



THE HONGKONG AND SHANGHAI HOTELS, LIMITED  
香港上海大酒店有限公司

To: All Finance/Business/Travel Editors

FOR IMMEDIATE RELEASE

16 MARCH, 2018

**THE HONGKONG AND SHANGHAI HOTELS, LIMITED**  
**ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER, 2017**

**Key financial results**

- Revenue grew by 3% to HK\$5,782 million (2016: HK\$5,631 million) and EBITDA grew by 10% to HK\$1,422 million (2016: HK\$1,288 million)
- Including our share of associates and a joint venture, revenue and EBITDA amounted to HK\$6,313 million and HK\$1,583 million respectively (2016: HK\$6,150 million and HK\$1,426 million)
- Profit attributable to shareholders amounted to HK\$1,155 million (2016: HK\$675 million), inclusive of net property revaluation gain of HK\$609 million (2016: HK\$29 million)
- Earnings per share was HK\$0.73 (2016: HK\$0.43)
- Underlying profit\* amounted to HK\$801 million (2016: HK\$646 million)
- Our balance sheet remains strong with 13% net gearing and 11.9 times cash interest cover
- Final dividend of 16 HK cents per share (2016: 15 HK cents per share), making a total dividend of 20 HK cents per share for 2017 (2016: 19 HK cents per share)
- Shareholders' funds as at 31 December 2017 amounted to HK\$38,175 million (2016: HK\$36,359 million) or HK\$24.02 per share (2016: HK\$23.20 per share)

**Key developments**

- In line with our commitment to enhance our existing properties, we have completed two major renovation projects: the transformation of The Peninsula Beijing into an all-suite hotel by combining two guestrooms into one, from 525 to 230 keys; and a complete renovation of 21 avenue Kléber, Paris where leases have been signed with office and retail tenants for the majority of the space
- We held the groundbreaking ceremonies of The Peninsula London on 2 November 2017 and The Peninsula Yangon on 16 February 2017. We made good progress with construction of The Peninsula Istanbul. Our focus for the next few years will be on the successful delivery and financing of these three new hotel developments
- The Peninsula Tokyo celebrated its 10th anniversary in October 2017

*\*Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items. In addition, to reflect the commercial reality of these transactions, the share of cumulative revaluation gains (net of the related tax) in respect of the apartments sold by the Group's joint venture in Shanghai, which were previously accounted for as investment properties, were added back to arrive at the underlying profit for the year. The comparative underlying profit has been adjusted to conform to the current year's presentation*

## **HSH'S 2017 ANNUAL RESULTS**

*Hong Kong, 16 March 2018*

The Hongkong and Shanghai Hotels, Limited today announced its annual financial results for 2017. Mr Clement K.M. Kwok, Managing Director and Chief Executive Officer of The Hongkong and Shanghai Hotels, Limited (HSH) commented on the results announcement,

“The Hongkong and Shanghai Hotels has had a long history of hospitality excellence and one of our key philosophies is to build on this heritage while continuing to maintain and enhance the quality of our assets for value creation over the very long term. Over the past 15 years, we have continually invested in and enhanced the quality of our existing hotel and other properties, as a result of which the Company’s net asset value per share has grown from HK\$9.9 per share in 2002 to HK\$24.02 per share in 2017. We have developed and successfully opened several Peninsula Hotels which are recognised as being among the world’s best, and have currently under development three new Peninsula Hotel projects in exceptional locations in London, Istanbul and Yangon (in Myanmar).

Over the very long life cycles of our hotel investments, it is to be expected that we will encounter, and have the staying power to overcome, many ups and downs and 2017 was no exception. We continued to face uncertainties in many of the markets in which we operate, including mixed although improving sentiment in our home market of Hong Kong, political uncertainties in a number of the countries in which we operate and tensions in the Middle East affecting our business originating from that region.

Through these uncertainties, we have remained steadfast in our commitment to service and quality and I am pleased that we have been able to achieve a satisfactory set of financial results for 2017 whilst maintaining this philosophy. The Company’s combined EBITDA, including the Group’s effective share of EBITDA of our associates and joint ventures, increased by 11% from the previous year to HK\$1,583 million. The Company’s net profit attributable to shareholders increased by 71% from the previous year to HK\$1,155 million, inclusive of the revaluation gain on the Group’s investment properties of HK\$609 million (2016: HK\$29 million). Our underlying profit increased by 24% from the previous year to HK\$801 million.

Our focus for the next few years will be on the successful delivery and financing of our new hotel developments in London, Istanbul and Yangon. With the significant capital commitments that these projects entail, we continue to carefully monitor our Company’s financial position and I am pleased that our gearing remains at 13%, which we believe to be comfortable taking into account the estimated project budgets of our new developments.

