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

To: All Finance/Business/Travel Editors

FOR IMMEDIATE RELEASE **30 MARCH, 2012**

THE HONGKONG AND SHANGHAI HOTELS, LIMITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER, 2011

HIGHLIGHTS

Key financial results

- Turnover increased by 6% to HK$5,009 million *(2010: HK$4,707 million)*
- EBITDA increased by 6% to HK$1,211 million *(2010: HK$1,143 million)*
- Net profit attributable to shareholders amounted to HK$2,259 million *(2010: HK$3,008 million)*
- Underlying profit attributable to shareholders increased by 14% to HK$464 million *(2010: HK$408 million)*
- Earnings per share and underlying earnings per share of HK$1.52 *(2010: HK$2.04)* and HK$0.31 *(2010: HK$0.28)* respectively
- Final dividend of 10 HK cents per share, making a total dividend of 14 HK cents per share for 2011 *(2010: 12 HK cents per share)*
- Shareholders' funds as at 31 December 2011 amounted to HK$31,455 million or HK$21.11 per share *(2010: HK$29,103 million or HK$19.66 per share)*
- The Group's adjusted net assets as at 31 December 2011 amounted to HK$34,703 million (HK$23.29 per share) *(2010: HK$31,888 million at HK$21.55 per share)*

Key developments

- HSH acquired from Hong Kong Construction (Hong Kong) Limited its entire interest in Hong Kong Construction Kam Lung Limited for a cash consideration of HK$578 million. The acquisition resulted in HSH expanding its effective economic interest in The Peninsula Beijing to 100%.
- The Peninsula Hong Kong began the first phase of its HK$450 million, 15-month renovation programme in January 2012 that will see all of the hotel's 300 guestrooms and suites completely refurbished. The hotel's food and beverage and banqueting capacities will also be expanded.
- The Repulse Bay embarked on the first of a three-phased**,** three-year major revitalisation project in July 2011. The first phase involves the upgrading of the public areas in the residential tower at 101 Repulse Bay Road. The second phase commenced in February 2012 with the closure of the de Ricou serviced apartment tower, to be converted into a combination of premium unfurnished apartments and serviced apartments for lease.
- The Peak Tram carried a record 5.8 million passengers.
- HSH's first Peninsula-branded serviced apartments, The Peninsula Residences, are being launched in Shanghai. The 39 furnished apartments range in size from 210 to 779 square metres and are appointed to a very high standard. The Residences adjoin The Peninsula Shanghai hotel on the Bund.

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HSH'S 2011 ANNUAL RESULTS SHOWED CONTINUED STRENGTH IN A YEAR OF MIXED MARKET CONDITIONS

Hong Kong, 30 March 2012

The audited results for the year ended 31 December 2011 of The Hongkong and Shanghai Hotels, Limited (HSH) show that the Group's business was affected by mixed market conditions for the various hotel operations in the midst of the continuing global economic uncertainties, as well as by two major natural disasters: the earthquake and resultant tsunami in Japan and the flooding in Bangkok. In the circumstances, HSH is pleased to be able to report an increase of 14% in underlying earnings as compared to the previous year.

HSH Chief Executive Officer, Mr. Clement K.M. Kwok, said: "This financial result was better than we had hoped for in the aftermath of the Japan earthquake and was achieved through the concerted efforts made by our staff across our global operations. Our staff in Tokyo and Bangkok reacted to the two natural disasters by selflessly providing care, support and help both to their local communities and to affected staff members. These efforts were strongly supplemented by our Company and our colleagues around the world through fundraising efforts and moral support.

"It continues to be a strength of our Group that our hotels business is balanced by a strong mix of commercial properties, including several successful high-end shopping arcades within our hotels, as well as our well-established commercial, residential and office properties."

HSH achieved an increase of 6% in earnings before interest, taxation, depreciation and amortisation (EBITDA) to HK$1,211 million in 2011 and an increase of 5% in operating profit to HK$834 million in 2011. The EBITDA margin remained unchanged from 2010, at 24%.

Inclusive of non-operating items, being principally the year-end investment property revaluation surpluses, the net profit attributable to shareholders was HK$2,259 million, as compared to HK$3,008 million in 2010. Our underlying profit attributable to shareholders, which we have calculated by excluding the post-tax effects of the property revaluation surpluses and other non-operating items, amounted to HK$464 million, as compared to HK$408 million in 2010, representing an increase of 14%.

