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THE HONGKONG AND SHANGHAI HOTELS, LIMITED

香港上海大酒店有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00045) website: www.hshgroup.com

2021 Interim Results

HIGHLIGHTS

- As forewarned in the company's 2020 annual report, the group's results for the six months ended 30 June 2021 continued to be significantly negatively affected by the COVID-19 coronavirus pandemic
- The group's revenue and combined revenue* declined by 5% and 1% to HK\$1,264 million and HK\$1,420 million respectively
- With significant cost savings, the group's EBITDA and combined EBITDA* amounted to HK\$6 million and HK\$35 million respectively compared to EBITDA losses of HK\$95 million and HK\$114 million in the same period last year
- Underlying loss** amounted to HK\$375 million (2020: HK\$499 million)
- Loss attributable to shareholders amounted to HK\$452 million (2020: HK\$1,197 million), inclusive of net property revaluation deficit of HK\$77 million (2020: revaluation deficit of HK\$365 million and impairment provisions of HK\$329 million)
- Loss per share was HK\$0.27 (2020: HK\$0.73)
- The group's financial position as at 30 June 2021 remained strong with shareholders' funds amounting to HK\$36,459 million (31 December 2020: HK\$36,844 million) and the group's net external debt to total assets remained moderate at 22% (31 December 2020: 20%)
- Given the current difficult environment and results, the Board felt it was prudent not to declare an interim dividend

* *Combined revenue/combined EBITDA is calculated by including the group's effective share of revenue/EBITDA of associates and joint venture*

** *Underlying loss is calculated by excluding the post-tax effects of unrealised property revaluation movements and impairment provisions*

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June 2021	For the six months ended 30 June 2020	2021 vs 2020
PROFIT OR LOSS HIGHLIGHTS (HK\$m)			
Combined revenue [^]	1,420	1,432	(1%)
Revenue	1,264	1,334	(5%)
Combined EBITDA [^]	35	(114)	n/a
EBITDA	6	(95)	n/a
Operating loss	(244)	(378)	35%
Loss attributable to shareholders	(452)	(1,197)	62%
Loss per share (HK\$)	(0.27)	(0.73)	63%
Underlying loss *	(375)	(499)	25%
Interim dividend	zero	zero	n/a
Interim dividend per share (HK cents)	zero	zero	n/a
Interim dividend cover (times) **	n/a	n/a	n/a
Interest cover (times) ^Δ	n/a	n/a	n/a
Cash interest cover (times) ^{ΔΔ}	n/a	n/a	n/a
Weighted average gross interest rate on bank borrowings	1.5%	2.1%	(0.6pp)
	As at 30 June 2021	As at 31 December 2020	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK\$m)			
Total assets	54,573	53,679	2%
Net assets attributable to shareholders	36,459	36,844	(1%)
Adjusted net assets attributable to shareholders #	40,371	40,607	(1%)
Net assets per share (HK\$)	22.11	22.34	(1%)
Adjusted net assets per share (HK\$) #	24.48	24.63	(1%)
Net external borrowings	11,942	10,662	12%
Funds from operations to net external debt ##	(1%)	(4%)	3pp
Net external debt to equity attributable to shareholders	33%	29%	4pp
Net external debt to total assets	22%	20%	2pp
	For the six months ended 30 June 2021	For the six months ended 30 June 2020	
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (HK\$m)			
Net cash used in operating activities before net working capital movement	(12)	(224)	95%
Net cash interest paid	(83)	(69)	(20%)
Capital expenditure on existing assets	(150)	(174)	14%
Capital expenditure on new projects and investments	(1,092)	(844)	(29%)
SHARE INFORMATION (HK\$)			
Highest share price	8.50	8.97	
Lowest share price	6.71	5.99	
Period end closing share price	8.17	7.01	

[^] Including the group's effective share of revenue/EBITDA of associates and joint venture

* Underlying loss is calculated by excluding the post-tax effects of unrealised property revaluation movements and impairment provisions

** Interim dividend cover is calculated as underlying profit divided by interim dividend

^Δ Interest cover is calculated based on operating profit divided by net financing charges excluding interest on lease liabilities

^{ΔΔ} Cash interest cover is calculated based on EBITDA less lease payments divided by net interest on bank loans paid

Adjusted net assets attributable to shareholders and adjusted net assets per share are calculated by reference to the revaluation of the group's hotels and golf courses which is conducted annually by independent property valuers

Being annualised EBITDA less tax paid and net cash interest paid as a percentage of net external debt

pp Denotes percentage points

CEO's Review

It has been over two years since the start of the Hong Kong protests, which significantly adversely impacted our group's operating results, to be followed by the COVID-19 crisis starting in early 2020, resulting in a devastating impact on our global operations. Our previously healthy EBITDA of HK\$1,680 million in 2018 was reduced to HK\$1,390 million in 2019 and to an EBITDA loss of HK\$61 million in 2020.

The first half of 2021 remained a most challenging time for our group, with many of our operations continuing to be severely impacted by the global COVID-19 pandemic. The bulk of our group's earnings are usually derived from our home market of Hong Kong and, whilst infection rates remained low here, the stringent social distancing rules and ban on international travel imposed by the Government due to COVID-19 concerns continued to impact not only The Peninsula Hong Kong, but also the Peak Complex and our residential leasing business. Elsewhere, we have seen a strong recovery in our two Chinese mainland hotels in Beijing and Shanghai, and our US hotels have started to recover with the relaxing of social distancing restrictions. Business remains very weak at our hotels in Paris, Tokyo, Bangkok and Manila.

At a time when our operational cashflows have been significantly depleted from normal levels, we are seeking to complete the development and construction of our two major Peninsula hotel projects in London and Istanbul, as well as the Peak Tram upgrade project. These projects have also been affected by COVID-19 related impacts on the construction workforce and the supply chain, but we are working hard to deliver these projects whilst containing the timing and cost impacts of the delays as much as possible. We have committed financing in place to cover the entirety of these projects as well as provide a significant buffer against any future operating cash burn. Unfortunately, work has stopped on The Peninsula Yangon project, and we are keeping the situation under continuous review.

Our priority has been to implement significant cost savings while maintaining appropriate operational and service levels, as well as looking after the well-being of our staff. As a result of the actions that we have taken to minimise our operating cash outflows and bolster liquidity, our group's net cash outflow from operating activities for the six months ended 30 June 2021 was significantly reduced to HK\$12 million and we believe our financial resources are currently sufficient to meet the group's funding requirements for at least the next three to four years.

The group recorded a 5% decline in consolidated revenue during the first half. This was principally a result of decreased revenue from our commercial properties division due to a decline in the demand in the luxury residential market impacting The Repulse Bay, as well as rental concessions and lack of visitor arrivals affecting the Peak Tower. Despite seeing some recovery, the hotels division continued to be impacted by the lack of international travel and various social distancing measures imposed on the food and beverage sector. These were somewhat offset by stronger performance of the clubs and services division.

Our financial results for the first six months of 2021 were in line with our expectations, recovering to a combined EBITDA of HK\$35 million (as compared to a combined EBITDA loss of HK\$114 million in the first half of 2020). The group's cost saving efforts have resulted in our consolidated operating costs for the first six months of the year reducing from HK\$2,181 million in 2019, to HK\$1,429 million in 2020 and HK\$1,258 million in 2021. Due to these cost saving efforts as well as improvements in operating performance in some markets, the group's underlying loss reduced by 25% to HK\$375 million. The group's loss attributable to shareholders for the period amounted to HK\$452 million compared to a loss of HK\$1,197 million in the same period last year.

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 hotels and luxury properties which we believe are considered to be amongst the finest 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	
	HK\$m	In HK\$	In Local Currency
Consolidated hotels			
The Peninsula Hong Kong	306	+8%	+8%
The Peninsula Beijing	111	+85%	+69%
The Peninsula New York	71	-49%	-49%
The Peninsula Chicago	142	+63%	+63%
The Peninsula Tokyo	141	-15%	-15%
The Peninsula Bangkok	12	-76%	-77%
The Peninsula Manila	13	-65%	-66%
Non-consolidated hotels			
The Peninsula Shanghai	215	+107%	+89%
The Peninsula Beverly Hills	189	+32%	+32%
The Peninsula Paris	49	-43%	-47%

The Peninsula Hong Kong

The Peninsula Hong Kong		
Revenue	HK\$306m	+8%
Occupancy		+16pp
Average Room Rate		-19%
RevPAR		+79%

The Hong Kong hospitality market continued to be negatively affected by stringent travel restrictions and border closures which have been implemented since March 2020. In the first half of the year, **The Peninsula Hong Kong** achieved improved revenue, occupancy and RevPAR compared to the same period last year. This was the result of a number of staycation offers and marketing promotions including “Journey the World: New Encounters” to attract the local market and offer unique experiences for local residents. To encourage guests to visit *The Lobby*, we organised spectacular displays in collaboration with various luxury brands including Aston Martin and Louis Vuitton.

Food and beverage revenue improved compared to last year but continues to be limited by the complex social distancing measures imposed by the Hong Kong Government, which led to restricted dining hours and the cancellation of many large functions and weddings. However, we believe there is strong pent-up demand and we are optimistic that food and beverage business will return as social distancing measures are relaxed and vaccination rates improve. As of 30 June 2021, our banqueting team achieved the category of “Zone D” which means that we are able to host large events for up to 180 people and we are optimistic that banqueting revenue will return. 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, which is a testament to the hard work and expertise of our talented culinary team.

The Peninsula Office Tower was 94% occupied in the first half of 2021, and the immediate outlook is stable. The Peninsula Arcade occupancy was 77% but we are optimistic for the second half with one of our luxury anchor tenants expanding their space and a number of new tenants signing contracts. The ongoing renovation of The Peninsula Arcade basement, which will create a high-end lifestyle retail area, is due to be completed in 2021. The new basement will include an eclectic mix of interesting lifestyle options including a sushi bar, a men's grooming salon, high-end audio equipment store and a new and expanded The Peninsula Boutique & Café which opened in May 2021 and has received positive media coverage and strong demand.

We continued to support the local community and charities by partnering with 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	RMB179m	+89%
Occupancy		+32pp
Average Room Rate		+14%
RevPAR		+193%

The Peninsula Shanghai reported pleasing results for the first half of the year, following a rapid recovery from some local pandemic cases which were reported in January, and business levels returned to normal in the second quarter. The hotel remains the market leader in average room rates in the city and was number one in RevPAR for the second quarter. Occupancy and revenue improved significantly compared to the same period last year.

International tourist arrivals to the Chinese mainland are restricted and therefore the domestic market remained our largest revenue driver. Catering business was slow in the first quarter with many events being cancelled or postponed due to several COVID cases reported in the Huangpu area, but we are pleased to see robust demand returning in the second quarter for events and groups. We held several collaborations with luxury brands and enjoyed good market share for events despite intense competition in the city. Demand for suites was healthy although rates are still lower than their pre-pandemic levels. The Peninsula Shanghai remains the only hotel in the Chinese mainland to have two restaurants with Michelin stars.

