



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

14 MARCH, 2019

**THE HONGKONG AND SHANGHAI HOTELS, LIMITED
ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER, 2018**

Key financial results

- Revenue grew by 7% to HK\$6,214 million (2017: HK\$5,782 million) and EBITDA grew by 9% to HK\$1,550 million (2017: HK\$1,422 million)
- Profit attributable to shareholders amounted to HK\$1,243 million (2017: HK\$1,155 million), inclusive of net property revaluation gain of HK\$523 million (2017: HK\$609 million)
- Earnings per share was HK\$0.78 (2017: HK\$0.73)
- Underlying profit* amounted to HK\$765 million (2017: HK\$801 million), inclusive of the Group's share of gain on apartments sold by its joint venture in Shanghai of HK\$25 million (2017: HK\$150 million). Excluding this gain, the Group's underlying profit increased by 14% to HK\$740 million (2017: HK\$651 million)
- Our balance sheet remains strong with 12% net debt to total assets and 12.8 times cash interest cover
- Final dividend of 16 HK cents per share (2017: 16 HK cents per share), making a total dividend of 21 HK cents per share for 2018 (2017: 20 HK cents per share)
- Shareholders' funds as at 31 December 2018 amounted to HK\$38,941 million (2017: HK\$38,175 million) or HK\$24.14 per share (2017: HK\$24.02 per share)

* Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items.

HSH'S 2018 ANNUAL RESULTS

Hong Kong, 14 March 2019

The Hongkong and Shanghai Hotels, Limited today announced its annual financial results for 2018. 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. Our heritage, vision and development strategy

The Hongkong and Shanghai Hotels has enjoyed a long and established history spanning more than 150 years since its establishment in 1866 and we believe our company to be the oldest hotel company in the world that has been in continuous operation. Our flagship hotel property The Peninsula Hong Kong celebrated its 90th anniversary in 2018, which we have highlighted as a key theme of this report.

Whilst we have witnessed profound political and economic changes over this long period both in our home market of Hong Kong and around the world, our company remains steadfast in our key philosophies and values which are:

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

These values distill into a simple vision for us, which has not changed in the 17 years that I have been CEO of this group: *to develop, own and operate a small number of the highest quality hotels 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 control or joint 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 without ownership. 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.

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.

2. 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. The level of quality in our hotels is such that in February 2019 we were awarded Forbes Five-star ratings for all ten of our hotels; the only hotel group in the world to achieve such a rating across its entire hotel portfolio.

In 2018, particular highlights in the hotels division included strong operating results for The Peninsula Hong Kong and The Peninsula Tokyo as well as some recovery in Bangkok and Paris. After the recent major renovations at The Peninsula Beijing and The Peninsula Chicago, I am pleased to report improved earnings for both hotels, with The Peninsula Chicago being named as the “No. 1 Luxury Hotel in the US” by *Tripadvisor* in February 2019. The other Peninsula Hotels in Shanghai, Beverly Hills, New York and Manila all reported satisfactory results in the light of their market circumstances.

We continued to make progress in the construction of our three Peninsula hotel development projects in London, Istanbul and Yangon and we will be celebrating the topping-out ceremony of The Peninsula London in June 2019.

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 such as 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 additional 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 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 and Taiwan.

Our clubs and services division includes the Peak Tram, one of Hong Kong’s most popular tourist attractions with more than six million visitors per year, which has been under our group for 130 years. In October 2018, we received approval for an additional ten-year operating right for the Peak Tram up to 2035, paving the way for us to commence a HK\$684 million upgrade project which will be entirely funded by our company and planned to be completed in 2021.

Having a diverse portfolio within the luxury hospitality niche helps to mitigate investment risks generally associated with the 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.

3. Financial results and financial planning

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

We create significant long-term value for our shareholders from the long-term appreciation in capital value of our properties, as well as from the increasing operating yield as the income from our assets continue to grow 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.

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\$26.46 per share in 2018.

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 significant capital commitments that these projects entail, 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 debt to total assets ratio is currently 12%, which we believe to be comfortable taking into account the expected financial obligations of our new developments.

I am pleased that we have been able to achieve a good set of financial results for 2018. The company's combined EBITDA, including the group's effective share of EBITDA of our associates and joint ventures, increased by 6% from the previous year to HK\$1,680 million. The company's net profit attributable to shareholders increased by 8% from the previous year to HK\$1,243 million, inclusive of the revaluation gain on the group's investment properties of HK\$523 million (2017: HK\$609 million). Our underlying earnings amounted to HK\$765 million compared to HK\$801 million in 2017, inclusive of the group's share of gain of apartment sales from our joint venture in Shanghai of HK\$25 million (2017: HK\$150 million). Excluding the company's share of realised gain on apartments, our underlying earnings increased by 14% from the previous year to HK\$740 million.