HSH's financial position remains strong. Our revalued net assets attributable to shareholders increased by 9% to HK$34,703 million, representing HK$23.29 per share, and our gearing remained at a very conservative level of 7% at the year-end. Our net cash surplus for the year, after deducting capital expenditure, interest and dividends, amounted to HK$544 million. In addition, a gain of HK$135 million was credited to reserves on the purchase of additional interest in The Peninsula Beijing.

The Board has recommended a final dividend payable on 10 HK cents per share (2010: 8 HK cents per share). Together with the 2011 interim dividend of 4 HK cents per share paid on 4 November 2011, the total dividend in respect of the 2011 financial year will be 14 HK cents per share.

Hotels Division

Market conditions were varied amongst our hotel businesses, with a number of locations experiencing weak corporate business, oversupply of luxury hotels and political instability, as well as the two natural disasters mentioned. Our strongest performer was once again The Peninsula Hong Kong and we saw good signs of recovery at The Peninsula New York and The Peninsula Beverly Hills.

China: **The Peninsula Hong Kong** performed very well during the year, with a business revival in both the corporate and leisure segments. The top producing markets for the hotel were China, Japan and the USA. There was also healthy growth from new customer markets including Russia and the Middle East. The Peninsula Arcade remains highly sought after by leading luxury retail brands and both this and the Office Tower were able to grow their average rent and maintain effectively full occupancy during the year. **The Peninsula Shanghai**, now in the second full year of operations, has established recognition as one of the very top hotels in China. In the year following the Shanghai World Expo, the hotel benefitted from increased demand from domestic travellers and continued to step up its marketing efforts in mainland cities. The Peninsula Arcade has been fully occupied by leading luxury retail brands. Meanwhile, The Peninsula Residences, which form part of this complex, completed interior fit out work for most of the 39 units and will commence leasing activities in 2012. **The Peninsula Beijing** was able to maintain its leadership position in the capital despite competition from the large supply of other luxury hotels remaining intense. Upgrading work for the Peninsula Arcade was completed during the year, which further strengthened the Arcade's position as the premier luxury goods shopping venue in the Chinese capital. The Arcade continues to provide an important stream of revenue for the hotel.

Asia: **The Peninsula Tokyo** faced the challenge of a depressed economy in the months following the massive earthquake and tsunami in March 2011, which affected the tourism industry deeply. By the third quarter of the year, business had rebounded to some extent, due partially to a more relaxed visa policy which resulted in the return of some mainland Chinese and other Asian and Middle Eastern visitors, who were relatively unaffected by the softening of global economies. The hotel's wedding business remained robust. In Thailand, **The Peninsula Bangkok** was recovering from the previous year's political uncertainty following the July 2011 election which produced a more stable government, until the extensive flooding which hit Bangkok in November 2011. Although the hotel was not directly affected by the flood water, the tourism industry was badly hit by the ensuing negative publicity and travel advisories imposed by foreign governments. Once again, the regional markets proved to be more resilient and by December 2011, inbound visitor arrivals to Bangkok had shown some recovery. In the Philippines, **The Peninsula Manila** celebrated its 35^{th} anniversary in 2011 and achieved its highest RevPAR ever. The hotel saw a significant increase in frequent independent travellers' business and enjoyed strong food and beverage business.

USA: Following the completion of its guestroom renovation programme, **The Peninsula New York** enjoyed a good increase in business from some high-end overseas groups and expanded its business mix by focusing efforts on new sectors including technology, energy and entertainment. Business remained weak for **The Peninsula Chicago,** which is highly dependent on domestic and corporate business, although there was slight improvement in business in the second half of the year. The hotel celebrated its 10^{th} anniversary, retaining a leading market position and continuing to be recognised as one of the finest hotels in North America. **The Peninsula Beverly Hills**, which celebrated its 20^{th} anniversary in 2011, enjoyed strong business from the entertainment industry and the Middle East market. The hotel completed a renovation of all its guestrooms and suites, which now carry a refreshed, elegant new look.

Overall, the revenue and EBITDA of the Hotels Division for the year were HK$3,766 million and HK$605 million, an increase of 5% and 0.2% respectively as compared to 2010. This result was achieved despite the significant adverse impact of the earthquake in Japan and the flooding in Bangkok.

