

The Hongkong and Shanghai Hotels, Limited Interim Results for the Six Months Ended 30 June 2008
2008-09-10

Turnover increased by 20% to HK\$2,395 million.

HIGHLIGHTS

Key financial results

Turnover increased by 20% to HK\$2,395 million.

EBITDA increased by 4% to HK\$699 million.

Profit before non-operating items remained flat at HK\$478 million.

Profit attributable to shareholders increased by 27% to HK\$1,619 million (2007: HK\$1,271 million).

Earnings per share increased by 26% to HK\$1.12.

Shareholders' funds as at 30 June 2008 amounted to HK\$22.4 billion (HK\$15.42 per share).

Adjusted net asset value as at 30 June 2008 amounted to HK\$28.4 billion (HK\$19.56 per share).

Gearing ratio reduced to 5% (2007: 7%).

Interim dividend of 6.5 HK cents (2007: 6 HK cents) per share.

Milestones

The Peninsula Shanghai's hotel tower was topped out in April. Interior fitting out works have started and the hotel is on schedule for opening in late 2009.

Heads of agreement were signed in July for a proposed hotel development in Paris, France.

The Peninsula Beijing unveiled a new spa, swimming pool and fitness centre in time for the Olympics.

Renovation of all guestrooms in the Ayala Tower commenced at The Peninsula Manila. The first phase of the Repulse Bay Arcade revitalisation was completed in July.

GOOD HALF YEAR OPERATING RESULTS FOR HSH IN THE LIGHT OF CHALLENGING MARKET CONDITIONS

The unaudited interim results announced today by The Hongkong and Shanghai Hotels, Limited (HSH) reflect a good operating performance by the Group in the light of challenging market conditions.

Introducing the Group's results, Managing Director and Chief Executive Officer Mr. Clement K.M. Kwok said, "The Group faced a more challenging business environment in the first half of 2008 as uncertainties in the US economy and financial markets affected demand in both US domestic and international travel. Overall, the performance of our hotels division was somewhat mixed but fortunately this was countered by a robust performance in our non-hotel properties and operations, with our Hong Kong investment properties continuing to enjoy strong demand. The Group has a strong balance sheet."

The total turnover for the period amounted to HK\$2,395 million, up 20% over the same period in 2007. This increase was mainly due to the inclusion of revenue from The Peninsula Tokyo, which opened in September 2007. EBITDA (earnings before interest, tax, depreciation and amortisation) increased by 4% to HK\$699 million.

After taking into account depreciation and net financing charges, profit before non-operating items remained flat at HK\$478 million. Revaluation gains on investment properties amounted to HK\$1,267 million (2007: HK\$1,256 million).

Profit attributable to shareholders in the six months increased by 27% to HK\$1,619 million, compared to HK\$1,271 million for the same period in 2007. The total tax charge was HK\$112 million (2007: HK\$280 million), including the impact of deferred taxation.

Earnings per share were HK\$1.12 (2007: HK\$0.89). Excluding non-operating items and the related tax and minority interests, earnings per share increased by 37% to HK\$0.37 (2007: HK\$0.27).

Shareholders' funds increased to HK\$22.4 billion or HK\$15.42 per share. Net borrowings decreased to HK\$1.2 billion and the Group's gearing ratio has been further reduced to 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 and a write-back of deferred taxation on property revaluation surpluses arising in Hong Kong, amounted to HK\$28.4 billion or HK\$19.56 per share.

The Directors have resolved to pay an interim dividend of 6.5 HK cents per share (2007: 6 HK cents per share).

Business Overview

Hotels

The total turnover (in HK\$) for the hotels division rose 23% over the same period in 2007. The Group's hotel assets have mostly achieved revenue per available room (RevPAR) levels in line with, or ahead of, competitor hotels in the relevant markets, with an average RevPAR increase across all Peninsula Hotels of 0.9%.

In Asia, there was a decline in long-haul and corporate business at The Peninsula Hong Kong but this was offset by increased business from mainland China and various new markets. Although occupancy was reduced compared with last year, the increase in average room rate (ARR) was sufficient to result in a 4% higher RevPAR. The favourable business environment in Thailand combined with strong demand from the buoyant regional markets enabled The Peninsula Bangkok to achieve an 18% increase in RevPAR over 2007, despite a decrease in long-haul business from Europe and the US. The Peninsula Tokyo opened in September 2007 and achieved 62% occupancy in the first six months of 2008. The hotel's RevPAR has grown progressively since opening and has exceeded its aggregated competitor set since April 2008.

Elsewhere in Asia, the visa restrictions implemented prior to the Olympic Games have impacted foreign travel to Beijing. The RevPAR at The Peninsula Beijing decreased by 8% over 2007, primarily due to the decrease in occupancy. At The Peninsula Manila, there was a lingering impact from the November 2007 rebel occupation on the first quarter and since May, half of the hotel's room inventory has not been available due to the Ayala Tower renovation. After the renovation, we expect to see significant growth in room rates for the Ayala Tower, as happened following the renovation of the Makati Tower.

