



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

4 August, 2017

THE HONGKONG AND SHANGHAI HOTELS, LIMITED
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

Key financial results

- Revenue amounted to HK\$2,596 million (2016: HK\$2,606 million), similar to last year
- Group EBITDA increased by 7% to HK\$561 million (2016: HK\$525 million) and EBITDA margin increased from 20% to 22%
- Underlying profit attributable to shareholders* increased by 19% to HK\$181 million (2016: HK\$152 million)
- Profit attributable to shareholders amounted to HK\$519 million (2016: HK\$198 million), inclusive of the net property revaluation gain of HK\$359 million (2016: HK\$54 million)
- Earnings per share and underlying earnings per share* of HK\$0.33 (2016: HK\$0.13) and HK\$0.12 (2016: HK\$0.10) respectively
- Interim dividend of 4 HK cents per share (2016: 4 HK cents per share)
- Shareholders' funds as at 30 June 2017 amounted to HK\$37,219 million or HK\$23.48 per share (31 December 2016: HK\$36,359 million or HK\$23.20 per share) and gearing remained at a conservative level of 13% (31 December 2016: 12%)

Key developments

- The previous 525 rooms of The Peninsula Beijing were combined to create 230 elegant suites, which are the largest in Beijing. The renovation has been well received by guests and the hotel was market leader in average rate for the first half of 2017. The first batch of newly renovated rooms was made available in September 2016 and the second phase of rooms will be completed in August 2017
- Following the extensive renovation of The Peninsula Chicago in 2016, the hotel was the RevPAR leader in its competitive set in the first half
- For The Peninsula London project, the last remaining office tenants moved out from 1-5 Grosvenor Place in April and demolition has begun on the site for expected completion in 2021
- For The Peninsula Yangon project, the assignment and extension of the master lease and the approval of the Myanmar Investment Commission were obtained after an extended period of application, following which a groundbreaking ceremony was held in February 2017. Completion is expected in 2021
- For The Peninsula Istanbul project, demolition on the project site began in 2016 and we are making significant progress towards construction completion in 2019

**Underlying profit attributable to shareholders and underlying earnings per share are calculated by excluding the post-tax effects of the property revaluation movements and other non-operating and non-recurring items*

HSH'S 2017 INTERIM RESULTS

Hong Kong, 4 August 2017

The Hongkong and Shanghai Hotels, Limited today announced its interim results for 2017.

We continued to face global uncertainties in the first half of 2017, with many of the markets in which we operate being affected by geopolitical tensions, security issues and the US Administration's travel policies. Notwithstanding such challenges, the outlook for the global travel industry has seen some improvement as a whole over last year.

Our Company continues to be steadfast in its commitment to the long term, improving and developing our assets and operations to ensure the well-being of the Company for future generations. The current focus of our efforts is on maintaining the quality of our existing assets and operations, including the major renovations undertaken at The Peninsula Beijing and The Peninsula Chicago, whilst improving our overall financial performance; transforming the Company in the age of corporate responsibility and sustainability and digital transformation; and the continued development of a small number of carefully selected new Peninsula hotels, with projects currently ongoing in London, Istanbul and Yangon.

While we acknowledge and seek to deal with the challenges of managing an international business which typically faces volatility and different market cycles, the recent celebration of the 20th anniversary of the Hong Kong Special Administrative Region on 1 July 2017 reminds us that over this period, our Company has further strengthened its brand and recognition as one of the world's finest luxury hotel groups, significantly improved its financial position and the value of its net assets and developed several Peninsula hotels which are regarded as being among the best in the world. Hong Kong has provided us with a base which has the people and experience to have managed and operated our international business effectively.

Within the context of our long-term strategy and in the light of the global market uncertainties, the operating results for the period in review were satisfactory. Group EBITDA increased by 7% to HK\$561 million for the first six months of 2017. We have also calculated the Group's combined EBITDA by including the Group's effective share of EBITDA of its associates and joint ventures, which increased by 11% from the previous year to HK\$630 million. The Group's underlying profit increased 19% to HK\$181 million.

