



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

17 MARCH, 2020

**THE HONGKONG AND SHANGHAI HOTELS, LIMITED
ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER, 2019**

Key financial results

- The unforeseen social unrest in our core market of Hong Kong and heightened US-China trade tensions created a difficult operating environment for the company in 2019
- The impact was felt more acutely because of our planned service suspension of the Peak Tram during the first phase of its major upgrade project, as well as the higher group costs associated with supporting our on-going new hotel projects in London, Istanbul and Yangon
- Revenue and EBITDA amounted to HK\$5,874 million (2018: HK\$6,214 million) and HK\$1,390 million (2018: HK\$1,680 million) respectively
- Profit attributable to shareholders amounted to HK\$494 million (2018: HK\$1,216 million), inclusive of net property revaluation gain of HK\$83 million (2018: HK\$523 million). Excluding the non-cash investment property movements, our underlying profit* amounted to HK\$480 million (2018: HK\$738 million)
- Our underlying earnings per share was HK\$0.30 (2018: HK\$0.46)
- Our gearing remains low with 13% net external debt to total assets and 19% net debt (including lease liabilities) to total assets
- We are declaring a final dividend of 9 HK cents per share (2018: 16 HK cents per share), making a total dividend of 13 HK cents per share for 2019 (2018: 21 HK cents per share)
- Shareholders' funds as at 31 December 2019 amounted to HK\$39,054 million (2018: HK\$38,664 million) or HK\$23.90 per share (2018: HK\$23.97 per share)

Outlook

- The outbreak of the COVID-19 coronavirus started to significantly negatively impact our operations in Greater China in late January 2020, and this has now spread all over the world, affecting all of our global operations. Our hotels have seen substantial room cancellations and restaurant closures as a result of government travel restrictions, quarantines and lockdowns. As at the time of writing, we have seen a devastating revenue decline in all of our hotel operations as well as at the Peak Complex and Peninsula Merchandising. We are now focused on all possible operational cost containment options, as well as deferring capital spend where possible. We continue to monitor the Group's financial and liquidity position which remains healthy

- We are hopeful that the spread of the coronavirus will be brought under control in the next few months and that the impact of this on the travel trade will recede. However, we continue to be concerned about the political situation in Hong Kong and the possibility that the social unrest may continue and escalate again in 2020. Besides the Hong Kong political situation, various other global uncertainties may continue to affect our business, such as the impact of Brexit, the political situation in France and uncertainties in Turkey and Syria
 - The unaudited revenue of the group for the two months ended 29 February 2020 was down by 21% compared to the same period in 2019. Based on the information currently available, management estimates that the group will sustain an operating loss in the first quarter of 2020, despite measures to contain costs. The actual impact may differ from these estimates as the situation continues to evolve
- * *Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items.*

HSH'S 2019 ANNUAL RESULTS

Hong Kong, 17 March 2020

The Hongkong and Shanghai Hotels, Limited today announced its annual financial results for 2019. We are pleased to share a Strategic Review from Mr Clement K.M. Kwok, Managing Director and Chief Executive Officer of The Hongkong and Shanghai Hotels, Limited (HSH), as well as the HSH Group Operational Review.

CEO'S STRATEGIC REVIEW

1. Introduction

2019 was a very difficult year in our home city of Hong Kong due to the serious social unrest and mass protests on the streets. No matter what one's political beliefs are, the violence and destruction was heartbreaking to witness and it is fair to say that a wide divide has emerged amongst Hong Kong's usually peace-loving, family-oriented society.

On the business front, the situation had a very negative effect on our group. 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. On the operations side, we rapidly adopted crisis monitoring and handling procedures, with our number one priority being the safety of our guests and staff. At the time of writing in early 2020 we are currently facing a very concerning situation with the outbreak of the COVID-19 coronavirus which has had a devastating impact on the Chinese mainland and has spread around the world. Amidst the downturn in business brought about by these crises, we are striving to preserve jobs as a key priority. I would like to express my appreciation for all my colleagues around the world for their loyalty and their hard work at such a difficult time.

Even in difficult times like the present, we remain focused on the long term. Our financial and resources commitment to our development programme, comprising the new Peninsula projects in London, Istanbul and Yangon and the Peak Tram upgrade project, remains unaffected. I am positive that with our Peninsula team spirit we can survive and come through better and stronger than before. It is this spirit, and our culture, that lies at the heart of our business strategy and 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 an exceptional heritage. 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
- 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. We are therefore not willing to undertake hotels on a management contract-only basis. 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 more than 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.

3. Business overview

Our group currently owns and operates ten Peninsula hotels which are located in the key gateway cities of Hong Kong, Shanghai, Beijing, Tokyo, New York, Chicago, Los Angeles, Paris, Bangkok and Manila. Throughout the years we have maintained a significant investment programme to enhance the physical condition and quality of these properties, most recently 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 tourists the opportunity to enjoy Hong Kong's panoramic views and this has been highly successful as a source of revenue.

