Business Review

Non-Accounting Performance Indicators

Key non-accounting performance indicators relevant to the Group's hotel business include:

Average Room Rate (HK$) :

$$\frac{\text{Total Rooms Revenue}}{\text{Rooms Sold}}$$

Rooms Revenue per Available Room ("RevPAR") (HK$) :

$$\frac{\text{Total Rooms Revenue}}{\text{Rooms Available}}$$

Occupancy Rate:

$$\frac{\text{Rooms Sold}}{\text{Rooms Available}} \times 100\%$$

Review of Group Results

Our Group comprises three key divisions – hotels, commercial properties and clubs and services. These divisions are described in more detail in the following review.

HK$m	2014	2013	2014 vs 2013
Revenue			
Hotels	**4,260**	4,044	5%
Commercial Properties	**901**	806	12%
Clubs and Services	**677**	658	3%
	5,838	5,508	6%
EBITDA			
Hotels	**818**	649	26%
Commercial Properties	**582**	521	12%
Clubs and Services	**128**	136	(6%)
	1,528	1,306	17%

We are pleased to report that the Group's turnover continued to grow in 2014 and amounted to HK$5,838 million, representing an increase of 6% over 2013. The EBITDA for the year of HK$1,528 million, an increase of 17% over the previous year, reflects the improved management of costs relative to the increase in revenue. Profit attributable to shareholders amounted to HK$1,146 million, after including property revaluation gains, net of tax and non-controlling interests. The Group's underlying profit attributable to shareholders for the year ended 31 December 2014 increased by 57% to HK$804 million.

The Board has recommended a final dividend payable on 19 June 2015 of 18HK cents per share. Together with the 2014 interim dividend of 5HK cents per share paid on 31 October 2014, the total dividend in respect of the 2014 financial year will be 23HK cents per share, an increase of 44% over 2013.

Operating Statistics

Peninsula Hotels

	Occupancy %		ARR (HK$)		RevPAR (HK$)	
	2014	2013	**2014**	2013	**2014**	2013
Hong Kong (Note 1)	**75**	72	**5,144**	5,170	**3,870**	3,731
Other Asia (excluding Hong Kong)	**65**	66	**2,146**	2,065	**1,390**	1,361
United States of America and Europe (Note 2)	**74**	74	**5,471**	4,858	**4,059**	3,573
Average	**68**	68	**3,454**	3,087	**2,361**	2,105

Notes:

1. The renovation works in The Peninsula Hong Kong were completed in two phases, resulting in 135 rooms being removed from saleable inventory from January to September 2012, followed by 165 rooms from September 2012 to May 2013. The occupancy and RevPAR are based on the number of rooms not being renovated.
2. The Peninsula Paris was opened on 1 August 2014, although the full inventory of 200 rooms was not available from that date. The average number of availabe rooms per day for the 5 months to 31 December 2014 was 171 and this number has been used for the calculation of occupancy and RevPAR.
3. Occupancy rates, average room rates and RevPAR are weighted averages for the hotels in each grouping.
4. The average room rates and RevPAR include undistributed service charge, which is levied at 10% in Hong Kong and at 15% in China and Japan.

Consolidated Hotel Revenue by Geographical Segment (HK$m)

	2010	2011	2012	2013	**2014**
Hong Kong	1,119	1,217	1,092	1,268	**1,460**
Other Asia	1,547	1,551	1,758	1,685	**1,627**
USA	910	998	1,035	1,091	**1,173**
	3,576	3,766	3,885	4,044	**4,260**

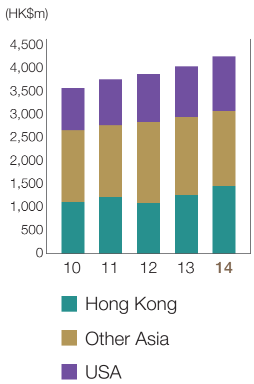
Consolidated Hotel Revenue by Nature (HK$m)

	2010	2011	2012	2013	**2014**
Rooms	1,549	1,642	1,637	1,768	**1,889**
Food & Beverage	1,123	1,175	1,232	1,218	**1,239**
Others	904	949	1,016	1,058	**1,132**
	3,576	3,766	3,885	4,044	**4,260**

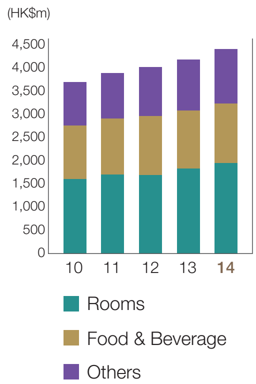
Consolidated Hotel EBITDA (HK$m)

	2010	2011	2012	2013	**2014**
EBITDA (HK$m)	604	605	596	649	**818**
EBITDA Margin	17%	16%	15%	16%	**19%**

