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, 2006

*Hong Kong, 15 March 2007 –*

## FINANCIAL HIGHLIGHTS

### Key Financial Results

- Profit before non-operating items increased by 31% to HK$904 million.
- Profit attributable to shareholders of HK$2,094 million, including revaluation surpluses.
- Shareholders' funds increased by 14% to HK$16,982 million (HK$11.89 per share) as at 31 December 2006.
- The Group's adjusted net assets amounted to HK$21,841 million (HK$15.29 per share) as at 31 December 2006.
- Net borrowings decreased by HK$237 million to HK$2,076 million, with the net gearing level reducing to 11%.
- RevPAR for the Group's hotels increased by 12%.

### Key Developments

- Revitalisation of The Peak Tower in Hong Kong was completed. The Tower re-opened in phases starting July 2006.
- Renovation of one guestroom tower, the lobby and the ballroom at The Peninsula Manila was completed, resulting in significantly increased room rates.
- New Peninsula concept spas were opened at The Peninsula Hong Kong and The Peninsula Bangkok.
- The Peninsula Tokyo was topped out in June 2006 and will be opened in the second half of 2007.
- Construction began for The Peninsula Shanghai, which will be completed in 2009.

## HSH'S PROFIT BEFORE NON-OPERATING ITEMS UP 31% ON STRONG BUSINESS FUNDAMENTALS

Hong Kong, March 15, 2007 – Announcing its audited results for the year ended 31 December 2006, The Hongkong and Shanghai Hotels, Limited (HSH) said that the underlying strong performance of its businesses during the year was reflected in a significantly improved profit before non-operating items of HK$904 million, an increase of 31% as compared to 2005.

The total turnover of the Group for the year of HK$3,723 million was 14% above 2005. Earnings before interest, taxation, depreciation and amortisation (EBITDA) were HK$1,281 million, a rise of 17% over 2005. The increase was driven primarily by the strong performance in the hotel division, increased rentals from non-hotel properties such as The Repulse Bay and The Peak Tower following its re-opening and increased profit from other businesses such as The Peak Tram.

Profit attributable to shareholders was HK$2,094 million in 2006, compared to HK$2,664 million in 2005. It is important to note that, while the valuation surplus on investment properties amounted to HK$1,442 million in 2006 compared to HK$1,089 million in 2005, there was a one-off net gain on the disposal of the Kowloon Hotel of HK$953 million in 2005, which did not recur in 2006.

Shareholders' funds stood at HK$16,982 million, or HK$11.89 per share as at 31 December 2006, an increase of 14% as compared to 2005. Our accounts are prepared on the basis of investment properties being stated at fair market value, whereas the hotel properties are stated at cost less depreciation and any impairment provision. In addition, deferred tax is provided on the revaluation surplus on Hong Kong investment properties which the Directors do not expect will materialise. In the light of the above, the Directors have provided for shareholders' additional information a calculation of the Group's adjusted net asset value which amounts to HK$21,841 million (HK$15.29 per share).

An interim dividend of 5 cents was paid during the year 2006 (2005: 4 cents). The Directors are recommending to shareholders that the final dividend be set at 11 cents per share (2005: 10 cents), representing a total dividend for 2006 of 16 cents per share. Shareholders will also be given the option to receive their dividend in the form of scrip rather than cash.

Mr. Clement K.M. Kwok, HSH's Chief Executive Officer, commented, "Our Group has had another excellent year in 2006. Amidst favourable market conditions, our hotels and other properties and businesses benefited from their strong market positions and the strength of our brand to achieve a significant improvement in earnings.

"HSH has enjoyed a sustained recovery over the past five years since emerging from the Asian financial crisis which began in the late 1990s. The extent of this recovery can be seen from our EBITDA trend, which has improved consistently every year from a low of HK$698 million in 2001 to HK$1,281 million in 2006. The cumulative effect of these years of earnings growth, coupled with a number of successfully executed corporate transactions, is that the Company's financial position has been significantly strengthened, with our gearing level dropping further to 11% at the end of 2006."