Hotels Division

Hotels	Revenue	Variance YoY
Consolidated hotels	HK\$m	
The Peninsula Hong Kong	607	(2%)
The Peninsula Beijing	92	84%
The Peninsula New York	312	(1%)
The Peninsula Chicago	250	9%
The Peninsula Tokyo	400	2%
The Peninsula Bangkok	115	2%
The Peninsula Manila	117	(13%)
Non-consolidated hotels		
The Peninsula Shanghai	277	(3%)
The Peninsula Beverly Hills	322	9%
The Peninsula Paris	239	8%

ASIA

The Peninsula Hong Kong		Variance YoY
Revenue	HK\$607m	- 2%
Occupancy		+5pp
Average Room Rate		-2%
RevPAR		+4%

The Peninsula Hong Kong was voted “Best Hotel in Hong Kong” by *Travel + Leisure* 2017 World’s Best Awards. Overnight tourist arrivals to Hong Kong increased by 5.7% in the first half of 2017 and we are optimistic for the tourism market outlook for the second half, which is Hong Kong’s traditional peak season. The Peninsula Hong Kong reported an increase in occupancy and RevPAR for the first six months, although there was a slight drop in average room rate which was in line with the luxury market in Hong Kong. Our top three customer market segments continued to be China, the US and Japan, and we have seen growth in two out of these three key markets. Our Food and Beverage division performed strongly, with most restaurants enjoying increased patronage and higher average spend. *Spring Moon* has benefited from its newly-attained Michelin star rating. The luxury retail market continues to stabilise and The Peninsula Arcade was 88% occupied with a number of new tenants and renewals successfully signed. Our strategy for the remainder of the year is to drive room rates and to focus on promoting Hong Kong as an attractive destination for luxury travellers seeking an authentic cultural experience, and we have tailored our Peninsula Academy programmes accordingly.

The Peninsula Shanghai		Variance YoY
Revenue	RMB245m	+1%
Occupancy		-1pp
Average Room Rate		+3%
RevPAR		+1%

The Peninsula Shanghai remained the RevPAR and average rate leader in our competitive set for the first half of 2017, driven by a large number of high-level delegations and suite bookings. The Middle East market was strong during the first half of 2017 and we continue to see an increase in bookings from the domestic Chinese mainland market. As a result we are working on strategies to drive more direct internet bookings and interaction with our guests in popular online channels. Amidst increasing inventory in the luxury hotels market, we are delighted that The Peninsula Shanghai was awarded “Best Hotel in Shanghai” by *Travel + Leisure* 2017 World’s Best Awards. The Peninsula Arcade was 96% occupied in the first half and in April 2017 we announced that No.1 Waitanyuan, the former British Consulate building, will 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. Our Group’s strategy includes the development for lease and sale of residential properties associated with our hotels in certain key markets. In Shanghai, of the 19 The Peninsula Shanghai Residences available for sale, 17 have been sold and a further 20 are available for lease of which 14 are currently occupied.

The Peninsula Beijing		Variance YoY
Revenue	RMB81m	+93%
Available Rooms		230 ¹
Occupancy		+19pp
Average Room Rate		+135%
RevPAR		+297%

The Peninsula Beijing has undergone a complete transformation with an extensive renovation which has combined 525 rooms into 230 elegant suites, which are the largest in Beijing and among the most spacious luxury hotel rooms in China, and the main public areas including the Lobby have been rebuilt. The transformation has been very well received by guests and media. The hotel is starting to establish its business with this completely new hotel rooms product and we have already seen a significant increase in average room rate, placing it among the rate leaders in Beijing. Tourist arrivals in Beijing declined slightly in the first half of 2017 but we expect the hotel industry to benefit from the Chinese Government’s Belt and Road Initiative, as an increasing number of conferences are being held in the Chinese capital in support of this project. As such, we are implementing a strategy to focus on diplomatic and

¹ 110 effective rooms out of 230 for the period ended 30 June 2017

group bookings for the coming year. Following the renovation of our dining outlets including the creation of a new Lobby restaurant and the complete renewal of *Jing*, we have launched new marketing campaigns to drive our food and beverage business. The Peninsula Arcade has retained most of its top luxury tenants despite the significant disruption in the past 18 months from the hotel’s renovation and virtually all of the prime spaces are let.

