

AUDITORS' REPORT

**Independent auditor's report to the shareholders of
The Hongkong and Shanghai Hotels, Limited 香港上海大酒店有限公司**
(incorporated in Hong Kong with limited liability)

We have audited the consolidated Financial Statements of The Hongkong and Shanghai Hotels, Limited (the "Company") set out on pages 86 to 147, which comprise the consolidated and Company balance sheets as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibilities for the Financial Statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these Financial Statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated Financial Statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



KPMG
Certified Public Accountants
8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

15 March 2007

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The Company's registered office is situated at 8th Floor, St. George's Building, 2 Ice House Street, Central, Hong Kong.

This annual report and other information about the Company's operations can be accessed by visiting www.hshgroup.com/ir, and any investor relations enquiries can be emailed to ir@hshgroup.com.

This annual report is printed on environmentally friendly, chlorine free paper.

Company Websites

SHS Corporate: www.hshgroup.com

The Peninsula Hotels: www.peninsula.com



THE HONGKONG AND SHANGHAI HOTELS, LIMITED
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