THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 45)
website: www.hshgroup.com/ir

2006 Final Results - Announcement

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.

FINANCIAL HIGHLIGHTS

	2006	2005
Consolidated income statement (HK$m)		
(for the year ended 31 December)		
Turnover	**3,723**	3,276
EBITDA	**1,281**	1,092
Profit before non-operating items	**904**	688
Profit attributable to shareholders	**2,094**	2,664
Consolidated balance sheet (HK$m)		
(at 31 December)		
Total assets	**24,609**	21,972
Shareholders' funds	**16,982**	14,896
Net borrowings	**2,076**	2,313
Key data		
Earnings per share *(HK$)*	**1.47**	1.89
Earnings per share excluding non-operating items *(HK$)*	**0.54**	0.45
Dividends per share *(HK cents)*	**16**	14
Audited net assets per share *(HK$)*	**11.89**	10.51
Adjusted net assets per share *(HK$)*	**15.29** *	**
Gearing	**11%**	13%
Interest cover *(times)*	**8.2x**	5.2x

* *Please refer to calculation in the Financial Review section.*
** *The comparative figure for adjusted net assets per share as at 31 December 2005 is not meaningful as no fair valuation was conducted for hotels and golf courses as at that date.*

The Directors hereby announce the audited results for the year ended 31 December 2006, which have been reviewed by the Company's Audit Committee, comprising a majority of independent non-executive directors, one of whom chairs the Committee, and the Company's auditors, KPMG.

FINANCIAL REVIEW

The Group's financial statements are compiled in accordance with Hong Kong accounting standards under a set of accounting policies which have been adopted as from 1 January 2005. The Directors wish to draw the attention of the users of these financial statements to the following aspects of these accounting policies:

- Deferred taxation has been provided, at the profits tax rate, in respect of revaluation surpluses on the Group's investment properties which are mainly held in Hong Kong. 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 such disposal as the gain would be capital in nature and such gains are subject to a nil tax rate in Hong Kong. The Directors therefore expect that the provision for deferred taxation in respect of revaluation surpluses for Hong Kong investment properties, amounting to HK$2,407 million as at 31 December 2006, would not materialize.

- Hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less depreciation and any provision for impairment, rather than at fair market value. In order to provide shareholders with additional information on the value of the Group's net assets, the Directors have commissioned an independent third party fair market valuation of the Group's hotel properties and golf courses as at 31 December 2006, the details of which will be set out in the Group's 2006 Annual Report. If these assets are stated at fair market value instead of at cost less depreciation and any provision for impairment (and deferred tax is not provided on the revaluation surplus of the hotel property in Hong Kong on the same rationale as above), the Group's net assets attributable to shareholders would increase by HK$2,452 million.

In the light of the above, the Directors have provided for shareholders' additional information a calculation of the Group's Adjusted Net Asset value as at 31 December 2006 on the basis set out below:-

	HK$m	HK$m
Net assets attributable to shareholders per audited balance sheet		16,982
Writing back the deferred taxation provision in respect of revaluation surpluses on Hong Kong investment properties		2,407
Adjusting the value of hotels and golf courses to fair market value	3,127	
Less: Related deferred tax and minority interests effects	(675)	
		2,452
Adjusted net assets attributable to shareholders		21,841
Audited net assets per share (HK$)		11.89
Adjusted net assets per share (HK$)		15.29

The comparative figure for adjusted net assets as at 31 December 2005 is not meaningful and has not been disclosed as no fair valuation was conducted for hotels and golf courses as at that date.

The Directors believe that the Company's profit and loss account and earnings per share include a number of items which are non-operating and/or non-recurring in nature, such as revaluation surpluses arising on investment properties and the gain on sale of The Kowloon Hotel in 2005. As the Group continues to be managed with principal reference to its underlying operating cash flows and recurring earnings, the Directors have also provided a calculation of the Group's earnings per share excluding non-operating items on the basis set out below:

HK$m	**2006**	2005
Profit attributable to shareholders	**2,094**	2,664
Net revaluation surplus on investment properties	**(1,189)**	(895)
Net impairment provision adjustments for hotels, golf courses and other properties	**(144)**	(85)
Gain on sale of The Kowloon Hotel	**-**	(991)
Other non-operating items	**-**	(52)
Earnings excluding non-operating items and related tax and minority interests effects	**761**	641
Earnings per share excluding non-operating items (HK$)	**0.54**	0.45

Turnover

The total turnover of the Group for the year of HK$3,723 million was 14% above 2005. When comparing year-on-year turnover it should be noted that The Peak Tower was closed for a substantial renovation project in April 2005 and re-opened in July 2006, whilst The Peninsula Manila became a subsidiary of the Company in March 2005, as a result of which its results were consolidated for the first time as from that date, and the hotel was partially closed for renovation works for seven months in 2006.

