

## CEO'S STRATEGIC REVIEW



*“Our company remains well placed for the future, with The Peninsula brand enjoying recognition as one of the leading luxury city hotel brands in the world”*

Clement K.M. Kwok  
Chief Executive Officer

I am proud to share that The Hongkong and Shanghai Hotels celebrated its 150<sup>th</sup> anniversary in 2016. Over many decades, our company has focused its business philosophy on the provision of luxury hospitality, giving people an experience that they treasure and enjoy, and not only to meet but to exceed our guests' expectations. This is the essence of our brand and reputation and has helped us weather many ups and downs over our long history. Our company remains well placed for the future, with The Peninsula brand enjoying recognition as one of the leading luxury city hotel brands in the world. We have a valuable portfolio of quality hotels and other assets located in some of the most exceptional locations in leading cities around the world.

While we always look at the long-term strategy and future of our business, 2016 proved to be a year of considerable global economic, political and security uncertainties. The "Brexit" vote, the US presidential elections, mixed economic performance in many of the countries in which we operate and continued terrorist incidents and threats all pose uncertainties to our business. In addition, sentiment in our main market of Hong Kong was negative towards tourism and retail business for much of 2016 although we believe we have seen some stabilisation since.

Given the circumstances in which we were operating, we believe our 2016 financial results for the Group were satisfactory. While operating profit and underlying profit attributable to shareholders declined compared to the same period last year, the bulk of this decrease was due to the earnings disruption arising from the partial closure of The Peninsula Beijing for the extensive renovation project being undertaken at that hotel, as we had reported and forewarned in our 2015 Annual Report. Excluding the results of The Peninsula Beijing, which was under renovation for the year, the underlying profit of the Group in 2016 would have remained flat, which we consider to be a creditable result in the light of the market circumstances.

2016 was a year that saw increasing consolidation and commoditisation in the hotel market globally, meaning that our Group is becoming increasingly unique as an owner-operator amongst the top international luxury brands. One of the benefits of being an owner-operator is that we can have more control over our assets and the timing of our

investments. The Group has invested heavily in raising the standards of our existing hotel assets. This was our key strategy during 2016, with significant renovations at The Peninsula Chicago and The Peninsula Beijing and a new Grand "Fifth Avenue" Suite in The Peninsula New York.

With the renovation of The Peninsula Beijing being completed in the first half of 2017, our current programme of renovations on existing hotels has largely been completed and our focus for the next few years will be on the successful delivery and completion of our new hotel developments underway in London, Istanbul and Yangon.

Significant progress has been made on each of these projects during the year. For The Peninsula London which is our largest project under development, we have restructured our partnership with Grosvenor. As of 30 September 2016, HSH has increased its leasehold interest to 100% of the leasehold interest, and we have taken over full control and responsibility for the development and management of the project. For The Peninsula Istanbul project, the shareholders' agreement that was signed with our Turkish partners in July 2015 became unconditional with the granting of satisfactory construction approvals from 30 December 2016. Good progress is being made and construction has been underway since June 2016. 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 the groundbreaking ceremony was held on 16 February 2017. More details on these projects can be found on pages 45-47.

More details of our strategy and business model are described in the following pages of this report and our online Corporate Responsibility and Sustainability Report, as we travel further on our journey towards integrated reporting and sharing our long-term strategy with our shareholders.

A detailed review of our business performance is below.

## 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

	2016	Variance	
	Revenue HK\$m	In HKD	In Local Currency
<b>Consolidated Hotels</b>			
The Peninsula Hong Kong	<b>1,295</b>	(4%)	(4%)
The Peninsula Beijing	<b>137</b>	(50%)	(47%)
The Peninsula New York	<b>695</b>	7%	7%
The Peninsula Chicago	<b>545</b>	12%	12%
The Peninsula Tokyo	<b>802</b>	13%	2%
The Peninsula Bangkok	<b>235</b>	9%	12%
The Peninsula Manila	<b>257</b>	(10%)	(6%)
<b>Non-consolidated Hotels</b>			
The Peninsula Shanghai	<b>598*</b>	1%	7%
The Peninsula Beverly Hills	<b>619</b>	10%	10%
The Peninsula Paris	<b>481</b>	(10%)	(10%)

\* Excluding proceeds from sale of apartments

*One of the benefits of being an owner-operator is that we can have more control over our assets and the timing of our investments. The Group has invested heavily in raising the standards of our existing hotel assets. This was our key strategy during 2016, with significant renovations at The Peninsula Chicago and The Peninsula Beijing and a new Grand “Fifth Avenue” Suite in The Peninsula New York*



## The Peninsula Hong Kong

The tourism market in Hong Kong was challenging in the beginning of the year, although the situation improved in the second half of 2016. Overnight visitor arrivals from non-mainland China markets increased more than 5% year-on-year, although total overnight arrivals declined. We remain optimistic that Hong Kong will continue to be an attractive destination for travellers and we are committed to working with industry peers and government departments to support new ideas and initiatives for Hong Kong's tourism industry.

