon, as explained in the “non-adjusting event after the balance sheet date” section on page 78, we temporarily suspended all site works on 1 February 2021 to ensure the safety and security of our staff and contractors. We are closely monitoring the political developments in Myanmar and it is too early to accurately predict how the construction timetable might be affected.

Capital commitments

The global hospitality sector has been very negatively affected by the COVID-19 pandemic. Despite the short-term turmoil, our commitment to the long-term development of the group remains unchanged. In addition to improving our existing assets, we will continue to invest in the development of the highest quality hotels in selected locations.

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. The group's budgeted investment in respect of the hotel development projects in London, Istanbul, and Yangon are approximately GBP800 million, EUR150 million and USD130 million respectively. All of these projects have been materially affected by disruptions to the construction labour force and supply chains due to the COVID-19 coronavirus outbreak. We have managed the projects tightly to try to mitigate the cost and programme impacts of these disruptions but are still working with our contractors and cost consultants to assess the cost impact. Further details on the status of the group's hotel development projects are set out on pages 60 to 62 of the Operational Review.

For the Peak Tram upgrade project, the original budget was estimated to be HK$684 million. Due to the disruption to the supply chains in Asia and Europe caused by the COVID-19 pandemic, manufacturing of our new tramcars and procurement of new equipment have been negatively affected. In addition, construction of the lower terminus has been delayed due to unforeseen underground, structural and MEP conditions which required additional approvals from various government authorities as well as extra works on the foundation and substructure. Despite various value-engineering measures, the delays have resulted in an increase in the project budget by HK$50 million to HK$734 million.

As at 31 December 2020, the group's total spending on the three hotel projects and the Peak Tram upgrade project amounted to approximately HK$6.7 billion (including interest and expenses capitalised) and the projected remaining capital expenditure for these major projects is expected to be approximately HK$5.8 billion (including interest and expenses to be capitalised). As mentioned above, we are still reviewing the cost impact of the delays for the group's hotel projects in London, Istanbul and Yangon and the remaining capital expenditure in respect of these projects may be subject to adjustments.

As at 31 December 2020, the group's total capital commitments, including the group's share of capital commitments of joint ventures and associates, amounted to HK$6,004 million (2019: HK$7,936 million) which represents about 11% 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.

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The group's total capital commitments as at 31 December 2020 are summarised in the table below.

HK$m	**2020**	2019
Normal capital expenditures in respect of existing properties, including the group's share of capital expenditures of a joint venture and associates	**216**	607
New and special projects		
– The Peak Tram upgrade	**332**	441
– The Peninsula London	**4,044**	5,211
– The Peninsula Yangon	**705**	849
– The Peninsula Istanbul	**707**	828
	6,004	7,936

As at 31 December 2020, the group's undrawn committed facilities and cash at banks amounted to HK$7.0 billion (2019: HK$7.6 billion). Given the group's robust balance sheet and strong liquidity position, the Directors believe that the group will be able to meet the above capital commitments as well as the working capital requirements of its operations.

Non-adjusting event after the balance sheet date

On 1 February 2021, political developments in Myanmar led to the military declaring a state of emergency for a period of one year. We have noted the recent violence and chaos with great concern and we continue to evaluate both the immediate actions required and the longer-term decisions that need to be made in respect of this project.

Capital and treasury management

The group is exposed to liquidity, foreign exchange, interest rate and credit risk in the normal course of business and stringent policies and procedures are put 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 there is ample headroom for its obligations and commitments. In 2020, the group set up a notional cash pooling structure that allowed global unrestricted cash to be directed to head office. The group also maintains adequate committed borrowing facilities from major financial institutions to ensure funds are available to meet its future financial obligations and to finance its growth and development. A centralised strategy is adopted by concentrating committed borrowing facilities at the corporate office in Hong Kong.

Liquidity and Financing

In 2020, the group obtained additional committed facilities of GBP 120 million to cater for the increased development budget for The Peninsula London and HK$2.3 billion equivalent of facilities to support group capital expenditures and general working capital.

We take a proactive approach to manage the group's liquidity to ensure ample headroom to cover our capital commitments and protect against business volatility, such as that created by the global coronavirus outbreak.

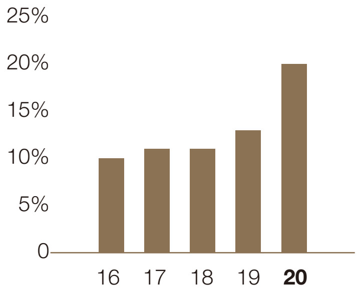
The group monitors its capital structure on the basis of its net borrowings (defined as interest-bearing borrowings less cash at banks and in hand) to total assets and monitors its liquidity through cash interest cover and funds availability.

In 2020, gross borrowings increased to HK$11,182 million (2019: HK$7,524 million) mainly due to construction payments for The Peninsula London and the impact of COVID-19 coronavirus on operations. Consolidated net debt increased to HK$10,662 million as compared to HK$6,827 million in 2019. As at December 2020 the group had HK$6.5 billion of unused committed facilities. The group's net borrowings to total assets increased to 20% as compared to 13% in 2019. The ratio continues to reflect a healthy financial position for the group.

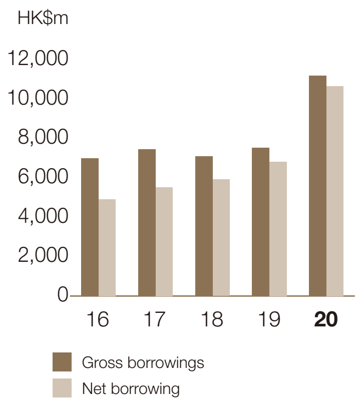
During the year, the group also refinanced its maturing loans (primarily denominated in US dollar and JPY) with new maturity tenors of 1 to 5 years. The average debt maturity for the year decreased from 2.7 years to 2.1 years.

Net interest paid in 2020 increased to HK$165 million (2019: HK$120 million) as a result of higher net borrowings offset by lowering of interest rates globally. Cash interest cover (EBITDA less lease payments divided by net interest paid) was –1.2 times (2019: 10.4) due to the loss sustained in 2020.

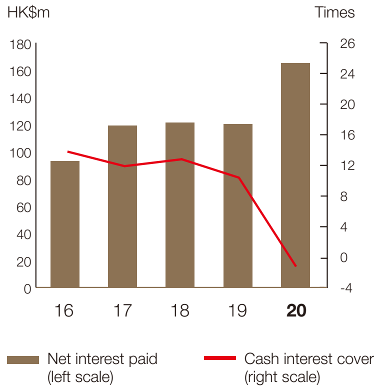
Net Borrowings to Total Assets



Gross and Net Borrowings



Net interest Paid and Cash Interest Cover



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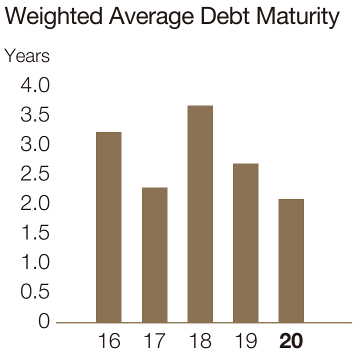
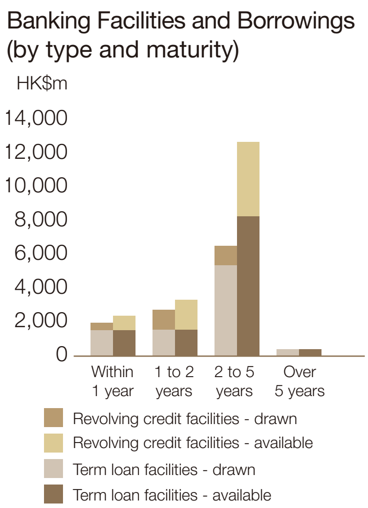
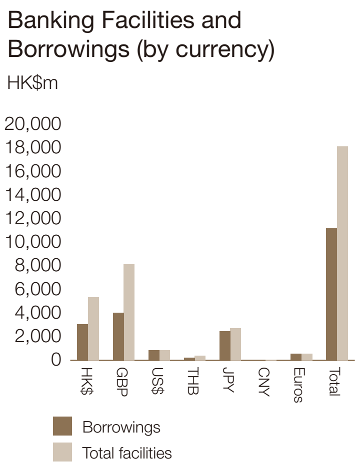






We continue to monitor our overall debt and cashflow positions closely and believe that the best defence against any unforeseen volatility in business levels is to maintain prudent financial headroom.

The consolidated and non-consolidated borrowings as at 31 December 2020 are summarised as follows:

	2020						2019
HK$m	Hong Kong	Other Asia	United States of America	Europe	UK	Total	Total
Consolidated gross borrowings	3,039	2,694	866	571	4,012	11,182	7,524
Non-consolidated gross borrowings attributable to the Group*:							
The Peninsula Shanghai (50%)	-	504	-	-	-	504	531
The Peninsula Beverly Hills (20%)	-	-	194	-	-	194	197
The Peninsula Paris (20%)	-	-	-	427	-	427	391
Non-consolidated borrowings	-	504	194	427	-	1,125	1,119
Consolidated and non-consolidated gross borrowings	3,039	3,198	1,060	998	4,012	12,307	8,643

* 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 generally uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge foreign exchange exposure.

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

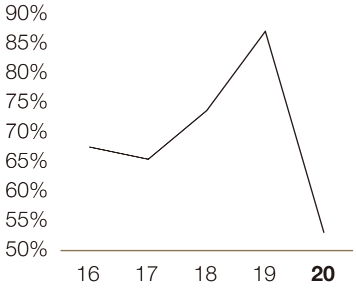
All of the group's borrowings are denominated in the functional currency of the operations to which they relate. As at 31 December 2020, GBP, HK dollar and Japanese yen borrowings represented 36%, 27% and 22% of total borrowings respectively. Other balances were mainly in US dollars, and other local currencies of the group's entities.

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 2020, the group reduced its fixed to floating interest rate ratio to 53% (2019: 86%) due to the lower rate interest rate environment. The weighted average interest rate for the year decreased from 2.2% to 1.9%.

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



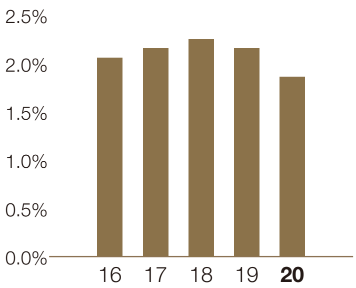
Credit risk

The group manages its exposure to non-performance of counterparties by transacting with lenders with a credit rating of at least investment grade. However, in developing countries, it may be necessary to deal with lenders of lower credit ratings.

Due to long term risk profiles, derivatives are used solely for hedging purposes and not for speculation and the group only enters into such derivative transactions with counterparties with invest grade ratings only.

As at 31 December 2020, derivatives with a notional amount of HK$3,243 million (2019: HK$3,442 million) were transacted.

Weighted Average Interest Rate



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.

As the group sustained an EBITDA loss and underlying loss for the year ended 31 December 2020, the Board of Directors has resolved not to declare an interim dividend or a final dividend.

Share information

At market close on 17 March 2021, the company's share price stood at HK$8.10, giving a market capitalisation of HK$13.4 billion (US$1.7 billion). This reflects a discount of 64% to net assets attributable to shareholders of the company, or a discount of 67% to the adjusted net assets attributable to shareholders (see page 64).

The average closing price during 2020 was HK$6.96, with the highest price of HK$8.91 recorded on 17 January 2020 and the lowest price of HK$5.62 recorded on 30 October 2020.

Creating Stakeholder Value

Engaging with Our Stakeholders

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

Stakeholder Group	Why and how we engage	Examples in 2020
Our Guests	Engaging with our guests and ensuring their satisfaction is critical to how we run our business. We continue to develop a best in class booking and E-Commerce experience that drives increasing room bookings, while demonstrating differentiated brand values. On the sales side, we continue to focus on nurturing our relationships with PenClub members, our in-house preferred travel partner programme. Enriching the lives of our guests is important and for this reason, The Peninsula provides guests and visitors the opportunity to engage with immersive, experiential art, allowing them to create memories that they will carry for a lifetime. Through refreshed marketing collateral, content and partnerships we can present the brand in a more meaningful, relevant and engaging way. This entails not only creating continuity in our existing materials, but also using our rich history and heritage to mine new stories that will elevate the brand.	• In February, the fifth annual The Peninsula Classics Best of the Best Award was awarded to a 1958 Ferrari 335 S Spyder featuring coachwork by Scaglietti at an unveiling event held at The Peninsula Paris. • In April, PenChat was introduced. With this bespoke, 24-hour private messaging service guests can message their questions or requests to our hotel teams via the trusted chat interface already installed on their phone, such as WhatsApp, Facebook Messenger, WeChat or LINE. • From April to September, we shared our PenCook series via Instagram with our guests introducing hotel team member's favourite recipes that could be easily prepared at home. The series was then made into a digital cookbook available to download on peninsula.com. • In May, we launched a global room package to invite guests to experience their local destination with the "We Meet Again" campaign. It offered special experiences that celebrate "The Eight Loves of The Peninsula Hotels" – food and drink, art, fashion and culture, exploration, transport, wellness, entertainment, and community. • In June, we launched a dedicated website page highlighting our COVID-19 Hygiene & Safety Protocols to support the safety, health and wellbeing of our guests and our employees, such as the distancing of tables, face masks worn by employees and temperature checks. • In September, we became the first hotel group to introduce bathroom amenities with packaging that is 99.9% petroleum plastic-free featuring curated fragrances inspired by each Peninsula hotel and its home city. • From September to November, all ten of our hotels took to Instagram again to introduce PenInsider, a series of our hotel team's favourite local sightseeing spots. • In November, "The Peninsula Promise" was introduced with its commitment to providing a superlative guest experience. It includes a range of new special offers – the most notable and innovative of these initiatives is "Peninsula Time," which offers guests a newly extended and flexible schedule for check-in and check-out. Other benefits include a new collection of eco-friendly, bespoke scented guest room amenities, guaranteed connecting rooms at the time of booking on peninsula.com, reservation flexibility with Luxury in Advance and other bookings, a new online platform for gift cards, and contactless services. • Webinar hotel tours and virtual cocktail gatherings were held throughout the year for our PenClub members, our in-house preferred travel partner programme. • In December, we welcomed the festive season with "Stories from the Tree" and a specially written children's story titled "The Robin's Journey" that was available as a complimentary e-book and downloadable on peninsula.com along with previous years' stories, "The Gingerbread Man's Tale" and "The Nutcracker's Adventure".

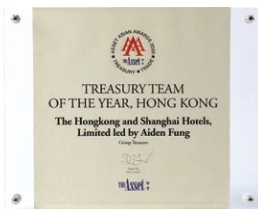
Stakeholder Group	Why and how we engage	Examples in 2020
Our People	2020 has been a particularly challenging year for our Human Resources team and we worked hard to ensure the wellbeing of our staff during this very difficult year. Longer term, our focus is to attract and retain top talent and we will strive to maintain our culture while adding thousands of people to our workforce with the opening of three new hotel projects. The WorkPlace 2025 initiative continues in which our focus is to create effective transformation for our teams and modernise our workplace. While we currently have a hiring freeze in place due to the global pandemic, we remain committed to developing strong leaders, implementing mental and physical well-being programmes, and the improvement of our engagement strategies.	• Virtual training sessions to keep people motivated and engaged, with a strong focus on mental health and managing stress and anxiety • Tips on working from home, staying fit and sharing best practices with regards to hygiene and self-care. • Enhanced our health benefits programme by adding psychology and counselling services in order to assist with the mental health toll of the pandemic. • It was with great regret that we had to furlough and lay off some of our staff and to request staff to take voluntary unpaid leave during the year. Where possible, if we had to lay off staff, we kept their medical benefits and health insurance active for as long as possible to minimize the financial burden.
Our Cities: Governments	Our Executive Directors and Chairman regularly meet with senior Hong Kong Government leaders and Legislative Council members to discuss areas of concern for the tourism and property sectors. Our Chief Executive Officer is a member of the World Travel & Tourism Council (WTTC) which actively engages with governments around the world on industry issues on behalf of members. Our project team members in London, Istanbul and Yangon meet with select local government representatives, diplomats and relevant stakeholders to discuss local issues and enhance cooperation ahead of our three project hotel openings.	• Engaged with Hong Kong Government departments on tourism initiatives • Membership of WTTC • Engaged with local government representatives and diplomats in London, Istanbul and Yangon
Financial Analysts and Investors	Our Investor Relations team and our Executive Directors meet regularly with financial analysts and investors, as well as participate in non-deal investor road shows, post-results briefings and the AGM.	• Investor Conferences in Hong Kong and Mainland China • Financial reports and website • Annual General Meeting (AGM) • One-on-one meetings and conference calls • Regular briefings with research analysts
Media	While many events were cancelled in 2020, the Peninsula Hotels Marketing team conducts regular press briefings and attends high profile trade shows in all our key markets as well as emerging markets. The HSH Corporate Affairs team organises press conferences with Executive Directors at annual/interim results and individual interviews throughout the year in Hong Kong. We host regular press groups from the world's most prestigious travel, luxury and business publications to visit the cities in which we operate.	• HSH financial results press releases and AGM (press conferences had to be cancelled due to social distancing requirements) • Media engagement programmes and online interviews with our CEO and senior executives
Community and NGOs	Our Corporate Responsibility and Sustainability team meets with non-profit organisations, academia and industry advocacy groups regularly throughout the year to keep ourselves informed of the latest developments on sustainability issues, and contributes to the sustainability development of the wider community by sharing HSH's experience at various local and regional conferences and industry committees. In 2020, we expanded our membership to include participating in like-minded organisations to support global issues such as climate change and single use plastics. This engagement also includes our support to different charities around the world. Our operations also engage with local charities to provide support where possible.	• Member of Business for Social Responsibility, Responsible Luxury Initiative • Member of We Mean Business, Global Tourism Plastics Initiative, Mekong Club and the HK Sustainable Seafood Coalition
Partners and Suppliers	Our partners are also key to our growth, as they help us to ensure the successful operation of our properties in their local markets. Sustainable guidelines such as the Building Research Establishment Environmental Assessment Method (BREEAM) were incorporated since the beginning of project planning, for the construction of the new hotels and renovation projects.	• The Peninsula Yangon has been undertaking an extensive restoration and heritage preservation, cataloguing to preserve the history and heritage of Myanmar. The Peninsula Istanbul is undergoing a highly complex restoration and construction project on the banks of the Bosphorus, in collaboration with local authorities and Heritage Board. • The Peninsula London, Istanbul and Yangon are referencing international green building standards during their development

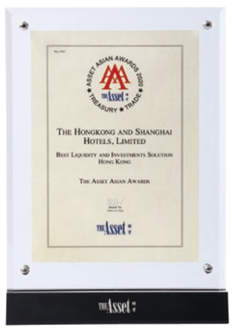
We always seek to improve on the area of stakeholder engagement and we are compiling a thorough stakeholder engagement profile for our three project markets in 2020.

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

Awards in 2020

Operations	Awards	Organisers
The Hongkong and Shanghai Hotels – Annual Report 2019	2020 ARC Awards, Grand Award – Best of Cover Design – Corporate Responsibility and Sustainability Report 2019 – Best of Interior Design – Corporate Responsibility and Sustainability Report 2019	MerComm, Inc.
	2020 ARC Awards, Gold Award – Feature Categories – Photography – Tourism – Feature Categories – Cover Photo/Design – CSR – Corporate Social Responsibility Report – Feature Categories – Interior Design – CSR – Corporate Social Responsibility Report	MerComm. Inc.
	2020 ARC Awards, Silver Award – Overall Presentation – Traditional Format – Tourism – Feature Categories – Infographics – CSR – Corporate Social Responsibility Report	MerComm, Inc.
	2020 ARC Awards, Bronze Award – Feature Categories – Interior Design – Hotel & Leisure – Overall Presentation – Traditional Format – CSR – Corporate Social Responsibility Report – Feature Categories – Photography – CSR – Corporate Social Responsibility Report	MerComm, Inc.
	2020 ARC Awards, Honor Award – Feature Categories – Chairman's/President's Letter – Hotel & Leisure – Feature Categories – Photography – Hotel & Leisure – Feature Categories – Cover Photo/Design – Tourism – Feature Categories – Interior Design – Tourism	MerComm, Inc.
	Best Corporate Governance Awards 2020 – Gold Award in the Non-Hang Seng Index (Medium Market Capitalisation) Category – Special Mention of Sustainability and Social Responsibility Reporting Award in the Non-Hang Seng Index (Medium Market Capitalisation) Category	Hong Kong Institute of Certified Public Accountants
	2020 Best Annual Reports Awards – Silver Award in "General" Category	Hong Kong Management Association
The Hongkong and Shanghai Hotels	The Asset Triple A Treasury, Trade, Sustainable Supply Chain and Risk Awards for 2020 – Best Liquidity and Investments Solution for Hong Kong – Treasury Team of the Year	The Asset
	TMI Awards for Innovation & Excellence 2020 – Corporate Recognition Awards 2020 – 'Highly Commended' for Best Treasury Transformation 2020	Treasury Management International





Operations	Awards	Organisers
The Peninsula Hong Kong	Business Traveller UK 2020 Awards – Best Business Hotel Worldwide	Business Traveller UK
	Condé Nast Traveler's 2021 Gold List – The Best Hotels and Resorts in the World	Condé Nast Traveler
	Condé Nast Traveler's Readers' Choice Awards US 2020 – Top Ten Hotels in Hong Kong (No.1)	Condé Nast Traveler
	2020 World's Best Awards – The Top 5 Hong Kong City Hotels (No.2)	Travel + Leisure
	Wine Spectator 2020 – Best of Award of Excellence – Gaddi's	Wine Spectator
	100 Top Tables 2020 – Gaddi's – Spring Moon	South China Morning Post
	Forbes Travel Guide 2020 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa – Five Star Rating Awards – Restaurant – Gaddi's	Forbes Travel Guide (US)
	DestinAsian (Asia Pacific) Readers' Choice Awards 2020 – Best Hotel in Hong Kong	DestinAsian
	Black Pearl Restaurant Guide 2020 – Spring Moon	Black Pearl Restaurant Guide
	Michelin One Star – Spring Moon Michelin One Star – Gaddi's	The Michelin Guide Hong Kong 2021
The Peninsula Shanghai	Best Luxury Hotel in China	City Travel
	Influential Hotel of the Year	TimeOut
	Michelin One Star – Yi Long Court Michelin One Star – Sir Elly's	The Michelin Guide Shanghai 2021
	The World's Best Awards of 2020 – The Best City Hotel in Shanghai (No.1)	Travel+Leisure
	Smart Travel Asia 2020 Best in Travel Poll – Top Business Hotels – Asia (No.3)	Smart Travel Asia
	Forbes Travel Guide 2020 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa	Forbes Travel Guide
	2020 Gold List – China Top 10 Hotels	Condé Nast Traveler
The Peninsula Beijing	Best Hotel and Resort Value Award – Best Luxury Hotel	Voyage
	Forbes Travel Guide 2020 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
	Target taste annual award 2020 – Best City Landmark Hotel	Target
	Luxury hotel of the Year	China Daily
	Golden Awards – Best Business Hotel	National Geographic Traveller
	Travel & Life Awards 2021 – Luxury Hotel of the Year	Enjoyable Travel

Awards in 2020

Operations	Awards	Organisers
The Peninsula Tokyo	Forbes Travel Guide 2020 Star Award – Five Star Rating Awards – Hotel – Five Star Rating Awards – Spa	Forbes Travel Guide
The Peninsula Bangkok	Best Hotel in Bangkok (No.1) Top 50 Best of in the World (No.5)	Condé Nast Traveler
	The World's Best Awards of 2020 – The Top 5 Hotels in Bangkok (No.3)	Travel+Leisure
	Forbes Travel Guide 2020 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
	Mei Jiang – Best Restaurant Award	Thailand Tatler Award
The Peninsula New York	Best Hotels in New York City (No.1)	U.S. News & World Report
	Forbes Travel Guide 2020 Star Award – Five Star Rating Awards – Hotels – Five Star Rating Awards – Spa	Forbes Travel Guide
The Peninsula Chicago	Diamond Wedding Awards 2020 – Outstanding Ballroom Wedding – Legacy Award	Modern Luxury Weddings Chicago
	2020 Readers' Choice Awards – Top Hotel in Chicago (No.3)	Condé Nast Traveler
	The Top 10 City Hotels in Chicago (No.1)	Travel+Leisure (USA)
	Forbes Travel Guide 2020 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
	Best Hotel in the USA (No.3) Best Hotels in Chicago (No.1)	U.S. News & World Report
	2020 AAA Five Diamond Hotels	Automobile Association of America (AAA)
The Peninsula Beverly Hills	Forbes Travel Guide 2020 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
	Traveler's Choice 2020	TripAdvisor
	The Best Hotel in the US	Global Traveler
	2020 AAA Five Diamond Hotel	Automobile Association of America (AAA)
	Best Hotels in Los Angeles (No.3) Best Hotels in California (No.4)	U.S. News & World Report

Operations	Awards	Organisers
The Peninsula Paris	– Michelin One Star – L'Oiseau Blanc – Dessert Passion Selection (Anne Coruble, Pastry Sous-Chef)	Michelin Red Guide
	France's Leading Luxury Hotel 2020	World Travel Awards
	Forbes Travel Guide 2020 Star Award – Five Star Rating Awards – Hotel	Forbes Travel Guide
The Repulse Bay	Hong Kong Living Awards 2020 – Best Residential Complex	Hong Kong Living
	SCMP 100 Top Tables award 2020 – The Verandah	South China Morning Post
	Hong Kong Dining Awards 2020 – Best Restaurant for Date Night – The Verandah	Hong Kong Dining Guide
Peninsula Merchandising Limited	Fair Trade Corporate Label – Platinum Award	Fair Trade Hong Kong
	Caring Company 2020	The Hong Kong Council of Social Service
Quail Lodge & Golf Club	Golfers' Choice 2021 – Top 10 U.S. golf courses (No.8) – Best golf courses in California (No.2)	GolfPass
Tai Pan Laundry	Caring Company	The Hong Kong Council of Social Service
	Wastewi$e – Excellence Level	Hong Kong Green Organisation
	Manpower Developer Award	Employees Retraining Board
	Good Employer Charter	Labour Department

Governance

Chairman's Governance Overview

> "During times of extreme crisis such as those we have experienced in 2020, it is important to remember that we have a great legacy of overcoming adversity. They are simply moments in history and will pass, as all crises eventually do."

Dear Shareholders,

Overcoming adversity

For The Hongkong and Shanghai Hotels, Limited we believe that excellent corporate governance is the foundation of a successful and sustainable company. As Chairman of the Board, I am committed to ensuring that the company operates to the highest standards of governance to ensure our success.

Over the past year our home market of Hong Kong continued to experience social unrest and uncertainty, which was then followed by the devastating effects of the global COVID-19 pandemic in 2020. During times of extreme crisis such as those we have experienced in 2020, it is important to remember that we have a great legacy of overcoming adversity. They are simply moments in history and will pass, as all crises eventually do. I am confident that we shall weather the challenging times ahead with our strong resilience based on a rich heritage of more than 150 years.

New Board member

As Chairman I wish to ensure that The Hongkong and Shanghai Hotels, Limited has a dynamic Board with a diverse range and balance of skills, expertise and experience, who can work effectively and constructively in uncertain times and give advice and guidance to the Executive Directors and management.

In October 2020 Mr Matthew Lawson stepped down from our Board as an Executive Director and the Chief Financial Officer, and we identified Mr Christopher Ip as his successor. Mr Ip brings with him a wealth of experience in international investments, real estate transactions and corporate finance, and joined the Board in January 2021.

Adapting our governance practices to mitigate the impact of the pandemic and managing risks

We regularly review and seek improvements to our governance processes, policies and procedures to ensure they are in line with global regulatory requirements and best practice. In 2020, using this sound governance framework, the focus was on how to mitigate the impact of the global COVID-19 pandemic. The Board took an active leadership role in formulating the company's COVID-19 response, including reviewing potential response options formulated by management and monitoring closely the group's approach towards its guests, employees and stakeholders. From March 2020 each Board meeting agenda included detailed consideration of the pandemic and its business impact, and the Board kept under continual review, the progress of the measures taken and the impact of COVID-19 on our business, with plans also developed for subsequent recovery.

We are thankful that managing risk across the group and seeking improvements on internal controls has always been a priority, particularly in light of the adversities of 2020. The global COVID-19 pandemic has caused a far-reaching impact on the landscape by creating new organisational risks and elevating existing ones. Our Group Risk Committee concentrates on enhancement of internal controls to manage the pandemic and other strategic risks of the group, with particular focus on recovery measures and our development projects. In addition, it also puts emphasis on enhanced communications, greater awareness and ownership of risks and controls across the group, and further improvements to 5-step risk management methodology. More details can be read on pages 124 to 128 of this report.

Commitment to corporate responsibility and sustainability

The Board is committed to the group's strategic approach to corporate responsibility and sustainability, ensuring that we minimise any environmental impact on the cities in which we operate. During 2020 we spent significant effort to develop the next phase of our Corporate Responsibility and Sustainability (CRS) strategy. We have become more aware of the systemic and multidimensional nature of sustainability issues, while witnessing longer-term trends as environmental and social effects become more significant to our stakeholders. To this end, during 2020 we enhanced our strategic framework for the development of our post-2020 strategy. The new strategy has been named *Sustainable Luxury Vision 2030* to reflect The Hongkong and Shanghai Hotels, Limited's pledge to make a real commitment to long-term sustainability. More details can be read in the Group Corporate Responsibility Committee Report on pages 129 to 132 of this report and our online CRS Report.