### Hotels

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 2006. To retain this competitive position, the hotels are focused on delivering the highest quality and service standards as well as enhancing the facilities offered and making best use of the available space. Key hotel enhancement projects completed in 2006 included new Peninsula concept spas at The Peninsula Hong Kong and The Peninsula Bangkok, renovation of the spa and creation of new meeting spaces at The Peninsula Chicago, renovation of the lobby, the ballroom and all guestrooms in The Makati Tower at The Peninsula Manila, and renovation of certain suites and public areas at The Peninsula Beverly Hills.

The 11% increase in turnover for the hotels division was mostly achieved through better yield performance and in particular, growth in average room rates. Positive consumer sentiment also fuelled much higher domestic patronage, as well as sustained international arrivals, at many of the Group's hotels.

**Non-hotel Properties**

The bulk of the Group's non-hotel properties are situated in Hong Kong. The continued strength of the Hong Kong and mainland Chinese economies resulted in very positive demand for office and residential space, as well as commercial space for high-end retail brands. Rental revenue of HK$464 million represented a 24% increase over 2005. The impact of the completed renovation of the unfurnished apartments at 109 The Repulse Bay was realized from the second half of 2006, following the cycle of rental reversions. The Peak Tower re-opened in phases from July 2006, after being closed since the end of April 2005. The renovation has added some 30% more lettable space and with a different market mix, has attracted higher rentals with 100% occupancy.

The Peak Tram had a record-breaking year with annual patronage reaching 4.43 million passengers, up 13% from 2005 and with revenues 14% higher. St. John's Building enjoyed full occupancy for most of the year while The Landmark in Vietnam recorded high occupancy and increased rates in the office and residential space. Income from The Repulse Bay restaurants increased by 13% over 2005, driven largely by the exceptionally high level of banqueting business. The Cathay Pacific lounges in the Hong Kong International Airport have favourably impacted the Peninsula Clubs and Consultancy Services' revenue and profits. Revenue from the Thai Country Club was up 27% from 2005. Lastly, Peninsula Merchandising has seen revenues increasing by 47% to HK$25 million over 2005, with four new stores opened across Asia in 2006.

**New Projects**

Mr. Kwok explained that "HSH's philosophy is based on the long-term ownership and management of top quality hotels and other properties. The Group 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."

Both of the major projects under development, 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 being the only new-build with direct frontage on to the famous Bund. Interior fitting for The Peninsula Tokyo has begun and the hotel is expected to open in the second half of 2007. In Shanghai, construction for The Peninsula Shanghai has started in late 2006 and the property is expected to be completed in 2009.

**Future Outlook**
Looking ahead, Mr. Kwok said, "We believe that the new hotel development projects currently in progress will help to enhance the value of the Group in the longer term. In the meantime, we have already seen the positive effects of our ongoing renovation projects giving rise to significant increases in revenue. Present business momentum is good at all of our hotels, although once again the events of the past year have served to remind us of the susceptibility of the hotel industry to unforeseen occurrences such as the military coup in Thailand. On the property side, although demand remains healthy for retail, office and residential property in Hong Kong, we may well see a slowdown in the surge in demand and the focus will be on working closely with our tenants to ensure that we can continue to offer an attractive product that meets their needs."

Incorporated in 1866 and listed on the Hong Kong Stock Exchange, 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 comprises The Peninsula Hong Kong, The Peninsula New York, The Peninsula Chicago, The Peninsula Beverly Hills, The Peninsula Bangkok, The Peninsula Beijing, The Peninsula Manila, The Peninsula Tokyo (to be opened in 2007), The Peninsula Shanghai (to be opened in 2009) and Quail Lodge Resort and Golf Club in Carmel, California.