With the objective of diversifying our revenue sources and increasing brand recognition in markets where we do not operate a Peninsula hotel, we established Peninsula Merchandising Limited which is included in our clubs and services division. This subsidiary 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. A selection of merchandise is also available for purchase online and delivery in Hong Kong, Japan, Taiwan, Shenzhen and Guangzhou.

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\$684 million upgrade project which is entirely 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 timing of upgrading 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 grown from HK\$10.03 per share in 2002 to HK\$26.20 per share in 2019.

We are currently investing for the future and our focus for the next few years 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. With the substantial capital commitments that these projects entail, amounting to some HK\$7 billion over the next two years, we continue to carefully monitor our company's financial position. We have a strong treasury management strategy and a proactive approach is taken 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 external debt to total assets ratio is currently 13%, which we believe to be comfortable taking into account the expected financial obligations of our new developments.

Due to the adverse situation in Hong Kong, we are reporting an unfavourable set of financial results for 2019. The company's combined EBITDA, including the group's effective share of EBITDA of our associates and joint ventures, decreased by 17% from the previous year to HK\$1,510 million. The company's net profit attributable to shareholders decreased by 59% from the previous year to HK\$494 million, inclusive of the revaluation gain on the group's investment properties of HK\$83 million (2018: HK\$523 million). Our underlying earnings amounted to \$480 million compared to HK\$738 million in 2018.

Much of the cash invested in our new projects during the year was provided by funds generated from operations which amounted to HK\$1,366 million as compared to our normal capital expenditures of HK\$395 million and the Peak Tram upgrade and new project expenditures of HK\$1,499 million. The net cash outflow of the company after taking account of all capital expenditures, interest and dividends paid amounted to HK\$794 million.

5. Driving business

We believe the fundamentals of luxury hospitality do not change over time. Our strategy is to attract and engage our guests and we aim to generate a high percentage of repeat business. We offer a high level of personalised service, attention to detail and warm hospitality. In 2019, this was demonstrated by our achievement of receiving the highly coveted Forbes 5-star rating for all ten of The Peninsula Hotels in operation, becoming the first and only hotel company in the world to obtain this accolade for all its hotels. We receive significant recognition and accolades for our services from other prestigious publications and organisations.

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.

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 2019 we undertook a major review of our Peninsula service standards. We have engaged external consultants and conducted guest surveys to better understand their expectations and how we can stay at the forefront of luxury hospitality. We have streamlined our stringent behavioural standards into nine core principles with the objective of empowering our staff to go above and beyond to engage with guests. This programme will be rolled out in 2020.

During the year we have invested in refreshed marketing collateral, content and partnerships to present the brand in a more meaningful, relevant and engaging way, while building on our rich history and heritage.

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, and fostering entrepreneurship and innovation. Projects under development in 2019 and 2020 include back-of-house automation, food waste management solutions, air purification systems and behavioural analysis for enhanced personalisation, as well as data analytics and digital marketing capabilities.

Our startup programme, Kaleidoscope Lab, was developed in collaboration with Stanford Research Institute, under the direction of our Technology Steering Committee, and this provides an additional avenue to explore ways to integrate innovative technology into our business.

Appreciation of art and supporting local artists is a key part of our strategic marketing plan. The Peninsula provides guests and visitors the opportunity to engage with immersive, experiential art, creating memories that will last for a lifetime. In March 2019, a multi-year global contemporary art programme, Art in Resonance was launched during Art Basel Hong Kong. We are committed to promoting the rich and vibrant cultural aspects of our destination cities – such as hosting local artists as part of our ‘Artist in Residence’ programme which is designed to support emerging artists while also providing guests access to culturally-representative pieces.

In June we partnered with world-leading independent arts charity BAFTA (the British Academy of Film and Television Arts) in Shanghai for the launch of their new programme ‘BAFTA Breakthrough China’. This was an initiative designed to identify and nurture the next generation of creative talent in Asia.

On the sales side we continued to focus on strengthening our relationships with PenClub members, our in-house preferred travel partner programme. Increasing guest direct business is a key goal for the sales and marketing team and we are placing a particular emphasis on driving business from the Chinese mainland. We will focus on adding value to our Greater China Shopping Arcade business and will adopt WeChat as a preferred communication platform. During the year we hosted quarterly Greater China regional meetings with senior executives who review the group’s Chinese mainland business and brand loyalty for the Greater China operations.

6. Managing risk

Operating a business across multiple 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 CFO, 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 have adopted a 5-step Risk Management Methodology to ensure the risk assessment process and internal controls remain current.

In 2019 there were some changes in the identified principal risks, including increased risk of our business portfolio concentration and increased reputational and financial risk due to the volatile nature of the social unrest in Hong Kong. The global trend of tightening privacy laws such as the EU’s GDPR and the California Consumer Privacy Act has increased the challenge of compliance. The increasing rise in cybercrimes has also exposed us to higher risks of data security breaches.