I am also pleased to report that, in line with our commitment to enhance our existing properties, we have completed a major transformation of The Peninsula Beijing by re-building the key public areas and effectively combining two guestrooms into one, thus lowering the guestroom key count from 525 to 230 and creating an “all-suite” hotel.

### **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

Hotels	Revenue	Variance	
	HK\$m	In HK\$	In Local Currency
<b>Consolidated hotels</b>			
The Peninsula Hong Kong	1,298	0%	0%
The Peninsula Beijing	244	78%	78%
The Peninsula New York	698	1%	1%
The Peninsula Chicago	568	4%	4%
The Peninsula Tokyo	826	3%	5%
The Peninsula Bangkok	253	8%	2%
The Peninsula Manila	235	-9%	-3%
<b>Non-consolidated hotels</b>			
The Peninsula Shanghai	603*	1%	2%
The Peninsula Beverly Hills	627	1%	1%
The Peninsula Paris	521	8%	4%

\* Excluding proceeds from sale of apartments

### The Peninsula Hong Kong

The Peninsula Hong Kong		
Revenue	HK\$1,298m	0%
Occupancy		+3pp
Average Room Rate		+1%
RevPAR		+5%

The tourism market in Hong Kong saw some recovery in 2017. Overnight visitor arrivals increased more than 5% year-on-year. We are optimistic that Hong Kong will continue to be an attractive destination for luxury travellers and we are committed to working with industry peers and government departments to support new ideas and initiatives for Hong Kong's tourism industry.

Our company is excited about the ongoing development of the Kowloon area, where our hotel is situated, including the Tsim Sha Tsui waterfront and the West Kowloon Cultural District. The latter is the largest cultural initiative of its kind in the world comprising 17 new cultural venues including a stunning Great Opera House; 'M+' museum of modern art; concert halls; and a 15,000-seat Arena with an Expo Centre, and 30,000 square metres of arts education facilities that will encourage home-grown artistic talent. A new Express Rail Link which will open in 2018 will connect Hong Kong to the Chinese mainland's National High-speed Railway Network and we believe this will bring more visitors to Hong Kong.

As the flagship property of the Group, we were delighted that **The Peninsula Hong Kong** received the accolade of "Best Hotel in Hong Kong" by *Travel + Leisure* 2017 World's Best Awards. The Peninsula Hong Kong's Cantonese restaurant *Spring Moon* retained its Michelin

star in December 2017. These awards are a testament to our long-serving team of colleagues who combine the spirit of integrity, passion and commitment to provide the best experiences for our guests.

During the year, hotel occupancy increased and we were able to maintain our position in terms of market share with an improved average room rate. We continued to benefit from a well-balanced customer base and we have placed a stronger focus on marketing efforts targeting corporate business and groups to strengthen both occupancy and rates.

The Peninsula Office Tower continues to perform well and was 93% occupied throughout 2017, with a stable outlook. The Peninsula Arcade revenue declined as a result of the lethargic luxury retail rental market. However, many of our loyal tenants have been with us for decades, and we believe the long-term relationships we enjoy with them, coupled with our ability to offer access to The Peninsula Hotel guests and services, will help to maintain the attractiveness of this arcade. We are planning to launch a strategic Customer Relationship Management programme in 2018, in order to reinforce The Peninsula Arcade’s luxury positioning and to engage new customers and drive traffic.

As part of the ongoing implementation of the Sustainable Luxury Vision 2020, we were delighted to be nominated globally for *The Ethical Corporation’s* “Best Domestic Community Investment”, for our Honing Skills in Hospitality Programme, shining a light on the challenges of ethnic minority youth in Hong Kong.

In December 2017 we were delighted to announce the sponsorship of China’s TECHEETAH Formula-E racing team, which competed for the second time at the 2017 Hong Kong ePrix. Formula E represents a global vision for the future of sustainable high-speed motor racing.

### **The Peninsula Shanghai**

<b>The Peninsula Shanghai</b>		
Revenue	RMB521m (HK\$603m)	+2%
Occupancy		-1pp
Average Room Rate		+3%
RevPAR		+1%
Proceeds from sale of apartments	RMB645m (HK\$773m)	

**The Peninsula Shanghai** reported a solid 2017 with increased average room rates and RevPAR. The hotel remains the RevPAR market leader in the city. We were delighted that The Peninsula Shanghai was awarded “Best Hotel in Shanghai” by *Travel + Leisure* 2017 World’s Best Awards.

The domestic Chinese mainland market continued to be our largest revenue driver and the US and Hong Kong markets were also robust, with good demand from Japan, Taiwan and the UK. We are working on strategies to drive more direct internet bookings and interaction with our guests in popular online channels. The Peninsula Arcade occupancy was flat to the previous year with slightly lower revenue, as our tenants continued to come under pressure in line with the global luxury retail rental market. In April 2017 we announced that No.1 Waitanyuan, the former British Consulate building, would be fully managed and operated by The Peninsula

Shanghai, diversifying its portfolio of services, facilities and event spaces to include one of Shanghai’s most iconic period buildings.

