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

To: All Finance/Business/Travel Editors

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THE HONGKONG AND SHANGHAI HOTELS, LIMITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

HIGHLIGHTS

- In April 2013, the Group signed non-legally binding Heads of Terms for the development of a Peninsula hotel in Yangon, Myanmar.
- In June 2013, the Group purchased 21 avenue Kléber, a commercial building immediately adjacent to The Peninsula Paris, for EUR56 million.
- In July 2013, the Group acquired a 50% interest in the leasehold of the property at 1-5 Grosvenor Place, London, United Kingdom with plans to jointly re-develop the building with Grosvenor into a mixed use development that will include The Peninsula London.
- The Peninsula Hong Kong completed its second and final phase of renovation in May 2013, following which the hotel's 300-room inventory is back to operation.
- The Repulse Bay's de Ricou tower was launched to the market in May 2013 and the extensive public area renovation works are near completion.
- Total turnover amounted to HK$2,542 million, which was 5% above the same period in 2012.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 7% to HK$555 million.
- The overall Group EBITDA margin was maintained at 22%.
- Underlying profit attributable to shareholders increased by 8% to HK$169 million.
- Profit attributable to shareholders amounted to HK$840 million, after taking into account the gains on property revaluation (net of tax and non-controlling interests).
- Earnings per share and underlying earnings per share of HK$0.56 (2012: HK$0.55) and HK$0.11 (2012: HK$0.10) respectively.
- Shareholders' funds as at 30 June 2013 amounted to HK$34,007 million or HK$22.64 per share (31 December 2012: HK$33,150 million or HK$22.07 per share).
- Adjusted net assets value as at 30 June 2013 amounted to HK$37,355 million (HK$24.87 per share).
- Gearing ratio at 7% (31 December 2012: 6%).
- Interim dividend of 4 HK cents (2012: 4 HK cents) per share.

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THE HONGKONG AND SHANGHAI HOTELS, LIMITED REPORTS SATISFACTORY FIRST HALF YEAR OPERATING RESULTS AND EXCITING PROGRESS IN HOTELS' DEVELOPMENT

Hong Kong, 22 August 2013 – The Hongkong and Shanghai Hotels, Limited (HSH) announced its unaudited interim results today.

Overview

Development

The first half of 2013 has been an exciting period for the Group's future development. HSH announced non-legally binding Heads of Terms for the development of a Peninsula hotel in a magnificent historic building in the centre of Yangon, Myanmar. The Group considers this to be an excellent opportunity to enter into one of the world's most exciting emerging markets. The Group also completed the purchase of 21 avenue Kléber, the building immediately adjacent to The Peninsula Paris, which is under construction and due for completion in 2014. HSH believes the opening of The Peninsula Paris will uplift the level of activity and real estate values in the surrounding area, which will benefit its investment in 21 avenue Kléber. Having searched for over 20 years for a suitable opportunity to develop a Peninsula hotel in London, the Group has purchased a 50 per cent interest in the leasehold of the property at 1-5 Grosvenor Place, which fronts Hyde Park Corner. The intention is that, in joint venture with Grosvenor, HSH would re-develop this building into a mixed use development which will include The Peninsula London.

Renovation

Besides these newly announced acquisitions and developments, HSH has completed the major renovation projects at its two most important assets, The Peninsula Hong Kong and The Repulse Bay. At The Peninsula Hong Kong, the second and final phase of renovation, comprising all guestrooms in the Original Building, was completed in May 2013, following which the hotel's entire guestroom inventory is back to operation. At The Repulse Bay, the extensive public area renovation works are close to completion and the fully renovated and reconfigured de Ricou tower has been successfully launched to the market, with the first tenants moving in from August upon completion of construction.

Financial performance

The operating results for the period were satisfactory. Turnover amounted to HK$2,542 million, which was HK$126 million or 5% above the same period last year. EBITDA (earnings before interest, taxation, depreciation and amortisation) increased by 7% to HK$555 million whereas the EBITDA margin remained flat at 22%. Underlying profit attributable to shareholders amounted to HK$169 million, up 8% from the same period in 2012.

After accounting for the increase in fair value of investment properties, net of deferred tax and non-controlling interests, the consolidated profit attributable to shareholders amounted to HK$840 million for the period. Earnings per share and underlying earnings per share were HK$0.56 and

HK$0.11 respectively. The net assets attributable to shareholders amounted to HK$34,007 million or HK$22.64 per share. The adjusted net assets value amounted to HK$37,355 million, after adjustment to fair market value for hotels and golf courses, which was up 3% compared to 31 December 2012. Gearing remained low at 7%.

