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

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THE HONGKONG AND SHANGHAI HOTELS, LIMITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

HIGHLIGHTS

Key financial results

- Turnover decreased by 18% to HK$1,962 million.
- EBITDA decreased by 41% to HK$411 million.
- Profit before non-operating items and taxation decreased by 62% to HK$182 million.
- Profit attributable to shareholders decreased by 71% to HK$462 million.
- Earnings per share decreased by 71% to HK$0.32.
- Shareholders' funds as at 30 June 2009 amounted to HK$21.3 billion (HK$14.49 per share).
- Adjusted net asset value as at 30 June 2009 amounted to HK$26.3 billion (HK$17.96 per share).
- Gearing ratio increased to 9% (2008: 5%).
- Interim dividend of 3 HK cents (2008: 6.5 HK cents) per share.

Milestones

- Construction and fit-out of The Peninsula Shanghai hotel is close to completion for soft opening in the last quarter of 2009.
- HSH entered into definitive agreements with Qatari Diar Real Estate Investment Company for the development of a Peninsula hotel in Paris, France. Design and construction of this hotel is underway with the opening of the hotel scheduled in 2012.
- Renovation of The Repulse Bay Arcade is nearing completion and the Arcade will be re-opening in phases during the autumn of this year.
- HSH's wholly-owned subsidiary, HSH Financial Services Limited, signed a HK$1.225 billion four year term loan facility with a group of seven international banks.

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THE HONGKONG AND SHANGHAI HOTELS, LIMITED FIRST HALF YEAR OPERATING RESULTS

Hong Kong, 26 August 2009 – The unaudited interim results announced today by The Hongkong and Shanghai Hotels, Limited (HSH) reflect the difficult business environment in which the Group has operated for the first six months of 2009.

Commenting on the Group's interim results, **Managing Director and Chief Executive Officer Mr. Clement K.M. Kwok** said, "The Hotels division suffered a significant drop in revenue as compared to the first six months of last year, as occupancies and room rates continued to be adversely affected by the global economic crisis, while our hotel properties in Asia have suffered during the latter part of the first half-year from travel being deterred or curtailed due to the human H1N1 virus precautionary measures imposed by various governments. In the Commercial Properties division, where our principal assets are located in Hong Kong, rental rates and occupancies have held up relatively well. The Clubs and Services division has maintained a reasonable performance in this economic environment, with consistent revenue being achieved by the Peak Tram."

The total turnover for the period amounted to HK$1,962 million, down 18% over the same period in 2008. EBITDA (earnings before interest, tax, depreciation and amortisation) decreased by 41% to HK$411 million.

After taking into account depreciation and net financing charges, profit before non-operating items and taxation amounted to HK$182 million. Revaluation gains on investment properties amounted to HK$413 million (2008: HK$1,267 million).

Profit attributable to shareholders in the six months amounted to HK$462 million. The total tax charge was HK$116 million (2008: HK$112 million), including the impact of deferred taxation.

Earnings per share were HK$0.32 (2008: HK$1.12). Excluding non-operating items and the related tax and minority interests, earnings per share decreased by 78% to HK$0.08 (2008: HK$0.37).

Shareholders' funds increased to HK$21.3 billion or HK$14.49 per share. Net borrowings increased to HK$2.1 billion and the Group's gearing ratio increased to 9% mainly due to the investment of HK$1,044 million made in respect of the Peninsula Paris project. The Company has also provided a calculation of the adjusted net assets attributable to shareholders, which after taking into account the fair market valuations of hotel properties and golf courses and a write-back of deferred taxation on property revaluation surpluses arising in Hong Kong, amounted to HK$26.3 billion or HK$17.96 per share.

The Directors have resolved to pay an interim dividend of 3 HK cents per share (2008: 6.5 HK cents per share).

Business Overview

Hotels Division

Revenue for the Hotels division in the first six months of 2009 was 22% below the same period last year. Revenue per available room (RevPAR) fell 31% in the US and 32% in Asia. Continuing strong revenue from the commercial arcades in The Peninsula Hong Kong and The Peninsula Beijing was helpful in supporting the profitability of those hotels.

