



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**

**17 MARCH, 2021**

**THE HONGKONG AND SHANGHAI HOTELS, LIMITED  
ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER, 2020**

**Key highlights**

- Results severely impacted by COVID-19, with several of our hotel properties closed for prolonged periods this year.
- The group's consolidated revenue for the year decreased by 54% to HK\$2,710 million (2019: HK\$5,874 million).
- With stringent cost reduction measures, the group managed to reduce its operating costs by 38% to HK\$2,771 million (2019: HK\$4,484 million).
- Due to the efforts to contain costs and government subsidies received, the group was able to incur only a modest EBITDA loss of HK\$61 million for the year (2019: EBITDA gain of HK\$1,390 million). The underlying loss was HK\$864 million (2019: underlying profit of HK\$480 million).
- Underlying loss per share amounted to HK\$0.53 (2019: underlying earnings per share HK\$0.30).
- Given the current difficult environment and adverse financial results for 2020, the Board felt it was prudent not to declare a final dividend.
- The loss attributable to shareholders includes a property valuation deficit of HK\$732 million and impairment provisions of HK\$329 million relating to The Peninsula Istanbul and The Peninsula Manila.
- Construction of The Peninsula London, The Peninsula Istanbul and The Peninsula Yangon has been delayed due to COVID-related disruption of the construction workforce and supply chains. Despite COVID delays, we continue to make progress and The Peninsula London and The Peninsula Istanbul are expected to open in 2022. In Myanmar, political developments on 1 February 2021 led to the military declaring a state of emergency for a period of one year. We have noted the recent violence and chaos with great concern and we continue to evaluate both the immediate actions required and the longer-term decisions that need to be made in respect of this project.
- The Group has sufficient committed facilities to cover all of its capital commitments (including the new hotel projects) as well as provide a liquidity cover of well over two years at current cash burn levels.
- Following a restructuring of the Thai joint venture arrangements, the group assumed full ownership over The Peninsula Bangkok and its surrounding land and disposed of the Thai Country Club from October 2020.

## HSH'S 2020 ANNUAL RESULTS

*Hong Kong, 17 March 2021*

The Hongkong and Shanghai Hotels, Limited today announced its annual financial results for 2020. We are pleased to share a Strategic Review from Mr Clement K.M. Kwok, Managing Director and Chief Executive Officer of The Hongkong and Shanghai Hotels, Limited (HSH), as well as the HSH Group Operational Review.

### CEO'S STRATEGIC REVIEW

#### 1. Managing the COVID-19 Crisis

2020 was an extremely difficult year for our company and none of us could have envisaged that the impact of the COVID-19 coronavirus would be so severe, prolonged and widespread. The global tourism industry has been devastated, with more than 143 million jobs lost during the year, according to the World Travel and Tourism Council (WTTC). Although it is our fundamental belief that demand for high-end luxury hotels will return once the global economy recovers, we expect that global travel restrictions, quarantine and safety concerns will continue to deter people from travelling for the foreseeable future and that a full recovery will take several years.

We have felt the severe impact of the pandemic across almost all of our global portfolio of assets, particularly our hotels and tourism-related assets. Outside of Greater China, our hotels started the year in a strong position but experienced a sharp deterioration in demand as the pandemic began to spread on a global scale. In March 2020, we temporarily closed our hotels in New York, Chicago, Paris, Tokyo, Bangkok and Manila, as well as the Thai Country Club and Quail Lodge & Golf Club. The Peninsula Tokyo and the golf clubs reopened in June; The Peninsula Chicago reopened in July; The Peninsula Bangkok and The Peninsula Manila reopened in November. The Peninsula New York remains closed and The Peninsula Paris reopened in March 2021.

The situation for the hospitality industry was particularly challenging in our home market of Hong Kong, which had already suffered from serious social unrest and mass protests in 2019 and early 2020. As the bulk of our group's earnings are derived from Hong Kong, we had to urgently implement a widespread range of cost savings and financial management measures, including reduction of staff costs, inventory and other operating expenses. Our cost saving efforts amounted to a total cost saving of 38% year-on-year.

The group came into this crisis with low gearing and considerable liquidity, which we bolstered by arranging further facilities to cover our group's operating cash burn. Together with the actions that we have taken to minimise our operating cash outflows, we believe our financial resources are currently sufficient to meet the group's operating cash requirements for well over the next two years.

On the operations side, we enhanced and strengthened our stringent hygiene and safety protocols, with our number one priority being the safety of our guests and staff. We endeavoured to stay connected to our guests and to drive local domestic business as much as possible, developing "staycation" packages and offering takeaway meals where local regulations allowed us to do so. To support our local communities, we offered free meals to frontline medical and emergency workers, and we partnered with local charities to implement a global "one meal for one meal" campaign to help the homeless and needy in our local cities.

We had to balance our cost saving efforts with the welfare of our staff and we undertook a detailed review of each market situation and local conditions to analyse how to look after our staff. We recognise that the global pandemic has caused hardship for our people, some of whom have been affected by the virus or lost family members to the disease. During the year we developed virtual training sessions to keep people motivated and engaged, with a strong focus on mental health and managing stress and anxiety, and tips on working from home, staying fit and sharing best practices with regards to hygiene and self-care. We have also enhanced our health benefits programme by adding psychology and counselling services in order to assist with the mental health toll of the pandemic.

Unfortunately the global hospitality sector was particularly hard hit in terms of unemployment, and, while we did our utmost to preserve as many jobs as possible, it was with great regret that we had to furlough and lay off some of our staff and to request staff to take voluntary unpaid leave during the year. Where possible, if we had to lay off staff, we kept their medical benefits and health insurance active for as long as possible to minimise the financial burden. I would like to express my appreciation for all our staff for their understanding, support and hard work at such a difficult time. For staff who have been furloughed or laid off, we hope that we will be able to re-employ many of them once business demand recovers.

