



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

5 August, 2022

**THE HONGKONG AND SHANGHAI HOTELS, LIMITED
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022**

HIGHLIGHTS

- Whilst the group's home market of Hong Kong and our hotels in mainland China have been impacted by significant travel restrictions, we have seen a strong recovery in the US and Europe, with average rates reaching record high levels.
- Overall, the group's consolidated revenue for the six months ended 30 June 2022 increased by 31% to HK\$1,662 million.
- The group's EBITDA before pre-opening and project expenses increased by 241% to HK\$109 million.
- A revaluation gain on investment properties of HK\$426 million was recognised in 2022, resulting in a profit attributable to shareholders of HK\$134 million.
- Excluding the non-operating items of revaluation movements of investment properties and pre-opening and project expenses, the group's underlying loss amounted to HK\$254 million compared to loss of HK\$349 million in 2021.
- The group's net debt to total assets is maintained at an acceptable level of 24%.
- With the undrawn committed facilities and cash and balance in hand, the Directors believe that the group will be able to meet the working capital requirements of our existing operations and the group's capital commitments, including hotel projects in London and Istanbul as well as the Peak Tram upgrade project.

HSH'S 2022 INTERIM RESULTS

Hong Kong, 5 August 2022

The Hongkong and Shanghai Hotels, Limited today announced its interim results for 2022. Commenting on the announcement, Managing Director and CEO Clement Kwok said:

“The first half of 2022 has seen some positive momentum compared to the very challenging situation in the same period in 2021. However, our key markets of Hong Kong and mainland China suffered from further COVID-19 travel restrictions. The difference in financial results is notable between those locations where government restrictions have eased and others that are still in place. On the positive side, we have seen a surge in recovery in the US and Paris, with rates reaching historically high levels. Manila is also seeing a reasonable recovery, whereas Bangkok’s recovery remains muted, and Tokyo is experiencing a slower rebound. Our non-hotel properties and other businesses continued to be under pressure, but remained stable. A key issue for us is the significant labour shortage, particularly in the US and Europe, and this is preventing many of our rooms and outlets operating at full capacity. Inflation and rising energy costs are also of increasing concern. Overall, we believe that our first half results were satisfactory given the market circumstances.

Quarantine restrictions in our home market remain a challenge. At the time of writing, stringent social distancing measures and lengthy quarantine regimes in Hong Kong and the Chinese mainland remain the strictest in the world, and this has dramatically impacted tourism arrivals for the past two years. The restrictions continue to seriously affect our hotels business in Hong Kong and mainland China, as well as the Peak Complex. Our residential leasing business at The Repulse Bay is also impacted by the shortage of international expatriates arriving into Hong Kong, although we have retained a reasonably high occupancy level.

Our immediate development focus remains on delivering our new Peninsula hotel projects in London and Istanbul, as well as the Peak Tram upgrade project, as explained later in the operational sections of this review.

The group came into this crisis with low gearing and considerable liquidity, which we bolstered by arranging further facilities to cover our group’s liquidity needs. Together with the actions that we have taken to minimise our operating cash outflows, we believe our financial resources are comfortably able to meet the group’s operating cash requirements.

Although there is a high degree of uncertainty in the near term, our long-term philosophies and values remain steadfast. Our vision is: *to develop, own and operate a small number of the highest quality property assets, some of which we believe are amongst the finest hotels in the world.* 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.

Business Performance

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

Hotels Division

Hotels	Revenue	Variance Year-on-Year	
	HK\$m	HK\$	Local Currency
Consolidated hotels			
The Peninsula Hong Kong	275	-10%	-10%
The Peninsula Beijing	88	-21%	-21%
The Peninsula New York	299	+320%	+320%
The Peninsula Chicago	240	+70%	+70%
The Peninsula Tokyo	171	+21%	+39%
The Peninsula Bangkok	40	+229%	+262%
The Peninsula Manila	57	+351%	+387%
Non-consolidated hotels			
The Peninsula Shanghai	113	-47%	-48%
The Peninsula Beverly Hills	333	+76%	+76%
The Peninsula Paris	246	+403%	+455%

The Peninsula Hong Kong

The Peninsula Hong Kong		
Revenue	HK\$275m	-10%
Occupancy		-12pp
Average Room Rate		+12%
RevPAR		-36%

In the first half of 2022, **The Peninsula Hong Kong** was severely negatively impacted by the continued stringent travel restrictions, quarantine and social distancing measures imposed by the HKSAR Government. Although business performance was satisfactory in early January 2022, the fifth wave of COVID-19 hit the city in late January and the Government once again imposed stringent social distancing measures and dining bans from January until May 2022.

