

CEO's STRATEGIC REVIEW



Clement K.M. Kwok
Chief Executive Officer

Our long-term strategic mission is to build, maintain and create the highest quality assets that become legacies in their time. At almost 150 years old, we are the oldest registered company in Hong Kong, but one that is still at a youthful stage in its development and growth strategy. We are still building for the future and it is an exciting time for us as a group.

I am pleased to report that we delivered a satisfactory set of financial results in spite of a challenging year for our company, with intense competition and a difficult operating environment in many of our key markets.

The satisfactory results achieved by the Group in the face of many challenges emphasises the importance of having a diversified portfolio of assets to weather the cyclical nature of the hotel industry. We continued to work hard to improve revenues and increase shareholder value through asset value appreciation and operational earnings, while doing business in a high cost environment.

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In this year's Annual Report, we are moving towards an integrated reporting style, sharing key aspects of our corporate strategy and long-term vision, and for the first time we have decided to publish a stand-alone Corporate Responsibility and Sustainability Report to give full coverage of our sustainability strategy and initiatives for our stakeholders.

Highlights of 2015

The highlight of the year was the grand opening of The Peninsula Paris in April 2015. In its first full year of operation, The Peninsula Paris has achieved tremendous international recognition and is already becoming noted as one of the finest hotels in Europe. The grand opening party was a spectacular display of traditional Peninsula hospitality with thousands of international and local guests and celebrities in attendance.

In December 2015, we were pleased that Westminster City Council's planning committee resolved to grant in principle planning consent for a new 190-room hotel, to be known as The Peninsula London, located at 1-5 Grosvenor Place, Hyde Park Corner, Belgravia in central London. London is one of the world's most dynamic capital cities and we are excited to move another step closer to introducing The Peninsula brand to London. More details and design renderings can be read on page 49.

Also in December 2015, we were pleased to move another step forward with The Peninsula Yangon project. An agreement was reached between the Myanmar Ministry of Rail Transportation and Yoma, our partners in Yangon, for the extension of the land lease that is required for the development of a mixed-use project located in the Yangon central business district in Myanmar. The former Myanmar Railway Headquarters forms part of this development and will be renovated to become The Peninsula Yangon.

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In July 2015, together with our partners Doğu Holding A.Ş. and BLG Gayrimenkul Yatırımları ve Ticaret A.Ş., 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 location of our project is truly exceptional, with views across the Bosphorus to the Topkapi palace, and despite short-term security concerns we remain optimistic for the development of the high-end tourism market in Istanbul. More details on this project can be read on page 50.

We are working through the challenges of these three exciting hotel projects and it is our focus to make these projects work in commercial and financial reality. Our cashflow strategy is to keep our existing business generating sufficient levels of cash to support our new projects while maintaining a robust financial position, and to ensure that we have a healthy interest rate cover despite our project commitments.

We were pleased to reach an agreement with the Hong Kong Government for the renewal of the operating right to The Peak Tram, commencing 1 January 2016.

We were pleased to reach an agreement with the Hong Kong Government for the renewal of the operating right to The Peak Tram, commencing 1 January 2016. As one of Hong Kong's most popular tourist attractions that has been in operation since 1888, it is a much-loved and important asset for our company and I am delighted that we can continue to provide our services to tourists and the local community.

In December 2015, the Group restructured the lease agreement for The Peninsula Tokyo with our Japanese partner, MEC, which previously owned the hotel building and granted our Group a 50-year lease which commenced in 2007. We were delighted to reach an agreement to purchase the hotel building from MEC and to enter into a new Land Lease Agreement for a fixed term of 70 years from December 2015, for a cash consideration of JPY10.3 billion (excluding acquisition and transfer taxes). We therefore extended our tenure of The Peninsula Tokyo by 28 years.

Improving assets through renovation

We reported in 2014 that our business would be impacted in the short term by the renovations at The Peninsula Chicago and The Peninsula Beijing. This impact will continue into 2016 as the commencement of the renovation of The Peninsula Beijing was delayed due to the additional time required to achieve the necessary permits. We are confident that when these renovations are complete in 2016 for The Peninsula Chicago and 2017 for The Peninsula Beijing, we will see increased revenue and earnings from the improved product offering. These renovations are in line with our philosophy of improving existing assets to deliver long-term value for our shareholders.

A challenging environment

As a Hong Kong company with the majority of our assets located in Hong Kong, we are concerned about the short-term outlook for the tourism industry in Hong Kong. Overall tourist arrivals declined 2.5% year-on-year and Chinese mainland arrivals declined by 3% year-on-year. As a result, average room rates have been under pressure, not just for The Peninsula Hong Kong, but also for our competitive set and across the industry. Retail sales have inevitably suffered as a result of lower tourist arrivals, and the tenants in our shopping arcades are reporting a challenging environment.

Unfortunately the tragic terrorist events in Paris in January and November shocked the world and placed a shadow over the city, with tourism heavily impacted in the short term. Our businesses in Paris and Bangkok were impacted by the terrorist attacks in these cities during 2015, and we continue to be concerned about the global terrorist threat and its impact on tourism.

Financial Performance

The Group's revenue in 2015 amounted to HK\$5,741 million, representing a slight decrease of 2% over 2014. The EBITDA for the year of HK\$1,440 million, a decrease of 6% over the previous year, reflects the challenging situation that we faced in many of our key markets, as well as the impact of the renovations in The Peninsula Beijing and The Peninsula Chicago. Profit attributable to shareholders amounted to HK\$1,000 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 2015 decreased by 14% to HK\$688 million.

We believe that if we had not commenced the major renovations at The Peninsula Beijing and Chicago and the earnings of those projects had been the same as last year, the underlying profit of the Group in 2015 would have been flat to last year, which we consider to be a very creditable result in the light of the market environment especially in our main market of Hong Kong. Although revenue was down, we have worked hard to control costs. Despite general inflation in labour and operating costs, the Group's total operating costs and overheads were maintained at a level similar to last year, partly helped by reduced operating costs during the renovations of The Peninsulas in Beijing and Chicago as well as a weaker foreign currency.

The Board has recommended a final dividend payable on 24 June 2016 of 15 HK cents per share. Together with the 2015 interim dividend of 5 HK cents per share paid on 30 October 2015, the total dividend in respect of the 2015 financial year will be 20 HK cents per share, an decrease of 13% compared to 2014.

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.