Our company has been through many crises during its long history of more than 150 years. As a long-term investor, we have proven to be resilient and will be able to withstand downturns such as these and I am confident that we will see better years ahead. We remain focused on our development programme, comprising the new Peninsula projects in London, Istanbul and Yangon and the Peak Tram upgrade project, which have suffered some delays due to the pandemic, but our commitment to these projects remains unaffected.

Throughout this difficult and unfortunate year, my colleagues have remained in a very committed and cooperative spirit and I believe we can survive and come through better and stronger than before. Our long-term vision lies at the heart of our business strategy. I will summarise this strategy for our shareholders' reference in the following pages.

## **2. Our heritage, vision and development strategy**

The Hongkong and Shanghai Hotels, Limited has a heritage of more than 150 years. Whilst we have witnessed profound political and economic changes since we were first established in 1866, both in our home market of Hong Kong and around the world, our company remains steadfast in our key philosophies and values which are:

- to conduct business with the highest levels of integrity;
- to build on our heritage while continuing to invest in and develop our people;
- to maintain and enhance the quality of our assets,
- to continuously improve the service we offer to our guests, and
- to contribute positively to the cities in which we operate.

These values distill into a simple vision: *to develop, own and operate a small number of the highest quality hotels and luxury properties which we believe are considered to be amongst the finest in the world.*

Having ownership or part-ownership of each hotel is an important part of our strategy and allows us to maintain an appropriate degree of control over the design, quality, operations and capital spending in our hotels. By taking such 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.

The best example of this is our flagship property, The Peninsula Hong Kong, which in 1928 was built for what was regarded in those days as an enormous sum of HK\$3 million and today is valued at HK\$12 billion.

This is the approach which we believe has enabled us to establish and sustain a brand which is now recognised as being possibly the leading luxury hotel brand in the world.

### **Update on the ownership of The Peninsula Bangkok**

In August 2020, we reached an agreement with our Thai partners for our group to assume full ownership over The Peninsula Bangkok and its surrounding land. HSH ceased to have any responsibility over the ownership and operations of the Thai Country Club. This was a difficult decision and one that was taken in the light of the very challenging global and domestic market circumstances and the legal dispute between the partners. We are sad to no longer own and operate Thai Country Club and would like to express our heartfelt appreciation for the staff's support, hard work and dedication to making the Club one of the finest golf clubs in the country over the past 24 years of operation. We remain deeply committed to The Peninsula Bangkok as a long-term investment.

### **3. Business overview**

Our group currently owns and operates ten Peninsula hotels which are located in Hong Kong, Shanghai, Beijing, Tokyo, New York, Chicago, Beverly Hills, Paris, Bangkok and Manila. Throughout the years we have maintained a significant investment programme to enhance the physical condition and quality of these properties, for example, by completing major renovations at The Peninsula Hong Kong in 2014, The Peninsula Chicago in 2016 and The Peninsula Beijing in 2017. We are in the midst of an ambitious expansion programme, with investment in three new Peninsula hotel development projects in London, Istanbul and Yangon.

Our strategy is to operate only one Peninsula hotel in each city and we have the ability to take a long-term view on real estate capital appreciation. Our hotels are considered "trophy assets" in these cities and will continue to create value over time, while generating additional returns from shopping arcades or residential apartments as part of the hotel complex. We enter into long-term partnerships with our co-owners who value the benefits of creating a high quality long-term asset. Our objective is to build up a long-term loyal clientele who are willing to pay premium prices for a superior luxury product and services. We achieve this by offering a high level of personalised service and attention to detail.

In the group's commercial properties division we take a similar investment approach and seek long-term returns on our exceptionally well-located properties. We own high-end residential property including The Repulse Bay in Hong Kong's exclusive South Side and we lease commercial space to tenants at various Peninsula hotels, the Repulse Bay Arcade and the Peak Tower. Sky Terrace 428 at The Peak Tower gives tourists the opportunity to enjoy Hong Kong's panoramic views and this has been highly successful as a source of revenue.

Peninsula Merchandising Limited develops and distributes Peninsula-branded merchandise including the famous Peninsula Mooncakes, as well as artisanal chocolates and high-quality tea. We operate Peninsula Boutiques in key gateway cities in China, Asia and the US, including boutiques at Hong Kong International Airport and several Peninsula hotels. We opened six new retail outlets in 2020.

Our clubs and services division includes the Peak Tram, one of Hong Kong's most popular tourist attractions, which has been under our group for 130 years. The Peak Tram is currently undergoing a HK\$734 million upgrade project which is being funded by our company and will be completed in 2021.

Having a diverse portfolio helps to diversify investment risks generally associated with the luxury hospitality industry. The more stable returns of the commercial properties division and, to a smaller extent, the clubs and services division help to offset the cyclical nature of the hotel business.

#### **4. Financial results and financial planning**

Our business model as an owner-operator is a capital intensive one, but it allows us to have an appropriate degree of control or joint control over the upgrading of our existing assets and making investments in new developments, to ensure a high level of quality and consistency in our product and offer a bespoke, tailored guest experience.

As a result of our continuous investment into and enhancement of our property assets, the company's revalued net asset value per share has more than doubled in the last two decades to HK\$24.63 per share in 2020.

We are currently investing for the future and our focus for the next year will be on the successful delivery of our new Peninsula hotel developments in London, Istanbul and Yangon as well as the Peak Tram upgrade project. All of the projects have been affected by disruptions to the construction labour force and supply chains due to the COVID-19 outbreak, and we are expecting delays and a potential increase in the project budgets.