7. Investing in our people

Building a team of exceptional people is the key to executing our strategies. The culture of our company has cultivated a loyal and committed team spirit which has resulted in a stable and cohesive management team. This team spirit starts at the top of the organisation with our majority owners the Kadoorie family and we adhere to a core set of values and integrity that permeates through all levels of the company. We believe it is important to safeguard this culture as we add significant numbers of new people to our group, with three new hotel properties coming on board. In addition to attracting and retaining talented individuals, our key objective is to develop our existing talent and to harness their potential, allowing us to become more agile and nimble as a group.

To motivate and engage our team we place a significant focus on training, career development, genuine caring for our staff, empowerment and providing a proud, confident and happy working environment. 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.

We conducted an employee engagement survey during the year and the results were encouraging, with responses in every category ranking well above the global average. We had a very high voluntary response rate of 89%, while 91% of our employees stated they felt proud to work for the company, and 85% were “extremely satisfied” with the company as a good place to work (both results were 11% higher than the global average).

Our Corporate Management Trainee programme attracts hundreds of applicants and after a stringent hiring process, we select the best talent to participate in the programme to become our future leaders. We are committed to employing a diverse workforce and we hire people from ethnic minorities in Hong Kong through our Ethnic Minority programme.

During 2019 we continued to develop a new global employer branding campaign to assist with our recruitment efforts for the three new projects as well as each operation, targeted to their own hiring needs. We have also developed an employee experience survey and a new “onboarding” and “offboarding” process to allow us to gain insights on how we can continue to enhance our employees’ working experience.

As of 31 December 2019, there were 7,451 full time employees in the group.

8. A 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. We have created awareness and buy-in towards sustainability throughout our company, and we hope that it becomes 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 have the opportunity to offer our guests sustainable choices without compromising on the high quality of our products and services. Our sustainability strategy, originally developed as Sustainable Luxury Vision 2020 (Vision 2020), has been revamped our approach to focus on the three key stakeholders central to the success of our business: *Our Guests, Our People and Our Cities*.

In 2019, over 89% of the goals set in Vision 2020 were on track to be achieved. Looking beyond 2020, we are developing our next sustainability strategy with a focus on further business integration and we are taking a regenerative and proactive approach. Our new strategy will leverage the strengths of our business, focusing on issues requiring significant and urgent attention, scaling positive benefits from our business, while effectively reducing our environmental impact.

9. Outlook

Since its outbreak in January 2020 and its subsequent spread to countries outside China, the COVID-19 novel coronavirus has led to global travel advisories and unprecedented airline cancellations. This has led to a significant decline in tourist arrivals to Hong Kong and the Chinese mainland and has impacted other Asian markets, the US and Europe.

Many large-scale events have been cancelled in the region and this is having a substantial negative impact on our business. We are implementing emergency measures to keep our staff and guests safe as a priority, and financial management and stringent cost controls are being implemented 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, we estimate that the group will sustain an operating loss in the first quarter of 2020 due to the continuing global spread of the coronavirus and the devastating impact on tourism.

We are hopeful that the spread of the coronavirus will be brought under control in the next few months and that the impact of this on the travel trade will recede. However, we continue to be concerned about the political situation in Hong Kong and the possibility that the social unrest may continue and escalate again in 2020. Besides the Hong Kong political situation, various other global uncertainties may continue to affect our business, such as the impact of Brexit, the political situation in France and uncertainties in Turkey and Syria.

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 2021 onwards, and to create value for stakeholders over time.

On the property side, we were encouraged by a pleasing number of rental renewals at our arcades at The Peninsula in Hong Kong, Shanghai and Beijing in 2019, although the short-to-medium term impact of the coronavirus may have a negative effect on our tenants and we are working with them to find solutions. 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 2020 during its improvement and upgrade programme that was previously announced to shareholders. In the long term 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. We are proactive in managing the group's liquidity. In the first three months of 2020, we have further obtained committed facilities to ensure the group's capital commitments are fully funded and have sufficient liquidity to support us through this period of business downturn.

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 our company consistently lives up to its unique brand proposition. I would like to thank each member of my team who contributes to our company's success year after year.

OPERATIONAL REVIEW

2019 was a challenging year for our group operational results, although we had some positive results among our diverse portfolio. We benefit from a strong brand in our hotels business, with The Peninsula being recognised as one of the finest hotel brands in the world, and our property and other businesses offer stability against the cyclical nature of the hotel industry. The major negative impact on our financial results was caused by the social unrest in Hong Kong, combined with ongoing uncertainty over the US-China trade war, which affected our tourism-related businesses in our home market of Hong Kong. Our commercial properties, clubs and Peninsula hotel properties in the US and the rest of Asia were generally stable during the year.

