



THE HONGKONG AND SHANGHAI HOTELS, LIMITED  
香港上海大酒店有限公司

To: All Finance/Business/Travel Editors  
FOR IMMEDIATE RELEASE

7 August, 2019

THE HONGKONG AND SHANGHAI HOTELS, LIMITED  
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

**HIGHLIGHTS**

- As described in the profit alert issued by the company on 20 June 2019, the group's results for the six months ended 30 June 2019 were negatively affected by the decrease in revenue recorded by two hotels in Hong Kong and the United States, as well as the planned temporary service suspension of the Peak Tram for its major upgrade project, and the reduction in unrealised revaluation gains on the group's investment properties in Hong Kong
- Revenue and EBITDA amounted to HK\$2,791 million (2018: HK\$2,850 million) and HK\$610 million (2018: HK\$730 million) respectively
- Profit attributable to shareholders amounted to HK\$254 million (2018: HK\$630 million), inclusive of net property revaluation gain of HK\$102 million (2018: HK\$391 million)
- Earnings per share was HK\$0.16 (2018: HK\$0.40)
- Underlying profit\* amounted to HK\$148 million (2018: HK\$241 million)
- Our balance sheet remains strong with 12% net debt to total assets and 9.3 times cash interest cover
- Interim dividend of 4 HK cents per share (2018: 5 HK cents per share)
- Shareholders' funds as at 30 June 2019 amounted to HK\$38,797 million (31 December 2018: HK\$38,664 million) or HK\$23.82 per share (31 December 2018: HK\$23.97 per share)

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

## HSH'S 2019 INTERIM RESULTS

*Hong Kong, 7 August 2019*

The Hongkong and Shanghai Hotels, Limited (HSH) today announced its interim results for 2019. Commenting on the results, Chief Executive Officer of HSH Clement Kwok said:

"The first half of 2019 has been a challenging period for our group. We have encountered global political and economic uncertainty, with escalating trade tensions in some of the key markets in which we operate. The business impact of the US-China trade war is difficult to quantify, but when analysing our results, we believe our hotels in Hong Kong and the Chinese mainland have been negatively affected during the period. Uncertainty in Europe caused by the ongoing Brexit negotiations and the *gilets jaunes* protests in Paris impacted our business in the early months of 2019. At the time of this report, political protests in Hong Kong that started in June are continuing and we are concerned about the impact of these on tourist arrivals as well as broader economic stability in Hong Kong. We will continue to monitor the situation.

Looking at our group's results for the first six months, our revenue was down modestly by 2%. This was impacted by the temporary service suspension of the Peak Tram as part of its major upgrade project, as well as softer market conditions for some of our hotels, particularly The Peninsula Hong Kong and The Peninsula New York. Our operating expenses were relatively well contained, increasing less than 3%, which we consider reasonable in the light of the increased costs associated with supporting our three new hotel projects and the Peak Tram upgrade project. However, considering the high fixed cost nature of our business, including depreciation charges, interest and the reduction in the non-operating and (non-cash) revaluation gain on the investment properties in Hong Kong as compared to the previous year, we felt it prudent to update shareholders that our unaudited profit attributable to shareholders would be significantly lower year-on-year, as per the profit alert released on 21 June 2019.

Despite the political and economic uncertainty that we face, our long-term philosophies and values remain steadfast. By taking a long-term view and by maintaining and enhancing the quality of our assets and operations, we seek to create significant value for our shareholders from the long-term appreciation in the capital value of our properties, as well as from the increasing operating yield as each property grows its income over time.

Due to this approach, I believe The Peninsula is recognised as one of the finest hotel brands in the world. The level of quality in our hotels is such that in February 2019 we were awarded Forbes Five-star ratings for all ten Peninsula hotels and we believe we are the only hotel group in the world to achieve such a rating for all its hotels.

During challenging times such as the present, we maintain a constant focus on building a long-term sustainable business. We retain a conservative capital structure to help insulate our business against volatility. We continue to invest in improving our assets, and developing our people with training, learning and development opportunities, as well as investing in technology and digital capabilities to enhance our marketing efforts. We are making significant progress in our Peninsula hotel projects in London, Istanbul and Yangon as well the Peak Tram upgrade project, although we are facing significant cost pressure in London. More generally, we are implementing cost efficiency measures and controlling expenses where possible in our global operations and head office.