With the substantial capital commitments that these projects entail, currently amounting to HK\$5.8 billion over the next two years, we continue to carefully monitor our company's financial position and we continuously take a proactive approach to forecasting future funding requirements. We maintain sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to ensure funds are available to finance our growth and development. Our net debt to total assets ratio is currently 20%, which we believe to be acceptable considering the financial obligations of our new developments.

Due to the severity of the pandemic on our business, we are reporting a highly unfavourable set of financial results for 2020. The company's combined EBITDA loss, including the group's effective share of EBITDA of our associates and joint ventures, amounted to HK\$53 million compared to an EBITDA gain of HK\$1,510 million last year. The company's loss attributable to shareholders amounted to HK\$1,940 million compared to a profit attributable to shareholders of HK\$494 million over the same period. The current year loss is inclusive of the revaluation loss on the group's investment properties, impairment provision of The Peninsula Manila and the group's share of impairment provision in respect of the hotel development project in Istanbul, which totalled HK\$1,061 million. Excluding the post-tax effects of the revaluation movements of investment properties and impairment provisions, our underlying loss amounted to HK\$864 million, compared to an underlying profit of HK\$480 million in 2019.

## 5. Driving business

We believe the fundamentals of luxury hospitality do not change over time and I am confident that when we emerge from the pandemic, demand for high quality service will resume.

The group's diverse portfolio of assets helps to balance the cyclical nature of the hotel industry. During the year a major focus of our strategy was to focus on attracting and retaining retail tenants in our arcades, particularly in Hong Kong, Beijing and Shanghai, and we were pleased with the level of interest received and new leases signed. Although the market for luxury residential leasing was softer in Hong Kong due to the weak business environment, The Repulse Bay is widely recognised as one of the most attractive luxury residences on the South Side, and our rental contracts remained relatively stable.

For our hotels, our strategy was to stay engaged with our guests and listen to their needs despite some of our properties being closed for business, and we developed innovative new online promotions and social media engagements. Recognising that most of our regular guests cannot travel, we adapted our marketing strategies to our local domestic markets and we invited Peninsula guests to experience their "home" destination with special promotions for local cuisine, art, fashion and culture, wellness and the local community.

In June, we launched a dedicated website page highlighting our COVID-19 hygiene and safety protocols to support the safety, health and wellbeing of our guests and our employees, such as the distancing of tables, face masks worn by employees and temperature checks.

In the second half of 2020, "The Peninsula Promise" was introduced including a range of new special offers such as "Peninsula Time," which provides guests a newly extended and flexible schedule for check-in and check-out. Other benefits include a new collection of eco-friendly, bespoke scented guestroom amenities, guaranteed connecting rooms at the time of booking on peninsula.com, reservation flexibility, a new online platform for gift cards, and contactless services.

For the second year in a row we achieved the coveted Forbes 5-star rating for all ten of The Peninsula Hotels in operation. We are pleased that our efforts to look after our guests are recognised in the numerous accolades we receive for our services from prestigious publications and organisations.

In addition to the personal touch, we recognise that guests require access to the most up-to-date technology and platforms to make their experience and journey with us as seamless as possible. We operate our own in-house research and development facility which designs bespoke in-room technology for our guestrooms. In 2016 we set up a Technology Steering Committee with a wide brief including exploring and developing the "hotel room of the future", looking at robotics and data analytics, air purification systems and behavioural analysis for enhanced personalisation. We have been focusing on hygiene and safety technology during 2020 and we will continue to explore how to integrate technology into our business while keeping the personal touch that our guests expect.

The relatively small size of our hotels means that we can personalise the attention we give to guests and cater to each guest arrival and their individual preferences. However, we understand that we must continually improve and in 2020 we continued our major review of The Peninsula service standards. Our previous standards have been updated into a new set of Peninsula Service Principles, focusing on serving guests from the heart rather than a rigid list of checkboxes and standards, with the objective of empowering our staff to go above and beyond to engage with guests. This programme is being rolled out in early 2021.

Increasing guest engagement and direct business remains a key goal of sales and marketing with preparations to launch a global CRM programme this year. Particular emphasis is being focused on Greater China with a customised CRM programme offering incentives across our Greater China hotels, shopping arcades and Peninsula boutique retail shops. We continued to focus on strengthening our relationships with PenClub members, our in-house preferred travel partner programme by holding webinar hotel tours, cultural programmes and virtual cocktail gatherings.

## **6. Managing risk**

Operating a business in ten different jurisdictions, given the unpredictable nature of the hotel industry, requires an agile yet measured approach to risk management. Our Group Risk Committee (GRC), chaired by the Chief Financial Officer, regularly reviews the risk registers of our operations and new development projects, as well as monitors the principal risks and emerging risks of the group. We evaluate key risks and controls and using a 5-step Risk Management Methodology we ensure the risk assessment process and internal controls remain current.

In 2020, the global COVID-19 pandemic produced a far-reaching impact on the risk landscape by creating new organisational risks and elevating existing ones. Our GRC will continue to focus on enhancement of internal controls to manage the strategic risks of the group, especially those leading to the recovery from the pandemic as well as our development projects. We will also focus on enhancing communication, inspiring greater awareness and ownership of risks and controls across the group, and further improvements to 5-step risk management methodology.

## **7. Our people**

2020 has been a particularly challenging year for our Human Resources team and as mentioned, we have been working hard to ensure the wellbeing of our staff during this very difficult year.

Longer term, our focus is to attract and retain top talent and we will strive to maintain our culture while adding thousands of people to our workforce with the opening of three new hotel projects.