The Peninsula Arcade was 93% occupied for the first half.

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 2021, a total of 31 units have been sold.

The Peninsula Beijing

The Peninsula Beijing		
Revenue	RMB92m	+69%
Occupancy		+13pp
Average Room Rate		+8%
RevPAR		+83%

The Peninsula Beijing reported a creditable recovery in the first half, despite a slow start to the year when a second wave of COVID-19 affected the city. International tourist arrivals to the Chinese mainland remained restricted during the first half of 2021 and therefore the domestic market was our largest revenue driver, with some high-level diplomatic business contributing revenue. The hotel's rooftop bar, *Yun Summer Lounge*, reopened in May 2021 which proved popular with guests seeking an outdoor dining experience.

The hotel implemented some innovative staycation packages and marketing campaigns to drive suite business. These included a collaboration with Sanrio Japan, the founder of the popular cartoon character "Hello Kitty", which offered guests a wide variety of unique experiences as part of a campaign titled "Hello Kitty Journey Into Luxury".

The Peninsula Arcade was 92% occupied and in addition to some anchor tenants expanding their retail space, 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 late summer 2021, will further position The Peninsula Arcade as the best luxury shopping destination in Beijing.

The Peninsula Tokyo

The Peninsula Tokyo		
Revenue	JPY1.97b	-15%
Occupancy		-10pp
Average Room Rate		-44%
RevPAR		-58%

The Peninsula Tokyo was negatively impacted by the ongoing "State of Emergency" restrictions for Tokyo which were in place for the majority of the first half, combined with government social distancing measures and a ban on international travellers. At the time of writing, the Japanese Government banned spectators from the pandemic-delayed Tokyo 2020 Olympics, which is disappointing for anticipated tourist arrivals in Japan.

All dining outlets at the hotel remained open but were affected by the government's restrictions on dining hours, which barred residents from dining out after 8pm. We implemented a variety of local staycation packages in an intensely competitive market, offering dining credits as part of the hotel deals as per local market practice; however, this affected the average rate which declined significantly compared to the previous year. The group marketing campaign of "Peninsula Time" which allows flexible check in and check out times proved particularly popular with the local Tokyo market and helped further drive occupancy.

Despite the soft business environment, we were pleased to welcome several new tenants to The Peninsula Arcade in 2020 and this trend continued in 2021, with a new executive medical check-up centre and a wedding chapel expected to open in late summer 2021.

The Peninsula Bangkok

The Peninsula Bangkok		
Revenue	THB48m	-77%
Occupancy		-29pp
Average Room Rate		-74%
RevPAR		-91%

The Peninsula Bangkok had a satisfactory start to the year in the first quarter due to relatively low COVID-19 rates in Bangkok and Thailand in general. The local staycation packages achieved positive uptake from the local market, although government restrictions meant that we could not host large functions or banquets. Unfortunately, in March 2021 the country experienced an increase in cases, particularly in the hospitality sector, and with safety of our employees and guests as a top priority, we decided to temporarily close the hotel from 18 April 2021 and this is reflected in the operating results for the first half of 2021. We plan to reopen the hotel in September 2021 and we are hopeful that almost 100% our staff will be fully vaccinated by this date. Thailand's borders remain closed to international travellers with the exception of Phuket, and we are hopeful that the so-called "Phuket Sandbox", which allows visitors to travel to Phuket without quarantine, will also lead to a resurgence in business for Bangkok in the second half.

The Peninsula Manila

The Peninsula Manila		
Revenue	Php78m	-66%
Occupancy		-42pp
Average Room Rate		-29%
RevPAR		-91%

The Peninsula Manila experienced a very challenging start to the year due to stringent government restrictions which remained in effect until May 2021, and community quarantine guidelines for certain cities in the National Capital Region which remain in place at the time of writing. The hotel operated with minimal services and was unable to welcome guests to the Spa and the majority of F&B outlets due to restrictions. We reopened *The Lobby* and *Spices* in May 2021 and were able to welcome some local guests for staycations from May onwards. To drive revenue we also offered takeout delivery services and valet laundry services during the first half which was positively received by the local community.

Due to the unique structure of The Peninsula Manila with two separate towers, we have been granted permission by the Philippines Department of Tourism to allow high-end quarantine stays in Ayala Tower from 1 July 2021. We expect to attract high-end business travellers and diplomatic guests who are required to undergo 7-10 days of quarantine upon returning to The Philippines, depending on their original departure location. The Makati Tower will continue to be available for local staycation guests.

The Peninsula New York

The Peninsula New York		
Revenue	US\$9m	-49%
Occupancy		-20pp
Average Room Rate		+1%
RevPAR		-35%

The Peninsula New York reopened on 1 June 2021 after a prolonged temporary closure. The hotel received substantial positive media coverage about its reopening and achieved strong room rates in the month of June. Corporate and group business was robust and catering business was satisfactory. To coincide with the reopening, we launched a dynamic new multimedia art installation titled *Life en Route* and will host Dutch neo-expressionist painter Peter Riezebos in-house for the summer of 2021 as part of our *Art in Resonance* programme.

In June 2021, New York City's official destination marketing organisation launched its largest-ever, multi-phased global tourism and advertising campaign titled "It's Time for New York City!" to remind visitors of the energy, excitement and resilience of the city. Several high-profile large events and New York Fashion Week are expected to return in the autumn. With high vaccination rates in New York and the lowering of quarantine restrictions for most international travellers, we are cautiously optimistic for a rebound of business in the second half.

The Peninsula Chicago

The Peninsula Chicago		
Revenue	US\$18m	+63%
Occupancy		-12pp
Average Room Rate		+11%
RevPAR		-17%

The Peninsula Chicago is celebrating its 20th anniversary in 2021 and we are pleased to report a positive first half in terms of increased revenue and average room rates, despite a challenging environment in the first quarter. At the time of writing, all social distancing restrictions and quarantine requirements have been lifted in Chicago and there is a positive energy in the city as it rebounds from the pandemic. The hotel's restaurants and dining outlets have reopened with some limitations in dining hours, with the exception of *Pierrot Gourmet* which remains closed. The labour market remains challenging, with staff shortages in the hospitality sector, amid intense competition in the city.

To mark the 20th anniversary of the hotel, we introduced special anniversary packages with 20% discounts on rooms and suites, and special menus to celebrate culinary favourites from the past two decades, titled "Culinary Classics Revised". For every meal purchased we donated one meal to The Greater Chicago Food Depository.

We were delighted to receive the accolade of "No 1 Hotel in Chicago and Illinois and No 3 Hotel in the US" by *US News & World Report*.

We are optimistic for the second half due to the high rate of vaccination in the US, the relaxation of social distancing measures and the return of some concerts, corporate groups, conventions and art exhibitions being held in Chicago, including the largest-ever exhibition by the artist Banksy and the world-renowned *Immersive Van Gogh* experience.

The Peninsula Beverly Hills

The Peninsula Beverly Hills		
Revenue	US\$24m	+32%
Occupancy		-1pp
Average Room Rate		+1%
RevPAR		-1%

The Peninsula Beverly Hills experienced a stable first half of 2021 with satisfactory average rates and occupancy remaining flat over the previous year, which is a creditable result in the light of the coronavirus Shelter-in-Place restrictions implemented by the California state government for several months of 2021.

The Hollywood awards season, which traditionally results in full occupancy for our hotel, was held virtually this year which negatively impacted our results. However, we have a high percentage of loyal guests from the entertainment sector and we look forward to welcoming them back as the pandemic situation returns to normal in Los Angeles.

From March 2021 onwards, business levels exceeded our expectations and continued to improve with the lifting of local restrictions and with an increase in the rate of vaccinations. We reported robust demand from the local drive-in market, particularly for leisure travel. There were almost no international visitors in the first half, although we were pleased to see some Middle East guests returning in June 2021. We launched a “Beverly Hills Dreaming” package to attract visitors and we are preparing for further celebrations for the hotel’s 30th anniversary later in the year.

The labour market remains challenging with staff shortages in the hospitality and restaurant sectors amid intense competition in the Beverly Hills area.

The Peninsula Paris

The Peninsula Paris		
Revenue	EUR5m	-47%
Occupancy		-28pp
Average Room Rate		+24%
RevPAR		-69%

The Peninsula Paris reopened on 1 March 2021 for rooms business and has gradually expanded the services available to guests with the relaxing of government restrictions and curfews.

We are fortunate to have beautiful alfresco dining spaces at *La Terrasse Kléber* and our rooftop restaurant *L’Oiseau Blanc*, which was awarded one Michelin star in 2020. Alfresco dining venues have been particularly popular with Parisians keen to celebrate events which had been postponed during the pandemic. We implemented new dining experiences and Sunday brunch offers to attract local guests, although unseasonably bad weather in May temporarily affected this trend. The hotel’s indoor dining outlets reopened in June 2021, with the exception of *Lili*.

We are delighted to welcome a new Head Sommelier to our culinary team who has achieved the award of “Best Sommelier of France 2021” from the *Union de Sommelierie de France*.

International guests are slowly returning to Paris, mainly from the Middle East and the US, which helped drive suite business in June 2021.

We are cautiously optimistic for the second half, with large events and Paris Fashion Week returning as well as a large new luxury department store opening.

Commercial Properties Division

Commercial Properties	Revenue	Variance	
	HK\$m	In HK\$	In Local Currency
The Repulse Bay Complex	266	-15%	-15%
The Peak Tower	20	-41%	-41%
St.John's Building	27	-4%	-4%
The Landmark	18	-5%	-6%
21 avenue Kléber	12	+13%	+3%
The Peninsula Shanghai Apartments	2	-41%	-46%

Our largest residential property, **The Repulse Bay Complex**, reported a weaker first half compared to the previous year. Residential revenue and occupancy declined compared to the same period last year due to the challenging environment in Hong Kong, especially the lack of new arrivals from overseas. The HKSAR Government social distancing measures continued to affect the performance of our food and beverage outlets, and catering revenue decreased due to the restrictions on large functions and events. The Repulse Bay is a popular venue for weddings and unfortunately many weddings have been cancelled or postponed due to the social distancing restrictions. The Repulse Bay Shopping Arcade reported stable occupancy and revenue in the first half.

The Peak Tower experienced a challenging first half. Revenue and occupancy declined and we had to offer rental concessions due to the continued border closures and lack of international visitors to Hong Kong, which has negatively impacted our tenants. Visitors to Sky Terrace 428 also declined compared to the previous year. We have implemented a number of sales and marketing strategies to continue to drive local business and to encourage local residents to visit the Peak Tower, which will remain 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 97% during the first half of 2021.

The Landmark, a 16-storey residential and office property, is located on a prime riverfront site in the central business district of Ho Chi Minh City, Vietnam. Revenue and occupancy for the offices remained stable year-on-year despite intense competition, but residential revenue and occupancy declined compared to the previous year. The COVID-19 situation in Vietnam has worsened significantly at the time of writing and we are concerned about the outlook for the second half.

