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
ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER, 2008

HIGHLIGHTS

Key financial results

- Revenue increased by 9% to HK$4,938 million *(2007: HK$4,542 million)*
- EBITDA fell by 5.6% to HK$1,425 million *(2007: HK$1,510 million)*
- Profit before non-operating items fell by 10% to HK$978 million (*2007: HK$1,088 million*)
- Profit attributable to shareholders amounted to HK$216 million (*2007: HK$3,437 million*), after including revaluation deficits and increases in impairment provisions, net of tax and minority interests, which had the effect of reducing the earnings by HK$591 million
- Earnings per share excluding non-operating items fell by 11% to HK$0.56
- Final dividend of HK 10.5cents per share, making a total dividend of HK 17 cents per share for 2008 *(2007: HK 18 cents per share)*
- Shareholders' funds amounted to HK$20,712 million (HK$14.28 per share) as at 31 December 2008 (*2007: HK$20,726 million at HK$14.37 per share*)
- The Group's adjusted net assets amounted to HK$26,589 million (HK$18.34 per share) as at 31 December 2008 (*2007: HK$27,032 million at HK$18.75 per share*)
- Net borrowings decreased by HK$257 million to HK$1,198 million (*2007: HK$1,455 million*), with the gearing level reduced to 5% (*2007: 7%*)
- RevPAR for the Group's Peninsula hotels fell by 4% (*2007: rose by 16%*)

Key developments

- 2008 was a year of landmark anniversaries: 120th for The Peak Tram, 80th for The Peninsula Hong Kong and 10th for The Peninsula Bangkok
- Key capital enhancements included: a new spa and renovated swimming pool and fitness centre at The Peninsula hotels in Beijing and New York; a fully redesigned roof garden at The Peninsula Beverly Hills; and renovation of all guestrooms in The Peninsula Manila's Ayala Tower
- The Peninsula Shanghai project was topped out in April and construction made good progress, with the project being on time and within budget for soft opening in the autumn of 2009
- HSH signed an agreement with Qatari Diar Real Estate Investment Company to jointly develop an iconic classical building in Paris, France into The Peninsula Paris hotel

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HSH POSTS GOOD RESULTS FOR 2008 GIVEN THE DIFFICULT BUSINESS ENVIRONMENT

Hong Kong, 12 March 2009

Announcing its audited results for the year ended 31 December 2008, The Hongkong and Shanghai Hotels, Limited (HSH) said that given the very challenging market conditions during the year, with the downturn in the US having started at the beginning of the year well before the global markets collapsed in September, HSH has performed well to have achieved earnings before interest, taxation, depreciation and amortisation ("EBITDA") of HK$1,425 million, representing a fall of only 5.6% from 2007, and a profit before non-operating items only 10% less than 2007, which was a record year for the Group.

However, the Group's net profit was negatively affected by the impact of the loss arising on the year-end revaluation of investment properties and increased impairment provisions on certain of hotel assets, resulting in a net profit attributable to shareholders of HK$216 million, as compared to HK$3,437 million in 2007. It should be noted that the revaluation deficits and impairment provisions are non-cash and non-operating items which relate to assets which the Group intends to hold long-term and has no intention of selling. In 2007 HSH recognised a gain on revaluation of investment properties of HK$3,319 million.

Most importantly, HSH remained cash flow positive during the year, with cash generated from across operations of HK$1,429 million being more than sufficient to cover capital expenditure, interest and dividend payments, leaving a net cash inflow of HK$553 million for the year.

HSH's balance sheet remained conservative, with a gearing level of 5% as at the year-end. Despite the year-end property revaluation deficit and increased impairment provisions, our net asset value remains almost the same as last year at HK$20,712 million (HK$14.28 per share), while the adjusted net asset value amounted to HK$26,589 million (HK$18.34 per share). It should be noted that the Company has expended HK$1,024 million (equivalent to Euro 100 million) on its investment in The Peninsula Paris project since the year-end.

In the light of the uncertain business outlook, as well as HSH's continued commitment to investing for the long-term future of the Company, the Directors have recommended a final dividend of HK 10.5 cents per share (2007: HK 12 cents per share). Shareholders will also be given the option to receive their divided in the form of scrip rather than cash.

Mr. Clement K.M. Kwok, HSH's Chief Executive Officer, commented, "2008 was an exceptional year which was marked by the unprecedented global economic and market meltdown triggered in September following the collapse of several leading US financial institutions. Over the past twenty years, the world had enjoyed relative political stability, low inflation and a massive expansion of the global economy, albeit with some market adjustments from time to time. This time, the magnitude and extent of the financial crisis have shaken economies around the world, which we expect will have ramifications on the behaviour of corporations and individuals for several years to come.