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

## Hotels Division

Hotels	Revenue HK\$m	Variance	
		In HK\$	In Local Currency
<b>Consolidated hotels</b>			
The Peninsula Hong Kong	617	-7%	-7%
The Peninsula Beijing	151	-1%	+5%
The Peninsula New York	316	-4%	-4%
The Peninsula Chicago	277	+4%	+4%
The Peninsula Tokyo	434	0%	+1%
The Peninsula Bangkok	140	-5%	-5%
The Peninsula Manila	119	+3%	+3%
<b>Non-consolidated hotels</b>			
The Peninsula Shanghai	259	-15%	-10%
The Peninsula Beverly Hills	294	-1%	-1%
The Peninsula Paris	279	0%	+6%

## The Peninsula Hong Kong

The Peninsula Hong Kong		
Revenue	HK\$617m	-7%
Occupancy		-7pp
Average Room Rate		-1%
RevPAR		-11%

**The Peninsula Hong Kong** was the market leader in average rate in the first half of 2019, although overall revenue declined 7% over the same period last year, partly due to an exceptional performance in the first half of 2018 from large non-recurring group business. This factor combined with increased supply in the Tsim Sha Tsui area of Hong Kong and a soft market overall for the luxury sector led to a challenging environment in the first half.

The US, Chinese mainland and Japan remain our top three market segments. We believe the US-China trade war had a negative impact on occupancy compared to the same period last year, although the scale of this impact is difficult to quantify. We were pleased to report increasing arrivals from Taiwan, South America and Eastern Europe following sales outreach in these markets.

As part of our ongoing commitment to showcase contemporary art, we celebrated the inaugural *Art in Resonance* at The Peninsula Hong Kong in March 2019, coinciding with Art Basel Hong Kong, the world's premier art fair for modern and contemporary art. The Peninsula Hotels worked alongside respected curators to carefully select contemporary artists Janet Echelman, Iván Navarro, Timothy Paul Myers and the Shanghai-based architecture collective MINAX. The Gala event was well received in the art community and by global media.

The Peninsula Office Tower continued to perform well and was fully occupied throughout the first half of 2019, and the immediate outlook is stable. The Peninsula Arcade occupancy was 83% and the overall environment in Hong Kong for luxury retail remained soft. We collaborated with a high-end luxury jewellery brand to design a bespoke Signature Afternoon Tea and to help promote the Arcade to guests.

### The Peninsula Shanghai

The Peninsula Shanghai		
Revenue	RMB224m	-10%
Occupancy		-2pp
Average Room Rate		-4%
RevPAR		-7%

**The Peninsula Shanghai** remains the market leader in average room rate in the city, driven by our beautiful and spacious room product as well as high-end groups occupying the premium suites. We were delighted to be named as the “Best Hotel in Shanghai” by *Travel + Leisure* magazine. Despite our favourable position compared to our competitive set, the hotel reported a softer first half of 2019 against the previous year in terms of occupancy and RevPAR due to intense competition and significantly increased supply since 2017.

The domestic Chinese mainland market continued to be our largest revenue driver and we noted positive growth in arrivals from the Russia and Middle East markets. The US market was weaker which we believe was due to the effects of the US-China trade war which impacted corporate travel and groups business. The Peninsula Shanghai remains the only hotel in mainland China to have two restaurants with Michelin stars. However, overall food and beverage revenue declined over the same period last year.

In June 2019, we were proud to partner with world-leading independent arts charity BAFTA (the British Academy of Film and Television Arts) on the launch of their new programme ‘BAFTA Breakthrough China’ at No 1 Waitanyuan, the property we lease adjacent to the hotel. This is an initiative designed to identify and nurture the next generation of creative talent in Asia.

In addition to the hotel, The Peninsula Shanghai Complex also comprises a shopping arcade and a residential tower of 39 apartments. By the first half of 2019, a total of 29 residential units have been sold and The Peninsula Arcade was 95% occupied, with recent leasing momentum remaining stable.

## The Peninsula Beijing

The Peninsula Beijing		
Revenue	RMB131m	+5%
Occupancy		-1pp
Average Room Rate		+7%
RevPAR		+5%

**The Peninsula Beijing** reported positive growth in RevPAR for the first half of 2019, following its major transformation in 2018. The hotel was the rate leader in our competitive set for the first half and we were delighted to be included in the Verified List for the World's Best Hotel Rooms in 2019 by Forbes Travel Guide.