We are pleased to report that *Yi Long Court* received two Michelin stars and *Sir Elly’s* one Michelin star, becoming the only hotel in China with two in-house restaurants to have Michelin stars.

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. In 2013 the joint venture partners resolved to sell 19 apartment units of which 17 units have been sold. During the year, the joint venture partners decided to put the remaining 20 apartment units up for sale, of which 11 apartment units were sold by the end of 2017. Out of the 11 sold units, 5 apartments were sold to the Company which would be held for long-term investment purposes and rental income generation. Proceeds from the apartments sales were used to pay down the borrowings of the joint venture.

### **The Peninsula Beijing**

<b>The Peninsula Beijing</b>		
Revenue	RMB210m (HK\$244m)	+78%*
Room revenue	RMB70m (HK\$81m)	+414%*
Available Rooms		230*
Occupancy		+27pp*
Average Room Rate		+63%*
RevPAR		+217%*
<i>*under renovation for part of the year</i>		

**The Peninsula Beijing** completed its extensive renovation in July 2017, transforming the property into an all-suite luxury hotel. As described in more detail on pages [x to x] the renovation was inspired by the Imperial architecture of ancient China and we have combined our traditional Peninsula hospitality with the best of Chinese tradition, culture and artisanship and contemporary standards of luxury, including our up-to-date modern technology. We preserved the original façade and roof of the hotel which is a tangible part of the heritage of Beijing, and the property has become an icon in the capital city. This complete transformation, “An Imperial Rebirth” is the theme of this annual report, and underpins our company’s philosophy of continually improving our assets for the long term.

It took longer than anticipated to start seeing positive results from our marketing efforts and the hotel continues to implement aggressive marketing strategies, both for the domestic as well as the international markets. The renovation has been welcomed by domestic guests and long-term customers, and we are building up a rapport with select industry groups including the entertainment industry, as well as diplomatic and group business. JING restaurant has been redesigned to offer French fine dining cuisine, with a positive response from the market. The Peninsula Arcade, which served as the entry point for renowned brands into the China market when it first opened in the 1980s, reported a stable performance and we were pleased to attract a good mix of new luxury retail tenants.

During the renovation, sustainable guidelines including the Building Research Establishment Environmental Assessment Method (BREEAM) were incorporated from the beginning of project planning, and we achieved a “good” rating certification in early 2018. This included the implementation of energy efficient LEDs, sustainably sourced wood for most of the wood work and furniture, as well as avoiding harmful glues, paints, wall coverings and carpeting. This is an example of our Sustainable Luxury Vision 2020 commitment in action.

While offering a high-quality guest experience, we feel it is equally important to provide a comfortable and healthy back of house environment for our staff. Our staff dormitory was renovated into a most comfortable, full-featured hotel staff dormitory with a fully-equipped staff gym, a hairdresser and individual bathrooms. The staff restaurant features high quality staff dining and is a key factor in attracting new employees to the hotel.

The renovation of The Peninsula Beijing is an example of tradition meeting innovation, a trait for which our company is renowned. We are optimistic that this hotel will become the market leader in the city and has already become an icon of luxury hospitality in Beijing.

### **The Peninsula Tokyo**

<b>The Peninsula Tokyo</b>		
Revenue	JPY11.8b (HK\$826m)	+5%
Occupancy		+1pp
Average Room Rate		+2%
RevPAR		+4%

**The Peninsula Tokyo** celebrated its tenth anniversary in 2017 with a spectacular Gala in October as the highlight to a series of special offers and promotions throughout the year. We were delighted that our hotel was awarded “Best Hotel in Tokyo” by *Travel + Leisure* 2017 World’s Best Awards and we achieved the Forbes Five Star accolade for our hotel and spa. The hotel reported an increase in revenue, occupancy and average room rates and a corresponding increase in RevPAR.

Across the city, Tokyo saw returning demand from China as well as a resurgence in domestic business. Weddings were particularly strong during the year as a result of aggressive marketing strategies from our events team in Tokyo. The Peninsula Tokyo introduced a new spa product line in June 2017 which was highly successful and led to good growth in spa revenues year on year. We had very strong suite occupancy due to a strong online marketing strategy and front desk recommendations.

Major workplace reform is taking place across Tokyo and we placed a heavy focus on improving work life balance for our employees with 97% annual leave taken in a country where 48% is the average and 41% the industry average. We implemented employee recognition programmes and strict overtime rules. More than 200 of our staff also volunteered to help donate *onigiri* to orphanages and domestic violence shelters.