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 one of the two retail spaces. Rental revenue was stable compared to the previous year.

Clubs and Services Division

Clubs and Services	Revenue	Variance	
	HK\$m	In HK\$	In Local Currency
The Peak Tram	13	+14%	+14%
Quail Lodge & Golf Club	45	+66%	+66%
Peninsula Clubs & Consultancy Services	2	+5%	+5%
Peninsula Merchandising	26	+100%	+100%
Tai Pan Laundry	15	+4%	+4%

The Peak Tram is one of Hong Kong's most popular tourist attractions and has been in operation since 1888. The tram is undergoing a major upgrade project 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 120 at present and visitors' waiting time will be significantly reduced. The full cost of the HK\$700+ million upgrade project is being fully funded by HSH.

In the first half of 2021, the upgrade project has generally made good progress although it has been negatively impacted by unforeseen ground conditions and the global coronavirus pandemic, which affected the planning of the works and the manufacturing of our new tramcars and equipment. As a result, there was a delay in the second phase of service suspension, which commenced on 28 June 2021 with the retirement of the fifth generation Peak Tram.

The Peak Tram reported increased patronage and revenue during the last month of operation before temporary suspension, as a result of well received publicity campaigns, marketing promotions and deals for local residents. We expect to launch the sixth generation Peak Tram by the end of 2021.

Quail Lodge & Golf Club revenue increased by 66% year on year and reported a significant increase in average rates and RevPAR compared to pre-COVID 2019 levels, which was a pleasing result in the light of the shelter-in-place restrictions in California for several months in the first half of 2021. We unfortunately had to cancel *The Quail Motorcycle Gathering* in May, but we are planning to proceed with *The Quail: A Motorsports Gathering* in August 2021, which is considered one of the world's leading concours events for classic motoring *aficionados*.

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 and the loss of a management fee from Thai Country Club. The Hong Kong Bankers Club successfully reopened in January 2021 in a new location in Central and has received positive feedback from members.

Revenue at **Peninsula Merchandising** doubled over the same period last year, mainly due to stronger online sales and robust wholesale and travel retail business in the Chinese mainland and contribution from our Japan stores. In May 2021 we were excited to open a new Peninsula Boutique & Café in the basement of The Peninsula Arcade, and this opening received substantial positive media coverage and has been a popular attraction for Hong Kong residents. The Hong Kong International Airport boutique has been temporarily closed since March 2020 and sales in our Japanese boutiques have been affected by reduced operating hours during the “State of Emergency” in Tokyo. Despite the general economic uncertainty, early orders for the mooncake season have been satisfactory and we are cautiously optimistic for the outlook in the second half.

Tai Pan Laundry revenue increased by 4% compared to the same period last year, due to the reopening of some hotels, clubs and gyms which had been closed during the same period last year.

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 remains 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 190-room Peninsula hotel with 25 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.

The Peninsula London project suffered delays due to the COVID-19 impact on the construction workforce and supply chain, as well as other project challenges. Despite these challenges, significant progress has been made on the superstructures, guestrooms and the residences, although there were delays in the basement due to technical issues. We are addressing the delays and associated cost implications as a priority by deploying a significant team of HSH project executives to bolster the London project teams and seeking to contain the timing and cost implications as much as possible. We are hoping to open The Peninsula London during 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% or approximately €150 million.

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.

The COVID-19 situation also impacted The Peninsula Istanbul project, although some curfews have been lifted. Despite these constraints, progress has been satisfactory with handover of Buildings 1 and 3 completed and Buildings 2 and 4 very close to being handed over. Construction completion of the project is currently targeted to be in 2022 and the costs of COVID-19 related delays are not significant.

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.

Due to the unfortunate situation in Myanmar, we have agreed with our partners to stop all work on the project and we are keeping the situation under continuous review.

Human Resources

The first half of 2021 continued to bring pandemic-related challenges for our Human Resources team who have made an enormous effort to preserve as many jobs and livelihoods as possible, and to ensure our staff remain engaged despite working from home and furlough continuing in various countries.

We have undertaken major initiatives across the group to encourage our staff to get vaccinated, including an incentive programme in Hong Kong offering cash, paid leave and pre-vaccination medical checkups. At the time of writing, 82% of staff in our global operations and 92% of staff in Hong Kong have been vaccinated with their first or second dose.

Building a team of exceptional people is the key to executing our strategies. The culture of our company has cultivated a loyal and committed team spirit which has resulted in a stable and cohesive management team. This team spirit starts at the top of the organisation with our majority owners the Kadoorie family and we adhere to a core set of values and integrity that permeates through all levels of the company. We continue to safeguard this culture as the pandemic continues and as we add more than a thousand new team members to our group, with two hotels coming on board in the next 18 months.

I am pleased to report that in the first half of 2021 we rolled out a new Peninsula Services Principles framework for all employees in our hotel operations, which focuses on creating stronger emotional connections with guests while offering the highly personalised service that our guests have come to expect from The Peninsula. To further support this important programme, we have launched our HSH Core Principles across the Group to encourage all our colleagues to support these service principles.

Our internal 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 and we will be launching "Work Improvement Teams" globally and implementing a competition amongst the properties on best practice ideas. We continue to focus on developing strong leaders, implementing mental and physical well-being programmes, and to improve our engagement strategies.

Earlier this year we launched an “eHR Suite” which is an integrated HR Talent solution to attract, develop, retain the right talent and manage the employee lifecycle, and this solution has received positive feedback from our employees as we continue to automate our HR processes and to go paperless.

As of 30 June 2021, we have 5,595 full time staff.

Sustainable Luxury

In the first half of 2021, our Corporate Responsibility and Sustainability Team launched our *Sustainable Luxury Vision 2030 (Vision 2030)* Strategy to take the group beyond the previous strategy, *Sustainable Luxury Vision 2020*. The ten-year period demonstrates that some of these commitments will require significant change and will take time to implement.

We continue to believe that our attention to detail and quest to provide the highest quality service will make sustainability part of the appeal of our luxury offering. Sustainable luxury is an integral part of our long-term mindset. We aim to properly manage risk as well as invest in the right opportunities while enabling a sense of belonging by offering services that are sustainable, thoughtful and purposeful to the needs of our guests and customers.

In 2021, 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 in June 2021, we converted an existing €60 million loan to a green loan. We are in discussions with other financial institutions to identify sustainability-linked loan opportunities in the second half of this year.

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 employee’s enthusiasm and collaborating with like-minded stakeholders.

The key strategic objectives and topics of *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 *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.

Outlook

With the COVID-19 situation continuing, it is difficult to predict when international travel can resume to normal levels and the outlook for a business recovery remains uncertain. We can derive some optimism from the regions which have seen a significant rebound in business levels, principally the Chinese mainland and the United States, although rising cases of the Delta variant is concerning. We are hopeful that the cases in our home market of Hong Kong will remain low and that the Hong Kong vaccination rates will increase substantially so that our borders can reopen as soon as possible to both domestic Chinese and international travellers. In the meantime, we are seeing significant challenges in sourcing labour for the hospitality market due to other sectors offering more attractive economics. We are optimistic for our retail arcades with positive leasing renewals and beautiful new lifestyle options opening in The Peninsula Arcades in Hong Kong and Beijing.

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 and fifty years. We remain focused on doing what we can to help our operations and our people recover from the devastation of the global pandemic. 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.

Despite the current downturn, we are committed to ensuring that with the rapid development of technology we are keeping pace with the needs and opportunities of our business. Enhanced health and hygiene in our operations will continue to be a priority and we are looking at the latest technologies and innovation to assist with these high standards.

We expect that from 2022 onwards, the new hotels in London and Istanbul will further enhance our brand presence. We are very focused on managing the cost and programme implications of COVID-19 as well as other project challenges that we have faced, in order to minimise the budget and time impact of the unavoidable delays. We are very sad about having to stop work on the project in Myanmar and will keep the situation under continuous review.

The Peak Tram is undergoing its second phase of temporary suspension and we expect the project will be completed in December 2021. After completion, we believe it 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 recovers.

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.

Clement Kwok
4 August 2021

Financial Review

The Directors hereby announce the unaudited interim results of the group for the six months ended 30 June 2021. The Interim Financial Report has been reviewed by the company's Audit Committee. The Interim Financial Report is unaudited but has been reviewed by the company's auditor, KPMG, in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), whose unmodified review report is included in the Interim Report to be sent to shareholders.

Basis of Preparation

The group's Interim Financial Report has been prepared in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants.

Summary

As forewarned in the company's 2020 annual report, the group's results for the six months ended 30 June 2021 continued to be significantly negatively affected by the COVID-19 coronavirus pandemic.

The global tourism and hospitality industries continued to face severe disruption and demand for leasing of luxury commercial and residential properties remained subdued in the first half of 2021. As a result, the group's revenue declined by 5% to HK\$1,264 million. Despite the challenging operating environment, thanks to significant savings of operating and fixed costs, management is pleased to report a positive EBITDA of HK\$6 million compared to an EBITDA loss of HK\$95 million in the same period last year. Breakdowns of the group's revenue and EBITDA by segment are set out on pages 18 to 21 of this Financial Review.

To meet the group's working capital requirements and capital commitments in respect of its ongoing projects, the group obtained committed facilities totalling HK\$1.4 billion during the first half of 2021. Details of the group's liquidity position as at 30 June 2021 are provided on pages 25 to 26 of this Financial Review.

The Group's Underlying Earnings

Our operating results are mainly derived from the operation of hotels; leasing and sale of luxury residential apartments; leasing of office and retail properties; operation of The Peak Tram and retail merchandising. We manage the group's operations with principal reference to their underlying operating cash flows and recurring earnings. However, to comply with the applicable accounting standards, we are required to include non-operating items, such as any changes in fair value of investment properties, in our consolidated statement of profit or loss. To reflect the true performance of the group, we have provided calculation of the underlying profit or loss attributable to shareholders. This is determined by excluding the post-tax effects of the revaluation movements of investment properties and impairment provisions in respect of non-investment properties.

The group's underlying loss attributable to shareholders for the six months ended 30 June 2021 reduced by 25% to HK\$375 million. The decrease in underlying loss was mainly attributable to the improved performance achieved by the hotels division and the group's major efforts to contain costs.

For the six months ended 30 June

HK\$m	2021	2020
Loss attributable to shareholders	(452)	(1,197)
Net revaluation deficit of investment properties*	77	341
Impairment provisions**	–	329
Share of revaluation gain on an apartment sold by the Peninsula Shanghai Waitan Hotel Company Limited (PSW)^	–	28
Underlying loss	<u>(375)</u>	<u>(499)</u>

* Including the group's share of revaluation movement of The Peninsula Shanghai, net of tax and non-controlling interest.

** The group assesses the recoverable amounts of its non-investment properties at each reporting date in accordance with its accounting policy. The 2020 figure represents provision for impairment loss in respect of The Peninsula Manila and the group's 50% share of impairment provision in respect of The Peninsula Istanbul amounting to HK\$93 million and HK\$236 million respectively.