Much of the cash invested in our new projects during the year was provided by funds generated from operations which amounted to HK\$1,383 million as compared to our normal capital expenditures of HK\$426 million and new project expenditures of HK\$1,208 million. The net cash outflow of the company after taking account of all capital expenditures, interest and dividends paid amounted to HK\$393 million.

4. Driving business

We believe the fundamentals of luxury hospitality do not change over time. In addition to the beautiful décor, large spaces and elegant design of Peninsula hotel guestrooms and the specifications and attention to detail of both our front of house and back of house facilities, we seek to provide our guests a high level of personalised service, attention to detail, graciousness, and warm hospitality. We receive significant recognition and accolades for our services from prestigious publications and organisations.

Although people always come first, we use technological developments to enhance the way in which we serve our guests. We have 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. We operate our own in-house research and development facility which designs bespoke in-room technology for our guestrooms. Like many other hotel groups, we have developed database systems for understanding guest histories and preferences. However, it makes a difference to have staff who genuinely know the guest and will think about how to apply this information in their service. The relatively small size of our hotels means that we can personalise the attention we give to guests and guest arrivals and preferences are reviewed individually and confidentially in the hotel management morning meetings every day.

Data collection makes personalisation and customisation possible and desirable, but with ever-increasing cybersecurity threats, privacy, safety and security are more important than ever before and we must ensure our guests trust us and they are comfortable with how their data is being used. We recognise that we must be completely transparent and accountable in this regard, with General Data Protection Regulation (GDPR) compliance being a top priority.

One of the initiatives we launched in 2018 to help drive innovation was the Kaleidoscope Lab, we believe the first luxury hospitality ignition programme of its kind to be developed in collaboration with SRI International (Stanford Research Institute), under the direction of our Technology Steering Committee. We are looking forward to seeing the results and capabilities of the two innovative startups who were selected to join the first programme.

Another important part of our guest experience is to embrace the local culture, style and history of the country where the hotel is located. Nowadays a hotel stay has become much more than being somewhere to sleep and eat. Our high-end customers are looking for unique experiences to enhance their entire travel journey and we have developed Peninsula Academy Programmes for our guests to experience and enjoy. It is important to us that the stay in our hotel forms an important part of the guest's experience of visiting that particular country, with references to local architecture, artwork and culture. Appreciation of art and supporting local artists is a key part of our strategic marketing plan over the next few years, and we have designed and developed a global contemporary art programme, *Art in Resonance*, which is being launched in March 2019.

We offer various Peninsula signatures which are designed to attract attention and a special identity for our brand. These include the Peninsula Afternoon Tea served in our lobbies, the Peninsula Pages, the Peninsula door lions, and the provision of a variety of transport options including helicopter landing facilities on the roofs of several of our hotels. In 2018 we launched a new Peninsula Yacht at The Peninsula Hong Kong which is available for guests to hire, to add to the Peninsula Yacht operating in Shanghai.

We are focused on generating business from the Chinese mainland and we host quarterly Greater China regional meetings with senior executives who review the group's Chinese business and brand loyalty for the Greater China operations. We launched online payment capabilities at The Peninsula Shanghai and The Peninsula Beijing, with The Peninsula Hong Kong soon to follow. We are consolidating our Greater China sales and marketing activities, expanding our PenClub Chinese partners (our in-house preferred travel partner programme), and placing an increased focus on driving our retail arcades business in China.

Globally, we are enhancing our food and beverage experience to allow Peninsula guests to discover new cuisines, new beverages and new stories. The group's signature restaurants offer sophistication, quality, and elegance, but we are also evolving to ensure our restaurants are accessible and a place where people want to come back for special experiences time and again. The group is currently defining a future strategy for its signature restaurants to define the "guest experience" as a prerequisite to development. In 2018 we launched *Z Bar* at The Peninsula Chicago, an innovative new rooftop bar with a contemporary interior and city skyline views, which has achieved an influential social media following.

In 2018 we invested in our digital marketing efforts, upgrading and enhancing the peninsula.com website with 360-video capabilities and additional functionality for visitors, as well as integration of user generated content from social media.

5. Managing risk

The nature of our business means that we are subject to risks and uncertainties in the execution of our business strategy. During the past year we saw the conditions surrounding a number of these risks change, resulting in a need to revisit and fine-tune the way we manage these risks for the future.

Our Group Risk Committee (GRC), chaired by the CFO, 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 regularly evaluate the risk management and controls in response to such risks and use a 5-step risk management methodology to ensure the risk assessment process and internal controls remain current.

In 2018, we introduced a more comprehensive analysis on the risks facing each operation, and we conducted a series of risk workshops to train more than 200 senior employees across the group.

There were some changes in the principal risks, including a growing likelihood of extreme weather patterns such as super typhoons in Hong Kong due to climate change and a global trend of tightening privacy laws such as GDPR has increased the challenge of compliance. The rise in cybercrimes also exposed us to higher risks of data security breaches.

