

# HSH Business Model and Investment Strategy



The Peninsula Hong Kong, 1928 (left) and 2015 (right)

HSH is an owner-operator of a small number of leading hotels in the world under the well-renowned Peninsula brand, together with luxury commercial and residential properties. It also provides club management and other hospitality-related services. The owner-operator business model is a capital intensive one, but it allows us to have control over the timing of investments in assets and new developments, and to ensure the highest level of quality and consistency in our product. We take a very long-term investment view, consistently maintaining and enhancing the quality of our assets and operations, while continually upholding and upgrading our brand and service quality.

**The Peninsula Hong Kong was built in 1928 at a cost of HK\$3 million. today, the property has a total worth of over HK\$12 billion.**

Having a diverse portfolio within our chosen niche mitigates investment risks generally associated with the hospitality industry: the 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.

We create significant value for our shareholders from the appreciation in capital value of our properties as well as from the increasing operating yield as the asset continues to grow its income over time. The best example of this is our flagship property, The Peninsula Hong Kong, which in

1928 was built for what was regarded in those days as an enormous sum of HK\$3 million. Of course, much money has since been invested in maintenance and upgrades, most notably in the Peninsula Tower built in 1994, but today the property has a total worth of over HK\$12 billion and annual earnings in excess of HK\$1.3 million.

Our development strategy is to continue expanding on a measured and selective basis. The business development team evaluates opportunities around the world in both developed and emerging markets, taking into consideration a number of factors including real estate costs, heritage appeal, labour costs and availability of the right skills, competition, the stability of the operating environment, levels of luxury consumption in those locations, and potential for tourism growth. The team then shortlists opportunities based against these “Peninsula potential” criteria. While there is no shortage of opportunities, we are very selective and particular about our requirements for a Peninsula hotel. It must be able to stand the test of time, from century to century. Therefore, truly exceptional locations which befit a Peninsula hotel are difficult to come by.

## Location, Location, Location

Our philosophy is to have only one Peninsula hotel in a given city and to seek a location which is not only unique but relates to the city’s history as well as being at the heart of a vibrant community. The location has to provide the ability for us to build a hotel or a mixed-use development which has its own distinct exterior appearance, identity, presence



The Peninsula Paris

and impact. Ease of access to the property and the ability to provide a grand arrival experience for guests are essential, as are sweeping views from the hotel's guestrooms. The size of the site has to be able to accommodate the exceptionally generous guestroom sizes and stately public areas which make up a Peninsula hotel.

## Bridging the investment gap

Implicit in this strategy is the challenge of high land prices for the type of location that we seek, compounded by ever-rising construction costs. It is neither likely nor intended that we shall reap significant returns on any of our investments in the short term. The key to bridging the gap before eventually maximising gains comes from the following factors:

- 1** The ability to take a very long-term view on real estate capital appreciation in the world's gateway cities. Our hotels are considered "trophy assets" in all these cities and will continue to create value over time
- 2** Additional returns from shopping arcades or residential apartments as part of the hotel complex
- 3** Entering into long-term partnerships with our co-owners who value the benefits of creating a high quality long-term asset
- 4** Building up a long-term clientele who are willing to pay premium prices for a superior luxury product and services.



The Repulse Bay

## Embracing the local culture and history

Each of our hotels is designed specifically for that development and embraces the local culture, style and history of its host country or city. It is important to us that a stay at a Peninsula hotel forms an integral part of a guest's total experience of the country they are visiting and is rich in references to local architecture, artwork and ambience. As an integral part of our local community, our hotels are also "adopted" by local residents who make up a large percentage of our patrons at food and beverage outlets, function rooms, and shopping arcade. This strong and loyal local patronage helps us to weather periodic downturns in tourism arrivals.

The hotel also generates additional value for surrounding shopping districts and restaurants. We encourage our guests to explore the local area, through an exclusive partnership with LUXE City Guides to produce PenCities by LUXE, offering a curated collection of tips for dining, entertainment, shopping, design, nightlife, spa and wellness, plus the latest openings, special cultural events and seasonal celebrations in each dynamic Peninsula destination – thus embedding the hotel deeper into the life of the community it serves.