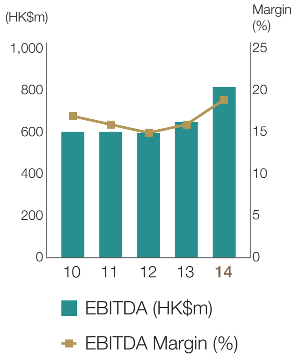
Consolidated Hotel Revenue by Geographical Segment



Consolidated Hotel Revenue by Nature

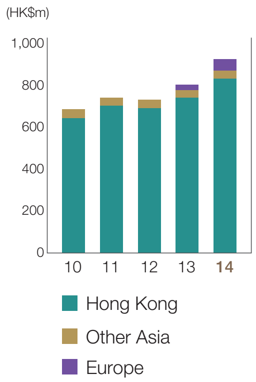


Consolidated Hotel EBITDA

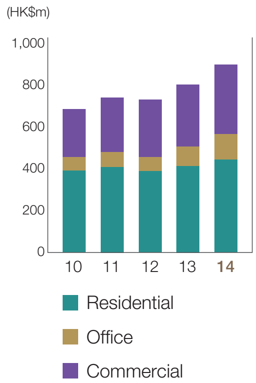


Commercial Properties

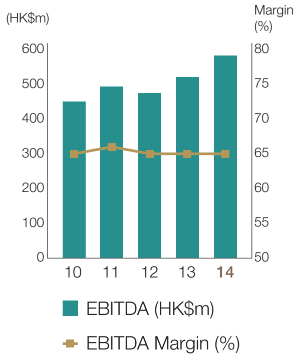
Rental Revenue from Commercial Properties by Geographical Segment



Rental Revenue from Commercial Properties by Nature



Commercial Properties EBITDA



Rental Revenue from Commercial Properties by Geographical Segment (HK$m)

	2010	2011	2012	2013	**2014**
Hong Kong	646	704	694	743	**810**
Other Asia	42	39	39	36	**36**
Europe	–	–	–	27	**55**
	688	743	733	806	**901**

Rental Revenue from Commercial Properties by Nature (HK$m)

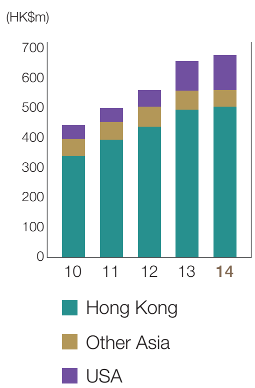
	2010	2011	2012	2013	**2014**
Residential	392	410	390	415	**445**
Office	66	71	67	93	**124**
Commercial	230	262	276	298	**332**
	688	743	733	806	**901**

Commercial Properties EBITDA

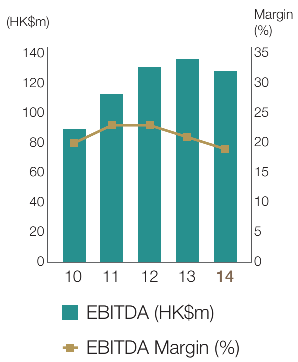
	2010	2011	2012	2013	**2014**
EBITDA (HK$m)	450	493	474	521	**582**
EBITDA Margin	65%	66%	65%	65%	**65%**

Clubs and Services

Revenue from Clubs and Services by Geographical Segment



Clubs and Services EBITDA



Revenue from Clubs and Services by Geographical Segment (HK$m)

	2010	2011	2012	2013	**2014**
Hong Kong	338	393	438	494	**505**
Other Asia	58	60	66	65	**55**
USA	47	47	56	99	**117**
	443	500	560	658	**677**

Clubs and Services EBITDA

	2010	2011	2012	2013	**2014**
EBITDA (HK$m)	89	113	131	136	**128**
EBITDA Margin	20%	23%	23%	21%	**19%**

Hotels

	2014 Revenue (HK$m)	2013 Revenue (HK$m)	2014 vs 2013
Consolidated hotels			
The Peninsula Hong Kong	**1,360**	1,192	14%
The Peninsula Beijing	**411**	424	(3%)
The Peninsula New York	**674**	592	14%
The Peninsula Chicago	**499**	499	0%
The Peninsula Tokyo	**756**	734	3%
The Peninsula Bangkok	**181**	235	(23%)
The Peninsula Manila	**279**	292	(4%)
Management fees income	**100**	76	32%
	4,260	4,044	5%
Non-consolidated hotels			
The Peninsula Shanghai	**595**	553	8%
The Peninsula Beverly Hills	**581**	508	14%
The Peninsula Paris	**225**	–	n/a
	1,401	1,061	32%

2014 was a pleasing year for the Group's hotels division. With the opening of The Peninsula Paris, our first European property, on 1 August 2014, our portfolio now comprises ten hotels situated in Asia (6), the United States of America (3) and Europe (1).