In Asia, turnover for *The Peninsula Hong Kong* decreased by 16% compared to the same period in 2008. Business at this hotel was holding up relatively well during the early part of the year but was significantly adversely affected by the government's precautionary measures imposed to control the spread of the human H1N1 virus, which led to a marked reduction in room bookings. Demand has so far held up in the hotel's office and retail arcade spaces, which posted higher revenues than last year. At *The Peninsula Tokyo,* the revenue shortfall was 8% against 2008. An increase in the number of luxury hotels in Tokyo has led to intense pricing competition to offset the weak demand from domestic and international visitors. At *The Peninsula Bangkok*, the hotel's turnover was 46% below the same period in 2008. Following the political unrest in November 2008, there was a dramatic slowdown in arrivals from both domestic and long haul markets and this was further exacerbated by the civil unrest experienced in April 2009. At *The Peninsula Beijing,* there was a 32% revenue shortfall compared to the same period in 2008. The commercial operations of the hotel remained strong, with the retail arcade achieving the same level of revenue as it did in the same period last year. *The Peninsula Manila* recorded a 22% shortfall in revenue compared to the same period in 2008, impacted by the prevailing weak economic conditions.

In the US, revenue at *The Peninsula New York* was 15% below the same period in 2008. Although RevPAR decreased by 25%, the hotel has improved its position relative to its main competitors. *The Peninsula Chicago*'s revenue decreased by 31% compared to the same period in 2008. The hotel's RevPAR was 37% lower, with the greatest impact on occupancy levels being in the group and negotiated corporate segments. At *The Peninsula Beverly Hills,* the hotel's revenue reduced by 28% as compared to the same period in 2008. Corporate business travellers reduced their length of stay leading to suite sales being down by 15%. At *Quail Lodge Resort*, room occupancy was 14 percentage points lower than the same period last year and average room rate fell by 15%, driving all other revenues down.

Commercial Properties Division

Turnover from the Commercial Properties division was 2% lower than the first six months of 2008.

Turnover for *The Repulse Bay Complex* decreased by 5% compared to the same period in 2008. Whilst there has been a general drop in demand and tenant enquiries for residential property in Hong Kong, our occupancy levels have held up reasonably well and rental rates have remained stable.

Total revenue from *The Peak Tower* and *St. John's Building* increased by 1% and 9% respectively over the same period in 2008, with the Peak Tower remaining fully let. Revenue from the Sky Terrace was maintained at the same level although the number of visitors was 3% higher. Stronger rental rates in St. John's Building were sufficient to offset the reduced occupancy.

Total revenue for The Landmark increased by 23% compared to the same period in 2008. Residential and office spaces in the complex remained fully let. The monthly yield per square foot has increased substantially year-on-year due to higher demand especially for office spaces.

Clubs and Services Division

Revenue from the Clubs and Services division was 9% below the same period in 2008, with lower revenue in all businesses apart from the *Peak Tram.* Although there has been a drop in overall tourist arrivals to Hong Kong, revenue from the *Peak Tram* was consistent with the same period in 2008, with 2.3 million passengers in each period.

Revenue from *Peninsula Clubs and Consultancy Services* was in line with the same period in 2008, with increased revenue from consultancy fees and Cathay Pacific Lounges offsetting reduced management fees from other businesses.

There has been a 13% drop in revenue in *Peninsula Merchandising*, which has wholesale and retail merchandise operations in Hong Kong, Japan and other countries. Revenue in *Tai Pan Laundry* has fallen by 12% compared to 2008, although lower diesel oil prices and controlled costs resulted in similar profit levels to 2008.