To mitigate the loss of revenue from rooms business and food and beverage, we implemented a number of innovative “staycation” offers and marketing promotions to appeal to local residents, including *Penfare at Home* delivery services, collaborations with *Le French May* and beautiful artistic décor on Mother’s Day.

We began to see a rebound from 19 May 2022 onwards when the social distancing measures were eased. Food and beverage revenue improved dramatically and local residents reorganised previously cancelled events, banquets and weddings.

We were delighted to receive the accolade of ‘Top 500 Hotels in the World 2022’ by *Travel + Leisure* and we were pleased that *Gaddi’s* was awarded one Michelin star for the second consecutive year, while *Spring Moon* garnered one Michelin star for the fifth year in a row.

The Peninsula Office Tower was 100% occupied in the first half of 2022, and the immediate outlook is stable. The Peninsula Arcade occupancy was 93% and although commercial leasing remains under pressure due to the soft retail environment, we believe that our newly renovated Peninsula Arcade basement will continue to offer an attractive retail environment for tenants, with an eclectic mix of lifestyle and culinary amenities.

We continued to support the local community and charities by partnering with Impact HK to support the homeless and needy in Hong Kong.

The Peninsula Shanghai

The Peninsula Shanghai*		
Revenue	RMB93m	-48%
Occupancy		-35pp
Average Room Rate		0%
RevPAR		-66%

* The Peninsula Shanghai was subject to a mandatory lockdown in April-June 2022

The Peninsula Shanghai had an extremely challenging first half of 2022 due to the very stringent COVID restrictions imposed across the city. From March onwards there was a serious deterioration in business as various lockdowns commenced. Government regulations mandated the hotel to close all restaurants, the spa and the swimming pool.

From April 2022, the Puxi area of the city, where our hotel is located, went into full lockdown. We had some guests who chose to stay in the hotel for the duration and we did our best to cater for these guests and ensure they were comfortable. For Shanghai residents also experiencing lockdown in their residential complex, we offered high-end culinary delivery services and engaged “KOL” influencers to promote our offers to the local market, with excellent results.

On 1 June 2022, these restrictions were lifted and we were able to open all restaurants, with some capacity limitations, by 1 July 2022. Following this, we achieved some improvement in rooms business in June but we are not expecting a full return to normal business until later in the year. International tourist arrivals to the Chinese mainland remain restricted, but the reduction in quarantine from 14 days to 7 + 3 days (hotel and home quarantine respectively) was a welcome development and we are hopeful that visitors will gradually return.

The Peninsula Arcade was 94% occupied during 2022 and we offered rental concessions for our tenants. When the lockdown was lifted, the Arcade was very busy with queues outside some of our anchor tenants’ retail outlets, demonstrating that there is pent-up demand in the luxury market in the city.

The group owns a 50% interest in The Peninsula Shanghai Complex which comprises a hotel, a shopping arcade and a residential tower of 39 apartments. As at 30 June 2022, a total of 31 apartment units have been sold.

The Peninsula Beijing

The Peninsula Beijing		
Revenue	RMB73m	-21%
Occupancy		-18pp
Average Room Rate		+20%
RevPAR		-48%

The Peninsula Beijing experienced a very challenging first half of the year. The Winter Olympics was successfully held in February 2022, with “bubble areas” maintained in key areas of Beijing to protect visitors and athletes. This naturally led to a decline in domestic arrivals to the city and business outside of these bubble areas was weak.

There were very few international travellers to Beijing in the first half due to lengthy quarantines, which have recently been reduced from 14 days to seven days hotel quarantine plus three at home. One of our leading domestic markets is Shanghai and for several months, Shanghai residents were not permitted to travel to Beijing, due to the severity of the COVID-19 situation in the city.