At the time of writing, the outbreak of the COVID-19 coronavirus has resulted in widespread travel advisories and airline cancellations. This has significantly negatively impacted the group's tourism-related businesses in Hong Kong including the Peak Tram and Peak Tower, and particularly our three hotels in Hong Kong, Shanghai and Beijing. Other markets around the world are also being impacted. We are very concerned about the outlook for the first half of 2020.

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	1,104	-18%	-18%
The Peninsula Beijing	323	-1%	3%
The Peninsula New York	716	-1%	-1%
The Peninsula Chicago	639	2%	2%
The Peninsula Tokyo	876	1%	0%
The Peninsula Bangkok	293	0%	-4%
The Peninsula Manila	235	-1%	-3%
Non-consolidated hotels			
The Peninsula Shanghai	539	-10%	-6%
The Peninsula Beverly Hills	593	-3%	-3%
The Peninsula Paris	578	-1%	4%

The Peninsula Hong Kong

The Peninsula Hong Kong		
Revenue	HK\$1,104m	-18%
Occupancy		-20pp
Average Room Rate		-8%
RevPAR		-34%

2019 was an extremely challenging year for our flagship hotel, **The Peninsula Hong Kong**. Although the hotel was the market leader in average rate in the first half of 2019, this position slipped in the second half due to the social unrest and mass protests which took place in the city from June onwards. Government travel advisories from many countries including our key segments of the United States and Japan severely impacted tourist arrivals in Hong Kong, leading to an overall decline of 18.8% in overnight arrivals in the city and this negatively impacted our business. In response to the soft demand, we offered special “staycation” rates for the local market and incentives to corporate clients and partners, as well as implementing stringent cost control measures.

One of the highlights during the year was the inaugural *Art in Resonance* at The Peninsula Hong Kong in March 2019, coinciding with Art Basel Hong Kong, one of the world’s premier art fairs for modern and contemporary art. The Peninsula Hotels worked alongside respected curators to carefully select contemporary artists Janet Echelman, Iván Navarro, Timothy Paul Myers and the Shanghai-based architecture collective MINAX. The Gala event was well received in the art community and by global media.

We were delighted that *Gaddi’s* was awarded a Michelin star in December 2019, and our Cantonese restaurant *Spring Moon* achieved its Michelin star for the fourth consecutive year.

The Peninsula Office Tower was 96% occupied throughout 2019. The Peninsula Arcade occupancy was 84% and the overall environment in Hong Kong for luxury retail remained soft. We collaborated with a high-end luxury jewellery brand to design a bespoke Signature Afternoon Tea and to help promote the Arcade to guests.

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*, “Best Business Hotel in Hong Kong” by *Business Traveller China* and “Number 2 Best City Hotel in Hong Kong” by *Travel + Leisure* magazine.

The Peninsula Shanghai

The Peninsula Shanghai		
Revenue	RMB476m	-6%
Occupancy		+1pp
Average Room Rate		-6%
RevPAR		-6%

The Peninsula Shanghai remains the market leader in average room rate in the city. It enjoys a unique location on the historic Bund and is the only hotel in China with two Michelin-starred restaurants. We were delighted to be named as the “No. 1 Best Hotel in Shanghai” by *Travel + Leisure* magazine and “Best Luxury Hotel in China” by *City Travel*.

Occupancy slightly increased year-on-year. However, the hotel reported a softer 2019 in terms of average rate and RevPAR, due to intense competition and increased supply of luxury hotels compared to 2018.

The domestic Chinese mainland market continued to be our largest revenue driver and we enhanced our marketing activities on local platforms. We also recorded increasing arrivals from the Russia and Middle East markets. The US-China trade war negatively impacted corporate travel and groups business from the US market. We initiated a number of promotions at *Yi Long Court* and *Sir Elly's*, as well as a newly-themed The Peninsula Afternoon Tea to attract more food and beverage business.

In June 2019, we were proud to partner with world-leading independent arts charity BAFTA (the British Academy of Film and Television Arts) on the launch of their new programme 'BAFTA Breakthrough China' at No. 1 Waitanyuan, the property which we operate adjacent to the hotel. This is an initiative designed to identify and nurture the next generation of creative talent in Asia.

In addition to the hotel, The Peninsula Shanghai Complex also comprises a shopping arcade and a residential tower of 39 apartments. By the end of 2019, a total of 29 residential units have been sold (although no apartments were sold in 2019) and The Peninsula Arcade was 94% occupied, with recent leasing momentum remaining stable.

The Peninsula Beijing

The Peninsula Beijing		
Revenue	RMB285m	+3%
Occupancy		+1pp
Average Room Rate		-3%
RevPAR		-2%

The Peninsula Beijing reported positive revenue growth for 2019, although the recovery following the hotel's major transformation in 2018 has been slower than expected. The hotel was the rate leader in our competitive set for the year and we were delighted to be included in the Verified List for the "World's Best Hotel Rooms in 2019" by *Forbes Travel Guide* and No 2 "World's Best Hotels in Beijing" by *Travel + Leisure*.

