



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

To: All Finance/Business/ Property /Travel Editors

FOR IMMEDIATE RELEASE

10 August, 2016

**THE HONGKONG AND SHANGHAI HOTELS, LIMITED**  
**INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016**

**HIGHLIGHTS**

**Key financial results**

- Revenue and EBITDA amounted to HK\$2,606 million (2015: HK\$2,690 million) and HK\$525 million (2015: HK\$642 million) respectively
- Underlying profit attributable to shareholders amounted to HK\$152 million (2015: HK\$265 million). The bulk of this decrease was due to the earnings disruption from the partial closures of The Peninsula Beijing and The Peninsula Chicago for extensive renovations. Excluding the operating results of these two hotels, our Group's EBITDA would be only 4% lower than the same period last year
- Profit attributable to shareholders amounted to HK\$198 million (2015: HK\$477 million), inclusive of the net gain on revaluation of investment properties which amounted to HK\$54 million as compared to HK\$236 million in the same period last year
- Earnings per share and underlying earnings per share of HK\$0.13 (2015: HK\$0.31) and HK\$0.10 (2015: HK\$0.17) respectively
- Interim dividend of 4 HK cents per share (2015: 5 HK cents per share)
- Shareholders' funds as at 30 June 2016 amounted to HK\$36,225 million or HK\$23.19 per share (31 December 2015: HK\$36,427 million or HK\$23.61 per share). Gearing remained at a conservative level of 10% (31 December 2015: 8%)

**Key developments**

- The Peninsula Chicago completed its renovation project in April 2016 and its new room product has received positive feedback from guests
- The Peninsula Beijing is well advanced in its extensive RMB 890 million renovation, with the first phase to be completed in August 2016 and the second phase to be completed in spring 2017. The previous 525 rooms of the hotel are being combined to create 230 elegant new rooms and suites, which start from 60 square metres, making them the largest in Beijing and among the most spacious luxury hotel rooms in China
- On 26 July 2016, we signed non-binding Heads of Terms to change the structure of our 50:50 partnership with Grosvenor into a landlord and tenant relationship, whereby HSH will assume 100% ownership of the leasehold. Grosvenor will remain as the landlord under the Lease. This restructure will result in our Group funding all the remaining development costs, representing a significant increase in investment. In return for this additional investment, we will have full control over the development, management and future operations of The Peninsula London, as well as be entitled to 100% of the proceeds from the future sales of the residential units in the project and the profits of the hotel

## HSH'S 2016 INTERIM RESULTS

*Hong Kong, 10 August 2016* - The Hongkong and Shanghai Hotels, Limited today announced its interim financial results for 2016.

**Mr Clement K.M. Kwok, Managing Director and Chief Executive Officer of The Hongkong and Shanghai Hotels, Limited (HSH)**, commented:

“The first six months of 2016 have been challenging. Hong Kong, which is the largest geographic contributor to our Group, has been impacted by the well-publicised declines in tourism and high-end retail spending and a softening in the high-end residential market. There have also been challenges with unfortunate terrorist events disrupting tourism and business in global markets, as well as political uncertainty from the “Brexit” vote and subdued economic activity in general. These events have had varying impacts on our different businesses, with one of the most affected markets being Paris.

In the light of these circumstances, we are not dissatisfied with the operating results for the Group. While operating profit was down 31% and underlying profit attributable to shareholders down 43% as compared to the first six months last year, the bulk of this decrease was due to the earnings disruption from the partial closure of The Peninsula Beijing and The Peninsula Chicago due to the extensive renovation projects being undertaken at those hotels, as we had reported and forewarned in our 2015 annual report. Excluding the operating results of these two hotels, our Group's EBITDA would be only 4% lower than the same period last year which we regard as being quite creditable given the market circumstances.

As virtually all of our investment properties are located in Hong Kong, the property revaluation surplus for the six months at HK\$54 million is substantially less than last year, although this is in line with the trend of softer real estate values in the city. Notwithstanding, we believe our valuations are prudent relative to other transactions we have witnessed in the market. After taking account of our operating earnings together with the property revaluation surplus, our profit attributable to shareholders of HK\$198 million was down by 58% as compared to last year.