Revenue HK\$1,295m	Occupancy	Average Room Rate	RevPAR
-4%	-1pp	+2%	+0%





As the flagship property of the group, we were delighted to receive the accolade of “Best Hotel in the World for Service” from the readers of *Condé Nast Traveller UK* for The Peninsula Hong Kong in September 2016, as well as “Best Business Hotel in Asia Pacific” from *Business Traveller*. An enduring bastion of the Hong Kong dining scene, The Peninsula Hong Kong’s Cantonese restaurant *Spring Moon* received a Michelin star in December 2016. These awards are a testament to our long-serving team of colleagues who combine the spirit of integrity, passion and commitment to provide the best experiences for our guests.

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

The Peninsula Office Tower continues to perform well and was fully let throughout 2016, and the immediate outlook is stable. In spite of this, we are sensitive to the pressure on our tenants in The Peninsula Arcade as a result of the city-wide downturn facing the luxury retail market in Hong Kong. Many of our loyal tenants have been with us for decades, and we believe the long-term relationships we enjoy with them, coupled with our ability to offer access to Peninsula Hotel guests, will help to support their business needs. We are proactively working with our key retail tenants to establish marketing collaborations and promotional opportunities to support their business development efforts, such as the successful marketing campaign, “Legendary Artisans”, which took place in the summer to promote the Arcade’s tenants, showcasing exclusive collection launches and culinary collaborations such as the Tiffany-inspired “New York Spirit” Afternoon Tea.



In March 2016, the hotel’s three-year collaboration with Britain’s Royal Academy of Arts, “Love Art at The Peninsula”, continued with the launch of a robotic sculptural installation entitled “The Ada Project” by British conceptual artist Conrad Shawcross RA, which generated extensive press coverage and standout reviews from the international art community during Art Basel Hong Kong, which has become a highly successful event for the city.

On 25 November 2016, the Group celebrated its 150<sup>th</sup> anniversary with a spectacular Gala party for around 2,000 VIP guests and media including a group of 20 VIP travel editors from around the world, which generated significant valuable coverage for Hong Kong and our hotel.

As part of the ongoing implementation of the Sustainable Luxury Vision 2020, the hotel continued to support the “Honing Skills for Hospitality” programme for selected secondary students studying hospitality from the ethnic minority community in Hong Kong, which included a five-week internship programme and an opportunity to learn about the hospitality industry.

## The Peninsula Shanghai

The Peninsula Shanghai reported a solid 2016 with increased average room rates and RevPAR. The hotel remains the market leader in RevPAR in the city and we were delighted to receive the accolade of Number 1 in Best City Hotels in Asia by *Travel + Leisure* magazine. We are pleased to report that *Yi Long Court* received two Michelin stars and Sir Elly’s one Michelin star, becoming the only establishment in China with two in-house restaurants to have Michelin stars. We have been recognised by the Chinese government as an “official” destination for high level state visits and government delegations.

The Shanghai market reported a 7% increase in visitor arrivals during the year, driven by the opening of the new Shanghai Disneyland in June 2016 which encouraged larger numbers of domestic travellers to visit the city. Competition was intense with hotels striving for market share at the expense of average room rates, and the fact we have been able to grow rates in this environment is a testament to the quality of our product and our exceptional service levels.



The domestic market remained strong and we are also seeing growth from The Middle East. We are working on strategies to drive more direct internet bookings and interaction with our guests in popular online channels such as Ctrip and Booking.com.

The Peninsula Arcade was fully occupied, and we are working with our tenants on renewed rental contracts to secure long-term partnerships. The Arcade participated in the “Legendary Artisans” marketing campaign to promote our retail tenants which was also held in Hong Kong and Beijing.

The Peninsula Shanghai continues to embrace the Chinese government’s efforts to promote low-emissions energy and environmental conservation. The Peninsula Shanghai sponsored China’s Techeetah Formula E racing team, which competed for the first time at the 2016 Hong Kong ePrix in October 2016, with the aim of encouraging sustainable driving in China and worldwide. The Peninsula Shanghai continued to promote wellness and fitness for employees during 2016 and staff had the pleasure of meeting Chen Penbin, China’s first international ultra-marathon champion and Fitness Ambassador for The Peninsula Shanghai, who delivered a motivational speech at the opening of the new staff gym.

Our Group’s developmental strategy includes the development of residential properties for lease and sale in certain key markets. Four sales of apartments at The Peninsula Shanghai Residences were recognised in 2016 with total proceeds of HK\$229 million, leasing another 20 apartments.