During the year, our existing portfolio of hotels achieved revenue growth of 5% over 2013. The largest increases came from The Peninsula hotels in Hong Kong and New York. The Peninsula Tokyo achieved revenue growth of 12% in its base currency, although the depreciation of the Japanese yen reduced that growth to 3% in Hong Kong dollar terms. The Peninsula Bangkok recorded a reduction in revenue due to the continuing political uncertainty in Thailand.

Our hotels continue to enjoy a strong market position in the midst of a competitive operating environment. Guest loyalty, evidenced by the high levels of repeat patronage, remains a core strength of the Group.

The Peninsula Hong Kong

The Peninsula Hong Kong

Revenue
HK$1,360m
+14%

Room Revenue
HK$420m
+27%

Available Rooms
+23%

Occupancy
+3pp

Average Room Rate
-1%

RevPAR
+4%

The Peninsula Hong Kong is our flagship property for the Group and remains the leader in average room rates among our benchmarking competitive set. Occupancy levels were slightly affected in the last quarter because of the impact of the civil protests, which led to a number of cancellations from overseas visitors but the impact on our hotel was relatively minor. We firmly believe that Hong Kong remains a healthy and desirable destination for business and we remain positive for 2015.

Our top three market segments continue to be the United States ("US"), Japan and mainland China. Whilst Japanese visitor arrivals to Hong Kong recorded a slight slowdown due to the weakening of the yen, the US and Chinese mainland markets remained strong and we saw an increasing number of visitors from emerging markets such as Russia.

The hotel enjoyed a positive year in 2014, with a 14% increase in revenue over 2013. RevPAR increased by 4% which is a pleasing result in light of the increased number of rooms available compared to 2013 when we completed our renovation. The newly renovated rooms and in-room technology continue to be very favourably received by guests. Food and beverage outlets and the spa performed well due to the increased number of guests in the hotel. The Peninsula Hong Kong Arcade and Office Tower were fully occupied throughout the year, with leases being renewed on favourable terms. The complex gross operating margin, being inclusive of both hotel and retail trading, improved by four percentage points and reflects the beneficial impact of stronger pricing having been achieved.

In 2014 we started a new art initiative, *Love Art at the Peninsula*, which created a high level of awareness for our brand amongst the art community. We also launched a documentary about our 85th anniversary celebration – *The Making of a Gala* – in December 2014 which will be broadcast internationally in 2015.

The Peninsula Shanghai had a positive year in 2014 with revenue increasing by 8% over 2013. The city remains a top choice in hosting high-profile conferences and meetings as it is well positioned to cater for large events, and in 2014 we hosted several important conferences at our hotel. Trade agreements between China and other countries are leading to more overseas delegations and The Peninsula Shanghai is well positioned to generate business from these conferences. The Shanghai Free Trade Zone has brought more financial trade and investment companies to the city which has led to increased demand for our hotel.

It is anticipated that there will be up to 2,800 new luxury hotel rooms added to the market in the next few years. However, we are optimistic that Shanghai's strong growth and location as a tourist and business destination will be able to generate sufficient demand to match the new supply. Shanghai will also be opening the largest Disneyland in Asia in the 4th quarter of 2015, potentially bringing a large regional and domestic market of visitors into the city.

The hotel remains the market leader within our competitive set in Shanghai in terms of RevPAR and average room rates. We reported good growth in rooms, food and beverage and spa revenue despite an intensely price-competitive market. While ongoing austerity measures in the Chinese mainland have negatively impacted demand from some of our government-related business, this was successfully mitigated by increased banqueting for family gatherings, reunions and personal celebrations. We have also entered into a strategic partnership with Shanghai Auto Museum to display classic cars at the Arcade to help generate increased foot traffic.

Close attention to the operating costs of the hotel during 2014, reflected by a reduction in total payroll costs relative to the prior year, has resulted in an improved complex gross operating margin of three percentage points.

Demand for the leasing of luxury apartments continues to be soft although achieved rental rates per square foot are substantially ahead of the prior year. As at 31 December 2014, we had sold 11 of the 19 units within The Peninsula Residences which were made available for sale.

The Peninsula Shanghai

Revenue from hotel HK$595m

+8%

Occupancy

+1pp

Average Room Rate

+4%

RevPAR

+6%

Proceeds from Sale of Apartments

HK$ 1,044m

The Peninsula Shanghai and The Peninsula Residences, Shanghai

The Peninsula Beijing

Revenue HK$411m

-3%

Occupancy

+4pp

Average Room Rate

-10%

RevPAR

-4%

The Peninsula Beijing endured a difficult trading period, with reported revenue 3% below 2013, due to the over-supply of five-star hotels within the business district of the city. The high profile APEC meeting held during November actually had a negative impact on revenues, due to visa restrictions and traffic restrictions.

The city of Beijing has reported a 5% decline in catering revenue, although we believe this to be of a short-term nature as China moves to a consumer-driven economy with anticipated growth in disposable income and levels of spending. Pollution has had an effect on inbound tourism, but we are optimistic that this will ease over the next few years as the government is taking significant actions to address this issue.