"As the world faces possibly the most challenging set of economic circumstances since the end of World War Two and the outlook for travel continues to be pessimistic, it is time for us to pause and reflect. Change may be inevitable but we feel that by turning problems on their head, we will see another world which is filled with opportunities. Our Group's greatest strengths – the capacity for innovation, a spirit for excellence, and the dedicated power of our work force – will stand us in good stead in the turbulent times ahead.

"It is worth noting that we have entered into this financial crisis with a gearing level of only 5%, the lowest for the Company in the past 10 years. Our Company is in a strong financial position, supported by an excellent and experienced management team and our genuine commitment to the long-term, which will differentiate us from our competitors."

Hotels

The hotels division had a challenging year, with the slowdown in the US economy affecting hotels there and in Tokyo from early in the year, followed by the market collapse in September, significantly impacting current and future business levels.

The strongest performance came from the Group's flagship hotel, **The Peninsula Hong Kong** which celebrated its 80th anniversary and ended the year with net profits marginally ahead of its previous record year in 2007. **The Peninsula Beijing** benefited for a short period from the highly successful Beijing Olympics held in August, but the rest of the year was weak in the light of visa restrictions imposed both before and after the Olympics and the large increase in supply of luxury hotels in Beijing. **The Peninsula Bangkok,** which celebrated its 10th anniversary, enjoyed very healthy business up until August, following which the political turmoil in Thailand, most particularly the occupation of Bangkok's two airports by protestors, resulted in the hotel's business being seriously disrupted. **The Peninsula Manila** was partially closed during the year for the renovation of the Ayala Tower, which followed the highly successful renovation of the Makati Tower two years ago. This hotel has now completed its rooms renovation programme but is largely dependent on corporate business and faces a weak operating environment in Manila. The newly opened **Peninsula Tokyo**, in its first full year of operation, has received much acclaim and recognition for its stunning location, the design of its guestrooms and public areas and its service offering. However, it has been challenged by weak market conditions in Tokyo and is still in the process of stabilising its operating cost structures, as a result of which it contributed a loss after depreciation to the Group results.

In the US, business held up relatively well at **The Peninsula Beverly Hills**, where its market was less directly affected by the financial market fall-out. **The Peninsula hotels in New York and Chicago** have been increasingly affected during the year and have made considerable efforts to contain their costs in this situation. The Peninsula New York was also affected by the closure of its spa, health club and swimming pool areas for major renovation for most of the year, but now has fabulous new facilities in these areas to ensure the hotel's competitiveness at the top of the New York luxury market. **Quail Lodge** faced difficult market conditions with the economy affecting its business from the San Francisco Bay area, which is its main source of customers.

With an emphasis towards the long-term, the Group did not curtail any of the capital investment plans for the enhancement of existing hotels. During the year, the Group completed construction of new Peninsula Spas at The Peninsula hotels in Beijing and New York, the Ayala Tower renovation at The Peninsula Manila, the creation of new Salon de Ning concepts at The Peninsula hotels in Hong Kong and New York and the renovation of the pool terrace at The Peninsula Beverly Hills.

The **retail arcades** at The Peninsula hotels in Hong Kong and Beijing have continued to perform well, benefitting from their established position in the market and the continued good relationships with many of the world's leading luxury brands.

Non-hotel Properties and Operations

The Group's non-hotel properties and operations, mainly situated in Hong Kong, have performed well despite the financial turmoil and recorded a total revenue growth of 7% over 2007. Demand continued to be strong for the serviced and unfurnished apartments at **The Repulse Bay**, although the waiting list for units has declined in the last few months. Again with an eye towards the long term, the Group is commencing a major renovation of the Repulse Bay Arcade commercial area in order to enhance the restaurants and retail outlets for the enjoyment of both the residents of the complex and outside visitors.

The Peak Complex has had a solid year, with the Peak Tower and St. John's Building both remaining fully let. Additional income was provided by the Sky Terrace and patronage on the Peak Tram increased by 1% over 2007, reaching a record 5 million passengers.

The Landmark in Vietnam remained fully let throughout the year at higher average rentals in the midst of the high inflationary environment there and the **Thai Country Club** sustained a reasonable level of business, being less affected by the political turmoil in Thailand than The Peninsula Bangkok.

In other operations, higher volumes of passengers in the first three quarters of 2008 for **Cathay Pacific's First and Business Class lounges** at the Hong Kong International Airport resulted in improved management fees. **The Peninsula Merchandising**, which operates 19 Peninsula Boutiques worldwide and online sales, performed strongly as additional franchised retail operations were opened.