**KEY STATISTICS FOR THE YEAR ENDED 31 DECEMBER 2006**

**HOTELS**

| | **Attributable Interest %** | **Year-to-Date Occupancy** | |
|---|---|---|---|
| | | **2006** | 2005 |
| The Peninsula Hong Kong | 100 | **80%** | 79% |
| The Peninsula New York | 100 | **74%** | 75% |
| The Peninsula Chicago | 92.5 | **72%** | 71% |
| The Peninsula Beverly Hills | 20 | **83%** | 83% |
| The Peninsula Bangkok | 75 | **71%** | 72% |
| The Peninsula Beijing* | 42 | **67%** | 66% |
| The Peninsula Manila** | 76 | **66%** | 78% |
| Quail Lodge Resort | 100 | **65%** | 61% |

| **Year-to-Date Average Room Rate** | | **% Change in RevPAR** |
|---|---|---|
| **2006** | 2005 | |

| | | | |
|---|---|---|---|
| The Peninsula Hong Kong | **HK$ 3,228** | HK$ 2,872 | 14% |
| The Peninsula New York | **HK$ 5,458** | HK$ 4,902 | 11% |
| The Peninsula Chicago | **HK$ 3,398** | HK$ 2,947 | 17% |
| The Peninsula Beverly Hills | **HK$ 4,523** | HK$ 4,091 | 11% |
| The Peninsula Bangkok | **HK$ 1,424** | HK$ 1,293 | 8% |
| The Peninsula Beijing* | **HK$ 1,436** | HK$ 1,219 | 19% |
| The Peninsula Manila** | **HK$ 737** | HK$ 630 | (2%) |
| Quail Lodge Resort | **HK$ 2,190** | HK$ 2,297 | 3% |

** In 2005, on average, 41 rooms were closed for renovation.*
*** In 2006, on average, 133 rooms were closed for renovation.*

**PROPERTIES**

| | **Attributable Interest %** | **Year-to-Date Occupancy** | |
|---|---|---|---|
| | | **2006** | 2005 |
| ***Residential*** | | | |
| The Repulse Bay (Unfurnished) | 100 | **94%** | 86% |
| The Repulse Bay (Serviced) | 100 | **67%** | 60% |
| The Landmark, Ho Chi Minh City | 70 | **97%** | 94% |
| ***Commercial*** | | | |
| The Peninsula Hong Kong | 100 | **96%** | 96% |
| The Peninsula New York | 100 | **100%** | 100% |
| The Peninsula Bangkok | 75 | **100%** | 94% |
| The Peninsula Beijing | 42 | **96%** | 100% |
| The Peninsula Manila | 76 | **67%** | 59% |
| The Repulse Bay | 100 | **100%** | 100% |
| The Peak Tower* | 100 | **72%** | 31% |
| ***Office*** | | | |
| The Peninsula Hong Kong | 100 | **100%** | 100% |
| St. John's Building | 100 | **99%** | 90% |
| The Landmark, Ho Chi Minh City | 70 | **99%** | 95% |

| | Year-to-Date Average Yield (pnasf*) | |
|---|---|---|
| | **2006** | 2005 |
| ***Residential*** | | |
| The Repulse Bay (Unfurnished) | **HK$ 34** | HK$ 28 |
| The Repulse Bay (Serviced) | **HK$ 26** | HK$ 21 |
| The Landmark, Ho Chi Minh City | **HK$ 17** | HK$ 16 |
| ***Commercial*** | | |
| The Peninsula Hong Kong | **HK$ 293** | HK$ 268 |
| The Peninsula New York | **HK$ 343** | HK$ 308 |
| The Peninsula Bangkok | **HK$ 58** | HK$ 51 |
| The Peninsula Beijing | **HK$ 85** | HK$ 80 |
| The Peninsula Manila | **HK$ 13** | HK$ 11 |
| The Repulse Bay | **HK$ 68** | HK$ 65 |
| The Peak Tower* | **HK$ 29** | HK$ 6 |
| ***Office*** | | |
| The Peninsula Hong Kong | **HK$ 23** | HK$ 23 |
| St. John's Building | **HK$ 21** | HK$ 15 |
| The Landmark, Ho Chi Minh City | **HK$ 19** | HK$ 17 |

** The Peak Tower was closed for major renovation from April 2005 to May 2006.*

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