6. Investing in our people

The people who deliver the services to guests represent the face of the Peninsula brand to the outside world, providing high quality personalised services to our guests, anticipating their needs or surprising them with unexpected initiatives, whilst at the same time carefully managing and maintaining our assets and operational standards.

Our unique culture seeks to keep us unified as one team and one family. 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 suffers from high turnover of staff, however, we are pleased to report a relatively low voluntary staff turnover rate compared with the industry. We are proud that at the Peninsula Hong Kong, more than one-third of our employees have over 10 years of service and in several cases, three generations of the same family have worked at the same time in the hotel.

Prior to the openings of new Peninsula hotels, we select and appoint a team of local “Peninsula ambassadors” to undergo an extensive training program in other Peninsula hotels before returning to the new hotel to be part of the opening team. They are then able to act as leaders and spread and instill Peninsula culture and practices in their colleagues working around them.

We work hard to engage and attract high potential people to work with us, and we target world-class hotel schools in our recruitment efforts. 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 2018 we embarked on 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. At the corporate level we are implementing a change management programme aimed at modernising our workplace, titled WorkPlace 2025, to improve internal communications, embrace our unique culture and allow us to become more nimble and agile.

As of 31 December 2018, there were 7,594 full time employees in the group.

7. A vision for sustainable luxury

We are deeply committed to sustainability in an environmental as well as a business context – we believe that our success is inextricably linked to the success of the cities and the communities in which we live and work. Through a variety of platforms, training workshops and initiatives, we aspire to create awareness and buy-in towards sustainability throughout our company so that it becomes a living and breathing 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 made into environmental initiatives, and we look at what value drivers 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. In 2018, we took the significant step of announcing a global ban on plastic straws in our operations. This is the first phase of our plan to eliminate single use plastics by 2020 which we believe is necessary to address the significant issue of plastics pollution. We strive to source only sustainable seafood and we have created a *Naturally Peninsula* range of dishes focusing on healthy, nutritious cuisine from locally harvested sources. We are also focusing on ways to reduce food waste. We strive to use only Forest Stewardship Council (FSC)-certified paper for all our products and packaging.

We reported a good outcome of our energy and water efficiency efforts and we continued to see progress in achieving over 85% of the commitments in our Sustainable Luxury Vision 2020 strategy, although we have encountered challenges which are outlined in the Corporate Responsibility and Sustainability (CRS) Report. Since the implementation of our Sustainable Luxury Vision 2020 strategy, we have become more aware of the systemic and multi-dimensional nature of sustainability issues. We reassessed our approach to sustainable luxury, recognising that addressing these challenges requires concerted efforts and collaborative solutions with other stakeholders. We decided to focus our efforts in three key areas of “Our Guests, Our People, and Our Cities” to echo our overall business and investment strategy.

8. Outlook

In terms of outlook for the coming year, although we are facing uncertainties around the world and geopolitical instability in some of the regions we operate in, our current business trends are generally stable and we are cautiously optimistic. As mentioned, we are implementing a number of new strategies to drive business in the year ahead, including promoting our Chinese mainland business, enhancing our food and beverage strategy and improving data analytics.

We are confident in the continued growth of Hong Kong’s tourism sector and we believe the opening of the Hong Kong section of the Express Rail Link and the Hong Kong-Zhuhai-Macau Bridge will positively impact overnight tourism arrivals.

We are optimistic for Japan as the country prepares to welcome the Rugby World Cup in 2019 and the Tokyo Olympics in 2020, and we are already seeing advance bookings for these events. We believe there is a relatively stable outlook for luxury hospitality in the US and the Chinese mainland. We are committed to maximising the growth potential of The Peninsula Beijing following its major renovation. We continue to monitor the impact of the *gilets jaunes* or “yellow vests” in France which has been negatively affecting our hotel in Paris. We expect that the new hotels in London, Istanbul and Yangon will further enhance our brand presence when they open from 2021 onwards.

We have been encouraged by a number of new lettings and renewals at our arcades at The Peninsula in Hong Kong, Shanghai and Beijing. We are experiencing good demand for our luxury residential lettings in Hong Kong. Our Peak Tram business will be negatively impacted in 2019 as it will undergo several months of suspension during the first phase of its improvement and upgrade programme that was previously announced to shareholders. We expect this to affect our results in 2019 and 2020, however, 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 strong financial position with a highly motivated and dedicated team of management and staff who are committed to our long-term vision. We strongly believe that a top hospitality company is built on attention to detail, quality and an exceptional back-of-house. This passion for perfection is set by our leadership and translates through to the work of our general managers, our designers, project teams, operations teams and our partners, to create a truly prestigious brand that is celebrated across the world, and a company that 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

2018 was a pleasing year for our group operational results. We benefited 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 business offers stability against the cyclical nature of the hotel industry. Despite some uncertainty over the US-China trade war, the ongoing Brexit negotiations and other global events, the markets in which we operate were generally stable during the year and we were able to achieve earnings growth in most of our businesses.