^ PSW is a 50% joint venture which owns The Peninsula Shanghai Complex. In 2017, PSW reclassified its apartments from investment properties which were stated at fair value as inventory held for sale. The group's underlying loss is calculated by excluding the post-tax effect of unrealised property revaluation movements, including those relating to the apartments held by PSW. On disposal of such apartments, the unrealised revaluation gains became realised gains and were therefore added back to arrive at the underlying profit or loss for the period.

The Group's Adjusted Net Asset Value

In the Financial Statements, the group's hotels (other than shopping arcades and offices within the hotels) and golf course are stated at depreciated cost less accumulated impairment losses, if any, and not at fair value. If these assets were to be stated at fair value, the group's net assets attributable to shareholders would increase by 11% to HK\$40,371 million as indicated in the table below.

HK\$m	As at 30 June 2021	As at 31 December 2020
Net assets attributable to shareholders per statement of financial position	36,459	36,844
Adjusting the value of hotels and golf courses to fair value	4,049	3,892
Less: Related deferred tax and non-controlling interests	<u>(137)</u>	<u>(129)</u>
	<u>3,912</u>	<u>3,763</u>
Adjusted net assets attributable to shareholders	<u>40,371</u>	<u>40,607</u>
Net assets per share (HK\$)	<u>22.11</u>	<u>22.34</u>
Adjusted net assets per share (HK\$)	<u>24.48</u>	<u>24.63</u>

Statement of Profit or Loss

The group's consolidated statement of profit or loss for the six months ended 30 June 2021 is set out on page 27. The following table summarises the key components of the group's loss attributable to shareholders. This table should be read in conjunction with the commentaries set out on pages 18 to 22 of this Financial Review.

HK\$m	For the six months ended 30 June		2021 vs 2020
	2021	2020	
Revenue	1,264	1,334	(5%)
Operating costs	(1,258)	(1,429)	12%
EBITDA	6	(95)	n/a
Depreciation and amortisation	(250)	(283)	12%
Net financing charges	(75)	(71)	(6%)
Share of results of joint ventures*	(16)	(271)	94%
Share of results of associates	(33)	(50)	34%
Decrease in fair value of investment properties	(77)	(365)	79%
Impairment provision in respect of The Peninsula Manila	–	(93)	100%
Taxation	(5)	–	n/a
Loss for the period	(450)	(1,228)	63%
Non-controlling interests	(2)	31	(106%)
Loss attributable to shareholders	(452)	(1,197)	62%

* Including the group's share of revaluation loss of the Peninsula Arcade in Shanghai, net of tax, of HK\$5 million (2020: HK\$5 million). Included in the 2020 comparative figure was an amount of HK\$236 million, being the group's share of impairment provision in respect of The Peninsula Istanbul.

Revenue

The group has interests in ten luxury hotels under The Peninsula brand in Asia, the US and Europe, two of which are held by the group's associates and one by a joint venture. In addition to operating hotels, the group also operates a commercial properties division which is engaged in the development and sale or leasing of luxury residential apartments, and leasing of office and retail buildings in prime city-centre locations in Asia and Europe. The group's third business division is engaged in the provision of tourism and leisure services, retail and wholesale of merchandise, club management and other services, including the Peak Tram, one of Hong Kong's most popular tourist attractions.

At the time of writing, there is a considerable threat of emerging variants of the coronavirus although a number of COVID-19 vaccines have been made available since the beginning of 2021 in many countries. International travel continues to be limited and many governments are still imposing strict quarantine and social distancing measures.

In view of the challenging operating environment due to the ongoing COVID-19 coronavirus pandemic, the group's total revenue, including its effective share of revenue of associates and joint venture, decreased by 1% to HK\$1,420 million. A breakdown of revenue by business segment and geographical segment is set out in the following tables.

Revenue by business segment

HK\$m	For the six months ended 30 June						2021 vs 2020
	2021			2020			
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hotels	818	156*	974	834	98*	932	5%
Commercial Properties	345	-	345	409	-	409	(16%)
Clubs and Services	101	-	101	91	-	91	11%
	<u>1,264</u>	<u>156</u>	<u>1,420</u>	<u>1,334</u>	<u>98</u>	<u>1,432</u>	(1%)

Revenue by geographical segment

HK\$m	For the six months ended 30 June						2021 vs 2020
	2021			2020			
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hong Kong	671	-	671	698	-	698	(4%)
Other Asia	315	108*	423	363	52*	415	2%
US and Europe	278	48	326	273	46	319	2%
	<u>1,264</u>	<u>156</u>	<u>1,420</u>	<u>1,334</u>	<u>98</u>	<u>1,432</u>	(1%)

* Excluding the group's share of revenue in respect of sale of apartments, if any, by the joint venture in Shanghai.

The hotels division is the largest contributor to the group's combined revenue. As reported in the company's 2020 annual report, six of the Peninsula hotels in New York, Chicago, Paris, Tokyo, Bangkok and Manila were temporarily closed in March 2020. With the gradual easing of public health concerns and community lockdowns, the Peninsula hotels in Tokyo, Chicago, Bangkok and Manila reopened in different phases during 2020 whereas the Peninsula hotels in Paris and New York reopened in March 2021 and June 2021, respectively. Due to the lack of international travel and MICE businesses, various "staycation" packages were launched during the first half of 2021 to drive the demand of individual local domestic markets. Despite this effort, RevPAR and revenue of the group's hotels remained low. Furthermore, due to the strict social distancing measures imposed by various governments, the food and beverage and banquet businesses in the hotels remained limited. However, with the reopening of all Peninsula hotels, the combined revenue of the division for the six months ended 30 June 2021 increased by 5% to HK\$974 million.

For the commercial properties division, The Repulse Bay Complex (TRB) is the largest contributor of revenue, accounting for over 77% of the division's revenue. During the period, TRB recorded a decrease in both occupancy and average rent per square foot due to the decline in the demand in the luxury residential market. The Peak Tower also reported a 41% decrease in revenue due to rental concessions offered to tenants and a significant reduction in admission fee income suffered by Sky Terrace 428 resulting from the lack of visitor arrivals to Hong Kong. All in all, revenue of the commercial properties division declined by 16% to HK\$345 million.

The increase in revenue of the clubs and services division was mainly due to the improved results achieved by Quail Lodge & Golf Club and Peninsula Merchandising which fully offset the decrease in revenue resulting from the disposal of Thai Country Club.

Details of the operating performances of the group's individual operations are set out on pages 4 to 12 of the CEO's Review.

EBITDA and EBITDA Margin

The breakdowns of the group's combined EBITDA (earnings before interest, taxation, depreciation and amortisation), including its effective share of associates and joint venture, by business segment and by geographical segment are set out in the following tables.

With various cost saving initiatives, the group managed to reduce its operating costs by 12%. As a result, despite a decrease in combined revenue of HK12 million, the group's combined EBITDA for the six months ended 30 June 2021 amounted to HK\$35 million compared to EBITDA loss of HK\$114 million in the same period last year.

EBITDA by business segment

HK\$m	For the six months ended 30 June						2021 vs 2020
	2021			2020			
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hotels	(129)	29*	(100)	(282)	(19)*	(301)	67%
Commercial Properties	174	-	174	236	-	236	(26%)
Clubs and Services	(39)	-	(39)	(49)	-	(49)	20%
	<u>6</u>	<u>29</u>	<u>35</u>	<u>(95)</u>	<u>(19)</u>	<u>(114)</u>	n/a

EBITDA by geographical segment

HK\$m	For the six months ended 30 June						2021 vs 2020
	2021			2020			
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hong Kong	170	–	170	226	–	226	(25%)
Other Asia	(118)	28*	(90)	(148)	(2)*	(150)	40%
US and Europe	(46)	1	(45)	(173)	(17)	(190)	76%
	<u>6</u>	<u>29</u>	<u>35</u>	<u>(95)</u>	<u>(19)</u>	<u>(114)</u>	n/a

EBITDA margin

	For the six months ended 30 June					
	2021			2020		
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total
Hotels	(16%)	19%*	(10%)	(34%)	(19%)*	(32%)
Commercial Properties	50%	–	50%	58%	–	58%
Clubs and Services	(39%)	–	(39%)	(54%)	–	(54%)
Overall EBITDA margin	<u>1%</u>	<u>19%</u>	<u>3%</u>	<u>(7%)</u>	<u>(19%)</u>	<u>(8%)</u>
By region						
Hong Kong	25%	–	25%	32%	–	32%
Other Asia	(38%)	26%*	(21%)	(41%)	(4%)*	(36%)
US and Europe	(17%)	2%	(14%)	(63%)	(37%)	(60%)

* Excluding the group's share of EBITDA in respect of sale of apartments, if any, by the joint venture in Shanghai

Decrease in Fair Value of Investment Properties

The investment properties of the group were revalued as at 30 June 2021 based on an income capitalisation approach. The revaluation deficit of HK\$77 million (2020: revaluation deficit of HK\$365 million) was principally attributable to The Peninsula Arcade in Hong Kong and The Peak Tower due to a drop in market rent assumptions and The Peninsula Arcade in Beijing due to the shortening of the remaining lease term of the contractual joint venture.

Share of Results of Joint Ventures

The group, through its joint venture The Peninsula Shanghai Waitan Hotel Company Limited (PSW), owns a 50% interest in The Peninsula Shanghai Complex, which comprises The Peninsula Shanghai Hotel and shopping arcade and the adjoining Peninsula Residences apartment tower of 39 apartments, of which a of 31 apartment units have been sold as at 30 June 2021. Inclusive of hotel and arcade operations and residential leasing income, PSW generated an EBITDA of HK\$55 million in the first half of 2021 (2020: HK\$12 million). After accounting for depreciation and interest and the unrealised loss on revaluation of the hotel shopping arcade of HK\$12 million (2020: revaluation loss of HK\$11 million), PSW sustained an accounting loss of HK\$32 million (2020: HK\$69 million) and the group's share of loss amounted to HK\$16 million (2020: HK\$35 million). A summary of the operating performance of The Peninsula Shanghai are set out in the CEO's Review section on page 5.

The group also owns a 50% interest in The Peninsula Istanbul indirectly through PIT İstanbul Otel İşletmeciliği Anonim Şirketi, a joint venture incorporated in Turkey. The 2020 comparative figure includes the group's share of impairment provision of HK\$236 million in respect of The Peninsula Istanbul.

Share of Results of Associates

The group has a 20% interest in each of The Peninsula Beverly Hills and The Peninsula Paris. The group's share of net loss of these hotels amounted to HK\$33 million (2020: HK\$50 million).

A summary of the operating performances of The Peninsula Beverly Hills and The Peninsula Paris are set out in the CEO's Review section on pages 9 to 10.