It is important to remember during a market downturn like this that our Group focuses on long-term investments and has successfully weathered many storms and cycles in its very long history. It is with considerable pride that we are celebrating the 150th anniversary of the establishment of our company, The Hongkong and Shanghai Hotels. We believe we are the world's oldest hotel group in continuous operation and we are the oldest company on the Hong Kong Companies Registry. As we celebrate this anniversary, our company has never been in better shape, with The Peninsula brand enjoying recognition as one of the leading luxury city hotel brands in the world. In an environment of consolidation and commoditisation in the hotel market globally, we are increasingly unique as an owner-operator, which we believe will serve us well over the long term. We have a valuable portfolio of quality hotel and other assets located in some of the most exceptional locations in the world, and we continue to invest in our real estate and people to ensure we maintain the exacting standards that have become synonymous with our brand. We have a strong

balance sheet with conservative gearing, which positions us well to weather any downturn or capitalise on opportunities to grow when presented.

The largest new project under development is The Peninsula London. As announced on 26 July 2016, we have signed Heads of Terms to change the structure of our partnership with Grosvenor into a landlord and tenant relationship, whereby HSH will assume 100% ownership of the leasehold. Grosvenor will remain as the landlord under the Lease. This will result in our Group funding all the remaining development costs, representing a significant increase in investment. In return for this additional investment, we will have full control over the development, management and future operations of the London Project, as well as be entitled to 100% of the proceeds from the future sales of the residential units in the project and the profits of the hotel. This is a significant transaction for our Group, given the importance of London as a business and tourism destination. We take a long-term view and believe that many of the factors that make London such an important global city and desirable place to live and work will remain largely unaffected regardless of the outcome of the recent “Brexit” vote.

We have also continued to make progress with our committed projects for the developments of The Peninsula Yangon and The Peninsula Istanbul, although we continue to monitor the political and security situation in Turkey closely. We are also investing more heavily in our brand marketing, particularly in the digital arena.

Generally the outlook for our businesses remains challenging for the remainder of the year and we are therefore focused on cost containment and managing the margins of our operations.

A detailed review of our business performance is below.

## Hotels Division

Hotels	Revenue	Variance	
	HK\$m	in HK\$	in Local currency
<b>Consolidated Hotels</b>			
The Peninsula Hong Kong	617	-5%	-5%
The Peninsula Beijing	50	-68%	-66%
The Peninsula New York	314	9%	9%
The Peninsula Chicago	230	5%	5%
The Peninsula Tokyo	391	13%	4%
The Peninsula Bangkok	113	8%	16%
The Peninsula Manila	134	-6%	-1%
<b>Non-consolidated hotels</b>			
The Peninsula Shanghai	285	3%	8%
The Peninsula Beverly Hills	295	0%	0%
The Peninsula Paris	221	-11%	-12%

**Asia**

<b>The Peninsula Hong Kong</b>		
Revenue	HK\$617m	- 5%
Occupancy		- 4 pp
Average Room Rate		0%
RevPAR		- 5%

The market in Hong Kong was challenging for tourism in the first half of the year, which was reflected in the reduced RevPAR of **The Peninsula Hong Kong**, although we were able to maintain our strong position in terms of market share. Overnight tourist arrivals to Hong Kong declined year-on-year by 3.2%. We continued to employ a strategy of drawing from a diverse base of customers, so that we are not dependent on any one geography or market segment. In the current market we have focused more marketing efforts on corporate business and groups to offset the softer demand from leisure travellers and we believe that the revenue and RevPAR drop of only 5% was a creditable result relative to the market. The Peninsula Office Tower was fully let although The Peninsula Arcade saw some softening in average rental rates along with the broader Hong Kong retail market. We are working closely with our key retail tenants to address the significant downturn in Hong Kong's high-end retail market, where we believe the long-term relationship we enjoy with many of our key tenants and our unique ability to offer access to Peninsula Hotel guests will help to support our tenants. We initiated a successful marketing campaign, *Legendary Artisans*, to promote our Arcade tenants by showcasing exclusive collection launches and culinary collaborations such as the Tiffany-inspired afternoon tea. The hotel's three-year collaboration with Britain's highly regarded Royal Academy of Arts, *Love Art at The Peninsula*, broke new ground with the launch of a robotic sculptural installation entitled "The Ada Project" by British conceptual artist Conrad Shawcross RA, which generated extensive press coverage and standout reviews from the international art community during Art Basel HK in March.