Group Results

HK\$m	2015	2014	Variance
Revenue			
Hotels	4,073	4,260	(4%)
Commercial Properties	937	901	4%
Clubs and Services	731	677	8%
	5,741	5,838	(2%)
EBITDA			
Hotels	713	818	(13%)
Commercial Properties	596	582	2%
Clubs and Services	131	128	2%
	1,440	1,528	(6%)



	2015	2014	Variance	
	Revenue HK\$m	Revenue HK\$m	In HK\$	In Local Currency
Consolidated Hotels				
The Peninsula Hong Kong	1,342	1,360	(1%)	(1%)
The Peninsula Beijing	275	411	(33%)	(32%)
The Peninsula New York	651	674	(3%)	(3%)
The Peninsula Chicago	487	499	(2%)	(2%)
The Peninsula Tokyo	711	756	(6%)	7%
The Peninsula Bangkok	215	181	19%	26%
The Peninsula Manila	284	279	2%	5%
Management fees income	108	100	8%	n/a
	4,073	4,260	(4%)	n/a
Non-consolidated Hotels				
The Peninsula Shanghai (PSH)*	592	595	(1%)	1%
The Peninsula Beverly Hills (PBH)**	564	581	(3%)	(3%)
The Peninsula Paris (PPR)**	537	225	139%	172%
	1,693	1,401	21%	n/a

* The Group owns a 50% interest in PSH and the result of PSH is equity accounted for as a joint venture entity in the Group's financial statements.

** The Group has a 20% interest in each of PBH and PPR and the results of these hotels are equity accounted for as associates in the Group's financial statements.

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THE PENINSULA HOTELS

The Peninsula Hong Kong

The Hong Kong market experienced 3.9% fewer overnight arrivals during 2015 and overall hotel occupancy for the city declined 4 percentage points year-on-year. As a result of the weaker demand across the city, The Peninsula Hong Kong experienced a soft year with average room rates and RevPAR negatively affected.

During 2015, Japanese visitor arrivals to The Peninsula Hong Kong declined, mainly due to the weak currency in their home market, and although we continue marketing efforts in Japan, we believe that until the currency regains value, the Japanese segment will remain soft for the short-to-medium term. It was widely reported that Chinese mainland visitor arrivals declined in Hong Kong, but at The Peninsula Hong Kong we were not significantly affected by this trend and our mainland arrivals remained relatively stable. With the fall in leisure travellers, our strategy is to capture more corporate and group business, which we successfully secured by attending additional trade shows and sales events in the wider Asian region.

Food and beverage revenue remained healthy, and although mildly affected by the lower occupancy rates in the hotel, the local market and local patronage to our outlets remains strong. Spa revenue increased due to a popular new product line. The Peninsula Office Tower remained fully let and the Shopping Arcade revenue remained stable, demonstrating that our tenants continue to value The Peninsula brand, although we are sensitive to the weaker retail market across the city.

The hotel’s three-year collaboration with Britain’s prestigious Royal Academy of Arts, *Love Art at The Peninsula*, generated significant positive media coverage with a full-sized replica of a coach teetering on the Sun Terrace in an artwork by renowned British Sculptor Richard Wilson. This pioneering approach to art has helped to positively impact our company’s image in the local and international art communities. Throughout June, *National Geographic* broadcast a promotional documentary about the hotel’s 85th anniversary celebration, titled *The Making of a Gala*. In November, a Terry O’Neill *James Bond* photography exhibition was successful and resulted in sell-out bookings at *Gaddi’s*. Our strategy with these initiatives is to bring our brand to the forefront of art, culture and lifestyle.

Revenue HK\$1,342m	Occupancy	Average Room Rate	RevPAR
-1%	-2pp	-7%	-10%





Our strategy is to bring our brand to the forefront of art, culture and lifestyle.

The Peninsula Shanghai

The Peninsula Shanghai had a stable year despite intense competition and an oversupply of inventory across the city, and remains the leader in both RevPAR and average room rates in Shanghai. Domestic travellers are the top geographic segment making up around 50% of hotel guests, followed by the US and Hong Kong. Emerging markets include Russia and the Middle East, with high-level business delegations increasing from these markets because of investments in China. The high levels of PR exposure generated from The Peninsula Paris has helped drive new business from these markets due to increased brand recognition.

The Peninsula Academy programme has been very popular with affluent travellers in Shanghai looking for new and unique experiences, such as a private tour of Shanghai's finest heritage buildings in one of the hotel's Rolls-Royce Phantoms. We are seeing a move towards online and mobile bookings, which has led to a higher number of last-minute bookings and also strong business generated from online travel agencies, including Ctrip.

The shopping arcade in The Peninsula Shanghai remains almost fully let. Our strategy is to maintain a strong mix of tenants selling fashion, jewellery and watches to encourage more shoppers to visit the arcade. Our tenants are expanding their presence in the arcade and bring long-term revenue.



All food and beverage businesses located on the Bund were impacted when the government boarded up the area and reduced street lighting following the tragic events on the Bund on New Year's Eve 2014. This affected our revenue in the first quarter, but food and beverage business picked up later in the year. 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.



As of 31 December 2015, The Peninsula Shanghai Residences sold 13 out of the 19 units available for sale.

The Peninsula Shanghai is very active in community activities and corporate responsibility efforts (see page 69 of the Corporate Responsibility and Sustainability Report for more details). The *2015 Tour de Bund* saw hotel guests, city residents, company teams, media, club and professional cyclists – including Ding Yong, winner of the Chinese National Road and Track Cycling Championships – saddle

up for a charity ride through the heart of Shanghai. With its fifth anniversary in 2015, this event helps to promote the benefits of fitness and healthy living, increases awareness of pollution-free travel, and raises money for Raleigh China, a charity which used these funds to construct much-needed schools in rural areas of Guizhou province, China, and to build access roads and water storage facilities.