Projects

The Group's key project under development, **The Peninsula Shanghai** hotel and apartment complex, made significant progress in 2008 and is now on schedule and within budget for its soft opening in the autumn of 2009. Being the only new building with its frontage directly on the historic Bund, the other such buildings being protected heritage structures, The Peninsula Shanghai has been designed as a grand iconic flagship hotel to mark the Group's return to one of its two founding roots.

The Peninsula Shanghai complex will comprise 92,160 square meters of gross floor area, housing a 235-room hotel which will feature five restaurants and bars, a Peninsula spa, a helilounge, a high-end shopping arcade and a hotel apartment with 39 units. The exterior of the hotel has been designed in sympathy with the existing buildings on the Bund and the interior design recreates the look and feel of the 1920s and 1930s, when Shanghai was feted as the 'Paris of the East'.

The 15-storey hotel tower was topped out in January 2008, followed by a ceremony marking the occasion which took place in April. The entire complex, including the retail arcade, podium level and apartment tower, was topped out in June. This has been followed by interior fit-out works which continue apace. Pre-opening preparations are well in hand with the General Manager and most of his executive team having been appointed.

In order to establish the Group's first Peninsula hotel in Europe, HSH has entered into a joint venture with Qatari Diar Real Estate Investment Company, which is wholly-owned by the Qatar Government, to jointly re-develop a stately building on Avenue Kleber in Paris, France as The Peninsula Paris. The building was constructed in 1908 as the Majestic Hotel which at that time was one of the top luxury hotels in Paris and is currently used by the French Ministry of Foreign Affairs as the Centre International de Conferences. HSH expects to take vacant possession of the building in the second quarter of 2009 with completion of the hotel during 2012.

HSH continues to seek other opportunities for new hotel developments on a highly selective basis, with an emphasis on assuming ownership interest in the properties which it operates. As such, HSH expects to commit to new projects on a measured basis to maintain the focus of resources, as well as to ensure that the Group only proceed with prime locations in key international gateway cities.

Outlook

The Hongkong and Shanghai Hotels has consistently looked to the long term. Its business philosophy is to seek assets of the highest quality, whether through green field development or renovation of existing buildings, and to design and operate them to the highest possible quality levels. Returns to the Company and its shareholders are generated through the operating results achieved from the ability to charge premium room rates and rental prices in many of our locations, coupled with longer term asset value appreciation.

Within this overall philosophy, the Group's business strategy remains largely unchanged but is evolving to include new approaches in managing our business. Over the past year, we have set up a Corporate Social Responsibility (CSR) Committee to implement a clear strategy and direction on long term sustainability around the Group. The Committee is tasked with scoping the Group's CSR activities, identifying opportunities for improvement, implementing best practices and reporting to our stakeholders. It is believed that this process will also enhance operational efficiencies and generate opportunities to create long term economic value.

Despite the current economic crisis, the Group continues to proceed with capital improvement works at various properties to ensure that the quality of assets are maintained and enhanced to the highest possible levels, thereby maintaining the product and brand quality and image for the benefit of the Company in the long term. The Group remains totally committed to its big 'family' of hard working and loyal staff and continue to invest in their well-being and development. At the same time, much emphasis continues to be placed on controlling costs, in particular through productivity and efficiency improvements, as well as reviewing the necessity of capital expenditure items. The Group also sees the economic downturn as a possible opportunity to seek new investments and will continue our search for suitable projects within our stringent requirements for quality and location.

The start of 2009 has so far been challenging, with many of our hotels experiencing a marked reduction in revenue as compared to the same period last year, albeit the first quarter is a low season for several of our hotels. Hong Kong has so far held up relatively well, but is likely to come under continued pressure from the weak global economy and the worsening economic situation in mainland China. The competitive positioning of the Group's main assets, The Peninsula Hong Kong and The Repulse Bay Complex, is likely to be maintained due to the quality and stature of these properties, but further downward pressures may have an effect on rates and occupancies. Given the longer tenure of property leases, the non-hotel businesses are likely to react on a longer cycle than the hotel businesses. It is also hoped that certain of the properties will benefit from the recent renovations and enhancements which have been undertaken.

Mr. Kwok concluded: "Our Group's 2008 performance can be attributed to the excellent efforts of our managers and staff to contain costs and seek new sources of revenue, the earnings improvements arising from the various projects we have undertaken in the past few years to enhance our existing assets and the diversification in our asset portfolio between hotel and non-hotel properties.

"In the midst of such uncertain times, I would like to reiterate that the biggest protection we have is our genuine commitment to quality and the long-term, through investing in our assets and our people, and in adhering to the beliefs and values which have been proven through the long history of our Group."

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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