Compliance

As a Hong Kong listed company we are reporting in the context of the Stock Exchange's Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules. However, our philosophy is not to review corporate governance simply as a compliance exercise but as an evolving core discipline which underpins the success of the company. This report reinforces the commitment of Board and senior management to the high standards of corporate governance, which supports the development of strong corporate culture throughout the group.

A commitment to long-term success

Overall, I believe that our governance structure has helped us to manage the uncertainty of the world today. We continue to strive for improvement while learning from dealing with the current challenges to ensure the long-term success of the company.

The Hon. Sir Michael Kadoorie
17 March 2021

Our Leadership - Board Members

Non-Executive Chairman

The Hon. Sir Michael Kadoorie

Age: 79 Appointed: November 1964

N E

Key strengths and experience

Sir Michael was appointed as Chairman in 1985. He holds board-level positions in two other listed companies as well as directorships in private companies. With decades of international experience in different sectors including infrastructure, utilities, property and retail, Sir Michael has extensive knowledge of the hospitality and real estate sectors, a deep understanding of the environment in which the company operates, and a comprehensive appreciation of investor sentiment.

Titles, qualifications and education

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

Other major offices

CLP Holdings Limited# (Chairman)
CK Hutchison Holdings Limited# (Independent Non-Executive Director)
Sir Elly Kadoorie & Sons Limited* (Director)

Other information

Substantial Shareholder of the company
Director of two of the group's entities
Father of Mr Philip Lawrence Kadoorie
Brother-in-law of Mr Ronald James McAulay, Honorary Life President

Non-Executive Deputy Chairman

Andrew Clifford Winawer Brandler

Age: 64 Appointed: May 2014

A R E F

Key strengths and experience

Mr Brandler has diverse board and committee senior leadership experience. He has served as Group Managing Director and Chief Executive Officer of CLP Holdings Limited, in addition to serving on listed company boards in the infrastructure, manufacturing, and real estate sectors. Mr Brandler has a background in banking, finance and investment with corporate finance expertise spanning the UK, Singapore and Hong Kong during his tenure at UK investment bank Schroders.

Titles, qualifications and education

Member of the Institute of Chartered Accountants in England and Wales
BA and MA, University of Cambridge
MBA, Harvard Business School

Other major offices

CLP Holdings Limited# (Non-Executive Director)
Tai Ping Carpets International Limited# (Non-Executive Director)
MTR Corporation# (Independent Non-Executive Director)
Sir Elly Kadoorie & Sons Limited* (Chairman)

Other information

Director of several of the group's entities

Governance Board Committees

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Chairman of the Committee

Other Board Committees

- E Executive Committee
- F Finance Committee
- Chairman of the Committee

 # The securities of these companies are currently listed on the Hong Kong Stock Exchange

** Sir Elly Kadoorie & Sons Limited oversees a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the substantial shareholders of the company*

Executive Director

Chief Executive Officer

Clement King Man Kwok

Age: 61 Appointed: February 2002

Ⓔ Ⓕ

Key strengths and experience

Mr Kwok has almost two decades of hospitality and real estate experience as the Managing Director and Chief Executive Officer of the company, as well as board and committee experience for other listed entities. Mr Kwok's prior experience was in accounting, investment banking, and corporate and financial management. After qualifying as a Chartered Accountant with Price Waterhouse London in 1983, he had over 10 years of investment banking experience with Barclays de Zoete Wedd in London and Schroders Asia in Hong Kong, where he was appointed as Head of Corporate Finance in 1991. Mr Kwok then served as Finance Director of the MTR Corporation from 1996 to 2002.

Mr Kwok's knowledge of international markets, accounting, corporate risk management and compliance is enhanced by his experience serving on prominent regulatory bodies such as the Hong Kong Stock Exchange Listing Committee, the Hong Kong Takeovers and Mergers Panel and the Interpretations Committee of the International Accounting Standards Board. He was previously an Independent Non-Executive Director of Swire Pacific Limited and Orient Overseas (International) Limited.

Titles, qualifications and education

Chevalier de la Légion d'Honneur
Member of Institute of Chartered Accountants in England and Wales
Member of Hong Kong Institute of Certified Public Accountants
Fellow of Hong Kong Management Association
BSc in Economics, London School of Economics

Other major offices

World Travel & Tourism Council (Council Member)
Faculty of Business and Economics of The University of Hong Kong (Member of International Advisory Council)

Other information

Director of the majority of the group's entities

Chief Operating Officer

Peter Camille Borer

Age: 67 Appointed: April 2004

Key strengths and experience

Mr Borer joined the group in 1981 and has been responsible for developing and perfecting the group's high standards of customer service and operational excellence. Following various operational roles, he was appointed General Manager of The Peninsula Hong Kong in 1994, taking on additional regional responsibility for the group's Asia hotel portfolio in 1999. Mr Borer was appointed as Chief Operating Officer in April 2004 and oversees the operation of the group's assets globally.

Titles, qualifications and education

Chevalier de l'Ordre du Mérite Agricole
Graduated from Ecole hôtelière de Lausanne, Switzerland

Other major offices

Ecole hôtelière de Lausanne, Switzerland (International Advisory Board Member)
School of Hotel and Tourism Management of The Chinese University of Hong Kong (Advisory Board Member)
Gleneagles Hospital Hong Kong (Advisory Council Member)

Other information

Alumni Network of Ecole hôtelière de Lausanne (Lifetime Achievement Award)
Director of the majority of the group's entities

Our Leadership - Board Members

Chief Financial Officer

Christopher Shih Ming Ip

Age: 51 Appointed: January 2021 F

Key strengths and experience

Mr Ip's background is in international investments, real estate transactions and corporate finance. Prior to joining HSH he worked for Phoenix Property Investors as Chief Financial Officer and Grosvenor Asia Pacific as Finance Director. He also worked for Jardine Matheson Group, Morgan Stanley and Deutsche Bank in New York and Hong Kong. In his new role as the company's Chief Financial Officer, Mr Ip brings valuable expertise to the group as it seeks to maximise the value of its investments.

Titles, qualifications and education

BA in International Relations, Brown University
MBA, London Business School

Other information

Director of the majority of the group's entities

Non-Executive Director

William Elkin Mocatta

Age: 68 Appointed: May 1985

Key strengths and experience

Mr Mocatta has a long association with the group and an intricate knowledge of the hospitality and real estate sectors, having served as Deputy Chairman of the Board from 1993 until May 2002. He is a seasoned C-suite executive with global market experience, serving in a number of executive and non-executive board-level roles in public and private companies. A qualified chartered accountant, Mr Mocatta has deep financial and strategic experience across a range of industries, including retail, utilities, property and infrastructure.

Titles, qualifications and education

Fellow of the Institute of Chartered Accountants in England and Wales

Other major offices

Sir Elly Kadoorie & Sons Limited* (Executive Director)
CLP Holdings Limited# (Non-Executive Vice Chairman)
CLP Power Hong Kong Limited (Non-Executive Chairman)
CLP Properties Ltd. (Non-Executive Chairman)
CLP Property Investment Limited (Non-Executive Chairman)
Castle Peak Power Company Limited (Non-Executive Chairman)
Hong Kong Pumped Storage Development Company, Limited (Non-Executive Chairman)
CK Hutchison Holdings Limited# (Alternate Director for The Hon. Sir Michael Kadoorie, Independent Non-Executive Director)

Other information

Director of several of the group's entities

John Andrew Harry Leigh

Age: 67 Appointed: May 2006 E F

Key strengths and experience

A long-serving non-executive director of the company, Mr Leigh has extensive knowledge of the hospitality industry. Mr Leigh is a solicitor with a background in private practice and has previously served as in-house senior legal advisor to the CLP group. He brings wide-ranging corporate governance and board-level global market experience across a number of industries, including property, aviation and utilities, with particular expertise in risk management and compliance.

Titles, qualifications and education

Graduate of Universities of London, Surrey and Macau
Solicitor of Hong Kong, England & Wales and Australia

Other major offices

CLP Holdings Limited# (Non-Executive Director)
Sir Elly Kadoorie & Sons Limited* (Director)
Metrojet Limited (Director)
Heliservices (Hong Kong) Limited (Director)

Nicholas Timothy James Colfer

Age: 61 Appointed: May 2006

Key strengths and experience

Mr Colfer has more than 35 years of experience in corporate management in the Asia Pacific region, principally in real estate, manufacturing and distribution. His tenure on the Board has provided Mr Colfer with a deep understanding of the group's business and the wider industry environment in which it operates. This, combined with his board-level experience in several other Hong Kong organisations, enables him to provide constructive leadership and support to the Board and wider management team.

Titles, qualifications and education

BA and MA, University of Oxford

Other major offices

Tai Ping Carpets International Limited# (Chairman)
Sir Elly Kadoorie & Sons Limited* (Director)

Other information

Director of one of the group's entities

James Lindsay Lewis

Age: 46 Appointed: December 2017

Key strengths and experience

Mr Lewis has experience in private equity, hotels, charity and aviation operations and currently serves on the Boards of private companies in the UK and Hong Kong. He has also served as an Independent Non-Executive Director of Hong Kong Aircraft Engineering Company Limited which was privatised in November 2018.

Titles, qualifications and education

Executive MBA program, Kellogg-HKUST
Master of Aviation Management, The University of Newcastle, Australia
Certification of Hospitality Management, Cornell University, U.S.A.
Member of The Society of Trust and Estate Practitioners

Other major offices

Sir Elly Kadoorie & Sons Limited* (Director)

Philip Lawrence Kadoorie

Age: 29 Appointed: December 2017

Key strengths and experience

Mr Kadoorie oversees a number of Kadoorie family interests in Hong Kong and overseas. Prior to his appointment to the Board, Mr Kadoorie completed various internships in commercial property companies in London and at CLP Group in Hong Kong. He holds two other Board positions and has developed strong expertise in the property sector.

Titles, qualifications and education

BSc in Communication, Boston University
FAA Commercial Pilot's License (Helicopter)

Other major offices

CLP Holdings Limited# (Non-Executive Director)
Sir Elly Kadoorie & Sons Limited* (Director)

Other information

Son of The Hon. Sir Michael Kadoorie
Nephew of Mr Ronald James McAulay, Honorary Life President

Our Leadership - Board Members

Independent Non-Executive Director

Dr the Hon. Sir David Kwok Po Li

Age: 82 Appointed: October 1987 N

Key strengths and experience

Sir David is a prominent Hong Kong banker, having held senior executive level positions at various pre-eminent Hong Kong and overseas companies. Sir David's rich and varied experience enables him to bring a unique viewpoint to the Board. His expertise in multiple sectors provides a diverse skillset covering the entire spectrum of the group's business.

Titles, qualifications and education

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

Other major offices

The Bank of East Asia, Limited# (Executive Chairman)
Guangdong Investment Limited# (Independent Non-Executive Director)
The Hong Kong and China Gas Company Limited# (Independent Non-Executive Director)
San Miguel Brewery Hong Kong Limited# (Independent Non-Executive Director)
Vitasoy International Holdings Limited# (Independent Non-Executive Director)
The Friends of Cambridge University in Hong Kong Limited (Founding Chairman)
The Salvation Army, Hong Kong and Macau Command (Advisory Board Chairman)
St. James' Settlement (Executive Committee Chairman)
Council of the Treasury Markets Association (Member)

Patrick Blackwell Paul, CBE

Age: 73 Appointed: February 2004 A R

Key strengths and experience

Mr Paul is an experienced independent non-executive director, and the Chairman of the Audit and Remuneration Committees. He brings many years of leadership experience, having been senior partner at PwC in Hong Kong. His finance, accounting and tax expertise enables him to provide key strategic guidance to the company in its financial reviews, risk management, compliance and internal control framework.

Titles, qualifications and education

CBE
Fellow of the Institute of Chartered Accountants in England and Wales

Other major offices

Johnson Electric Holdings Limited# (Independent Non-Executive Director)
Pacific Basin Shipping Limited# (Independent Non-Executive Director)
British Chamber of Commerce in Hong Kong (Chairman of the Supervisory Board)

Pierre Roger Boppe

Age: 73 Appointed: May 1996

Key strengths and experience

Mr Boppe has a deep understanding of the group's business as he served as the Managing Director and Chief Executive Officer of the company from 1996 until 2002. He was re-designated from being a Non-Executive Director to an Independent Non-Executive Director in 2009. Mr Boppe continues to bring value to the Board through his wide spectrum of expertise and experience in the hotel and travel industries.

Titles, qualification and education

Chevalier dans l'Ordre National de la Légion d'Honneur
MSc, Swiss Federal Institute of Technology
MSc, Stanford University

Dr William Kwok Lun Fung, SBS, OBE, JP

Age: 72 Appointed: January 2011 Ⓝ

Key strengths and experience

Dr Fung has diversified industry experience, and has provided valuable insight and advice to the Board since his appointment in 2011. In particular, Dr Fung's strong retail background, including his previous role as the Group Chairman at Li & Fung Limited, has enabled him to offer insight on luxury retail and the group's investment in Turkey, in addition to general management and risk management matters. Dr Fung was a Hong Kong SAR delegate to the Chinese People's Political Consultative Conference from 1998 to 2003.

Titles, qualifications and education

SBS, OBE, JP
BSc in Engineering, Princeton University
MBA, Harvard Graduate School of Business
Honorary Doctorate of Business Administration, The Hong Kong University of Science and Technology
Honorary Doctorate of Business Administration, The Hong Kong Polytechnic University
Honorary Doctorate of Business Administration, Hong Kong Baptist University
Honorary Doctorate of Letters, Wawasan Open University of Malaysia

Other major offices

Fung Group (Group Deputy Chairman)
Convenience Retail Asia Limited# (Non-Executive Director)
Global Brands Group Holding Limited# (Chairman and Non-Executive Director)
VTech Holdings Limited# (Independent Non-Executive Director)
Sun Hung Kai Properties Limited# (Independent Non-Executive Director)

Our Leadership - Board Members

Dr Rosanna Yick Ming Wong, DBE, JP

Age: 68 Appointed: February 2013 R

Key strengths and experience

Dr Wong provides invaluable and independent advice to the Board, with three decades of experience in the political and non-profit arenas, in addition to holding several Board positions in the private sector. She is particularly skilled in public sector, project management, change and risk management. Since her appointment in 2013, Dr Wong has provided significant contributions to the Board through her multi-faceted business background.

Titles, qualifications and education

DBE, JP
PhD in Sociology, University of California, Davis
Honorary Doctorate from The Chinese University of Hong Kong
Honorary Doctorate from The Hong Kong Polytechnic University
Honorary Doctorate from The University of Hong Kong
Honorary Doctorate from The Hong Kong Institute of Education
Honorary Doctorate from The University of Toronto
Honorary Fellow of the London School of Economics and Political Science

Other major offices

National Committee of the Chinese People's Political Consultative Conference (Member)
CK Hutchison Holdings Limited# (Independent Non-Executive Director)
Hutchison Telecommunications Hong Kong Holdings Limited# (Independent Non-Executive Director)
The Hong Kong Jockey Club (Steward)
World Vision Hong Kong (Honorary Chairman)
The Hong Kong Federation of Youth Groups (Senior Advisor)
Asia International School Limited (Chairman)

Dr Kim Lesley Winser, OBE

Age: 62 Appointed: January 2016

Key strengths and experience

Dr Winser has a wide range of expertise and experience in e-commerce, luxury retail and international business. Her career has encompassed various executive roles in the consumer, digital and retail industries. She began her career with Marks & Spencer plc in the UK and became its first female commercial divisional board director as well as its youngest director in the 1990s. She went on to successfully deliver turnarounds for the iconic British heritage brands Pringle of Scotland as Chief Executive Officer and Aquascutum as President and Chief Executive Officer. Dr Winser was special board advisor to the global digital ecommerce business Net-a-Porter.

Titles, qualifications and education

OBE
Doctorate from Heriot-Watt University for her work on British business

Other major offices

Winser London Limited, an online womenswear business (founder and CEO)
Natural History Museum, UK (member of the Board of Trustees and the Chairwoman of Commercial & Digital Advisory Committee)

Other information

Former name was Kim Lesley Haresign.

Ada Koon Hang Tse

Age: 54 Appointed: December 2017 Ⓐ

Key strengths and experience

Ms Tse has both a legal and a financial services background, enabling her to bring a unique combination of skills to the Board. A former lawyer at Sullivan and Cromwell in New York, Ms Tse also previously worked in financial advisory services and equity capital markets at Morgan Stanley in New York and Hong Kong. She currently serves as a Senior Advisor to PineBridge Investments Asia (formerly, AIG Investments Asia). She joined AIG in 1996 and was President and Chief Executive Officer of AIG Investments Asia before assuming an advisory role in 2011.

Titles, qualifications and education

BA in Applied Mathematics, Harvard University
JD, Harvard Law School

Other major offices

Solicitors Disciplinary Tribunal Panel of HKSAR Government (Member)
Advisory Committee on Arts Development of HKSAR Government (Member)
Municipal Services Appeals Board of HKSAR Government (Member)

Other information

Ms Tse runs her family's YangTse Foundation focusing on supporting education and arts initiatives.

Our Leadership - Senior Management and Key Functions

Senior Management

Group Management Board (GMB)

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

Members of the Group Management Board include Executive Directors, Clement Kwok, Peter Borer and Christopher Ip[1], and senior management, which include the Group Executives and other members. In 2020 Mr Gareth Roberts, Group Director, Brand and Operations Support was appointed to GMB.

Group Executives:

Christobelle Liao

Group Director, Corporate and Legal
Appointed to GMB: 2011
Age: 52

Main responsibilities held with the group

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

Martyn Sawyer

Group Director, Properties
Appointed to GMB: 2002
Age: 63

Main responsibilities held with the group

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

1 Profiles of Clement Kwok, Peter Borer and Christopher Ip are disclosed on pages 95 and 96

Other members:

Joseph Chong

Regional Vice President, Asia, The Peninsula Hotels and Managing Director, The Peninsula Hong Kong

Appointed to GMB: 2019

Age: 53

Main responsibilities held with the group

Mr Chong joined the group in 2000 at The Peninsula Beijing and has held a variety of positions at The Peninsula Bangkok and The Peninsula Shanghai, including General Manager and Managing Director of The Peninsula Shanghai. He was appointed as Area Vice President and Managing Director of The Peninsula Hong Kong and The Peninsula Shanghai in 2017. Since 2020, he has taken on additional responsibilities and was appointed as Regional Vice President, Asia, The Peninsula Hotels and Managing Director of The Peninsula Hong Kong. In his current capacity, he oversees The Peninsula Hotels' Asian properties, including Hong Kong, Shanghai, Beijing, Tokyo, Bangkok and Manila along with the Hong Kong based Tai Pan Laundry. He is a Director of several of the group's entities.

Shane Izaks

Group Director, Information Technology

Appointed to GMB: 2015

Age: 58

Main responsibilities held with the group

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

Maria Razumich-Zec

Regional Vice President and General Manager, The Peninsula Chicago

Appointed to GMB: 2007

Age: 63

Main responsibilities held with the group

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

Our Leadership - Senior Management and Key Functions

Gareth Roberts

Group Director, Brand and Operations Support
Appointed to GMB: 2020
Age: 39

Main responsibilities held with the group

Mr Roberts joined the group in 2002 at The Peninsula Beverly Hills and later became Resident Manager in 2011. Mr Roberts relocated to China in 2013 as Hotel Manager of The Peninsula Shanghai. In 2015, he transferred to HSH Head Office where he was promoted to Group General Manager, Operations Planning and Support in November 2016. As the Group Director, Brand and Operations Support, he is responsible for overseeing sales and marketing, branding, guest experience and operations for both existing and future hotel developments for The Peninsula Hotels. In addition, he oversees Peninsula Merchandising Limited, which comprises The Peninsula Boutique retail business.

Sindy Tsui

Group Director, Human Resources
Appointed to GMB: 2011
Age: 52

Main responsibilities held with the group

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

Key Functions

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

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

Christopher Chan, *General Manager, Research and Technology*

Ming Chen, *General Manager, Group Business Development*

Jisoo Chon, *General Manager, The Peninsula Shanghai*

Mark Choon, *General Manager, The Peninsula Tokyo*

Christopher Cribb, *Group General Manager, Projects*

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

Alistair Gough, *General Manager, Projects*

Mauro Governato, *General Manager, The Peninsula Paris*

Judy Huang, *General Manager, Corporate Finance*

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

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

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

Cecilia Lui, Director, *PRC Affairs and Vice President, Sales & Marketing, Greater China, The Peninsula Hotels*

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

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

Lynne Mulholland, *Director, Group Corporate Affairs*

Louise Napier, *Vice President, Global Commercial Leasing*

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

Masahisa Oba, *General Manager, The Peninsula Manila*

Vincent Pimont, *General Manager, The Peninsula Beijing*

Guy Riddell, *General Manager, Peninsula Merchandising Limited*

Joseph Sampermans, *General Manager, The Peninsula Bangkok*

Ernest Tang, *Group General Manager, Group Finance*

May Tsang, *General Manager, The Peak Complex*

Sonja Vodusek, *Managing Director, The Peninsula London*

Kitty Wan, *Group General Manager, Audit & Risk Management and Head of Finance, The Peninsula London Project*

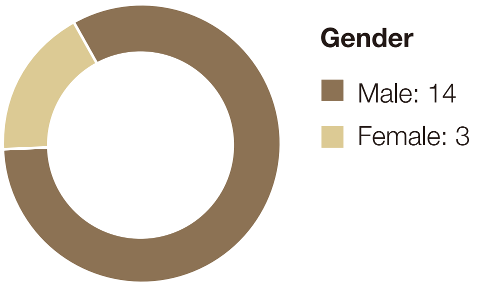
Joshua Wong, *Manager, Corporate Responsibility and Sustainability*

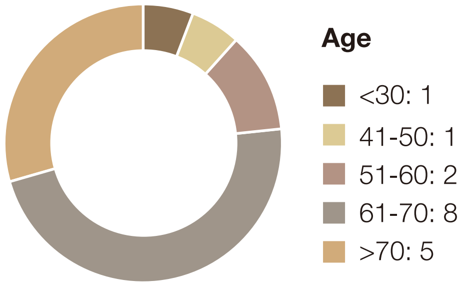
Tina Wong, *General Manager, The Repulse Bay Company, Limited*

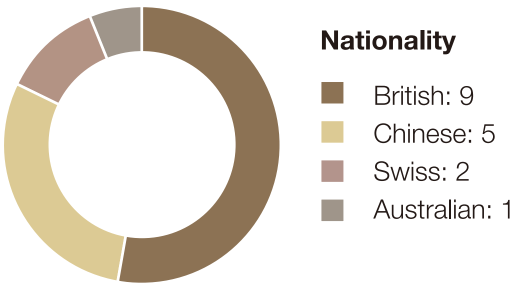
Our Leadership - Diversity

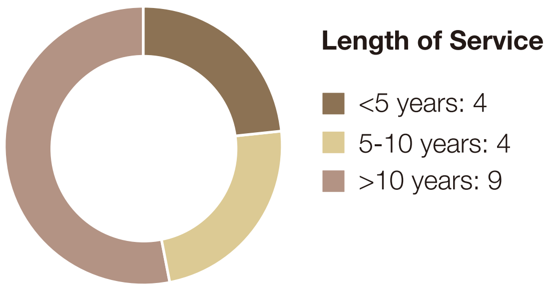
Board Diversity

A strong and effective Board requires an appropriate mix of skills, experience and diversity, in order to provide sound judgement on strategic issues and effective oversight of guidance to management. Each Board member's relevant skills and experience have been highlighted in their individual profiles[2]. The following charts indicate the diversity of the Board in terms of gender, nationality, age, and length of service.



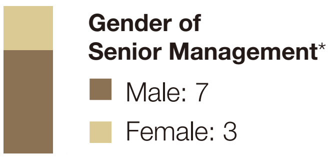


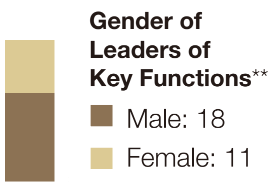




Senior Management and Leaders of Key Functions Diversity

Our diversity philosophy is followed throughout the group. Gender diversity of the senior management and leaders of key functions as at the date of this report is set out below.





* Inclusive of three Executive Directors

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

The company has taken, and continues to take, steps to promote diversity at all levels of our workforce[3]. The company has policies on equal opportunities and policies against any forms of discrimination. While we are proud to have diversity representation in our company, we look forward to achieving even more with our new *Inclusive Workplace Strategy*, which consists of three main pillars: Building an Inclusive Culture, Developing Inclusive Leaders, and Creating Unbiased Talent Management Processes. This strategy will be the blueprint for the company to continue promoting inclusive and harmonious workplace, providing equal opportunity to all employees regardless of gender, race, age, nationality, religion, sexual orientation, disability, and other aspects of diversity[4].

2 Details can be found on pages 94 to 101

3 Gender distributions for total workforce and management positions across all operations and corporate offices are disclosed on page 29 of the CRS Report

4 Details of the strategy can be found on pages 29 and 30 of the CRS Report

Corporate Governance Report

Our Values

Good corporate governance sustains the group through the changing regulatory and market environment over the long term, and is all the more important in uncertain times such as 2020. Our Board sees corporate governance as an integral part of our business strategy. By putting in place the right governance framework, our Board has set a culture of integrity, accountability and transparency that permeates throughout the group. This in turn fosters and maintains shareholders' and stakeholders' confidence in our company.

The annual report is an important tool for the company to provide shareholders and stakeholders with a transparent picture of our business performance as well as our commitment to the high standards of corporate governance and the evolving nature of our governance practices. We are constantly striving to improve the clarity and transparency of our reporting. This is recognised in the awards we received for our 2019 Annual Report. Details can be found in the "Awards in 2020" section on page 86.

The Board recognises that our people are key to maintaining good corporate governance and long-term sustainability of the company. The CRS Report[5] highlights our new Human Resources strategy and efforts in these areas in 2020.

Corporate Governance Framework

The Board has set a two-tiered structure where the Board and the management team are led by the Chairman and the Chief Executive Officer respectively. The Board and its committees oversee the corporate governance structure and give guidance to management on implementing good governance in our daily business, as described below. The diagram on page 109 illustrates how our corporate governance framework[6] supports the development of good governance practices throughout the group.

Board and Board Committees

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

Group Management Board and sub-committees

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

For the implementation of our business strategy, GMB is supported by three sub-committees, as well as General Managers and Heads of Operations and Functional Departments. Each GMB sub-committee has its own terms of reference or charter. The Group Risk Committee, Group Corporate Responsibility Committee and Technology Steering Committee report to GMB, who in turn report to the Board for oversight on risk management and environmental and social issues, as well as the group's innovation and technology strategy. In addition to the above three sub-committees, we also have the HSH Retirement Plan ORSO Committee which oversees the group's retirement plan.

5 Posted on the company website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports
6 Details of responsibilities and memberships of the Board and Board committees can be found on the company website: www.hshgroup.com/en/corporate-governance

Corporate Governance Report

Chairman and Chief Executive Officer

The Chairman and the Chief Executive Officer have clearly defined roles which are separate and distinct. The specific duties and the division of responsibilities between the Chairman and Chief Executive Officer have been agreed by the Board and are set out in the HSH Corporate Governance Code. Our Chairman and Chief Executive Officer do not have any financial, business, family or other material or relevant relationships with each other.

Roles and responsibilities of Directors and Company Secretary

Their respective roles are set out in the table below.

Role	Responsibilities
Non-Executive Chairman *The Hon. Sir Michael Kadoorie*	• Leading the Board and monitoring its effectiveness • Fostering candid discussions and constructive relationships among Directors • Reviewing management performance with the INEDs • Ensuring that good corporate practices and procedures are established and implemented throughout the group, with the assistance of the Company Secretary
Chief Executive Officer* *Clement Kwok* **supported by GMB[7]*	• Leading the management and GMB in the day-to-day running of the group's business • Developing strategies for the Board's approval • Executing strategies, policies and objectives agreed by the Board • Reporting to the Board on the performance of the business
Executive Directors *Clement Kwok* *Peter Borer* *Christopher Ip*	• Managing the day-to-day business of the entire group's operations • Being accountable for their specific executive functions to the Board • Communicating proactively with the NEDs and being open and responsive to any executive proposals and challenges made by the NEDs
Non-Executive Directors (NEDs) and Independent Non-Executive Directors (INEDs) *P.94, 96 to 101*	• Evaluating the group's performance in achieving the agreed corporate goals and objectives • Ensuring clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effective • Providing constructive feedback on management decisions • Serving on the Board and Board Committees to give these committees the benefit of their skills, expertise, and varied backgrounds and qualifications • The INEDs, being independent, have the additional role of: – Bringing knowhow and business expertise that are supplementary to executive management, thereby providing independent insights and judgement – Helping to maintain objectivity in the Board's decisions when potential conflicts of interest arise
Company Secretary *Christobelle Liao*	• Reviewing, implementing, initiating and driving improvements on our corporate governance practices and processes • Advising and keeping the Board and Board Committees up to date on legislative, regulatory and governance matters • Facilitating induction and professional development of the Directors

7 Details of the GMB members and its function can be found on pages 102 to 104

DELEGATION

ACCOUNTABILITY

THE BOARD

The Board's Role

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

The Board's Key Reserved Matters

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

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

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

Corporate Governance
- Corporate governance functions
- Board evaluation

Sustainability
- Corporate responsibility and sustainability outlook, progress and issues

The Board delegates certain matters to the following BOARD COMMITTEES

Governance Board Committees

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

Report P.133-134

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

Report P.135-136

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

Report P.137-140

Other Board Committees

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

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

CHIEF EXECUTIVE OFFICER

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

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

GROUP MANAGEMENT BOARD

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

Group Risk Committee

Report P.124-128

Technology Steering Committee

Group Corporate Responsibility Committee

Report P.129-132

HSH Retirement Plan ORSO Committee

GENERAL MANAGERS OF OPERATIONS, HEADS OF CORPORATE DEPARTMENTS AND BUSINESS OPERATIONS

implement the group's strategy through day-to-day operations

Corporate Governance Report

Overseeing the COVID-19 Response

The COVID-19 pandemic followed the social unrest in Hong Kong in the second half of 2019 and early 2020, bringing about significant disruption to the global business environment, with a particularly severe impact on the travel and leisure industry.

