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

To: All Financial/Business/Travel Editors

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THE HONGKONG AND SHANGHAI HOTELS, LIMITED
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

HIGHLIGHTS

- Positive momentum in the Group's first quarter business results were offset by the Japan earthquake.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 4% to HK$512 million.
- Underlying profit attributable to shareholders increased by 3% to HK$152 million.
- Profit attributable to shareholders increased by 174% to HK$1,907 million, after including property revaluation gains (net of tax and non-controlling interests).
- Earnings per share and underlying earnings per share of HK$1.29 (2010: HK$0.47) and HK$0.10 (2010: HK$0.10) respectively.
- Shareholders' funds as at 30 June 2011 amounted to HK$31,102 million or HK$20.92 per share (31 December 2010: HK$29,103 million or HK$19.66 per share).
- Adjusted net asset value as at 30 June 2011 amounted to HK$34,094 million (HK$22.93 per share).
- Gearing ratio remained at 5% (31 December 2010: 5%).
- Interim dividend of 4 HK cents (2010: 4 HK cents) per share.

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

Hong Kong, 24 August 2011 - The Hongkong and Shanghai Hotels, Limited (HSH) announced its unaudited interim results today.

Commenting on the Group's interim results, **Managing Director and Chief Executive Officer Mr. Clement K.M. Kwok** said: "Our operating results for the first half of 2011 were impacted by the massive earthquake and tsunami which struck Japan on 11 March. This had a significant adverse impact on the business results of The Peninsula Tokyo which, prior to the earthquake, had been trading at levels above the previous year. Generally, the Hotels Division had a positive first quarter but has seen momentum slowing in several markets during the second quarter."

The Hotels Division recorded a 5% increase in revenue compared with the first half of 2010. The RevPAR in all the hotels improved over the same period last year, apart from The Peninsula Tokyo where RevPAR fell by 18%. The RevPAR growth has been mostly driven by increases in the average room rate. There was also robust demand for space at the hotels' shopping arcades, although The Peninsula Beijing's arcade recorded slightly lower occupancy due to renovation work.

In the Commercial Properties Division, occupancies at the Group's principal assets remained largely at full capacity. The various businesses in the Clubs and Services Division have mostly shown improved performance year-on-year.

"All our operations continue to take appropriate measures to contain costs in order to mitigate the impact on the Group's results from the Japan earthquake and in recognition of the uncertain global economic environment," said Mr. Kwok.

The total turnover for the period amounted to HK$2,310 million, up 6% over the same period in 2010. EBITDA (earnings before interest, tax, depreciation and amortisation) increased by 4% to HK$512 million.

After taking into account the increase in fair value of investment properties of HK$1,784 million (2010: HK$547 million) and the current and deferred tax charges of HK$98 million (2010: HK$87 million), profit attributable to shareholders in the six months amounted to HK$1,907 million. The Group's underlying profit attributable to shareholders, which was calculated by excluding the post-tax effects of the property revaluation surplus and other non-operating items, amounted to HK$152 million (2010: HK$147 million).

Earnings per share and underlying earnings per share were HK$1.29 (2010: HK$0.47) and HK$0.10 (2010: HK$0.10) respectively.

Shareholders' funds increased to HK$31,102 million or HK$20.92 per share. Net borrowings decreased to HK$1,500 million and the Group's gearing ratio remained at 5%. 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, amounted to HK$34,094 million or HK$22.93 per share.

The Directors have resolved to pay an interim dividend of 4 HK cents per share (2010: 4 HK cents per share).

Business Overview

Hotels Division

Revenue for the Hotels Division in the first six months of 2011 was 5% above the same period last year. Apart from The Peninsula Tokyo, all hotels recorded revenue increases. The highest increase of 36% was achieved by The Peninsula Shanghai, although it should be noted that last year's results included part of the soft opening period prior to the hotel's grand opening in March 2010.