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 HK\$m	Variance	
		In HK\$	In Local Currency
Consolidated hotels			
The Peninsula Hong Kong	1,352	4%	4%
The Peninsula Beijing	326	34%	32%
The Peninsula New York	720	3%	3%
The Peninsula Chicago	624	10%	10%
The Peninsula Tokyo	868	5%	3%
The Peninsula Bangkok	292	15%	10%
The Peninsula Manila	237	1%	5%
Non-consolidated hotels			
The Peninsula Shanghai	599*	-1%	-3%
The Peninsula Beverly Hills	610	-3%	-3%
The Peninsula Paris	584	12%	8%

* Excluding proceeds from sale of apartments

The Peninsula Hong Kong

The Peninsula Hong Kong		
Revenue	HK\$1,352m	+4%
Occupancy		-5pp
Average Room Rate		+20%
RevPAR		+12%

The tourism market in Hong Kong continued to improve in 2018 and overnight visitor arrivals increased 4.9% year-on-year. We are optimistic that the development and re-opening of the Tsim Sha Tsui waterfront area will be an attractive destination for travellers and we are committed to working with industry peers and government departments to promote Kowloon and Hong Kong's tourism industry overall.

We were pleased to celebrate the 90th anniversary of **The Peninsula Hong Kong** as the flagship property of the Group. We held a variety of community initiatives and events during the year, with a particular focus on honouring our long-serving team of colleagues who work hard to provide memorable experiences for our guests. It is thanks to the efforts of our colleagues that The Peninsula Hong Kong received the accolade of No.1 City Hotel in Hong Kong by *Travel + Leisure* 2018 World’s Best Awards. The Peninsula Hong Kong’s Cantonese restaurant *Spring Moon* retained its Michelin star in December 2018.

During the year, we were market leader in average room rate and we saw a strong improvement in RevPAR.

New initiatives included the launch of The Peninsula Yacht, a Sunseeker Manhattan 60 19-metre cruiser that is available for guests to hire for private events and harbour cruises. We also continued our commitment to showcasing innovative art with a collection of bronze sculptures and paintings by Colombian artist Fernando Botero which will continue into 2019.

The Peninsula Arcade was 87% occupied and leasing momentum was positive. The Peninsula Office Tower continues to perform well and was 97% occupied throughout 2018, and the immediate outlook is stable.

The Peninsula Shanghai

The Peninsula Shanghai		
Revenue	RMB508m	-3%
Occupancy		-2pp
Average Room Rate		+2%
RevPAR		-1%
Proceeds from sale of apartments	RMB105m	

The Peninsula Shanghai remains the market leader in average room rate in the city, driven by a large number of suite bookings and high-end groups, although the hotel reported a softer 2018 in terms of occupancy and RevPAR due to intense competition.

Shanghai experienced a 2% increase in international inbound travelers compared to the previous year and a double-digit percentage increase in luxury hotel rooms. The domestic Chinese mainland market continued to be our largest revenue driver and the US and Hong Kong markets were robust, with good demand also from Japan, Singapore and Latin America. We expanded our presence on Chinese social media to attract additional guests through online platforms and as a result we have seen strong growth from the domestic Chinese mainland market during the year.

Banqueting revenue was softer in 2018 although the hotel’s food and beverage offering continues to achieve positive reviews and accolades. We were delighted that *Sir Elly’s Terrace* at The Peninsula Shanghai was the only bar in Mainland China to be recognised as one of “The 10 Best Rooftop Bars in the World” by Conde Nast Traveler in 2018. The Peninsula Shanghai also remained the only hotel in mainland China to have two restaurants with Michelin stars.

The Peninsula Arcade was 89% occupied for the full year and recent leasing momentum has been positive with some exciting new couture brands opening shops there. No.1 Waitanyuan, the former British Consulate building located adjacent to the hotel, has been fully managed and operated by The Peninsula Shanghai since 2017, diversifying our portfolio of services, facilities and event spaces.

The Peninsula Shanghai continued its efforts to engage the local community during the year with our second Mega Yoga Event and co-hosting a charitable concert “Maestro Xu Zhong and his friends” at No 1 Waitanyuan, with proceeds benefiting local Chinese mainland charities.

The Group owns a 50% interest in The Peninsula Shanghai Complex which comprises a hotel, a shopping arcade and a residential tower of 39 apartments. By the end of 2018, a total of 29 units have been sold, including one in 2018.