Statement of Financial Position

The group's financial position as at 30 June 2021 remained strong and net assets attributable to shareholders amounted to HK\$36,459 million, representing a per share value of HK\$22.11 compared to HK\$22.34 as at 31 December 2020. The key components of the group's assets and liabilities as at 30 June 2021 and 31 December 2020 are set out in the table below.

HK\$m	As at 30 June 2021	As at 31 December 2020	2021 vs 2020
Fixed assets	46,116	45,656	1%
Properties under development for sale	4,697	4,264	10%
Other long-term assets	2,401	2,427	(1%)
Cash at banks and in hand	509	520	(2%)
Other assets	850	812	5%
	54,573	53,679	2%
Interest-bearing borrowings	(12,451)	(11,182)	11%
Lease liabilities	(3,173)	(3,266)	(3%)
Other liabilities	(2,180)	(2,079)	5%
	(17,804)	(16,527)	8%
Net assets	36,769	37,152	(1%)
<i>Represented by</i>			
Shareholders' funds	36,459	36,844	(1%)
Non-controlling interests	310	308	1%
Total equity	36,769	37,152	(1%)

Summary of Hotel, Commercial and Other Properties

The group has interests in ten operating hotels in Asia, US and Europe and three hotels under development. In addition to hotel properties, the group owns residential apartments, office towers and commercial buildings for rental purposes.

A summary of the group's hotel, commercial and other properties, including those held by associates and joint ventures, showing both the book value and the fair value is set out in the following table.

	Group's interest	30 June 2021		31 December 2020	
		Value of 100% of the property (HK\$m)			
		Fair value*	Book value	Fair value*	Book value
Hotel properties **					
The Peninsula Hong Kong	100%	11,867	9,493	11,968	9,639
The Peninsula New York	100%	2,083	1,577	2,075	1,576
The Peninsula Beijing	76.6% ^Δ	1,334	1,327	1,363	1,361
The Peninsula Tokyo	100%	1,628	1,381	1,737	1,504
The Peninsula Chicago	100%	1,200	1,119	1,200	1,150
The Peninsula Bangkok	100%	667	615	715	669
The Peninsula Manila	77.4%	49	43	50	47
The Peninsula Shanghai #	50%	3,035	2,429	3,016	2,455
The Peninsula Paris #	20%	4,999	4,835	5,158	5,082
The Peninsula Beverly Hills #	20%	2,449	296	2,449	328
		29,311	23,115	29,731	23,811
Commercial properties					
The Repulse Bay Complex	100%	17,896	17,896	17,792	17,792
The Peak Tower	100%	1,321	1,321	1,348	1,348
St. John's Building	100%	1,188	1,188	1,197	1,197
Apartments in Shanghai	100%	407	407	403	403
21 avenue Kléber	100%	720	720	743	743
The Landmark	70% ^{ΔΔ}	41	41	46	46
		21,573	21,573	21,529	21,529
Other properties					
Quail Lodge resort, golf course and vacant land	100%	286	277	286	276
Vacant land in Thailand	100%	92	92	100	100
Others	100%	381	202	381	205
		759	571	767	581
Properties under development ##					
The Peninsula London	100%	8,945	8,945	7,656	7,656
The Peninsula Yangon	70%	705	705	679	679
The Peninsula Istanbul #	50%	993	993	799	799
		10,643	10,643	9,134	9,134
Total market/book value		62,286	55,902	61,161	55,055

* The hotel properties (other than shopping arcades and offices within the hotels) and golf course are stated at cost less accumulated depreciation and any provision for impairment losses in the financial statements. Revaluation of these assets is conducted on an annual basis. The Directors consider that the fair values of these assets as at 30 June 2021 were not materially different from those as at 31 December 2020

** Including the shopping arcades and offices within the hotels

^Δ The group owns 100% economic interest of The Peninsula Beijing with a reversionary interest to the PRC partner in 2033 upon expiry of the co-operative joint venture period

^{ΔΔ} The group owns 50% economic interest of The Landmark with a reversionary interest to the Vietnamese partner in 2026 upon expiry of the joint venture period

These properties are held by associates/joint ventures

The Directors consider that the fair value of all properties under development approximates their book value

Statement of Cash Flows

The condensed consolidated statement of cash flows of the group for the six months ended 30 June 2021 is set out on page 31. The following table summarises the key cash movements for the first six months of 2021.

HK\$m	For the six months ended 30 June	
	2021	2020
EBITDA	6	(95)
Tax payment	(18)	(129)
Net cash used in operating activities before net working capital movement	(12)	(224)
Changes in working capital	17	(231)
Capital expenditure on existing assets		
– The Peak Tram	(51)	(69)
– Others	(99)	(105)
Net cash outflow after normal capital expenditure	(145)	(629)
Capital expenditure on new projects and investment		
– The Peninsula London	(1,025)	(584)
– The Peninsula Yangon	(40)	(48)
– Capital injection into the Istanbul joint venture	(27)	(212)
Net cash outflow before dividends, other payments and financing activities	(1,237)	(1,473)

Treasury Management

The group's treasury activities are centrally managed and controlled at the corporate level, where liquidity, currency and interest rate risk exposures are monitored.

The company manages its liquidity risk by constantly monitoring its loan portfolio and by obtaining sufficient borrowing facilities to meet its obligations and commitments. During the first half of 2021, the group obtained additional committed facilities totalling HK\$1.4 billion to serve as liquidity buffer in times of extreme market uncertainty. The company is in a strong funding position with HK\$6.9 billion of unused committed facilities as at end of June 2021.

During the period, the group has established its first green financing by converting its existing EUR 60m facility to green loan alongside with interest rate being reduced. This action reinforces the company's continuous commitment in sustainable luxury. Going forward the Group will look for opportunities to establish sustainability linked loans.

During the period, net borrowings, excluding lease liabilities, increased by 12% to HK\$11,942 million (31 December 2020: HK\$10,662 million) with average committed facility maturity at 1.9 years (31 December 2020: 2.2 years). This increase in net borrowings was mainly due to the progress payments made by Projects under development and cash requirements of existing operations due to COVID-19. As at 30 June 2021, the group's net external debt to total assets remained moderate at 22% (31 December 2020: 20%).

In addition to the group's consolidated borrowings, The Peninsula Beverly Hills (20% owned), The Peninsula Shanghai (50% owned) and The Peninsula Paris (20% owned) have non-recourse bank borrowings, which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the company. Including the group's share of the gross debt of these non-consolidated entities, total gross borrowings, excluding lease liabilities, would amount to HK\$13,539 million at 30 June 2021 (31 December 2020: HK\$12,307 million).

As at 30 June 2021, the group's fixed-to-floating interest rate ratio increased to 57% (31 December 2020: 53%). This was mainly due to an increase of HKD and GBP fixed rate hedging during the period. The weighted average gross interest rate for the period decreased to 1.5% (2020: 2.1%) after taking hedging activities into account.

Liquidity and Capital Commitments

As at 30 June 2021, the group's undrawn committed facilities and cash at banks and in hand amounted to HK\$6,870 million and HK\$509 million respectively.

Given the group's liquidity position, the Directors believe that the group will be able to meet the working capital requirements of its existing operations as well as the group's capital commitments, including its three hotel projects in London, Yangon and Istanbul and the Peak Tram upgrade project, which are estimated to be HK\$4,852 million as at 30 June 2021.

Consolidated Statement of Profit or Loss – unaudited (HK\$m)

		For the six months ended 30 June	
	Note	2021	2020
Revenue	3	1,264	1,334
Cost of inventories		(84)	(73)
Staff costs and related expenses		(680)	(829)
Rent and utilities		(181)	(190)
Other operating expenses		(313)	(337)
Operating profit/(loss) before interest, taxation, depreciation and amortisation (EBITDA)	3	6	(95)
Depreciation and amortisation		(250)	(283)
Operating loss		(244)	(378)
Interest income		2	3
Financing charges	4	(77)	(74)
Net financing charges		(75)	(71)
Loss after net financing charges	5	(319)	(449)
Share of results of joint ventures	11	(16)	(271)
Share of results of associates	12	(33)	(50)
Decrease in fair value of investment properties	9(d)	(77)	(365)
Provision for impairment loss	9(c)	–	(93)
Loss before taxation		(445)	(1,228)
Taxation			
Current tax	6	(30)	(32)
Deferred tax	6	25	32
Loss for the period		(450)	(1,228)
Loss attributable to:			
Shareholders of the company		(452)	(1,197)
Non-controlling interests		2	(31)
Loss for the period		(450)	(1,228)
Loss per share, basic and diluted (HK\$)	7	(0.27)	(0.73)

Consolidated Statement of Comprehensive Income – unaudited (HK\$m)

	For the six months ended 30 June	
	2021	2020
Loss for the period	(450)	(1,228)
Other comprehensive income for the period, net of tax		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of:		
– financial statements of subsidiaries outside Hong Kong	115	(294)
– financial statements of joint ventures	(9)	(8)
– financial statements of and loans to an associate	(16)	(3)
– hotel operating rights	(15)	(1)
	75	(306)
Cash flow hedges:		
– effective portion of changes in fair value	(18)	(1)
– transfer from equity to profit or loss	10	8
– transfer to exchange reserve	–	9
Other comprehensive income	67	(290)
Total comprehensive income for the period	(383)	(1,518)
Total comprehensive income attributable to:		
Shareholders of the company	(385)	(1,474)
Non-controlling interests	2	(44)
Total comprehensive income for the period	(383)	(1,518)

Consolidated Statement of Financial Position – unaudited (HK\$m)

	Note	As at 30 June 2021	As at 31 December 2020
Non-current assets			
Investment properties		32,346	32,407
Other properties, plant and equipment		13,770	13,249
	9	46,116	45,656
Properties under development for sale	10	4,697	4,264
Interest in joint ventures	11	1,267	1,265
Interest in associates	12	528	560
Hotel operating rights	13	510	532
Deferred tax assets		96	70
		53,214	52,347
Current assets			
Inventories		80	84
Trade and other receivables	14	710	669
Amount due from a joint venture		60	59
Cash at banks and in hand		509	520
		1,359	1,332
Current liabilities			
Trade and other payables	15	(1,377)	(1,289)
Interest-bearing borrowings	16	(2,900)	(1,897)
Derivative financial instruments		(3)	(5)
Current taxation		(46)	(34)
Lease liabilities		(155)	(143)
		(4,481)	(3,368)
Net current liabilities		(3,122)	(2,036)
Total assets less current liabilities		50,092	50,311
Non-current liabilities			
Interest-bearing borrowings	16	(9,551)	(9,285)
Trade and other payables	15	(115)	(117)
Net defined benefit retirement obligations		(22)	(22)
Derivative financial instruments		(16)	(5)
Deferred tax liabilities		(601)	(607)
Lease liabilities		(3,018)	(3,123)
		(13,323)	(13,159)
Net assets		36,769	37,152
Capital and reserves			
Share capital	17	5,837	5,837
Reserves		30,622	31,007
Total equity attributable to shareholders of the company		36,459	36,844
Non-controlling interests		310	308
Total equity		36,769	37,152