Strategically, the hotel has continued its efforts to capture market share and focused on increasing the amount of domestic customers. It is notable that occupancy increased from 60% in 2013 to 64% in 2014 despite the difficult market environment, although RevPAR decreased by 4%. The complex gross operating profit margin only reduced by a single percentage point as both payroll and other operating costs were reduced as compared to the prior year.

In keeping with our Group's philosophy of improving existing assets to deliver long-term value for our shareholders, a major RMB 890 million renovation for The Peninsula Beijing is due to begin in 2015. We have begun the design process and preparation for the renovation which will result in an increase in the room size, by combining two smaller guestrooms into one larger one, and improving the public areas and associated services we offer to our guests. The renovation is expected to negatively affect our earnings in 2015.

The Peninsula Beijing

The Peninsula Tokyo

The Peninsula Bangkok

The Peninsula Tokyo had a positive year due to Prime Minister Shinzo Abe's economic and financial measures which are focused on supporting Japanese economic growth. Key factors that helped the hotel industry were the weakening of the yen, making it more affordable for people to travel to Japan, and the easing of visa restrictions which resulted in a record increase in inbound travellers from Thailand, the Philippines and Indonesia.

During 2014 the Japanese government introduced the first sales tax increase in 17 years, which had mixed results and led to an overall reduction in consumer spending. In our hotel, the food and beverage outlets were temporarily affected by the slowdown but did not see any enduring significant negative impact from the sales tax increase.

The Peninsula Tokyo hotel recorded a 20% growth in RevPAR and 12% growth in total revenue over 2013 in Japanese Yen terms. The combination of increased revenues and overhead costs which remained at a similar level with those of 2013, resulted in the hotel gross operating margin improving by almost five percentage points on the prior year.

During 2014, we upgraded the fitness centre's gym and cardio equipment as well as continuing with our soft refurbishment programme of the guest bedroom accommodation.

The Peninsula Bangkok reported revenue 23% lower than the previous year due to the continuing political uncertainty in the country, with a state of emergency being declared in February 2014, followed by a coup and the introduction of martial law in May 2014. This had a significant negative effect on inbound travel, particularly business travellers. The curfew was subsequently lifted in June and business started to pick up again despite travel warnings still being in place.

The downtown area recovered more quickly than the rest of the city as business travellers returned, while the riverside, where The Peninsula Bangkok is located, has been affected by weaker bookings from leisure groups and long-haul travellers, which are the hotel's traditional sources of business. While recent evidence shows that visitors are starting to return to Bangkok, the US and English markets are recovering more slowly than expected.

The Peninsula Tokyo

Revenue
JPY 10.4b
+12%

Revenue
HK$756m
+3%

Occupancy
+3pp

Average Room Rate (JPY)
+16%

RevPAR (JPY)
+20%

The Peninsula Bangkok

Revenue
HK$181m
-23%

Occupancy
-14pp

Average Room Rate
-5%

RevPAR
-28%

The Peninsula Manila

The Peninsula Manila

Revenue
HK$279m
-4%

Occupancy
-1pp

Average Room Rate
-3%

RevPAR
-5%

In our competitor set we remain number two in average room rates. As the majority of our food and beverage revenue in Bangkok is generated from in-house guests, this was negatively affected by the lower occupancy levels. We are cautiously optimistic for 2015, with indications of increased demand from the groups and incentive markets.

A highly anticipated multi-purpose complex located near our hotel, comprising several hundred shops and restaurants, has started construction and is expected to significantly increase the number of visitors to the hotel's surrounding areas.

The Peninsula Manila had a challenging year in 2014 in an oversupplied and price sensitive market. Despite this, the hotel was able to maintain complex revenues as compared to the previous year in local currency terms.

The Philippine economy has remained strong and the growth in our domestic business has been a result of the growing middle class. We have also increased our attendance in overseas roadshows with the local Department of Tourism, visiting destinations such as Taiwan, Korea and Indonesia. Top markets for The Peninsula Manila continue to be the US, the Philippines, Japan, Hong Kong and Australia.

The key strategy in 2014 was to focus on increasing group and government business, and this approach resulted in an increase of 7% in group room nights and a 20% increase in group revenue year-on-year. Effective management of the hotel cost base contributed to the complex gross operating margin remaining in line with that reported in 2013.

We renovated our club lounge and Old Manila restaurant. Both these enhancements were well received by our clientele and Old Manila has become a much talked-about culinary gem. In 2015 we will convert the less-used guestrooms on the second floor of the hotel into office space which will reduce our room inventory from 497 to 469 and bring in incremental revenue.

The Peninsula New York

The Peninsula New York enjoyed a strong year with 9% RevPAR growth as the US economy continued to strengthen. In 2014, around 1,000 new rooms were added to the market in the Midtown area which contributed to a 6% increase in inventory in New York City in general. This high level of confidence in development within an improving economy will result in increased competition within the luxury hotel market in 2015.