As the only luxury all-suite hotel in the Chinese capital, we were proud to celebrate the hotel's 30th anniversary year in 2019 by inviting guests born in 1989, the hotel's opening year, to celebrate their 30th birthdays together with a range of promotions.

The Chinese mainland domestic market was the main driver of revenue; however the ongoing US-China trade war negatively impacted business from the United States. We are implementing a strategy to focus on diplomatic and group bookings for the coming year and are proud to have welcomed several heads of state during 2019.

Following the renovation of our dining outlets and new positioning of *Jing*, we have launched new marketing campaigns to drive our food and beverage business.

The Peninsula Arcade was 67% occupied and has welcomed a number of new luxury brands to the Arcade which have been well received by guests.

The Peninsula Tokyo

The Peninsula Tokyo		
Revenue	JPY12.22b	+0%
Occupancy		-3pp
Average Room Rate		+11%
RevPAR		+7%

We were delighted to report a strong year for rooms business at **The Peninsula Tokyo** with double digit growth in average rates and increased RevPAR. The peak *sakura* (cherry blossom) season was particularly robust and we reported increasing arrivals from the US, Chinese mainland and the domestic Japanese market. The Middle East market continues to grow at a healthy pace.

Food and beverage revenue was soft compared to the same period last year, due to weak demand from the wedding market and the general Meetings, Incentives, Conferences and Exhibitions (MICE) market. We launched a number of marketing initiatives to boost revenue. In April 2019 we welcomed a new tenant restaurant, *Sushi Wakon*, featuring two Michelin-starred Chef Rei Masuda. We also launched an exclusive high-end, limited-edition Peninsula whisky which sold out within months of its release. In November and December, our signature contemporary grill restaurant, *Peter*, partnered with Blue Note Tokyo, the city’s premier location for live jazz performances, which proved highly popular with guests.

We continued our efforts to drive family business by expanding our children’s programme in a collaboration with The Pokémon Company, a long-time partner of the hotel. The Peninsula Spa revenue continues to remain strong due to the launch of an exclusive line of treatments and retail products.

Our “Keys to the City” programme offers The Peninsula Tokyo guests insider access to “Only-in-Tokyo” moments and experiences.

The Peninsula Bangkok

The Peninsula Bangkok		
Revenue	THB1,154m	-4%
Occupancy		-5pp
Average Room Rate		+10%
RevPAR		+2%

The Peninsula Bangkok experienced mixed results in 2019, impacted by a slower economy and uncertainty over the country’s first elections since 2014. Our hotel was also negatively affected by extensive roadworks adjacent to our property which impacted our food and beverage and catering business, although in the long term this will benefit our hotel as the construction relates to a new monorail station to access ICONSIAM, one of Bangkok’s largest shopping malls.

Despite these challenges, the hotel reported positive growth in average rates. Our strategy continued to focus on driving MICE business and suite bookings. We were delighted to position the hotel at the forefront of Thailand’s thriving arts scene by becoming the first luxury hotel in Bangkok to offer an Artist in Residence programme, which welcomed Thai and international artists to live and work for two months in a custom-created studio at the hotel. In summer, we launched an innovative “The Art and Augmented Reality (AR) Afternoon Tea”.

A legal dispute between HSH and the Phataraprasit shareholders, who own 50% of the property, is ongoing. The partners have been taking legal and other actions with the objective of terminating Peninsula’s management of The Peninsula Bangkok. HSH will vigorously defend its rights in this dispute. Pending the outcome of the appeal and other legal processes which are ongoing, The Peninsula Bangkok continues to be operated by The Peninsula under the hotel management agreement which continues to be legally binding.

The Peninsula Manila

The Peninsula Manila		
Revenue	Php1,548m	-3%
Occupancy		+4pp
Average Room Rate		-1%
RevPAR		+4%

The Philippines experienced a 15.2% increase in foreign tourist arrivals year-on-year, with the Korean market remaining No 1 and the Chinese mainland being the fastest-growing inbound market with a double-digit year-over-year growth. The re-opening of Boracay Island further boosted tourism into the Philippines for 2019, highlighting “sustainable tourism” as a key focus.

The Peninsula Manila increased its occupancy and RevPAR during the year despite intense and increasing competition in a highly price-sensitive market, albeit with a reduced room inventory as part of its renovation programme. We commenced our room refurbishment in April 2019, with refreshed décor in our guest rooms and suites and The Peninsula’s most updated in-house technology. We unveiled *The Gallery Club Lounge*, a new 90-seat guest lounge accessible to suite guests, featuring a range of food and live music.