Consolidated Statement of Changes in Equity – unaudited (HK\$m)

	Attributable to shareholders of the Company								
	Note	Reserves					Total	Non-controlling interests	Total equity
		Share capital	Hedging reserve	Exchange and other reserves	Retained profits	Total reserves			
Balance at 31 December 2019 and 1 January 2020		5,732	(38)	(345)	33,705	33,322	39,054	675	39,729
Changes in equity for the six months ended 30 June 2020									
Loss for the period		–	–	–	(1,197)	(1,197)	(1,197)	(31)	(1,228)
Other comprehensive income		–	16	(293)	–	(277)	(277)	(13)	(290)
Total comprehensive income for the period		–	16	(293)	(1,197)	(1,474)	(1,474)	(44)	(1,518)
Dividends approved in respect of the previous year	8	105	–	–	(147)	(147)	(42)	–	(42)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	–	27	27
Balance at 30 June 2020 and 1 July 2020		5,837	(22)	(638)	32,361	31,701	37,538	658	38,196
Changes in equity for the six months ended 31 December 2020									
Loss for the period		–	–	–	(743)	(743)	(743)	(9)	(752)
Other comprehensive income		–	12	715	–	727	727	(12)	715
Total comprehensive income for the period		–	12	715	(743)	(16)	(16)	(21)	(37)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	–	3	3
Dividends paid to non-controlling interests		–	–	–	–	–	–	(5)	(5)
Transaction with non-controlling interests		–	–	–	(678)	(678)	(678)	–	(678)
Reduction of non-controlling interests resulting from deconsolidation of a subsidiary		–	–	–	–	–	–	(327)	(327)
Balance at 31 December 2020 and 1 January 2021		5,837	(10)	77	30,940	31,007	36,844	308	37,152
Changes in equity for the six months ended 30 June 2021									
Loss for the period		–	–	–	(452)	(452)	(452)	2	(450)
Other comprehensive income		–	(8)	75	–	67	67	–	67
Total comprehensive income for the period		–	(8)	75	(452)	(385)	(385)	2	(383)
Balance at 30 June 2021		5,837	(18)	152	30,488	30,622	36,459	310	36,769

Condensed Consolidated Statement of Cash Flows – unaudited (HK\$m)

	Note	For the six months ended 30 June	
		2021	2020
Operating activities			
EBITDA		6	(95)
Tax paid		(18)	(129)
Net cash used in operating activities before changes in working capital		(12)	(224)
Changes in working capital		17	(231)
Net cash generated from/(used in) operating activities		5	(455)
Investing activities			
Payment for The Peninsula London Residences under development for sale		(332)	(180)
Capital expenditure on The Peninsula hotels in London and Yangon		(733)	(452)
Capital injection into The Peninsula Istanbul joint venture		(27)	(212)
Capital expenditure on existing assets		(150)	(174)
Capital/shareholders' loan injections into associates		(17)	(6)
Cash injected from a non-controlling shareholder		–	27
Net cash used in investing activities		(1,259)	(997)
Financing activities			
Interest received		3	3
Interest and other financing charges		(86)	(72)
Net withdrawal of interest-bearing bank deposits with maturity of more than three months		1	3
Net increase in bank borrowings		1,395	1,527
Capital element of lease rentals paid		(18)	(24)
Interest element of lease rentals paid		(51)	(48)
Dividends paid to shareholders of the company	17	–	(42)
Net cash generated from financing activities		1,244	1,347
Net decrease in cash and cash equivalents		(10)	(105)
Cash and cash equivalents at 1 January		506	680
Effect of changes in foreign exchange rates		–	(8)
Cash and cash equivalents at 30 June (note)		496	567

Note Analysis of cash and cash equivalents

	As at 30 June	
	2021	2020
Interest-bearing bank deposits	228	347
Cash at banks and in hand	281	234
Total cash at banks and in hand	509	581
Less: Interest-bearing bank deposits with maturity of more than three months	(13)	(14)
Cash and cash equivalents in the condensed consolidated statement of cash flows	496	567

Total cash at banks and in hand at the end of the reporting period include deposits with banks of HK\$259 million (30 June 2020: HK\$236 million) held by certain subsidiaries outside Hong Kong which are subject to prevailing regulations and foreign exchange restrictions.

Notes to the unaudited interim financial report

1. Basis of preparation

The unaudited Interim Financial Report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue by the Board of Directors of the company on 4 August 2021.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are first effective for the current accounting period of the group. Details of these relevant changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Interim Financial Report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (HKFRSs).

The Interim Financial Report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2020 that is included in the Interim Financial Report as comparative information does not constitute the company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. Changes in accounting policies

The HKICPA has issued a number of new amendments to HKASs and HKFRSs that are effective for the current accounting period of the group for the first time. Of these, the following developments are relevant to the group's financial statements:

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – phase 2*

Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021 (2021 amendment)*

The group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – phase 2*

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“IBOR reform”).

The above amendments do not have an impact on this interim financial report.

3. Segment reporting (HK\$m)

The group is organised on a divisional basis. In a manner consistent with the way in which information is reported internally to the group's senior executive management for the purposes of resource allocation and performance assessment, the group's reportable segments are as follows:

Hotels	This segment includes revenue generated from operating hotels, leasing of commercial shopping arcades and office premises located within the hotel buildings.
Commercial Properties	This segment is engaged in the development, leasing and sale of luxury residential apartments, leasing of retail and office premises (other than those in hotel properties), as well as operating food and beverage outlets in such premises.
Clubs and Services	This segment is engaged in the operation of golf course, the Peak Tram, wholesaling and retailing of food and beverage products, laundry services and the provision of management and consultancy services for clubs.

No operating segments have been aggregated to form the reportable segments.

3. Segment reporting (HK\$m) *continued*

(a) Segment results (HK\$m)

The results of the group's reportable segments for the six months ended 30 June 2021 and 2020 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	2021	2020	2021	2020	2021	2020	2021	2020
Reportable segment revenue*	818	834	345	409	101	91	1,264	1,334
Reportable segment operating (loss)/profit before interest, taxation, depreciation and amortisation (EBITDA)	(129)	(282)	174	236	(39)	(49)	6	(95)
Depreciation and amortisation	(227)	(250)	(13)	(13)	(10)	(20)	(250)	(283)
Segment operating (loss)/profit	(356)	(532)	161	223	(49)	(69)	(244)	(378)
<i>* Analysis of segment revenue</i>								
	<u>2021</u>	<u>2020</u>						
Hotels								
– Rooms	241	261						
– Food and beverage	233	215						
– Shopping arcades and offices	254	253						
– Others	90	105						
	<u>818</u>	<u>834</u>						
Commercial Properties								
– Residential properties	222	261						
– Offices	51	51						
– Shopping arcades	72	97						
	<u>345</u>	<u>409</u>						
Clubs and Services								
– Golf clubs	45	50						
– Peak Tram operation	13	12						
– Peninsula Merchandising	26	13						
– Others	17	16						
	<u>101</u>	<u>91</u>						
Total	<u>1,264</u>	<u>1,334</u>						

Reconciliation of segment operating (loss)/profit to the loss before taxation in the consolidated statement of profit or loss is not presented as the segment operating (loss)/profit is the same as the operating loss presented in the consolidated statement of profit or loss.

3. Segment reporting (HK\$m) *continued*

(b) Segment assets (HK\$m)

Segment assets include all tangible and intangible assets and current assets held directly by the respective segments.

The group's segment assets and unallocated assets as at 30 June 2021 and 31 December 2020 are set out as follows:

	As at 30 June 2021	As at 31 December 2020
Reportable segment assets		
Hotels	26,576	26,190
Commercial properties	26,492	26,029
Clubs and services	840	811
	<u>53,908</u>	<u>53,030</u>
Unallocated assets		
Deferred tax assets	96	70
Amount due from a joint venture	60	59
Cash at banks and in hand	509	520
Consolidated total assets	<u>54,573</u>	<u>53,679</u>

4. Financing charges (HK\$m)

	For the six months ended 30 June	
	2021	2020
Interest on bank borrowings	53	55
Interest on lease liabilities	75	72
Other borrowing costs	23	20
Total interest expense on financial liabilities carried at amortised cost	<u>151</u>	<u>147</u>
Derivative financial instruments: – cash flow hedges, transfer from equity	<u>11</u>	<u>10</u>
	162	157
Less: Interest expenses capitalised into – properties under development*	(60)	(62)
– right-of-use asset [#]	(25)	(21)
	<u>77</u>	<u>74</u>

* The borrowing costs have been capitalised at an average rate of 1.94% (2020: 2.58%)

[#] Interest on lease liabilities have been capitalised at an average rate of 4.9% (2020: 4.9%)

5. Loss after net financing charges (HK\$m)

Loss after net financing charges is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2021	2020
Amortisation	7	7
Depreciation		
– owned properties, plants and equipment	214	243
– right-of-use assets	29	33
Government grants and subsidies	(16)	(47)

6. Taxation (HK\$m)

	For the six months ended 30 June	
	2021	2020
Current tax		
– Hong Kong profits tax	24	28
– Overseas tax	6	4
	30	32
Deferred tax		
– Decrease in net deferred tax liabilities relating to revaluation of overseas investment properties	(3)	(26)
– Increase in deferred tax assets relating to tax losses recognised	(29)	(1)
– Increase/(decrease) in net deferred tax liabilities relating to other temporary differences	7	(5)
	(25)	(32)
	5	–

The provision for Hong Kong Profits Tax is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits for the period. Taxation for subsidiaries outside Hong Kong is calculated at the current tax rates applicable in the relevant jurisdictions.

7. Loss per share

(a) Loss per share – basic

	For the six months ended 30 June	
	2021	2020
Loss attributable to shareholders of the company (HK\$m)	(452)	(1,197)
Weighted average number of shares in issue (million shares)	1,649	1,635
Loss per share (HK\$)	(0.27)	(0.73)
	<u>2021</u>	<u>2020</u>
	<i>(million shares)</i>	<i>(million shares)</i>
<i>Issued shares at 1 January</i>	1,649	1,634
<i>Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2020 final dividend (2020: 2019 final dividend)</i>	–	1
<i>Weighted average number of shares in issue at 30 June</i>	1,649	1,635

(b) Loss per share – diluted

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2021 and 2020 and hence the diluted loss per share is the same as the basic loss per share.

