



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

FOR IMMEDIATE RELEASE

16 MARCH, 2006

THE HONGKONG AND SHANGHAI HOTELS, LIMITED
ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2005

Hong Kong, 16 March 2006 –

FINANCIAL HIGHLIGHTS

Key Financial Results

- Profit before non-operating items increased by 39% to HK\$688 million
- Profit attributable to shareholders of HK\$2.7 billion, including revaluation surpluses
- Shareholders' funds increased by 21% to HK\$14.9 billion (HK\$10.51 per share) as at 31 December 2005. This figure is stated after application of the new accounting policies under which the 31 December 2004 figure was restated from HK\$17.4 billion to HK\$12.3 billion
- Net borrowings decreased by HK\$2.0 billion to HK\$2.3 billion, with the net gearing level reducing to 13%
- RevPAR for the group's hotels increased by 17%

Key Developments

- Completed sale of The Kowloon Hotel
- Purchased the land for development of The Peninsula Shanghai and received preliminary planning approval
- Closed The Peak Tower for complete revitalization
- Disposed of a parcel of land in Phuket
- Completed a JPY 14.2 billion term loan facility for The Peninsula Tokyo
- The Peninsula Manila became a subsidiary of the company

HSH'S UNDERLYING PROFIT UP 39%
ON STRONG BUSINESS FUNDAMENTALS

Hong Kong, March 16, 2006 – Announcing its audited results for the year ended 31 December 2005, The Hongkong and Shanghai Hotels, Limited (HSH) said that the underlying strong performance of its businesses during the year was reflected in significantly improved profit before non-operating items of HK\$688 million, up 39% as compared to 2004.

Significant changes in accounting policies have impacted the presentation of the group's accounts this year, although these changes have no material effect on the group's EBITDA and operational cash flow, which are the key measures on which management focusses in managing the group's business.

The first significant change to be aware of is that hotel properties (other than shopping arcades and offices at hotels) and golf courses are stated at cost less depreciation and any provision for impairment, rather than at fair market value as previously stated. Secondly, whilst investment properties continue to be carried at fair value, any revaluation surpluses or deficits are now reflected in the group's profit and loss account, leading to significant, non-operating volatility in the group's earnings. Furthermore, there is now a requirement to make provision, at the profits tax rate, for deferred taxation in respect of such revaluation surpluses in the group's balance sheet. It is the directors' position that the group's investment properties are held for the long-term and that if any Hong Kong investment properties were sold, tax would not be payable on the disposal as the gain would be capital in nature and such capital gains are subject to a nil tax rate in Hong Kong. Finally, depreciation must now be recognised against the group's hotel assets despite the policy of the group to continually maintain and refurbish such assets. This has now led to an additional depreciation charge for the year of HK\$142 million.

The total turnover for the company was HK\$3.3 billion for the year ended 31 December 2005, representing an increase of 5% as compared to 2004. Earnings before interest, taxation, depreciation and amortisation (EBITDA) were HK\$1.1 billion, a rise of 10% over 2004. The increase was driven primarily by the improvement in the contribution from the hotel division. After adjusting for the results of The Kowloon Hotel which has been sold, revenue and EBITDA would have risen by 16% and 20% respectively.

Profit attributable to shareholders was HK\$2.7 billion in 2005, compared to HK\$2.8 billion in 2004. The restatement of 2004's figures follows the adoption of new accounting standards effective from 1 January 2005.

Shareholders' funds stood at HK\$14.9 billion, or HK\$10.51 per share, after incorporating the year-end revaluations on investment properties, an increase of 21% as compared to 2004. It should be noted that the above changes in accounting policies have resulted in the net assets as at 31 December 2004 attributable to the company's shareholders being restated to HK\$12.3 billion (HK\$8.80 per share) from the previously published figure of HK\$17.4 billion (HK\$12.40 per share).

An interim dividend of 4 cents was paid during the year 2005 (2004: 3 cents). To balance the company's improved operating performance with its future commitments to the Tokyo and Shanghai projects, the directors are recommending to shareholders that the final dividend be set at 10 cents per share (9 cents in 2004), representing a total dividend for 2005 of 14 cents per share. Shareholders will also be given the option to receive their dividend in the form of scrip rather than cash.