The travel and tourism sector often experiences a high turnover of staff, however, we are pleased to report a relatively low voluntary staff turnover rate compared with the industry. Unfortunately in 2020 our involuntary turnover rate increased significantly due to the unfortunate situation of the pandemic, when we had to lay off and furlough some of our staff.

Despite the challenging environment this year, our WorkPlace 2025 initiative continues in which our focus is to create effective transformation for our teams and modernise our workplace. While we currently have a hiring freeze in place due to the global pandemic, we remain committed to developing strong leaders, implementing mental and physical well-being programmes, and the improvement of our engagement strategies.

As of 31 December 2020, there were 5,609 full time employees in the group as compared to 7,451 a year ago. The substantial drop is due to a combination of layoffs and furloughs across the group as a result of the pandemic, a hiring freeze and natural attrition, and the change in ownership of Thai Country Club.

## 8. A new vision for sustainable luxury

We are committed to sustainability in an environmental as well as a business context. We believe that our long-term success is linked to the success of the cities and the communities in which we live and work. With our current sustainability strategy *Vision 2020*, we have created awareness and buy-in towards sustainability throughout our company, and we believe it has become a topic that matters personally to our employees and is integral to how we conduct all our businesses and operations. We also approach sustainability in a way that makes business sense where possible. We calculate paybacks and returns on investments in environmental initiatives, and we look at what overall value our sustainability initiatives could contribute. We believe we have the opportunity to offer our guests sustainable choices without compromising on the high quality of our products and services. In 2020, over 91% of the goals set in *Sustainable Luxury Vision 2020* were on track to be achieved.

Moving beyond 2020, we have developed our updated sustainability strategy, which we are calling *Sustainable Luxury Vision 2030*, with a focus on further business integration. As we seek to deliver sustainable luxury and follow on from the groundwork laid by *Sustainable Luxury Vision 2020*, the key topics which we think will have the most impact on business and the societies in which we operate, and which we address in *Vision 2030* are:

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

We will seek to address these interlinking issues and pursue our *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.

## 9. Outlook

The COVID-19 pandemic continues to have a devastating impact in almost all countries where we operate, although mainland China is seeing some recovery. We believe we will continue to see a substantial negative impact on our business for the foreseeable future, unless there is a significant turnaround in the coronavirus situation. We have implemented emergency measures to keep our staff and guests safe as a priority, and financial management and stringent cost controls are continuing for the year ahead. We have reviewed our group's liquidity position and we can confirm that we have a significant buffer in place even if the impact of the virus continues for some time. However, despite these cost control efforts, it is expected that the group may sustain an operating loss in 2021 due to the ongoing effects of the coronavirus and its devastating impact on tourism.



Besides the COVID-19 pandemic, various other geopolitical uncertainties may continue to affect our business, including the US-China trade war, the impact of Brexit, social unrest in Thailand, and political developments in Myanmar which have led to the military declaring a state of emergency for one year. We have noted the recent violence and chaos with great concern and we continue to evaluate both the immediate actions required and the longer-term decisions that need to be made in respect of this project.

In these challenging times, our priority is to maintain a strong financial position for the group in order to fund our large capital commitments for The Peninsula London, The Peninsula Istanbul and The Peninsula Yangon new hotel projects, as well as the Peak Tram expansion. Our commitment to the long-term development of the group and in particular the Peninsula brand remains unchanged. We take a very long-term view of the investments that we make and we expect the new hotels in London, Istanbul and Yangon to enhance our brand presence when they open from 2022 onwards, and to create value for stakeholders over time.

On the property side, we are working with our tenants in the retail arcades at The Peninsula Hotels in Hong Kong, Shanghai and Beijing to find solutions to the significant drop in visitors and we recognise they are also suffering. We have offered some rental concessions on a case by case basis. We are currently experiencing stable demand for our luxury residential lettings in Hong Kong. The Peak Tram business will continue to be negatively impacted in 2021 as it will undergo the second phase of suspension during its expansion programme that was previously announced to shareholders. However, once the expansion project is completed, the capacity of each tramcar will almost double and we believe it will significantly improve the visitor experience and enhance Hong Kong's tourism image.

Overall, our company remains in a stable financial position. In early 2021, we have further obtained committed facilities to ensure the group's capital commitments are fully funded and that we have sufficient liquidity to cover our project commitments and support us through this challenging time.

We have a highly motivated and dedicated team of management and loyal staff who are committed to our long-term vision. I am proud that despite the significant challenges we are facing, our company consistently lives up to its unique brand proposition. I am confident that if we continue to focus on offering excellent service to our guests, business recovery will follow in due course. I would like to thank each member of my team who contributes to our company's success year after year.

## OPERATIONAL REVIEW

### 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

	Revenue	Variance	
	HK\$m	In HK\$	In Local Currency
<b>Hotels</b>			
<b>Consolidated hotels</b>			
The Peninsula Hong Kong	603	-45%	-45%
The Peninsula Beijing	193	-40%	-41%
The Peninsula New York	192	-73%	-73%
The Peninsula Chicago	162	-75%	-75%
The Peninsula Tokyo	305	-65%	-66%
The Peninsula Bangkok	60	-80%	-79%
The Peninsula Manila	42	-82%	-82%
<b>Non-consolidated hotels</b>			
The Peninsula Shanghai	336	-38%	-38%
The Peninsula Beverly Hills	234	-61%	-61%
The Peninsula Paris	112	-81%	-80%

#### The Peninsula Hong Kong

<b>The Peninsula Hong Kong</b>		
Revenue	HK\$603m	-45%
Occupancy		-27pp
Average Room Rate		-42%
RevPAR		-73%

**The Peninsula Hong Kong's** operating results were severely impacted by the Hong Kong SAR Government's stringent travel restrictions and lengthy quarantine measures in Hong Kong, which led to a decline of 94% in overall arrivals to the city year-on-year. The Government also implemented strict social distancing measures with limited operating hours for restaurants, bars, Spas and swimming pools to be closed, which affected our ability to attract guests.