The Group's financial position remained strong. These results were achieved despite challenging market conditions, especially with continued intense competition in many of its hotel markets. The Group continues to face the challenge of rising costs, not only from inflation but also as it brings assets back into operation after renovation and expand its offerings and services to cope with the increased business levels, albeit at room rates which continue to be depressed in many of its hotel markets.

The Directors have resolved to pay an interim dividend of 4 HK cents per share (2012: 4 HK cents per share).

Hotels Division

Revenue for the Hotels Division in the first six months of 2013 was 4% above the same period last year. The Peninsula hotels were generally able to grow their business despite competitive markets, with good signs of recovery being seen in New York, Chicago and Tokyo. The three Peninsula hotels in the key Chinese markets of Hong Kong, Beijing and Shanghai continued to maintain good market shares despite the high level of competition in the luxury hotel market.

Hong Kong: At The Peninsula Hong Kong, total revenue was 7% higher than the same period last year with increased revenue in all areas. Room revenue was 15% higher than last year despite a fewer number of rooms being available due to the renovation, due to the increased average room rate from the renovated rooms. The Office Tower and the Arcade remained fully let, with a 7% revenue increase as compared with the same period in 2012.

Mainland China: At The Peninsula Shanghai, total revenue was 11% higher than the same period last year, with increased revenue from rooms, food and beverage and residential apartment leases. Occupancy was higher in 2013 as compared with the same period last year, although the average room rate remained flat due to the intense competition amongst luxury hotels in Shanghai. The hotel was able to maintain its position as the city's market leader for both average room rate and RevPAR. The hotel has also successfully partnered with various top brands and reputable global institutions for product launches and other significant events. In The Peninsula Beijing, business was negatively affected by the city's high levels of air pollution and fears of the H7N9 bird flu pandemic. Despite a higher occupancy achieved, rooms revenue fell short of 2012 by 15% as competitive rates had to be offered to retain market share. However, total revenue of the hotel remained flat as the decrease in rooms revenue was offset by higher revenue from the commercial arcade. A new rooftop bar, Yun, opened in June offering splendid city views.

Asia: At The Peninsula Tokyo, total revenue was 12% higher than the same period last year in Japanese Yen terms although revenue was 7% lower in Hong Kong dollars due to the substantial weakening of the Japanese currency. The market continued to recover with a renewed air of economic confidence. Together with increased demand from long haul and regional leisure travellers and the corporate segment, the occupancy of the hotel increased from 62% to 75%. At The Peninsula Bangkok, total revenue was 11% higher than the same period last year. The occupancy was lower but the average room rate recorded a 30% increase as a result of the efforts to grow rate within the transient, group and meeting segments. The business mix shifted from long haul leisure travellers in the first quarter to meeting, incentive, corporate and exhibition business in the second quarter, which helped to sustain occupancy. In The Peninsula Manila, total revenue was on par with the same period last year despite the significant growth in the number of hotel rooms available in the city. There was a sustained level of optimism in the economic and political environment, resulting in increased numbers of business and leisure travellers. The renovation of select areas of the hotel continues in a measured way, with the Lobby being recently updated.

USA: At The Peninsula New York, total revenue was 12% higher than the same period last year mainly due to the 20% increase in RevPAR resulting from gains in the negotiated corporate and consortia transient segments. There was lower revenue from food and beverage due to the closure of Fives restaurant for a complete enhancement; the outlet will re-open in September with a new theme and a new name. In The Peninsula Chicago, total revenue was 13% higher than the same period last year, with a 13% increase in RevPAR. The hotel has the highest concentration of US-based businesses among all the Peninsula hotels, with more than 90% of its guests from the domestic market. The conversion of Avenues restaurant into a junior ballroom has proven to be a successful investment, contributing to the increase of 16% in food and beverage revenue as compared with the same period last year. At The Peninsula Beverly Hills, total revenue was in line with the same period last year. The well-received guestrooms renovation last year has prompted the conversion of a lesser used meeting room into a suite to meet the high demand. The use permit for the roof top pool area has been modified to allow for functions and events, improving the revenue potential from this area.