In celebration of our tenth anniversary in 2017, The Peninsula Tokyo also sponsored “The Peninsula Tokyo Rally Nippon 2017 – A Peninsula Signature Event” which took place in October 2017 and provided an excellent opportunity to market the brand outside of Tokyo.

## The Peninsula Bangkok

<b>The Peninsula Bangkok</b>		
Revenue	THB1,095m (HK\$253m)	+2%
Occupancy		-1pp
Average Room Rate		+7%
RevPAR		+5%

**The Peninsula Bangkok** had a stable year in 2017, with an improved performance in average rates and RevPAR. However, the sad passing away of His Majesty King Bhumibol Adulyadej of Thailand in October 2016 continued to have an impact on our occupancy and catering business until the last quarter, due to the year-long mourning period which led to the cancellation of corporate events and banquets. Since October 2017 we have seen a rebound in group and corporate business, as well as a strong demand for wedding bookings. Thailand reported a good growth in arrivals mainly coming from China, Korea, Japan and the US due to the visa-free agreements with these countries.

We continued to enhance our Peninsula Academy programme to include sustainability elements related to local Thai nature conservation; for example, guests can participate in a tour of Thailand's first urban Nature Education Centre, Bang Pu, guided by award-winning naturalists. We have also established local cultural initiatives including visiting a local heritage temple which offers Peninsula guests sunrise yoga as part of our Wellness initiative.

We completed a soft goods refurbishment of 11 floors of the hotel to ensure a consistent product offering in 2018. We are positioning the hotel as an "urban luxury resort" concept, focusing on a resort experience with healthy options in spa, fitness and food.

Until August 2017, HSH owned 75% of The Peninsula Bangkok and Thai Country Club. In August 2017, our Thai partner exercised an option which was granted to them during a debt and equity restructuring in 2002, to buy back a 25% shareholding at the fixed price of US\$25 million. Therefore, HSH and our Thai partner currently each own a 50% interest in our Thai businesses.

## The Peninsula Manila

<b>The Peninsula Manila</b>		
Revenue	Php1,517m (HK\$235m)	-3%
Occupancy		-2pp
Average Room Rate		-5%
RevPAR		-8%

**The Peninsula Manila** had a challenging 2017, with revenue and rates decreasing over the same period last year. Competition in Manila was intense, with a large increase in the supply of luxury hotel rooms in 2017 driving business away from the Metro Manila region as new CBDs emerge and fight for corporate business. We expect this will remain an issue in 2018.

Another challenge during the year included security unrest and terrorist threats in the south of the country. Guests from the traditionally strong markets of the US and Singapore were particularly affected as a result of travel advisories in the first half of 2017. To offset this decrease, we focused on the domestic market, and attracting regional groups from the Chinese

mainland and Korea which continued to be robust. This trend improved in the second half particularly in November 2017, when the 31st Association of Southeast Asian Nations (ASEAN) Summit week was held in Manila, which contributed room nights and banqueting revenue.

### The Peninsula New York

The Peninsula New York		
Revenue	US\$89m (HK\$698m)	+1%
Occupancy		0pp
Average Room Rate		+2%
RevPAR		+1%

**The Peninsula New York** experienced intense competition in 2017 as a result of increased supply in Manhattan, but we were able to report a slight increase in both revenue and average rates over the previous year.

Our traditionally robust segment of government and diplomatic business was negatively impacted due to political uncertainty in the Middle East. To offset this decline, we focused on generating business from Latin America, particularly Mexico, and the Chinese mainland market reported an increase in arrivals. Our 250 square metre Fifth Avenue suite, which opened in 2016, continued to drive revenue in its first year of operation and was well received by guests. Our food and beverage performance was flat and we implemented initiatives to drive business to Clement restaurant, including *Kitchen Table at Clement*. The hotel’s rooftop bar, *Salon de Ning*, is consistently rated as one of the best bars in New York.

The Peninsula New York focused on promoting local art and culture through the introduction of “Frieze Frame,” an exhibition of artworks, paintings, drawings, sculptures and photographs by 10 contemporary masters who were showing at Frieze New York, through the hotel’s continued partnership with Circa 1881. We also introduced a new Peninsula Academy programme to experience the Intrepid Sea, Air and Space Museum from an insider’s perspective, where guests could gain access to a variety of vessels on board the USS Intrepid that are not available to the general public.

The Peninsula New York continued to work closely with the local community and more than 30 of our staff contributed to a “Refurbishment Project” at The New York Center for Children, our local charity partner.