Nevertheless, we focused on the local domestic market and developed a number of "staycation" offers and marketing promotions including "The Eight Loves of The Peninsula Hong Kong" to promote art, culture and dining to local residents. Food and beverage revenue declined due to social distancing measures imposed by the Hong Kong Government and we temporarily closed the Spa, *The Verandah*, *Gaddi's* and *Felix* at various times throughout the year. At the time of writing, all dine-in service at restaurants remains restricted by the government and bars remain closed, although spas have reopened.

The Peninsula Office Tower was 95% occupied in 2020, with a stable immediate outlook. The Peninsula Arcade occupancy was 78% as the overall environment in Hong Kong for luxury retail has remained soft. We are taking the opportunity to renovate The Peninsula Arcade at a cost of around HK\$140 million, which includes a repositioning of the basement arcade to create a more open and attractive lifestyle retail and food and beverage area. We have already signed a number of new retail and F&B tenants as well as a luxury male grooming salon. In addition, a new Peninsula Boutique incorporating a café will be unveiled in 2021, designed by Conran and Partners.

It is thanks to the efforts of our colleagues that The Peninsula Hong Kong received many accolades including “Best Business Hotel in the World” by *Business Traveller UK*, “No 1 Top Ten Hotels in Hong Kong” by *Conde Nast Traveler Reader’s Choice Awards*; “Number 2 Best City Hotel in Hong Kong” by *Travel + Leisure* magazine, and “No 1 Best Hotels and Resorts in Hong Kong” by *DestinAsian Readers Choice Awards*.

We were delighted that *Gaddi’s* achieved a Michelin star for the second year and our Cantonese restaurant *Spring Moon* achieved its Michelin star for the fifth consecutive year.

We are supporting the local community by partnering with local charity Impact HK and offering a “one meal for one meal” programme to support the homeless and needy in Hong Kong.

### The Peninsula Shanghai

The Peninsula Shanghai		
Revenue	RMB296m	-38%
Occupancy		-27pp
Average Room Rate		-13%
RevPAR		-48%

Despite being negatively impacted in the earlier months of 2020 due to the effects of the COVID-19 coronavirus, **The Peninsula Shanghai** remained the market leader in average room rates in the city. We are pleased to report that business improved in the second half of the year as life gradually returned to normal in mainland China’s key cities. We focused our marketing strategies on the domestic market and the hotel remains the venue of choice for society events and luxury brands.

Catering business was significantly disrupted due to government advisories and *Sir Elly’s*, *Compass Bar* and *Salon de Ning* as well as *No 1 Waitanyuan* had to be temporarily closed, but we started to see some recovery from June onwards.

We were delighted to be named as the Number 1 “Top City Hotel in Shanghai” by *Travel + Leisure* magazine, and The Peninsula Shanghai remains the only hotel in mainland China to have two restaurants with Michelin stars.

Due to ongoing travel restrictions, the domestic Chinese mainland market remained our largest revenue driver and we focused on driving business through Chinese social media and online channels.

The Peninsula Arcade was 95% occupied during 2020. As previously agreed by both parties, we ceased management of *No 1 Waitanyuan* in June upon reaching the end of the management agreement.

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 31 December 2020, a total of 31 units have been sold, including two during 2020. This generated gross proceeds of RMB238 million, which was utilised for loan repayment and working capital of the joint venture entity.

### The Peninsula Beijing

The Peninsula Beijing		
Revenue	RMB169m	-41%
Occupancy		-31pp
Average Room Rate		-21%
RevPAR		-58%

**The Peninsula Beijing** was negatively impacted by international travel restrictions and city-wide lockdowns, particularly in the first half of 2020. Business started to improve in the second half and we were grateful to be able to host events during the festive season, as life gradually started to return to normal in the capital city. To capitalise on the resurgence of demand, we launched various staycation offers, including “The Eight Loves of The Peninsula Beijing”, as well as dining promotions to attract the domestic market.

We were delighted to receive the recognition of “Best Business Hotel” by *National Geographic Traveller* and “Luxury Hotel of the Year” by *China Daily*.

In The Peninsula Arcade, business remained healthy with anchor tenants performing well. We are pleased to have secured a new luxury lifestyle tenant that will be taking the entire lower level two of the hotel, which comprises a space of approximately 3,000 sqm. We expect that this lifestyle living space, which will open in summer 2021, will further position The Peninsula Arcade as the best luxury shopping destination in Beijing, and will also significantly enhance our retail occupancy in 2021.

### The Peninsula Tokyo

The Peninsula Tokyo		
Revenue	JPY4.21b	-66%
Occupancy		-45pp*
Average Room Rate		-21%
RevPAR		-67%*

\* excluding the effect of reduction in room inventory during the hotel closure

**The Peninsula Tokyo** had a strong start to 2020 although we began to receive cancellations just before the peak sakura (cherry blossom) season. The effects of the global coronavirus pandemic started to affect Tokyo in early 2020 which eventually led to the cancellation of the Tokyo Olympics. This was a major disappointment for our group business which had been fully booked for the event and surrounding months.

We temporarily closed the hotel on 28 March 2020 with health and safety considerations for our guests and staff as a top priority. The hotel reopened in June amidst strict global travel restrictions which resulted in a shift in our business mix from 90% international guests to an almost entirely domestic market.