8. Dividends (HK\$m)

Dividends payable to shareholders of the company attributable to the previous financial year, approved and paid during the interim period

	For the six months ended 30 June	
	2021	2020
Final dividend in respect of the previous financial year, approved and paid during the interim period, for year ended 31 December 2020: Nil (year ended 31 December 2019: 9 HK cents per share)	–	147

9. Investment properties, other properties, plant and equipment (HK\$m)

(a) Movement of investment properties, other properties, plant and equipment

	Land	Right-of-use assets	Hotel and other buildings held for own use	Motor vehicles, plant and equipment	Construction in progress	Sub-total	Investment properties	Total
Cost or valuation:								
At 1 January 2021	735	3,263	8,832	5,119	4,571	22,520	32,407	54,927
Exchange adjustments	(28)	(101)	(197)	(72)	56	(342)	(28)	(370)
Additions	-	25	2	31	869	927	44	971
Disposals	-	(5)	-	(15)	-	(20)	-	(20)
Fair value adjustment	-	-	-	-	-	-	(77)	(77)
At 30 June 2021	<u>707</u>	<u>3,182</u>	<u>8,637</u>	<u>5,063</u>	<u>5,496</u>	<u>23,085</u>	<u>32,346</u>	<u>55,431</u>
Representing:								
Cost	707	3,182	8,637	5,063	5,496	23,085	-	23,085
Valuation – 2021	-	-	-	-	-	-	32,346	32,346
	<u>707</u>	<u>3,182</u>	<u>8,637</u>	<u>5,063</u>	<u>5,496</u>	<u>23,085</u>	<u>32,346</u>	<u>55,431</u>
Accumulated depreciation and impairment losses:								
At 1 January 2021	278	323	4,529	4,141	-	9,271	-	9,271
Exchange adjustments	(16)	(8)	(95)	(60)	-	(179)	-	(179)
Charge for the period	-	29	88	126	-	243	-	243
Written back on disposals	-	(5)	-	(15)	-	(20)	-	(20)
At 30 June 2021	<u>262</u>	<u>339</u>	<u>4,522</u>	<u>4,192</u>	<u>-</u>	<u>9,315</u>	<u>-</u>	<u>9,315</u>
Net book value:								
At 30 June 2021	<u>445</u>	<u>2,843</u>	<u>4,115</u>	<u>871</u>	<u>5,496</u>	<u>13,770</u>	<u>32,346</u>	<u>46,116</u>
At 31 December 2020	<u>457</u>	<u>2,940</u>	<u>4,303</u>	<u>978</u>	<u>4,571</u>	<u>13,249</u>	<u>32,407</u>	<u>45,656</u>

(b) Additions and disposals

During the six months ended 30 June 2021, the group acquired items of fixed assets with a cost of HK\$971 million, of which HK\$849 million related to development costs incurred for the projects in London and Yangon (six months ended 30 June 2020: HK\$645 million, of which HK\$507 million, related to development costs incurred for the projects in London and Yangon). The net book value for items of properties, plant and equipment disposed of during the six months ended 30 June 2021 and 2020 were insignificant in value.

9. Investment properties, other properties, plant and equipment (HK\$m) *continued*

(c) Impairment provision

The group assessed the recoverable amounts of its other properties, plant and equipment at the reporting date in accordance with the accounting policy. Based on the assessment, the Directors considered that no provision for or reversal of impairment was required as at 30 June 2021.

As at 30 June 2020, the Directors considered that, due to the disruption of business by the outbreak of the COVID-19 and a relatively short remaining lease term, The Peninsula Manila's recoverable amount was lower than its carrying value. As a result, the carrying value of The Peninsula Manila was written down to its recoverable amount and an impairment loss of HK\$93 million was recognised in the consolidated statement of profit or loss for the six months ended 30 June 2020. The recoverable amount of this hotel is the higher of its fair value less costs of disposal and its value in use based on the opinion of independent firm of professional valuer obtained by the group using the income capitalisation approach. The fair value on which the recoverable amount is based on is categorised as a Level 3 measurement (based on significant unobservable inputs) in accordance with HKFRS 13.

(d) Valuation of investment properties

All investment properties of the group were revalued as at 30 June 2021 using the income capitalisation approach by applying a capitalisation rate to the expected rental income adjusted for the quality and location of the building, which are the same valuation techniques as were used by the valuers when carrying out the December 2020 valuations. The changes in fair value of the investment properties during the period were accounted for in the consolidated statement of profit or loss. The valuations were carried out by valuers independent of the group, who have staff with recent and relevant experience in the location and category of the properties being valued. Discussions have been held with the valuers on the valuation assumptions and valuation results when the valuation is performed at the reporting date.

As a result of the revaluation, a net revaluation deficit of HK\$77 million (six month ended 30 June 2020: revaluation deficit of HK\$365 million) has been included in the consolidated statement of profit or loss.

10. Properties under development for sale

Properties under development for sale comprise 25 luxury apartments which are part of The Peninsula London development project. The land area of the overall site is approximately 67,000 square feet and the planned gross floor area of the apartments is approximately 119,000 square feet.

The balance of properties under development for sale will be recovered or recognised as cost of inventories after more than one year.

Reservation fees and pre-sale deposits paid by buyers of the apartments are held in escrow accounts in accordance with the local regulations in the UK and therefore, such fees and deposits are not reflected in the consolidated statement of financial position.

11. Interest in joint ventures (HK\$m)

	As at 30 June 2021	As at 31 December 2020
Share of net assets	746	744
Loans to a joint venture (<i>note 11(b)</i>)	521	521
	1,267	1,265

(a) Details of the joint ventures are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Shanghai Waitan Hotel Company Limited (PSW)	Incorporated	PRC	US\$117,500,000 (31 December 2020: US\$117,500,000)	50%	Hotel investment and apartments held for sale
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)*	Incorporated	Turkey	TRY979,133,400 (31 December 2020: TRY921,251,400)	50%	Hotel investment

* PIT was incorporated on 10 February 2016 and the group's interest in this joint venture is held indirectly by the company. PIT has redevelopment and operating rights in respect of a property within the Salıpazarı Port Project Area in Istanbul, Turkey. The group, together with its joint venture partner, intend to redevelop the property into The Peninsula Istanbul. The net assets of PIT at 30 June 2021 mainly comprised of property under development, and cash at bank and in hand of HK\$993 million (31 December 2020: HK\$799 million) and HK\$105 million (31 December 2020: HK\$97 million) respectively.

11. Interest in joint ventures (HK\$m) *continued*

- (b) The loans to The Peninsula Shanghai (BVI) Limited, holding company of PSW, are dominated in US dollars unsecured, interest free and have no fixed repayment terms.
- (c) PSW has pledged its properties inclusive of the land use rights as security for a loan facility amounting to RMB2,500 million (HK\$3,002 million) (31 December 2020: RMB2,500 million (HK\$2,971 million)). As at 30 June 2021, the loan drawn down amounted to RMB789 million (HK\$947 million) (31 December 2020: RMB849 million (HK\$1,009 million)). The net carrying amount of these pledged assets amounted to RMB2,484 million (HK2,983 million) (31 December 2020: RMB2,535 million (HK\$3,013 million)).
- (d) In line with the group's accounting policy, the joint ventures assessed the recoverable amounts of their assets at the reporting date in accordance with HKAS 36. Based on the assessment, no provision for or reversal of impairment was required as at 30 June 2021.

As at 30 June 2020, an impairment provision of HK\$472 million in respect of the development in The Peninsula Istanbul was made by PIT due to programme delays resulting from the disruption brought about by the outbreak of COVID-19 coronavirus and unforeseen site conditions. The group's share of impairment provision of HK\$236 million was included as share of results of joint ventures in the consolidated statement of profit or loss for the six months ended 30 June 2020.

11. Interest in joint ventures (HK\$m) *continued*

- (e) Set out below is a summary of the financial information of PSW, of which the group has a 50% share:

	As at 30 June 2021	As at 31 December 2020
Non-current assets	2,582	2,617
Cash at bank and in hand	102	128
Apartments held for sale and other current assets	444	472
Current liabilities	(378)	(389)
Non-current liabilities	(2,326)	(2,386)
Net assets	424	442
	For the six months ended 30 June	
	2021	2020
Proceeds from sales of apartments	–	198
Hotel revenue and rental income	215	104
	215	302
Carrying value of apartments sold*	–	(181)
Cost of inventories and operating expenses	(160)	(109)
	(160)	(290)
EBITDA	55	12
Depreciation	(49)	(45)
Net financing charges	(28)	(26)
Profit before non-operating items	(22)	(59)
Non-operating items, net of tax**	(10)	(10)
Loss for the period	(32)	(69)
The group's share of the results of PSW	(16)	(35)

* The apartments were previously accounted for as investment properties, which were stated at fair value, and reclassified to apartments held for sale in 2017. The unrealised gains of the apartments arising from revaluation were recognised as non-operating items in the previous years. During the six months ended 30 June 2020, the carrying value of apartments sold included cumulative revaluation gains, net of tax, of HK\$55 million which were realised upon disposal

** The non-operating items mainly represented the unrealised loss on revaluation of the hotel's commercial arcade, net of tax

12. Interest in associates (HK\$m)

	As at 30 June 2021	As at 31 December 2020
Interest in associates	<u>528</u>	<u>560</u>

- (a) Details of the principal unlisted associates, which are accounted for using the equity method in the group's consolidated financial statements, are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
19 Holding SAS (19 Holding) **	Incorporated	France	EUR1,000	20%	Investment holding
Majestic EURL (Majestic)	Incorporated	France	EUR80,000,000	20%	Hotel investment and investment holding
Le 19 Avenue Kléber	Incorporated	France	EUR100,000	20%	Hotel operation
The Belvedere Hotel Partnership (BHP) #	Partnership	United States of America	US\$46,500,000	20%	Hotel investment

* The group's effective interest is held indirectly by the company

** 19 Holding holds a 100% direct interest in Majestic which owns The Peninsula Paris

BHP holds a 100% interest in The Peninsula Beverly Hills

- (b) Included in the balance of interest in associates are unsecured long-term loans to 19 Holding of HK\$485 million (31 December 2020: HK\$496 million). The loans were made pro rata to the group's shareholding in 19 Holding; bear interest rates at 3.25% and are repayable in December 2022.
- (c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR227 million (HK\$2,099 million) (31 December 2020: EUR224 million (HK\$2,136 million)). As at 30 June 2021, the loan drawn down amounted to EUR227 million (HK\$2,099 million) (31 December 2020: EUR224 million (HK\$2,136 million)). As at 30 June 2021, the net carrying amount of these pledged assets amounted to EUR523 million (HK\$4,835 million) (31 December 2020: EUR533 million (HK\$5,082 million)).
- (d) BHP has pledged its hotel property to an independent financial institution as security for BHP's loan facility, amounting to US\$145 million (HK\$1,131 million) (31 December 2020: US\$145 million (HK\$1,131 million)). As at 30 June 2021, the loan drawn down amounted to US\$125 million (HK\$975 million) (31 December 2020: US\$125 million (HK\$975 million)). As of 30 June 2021, the net carrying amount of the pledged assets amounted to US\$38 million (HK\$296 million) (31 December 2020: US\$42 million (HK\$328 million)).