The Peninsula Tokyo		Variance YoY
Revenue	JPY5.75b	+3%
Occupancy		+1pp
Average Room Rate		+3%
RevPAR		+4%

The Peninsula Tokyo is celebrating its tenth anniversary in 2017 and we are holding a series of special offers and promotions to celebrate our anniversary year. We are delighted that our hotel was awarded “Best Hotel in Tokyo” by *Travel + Leisure* 2017 World’s Best Awards. The first six months were positive with improved RevPAR positioning and increased occupancy. As a result of new online marketing strategies, Japanese domestic guests comprised our number one geographical market segment for the first time since 2013. Our traditional markets of US, Hong Kong and mainland China also remained strong. Due to efficiencies and new business strategies, food and beverage and spa revenues and profits also increased.

The Peninsula Bangkok		Variance YoY
Revenue	THB517m	0%
Occupancy		0pp
Average Room Rate		+3%
RevPAR		+3%

The Peninsula Bangkok reported a stable first half of 2017, with a 3% increase in RevPAR and average rate, although with the sad passing away of His Majesty King Bhumibol Adulyadej of Thailand in October 2016, Thailand entered a period of mourning for one year starting from October 2016 which led to the cancellation of corporate events and banquets, and our MICE business (Meetings, Incentives, Conferences and Exhibitions) remained soft for the first six months of 2017. Foreign tourist arrivals to Thailand increased by 5% in the first half and the country expects to receive record tourist arrivals by the end of the year, facilitated by the Thai Government’s waiving of visa-on-arrival costs for tourists from 18 countries, including China. We are optimistic that the developments along the river, including the Icon Siam retail complex, will be positive for our hotel.

HSH currently owns 75% of The Peninsula Bangkok and Thai Country Club. The current shareholding structure was a result of a restructuring of the original joint-venture in which

HSH and our Thai partner originally each held a 50% economic interest. Pursuant to a restructuring of the debt and equity which was announced in 2002, the Thai partner became a 25% shareholder, with an option to return to its original shareholding percentage. On 30 June 2017, our Thai partner served their notice to exercise the option. Upon completion of the transaction in August 2017, HSH and our Thai partner will each own a 50% interest in our Thai businesses.

The Peninsula Manila		Variance YoY
Revenue	PHP750m	-8%
Occupancy		-1pp
Average Room Rate		-10%
RevPAR		-11%

The Peninsula Manila experienced a challenging first half of 2017 with revenue decreasing 8% over the same period last year. Due to security concerns and travel alerts from the US, UK, European, Japan and South Korean governments, we saw cancellations from these traditionally strong markets. The outlook for the second half remains uncertain and our strategy has shifted to securing more local conference and group business and banqueting, with competitive value added rate offers and aggressive marketing strategies designed to drive last-minute bookings. The domestic market in the Philippines remains robust as the middle class continues to grow and we are continuing to focus on developing our guest direct business in the domestic market, particularly the local "family" market.

US

The Peninsula New York		Variance YoY
Revenue	US\$40m	-1%
Occupancy		+1pp
Average Room Rate		-1%
RevPAR		0%

The Peninsula New York's results for the first six months of 2017 were flat to the same period over the previous year, which is a creditable result in the light of intense competition in New York City, with continued growth in supply in the luxury market. The Middle East market segment has been impacted by the US administration's travel restrictions and this remains a concern for the second half of the year. Corporate business has grown year-on-year and we were pleased to improve our RevPAR ranking within our competitive set. The new 250 square metre Fifth Avenue Suite, which has views over Fifth Avenue and Central Park, has been well received by guests and enjoyed strong occupancy. We continued to drive food and beverage revenue and saw growth at *Clement* restaurant. We were delighted that our rooftop bar, *Salon de Ning*, was included in *Conde Nast Traveler's* "Gold List" for New York City.