New Hotel Projects

Significant progress has been made in The Peninsula Shanghai project in the first six months of the year. The construction and fit-out of the hotel tower is close to completion and on schedule to begin operation with a soft opening in the last quarter of 2009. Guestroom floors were handed over in phases and the operations management team moved into the hotel in mid May to begin pre-opening preparations. By the end of June, the number of staff had grown to 171. Marketing for the hotel also commenced with the hotel starting to accept reservations in early June, while senior executives travelled to Europe, the United States, as well as key cities in Asia and mainland China to promote the hotel. In the hotel apartment tower, final designs and fit-out for the 39 apartments are underway. It is expected that the grand opening of the entire complex will take place in spring 2010, prior to the commencement of the World Expo in Shanghai.

In January 2009, HSH entered into definitive agreements with Qatari Diar Real Estate Investment Company (Qatari Diar) for the development of a Peninsula hotel in Paris, France in an historic building located on Avenue Kleber, close to the Arc de Triomphe. HSH has invested a total amount of Euro 102 million (HK$1.04 billion) into a subsidiary of Qatari Diar, called Al Maha Majestic S.à r.l., in which HSH has a 20% shareholding interest and which owns the building to be developed into The Peninsula Paris hotel. The total renovation cost of the project is expected to be in the region of Euro 250 million (HK$2.7 billion), in relation to which HSH's expected commitment is Euro 50 million (HK$0.6 billion). It is expected that the renovation cost will be substantially financed by borrowings at the project level. The hotel will be constructed in accordance with Peninsula standards and will be managed by Peninsula for a period of 50 years.

Design and construction of this hotel is underway with the appointment of an architect, interior designer and project manager. The hotel is expected to open in 2012 and will be Peninsula's first hotel in Europe.

Outlook

Looking ahead, Mr. Kwok said: "Economic conditions in the countries and regions where we operate remain uncertain, posing continuous pressure for our hotels business. While there have been occasional improvements in markets and consumer sentiment, economic data remains volatile while the demand for regional and international travel continues to be depressed.

"The immediate outlook is that business will remain soft across our main markets. Beijing continues to be impacted by an over-supply in high-end lodgings following the 2008 Summer Olympics and Bangkok continues to be depressed within an uncertain political climate, while Tokyo battles the severe economic downturn in Japan. Hong Kong, which had been hit by a decline in long-haul arrivals while regional visitors interrupted their travel plans due to the human H1N1 virus, has seen some initial signs of a moderate pick-up.

"With the hotels business under pressure, we are fortunate to have a diversified base of earnings with our non-hotel businesses – most notably The Repulse Bay, the Peak Complex including the Peak Tram, the Landmark in Vietnam and clubs and consultancies – holding up reasonably well. We expect these businesses to remain steady in the second half of the year.

"In these uncertain times, cost control remains our top priority. All operations have been working assiduously to find ways of generating revenue, improving productivity and containing costs, while maintaining the exceptional service standards for which we are known. Through these efforts, we have been able to mitigate the flow-through of revenue shortfall down to the operating profit line. It is also an important consideration that our Group remains conservatively geared, with a gearing ratio of only 9% after accounting for the investment made into The Peninsula Paris project. As a result, exclusive of the Paris investment, the Group's operational cash flows continue to be sufficient to cover its capital expenditure programme, financing charges and dividends."

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About The Hongkong and Shanghai Hotels, Limited (HSH)

Incorporated in 1866 and listed on the Hong Kong Stock Exchange (00045), HSH is a holding company whose subsidiaries and its jointly controlled entity are engaged in the ownership and management of prestigious hotel, commercial and residential properties in key destinations in Asia and the USA. The hotel portfolio of the Group comprises The Peninsula Hong Kong, The Peninsula New York, The Peninsula Chicago, The Peninsula Beverly Hills, The Peninsula Tokyo, The Peninsula Bangkok, The Peninsula Beijing, The Peninsula Manila, The Peninsula Shanghai (opening in late 2009) and Quail Lodge Resort and Golf Club in Carmel, California. The property portfolio of the Group includes The Repulse Bay Complex, The Peak Tower and The Peak Tramways, St. John's Building, The Landmark in Ho Chi Minh City, Vietnam and the Thai Country Club in Bangkok, Thailand.

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