Tourist arrivals in Beijing declined slightly in the first half of 2019 but we expect the hotel industry to continue to benefit from the Chinese Government's Belt and Road Initiative bringing in group business. We are implementing a strategy to focus on diplomatic and group bookings for the coming year and are proud to have welcomed several heads of state during the first half.

Following the renovation of our dining outlets and new positioning of *Jing*, we have launched new marketing campaigns to drive our food and beverage business.

The Peninsula Arcade was 66% occupied and has welcomed a number of new luxury brands to the Arcade which have been well received by guests.

## The Peninsula Tokyo

The Peninsula Tokyo		
Revenue	JPY6.09b	+1%
Occupancy		0pp
Average Room Rate		+7%
RevPAR		+6%

We were pleased to report a strong year for **The Peninsula Tokyo** with improved RevPAR positioning, average rates and increased occupancy for the first half. The peak *sakura* (cherry blossom) season in the first quarter was particularly robust and we reported increasing arrivals from the US, Chinese mainland and the domestic Japanese market. The Middle East market continues to grow at a healthy pace.

Food and beverage revenue was weaker compared to the same period last year, due to softer demand from the wedding market and general MICE (Meetings, Incentives, Conferences and Exhibitions) market. In April 2019 we welcomed a new tenant restaurant, *Sushi Wakon*, featuring two Michelin-starred Chef Rei Masuda. Spa revenue continues to remain strong due to the launch of an exclusive line of treatments and retail products. We also launched an exclusive high-end, limited-edition Peninsula whisky which was very popular and sold out within months of its release.

We are optimistic for the coming year as visitor arrivals to Japan continue to be very strong ahead of the Rugby World Cup in 2019 and the Tokyo Olympics in 2020.

## The Peninsula Bangkok

The Peninsula Bangkok		
Revenue	THB562m	-5%
Occupancy		-6pp
Average Room Rate		+8%
RevPAR		0%

**The Peninsula Bangkok** reported a relatively soft start to the year, impacted by a slower economy and uncertainty over the country's first elections since 2014. Our hotel was also negatively affected by extensive roadworks adjacent to our property which impacted our food and beverage and catering business.

Despite these challenges, the hotel reported positive growth in average rates in the first half of 2019, with good growth in arrivals mainly from Hong Kong and Southeast Asia due to the visa-free agreements with these countries. Chinese mainland tourist arrivals declined year-on-year following a tragic boating accident in Phuket in 2018 which led to reduced group tourism to the country overall.

Our strategy continued to focus on driving MICE business and suite bookings. We have launched promotions to drive food and beverage revenue. We were delighted to position the hotel at the forefront of Thailand's thriving arts scene by becoming the first luxury hotel in Bangkok to offer an Artist in Residence programme, which welcomed Thai and international artists to live and work for two months in a custom-created studio at the hotel. Spa performed well and we increased retail space in the hotel's commercial area to offer more variety for guests.

## The Peninsula Manila

The Peninsula Manila		
Revenue	Php792m	+3%
Occupancy		+5pp
Average Room Rate		-5%
RevPAR		+2%

**The Peninsula Manila** reported positive growth in occupancy and overall hotel revenues during the first half of the year despite intense and increasing competition in a highly price-sensitive market. Our food and beverage operations performed well with nearly all outlets achieving positive revenue growth as compared to last year. We commenced our soft room refurbishment program in April 2019, with plans to update and refresh all of our guestrooms and suites before the year end.

During the first half the Philippines experienced a 7% increase in foreign tourist arrivals year-on-year, with the Korean market remaining No 1 and the Chinese mainland being the fastest-growing inbound market with a double digit year-over-year growth. The re-opening of Boracay island is expected to further boost tourism into the Philippines for 2019, highlighting "sustainable tourism" as a key focus.

Manila continues to develop as a high-end culinary destination. We launched a partnership with three of Manila's top chefs who will bring 15 of Asia's Top Chefs for a series of luxury dinners throughout the year.

## The Peninsula New York

The Peninsula New York		
Revenue	US\$41m	-4%
Occupancy		-7pp
Average Room Rate		+4%
RevPAR		-6%

**The Peninsula New York** had a challenging first half of 2019 with decreasing revenue and occupancy compared to the same period last year. The Middle East market segment overall continues to be impacted by travel restrictions and geopolitical tensions although corporate business from other markets was strong.

The hotel's food and beverage performance experienced a soft first half, partly exacerbated by the hotel's rooftop bar, *Salon de Ning*, being negatively affected by the unseasonably rainy weather in the second quarter.