The scale and pace of the global impact of the pandemic has been unprecedented, affecting many aspects of our lives, not least in terms of disrupting how people travel. Our business has faced many challenges over its history, but none that have required such a broad array of fast paced decisions, adjustments, and other swift actions to respond to a constantly evolving global environment in the space of a few months.

The central theme to our COVID-19 response has been prioritising the health, safety and wellbeing of our employees and guests, whilst shoring up the business to ensure it can withstand the turbulent period and remain ready to face what is likely to be a radically different post-COVID-19 world. Using our existing corporate governance framework we have therefore focused our strategy with these key priorities.

The following section summarises our COVID-19 response focusing on the key work carried out by the Board, its Committees and key business functions.

Board

- The Board has taken an active role in overseeing and reviewing the COVID-19 response plan formulated by management. It has reviewed potential response plans formulated by management, and kept a keen eye on the sustainability of the business, the liquidity requirements and the business's approach towards its guests, employees and stakeholders.
- The agenda for each Board meeting since March 2020 had been crafted with an active consideration of the pandemic and its business impact and the impact on our employees, and to provide an opportunity for the Board to (i) review the progress of the measures taken by operations, (ii) review the impact of COVID-19 on our business, and (iii) review the strategy for what was likely to be a long period of recovery.
- In between formal Board meetings, the Board had been kept appraised through regular reporting of the ongoing financial impact of the pandemic on each business unit, and the necessary business support measures that have been introduced, including in relation to ensuring employee safety, business resilience through necessary cost control measures, and other mitigating actions being driven by management. These have been reported along with the ongoing dialogue with the government authorities where we operate in relation to subsidies and travel restrictions.
- The Board has reviewed and considered the impact of various cash preservation and cash management measures, business resilience, liquidity, funding, ongoing capital expenditure projects and long-term financial planning.
- The Board has also considered the retail leasing strategy, short to medium term budgets, and the group's strategy for business diversification in an increasingly uncertain world.

Audit Committee

- The Audit Committee receives updates and briefings from the Audit & Risk Management Department and Group Risk Committee during Audit Committee meetings in relation to risk management associated with the pandemic.
- The Audit Committee has reviewed and considered various aspects of the constantly changing risk environment and associated control measures, including in relation to the impact of the pandemic on capital investment and development projects, particularly in light of travel restrictions, site closures, mandatory social distancing and other measures.

Remuneration Committee

- The Remuneration Committee has reviewed and approved proposals to align the group's remuneration with current market conditions, to ensure that reasonable and proportionate measures are taken to both reduce costs and retain and motivate talent within the business, all within the context of an extremely challenging business environment.
- The Remuneration Committee has endorsed specific changes to remuneration for NEDs, which involved a waiver of all fees for NEDs and a 20% reduction in fees for INEDs and Governance Board Committees on a temporary basis for both 2020 and 2021.
- The Remuneration Committee has also reviewed the 2021 general salary strategy for all levels of the group taking into account the financial performance of the group and market conditions amongst the pandemic.

Crisis Management Teams at different levels

- A Crisis Management Team (CMT) comprising of senior management, and key function heads was established in March 2020, for the purposes of monitoring, supervising, determining and directing the actions required to address the pandemic's impact on business operations. This team meets weekly to keep abreast of the latest situation on all operations of the group. Operational crisis management teams were also set up at operational level to be in constant communications with the CMT and to seek directions as and when necessary.

Implementation Teams at different levels

- A Crisis and Hygiene Committee Team was set up by each business operation, meeting on a daily basis, focusing on advising the operation's management on updates, guidelines and instructions issued by local authorities and ensuring compliance with the stipulated preventative measures.
- In addition, each of our hotels appointed a dedicated health and hygiene manager to oversee the health and safety standards and to ensure the highest hygiene standards are maintained. Enhanced hygiene and safety protocols were created and implemented to deal with the inherent challenges of dealing with a new and highly infectious virus, whilst maintaining our standards for guest experience and excellence.
- The Human Resources (HR) teams, both in individual business units and at Head Office, took a caring approach of helping employees who have been impacted by the financial constraints brought about by the pandemic. Where employee furloughs or redundancies were necessary, the HR teams would seek to implement these in a sensitive manner and seek to provide additional support where possible to affected employees, taking into account the extremely challenging job market in the hospitality industry.
- The global pandemic had an impact on the mental health and wellbeing of our employees. The HR teams across the group provide active support for our people in times of need. We have introduced counselling programmes, initially to Hong Kong based employees, to ensure their mental health and wellbeing is supported considering the difficult operating environment.

Finance and Treasury Teams

- The Finance Team has played an integral role in monitoring the significant financial impact of COVID-19. The Treasury Team has been actively managing the company's overall liquidity in these challenging times, including through proactive engagement with our relationship banks to secure additional financing and early refinancing to improve liquidity.

Corporate Governance Report

2020 Board Activities

In the context of continued uncertainty arising from COVID-19, our 2020 Board meetings were largely focused on the group's response to the pandemic and its impact and how we might adapt our strategy to ensure we are well positioned to maximise the opportunity to generate long-term value across our business. Detailed steps taken by the Board and its Committees in relation to the pandemic are summarised in the previous section.

In addition, the Board continued to cover all customary matters as part of the company's typical governance cycle. We highlight below the Board's other main activities during 2020.

Sound decisions based on clear, complete and reliable information

- Comprehensive Board papers for discussion
- A monthly update of HSH's businesses
- Board Minutes and Board Committee Minutes (except Finance Committee) to allow our Board members have visibility the discussions at various committees. Finance Committee discussion on financial aspects matters are included in the monthly and Board updates to Directors
- Access to senior management, company secretary and independent professional adviser for advice or additional information

STRATEGY AND FINANCIAL

- Monitored and evaluated the progress, cost, key risks and mitigation measures relating to the London, Istanbul and Yangon projects, as well as The Peak Tram upgrade project
- Monitored the partnership dispute and reviewed and approved the restructuring of joint venture arrangement in Thailand. This restructuring involved the acquisition of the Thai partner's 50% economic interest in The Peninsula Bangkok and its surrounding land, in consideration for (i) the Company's 50% interest in the Thai Country Club and its land parcels, and (ii) cash consideration of US$70 million
- Evaluated key themes for the 2021 budget process and ultimately approved the 2021 budget, which has been based on conservative recovery expectations and built upon stringent cost controls
- Monitored the progress of the renovation of The Peninsula Hong Kong Arcade
- Reviewed the progress of the strategic priorities and the five-year road map for the Technology Steering Committee, with the aim of fostering a culture of innovation within the group on new technology
- Reviewed the extension of the land lease of The Peninsula Manila for four years from 2027
- Reviewed the enhancement of The Peninsula guest experience journey programme, with a view to providing a seamless experience to guests whilst enhancing operational efficiency
- Monitored the progress of the group's business diversification efforts, which seek to explore alternative revenue generation opportunities

LEADERSHIP AND EMPLOYEES

- Reviewed the nomination process for the new Chief Financial Officer following the resignation of Mr Matthew Lawson who relocated to Australia for personal reasons, and approved the appointment of Mr Christopher Ip as the Chief Financial Officer

CORPORATE GOVERNANCE

- Reviewed the regular updates from the Chairmen of the Governance Board Committees. These include key issues and topics raised at those meetings, as well as recommendations for Board approval
- Monitored the follow-up action points emanating from the 2019 Board evaluation process, and agreed to postpone the next Board evaluation to 2022
- Approved the waiver of all fees for NEDs and the 20% reduction in fees for INEDs and Governance Board Committees on a temporary basis for the years 2020 and 2021

RISK MANAGEMENT

- Reviewed and approved the principal risks, key controls and risk mitigation measures of the group
- Monitored and reviewed the effectiveness of risk management and internal control systems through the Audit Committee
- Carried out an in-depth review of the risk management process, and noting COVID-19 risk and focus

SUSTAINABILITY

- Reviewed our corporate responsibility and sustainability journey and monitored the progress of *Sustainable Luxury Vision 2020*, development of *Sustainable Luxury Vision 2030* (*Vision 2030*), and identification and prioritisation of material issues through the Group Corporate Responsibility Committee
- Reviewed and approved the new *Vision 2030* and its three key focuses: Our Guests, Our People and Our Communities[8]
- Reviewed the corporate responsibility and sustainability initiatives of the group
- Approved the updated modern slavery statement[9], which explains the activities we have undertaken during the year to demonstrate our commitment to seeking to ensure that there are no unethical labour practices or human trafficking within any part of our business or within our supply chain

Board Evaluation

Our Board has evaluated its own performance every two years since 2013. This review identifies areas for enhancement and improving the Board's effectiveness. The last such review took place in 2019, with an independent facilitator to lead the process and the methodology was explained in our 2019 Annual Report. In 2020, the Board reviewed the progress of the action points and recommendations emanating from the 2019 review, which included devoting additional discussion time to strategy, risk and budget matters, and the standardisation and refining of the reporting on ongoing and completed projects.

In light of the ongoing severity of the pandemic, the Board took the decision to postpone the scheduled evaluation until 2022. Instead in 2021, a board strategy meeting has been scheduled to assess the changing environment and determine more immediate and near-term priorities, including HSH's response to the current crisis.

In addition to self-evaluation, the Chairman met with the INEDs before the October Board meeting without management to discuss items that they would like to raise at the meeting. Comment and suggestions by INEDs were then brought to discussion with the full Board. In 2020, the main topics remained strategy on dealing with COVID-19 pandemic. Other topics raised including the post-COVID-19 recovery plan, and business diversification, which management will continue to address.

8 Details can be found on pages 130 and 131
9 Posted on the company website: www.hshgroup.com/en/sustainable-luxury

Corporate Governance Report

2020 Board and Committee Attendance and Training Records

As a result of the COVID-19 pandemic, meetings have been held without physical attendance by all Directors and facilitated by digital tools. In addition to the five scheduled meetings, resolutions were approved by circulation. The attendance of Directors and the Company Secretary at the Annual General Meeting, Board and Governance Board Committee meetings and training records in the year 2020 are as follows:

	Board[1]	Audit Committee[2]	Nomination Committee	Remuneration Committee	Annual General Meeting[2]	Types of Training
Non-Executive Directors						
The Hon. Sir Michael Kadoorie *Non-Executive Chairman*	6(6)		2(2)		1(1)	A, B
Mr Andrew C.W. Brandler *Non-Executive Deputy Chairman*	5(5)	4(4)		3(3)	1(1)	A, B
Mr William E. Mocatta	5(5)				1(1)	A, B
Mr John A.H. Leigh	5(5)				1(1)	A, B
Mr Nicholas T.J. Colfer[3]	5(5)				0(1)	A, B
Mr James L. Lewis	5(5)				1(1)	A, B
Mr Philip L. Kadoorie[4]	4(5)				1(1)	A, B
Independent Non-Executive Directors						
Dr the Hon. Sir David K.P. Li	6(6)		2(2)		1(1)	A, B
Mr Patrick B. Paul	6(6)	4(4)		3(3)	1(1)	A, B
Mr Pierre R. Boppe	6(6)				1(1)	A, B
Dr William K.L. Fung[3]	6(6)		2(2)		0(1)	A, B
Dr Rosanna Y.M. Wong	6(6)			3(3)	1(1)	A, B
Dr Kim L. Winser[3]	6(6)				0(1)	A, B
Ms Ada K.H. Tse	6(6)	4(4)			1(1)	A, B
Executive Directors						
Mr Clement K.M. Kwok *Chief Executive Officer*	5(5)				1(1)	A, B
Mr Peter C. Borer *Chief Operating Officer*	5(5)				1(1)	A, B
Mr Matthew J. Lawson[5] *Chief Financial Officer*	3(3)				1(1)	A, B
Company Secretary						
Ms Christobelle Liao[6]	5(5)	4(4)	2(2)	3(3)	1(1)	A, B

Notes:

(1) Included an annual meeting where the Chairman met with INEDs only

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

(3) Mr Nicholas T.J. Colfer, Dr William K.L. Fung and Dr Kim L. Winser were unable to attend the Annual General Meeting due to conflicting commitments

(4) Mr Philip L. Kadoorie was unable to attend meeting of the Board due to overseas commitment

(5) Mr Matthew J. Lawson resigned as a Director with effect from 1 October 2020

(6) During 2020, Ms Christobelle Liao undertook over 15 hours of professional training, a requirement of the Listing Rules

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

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

- Corporate governance matters
- Regulatory compliance
- Directors' duties
- Corporate responsibility and sustainability
- Risk management

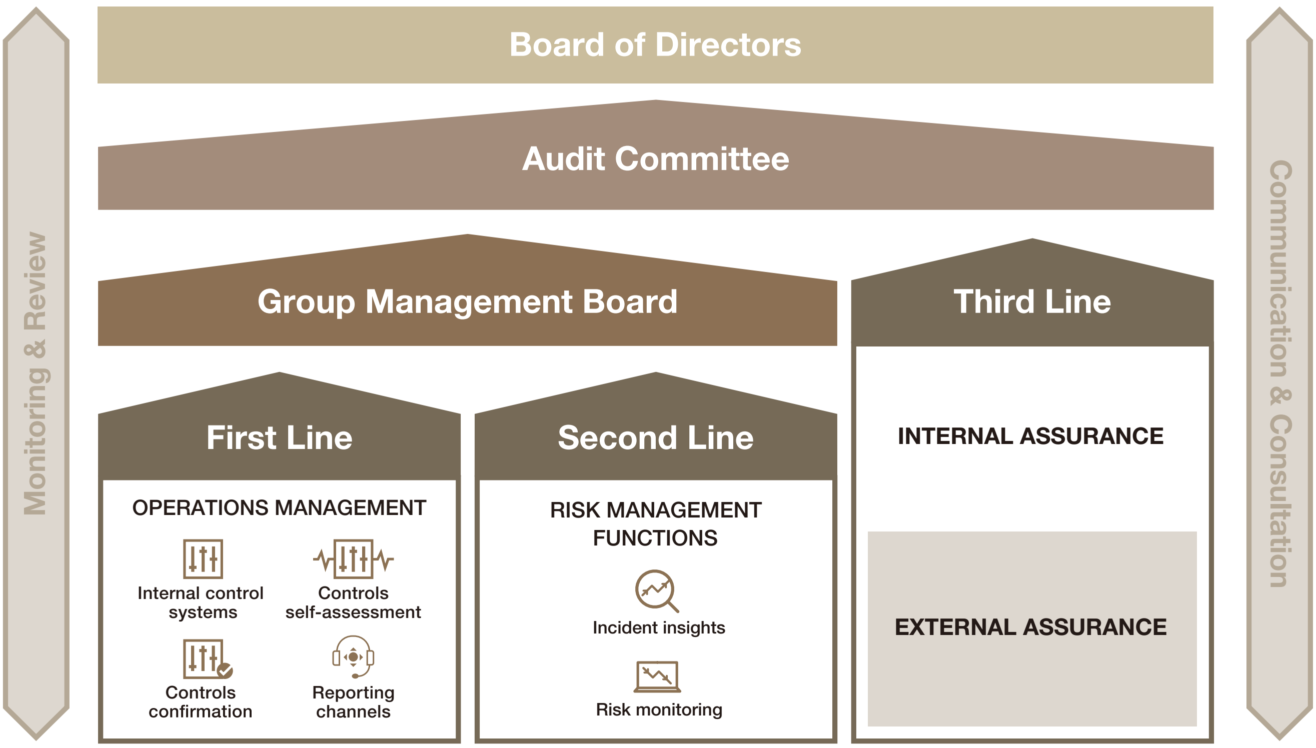
Risk Governance

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

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

Approach to risk governance

Our risk management framework is guided by the "Three Lines Model", as set out in the graphic below. This framework and its process are designed to manage and mitigate risks rather than eliminate all risks. As with all systems, it does not provide an absolute shield against risks such as natural catastrophes, fraud and errors of judgement, which are present in all businesses. Whilst each of the three lines has its distinct responsibilities, their activities are aligned with the objectives of the organisation. Such coherence is achieved through regular and effective coordination, collaboration and communication.



Corporate Governance Report

First Line: Operations management

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

Internal control systems

Controls adopted by the group can be divided into entity level and process level controls. Entity level controls operate pervasively across and throughout the group to mitigate risks threatening the organisation as a whole and to provide assurance that organisational objectives are achieved. Examples include group-wide policies such as Code of Conduct, Speak Up Policy, Group Purchasing & Tendering Policy, Fair Competition Guide, Inside Information Guide and others.

Process level controls include operational standards such as the enhanced Hygiene & Sanitation Guidelines & Principles for our hotel operations, policies and procedures governing approval authority, due diligence requirements, safeguarding of assets, financial reporting and many others.

The group has implemented new controls and strengthened a number of existing controls to cope with the ever-changing regulatory and operational environment. For controls enhancement measures related to our principal risks undertaken in 2020, please refer to the GRC Report on pages 125 to 127.

Inside Information Guide

The Inside Information Guide regulates the handling of inside information within the group, to ensure potential inside information is being captured and confidentiality is being maintained until disclosures are made.

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

Controls self-assessment

Our business and functional units are at the forefront of risk management and they form part of the group's risk management process by undertaking a "control self-assessment" (CSA). Formally conducted twice a year, the CSA process allows the group and each operation to identify new risks affecting their businesses, reassess magnitude of existing risks, and evaluate the effectiveness of controls in managing the risks. Enhancement plans with specified risk owners and time-bound action points are implemented for controls that are assessed as less effective.

Controls confirmation

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

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

Reporting channels

The group has multiple channels to handle and communicate crises. The group-wide Incident Reporting Policy was revised during the year to streamline the procedures for group companies to report incidents by setting out the methodology for determining the severity level of an incident and the corresponding reporting requirements. This has enhanced the quality of information for the oversight of the group's internal control and risk management practices.

In addition, the Speak Up Policy[10] provides employees and other stakeholders a confidential reporting channel on suspected misconduct or malpractice within the group without fear of reprisal or victimisation. Reported allegations are logged, reviewed, independently validated and investigated as appropriate. Investigation results are communicated to the Executive Directors and the Audit Committee with approved recommendations implemented by responsible parties.

Second Line: Risk management functions

Second line roles comprise relevant head office functions and the GRC which (i) oversees the risk landscape and risk management activities of the operations and development projects which is reported to the Audit Committee and the Board of Directors semi-annually, (ii) monitors the group's principal risks and emerging risks, and (iii) regularly evaluates the effectiveness of controls in response to such risks. A 5-step risk management methodology is applied to ensure the risk assessment process and internal controls remain current, are adapted and modified as business conditions and the organisation change. In 2020, we continued to strengthen our second line by focusing on the validation and improvement of key control activities for the more prominent risks. Details can be found on pages 125 to 127 in the GRC Report.

Incident insights

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

Risk monitoring

The GRC continued to strengthen its monitoring of risks to respond to changes and developments in both the external and internal environment, especially on risks posed by the COVID-19 pandemic during the year. For actions taken in 2020, please refer to the GRC Report on pages 125 to 127.

Third Line: Internal assurance

ARM provides independent and objective internal assurance and advice on the adequacy and effectiveness of governance and risk management. It also promotes and facilitates continuous improvement through the competent application of systematic and disciplined processes, expertise, and insight.

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

The internal audit plan in 2020 included reviews of the efficiency of key business processes with a view to optimising efficiency and performance of the group and individual operations, with a focus on the three hotel development projects. Furthermore, an enhanced process to systematically and timely track the implementation status of recommendations across all operations was launched.

External assurance

The external auditor of the group further complements the third line by independently auditing material internal controls over financial reporting of the group. Any material weaknesses are reported to the Audit Committee every six months.

Board confirmation

The Board has considered and endorsed the Audit Committee's assessment of the effectiveness of risk management and control systems in the group. Details can be read in Audit Committee Report on page 134. Throughout 2020 there were no areas of concern identified which might materially affect the effectiveness of the group's operational, financial reporting and compliance controls, and the existing risk management and internal control systems remained effective and adequate.

10 Posted on the company website: www.hshgroup.com/en/corporate-governance/speak-up-policy

Corporate Governance Report

Our Shareholders

HSH had 1,818 registered shareholders as at 31 December 2020. The actual number of investors interested in HSH shares is likely to be much greater, as shares are being held through nominees, investment funds and the Central Clearing and settlement System (CCASS) of Hong Kong.

Size of registered shareholdings	Number of shareholders	% of shareholders	Number of shares held	% of total number of shares in issue
500 or below	541	29.758	67,657	0.004
501-1,000	198	10.891	157,464	0.009
1,001-10,000	622	34.213	2,537,707	0.154
10,001-100,000	358	19.692	11,462,683	0.695
100,001-500,000	66	3.631	13,539,445	0.821
Above 500,000	33	1.815	1,621,669,250	98.317
Total	**1,818**	**100.000**	**1,649,434,206**	**100.000**

Note: as at 31 December 2020, 36.27% of all HSH total number of shares in issue were held through CCASS.

The Kadoorie family (including interests associated with the family but excluding interests held by charities associated with the family) has a combined shareholding of 59.98% as disclosed in “Interests of Directors” and “Interests of Substantial Shareholders” in Directors’ Report on pages 143 to 145. The remaining HSH shares are mainly held by institutional and private investors, with a considerable number of those investors being Hong Kong residents.

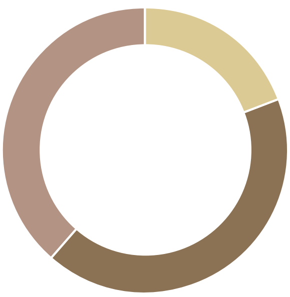
From publicly available information and within the knowledge of the Directors, HSH has maintained the required 25% public float throughout 2020 and up to the date of this report.

Shareholders’ rights to general meetings

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

Our company website[11] sets out the procedures for shareholders to convene and present proposals at general meetings, including proposing a person for election as a Director, and to vote by poll at general meetings.

2020 Annual General Meeting



Total number of attendees: **83**

Shares voted: **72%** of total issued shares

Individual Shareholders: **35**

Proxies of HKSCC Nominees Limited: **16**

Shareholders appointing representatives/proxies: **32**

The 2020 AGM was held on 14 May 2020 at The Peninsula Hong Kong. Prior to the meeting, a circular containing the notice of the AGM was distributed to all shareholders more than 20 clear business days prior to the AGM, setting out details of each proposed resolution and other relevant information. The company regards the AGM as an important event. It is also a main channel of communication between the Board and our shareholders. Our Directors, including the Chairman of the Audit and Remuneration Committees, were present at the 2020 AGM. KPMG, the company’s external auditor, was also present to answer questions from any shareholder relating to its audit of the company’s financial statements.

11 www.hshgroup.com/en/corporate-governance/shareholders-rights

Procedures for conducting a poll were explained by the Chairman at the beginning of the AGM and Computershare Hong Kong Investor Services Limited, the company's Share Registrar, was appointed as scrutineer for voting by poll to ensure the voting was properly counted. Results were posted on both the company[12] and the Stock Exchange websites.

Separate resolutions were proposed on each issue, including the re-election of individual Directors. All resolutions proposed at the 2020 AGM were passed. The matters discussed and the percentage of votes cast in favour of the resolutions were:

Matters Being Voted Upon	% of Affirmative Votes
Receipt of the audited financial statements and the reports of the Directors and independent auditor for the year ended 31 December 2019	**99.99%**
Payment of final dividend of 9 HK cents per share for the year ended 31 December 2019	**99.99%**
Re-election of five retiring Directors: Mr Andrew C.W. Brandler, Mr Clement K.M. Kwok, Mr William E. Mocatta, Mr Pierre R. Boppe and Dr William K.L. Fung as Directors of the company	**Ranging from 98.35% to 99.96% in respect of each individual resolution**
Re-appointment of KPMG as the auditor of the company and authorisation of the Directors to fix their remuneration	**99.99%**
Granting of the general mandate to Directors to allot, issue and deal with the company's shares	**92.98%**
Granting of the general mandate to Directors to buy-back the company's shares	**99.99%**
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	**93.02%**

Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 222.

The company's share price information as well as share and dividends per share information for the last ten years are disclosed on pages 81 and 15 respectively. In addition, the company's dividend policy is set out in note 10 to the financial statements.

Engaging with our Shareholders

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

The Company utilises multiple platforms to engage investors:

- We encourage our shareholders to participate in our Annual General Meeting and directly communicate with our Directors
- Our Executive Directors and Investor Relations team engaged with shareholders and potential investors via one-on-one meetings and conference calls, as well as held regular briefings with research analysts
- We also participated in investor conferences in Hong Kong to further engage with existing and potential investors

12 www.hshgroup.com/en/investors/corporate-announcements

Corporate Governance Report

- Our company website[13] gives the public a window to who we are, what we do and how we are doing. There is a wealth of current and historical information such as webcasts of the announcements of the latest financial results along with presentation materials from such announcements, our financial reports, financial statistics, corporate governance practices
- Our Shareholder Communication Policy[14] has specified the various communication platforms to which our shareholders and stakeholders can access
- The company's branded social media sites provide investors and other stakeholders with regular updates on our business initiatives in The Peninsula Hotels, The Repulse Bay, and The Peak, as well as HSH community and employee initiatives on employer branding social media sites

For queries and additional information, shareholders and investors can send their requests to our Investor Relations email address at ir@hshgroup.com. On how we engage our stakeholders, please refer to Creating Stakeholder Value on pages 84 and 85.

Corporate Governance Code Compliance

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

Throughout 2020, we have complied with all of the code provisions and recommended best practices in the CG Code with the exception of the following:

- ***Publication of quarterly financial results***

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

- ***Disclosure of individual senior management remuneration***

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

Environmental, Social and Governance Reporting Guide (ESG Guide)

Our Corporate Responsibility and Sustainability Report[15] has been prepared in accordance with the provisions as set out in Appendix 27 of the Stock Exchange's Environmental, Social and Governance Reporting Guide (ESG Guide)[16] and the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards): Core option. The CRS Report references the International Integrated Reporting Framework from the International Integrated Reporting Council (IIRC), Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standard Board (SASB). KPMG was commissioned to conduct assurance and to provide an independent opinion on the identified elements of the CRS Report in accordance with the ESG Guide[17].

Regulatory and Privacy Compliance

We continue to monitor relevant regulatory changes which relate to our business and to ensure we operate consistently with applicable global regulatory requirements, such as the PRC's new Personal Information Security Specification, the PRC Advertising Law, as well as key sanction regimes.

Given our continuing commitment to maintaining our guests' privacy, we keep our people updated on privacy legislation, compliance, challenges and risks in this complex and highly regulated area.

13 www.hshgroup.com/en/investors
14 Posted on the company website: www.hshgroup.com/en/corporate-governance
15 Posted on the company website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports
16 For disclosures where the company is unable to provide information, according to ESG Guide, an explanation (such as an issue not being materials or a commitment to provide this data in the future) is provided on pages 50 to 56 of the CRS Report
17 KPMG Independent Assurance Report can be read on pages 216 and 217

Other Compliance Matters

Appointments and re-election of Directors

The appointment and re-election of Directors are governed by the Nomination Policy which is set out below. The company confirms that all Directors' re-elections were conducted in compliance with the CG Code in 2020. NEDs are appointed for a term of three years. All Directors are subject to a term of re-election every three years. Details of the Directors who will retire and offer themselves for re-election in the 2021 Annual General Meeting are set out in the Directors' Report on page 142.

Nomination Policy[18]

Our Board always recognises the benefits of diversity and ensures that the selection criteria including contribution and time commitment, nomination process and procedures set out in the Nomination Policy and summarised below are followed when proposing a candidate for nomination or a Director for re-election. The nomination process of Mr Christopher Ip as the Chief Financial Officer can be found in the Nomination Committee Report.

Nomination Committee	Board	Shareholders
• Proposes a candidate for nomination on a Director for re-election based on merit with reference to the Board Diversity Policy and Listing Rules requirements • Considers the contribution and time commitment of the candidate or Director put forward for re-election • Makes recommendations to the Board as appropriate	• **Newly appointed Directors** are subject to election by shareholders at the first general meeting following the appointment • **Existing Directors** are subject to re-election by shareholders every three years	• Approves the appointment or re-election of Directors at the company's general meeting • Separate resolution will be put to vote for individual appointment or re-election

Time commitment of Directors

The Board recognises that it is important that all Directors should be able to dedicate sufficient time to the company to discharge their responsibilities. The letters of appointment for NEDs and INEDs, as well as service contracts for Executive Directors, contain guidelines on expected time commitments required for the affairs of the company. Each individual confirmed his or her understanding of such time commitment when the appointment was accepted. In addition, the Board reviews annually the contributions required from the Directors and whether they are spending sufficient time performing their responsibilities. In 2020, we have reassessed and updated the letters of appointment for NEDs and INEDs to include preparation time to better reflect in the expected time commitments.

All Directors have confirmed to the company that they have given sufficient time and attention to the company's affairs throughout 2020. The Board is satisfied that the Directors had a strong commitment to the company and positively contributed to the company's affairs, discussions and decisions, as reflected in their participation in the Board and Governance Board Committee meetings during the year.