The Peninsula Chicago		Variance YoY
Revenue	US\$32m	+9%
Occupancy		+5pp
Average Room Rate		+3%
RevPAR		+12%

The Peninsula Chicago had a satisfactory first half of the year with a good growth in RevPAR, occupancy and average rate following the completion of its major renovation in April 2016. The hotel achieved number one in RevPAR in its competitive set. We were delighted to receive the accolade of “Best Hotel in Chicago” by *Travel + Leisure* 2017 World Best Awards. Our online bookings increased by 35% year-on-year, due to significant marketing and promotion efforts. Our Peninsula Spa revenue also reported strong growth after we made a number of improvements to the offering and increased marketing.

Looking to the second half of 2017, we expect a stable performance. Our hotel is once again participating in EXPO Chicago, an annual international contemporary art exhibition which attracts thousands of visitors. We have implemented 24-hour check-in for web bookings and "Keys to the City," which provides guests with special access to Chicago's top restaurants and tourist attractions and these initiatives have helped to drive revenue. Planning and design is underway for a stunning rooftop bar designed by Yabu Pushelberg, which is expected to launch in 2018.

The Peninsula Beverly Hills		Variance YoY
Revenue	US\$41m	+9%
Occupancy		+3pp
Average Room Rate		+10%
RevPAR		+14%

We were delighted that **The Peninsula Beverly Hills** was once again voted “The Best Hotel in the US” by *Global Traveler* magazine and 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 enjoyed a positive first half of 2017 with double-digit growth in average rates and RevPAR, and steady market growth and increased occupancy over the previous year. The hotel remained number one in RevPAR within its competitive set. While we are cautiously optimistic for the rest of the year, the US Administration’s travel bans on Middle East countries as well as political tension in the Middle East region has led to decreased business from this market. We are working hard to implement strategies to attract group business from other markets to counteract and minimise the impact. Increased competition in the Beverly Hills area with the first five-star luxury hotel to open in more than eight years is expected to

impact occupancy in the short term, however, we have a loyal clientele with a high rate of return and we will continue to nurture our long-term relationships with our guests.

EUROPE

The Peninsula Paris		Variance YoY
Revenue	EUR28m	+10%
Occupancy		+3pp
Average Room Rate		+7%
RevPAR		+13%

In the first half of 2017 we were pleased to report that tourists are starting to return to Paris and sentiment is improving following the tragic terrorist attacks in previous years. The newly elected President Macron is widely expected to bring stability and business confidence to France. The hotel reported positive results with a 10% increase in revenue and a 13% increase in RevPAR. Food and beverage revenue was strong, particularly from the rooftop restaurant *L'Oiseau Blanc* which offers 360-degree views over Paris and is the location for numerous high-profile events, including the event commemorating 90th anniversary of the first transatlantic flight from New York to Paris by Charles Lindbergh. The recent geopolitical developments in the Middle East have added uncertainty to our business from that region.

Commercial Properties Division

Commercial Properties	Revenue	Variance YoY
	HK\$m	
The Repulse Bay Complex	310	0%
The Peak Tower	97	14%
St John's Building	26	0%
The Landmark	19	0%
1-5 Grosvenor Place	14	(7%)

The Repulse Bay Complex performed satisfactorily in the first six months of 2017 as we saw a stabilisation of the luxury residential market in Hong Kong. We believe The Repulse Bay, with its beautiful ocean views and convenient access to the city, is the best luxury residential property in the area, which is reflected in the satisfactory rental renewals we have experienced during the traditional summer contract renewal season this year. Tenants are increasingly coming from the Chinese mainland and France, as well as the traditional British and American markets, and we are seeing an increasing trend of individuals signing rental contracts rather than corporates. Food and beverage revenue improved in the first half and weddings business remained strong, which we expect will continue into the peak wedding

season in the second half. The Repulse Bay Shopping Arcade, which offers an eclectic blend of lifestyle amenities, health and wellness facilities and boutiques, was fully occupied for most of the year but, given the weaker retail market in Hong Kong, we are closely monitoring the situation for the rest of the year.

The Peak Tower was fully leased in the first six months of 2017 and revenue grew by 14%. The Peak Tower generates most of its revenue from commercial leasing, with additional revenue coming 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 in the first half.