Commercial Properties Division

Turnover from the Commercial Properties Division was 6% higher than the same period last year mainly due to growth in the yields per square foot at The Repulse Bay and The Peak Tower. However, there was reduced revenue in St. John’s Building and The Landmark due to lower occupancies. With the renovation of the de Ricou tower at The Repulse Bay due to be completed by the middle of 2013, there was no revenue contribution from this property during the period. In late June, the Group announced the acquisition of a commercial property at 21 avenue Kléber in Paris, which will complement the Group’s commercial property portfolio as it is located immediately adjacent to The Peninsula Paris.

At The Repulse Bay Complex, total revenue was 6% higher than the same period last year and occupancies were maintained at very high levels, despite the challenges that are increasingly apparent in the luxury residential leasing market. Marketing activities for the newly renovated de Ricou apartment tower, which comprises 39 unfurnished apartments and 10 serviced apartments, were launched during the period and response from the market has been positive. The first batch of tenants moved in from August. The Arcade remained fully let in the first half of the year. The upgrading and renovation of the public areas, including the outdoor swimming pool and playground at 109 Repulse Bay Road are close to completion.

In the Peak Tower, total revenue was 16% higher than the same period last year. The Tower remained fully let with increased rental rates throughout the period. With the growth in tourist arrivals, Sky Terrace 428 also saw an increase in the number of visitors and higher admission revenue. For St. John's Building, total revenue was 4% lower than the same period last year, with a 9% drop in occupancy due to some unexpected termination of leases.

In Vietnam, The Landmark's total revenue was 14% lower than the same period last year mainly due to non-recurring compensation from a major office tenant's departure in 2012. There is ongoing renovation work on the apartments and offices and it is expected that the renovation will attract new clientele.

In Paris, France, the Group acquired 21 avenue Kléber for a cash consideration of EUR56 million on 25 June 2013. The property, which has a total area of approximately 4,010 square metres of four storeys comprising offices and retail and residential units, is expected to benefit from the uplift in the surrounding area after the opening of The Peninsula Paris.

Clubs and Services Division

Total revenue for this Division was 10% higher than the same period last year. The various businesses in the Clubs and Services Division mostly showed improved performances for the six months ended 30 June 2013. Quail Lodge Resort re-opened in March 2013, thus increasing the revenue of the Division as compared with the same period last year.

For the Peak Tram, revenue was 8% above the same period last year. The Peak Tram's patronage rose 7%, with 2.9 million passengers in the first six months of 2013. Revenue at Peninsula Merchandising was 11% lower than the same period last year, owing to the closure for renovation of the Duty Free shops at the Hong Kong International Airport and lower business volumes for the retail outlets in Hong Kong due to a reduced number of Japanese travellers. Revenue in the Thai Country Club was 6% higher than last year.

The total revenue at Quail Lodge was 87% higher than the same period last year, following the re-opening of the hotel portion of the property on 26 March 2013. Total revenue in Tai Pan Laundry was 5% higher than the same period last year, owing to increased volumes of laundry and dry cleaning generated from the hotels in Hong Kong and other businesses served by the Laundry, as well as new accounts. Revenue in Peninsula Clubs and Consultancy Services was 11% higher than the same period last year. Positive growth came from club management and consultancy fees and increased business volumes from the operation of the Cathay Pacific Airways first and business class lounges at the Hong Kong International Airport.

Projects

The Peninsula Paris

As previously reported, The Peninsula Paris has encountered a number of challenges during its construction, resulting in overall delays and cost increases. A considerable amount of time was spent during the first half of this year engaging in further negotiations with the lead contractors and sub-contractors in order to mitigate the cost overruns. Extensive negotiations were held to reduce and fix the prices of sub-contracts and to address all outstanding project costs. As a result, the joint venture company, in which HSH has a shareholding of 20%, has signed a new fixed price contract with the lead contractor pursuant to which the contractor has committed to completing the construction in April 2014. To reflect the terms of this revised agreement, the project budget has been further increased by EUR56 million. It is expected that HSH will fund its 20% share of the budget increase from internal resources.

The first half of 2013 has seen the completion of the mansard slate and zinc roofs, the repair and cleaning of the stone facades and installation of the external windows. The fit-out work to the guestrooms is progressing on all six levels of the hotel and so too is the renovation work to the historical finishes on the ground floor. In the basements, the main mechanical, electrical and plumbing plant have been installed. All remaining major fit out packages for the public areas and main suites have been awarded.

The Peninsula Paris is expected to have its soft opening in the second half of 2014.