There was increased group demand in 2014 compared with 2013, mostly driven by diplomatic business from the Middle East, primarily from Saudi Arabia and Qatar. The Superbowl weekend provided additional business in the first quarter of 2014, although this was offset by severe storm weather which resulted in one of the coldest winters in history.

The Gotham Lounge reopened in September to very positive feedback and Clement restaurant continues to receive accolades and awards of excellence. Food and beverage revenue increased by 9% as compared to the previous year due to both the opening of Clement in 2013 and good growth in our banqueting business.

This year we are undertaking the conversion of five rooms on the 16th floor into a second Grand Suite of approximately 2,600 gross square feet, which is expected to open by September 2015 and bring incremental revenue for the hotel. We are also renovating our employee cafeteria and the terrace of our rooftop bar, Salon de Ning. The successful renegotiation of the commercial space in the hotel also contributed to both the increased revenue and a substantial improvement in the complex gross operating margin of 5 percentage points.

The Peninsula Chicago had a challenging start to the year when the city of Chicago suffered the worst winter in its history, with 57 inches of snow falling in the first quarter and 15,000 flights cancelled. It is nevertheless pleasing that the hotel achieved the same level of revenue as 2013.

The Peninsula New York

Revenue
HK$674m

+14%

Occupancy

+4pp

Average Room Rate

+4%

RevPAR

+9%

The Peninsula Chicago

Revenue
HK$499m

0%

Occupancy

+1pp

Average Room Rate

+1%

RevPAR

+2%

The Peninsula Chicago

The Peninsula Beverly Hills

Revenue
HK$581m
+14%

Occupancy
+5pp

Average Room Rate
+11%

RevPAR
+17%

There is increasing competition in the city with new boutique hotels and competitors flooding the market with low rates. The cost of hosting events in Chicago has also been rising, partly due to the high cost of labour for events, resulting in Chicago losing some of its traditional convention business to Las Vegas and Orlando. However, more recently, some of these conventions are starting to return to the city. The Chicago Mayor's tourism initiatives have attracted more business travellers and there has been a slight improvement in international travellers.

Whereas 90% of our business is from the domestic US market, visitors from China and the Middle Eastern markets are growing, particularly diplomatic travellers. The Peninsula Chicago has also been working with the local hospitals on promoting Chicago's renowned medical care and hospital facilities.

Food and beverage revenue remained flat compared to 2013. The change in the mix of revenues, which saw a volume-based increase being offset by a lack of opportunities to increase pricing due to competition, resulted in the complex gross operating margin weakening by one percentage point.

The US$35.7 million bedroom renovation programme will begin in April 2015 and this will include one of our grand suites being updated. The hotel will also have our latest tablet technology in 11 different languages installed and will begin to offer free international calls.

The Peninsula Beverly Hills enjoyed another record year. Our Sales and Marketing teams have undertaken significant initiatives over the past several years in international markets with positive results. Saudi Arabia, Qatar, Kuwait and Bahrain are producing strong business year-round. These markets have also been supported by the introduction of direct flights to the city. We have observed an increase in "medical travel" as well as entrepreneurs and business travellers.

The domestic market has continued to be very robust, particularly the New York Metropolitan area, as well as increasing visitors from Chicago, Miami, Dallas and San Francisco as the US economy strengthens.

We reported very strong occupancy and average rates leading to a 17% year-on-year growth in RevPAR. The hotel remains the clear RevPAR leader within its competitive set. The positive demand resulted in the complex gross operating profit for the year increasing by 19% over the previous year.

The Peninsula Beverly Hills

The Peninsula Paris

In November we started upgrading the bedside panel technology in our guest bedrooms. Our food and beverage outlets also enjoyed robust growth over 2013; and the Belvedere restaurant is preparing for a full renovation in the fall of 2015 which will result in both an improved dining experience and increased capacity.

A successful property is not just about the bottom line – it has to be balanced with a great guest experience and we believe that our 70% repeat clientele in Beverly Hills is the best indicator of our focus on customer service at the highest level.

The Peninsula Paris opened its doors on 1 August 2014, gradually increasing from 115 available rooms to its full inventory of 200 rooms by the end of November. The opening of this hotel has firmly established the Peninsula brand in Europe and introduced a new clientele to our Group's hotels. The opening has also been significant both in terms of the local public awareness and support for the hotel and the exceptional level of international press interest that has been generated.

Trading for the period has exceeded our initial expectations, particularly within the catering outlets which have consistently traded strongly in both covers and average spend per guest. We are delighted that our Cantonese restaurant, *Lili*, and rooftop restaurant, *L'Oiseau Blanc*, both received prestigious '*toque*' (hat) awards from Gault & Millau just months after our opening.