<b>The Peninsula Shanghai</b>		
Revenue	RMB242m	+8%
Occupancy		+2pp
Average Room Rate		+4%
RevPAR		+8%

**The Peninsula Shanghai** reported a satisfactory first half of 2016 with occupancy increasing 2pp, and the average room rate increasing 4% over the same period last year. The hotel remains the market leader in RevPAR in the city and we were delighted to receive the accolade of Number 1 in Best City Hotels in Asia by *Travel + Leisure* magazine. Overall revenue was impacted by a new VAT reform which was implemented by the Chinese government on 1 May 2016. The domestic market remained strong with increasing numbers of guests from the Middle East and we are seeing a very strong trend towards last-minute bookings in mainland China. The Peninsula Arcade was fully occupied, and we are working with our tenants on renewed rental contracts to secure long-term partnerships. The Arcade

also participated in the *Legendary Artisans* marketing campaign to promote our retail tenants which was also held in Hong Kong and Beijing.

<b>The Peninsula Beijing</b>		
Revenue	RMB42m	- 66%
Room revenue	RMB7m	- 82%
Available Rooms		- 56%
Occupancy		- 41pp
Average Room Rate		- 1%
RevPAR		- 60%

**The Peninsula Beijing** is well advanced in its extensive RMB890 million renovation, with the first phase to be completed in August 2016 and the second phase to be completed in spring 2017. The previous 525 rooms of the hotel are being combined to create 230 elegant new rooms and suites, which start from 60 sq.m., making them the largest in Beijing and among the most spacious luxury hotel rooms in China. At a press conference held in June 2016, we unveiled spectacular new public spaces including the Lobby and newly revamped restaurants, Huang Ting and Jing. The latter has introduced a new “farm to table” dining concept and a 70% organic, sustainable menu, a unique feature in China. The renovation was inspired by the Imperial architecture of ancient China and we have combined the very best of Chinese tradition, culture and artisanship with the most contemporary standards of luxury, including the most up-to-date modern technology, and our traditional Peninsula hospitality. Occupancy and average rates in the first half were significantly impacted by the renovation, however, the new rooms will start to be available for sale from August 2016 and completed by spring 2017. The feedback from guests and media on the first phase of the renovation has been positive and we believe this renovation will place The Peninsula Beijing at the top of the highly competitive Beijing market. The Peninsula Arcade reported a stable performance despite some disruption from the renovation, with over 90% occupancy.

<b>The Peninsula Tokyo</b>		
Revenue	JPY6b	+ 4%
Occupancy		- 7pp
Average Room Rate		+18%
RevPAR		+ 9%

**The Peninsula Tokyo** had a positive first half of the year with the hotel reporting an increase of 18% in average room rate year-on-year in Japanese yen terms, and an increase in RevPAR of 9%. We reported a lower occupancy rate due to the strategy to drive average rate, but the overall outcome was that we achieved the highest revenue for the hotel since its opening, which was a pleasing result. City-wide, Tokyo luxury hotels saw slightly softer demand from international markets due to the strengthening yen. The Kumamoto earthquake in April and the Japanese government’s campaign to highlight its regional cities to inbound travellers versus Tokyo also had an impact on international visitor arrivals. However, visitors from the

US increased by double digits during June. The Peninsula Tokyo’s innovative Pokémon luxury hotel experience, exclusively designed for The Peninsula Tokyo by The Pokémon Company, has resulted in a positive increase in family travellers, and we expect this trend will continue due to the popularity of “Pokémon GO”. Forward bookings indicate that the second half of the year will see growth in corporate business which has a longer booking lead time.