The Peninsula Beijing

The Peninsula Beijing* under renovation in 2017		
Revenue	RMB276m	+32%
Room revenue	RMB121m	+74%
Occupancy		+11pp
Average Room Rate		+3%
RevPAR		+24%

The Peninsula Beijing was completely transformed in 2017 with an extensive renovation converting 525 rooms into 230 elegant suites, which are the largest in Beijing and among the most spacious luxury hotel rooms in China. Following the renovation, we were delighted to be included in the *2018 Conde Nast Traveler Hot List as well as Town & Country’s* “Best New Hotels in the World – Asia and Indian Ocean”, an elite selection of the best hotel openings from the past year. The hotel’s RevPAR and occupancy showed positive growth year on year and we were the rate leader in our competitive set for 2018, driven by a focus on diplomatic and high-level group business. In June 2018 the newly renovated rooftop bar *YUN Summer Lounge* opened, offering sweeping city views. The Peninsula Arcade has retained most of its top luxury tenants and has welcomed chic new luxury brands to the Arcade which have been well received by guests.

We were delighted to receive the first-ever BREEAM “good” certification in Beijing for a newly renovated building, which is a significant achievement aligned with our strategy to promote sustainable luxury. This included the implementation of energy efficient LEDs, sustainably sourced wood for most of the wood work and furniture, as well as avoiding harmful glues, paints, wall coverings and carpeting.

2018 marked “Turkish Tourism Year in China” and The Peninsula Beijing supported the occasion through our appreciation of art: over the course of the year, the hotel welcomed four renowned Turkish artists to take up residency at the hotel and showcase their work.

The Peninsula Tokyo

The Peninsula Tokyo		
Revenue	JPY12.22b	+3%
Occupancy		+2pp
Average Room Rate		+6%
RevPAR		+8%

Japan reported a 20% surge in tourist arrivals in 2018 with retail spending and infrastructure investment increasing significantly ahead of the 2020 Olympic Games in Tokyo. Against this backdrop we were delighted to report a strong year for **The Peninsula Tokyo** and we were pleased to be awarded first place in the ‘Top 5 City Hotels’ in the 2018 *Travel + Leisure World’s Best Awards* for the second consecutive year.

2018 operating results were positive, the best results in the hotel’s ten-year history, with improved RevPAR positioning, average rates and increased occupancy. This was due to our strategy to drive suite occupancy, which was particularly successful during the peak sakura (cherry blossom) season in the first quarter. Domestic travel was slightly softer although this was offset by increased business from the US, Middle East and Thailand, and the Chinese mainland also remained strong. We reported increased business from the Middle East and increased online sales for the hotel. *Peter* restaurant, which has stunning city views over the Imperial Palace and Tokyo city skyline, performed well during the year, and we implemented an exciting collaboration with four award-winning Japanese artisan chefs during a limited-edition culinary series which was well received by guests. We are making preparations to open a new sushi restaurant in 2019 under the helm of two Michelin-starred Chef Rei Masuda. Spa revenue was strong due to a variety of innovative new treatments and exclusive product lines.

We are optimistic for the coming year as visitor arrivals to Japan continue to be healthy in the run-up to the Rugby World Cup in 2019 and the Tokyo Olympics in 2020. We have implemented a new “Keys to the City” programme which offers The Peninsula Tokyo guests insider access to “Only-in-Tokyo” moments and experiences.

Our employees volunteered for various community activities, including making onigiri rice balls for a local orphanage and donating soap to the Clean the World Foundation.

The Peninsula Bangkok

The Peninsula Bangkok		
Revenue	THB1,204m	+10%
Occupancy		+7pp
Average Room Rate		-1%
RevPAR		+10%

Thailand reported strong growth in arrivals in 2018 mainly from Korea, Japan and the US due to the visa-free agreements with these countries. The development of Bangkok’s recently established Creative District as well as the opening of the high-end mixed-use shopping complex ICONSIAM on the banks of the Chao Praya River beside our hotel is expected to drive increasing traffic and visitors to this area.

The Peninsula Bangkok celebrated its 20th anniversary in 2018 by offering 20 immersive cultural experiences for guests throughout the year, ranging from a sunset helicopter journey and golf at Thai Country Club, to Thai wellness and spirituality experiences. The hotel reported double digit growth in RevPAR and improved occupancy, following the end of the one-year mourning period for His Majesty King Bhumibol Adulyadej of Thailand.

The hotel welcomed increasing numbers of visitors from Korea, Japan, Singapore and Australia and our strategy continued to focus on driving MICE (Meetings, Incentives, Conferences and Exhibitions) business and suite bookings. Food and beverage performed well with double-digit revenue growth, with strong business at *Thiptara* and the *River Café & Terrace*. During 2018, the hotel’s Cantonese restaurant, *Mei Jiang*, introduced a 16-course degustation menu which was the first of its kind for a Chinese restaurant in Thailand and was well received by guests.

In the second half of the year, Bangkok was affected by a sharp decline in Chinese mainland arrivals following a tragic boating accident in Phuket which led to reduced group tourism to the country overall.