The hotel management team, supported by colleagues internationally, remains focused on developing a broad base of clients for the future. Our association with our partner, based in Qatar, has also immediately provided increased levels of demand from within the larger Middle East region.

The Peninsula Paris

Revenue
HK$225m

Commercial Properties

	2014	2013	2014 vs 2013
	Revenue (HK$m)	Revenue (HK$m)	
The Repulse Bay Complex	**583**	540	8%
The Peak Tower	**176**	157	12%
St. John's Building	**51**	46	11%
The Landmark	**36**	36	0%
1-5 Grosvenor Place	**39**	16	144%
21 avenue Kléber	**16**	11	45%
	901	806	12%

Our Group benefits from holding a diversified portfolio of hotel assets and other commercial and residential properties.

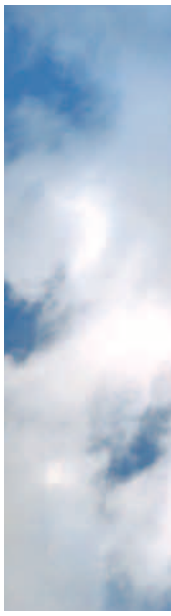
The luxury residential market was under increased pressure in Hong Kong in 2014, due to the slowing of the financial markets and a reduction in the number of expatriates receiving high rental allowances. However, we believe the high-end market will remain subdued for the short term rather than suffering a significant downturn.

The Repulse Bay Complex

Revenue
HK$583m

+8%

The Repulse Bay Complex



The Peak Tower

The Repulse Bay Complex, our key asset in this division, offers one of the finest and most enjoyable living environments in Hong Kong, comprising extensive facilities and a market-leading product with the newly renovated de Ricou Tower. This tower now comprises 34 unfurnished apartments and 15 serviced apartments with significantly improved layouts and interior design, and it was the first in Hong Kong to be awarded the prestigious LEED Gold Award in the Alteration and Addition category.

St John's Building

We achieved satisfactory occupancy levels in 2014 despite the market conditions. The Complex reported an increase in total revenue of 8% over 2013 due to a combination of increased rental income following the renovation of the de Ricou apartment tower for part of 2013, and better food and beverage revenues.

The complex gross operating margin was one percentage point lower as a result of increased levels of maintenance being incurred to prepare recently vacated apartments for re-letting.

The Peak Tower and St John's Building remained fully let in 2014. These properties reported revenue growth of 12% and 11% respectively which reflects rental leases being negotiated at levels greater than that being achieved by the general market. The Peak Tower generates most of its revenue from retail leasing, with additional revenue coming from tourist entrance fees to the open-air rooftop attraction of Sky Terrace 428, with its panoramic views of Hong Kong and featuring a new audio-visual tour. In May we launched a new promotional campaign video titled "Rendezvous at the Peak" to encourage more local residents to visit.

The Peak Tower

Revenue
HK$176m

+12%

Sky Terrace
Visitors

+3%

St. John's Building

Revenue
HK$51m

+11%

The Landmark
Revenue
HK$36m
0%

1-5 Grosvenor Place
Revenue
HK$39m
+144%

21 avenue Kléber
Revenue
HK$16m
+45%


The Landmark

The Landmark in Ho Chi Minh City, Vietnam, celebrated its 20th anniversary in December 2014. It is a mixed use commercial building comprised of serviced apartments, offices and retail space, with revenue increasing marginally over 2013. This property faces increasing competition from oversupply in Ho Chi Minh City which has resulted in a reduction in the achieved rental per square foot. Nevertheless, as a result of effective cost management, the complex gross operating margin has remained in line with 2013.


21 avenue Kléber

Rental income from **1-5 Grosvenor Place** in London and **21 avenue Kléber**, which is situated immediately adjacent to The Peninsula Paris, also contributed to the commercial properties division this year from their respective dates of acquisition. Together with Grosvenor, our joint venture partner, we are seeking planning permission to demolish the existing buildings of 1-5 Grosvenor Place and redevelop the site into The Peninsula London hotel and residential complex. Separately, we are currently evaluating the best use for 21 avenue Kléber as the current tenant vacated the property at the end of 2014, and this will include an opportunity for the renovation of the property over the next two years.

Total revenue from this division was HK$901 million, an increase of HK$95 million, 12% higher than 2013.