In April, we presented *Home*, an art exhibition honoring the notions of home, identity and community, as an ode to The Peninsula's larger commitment to celebrating family and heritage. The exhibition featured a curated selection of original works by artists including Do Ho Suh, Catherine Opie, Angel Otero, Ashley Bickerton and Heidi Bucher, among others.

During the first half of the year, we focused on improving the property by completing some upgrading work of facilities in the hotel as well as a statutory requirement to enhance the pavement on Fifth Avenue.

## The Peninsula Chicago

The Peninsula Chicago		
Revenue	US\$35m	+4%
Occupancy		0pp
Average Room Rate		0%
RevPAR		+1%

**The Peninsula Chicago** reported a positive first half, achieving market leader position in RevPAR and average rates despite significant new supply and fewer large conventions being held in the city which resulted in fewer business travellers.

Amidst intense competition, we were delighted to receive the accolade of "No 1 Best Luxury Hotel in the US" by *Tripadvisor*, as well as "No 1 hotel in Illinois" and "No 2 in the United States" from *U.S. News and World Report* respectively. These accolades are a testament to the popularity of the hotel following its renovation in 2016. *Z Bar*, which opened in 2018, has helped to drive revenue in the first half and continues to grow an influential social media following.

We added exciting new activities to our "Keys to the City" programme in the first half of 2019, highlighting the culinary, architectural and cultural aspects of Chicago that make it unique and offering exclusive VIP access to attractions for our guests.

## The Peninsula Beverly Hills

The Peninsula Beverly Hills		
Revenue	US\$38m	-1%
Occupancy		-1pp
Average Room Rate		+1%
RevPAR		0%

**The Peninsula Beverly Hills** was voted the No 1 Hotel in the Greater LA Area by *Travel + Leisure* magazine in July 2019 and has achieved AAA Five Diamond and Forbes Five-star Hotel ratings every year since 1993. *The Belvedere* is the only AAA Five Diamond restaurant in Los Angeles.

The hotel reported slightly decreased revenue and occupancy over the same period last year, which reflected the softer market across the city and increased supply of luxury accommodation. The traditionally robust market of the Middle East was weaker than previous years in the early summer months due to ongoing political uncertainty and the US Administration’s travel policies. Food and beverage revenue, particularly on the Roof Garden, was negatively impacted by unseasonal cold and cloudy weather in spring.

We have implemented cost control measures to counteract the softer first half in addition to undertaking new marketing initiatives to drive business. In May we completely redesigned the award-winning Peninsula Spa and introduced a new high-end product line which has garnered a lot of attention. Our newly launched Emerging Artist Series held on the Terrace celebrates vibrant LA street art, with proceeds donated to an LGBT-focused mental health charity, The Trevor Project. In the first half of 2019, we initiated “dim sum Sundays” in *The Belvedere* and launched a new programme for children called “Camp Peninsula” to attract family travellers. Our connections in the entertainment industry remain strong and we remain the hotel of choice for celebrities during awards season.

## The Peninsula Paris

The Peninsula Paris		
Revenue	EUR31m	+6%
Occupancy		+1pp
Average Room Rate		+8%
RevPAR		+8%

In the first half of 2019, the city of Paris continued to be negatively impacted by the *gilets jaunes* protests which started in 2018. This impacted our operating results in the early part of 2019, as some of the protests occurred in the immediate vicinity of our hotel, although business improved in the second quarter. We believe the situation has calmed and we are cautiously optimistic for the remainder of 2019.

Overall **The Peninsula Paris** reported improved RevPAR, occupancy and average rates. We have focused on driving groups and MICE business and we were honoured to welcome several diplomatic groups including a high – level state visit during the first half of the year. Food and beverage revenue was satisfactory, particularly from the rooftop restaurant *L’Oiseau Blanc* which offers spectacular views from Sacre-Coeur to the Eiffel Tower and has become well established among Parisian celebrities and high society. *Le Bar Kléber* also performed well and we are implementing new marketing initiatives and positioning for our Chinese restaurant *Lili*.



We hosted The Peninsula Classics Best of the Best Award in February 2019 which was well attended by classic car aficionados and celebrities and received extensive press coverage.