Revenue RMB512m (HK\$598m)	Occupancy	Average Room Rate	RevPAR
+7%	+0pp	+6%	+7%

Proceeds from sale of apartments

**RMB196m** (HK\$229m)





## The Peninsula Beijing

The Peninsula Beijing is well advanced in its extensive renovation, with the first phase of public areas finalised in August 2016 and the second phase of rooms to be completed in mid-2017. The previous 525 rooms of the hotel are being combined to create 230 elegant new rooms and suites which are the largest in Beijing and among the most spacious luxury hotel rooms in the country. At a press conference held in June 2016, we unveiled spectacular new public spaces including the Lobby and newly revamped restaurants, *Huang Ting* and *Jing*. The latter introduced a new “farm to table” dining concept and a 70% organic, sustainable menu, which is a unique feature in the Chinese mainland.

The renovation was inspired by the Imperial architecture of ancient China and we have combined our traditional Peninsula hospitality with the best of Chinese tradition, culture and artisanship and contemporary standards of luxury, including our up-to-date modern technology. Occupancy and average rates were significantly impacted by the renovation. However, we have already seen that the renovated rooms are able to achieve a much higher average rate. The feedback from guests and media on the first phase of the renovation has been positive and we believe

this investment will place The Peninsula Beijing at the top of the highly competitive Beijing market. The Peninsula Arcade reported a stable performance despite the disruption during the renovation, and tenant interest remains strong.

As part of our extensive renovation at The Peninsula Beijing, sustainable guidelines such as the Building Research Establishment Environmental Assessment Method (BREEAM) were incorporated since the beginning of project planning, with certification targeted in 2017. This included the implementation of energy efficient LEDs, sustainably sourced wood for most of the wood work and furniture, as well as avoiding harmful glues, paints, wall coverings and carpeting. This is an example of our Vision 2020 commitment in action.

While offering a high quality guest experience, we feel it is equally important to provide a comfortable and healthy back of house environment for our staff. One of the key elements of the renovation at The Peninsula Beijing was to design the best “Back of House” area for our employees in Beijing, with nutritious menus and entertainment in the staff restaurant. We also decided not to implement lay-offs during the renovation and instead focused on developing and training our staff with cross-exposure programmes to other hotels and increased learning and development programmes.





## The Peninsula Tokyo

Tourist arrivals in Tokyo exceeded 20 million in 2016 and are expected to expand to 40 million by 2020 for the Olympics. Against this fast-growing and dynamic backdrop, The Peninsula Tokyo had a strong year with the hotel reporting an increase of 13% in average room rates – the highest ever in its ten-year history, and a corresponding increase in RevPAR. We reported a slightly lower occupancy rate due to the strategy to drive average room rates, but the overall outcome was that we achieved the highest revenue for the hotel since its opening.

Across the city, Tokyo recorded softer demand from international markets, particularly corporate business, due to the strengthening yen. Although there were no major new hotel openings in the city, the growth of restaurants within the local area resulted in a slightly lower food and beverage revenue. Weddings remain as our largest non-rooms revenue contributor and we anticipate the weddings market will be stronger in 2017 than last year.

The Spa performance was robust in the second half with revenue driven by an innovative new treatment line, “Pedi:Mani:Cure Studio” by French podiatrist Bastien Gonzalez, which includes a proprietary line of cures and formulas offered in Japan for the first time and which can be experienced only at The Peninsula Spa.

Maintaining an appropriate work-life balance is currently a hot topic in modern Japanese society which has made frequent headlines in the local and international press, and the government is seeking to address this by promoting a “Premium Friday” scheme where workers can leave early on the last Friday of each month, with the aim of improving the work-life balance of employees. The Peninsula Tokyo is adhering to this scheme and we are also in discussions to instigate an “email-free day” for our hotel employees.

All classic tea, chocolate and coffee served in The Peninsula Tokyo are from certified sustainable sources. The hotel partnered with “Clean the World” to recycle its used soap bars to promote cleanliness in needy communities.

In celebration of our tenth anniversary in 2017, The Peninsula Tokyo also announced its sponsorship of “The Peninsula Tokyo Rally Nippon 2017 – A Peninsula Signature Event” which is scheduled to take place 21-24 October 2017.

## The Peninsula Bangkok

The Peninsula Bangkok had a solid year in 2016 with a reasonable recovery after the political upheaval of 2014, although the sad passing away of His Majesty King Bhumibol Adulyadej of Thailand in October 2016 had an impact on our business. The country entered a period of mourning for one year starting from October 2016 which led to the cancellation of corporate events and banquets. MICE business (Meetings, Incentives, Conferences and Exhibitions) remained soft for the year. Visitor arrivals improved significantly from the US, Chinese mainland and from around the Asian region, especially Japan and South Korea. We aim to increase group and corporate business and offer special packages to encourage groups to return to Thailand and this has been facilitated by the Thai Government’s waiving of visa-on-arrival costs for tourists from 18 countries including China.