Clubs and Services

	2014	2013	2014 vs 2013
	Revenue (HK$m)	Revenue (HK$m)	
Peak Tram	**124**	121	2%
Thai Country Club	**55**	65	(15%)
Quail Lodge & Golf Club	**117**	99	18%
Peninsula Clubs and Consultancy Services	**171**	172	(1%)
Peninsula Merchandising	**157**	153	3%
Tai Pan Laundry	**53**	48	10%
	677	658	3%

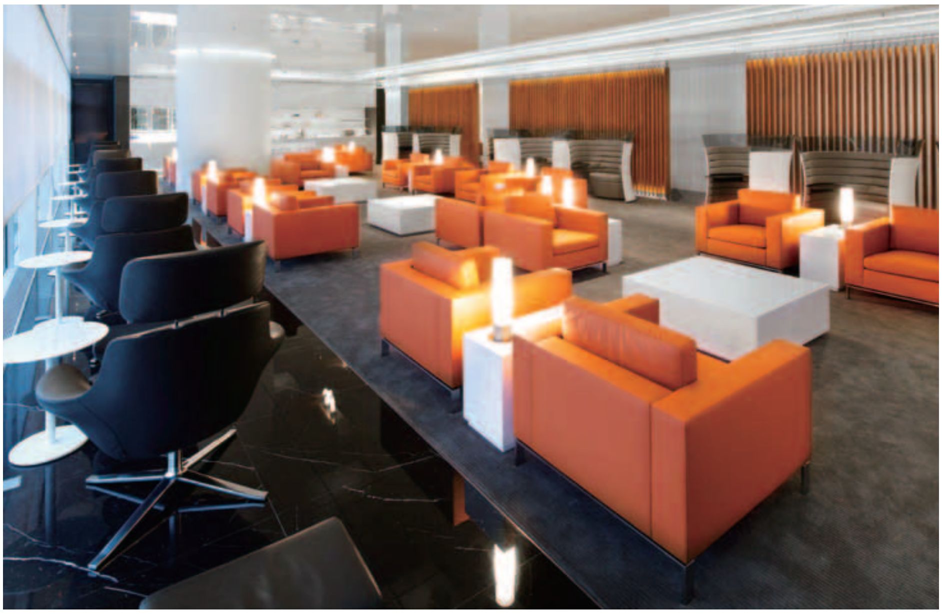
The Group's clubs and services division includes management and consultancy services, retailing of merchandise, operation of the Peak Tram, operation of golf clubs and provision of dry cleaning and laundry services. Total revenue for this division increased by 3% to HK$677 million.

Peninsula Clubs and Consultancy Services provides club management services for several prestigious private clubs in Hong Kong, including The Hong Kong Club, Butterfield's and The Hong Kong Bankers' Club as well as the Cathay Pacific Lounges at Hong Kong International Airport.

Peninsula Clubs and Consultancy Services

Revenue
HK$171m

-1%



Peninsula Clubs and Consultancy Services

Peak Tram

Revenue
HK$124m

+2%

Patronage

+1%

Peninsula Merchandising

Revenue
HK$157m

+3%

Peak Tram

The historic **Peak Tram** has maintained its position as one of Hong Kong's most popular tourist attractions, welcoming tens of thousands of visits every day from locals and tourists alike. In 2014, The Peak Tram reported an increase of 1% in patronage, giving rise to revenue growth of 2%. As previously reported, the Ordinance which grants HSH the right to operate the Peak Tram was temporarily extended until 31 December 2015 pending the Hong Kong Government's review and appraisal of the proposal which we had submitted to improve and enlarge the capacity of The Peak Tram. We expect that in conjunction with this investment proposal, the Government will propose legislation to grant us another long-term operating licence for the Tram.

The underlying trading results, whilst greater than 2013 at the gross operating profit level, include an increased license fee payable to Government.

Peninsula Merchandising achieved record sales in Hong Kong and Asia for its signature Mid-Autumn Festival mooncakes. The gross operating margin was in line with the budget expectations set for the year.

Thai Country Club was negatively impacted by the ongoing political uncertainties in Thailand and reported revenue 15% below 2013.

Peninsula Merchandising

Thai Country Club

Quail Lodge & Golf Club

Membership-based income increased compared to the prior year. Demand is expected to improve in line with the increase in foreign tourism during 2015.

The relatively high level of fixed costs associated with running a golf course limited the opportunity to reduce costs at a similar rate by which the revenues decreased, resulting in a reduced gross operating margin for the year.

Quail Lodge & Golf Club continues to grow its revenue following the re-opening of its hotel in March 2013, with 18% growth in total revenue. We have aggressively sought corporate group business and managed to almost double midweek group business, which has a consequential benefit to both catering and golf demand.

Peninsula Signature Events were a tremendous success in 2014. *The Quail: A Motorsports Gathering* this year attracted the largest crowd ever, and during the event we were able to command rates of US$695+ per night.

Quail Lodge's individual guest profile is very diverse and we are now observing a younger demographic, while for corporate groups we have noticed more business from Silicon Valley and San Francisco. While the addition of Quail Lodge on internet booking sites has resulted in a significant increase of international guests, California residents remain the largest source of our guests.

The gross operating profit for the property increased by more than US$1 million compared to the prior year.

In 2014 Quail Lodge & Golf Club began its golf course renovation after receiving permit approval, and we expect this to be completed in May 2015. The renovation is aimed at both sustaining and enhancing the golf course for the next 50 years.