The Peninsula Beijing

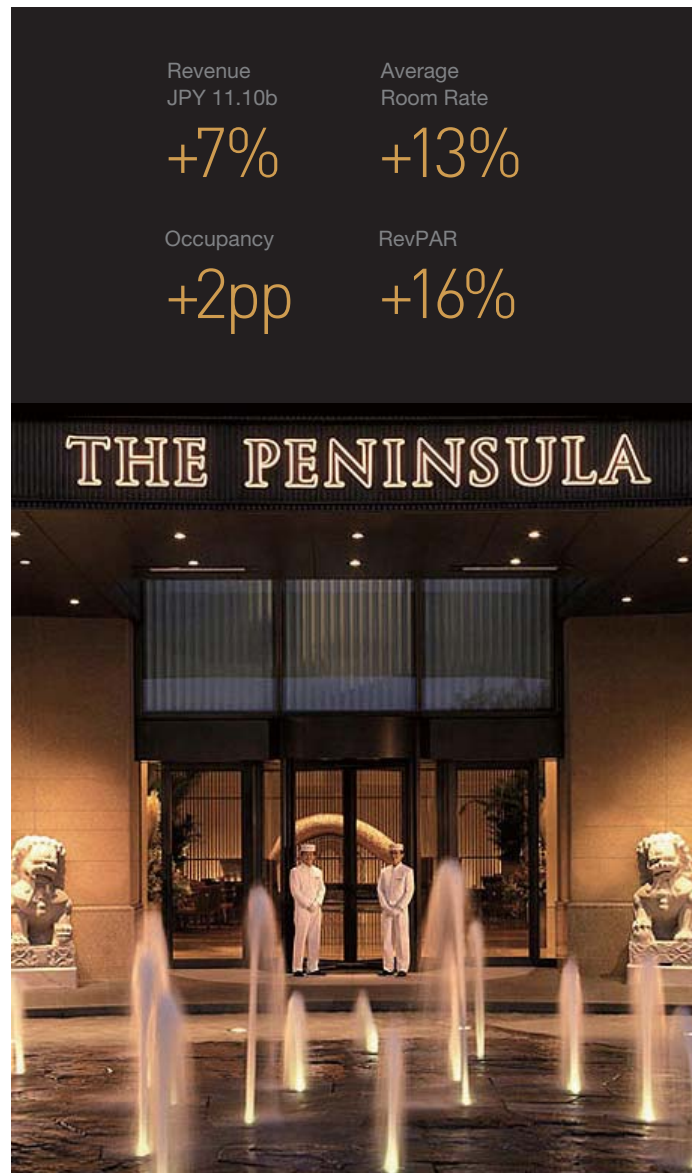
The market in Beijing was challenging in 2015 due to continued austerity measures impacting both rooms business and overall food and beverage and spa businesses across the city. However, despite a slight slowdown, there is a reorientation of the Chinese mainland economy from an export-driven model to a domestic consumption-driven economy, and we expect to see increased spending on food and beverage and experiences.

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 started in 2015. The renovation will be completed in 2017, slightly later than planned, due to a delay in obtaining the necessary permits. As forewarned in the 2014 Annual Report and the 2015 Interim Report, the disruption caused by the renovation negatively affected our earnings in 2015 as a result of rooms being taken out of commission and some retail tenants moving out of our shopping arcade due to the disruption to business. We expect this impact on earnings will continue throughout 2016 and into 2017 when the renovation will be completed.

The renovation will significantly enhance the lobby, restaurants and our room product, with new guestrooms starting at a spacious 60 square metres - the largest in Beijing and among the largest in China. Each room will feature a sleek entrance hall, a separate bedroom, living area and a dressing room, and an outsized bathroom styled in black and white veined marble. The renovation will also include fully customised in-room amenities, and proprietary Peninsula technology with interactive digital bedside and desk tablets that can be pre-set in 11 languages.

The renovation of The Peninsula Beijing incorporates the Group's sustainability efforts, incorporating BREEAM principles, the implementation of new LED lights, a much-improved air filtration system, and better facilities for our staff including a staff gym, relaxation area and café. During the renovation, we took the opportunity to send employees from Beijing to our other Group properties with our cross exposure programme, allowing them to learn best practices and broaden their skillset by experiencing a new work environment, operations, people and culture. More details can be read on page 32 of the Corporate Responsibility and Sustainability Report.

* The occupancy and RevPAR for this hotel are based on the rooms available for sale, which was approximately half of the normal inventory of 525 rooms.



The Peninsula Tokyo

The Peninsula Tokyo enjoyed a strong performance in 2015, helped by the strengthening of the Japanese economy and the weakening of the yen making it more affordable for overseas travellers. Japan has made significant changes to visa requirements within the Asian region which has resulted in increasing numbers of visitors from the Philippines, Thailand, and Indonesia. Local consumption was slightly weaker, resulting in lower food and beverage revenue at The Peninsula Tokyo.

Our strategy was to improve RevPAR and market positioning, which we successfully achieved in 2015. There was a large increase in transient business, with an increase of 20% over 2014 in terms of the international wholesale segment. Mainland Chinese visitor arrivals to Tokyo have increased substantially. The weddings business improved later in 2015

after a slow start across the city, and The Peninsula Tokyo marketing team commenced a more aggressive marketing strategy to promote our weddings business. Our strategy is to focus on improving our rooms and food and beverage offerings to the local domestic market, and to encourage more business in our restaurants and spa.

In December 2015, the Group successfully restructured the lease agreement for The Peninsula Tokyo with our Japanese partner, MEC, which previously owned the hotel building and granted our group a 50-year lease which commenced in 2007. We were delighted to reach an agreement to purchase the hotel building from MEC and to enter into a new Land Lease Agreement for a fixed term of 70 years, for a cash consideration of JPY10.3 billion (excluding acquisition and transfer taxes). We therefore extended our tenure of The Peninsula Tokyo by 28 years.

The Peninsula Bangkok

Thailand started the year with a strong recovery over 2014 and this was helped further in the second quarter, when the Thai Government ended martial law, which was positive news for our MICE (Meetings, Incentives, Conferences and Exhibitions) business. We saw increased revenue from catering as a result of more conferences and meetings. The second quarter, which is traditionally slow in Bangkok, enjoyed its strongest year since 2008.

The continually weakening Thai baht was positive for tourism and we saw increasing arrivals from the Korean market and other regional markets. Australian business declined in 2015, possibly due to many airlines offering direct flights to Chiang Mai and the islands, instead of having to transit via Bangkok. Also, many Australian and European long-haul travellers booked transit flights via the Middle East, which impacted the Bangkok market as a travel hub destination.

Unfortunately there was an impact on our business due to the terrorist attack in Bangkok in August, which deterred some leisure tourists from visiting Thailand in the months following the attack, but the business impact appears to have been short-lived and tourists returned to Thailand in the fourth quarter. We continue to be concerned about security threats in Bangkok and are continually assessing and working to improve our safety and security efforts to protect our guests and staff.

One of the key Group marketing strategies in 2015 was to focus on promoting Thailand and The Peninsula Bangkok, including the global *Peninsula Wellness* programme launched at The Peninsula Bangkok Spa. Highlights included a Thai massage programme in collaboration with Wat Pho Temple, new treatments and product lines, and *Tastefully Thai*, a group-wide three-month celebration of Thai cuisine, culture, art and wellness. We are delighted to report that The Peninsula Bangkok Spa was voted Number 1 in Asia by *Travel + Leisure*.