Clement Kwok, HSH's chief executive officer, commented, "Our operating results, together with several well-executed corporate transactions, most notably the sale of The Kowloon Hotel, have placed the company in its strongest financial position for some time, with a healthy level of operational earnings and a prudent balance sheet."

Mr Kwok pointed out that all the Peninsula hotels are either the leader or amongst the leaders in room rate and revenue per available room (RevPAR) in their respective cities, enabling the group to capture a strong share of the growth in revenue brought about by the favourable market conditions in 2005. To retain this competitive position, the hotels are focussed on delivering the highest quality and service standards as well as enhancing the facilities offered and making best use of the available space. Enhancement projects completed in 2005 included the final four floors of guestrooms at The Peninsula Palace, the expansion of Shanghai Terrace at The Peninsula Chicago, and the enlargement of the spa at The Peninsula Beverly Hills. Currently under way are the creation of a new spa at The Peninsula Bangkok, an extension of the spa in The Peninsula Hong Kong, and the renovation of one guestroom wing as well as public areas at The Peninsula Manila.

In Asia, The Peninsula Hong Kong enjoyed sustained demand with occupancy of 79%, thus increasing RevPAR by 11%. The Peninsula Palace Beijing continues to benefit from its recent full renovation and increased its RevPAR by 40%. The retail arcades in both hotels continue to be sought after by high-end retail brands, and to meet demand from key tenants for additional space, the layouts have been reconfigured where possible, including creating the first duplex stores at The Peninsula Hong Kong.

Elsewhere, The Peninsula Manila achieved pleasing RevPAR growth of 17% in a market that continues to be uncertain. In Bangkok, the market was affected in the early part of the year first by the tsunami and subsequently by the unrest in the south of the country. Nevertheless, The Peninsula Bangkok was able to grow its RevPAR by 5%.

In North America, the three Peninsula hotels continued to be recognised as market leaders and enjoyed significant increases in average room rates. The Peninsula New York increased its RevPAR by 16%, The Peninsula Beverly's Hills by 11% and The Peninsula Chicago by 17%. From 1 April 2006, HSH will resume direct management of Quail Lodge, which has struggled to establish a clear market position following its 2003 renovation, although its RevPAR increased by 13% in 2005.

The bulk of the company's non-hotel properties are situated in Hong Kong, which has enjoyed a strong rebound in both the residential and office lettings market in 2005 with a further influx of international companies establishing or increasing their presence in the city. Following completion of the latest phase of renovation of the unfurnished apartments at The Repulse Bay, occupancy by year end increased to 86% (2004: 78%), although there will be some lag in the full impact on revenue due to the timing of lease renewals. Occupancy at St John's Building remained steady whilst The Landmark has performed well.

Patronage of the Peak Tram dipped by 4% as renovation work commenced on The Peak Tower, but this was offset by a slight increase in the average price per ticket. The renovation of The Peak Tower has progressed steadily towards completion in mid-2006 when it will re-open with a new array of shops and restaurants as well as an observation deck at the top of the bowl.

Clement Kwok explained that "HSH's philosophy is based on the long-term ownership and management of top quality hotels and other properties. The company believes that by seeking prime locations and then committing significant human and financial resources to creating exceptional hotels, value will be created for its shareholders through both operating results and long-term asset value appreciation, as has been shown by several of the existing properties."

Of the major projects under development, both The Peninsula Tokyo and The Peninsula Shanghai are situated in exceptional locations, the former in the prestigious Marunouchi district, overlooking the Imperial Palace gardens, and the latter, the only new-build with frontage on to the Bund. In Tokyo, the hotel shell and core is under construction with topping out expected in mid-2006. In Shanghai, completion of the land purchase took place in August 2005, and agreement has been reached with the authorities on the key planning parameters of the architectural scheme.

Looking forward, Mr Kwok said, "In recent years we have repeatedly emphasised seeking ways to enhance the value of our existing assets through new concepts and redevelopments. The many ongoing enhancement projects at our hotels and properties and in particular the renovation of The Peak Tower are examples of these initiatives.

"Whilst our development emphasis has been on management and delivery of the Tokyo and Shanghai projects, we have also continued to seek other opportunities for new hotel developments. However, we are selective in our choice of projects and expect to commit to new ones on a measured basis."