The Peninsula Hong Kong

In Hong Kong, the second and final phase of the 15-month renovation of The Peninsula Hong Kong was completed in May 2013, in time for the hotel’s 85th anniversary celebrations. The HK$450 million renovation has enhanced all 300 of the hotel's guestrooms with interiors showcasing the finest materials and craftsmanship, as well as some of the world’s most revolutionary, guest-focused technology which utilises customised interactive digital tablets, pre-set in multiple languages, to control all in-room functions. The new rooms, together with the expanded and renovated Verandah restaurant, the new Bar and Conference Centre and the renovated Peninsula Boutique, have been very well received by guests.

The Repulse Bay

The de Ricou apartments, one of eight apartment towers at The Repulse Bay, was re-launched to the market in May 2013 following a HK$300 million renovation and reconfiguration programme, marking another milestone in the three-year renovation of The Repulse Bay. All 49 spacious apartments in de Ricou have full views of the South China Sea and feature fittings and finishes of the highest quality, as well as generous use of natural and sustainable materials showcased in contemporary interiors. The apartments have been well received in the market since their launch. In addition, all public areas in the Complex have nearly completed renovation, while a new residents’ café, the outdoor pool and playground have been introduced.

The Peninsula Yangon

The Group announced in April 2013 that it had entered into non-binding heads of terms with Yoma Strategic Holdings Ltd., a Singapore-based listed company, to jointly re-develop a prominent and beautiful, heritage-listed building in Yangon, Myanmar into a Peninsula hotel. The site is a three-storey Victorian colonial building, constructed in 1877, which housed the former headquarters of Burma Railway Company in the 19th and 20th centuries. It is surrounded by gardens and is adjacent to the famous Scott’s Market, which is a major tourist attraction in Yangon. If the hotel development proceeds, the building will be conserved and restored and will be the centrepiece of the surrounding mixed-use development. HSH's shareholding in the development will be 70%.

21 avenue Kléber
In June 2013, the Group announced the completion of the acquisition of a commercial building in Paris, known as 21 avenue Kléber, for EUR56 million. This building is adjacent to The Peninsula Paris and because of its strategic location, it is envisaged that it will have synergy with the hotel when the latter opens in 2014. Both 21 avenue Kléber and the future The Peninsula Paris share the same Second Empire architectural style, dating back to 1900. The building has commercial, office and residential components spread over four floors.

1–5 Grosvenor Place, London, United Kingdom
In June 2013, the Group signed non-binding heads of terms with Derwent and Grosvenor to acquire from Derwent a 50 per cent interest in the leasehold of a site, 1-5 Grosvenor Place, in London with the aim of jointly re-developing the building with Grosvenor into a mixed use development which will include a Peninsula hotel and luxury residences. The lease sale agreements were signed in July 2013. The Group is now working on the design and planning of the project, which is subject to obtaining requisite planning approvals from the authorities.

Outlook

HSH has seen some recovery in most of its key hotel markets, although room rates continue to be under pressure from intense competition and an abundance of new supply in the luxury hotel sector. The summer months have been soft for the hotel market in Hong Kong and the Group hopes to see a good pick-up in the traditional autumn high season, in order to benefit as expected from the full inventory now available at The Peninsula Hong Kong following renovation. Generally, business volumes in the hotels are higher this year, which has led to an increase in costs in order to service this business. In order to justify and earn an appropriate return on the cost base, many of the Peninsula hotels rely on the higher revenue expected in the second half of the year. So far, forward bookings are generally in line with expectations.

The Hong Kong residential sector, on which the Group relies for the bulk of the revenue from The Repulse Bay, is highly competitive. However, with the comprehensive upgrade of the public areas nearing completion, the product is proving to be attractive to tenants and the current rate of leasing take-ups is positive. Additional revenue will be earned as from August with the de Ricou tower coming back into operation after its extensive renovation and reconfiguration.

The Group intends to launch the sale of some of the units within The Peninsula Shanghai Residences in the second half of the year and expect some sales proceeds to be received before the year-end.

The Group has applied to Government for the extension of the Peak Tram operating licence, which expires on 31 December 2013, with a scheme to enhance the system and expand its operating capacity. Government has proposed to seek legislative approval for a temporary two year extension of the operating right during which period the Group's proposals will be examined in more detail with the objective of a longer term operating right being sought to support the investment required for the expansion scheme.

Overall, HSH remains in a strong financial position, with the Peninsula brand enjoying recognition as one of the best luxury hotel brands in the world. With its long term outlook and the exciting new developments announced during this period, HSH remains confident and positive about the future, whilst being ready and able to ride out the shorter term fluctuations in the markets in which it operates.

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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 (under construction). 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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