### The Peninsula Chicago

The Peninsula Chicago		
Revenue	US\$73m (HK\$568m)	+4%
Occupancy		+1pp
Average Room Rate		+3%
RevPAR		+4%

**The Peninsula Chicago** reported a satisfactory year with a 4% increase in RevPAR, 4% increase in revenue and a RevPAR ranking of No. 1 for the year despite significant new supply in the city. We were delighted to receive the accolade of “Best Hotel in Chicago” by *Travel +*



*Leisure's* 2017 World Best Awards, which is a testament to the popularity of the hotel following its extensive renovation in 2016. The Peninsula Spa revenue reported strong growth after we made a number of improvements to the service offering.

Chicago is highly dependent on business travellers and the convention industry experienced a downturn in 2017. However, the city reported a record 55 million leisure travellers in 2017, boosted by positive media reports and Chicago winning the accolades of “Best Big City” by *Conde Nast Traveler*, “Most Architecturally Aware City on Earth” by *Financial Times* and “Restaurant City of the Year” by *Bon Appetit Magazine*.

In line with celebrating the city’s unique art and culture, The Peninsula Chicago once again participated in EXPO Chicago, an annual international contemporary art exhibition which attracts thousands of visitors. The offering of 24-hour check-in for web bookings and "Keys to the City," providing guests with special access to Chicago's top restaurants, tourist attractions and other initiatives have helped to drive revenue. Construction is underway for a new rooftop bar designed by Yabu Pushelberg that will offer views of Chicago’s skyline and famous water tower. The new bar is scheduled to open in 2018.

### **The Peninsula Beverly Hills**

<b>The Peninsula Beverly Hills</b>		
Revenue	US\$80m (HK\$627m)	+1%
Occupancy		-1pp
Average Room Rate		+3%
RevPAR		+2%

We were delighted that **The Peninsula Beverly Hills** was once again voted “The Best Hotel in the US” by *Global Traveler* magazine in 2017. The Peninsula Beverly Hills remains the only AAA Five Diamond and Forbes Five Star-rated hotel in Southern California, an accolade it has achieved every year since 1993.

The hotel reported a slight increase in rates and revenue over the previous year and remained number one in RevPAR within its competitive set, although occupancy declined slightly. We believe this was partly due to the US Administration’s travel bans on Middle East countries as well as political tension in the Middle East region which led to decreased business from this region. Our strategy was to attract business from other markets, including Mexico, Brazil and Australia, which showed positive growth. Increased competition in the Beverly Hills area with the first five-star luxury hotel to open in more than eight years across the street from our hotel had a slight impact on occupancy, however, we have a loyal clientele with a high repeat guest ratio and we will continue to nurture our long-term relationships with our guests.

Our connections in the entertainment industry remains strong and we announced a creative collaboration with the British Fashion Council’s Fashion Arts Foundation, *Reflections on Hollywood*, filmed on location at The Peninsula Beverly Hills and screened for the first time at BAFTA in June 2017.

Our sustainability initiatives continued with various initiatives including an innovative “waterless carwash” staffed by employees with special needs; co-sponsoring events with our local charity partner “A Place called Home” which provides a safe environment for

underprivileged children in the LA community, and free parking for electric or “zero emission” cars.

### The Peninsula Paris

The Peninsula Paris		
Revenue	EUR59m (HK\$521m)	+4%
Occupancy		-3pp
Average Room Rate		+9%
RevPAR		+4%

In 2017 we were pleased to report that tourists were starting to return to Paris, and President Macron’s election in the summer of 2017 brought a level of optimism and business confidence to France. The Peninsula Paris reported positive results with a 4% increase in revenue and a 9% increase in rates. Food and beverage revenue was strong, particularly from the rooftop restaurant *L’Oiseau Blanc* which offers spectacular views from the Sacre-Coeur to the Eiffel Tower and has become extremely well established in the local market. However, the recent geopolitical developments in the Middle East have resulted in a significant decline of business from that region, although they are still one of our top contributing geographical segments, and we have been focusing on the traditional US market as well as Latin American, Russian and African markets to try to offset the loss of revenue from the Middle East.

We relaunched a new spa concept “When East meets West” which helps build a loyal base of return clients. The hotel also received the EarthCheck Silver award during 2017. We were honoured to achieve the highly sought-after “Palace” rating, bestowed by the French Tourism Development Agency, *ATOOUT France*, to reward the hotel excellence in “promoting the French way of life on the international stage”. We also achieved a Forbes Five-star ranking during 2017. We were delighted to be the selected partner for the highly prestigious event *le Bal*, the traditional annual debutantes’ ball, which was held in November 2017.

### Commercial Properties

Commercial Properties			
	Revenue		Variance
	HK\$m	In HK\$	In Local Currency
The Repulse Bay Complex	637		+4%
The Peak Tower	201		+10%
St. John’s Building	53		+2%
The Landmark	39		+3%
1-5 Grosvenor Place	13		-62%

Our largest commercial property, **The Repulse Bay Complex**, reported a good year in 2017 with increased revenue. We consider these operating results to be pleasing in the light of softer demand in Hong Kong, where the luxury residential leasing market is experiencing a downward trend, multinational companies are cutting housing allowances and more expatriates are being transferred to local packages.