In the USA, the downturn in the US economy has been felt most at The Peninsula New York, whose RevPAR decreased by 15% due to the impact from the US economy as well as from the renovations of the spa, health club and swimming pool. Effective rate strategies at The Peninsula Chicago have enabled its RevPAR to show a small increase of 1% over 2007. Strict rate management resulted in a 4% increase in RevPAR at The Peninsula Beverly Hills. In Quail Lodge Resort, the weaker economy, poor weather conditions and summer fires have impacted both occupancy and room rates, resulting in a 2% decrease in RevPAR.

Residential, Commercial and Office Properties

Turnover from residential, commercial and office properties grew by 16% for the first six months as compared to the same period last year. There has been continuing robust demand for luxury residential accommodation, supported by a faster turnaround of new tenants, driving increased average rentals. The high-end retail sector has also remained strong in Hong Kong and Beijing, benefiting the hotels' shopping arcades and other commercial spaces. Most of the Group's investment properties are fully leased.

Turnover for The Repulse Bay Complex increased by 11% over 2007, with growth in both occupancy and average rental rates. Total revenue from the Peak Complex increased by 20% over the same period in 2007.

There was also an average 8% growth in turnover for other businesses owned and operated by HSH. The number of passengers travelling on The Peak Tram was consistent with the same period in 2007. Peninsula Merchandising recorded a 15% increase in turnover, while turnover in the Cathay Pacific First and Business Class Lounges increased by 12%.

Renovation Projects

One of the Group's key business strategies is to improve its existing assets either through introducing new concepts or improving facilities, so as to enhance the Group's brand and augment the competitiveness of our hotels and properties.

During the first six months, The Peninsula Beijing unveiled a new spa, swimming pool and fitness centre in May and also welcomed a new fleet of Rolls-Royces and BMWs in time for the Beijing Olympics. The Peninsula New York revitalised its rooftop bar by creating a new concept called Salon de Ning and is well underway in its extensive spa, gym and pool renovation. The Peninsula Beverly Hills renovated its roof terrace and swimming pool deck, which were re-opened in April.

Newly commenced projects include The Peninsula Manila's renovation of all the guestrooms in the Ayala Tower and the Salon de Ning being created at The Peninsula Hong Kong.

We are proceeding with the revitalisation of The Repulse Bay Arcade where the objective is to expand the facilities and enhance the mix of restaurants, shopping and entertainment. As the first phase of this, preliminary work for a new health wing commenced in March and finished in July.

New hotel projects

Substantial progress has been made in the construction of The Peninsula Shanghai, which is on schedule to open in late 2009. The hotel tower's superstructure works were completed by mid January 2008 and a topping-out ceremony took place in April. Since then, the apartment tower has been topped out and the structural works for the entire complex have been completed. Interior fitting out works have started and good progress is being made. Demand from top international brands has been strong for leasing of space in the retail arcade. The hotel's general manager has been appointed and recruitment of key executive personnel is underway.

In July, the Group entered into a non-legally binding heads of agreement with Qatari Diar Real Estate Investment Company for a proposed hotel development in Paris, France. Under the heads of agreement, HSH has agreed to invest in a 20% minority interest in a building located on Avenue Kleber which housed the former Majestic Hotel and jointly with Qatari Diar to re-develop it into a Peninsula hotel.

Outlook

Looking ahead, Mr. Kwok said: "We expect that business conditions will generally remain challenging for our hotel business in the second half of the year, although the fourth quarter is traditionally a strong season for hotels in New York, Hong Kong and Tokyo. The outlook for the market in Beijing will be rather uncertain following the Olympic Games, taking account of the large increase in the supply of luxury hotel rooms in the city. Demand in Bangkok is currently negatively affected by the anti-government protests taking place there."

As for the Group's non-hotel properties, Mr. Kwok said: "We anticipate that demand continues to be strong for our non-hotel properties, particularly within the luxury residential sector in Hong Kong and we continue to look for growth in this sector to counter-balance the mixed environment in the hotels business."

"In this challenging environment, we will continue to focus our priorities on employee retention within the increasingly competitive markets, keeping costs under control in the light of rising wages and commodity prices, and continuing to find new revenue streams while enhancing our products and services."

About HSH

Incorporated in 1866 and listed on the Hong Kong Stock Exchange (0045), The Hongkong and Shanghai Hotels, Limited is a holding company whose subsidiaries 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 hotels in Hong Kong, New York, Chicago, Beverly Hills, Bangkok, Beijing, Manila, Tokyo, Shanghai (opening 2009) and Quail Lodge Resort and Golf Club in Carmel, California. The property portfolio of the Group includes The Repulse Bay Complex, The Peak Complex and The Landmark in Ho Chi Minh City, Vietnam.

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