Despite some of the business limitations imposed by the Japanese Government which restricted dining hours and limited capacity for banquets and events, we were supported by ongoing government subsidies for furloughed staff which helped reduce our overall payroll costs. In addition, the government's highly successful travel and dining campaign called "Go To Travel" generated 25 million overnight stays nationwide in the third quarter, before being cancelled in December due to the rising number of Covid-19 cases in Japan.

We continue to find opportunities to improve our overall food and beverage offerings to guests by utilising newly created spaces in the hotel. In addition to *Sushi Wakon* which opened in 2019, we have opened a new teppanyaki fine dining restaurant, *HIBIYA mon cher ton ton*, on 1 October 2020.

We continue to monitor the situation in Tokyo and as at the time of writing are awaiting news on the rescheduled Olympics.

### **The Peninsula Bangkok**

<b>The Peninsula Bangkok</b>		
Revenue	THB240m	-79%
Occupancy		-38pp*
Average Room Rate		+8%
RevPAR		-51%*

\* excluding the effect of reduction in room inventory during the hotel closure

**The Peninsula Bangkok** temporarily closed on 28 March 2020 following the guidance of the Thai Government, which issued an emergency decree in response to the COVID-19 crisis, and no foreigners have been allowed to enter Thailand since March 2020. The hotel reopened in November 2020.

We are currently focusing on building up our Meetings, Incentives, Conventions and Exhibitions (MICE) business from the local domestic market, as well as encouraging wellness and health packages which we believe will be increasingly important in the future as we move towards a post-COVID-19 environment. We are positioning the hotel as an urban wellness retreat with a focus on plant-based food, mindfulness practices and better sleep and we are actively driving staycations and spa packages.

We were delighted to receive the accolade of "No 1 Best Hotel in Bangkok" and "No 5 Top 50 Best Hotels in the World" from *Conde Nast Traveler*.

In August 2020 we reached an agreement with our Thai partners for our group to assume full ownership over The Peninsula Bangkok and its surrounding land. We remain deeply committed to The Peninsula Bangkok as a long-term investment.

## The Peninsula Manila

The Peninsula Manila		
Revenue	Php273m	-82%
Occupancy		-44pp*
Average Room Rate		+14%
RevPAR		-50%*

\* excluding the effect of reduction in room inventory during the hotel closure

**The Peninsula Manila** achieved higher average room rates following the completion of its guestroom renovation and the opening of a new executive Club Lounge in early 2020. Unfortunately, due to the outbreak of the pandemic, the hotel temporarily closed in March 2020 following the guidance from the Philippine Government on “Enhanced Community Quarantine”. We were able to generate some revenue with takeout and delivery services from *The Peninsula Boutique*, *The Lobby* and *Spices* which was well received by the local community. The hotel reopened for business in November 2020 and we are currently focusing on the local staycation market and special dining promotions to attract local guests, as travel restrictions remain in place for the Philippines.

The Peninsula Manila is subject to a land lease which is due to expire in 2026 and it has been agreed with the landlord to extend this land lease by four years. In view of the relatively short remaining lease term and the uncertain outlook of the local tourism market, a review was conducted by management and an independent third-party valuer, and since the hotel’s appraised value was lower than its book value, the Directors considered it appropriate to write down the hotel’s value resulting in an impairment provision of HK\$93 million.

## The Peninsula New York

The Peninsula New York		
Revenue	US\$25m	-73%
Occupancy		-21pp*
Average Room Rate		-11%
RevPAR		-35%*

\* excluding the effect of reduction in room inventory during the hotel closure

**The Peninsula New York** started the year in a strong position as a RevPAR market leader in January, with robust food and beverage revenue and strong diplomatic business. We were pleased to win the accolade of “No 1 Best Hotel in New York City” by *US News & World Report* as a testament to the excellent service offered by our staff when the hotel was operating as usual. However, due to the effects of the pandemic, the hotel temporarily closed on 20 March 2020 for the rest of the year. The hotel remains closed. We have regrettably had to lay off or furlough the majority of our staff. We kept all staff’s medical insurance benefits active until the end of the year to help ease the financial burden on our affected colleagues.

## The Peninsula Chicago

<b>The Peninsula Chicago</b>		
Revenue	US\$21m	-75%
Occupancy		-43pp*
Average Room Rate		-6%
RevPAR		-63%*

\* excluding the effect of reduction in room inventory during the hotel closure

Chicago is traditionally heavily reliant on the conventions business. The effects of the COVID-19 coronavirus were devastating for the city, with an estimated deficit for the city of over US\$2 billion due to cancellations of major conventions and events. **The Peninsula Chicago** was inevitably affected, despite having enjoyed a strong start to the year with the best results in its history in the first two months of 2020. However, due to the worsening pandemic in the state of Illinois, the hotel temporarily closed from March 2020 until July 2020.

During the closure, the hotel implemented various charitable and community initiatives such as live music broadcast from the *Z Bar* terrace on social media. We were pleased to receive the accolade of “No 1 City Hotel in Chicago” by *Travel + Leisure* as well as “No 1 Best Hotel in Chicago” and “No 3 Best Hotel in the United States” by *US World & News Report*.

We launched “The Seven Loves of The Peninsula Chicago” to drive bookings from the US domestic market. We have placed a number of staff on furlough and had to implement stringent and painful cost saving measures, including layoffs of a significant percentage of our staff. We kept all staff’s medical insurance benefits active until the end of the year to help ease the financial burden for our colleagues.

In early 2021, we saw a mild recovery at The Peninsula Chicago and we are hoping for a continued recovery in the coming months.