Tai Pan Laundry revenue increased 10% over the same period last year as a result of the increased volume of laundry processed. Improved payroll efficiency ensured that the gross operating margin improved by three percentage points.

Thai Country Club

Revenue
HK$55m

-15%

Quail Lodge & Golf Club

Revenue
HK$117m

+18%

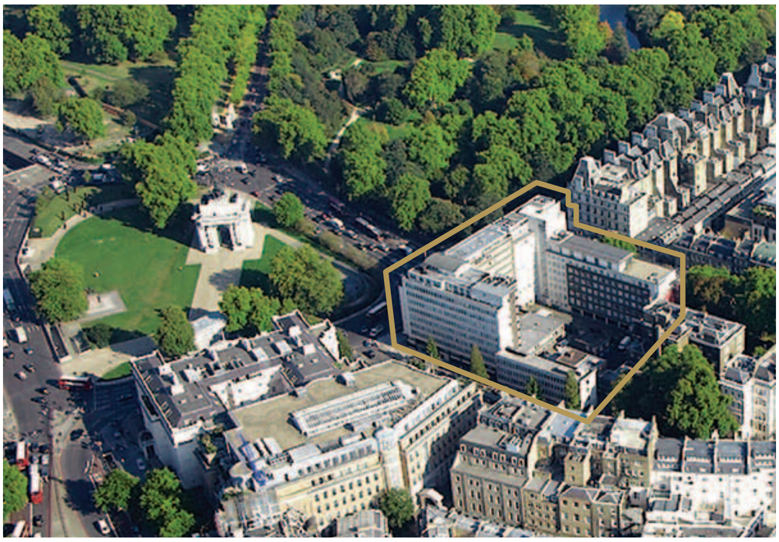
Tai Pan Laundry

Revenue
HK$53m

+10%

Projects and Developments

In August 2014, after four years of a meticulous and intensive construction project, we opened our first hotel in Europe, **The Peninsula Paris**. Further information regarding the design, construction and preparation for the opening of this hotel is presented in the Feature Stories on pages 112 to 117 of this report. This project is a good example of our Company's philosophy towards development.



1-5 Grosvenor Place

A combination of our strong brand, which is sought after by developers of luxury hotels, and public awareness arising from the high profile opening of The Peninsula Paris continues to provide the Business Development team with investment opportunities. These are reviewed on a very selective basis with an underlying principle of the Group retaining an ownership interest in the properties which we operate.

The Group will only proceed with the development of hotels that can rank among the world's best in prime locations in key international cities. We therefore expect to commit to a small number of new projects to ensure we have an appropriate level of both financial and human resources available at all times. This, together with a robust investment appraisal process, will ensure investment decisions contribute positively to the longer-term shareholder value of the Group.

The team is also involved with the appraisal of opportunities to improve the longer-term performance of the existing Group asset portfolio. Examples of this include the successful negotiations for a long-term commercial lease at The Peninsula New York in early 2014 and an evaluation of the strategic opportunities for our commercial property located at 21 avenue Kléber in Paris.

The Group Projects team plays a significant role in the development of any business opportunity, from initiation by the Business Development team to the post-opening phase following the commencement of trading. This includes aspects such as design, costing, standards compliance and project management, with each project having dedicated personnel assigned. This combination provides for the development of a product that addresses the needs and expectations of our guests, both present and future, whilst also meeting the Group's investment criteria.

The Peninsula Paris

In advance of the formal planning application to the local council authorities, we have made progress with Grosvenor, our joint venture partner in London, on the design and planning of **The Peninsula London**. Presentation of our development plans for this complex project, comprising hotel, residential and commercial elements, are being prepared for consultation with government officials and bodies as well as the public.

The design and development process continues in order to maximise the return on investment of the available interior space and to ensure that a truly Peninsula brand standard hotel will be forthcoming. Our joint venture partner provides valuable local experience and support to ensure that the project goals will be successfully met.

In January 2014, we announced an agreement with Yoma Strategic Holdings Ltd. and First Myanmar Investment Co., Ltd. to restore the former Myanmar Railway Company Headquarters into a hotel to be called **The Peninsula Yangon**. Since then, preparatory work has been undertaken to establish a development programme for this asset upon satisfaction of the remaining conditions to the agreement.

As highlighted on page 21 of the CEO's Letter, major renovation projects are also being commenced at **The Peninsula Beijing** and at **The Peninsula Chicago** during 2015. Both projects will result in the hotels' guestrooms being upgraded to meet the current Peninsula brand standards, including the latest in-room technology.

A strategic goal for the Group is our ongoing investment in guestroom technology through our Research & Technology department based in Hong Kong. The focus of the team is to ensure that guestroom, and facilities are designed to seamlessly reflect forecast trends in audio, television and internet connectivity to meet the future needs of our guests.

Further elaboration on the various projects in which the team is involved is included within the Feature Stories on pages 118 to 123.