Revenue
THB 956m

Occupancy

Average
Room Rate

RevPAR

+26% +16pp -2% +33%



The Peninsula Manila

The Peninsula Manila enjoyed a positive year, with revenue increasing 5% and RevPAR up 10% over the same period last year, partially due to consolidation in the local market as some competitor set hotels closed and others were under renovation. Various bans on local airlines were lifted for the EU and US and new routes opened up to Russia, which significantly boosted traffic. Cruise ship arrivals to the Philippines increased significantly. The rise of the middle class in the Philippines had a significant effect on our business with domestic travellers now comprising the second largest group after the US.

Madrid Fusion Manila, a gastronomic event held in April, attracted a significant number of international and local visitors and celebrity chefs to our food and beverage outlets. Our Peninsula Manila colleagues were proactive in serving the community (see page 73 of the Corporate Responsibility and Sustainability Report) and we are delighted to report that The Peninsula's global campaign for charity, *Hope for the Philippines*, completed Phase 1 of the project with the design and 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.

Revenue
PHP 1,676m

+5%

Available
Rooms

-5%

Occupancy

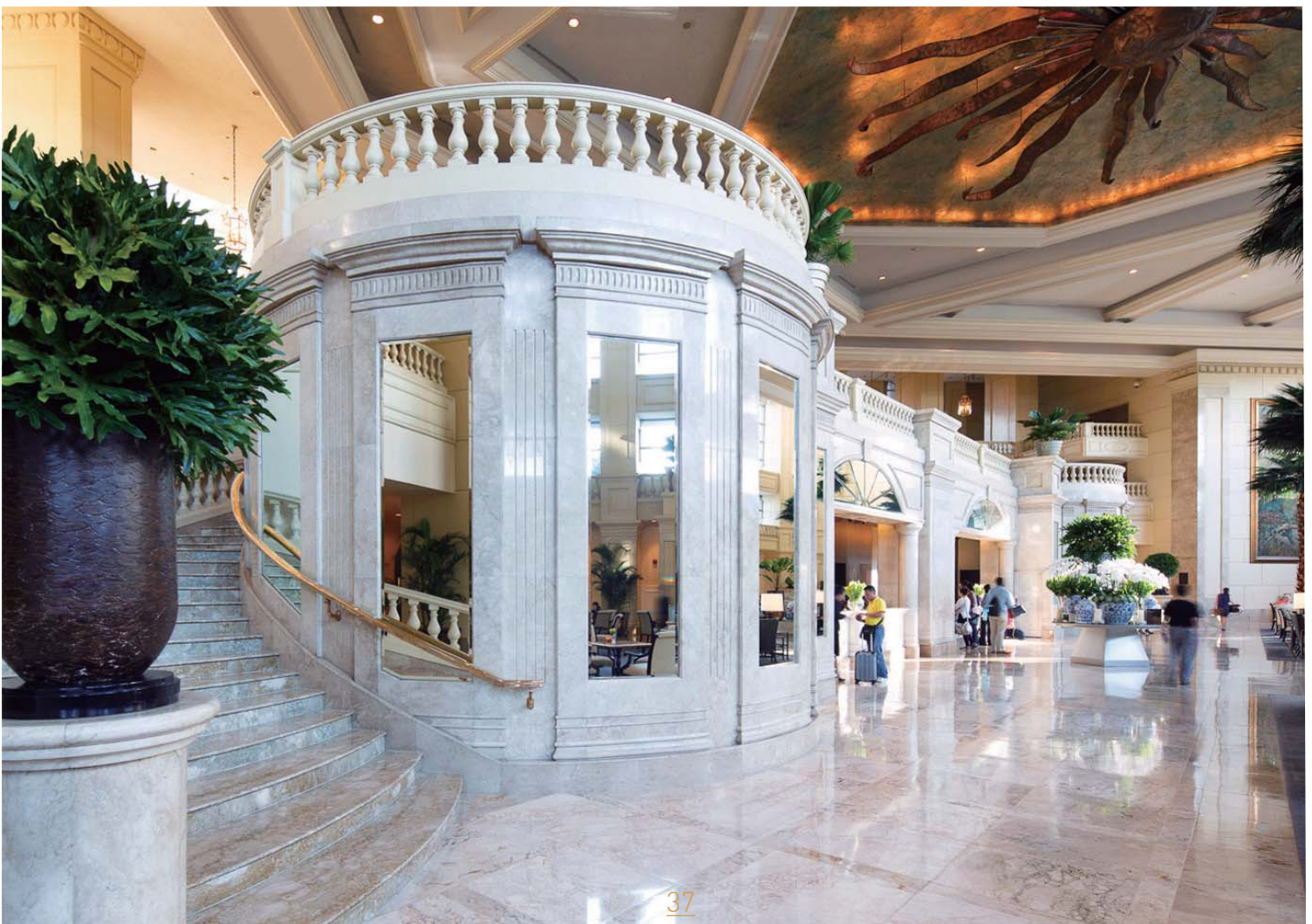
+1pp

Average
Room Rate

+9%

RevPAR

+10%





The Peninsula New York

The market in New York City was particularly challenging in 2015 due to intense competition and flat growth across the city. The decline in RevPAR of 7% was a similar result for most of our competitive set. However, we were pleased to report that we improved our RevPAR market positioning despite the challenging environment. New York has been flooded with additional supply, which also impacted our competitive set. The traditionally strong business from The Middle East and Europe did not grow to the extent we had expected. The US dollar strengthened against the euro which had a softening effect on our European business. Corporate business was relatively stable although we were disappointed to lose a key corporate account. Our strategy remains to build a broader base of varied corporate businesses to support the hotel and to maintain occupancy.

The worst winter weather in 35 years meant that business in our rooftop bar, *Salon de Ning*, was slower in the first quarter although this picked up in the autumn. There was intense competition in the food and beverage industry in New York

City, with many new and trendy celebrity chef restaurants opening in the city. Our direct competitive set embarked on renovations and product overhauls. We repositioned *Clement* restaurant as a more approachable dining option within Midtown and also introduced a new fixed-price pre-theatre dinner with shuttle service to Broadway. With the new American fare menu direction, PR and marketing efforts have continued to position the restaurant and bar as a top spot to dine in the city.