The Repulse Bay Shopping Arcade, which offers an eclectic blend of boutique and lifestyle amenities, was fully occupied for most of the year, with tenants recognising the value of the spectacular location and benefiting from robust traffic at weekends as city residents flocked to the south side to escape the city. Food and beverage revenue experienced double-digit growth following the introduction of promotional celebration packages and seasonal campaigns such as a summer value card which have proved popular with our residents. The Repulse Bay offers a beautiful location for weddings overlooking the ocean and our weddings and banqueting business remained stable in 2017. We opened a new *Breeze Bar* with stunning ocean views in early 2018 and we are confident this will bring additional revenue in the coming year. We are exploring collaborations together with The Peninsula Hong Kong to drive cross-marketing revenue.

**The Peak Tower** was fully leased for most of the year in 2017 and revenue increased more than 10%. The Peak Tower generates its revenue from commercial leasing, and revenue from admission fees to the open-air rooftop attraction of Sky Terrace 428 with its panoramic views of Hong Kong. Visitor numbers to Sky Terrace 428 reached record levels with 17% higher revenue than the previous year, due to new ticketing strategies with the Peak Tram. We are working with our tenants to promote traffic and have created new marketing campaigns and innovative photography areas free of charge. In November, we sponsored Mexican artist Jaime Ruiz to create an original 6 x 5 metre mural on the wall of the Peak Tower to raise awareness about unsustainable consumption of seafood products in South China.

**St John's Building**, located at the lower terminus of the Peak Tram, offers a prime location for office space, and the property was fully let for most of the year in 2017.

**The Landmark**, a 16-storey residential and office property, is located on a prime river-waterfront site in the central business district of Ho Chi Minh City, Vietnam. The complex has 65 serviced apartments, a fully equipped Health Club, as well as 100,000 square feet of high quality office space for leasing. Revenue increased 4% year-on-year as a result of increased demand for office space. The Landmark maintains its popularity and leadership in a competitive market, and continues to attract awards for its management and facilities. We were delighted to receive the accolade of *Best Services* in Vietnam in 2017.

**1-5 Grosvenor Place** in London, the project site of The Peninsula London hotel and residences, was acquired during 2013. We obtained vacant possession of the office buildings on the site in April 2017 and completed demolition during the year, in preparation for the construction of The Peninsula London. This explains the decline in revenue for this property.

The renovation of **21 avenue Kléber** was completed in September 2017. The property offers a convenient location immediately adjacent to The Peninsula Paris on avenue Kléber, in a chic neighbourhood a short walk from the Arc de Triomphe. The building has been restored in keeping with its heritage, preserving the spacious terraces and a large courtyard while opening up and modernising the internal space into contemporary offices. The property has achieved international BREEAM Excellent and HQE Outstanding environmental certifications which are the highest level of sustainable building assessments in Europe. We have successfully leased the entire office and one of the two retail spaces to tenants commencing in 2018.

## Clubs and Services

Clubs and Services	Revenue	Variance	
	HK\$m	In HK\$	In Local Currency
The Peak Tram	128	+7%	+7%
The Thai Country Club	61	+9%	+4%
Quail Lodge & Golf Club	160	+10%	+10%
Peninsula Clubs & Consultancy Services	6	-91%	-91%
Peninsula Merchandising	240	+11%	+11%
Tai Pan Laundry	55	+10%	+10%

**The Peak Tram** is one of Hong Kong's most popular tourist attractions and is approaching 130 years of operation under our group in 2018. Revenue increased although patronage declined slightly for the full year 2017.

We renewed our operating rights to the Peak Tram from 1 January 2016 for a ten-year period, which paves the way for a project to increase the capacity of the trams and create much-improved waiting areas for our customers. The Peak Tram is considered a “must-see” attraction for most visitors to Hong Kong and while it is a unique experience, we recognise the long queues to board during peak hours can be a source of frustration for visitors and we are working to improve their experience and comfort. To further enhance passengers' experience and reduce waiting time, we are investing in a new ticketing system and a full upgrade of the Peak Tram system and facilities. Extensive planning, design and preparation has already been carried out with the support of numerous consultants and the Hong Kong Government. Full details of the upgrade plan, which involves an investment of around HK\$ 680 m will be released in 2018, subject to approval by the Hong Kong Government.

**The Thai Country Club** was delighted to host the Thailand Open in May 2017 which led to significant recognition for the club which won “Best Golf Club Experience in the Asia Pacific” at the *Asian Golf Awards* in 2017. The Club is located near to Bangkok and recorded an increase in revenue for the full year despite Thailand experiencing a soft market, during the one-year mourning period following the sad passing away of His Majesty King Bhumibol Adulyadej. Corporate events and tour groups were cancelled until October 2017 although we are starting to see a rebound in this market since the end of the mourning period.