### Commercial Properties Division

Commercial Properties	Revenue HK\$m	Variance	
		In HK\$	In Local Currency
The Repulse Bay Complex	329	+5%	+5%
The Peak Tower	93	-7%	-7%
St. John's Building	27	+1%	+1%
The Landmark	19	-1%	+1%
21 avenue Kléber	12	0%	+6%

Our largest residential property, **The Repulse Bay Complex**, reported a positive first half with increased revenue and occupancy despite a softening market for luxury residential across the city.

Food and beverage revenue increased in the first half due to a number of promotions and initiatives to drive F&B business, including revamping our afternoon tea offering and promoting *Spices* as a venue for corporate events. The Verandah continues to attract excellent wedding business given the spectacular location and views of Repulse Bay. *Breeze*, our new outdoor venue which opened in 2018, has been popular with residents and visitors. We launched our first-ever public art exhibition to coincide with Art Basel, titled *Art @the Bay: Time and Transformation* featuring two sculptures and seven installations by Hong Kong artist Matthew Tsang.

The Repulse Bay Shopping Arcade, which offers an eclectic blend of lifestyle amenities, health and wellness facilities and boutiques, was 99% occupied for most of the year.

**The Peak Tower** was fully leased for the first half of 2019. Revenue decreased by 7% due to the temporary closure of the Peak Tram, which also impacted the open-air rooftop attraction Sky Terrace 428, as forewarned in our 2018 Annual Report. We have implemented significant sales and marketing strategies to continue to drive business at the Peak.

**St John's Building**, located at the lower terminus of the Peak Tram, offers an excellent location for office space. The property was fully let during the first half of 2019 and revenue was stable.

**The Landmark**, a 16-storey residential and office property, is located on a prime riverfront site in the central business district of Ho Chi Minh City, Vietnam. Revenue and occupancy from the offices remained stable year-on-year, despite intense competition, while residential decreased compared to the same period last year. The Landmark maintains its popularity and leadership in a competitive market and continues to attract awards for its management and facilities.

**21 avenue Kléber** offers a prime location immediately adjacent to The Peninsula Paris on Avenue Kléber, just steps from the Arc de Triomphe. The property has achieved international BREEAM Excellent and HQE Outstanding environmental certifications which are the highest level of sustainable building assessments in Europe. We have successfully leased the entire office and the two retail spaces and revenue increased by 6% compared to the same period last year.

## Clubs and Services Division

Clubs and Services	Revenue HK\$m	Variance	
		In HK\$	In Local Currency
The Peak Tram	46	-31%	-31%
The Thai Country Club	36	+4%	+3%
Quail Lodge & Golf Club	61	+7%	+7%
Peninsula Clubs & Consultancy Services	3	+17%	+17%
Peninsula Merchandising	31	-1%	-1%
Tai Pan Laundry	27	-1%	-1%

**The Peak Tram** is one of Hong Kong's most popular tourist attractions and has been operated by HSH for 131 years. From April to July 2019 we temporarily suspended the service of the Peak Tram to enable us to carry out construction work as part of the previously announced upgrade project which was approved by the Hong Kong Government in 2018. In the first half of 2019 revenue decreased by 31% due to the impact of the suspension of the Tram, which therefore had a significant impact on our group earnings as forewarned in the 2018 Annual Report and the profit alert announcement in June 2019. The upgrade project will result in covered, queuing and waiting areas with entertainment features for up to 1,300 passengers. The new tramcars will be able to carry 210 passengers instead of 120 at present and visitors' waiting time will be significantly reduced. The full cost of the HK\$684 million upgrade project, which is scheduled to be completed in 2021, is being fully funded by HSH. The second planned service suspension period will continue to negatively impact our earnings in 2020.

**The Thai Country Club** which is located near Bangkok, recorded a challenging first half of 2019 due to uncertainty over the political climate in Thailand which resulted in fewer visitors, although we reported increasing sales of golf memberships and implemented a strategy to control expenses. We have also continued to develop cross-marketing initiatives with The Peninsula Bangkok to drive further awareness of the club.

**Quail Lodge & Golf Club** revenue increased by 7% year on year, driven by new marketing activities including a "sunset shuttle" to take guests to the beach for sunset and bicycle hire to enjoy the surrounding scenic areas of Carmel. Golf membership sales and golf rounds improved over the same period last year. *The Quail Motorcycle Gathering*, a Peninsula Signature event, continues to grow in popularity with more than 3,000 visitors in May 2019 and was the venue for the global launch of the new electric Harley-Davidson motorcycle. This event complements the very successful *The Quail: A Motorsports Gathering* event, which occurs in August and has become one of the world's leading concours events for classic car *aficionados*.