18 Post on the company website: www.hshgroup.com/en/corporate-governance

Corporate Governance Report

Independence of INEDs

The independence of the INEDs is relevant to Board balance and considered on a regular basis to ensure they remain capable of providing unbiased and objective contribution to the Board discussion. The company has received written confirmations of independence from each of its seven INEDs who served in 2020. The Nomination Committee and the Board considered that all seven INEDs who served in 2020 were and continued to be independent in accordance with the independence guidelines set out in rule 3.13 of the Listing Rules and that there were no business or other relationships or circumstances which are likely to affect the judgement of any of the INEDs.

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

Directors' dealings with company securities

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

All Directors have confirmed their full compliance with the required standards set out in the Model Code and the Securities Code in 2020. Details of the shareholding interests held by the Directors of the company as at 31 December 2020 are set out on page 143.

Our Code for Dealing in the Company's Securities is extended to specified employees including senior management who may from time to time come across inside information. All specified employees have also confirmed their full compliance with the standards set out in the Code for Dealing in the Company's Securities by Specified Employees. Brief particulars and shareholding interests of the senior management are set out on pages 102 to 104, and 144 respectively.

Directors' disclosure on conflict of interest

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

- The number and nature of offices they hold in public companies or organisations and other significant commitments (if any) and their time involvements

- Their interests as a Director or shareholder in other companies or organisations significant to the businesses of the company

- Whether he or she (other than an INED) or any of his or her close associates has an interest in any business which competes with the group, and none of them has any competing interests which need to be disclosed pursuant to rule 8.10 of the Listing Rules

In 2020, all Directors have fulfilled these disclosure requirements.

We have also extended the annual disclosure requirements on potential conflict of interests to senior management (other than the three Executive Directors) and leaders of key functions, which have also been fulfilled.

In addition, all Directors are also required to declare the nature and extent of their interests, if any, in any transaction, arrangement or other proposal to be considered by the Board. In 2020, no potential conflict of interest was determined by the Board to be material. Nevertheless, the continuing connected transactions as disclosed in the Directors' Report on page 142, which were reviewed in the March Board meeting.

Onboarding for new Directors

All new Directors receive a comprehensive onboarding programme which is tailored to their individual roles and needs, which is designed to facilitate their understanding of our group, our purpose, values and strategy, our corporate governance and the markets in which we operate.

Mr Christopher Ip joined the Board in January 2021 and has undertaken a tailored and comprehensive onboarding programme. He had undertaken a structured programme of meetings with the Chairman, Deputy Chairman, Executive Directors, senior management and his direct reports to understand the group's values, culture and business. Following his appointment, the Company Secretary also provided him a tailored onboarding pack and a library of reference materials covering key areas such as Board and Committee papers, strategy, finance and operations, governance and directors' duties, risk management and internal controls. Visits to overseas operations have been deferred due to ongoing travel restrictions however virtual meetings took place with management of overseas operations to help him familiarise with all business operations. This tailored onboarding programme has allowed Mr Ip to gain valuable insight into our business, our colleagues and stakeholders.

Directors training and development

Our Directors participate in continuous training and development activities that keep them up to date on developments in all areas pertaining to the business of the company and the performance of their duties as Directors. Starting from the fourth quarter of 2019, governance quarterly updates is provided to our Directors and keep them abreast of the relevant rules and regulations affecting our businesses. Directors who individually attend seminars or conferences associated with their expertise and responsibility update the company annually. The training records of Directors and the Company Secretary for 2020 are reflected on page 114.

Codes and terms of reference

Each year we review our governance and securities codes and the relevant terms of reference of the Board and each Board Committee[19] to ensure that they comply with the latest legal and regulatory requirements and reflect developments in best practices and the needs of the company. The HSH Code together with the terms of reference of the Board and Governance Board Committees were reviewed in 2020 and the terms of reference of Audit Committee were revised to reflect current practice.

The full terms of reference of the Board and each Board Committee can be viewed on the company website[20] and those of the Governance Board Committees[21] are also published on the Stock Exchange website. The Governance Board Committees' reports are set out on pages from 133 to 140.

Internal control procedures on connected transactions

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

With respect to the connected transactions for the financial year of 2020, Audit & Risk Management Department has reviewed (i) the adequacy and effectiveness of the internal control procedures of connected transactions; and (ii) the continuing connected transactions of our office leases. Their findings are submitted to Audit Committee, please refer to the Directors' Report set out on page 142.

Annual Report and Corporate Responsibility and Sustainability Report

In March, the Board reviewed and approved the 2020 Annual Report and Corporate Responsibility and Sustainability Report[22]. With respect to the Directors' responsibility for preparing the financial statements for the year ended 31 December 2020, please refer to the Directors' Report set out on page 146.

High Standards of Corporate Governance

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

By order of the Board

Christobelle Liao
Company Secretary
17 March 2021

19 Audit, Nomination, Remuneration, Executive and Finance Committees
20 www.hshgroup.com/en/corporate-governance/board-committees
21 Audit, Nomination and Remuneration Committees
22 Posted on the company website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports

Group Risk Committee Report

"The global pandemic has amplified the importance of a solid risk management structure to navigate and effectively respond to the numerous risks posed to our business in an increasingly uncertain operating environment."

Christobelle Liao
Acting Chairman of the Group Risk Committee
(from 1 October 2020 to 17 January 2021)
17 March 2021

Composition	Chairman	Mr Christopher Ip, Chief Financial Officer (Chairman from 18 January 2021)
	Members	Group Director, Corporate and Legal (Acting Chairman from 1 October 2020 to 17 January 2021) Group Director, Properties Group Director, Information Technology Group Director, Brand and Operations Support Group General Manager, Audit & Risk Management
Meeting Frequency		• Quarterly • Four meetings in 2020
Responsibilities		• To identify and assess the principal risks at group level and their corresponding mitigating treatments, as well as monitor the actions required for critical and major incidents within the group • To facilitate the process whereby each operation and project defines its business objectives, addresses the risks identified, conducts self-assessment of internal control activities and tracks progress of mitigating plans • To regularly review, assess and update the group risks and related contingency plans to Group Management Board (GMB) for further review by the Audit Committee and the Board

We have explained our risk governance approach in the section above (pages 115 to 117) including our governance structure and adopting the "Three Lines Model". With the structure in place, we have adopted the following practical, easy to understand 5-step risk management methodology from establishing context and risk identification to mitigation actions which is explained on the next page.

5-Step Risk Management Methodology

The 5-step risk management methodology continues to be applied across the group, and every business unit is responsible for the identification, assessment and management of risks.

Whilst risk management is an ongoing and continuous process, embedded into management processes, the formal evaluation of risk, is a semi-annual process starting with the evaluation and assessment of the external and internal environment and the identification of risk factors which have impacted the strategic, operational, reporting or compliance objectives of the business unit. This is followed by the analysis of the likelihood and magnitude or change of impact (both financial and non-financial – such as operational and reputational) of each risk posed to the business. The controls in place or new actions to be implemented to mitigate the risks are then identified with their effectiveness assessed. Thereafter, each business unit is required to assess the level of residual risks. Further actions must be taken if controls are not in place to address the risks, or existing controls are not effective to reduce the risk to an acceptable level.

Assessments from all business units are ultimately aggregated to compile a group level view of risks. Such process allows swift action to be taken assessing similar risks across the other businesses, sharing of best practices, forming of group strategy on specific risks over different operations and responding to significant changes in the business environment, such as the COVID-19 pandemic.

In 2020, we have reviewed the risks affecting the group's businesses, and the most significant event which impacted all risks is the COVID-19 pandemic. That being the case, and the fact that the risks become interlinked, we have changed the disclosure format from previous years to provide an overview of the actions taken in response to the pandemic.

Principal Risk Highlights

COVID-19 global pandemic

The COVID-19 pandemic has exacerbated the level of risk facing the group at all levels of the business, across a range of financial and operational issues. In particular, the pandemic has heightened the level of risk associated with the group's ongoing hotel operations, as well as investments and ongoing capital projects. Rapidly changing government guidelines, impacting travel, social distancing, and restrictions on restaurant services, have brought about significant business uncertainty, and have also lead to the temporary closure of a number of our hotels and other business units. The resultant financial impact continues to pose a key risk to the business.

In general, the Group Risk Committee had an overview of the strategies adopted to respond to the operational and financial risks arising from the global COVID-19 pandemic since early 2020. The governance structure and the role each level played in response to the pandemic is set out on pages 110 and 111. Some of the key actions aimed at managing the day-to-day impact of the pandemic on our business are noted below:

- Cost saving measures and right sizing of workforce were implemented to support business continuity
- Actively searching for alternative and diversified revenue generators
- Strict social distancing measures were administered, such as work from home arrangements, and suspension of dine-in services in F&B outlets, in line with government guidelines and instructions

Group Risk Committee Report

- Closure of operations and construction sites in accordance with local government guidelines

- The Hygiene & Sanitation Guidelines & Principles were immediately revised and rolled out to relevant businesses at the onset of the pandemic to heighten minimum standards and promote best practices in providing a safe and worry-free environment for our guests

- Construction site hygiene, sanitation and social distancing measures were implemented on all the construction and renovation sites in London, Istanbul and Yangon

- Products were strategically adapted to stimulate domestic demand such as staycation packages, take-away menus at F&B outlets and special discount on Peak Tram tickets for Hong Kong citizens

- More flexible ways of working and dynamic allocation of talent were reinforced for stronger performance orientation and employee engagement

In addition, a focus was placed on the enhancement of key control activities for more prominent risks outlined below.

Investment and project development risks

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. Finally, the COVID-19 pandemic has brought a unique set of additional risks, including closure to sites, social distancing regulations impacting productivity, compulsory quarantine of workers and travel restrictions impacting free and unhindered access to project sites. All these would contribute to delays to the projects.

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 on a quarterly basis. In addition, 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. Controls such as budget and resource planning, review and rephasing of pre-opening and fit-out schedules were implemented for the specific needs of each project. The political developments in Myanmar since February 2021 were noted, and the group would continue to evaluate both immediate actions required and the longer-term decisions that need to be made in respect of this project.

Cybersecurity and data privacy risks

We have combined cyber security and data privacy as they are interconnected. 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. Moreover, 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 several jurisdictions. We are also at risk from breaches occurring within our vendor network.

Further enhancements have been conducted by the Group Information Technology and Group Legal to strengthen our controls over cybersecurity and data privacy. These included enhanced vulnerability detections, business process reviews for Payment Card Industry (PCI) compliance and an advanced logging solution implementation, as well as a review and update of the IT Security Checklist and the related Data Security Annex. With cyber attacks on the rise, we ensure our staff understand how to identify, respond to and prevent potential IT security threats. We continue to provide mandatory refresher online training on IT Security to all relevant employees. With regards to data privacy, key initiatives have included revision of the privacy policies, an update of the Vendor Data Processing Addendum and a review and overhaul of Data Register and corresponding guidance.

Environmental and social (ES) risks

ES risks may lead to the disruption of business operations and supply chain, reduced demand for our products and services, surge in operating costs and capital expenditure as well as more stringent regulations on the way we conduct business. For properties that are more susceptible to natural disasters and extreme weather events such as hurricane, flooding, or wildfire, our insurance costs will go up and this would also potentially result in devaluation of our assets.

Based on regular review of publication and discussion with non-governmental think tanks, industry experts and regulators, the Corporate Responsibility and Sustainability Department maintains and monitors a list of material environmental and social issues which may impact our business, and periodically reports to GRC on trends and associated risks such as wealth inequality and the aggravating depletion of natural resources. In 2020, the topic of climate emergency and its potential consequences to the business in the long-term was explored. As our *Vision 2020* come to a close, ES risks were also assessed in formulating our *Vision 2030*. For details, please refer to the Group Corporate Responsibility Committee Report on pages 129 to 132.

Other Principal Risks

The Board, with the 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 principal risks are monitored and reviewed on an ongoing basis, by focusing on the environment, business conditions and organisational changes.

The global pandemic has aggravated a number of principal risks that the group had previously identified. As a **disaster event** with pervasive impact, COVID-19 pandemic has resulted in severe business disruption as a majority of our hotels were closed for an extended period of time during the year. Coupled with the perception of risks to health by the general public, lockdowns and travel restrictions imposed by various countries have tremendously reduced both business and leisure travel, internationally and domestically. In addition, the prolonged pandemic has disrupted economic activity, and hurting well-being and jobs. Travel and hospitality is one of the most heavily impacted industries, with more than 143 million jobs lost during the year. It is expected that it would take at least several years for global travel to resume to pre-COVID levels. Furthermore, a significant portion of our group earnings is derived from our operations in Hong Kong. Such **business dependency** implies that the economic and political outlook of the city, especially its ability to recover from the recession, would have a crucial impact on our business.

With decreased footfall amongst the group's businesses, owing to a combination of travel restrictions for visitors as well as a heightened sense of risk associated with public spaces, **retail tenants** have been affected with declining sales and revenue. We have worked with retail tenants to understand the specifics of their businesses and make appropriate adjustments to rental and other contractual requirements to ensure that retail units are not vacated prematurely, whilst ensuring that tenants continue to provide an appropriate income stream in the short to medium term. Capital investments have also been made to renovate The Peninsula Arcade in Hong Kong in order to offer a unique brand mix and to boost traffic.

Whilst our hotels have steered towards the domestic and staycation market to keep occupancy and covers at reasonable levels, it has been challenging to realise the desired gains in revenue due to the **competitive nature of the markets** that we operate in, as the vast majority of competing hotels have been chasing after the same leisure segment.

Finally, the **volatility seen in exchange rates** is one of the major external indicators of the economic impact of the COVID-19 pandemic. The Turkish Lira depreciated approximately 26% against the U.S. dollar in 2020, which has impacted the group's ongoing project in Istanbul. This has been exacerbated by the wider political environment with respect to Turkey.

Group Risk Committee Report

Principal Risk Movements in 2020

Principal	Risk Category	Movement
DISASTER EVENTS	External	▲▲▲
BUSINESS DEPENDENCY	Strategic	▲▲▲
MACROECONOMIC AND POLITICAL	External	▲▲▲
INVESTMENTS AND DEVELOPMENTS	Strategic	▲▲▲
RETAIL, COMMERCIAL AND RESIDENTIAL LEASING	Strategic	▲▲
COMPETITION	External	▲▲
FOREIGN EXCHANGE AND INTEREST RATES	Financial	▲
CYBERSECURITY	Operational	◀▶
DATA PRIVACY	Compliance	◀▶
BRAND AND REPUTATION	Strategic	◀▶

Emerging Risks

The global COVID-19 pandemic has produced a far-reaching impact on the risk landscape by creating new organisational risks and elevating existing ones. The uncertainty in the macro-environment and heightened focus on organisational resilience have amplified risks on supply chain, cyber vulnerabilities, total workforce management, corporate financial management, risk culture and decision making.

In addition, multiple COVID-19 variants which spread more easily and quickly are circulating globally. If they result in a higher case incidence and an increase in hospitalisations and deaths, more intensive public health measures may be required to control transmission of these variants. This may further intensify the impact of the aforementioned risks.

Furthermore, political instability is likely to be a factor which heightens a number of organisational risks. At the time of writing, a military coup in Myanmar has led to the closure of the group's construction site in Yangon. Further impact on the project site is expected as the volatile environment continues to evolve.

2021 Major Initiatives

In 2021, 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 recovery from the pandemic and development projects, (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.

Group Corporate Responsibility Committee Report

"I am heartened to see how far we have come from since we began our formal corporate responsibility and sustainability journey in 2007, to the culmination of our Vision 2020 strategy. But with rising environmental and social risks coming to the fore, there is still so much to do. With the launch of our Vision 2030, it is our aim to fully deliver on sustainable luxury in all parts of our business."

Clement Kwok
Chairman of the Group Corporate Responsibility Committee
17 March 2021

Composition	Chairman: Mr Clement Kwok, Chief Executive Officer Members: Group Director, Corporate and Legal Group Director, Human Resources Group Director, Brand and Operations Support Head of Corporate Responsibility and Sustainability Select members of General Managers of Operations and Heads of Corporate Departments
Meeting frequency	• At least three meetings each year • Four meetings in 2020
Responsibilities	• To propose, recommend, monitor and report to the Group Management Board and support the Board of Directors on corporate responsibility and sustainability (CRS) topics, including the implementation of the company's *Sustainable Luxury Vision 2020* and *Vision 2030* • To review practices, standards, trends, regulation, plans related to CRS topics that may impact on the operations of the group

Our CRS Approach

With the culmination of our *Sustainable Luxury Vision 2020* (*Vision 2020*), we launched our new CRS strategy *Sustainable Luxury Vision 2030* (*Vision 2030*) to help us continue stepping into the next decade as a responsible corporate citizen. As we write, the impact of the global pandemic is felt all around the world. Our business, along with others in the same industry, has been impacted by these difficulties and challenges. Yet as stewards of our communities, we need to continue to do our part, to build on the progress we have made in the past decade, and to be prepared to overcome the future challenges brought about by increasing environmental and social risks we may all face.

Moving into *Vision 2030*, CRS issues are having an ever-increasing impact on businesses and society at large, and we believe as a responsible corporate citizen, we must work and collaborate with others to address our society's biggest problems. *Vision 2030* was developed through detailed benchmarking with industry peers and thought leadership studies to set ambition, extensive internal and stakeholder engagements to ensure buy-in and feasibility analysis and assessments to enable implementation. As we seek to deliver sustainable luxury and follow on from the groundwork laid by *Vision 2020*, the key topics we have identified which will have the most impact on our business and societies in which we operate, and which we have included to be addressed in *Vision 2030* are:

- diminishing natural resources such as energy, food and water;
- the climate change crisis; and
- growing social and political instabilities and inequalities.

Group Corporate Responsibility Committee Report

We will seek to address these issues and pursue our *Vision 2030* by focusing on our three stakeholder pillars of (i) enhancing our guest experience, (ii) empowering our people, and (iii) enriching our communities, underpinned by our 10 key commitments as set out below. Additional details can be found in our CRS Report.

Our Guests: Enhancing our guest experience

To uphold our commitment of enhancing our guest experience, we look to provide sustainable luxury while creating a positive impact on our guests and the world around us. This means holding ourselves accountable for reducing our environmental footprint across our operations, while setting our sights to use regenerative processes and renewable sources in our portfolio to support our business' transition in a low carbon economy. In particular, we will be addressing our stakeholders' expectations by setting science-based targets, undertaking holistic water assessments, and promoting circular economy in the coming decade. We recognise that we also have a role to play in effecting change among our stakeholders. We aim to influence across our supply chain by responsibly sourcing key products and services in alignment with our sustainability standards. In our properties, we will continue to promote and increase sustainability awareness with our guests and customers through knowledge sharing.

Our People: Empowering our people

At HSH, we acknowledge that our people are our most valuable asset. Taking this to heart, HSH will continue to listen and respond to their needs, with the aim of empowering our people in the workplace. This means that we will continue to be transparent and honest, committing to fair compensation for all our employees. This also means promoting a safe and inclusive workplace where our employees can thrive regardless of their gender, race, age, sexual orientation or culture. We are also expanding our focus on employee health and safety to take a more holistic approach in supporting both the physical safety as well as overall wellness of our staff.

Our Communities: Enriching our communities

Our communities are our homes – when our communities thrive, we thrive. *Vision 2030* will continue to guide our efforts in engaging with our local communities in meaningful ways, moving away from monetary-based to outcome-based community investment. We commit to prioritising our efforts in supporting the most vulnerable and under-represented populations in our community in ways that will create long-term impact on their lives. At HSH, we acknowledge that more minds are better than one in solving some of the most pressing issues we face. Moving into *Vision 2030*, HSH commits to forging partnerships and collaboration with like-minded businesses to push for sustainable change together.

Governance on CRS

Our CRS approach is managed and governed by the Committee, chaired by the Chief Executive Officer. The Committee reports to the Group Management Board (GMB), who in turn, reports to the Board for review and oversight. The Head of CRS regularly reports to the Board and GMB and updates the Group Risk Committee on environmental and social risks related to the business. The Head of CRS also coordinates CRS-related risk mitigation actions across the group.

While we do not have a separate sustainability committee at board level, the Board is responsible for the group's sustainability approach. Throughout the year, the Board considers this topic to be of substantial importance warranting Board review of the group's sustainability approach, strategy and performance. In 2020, CRS topics reviewed at Board level included the CRS Report, *Vision 2020* performance, and the new *Vision 2030* strategy, materiality process and results (refer to pages 12 and 13 of the online CRS Report[23]) and the anti-modern slavery statement. Specifically, on our *Vision 2020* progress, the Board is provided with a yearly update, with the Executive Committee receiving detailed reports on our progress including commentary on a quarterly basis. More information can be found in our CRS Report[24].

Key Work in 2020

We continued to monitor progress on our commitments and provided support and focused attention on those that needed more traction. With these objectives in mind, the Committee's work in 2020 revolved around finalising our new CRS strategy *Vision 2030*. In addition, the Committee carried out the following:

- Reviewed CRS performance data and recommended actions relating to energy, water and waste management, responsible sourcing, health and safety, workforce issues and ethical standards and community engagement
- Considered recent global and local trends. For example, diversity, equity and inclusion, green recovery measures as a response to COVID-19 and climate change impacts

23 Posted on the company website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports
24 Details of our reporting approach is available on page 120

Group Corporate Responsibility Committee Report

- Evaluated progress towards our *Vision 2020* commitments, particularly on the energy, water and waste targets; status of Building Research Establishment Environmental Assessment Method (BREEAM) certification of new projects; and community investment
- Sought feedback and final approval on the framework, commitments and communications under *Vision 2030*.
- Presented and discussed a comprehensive diversity and inclusion approach for the group

In 2021, the Committee's focus would be on the full roll-out of the new CRS approach, *Vision 2030*. More information is in the CRS Report.

Completion of Vision 2020

As we completed *Vision 2020*, we are pleased to report that we have achieved more than 91% of commitments we had set. Some key achievements and progress in 2020 include:

Our Guests

- On track to achieve BREEAM certification, one of the world's leading sustainable building standards for our new projects in London, Istanbul and Yangon
- Implemented sustainable packaging (using recycled aluminium and petroleum free materials) for our new bathroom amenities
- Final phase of implementation for our renewable energy project at Quail Lodge & Golf Club and assessing similar options in our other properties
- Conducted external-led energy and water audits for our hotels and properties

Our People

- Developed and presented a comprehensive approach on diversity and inclusion
- Engaged with the CRS Committee members and champions globally on their views and insights regarding *Vision 2030*
- Completed gap analysis to improve on our safety and security approach

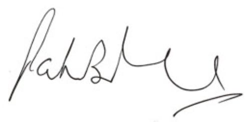
Our Cities

- Continued to support our local communities, working on key community areas such as youth development, elderly caring and meeting under-served needs, where their needs were particularly exacerbated due to the global pandemic
- Implemented Meal-for-Meal programme as part of the Business Recovery Plan, which led to over 160,000 meals (valuing at upwards of HK$2.9 million) provided to nourish the neediest in the communities we operate
- Majority of the paper products, cleaning products, tea and coffee are sourced sustainably/responsibly with several restaurants and operations in the group fully complying with these specifications
- Committed to our animal welfare objectives on cage-free eggs globally
- Strengthened the group's approach related to modern slavery, including the prevention of child trafficking and prostitution, identifying high-risk suppliers for monitoring and initial engagement with employment agents in Hong Kong on the hiring of casual labour

We are gratified to see progress as implemented by our colleagues around the world. We remain committed to implementing our *Vision 2020* objectives in as practicable a manner as possible. We look forward to reporting our progress on the implementation of our new *Vision 2030* in the next year.

Audit Committee Report

"The Audit Committee has continued to play its part in providing crucial independent oversight over the group's risk management, financial reporting and audit processes. In such challenging times, the need for robust, independent and incisive supervision of the group's risk management and internal controls is more important than ever."



Patrick Paul
Chairman of the Audit Committee
17 March 2021

Composition	Chairman Mr Patrick Paul, INED Members Ms Ada Tse, INED Mr Andrew Brandler, NED
Meeting Frequency	• At least four times every year with senior management, the external auditor and Group General Manager, Audit & Risk Management in attendance by invitation • Four meetings in 2020
Responsibilities	• To assist the Board in carrying out its responsibility of overseeing financial reporting, external audit, internal audit, risk management and internal controls

COVID-19

The COVID-19 pandemic has brought about an unprecedented exacerbation of risks to the group's businesses. In addition to its core function of overseeing matters arising from financial reporting, audit process, risk management, internal controls and compliance, the Audit Committee also played a key role in reviewing the risks and mitigation actions associated with the pandemic. At a high level, the Audit Committee has reviewed the financial impact of COVID-19 on the group's business, the need for additional funding and prospective plans for business recovery. In addition, the Audit Committee continues to review and provide guidance on the impact of the pandemic on capital investment and development projects, site closures, mandatory social distancing and other measures.

Impairment Assessment

During the year, the Audit Committee reviewed the impairment assessment in respect of the group's non-investment properties and projects under development, due to the continued uncertainty and the challenging outlook conducted by management. As a result, the Committee endorsed the impairment provision for The Peninsula Manila given its relatively short remaining lease team and the uncertain outlook of the local tourism market. It also endorsed the impairment provision for The Peninsula Istanbul based on the unforeseen construction delays, combined with the declining local currency and uncertain economic climate arising from geopolitical tensions, all of which may affect the future operations of the hotel.

Other Key Work in 2020

Annual/Interim Report and Financial Information

- Reviewed and endorsed the 2019 Annual Report, Corporate Responsibility and Sustainability Report, and the annual results announcement, as well as the 2020 Interim Report and the interim results announcement

Internal and external audits

- Reviewed the 2020 internal audit plan progress and approved the proposed 3-year internal audit plan commencing 2021 and assessed the proposed audit methodology

- Reviewed the key internal audit findings and initiatives recommended to the relevant operations and Head Office departments

Audit Committee Report

- Endorsed KPMG's audit report on the financial statements for the 2019 Annual Report and discussed the key observations identified by KPMG during the course of their audit and the related recommendations

- Endorsed 2020 audit plans and reports from the external auditor on its audit and its review of the financial statements including accounting policies and areas of judgement and its comments on control matters

Financial reporting system, risk management and internal control systems

- Reviewed and approved the structure, adequacy of resources, staff qualifications and experience, training programmes of the group's accounting, internal audit and financial reporting and corporate responsibility and sustainability functions

- Reviewed and endorsed semi-annually the Group Risk Management Report detailing the COVID-19 risk and other principal risks facing the group, mitigation controls and the adequacy and effectiveness of risk management and internal control systems

- Considered summaries of the internal representation letters from business operations which in turn formed the basis by which management confirmed the effectiveness of the group's risk management and internal control systems; and approved the representation letters to the external auditor before issuance of the 2019 Annual Report and Corporate Responsibility and Sustainability Report and 2020 Interim Report

Governance

- Reviewed all connected transactions and related party transactions, including endorsing the continuing connected transactions of tenancy agreements for the head office for Board approval

- Reviewed the group's tax position and the impacts arising from the changes in the tax laws and regulations and the relevant actions being taken

- Reviewed reported speak up cases and investigations

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

Based on the reports from Group General Manager, ARM, summaries of internal representation letters and reports of the external auditor, the Audit Committee considers the overall financial and operating controls, risk management and internal control systems for the group during 2020 to be effective and adequate. Issues raised by the internal and external auditors during 2020 have been, or are being addressed by management, and the Audit Committee advised the Board that there are no issues required to be raised to shareholders.

In March 2021, the Audit Committee reviewed and endorsed this annual report, the Corporate Responsibility and Sustainability Report, which is posted on the website,[25] and the annual results announcement, and recommended the same to the Board for approval.

Ensuring the Independence of our External Auditor

The group's external auditor is KPMG. We believe the independence of our external auditor is crucial to the effectiveness of our corporate governance and should not be compromised. The issue of auditor independence is reviewed annually. In engaging the external auditor for non-audit work, we take into account the internal guideline adopted to monitor the amount of non-audit work given to the external auditor to ensure the provision of such services do not impair KPMG's independence or objectivity. In 2020, apart from audit work, the group also awarded non-audit work to KPMG including taxation and other services. In our first meeting in 2021, the Audit Committee reviewed the nature of non-audit work performed by KPMG and confirmed that it gave rise to no impairment of actual or perceived independence or objectivity of the audit work itself. The Committee has recommended to the Board the re-appointment of KPMG as independent auditor for Shareholders' approval at the 2021 Annual General Meeting.

A summary of fees for audit and non-audit services to KPMG for the financial years ended 31 December 2021 and 2020 is as follows:

Nature of Services	**2020 HK$m**	2019 HK$m
Audit Services	**9**	10
Non-audit Services		
Taxation and other services	**2**	4

Looking Forward

In challenging circumstances such as those faced in 2020, with heightened levels of business risk at all levels, the quality of discussion and level of challenge by the Audit Committee with management, and the internal and external audit teams, ensures the Committee is able to perform its role effectively. We anticipate the Committee continuing to play an instrumental role as we navigate uncharted waters through 2021.

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

Nomination Committee Report

"I take pride in leading such a diverse Board, with a skill set and knowledge base which spans continents and plays a crucial role in enforcing the group's values and delivering on its ambitious strategy. The Nomination Committee is integral to ensuring the Board's continual success."