In December, The Peninsula New York volunteered to participate in the NYC Carbon Challenge, committing to reduce its carbon intensity by 30% by 2025, in support of the city’s collaborative effort in curbing greenhouse gas emissions. The NYC Carbon Challenge reflects our company’s own Sustainable Luxury Vision 2020 in which we endeavour to support the local communities where we operate and to be conscious of our environmental footprint. More details on our efforts to improve our carbon performance can be read on pages 42 to 44 of the Corporate Responsibility and Sustainability Report.

Revenue
US\$ 62m

-2%

Average
Room Rate

+9%

Occupancy

-9pp

RevPAR

-4%



The Peninsula Chicago

The US market in 2015 was flat. Boutique hotels have become popular in Chicago and there was an increasing supply of inventory in the market in 2015. In the past 24 months, 1,440 new hotel rooms have come onto the market. Chicago suffered from underfunding in terms of resources to promote global tourism, and therefore we do not expect any significant increase from international markets in the near future. There was some negative media coverage due to the 'Black Lives Matter' demonstrations in Chicago but this has not had a significant effect on tourism arrivals.

Traditional business at The Peninsula Chicago has been corporate accounts from the domestic market. This business was impacted by severe cold weather in the first quarter and later in the year by the start of our major room renovation. While the convention market, which is Chicago's key attraction for business travellers, increased by 6.7% in 2015, we were not able to capitalise on this due to our renovation. The hotel could not accept its usual level of large group bookings, which negatively impacted occupancy and our catering business. However, we have already been able to charge a premium rate for the same room category in our renovated rooms, achieving additional revenue per room per night. We expect business to pick up further as rooms come back into commission.

The new room product received positive feedback from guests and numerous media reviews. The re-design of the hotel introduced the Peninsula's proprietary advanced guest room technology to the United States, along with two new service initiatives: 24-hour check-in for web bookings and "Keys to the City," which provides guests with special access to Chicago's best destinations. A hand-crafted floral art piece by artist David Qian in each guest room features the chrysanthemum, the official flower of Chicago and one of the four "noble flowers" of Asia, marrying the Peninsula's Asian heritage with its Chicago influence.

As part of The Peninsula Hotels' strategy to support public art, The Peninsula Chicago embraced the art community with a significant art installation in The Lobby, entitled 'Alchemy', by renowned Korean artist Choi Jeong Hwa and curated by Pearl Lam Galleries. The Peninsula Hotels take pride in highlighting our destination cities and this project was an ideal way to showcase Chicago at the heart of the global contemporary art scene. The installation debuted in September 2015 to coincide with EXPO Chicago.

A major sustainability milestone was the successful deployment of LED lighting in all Peninsula Chicago guest rooms and suites. This is a first for the Group, and has been a major undertaking, beginning in the design phase and involving much testing and refining to achieve the ideal hue and dimming effect. More details can be read on pages 54 to 57 of the Corporate Responsibility and Sustainability Report.

The Peninsula Beverly Hills

The Peninsula Beverly Hills had a strong first half of the year and this continued until the end of August. The major remodelling and renovation of our fine dining restaurant, *The Belvedere*, started in September and this impacted our room revenue for the remainder of the year. We are confident of increased patronage and improved revenue with the completion of the renovation in the first quarter of 2016. Despite the renovation and its negative impact on both occupancy and average rates, we remain the RevPAR leader in the market and in August we had record average rates.

The majority of our guests are domestic travellers from within the US although we are seeing an increasing number of year-round visitors from the Middle East following the introduction of a new Saudi Arabian airline direct flight from Jeddah, as well as direct flights from Abu Dhabi to LA. There are an increasing numbers of guests travelling to LA for medical tourism and “educational tourism” where parents are travelling with their children to visit local universities in Southern California. A large percentage of our guests book directly with the hotel.

The impact of lower oil prices could affect the lucrative business from the Middle East in the long term, and therefore our strategy at The Peninsula Beverly Hills is to grow our market share in other international markets including China, Brazil and Mexico which are strong potential markets. Australia is also a robust market with eight flights per day to LA from Australia. In line with our Sustainable Luxury Vision 2020 we are placing an enhanced focus on family travellers.

The Peninsula Beverly Hills continues to win high profile awards and we are proud to have been voted as The Best Hotel in the US for five consecutive years by *Global Traveler* magazine. Other prestigious awards are listed on page 87 and on our website.

Revenue US\$ 72m	Occupancy	Average Room Rate	RevPAR
-3%	-5pp	+5%	-1%



The Peninsula Paris

The Peninsula Paris had a challenging year in its first full year of operation due to the terrorist attacks in the city in January and November, which impacted the entire tourism industry and particularly the Paris market in the short term, while the longer-term effect remains to be seen. Leisure traveller arrivals reduced significantly and with the reliance on corporate travel bookings rather than the usual mix of corporate and leisure, we reported a negative impact on the hotel's average room rates. We had to temporarily close *La Terrasse Kléber* because of security concerns and this, together with the lower occupancy in the hotel in December, negatively impacted our food and beverage revenue.

Despite the difficult market environment, we are satisfied with our overall occupancy levels for a luxury hotel in its first full year of operation, and we believe this can be attributed to the very high level of publicity and recognition that the hotel has garnered since opening, attracting guests from around the world, and significantly boosting brand recognition for other more established Peninsula Hotels. The grand opening party in April was a great success and attracted celebrities and international guests from all over the world. More details about the grand opening party can be read on pages 68 to 71.

The entire hotel market in Paris is dramatically changing and expanding. However, with increased supply, we are facing an intensely competitive market. As a newcomer to Paris, we are proud to be counted among some of the very best hotels in the world.

Revenue
EUR 63m

+172%

Occupancy

+8pp

Average
Room Rate

-10%

RevPAR

+4%





	2015	2014	Variance	
	Revenue HK\$m	Revenue HK\$m	In HK\$	In Local Currency
The Repulse Bay Complex	629	583	8%	8%
The Peak Tower	180	176	2%	2%
St. John's Building	54	51	6%	6%
The Landmark	38	36	6%	7%
1-5 Grosvenor Place	35	39	(10%)	(3%)
21 avenue Kléber	1	16	(94%)	(90%)
	937	901	4%	n/a

The Repulse Bay Complex is a premier residential property located close to the city, offering one of the finest and most enjoyable living environments in Hong Kong. We were delighted to win the accolade of *Best Residential Complex 2015 – Southside Magazine Reader's Choice Award*. The Complex reported a stable performance in 2015, with 8% higher revenue than 2014 due to buoyant rental income from the de Ricou apartment tower after its renovation in 2013, and increased rents from our other apartment towers at 101 and 109 Repulse Bay Road. The Complex offers excellent restaurants and a stunning wedding venue with panoramic views over Repulse Bay Beach and our weddings and catering business performed strongly in 2015.