The underlying 11% increase in turnover from the hotels was a positive performance, most of which was achieved through better yield performance giving rise to increases in average room rates. Positive consumer sentiment fuelled higher domestic patronage at many of our hotels, whilst international business and leisure travel continued to be strong.

With regard to our non-hotel properties, the continued strength of the Hong Kong and China economies resulted in sustained demand for office and residential space, as well as commercial space for high-end retail brands. The rental revenue of HK$464 million represents a 24% increase over 2005.

Breakdowns of the Group's turnover by business sector and geographical segment are set out in note 3 to the consolidated income statement.

Hotels During 2006, our majority-owned hotels ("owned hotels") generated total room revenue of HK$1,455 million, representing an increase of 12% over 2005. Food and beverage revenues rose 11% year on year, and commercial rental revenues rose by 8%.

The properties in Asia have enjoyed healthy business. The Peninsula Hong Kong achieved a record year in room revenue, with its average room rate increasing by 12% compared with 2005. In a more challenging environment following the military coup which occurred in September 2006, revenue for The Peninsula Bangkok was 13% ahead of 2005 until August 2006, but only finished 8% ahead for the year as a whole. The Peninsula Beijing achieved an 18% higher average room rate in 2006 and 16% higher revenue. The renovation of The Peninsula Manila disrupted revenue for the year, 2% down from 2005, but the enhanced room product has been warmly received by the hotel's customers, and the hotel is looking forward to increased revenue from the renovated rooms.

In the USA, the buoyant market conditions have enabled all our properties to achieve higher room rates. The Peninsula New York maintained its high occupancy levels, with the average room rate 11% above 2005. The Peninsula Beverly Hills continued to lead its market in RevPAR, maintaining high occupancy and achieving record room rates. The Peninsula Chicago also continued to improve its leading RevPAR position compared with its competitive set, while gaining top accolades in leading travel surveys. From April 2006, HSH took over direct management of Quail Lodge and restructured the business, with gradually improving results.

Revenues from the hotels' shopping arcades have also increased over 2005 levels, reflecting improved consumer spending in high-end retail.

Rentals from non-hotel properties Total rental revenue from non-hotel properties was HK$464 million, compared to HK$374 million in 2005. The bulk of the impact of the renovation of the unfurnished apartments at 109 The Repulse Bay was realised from the second half of 2006, following the cycle of rental reversions.

The Peak Tower re-opened in 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 significantly higher rental rates with 100% occupancy by the year-end. There has been strong demand for the renovated facility.

St. John's Building was fully occupied from March 2006, with a positive increase in overall revenues and unit rates. There has been significant growth in the rates charged for rental space in Central, Hong Kong, and rental revenue increased by 28% over 2005. Occupancy remained high and rates increased further in the office and residential space in The Landmark, Vietnam.

Other businesses Revenue from the Thai Country Club was 27% above 2005, and the Club received excellent press coverage for the Volvo Masters in December. The Peak Tram enjoyed record breaking annual patronage of 4.43 million people, up 13% from 2005, with revenues 14% higher. Income from the restaurants at The Repulse Bay improved by 13% over 2005, driven largely by an exceptionally high level of banqueting business. The Cathay Pacific Lounges have been operated directly by HSH since June 2006, which has favourably impacted the Peninsula Clubs and Consultancy Services' revenue and profits. Peninsula Merchandising has seen revenues increasing by 47% to HK$25 million over 2005, with increasing revenue derived from Peninsula Boutiques in the hotels and franchised operations in department stores and an airport.

EBITDA and EBITDA margin

EBITDA (earnings before interest, taxation, depreciation and amortisation) rose by 17% to HK$1,281 million, with good increases in all divisions.