In April 2022, with an outbreak of new cases, business came to a complete standstill across the city, with major attractions such as Universal Studios and the Forbidden City closing temporarily. Hotels were not permitted to host events, dining and live music were banned, swimming pools and fitness centres were not allowed to open, all of which negatively impacted The Peninsula Beijing’s operational results. To mitigate the impact, we offered some high-end culinary delivery services which proved to be very popular among local residents.

As of 1 July 2022, all restaurants have reopened, including our rooftop bar *Yun Summer Lounge* which is popular due to the good summer weather in Beijing, and outdoor dining facilities are preferred after the pandemic. We had some long-staying guests in-house throughout the lockdown and we have been organising promotions and children’s activities within permitted regulations to create a positive atmosphere in the hotel. While we are starting to see a return of diplomatic business, and small catering events, we do not expect any turnaround in business levels in Beijing until after the 20th Party Congress in November 2022.

The Peninsula Arcade was 95% occupied and business in the retail outlets was robust. Some of our anchor tenants expanded their space.

The Peninsula Tokyo

The Peninsula Tokyo		
Revenue	JPY2.74b	+39%
Occupancy		+9pp
Average Room Rate		+18%
RevPAR		+55%

The Peninsula Tokyo experienced a slow start to 2022 but saw a gradual recovery in the second quarter. During the first quarter, the hotel continued to be negatively impacted by “State of Emergency” restrictions which were imposed across the city. Towards the end of March 2022, these restrictions were lifted and this resulted in a significant increase in the number of general banquets and large events due to pent-up demand.

At the same time, the Japanese Government started to ease their border policies and began to issue international business visas again. From June 2022, overseas small tour groups and business visitors were allowed back into Japan. Although overseas individual leisure travellers remain restricted, we are optimistic that this will improve in the second half of the year as the country continues to open up.

While inflation is becoming an issue, and utilities costs are the highest level in five years, we are implementing tighter cost control measures. Concurrently we are continuing to drive domestic business with local packages while balancing our increasing international guest mix.

The Peninsula Arcade welcomed a new healthcare tenant in May 2022.

The Peninsula Bangkok

The Peninsula Bangkok		
Revenue	THB175m	+262%
Occupancy		+5pp
Average Room Rate		+143%
RevPAR		+210%

The Peninsula Bangkok experienced a rebound in the second quarter following a slow start to the year when restrictions were still in place and we had limited dining and alcohol restrictions, as well as “Test and Go” for international travel. The hotel was largely reliant on local packages and promotions in the first quarter.

The Government’s efficient vaccination programme led to the majority of the population being vaccinated by March 2022 and restrictions were eased. The “Thailand Pass” for visitors has been dropped and from the second quarter we experienced a good increase in travellers from overseas, particularly our traditional long-haul markets of the US, UK and Europe. Overseas groups have started returning and we are optimistic for the second half, with the APEC conference being held in Bangkok in November 2022.

We reported a good performance in food and beverage, Spa and catering in the first half, although our RevPAR ranking was lower than expected due to the better performance of hotels in the downtown area. Riverside hotels including The Peninsula Bangkok are experiencing intense competition. We will continue to work on promoting local packages to attract the domestic market, and the Thai Government announced another “We Travel Together” programme, which subsidises rooms bookings for hotels, from July to September 2022.

The Peninsula Bangkok, as an “urban resort” hotel, places a significant focus on health and wellness and we organised two three-day Wellness Festivals during the first half of 2022, one on “The Art of Sleep” and another on “The Art of Happiness” which were very well received by our guests.

We also continued with our art programme, under the group’s ‘Art in Resonance’ initiative, working with local artists and supporting the art community in Bangkok.

The Peninsula Manila

The Peninsula Manila		
Revenue	Php381m	+387%
Occupancy		+33pp
Average Room Rate		+27%
RevPAR		+691%

The Peninsula Manila experienced a robust recovery in the first half compared to the previous year, having benefited from the lifting of government travel restrictions and being able to welcome international guests. Occupancy, average rates and RevPAR all increased significantly and the average rate was the highest the property has achieved since the pandemic started.