We continued to enhance our Peninsula Academy programme to include sustainability elements related to local Thai nature conservation; for example, guests can participate in a tour of Thailand’s first urban Nature Education Centre, Bang Pu, guided by award-winning naturalists. We have also established local cultural initiatives including visiting a local heritage temple which offers Peninsula guests exclusive sunrise yoga as part of our Wellness initiative. We are positioning the hotel as an “urban luxury resort” concept, focusing on a resort experience with healthy options in spa, fitness and food.

The Peninsula Manila

The Peninsula Manila		
Revenue	Php1,597m	+5%
Occupancy		+9pp
Average Room Rate		-4%
RevPAR		+9%

The Philippines experienced a robust year for international tourist arrivals, with growth of more than 7% year on year, despite the six-month closure of top island destination Boracay. Strong arrival numbers were seen from South Korea, mainland China, US and Japan. This, along with a revised rate strategy, was reflected in the performance of **The Peninsula Manila** for 2018. While the oversupply of new hotels outpaced group business demands, we worked with our online travel agency and wholesale partners to offset the declining group market.

As a result, occupancy and RevPAR saw a healthy increase over the same period in 2017, though there was a slight decline in average rates. The country’s economy continues to be one of the fastest growing in Southeast Asia, fuelled by domestic consumption and investment. The domestic tourism market in the Philippines was a key driver as the middle class continues to grow and is willing to spend on travel.

Manila is experiencing a culinary revival with a thriving dining scene in the city, and The Peninsula Manila at 42 years old remains a mainstay of Filipino high society for dining and events. To celebrate biodiversity, organic local produce and sustainable seafood, our fine dining restaurant *Old Manila* partnered with local Holy Carabao Farms to create a month-long series of signature dining experiences that celebrated the best of Philippine cuisine, which was well received by guests. For the first time, we partnered with one of Manila’s premier wedding event organisers to co-host our Annual Bridal Fair and participated in a US-Philippines Wedding road show which helped to drive revenue.

Our commitment to the local art community continued in 2018 as we partnered and co-hosted two of the city’s major public art events including Salcedo Auction’s Annual “A Well Appointed Life” and The Museum Foundation of the Philippines’ Annual MaArte Fair.

The Peninsula New York

The Peninsula New York		
Revenue	US\$92m	+3%
Occupancy		0pp
Average Room Rate		+3%
RevPAR		+3%

The Peninsula New York reported an increase in revenue, average rates and RevPAR over the previous year, although occupancy remained flat. We were pleased to achieve these results despite experiencing intense competition in 2018 as a result of increased supply in Manhattan. The city welcomed record numbers of tourist arrivals in 2018 from the US domestic market, Chinese mainland and the UK. The Middle East market segment overall continues to be impacted by travel restrictions and geopolitical tensions, although our hotel saw an increase in high level visitors from this market in the first quarter.

The Peninsula New York celebrated its 30th anniversary in 2018 and we designed a series of 30 curated experiences for guests. We initiated a partnership with Rolls-Royce Motor Cars to launch their new 2018 Phantom in April 2018, and we held a popular “Summer Social Music Series” at the hotel’s rooftop bar, Salon de Ning. As part of the 30th anniversary celebrations, we displayed a curated art exhibition celebrating artists who were prominent in the 1980s. The exhibition, installed throughout the public spaces of the hotel, featured a collection of original works of Andy Warhol, Francesco Clemente, Keith Haring, Jean-Michel Basquiat, Barbara Kreuger and Michael Halsband.

Our food and beverage performance was soft although *Clement* restaurant and the hotel’s rooftop bar, *Salon de Ning*, performed well and the latter is consistently rated as one of the best bars in New York.

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.

The Peninsula Chicago

The Peninsula Chicago		
Revenue	US\$80m	+10%
Occupancy		+4pp
Average Room Rate		+6%
RevPAR		+11%

The Peninsula Chicago reported a pleasing year with a double-digit increase in RevPAR, achieving RevPAR and average rate leader despite significant new supply in the city. Chicago experienced record tourist arrivals in 2018 with significant increases in domestic visitors and a small increase in international arrivals. *Conde Nast Traveler* voted Chicago “Best Big City in the US” and Mayor Rahm Emanuel has placed a focus on driving tourism to the city during his tenure.

Amidst intense competition, we were delighted to receive the accolade of “No 1 Best Luxury Hotel in the US” by *Tripadvisor*, which is a testament to the popularity of the hotel following its extensive renovation in 2016.

We opened a beautiful new rooftop bar, *Z Bar*, in June 2018, which was designed by Yabu Pushelberg with a contemporary interior and city skyline views and brings together teams of chefs, mixologists and specialists. The name was a tribute to Maria Zec, The Peninsula Chicago’s general manager for the past 17 years. *Z Bar* has been well received by guests and has achieved an influential social media following.

As part of its commitment to supporting local art in the community, for the fourth consecutive year, The Peninsula Chicago hosted a contemporary art exhibition that coincided with Expo Chicago, the International Exposition of Contemporary & Modern Art. Entitled ‘But I’m on The Guest List!’, the exhibition brought together the vibrant and uplifting work of contemporary artists including Chicago’s own Carlos Rolón.