Commercial Properties Division

As in past cycles, the Commercial Properties Division proved more resilient during the economic downturn than the Hotels Division, providing stable income contribution to the Group's earnings.

The most important asset in this Division is the **Repulse Bay Complex**, the larger part of whose revenue is derived from residential lettings which continued to experience strong demand throughout the year, in line with Hong Kong's robust economy. This was supplemented by the increase in patronage to the Complex's two restaurants and shopping arcade, the latter of which remained fully let throughout the year. In particular, banquet and wedding business remained strong. The total revenue of the Complex rose 7% from 2010 to HK$538 million.

The **Peak Complex** achieved excellent results in 2011 due to its strong positioning in the tourist market. The Peak Tower maintained 100% occupancy during the year and recorded an increase of 17% in year-on-year revenue, which was also boosted by a record number of visitors to the rooftop Sky Terrace 428. St. John's Building enjoyed an effectively 100% occupancy throughout the year with an 18% increase in revenue.

At **The Landmark** in Vietnam, both the office and residential portions maintained high occupancies despite the intense competition in Ho Chi Minh City. The complex also completed the renovation of its health club, which was re-opened in September.

Overall, the revenue and EBITDA of the Commercial Properties Division for the year were HK$743 million and HK$493 million respectively, an increase of 8% and 10% as compared to 2010.

Clubs and Services Division

The 123-year-old **Peak Tram** has maintained its position as one of Hong Kong's most popular tourist attractions. In 2011, patronage of the Peak Tram rose to a record 5.8 million passengers, a 7% increase from 2010.

Income from our club management activities rose, with positive results coming from our management of the **Cathay Pacific lounges** at the Hong Kong International Airport. Two of the business class lounges at the Airport completed their renovation and re-opened in April 2011 and January 2012 respectively. The **Thai Country Club** saw a decline in the number of golfers from Japan and although the Club did not suffer any physical damage from the flooding in November, the number of rounds were reduced as a result. At **Quail Lodge Golf Club**, the golf course and Clubhouse remained open and the Club hosted another successful edition of The Quail Motorsports Event in August. **Peninsula Merchandising** once again achieved record sales in Hong Kong and Asia for its signature Mid Autumn Festival mooncakes and we are planning to open the first Peninsula Boutique in South Korea in 2012. In Shanghai, **No. 1 Waitanyuan** has gained a fine reputation for its fine food, service and ambiance in the historic setting of the former British Consulate. We have also leased other premises within the Bund 33 complex for commercial usage. The site is managed by The Peninsula Shanghai.

Overall, the revenue and EBITDA of the Clubs & Services Division for the year were HK$500 million and HK$113 million, an increase of 13% and 27% respectively as compared to 2010.

Projects and Developments

The focus of our projects and development activities continues to be on (i) the establishment of a small and select number of new Peninsula hotels in key international gateway cities and (ii) continual enhancement of our existing hotels and other properties so as to maximise their long term value.

The next Peninsula hotel currently under construction is in Paris. Conversion of the magnificent, century-old Beaux Arts building on Avenue Kleber to become The Peninsula Paris commenced in September 2010. Interior design work for the hotel's public areas and guestrooms are at an advanced stage and we will begin interior fit out work in 2012. The Peninsula Paris will be the Group's first hotel in Europe and is scheduled to open in late 2013.

Whilst the search for future new Peninsula hotel developments continue, we remain very selective in seeking opportunities in key gateway cities which will meet Peninsula's full requirements. A lot of time and effort goes into this endeavour and we hope to be able to report further progress in due course.

In the meantime, we continue to devote significant efforts to the continual enhancement of our existing assets. In January 2012, we commenced physical works for the extensive renovation programme for The Peninsula Hong Kong which, over two phases, will encompass a full upgrade of all of the hotel's guestrooms and suites as well as an expansion and upgrade of some restaurant areas. Our willingness to undertake a large scale renovation of a rooms product which is less than 20 years old and which is still highly regarded by guests, is a testament to our determination and commitment to set the highest standards in the global luxury hospitality sector.

An extensive renovation programme of the Repulse Bay Complex is already underway. This will significantly upgrade all the public areas of the apartment towers and completely reconfigure the layout of the serviced apartment tower, de Ricou, in order to improve its efficiency and rental yield. The project, which is divided into three phases, commenced in 2011 and is targeted for completion in 2014.