The Hon. Sir Michael Kadoorie
Chairman of the Nomination Committee
17 March 2021

Composition	Chairman: The Hon. Sir Michael Kadoorie, Non-Executive Chairman Members: Dr the Hon. Sir David Li, INED Dr William Fung, INED
Meeting frequency	• At least two meetings every year • Two meetings in 2020
Responsibilities	• To evaluate the structure, size and composition of the Board. This includes selecting new Directors and/or maintaining an appropriate, adequate and balanced make-up of an effective Board and reviewing of independence of INEDs

Board Composition and Diversity

A diverse Board brings constructive challenge and fresh perspectives to Board discussion. The company approaches diversity in the broadest sense, recognising the benefits of a diverse mix of skills, knowledge, age, race, gender and experience on its Board. Our Diversity Policy adopted since 2013 can be found on the company website[26]. The Nomination Committee, when considering Board composition and in its process of recommending Board appointments, is guided by the principles of the company's policy on diversity. While we recognise that gender diversity at Board level can be improved and this is taken into consideration, we continue to apply the principle of appointments based on merit.

With the departure of Mr Matthew Lawson, Chief Financial Officer, we engaged an executive search consultant to select candidates with reference to our Diversity Policy and Nomination Policy[27]. A total of 80 profiles were considered (30% female and 70% male). The candidates shortlisted (75% female and 25% male) were interviewed by senior management and members of the Nomination Committee. The Nomination Committee reviewed the selection and assessment approach and endorsed the appointment of Mr Christopher Ip who joined the Board on 18 January 2021 as Chief Financial Officer.

26 www.hshgroup.com/en/corporate-governance
27 Please also refer to page 121 on Nomination Policy

Nomination Committee Report

The Nomination Committee regularly reviews the composition, balance, skills and experience of the Board and confirmed that the large Board of The Hongkong and Shanghai Hotels, Limited continued to contribute positively in the contributions of each Director brings based on the diverse mix of skills, knowledge and experience, as well as the gender diversity with three female members on the Board.

Furthermore, the Committee reviewed the appropriateness of an express diversity quota or measurable objective. The Committee concluded not to set any specific target, with selection continuing to be based on merit with reference to our diversity policy in terms of skill set, experience, knowledge, expertise, culture, level of independence from the company, age, race and gender. This approach has been approved by the Board.

Other Key Work in 2020

In addition to the selection and appointment of Mr Christopher Ip, the Nomination Committee assessed and reviewed all INEDs' confirmations of independence and the cross-directorships of Dr Rosanna Wong[28] and The Hon. Sir Michael Kadoorie (with Mr William Mocatta as his alternate director), who served on boards of the company and CK Hutchison Holdings Limited, and affirmed the Committee's view of their independence. The Committee also evaluated the contribution and time commitment of Directors (including INEDs) put forward for re-election as well as their respective skills and experience and recommended them for re-election.

Looking Forward

The Nomination Committee strongly believes that diversity is an ongoing process, rather than a destination. The Committee will continue to assess the effectiveness, composition and diversity of the Board in 2021 and implement such changes that are required to ensure the Board is fully equipped to lead the group through the challenges that may lie ahead.

28 Dr Rosanna Wong serves as an INED and does not hold any shares in CK Hutchison Holdings Limited

Remuneration Committee Report

"The Remuneration Committee's work in 2020 reflects our desire to continue retaining and motivating talent within the organisation, whilst being sensitive to the very real financial pressures we face. I am confident we have struck the right balance in light of the current circumstances."

Patrick Paul
Chairman of the Remuneration Committee
17 March 2021

Composition	Chairman Mr Patrick Paul, INED Members Dr Rosanna Wong, INED Mr Andrew Brandler, NED
Meeting Frequency	• At least two meetings every year with the Chief Executive Officer and Group Director, Human Resources in attendance • three meetings in 2020
Responsibilities	• To exercise oversight of all aspects of the group's remuneration policies, in particular to review and approve the proposals for the basic compensation and bonuses for Executive Directors and senior management, as well as the application of the group's bonus scheme for senior staff.

HSH Rewards Philosophy

The group's overall rewards philosophy and principles have not changed despite the global pandemic. We continue to ensure that compensation and benefits are designed for the group and its executives according to an overall framework setting out various guiding principles. We work within this framework to adjust compensation and benefits as appropriate in light of changing financial and market conditions. Our objective remains to retain high performers by offering a mix of financial and non-financial rewards to stay competitive and meet our employees' expectations.

Key guiding principles

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

Remuneration for Executive Directors and Senior Management

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

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

Four components of remuneration paid to Executive Directors, senior management and other executives are explained on the next page.

Remuneration Committee Report

Basic compensation

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

Bonuses and incentives

The provision of appropriate bonus and incentive awards for performance is vital to the continued growth to the business. Executive Directors' bonuses consist of contractual and discretionary components while the two Group Executives are under a discretionary bonus plan to align with market practice. Other senior management participates in the HSH Management Bonus Plan[29] which is a short-term incentive scheme calculated by reference to financial and non-financial considerations as follows:

- The group's financial performance
- The Business Units' quality measurement[30]
- Individual performance
- Share Price

In 2020, the Committee approved the suspension of quality measurements and approved the proposal to work on an auditing methodology for the newly created Peninsula Service Principles for The Peninsula Hotels. This methodology will subsequently be used to establish a new set of quality measurements of the Management Bonus plan of The Peninsula Hotels.

During the year, the Committee also approved a deferred share-based payment for Executive Directors and Group Executives which recognises their roles in leading the group during the pandemic and financial crisis, but under which cash payments would be deferred to future years.

Retirement benefits

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

Other benefits

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

Remuneration for Non-Executive Directors

Fees for Non-Executive Directors (NEDs) are fixed at shareholders general meetings, while any additional fees of NEDs for serving on Board Committees are fixed by the Board. The Committee has the responsibility reviewing management's annual recommendations for these fees. Factors taken into account in this process include estimated time spent in the discharge of these duties and benchmarking against other Hong Kong listed companies of similar size and activities as well as other international companies. After review, the Committee makes recommendations to the Board. No director approves his or her own remuneration. While this was reviewed during 2020, in light of the Group's financial situation caused by COVID-19, the Committee endorsed management's cost savings proposal which provided that the fees for NEDs would be waived and fees for INEDs and Governance Board Committees be reduced on a temporary basis by 20% for the two years 2020 and 2021. This proposal was accepted by all the NEDs and INEDs. In addition, in 2020 we have reviewed the time spent by our Directors in discharging their duties, taking into account their preparation time for each meeting, and subsequently amended the time commitments set out in their letters of appointment.

Other Key Work in 2020

In 2020, the Committee reviewed and endorsed the remuneration package of the new Chief Financial Officer, Christopher Ip and gave careful consideration to the remuneration in the context of the external COVID-19 environment as well as market competitiveness.

In addition, the Committee carried out an assessment and approved the 2019 bonus proposals – both for senior staff, and for Executive Directors and Group Executives. The Committee also reviewed and endorsed the management's recommendation on group-wide 2021 general salary and 2020 bonus strategy proposal of no general salary increase and no 2020 discretionary bonus considering the financial performance of the group, the COVID-19 environment, and other various factors including market pay trends and inflationary forecasts. A similar 2021 salary and 2020 bonus strategy for Executive Directors and senior management were adopted. Finally, the Remuneration Committee reviewed and noted the remuneration of senior staff in grades A and B, and approved the proposed change in ORSO employer contribution rate.

29 Senior staff also participates in the HSH Management Bonus Plan
30 A quality score measuring user experience and/or operational excellence against a set of standards

2020 Remuneration of Directors and Senior Management

The following information is an integral part of the Audited financial statements for the year ended 31 December 2020.

Non-Executive Directors – remuneration

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

(HK$'000)	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	**Total 2020**	Total 2019
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	–	–	–	–	–	**–**	456
Mr Andrew C.W. Brandler	–	–	–	–	–	**–**	635
Mr William E. Mocatta	–	–	–	–	–	**–**	325
Mr John A.H. Leigh	–	–	–	–	–	**–**	425
Mr Nicholas T.J. Colfer	–	–	–	–	–	**–**	325
Mr James L. Lewis	–	–	–	–	–	**–**	325
Mr Philip L. Kadoorie	–	–	–	–	–	**–**	325
Independent Non-Executive Directors							
Dr the Hon. Sir David K.P. Li	300	–	–	–	32	**332**	415
Mr Patrick B. Paul	300	–	148	80	–	**528**	660
Mr Pierre R. Boppe	300	–	–	–	–	**300**	375
Dr William K.L. Fung	300	–	–	–	32	**332**	415
Dr Rosanna Y.M. Wong	300	–	–	48	–	**348**	435
Dr Kim L. Winser	300	–	–	–	–	**300**	375
Ms Ada K.H. Tse	300	–	120	–	–	**420**	525
	2,100	–	268	128	64	**2,560**	6,025

Executive Directors – remuneration

The remuneration paid to Executive Directors of the company in 2020 was as follows:

(HK$'000)	Basic compensation	Bonus	Contractual Share-based payment(1)	Deferred Share-based payment(2)	Retirement benefits	Other benefits	**Total 2020**	Total 2019
Executive Directors								
Mr Clement K.M. Kwok	6,895	–	1,572	2,900	1,194	138	**12,699**	15,853
Mr Peter C. Borer	4,952	–	943	844	844	151	**7,734**	9,555
Mr Matthew J. Lawson(3)	3,344	–	943	–	582	134	**5,003**	8,184
	15,191	–	3,458	3,744	2,620	423	**25,436**	33,592

Notes:

(1) This contractual share-related payment was paid on 1 April 2020

(2) The deferred share-based payment will be made in three equal instalments over the next three years

(3) Mr Matthew J. Lawson resigned as a Director of the company with effect from 1 October 2020

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

Remuneration Committee Report

Senior Management – remuneration

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

	2020 Number	2019 Number
HK$2,500,001 – HK$4,000,000	**3**	–
HK$4,000,001 – HK$5,500,000	**3**	4
HK$5,500,001 – HK$7,000,000	**1**	1
HK$7,000,001 – HK$8,500,000	**–**	1

* GMB, the company's management and operations' decision-making authority, comprises the three Executive Directors and seven (2019: six) senior management who represent the various key functions and operations of the company

Individuals with highest remuneration

The five highest paid individuals of the group included two Executive Directors and three (2019: two) members of senior management. The remuneration of the two Executive Directors are set out above. The remuneration of the three (2019: two) individuals with highest remuneration are within the following bands:

	2020 Number	2019 Number
HK$5,000,001 – HK$5,500,000	**1**	–
HK$5,500,001 – HK$6,000,000	**2**	–
HK$6,000,001 – HK$6,500,000	**–**	–
HK$6,500,001 – HK$7,000,000	**–**	1
HK$7,000,001 – HK$7,500,000	**–**	1

The aggregate of the remuneration in respect of these three (2019: two) individuals is as follows:

(HK$'000)	2020[(1)]	2019
Basic compensation	**13,245**	9,024
Bonus	**–**	4,191
Contractual Share-based payment	**–**	–
Deferred Share-based payment	**1,808**	–
Retirement benefits	**1,042**	902
Other benefits	**911**	239
	17,006	14,356
Number of Individuals	**3**	2

Note:
(1) The 2020 column includes the total remuneration package for three individuals, whereas 2019 was for two individuals only. For the 2020 total remuneration package for the same two individuals in 2019, the 2020 number has decreased from HK$14.36m to HK$11.24m which is a reduction of 21.7%

The Committee has reviewed the methodology and benchmarking of the remuneration disclosed above and has endorsed and approved the same.

2021 and Beyond

The Committee remains committed to careful oversight of the remuneration policies of the group. As we continue on the long path to recovery from the global pandemic, the Committee will play a crucial role in helping to align the group's compensation and benefits to the increasingly uncertain and fragile markets in which we operate.

Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2020.

Principal Activities

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

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

Business Review and Performance

A review of the business of the company and a discussion and analysis of the group's performance during the year and the material factors underlying its results and financial position, including analysis using financial key performance indicators, are provided in the Operational Review on pages 33 to 62 and Financial Review on pages 64 to 81. Description of the principal risks and uncertainties facing the group can be found throughout this annual report, particularly in Group Risk Committee Report on pages 124 to 128. Particulars of an important event affecting the group that has occurred since the end of the financial year 2020 are set out in note 30 to the financial statements. The future development of the group's business is discussed throughout this annual report including in the CEO's Strategic Review on pages 30 and 31.

Details regarding compliance with relevant laws and regulations which have a significant impact on the group can be found throughout this annual report and the Corporate Responsibility and Sustainability Report (CRS Report). Further details regarding the environment and social related policies and performance are provided in the CRS Report and an account of the group's relationships with its key stakeholders in Creating Stakeholder Value on pages 84 and 85.

The discussions with respect to the above topics in the annual report and CRS Report which is available online[31] form part of this Directors' Report.

Ten Year Operating Statistics and Financial Summary

The group's key operating statistics and financial data for the last ten years are set out on pages 14 and 15.

Share Capital

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

Equity-linked Agreements

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

Purchase, Sale or Redemption of Listed Securities

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

Dividends

During 2020, given the underlying loss of the company, the Board of Directors has resolved not to declare an interim dividend (2019: 4 HK cents per share) or a final dividend (2019: 9 HK cents per share) and this is in line with our dividend policy which is linked to the cash flow from operating activities and underlying earnings.

Borrowings

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

Charitable Donations

Cash donations made by the group for charitable purposes during the year amounted to HK$3 million (2019: HK$1.8 million)[32].

Major Customers and Suppliers

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

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

32 The donations amount of HK$3.2 million (2019: HK$2 million) referred to in the Sustainability Data Statements on page 218 include donations by managed properties owned by a joint venture and associates and employees

Directors' Report

Connected Transactions

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

On 27 March 2019, HSH Management Services Limited (HMS), an indirect wholly-owned subsidiary of the company, entered into two tenancy agreements with Kadoorie Estates Limited (KEL) to renew the office leases of (i) Room 408 and (ii) 7th and 8th Floors of St. George's Building, 2 Ice House Street, Central, Hong Kong (Office Premises) for three years commencing on 1 April 2019 at a market rent of (i) HK$172,980 per month plus a monthly service charge of HK$18,795.6 and (ii) HK$2,385,830 per month plus a monthly service charge of HK$259,246.8 respectively. The office lease of Room 408 was early terminated on 31 March 2020 and HMS had paid a compensation of HK$1.5 million in respect of the early termination of the lease. Including this, the rents and services charges incurred in 2020 amounted to HK$34 million (2019: HK$32 million).

KEL is the agent of the registered owner of the Office Premises. The registered owner is controlled by one of the substantial shareholders of the company. The leases constituted continuing connected transactions of the company and subject to the disclosure requirements under the Listing Rules. Details of the transactions were disclosed in the announcement dated 27 March 2019.

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

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

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

Material Related Party Transactions

Details of material related party transactions which were undertaken in the ordinary and usual course of business are set out in note 31 to the financial statements.

Directors

Biographical details of the Directors in office at the date of this report are shown on pages 94 to 101. All these Directors held office throughout 2020, with the exception of Mr Christopher Ip who was appointed as an Executive Director and Chief Financial Officer with effect from 18 January 2021 replacing Mr Matthew Lawson who resigned on 1 October 2020. In accordance with the Articles of Association of the company, all the Directors who will retire at the 2021 Annual General Meeting[33] and, being eligible, have agreed to offer themselves for re-election. They include (i) Dr the Hon. Sir David Li, Mr John Leigh, Mr Nicholas Colfer, Ms Ada Tse, Mr James Lewis and Mr Philip Kadoorie; and (ii) Mr Christopher Ip.

None of the Directors proposed for re-election at the 2021 Annual General Meeting has a service contract with the company which is not determinable by the company within one year without payment of compensation, other than statutory compensation.

33 Annual General Meeting will be held at The Peninsula Hong Kong on 21 May 2021

Directors of Subsidiaries

The list of directors who have served on the boards of the subsidiaries of the company during the year and up to the date of this report is shown on the company website[34].

Senior Management

Biographical details of senior management are shown on pages 102 to 104. All members of senior management held office throughout the year except Mr Gareth Roberts who was appointed as a member of the Group Management Board with effect from 1 July 2020.

Interests of Directors

As at 31 December 2020, the interests or short positions of the Directors of the company in the shares, underlying shares and debentures of the company or any associated corporation, within the meaning of Part XV of the Securities and Futures Ordinance (SFO), as recorded in the register required to be kept under section 352 of the SFO, are as follows.

Long position in shares of the company

	Capacity	Number of shares held in the company	% of total number of shares in issue of the company
The Hon. Sir Michael Kadoorie	Note (a)	702,931,684	42.617
Mr Clement K.M. Kwok	Beneficial Owner	760,122	0.046
Mr Peter C. Borer	Beneficial Owner	378,936	0.023
Mr William E. Mocatta	Beneficial Owner	17,000	0.001
Mr John A.H. Leigh	Note (b)	85,220,232	5.167
Mr Philip L. Kadoorie	Note (c)	702,931,684	42.617
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,137,146	0.069
Mr Pierre R. Boppe	Beneficial Owner	30,000	0.002

Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 702,931,684 shares in the company. These shares were held in the following capacity:

(i) 356,666,831 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder; and

(ii) 346,264,853 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder.

For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 702,931,684 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie as attributable to her pursuant to the SFO for disclosure purposes relates to the same interest that The Hon. Sir Michael Kadoorie deemed to be interested in. She has no legal or beneficial interest in those shares otherwise.

(b) Mr John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 85,220,232 shares in the company. These shares were ultimately held by a discretionary trust. Mr John A.H. Leigh was deemed to be interested in such 85,220,232 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 85,220,232 shares.

(c) Mr Philip L. Kadoorie was deemed (by virtue of the SFO) to be interested in 702,931,684 shares in the company. These shares were held in the following capacity:

(i) 356,666,831 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries; and

(ii) 346,264,853 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries.

Messrs Andrew Brandler, Nicholas Colfer, James Lewis, Patrick Paul; Dr William Fung, Dr Rosanna Wong, Dr Kim Winser and Ms Ada Tse who are Directors of the company have each confirmed that they had no interests in the shares of the company or any of its associated corporations as at 31 December 2020.

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

Directors' Report

Certain Directors held qualifying shares in two subsidiaries of the company, on trust for the parent company of those subsidiaries.

Except as set out above, as at 31 December 2020, none of the Directors of the company (including their spouses and children under 18 years of age) had any interests or short positions in the shares, underlying shares and debentures of the company or its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept under section 352 of the SFO.

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

Interests of Senior Management

As at 31 December 2020, none of the senior management (other than Directors) had any interests in the shares and underlying shares of the company.

Interests of Substantial Shareholders

So far as is known to any Director of the company, as at 31 December 2020, shareholders (other than Directors of the company) who had interests or short positions in the shares and underlying shares of the company as recorded in the register required to be kept under section 336 of the SFO, are as follows.

Long position in shares of the company

(a) Substantial shareholders

	Capacity	Number of shares held in the company	% of total number of shares in issue of the company
Acorn Holdings Corporation	Beneficiary	201,195,388	12.20(i)
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	286,415,620	17.36(i)
Guardian Limited	Beneficiary/Interest of controlled corporation	85,220,232	5.17(v)
Harneys Trustees Limited	Interests of controlled corporations	702,931,684	42.62(iii)
Lawrencium Holdings Limited	Beneficiary	346,264,853	20.99(ii)
Lawrencium Mikado Holdings Limited	Beneficiary	356,666,831	21.62(ii)
The Magna Foundation	Beneficiary	356,666,831	21.62(ii)
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	702,931,684	42.62(ii)
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	85,220,232	5.17(iv)
Oak (Unit Trust) Holdings Limited	Trustee	85,220,232	5.17(i)
Oak HSH Limited	Beneficiary	85,220,232	5.17(iv)
Mr Richard Parsons	Trustee	85,220,232	5.17(v)

Notes:

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

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

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

(iii) Harneys Trustees Limited controlled The Mikado Private Trust Company Limited and was therefore deemed to be interested in the shares in which such company was deemed to be interested.

(iv) The Oak Private Trust Company Limited was deemed to be interested in the shares in which Oak HSH Limited was deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such company.

(v) Mr Richard Parsons, in his capacity as one of the trustees of a trust, controlled Guardian Limited and therefore was deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 85,220,232 shares in which Guardian Limited was interested was duplicated within the interests attributed to Mr Richard Parsons and was also duplicated within the interests attributed to Mr John A.H. Leigh as disclosed in "Interests of Directors".

(b) Other substantial shareholders

	Capacity	Number of shares held in the company	% of total number of shares in issue of the company
Seekers Partners Limited (formerly known as Satinu Resources Group Ltd.)	Interest of controlled corporation	185,179,077	11.23
Mr Ng Chee Siong	Trustee	84,828,218	5.14[i]
Mr Philip Ng Chee Tat	Trustee	84,828,218	5.14[i]
Sino Hotels (Holdings) Limited	Interests of controlled corporations	84,828,218	5.14[i]

Note:

(i) Mr Ng Chee Siong and Mr Philip Ng Chee Tat, had trustee interest in their capacity as the co-executors of the estate of Mr Ng Teng Fong, who controlled Sino Hotels (Holdings) Limited and therefore they were both deemed to be interested in the 84,828,218 shares in which Sino Hotels (Holdings) Limited was deemed to be interested. Hence, the share interests of Mr Ng Chee Siong, Mr Philip Ng Chee Tat and Sino Hotels (Holdings) Limited as disclosed were duplicated.

Except as set out above, as at 31 December 2020, the company had not been notified of any substantial shareholder (other than Directors of the company) who had interests or short positions in the shares or underlying shares of the company that were recorded in the register required to be kept under section 336 of the SFO.

Directors' Report

Interests of Any Other Person

As at 31 December 2020, the company had not been notified of any person other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the company, which are required to be recorded in the register required to be kept under section 336 of the SFO.

Directors' Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract of significance to which the company or its subsidiaries was a party and in which a Director of the company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted as at 31 December 2020 or at any time during the year.

Directors' Indemnities

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

Employee Retirement Benefits

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

Management Contracts

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

Corporate Governance Report

The Corporate Governance Report outlines the company's approach to governance is set out on pages 107 to 123.

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

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

Directors' Responsibilities for the Financial Statements

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

In preparing the financial statements for the year ended 31 December 2020, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

Auditor

The financial statements for the year ended 31 December 2020 have been audited by KPMG who will retire at the 2021 Annual General Meeting and, being eligible, offer themselves for re-appointment. A resolution to re-appoint KPMG (Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance) as auditor and authorise the Directors to fix their remuneration will be proposed at the 2021 Annual General Meeting.

By Order of the Board

Christobelle Liao
Company Secretary
17 March 2021

Financial Statements

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of The Hongkong and Shanghai Hotels, Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 153 to 215, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

(Refer to note 12, note 14, note 15 and note 34 to the consolidated financial statements)

<table>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Group owns interests in various hotel properties around the world either directly or through its investments in a joint venture and associates. These hotel properties, which are stated at cost less accumulated depreciation and impairment, are significant to the Group in terms of their values.

At the year end management assesses if there are any indicators of potential impairment of hotel properties. In such cases, management assesses the recoverability of the carrying value of hotel properties based on valuations prepared by an external property valuer in accordance with recognised industry standards.

The valuation of hotel properties is complex and involves a significant degree of judgement and estimation, particularly given the diverse locations of the hotel properties and the particular economic and political circumstances at each location which can affect, inter alia, occupancy rates, revenue per available room and future growth rates.

We identified assessing the recoverability of the carrying value of hotel properties owned by the Group and its investees as a key audit matter because of the complexity of the valuations and because of the significant judgement and estimation required and the potential for management bias in the selection of the assumptions.</td><td>Our audit procedures to assess the recoverability of the carrying value of hotel properties owned by the Group and its investees included the following:

• discussing triggering events and/or indicators of potential impairment of hotel properties with management and inspecting the operating results and cash flow forecasts of the respective hotels;

• where such triggering events or indicators were determined to exist:

– meeting the external property valuer, independent of management, to discuss the valuations and assess the valuation methodology applied and considering the valuer’s qualifications, expertise in the properties being valued, objectivity and independence;

– challenging the key estimates and assumptions adopted in the valuations, including occupancy rates, revenue per available room, future growth rates and the discount rates applied, by comparing these with budgets approved by the directors, market available data for comparable properties and the current year’s operating results; and

• performing sensitivity analyses by making adjustments to the key estimates and assumptions to assess the risk of possible management bias in the valuation exercise.</td></tr>
</table>

Independent Auditor's Report

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

(Refer to note 12, note 14, note 15 and note 34 to the consolidated financial statements)

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

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yau Ngai Lun, Alan.

KPMG

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

17 March 2021

Consolidated Statement of Profit or Loss (HK$m)

	Note	Year ended 31 December 2020	2019
Revenue	3	**2,710**	5,874
Cost of inventories		**(213)**	(457)
Staff costs and related expenses		**(1,511)**	(2,294)
Rent and utilities		**(373)**	(441)
Other operating expenses		**(674)**	(1,292)
Operating (loss)/profit before interest, taxation, depreciation and amortisation (EBITDA)		**(61)**	1,390
Depreciation and amortisation		**(553)**	(589)
Operating (loss)/profit		**(614)**	801
Interest income		**5**	14
Financing charges	5	**(149)**	(154)
Net financing charges		**(144)**	(140)
(Loss)/profit after net financing charges	4	**(758)**	661
Share of results of joint ventures	14	**(269)**	(17)
Share of results of associates	15	**(97)**	(32)
Provision for impairment	12(a)	**(93)**	–
(Decrease)/increase in fair value of investment properties	12(a)	**(732)**	83
(Loss)/profit before taxation		**(1,949)**	695
Taxation			
Current tax	6	**(62)**	(146)
Deferred tax	6	**31**	(46)
(Loss)/profit for the year		**(1,980)**	503
(Loss)/profit attributable to:			
Shareholders of the company		**(1,940)**	494
Non-controlling interests		**(40)**	9
(Loss)/profit for the year		**(1,980)**	503
(Loss)/earnings per share, basic and diluted (HK$)	9	**(1.18)**	0.30

The notes on pages 158 to 215 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income (HK$m)

		Year ended 31 December	
	Note	**2020**	2019
(Loss)/profit for the year		**(1,980)**	503
Other comprehensive income for the year, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**217**	106
– financial statements of joint ventures		**90**	(27)
– financial statements of and loans to an associate		**48**	(15)
– hotel operating rights		**41**	(12)
		396	52
Cash flow hedges:			
– effective portion of changes in fair values		**(2)**	(29)
– transfer from equity to profit or loss		**21**	7
– transfer to exchange reserve		**9**	–
		424	30
Item that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit retirement obligations		**1**	–
Other comprehensive income	8	**425**	30
Total comprehensive income for the year		**(1,555)**	533
Total comprehensive income attributable to:			
Shareholders of the company		**(1,490)**	490
Non-controlling interests		**(65)**	43
Total comprehensive income for the year		**(1,555)**	533

The notes on pages 158 to 215 form part of these Financial Statements.

Consolidated Statement of Financial Position (HK$m)

	Note	As at 31 December 2020	As at 31 December 2019
Non-current assets			
Investment properties		**32,407**	33,219
Other properties, plant and equipment		**13,249**	12,314
	12	**45,656**	45,533
Properties under development for sale	13	**4,264**	3,624
Interest in joint ventures	14	**1,265**	1,186
Interest in associates	15	**560**	588
Hotel operating rights	16	**532**	505
Deferred tax assets	18(b)	**70**	72
		52,347	51,508
Current assets			
Inventories	19	**84**	89
Trade and other receivables	20	**669**	711
Amount due from a joint venture	31(b)	**59**	56
Cash at banks and in hand	21(a)	**520**	697
		1,332	1,553
Current liabilities			
Trade and other payables	22	**(1,289)**	(1,480)
Interest-bearing borrowings	23	**(1,897)**	(1,114)
Derivative financial instruments	17	**(5)**	(8)
Current taxation	18(a)	**(34)**	(152)
Lease liabilities	24	**(143)**	(143)
		(3,368)	(2,897)
Net current liabilities		**(2,036)**	(1,344)
Total assets less current liabilities		**50,311**	50,164
Non-current liabilities			
Interest-bearing borrowings	23	**(9,285)**	(6,410)
Trade and other payables	22	**(117)**	(234)
Net defined benefit retirement obligations	27	**(22)**	(27)
Derivative financial instruments	17	**(5)**	(21)
Deferred tax liabilities	18(b)	**(607)**	(737)
Lease liabilities	24	**(3,123)**	(3,006)
		(13,159)	(10,435)
Net assets		**37,152**	39,729
Capital and reserves			
Share capital	25	**5,837**	5,732
Reserves		**31,007**	33,322
Total equity attributable to shareholders of the company		**36,844**	39,054
Non-controlling interests		**308**	675
Total equity		**37,152**	39,729

Approved by the Board of Directors on 17 March 2021 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Christopher S. M. Ip, Directors
The notes on pages 158 to 215 form part of these Financial Statements.