In February, the Philippines Government opened international borders and we were delighted to welcome guests from our traditional key markets of US, UK, Singapore, Japan and South Korea. Suite business was good and our new Club Lounge proved popular. Food and beverage performance was robust, with *The Lobby*, *Spices* and *Escolta* all performing well, although *Old Manila*, *Salon de Ning* and *The Bar* remain temporarily closed.

Unfortunately, like elsewhere in the world, the country is suffering from inflation and high energy costs and we are trying to mitigate the impact of this.

A new President was elected on 30 June and we have seen an increase in diplomatic business and delegations of the country staying with us. Corporate business is rebounding and many airlines are returning to the country. Domestic tourism is strong and we are continuing to promote “staycation” packages for local guests. We are optimistic for the second half.

The Peninsula New York

The Peninsula New York		
Revenue	US\$38m	+320%
Occupancy		+23pp
Average Room Rate		+28%
RevPAR		+109%

The Peninsula New York experienced a significant rebound in the first half of 2022 after a slow start in the first two months of the year. The speed of the recovery and the so-called “revenge travel spending” has exceeded our expectations.

Food and beverage revenue was good, with *Salon de Ning* performing well and *Clement* restaurant open for breakfast and lunch. *Gotham Lounge* remains temporarily closed but we are planning to reopen later in the year.

In the first half, The Peninsula New York was proud to be the Official Hotel Sponsor of MACBETH 2022 on Broadway, featuring Hollywood actors Daniel Craig and Ruth Negga, providing complimentary tickets for students from underserved communities.

As we emerge from the pandemic, new concerns in New York are high inflation, the increase in gas prices and the high cost of labour and talent shortage, which is a country-wide issue in the hospitality industry.

Despite these concerns, our outlook for the second half is relatively positive with high rates forecast.

The Peninsula Chicago

The Peninsula Chicago		
Revenue	US\$31m	+70%
Occupancy		+15pp
Average Room Rate		+18%
RevPAR		+68%

The Peninsula Chicago enjoyed a very strong first half of 2022, with high occupancy and all-time record highs in our average rates.

The hotel’s restaurants and dining outlets reopened in the third quarter of 2021 and remained open in the first half of 2022 with some limitations in dining hours. The only exception is *Pierrot Gourmet*, which is being renovated and will reopen in late summer of 2022. Staffing shortages remain a major concern in Chicago with a high number of vacant positions. Recruitment is a top priority.

Groups business is good, and several large-scale conferences and conventions were held in the city in the first half, although they were not yet held at full capacity.

As part of our commitment to promoting local artists, in April 2022, we were proud to present *I am Somebody*, a collection of works by AFRICOBRA (the African Commune of Bad Relevant Artists), an artist collective that was founded on the south side of Chicago in 1968. AFRICOBRA is known for creating art to address social and cultural challenges affecting the Black community.

As widely reported in the media, crime levels in Chicago are rising and this remains a concern for the hotel. We have put extra security in place as well as offering house car options for our guests. We have also arranged transport for our staff to offer additional protection.

We were delighted to receive the accolade of “No 1 Hotel in Chicago and Illinois and No 1 Hotel in the US” by *US News & World Report*, and the “Most Romantic Hotel in Chicago” by *USA Today*.

The Peninsula Beverly Hills

The Peninsula Beverly Hills		
Revenue	US\$43m	+76%
Occupancy		+29pp
Average Room Rate		+40%
RevPAR		+137%

The Peninsula Beverly Hills enjoyed a very successful first half of 2022 with the highest average rates in the history of the hotel. Pent-up demand was high, with the so-called “revenge travel spending” phenomenon benefiting our hotels business. We received very high suite demand due to the Superbowl and the Milken Conference returning to Los Angeles. A good mix of business and leisure travel help to push rates, with robust demand for suites and high-end products.

Food and beverage performed very well in the first half. Banqueting and catering demand was strong due to many events being reorganised after being cancelled during the pandemic. We initiated a “pop-up” of *Sushi Nakazawa*, a famous high-end sushi bar from New York City. This initiative operated as an ultra-exclusive offering with very limited places, and this was highly successful, helping to generate significant revenue.