<b>The Peninsula Bangkok</b>		
Revenue	THB516m	+ 16%
Occupancy		+ 7pp
Average Room Rate		+ 1%
RevPAR		+12%

**The Peninsula Bangkok** enjoyed a strong beginning to the year with revenue increasing 16% and RevPAR up 12% over the previous year, with particularly robust business during Chinese New Year. Although martial law ended in April 2015, MICE business (Meetings, Incentives, Conferences and Exhibitions) remains soft due to the lead time for long-term planning of such events. Visitor arrivals improved significantly from the US, mainland China and from around the Asian region, especially South Korea. We saw a strong growth in the transient segment particularly from last minute bookings around the region. Our strategy is to increase group and corporate business as the Bangkok market gradually recovers from the political uncertainty of the past few years.

<b>The Peninsula Manila</b>		
Revenue	PHP812m	- 1%
Occupancy		- 3 pp
Average Room Rate		- 2%
RevPAR		- 5%

**The Peninsula Manila** reported a stable first half, with revenue slightly decreasing 1% over the same period last year. This was partially due to a softer business environment due to uncertainty over the Philippine Presidential Elections, which took place on 9 May 2016, and the new government under President Duterte transitioned to power on 30 June 2016. The election period negatively impacted our negotiated corporate and long-stay guest bookings, but we are confident these will return to normal in the coming months post-election. The rise of the middle class in the Philippines continues to have a positive effect on our business with domestic travellers now comprising our second largest group after the US. Our strategy is to continue to grow our corporate business and meeting groups. Leisure traffic also shows positive growth in the Makati Central Business District. The Peninsula Manila will celebrate its 40th anniversary in September 2016.

**US**

<b>The Peninsula New York</b>		
Revenue	US\$40m	+ 9%
Occupancy		+ 6pp
Average Room Rate		- 7%
RevPAR		+2%

**The Peninsula New York** reported a steady first half of the year due to an improving US economy and increased arrivals from the Middle East and UK. We were pleased to maintain a strong market share, with revenue up 9%, higher occupancy and improved RevPAR. Average room rate declined 7% year-on-year as a result of a much shorter booking window; this was a trend across the city which also affected our competitive set. Leisure travellers from our traditionally robust markets of Brazil, Australia and Europe were more cost conscious and the opening of many new boutique hotels has presented an intensely competitive market for luxury travellers. Business travel was soft compared to the same period last year, due to the uncertain financial situation of the global economy, combined with the impact of our major corporate accounts significantly cutting their travel budgets. Our strategy is to further drive corporate and diplomatic business during our traditional high season in the second half. We introduced a new monthly series concept at *Clement* restaurant, *Kitchen Table at Clement*, hosted by Chef Remi van Peteghem, and *Jazz at Clement Bar*, to drive food and beverage revenue. In response to demand for larger suites, the hotel will create a new grand suite overlooking Fifth Avenue, which will open in September.

<b>The Peninsula Chicago</b>		
Revenue	US\$29m	+ 5%
Occupancy		- 3pp
Average Room Rate		+ 9%
RevPAR		+ 2%

The Chicago market had a challenging first six months of 2016, with increased supply in the luxury hotel segment, which affected city-wide occupancy and average rates. Some new events were held in the city for the first time including the America's Cup, although the loss of other major conventions affected corporate bookings across the city. **The Peninsula Chicago** celebrated its 15th anniversary in June 2016 with an elegant gala event for our VIP guests and media, offering an opportunity to showcase the newly renovated hotel. In the first half we were pleased to report an increase of 9% in average rates and an improved ranking in both RevPAR and average rates. We have been able to charge a premium rate for the same room category in our renovated rooms, achieving additional revenue per room per night. The new room product continued to receive positive feedback from guests and generated enthusiastic media reviews. The re-design of the hotel introduced the Peninsula's proprietary advanced guest room technology to the United States, along with two new service initiatives: 24-hour check-in for web bookings and *Keys to the City*, which provides guests with special access to Chicago's top restaurants and tourist attractions.