Consolidated Statement of Changes in Equity (HK$m)

		Attributable to shareholders of the Company							
			Reserves						
	Note	Share capital	Hedging reserve	Exchange and other reserves	Retained profits	Total reserves	Total	Non-controlling interests	Total equity
At 1 January 2019		5,509	(16)	(363)	33,534	33,155	38,664	536	39,200
Changes in equity for 2019:									
Profit for the year		–	–	–	494	494	494	9	503
Other comprehensive income	8	–	(22)	18	–	(4)	(4)	34	30
Total comprehensive income for the year		–	(22)	18	494	490	490	43	533
Dividends approved in respect of the previous year	10	179	–	–	(258)	(258)	(79)	–	(79)
Dividends approved in respect of the current year	10	44	–	–	(65)	(65)	(21)	–	(21)
Dividend paid to non-controlling interests		–	–	–	–	–	–	(7)	(7)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	–	103	103
Balance at 31 December 2019 and 1 January 2020		5,732	(38)	(345)	33,705	33,322	39,054	675	39,729
Changes in equity for 2020:									
Loss for the year		**–**	**–**	**–**	**(1,940)**	**(1,940)**	**(1,940)**	**(40)**	**(1,980)**
Other comprehensive income	8	**–**	**28**	**422**	**–**	**450**	**450**	**(25)**	**425**
Total comprehensive income for the year		**–**	**28**	**422**	**(1,940)**	**(1,490)**	**(1,490)**	**(65)**	**(1,555)**
Dividends approved in respect of the previous year	10	**105**	**–**	**–**	**(147)**	**(147)**	**(42)**	**–**	**(42)**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Capital contribution from a non-controlling shareholder		**–**	**–**	**–**	**–**	**–**	**–**	**30**	**30**
Transaction with non-controlling shareholders	31(d)	**–**	**–**	**–**	**(678)**	**(678)**	**(678)**	**–**	**(678)**
Reduction of non-controlling interests resulting from deconsolidation of a subsidiary	31(d)	**–**	**–**	**–**	**–**	**–**	**–**	**(327)**	**(327)**
Balance at 31 December 2020		**5,837**	**(10)**	**77**	**30,940**	**31,007**	**36,844**	**308**	**37,152**

The notes on pages 158 to 215 form part of these Financial Statements.

Consolidated Statement of Cash Flows (HK$m)

	Note	Year ended 31 December 2020	2019
Operating activities			
(Loss)/profit after net financing charges		**(758)**	661
Adjustments for:			
Depreciation	12(a)	**539**	576
Amortisation of hotel operating rights	16	**14**	13
Interest income	4	**(5)**	(14)
Financing charges	5	**149**	154
Operating (loss)/profit before changes in working capital		**(61)**	1,390
Payment for the development of properties under development for sale		**(425)**	(366)
Changes in other working capital		**(197)**	(7)
Cash (used in)/generated from operations		**(683)**	1,017
Net tax paid:			
Hong Kong profits tax*		**(165)**	(1)
Overseas tax		**(14)**	(16)
Net cash (used in)/generated from operating activities		**(862)**	1,000
Investing activities			
Capital expenditure on properties, plant and equipment and investment properties		**(399)**	(564)
Capital expenditure on projects under development		**(1,088)**	(822)
Cash injected from a non-controlling shareholder		**30**	103
(Advance to)/distribution from associates		**(21)**	3
Capital injection into a joint venture		**(258)**	(142)
Cash consideration paid and other acquisition costs for additional interest in a subsidiary		**(571)**	–
Net cash used in investing activities		**(2,307)**	(1,422)
Financing activities			
Drawdown of term loans		**2,216**	1,388
Repayment of term loans		**(1,044)**	(398)
Net increase/(decrease) in revolving loans		**2,167**	(671)
Net withdrawal of interest-bearing bank deposits with maturity of more than three months		**3**	59
Interest paid and other financing charges		**(168)**	(135)
Interest received		**3**	15
Capital element of lease rental paid		**(44)**	(51)
Interest element of lease rental paid		**(100)**	(94)
Dividends paid to shareholders of the company		**(42)**	(100)
Dividends paid to holders of non-controlling interests		**(5)**	(7)
Net cash generated from financing activities		**2,986**	6
Net decrease in cash and cash equivalents		**(183)**	(416)
Cash and cash equivalents at 1 January		**680**	1,098
Effect of changes in foreign exchange rates		**9**	(2)
Cash and cash equivalents at 31 December	21(a)	**506**	680

* The amount paid in 2020 largely related to the group's Hong Kong profits tax liabilities in respect of the year ended 31 December 2019 due to the late issuance of tax assessment notices by the Inland Revenue Department.

The notes on pages 158 to 215 form part of these Financial Statements.

Notes to the Financial Statements

1. Company-level statement of financial position (HK$m)

	Note	2020	2019
Non-current assets			
Investment in subsidiaries	33	**–**	–
Current assets			
Amounts due from subsidiaries		**15,556**	14,995
Other receivables		**7**	6
Cash at banks and in hand		**1**	3
		15,564	15,004
Current liabilities			
Amounts due to subsidiaries		**(44)**	(63)
Other payables and accruals		**(16)**	(28)
		(60)	(91)
Net assets		**15,504**	14,913
Capital and reserves			
Share capital	25	**5,837**	5,732
Reserves	26(a)	**9,667**	9,181
Total equity		**15,504**	14,913

Approved by the Board of Directors on 17 March 2021 and signed on its behalf by:



The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Christopher S. M. Ip, Directors

2. Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the group are disclosed in note 34.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the group. Note 35 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements.

3. Revenue (HK$m)

The company is an investment holding company; its subsidiary companies, joint ventures and associates are engaged in the ownership, management and operation of hotels, commercial properties and clubs and services.

Revenue represents the consideration expected to be received in respect of the transfer of goods and services in accordance with HKFRS 15, *Revenue from contracts with customers* and rental income derived from the hotels' shopping arcade and offices and commercial properties recognised in accordance with HKFRS 16, *Leases*. The amount of each significant category of revenue recognised during the year is as follows:

	2020	2019
Hotels		
– Rooms	**470**	2,014
– Food and beverage	**448**	1,229
– Shopping arcades and offices	**511**	618
– Others	**165**	427
	1,594	4,288
Commercial properties		
– Residential properties	**492**	526
– Offices	**102**	103
– Shopping arcades	**183**	317
	777	946
Clubs and Services		
– Golf clubs	**105**	255
– Peak Tram operation	**21**	76
– Peninsula Merchandising	**179**	253
– Others	**34**	56
	339	640
	2,710	5,874

Notes to the Financial Statements

4. (Loss)/profit after net financing charges (HK$m)

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

	2020	2019
Amortisation	14	13
Depreciation		
Other properties, plant and equipment	476	506
Right-of-use assets	63	70
Auditor's remuneration:		
Audit services	9	10
Taxation and other services	2	4
Interest income	(5)	(14)
Rentals receivable from investment properties less direct outgoings of HK$27 million (2019: HK$25 million)	(1,067)	(1,236)
Government grants in respect of:		
– employment subsidies	(130)	–
– others	(8)	–

5. Financing charges (HK$m)

	2020	2019
Interest on bank borrowings	104	113
Interest on lease liabilities	146	143
Other borrowing costs	44	39
Total interest expenses on financial liabilities carried at amortised cost	294	295
Derivative financial instruments:		
– cash flow hedges, transfer from equity (note 8)	25	7
	319	302
Less: Interest expenses capitalised into		
– properties under development*	(126)	(106)
– right-of-use asset#	(44)	(42)
	149	154

* The borrowing costs have been capitalised at an average rate of 2.34% in 2020 (2019: 2.70%).

\# Interest on lease liabilities have been capitalised at an average rate of 4.9% in 2020 (2019: 4.9%).

6. Income tax in the consolidated statement of profit or loss (HK$m)

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

	2020	2019
Current tax – Hong Kong profits tax		
Provision for the year	**56**	122
Over-provision in respect of prior years	**(1)**	(1)
	55	121
Current tax – Overseas		
Provision for the year	**7**	23
Under-provision in respect of prior years	**–**	2
	7	25
	62	146
Deferred tax		
Decrease in net deferred tax liabilities relating to revaluation of overseas investment properties	**(31)**	(7)
Increase in net deferred tax liabilities relating to other temporary differences	**–**	53
	(31)	46
Total	**31**	192

The provision for Hong Kong profits tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

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

	2020	2019
(Loss)/profit before taxation	**(1,949)**	695
Notional tax at the domestic income tax rate of 16.5% (2019: 16.5%)	**(322)**	115
Tax effect of non-deductible expenses	**33**	14
Tax effect of non-taxable income	**(14)**	(2)
Tax effect of share of losses of a joint venture and associates	**60**	8
Tax effect of non-deductible/(taxable) fair value change on Hong Kong investment properties	**87**	(18)
Tax effect of tax losses not recognised	**184**	57
Effect of different tax rates of subsidiaries operating in other jurisdictions	**5**	26
(Over)/under-provision in respect of prior years	**(1)**	1
Others	**(1)**	(9)
Actual tax expense	**31**	192

Notes to the Financial Statements

7. Remuneration of key management personnel (HK$000)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company and the group. It comprises the Board of Directors of the company and the Group Management Board (GMB). GMB comprises the Executive Directors and seven (2019: six) senior management. The total remuneration of the key management personnel is shown below:

	2020		2019	
	Executive and Non-executive Directors	**GMB members other than Executive Directors**	Executive and Non-executive Directors	GMB members other than Executive Directors
Directors' fees	**2,560**	**–**	6,025	–
Basic compensation	**15,191**	**25,586**	17,293	24,432
Bonuses and incentives	**7,202**	**1,808**	12,961	7,068
Retirement benefits	**2,620**	**2,569**	2,829	2,281
Other benefits	**423**	**883**	509	941
	27,996	**30,846**	39,617	34,722

Further details of the remuneration of the Directors (on a named basis) and senior management, and remuneration paid to the five highest paid individuals by bands are disclosed in the "2020 Remuneration of Directors and Senior Management" section of the Remuneration Committee Report, which forms an integral part of these audited financial statements.

8. Other comprehensive income and the related tax effects (HK$m)

	2020			2019		
	Gross amount before tax	**Tax (expense)/ benefit**	**Net-of-tax amount**	Gross amount before tax	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– financial statements of overseas subsidiaries	**217**	**–**	**217**	106	–	106
– financial statements of joint ventures	**90**	**–**	**90**	(27)	–	(27)
– financial statements of and loans to an associate	**48**	**–**	**48**	(15)	–	(15)
– hotel operating rights	**41**	**–**	**41**	(12)	–	(12)
	396	**–**	**396**	52	–	52
Cash flow hedges:						
– effective portion of changes in fair values	**(3)**	**1**	**(2)**	(33)	4	(29)
– transfer from equity to profit or loss	**25**	**(4)**	**21**	7	–	7
– transfer to exchange reserve	**9**	**–**	**9**	–	–	–
Remeasurement of net defined benefit retirement obligations	**1**	**–**	**1**	–	–	–
Other comprehensive income	**428**	**(3)**	**425**	26	4	30

9. (Loss)/earnings per share

(a) (Loss)/earnings per share – basic

	2020	2019
(Loss)/profit attributable to shareholders of the company (HK$m)	**(1,940)**	494
Weighted average number of shares in issue (million shares)	**1,642**	1,623
(Loss)/earnings per share (HK$)	**(1.18)**	0.30

	2020	2019
	(million shares)	*(million shares)*
Issued shares at 1 January	***1,634***	*1,613*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2019 final dividend	***8***	*10*
Weighted average number of shares at 31 December	***1,642***	*1,623*

(b) (Loss)/earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2020 and 2019 and hence the diluted (loss)/earnings per share is the same as the basic (loss)/earnings per share.

10. Dividends (HK$m)

(a) Dividend policy

The company adopts a dividend policy of providing its shareholders with a stable and sustainable dividend stream, which is linked to the cash flows from operating activities and underlying earnings achieved. The company also offers a scrip dividend alternative to its shareholders. The consideration in respect of the new shares issued under the scrip dividend scheme is retained as capital of the company.

(b) Dividends payable to shareholders of the company attributable to the year

	2020	2019
Interim dividend declared and paid (2019: 4 HK cents per share)	**–**	65
Final dividend proposed after the end of the reporting period (2019: 9 HK cents per share)	**–**	147
	–	212

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

	2020	2019
Final dividend in respect of the previous financial year, approved and paid during the year, of 9 HK cents per share (2019: 16 HK cents per share)	**147**	258

Notes to the Financial Statements

11. Segment reporting (HK$m)

The group is organised on a divisional basis. In a manner consistent with the way in which information is reported internally to the group's senior executive management for the purposes of resource allocation and performance assessment, the group's reportable segments are as follows:

Hotels	This segment includes revenue generated from operating hotels, leasing of commercial shopping arcades and office premises located within the hotel buildings.
Commercial Properties	This segment is engaged in the development, leasing and sale of luxury residential apartments, leasing of retail and office premises (other than those in hotel properties), as well as operating food and beverage outlets in such premises.
Clubs and Services	This segment is engaged in the operation of golf courses, the Peak Tram, wholesaling and retailing of food and beverage products, laundry services and the provision of management and consultancy services for clubs.

No operating segments have been aggregated to form the reportable segments.

(a) Segment results

The results of the group's reportable segments for the years ended 31 December 2020 and 2019 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Reportable segment revenue*	**1,594**	4,288	**777**	946	**339**	640	**2,710**	5,874
Reportable segment operating (loss)/profit before interest, taxation, depreciation and amortisation (EBITDA)	**(487)**	758	**440**	527	**(14)**	105	**(61)**	1,390
Depreciation and amortisation	**(494)**	(512)	**(26)**	(24)	**(33)**	(53)	**(553)**	(589)
Segment operating (loss)/profit	**(981)**	246	**414**	503	**(47)**	52	**(614)**	801
Provision for impairment loss	**(93)**	–	**–**	–	**–**	–	**(93)**	–

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

* Analysis of segment revenue is disclosed in note 3.

11. Segment reporting (HK$m) continued

(b) Segment assets

Segment assets include all tangible and current assets and hotel operating rights held directly by the respective segments. The group's segment assets and unallocated assets as at 31 December 2020 and 2019 are set out as follows:

	Note	**2020**	2019
Reportable segment assets			
Hotels		**26,190**	25,231
Commercial properties		**26,029**	25,677
Clubs and services		**811**	1,328
		53,030	52,236
Unallocated assets			
Deferred tax assets	18(b)	**70**	72
Amount due from a joint venture	31(b)	**59**	56
Cash at banks and in hand	21(a)	**520**	697
Consolidated total assets		**53,679**	53,061

(c) Geographical information

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

	Revenue from external customers		Reportable non-current assets	
	2020	2019	**2020**	2019
Hong Kong	**1,548**	2,368	**30,750**	31,142
Other Asia*	**697**	1,889	**7,263**	7,847
United States of America and Europe	**465**	1,617	**14,264**	12,447
	2,710	5,874	**52,277**	51,436

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

Notes to the Financial Statements

12. Investment properties and other properties, plant and equipment (HK$m)

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

	Land	Right-of-use assets (note 12(e))	Hotel and other buildings held for own use	Motor vehicles, plant and equipment	Construction in progress	Sub-total	Investment properties (notes 12(b), (c) &(d))	Total
Cost or valuation:								
At 1 January 2019	905	3,004	8,756	4,805	1,953	19,423	33,077	52,500
Exchange adjustments	45	37	131	42	68	323	(3)	320
Additions	–	134	86	203	1,105	1,528	62	1,590
Disposals	–	(54)	–	(48)	–	(102)	–	(102)
Transfer	–	–	8	5	(13)	–	–	–
Fair value adjustment	–	–	–	–	–	–	83	83
At 31 December 2019	950	3,121	8,981	5,007	3,113	21,172	33,219	54,391
Representing:								
Cost	950	3,121	8,981	5,007	3,113	21,172	–	21,172
Valuation – 2019	–	–	–	–	–	–	33,219	33,219
	950	3,121	8,981	5,007	3,113	21,172	33,219	54,391
At 1 January 2020	**950**	**3,121**	**8,981**	**5,007**	**3,113**	**21,172**	**33,219**	**54,391**
Exchange adjustments	**(10)**	**118**	**178**	**54**	**134**	**474**	**111**	**585**
Additions	**–**	**44**	**25**	**97**	**1,362**	**1,528**	**101**	**1,629**
Disposals	**(205)**	**(20)**	**(247)**	**(99)**	**–**	**(571)**	**(354)**	**(925)**
Transfer	**–**	**–**	**(105)**	**60**	**(38)**	**(83)**	**62**	**(21)**
Fair value adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**(732)**	**(732)**
At 31 December 2020	**735**	**3,263**	**8,832**	**5,119**	**4,571**	**22,520**	**32,407**	**54,927**
Representing:								
Cost	**735**	**3,263**	**8,832**	**5,119**	**4,571**	**22,520**	**–**	**22,520**
Valuation – 2020	**–**	**–**	**–**	**–**	**–**	**–**	**32,407**	**32,407**
	735	**3,263**	**8,832**	**5,119**	**4,571**	**22,520**	**32,407**	**54,927**
Accumulated depreciation and impairment losses:								
At 1 January 2019	358	251	4,072	3,543	–	8,224	–	8,224
Exchange adjustments	26	2	91	40	–	159	–	159
Charge for the year	–	70	186	320	–	576	–	576
Written back on disposals	–	(53)	–	(48)	–	(101)	–	(101)
At 31 December 2019	384	270	4,349	3,855	–	8,858	–	8,858
At 1 January 2020	**384**	**270**	**4,349**	**3,855**	**–**	**8,858**	**–**	**8,858**
Exchange adjustments	**(6)**	**6**	**58**	**39**	**–**	**97**	**–**	**97**
Charge for the year	**–**	**63**	**196**	**280**	**–**	**539**	**–**	**539**
Written back on disposals	**(100)**	**(16)**	**(105)**	**(74)**	**–**	**(295)**	**–**	**(295)**
Transfer	**–**	**–**	**(36)**	**15**	**–**	**(21)**	**–**	**(21)**
Impairment	**–**	**–**	**67**	**26**	**–**	**93**	**–**	**93**
At 31 December 2020	**278**	**323**	**4,529**	**4,141**	**–**	**9,271**	**–**	**9,271**
Net book value:								
At 31 December 2020	**457**	**2,940**	**4,303**	**978**	**4,571**	**13,249**	**32,407**	**45,656**
At 31 December 2019	566	2,851	4,632	1,152	3,113	12,314	33,219	45,533

12. Investment properties and other properties, plant and equipment (HK$m) continued

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

During the year, the group acquired items of fixed assets with a cost of HK$1,585 million, of which HK$1,172 million related to development costs incurred for the hotel projects in London and Yangon and HK$172 million for the Peak Tram upgrade project.

As set out in note 31(d), the group disposed of its entire interest in the Thai Country Club (TCC) as part of the restructuring of the joint venture arrangements in Thailand during the year ended 31 December 2020. The net book value for investment properties and items of properties, plant and equipment relating to TCC and its surrounding land disposed of during the year amounted to HK$619 million. The net book for other items of properties, plant and equipment disposed of during the year ended 31 December 2020 was insignificant in value.

The group assessed the recoverable amounts of its other properties, plant and equipment at the reporting date in accordance with the accounting policy as disclosed in note 34(i). Based on the assessment, the directors considered that, due to the disruption of business by the outbreak of the COVID-19 coronavirus and a relatively short remaining lease term, The Peninsula Manila's recoverable amount was lower than its carrying value. As a result, the carrying value of The Peninsula Manila was written down to its recoverable amount and an impairment loss of HK$93 million was recognised for the year ended 31 December 2020. The recoverable amount of this hotel is the higher of its value in use and its fair value less costs of disposal based on the opinion of independent firms of professional valuers obtained by the group using the income capitalisation approach with an assumed revenue per available room of approximately Peso 3,100 and inflation rate of 2% per annum. The fair value on which the recoverable amount is based on is categorised as a Level 3 measurement (based on significant unobservable inputs) in accordance with HKFRS 13.

Notes to the Financial Statements

12. Investment properties and other properties, plant and equipment (HK$m) continued

(b) All investment properties of the group were revalued as at 31 December 2020. The changes in fair value of the investment properties during the year were accounted for in the consolidated statement of profit or loss. The valuations were carried out by valuers independent of the group who have staff with recent experience in the location and category of the property being valued. Discussions have been held with the valuers on the valuation assumptions and valuation results when the valuation is performed at each reporting date. Details of the valuers are as follows:

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

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

12. Investment properties and other properties, plant and equipment (HK$m) continued

(c) Fair value measurement of investment properties

The fair value of the group's investment properties is mainly determined using the income capitalisation approach by applying the expected rental income with a capitalisation rate adjusted for the quality and location of the buildings. The following table summarises the valuation parameters adopted by the valuers in assessing the fair value of the group's investment properties as at 31 December 2020:

Valuation parameters	Range
Capitalisation rate	
– Shopping arcades	3.8% – 6.6% (2019: 3.8% – 6.6%)
– Offices	3.9% – 4.1% (2019: 3.9% – 4.1%)
– Residential properties	2.9% – 3.7% (2019: 2.9% – 3.7%)
Expected monthly market rental per square foot	
– Shopping arcades	HK$38 – HK$1,200 (2019: HK$41 – HK$1,300)
– Offices	HK$29 – HK$54 (2019: HK$29 – HK$53)
– Residential properties	HK$42 – HK$74 (2019: HK$40 – HK$73)

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

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

(d) Investment properties rented out under operating leases

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

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

	2020	2019
Within one year	**750**	901
After one year but within two years	**435**	558
After two years but within three years	**309**	412
After three years but within four years	**229**	294
After four years but within five years	**201**	204
After five years	**611**	684
	2,535	3,053

Notes to the Financial Statements

12. Investment properties and other properties, plant and equipment (HK$m) continued

(e) Right-of-use assets

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

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

	2020	2019
Classified as properties leased for own use, carried at depreciated cost	**2,940**	2,851
Included in construction in progress	**117**	117
	3,057	2,968

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

	2020	2019
Depreciation charge of right-of-use assets for properties leased for own use	**63**	70
Interest on lease liabilities	**146**	143
Variable lease payments not included in the measurement of lease liabilities	**2**	12

The additions to right-of-use assets amounted to HK$44 million primarily related to the interest on lease liabilities in respect of the development project in London capitalised during the year. The additions of HK$134 million in 2019 mainly represented capitalised lease payments in respect of certain office premises payable under new tenancy agreements.

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

12. Investment properties and other properties, plant and equipment (HK$m) continued

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

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

Notes to the Financial Statements

12. Investment properties and other properties, plant and equipment (HK$m) continued

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

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

(g) The net book value of the group's hotels and golf courses as at 31 December 2020 amounted to HK$5,502 million (2019: HK$6,139 million). To provide additional information for shareholders, the Directors commissioned an independent valuation of these properties as at 31 December 2020.

The total valuation placed on these properties amounted to HK$8,674 million (2019: HK$9,506 million) as at 31 December 2020. It is important to note that the surplus of HK$3,172 million (2019: HK$3,367 million) and the related deferred taxation and non-controlling interests, if any, have not been incorporated in the consolidated financial statements but are provided for additional information only.

The fair value of the group's hotel properties and golf courses is determined based on the discounted cash flow approach by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates.

The valuations were carried out by valuers independent of the group, details of which are as follows:

Description of hotels and golf courses	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong, the United States of America and other Asia		
Hotels and golf courses	Colliers	Members of the Royal Institution of Chartered Surveyors

13. Properties under development for sale (HK$m)

	2020	2019
At 1 January	**3,624**	3,121
Addition	**489**	407
Exchange adjustment	**151**	96
At 31 December	**4,264**	3,624

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

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

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

14. Interest in joint ventures (HK$m)

	2020	2019
Share of net assets	**744**	665
Loans to PSW (note 31(b))	**521**	521
	1,265	1,186

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

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Shanghai Waitan Hotel Company Limited (PSW)	Incorporated	PRC	US$117,500,000 (31 December 2019: US$117,500,000)	50%	Hotel investment and apartments held for sale
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)*	Incorporated	Turkey	TRY921,251,400 (31 December 2019: TRY487,800,000)	50%	Hotel investment

* PIT was incorporated on 10 February 2016 and the group's interest in this joint venture is held indirectly by the company. PIT has redevelopment and operating rights in respect of a property within the Salıpazarı Port Project Area in Istanbul, Turkey. The group, together with its joint venture partner, intends to redevelop the property into The Peninsula Istanbul. The net assets of PIT at 31 December 2020 mainly comprised property under development and cash at bank and in hand of HK$799 million (2019: HK$843 million) and HK$97 million (2019: HK$5 million) respectively.

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14. Interest in joint ventures (HK$m)

(b) The share of results of joint ventures include the impairment provision made by PIT in respect of its development in The Peninsula Istanbul, the progress of which has been affected by unforeseen delays due to the site conditions and the recent outbreak of the COVID-19 coronavirus. Given The Peninsula Istanbul is subject to a 30-year fixed term lease commencing February 2014 and considering the uncertain economic climate, ongoing geopolitical tensions, sharp decline of the local currency, and an expected delay of the hotel opening, management has engaged an independent valuer to re-appraise the value of The Peninsula Istanbul. Following the re-appraisal, the Directors have deemed it appropriate to write down the book value of the project by HK$472 million, representing approximately 20% of the hotel's cost on completion. The group's share of impairment provision amounting to HK$236 million (2019: HK$nil) is included in share of results of joint ventures in the consolidated statement of profit or loss.

(c) PSW has pledged its properties inclusive of the land use rights as security for an initial loan facility amounting to RMB2,500 million (HK$2,971 million) (2019: RMB2,500 million (HK$2,786 million)). As at 31 December 2020, the loan drawn down amounted to RMB849 million (HK$1,009 million) (2019: RMB953 million (HK$1,062 million)). The net carrying amount of these pledged assets amounted to RMB2,535 million (HK$3,013 million) (2019: RMB2,653 million (HK$2,957 million)).

(d) Set out below is a summary of the financial information of PSW, of which the group has a 50% share:

	2020	2019
Non-current assets	**2,617**	2,410
Cash at bank and in hand	**128**	95
Apartments held for sale and other current assets	**472**	607
Current liabilities	**(389)**	(248)
Non-current liabilities	**(2,386)**	(2,447)
Net assets	**442**	417
Proceeds from sale of apartments	**266**	–
Hotel revenue and rental income	**336**	539
	602	539
Carrying value of apartments sold	**(248)**	–
Hotel cost of inventories and operating expenses	**(257)**	(370)
	(505)	(370)
EBITDA	**97**	169
Depreciation	**(92)**	(98)
Net financing charges	**(52)**	(60)
(Loss)/profit before non-operating items	**(47)**	11
Non-operating items, net of tax *	**(20)**	(46)
Loss for the year	**(67)**	(35)
The group's share of result of PSW	**(33)**	(17)

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

(e) The group's share of results of joint ventures are summarised below:

	2020	2019
Share of result of PSW	**(33)**	(17)
Share of impairment provision of PIT	**(236)**	–
	(269)	(17)

15. Interest in associates (HK$m)

	2020	2019
Interest in associates	**560**	588

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

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

* The group's effective interest is held indirectly by the company.

** 19 Holding holds a 100% direct interest in Majestic which owns The Peninsula Paris.

BHP holds a 100% interest in The Peninsula Beverly Hills.

(b) Included in the balance of interest in associates are long-term unsecured loans to 19 Holding of HK$496 million (2019: HK$439 million). These loans were made pro rata to the group's shareholding in 19 Holding and are interest bearing at 3.25%. The loans are repayable on 31 December 2022.

(c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR224 million (HK$2,136 million) (2019: EUR224 million (HK$1,956 million)). As at 31 December 2020, the loan drawn down amounted to EUR224 million (HK$2,136 million) (2019: EUR224 million (HK$1,956 million)). As at 31 December 2020, the net carrying amount of the pledged asset amounted to EUR533 million (HK$5,082 million) (2019: EUR553 million (HK$4,828 million)).

(d) BHP has pledged its hotel property to an independent financial institution as security for BHP's loan facility, amounting to US$145 million (HK$1,131 million) (2019: US$145 million (HK$1,131 million)). As at 31 December 2020, the loan drawn down amounted to US$125 million (HK$975 million) (2019: US$127 million (HK$991 million)). The net carrying amount of the pledged asset amounted to US$42 million (HK$328 million) (2019: US$50 million (HK$390 million)).

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

	2020	2019
EBITDA	**(162)**	173
Depreciation	**(243)**	(249)
Interest	**(81)**	(84)
Net loss from continuing operations	**(486)**	(160)
Other comprehensive income	**–**	–
Total comprehensive income	**(486)**	(160)
The Group's share of results of the associates	**(97)**	(32)

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16. Hotel operating rights (HK$m)

	2020	2019
Cost		
At 1 January	**688**	701
Exchange adjustments	**47**	(13)
At 31 December	**735**	688
Accumulated amortisation		
At 1 January	**(183)**	(171)
Exchange adjustments	**(6)**	1
Amortisation for the year	**(14)**	(13)
At 31 December	**(203)**	(183)
Net book value	**532**	505

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

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

17. Derivative financial instruments (HK$m)

	2020 Liabilities	2019 Liabilities
Cash flow hedges:		
Interest rate swaps	**(10)**	(21)
Forward exchange contracts	**–**	(8)
	(10)	(29)
Less: Portion to be settled within one year		
Cash flow hedges:		
Interest rate swaps	**(5)**	–
Forward exchange contracts	**–**	(8)
	(5)	(8)
Amount to be settled after one year	**(5)**	(21)

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

(a) Current taxation

	2020	2019
Provision for Hong Kong profits tax net provisional profits tax paid	**29**	139
Provision for overseas taxes	**1**	11
	30	150
Represented by:		
Tax recoverable (note 20)	**(4)**	(2)
Current tax payable	**34**	152
	30	150

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

(b) Deferred tax assets and liabilities recognised

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

	Revaluation of investment properties	Tax allowances in excess of the related depreciation	Provisions and others	Tax losses	Cash flow hedges	Depreciation of right-of-use assets and interest on lease liabilities	Total
Deferred tax arising from:							
At 1 January 2019	363	760	(29)	(447)	(1)	(37)	609
Exchange adjustments	1	9	–	1	–	(1)	10
Charged/(credited) to reserve	4	–	–	–	(4)	–	–
Charged/(credited) to profit or loss	(5)	37	8	12	–	(6)	46
At 31 December 2019 and at 1 January 2020	**363**	**806**	**(21)**	**(434)**	**(5)**	**(44)**	**665**
Exchange adjustments	**3**	**4**	**–**	**(7)**	**–**	**(2)**	**(2)**
Charged/(credited) to reserve	**–**	**–**	**–**	**–**	**3**	**–**	**3**
Charged/(credited) to profit or loss	**(54)**	**33**	**15**	**(19)**	**–**	**(6)**	**(31)**
Others	**(57)**	**(41)**	**–**	**–**	**–**	**–**	**(98)**
At 31 December 2020	**255**	**802**	**(6)**	**(460)**	**(2)**	**(52)**	**537**

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable.