We also held a number of high-end whisky dinners and other exciting events. To the best of our ability, we are still managing costs with *Belvedere* restaurant and the Spa opening five days per week.

The Hollywood awards season, which traditionally would result in full occupancy for our hotel, was not so robust in 2022. Two major award events were cancelled or held as “hybrid” events and one was held in Las Vegas instead of Los Angeles. We have a high percentage of clients from the entertainment sector and therefore this affected our business.

We were pleased to achieve the accolade of ‘No 1 Best Hotel in California’ and ‘No 1 Best Hotel in Los Angeles’ by *US News & World Report*.

The Peninsula Paris

The Peninsula Paris		
Revenue	EUR29m	+455%
Occupancy		+26pp
Average Room Rate		+25%
RevPAR		+362%

The Peninsula Paris experienced a difficult January and February but from March 2022 onwards the French Government lifted all restrictions, and business rebounded. The US market was particularly robust, and we also welcomed many domestic French visitors. There was a high demand for suites and family travel, leading to the highest occupancy since the hotel opened in 2014 and record-breaking average rates. Leisure demand was particularly good in May due to the UEFA Champions League event in the city. The month of June was the best performance in the history of the hotel since we opened in 2014.

We held several high-profile events which attracted local celebrities and VIPs, including the glamorous reopening party of *Le Rooftop* which achieved prominent local media coverage, and some events related to Paris Fashion Week.

We were delighted to achieve a second Michelin star for our rooftop restaurant, *L'Oiseau Blanc*.

Commercial Properties Division

Commercial Properties	Revenue	Variance	Year-on-Year
	HK\$m	HK\$	Local Currency
The Repulse Bay Complex	259	-3%	-3%
The Peak Tower	15	-25%	-25%
St. John's Building	25	-6%	-6%
The Landmark	19	+8%	+6%
21 avenue Kléber	11	-7%	+2%
The Peninsula Shanghai Apartments	4	+66%	+64%

Our largest commercial property, **The Repulse Bay Complex**, experienced a softer market compared to the previous year, with residential revenue and occupancy declining at 101 Repulse Bay and de Ricou due to the challenging environment in Hong Kong. The lack of international arrivals continues to affect the luxury residential leasing market and we are concerned about the second half of 2022, although we are seeing some leasing renewals for the summer and our long-term outlook is positive.

The HKSAR Government's social distancing measures continued to affect the performance of The Repulse Bay's food and beverage outlets, and catering revenue decreased due to the restrictions on large functions and events implemented across the city. Once these restrictions were relaxed in May we started to see some demand returning. The Repulse Bay, with its beautiful ocean views, is one of Hong Kong's most popular venue for weddings and while many weddings were cancelled or postponed due to the social distancing restrictions, we are now seeing these bookings being rescheduled for the second half and are therefore cautiously optimistic.

The Repulse Bay Shopping Arcade, which offers a diverse range of lifestyle amenities and services, reported lower occupancy and revenue, as well as some rental concessions to existing tenants due to the challenging environment. We are planning a strategic review of the arcade in order to offer unique and enhanced facilities to guests.

The Peak Tower experienced another challenging year, significantly impacted by the lack of foreign visitors to Hong Kong and the ongoing upgrade project for The Peak Tram which also affected traffic to the Peak. Revenue and occupancy declined significantly, and we had to offer rental concessions due to the very difficult situation our tenants are facing, with some temporarily closing or going out of business. We are implementing a variety of promotions and business strategies to entice more visitors to the Peak. Visitors to Sky Terrace 428 also declined even further as compared to the previous year. We have implemented several sales and marketing strategies to continue to drive local business and to encourage local residents to visit the Peak Tower, which has remained open during the renovation and temporary suspension of The Peak Tram.

St John's Building is located above the lower terminus of the Peak Tram and offers an excellent location for office space. Revenue dropped slightly but occupancy remained stable at 93% during the first half of 2022.

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. Business performance was positive in the first half. Revenue and occupancy for the offices improved year-on-year, and residential revenue and occupancy also improved compared to the previous year.

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 space, and both of the two retail spaces. Rental revenue improved slightly compared to the previous year.