China: At The Peninsula Hong Kong, total revenue was 7% higher than the same period last year, with higher occupancy and average rate and increased revenue from food and beverage. The hotel continues to see increase in room business generated from mainland China, which accounts for approximately 19% of the market mix. The Office Tower and Arcade remain fully let, with consistent revenue year-on-year. Preparations are underway for the hotel guestroom renovation from the beginning of 2012. The Peninsula Shanghai recorded 36% higher total revenue over the same period last year, with the hotel quickly establishing itself as the rate leader in the city. Occupancy and business levels remain subdued because of new competition for hotel rooms and dining options in Shanghai, as well as the general business slowdown following the 2010 World Expo. However, the hotel was able to maintain its position as market leader in terms of average room rate and RevPAR in the city. At The Peninsula Beijing, total revenue was 2% higher than the same period last year. The competition amongst luxury hotels in Beijing remains intense. However, the Group continued to invest in the shopping arcade and commercial revenues remained strong and slightly ahead of the same period last year. Two anchor tenants are currently undertaking store expansion which will further enhance the Arcade.

Asia: At The Peninsula Tokyo, total revenue was 13% lower than the same period last year due to the impact of the massive earthquake. Business levels fell dramatically in the period following the earthquake. There has been a mild pick-up in business in the last few weeks of the second quarter, although rate has been affected to drive occupancy. In The Peninsula Bangkok, total revenue was 13% higher than the same period last year, although a general sense of uncertainty and caution remained, leading up to the general election in July. The hotel has been able to achieve a 16% increase in RevPAR, with higher occupancy and a 5% higher average room rate and increased revenue from food and beverage. At The Peninsula Manila, total revenue was 15% higher than the same period last year. The 12% growth in RevPAR has been driven by higher average room rates, which was 14% higher than the same period last year. Food and beverage revenue has increased by 21% over the same period last year, with improved performance from the renovated areas.

USA: At The Peninsula New York, total revenue was 20% higher than the same period last year, with a 23% lift in RevPAR arising from higher occupancy and higher average room rates. There has been a notable improvement in business levels in New York City and the hotel has been able to command higher room rates following its renovation. In The Peninsula Chicago, total revenue was 7% higher than the same period last year, with relatively sluggish growth due to the higher proportion of domestic business in Chicago than elsewhere in the United States. In California, total revenue at The Peninsula Beverly Hills was 6% higher than the same period last year, despite the guestroom renovation work which was ongoing throughout the period. The hotel has managed to keep its occupancy at nearly the same level as the same period last year, while boosting its average rate by 11%.

Commercial Properties Division

Turnover from this Division was 8% higher than in the first six months of 2010. The residential and commercial leasing market in Hong Kong remains strong and most properties in this Division are operating with full occupancy.

At The Repulse Bay Complex, total revenue was 7% higher than the same period last year. Occupancy for the 353 unfurnished apartments remains very high and they are now almost fully let. Occupancy in the 68 serviced apartments has also increased over the same period last year and the shopping arcade remains fully let.

In the Peak Tower, total revenue was 15% higher than the same period last year. The Tower remains fully let and rental rates have increased over the same period last year. Strong support came from the increased number of visitors to the Peak Tower – 860,000 visitors for the first six months of 2011, compared with 627,000 for the same period last year, representing an increase of 37%. For St. John’s Building, total revenue was 22% higher than the same period last year. The office tower is fully let and the average rent has also increased by over 17% over the same period last year.

In Vietnam, The Landmark’s total revenue was 9% lower than the same period last year, largely due to the deflation of the Vietnam Dong. There is pressure on rental rates due to the increased supply of high quality office space, although the offices remain almost fully let.

Clubs & Services Division

Total revenue for this Division was 12% higher than the same period last year. Peak Tramways recorded an 11% higher turnover, with 7% more passengers than last year. There were 2.7 million passengers in the first six months of 2011, as compared with 2.5 million passengers in the same period last year. There has been a 12% increase in revenue in Peninsula Merchandising, which has wholesale and retail merchandise operations in Hong Kong, Japan and other countries. Revenue in the Thai Country Club was 18% higher than the same period in 2010, although revenue in Quail Lodge was 12% lower in 2011, due to the lower number of golf rounds and lack of new members. Revenue in Tai Pan Laundry has increased by 13% over the same period in 2010. Revenue in Peninsula Clubs and Consultancy Services was 40% lower than the same period in 2010.