The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position.

	2020	2019
Deferred tax assets	**70**	72
Deferred tax liabilities	**(607)**	(737)
	(537)	(665)

Notes to the Financial Statements

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

(b) Deferred tax assets and liabilities recognised continued

In accordance with the accounting policy set out in note 34(q), the group has not recognised deferred tax assets totalling HK$599 million (2019: HK$347 million) in respect of certain accumulated tax losses of HK$2,204 million (2019: HK$1,299 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The expiry dates of these tax losses are as follows:

	2020	2019
Expiring in one year	**290**	112
After one year but within five years	**905**	997
After five years but within 20 years	**962**	139
Without expiry date	**47**	51
	2,204	1,299

The group does not have any deferred tax liabilities arising from any undistributable profit in 2020 and 2019.

19. Inventories (HK$m)

	2020	2019
Food and beverage and others	**84**	89

The cost of inventories recognised as expenses in the consolidated statement of profit or loss amounted to HK$213 million (2019: HK$457 million).

20. Trade and other receivables (HK$m)

	2020	2019
Trade debtors	**240**	300
Rental deposits, payments in advance and other receivables	**425**	409
Tax recoverable (note 18(a))	**4**	2
	669	711

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

The amount of the group's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK$167 million (2019: HK$137 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

The ageing analysis of trade debtors is as follows:

	2020	2019
Current	**220**	263
Less than one month past due	**13**	23
One to three months past due	**3**	10
More than three months but less than 12 months past due	**4**	4
Amounts past due	**20**	37
	240	300

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

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

(a) Cash at banks and in hand

	2020	2019
Interest-bearing bank deposits	**340**	397
Cash at banks and in hand	**180**	300
Total cash at banks and in hand	**520**	697
Less: Bank deposits with maturity of more than three months	**(14)**	(17)
Cash and cash equivalents in the consolidated statement of cash flows	**506**	680

Cash at banks and in hand at the end of the reporting period include amounts of HK$267 million (2019: HK$295 million) held by overseas subsidiaries which are subject to regulatory and foreign exchange restrictions.

Notes to the Financial Statements

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

(b) Reconciliation of liabilities arising from financing activities

	Interest-bearing borrowings (note 23)	Lease liabilities (note 24)	Derivative financial instruments (note 17)	Interest payable (note 22)	Total
As at 1 January 2019	7,095	3,023	5	8	10,131
Changes from financing cashflows					
Drawdown of term loans	1,388	–	–	–	1,388
Repayment of term loans	(398)	–	–	–	(398)
Net decrease in revolving loans	(671)	–	–	–	(671)
Decrease in bank overdrafts	(4)	–	–	–	(4)
Interest paid and other financing charges	–	(94)	–	(135)	(229)
Capital element of lease rental paid	–	(51)	–	–	(51)
Changes in fair value					
Effective portion of changes in fair values	–	–	31	–	31
Other changes					
Exchange difference	90	36	–	–	126
Financing charges	24	101	–	29	154
Capitalised borrowing costs (note 5)	–	42	–	106	148
Capitalisation of operating lease	–	92	–	–	92
Transfer from equity to profit or loss	–	–	(7)	–	(7)
As at 31 December 2019 and 1 January 2020	**7,524**	**3,149**	**29**	**8**	**10,710**
Changes from financing cashflows					
Drawdown of term loans	**2,216**	**–**	**–**	**–**	**2,216**
Repayment of term loans	**(1,044)**	**–**	**–**	**–**	**(1,044)**
Net increase in revolving loans	**2,167**	**–**	**–**	**–**	**2,167**
Interest paid and other financing charges	**(22)**	**(100)**	**–**	**(146)**	**(268)**
Capital element of lease rental paid	**–**	**(44)**	**–**	**–**	**(44)**
Changes in fair value					
Effective portion of changes in fair values	**–**	**–**	**2**	**–**	**2**
Other changes					
Exchange difference	**313**	**115**	**–**	**–**	**428**
Financing charges	**28**	**102**	**–**	**19**	**149**
Capitalised borrowing costs (note 5)	**–**	**44**	**–**	**126**	**170**
Transfer from equity to profit or loss	**–**	**–**	**(21)**	**–**	**(21)**
As at 31 December 2020	**11,182**	**3,266**	**10**	**7**	**14,465**

22. Trade and other payables (HK$m)

	2020	2019
Trade creditors	**79**	147
Interest payable	**7**	8
Accruals for properties, plant and equipment and properties under development for sale	**243**	212
Tenants' deposits	**320**	361
Guest deposits and gift vouchers	**176**	228
Golf membership deposits	**–**	84
Other payables	**581**	674
Financial liabilities measured at amortised cost	**1,406**	1,714
Less: Non-current portion of trade and other payables	**(117)**	(234)
Current portion of trade and other payables	**1,289**	1,480

As at 31 December 2020, trade and other payables of the group expected to be settled or recognised as income after more than one year amounted to HK$210 million (2019: HK$328 million). The other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

The ageing analysis of trade creditors is as follows:

	2020	2019
Less than three months	**73**	134
Three to six months	**3**	8
More than six months	**3**	5
	79	147

Notes to the Financial Statements

23. Interest-bearing borrowings (HK$m)

	2020	2019
Total facilities available:		
Term loans and revolving credits	**17,750**	14,465
Uncommitted facilities, including bank overdrafts	**416**	407
	18,166	14,872
Utilised at 31 December:		
Term loans and revolving credits	**11,234**	7,587
Uncommitted facilities, including bank overdrafts	**13**	6
	11,247	7,593
Less: Unamortised financing charges	**(65)**	(69)
	11,182	7,524
Represented by:		
Long-term bank loans, repayable within one year	**1,897**	1,114
Short-term bank loans and overdrafts, repayable on demand	**–**	–
	1,897	1,114
Long-term bank loans, repayable:		
Between one and two years	**2,640**	984
Between two and five years	**6,334**	5,137
Over five years	**376**	358
	9,350	6,479
Less: Unamortised financing charges	**(65)**	(69)
Non-current portion of long-term bank loans	**9,285**	6,410
Total interest-bearing borrowings	**11,182**	7,524

All of the interest-bearing borrowings are unsecured. The group intends to refinance these loan facilities upon their maturities.

24. Lease liabilities (HK$m)

The group is the lessee in respect of a number of properties which are leased from third party landlords. Pursuant to its accounting policy, the group capitalises the present value of the future minimum lease payments of its leased properties as right-of-use assets (note 12(e)) and the corresponding credit is recognised as lease liabilities. The group remeasures its lease liabilities at each accounting period end to reflect the interest accrued on the outstanding lease liabilities and the lease payments made.

The following table shows the remaining contractual maturities of the group's minimum lease liabilities at the end of the current and previous reporting periods:

	2020	2019
Carrying value		
Current portion	**143**	143
Non-current portion	**3,123**	3,006
	3,266	3,149
Contractual undiscounted cash outflow		
Within one year	**143**	143
After one year but within two years	**168**	142
After two years but within five years	**322**	321
After five years	**13,497**	13,267
	14,130	13,873

25. Share capital

	2020		2019	
	No. of shares (million)	**HK$m**	No. of shares (million)	HK$m
Ordinary shares, issued and fully paid:				
At 1 January	**1,634**	**5,732**	1,613	5,509
Shares issued under scrip dividend scheme (note)	**15**	**105**	21	223
At 31 December	**1,649**	**5,837**	1,634	5,732

In accordance with Section 135 of the Companies Ordinance, the ordinary shares of the company do not have a par value.

All ordinary shares issued during 2020 rank pari passu in all respects with the existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

Notes to the Financial Statements

25. Share capital continued

Note:

During 2020 and 2019, the company issued and allotted new shares which were fully paid under the scrip dividend scheme as follows:

	Number of shares (million)	Scrip price HK$	Increase in share capital HK$m
2019 final scrip dividend	15	7.026	105
2019 comparative:			
2018 final scrip dividend	16	11.284	179
2019 interim scrip dividend	5	8.208	44
	21		223

26. Reserves (HK$m)

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the company's individual components of equity between the beginning and the end of the year are set out below:

(a) Company

	Capital reserve	Retained profits	Total
At 1 January 2019	4,975	3,836	8,811
Profit for the year	–	693	693
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	693	693
Dividends approved in respect of the previous year	–	(258)	(258)
Dividends approved in respect of the current year	–	(65)	(65)
At 31 December 2019	4,975	4,206	9,181
At 1 January 2020	**4,975**	**4,206**	**9,181**
Profit for the year	**–**	**633**	**633**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**633**	**633**
Dividends approved in respect of the previous year	**–**	**(147)**	**(147)**
At 31 December 2020	**4,975**	**4,692**	**9,667**

26. Reserves (HK$m) continued

(b) Nature and purpose of reserves

Capital reserve

The company's capital reserve represents the profit recognised on the intra-group transfer of properties as a result of the corporate restructuring in 1991.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges in note 34(d).

Exchange and other reserves

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 34(t). Other reserves mainly comprise other comprehensive income recognised for the remeasurement of net defined benefit retirement obligations and the surplus on revaluation of land and building held for own use transfer to investment properties. The relevant accounting policies for which are set out in note 34(p) and 34(f) respectively.

(c) Reserves available for distribution

At 31 December 2020, the aggregate amount of reserves available for distribution to equity shareholders of the company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was HK$4,692 million (2019: HK$4,206 million). After the end of the reporting period of 2019, the Directors proposed a final dividend of 9 HK cents per share, amounting to HK$147 million. This dividend has not been recognised as a liability at the end of the reporting period. The Directors do not propose a final dividend for the reporting period of 2020.

(d) Capital management

The group takes a long term view of its business and consequently the planning of the use of capital. The group's primary objectives when managing its capital are to safeguard the group's ability to continue as a going concern, to secure access to finance at a reasonable cost relative to risk and to provide an appropriate return to shareholders. In so doing, it seeks to achieve an appropriate balance between shareholders' equity and external debt by taking into account the cost of capital and the efficiency of using the capital.

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

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

Notes to the Financial Statements

26. Reserves (HK$m) continued

(d) Capital management continued

The group monitors its capital structure based on the ratio of net debt to equity attributable to shareholders. The group's share of net borrowings of the non-consolidated entities (associates and joint ventures), if any, are also taken into account. The calculations of the ratios of net debt to equity attributable to shareholders before and after the non-consolidated entities as at 31 December 2020 and 2019 are as follows:

	2020	2019
Interest-bearing borrowings	**11,182**	7,524
Less: Cash at banks and in hand	**(520)**	(697)
Net borrowings per the statement of financial position	**10,662**	6,827
Share of net borrowings of non-consolidated entities	**1,003**	1,070
Net borrowings adjusted for non-consolidated entities	**11,665**	7,897
Equity attributable to shareholders of the company per the consolidated statement of financial position	**36,844**	39,054
Net debt to equity attributable to shareholders ratio based on the consolidated financial statements	**29%**	17%
Net debt to equity attributable to shareholders ratio adjusted for non-consolidated entities	**32%**	20%

During 2020, the group continued to operate within its long term treasury management guidelines. Operating and investment decisions are made by reference to the group's long term cash flow forecasts to ensure that the guidelines are followed.

The group is subject to certain covenants that are commonly found in lending arrangements with financial institutions. The group complied with such covenants for the years ended 31 December 2020 and 2019. Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

27. Employee retirement benefits (HK$m)

(a) Defined benefit retirement obligations

The group maintains a non-contributory defined benefit retirement plan covering 426 employees (2019: 492 employees) of Manila Peninsula Hotel, Inc. (MPHI), a Philippine subsidiary of the company. Such plan is administered by an independent trustee with the assets, if any, held separately from those of the group.

The defined benefit retirement obligations as at 31 December 2020 of MPHI are estimated by qualified staff of Actuarial Advisers, Inc. who are members of the Actuarial Society of the Philippines using the projected unit credit method. The present value of the uncovered obligations was fully provided for as at 31 December 2020.

27. Employee retirement benefits (HK$m) continued

(a) Defined benefit retirement obligations continued

The amounts recognised in the group's consolidated statement of financial position are as follows:

	2020	2019
Present value of wholly or partly funded obligations	**28**	37
Fair value of plan assets	**(6)**	(10)
	22	27
Fair value of plan assets as a percentage of obligations	**21%**	27%

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

The principal actuarial assumptions used as at 31 December 2020 and 2019 are as follows:

	2020	2019
Discount rate	**from 1.6% to 6.5%**	from 1.75% to 6.5%
Future salary increases	**from 2.5% to 4%**	from 3.5% to 4%

The analysis below shows how the defined benefit obligations as at 31 December 2020 would have increased/(decreased) as a result of changes in the significant actuarial assumptions:

	Defined benefit obligations	
	Increase	Decrease
Discount rate (0.5% change)	(1)	1
Future salary (1% change)	3	(2)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

Notes to the Financial Statements

27. Employee retirement benefits (HK$m) continued

(b) Defined contribution retirement plans

The group has a defined contribution retirement plan covering 1,403 employees (2019: 1,532 employees), most of whom are in Hong Kong. The defined contribution retirement plan is formally established under an independent trust with the assets of the funds held separately from those of the group by an independent trustee. The plan is registered under the Occupational Retirement Schemes Ordinance in Hong Kong and is exempted under the Mandatory Provident Fund Schemes (Exemption) Regulation. Employees covered by this plan are not required to make contributions and funds contributed by employers are fully vested with their employees immediately. The average contribution rate against employees' relevant income for the year was 14% (2019: 14%).

In addition, the group participates in the Mandatory Provident Fund Scheme (the MPF Scheme) under the Mandatory Provident Fund Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, which is operated by an independent service provider to cover 154 employees (2019: 196 employees) in Hong Kong who are not covered by the above defined contribution retirement plan. The MPF Scheme is a defined contribution retirement plan administrated by independent trustees. Contributions at a fixed rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 per employee, are made to the Scheme by both the employer and the employee and vest immediately.

The group also operates several defined contribution retirement plans, including union pension schemes for its overseas subsidiaries covering 1,185 employees (2019: 2,296 employees) in other Asian countries and the United States of America, in accordance with the respective applicable labour regulations.

Total contributions to all of the above defined contribution retirement plans made by the group amounted to HK$105 million (2019: HK$132 million) and was charged to the consolidated statement of profit or loss during the year.

28. Financial risk management and fair values

The group is exposed to foreign exchange, interest rate, liquidity and credit risks in its normal course of business. The group's exposure to these risks, as well as various techniques and derivative financial instruments used to manage these risks, are described below.

(a) Foreign exchange risk

The group manages its foreign exchange exposure with a view to protecting its net assets and profitability against adverse fluctuations in exchange rates. The company reports its results in Hong Kong Dollars. In the light of the Hong Kong Dollar peg, the group does not hedge United States Dollar exposures and it aims to preserve its value in Hong Kong Dollar and/or United States Dollar terms.

Foreign exchange risk may arise in sale and purchase transactions which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars, Euros, Great Britain Pounds, Renminbi, Japanese Yen, Thai Baht and Philippine Pesos.

28. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Hedge of foreign exchange risk in forecast transactions

In respect of committed future transactions and highly probable forecast transactions, the group usually hedges its estimated foreign currency transaction exposures if the foreign exchange risk of these exposures is considered to be significant. The group mainly uses forward exchange contracts to hedge this type of foreign exchange risk and classifies these contracts as cash flow hedges.

The group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instruments and the highly probable forecast transactions based on their currency amounts and the timing of their respective cash flows.

The main source of ineffectiveness in these hedging relationships are:

(i) the effect of the counterparty's and the group's own credit risk on the fair value of the forward exchange contracts which is not reflected in the change in the value of the hedged cash flows attributable to the forward rate; and

(ii) changes in the timing of the hedging transactions.

The following table details the forward exchange contracts that have been designated as cash flow hedges of the group's highly probable forecast transactions at the end of the reporting period:

	2020				2019			
	(million)		**(million)**		(million)		(million)	
Notional amount								
– Buy EUR with GBP	**EUR**	**13**	**GBP**	**12**	EUR	11	GBP	10

	2020	2019
Carrying amount		
– Liability	**–**	(8)

The forward exchange contracts have a maturity of less than two years from the reporting date and have an average exchange rate of 0.9014 between EUR and GBP.

Notes to the Financial Statements

28. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Hedge of foreign exchange risk in forecast transactions continued

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2020	2019
Balance at 1 January	**(8)**	2
Effective portion of the cash flow hedge recognised in other comprehensive income	**9**	(12)
Related tax	**(1)**	2
Balance at 31 December	**–**	(8)
Hedge ineffectiveness recognised in profit or loss	**–**	–
Change in fair value of the forward exchange contracts during the year	**8**	(10)
Effective portion of the cash flow hedge recognised in other comprehensive income	**8**	(10)

Recognised assets and liabilities

The group has foreign currency monetary assets and liabilities that are denominated in a currency other than the functional currency of the operations to which they relate. Exchange differences arising on settling or translating these foreign currency monetary items at rates different from those at dates of transactions giving rise to these monetary items are recognised in the statement of profit or loss.

The group usually hedges most of the foreign exchange exposures arising from significant foreign currency monetary assets and liabilities, including foreign currency borrowings. The group mainly uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge this type of foreign exchange risk and classifies these derivative financial instruments as cash flow hedges or at fair value through profit or loss, depending on whether the future foreign currency cash flows are fixed or not.

Changes in the fair value of these cash flow hedges or derivative financial instruments at fair value through profit or loss are recognised in the hedging reserve or the statement of profit or loss respectively.

All of the group's borrowings are denominated in the functional currency of the operations to which they relate. Given this, it is not expected that there will be any significant currency risk associated with the group's borrowings.

Net investment in foreign subsidiaries

At 31 December 2020 and 2019, the group did not hedge any net investment in foreign subsidiaries.

28. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Exposure to foreign exchange risk

The following table details the group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The amounts of the exposure are shown in original currency. Differences resulting from the translation of the financial statements of the foreign operations into the group's presentation currency and exposures arising from inter-company balances which are denominated in a foreign currency and is considered to be in the nature of investment in the subsidiary, joint ventures and associates are excluded.

	2020		2019		
(million)	**United States Dollars**	**Euro**	United States Dollars	Euro	Renminbi
Trade and other receivables	**49**	**–**	34	1	12
Cash at banks and in hand	**4**	**2**	7	6	–
Trade and other payables	**(47)**	**–**	(51)	–	–
Net exposure arising from recognised assets and liabilities	**6**	**2**	(10)	7	12

Based on the sensitivity analysis performed as at 31 December 2020, it was estimated that an increase/decrease of 10% (2019: 10%) in foreign exchange rate in respect of financial instruments denominated in currency other than the functional currencies, with all other variables held constant, would not have significant impact on the group's post-tax profits and other components of equity.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group's interest rate risk arises primarily from borrowings. Borrowings bearing floating interest rates that are reset on a regular basis as market interest rates change expose the group to cash flow interest rate risk.

At 31 December 2020, the group had interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK$3,119 million (2019: HK$3,348 million) maturing over the next three years (2019: four years). Changes in fair value of these swaps accounted for as cash flow hedges are recognised in the hedging reserve. The group locked in the following ranges of fixed rates by the swaps at 31 December 2020 and 2019:

	2020	2019
Japanese Yen	**–0.1%**	0.1%
Euros	**0.4%**	0.4%
Pounds	**1.1% to 1.2%**	1.1% to 1.2%

The net fair value of all the swaps entered into by the group at 31 December 2020 and 2019 was as follows (HK$m):

	2020	2019
Cash flow hedges (note 17)	**(10)**	(21)

Notes to the Financial Statements

28. Financial risk management and fair values continued

(b) Interest rate risk continued

The group seeks to hedge the benchmark interest rate component only and applies a hedge ratio of 1:1. The existence of an economic relationship between the interest rate swaps and the variable rate borrowings is determined by matching their critical contract terms, including the reference interest rates, tenors, interest repricing dates, maturity dates, interest payment and/or receipt dates, the notional amounts of the swaps and the outstanding principal amounts of the loans. The main source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the group's own credit risk on the fair value of the swaps which is not reflected in the fair value of the hedged cash flows attributable to the change in interest rates.

The following table provides a reconciliation of the hedging reserve in respect of interest rate risk and shows the effectiveness of the hedging relationships:

	2020	2019
Balance at 1 January	**(30)**	(18)
Effective portion of the cash flow hedge recognised in other comprehensive income	**22**	(14)
Related tax	**(2)**	2
Balance at 31 December	**(10)**	(30)
Change in fair value of the interest rate swap during the year	**(10)**	(19)
Transfer from equity to profit or loss	**21**	7
Transfer to exchange reserve	**9**	–
Effective portion of the cash flow hedge recognised in other comprehensive income	**20**	(12)

The following table details the profile of the group's borrowings at the end of the reporting period, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments.

	2020		2019	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**1.8%**	**5,971**	1.9%	6,471
Floating rate borrowings:				
Bank loans	**1.1%**	**5,211**	2.7%	1,053
Total interest-bearing borrowings		**11,182**		7,524
Fixed rate borrowings as a percentage of total borrowings		**53%**		86%

28. Financial risk management and fair values continued

(b) Interest rate risk continued

On the other hand, as at 31 December 2020 and 2019, the group had short term bank deposits. Since these deposits are placed for short term liquidity purposes, the group has no intention to lock in their interest rates for the long term. The interest rate profile of these bank deposits at the end of the reporting period is summarised as follows:

	2020		2019	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Floating rate instruments:				
Bank deposits	**0.33%**	**340**	0.92%	397

Sensitivity analysis

The following table indicates the approximate changes in the group's (loss)/profit after taxation (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the interest rates, with all other variables held constant, to which the group has significant exposure at the end of the reporting period. As at 31 December 2020 and 2019, the effects were attributable to changes in interest income and expense relating to floating rate financial instruments and gains or losses resulting from changes in the fair value of derivative financial instruments.

	2020			2019		
	Increase/ (decrease) in interest rates (basis points)	**(Increase)/ decrease in loss after taxation and increase/ (decrease) in retained profits (HK$m)**	**Increase/ (decrease) in other components of equity (HK$m)**	Increase/ (decrease) in interest rates (basis points)	Increase/ (decrease) in profit after taxation and retained profits (HK$m)	Increase/ (decrease) in other components of equity (HK$m)
Renminbi	**100**	**1**	**–**	100	–	–
	(100)	**(1)**	**–**	(100)	–	–
Thai Baht	**100**	**(2)**	**–**	100	(3)	–
	(100)	**2**	**–**	(100)	3	–
Japanese Yen	**50**	**(3)**	**–**	50	–	–
	(50)	**3**	**–**	(50)	–	–
US Dollars	**100**	**(6)**	**–**	100	(1)	–
	(100)	**6**	**–**	(100)	1	–
Euros	**100**	**(1)**	**5**	100	(1)	10
	(100)	**1**	**–**	(100)	1	(1)
GBP	**100**	**–**	**1**	100	–	22
	(100)	**–**	**–**	(100)	–	(14)

The sensitivity analysis above indicates the instantaneous change in the group's (loss)/profit after taxation (and retained profits) and other components of consolidated equity that would have arisen, assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the group and which expose the group to fair value interest rate risk at the end of the reporting period. In respect of exposure to cash flow interest rate risk arising from the floating rate non-derivative financial instruments (which include bank borrowings and deposits) held by the group at the end of the reporting period, the impact on the group's (loss)/profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such changes in interest rates. The analysis has been performed on the same basis as for 2019.

Notes to the Financial Statements

28. Financial risk management and fair values continued

(c) Liquidity risk

Borrowings and cash management, including short term investment of surplus cash, are arranged centrally to cover expected cash requirements. The group's policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that it maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to meet its obligations and commitments in the short and longer term.

At 31 December 2020, total available borrowing facilities amounted to HK$18,166 million (2019: HK$14,872 million), of which HK$11,247 million (2019: HK$7,593 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$6,516 million (2019: HK$6,878 million).

The following table details the remaining contractual maturities at the end of the reporting period of the group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the group can be required to pay:

	2020						2019					
		Contractual undiscounted cash outflow/(inflow)						Contractual undiscounted cash outflow/(inflow)				
(HK$m)	Statement of financial position carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Statement of financial position carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Trade creditors	79	79	79	-	-	-	147	147	147	–	–	–
Interest payable	7	7	7	-	-	-	8	8	8	–	–	–
Accruals for property, plant and equipment	243	243	243	-	-	-	212	212	212	–	–	–
Tenants' deposits	320	320	203	31	74	12	361	361	228	48	73	12
Guest deposits and gift vouchers	176	176	176	-	-	-	228	228	228	–	–	–
Golf membership deposits	-	-	-	-	-	-	84	84	–	–	–	84
Other payables	581	581	581	-	-	-	674	674	657	–	–	17
Lease liabilities	3,266	14,130	143	168	322	13,497	3,149	13,873	143	142	321	13,267
Interest-bearing borrowings	11,182	11,443	1,993	2,707	6,366	377	7,524	7,887	1,220	1,071	5,234	362
Interest rate swaps (net settled)	10	10	7	2	1	-	21	21	15	4	2	–
Forwarded foreign exchange contracts held as cash flow hedging instruments												
– outflow	-	125	103	22	-	-	8	102	102	–	–	–
– inflow	-	(125)	(103)	(22)	-	-	–	(94)	(94)	–	–	–
Current taxation	34	34	34	-	-	-	152	152	152	–	–	–
	15,898	27,023	3,466	2,908	6,763	13,886	12,568	23,655	3,018	1,265	5,630	13,742

28. Financial risk management and fair values continued

(d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group's credit risk is primarily attributable to bank deposits, trade and other receivables and derivative financial instruments and is monitored on an ongoing basis.

To minimise credit exposure for bank deposits and derivative financial instruments, the group transacts with financial institutions with good credit ratings and diversifies its exposure to various financial institutions in accordance with group guidelines. All bank deposits are subject to a single counterparty exposure limit and a composite counterparty exposure limit. The credit ratings of the financial institutions are closely monitored throughout the lives of the transactions.

At 31 December 2020, cash at banks and in hand amounted to HK$520 million (2019: HK$697 million), of which HK$143 million (2019: HK$195 million) was placed as time deposits with financial institutions with credit ratings of no less than BBB (issued by Standard & Poor's Rating Services (S&P)) or Baa2 (issued by Moody's Investors Services, Inc.(Moody's)) and there was no significant concentration risk to any single counterparty.

For derivative financial instruments, the credit ratings of the financial institutions were no less than A (S&P) or A1 (Moody's).

The group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. Credit evaluations are performed for all significant customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Credit limits are set for customers based on their credit worthiness and past history. Trade receivables are normally due within 30 days from the date of billing. In respect of the group's rental income from operating leases, rentals are normally received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. Other than this, as such, the group normally does not obtain collateral from its customers. The ageing of trade debtors at 31 December 2020 is summarised in note 20. The expected credit losses for these balances were not material at 31 December 2020, therefore no loss allowance was provided at 31 December 2020.

The group's exposure to credit risk is influenced mainly by individual characteristics of each customer rather than the industry or country in which the customers operate; therefore, it is considered that there is no concentration of credit risk as the group has no significant exposure to individual customers given the large number of customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including the derivative financial instruments, in the consolidated statement of financial position after deducting any impairment allowance. The group does not provide any other guarantee which would expose the group to any material credit risk.

Notes to the Financial Statements

28. Financial risk management and fair values continued

(e) Fair values

(i) Financial instruments carried at fair value

HKFRS 13, *Fair value measurement* requires disclosure of the fair value of the group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

All derivative financial instruments carried at fair value are categorised as falling under Level 2 of the fair value hierarchy.

(ii) Fair values of financial instruments carried at other than fair value

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2020. Advances to the joint venture are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair values. The group has no intention of disposing these loans.

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Derivative financial instruments

Forward foreign exchange contracts and foreign exchange swaps are either marked to market using listed market prices, or by discounting the contractual forward price and deducting the current spot rate. The fair values of interest rate swaps and cross currency interest rate swaps are the estimated amount that the group would receive or pay to terminate the swaps at the end of the reporting period, taking into account current interest rates, foreign exchange rates and the current creditworthiness of the swap counterparties.

When discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period. Where other pricing models are used, inputs are based on market related data at the end of the reporting period.

The group used the following discount rates for determining fair value of derivative financial instruments at 31 December 2020 and 2019.

	2020	2019
Japanese Yen	**N/A**	–0.1%
Euros	**–0.5%**	–0.4%
Pounds	**0.04% to 0.05%**	0.6% to 0.7%

29. Commitments (HK$m)

Capital commitments outstanding as at 31 December 2020 and 2019 not provided for in the financial statements were as follows:

	2020			2019		
	Contracted for	**Authorised but not contracted for**	**Total**	Contracted for	Authorised but not contracted for	Total
Capital commitments in respect of existing properties and new projects	**3,141**	**2,154**	**5,295**	2,962	4,139	7,101
The group's share of capital commitments of joint ventures and associates	**375**	**334**	**709**	347	488	835
	3,516	**2,488**	**6,004**	3,309	4,627	7,936

The group's capital commitments include the development costs to be incurred for The Peninsula London and The Peninsula Yangon projects as well as the capital expenditure for the major upgrade project to be undertaken by The Peak Tram.

The group's share of development cost in respect of The Peninsula Istanbul is included in the share of capital commitments of joint ventures.