<b>The Peninsula Beverly Hills</b>		
Revenue	US\$38m	0%
Occupancy		- 1 pp
Average Room Rate		- 3%
RevPAR		- 4%

**The Peninsula Beverly Hills** had a stable first half of the year, remaining number one in RevPAR within our competitive set although occupancy was flat over the same period in the previous year. Average room rates and RevPAR decreased slightly over the previous year, a trend which also affected our competitor set. A strong US dollar impacted arrivals from overseas markets including the UK, while medical tourism to Los Angeles continues to be a popular niche trend. An increase in the minimum wage in California from 1 January 2016 also affected overall earnings. The newly renovated Belvedere restaurant opened in January and has achieved very positive reviews and feedback from guests, with the revamped outdoor Terrace area proving popular with guests, leading to improved catering revenue from an increased number of events being held on the Terrace. We also launched a new Peninsula Academy LA-themed experience for children, *Red Carpet Kids*, in line with our strategy of attracting more family travellers. The Peninsula Beverly Hills remains the only AAA Five Diamond and Forbes Five Star-rated hotel in Southern California, an accolade it has achieved every year since 1993. We are optimistic for our traditional high season in summer and the second half of 2016 and will continue to contain costs.

### Europe

<b>The Peninsula Paris</b>		
Revenue	EUR26m	-12%
Occupancy		-5 pp
Average Room Rate		-11%
RevPAR		-20%

The Paris market continues to face intense challenges following the terrorist attacks in 2015, as well as the attacks on Brussels airport in March 2016, which deterred many foreigners from visiting Paris in the spring of 2016, affecting occupancy and RevPAR across the city. We are generally very concerned about the effect of the recent terrorist attacks in Europe on the tourism industry. However, **The Peninsula Paris** continues to garner a high level of acclaim from guests, media and the industry after its spectacular Grand Opening in 2015. In the first half, the hotel welcomed an increased number of US and Middle East guests, particularly from Saudi Arabia. Unseasonably cold and rainy weather in late spring affected the food and beverage outlets at the hotel. In line with our strategy to attract more family travellers, in February 2016, The Peninsula Paris launched its own mobile application for children, *My Little Peninsula Paris*, featuring the hotel and Paris as a background, which invites junior guests to join the iconic Peninsula mascot *Peter The Bear* on an adventure to discover the hotel and experience Paris.



## Commercial Properties Division

Commercial Properties	Revenue	Variance	
	HK\$m	in HK\$	in Local currency
The Repulse Bay Complex	311	0%	0%
The Peak Tower	85	0%	0%
St. John's Building	26	-4%	-4%
The Landmark	19	0%	5%
1-5 Grosvenor Place	15	-12%	-9%
21 avenue Kléber	0	-100%	-100%

In the first six months, revenue at **The Repulse Bay Complex** was stable compared with the same period last year. The operating results were satisfactory in the light of the general weakening of the property market in Hong Kong with softer demand and longer negotiating times for rental contracts being reported across the city, especially from the finance sector and other corporate clients. The Shopping Arcade, which offers an eclectic blend of boutique and lifestyle amenities, was almost fully occupied in the first half. Food and beverage revenue was slightly down over the same period last year and we are implementing summer promotion campaigns to boost traffic. Weddings business remains stable and this trend is expected to continue into the second half of 2016.

**The Peak Tower** was almost fully leased in the first six months of 2016 and revenue remained stable having signed new rental agreements for two new restaurant tenants. The Peak Tower generates most of its revenue from commercial leasing, with additional revenue coming from admission fees to the open-air rooftop attraction of Sky Terrace 428 with its panoramic views of Hong Kong. Visitor numbers to Sky Terrace 428 reached record levels in the first half, with particularly strong growth from Southeast Asian markets.

**St John's Building**, located at the lower terminus of the Peak Tram, was also fully let during the first half. Revenue decreased by 4% due to lower advertising income on the façade of the building.

**The Landmark** in Ho Chi Minh City, Vietnam, which is a mixed-use commercial building comprised of serviced apartments and office and retail space, reported a 5% increase in revenue despite a highly competitive market situation in Ho Chi Minh City.

The Group's commercial properties of **1-5 Grosvenor Place** in London and **21 avenue Kléber** in Paris, which were acquired during 2013, saw a revenue decline of 9% and 100% respectively due to lower rental income as we prepare the buildings for renovation. On 26 July, we signed Heads of Terms to change the structure in our partnership with Grosvenor to assume 100% ownership of the leasehold. We target to obtain vacant possession and commence demolition and construction in mid-2017. We have commenced a major renovation on 21 avenue Kléber, which is immediately adjacent to The Peninsula Paris, and we expect this renovation to be completed by mid-2017. We have received positive leads from the market with respect to leasing this property.