We believe that the significant investment in The Peninsula Hong Kong and The Repulse Bay projects will further enhance the value of these key assets and help to maintain their leading positions in the market. In addition, a number of projects are undertaken on an ongoing basis to maintain and enhance our existing hotels and other properties. During the year, these have included the completion of renovation at The Peninsula New York and The Peninsula Beverly Hills.

Corporate Responsibility

2011 has been a year of progress and transition. The Group's Corporate Responsibility Committee was established in late 2007 to provide a formal governance structure to address the wider aspects of our environmental, social and ethical responsibilities. In the past three years, we have invested in various environmental engineering projects, with positive effects on energy and water consumption. These investments have brought savings in our utility cost and a satisfactory return on investment. The Group's energy intensity has since been reduced by 15.5% and our carbon intensity by 6.1%.

We have also become more conscious of our impact on the world's bio-diversity. In line with our overall effort to switch to produce and materials from more sustainable sources, we decided in 2011 to stop serving shark fin at all our owned food outlets around the world. We continue to build on our long-standing commitment to support the development of the communities in which we operate.

We recognise a need to enhance the degree to which social and environmental responsibility is integrated in our everyday business decision-making. We also see the need to build a wider and deeper understanding among all employees of what it takes for our business to continue to thrive in the long term. We have planned in 2012 to engage the Group's senior management team in a forum to assess key future trends that will impact the Group and to create a shared direction for sustainable business at HSH. This is part of a new and wider employee engagement programme, with a view to generating practical solutions to address our longer term sustainable business challenges. We will further strengthen our internal governance and reporting framework on sustainability to support management decisions, and step up our effort in reaching out to our stakeholders to understand their evolving concerns and expectations.

<u>Outlook</u>

The strength of our Group continues to emanate from our genuine commitment to the long term, which provides the vision and willingness to invest in assets for their long term value creation and the staying power to ride through shorter term cycles in the economy without compromising the quality of our products and services. In the volatile economic circumstances that we regularly encounter in today's environment, this long term commitment has enabled us to make investment and capital expenditure decisions with a long term outlook and to maintain our service quality and the continuity of our people. With this philosophy in mind, we remain optimistic that we are continuing to chart a course which will maximise the quality and value of our assets and deliver long term returns to our shareholders.

Sustainable development continues to be high on our agenda. We are committed to adopt a balanced approach to our economic, environmental and social objectives. As natural resources deplete, technologies develop and sensibilities evolve, we must ensure that we are well placed to continue to deliver luxury and quality to our customers in ways that are both sustainable and that drive business growth.

Our corporate development and investment strategy continues to focus on the enhancement of our existing assets, seeking opportunities to increase their value through new concepts or improved space utilisation, and the development of a small number of the highest quality Peninsula hotels in the most prime locations with the objective of being a long term owner-operator. This is the approach which we believe has enabled us to establish and sustain a brand which is now recognised as possibly the leading luxury hotel brand in the world, thereby creating long term value in each Peninsula hotel through both asset value appreciation and operational earnings growth.

In terms of outlook for 2012, current business trends in most of our hotels are positive, although margins continue to be under pressure and it remains of paramount importance to control our costs and increase our efficiency in delivering services to customers without any compromise to the quality of the experience of our guests. In particular, we are looking to a year of recovery for both Tokyo and Bangkok after the natural disasters experienced in 2011, and for further growth in our China businesses as our luxury hotel products, especially The Peninsula Shanghai, become more established with the rise in demand for luxury hospitality in China. Generally, the economy in Hong Kong and demand for residential and commercial property remain stable although the outlook is laced with caution. Our 2012 earnings will, as previously forewarned, be impacted by the renovations at The Peninsula Hong Kong and the de Ricou serviced apartment tower at The Repulse Bay due to closure periods during the construction works. However, we are hoping to mitigate this impact through increased earnings of our other assets and operations. (END)

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About The Hongkong and Shanghai Hotels, Limited (HSH)

Incorporated in 1866 and listed on The Stock Exchange of Hong Kong (00045), HSH is the holding company of a Group which is engaged in the ownership, development and management of prestigious hotel, commercial and residential properties in key locations in Asia, the United States and Europe, as well as the provision of transport, club management and other services. The hotel portfolio of the Group comprises The Peninsula Hotels in Hong Kong, Shanghai, Beijing, New York, Chicago, Beverly Hills, Tokyo, Bangkok, Manila and Paris (opening in late 2013). 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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