Manila continues to develop as a high-end culinary destination. We launched a partnership with three of Manila’s top chefs who will bring 15 of Asia’s Top Chefs for a series of luxury dinners throughout the year. Our food and beverage operations performed satisfactorily with nearly all outlets achieving positive revenue growth as compared to last year. We were delighted to receive the accolade of “World’s Best Hotel Bars” by *Forbes Travel Guide for The Bar*, which was the only bar in the Philippines to achieve such an award.

The Peninsula New York

The Peninsula New York		
Revenue	US\$92m	-1%
Occupancy		-3pp
Average Room Rate		+2%
RevPAR		-1%

New York City reported a strong year in term of tourist arrivals in 2019, mostly coming from the US domestic market and Canada, Chinese mainland and the UK. However, the Middle East market segment overall continues to be impacted by the US Administration’s travel restrictions and geopolitical tensions, and this also impacted our hotel business, although corporate business from other markets was stable. Overall, **The Peninsula New York** had a challenging rooms business in 2019 with a slight decline in RevPAR.

The Peninsula New York’s food and beverage performance improved in 2019 over the previous year. In *Gotham Lounge* we introduced a limited-edition collaboration with Ladurée Paris to enhance our signature Afternoon Tea. The hotel’s rooftop bar, *Salon de Ning*, reported increased revenue from a glamorous new feature, *Chalet de Ning*, which was launched in November and comprised two chalet-inspired heated domes, which proved popular with guests and attracted significant positive media coverage.

In April 2019, we presented Home, an art exhibition honoring the notions of home, identity and community, as an ode to The Peninsula’s larger commitment to celebrating family and heritage. The exhibition featured a curated selection of original works by artists including Do Ho Suh, Catherine Opie, Angel Otero, Ashley Bickerton and Heidi Bucher, among others.

The Peninsula New York continued to work closely with the local community and supported The New York Center for Children, our local charity partner which helps vulnerable children to achieve their full potential. Amongst other accolades, we were delighted to achieve the 2019 Positive Luxury Award for “Excellence in Sustainability”.

The Peninsula Chicago

The Peninsula Chicago		
Revenue	US\$82m	+2%
Occupancy		+0pp
Average Room Rate		-1%
RevPAR		-1%

Chicago is a city that is highly dependent on the convention industry which tends to move in biannual cycles. In 2019 the city experienced a slowdown in large-scale events, with group business declining 7.3% in overall occupancy year-on-year, although this is expected to pick up again in 2020. Choose Chicago, the official tourism organisation for Chicago, relaunched its website and increased its focus on attracting international and LGBT visitors to the city, which is usually heavily dependent on the domestic US market. Chicago supply continued to increase with the additions of luxury and popular boutique hotels entering the market creating a 3.6% growth in supply. Over the past five years Chicago has seen an 11% growth in room supply to the city.

Despite the challenging environment, **The Peninsula Chicago** reported a stable year, achieving #1 RevPAR and average rate leader amongst our competitive set, despite the significant new supply in the city.

We were delighted to receive many accolades throughout the year, including “No 1 Best Luxury Hotel in the US” by *Tripadvisor*, “No 2 Best Hotel in the US” by *Global Traveler* as well as “No 1 hotel in Illinois” and “No 2 in the United States” from *U.S. News and World Report* respectively, which is a testament to the popularity of the hotel following its extensive renovation in 2016. Our rooftop bar *Z Bar* which opened in 2018 was awarded “The World’s Best Hotel Bars” by *Forbes Travel Guide*.

For the fifth consecutive year, we hosted a contemporary art exhibition that coincided with Expo Chicago, the International Exposition of Contemporary & Modern Art. We partnered with three extraordinary artists, James Nares, Ivan Navarro, and Naama Tsabar, whose practices explore movement, sound, and electricity, engaging with the rhythm and structure of the urban environment.

The Peninsula Beverly Hills

The Peninsula Beverly Hills		
Revenue	US\$76m	-3%
Occupancy		-3pp
Average Room Rate		-1%
RevPAR		-4%

The Peninsula Beverly Hills achieved a plethora of recognition in 2019 including “The Best Hotel in the US” by *Global Traveler* magazine in 2019, “No. 1 hotel in Los Angeles” by *Tripadvisor*, “No. 1 Best City Hotel in Greater Los Angeles” by *Travel + Leisure*, and achieved the accolade of “World’s Best Hotel Bars – The Club Bar” by *Forbes Travel Guide*. The hotel has achieved AAA Five Diamond and Forbes Five Star ratings every year since 1993.

In terms of financial results, 2019 was a challenging year and the hotel reported softer rates, occupancy and RevPAR over the previous year. *The Belvedere* and *The Club Bar* performed well.

The weaker performance was partly due to the decreasing arrivals from the Middle East and the UK, partly due to the political uncertainty in those regions. We also noted increased supply in the Beverly Hills area from online accommodation aggregators. Unseasonably cold weather was also a factor impacting leisure travel arrivals to Los Angeles.