## The Peninsula Beverly Hills

<b>The Peninsula Beverly Hills</b>		
Revenue	US\$30m	-61%
Occupancy		-47pp
Average Room Rate		-5%
RevPAR		-60%

Despite the challenging operating environment, **The Peninsula Beverly Hills** achieved significant accolades in 2020 including “The Best Hotel in the US” by *Global Traveler* magazine, “No. 1 hotel in Los Angeles” by *Tripadvisor*, and the hotel has achieved AAA Five Diamond and Forbes Five Star ratings every year since 1993.

For the majority of the year, The Peninsula Beverly Hills was significantly impacted by the coronavirus Shelter-in-Place restrictions implemented by the California state government. Following a satisfactory first quarter of 2020 during the traditional peak awards season, the effects of the pandemic began to be felt from mid-March onwards. All food and beverage outlets were temporarily closed from March to May 2020, and again from November 2020 onwards, as the epidemic situation worsened in the Los Angeles area. The Spa also had to be closed several times throughout the year according to government restrictions. All events were cancelled and the situation resulted in a significant decline in rooms revenue and food and beverage revenue.

We launched *Le Petit Belvedere* in July 2020 which was a very popular feature with our guests, allowing them to enjoy al fresco dining with a French menu and designs inspired by French luxury fashion brand Lanvin on our terrace. Unfortunately exterior and interior dining were banned from November which affected our service offering. During the year we offered takeaway and delivery services within the scope of the government regulations and when it was possible to do so.

With regret, we had to place a significant number of staff on furlough as well as lay off a number of our employees, although we continued their health insurance benefits until the end of 2020 to try to mitigate the financial burden on the affected colleagues. We also supplied groceries to the affected colleagues on furlough.

To benefit the local community, we implemented a “one meal for one meal” policy and delivered free takeaway meals to frontline medical and emergency workers and those in need in the community.

### The Peninsula Paris

The Peninsula Paris		
Revenue	EUR13m	-80%
Occupancy		-21pp*
Average Room Rate		-5%
RevPAR		-39%*

\* excluding the effect of reduction in room inventory during the hotel closure

France has been significantly negatively impacted by the effects of the coronavirus as well as travel restrictions in Europe. **The Peninsula Paris** started to see an impact in February and March and our hotel closed on 14 March 2020 due to French government directives. We reopened *La Terrasse Kléber* and *L’Oiseau Blanc* in the second half and we reopened the hotel for rooms business in March 2021.

We were delighted to receive a Michelin star for our rooftop restaurant *L’Oiseau Blanc* in early 2020. We hosted *The Peninsula Classics Best of the Best Award* in February 2020 which was well attended by classic car aficionados and celebrities and received extensive press coverage.



## Commercial Properties Division

Commercial Properties	Revenue	Variance	
	HK\$m	In HK\$	In Local Currency
The Repulse Bay Complex	590	-11%	-11%
The Peak Tower	63	-59%	-59%
St. John's Building	55	-3%	-3%
The Landmark	37	-6%	-5%
21 avenue Kléber	22	-5%	-6%

Hong Kong's luxury leasing market was negatively impacted by the weak economic environment. Our largest residential property, **The Repulse Bay Complex** reported weaker revenue compared to the previous year, although residential revenue has held up well, declining by only 6% despite the current difficult environment. The immediate outlook remains fairly stable.

The Repulse Bay Shopping Arcade, which offers an eclectic blend of lifestyle amenities, health and wellness facilities and boutiques, was 95% occupied for the year.

**The Peak Tower** faced significant challenges during 2020. Rental revenue decreased and Sky Terrace 428 experienced a reduction of 86% revenue due to the substantial decline in visitor arrivals to Hong Kong. We have implemented a number of sales and marketing strategies to continue to drive business and to encourage local residents to visit 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 97% occupied during 2020 and revenue remained 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 for the offices slightly increased year-on-year while occupancy remained stable, which was a satisfactory result given the difficult business environment as a result of the global pandemic. However, the revenue for the residential portion was affected by the overall poor business environment and declined by 24%. 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 an excellent location immediately adjacent to The Peninsula Paris on Avenue Kléber, near 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 but one of the two retail spaces has been vacated and we have been unable to show the property to potential tenants due to the lockdown in Paris. Revenue was further impacted due to rental concessions to the other retail tenant.

## Clubs and Services Division

Clubs and Services	Revenue	Variance	
	HK\$m	In HK\$	In Local Currency
The Peak Tram	21	-73%	-73%
The Thai Country Club	29	-59%	-58%
Quail Lodge & Golf Club	76	-59%	-59%
Peninsula Clubs & Consultancy Services	6	-	-
Peninsula Merchandising	179	-29%	-29%
Tai Pan Laundry	28	-45%	-45%

**The Peak Tram** is one of Hong Kong's most popular tourist attractions and has been operated by HSH since 1888. The current upgrade project will result in a fully refurbished lower terminus which features covered queueing 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\$734 million upgrade project, which is scheduled to be completed in 2021, is being fully funded by HSH.

In 2020, the upgrade project was negatively impacted by unforeseen ground conditions and the COVID-19 pandemic in terms of the sourcing of materials and production delays in Asia and Europe, which affected the manufacturing of our new tramcars and equipment. We believe this will affect the project in terms of its scheduled completion date and we have postponed the second phase of service suspension until end June 2021. The entire upgrade project is now planned to be completed in completed by December 2021.

As forewarned in the 2019 annual report and the profit warning announcements in February 2020 and July 2020, overall revenue of The Peak Tram decreased by 73%, due to the suspension of the tram and the coronavirus which significantly impacted tourist arrivals in Hong Kong.