Peninsula Paris Project

The Peninsula Paris hotel is held by a joint venture which is 20% owned by HSH. The other 80% was originally owned by Qatari Diar Real Estate Investment Company but has recently been transferred to QHotels BV, a subsidiary of Qatar Investment Authority. The hotel is being developed in a century-old Beaux Arts building on Avenue Kleber, near the Arc de Triomphe in Paris, France.

The general contractor for the project, CBC/PETIT, was appointed in July 2010. Since then, considerable progress has been made in terms of site installations and demolitions, as well as foundation, excavation and structural works. Most of the architectural and building services trades have been awarded through the main contractor and award of the interior fit out trades will follow, as the designs are being fine tuned.

The Peninsula Paris is expected to open in 2013.

<u>Outlook</u>

The general recovery in the hospitality markets since the 2008 global economic crisis continued at the start of 2011, with most of the Group's hotels performing ahead of both the Group's expectations and last year in the first quarter. Unfortunately, this momentum slowed in the second quarter, with the massive Japanese earthquake significantly adversely affecting business at The Peninsula Tokyo and some knock-on effects elsewhere due to reduced outbound travel from Japan. Both the Beijing and Shanghai markets continued to be highly competitive and were not able to meet the Group's expectations in the second quarter, with Shanghai unable to match the rooms demand of last year when the World Expo was being held. Business at The Peninsula Bangkok has struggled for several years as a result of ongoing political uncertainty in Thailand. Current occupancies and rates are far below the previous normal levels of a few years ago and, although it is hoped that the recent election will bring more stability, this has not yet materialised in improved business. Against these uncertainties, the Hong Kong luxury hotels market has remained strong and The Peninsula Hong Kong continues to be the mainstay of the Group's earnings in the Hotels Division.

In the United States, business at The Peninsula Beverly Hills has been very strong and The Peninsula New York has enjoyed pockets of high demand from overseas guests. However, business from domestic US sources remains subdued as can be seen from the operating performance of The Peninsula Chicago.

Taking the above comments together, the outlook for the second half of the year for our hotel businesses continues to be mixed. **Mr. Kwok** remarked: "We are hoping that the traditional autumn high season for hotels such as Hong Kong, Beijing, Shanghai and New York will yield satisfactory results. Completion of the renovation of the shopping arcade at The Peninsula Beijing will boost earnings. The recent pick-up in the Tokyo market since the earthquake has created a mild level of optimism that the recovery may come faster than originally expected. Nevertheless, the results of The Peninsula Tokyo will undoubtedly be well below both last year and our original expectations.

"A key challenge for us in the hotels business continues to be the maintenance of our profit margins in the face of inflationary costs, especially labour rates. We continue to manage our costs tightly and to seek improvements in efficiency and procurement wherever possible.

"As a long term investor in hotel, commercial and other properties, we are pleased that the current mixed performance in the Hotels Division contrasts with the strong performance in our commercial properties, which are mainly based in Hong Kong. Demand for residential apartments in The Repulse Bay Complex, and hence the terms of rental renewals, are robust and the Peak Complex continues to achieve pleasing year-on-year growth. We believe that the medium term prospects for these businesses remain highly positive. The Repulse Bay residential properties will benefit from our plans to upgrade the public areas. The redevelopment and reconfiguration of the de Ricou serviced apartment tower, while causing some income disruption in 2012, is expected to significantly improve the rental yield after completion.

"We are looking forward to the re-design and renovation of the guestrooms at The Peninsula Hong Kong, which will commence in phases in 2012. With our long term investment horizon in mind, we expect this renovation to strengthen The Peninsula Hong Kong's position at the top of the luxury hotels market in Hong Kong and to create significant value for our Company.

However, this renovation programme will cause disruption to our earnings when portions of the hotel rooms start to be closed for renovation from the beginning of 2012 onwards.

"Overall, our Group remains in a strong financial position, with a low level of gearing and significant capability to make further investments, both in terms of new hotel and other developments and enhancements to existing assets."

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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 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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