	2006		**2005**	
	EBITDA (HK$m)	**EBITDA margin**	**EBITDA (HK$m)**	**EBITDA margin**
Hotels	**882**	**30%**	769	29%
Rentals from non-hotel properties	**328**	**71%**	263	70%
Other businesses	**71**	**23%**	60	26%
Overall profit margin	**n/a**	**34%**	n/a	33%
	1,281		1,092	
Arising in				
Hong Kong	**791**	**48%**	686	49%
Other Asia	**315**	**36%**	270	35%
United States of America	**175**	**15%**	136	13%
	1,281		1,092	

Hotels The hotels division performed strongly as consumer and corporate business volumes remained healthy in all markets. EBITDA for this division increased by 15% to HK$882 million. All hotels showed improved performance compared with 2005. The Peninsula Hong Kong and The Peninsula Beijing both performed strongly as compared to the previous year, whereas The Peninsula Manila increased its EBITDA despite the significant disruption from its renovation programme. The Peninsulas in New York and Chicago benefited from the continued rise in room rates while the loss at Quail Lodge Resort was reduced compared to 2005.

Rentals from non-hotel properties EBITDA arising from rentals in non-hotel properties increased by 25% to HK$328 million, driven largely by increases from residential lettings at The Repulse Bay and increased rentals following the re-opening of The Peak Tower. St. John's Building and The Landmark also achieved satisfactory increases.

Other businesses EBITDA from other businesses increased by 18% to HK$71 million, mainly due to increased profit from The Peak Tram, which was positively impacted by the re-opening of The Peak Tower. Other businesses such as Thai Country Club, Peninsula Clubs and Consultancy Services, Tai Pan Laundry and Peninsula Merchandising performed satisfactorily.

Efforts had been made throughout the year to ensure that operating costs were kept within budget, even as revenues increased above budget, in order to drive as much additional profit into the Group results as possible and compensate for the above inflation increases in some fixed operating and non-operating costs. There have been higher increases in some expenses due to factors outside our control, such as trade union-negotiated pay increases, land use rate increases and energy cost increases.

Margins have improved in most hotels in the Group, except for The Peninsula Bangkok which suffered reduced revenue and increased costs in the last four months of 2006 following the military coup. The margins in The Peninsula Bangkok until August 2006 were in line with 2005, and would otherwise have shown positive growth over a full normal year. The Peninsula hotels in New York, Chicago, Manila and Beijing were all able to improve their margins over 2005.

Most businesses in the non-hotel properties segment recorded positive improvements in margin performance. Much of the increased turnover in The Repulse Bay complex was in residential revenue, which has a higher profit margin, and resulted in overall improved complex profitability. There was also positive growth in margins in The Peak Tower following its re-opening in July and in St. John's Building, whilst The Landmark maintained its profitability margin.

In the other business segment, the Cathay Pacific Lounges came under the Group's direct operation from 1 June. Although this resulted in more profit to the Group, the profit margin is much lower than other businesses. Without this change, the overall margin for this segment would have also shown positive growth compared with 2005.

Profit before non-operating items

Profit before non-operating items grew significantly by 31% against 2005 to HK$904 million. This figure is one of the key measures that reflect the underlying performance of the Group, on which management focuses.

The growth in this profit figure was driven by the strong performance from all business segments across the Group, including hotel operations, commercial leasing, office premises, residential apartments, and other businesses. At the same time, reduction in the debt level led to a decrease in interest expenses, thereby further contributing to the profit growth.

Non-operating items

Fair value changes on investment properties amounting to **HK$1,442 million** (2005: HK$1,089 million) were mainly attributable to the increase in value of properties in Hong Kong, being the apartments at The Repulse Bay, the shopping arcade at The Peninsula Hong Kong, St. John's Building and The Peak Tower.

The review by the Directors of the fair values and values in use of our hotel properties resulted in a net reversal of some impairment provisions that were previously recognised in the financial statements. The net reversal of impairment provisions for hotels, golf courses and other properties totalled **HK$200 million** (2005: HK$117 million) and arose largely from an increase in value of The Peninsula Chicago, given its strong earnings growth and outlook.

It should also be noted that in 2005, a net gain of HK$953 million was recorded in respect of the sale of The Kowloon Hotel and a gain of HK$60 million was recorded on the sale of land in Phuket. These were one-off transactions that did not recur in 2006.

Financing charges
Financing charges on borrowings in 2006 amounted to HK$134 million, of which HK$9 million was capitalised for The Peninsula Tokyo, The Peninsula Manila and The Peak Tower. The net charge of HK$125 million, which was 23% lower than 2005, was recognised in the income statement. The reduction in financing charges was due to the decrease of 10% in the amount of net borrowings during 2006.