To manage the challenging year we implemented cost controls and implemented new marketing strategies, with a focus on groups business. In May 2019 we redesigned the award-winning Peninsula Spa and introduced a new high-end product line which has been well received by guests. We launched an Emerging Artist Series on the Terrace to celebrate vibrant LA street art, with proceeds donated to an LGBT-focused mental health charity, The Trevor Project.

As the epitome of Hollywood glamour, we remain the hotel of choice for celebrities, particularly during awards season and our guest return rate is very high.

The Peninsula Paris

The Peninsula Paris		
Revenue	EUR66m	+4%
Occupancy		+3pp
Average Room Rate		-2%
RevPAR		+4%

In 2019, the city of Paris continued to be negatively impacted by the *gilets jaunes* protests which started in 2018. This impacted our operating results in the early part of 2019, as some of the protests occurred in the immediate vicinity of our hotel, although business improved in the remainder of the year.

Overall **The Peninsula Paris** reported improved RevPAR, occupancy although we saw a slight decline in average rates. We have focused on promoting groups and MICE business and we were honoured to welcome several diplomatic groups including a high-level state visit during the first half of the year. Food and beverage revenue was satisfactory, particularly from the rooftop restaurant *L'Oiseau Blanc* which offers spectacular views from Sacre-Coeur to the Eiffel Tower and has become well established among Parisian celebrities and high society. We were delighted to receive a Michelin star for *L'Oiseau Blanc* in early 2020. *Le Bar Kléber* also performed well and we are implementing new marketing initiatives and positioning for our Chinese restaurant *Lili*.

We hosted The Peninsula Classics Best of the Best Award in February 2019 which was well attended by classic car aficionados and celebrities and received extensive press coverage.

Commercial Properties

Commercial Properties	Revenue	Variance	
	HK\$m	In HK\$	In Local Currency
The Repulse Bay Complex	661	4%	4%
The Peak Tower	154	-26%	-26%
St. John's Building	56	+3%	+3%
The Landmark	40	+5%	+4%
21 avenue Kléber	23	-	+5%

Our largest residential property, **The Repulse Bay Complex**, reported a positive year in 2019 with revenue increasing by 4% over the previous year despite a very challenging market in Hong Kong. We believe The Repulse Bay, with its beautiful ocean views and convenient access to the city, is one of the finest luxury residential properties in the area, and we have seen satisfactory rental renewals despite the soft market across the city.

Food and beverage revenue increased in the first half due to a number of promotions and initiatives to drive F&B business, including revamping our afternoon tea offering and promoting *Spices* as a venue for corporate events. *The Verandah* continues to attract excellent wedding business given the spectacular location and views of Repulse Bay. *Breeze*, our new outdoor venue which opened in 2018, has been popular with residents and visitors. We launched our first-ever public art exhibition to coincide with Art Basel, titled *Art @the Bay: Time and Transformation* featuring two sculptures and seven installations by Hong Kong artist Matthew Tsang.

The Repulse Bay Shopping Arcade, which offers an eclectic blend of lifestyle amenities, health and wellness facilities and boutiques, was 94% occupied for most of the year.

The Peak Tower was fully leased for most of the year and although rental revenue only slightly declined, overall revenue decreased by 26% due to a significant decline in visitors to Sky Terrace 428 as a result of the social unrest in Hong Kong.

St John's Building, located at the lower terminus of the Peak Tram, offers an excellent location for office space. The property was fully let in 2019.

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. The complex has 65 serviced apartments, a fully equipped Health Club, and 100,000 square feet of first-class office space for leasing. Revenue increased by 4% year-on-year despite intense competition in the city. 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 a prime location immediately adjacent to The Peninsula Paris on Avenue Kléber, just steps from the Arc de Triomphe. The building has been restored in keeping with its heritage, while opening up and modernising the internal space into contemporary offices, spacious terraces and a large courtyard. 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 retail spaces.

Clubs and Services Division

Clubs and Services	Revenue	Variance	
	HK\$m	In HK\$	In Local Currency
The Peak Tram	76	-46%	-46%
The Thai Country Club	70	-	-4%
Quail Lodge & Golf Club	185	+4%	+4%
Peninsula Clubs & Consultancy Services	6	+2%	+2%
Peninsula Merchandising	253	-3%	-3%
Tai Pan Laundry	50	-8%	-8%

The Peak Tram is one of Hong Kong's most popular tourist attractions with a long history of more than 130 years in operation. From April to July 2019 we temporarily suspended the service of the Peak Tram to enable us to carry out construction work as part of the previously announced upgrade project, which was approved by the Hong Kong Government in 2018. The upgrade project will result in covered, temperature-controlled queuing 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\$684 million upgrade project, which is scheduled to be completed in 2021, is being fully funded by HSH.

This suspension had a significant impact on our group earnings as forewarned in the 2018 annual report and the profit alert announcement in June 2019. Overall revenue for the year decreased by 46%, due to the impact of the suspension of the Tram, combined with the social unrest in the second half which significantly impacted tourist arrivals in Hong Kong.