30. Non-adjusting events after the balance sheet date

The construction projects of our Peninsula hotels in London, Istanbul, and Yangon, as well as the Peak Tram upgrade project, have been subject to disruption and delays due to the COVID-19 pandemic. The Directors are still reviewing the cost impact of the delays.

On 1 February 2021, political developments in Myanmar led to the military declaring a state of emergency for a period of one year. We have noted the recent violence and chaos with great concern and we continue to evaluate both the immediate actions required and the longer-term decisions that need to be made in respect of this project.

31. Material related party transactions

Other than the Directors' remuneration and the loans advanced to an associate as disclosed in note 15, material related party transactions are set out as follows:

(a) Under two three-year tenancy agreements which commenced on 1 April 2019, a wholly owned subsidiary of the company, HSH Management Services Limited (HMS), leased an office unit on the 4th floor and the entire storey on the 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rent of HK$2,558,810 per month plus a monthly service charge of HK$278,042 from Kadoorie Estates Limited (KEL), which is controlled by one of the substantial shareholders of the company.

The present value of the future rentals of HK$89 million was recognised as right-of-use assets on 1 April 2019 in accordance with the group's accounting policy (note 34(h)) whereas the monthly service charges paid during the year were recognised as expenses in the company's consolidated statement of profit or loss.

Notes to the Financial Statements

31. Material related party transactions continued

(a) Despite the different accounting treatments for rentals and service charges, the above tenancy agreements fall under the Listing Rules as continuing connected transactions. The company has complied with the disclosure requirements governing continuing connected transaction under the Listing Rules. Further details of these continuing connected transactions are disclosed in the Directors' Report.

On 31 March 2020, HMS early terminated the lease in respect of the office on the 4th floor of St. George's Building and made a compensation of HK$1.5 million to KEL. Including this, the total amount of payments made to KEL in 2020 amounted to HK$34 million (2019: HK$32 million).

(b) Unsecured and interest free shareholder's loans amounting to US$66.85 million (HK$521 million) (2019: US$66.85 million (HK$521 million)) were granted by Peninsula International Investment Holdings Limited (PIIHL), a wholly owned subsidiary of the company, to the holding company of The Peninsula Shanghai Waitan Hotel Company Limited (PSW), a foreign owned enterprise incorporated in the People's Republic of China, of which the group has a 50% indirect interest. PSW is engaged in the operation of The Peninsula Shanghai Complex. As at 31 December 2020, shareholder's loans amounting to US$58.75 million (HK$458 million) (2019: US$58.75 million (HK$458 million)) had been contributed as capital of PSW.

In addition, pursuant to a tripartite entrustment loan agreement dated 12 December 2011 entered into among The Palace Hotel Co., Ltd. (TPH), a sino-foreign co-operative joint venture established in the People's Republic of China, which holds a 100% interest in The Peninsula Beijing, PSW and a PRC branch of an international bank (the agent bank), entrustment loans totalling RMB150 million were on-lent by TPH to PSW via the agent bank. As at 31 December 2020, the balance of entrustment loans amounted to RMB50 million (HK$59 million) (2019: RMB50 million (HK$56 million)). The remaining balance of entrustment loans bears an annual interest of 3.5% and is repayable on 15 June 2021. The interest was fixed by reference to the deposit rate published by The People's Bank of China on the day on which the draw down was made plus a margin of 200 basis points.

(c) The company owns a 70% indirect interest in Peninsula Yangon Holdings Pte. Limited (PYH), a company incorporated in Singapore, which in turn holds a 100% direct interest in Peninsula Yangon Limited (PYL). PYL is incorporated in Myanmar and is engaged in the development and future operation of The Peninsula Yangon. As at 31 December 2020, unsecured and interest-free loans amounting to US$35 million (HK$274 million) (2019: US$31 million (HK$243 million)) were advanced to PYH by Yoma Strategic Investments Ltd. and First Myanmar Investment Public Company Limited, the 30% non-controlling shareholders of PYH. Such loans were fully injected by PYH into PYL to fund the development of The Peninsula Yangon.

(d) The company's wholly-owned subsidiary, PIIHL and the Phataraprasit family, the joint venture partners, had entered into 50/50 joint venture arrangements since 1997 in HSH-Siam Chaophraya Holdings Company Limited (HSH-SCH) to own and for Peninsula to manage The Peninsula Bangkok (PBK) and the Thai Country Club (TCC). On 8 October 2020, PIIHL entered into agreements with the Phataraprasit family to terminate the joint venture relationship and to restructure the parties' respective shareholdings in the assets of HSH-SCH. To acquire the 50% remaining interest in PBK and the surrounding land from the Phataraprasit family, the company agreed to pay a total consideration of the 50% economic interest in TCC and its adjacent land and a cash consideration of US$70 million (HK$546 million). The total consideration was arrived at after arm's length negotiations among the parties and having regard to the market values of PBK and its surrounding land, the market values of TCC and its land parcels and consideration to resolve all existing and contingent disputes between the company and the Thai partners.

On 28 October 2020, all conditions precedent under the transaction agreements were satisfied and the joint venture relationship was terminated. As a result of the restructuring, the company's indirect interest in PBK increased to 100% whereas TCC was deconsolidated from the company's consolidated financial statements. As set out in the company's consolidated statement of changes in equity on page 156, the restructuring has resulted in a reduction of equity attributable to shareholders of the company by HK$678 million and a reduction of non-controlling interests by HK$327 million respectively.

32. Key sources of estimation uncertainty

Notes 27(a) and 28 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Valuation of investment properties

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed semi-annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential. The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

(b) Estimated useful lives of other properties, plant and equipment

The group estimates the useful lives of its other properties, plant and equipment based on the periods over which the assets are expected to be available for use. The group reviews annually their estimated useful lives, based on factors that include asset utilisation, internal technical evaluation, technological changes as well as environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of properties, plant and equipment would increase depreciation charges and decrease non-current assets.

(c) Asset impairment

The group assesses the impairment of assets in accordance with the accounting policy set out in note 34(i) and as explained in note 12(a). The factors that the group considers important in identifying indications of impairment and in assessing the impairment include the following:

- significant under-performance relative to expected historical or projected future operating results; and

- significant negative industry or economic trends.

Notes to the Financial Statements

33. Investment in subsidiaries

The following list contains only the particulars of subsidiaries which principally affect the results, assets or liabilities of the group. The class of shares held is ordinary unless otherwise stated.

Company name	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
The Peninsula Hotel Limited	Hong Kong	2 shares	100%	Hotel investment
The Repulse Bay Apartments Limited	Hong Kong	2 shares	100%	Property investment
The Repulse Bay Company, Limited	Hong Kong	2 shares	100%	Property investment
The Peak Tower Limited	Hong Kong	2 shares	100%	Property investment
Peak Tramways Company, Limited	Hong Kong	450,000 shares	100%	Tramway operation
St. John's Building Limited	Hong Kong	2 shares	100%	Property investment
Peninsula Merchandising Limited	Hong Kong	2 shares	100%	Wholesaling and retailing of merchandise
Tai Pan Laundry & Dry Cleaning Services, Limited	Hong Kong	5,000,000 shares	100%	Laundry and dry cleaning services
HSH Financial Services Limited	Hong Kong	1 share	100%	Lending and borrowing of funds
Peninsula Clubs and Consultancy Services Limited	Hong Kong	1,000,000 shares	100%	Club management
HSH Management Services Limited	Hong Kong	10,000 shares	100%	Management and marketing services
Peninsula New York Hotel LLC	United States of America	Contributed capital of US$323,500,000	100%	Hotel investment
Peninsula Chicago LLC	United States of America	Contributed capital of US$57,038,089	100%	Hotel investment
Quail Lodge, Inc.	United States of America	10,652 shares of US$100 each	100%	Golf club, resort and property investment
Peninsula of Tokyo Limited	Japan	200 shares of JPY50,000 each	100%	Hotel investment
The Palace Hotel Co., Ltd.	People's Republic of China	Registered capital of US$161,921,686	76.6%**	Hotel investment
Manila Peninsula Hotel, Inc.	The Philippines	111,840,386 shares of Pesos 10 each	77.36%	Hotel investment
Siam Chaophraya Holdings Company Limited	Thailand	250,000 ordinary shares of THB2,000 each	100%#	Hotel investment
International Burotel Company Limited	Vietnam	Registered capital of US$6,866,667	70%##	Property investment
Le 21 Avenue Kléber SNC	France	1,801,000 shares of EUR1 each	100%	Property investment
Peninsula London, LP	United Kingdom	Contributed capital of GBP1,000	100%	Property investment and hotel development
Peninsula Yangon Limited	Myanmar	43,900,000 shares of US$1 each	70%	Hotel investment

* Except for HSH Financial Services Limited, all subsidiaries are indirectly held.

** The Palace Hotel Co., Ltd. is a sino-foreign co-operative joint venture with a reversionary interest to the PRC party at the end of the joint venture period.

\# Siam Chaophraya Holdings Company Limited (SCH) owns 100% interest in The Peninsula Bangkok. As part of the restructuring of the joint venture arrangements with the Thai partners, the group's effective interest in SCH increased from 50% to 100% during the year. Details of the restructuring arrangements are set out in note 31(d).

\## The group owns 50% of the economic interest of International Burotel Company Limited with a reversionary interest to the Vietnam partner at the end of the joint venture period.

The non-controlling interests in individual subsidiaries are considered immaterial to the group.

34. Significant accounting policies

(a) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the company and its subsidiaries (together referred to as the group) and the group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

i) investment properties, including interest in leasehold land and buildings held as investment properties where the group is the registered owner of the property interest (see note 34(f)); and

ii) derivative financial instruments (see note 34(d)).

The preparation of financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that may have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the company.

Notes to the Financial Statements

34. Significant accounting policies continued

(b) Subsidiaries and non-controlling interests continued

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 34(c)).

In the company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 34(i)), unless the investment is classified as held for sale.

(c) Associates and joint ventures

An associate is an entity in which the group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see note 34(i)). Any acquisition-date excess over costs, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the group's share of losses exceeds its interest in the associates or the joint ventures, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the group's interest is the carrying amount of the investment under the equity method, together with the any other long-term interests that, in substance, form part of the group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of a financial asset.

34. Significant accounting policies continued

(d) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify as cash flow hedge accounting.

The group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and variable rate borrowings (cash flow hedges).

Cash flow hedges

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss. The amount accumulated in the hedging reserve is reclassified from equity to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss (such as when a forecast sale occurs or interest expense is recognised).

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

(e) Properties, plant and equipment

Hotel and other properties held for own use (including buildings held for own use which are situated on leasehold land classified as held under operating leases), right-of-use assets arising from leases over freehold or leasehold properties where the group is not registered owner of the property interest and plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 34(i)).

The cost of self-constructed items of properties, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 34(u)).

Notes to the Financial Statements

34. Significant accounting policies continued

(e) Properties, plant and equipment continued

Depreciation is calculated to write off the cost of items of properties, plant and equipment, less their estimated residual values, if any, on a straight line basis over the shorter of the unexpired period of the land lease and the anticipated remaining useful lives of the assets. The useful lives which have been adopted are summarised as follows:

- leasehold land classified as held under finance leases is depreciated over the unexpired term of lease
- hotel buildings — 75 to 150 years
- other buildings — 50 years
- golf courses — 100 years
- external wall finishes, windows, roofing and glazing works — 10 to 40 years
- major plant and machinery — 15 to 25 years
- furniture, fixtures and equipment — 3 to 20 years
- operating equipment — 3 to 5 years
- motor vehicles — 5 to 10 years

No depreciation is provided on freehold land as it is deemed to have an indefinite life.

Where parts of an item of properties, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided on properties under development.

(f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 34(h)) to earn rental income and/or for capital appreciation. These include land held for currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the reporting date and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 34(s).

If a property occupied by the group as an owner-occupied property becomes an investment property, the group accounts for such property as described in note 34(e) up to the date of change in use, and any difference at the date between the carrying amount and the fair value of the property is accounted for as movements in the asset revaluation reserve. On disposal of a revalued assets, the relevant portion of the asset revaluation reserve realised in respect of previous valuation is transferred to retained profits as a movement in reserves.

34. Significant accounting policies continued

(g) Hotel operating rights

Costs incurred for securing the group's rights to operate hotels are capitalised and are stated at cost less accumulated amortisation and impairment losses (see note 34(i)).

Amortisation of the operating rights is charged to profit or loss on a straight-line basis over the terms of the relevant operating periods.

(h) Leased assets

At inception of a contract, the group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the group, are primarily laptops and office furniture. When the group enters into a lease in respect of a low-value asset, the group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 34(e) and 34(i)), except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 34(f);

– right-of-use assets related to leasehold land and buildings where the group is the registered owner of the leasehold interest are carried at fair value;

– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 34(j).

Notes to the Financial Statements

34. Significant accounting policies continued

(h) Leased assets continued

(i) As a lessee continued

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

The group presents right-of-use assets that do not meet the definition of investment properties in "property, plant and equipment" and presents lease liabilities separately in the statement of financial position.

(ii) As a lessor

When the group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 34(s).

When the group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the group applies the exemption described in note 34(h)(i), then the group classifies the sub-lease as an operating lease.

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

The group recognises a loss allowance for expected credit losses (ECLs) on the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables) and lease receivables.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

34. Significant accounting policies continued

(i) Credit losses and impairment of assets continued

(i) Credit losses from financial instruments and lease receivables continued

Measurement of ECLs continued

In measuring ECLs, the group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held). The group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;

- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

- an actual or expected significant deterioration in the operating results of the debtor; and

- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the group.

Notes to the Financial Statements

34. Significant accounting policies continued

(i) Credit losses and impairment of assets continued

(i) Credit losses from financial instruments and lease receivables continued

Significant increases in credit risk continued

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Write-off policy

The gross carrying amount of a financial asset and lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the investments in associates and joint ventures accounted for under the equity method (see note 34(c)), other non-financial assets, investment in subsidiaries in the company's statement of financial position may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

An impairment loss is reversed to profit or loss if the recoverable amount of an asset, or the cash-generating unit to which it belongs, exceeds its carrying amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 34(i)).

34. Significant accounting policies continued

(j) Inventories

Inventory are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

(k) Properties under development for sale

Property under development for sale comprises leasehold lands and construction-in-progress and is carried at the lower of cost and net realisable value. Properties under development for sale included in the current assets when it is expected to be realised or is intended for sale in the normal operating cycle.

(l) Trade and other receivables

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before the payment of that consideration is due. If revenue has been recognised before the group has unconditional right to receive consideration, the amount is presented as a contrast asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 34(i)(i)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs using effective interest method. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost. Interest expense is recognised in accordance with the group's accounting policy for borrowing cost (see note 34(u)).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses in accordance with policy set out in note 34(i).

Notes to the Financial Statements

34. Significant accounting policies continued

(p) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined benefit retirement plan obligations

The group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense (income) on the net defined liability (asset) are recognised in profit or loss and allocated by nature as part of "staff costs and related expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in other reserves. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

Termination benefits

Termination benefits are recognised when and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

34. Significant accounting policies continued

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities and are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 34(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances and movements therein, are presented separately from each other and are not offset.

Notes to the Financial Statements

34. Significant accounting policies continued

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Onerous contracts

An onerous contract exists when the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(s) Revenue

Revenue is recognised when control over a product or service is transferred to the customer, or the leasee has the right to use the asset, at the amount of promised consideration to which the group is expected to be entitled, excluding those amounts collected on behalf of third parties. Further details of the group's revenue recognition policies are as follows:

Hotel and golf club operations

Revenue is recognised on a basis that reflects the timing, nature and value when the relevant services are transferred to the customer. Except for golf club membership income which is recognised over time, revenue for hotel and golf club operations is recognised at a single point in time.

Sale of residential apartments

Revenue arising from the sale of residential apartments is recognised upon the completion of title transfer, which is the point in time when the customer has the ability to direct the use of the residential apartment and obtain substantially all of the remaining benefits of the residential apartment.

Sale of goods and wholesaling

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer takes possession of and accepts the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

Interest income

Interest income is recognised as it accrues using the effective interest method.

Contract liabilities

A contract liability is recognised when the customer pays consideration before the group recognises the related revenue. Non-refundable golf membership deposits, gift vouchers and other deposits are recognised as contract liabilities in the group's financial statements. Non-refundable golf membership deposits are amortised as revenue in equal instalments over the duration of the membership. Other non-refundable deposits and gift vouchers sold are recognised as revenue when the conditions of forfeiture are met and when the gift vouchers are redeemed for goods or services respectively.

34. Significant accounting policies continued

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities and non-monetary assets and liabilities that are stated at fair values and are denominated in foreign currencies, are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to become ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Related parties

(1) A person, or a close member of that person's family, is related to the group if that person:

- i) has control or joint control over the group;
- ii) has significant influence over the group; or
- iii) is a member of the key management personnel of the group or the group's Parent.

Notes to the Financial Statements

34. Significant accounting policies continued

(v) Related parties continued

(2) An entity is related to the group if any of the following conditions applies:

i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

vi) The entity is controlled or jointly controlled by a person identified in (1).

vii) The entity identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(x) Government grants

Government grants are recognised in the consolidated statement of profit or loss initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

35. Changes in accounting policies

The group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendment to HKFRS 16, *COVID-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendment to HKFRS 16, *COVID-19-Related Rent Concessions*

The amendment, which became effective for accounting periods beginning on or after 1 June 2020, provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform – Phase 2*	1 January 2021
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to HKAS 16*, Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to HKAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendment to HKAS 1, *Classification of liabilities as current or non-current*	1 January 2023

The group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

37. Contingent liabilities

The Directors consider that there being no material contingent liabilities for the group as at 31 December 2020 and 2019.

Independent Assurance Report

**Independent assurance report to the Directors of
The Hongkong and Shanghai Hotels, Limited**

KPMG was engaged by The Hongkong and Shanghai Hotels, Limited ("HSH") to undertake a limited assurance engagement on identified elements ("Identified Elements") of the Corporate Responsibility and Sustainability Report and Data Statements 2020 of HSH (further referred to as "the Report") for the year ended 31 December 2020 being prepared in accordance with the Reporting Criteria.

Identified Elements of the Report

The Identified Elements are as follows:

- The following data points and relevant narratives included in the CRS Report on pages 2 to 44
- The following data points as included in the Data table on page 218 of this report

Economic
- Revenue (incl. interest income)
- Operating costs
- Employee wage and benefits
- Capital expenditure
- Payments to providers of capital
- Tax payments to governments
- Total floor area
- Total number of guest nights

People
- Total headcount
- Headcount by gender
- Total staff turnover

Safety
- Injury rate
- Lost day rate

Community
- Monetary donations
- In-kind donations
- Other contributions for community development

Environment
- Greenhouse gas emissions
- Group carbon intensity
- Total energy use
- Energy intensity
- Direct water consumption
- Water intensity
- Water recycled and other water sources
- Waste generated
- Waste diverted

Responsibilities of the Directors of The Hongkong and Shanghai Hotels, Limited

The Directors of HSH are responsible for the preparation and presentation of the Report specifically ensuring that in all material respects the Report is prepared and presented in accordance with the Reporting Criteria, being the Environmental, Social and Governance Reporting Guide, Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEX ESG Guide"). This responsibility also includes designing, implementing and maintaining internal controls relevant to the preparation of the Report that is free from material misstatement whether due to fraud or error.

Responsibilities of the independent assurance provider

Our responsibility is to express a conclusion to the Directors of HSH based on our limited assurance procedures referred to below as performed over the Identified Elements of the Report. Our independent limited assurance report is made solely to HSH in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the Directors of HSH those matters we have been engaged to state in this independent limited assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than HSH for our work, for this independent limited assurance report, or for the conclusion we have reached. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Independent Assurance Report

Basis of our work

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information and ISAE 3410 Assurance Engagements on Greenhouse Gas Statements. These standards require the assurance team to possess the appropriate knowledge, skills and professional competencies needed to perform the assurance engagement.

Our independence and quality control

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We have complied with the independence and other requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Work performed

Our limited assurance engagement on the Identified Elements of the Report consists of making inquiries, primarily of persons responsible for the preparation of Identified Elements presented in the Corporate Responsibility and Sustainability Report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures include:

- Conducting interviews with management and staff responsible for the collection and review of Identified Elements at HSH Head Office to obtain an understanding of the information collection process;

- Attending a site visit to understand the data collection processes used to gather and review Identified Elements included in the Report;

- Examining and evaluating the systems and processes in place to generate, aggregate and report the Identified Elements;

- Agreeing the Identified Elements, on a sample basis, to underlying calculations and supporting schedules;

- Performing an analytical review of data provided by each operation and investigating, through discussion with management, key movements compared to prior year, expectations and targets;

- Comparing the definitions as included in the HKEX ESG Guide against the definitions used by HSH to prepare the metrics;

- Reading the Sustainability Reporting Content Index on pages 50 to 56 of the CRS Report to determine whether it is in line with our understanding of HKEX ESG Guide;

- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of the sustainability performance of HSH.

Conclusion

Based on the limited assurance procedures and the evidence obtained, nothing has come to our attention that causes us to believe that the Identified Elements, as described above, of the Corporate Responsibility and Sustainability Report and Data Statements 2020 of HSH for the year ended 31 December 2020, are not prepared, in all material respects, in accordance with the Reporting Criteria.

KPMG

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
17 March 2021

Sustainability Data Statements

This section provides statistical information on the Group's sustainability performance. To facilitate stakeholders in understanding and benchmarking our corporate responsibility performance, our reporting follows the HKEX ESG Guide and GRI Standards.

This global pandemic has had a significant negative impact on our operations throughout 2020. This impact means that our Corporate Responsibility and Sustainability (CRS) metrics (including workforce, environment and community) for the year are skewed. However, despite these operational challenges, over 91% of the goals set in our CRS strategy, *Sustainable Luxury Vision 2020*, were achieved or on track. Explanations for significant data changes are included in the footnotes below.

1. Performance Highlights (1)

			2020	2019	2018	2017	2016	2006-08 baseline
Economic	**Revenue (incl. interest income)**	HK$m	**2,715**	5,888	6,232	5,804	5,668	–
	Operating costs	HK$m	**1,133**	2,049	2,241	2,102	2,134	–
	Employee wage and benefits	HK$m	**1,511**	2,294	2,291	2,135	2,108	–
	Capital expenditure	HK$m	**1,629**	1,590	1,490	1,827	2,479	–
	Payments to providers of capital	HK$m	**215**	242	195	224	239	–
	Tax payments to governments (2)	HK$m	**355**	330	486	442	410	–
	Total floor area	’000 m^2	**646**	652	652	652	651	518
	Total number of guest nights (3)	’000	**384**	1,277	1,333	1,240	1,190	1,119
Workforce	**Headcount** (4)		**5,609**	7,451	7,594	7,534	7,985	–
	Turnover (4)	%	**31.5%**	19.7%	21.9%	21.3%	22.0%	–
	Headcount by Gender	% Female	**40.5%**	41.6%	42.6%	41.9%	42.6%	–
	Injury rate (5)	incidents per 100 employees	**2.5**	3.9	3.5	3.1	3.9	–
	Lost day rate (5)	days per 100 employees	**47.4**	74.4	57.7	43.9	45.2	–
Environment (6)	**Greenhouse gas emissions**	’000 tCO_2e	**68**	96	99	100	101	115
	Group carbon intensity	kg CO_2e per m^2	**105**	148	153	154	156	226
	Total energy use (7)	’000 GJ	**572**	822	853	853	866	858
	Energy intensity (7)	MJ per m^2	**885**	1,272	1,320	1,320	1,329	1,658
	Direct water consumption	’000 m^3	**941**	1,526	1,673	1,625	1,616	1,792
	Water intensity							
	Hotels Division (8)	litres per guest night	**2,010**	1,014	1,075	1,100	1,154	1,373
	Commercial Properties, Clubs & Services Division	litres per m^2	**870**	959	907	964	920	1,197
	Water recycled and other water sources	’000 m^3	**372**	484	448	489	613	–
	Waste diversion rate (9)	%	**48.8%**	51.0%	51.1%	54.3%	47.8%	–
Community	**Monetary Donations** (10)	HK$’000	**3,157**	2,025	2,519	3,250	4,232	–
	In-kind Donations (10)	HK$’000	**1,988**	7,403	7,502	6,684	9,048	–
	Other contributions for community development (11)	HK$’000	**380**	1,606	2,796	2,730	2,125	–

Footnotes:

(1) Please refer to Reporting Scope of the CRS Report for the scope of businesses covered in the reporting of workforce, environment and community performance. There have been changes on reporting scope and methodology for this year's report, please refer to page 48 of the CRS Report for details. Historical environment data (from 2006 onwards) has been restated to exclude Thai Country Club for more accurate benchmarking purpose.

(2) Inclusive of corporate income tax, property and real estate tax, payroll tax and other corporate taxes.

(3) Calculation based on actual number of guests that occupied each of the rooms and suites in the relevant year.

(4) Year-end data as at 31 December 2020. A decrease in headcount due to unavoidable restructurings, layoffs or furloughs in our global operation, and HSH ceased to have any responsibility for the ownership and operation of the Thai Country Club from 28 October 2020. While total turnover increased as a result of this, our voluntary turnover reduced by 3.4 p.p at 12.3% compared to 2019.

(5) Injury rate and lost day rate decreased significantly due to reduced working hours of our staff and increased awareness on injury prevention. 98% of the reported incidents are those that did not require a hospital stay, and thus not considered severe injuries. The injury rate for severe cases is at 0.06 per 100 employees. There was no incident of occupational disease recorded.

(6) Energy, carbon and water data are skewed due to this year's operational challenges. Please refer to pages 18 to 20 of the CRS Report for detailed explanation of the changes.

(7) Vehicle fuel consumption is not included in the total energy use and energy intensity reported.

(8) Includes all water uses in the hotels, not just those used by guests directly.

(9) Grease trap waste, hazardous waste and construction waste were not included in the waste data reported.

(10) Increase in monetary donation as we launched “Love of Community”, a charitable meal-for-meal programme to nourish the neediest in the communities we operate, of which a significant portion of the donation are from our guests. Decrease in monetary and in-kind donations from the company due to cancellation of gala and charity events. In addition, cost saving measures have been implemented in light of the challenging business environment in 2020.

(11) Relates to contributions made to non-charitable organisations on projects supporting the wider community, for example, the Hong Kong Heritage Project, an archive project for preserving valuable historical records of the Kadoorie family and its businesses, mostly based in Hong Kong. 2019 figure has been restated as part of our monetary contribution to the Hong Kong Heritage Project was put on hold due to the pandemic.

Glossary

Terms

Absentee rate	Represents the number of absentee days per year. It is calculated as total absentee days, which include sick days and lost days due to injury and occupational diseases, divided by total work days for the year
Average room rate	This reveals the average rate charged per occupied room, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms sold}}$
Adjusted net assets	The figure provides an adjusted value assessment of the Group's assets based on current market valuation
Back-of-house	Staff-only areas, usually in a hotel
BREEAM	Building Research Establishment Environmental Assessment Method is a UK-based environmental assessment and certification scheme on sustainable building
Corporate Responsibility	A systematic approach whereby a business monitors and ensures its compliance with the law, ethical standards, and international standards relating to the environment, consumers, employees, communities, and other stakeholders
EarthCheck	An internationally recognised sustainability benchmarking and certification programme for the hospitality sector
EBITDA	The figure reflects the profitability of the operations of the Group before interest, tax, depreciation and amortisation
Front-of-house	Areas of a hotel that are in sight of guests/customers

Terms

Global Reporting Initiative (GRI)	A non-profit organisation that produces the prevalent standards for sustainability reporting widely adopted by companies worldwide
Interest cover	The ratio reflects the ability of the Group to meet its net financing costs expressed as a multiple of its operating profit
Cash interest cover	The ratio reflects the ability of the Group to meet its net interest paid expressed as a multiple of its EBITDA less lease payments
Occupancy rate	This reveals the extent of rooms being occupied, calculated based on the following formula: $\frac{\text{Rooms sold}}{\text{Rooms available}} \times 100\%$
PP	Percentage points
RevPAR	The figure reflects the revenue generating ability of the Group's hotels from available rooms, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms available}}$
Stakeholders	Group or individuals that are affected by or can affect a company's activities
Underlying (loss)/profit attributable to shareholders	The figure reflects the (loss)/profit of the Group arising from its operations by excluding non-operating and non-recurring items

Shareholder Information

Financial Calendar 2021

2020 annual results announcement	17 March
Dispatch of Annual Report	14 April
For entitlement to attend and vote at Annual General Meeting	
– Last day to register	14 May 4:30pm
– Closure of register of members	17 May to 21 May (both days inclusive)
– Record date	21 May
Annual General Meeting	21 May 12:00 noon
2021 interim results announcement	August
Financial year end	31 December

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Corporate Responsibility and Sustainability Enquiries

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Share Information

Stock Code: 00045

Request for Feedback

To improve the quality of our annual reporting, we welcome your feedback via email to ir@hshgroup.com or by post to our registered office.

Shareholder Services

For enquiries about share transfer and registration, please contact the company's Share Registrar:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong
Customer Services Hotline: (852) 2862 8555
Fax: (852) 2865 0990/2529 6087
Online Enquiries:
www.computershare.com/hk/en/online_feedback

Shareholders may at any time change their choice of language or means of receipt of the company's corporate communications by notice in writing to the company's Share Registrar at the address above. The Request Form may be downloaded from the company website at www.hshgroup.com.

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www.peninsula.com

The Repulse Bay

www.therepulsebay.com

The Peak Tower and The Peak Tram

www.thepeak.com.hk

The Landmark

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THE HONGKONG AND SHANGHAI HOTELS, LIMITED
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