Although the traditional Peninsula in Pink charitable activities had to be scaled down due to the sad passing away of His Majesty King Bhumibol Adulyadej in October 2016, the hotel continued to organise charitable events such as a sponsored run to the top of The Peninsula Bangkok’s 36-storey building to raise funds for underprivileged students’ education. The Peninsula Academy programme was enhanced 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 expect the outlook for 2017 to remain soft until the official mourning period ends in October 2017.

Revenue  
THB1,070m  
(HK\$235m)

+12%

Occupancy

+7pp

Average  
Room Rate

+1%

RevPAR

+12%



## The Peninsula Manila

The Peninsula Manila had a challenging 2016, with revenue decreasing 6% in local currency terms over the same period last year. This was partially due to a softer business environment in the first half due to uncertainty over the Philippine Presidential Elections, which took place in May 2016.

Generally, the rise of the middle class in the Philippines continues to have a positive effect on the Philippine economy, and domestic travellers now comprise the hotel's second largest group after the US. As reported in page 38 of the Corporate Responsibility and Sustainability Report,

we are delighted to report that The Peninsula's global campaign for charity, *Hope for the Philippines*, completed Phase 1 of the project with construction of 75 new homes for people displaced after Typhoon Yolanda in 2013. All 75 houses were turned over to their new owners in January 2016. The second and third phases of this initiative will involve an education component, as well as life-skills training for the inhabitants of the Village.

The Peninsula Manila celebrated its 40<sup>th</sup> anniversary in September 2016 with a Gala celebration honouring our partners, staff and guests who have been instrumental in building this hotel into a legendary icon of Manila's high society.

Revenue	Occupancy	Average Room Rate	RevPAR
Php1,571m (HK\$257m)			
-6%	-2pp	-4%	-7%





## The Peninsula New York

During 2016, New York City reported significant additional supply with more than 2,400 new hotel rooms coming onto the market, many in the luxury sector. The Peninsula New York experienced intense competition as a result of this increased supply, but we were pleased to report a positive increase in both revenue and occupancy over the previous year, as well as a stable RevPAR positioning and good market share growth.

Government and diplomatic business such as that associated with the UN General Assembly conference in September 2016 was particularly strong. The new 250 square metre Fifth Avenue suite, created by Manhattan designers Bill Rooney Studio Inc., opened in September 2016 to cater for increased top-end demand and has been well received by guests. We introduced a new monthly series

concept at *Clement* restaurant, *Kitchen Table at Clement*, hosted by Chef Remi van Peteghem, and *Jazz at Clement Bar*, which helped drive food and beverage revenue. The hotel’s rooftop bar, *Salon de Ning*, is consistently rated as one of the best bars in New York.

The Peninsula Garden on the rooftop of the hotel contributes organic herbs and fresh vegetables to our menus and the hotel’s chefs continued to place an emphasis on sourcing local sustainable seafood and fresh produce. The Peninsula New York continued to work closely with the local community and in November 2016 staff contributed to a “Refurbishment Project” at The New York Center for Children, its local charity partner.

We are optimistic for continued growth in 2017 and will continue to focus on driving corporate and diplomatic business whilst monitoring costs to drive margins.

## The Peninsula Chicago

Following the completion of the renovation in April 2016, The Peninsula Chicago enjoyed a 15% increase in RevPAR, 12% increase in revenue and a RevPAR ranking of No. 1 for the year despite significant new supply. This was due to our renovated rooms achieving a significant increase in room rate to become rate leader in the city. Chicago is a city that is highly dependent on the convention industry and in 2016 the city experienced a significant slowdown in large-scale events, with the number of events declining 20% year-on-year. In 2016, Choose Chicago, the official tourism organisation for Chicago, announced an increased focus on attracting international visitors to the city which is usually heavily dependent on the domestic US market. Boutique hotels remain popular in Chicago and more than 2,700 new hotel rooms became available on the market in the past year.

In June 2016, we celebrated the hotel's 15<sup>th</sup> anniversary with an elegant gala event for our VIP guests and media, and the hotel invited several groups of international media from China, Australia and Germany to experience its newly renovated rooms which generated positive reviews.

The contemporary design of the renovated guestrooms drew inspiration from the hotel's French Deco public spaces, as well as Lake Michigan and the Chicago River, and also introduced the Peninsula's proprietary advanced guestroom technology to the United States. Two new service initiatives were introduced to Chicago – 24-hour check-in for web bookings and "Keys to the City," which provides guests with special access to Chicago's art museums, top restaurants and tourist attractions. The Peninsula Chicago's Chinese restaurant, Shanghai Terrace, was ranked "Best Chinese restaurant in the city" by *Zagat*, and overall the hotel's food and beverage revenue increased by almost 10% year-on-year, as a result of increased traffic following the renovation.

As part of our group-wide strategy to connect our local communities with the art world, The Peninsula Chicago was honoured to feature a significant art exhibition entitled *Whoville* showcasing a number of renowned artists with connections to Chicago. This exhibition coincided with the annual EXPO CHICAGO, the International Exposition of Contemporary & Modern Art, in September 2016.