The Thai Country Club, which is located near Bangkok, recorded a challenging 2019 with a decline in overseas visitors. We hosted the Thai Open in November which had originally been scheduled for March and this impacted revenue as this was our traditional high season, although it attracted significant positive publicity for the club. We have also continued to develop cross-marketing initiatives with The Peninsula Bangkok to drive further awareness of the club.

Quail Lodge & Golf Club had a strong year with revenue increasing by 4%. This was due to a successful marketing strategy to drive last-minute bookings, online travel agency (OTA) promotions, as well as improved golf membership sales and golf rounds. *The Quail Motorcycle Gathering*, a Peninsula Signature event, continues to grow in popularity with more than 2,000 visitors in May. This event complements the successful *The Quail: A Motorsports Gathering* event, which occurs in August and has become one of the world's leading concours events for classic car aficionados. In 2019 we welcomed more than 5,000 visitors to the event, bringing the Peninsula brand to the attention of leading car enthusiasts.

In June, we were granted permission by the County of Monterey to build a state-of-the-art solar facility, which will reduce our property's carbon footprint by half and represents our company's continued efforts in minimising our effect on the environment. This project will contribute to the California Green Act which aims to push the state to become 100% powered by renewable energy and carbon neutral by 2045.

Peninsula Clubs & Consultancy Services manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and The Refinery (formerly Butterfield's). The Bankers Club will move from its current location in the Landmark, Central to Nexxus Building on Connaught Road, Central in October 2020.

Revenue at Peninsula Merchandising declined by 3% over the same period last year, with retail sales having been impacted by the weak market situation in Hong Kong. This division produces the very popular Peninsula Mooncakes, although sales were softer this year due to reduced demand during the protests. However, we continued to focus on business expansion and driving brand awareness and we opened two new Peninsula boutiques in the Chinese mainland, in Shenzhen and Guangzhou. We also opened new locations in Taiwan and operated a successful Mid-Autumn pop-up in Central Hong Kong. In addition to our boutique at Hong Kong International Airport, we have also opened retail locations at West Kowloon high speed train station and Guangzhou airport. Looking forward to 2020, we will continue to open new boutiques in the Chinese mainland as well as entering the Japanese market. We will continue to focus on key seasonal promotions and launch a range of new gift items to drive revenue and build awareness across Greater China.

Tai Pan Laundry revenue declined 8% during 2019 to HK\$50 million, due to decreased hotels business which was negatively impacted by the social unrest in Hong Kong.

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.

As we disclosed in our interim report, the development budget for this project was under review. That review has been completed and the revised budget for the project has increased from the previously reported £650 million to approximately £800 million. The increase in the budget can be attributed to an increase in the size of the hotel as we added an additional basement level as well as enhanced functional areas; additional costs associated with mitigating the supply chain from Brexit risks; unfavourable foreign currency movements relative to the British Pound; higher residential development costs (partially offset by higher residential sales values); and general cost pressures as the market in London for certain construction trades remains tight.

Construction of the project is progressing well and the topping out of the building was held in June 2019. The superstructure has now been completed and the basement is making good progress. Works have commenced fitting out the hotel rooms at the lower levels and the installation of the façade panelling has commenced.

Our ambition is for the hotel and residences to set new standards in luxury and service in the London market when complete, currently scheduled for 3Q 2021.

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 is responsible for 50% or approximately €150 million. The project is currently tracking within budget.

The project has encountered some unforeseen site conditions and challenges with the heritage buildings which have caused some delays, although construction progress has improved over the last quarter. Excavation works are now completed and works to the heritage façades of two heritage buildings continue, whilst interior fit out works are also under preparation. Building superstructure is progressing in the third heritage building and topping out of the last new building is expected to finish by early April 2020.

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.

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. We believe in the long-term future of Istanbul as one of the world's leading business and tourism destinations.

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 adjacent to the hotel by Meeyahta Development Limited which is a joint venture between our partners Yoma and FMI, Mitsubishi Corporation, Mitsubishi Estate Corporation, Asian Development Bank and International Finance Corporation.

Construction progress was delayed during 2018 due to the collapse of a small portion of the heritage building façade wall. We took immediate action in response to this issue, including claiming insurance, performing a peer review of the construction methodology and dealing with the relevant authorities. With excavation complete, the shell and core construction works continue to progress. Preparation for the installation of mechanical, electrical and plumbing equipment is underway and working drawings for fit-out works are being reviewed to ensure the best value is achieved prior to commencement in 2020.

The Peninsula Yangon will have 88 magnificent guestrooms with high ceilings, surrounded by tropical landscaped gardens with an outdoor swimming pool. We are expecting the project to be completed in 2021.

The group's overall investment is around US\$130 million, including the value of the leasehold interest and estimated development costs.

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.

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