The weighted average gross interest rate for the year remained at 5.0%, the same as in 2005. Interest cover has improved, with operating profit at **8.2 times** (2005: 5.2 times) net financing charges for the year.

Taxation
The taxation charge for the year increased as compared to 2005 mainly due to the following reasons:

- The taxation on current year's operating profit increased due to the higher taxable earnings;

- The positive outlook on the availability of future earnings to utilise carried forward tax losses has given rise to further deferred tax credits of **HK$43 million** (2005: HK$110 million), largely arising in the United States; and

- The increases in valuation of investment properties and other fixed assets have resulted in an increased deferred tax expense of **HK$305 million** (2005: HK$173 million).

The deferred tax provision with respect to the accumulated valuation surplus on investment properties increased to HK$2,556 million, of which HK$2,407 million relates to Hong Kong properties. The Directors consider that the provision for deferred tax liabilities with regard to valuation surpluses on the Group's investment properties in Hong Kong will not materialise on the grounds that the Group has no intention to sell these properties; and should any such sale eventuate, any gain would be regarded as capital in nature and would not be subject to any tax in Hong Kong.

Profit attributable to shareholders
Profit attributable to shareholders amounted to HK$2,094 million for the year ended 31 December 2006, compared to HK$2,664 million in 2005. To put the comparative figure in context, the profit attributable to shareholders in 2005 included a net one-off gain from the disposal of The Kowloon Hotel amounting to HK$953 million.

Earnings per share
Earnings per share was **HK$1.47** (2005: HK$1.89). After adjustment for non-operating items net of related tax and minority interests, earnings per share rose by 20% to **HK$0.54** (2005: HK$0.45).

Dividend

An interim dividend of **5 cents** per share was paid during the year 2006 (2005: 4 cents). To balance our improved operating performance with our future commitments to the Tokyo and Shanghai hotel projects, the Directors are recommending to shareholders that the final dividend be set at 11 cents per share. Together with the interim dividend of 5 cents per share, this represents a total dividend for 2006 of 16 cents per share which is an increase of 14% over 2005. Shareholders will also be given the option to receive their dividend in the form of scrip rather than cash.

Shareholders' funds

Shareholders' funds as at 31 December 2006 amounted to HK$16,982 million, or HK$11.89 per share, after incorporating the year-end revaluation on investment properties, an increase of 14% over 2005.

Property valuations

Hotel properties (other than shopping arcades and offices at hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties are stated at fair value. To provide additional information to shareholders on the current market value of our hotels and golf courses, the Directors have commissioned independent valuers to perform a fair valuation of these properties (except for The Peninsula Beverly Hills which is 20% owned by the Group) as at 31 December 2006. An independent valuation was also performed for the Group's investment properties as of 31 December 2006.

Accordingly, a summary of the Group's major hotel, investment and other properties showing both the book value and the market value attributable to the Group at 31 December 2006 is set out in the following table.

	Market Valuation (HK$m)	HSH Interest (%)	Attributable Market Value (HK$m)	Attributable Book Value (HK$m)
Hotels				
The Peninsula Hong Kong	7,772	100%	7,772	6,257
The Peninsula New York	1,743	100%	1,743	911
The Peninsula Chicago	1,322	92.5%	1,223	1,187
The Peninsula Bangkok	823	75%	617	621
The Peninsula Beijing	2,020	42.13%	851	569
The Peninsula Manila	326	76.09%	248	190
Quail Lodge Resort	165	100%	165	165
Non-hotel properties				
The Repulse Bay	5,633	100%	5,633	
Repulse Bay Apartments	3,647	100%	3,647	
Repulse Bay Garage	79	100%	79	
The Peak Tower	746	100%	746	
St. John's Building	463	100%	463	
The Landmark	76	70%	53	
Thai Country Club	213	75%	160	
Quail Lodge Golf Club	35	100%	35	
Vacant land near Bangkok	313	75%	235	
Quail Lodge land	80	100%	80	

Borrowings
The Group's policy is that gearing, expressed as the percentage of net borrowings to the total of net borrowings and net assets, shall at all times remain below 40%. Care is taken to ensure that borrowing facilities do not impose onerous or restrictive covenants, and that the terms of the facilities match the underlying requirements. The Group's financial position is reviewed periodically to ensure compliance of loan covenants.

As at 31 December 2006, net borrowings had decreased by 10% as compared to 2005 to HK$2,076 million due to the operating cashflows and retained earnings generated by the Company. This borrowing level remains well within the debt capacity of the Group.