We added exciting new activities to our “Keys to the City” programme in early 2018 for visitors to Chicago to enjoy exclusive activities and VIP access to Chicago’s attractions. We remain optimistic for a positive year in 2019.

The Peninsula Beverly Hills

The Peninsula Beverly Hills		
Revenue	US\$78m	-3%
Occupancy		-1pp
Average Room Rate		-2%
RevPAR		-3%

The Peninsula Beverly Hills was once again voted “The Best Hotel in the US” by *Global Traveler* magazine in 2018. The hotel has achieved AAA Five Diamond and Forbes Five Star ratings every year since 1993, and *The Belvedere* is the only AAA Five Diamond restaurant in Los Angeles.

The hotel reported softer rates and decreased revenue over the previous year, with occupancy declining slightly. We believe this was partly due to the ongoing political tensions in the Middle East region which led to decreased business from this market, as well as increased competition in the Beverly Hills area with the first five-star luxury hotel to open in more than eight years across the street from our hotel. 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. Leisure travel to Los Angeles and food and beverage revenue was negatively impacted by an unusually cold and rainy winter spell.

To manage the challenging year we implemented cost controls and carefully managed expenses. We implemented new marketing strategies targeting Mexico, Japan, the domestic market in Northern California, with a focus on groups business as well as food and beverage promotions for *Belvedere*. Our connections in the entertainment industry remain strong and we remain the hotel of choice for celebrities during awards season.

Our sustainability initiatives continued with an innovative “waterless carwash” staffed by employees with special needs. We continued to co-sponsor events with our local charity partner “A Place called Home” which provides a safe environment for underprivileged children in the LA community. From April 2018 we have implemented a policy of free valet parking for guests who drive “zero emission” electric cars.

The Peninsula Paris

The Peninsula Paris		
Revenue	EUR63m	+8%
Occupancy		+5pp
Average Room Rate		+1%
RevPAR		+10%

In 2018 Paris saw record tourist arrivals and improving sentiment for the first half, although the *gilets jaunes* protests unfortunately affected the city in the fourth quarter. This also impacted our operating results as some of the protests occurred in the immediate vicinity of our hotel. We believe the situation has calmed and we are cautiously optimistic for the outlook for 2019.

Overall **The Peninsula Paris** reported improved results with a double digit increase in RevPAR and improved revenue, occupancy and rates despite intense competition amongst the other “Palace” hotels in the city. Food and beverage revenue was satisfactory, particularly from the rooftop restaurant *L’Oiseau Blanc* which offers spectacular views from the Sacre-Coeur to the Eiffel Tower and has become well established in the local market as the location for numerous high-profile events. *Le Bar Kléber* also performed well and we are implementing new marketing initiatives and positioning for our Chinese restaurant *Lili*. The geopolitical tensions in the Middle East have created uncertainty to our business from that region although we welcomed increasing numbers of guests from Qatar and the United Arab Emirates to offset the decline from Saudi Arabia.

We hosted The Peninsula Classics Best of the Best Award in February 2018 which was well attended by classic car *aficionados* and celebrities and received extensive press coverage. In collaboration with The Peninsula Beverly Hills, The Peninsula Paris initiated a “Made in California” culinary adventure for summer 2018, taking inspiration from Californian culinary trends and healthy eating principles.

Commercial Properties Division

Commercial Properties	Revenue HK\$m	Variance	
		In HK\$	In Local Currency
The Repulse Bay Complex	639	0%	0%
The Peak Tower	208	+3%	+3%
St. John’s Building	55	+2%	+2%
The Landmark	38	-3%	0%
21 avenue Kléber	23	n/a	n/a

Our largest residential property, **The Repulse Bay Complex**, reported a steady year in 2018 with flat revenue 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 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 was stable and we upgraded our website as well as implemented 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. In partnership with the Mexican Consulate, *Spices* hosted a renowned Mexican chef Rigel Sotelo to help promote Mexican and Asian culinary fare, and the proceeds of this dinner benefited local charities in Hong Kong.

The Verandah continues to attract excellent wedding business given the spectacular location and views of Repulse Bay.

We opened a new outdoor venue, *breeze*, in early 2018 to take advantage of the beautiful views across the bay. We are also continuing to explore a variety of collaborations together with The Peninsula Hong Kong to drive cross-marketing revenue and improve brand recognition.

The Repulse Bay Shopping Arcade, which offers an eclectic blend of lifestyle amenities, health and wellness facilities and boutiques, was 93% occupied for most of the year. We are actively reviewing the right mix of tenants to suit this residential community and we have taken positive steps to fill the vacant spaces.