Similarly, our residential apartments attract loyal tenants who appreciate that they offer a unique living environment in an exceptional setting – for example, The Repulse Bay was voted *Best Residential Complex 2015* and The Landmark in Vietnam was ranked *Top Serviced Apartments in Vietnam* (see Our Brand, page 86).



## Innovation

With 87 years of history, The Peninsula Hong Kong is often referred to as a “The Grand Dame” of the Group. But time does not age our product. From the time The Peninsula was conceived, HSH was determined to present “an establishment containing the most modern hotel equipment and hygienic appliances to an extent without parallel in this part of the world”, according to the first managing director of HSH, James Taggart, in 1928. This has been the cornerstone of our approach to innovation ever since those early days.

We believe innovation is the key to remaining modern and cutting-edge in our properties. We believe we are the only hotel group to invest in our own in-house research and technology facility, located in Hong Kong, which is celebrating its 30th anniversary this year. The team includes 25 engineers working on the design, development, prototyping and implementation of the seamless in-room technology that is delivered to guests in 11 languages on user-friendly tablets in their guestrooms. They also monitor the latest trends such as artificial intelligence and the “Internet of Things”. More about our approach to innovation and technology initiatives can be read on pages 88 to 91.

## A People Culture

The people who deliver the services to our guests represent the face and heart of The Peninsula brand. These highly-trained individuals excel in providing personalised services that delight our guests, anticipating their needs or surprising them with unexpected initiatives, while at the same time carefully managing and maintaining our assets and upholding operational standards. To underpin this brand attribute, we place strong emphasis on training, career development, genuine caring for our staff, empowerment and providing a confident and happy working environment in which employees can take pride. At The Peninsula Hong Kong, we take pride in the fact that 34% of our staff have over 10 years of service with us, which is high by any industry standard. More details about our HR strategy, investment in our people, our training and succession planning can be read on pages 78 to 80.



## A Vision for Sustainable Luxury

As a company with 150 years of history, we are deeply committed to sustainability in an environmental as well as a business context. Our Sustainable Luxury Vision 2020 integrates sustainable practices into seven pillars of our business, including our operations, supply chain, guest experience, employees and the local communities in which we operate. 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. We calculate paybacks and returns on investments made into environmental initiatives, and we look at what value drivers our sustainability initiatives could contribute. We are making good progress towards our Vision 2020 goals which can be read in more detail in our Corporate Responsibility and Sustainability Report.



## Diversification of our Brand

With the objective of diversifying our brand and increasing brand recognition in markets where we do not operate a Peninsula hotel, Peninsula Merchandising Limited was established in Hong Kong in 2003. This subsidiary develops and distributes Peninsula-branded merchandise and operate Peninsula Boutiques in key gateway cities in Asia. The Peninsula Boutique outlets are located at The Peninsula Hong Kong, The Peninsula Beijing, The Peninsula Shanghai, The Peninsula Tokyo, The Peninsula Manila, The Peninsula Bangkok and The Peninsula Chicago, and a new boutique opened at Hong Kong International Airport in 2015. The Peninsula merchandise is also available at Peninsula Boutiques throughout Asia including Hong Kong, Beijing, Fukuoka, Hiroshima, Osaka, Tokyo, Yokohama, Singapore, Taichung and Taipei. The Peninsula Boutique & Café outlet is located at The Peninsula Tokyo. A selection of merchandise is also available for purchase online and delivery in Hong Kong, Japan and Taiwan at [peninsulaboutique.com](http://peninsulaboutique.com).

Perhaps the strongest pillar of our business model and investment strategy can be summed up in one word: **Passion.**

## A Passion for Excellence

Perhaps the strongest pillar of our business model and investment strategy can be summed up in one word: **Passion.** We strongly believe that a great hotel 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 values-driven company that consistently lives up to its unique brand proposition.