Derivative financial instruments
Derivative financial instruments are generally used to hedge interest rate and exchange rate risks of the Group. Derivative financial assets and liabilities are recorded at their fair value. There is no significant change in the fair value of the derivative financial assets and liabilities during 2006.

Cash flow statement
Net cash generated from operating activities increased to HK$1,164 million as compared to HK$1,058 million in 2005. Most of the operating cash flows were applied to capital expenditure and repayment of borrowings.

Capital expenditure in 2006 totalled HK$645 million and is summarised below:

HK$m	**2006**	2005
New project development – Tokyo	**194**	52
– Shanghai	**14**	308
Cash consideration for additional investment – Manila	**-**	12
Major renovations in certain properties	**290**	182
Capital expenditure at other existing properties	**147**	110
	645	664

The Group spent HK$208 million on the developments of The Peninsulas in Tokyo and Shanghai. The development in Tokyo is progressing on schedule and the hotel is expected to open in the second half of 2007. Ground breaking of The Peninsula Shanghai commenced in October 2006, with first-stage financing obtained in December 2006. The second-stage financing is under negotiation with banks and will be finalised in 2007.

Major renovations totalling HK$290 million included redevelopment of The Peak Tower (which was re-opened in July 2006), renovation of guestrooms in the Makati Tower and other areas at The Peninsula Manila (which was completed in November 2006), spa projects at The Peninsulas in Hong Kong, Chicago and Bangkok (which opened in May, June, December 2006 respectively), and the purchase of 14 Rolls-Royce Phantoms in Hong Kong.

In addition, capital expenditure of HK$147 million was incurred on the ongoing upkeep and minor capital projects at our existing properties.

The net cash inflow after interest and dividends before financing activities was HK$232 million for the year, compared to HK$1,928 million in 2005. It should be noted that the figure for 2005 included the sales of The Kowloon Hotel and other fixed assets, exclusive of which the net cash inflow for that year would have been HK$92 million. The increase in the net cash inflow on this comparative basis was mainly due to the improvement in the operating results, as well as reduction in interest expenses.

OPERATING REVIEW

Hotels

All the Peninsula hotels are either top or amongst the leaders in room rate and revenue per available room (RevPAR) in the markets where they operate.

In North America, the three Peninsula hotels have enjoyed a significant increase in average room rates in the midst of buoyant business conditions. The Peninsula New York increased its RevPAR by 11% to HK$4,066, The Peninsula Beverly Hills by 11% to HK$3,772 and The Peninsula Chicago by 17% to HK$2,449.

Following the decision to resume direct management of Quail Lodge Resort & Golf Club as from 1 April 2006, the business result of Quail Lodge, after depreciation but before interest, has improved by HK$11 million for 2006 as compared to 2005.

In Asia, The Peninsula Hong Kong benefited from positive economic conditions and was able to increase its RevPAR by 14% to HK$2,592. Occupancy in its retail arcade reached 96% at an average rent of HK$293 per square foot per month. The Peninsula Beijing increased its RevPAR by 19% to HK$958, and occupancy in its retail arcade reached 96% at HK$85 per square foot per month. The Peninsula Manila underwent renovation but its RevPAR only decreased by 2% to HK$484. Despite the political changes in Thailand, The Peninsula Bangkok has done well to maintain a RevPAR of HK$1,010, up 8% from 2005.

During the year, Peninsula Merchandising opened new Peninsula boutiques in Japan, Taiwan, Thailand and Hong Kong, bringing the total number of shops to 13.

Overall, the hotel division's revenue and EBITDA for 2006 were HK$2,950 million and HK$882 million, an increase of 11% and 15% respectively as compared to 2005.

We are also pleased to have been able to control operating costs, as a result of which the EBITDA margin on our hotel businesses has increased from 29% in 2005 to 30% in 2006.