The operating results were pleasing in the light of the general uncertainty in the high-end property leasing market in Hong Kong.

The operating results were pleasing in the light of the general uncertainty in the high-end property leasing market in Hong Kong; rental transactions fell across all major luxury residential districts in Hong Kong in the fourth quarter of 2015. The demand for luxury apartments in the market may further decline with budget cuts being made by multinational companies, resulting in tenants moving to less expensive apartments. We also remain concerned about the weak retail environment in Hong Kong which could impact the shopping arcade revenue in 2016.



Sky Terrace 428 welcomed record visitor numbers in 2015 despite a decline in the overall visitor numbers to Hong Kong.



St. John's Building



The Peak Tower

The Peak Tower remained fully occupied although average rental rates declined because of lower turnover rent. This property generates revenue not only from commercial leasing, but also from admission fees to the open-air rooftop attraction of Sky Terrace 428 with its unparalleled views of Hong Kong. Sky Terrace 428 welcomed record visitor numbers in 2015 despite a decline in the overall visitor numbers to Hong Kong.

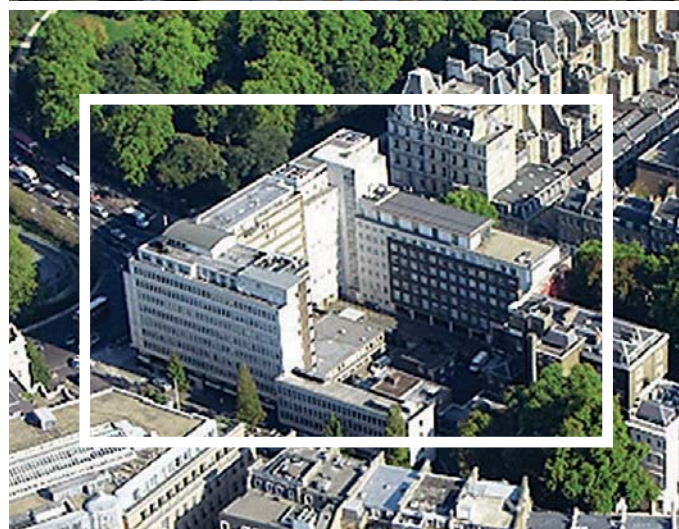
St. John's Building, located at the lower terminus of The Peak Tram, offers an excellent Central location for offices. The building was fully let in 2015, with revenue growth of 6%. In December, we were proud to support *Event Horizon*, the most extensive public art installation ever seen

in Hong Kong, created by award-winning and internationally acclaimed British artist, Sir Antony Gormley. The installation featured statues on top of buildings and public spaces.

The Landmark in Ho Chi Minh City, Vietnam, which is a mixed-use commercial building comprised of serviced apartments, offices and retail space, reported a 7% increase in revenue despite a highly competitive market situation in the city. The complex celebrated its 20th anniversary at the end of 2014. We were pleased to secure new long-term tenants due to the high quality of management and very competitive service offered, and we were delighted to receive the *Accolade of Best Serviced Apartments in Vietnam* in 2015.



The Landmark, Vietnam



21 avenue Kléber, Paris (top), 1-5 Grosvenor Place, London (below)

1-5 Grosvenor Place in London, which was acquired in 2013, generates revenue primarily from its commercial tenants. Revenue has been maintained at similar levels as 2014 with higher occupancy, despite the fact that we can only offer shorter term leasing to new tenants in light of the pending redevelopment. In December 2015, Westminster City Council resolved in principle to grant planning approval to demolish the existing building and redevelop it into The Peninsula London hotel and residential apartments. We target to commence demolition and construction during 2017.

21 avenue Kléber in Paris, which was acquired during 2013, had 90% less revenue in 2015 as we prepared the building for renovation. The building is located immediately adjacent to The Peninsula Paris and will continue to be leased as offices and retail space after its renovation, which we expect to complete in 2017.



	2015	2014	Variance	
	Revenue HK\$m	Revenue HK\$m	In HK\$	In Local Currency
The Peak Tram	122	124	(2%)	(2%)
Thai Country Club	58	55	5%	12%
Quail Lodge & Golf Club	135	117	15%	15%
Peninsula Clubs & Consultancy Services	182	171	6%	6%
Peninsula Merchandising	179	157	14%	14%
Tai Pan Laundry	55	53	4%	4%
	731	677	8%	n/a

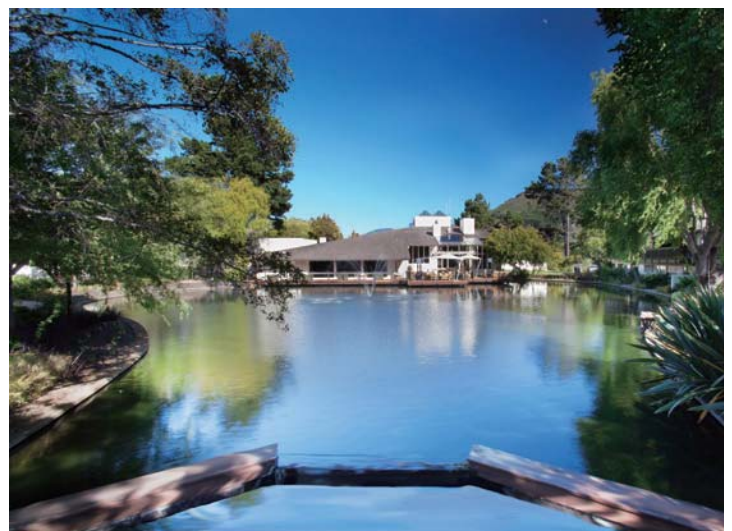


The Peak Tram is one of Hong Kong's most popular tourist attractions. Revenue remained relatively flat as we did not increase fares in 2015. We saw a slightly increased patronage of 1% despite a decline in overall visitor numbers to Hong Kong. We were pleased to reach an agreement with the Hong Kong Government for the renewal of the operating rights to The Peak Tram, commencing 1 January 2016, which paves the way for a proposed project to increase the capacity of the trams and create additional waiting areas for our customers.

Thai Country Club enjoyed a more positive year with an increase of 12% in revenue, reporting stronger business levels and increased golf membership revenue as Thailand's economy recovered, compared to last year's political uncertainty.