Clubs and Services Division

Clubs and Services	Revenue	Variance Year-on-Year	
	HK\$m	HK\$	Local Currency
The Peak Tram	3	-76%	-76%
Quail Lodge & Golf Club	63	+40%	+40%
Peninsula Clubs & Consultancy Services	1	-30%	-30%
Peninsula Merchandising	42	+61%	+61%
Tai Pan Laundry	14	-7%	-7%

The Peak Tram is one of Hong Kong's most popular tourist attractions and has been in operation since 1888. The tram and support facilities are undergoing a major upgrade which will result in a significantly improved lower terminus, featuring covered queueing and waiting areas with entertainment features for up to 1,300 passengers. The new tramcars will carry up to 210 passengers instead of the previous capacity of 120 and visitors' waiting time will be significantly reduced. Due to this upgrade, the Tram has remained closed for the entire first half of this year.

The upgrade project has been negatively impacted by unforeseen ground conditions, the ongoing pandemic restrictions as well as supply chain issues in terms of delivery of equipment from Europe and the Chinese mainland. As a result, there was a delay in the planned reopening of the Tram which is now expected in late summer 2022. The total cost of the upgrade project is HK\$799 million, which has increased from HK\$734 million in 2021 due to the aforementioned issues.

Quail Lodge & Golf Club reported an excellent half year with revenue increasing by 40% year on year and a significant increase in average rates and RevPAR compared to pre-COVID 2019 levels. Golf membership was strong, with 24 new memberships signed in the first half of 2022.

We were able to once again host *The Quail Motorcycle Gathering* in May, and we are preparing to host *The Quail: A Motorsports Gathering* in August 2022 which is considered one of the world's leading concours events for classic motoring *aficionados* and brings significant sponsorship revenue. The "Peninsula Classics Best of the Best Award" will also be held at Quail in August 2022.

Peninsula Clubs & Consultancy Services (PCCS) manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and The Refinery. PCCS reported a decline in revenue compared to the same period last year, impacted by the effects of the pandemic in Hong Kong. The Hong Kong Bankers Club is receiving positive reviews in its new location in Central and is achieving good banqueting revenue following the relaxation of social distancing measures.

Revenue at **Peninsula Merchandising** substantially increased over the same period last year, mainly due to stronger online sales and robust corporate, wholesale and travel retail business across Asia and contribution from our Japan stores. The Peninsula Boutique & Café in the basement of The Peninsula Arcade celebrated its first anniversary in May 2022 and has generated significant revenue for this subsidiary.

The Peninsula Boutique is renowned for its signature Mooncakes and forecast sales are very positive for the forthcoming season with good performance in online sales. This division is planning for expansion in several markets including the Chinese mainland. The Hong Kong International Airport boutique has been temporarily closed since March 2020. Sales in our Japanese boutiques are improving following the relaxation of State of Emergency restrictions.

Tai Pan Laundry revenue decreased by 7% compared to the same period last year, due to the stringent social distancing measures which led to the temporary closure or weak business of some hotels, clubs and gyms.

Projects under development

The Peninsula London

In July 2013, HSH entered into agreements with Grosvenor whereby as 50/50 leaseholders, HSH and Grosvenor would develop a prime site in Belgravia, London into a mixed-use building comprising The Peninsula London Hotel and Residences. The leasehold of 150 years commenced in February 2012. In 2016, the leasehold was further restructured as a result of which HSH became the 100% leaseholder, with Grosvenor remaining as the freeholder.

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 190-room Peninsula hotel, with 25 luxury Peninsula-branded residential apartments for sale integrated into the development.

Since the original agreements were signed in 2013, the project has encountered many challenges and changes. The process of design and obtaining local authorities' approvals took several years, following which construction of the project commenced in 2017. In 2018, an opportunity was taken to enhance the design and increase the useable area of the hotel by adding two additional basements to the project, which had the effect of creating additional revenue-generating spaces such as the junior ballroom and leased food and beverage outlets.

The project was materially affected in 2020 and 2021 by delays caused by the COVID-19 pandemic which resulted in labour shortages and site closures, as well as significant design and project coordination issues arising in key areas of the hotel. Throughout these challenges, the HSH projects team has worked closely with the London development manager, the construction management company, the consultants and the trade contractors to address and resolve problems as quickly and effectively as possible. Unfortunately, despite these efforts and the engagement of the various teams, the project has suffered additional time delays causing further cost overruns. As at the time of writing, the practical completion date of the project and the soft opening date of the hotel has been further delayed from 2022 to the first half of 2023.