St John's Building, located at the lower terminus of the Peak Tram, was fully let during the first half and revenue remained stable.

The Landmark in Ho Chi Minh City, Vietnam, which is a mixed-use commercial building comprised of serviced apartments and office and retail space, reported a 3% increase in revenue in local currency terms, despite a highly competitive market situation in Ho Chi Minh City.

1-5 Grosvenor Place in London reported a 7% increase in revenue in local currency terms over the same period last year as we became entitled to 100% of the rental income following the change in structure of our partnership with Grosvenor on 30 September 2016. Demolition has commenced on the existing building which will be redeveloped into The Peninsula London hotel and residential complex. As of 1 April 2017 the building was completely vacated and this asset will no longer be accounted for as an investment property.

The renovation of **21 avenue Kléber** is close to completion. The building has been restored in keeping with the heritage of the building, while 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. The building is immediately adjacent to The Peninsula Paris, and we are in negotiations with respect to leasing this property. Completion is expected in September 2017.

Clubs and Services Division

Clubs and Services	Revenue HK\$m	Variance YoY
The Peak Tram	63	13%
Thai Country Club	29	0%
Quail Lodge & Golf Club	52	8%
Peninsula Clubs & Consultancy Services	3	(95%)
Peninsula Merchandising	30	3%
Tai Pan Laundry	27	8%

The Peak Tram is one of Hong Kong's most popular tourist attractions and revenue increased 13% in the first half, driven by improving tourist arrivals, particularly from India, Thailand and the Philippines, as well as a strategy to sell "combination" tickets for the Peak Tram and Sky Terrace 428. We renewed our operating rights to the Peak Tram from 1 January 2016 for a ten-year period with a right to have a further 10 years being granted by the Hong Kong Government, subject to our Company's major improvement project for the Peak Tram being satisfactory to the Government. This improvement project will have an estimated budget of around HK\$680 million and we are currently advanced in our discussions with the various Government departments to obtain the necessary approvals to proceed.

Thai Country Club which is located near Bangkok recorded a stable revenue for the first half of the year although we are experiencing a soft market, fewer visitors and fewer golf membership sales during the one-year mourning period following the sad passing of His Majesty King Bhumibol Adulyadej. We were delighted to host the Thailand Open in May 2017 which led to significant recognition for the club.

Quail Lodge & Golf Club reported a stronger first half of the year with revenue increasing by 8% and higher occupancy rates due to a more effective marketing strategy to drive strong last-minute bookings, 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, complementing the very 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. *The Quail: A Motorsports Gathering* attracts more than 5,000 visitors and brings the Peninsula brand to the attention of leading car aficionados and collectors.

Peninsula Clubs & Consultancy Services (PCCS) manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and Butterfield's. On 1 May 2016,

HSH and Cathay Pacific Airways Limited agreed to end PCCS's management of the Cathay Pacific Lounges at Hong Kong International Airport, and the year-on-year decline in revenue for this division was due to the termination of the Lounges management, although there were also commensurate cost savings. Butterfield's was closed for a major renovation during the first half of 2017 and will emerge as a smaller, new and vibrant Club by the end of the year.

Revenue at **Peninsula Merchandising** was 3% higher than the same period last year, driven by higher sales and brand awareness following new marketing campaigns, business at the Peninsula Boutique store at Hong Kong International Airport and various pop-up promotions in leading retail outlets in Hong Kong. Peninsula Merchandising sales are driven by the 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 requires an initial investment in operating costs but is expected to lead to a long-term increase in earnings as well as a broader earnings base.

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 landlord under the 150-year lease. In return for this investment, we will have full control over the development, management and future operations of The Peninsula London, as well as be entitled to 100% of the proceeds from the future sales of the residential units in the project and profits of the hotel.

This property is in a spectacular location overlooking Hyde Park Corner and the Wellington Arch and we are replacing the existing 1950s and 1960s offices with a high-quality 189-room hotel and 24-28 luxury residential apartments. The final project budget is still being finalised but is expected to be in the region of £600 million.