**The Thai Country Club** was temporarily closed due to the Government shutdown of all sports and entertainment facilities from March to May 2020. In August 2020, we reached an agreement with our Thai partners and HSH ceased to have any responsibility for the ownership and operations of the Thai Country Club from 28 October 2020. This was a difficult decision and one that was taken in the light of the very challenging global and domestic market circumstances and the legal dispute between the partners. We are sad to no longer own and operate Thai Country Club and would like to express our heartfelt appreciation for the staff's support, hard work and dedication to making the Club one of the finest golf clubs in the country over the past 24 years of operation.

**Quail Lodge & Golf Club** revenue decreased by 59% year on year mainly due to the shelter-in-place restrictions in California. The hotel and club facilities temporarily closed in March 2020, although the golf course reopened in May 2020 and the hotel in mid-June 2020. Business has been strong with the "staycation" market in California proving to be popular and the drive-in market was robust. In line with local regulations while still offering services for our guests, we implemented outdoor dining from *Edgar's* at the Quail Lodge deck and the Clubhouse patio. Golf rounds improved in the second half.

We successfully installed a solar farm during 2020 consisting of 1,920 solar panels. It is now operating at 100% capacity with an estimated annual output of 1,600,000 kWh and we expect it will significantly contribute to our cost saving efforts as well as being an important part of our sustainability strategy.

We unfortunately had to cancel both *The Quail Motorcycle Gathering* and *The Quail, A Motorsports Gathering* events, which usually occur in May and August respectively and are considered two of the world's leading concours events for classic motoring *aficionados*. This also negatively affected our revenue for this property.

**Peninsula Clubs & Consultancy Services (PCCS)** PCCS manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and The Refinery (formerly Butterfield's). This business reported stable revenue compared to the same period last year, which was a satisfactory result considering the impact of the coronavirus outbreak in Hong Kong. The relocation project of the Hong Kong Bankers Club experienced some delay although the Club successfully reopened in January 2021 in a new location in Central.

Revenue at **Peninsula Merchandising** was 29% lower compared to the previous year, due to softer retail sales and the temporary closure of the Hong Kong International Airport boutique. Despite the weak market sentiment, Peninsula Merchandising's mooncake business was robust. Our wholesale business was satisfactory, driven by good performance from the Chinese mainland and Japan, and our online revenue was strong. Peninsula Merchandising opened The Peninsula Boutique & Café at Isetan Shinjuku and Shin-Marunouchi Building respectively in Tokyo in 2020. Peninsula Merchandising is planning to expand in the Chinese mainland, 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 declined by 45% compared to the same period last year due to significantly reduced corporate business as a result of the coronavirus pandemic.

## **Projects under development**

### **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. In 2016 HSH assumed 100% ownership of the project by buying out our equity partner Grosvenor for an additional cash consideration of £107.5 million. Grosvenor will remain as the landlord under the 150-year lease.

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 is in the region of £800 million.

As a result of the coronavirus pandemic, we decided to temporarily close the construction site to ensure the safety of our employees, contractors, and suppliers. The site reopened in May 2020, however, due to the ongoing serious situation and lockdowns in London, we are subject to social distancing requirements which means fewer construction workers are allowed on the site. We are working hard to mitigate the impact of the inevitable delay but we expect there will be a continued impact of the pandemic on the supply chain. Over the last few months, we have achieved a number of significant milestones. These include the conclusion of the basement excavation and the formation of the swimming pools and the entry courtyard. Fit out works continue to progress within the hotel guest rooms, residences and restaurants, and fit out to the hotel Lobby, ballrooms and Spa areas are due to commence shortly. The revised opening date of the hotel is now expected to be in 2022.

## **The Peninsula Istanbul**

In July 2015, together with our partners Doğu Holding and BLG, we entered into a shareholders' agreement 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%.

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. 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.

We decided to temporarily close the construction site in April 2020 due to the coronavirus pandemic and while the site has reopened, the closure and social distancing requirements have led to some unforeseen delays. Despite COVID, we have made good progress on construction and two of the four buildings have mostly been handed over for fit-out works, with the remaining two buildings to follow in a few months' time. Completion of the project is currently targeted to be in 2022.

The Peninsula Istanbul is subject to a lease agreement which in turn is subject to a 30-year transfer of operating rights agreement that commenced in February 2014. The project has been hard hit by unforeseen delays due to the site conditions and the coronavirus pandemic. Coupled with the decline of the local currency, the uncertain economic climate arising from the geopolitical tensions and the expected delay of the hotel opening, management has engaged an independent valuer to re-appraise the value of The Peninsula Istanbul. Following the re-appraisal, the Directors deemed it appropriate to write down the book value of the project by HK\$472 million (of which 50% was shared by the group), representing approximately 20% of the hotel's cost on completion.

## **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 Peninsula Residences Yangon, the luxury residential apartments being developed by Meeyahta Development Limited which is a joint venture between our partner Yoma and FMI, Mitsubishi Corporation, Mitsubishi Estate Corporation, Asian Development Bank and International Finance Corporation, adjacent to the hotel.

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. The project has experienced some delays as a result of the COVID-19 pandemic but shell and core works proceeded at a good pace and fit out of the benchmark room is underway.

Political developments on 1 February 2021 led to the military declaring a state of emergency for a period of one year. We have noted the recent violence and chaos with great concern and we continue to evaluate both the immediate actions required and the longer-term decisions that need to be made in respect of this project.

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

Incorporated in 1866 and listed on The Stock Exchange of Hong Kong (00045), HSH is the holding company of a Group which is engaged in the ownership, development and management of prestigious hotel, 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; 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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