The Peninsula Chicago remains committed to sustainable business practices and we continued to place an emphasis on sourcing local sustainable seafood and fresh produce.



### The Peninsula Beverly Hills

We were delighted that The Peninsula Beverly Hills was once again voted “The Best Hotel in the US” by *Global Traveler* magazine in 2016. The Peninsula Beverly Hills remains the only AAA Five Diamond and Forbes Five Star-rated hotel in Southern California, an accolade it has achieved every year since 1993.

The hotel enjoyed a positive 2016 with steady market growth and increased occupancy over the previous year. The hotel remained number one in RevPAR within its competitive set. Revenue increased by 10% as a result of implementing a relentless approach to revenue maximisation, with a focus on attracting long-term guests and selling suites. The newly renovated *Belvedere* restaurant opened in January 2016 and has achieved positive reviews and feedback from guests, and its new outdoor terrace area created a beautiful additional space for private parties, contributing to growth in revenue.

The Middle East and Australian markets remained particularly strong and the UK market held up despite the decline in the sterling currency.

We continued to pioneer new sustainability initiatives, including an innovative “waterless carwash” staffed by employees with special needs. We co-sponsored events with our local charity partner “A Place Called Home” which provides a safe environment for underprivileged children in the LA community. In June 2016, we launched a new Peninsula Academy LA-themed experience for children, “Red Carpet Kids”, in line with our strategy of attracting more family travellers.

The Peninsula Beverly Hills celebrated its 25th anniversary in August 2016.



Revenue US\$79m (HK\$619m)	Occupancy	Average Room Rate	RevPAR
+10%	+3pp	+2%	+7%

## The Peninsula Paris

The Paris market is recovering slowly following the major terrorist attacks in Paris in 2015 and Nice in 2016. The tragic attacks on Brussels airport in March 2016 and Berlin city centre in December 2016 had a negative impact on travellers coming to France. Paris was also negatively affected by flooding of the Seine in June 2016 and the city has a long way to go to return to the high occupancy levels of pre-2014. We are optimistic that Paris, one of the world's most beautiful cities, remains an attractive destination for business and leisure and we are confident of a recovery in the medium term.

The hotel continues to garner a high level of acclaim from guests, media and the industry after its spectacular Grand Opening in 2015. Despite the challenging environment in 2016, we were pleased to achieve the highly sought-after 'Palace' rating for The Peninsula Paris, bestowed by the French Tourism Development Agency, ATOUT France, to reward the hotel's excellence in "promoting the French way of life on the international stage". We also achieved a Forbes Five-star ranking during the year. We were delighted to be the selected partner for the highly prestigious event *le Bal*, the traditional annual debutantes' ball, which was held in November 2016.

*La Terrasse Kléber* and *L'Oiseau Blanc* rooftop terrace have become established as popular venues for the local Parisian nightlife scene as well as for overseas visitors, particularly

in the summer months when Paris enjoys a social buzz. During 2016 our key markets were Saudi Arabia, US and France domestic visitors, with increasing brand recognition in the Middle East as a result of our partnership with Katara Hospitality.

Private accommodation online aggregators are particularly popular in Europe and Paris, which is indirectly creating a new level of competition for French hoteliers even at the high end. We recognise that visitors to France desire an authentic, glamorous Parisian experience; to enhance our guests' experience of the city beyond the hotel, we have developed a variety of bespoke Peninsula Academy experiences with a unique Parisian flair. These include a private exclusive tour of haute couture design boutiques in Paris and a trip by choice of helicopter, Rolls-Royce Phantom or BMW to the heart of the Champagne region and the House of Deutz, producer of one of the world's finest champagnes and partner to The Peninsula Hotels worldwide.

The hotel uses nearly all of its paper from certified sustainably managed forests and continues to procure most of its seafood and fresh produce locally.

Revenue EUR56m (HK\$481m)	Occupancy	Average Room Rate	RevPAR
-10%	-5pp	-10%	-18%





## COMMERCIAL PROPERTIES

	2016	Variance	
	Revenue HK\$m	In HKD	In Local Currency
The Repulse Bay Complex	615	(2%)	(2%)
The Peak Tower	183	2%	2%
St. John's Building	52	(4%)	(4%)
The Landmark	38	0%	3%
1-5 Grosvenor Place	34	(3%)	14%

*The Repulse Bay Shopping Arcade, which offers an eclectic blend of boutique and lifestyle amenities, was fully occupied for most of the year*