**Quail Lodge & Golf Club** had a stronger year with revenue increasing by 10%. This was due to a successful marketing strategy, online travel agency (OTA) promotions, as well as improved golf membership sales and golf rounds. The wedding market was strong in 2017 and our food and beverage revenue from *Edgar's*, *Covey's* and banqueting improved thanks to increased business from the Lodge and an improved food and beverage offering to guests and the public.

*The Quail Motorcycle Gathering*, a Peninsula Signature event, welcomed 2,000 visitors in May 2017 and continues to grow from strength to strength. This event was followed in August by the highly successful *The Quail: A Motorsports Gathering*, which occurs during Monterey Car

Week and has become one of the world's leading concours events for classic car aficionados, attracting more than 5,000 visitors. Also in August, to coincide with *The Quail*, the second *The Peninsula Classics Best of the Best Award* – an event bringing together the “2017 Best of Show Winners” from six of the top concours events around the globe to compete for the title of the most exceptional car in the world. This brought the Peninsula brand to the attention of leading car aficionados and collectors.

**Peninsula Clubs & Consultancy Services** manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and Butterfield's, which was reopened as “The Refinery” at the end of 2017. As of 1 May 2016, HSH and Cathay Pacific Airways Limited agreed to end the Peninsula's management of the Cathay Pacific Lounges at Hong Kong International Airport. This decision was taken with a strategic long-term view of both companies' business interests. The decline in revenue in 2017 was due to the termination of the Lounges management, although there were also commensurate cost savings.

Revenue at **Peninsula Merchandising** was 11% higher than the same period last year, driven by higher sales and brand awareness following the launch of the new Peninsula Boutique at Hong Kong International Airport. The Peninsula Boutique is investing in its marketing and won the *MARKies Bronze Award* for “Best Idea” (Web Design) in 2017. Peninsula Merchandising sales are driven by the very popular Peninsula Mooncakes which are sold in autumn and are gaining popularity around the world beyond the traditional market of Hong Kong. Peninsula Merchandising has implemented a new strategy of a broader product range and seasonal promotions, which is expected to lead to a long-term increase in revenue as well as a broader earnings base.

**Tai Pan Laundry** increased revenue by 10% to HK\$55 million, mainly due to more contracts and an improved pricing strategy.

## Projects

### 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 for an additional cash consideration of £107.5 million. Grosvenor will remain as the freeholder under the 150-year lease.

The total development cost of the project is expected to be around £650 million. This property is in a spectacular location overlooking Hyde Park Corner and the Wellington Arch, and will feature a luxury 189-room hotel and a select number of luxury residential apartments for sale. The hotel and apartments will set new standards in luxury and service and we believe they will be the finest in the London market when complete, currently scheduled for 2021.

The last remaining office tenants moved out in April 2017 and demolition was completed by the end of 2017, with a groundbreaking ceremony for The Peninsula London held on 2 November 2017.

## **The Peninsula Istanbul**

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

The partners agreed to jointly develop the property with an investment commitment of approximately €300 million, of which HSH was responsible for 50% or approximately €150 million.

Demolition on the project site began in June 2016 and despite unforeseen site conditions and challenges with the heritage building, good progress was made in 2017, with an expected completion date in mid 2020. There will be approximately 180 rooms, a ballroom with sweeping views of the Bosphorus, indoor and outdoor swimming pools, spa and a verdant garden on the waterfront.

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

## **The Peninsula Yangon**

The Company entered into a conditional agreement with Yoma Strategic Holdings 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 heritage property will be restored 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 fees on the sale of The Peninsula Residences Yangon, luxury residential apartments within the Yoma Central development, and will manage the residences post sale.

The Peninsula Yangon will have 88 guestrooms, surrounded by garden terraces and tropical landscaped gardens with an outdoor swimming pool.

The Group's overall investment is expected to be around US\$126 million, including the value of the leasehold interest and estimated development costs. The groundbreaking ceremony was held on 16 February 2017. We look forward to continuing to work with our partners to complete this project by 2021.

## **Human Resources**

Attracting and developing our talent remains a key focus of our company. We are committed to creating a culture of engaged employees across the Group, and a particular focus is to attract and retain talent, as well as widening our succession planning in the light of our development.

The travel and tourism sector often suffers from high turnover of staff, however, we are pleased to report a low voluntary turnover rate among our staff compared with the industry. Having a well-trained and engaged workforce is critical to our work culture and to deliver quality service to our guests.

As of 31 December 2017, there were 7,534 full time employees in the Group.