## Clubs and Services Division

Clubs and Services	Revenue	Variance	
	HK\$m	in HK\$	in Local currency
The Peak Tram	56	-3%	-3%
Thai Country Club	29	-6%	0%
Quail Lodge & Golf Club	48	9%	9%
Peninsula Clubs & Consultancy Services	65	-29%	-29%
Peninsula Merchandising	29	16%	16%
Tai Pan Laundry	25	-11%	-11%

**The Peak Tram** is one of Hong Kong's most popular tourist attractions. We have not raised ticket prices and overall revenue decreased by 3%. Patronage declined slightly by 1% in the first half of 2016, although we received record visitor numbers in the month of June which sets a good momentum for the rest of the year.

**Thai Country Club** recorded a small decrease in revenue due to lower golf membership sales, while food and beverage also reported a small decline due to fewer numbers of overseas visitors.

**Quail Lodge & Golf Club** had an improved first half of the year with revenue increasing by 9% due to a successful marketing strategy, as well as improved golf membership sales and golf rounds following the golf course renovation in 2015. *The Quail Motorcycle Gathering*, a Peninsula Signature event, continues to grow in popularity with more than 2,000 visitors in May, complementing the very successful *The Quail: A Motorsports Gathering* event, which occurs in August.

**Peninsula Clubs & Consultancy Services** manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and Butterfield's. As of 1 May 2016, HSH and Cathay Pacific Airways Limited agreed to end the Peninsula's management of the Cathay Pacific Lounges at Hong Kong International Airport. We are disappointed with this outcome as we had been managing Cathay Pacific's Lounges at Hong Kong airport since 1998. The decline in revenue in the Clubs and Services division was due to the loss of income from the Lounges.

Revenue at **Peninsula Merchandising** was 16% higher than the same period last year, driven by higher sales at our new Peninsula Boutique at Hong Kong International Airport and a new website which was launched in May 2016. Peninsula Merchandising expects significant sales in the second half due to the highly popular Peninsula Mooncakes. Peninsula Merchandising has implemented a new strategy of a broader product range and seasonal promotions, which requires an initial investment but is expected to lead to a long-term increase in revenue.

## Projects

### **The Peninsula London**

In 2013, our Group purchased a 50% interest in the leasehold of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of GBP132.5 million. The remaining 50% leasehold interest, as well as the freehold of the site, is currently owned by Grosvenor. As announced on 26 July 2016, we have signed Heads of Terms to change the structure of our partnership with Grosvenor into a landlord and tenant relationship, whereby HSH will assume 100% ownership of the leasehold. Grosvenor will remain as the landlord under the Lease. This restructure will result in our Group funding all the remaining development costs, representing a significant increase in investment. In return for this additional investment, we will have full control over the development, management and future operations of the London Project, as well as be entitled to 100% of the proceeds from the future sales of the residential units in the project and the profits of the hotel. This is a significant transaction for our Group, given the importance of London as a business and tourism destination.

This property is in a spectacular location overlooking Hyde Park Corner and the Wellington Arch and we are planning to replace the existing 1950s and 1960s offices with a high-quality 190-room hotel and a select number of luxury residential apartments for sale. The hotel and apartments will set new standards in luxury and service and we believe they will be the finest in the London market when complete, currently scheduled for late 2021.

### **The Peninsula Yangon**

The company entered into a conditional agreement with Yoma Strategic Holdings Ltd. in January 2014 to acquire a 70% majority interest for a proposed hotel development on the site of the former headquarters of the Myanmar Railway Company in central Yangon, Myanmar. The hotel will be renovated to become The Peninsula Yangon and will be at the heart of a mixed-use development called The Landmark. We will also manage The Peninsula Residences Yangon, luxury residential apartments within the development. The Group's overall investment will be about US\$100 million, taking into account the value of the leasehold interest pertaining to the proposed hotel development and development cost estimates which are still being finalised. In June 2016, the Board approved the extension of the Long Stop Date to 31 December 2016, and on 23 July 2016 the Master Lease for The Peninsula Yangon site was formally signed.