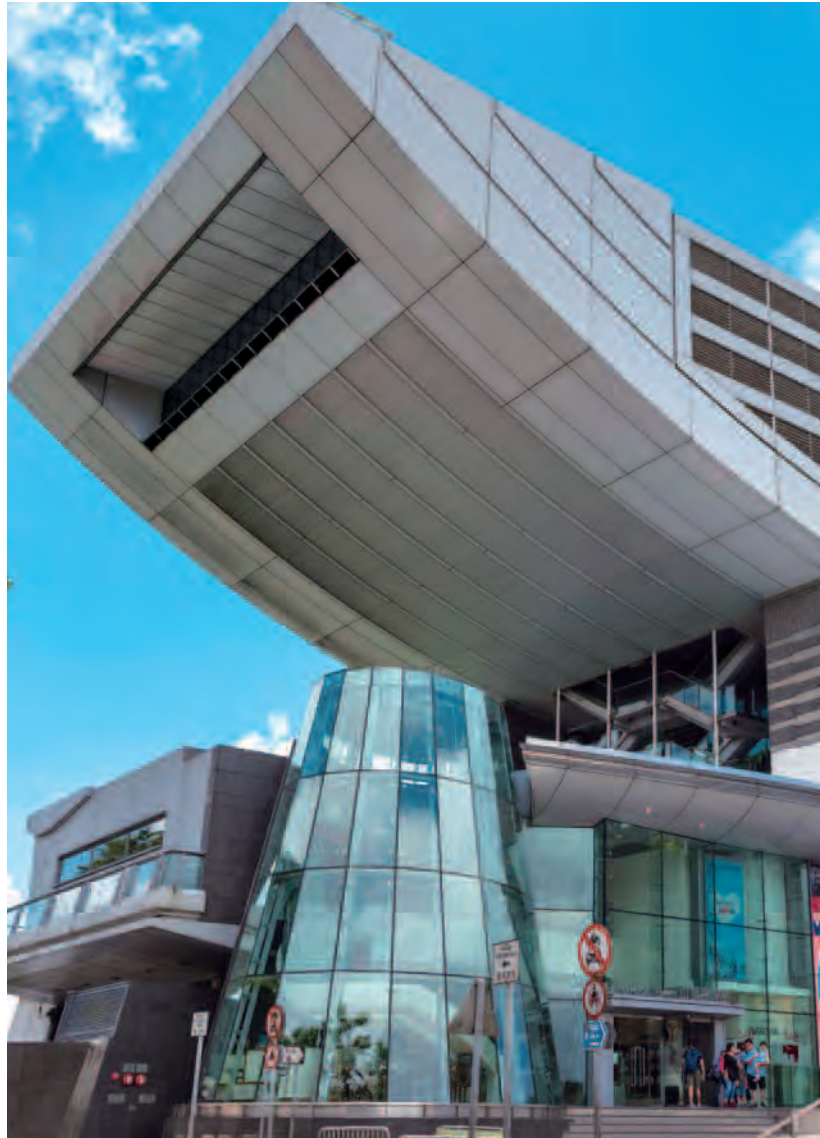
Revenue at our largest investment property, **The Repulse Bay Complex**, reported a slight decline compared with the same period last year. However, we consider these operating results to be satisfactory in the light of softer demand in Hong Kong, where the luxury residential leasing market is experiencing a downward trend, multinational companies are cutting housing allowances and more expatriates are being transferred to local packages. The majority of our tenants come from Europe, US and the Chinese mainland and we expect to see demand from these markets continuing to grow.

The Repulse Bay Shopping Arcade, which offers an eclectic blend of boutique and lifestyle amenities, was fully occupied for most of the year, with tenants recognising the value of the spectacular location and benefiting from robust traffic

at weekends as city residents flocked to the south side to escape the city. Food and beverage revenue was slightly down over the same period last year and we implemented new promotional campaigns such as *Jazz on the Lawn* and themed wine evenings at *The Verandah*. A new website was launched at the end of 2016 to better promote the property and its restaurants. The Repulse Bay offers a beautiful location for weddings overlooking the ocean and our weddings and banqueting business remained stable in 2016.

As part of the group's 150<sup>th</sup> anniversary celebrations, we held a large-scale two-day charity event for more than 1,000 underprivileged and special needs children, working with some 80 partner charities to bring children to The Repulse Bay for a fun day out with a Christmas Carnival theme.





**The Peak Tower** was fully leased for most of the year in 2016 and revenue remained stable, with new rental agreements signed for two additional restaurant tenants in the first half. 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 with 8% higher revenue than 2015, thanks to increased sales of “combo tickets” with the Peak Tram. We are working with our tenants to promote traffic and have created new marketing campaigns and innovative photography areas free of charge.

As part of our community responsibility efforts and to commemorate the group’s 150<sup>th</sup> anniversary, The Peak Complex gave out 150 umbrellas to homeless people in Hong Kong, and promoted special offers to children and the elderly.

**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, although revenue decreased by 4% over the previous year due to lower advertising income on the façade of the building.