**Peninsula Clubs & Consultancy Services (PCCS)** reported slightly higher revenue compared to the same period last year. PCCS manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and The Refinery (formerly Butterfield's). The Bankers Club will move from its current location in the Landmark, Central to Nexxus Building on Connaught Road, Central in October 2020.

Revenue at **Peninsula Merchandising** was 1% lower than the same period last year, due to softer corporate retail sales overall and weaker performance from the HKIA boutique. Peninsula Merchandising is planning to expand in Asia, and will open new boutiques in key cities and drive online sales, widen distribution channels and increase brand awareness to customers in the Greater China region.

Tai Pan Laundry revenue was flat compared to the same period last year, and the company is driving new business with marketing strategies and greater automation.

## **Projects under development**

### **The Peninsula London**

HSH has a 150-year leasehold interest in The Peninsula London. The property is in a high-profile location at the gateway to Belgravia, overlooking Hyde Park Corner, the Wellington Arch, Green Park and the gardens of Buckingham Palace. We are developing a 189-room Peninsula hotel with 26 luxury Peninsula-branded residential apartments for sale also integrated into the development. The construction budget for the project has previously been reported in the region of £650 million, however, we have faced significant cost pressure from recent tender returns and a thorough review of the budget is underway.

Construction of the project is progressing well and we held the topping out ceremony on the first core of the building on 19 June 2019. The below-ground excavation and structural works will continue for some time.

We have commenced some private marketing of apartments in the development and are pleased with the exchanges of contract achieved to date.

Our ambition is for the hotel and residences to set new standards in luxury and service in the London market when complete, currently scheduled for 2021.

### **The Peninsula Istanbul**

In July 2015, we entered into a shareholders' agreement with Doğu Holding and BLG to form a joint venture partnership, of which HSH has a 50% share, for a proposed hotel development in Istanbul, Turkey. The partners agreed to jointly develop the property with an investment commitment of approximately €300 million, of which HSH is responsible for 50%.

The project has encountered some unforeseen site conditions and challenges with the heritage building which has caused some delays. Opening of the project is currently targeted to be in the second half of 2021. There will be approximately 180 rooms, a ballroom with sweeping views of the Bosphorus, indoor and outdoor swimming pools, Spa and verdant garden area on the waterfront.

Istanbul is a beautiful historic city that embodies the meeting point of East and West, and the location of The Peninsula Istanbul on the Bosphorus is truly spectacular. The Peninsula Istanbul will form part of the wider *Galataport* project being developed by our partners, which incorporates a promenade, museums, art galleries, restaurants, boutiques, retail units, parks and public spaces for the local community as well as a cruise passenger terminal with global standards. We believe in the long-term future of Istanbul as one of the world's leading business and tourism destinations.

### **The Peninsula Yangon**

The Company entered into a shareholders' agreement with Yoma Strategic Investments Ltd. ("Yoma") and First Myanmar Investment Public Company Limited ("FMI") in January 2014 to acquire a 70% majority interest for a proposed hotel development on the site of the former headquarters of the Myanmar Railway Company in central Yangon, Myanmar. The existing building is being renovated to become The Peninsula Yangon and will be adjacent to a mixed-use development called Yoma Central, previously known as the Landmark Development. We will also receive branding fees on the sale and management of the adjacent The Peninsula Residences Yangon, the luxury residential apartments being developed by Meeyahta Development Limited, which is a joint venture between our partners Yoma and FMI, Mitsubishi Corporation, Mitsubishi Estate Corporation, Asian Development Bank and International Finance Corporation.

The project encountered some delays due to the collapse of a small portion of the heritage building façade wall in 2018. Insurance claims are ongoing and we are mitigating the delays as much as possible. Although the revised timeline has not yet been finalised, we are currently still expecting the project to be completed in 2021.

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

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

### **Human Resources**

We held a Global Human Resources Conference in June 2019 attended by HR leaders from across our group. The theme was "Ignite – Power for Tomorrow" which we believe reflects our vision for our people and the talent we hire, and our desire for them to be passionate and empowered in their roles. We are putting steps in place to start hiring for our three new hotels in London, Istanbul and Yangon and our human resources team has travelled to various hotel schools this year to speak to students.