### **The Peninsula Istanbul**

In July 2015, together with our partners Doğu Holding A.Ş. and BLG Gayrimenkul Yatırımları ve Ticaret A.Ş., we entered into a conditional shareholders' agreement to form a joint venture partnership, of which HSH will have a 50% share, for a proposed hotel development in Istanbul, Turkey.

Subject to fulfilment of the conditions, the partners have agreed to jointly develop the property with an investment commitment of approximately EUR300 million (equivalent to approximately HK\$2,568 million), of which HSH is responsible for 50% or approximately EUR150 million (equivalent to approximately HK\$1,284 million). The parties to the Shareholders' Agreement have agreed to further extend the Long Stop Date from 30 June 2016 to 31 August 2016 to fulfil conditions of the existing agreement. Construction of the

extension of the pier in front of the hotel commenced in January 2016 and demolition on the project site began in June.

We remain concerned about the uncertain political situation in Turkey and the terrorist attacks in the first half of 2016 which have had a negative impact on the tourism industry. We continue to monitor the situation closely.

## Outlook

The strength of our Group continues to emanate from our genuine focus and commitment to long-term value creation. This provides the vision and willingness to make decisions that are in the best long-term interests of the Company and its shareholders and the staying power to ride through shorter-term cycles in the economy. In the volatile economic, political and social circumstances that we increasingly seem to be challenged by, this approach has enabled us to make investment and capital expenditure decisions with a very long-term outlook and to maintain our service quality and the continuity of our people. With this in mind, I remain optimistic that we are continuing to chart a course which will maximise the value of our assets and operations and deliver appropriate risk-adjusted returns to our shareholders.

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 value in each Peninsula hotel through both asset value appreciation and operational earnings growth.

As has been mentioned, current trends in retail and tourism in Hong Kong are negative and we are seeking to address this by focusing on driving revenues and containing costs. More generally, our focus is to maintain and drive our operating margins throughout the Group in the light of the global uncertainties arising from political, economic and security factors.

Despite the uncertainties, we remain optimistic that our second half earnings will reflect the traditional autumn high season in many of the markets in which we operate. More specifically, we expect that The Peninsula Chicago will benefit in terms of room rate from its recently completed renovation and The Peninsula Beijing to increase its earnings after the completion of the first phase of its rooms renovation in August 2016. However this hotel will remain partially closed until its completion of the second phase of its renovation in spring 2017. On the residential lettings side, occupancy at The Repulse Bay Complex has remained stable although the outcome of the traditional leasing renewals season over the summer remains to be seen.

Overall, our company remains in a strong financial position, and the core operations are performing well when the renovations are taken into account. We will continue to invest in our assets and explore new ways to further leverage the considerable value of our Peninsula brand. With our long-term outlook and the exciting new projects we are developing, we

remain confident and positive about the future, whilst being ready and able to ride out the shorter term fluctuations in the markets in which we operate.”

#End#

**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 Peninsula Hotels portfolio comprises The Peninsula Hong Kong, The Peninsula Shanghai, The Peninsula Beijing, The Peninsula Tokyo, The Peninsula Bangkok, The Peninsula Manila, The Peninsula New York, The Peninsula Chicago, The Peninsula Beverly Hills, and The Peninsula Paris. Projects under development include The Peninsula London, The Peninsula Yangon and The Peninsula Istanbul. The property portfolio of the Group includes The Repulse Bay Complex, The Peak Tower and St. John’s Building in Hong Kong; The Landmark in Ho Chi Minh City, Vietnam; 1-5 Grosvenor Place in London, UK, and 21 avenue Kléber in Paris, France. The clubs and services portfolio of the Group includes The Peak Tram in Hong Kong; Thai Country Club in Bangkok, Thailand; Quail Lodge & Golf Club in Carmel, California; Peninsula Clubs and Consultancy Services, Peninsula Merchandising, and Tai Pan Laundry in Hong Kong.

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