The Peak Tower was fully leased for most of the year in 2018 and revenue increased by 3%. The Peak Tower generates its revenue from commercial leasing, as well as revenue from admission fees to the open-air rooftop attraction of Sky Terrace 428 with its panoramic views of Hong Kong. Visitor numbers to Sky Terrace 428 reached record levels compared to the previous year, due to a strategy of “combo tickets” with the Peak Tram.

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 for most of the year in 2018.

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, as well as 100,000 square feet of first class office space for leasing. Revenue remained stable year-on-year despite intense competition. 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 the two retail spaces.

Clubs and Services Division

Clubs and Services	Revenue HK\$m	Variance	
		In HK\$	In Local Currency
The Peak Tram	140	+10%	+10%
The Thai Country Club	70	+15%	+8%
Quail Lodge & Golf Club	177	+11%	+11%
Peninsula Clubs & Consultancy Services	5	-3%	-3%
Peninsula Merchandising	262	+9%	+9%
Tai Pan Laundry	55	0%	0%

The Peak Tram is one of Hong Kong's most popular tourist attractions and celebrated 130 years of operation under our group in 2018 with a variety of promotional initiatives and community outreach. Revenue increased by 10%, driven by a strategy to sell "combo" tickets for the Peak Tram and Sky Terrace 428, whilst tourist arrivals, particularly from India, Thailand and the Philippines improved.

In October 2018, the Chief Executive in Council approved an additional ten-year operating right from 2026 to 2035 and the upgrade project of the Peak Tram, under the Peak Tramway Ordinance. We have carefully designed an enhanced customer experience and have considered all aspects to minimise service disruption, whilst keeping sustainability factors a priority. The upgrade project will result in covered, temperature-controlled queueing and waiting areas with entertainment features for up to 1,300 passengers. The new tramcars will be able to carry 210 passengers instead of 120 at present and visitors' waiting time will be significantly reduced. The full cost of the HK\$684 million upgrade project, which is scheduled to be completed in 2021, is being funded by HSH. This project will involve two service suspension periods of several months each which will negatively impact our earnings in 2019 and 2020.

The Thai Country Club which is located near Bangkok, recorded a positive 2018 due to increasing visitors, strong food and beverage revenue and increasing sales of memberships, as well as a strategy to control expenses. We hosted the Thailand Open in June 2018 which led to significant recognition for the club. We have implemented further cross-marketing initiatives with The Peninsula Bangkok to drive further awareness of the club. We were pleased to win "Best Managed Club in the Asia Pacific region" at the Asian Golf Awards in 2018.

Quail Lodge & Golf Club had a strong year with revenue increasing by 11%. 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 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*. In 2018 we welcomed more than 5,000 visitors to the event, bringing the Peninsula brand to the attention of leading car enthusiasts.

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 Refinery opened at the end of 2017 after a significant renovation and has been well received by members.

Revenue at **Peninsula Merchandising** was 9% higher than the same period last year, driven by new marketing campaigns, increased 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 has implemented a 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. In June 2018 we undertook a new brand relaunch, "A Journey to Treasure", which we expect will improve brand awareness and help drive sales.

Tai Pan Laundry revenue was flat during 2018 at HK\$55 million, and the company is driving new business with marketing strategies and greater automation.

Projects under development

The Peninsula London

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

The property is in a high-profile location at the gateway to Belgravia, overlooking Hyde Park Corner, the Wellington Arch, Green Park and the gardens of Buckingham Palace. We are developing a 189-room Peninsula hotel with 26 luxury Peninsula-branded residential apartments for sale also integrated into the development. The construction budget for the project is in the region of £650 million.

To shorten the development period, we have deployed a ‘top-down’ construction methodology, whereby the above-ground superstructures and the basements are constructed at the same time. Construction of the project is progressing well, with the topping out of the building expected in mid-2019. The below-ground excavation and structural works will continue for some time.

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 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 has encountered some unforeseen site conditions and challenges with the heritage building which has caused some delays. Completion of the project is currently targeted to be in 2021. 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. and First Myanmar Investment Co., 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 existing building is being renovated to become The Peninsula Yangon and will be adjacent to a mixed-use development called Yoma Central, previously known as the Landmark Development. We will also receive branding fees on the sale and management of The Peninsula Residences Yangon, the luxury residential apartments being developed by Meeyahta Development Limited which is a joint venture between our partner Yoma, Mitsubishi Corporation, Mitsubishi Estate Corporation, Asian Development Bank and International Finance Corporation, adjacent to the hotel.

Construction progress was delayed during 2018 due to the collapse of a small portion of the heritage building façade wall. We have taken immediate action in response to this issue, including claiming insurance, performing a peer review of the construction methodology and dealing with the relevant authorities. Although the revised timeline has not yet been finalised, we are still expecting the project to be completed in 2021.

The Peninsula Yangon will have 88 magnificent guestrooms with high ceilings, surrounded by tropical landscaped gardens with an outdoor swimming pool.

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

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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