The cost consequences of this further delay are currently being assessed but we expect there to be an upward adjustment in the indicated total project budget of £800 million (including both hotel and residential apartments). However, the prices at which we have transacted the sales of residential apartments to date have been in line with our original expectations.

The Peninsula Istanbul

In July 2015, together with our partners Doğuş Holding and BLG, we entered into a shareholders' agreement to form a joint venture partnership, of which HSH has a 50% share, for a hotel development in Istanbul, Türkiye. It was agreed with the joint venture partner to jointly develop the property with an investment commitment of approximately €300 million, of which HSH is responsible for 50% or approximately €150 million.

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. Many of the facilities have now been opened and the area already enjoys a high level of patronage from locals and visitors. The entire Galataport project is subject to a 30-year operating right commencing February 2014 for which The Peninsula Istanbul has been granted a corresponding 30-year fixed term lease. We have been notified by our partners that the Turkish Parliament has approved an extension of the 30-year operating right up to 49 years upon satisfaction of certain conditions, including agreeing to additional financial terms. Our partners are in discussion with the authorities on such terms to secure this extension. This would benefit the hotel with a longer operating period, subject to extension terms being agreed with our partners.

The Peninsula Istanbul will have 177 rooms, a ballroom with sweeping views of the Bosphorus, indoor and outdoor swimming pools, a Spa and a verdant garden area on the waterfront.

The COVID-19 situation and some construction issues have caused some delay to The Peninsula Istanbul project, although in 2022 this has been mitigated as much as possible. Progress towards the completion date is now satisfactory with fitout activities progressing in all areas. Construction completion of the project is currently on target for the end of 2022, with a soft opening in the first half of 2023. Despite challenges which include COVID-19, supply chain issues, construction issues, and devaluation of the lira coupled with hyperinflation in Türkiye, the project cost – denominated in euros – remains on budget.

The Peninsula Yangon

The company entered into a shareholders' agreement with Yoma Strategic Investments Ltd. and First Myanmar Investment Public Company Limited 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.

Unfortunately, we have agreed with our partners to stop work on The Peninsula Yangon project as of June 2021 and we will continue to evaluate the situation in Myanmar.

Human Resources

The first half of 2022 continued with challenges for our Human Resources team, particularly with regards to retaining talent and the global labour shortage in the hospitality industry especially in the US and France. As a company, we needed to react quickly to the challenging labour market to attract talent and we were pleased to contain our voluntary turnover to 9.8% in the first half of the year.

In 2022 we completed the employee sentiment survey which was started in 2021, to include the operations that had been unable to participate due to their temporary closure in 2021. Taking the results for all of the properties surveyed in the last 2 years, we are proud that despite the stresses brought by the Covid crisis, 96% of employees said they feel great pride in working for the company, and despite the challenges 91% said they are extremely satisfied with the company.

We are continuing the momentum of launching the “Peninsula Services Principles” framework for all employees in our hotel operations, which will focus on creating closer emotional connections with guests. In 2022, we also extended the framework to our employees in The Peninsula Boutique & Café with emphasis on creating a more guest-centric experience.

Our WorkPlace 2025 initiative, which is focused on our people, culture and empowerment, aims to create effective transformation for our teams and modernise our workplace. Despite the challenging business situation, we remain committed to innovation and empowerment. A “Work Improvement Teams” (WIT) programme was launched globally to encourage creative idea sharing from our employees in identifying ways for company efficiency, cost savings, revenue generation, health and safety improvement and strengthen company culture. Through Hackathon workshops and the WIT programme, hundreds of ideas were generated.

To support the employees and their families with challenges during the lock down in the first four months in Hong Kong, an 8-week wellbeing programme, “Joining Together”, was launched in March for the Hong Kong operations, focusing on recharging, building resilience, and rejuvenation, with an emphasis on mental health and wellbeing. The programme also featured our overseas operations employees to support the online wellness initiatives and a “Kids’ Academy”. A team of 26 volunteers was formed as a care support team on standby to deliver food and care packages to any employee as needed.