Quail Lodge & Golf Club revenue increased by 15%, with increased occupancy rates due to a successful marketing strategy to attract business from online travel agents, and increased wedding and banqueting business. The renovated golf course was officially opened in May after six months of renovations. We paid particular attention to sustainability considerations during this renovation, with a state-of-the-art irrigation system and drought-resistant landscaping introduced to minimise water use over the long term. (More details available on page 47 of the Corporate Responsibility and Sustainability Report). *The Quail: A Motorsports Gathering* in August enjoyed another successful year, generating significant revenue for the Lodge and attracting thousands of motoring aficionados and classic car lovers from around the world. *The Quail Motorcycle Gathering* continues to grow in popularity with more than 2,000 visitors in May including celebrities and international guests.

In the second half, El Niño affected California after a three-year drought, which, while bringing much needed rainfall, negatively affected transient business and golf rounds.



Peninsula Clubs & Consultancy Services (PCCS) manages prestigious clubs in Hong Kong including The Hong Kong Club, The Hong Kong Bankers Club and Butterfield's. Our revenue increased by 6% over the previous year. In 2015, HSH and Cathay Pacific Airways Limited agreed to end The Peninsula's management of the Cathay Pacific Lounges at Hong Kong International Airport, comprising agreements for The Wing, The Pier and The Cabin, with effect from 1 May, 2016. We are disappointed with this outcome as we had been managing Cathay Pacific's Lounges at Hong Kong airport since 1998 but this decision was taken with a strategic long-term view of both

companies' business interests. PCCS is working with the new operator to transition 273 existing staff.

Revenue at **Peninsula Merchandising** was 14% higher than 2014, with strong growth in revenue from Peninsula Mooncakes. In November, The Peninsula Boutique opened a beautiful new retail outlet at Hong Kong International Airport and we expect this will help drive revenue in 2016 whilst undergoing a brand evolution project to increase brand recognition among international travellers.

Tai Pan Laundry increased revenue by 4 % due to the increased volume of laundry from its non-hotel customers.



The Peninsula Boutique opened a beautiful new retail outlet at Hong Kong International Airport





The Peninsula London

In 2013, our Group purchased a 50% interest in the lease of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of £132.5 million. The remaining 50% leasehold interest, as well as the freehold of the site, is owned by Grosvenor. This property is in a spectacular location overlooking Hyde Park Corner and the Wellington Arch.

Together with Grosvenor, we submitted an application in July 2015 to replace the existing 1950s and 1960s offices with a high-quality 190-room hotel and residential apartments designed by UK-based Hopkins Architects. We were delighted to announce in December 2015 that Westminster City Council's planning committee resolved to grant in principle planning consent for the new hotel, to be known as The Peninsula London.



Design rendering of The Peninsula London project

The Peninsula London aims to bring a new level of distinction to London's luxury hospitality scene and will cater for both hotel guests and local customers. In addition to guestrooms and spa, it will include shops, bars, restaurants and a ballroom. The design is inspired by the area's heritage, befitting one of London's most celebrated addresses.

In line with our philosophy to create value for shareholders by adding residential apartments to the hotel complex we

develop, plans for The Peninsula London also include 24-28 residential apartments with their own leisure and spa facility. Separately, 23 intermediate affordable homes will be built nearby on Buckingham Palace Road, adding to housing supply and diversity of the area. We aim to start construction in summer 2017, with completion due in 2021.

Redevelopment of the site remains subject to a number of conditions including obtaining all requisite planning approvals and the final agreement to proceed by Grosvenor and HSH. HSH will also be responsible for a 50% share in the total redevelopment costs, which are still being finalised.

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 the centre of Yangon, Myanmar. The hotel will be at the heart of a mixed-use project. The Group's overall investment will be about US\$100 million, taking into account the value of the leasehold interest pertaining to the proposed hotel development and development cost estimates which are still being finalised.

In December 2015, we were pleased to move another step forward with The Peninsula Yangon project. A framework agreement was reached between the Myanmar Ministry of Rail Transportation and Yoma, our partners in Yangon, for the extension of the land lease that is required for the development of the mixed-use project. The former Myanmar Railway Headquarters forms part of this development and will be renovated to become The Peninsula Yangon. We will also manage The Peninsula Residences Yangon, luxury residential apartments in Yangon. We are working alongside Yoma for the fulfilment of all conditions precedent to The Peninsula Yangon project.



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.

Subject to fulfilment of the conditions, the partners have agreed to jointly develop the property with an investment commitment of approximately €300 million (equivalent to approximately HK\$2,568 million), of which HSH will be responsible for 50% or approximately €150 million (equivalent to approximately HK\$1,284 million).

The partners plan to redevelop a property within the Salıpazarı Port Project Area, located in the historic

Karaköy area of the Beyoğlu district of Istanbul overlooking the Bosphorus. Our Turkish partner currently holds the right of operation for a period of 30 years starting from February 2014 for the construction of various facilities, development and operation of the Salıpazarı Port Project Area.

Istanbul is a vibrant and beautiful city that embodies both ancient and modern cultures and has become one of the world's most popular tourist destinations. We are excited to develop this project in such a unique location which is consistent with our Group's long-term strategy to invest and operate Peninsula hotels in strategically selected cities. We are pleased to be partnering with Doğu and BLG who offer a proven track record of successful investments in Istanbul and share our values of quality and long-term outlook.