Incorporated in 1866 and listed on the Hong Kong stock exchange, The Hongkong and Shanghai Hotels, Limited's principal business comprises the ownership and management of prestigious hotel, commercial and residential properties in key destinations in Asia and the USA; it is the owner and operator of The Peninsula Hotels. The hotel portfolio comprises The Peninsula Hong Kong, The Peninsula New York, The Peninsula Chicago, The Peninsula Beverly Hills, The Peninsula Bangkok, The Peninsula Palace Beijing, The Peninsula Manila and The Peninsula Tokyo (opening in 2007), and Quail Lodge Resort and Golf Club, Carmel, California.

KEY STATISTICS FOR THE YEAR ENDED DECEMBER 31, 2005

HOTELS

		Attributable Year-to-Date Occupancy Interest %	
		2005	2004
The Peninsula Hong Kong*	100	79%	77%
The Peninsula New York	100	75%	76%
The Peninsula Chicago	92.5	71%	72%
The Peninsula Beverly Hills	20	83%	84%
The Peninsula Bangkok	75	72%	77%
The Peninsula Palace Beijing**	42	72%	62%

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The Peninsula Manila	76	78%	69%
Quail Lodge Resort	100	61%	54%

Year-to-Date Average Room Rate

	2005	2004
The Peninsula Hong Kong*	HK\$ 2,872	HK\$ 2,659
The Peninsula New York	HK\$ 4,902	HK\$ 4,137
The Peninsula Chicago	HK\$ 2,947	HK\$ 2,490
The Peninsula Beverly Hills	HK\$ 4,091	HK\$ 3,634
The Peninsula Bangkok	HK\$ 1,293	HK\$ 1,155
The Peninsula Palace Beijing**	HK\$ 1,219	HK\$ 1,008
The Peninsula Manila	HK\$ 630	HK\$ 606
Quail Lodge Resort	HK\$ 2,297	HK\$ 2,228

* In 2004, due to renovation, the average number of rooms available was reduced to 269.

** In 2005 and 2004, due to renovation, the average number of rooms available was reduced to 484 and 500 respectively.

PROPERTIES

		Attributable Year-to-Date Occupancy Interest %	
		2005	2004
<i>Residential</i>			
The Repulse Bay (Unfurnished)	100	86%	78%
The Repulse Bay (Serviced)	100	60%	66%
The Landmark, Ho Chi Minh City	70	94%	95%
<i>Commercial</i>			
The Peninsula Hong Kong	100	96%	93%
The Peninsula New York	100	100%	100%
The Peninsula Bangkok	75	94%	100%
The Peninsula Palace Beijing	42	100%	100%
The Peninsula Manila	76	59%	62%
The Repulse Bay	100	100%	100%
The Peak Tower*	100	20%	100%

Office

The Peninsula Hong Kong	100	100%	81%
St. John's Building	100	90%	87%
The Landmark, Ho Chi Minh City	70	95%	98%

Year-to-Date Average Yield (pnasf*)

2005 2004

Residential

The Repulse Bay (Unfurnished)	HK\$ 28	HK\$ 25
The Repulse Bay (Serviced)	HK\$ 21	HK\$ 24
The Landmark, Ho Chi Minh City	HK\$ 16	HK\$ 16

Commercial

The Peninsula Hong Kong	HK\$ 268	HK\$ 256
The Peninsula New York	HK\$ 308	HK\$ 293
The Peninsula Bangkok	HK\$ 51	HK\$ 51
The Peninsula Palace Beijing	HK\$ 80	HK\$ 78
The Peninsula Manila	HK\$ 11	HK\$ 11
The Repulse Bay	HK\$ 65	HK\$ 63
The Peak Tower*	HK\$ 10	HK\$ 39

Office

The Peninsula Hong Kong	HK\$ 23	HK\$ 21
St. John's Building	HK\$ 15	HK\$ 15
The Landmark, Ho Chi Minh City	HK\$ 17	HK\$ 16

* The Peak Tower closed in April 2005 for major renovation.

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For general information, please see:

The HSH corporate internet homepage: <http://www.hshgroup.com>

The Peninsula Hotels internet homepage: <http://www.peninsula.com>