I am personally heading up a new WorkPlace 2025 initiative in which our focus is to create effective transformation for our teams and modernise our workplace. This is supported by the continued hiring of strong leaders, the growth of our mental and physical well-being programmes, and the improvement of our engagement strategies. Our internal cross-exposure programme has been successful with 189 staff scheduled to take part this year, an increase from the 142 people who participated last year. We are also pleased to report an 89% response rate in our 2019 Employee Engagement Survey, with 91% of respondents saying that they are proud to work for The Hongkong and Shanghai Hotels.

As of 30 June 2019, we have a team of 7,557 full time staff and we are pleased that our voluntary staff turnover rate is 9.6% which is favourable compared to the industry.

### **Sustainable Luxury**

Sustainable luxury is an integral part of our long-term mindset. We aim to properly manage risk as well as invest in the right opportunities while enabling a sense of belonging by offering services that are sustainable, thoughtful and purposeful to the needs of our guests and customers.

During the first half of 2019, we continued to move towards our goal of eliminating single-use plastics by 2020 as well as reducing our energy and water usage. As a new member of “We Mean Business”, a global coalition of non-profit organisations working towards a zero-carbon economy, we are advocating for climate change solutions on water risks and climate disclosures. We implemented a pilot programme of recycling and upcycling our textile materials in Hong Kong and the Philippines, and we are in the process of developing a sustainable seafood tool that is being shared with the hospitality sector to make sustainable seafood sourcing easier. We aim to launch this tool at the end of 2019.

Overall, we continued to see good progress in achieving 85% of our commitments and focusing our efforts in three key areas of “Our Guests, Our People and Our Cities”.

## **Outlook**

In terms of outlook for the coming year, we are facing uncertainties around the world and geopolitical instability in some of the regions we operate in, including our home market of Hong Kong. We are concerned about the effect this political uncertainty may have on our results, especially given the proportion of our income which is earned in Hong Kong. It should be noted that we are currently in dispute with the local partner concerning the future management arrangements for The Peninsula Bangkok and the Thai Country Club, and we are working towards a resolution with our partner.

We are implementing a number of new strategies to drive business in the year ahead, including driving our Chinese mainland business, enhancing our food and beverage strategy and improving data analytics. We are optimistic for The Peninsula Tokyo as Japan prepares to welcome the Rugby World Cup in 2019 and the Tokyo Olympics in 2020. We expect that the new hotels in London, Istanbul and Yangon will further enhance our brand presence when they open from 2021 onwards.

Our Peak Tram business will continue to be negatively impacted in 2020 due to suspension and temporary service plans during its improvement and upgrade programme that was previously announced to shareholders. However, in the long term we believe it will significantly improve the visitor experience and enhance Hong Kong’s tourism image.

Overall, our company remains in a strong financial position with a highly motivated and dedicated team of people who are committed to our long-term vision. We strongly believe that a top hospitality company is built on attention to detail, quality and exceptional facilities. This passion for perfection is set by our leadership and translates through to the work of our general managers, our designers, project teams, operations teams and our partners, to create a truly prestigious brand that is celebrated across the world, and a company that consistently lives up to its unique brand proposition. I would like to thank each member of my team who contributes to our company’s success year after year."

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**About The Hongkong and Shanghai Hotels, Limited (HSH)**

Incorporated in 1866 and listed on the Hong Kong Stock Exchange (00045), The Hongkong and Shanghai Hotels, Limited is the holding company of a Group which is engaged in the ownership, development, and management of prestigious hotels and commercial and residential properties in key locations in Asia, the United States and Europe, as well as the provision of tourism and leisure, club management and other services. The Peninsula Hotels portfolio comprises The Peninsula Hong Kong, The Peninsula Shanghai, The Peninsula Beijing, The Peninsula Tokyo, The Peninsula New York, The Peninsula Chicago, The Peninsula Beverly Hills, The Peninsula Paris, The Peninsula Bangkok and The Peninsula Manila. Projects under development include The Peninsula London, The Peninsula Yangon and The Peninsula Istanbul. The property portfolio of the Group includes The Repulse Bay Complex, The Peak Tower and St. John's Building in Hong Kong; The Landmark in Ho Chi Minh City, Vietnam and 21 avenue Kléber in Paris, France. The clubs and services portfolio of the Group includes The Peak Tram in Hong Kong; Thai Country Club in Bangkok, Thailand; Quail Lodge & Golf Club in Carmel, California; Peninsula Clubs and Consultancy Services, Peninsula Merchandising, and Tai Pan Laundry in Hong Kong.

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