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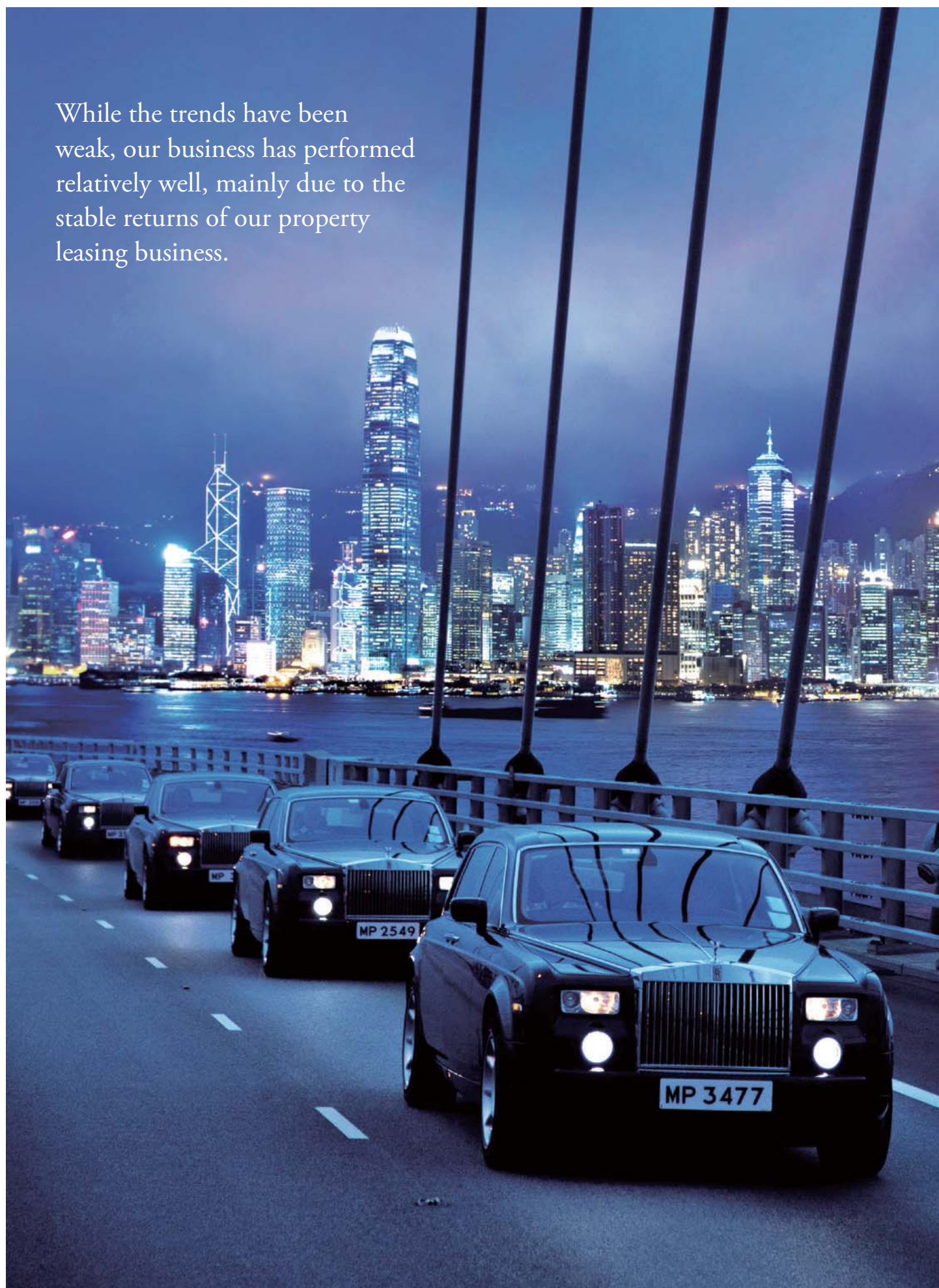
A Vision for Sustainable Luxury

In 2013 we unveiled our Sustainable Luxury Vision 2020, setting out our blueprint for sustainable growth and our ambition to achieve a new level of sustainable luxury. In the past two years we feel that we are gradually achieving our goal of creating a mindset 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. Rather than a separate topic, this vision is fundamental to our company's operations, brand and service standards, and is being implemented across seven pillars of our Group. With this in mind, in addition to moving towards an integrated reporting style we have produced a stand-alone Corporate Responsibility and Sustainability Report, which delivers the relevant information to our stakeholders while ensuring that sustainability issues and considerations receive the full attention of the Board as we plan our strategy for the coming years.

Outlook

The strength of our Group continues to emanate from our genuine commitment to a long-term future. This provides the vision and willingness to invest in assets for their long-term value creation and the staying power to ride through shorter-term cycles in the economy without compromising the quality of our products and services. In the volatile economic circumstances that we regularly encounter in today's environment, this commitment 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 chart a course which will maximise the quality and value of our assets and deliver long-term returns to our shareholders.

While the trends have been weak, our business has performed relatively well, mainly due to the stable returns of our property leasing business.



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.

The outlook for the Hong Kong market in terms of tourism, high-end residential lettings and retail rental income is somewhat uncertain and this is a concern for the Board. While the trends have been weak, our business has performed relatively well, mainly due to the stable returns of our property leasing business, with our residential apartments and commercial arcades holding up well.

We believe that the smaller, exclusive and high-end nature of the retail outlets at The Peninsula Hong Kong, as well as our luxury residential product at The Repulse Bay Complex, especially our recently fully renovated and enlarged apartments at the de Ricou tower, have been key to maintaining demand for those properties.

Outside Hong Kong, mainland China is a very important market for us and we are pleased that The Peninsula Shanghai has reinforced its position as the number one hotel in that city, with a stable future outlook. We believe that the domestic mainland market will continue to grow, especially among high-end affluent travellers who are seeking new and unique experiences. While both the Shanghai and Beijing five star hotel markets are currently over-supplied, we believe that the two Peninsula hotels in these cities will be able to differentiate with their superior products, especially following the full renovation of The Peninsula Beijing.

Elsewhere in Asia, we continue to see strong and increasing demand in Tokyo, and Bangkok continues to recover following the relaxation of martial law which was previously imposed in that country.

In the US, the economic outlook is positive and our US operations are well-positioned to benefit from the projected growth in consumer spending. Growth in the US domestic and corporate market will be especially beneficial for The Peninsula Chicago with its full renovation due for completion in 2016. The Peninsula Beverly Hills also expects to see a positive impact with the opening of its fully renovated restaurant *The Belvedere* in the first quarter of 2016.

In Paris, business has clearly been affected by the terrorist attacks of 2015. However, we have been seeing some pickup since the beginning of 2016 although this period is in the winter low season and we are looking to a stronger recovery in the leisure market from spring onwards.

For 2016, it should be noted that our operating results will be adversely affected by the partial closure of The Peninsula Beijing and the disruption to The Peninsula Chicago as a result of their renovation projects. The Peninsula Beijing renovation will be completed in phases up until 2017 and The Peninsula Chicago renovation will be completed in 2016.

Our long-term growth is underpinned by a strong balance sheet comprising valuable high quality assets coupled with a low level of gearing, as well as our dedicated team of management and staff around the world who understand and respect our heritage and serve the Group with loyalty.

I would like to thank my Board members for their support and guidance and all of my colleagues around the world for their hard work and commitment. We are proud of their achievements and I look forward to working and developing together with our great team, and serving our local communities, for years to come.



Clement K.M. Kwok
16 March 2016