12. Interest in associates (HK\$m) *continued*

- (e) Set out below is a summary of the aggregate financial information of the associates, of which the group has a 20% share:

	For the six months ended 30 June	
	2021	2020
EBITDA	6	(84)
Depreciation	(121)	(129)
Interest	(48)	(41)
Net loss from continuing operations	(163)	(254)
Other comprehensive income	-	-
Total comprehensive income	(163)	(254)
The group's share of results of the associates	(33)	(50)

13. Hotel operating rights

Hotel operating rights represent the cost attributable to securing the group's rights to operate The Peninsula Beverly Hills and The Peninsula Paris. The amortisation charge for the period is included in "Depreciation and amortisation" in the consolidated statement of profit or loss.

	2021
Cost	
At 1 January	735
Exchange adjustments	(17)
At 30 June	718
Accumulated amortisation	
At 1 January	(203)
Exchange adjustments	2
Amortisation for the period	(7)
At 30 June	(208)
Net book value	510

14. Trade and other receivables (HK\$m)

	As at 30 June 2021	As at 31 December 2020
Trade debtors	272	240
Rental deposits, payments in advance and other receivables	435	425
Tax recoverable	3	4
	710	669

The amount of the group's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK\$196 million (31 December 2020: HK\$167 million). The remaining trade and other receivables are expected to be recovered or recognised as expenses within one year.

14. Trade and other receivables (HK\$m) *continued*

The group has no concentrations of credit risk in view of its large number of customers. The group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. In respect of the group's rental income from operating leases, rentals are normally received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. As such, the group normally does not obtain collateral from its customers.

The ageing analysis of trade debtors is as follows:

	As at 30 June 2021	As at 31 December 2020
Current	240	220
Less than one month past due	27	13
One to three months past due	4	3
More than three months but less than 12 months past due	1	4
Amounts past due	32	20
	272	240

Trade debtors are normally due within 30 days from the date of billing. The group is actively monitoring the past due receivables and various measures are being taken to reduce the group's potential bad debts.

15. Trade and other payables (HK\$m)

	As at 30 June 2021	As at 31 December 2020
Trade creditors	60	79
Interest payable	5	7
Accruals for properties, plant and equipment and properties under development for sale	299	243
Tenants' deposits	322	320
Guest deposits and gift vouchers	220	176
Other payables	586	581
Financial liabilities measured at amortised cost	1,492	1,406
Less: Non-current portion of trade and other payables	(115)	(117)
Current portion of trade and other payables	1,377	1,289

The amount of trade and other payables of the group expected to be settled or recognised as income after more than one year is HK\$202 million (31 December 2020: HK\$210 million). The remaining trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

15. Trade and other payables (HK\$m) *continued*

The ageing analysis of trade creditors is as follows:

	As at 30 June 2021	As at 31 December 2020
Less than three months	55	73
Three to six months	2	3
More than six months	3	3
	<u>60</u>	<u>79</u>

16. Interest-bearing borrowings (HK\$m)

	As at 30 June 2021	As at 31 December 2020
Total facilities available:		
Term loans and revolving credits	19,243	17,750
Uncommitted facilities, including bank overdrafts	398	416
	<u>19,641</u>	<u>18,166</u>
Utilised at 30 June 2021/31 December 2020:		
Term loans and revolving credits	12,373	11,234
Uncommitted facilities, including bank overdrafts	129	13
	<u>12,502</u>	<u>11,247</u>
Less: Unamortised financing charges	(51)	(65)
	<u>12,451</u>	<u>11,182</u>
<i>Represented by:</i>		
Long-term bank loans, repayable within one year	2,900	1,897
Short-term bank loans and overdrafts, repayable on demand	–	–
	<u>2,900</u>	<u>1,897</u>
Long-term bank loans, repayable:		
Between one and two years	7,434	2,640
Between two and five years	1,817	6,334
Over five years	351	376
	<u>9,602</u>	<u>9,350</u>
Less: Unamortised financing charges	(51)	(65)
Non-current portion of long-term bank loans	9,551	9,285
Total interest-bearing borrowings	<u>12,451</u>	<u>11,182</u>

Interest-bearing borrowings are carried at amortised cost. The non-current portion of long-term bank loans is not expected to be settled within one year and all borrowings are unsecured.

17. Share capital

	At 30 June 2021		At 31 December 2020	
	No. of shares (million)	HK\$m	No. of shares (million)	HK\$m
Ordinary shares, issued and fully paid				
At 1 January	1,649	5,837	1,634	5,732
Shares issued under scrip dividend scheme	–	–	15	105
At 30 June 2021/31 December 2020	<u>1,649</u>	<u>5,837</u>	<u>1,649</u>	<u>5,837</u>

During the six months ended 30 June 2020, the company issued and allotted approximately 15 million new ordinary shares at HK\$7.026 per share in respect of the 2019 final scrip dividend. The new shares issued have resulted in an increase in fully paid share capital of approximately HK\$105 million. All ordinary shares issued during the period rank pari passu in all respects with the existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

18. Fair value measurement of financial instruments

(a) Financial instruments carried at fair value

HKFRS 13, *Fair value measurement* requires disclosure of the fair value of the group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

All derivative financial instruments carried at fair value are categorised as falling under Level 2 of the fair value hierarchy.

(b) Fair values of financial instruments carried at other than fair value

Financial instruments are carried at amounts not materially different from their fair values as at 30 June 2021. The carrying amounts of the loans to an associate (note 12) approximate their fair values. The loans to a joint venture (note 11(b)) are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose its fair value.

19. Commitments (HK\$m)

Capital commitments outstanding as at 30 June 2021 not provided for in the Interim Financial Report were as follows:

	As at 30 June 2021			As at 31 December 2020		
	Contracted for	Authorised but not contracted for	Total	Contracted for	Authorised but not contracted for	Total
Capital commitments in respect of existing properties and new projects	3,115	1,069	4,184	3,141	2,154	5,295
The group's share of capital commitments of joint ventures and associates	415	253	668	375	334	709
	<u>3,530</u>	<u>1,322</u>	<u>4,852</u>	<u>3,516</u>	<u>2,488</u>	<u>6,004</u>

The group's capital commitments include the development costs to be incurred for The Peninsula London and The Peninsula Yangon projects as well as the capital expenditure for the major upgrade project to be undertaken by The Peak Tram.

The group's share of development cost in respect of The Peninsula Istanbul is included in the share of capital commitments of joint ventures.

20. Material related party transactions

There were no material related party transactions during the six months ended 30 June 2021, other than the nature of those as disclosed in the group's annual financial statements for the year ended 31 December 2020.

Other Corporate Information

Corporate Governance

Good corporate governance sustains the group through the changing regulatory and market environment over the long term, and is all the more important in these uncertain times. The Board of Directors sees corporate governance as an integral part of the company's business strategy. By putting in place the right governance framework, the Board of Directors has set a culture of integrity, accountability and transparency that permeates throughout the group. This in turn fosters and maintains shareholders' and stakeholders' confidence in the company. The Governance section in the 2020 Annual Report sets out the commitment of the Board of Directors and senior management to the high standards of corporate governance, which supports the development of strong governance culture throughout the group.

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code) forms the basis of the HSH Corporate Governance Code (HSH Code). The Board of Directors recognises the principles underlying the CG Code and have applied all of them to the HSH Code. Throughout the six months ended 30 June 2021, the company has complied with all of the code provisions and recommended best practices in the CG Code, save for the publication of quarterly financial results and disclosure of individual senior management remuneration, as set out in the Corporate Governance Report on page 120 of the 2020 Annual Report.

Risk Management and Internal Control

Effective risk management plays an integral role in the overall achievement of the group's strategic objectives which are to ensure the resilience of our business for the long term, optimise the quality of our asset portfolio, deliver the highest standards of luxury, and to preserve the tradition of integrity and respect for our heritage. Details of the group's approach to risk governance and principal risks have been disclosed in the Governance section of the 2020 Annual Report.

The Board has considered and endorsed the Audit Committee's assessment of the effectiveness of risk management and internal control systems in the group. In particular, for the first half of 2021 no areas of concern which might materially affect the effectiveness of the group's operational, financial reporting and compliance controls were identified, and the existing risk management and internal control systems remained effective and adequate.

Corporate Responsibility and Sustainability

Moving beyond *Vision 2020*, we launched our new CRS strategy *Sustainable Luxury Vision 2030* (*Vision 2030*) to help us continue stepping into the next decade as a responsible corporate citizen and remaining resilient despite the challenges we may face in the future. The *Vision 2030* focuses on our three stakeholder pillars of (i) enhancing our guest experience, (ii) empowering our people and (iii) enriching our communities, underpinned by our 10 key commitments. Details can be found in our online 2020 Corporate Responsibility and Sustainability Report (CRS Report).

The CRS Report has been prepared in accordance with the provisions as set out in Appendix 27 of the Stock Exchange's Environmental, Social and Governance Reporting Guide (ESG Guide) and the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards): Core option. The CRS Report references the International Integrated Reporting Framework from the International Integrated Reporting Council (IIRC), Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standard Board (SASB). KPMG was commissioned to conduct assurance and to provide an independent opinion on the identified elements of the CRS Report in accordance with the ESG Guide. The CRS Report is available on the websites of the company and the Stock Exchange.

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the company's listed securities by the company or any of its subsidiaries during the six months ended 30 June 2021.

Dealings in the Company's Securities by Directors and Specified Employees

The company has adopted its Code for Dealing in the Company's Securities by Directors (Securities Code) on terms no less exacting than the required standards set out in the Stock Exchange's Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (Model Code).

The company has made specific enquiries with all the Directors regarding any non-compliance with the Model Code and the Securities Code during the six months ended 30 June 2021. The Directors have confirmed their full compliance with the required standard set out in the Model Code and the Securities Code.

The company has further extended the Securities Code to specified employees including senior management who may from time to time come across inside information. All specified employees have also confirmed their full compliance with the required standards set out in the adopted Code for Dealing in the Company's Securities by Specified Employees.

Interim Dividend

Given the underlying loss of the company, the Board of Directors has resolved not to declare an interim dividend for the six months ended 30 June 2021 (2020: Nil).

Interim Report

The Interim Report of the company will be dispatched to the shareholders as well as published on the websites of the company and the Stock Exchange on or about 18 August 2021.

By Order of the Board

Christobelle Liao

Company Secretary

Hong Kong, 4 August 2021

As at the date of this announcement, the Board of Directors of the company comprises the following Directors:

Non-Executive Chairman
The Hon. Sir Michael Kadoorie

Non-Executive Deputy Chairman
Andrew Clifford Winawer Brandler

Executive Directors
Managing Director and Chief Executive Officer
Clement King Man Kwok

Chief Operating Officer
Peter Camille Borer

Chief Financial Officer
Christopher Shih Ming Ip

Non-Executive Directors
William Elkin Mocatta
John Andrew Harry Leigh
Nicholas Timothy James Colfer
James Lindsay Lewis
Philip Lawrence Kadoorie

Independent Non-Executive Directors
Dr the Hon. Sir David Kwok Po Li
Patrick Blackwell Paul
Pierre Roger Boppe
Dr William Kwok Lun Fung
Dr Rosanna Yick Ming Wong
Dr Kim Lesley Winser
Ada Koon Hang Tse