**The Landmark**, a 16-storey residential and office property, is located on a prime waterfront site in the central business district of Ho Chi Minh City, Vietnam. The complex has 65 serviced apartments, a fully equipped business centre and Health Club, as well as 100,000 square feet of first class office space for leasing. Revenue increased 3% year-on-year as a result of increased demand for serviced apartments. The Landmark maintains its popularity and leadership in a competitive market, and continues to attract awards for its management and facilities. We were delighted to receive the accolade of *Best Serviced Apartments in Vietnam* in 2016.



**1-5 Grosvenor Place** in London, the project site of The Peninsula London hotel and residences, was acquired during 2013. As mentioned in the Projects section on page 45, on 30 September 2016 we completed an agreement to change the structure in our partnership with Grosvenor to assume 100% ownership of the project. We reported a revenue increase of 14% as a result of HSH being entitled to 100% of the rental income following the completion of the change of structure instead of 50%. Nevertheless, in Hong Kong dollar terms, there was a decrease of 3% in revenue due to the depreciation in local currency. We target to obtain vacant possession and commence demolition and construction of The Peninsula London project in April 2017.

The renovation of **21 avenue Kléber** is progressing well and is expected to complete at the end of September 2017. The property offers a spectacular location immediately adjacent to The Peninsula Paris on Avenue Kléber, in a chic neighbourhood just steps from the Arc de Triomphe. The building has been restored in keeping with the heritage of the building, 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.

## CLUBS AND SERVICES

	2016	Variance	
	Revenue HK\$m	In HKD	In Local Currency
The Peak Tram	120	(2%)	(2%)
Thai Country Club	56	(3%)	(2%)
Quail Lodge & Golf Club	145	7%	7%
Peninsula Clubs & Consultancy Services	68	(63%)	(63%)
Peninsula Merchandising	217	21%	21%
Tai Pan Laundry	50	(9%)	(9%)





**The Peak Tram** is one of Hong Kong's most popular tourist attractions and, following weak tourism trends earlier in 2016, we started to see a pick up towards the end of the year, with December reporting record visitor numbers. However, overall revenue decreased by 2% and patronage declined slightly for the full year 2016.

We renewed our operating rights to the Peak Tram from 1 January 2016 for a ten-year period, which paves the way for a project to increase the capacity of the trams and create additional waiting areas for our customers. The Peak Tram is considered a "must-see" attraction for most visitors to Hong Kong and while it is a unique experience, we recognise the long queues to board during peak hours can be a source of frustration for visitors and we are working to improve their experience and comfort. Significant improvement work is expected to begin in 2017 and be completed in 2020, subject to the extension of the operating period being approved by the Hong Kong Government.

We were pleased to receive several accolades for **Thai Country Club** during 2016 at the Asian Golf Awards. These included "Best Managed Golf Club in Asia Pacific" and "Best Food and Beverage Experience in Asia Pacific". However, the club, which is located in Bangkok, recorded a small decrease in revenue for the full year as Thailand experienced 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. Corporate events and tour groups were cancelled and we expect the market to remain soft in 2017.

**Quail Lodge & Golf Club** had a stronger year with revenue increasing by 7%. This was due to a successful marketing strategy, online travel agency (OTA) promotions, cost reductions, as well as improved golf membership sales and golf rounds following the major golf course renovation in 2015. The wedding market was strong in 2016 and our food and beverage revenue from *Edgar's* improved thanks to increased business from the Lodge and new monthly wine dinner initiatives. The results could have been even better, were it not for extreme rain at the beginning of 2016 and the Soberanes wildfires in the summer which both impacted business.

"The Quail Motorcycle Gathering", a Peninsula Signature event, welcomed 2,000 visitors in May 2016, followed in August by the highly successful "The Quail: A Motorsports Gathering", which occurs during Monterey Car Week and has become one of the world's leading concours events for classic car aficionados, attracting more than 5,000 visitors. Also in August, to coincide with The Quail, we launched "The Peninsula Classics Best of the Best Award" – an event bringing together the "2015 Best of Show winners" from six of the top concours events around the globe to compete for the title of the most exceptional car in the world. This brought the Peninsula brand to the attention of leading car aficionados and collectors.

Monterey Car Week, and The Quail event, is an important event in terms of giving back to the local community. During summer 2016 more than US\$40,000 was raised for the community foundation’s Kiwanis Foundation Community Fund. Quail Lodge donated the proceeds from a community party silent auction to this fund, which contributed to local scholarships and services in Carmel Valley. Our employees doubled their volunteer hours during 2016 to help with community activities, and we also donated guestrooms for firefighters when they were fighting the aforementioned Soberanes wildfires.