We continue to focus on the mental wellbeing of our employees with a virtual global challenge through the WOW (Wisdom on Wellness) Programme to be launched in August 2022 to engage and foster teamwork with all employees.

Longer term, our focus continues to be talent development and ensuring our culture continues to be strong despite challenging times, while adding around 1,200 people to our workforce with the opening of two new hotel projects and improving business.

As of 30 June 2022, there were 5,960 full time employees in the group.

Sustainable Luxury

In 2021, HSH's Corporate Responsibility and Sustainability Team launched our Sustainable Luxury Vision 2030 Strategy to take the group beyond the previous strategy, Sustainable Luxury Vision 2020.

The key strategic objectives and topics of *Vision 2030* are:

- diminishing natural resources such as energy, water and food;
- the climate change crisis; and
- growing social instabilities and inequalities.

We will seek to address these interlinking issues and pursue Vision 2030 by focusing on our three stakeholder pillars of (i) enhancing our guest experience, (ii) empowering our people and (iii) enriching our communities, underpinned by 10 key commitments as set out in our vision. More details can be read on our website and in our group Corporate Responsibility and Sustainability Report.

In the first half of 2022, we focused our efforts on several challenging issues that were further complicated by the global pandemic due to more stringent hygiene standards, disruption of supply chains and temporary closures of our operations. Examples of these issues include water usage, single-use plastic transition, waste diversion and responsible sourcing. Social inequalities became more prominent with the impact of COVID-19, and we continued to have charitable and outreach programmes to assist the socially disadvantaged communities in cities where we operate. We recognise the role of green financing in driving a more sustainable future and low carbon economy, and following our first sustainability-linked loan totalling HK\$1.25 billion in 2021, we are collaborating with other financial institutions to identify sustainability-linked loan opportunities throughout this year and have started building a green financing framework for the group. The potential impact of the climate crisis is clearly of concern. We continue to monitor and deepen our understanding of the climate risks we are facing, and remain vigilant to evaluate these risks on a yearly basis.

Going forward, we will continue to deliver sustainable luxury through the groundwork laid by our previous strategy and seek to enhance our sustainability initiatives by leveraging internal resources, igniting employees' enthusiasm and collaborating with like-minded stakeholders.

Outlook

The outlook for our various businesses remains of concern. We expect to see a continued recovery in the US and Europe, although there is some uncertainty as to the sustainability of this recovery, with COVID-19 cases and variants rising once again at the time of writing. Labour shortages in the hospitality market and rising inflation are areas of concern which are being addressed.

In Hong Kong and the Chinese mainland, the outlook remains uncertain due to continuing COVID-related restrictions that remain in place. We believe it will be important for the relevant governments to take a direction that maintains Hong Kong's status as an international financial and tourism centre, as well as to re-establish the tourism industry throughout China by relaxing travel restrictions as soon as possible.

In terms of business strategy, we are a company that focuses on the very long term, and we must be prepared to weather the downturns that are inevitable when one looks at a period of one hundred years or more. Some of our operations are still impacted by the pandemic while others are currently enjoying a fast rebound. We are doing what we can to support and retain our people through these challenging times, as well as recruit new talent. Our unique company culture is one of our greatest assets and I am personally involved in driving our internal transformation project, WorkPlace 2025, mentioned above.

We expect that the new Peninsula hotels in London and Istanbul, which have exceptional locations in their respective cities, will make a big impact for both local and international customers and further enhance our brand presence when they open in 2023. In addition, we expect that the launch of the Peak Tram in late summer 2022 will significantly improve the visitor experience and enhance Hong Kong's tourism image, as well as generate significant revenues once the Hong Kong tourism market reopens. We are very focused on the successful delivery of all these projects while managing the cost and other project challenges that we have faced.

Overall, our company has maintained a strong balance sheet and has closely managed our operating costs and maintained its liquidity position during this crisis. We are fortunate to have a highly motivated and dedicated team of management and staff who are committed to our long-term vision.

I would like to thank each member of my team for their loyalty and dedication during one of the most challenging periods our group has faced.”

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 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; 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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