### **Sustainable Luxury Vision 2020**

As a company with 150 years of history, HSH is committed to delivering the highest standards of luxury in a sustainable way, this is reflected in our Sustainable Luxury Vision 2020, launched in 2013.

In 2017, we saw a good outcome of our continued energy and water efficiency efforts and we continued to see good progress in achieving over 80% of our commitments, although we have encountered challenges. Since the implementation of our Sustainable Luxury Vision 2020 strategy, we have become more aware of the systemic and multi-dimensional nature of sustainability issues. With a more nuanced understanding, we are reassessing our approach, recognising that addressing these challenges requires concerted efforts and collaborative solutions with other stakeholders. We are focusing our efforts in three key areas of “Our People, Our Guests, and Our Cities”. More details can be read in the Corporate Responsibility and Sustainability Report which is available online.

### **Outlook**

The strength of our Group continues to emanate from our genuine focus and commitment to long-term value creation. This provides the vision and willingness to make decisions that we believe are in the best long-term interests of the company and its shareholders and the staying power to ride through shorter-term cycles in the economy. In the volatile economic, political and social circumstances that we see today, this approach has enabled us to make investment and capital expenditure decisions with a very long-term outlook and to maintain our service quality and the continuity of our people. With this in mind, I remain optimistic that we are continuing to pursue a course which will maximise the value of our assets and operations and deliver appropriate returns to our shareholders over time.

Our corporate development and investment strategy continues to focus on the enhancement of our existing assets, seeking opportunities to increase their value through new concepts or improved space utilisation, and the development of a small number of the highest quality Peninsula hotels in the most prime locations with the objective of being a long-term owner-operator. This is the approach which we believe has enabled us to establish and sustain a brand which is now recognised as possibly the leading luxury hotel brand in the world, thereby creating value in each Peninsula hotel through both asset value appreciation and operational earnings growth.

In terms of outlook for the coming year, we continue to experience a stable and improving luxury hospitality market in Hong Kong, as well as solid demand for our luxury residential lettings. Demand continues to be good for overall tourism as reflected in the performance of the Peak Tram. We are also seeing some improvements in the luxury retail sector although the overall market continues to adjust from the previous “boom” years.



Outside Hong Kong, we are experiencing stable, albeit competitive, markets in the US, China and Japan. We are seeking to increase our market share at our recently renovated properties The Peninsula Chicago and The Peninsula Beijing and we are hopeful of a continued recovery for The Peninsula Paris both from a return of high-end Middle Eastern business and general stability following the uncertainties of the last few years. Unfortunately, relatively low rates for our hotels in Bangkok and Manila remain an issue.

We continue to focus our efforts on creating personalised bespoke services and experiences for our guests, as well as managing our margins both from driving revenues and containing costs. We have invested significantly in our customer data base management in order to provide better information for our marketing and operational teams to personalise our offerings to guests.

Looking to the longer term, we agree with the assessment of the World Travel and Tourism Council (WTTC) that the global travel and tourism industry is expected to grow at above global GDP rates for the next decade. We firmly believe that affluent travellers will continue to seek and appreciate highly personalised experiences, attention to detail and a genuine service culture and it is with this believe that we have the confidence to continue developing a small number of Peninsula Hotels as an owner operator. We expect that the new hotels in London, Istanbul and Yangon will further enhance our brand presence when they open in 2020-2021.

Overall, our Company remains in a strong financial position with a highly motivated and dedicated team of management and staff who are committed to our long-term vision. With the quality of our operating properties and the exciting new projects under development, we remain confident and positive about the future, whilst being ready and able to ride out the shorter-term fluctuations in the markets in which we operate.”

#### **About The Hongkong and Shanghai Hotels, Limited (HSH)**

Incorporated in 1866 and listed on The Stock Exchange of Hong Kong (00045), HSH is the holding company of a Group which is engaged in the ownership, development and management of prestigious hotel, 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. The Peninsula Hotels portfolio comprises The Peninsula Hong Kong, The Peninsula Shanghai, The Peninsula Beijing, The Peninsula Tokyo, The Peninsula New York, The Peninsula Chicago, The Peninsula Beverly Hills, The Peninsula Paris, The Peninsula Bangkok, and The Peninsula Manila. Projects under development include The Peninsula London, The Peninsula Yangon and The Peninsula Istanbul. The property portfolio of the Group includes The Repulse Bay Complex, The Peak Tower and St. John’s Building in Hong Kong; The Landmark in Ho Chi Minh City, Vietnam and 21 avenue Kléber in Paris, France. The clubs and services portfolio of the Group includes The Peak Tram in Hong Kong; Thai Country Club in Bangkok, Thailand; Quail Lodge & Golf Club in Carmel, California; Peninsula Clubs and Consultancy Services, Peninsula Merchandising, and Tai Pan Laundry in Hong Kong.

#### **For media enquiries:**

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