The last remaining office tenants moved out in April 2017 and demolition has begun on the site. 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 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. All the conditions have been met and the project is under way. Demolition on the project site began in 2016 and is making progress, with an expected completion date in late 2019.

There will be approximately 180 rooms in this waterfront property, most of which will have sweeping views of the Bosphorus, as well as views across to Istanbul's famous old town. 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 remain concerned about the security situation in Turkey which has had a negative impact on the tourism industry. However, we remain committed to this project as we believe in the long-term future of Istanbul given its unique location and attractiveness as a city and we will continue to monitor the security situation closely.

The Peninsula Yangon

The Company entered into a conditional agreement with Yoma Strategic Holdings Ltd. 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 hotel will be 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 fees on the sale of The Peninsula Residences Yangon, the luxury residential apartments being developed by our partners, adjacent to the hotel, which we will manage post-sale.

The Peninsula Yangon will have 88 guestrooms with high ceilings, surrounded by garden terraces and tropical landscaped gardens with an outdoor swimming pool. A number of suites will have private plunge pools.

The Group's overall investment is expected to be around US\$100 million, including the value of the leasehold interest and estimated development costs. The assignment and extension of the master lease and the approval of the Myanmar Investment Commission were obtained after an extended period of application, following which the groundbreaking ceremony was held in February 2017. We look forward to continue to work with our partners to complete this project by 2021.

Human Resources

Attracting talent and developing our people is a key focus for HSH. As part of our Human Resources five-year strategy, one of our priorities in 2017 is to continue to improve engagement with our employees and continue to develop their business acumen and creativity. We believe this will enhance organisational efficiency and will ultimately contribute to the Group's overall profitability. We are proud to have a family culture that inspires loyalty and long service, and in the first half of 2017 we reported a low voluntary staff turnover rate of 8.6% which is favourable compared to the industry. We endeavour to improve the turnover rate amongst our under-30 staff through bespoke learning and development programmes, including opportunities for cross-exposure in our global properties. Our Corporate Management Trainee programme is designed to attract recent hospitality graduates who are recognised as having significant ability and enthusiasm for the industry, as well as the development potential to become part of our management team. As of 30 June 2017, there were 7,537 full time employees in the Group.

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 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 risk-adjusted 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 shorter-term outlook, it appears that the hotel, high-end retail and high-end residential leasing markets in our most important market of Hong Kong have stabilised following a period of negative sentiment in 2016. We continue to seek to strengthen these businesses by providing high quality products and services and we believe this differentiation,

together with our long-term relationships with many of our guests and tenants, will provide a stable outlook for us.

We are also seeing a relatively stable outlook in our key markets of the US, China and Japan. The property with the most immediate earnings growth potential is The Peninsula Beijing following its major renovation which has transformed the hotel into a completely new product, having combined two previous guestrooms into one to create the largest suites in Beijing. We are also experiencing good growth at The Peninsula Chicago following the major renovation that was completed in April 2016. We are, however, watching the impact of US travel policies and geographical developments on our business from the Middle East. Trends have been weaker and more uncertain in Paris, Bangkok and Manila, due to the various security and political uncertainties.

It continues to be a challenge to manage our cost base and profit margins while maintaining and enhancing the quality of both our physical assets and our services. This is a balance that we constantly work on with good support and understanding from our operational managers.

Looking to the longer term, according to the World Travel and Tourism Council, the global travel and tourism industry is expected to grow at above global GDP rates for the next decade. This is in spite of an uncertain global economy, political uncertainty, and increasing competition for the hotel industry in the form of private accommodation online aggregators. To remain competitive against such aggregators, we are taking steps to enhance our appeal to discerning guests who are searching for a bespoke, tailored travel experience.

Overall, our Company remains in a strong financial position, and the core operations are performing satisfactorily. With our long-term outlook and the exciting new projects that we are developing, 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 Hong Kong Stock Exchange (00045), The Hongkong and Shanghai Hotels, Limited is the holding company of a Group which is engaged in the ownership, development, and management of prestigious hotels and commercial and residential properties in key locations in Asia, the United States and Europe, as well as the provision of transport, 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; 1-5 Grosvenor Place in London, UK, 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

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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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