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

Revenue at **Peninsula Merchandising** was 21% higher than the same period last year, driven by higher sales and brand awareness following the launch of the new Peninsula Boutique at Hong Kong International Airport. The Peninsula Boutique is investing in its marketing including a new e-commerce website launched in May 2016 which won the Silver Award for Excellence in Design at the Marketing Magazine’s Marketing Excellence Awards 2016. Peninsula Merchandising sales are driven by the very popular Peninsula Mooncakes which are sold in autumn and are gaining popularity around the world beyond the traditional market of Hong Kong. Peninsula Merchandising has implemented a new strategy of a broader product range and seasonal promotions, which requires an initial investment but is expected to lead to a long-term increase in revenue as well as a broader earnings base.

**Tai Pan Laundry** decreased revenue by 9% to HK\$50 million, mainly due to the loss of a large client.



## PROJECTS



*The Peninsula London 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.*

### The Peninsula London

In 2013, our Group purchased a 50% interest in the leasehold of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of £132.5 million and entered into a joint venture with Grosvenor to develop the site into The Peninsula London hotel and residences. As announced on 26 July 2016, we signed Heads of Terms to change the structure of our partnership with Grosvenor into a landlord and tenant relationship, whereby 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.

Upon completion of the restructuring on 30 September 2016, HSH assumed full responsibility and control for the development of the London project, including the remaining development costs. The final project budget is still being

finalised but is expected to be in the region of £600 million. In return for this additional 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 the profits of the hotel. This is a significant transaction for our group, given the importance of London as a business and tourism destination.

This property is in a spectacular location overlooking Hyde Park Corner and the Wellington Arch. The current 1950s and 1960s offices will start to be demolished in 2Q 2017, to be replaced with a luxury 189-room hotel and a select number of luxury residential apartments for sale. The hotel and apartments will set new standards in luxury and service and we believe they will be the finest in the London market when complete, currently scheduled for 2021.



## The 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 have 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 well under way. Demolition on the project site began in June 2016 and is making significant progress. We expect it will be the first of our three hotel projects to be opened, with an expected completion date in 2019. There will be 180 rooms, a ballroom with sweeping views of the Bosphorus, rooftop restaurant, indoor and outdoor swimming pool, 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. Our partners have a long track record of investment in Turkey and share the same values of integrity and long-term commitment as HSH. We remain concerned about the uncertain political situation in Turkey and the tragic terrorist attacks in December 2016 which have 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 as one of the world's fastest-growing tourism destinations and we will continue to monitor the security situation closely.



## The Peninsula Yangon

The Company entered into a conditional agreement with Yoma Strategic Holdings in January 2014 to acquire a 70% majority interest for a proposed hotel development on the site of the former headquarters of the Myanmar Railway Company in central Yangon, Myanmar. The property 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, luxury residential apartments within the development, and also continue to manage the residences post sale.



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

The final project budget is still being finalised but 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 on 16 February 2017. We look forward to continue to work with our partners to complete this project by 2021.





## Human Resources

Attracting and developing our talent remains a key focus of our Company. We are committed to creating a culture of engaged employees across the Group, as well as widening our succession planning in the light of our company's development. The travel and tourism sector often suffers from high turnover of staff, but despite challenging times for our industry and an uncertain economic outlook in our home market of Hong Kong, we are pleased to report a low voluntary turnover rate among our staff compared with the industry. Having a well-trained and engaged workforce is critical to our work culture and in order to deliver the quality of service to our guests.

As of 31 December 2016, there were 7,474 full time employees in the Group. More details about our approach to nurturing our "human capital" can be read on pages 90-99.

## Sustainable Luxury Vision 2020

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

In 2016, we saw a good outcome of our continued energy and water efficiency efforts with energy intensity at 2.9% lower than 2015 and water use decreasing by 6.5%. In 2016 we focused on delivering a natural, organic and sustainably farmed choices on our menus worldwide, as part of our relaunch of *Naturally Peninsula*, including the menus in our newly renovated restaurants at The Peninsula Beijing. More details on our ambitions for Vision 2020 can be read on our website and in the Corporate Responsibility and Sustainability Report which is online this year to be more environmentally friendly.

*With our long-term outlook and the exciting new projects that we are developing, we remain confident and positive about the future.*

## 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 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.

As has been mentioned, the retail and tourism markets in Hong Kong in 2016 were subdued and we are seeking to address this by focusing on driving revenues with more focused marketing on the hotel side and closer interaction with guests on retail, as well as containing costs. More generally, our focus is to maintain and drive our operating margins throughout the Group.

Despite the uncertainties arising from political, economic and security factors, we remain cautiously optimistic that we will see improved financial performance in 2017. More specifically, we expect that The Peninsula Chicago will continue to benefit in terms of room rate from its recently completed renovation and The Peninsula Beijing to increase its earnings after the completion of its rooms renovation when it returns to full inventory in mid-2017. We have seen more stability and optimism regarding the Hong Kong economy and tourism and hope to see a gradual recovery in the coming year.

Looking to the longer term, according to the World Travel and Tourism Council (WTTC) 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 well when the renovations are taken into account. 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.



Clement Kwok  
20 March 2017