	For the year ended 31 December				
	Occupancy %		Average Room Rate (HK$)		% RevPAR Improvement
	2006	2005	**2006**	2005	
The Peninsula Hong Kong	**80**	79	**3,228**	2,872	14
The Peninsula New York	**74**	75	**5,458**	4,902	11
The Peninsula Chicago	**72**	71	**3,398**	2,947	17
The Peninsula Beverly Hills	**83**	83	**4,523**	4,091	11
The Peninsula Bangkok	**71**	72	**1,424**	1,293	8
The Peninsula Beijing *	**67**	66	**1,436**	1,219	19
The Peninsula Manila **	**66**	78	**737**	630	(2)
Quail Lodge Resort	**65**	61	**2,190**	2,297	3

Notes:
Occupancy rates are based on the total number of rooms at each hotel. It should be noted that:
* *In 2005, on average, 41 rooms were closed for renovation at The Peninsula Beijing.*
** *In 2006, on average, 133 rooms were closed for renovation at The Peninsula Manila.*

Non-hotel properties and other businesses

The bulk of our non-hotel properties are situated in Hong Kong, which has enjoyed a strong rebound in the commercial, residential and office leasing markets in 2006. Following an extensive renovation of The Peak Tower in Hong Kong, we added 1,664 square meters (representing an increase of some 30%) of lettable space to the building which is now fully let at an average rent per square foot of approximately HK$42. The Peak Tram's patronage grew by 13% to 4.43 million passengers in 2006, despite the closure of The Peak Tower for more than half of the year due to renovation.

At The Repulse Bay, average occupancy and rental per square foot of the unfurnished apartments increased to 94% at HK$34 per square foot per month. The Repulse Bay Commercial Arcade remained fully let at an average rental of HK$68 per square foot for the year. St. John's Building in Central improved to an occupancy of 99% at HK$21 per square foot per month.

The Thai Country Club, The Landmark office and serviced apartment complex in Vietnam, Tai Pan Laundry, and our club and airport lounges' management operations all performed satisfactorily. Overall, the revenue and EBITDA from non-hotel properties and operations for 2006 were HK$773 million and HK$399 million, an increase of 27% and 24% respectively as compared to 2005.

Development and projects

The Peninsula Tokyo, located in Marunouchi area in central Tokyo, was topped out in mid 2006 and interior fit-out is well advanced. The hotel is expected to be handed over in the summer of 2007, for soft opening in the autumn and grand opening before the end of the year. The Peninsula Shanghai also made significant progress and construction work began in October 2006. We continue to work towards a timetable for completion of construction before the end of 2009.

Whilst our emphasis has been on the management and delivery of the Tokyo and Shanghai projects, we have also continued to seek other opportunities for new hotel developments. Our strategy is based on the long-term ownership and management of a select number of top quality hotels and other properties in prime locations, and creating value for our shareholders through both operating results and long-term value appreciation.

Strategy and outlook

Our strategy remains largely unchanged with an emphasis on:

1. Building our brand quality and image.
2. Enhancing service delivery through staff training, development and empowerment.
3. Focusing on prime locations, asset quality and design and build standards.
4. Enhancing the value and functionality of all space within our existing assets.

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 programme, with The Peak Tower renovation and The Peninsula Manila guestrooms renovation in particular giving rise to significant increases in revenue. The next phase of our renovation programme will see further spa developments and a revitalisation plan for The Repulse Bay Arcade.

Present business momentum is good at all of our hotels, although events in 2006 have served to remind us of the susceptibility of the hotel industry to unforeseen occurrences. 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 a suitable product that meets their needs.

CONSOLIDATED INCOME STATEMENT (HK$m)

	Note	Year ended 31 December 2006	2005
Turnover	2	**3,723**	3,276
Cost of inventories		**(283)**	(232)
Staff costs and related expenses		**(1,181)**	(1,028)
Rent and utilities		**(263)**	(261)
Other operating expenses		**(715)**	(663)
Operating profit before depreciation and amortisation ("EBITDA")		**1,281**	1,092
Depreciation and amortisation		**(251)**	(238)
Operating profit		**1,030**	854
Financing charges		**(125)**	(163)
Share of loss of jointly controlled entity		**(1)**	(3)
Profit before non-operating items		**904**	688
Increase in fair value of investment properties		**1,442**	1,089
Reversal of impairment losses, net		**200**	117
Net gain on disposal of The Kowloon Hotel	4	**-**	953
Other non-operating items	5	**-**	82
Profit before taxation		**2,546**	2,929
Taxation			
Current tax	6	**(121)**	(118)
Deferred tax	6	**(302)**	(90)
Profit for the year		**2,123**	2,721
Attributable to:			
Shareholders of the Company		**2,094**	2,664
Minority interests		**29**	57
Profit for the year		**2,123**	2,721
Earnings per share, basic and diluted (HK$)	7	**1.47**	1.89
Dividends per share (HK cents)		**16**	14
Dividends payable to shareholders of the Company attributable to the year:	8		
Interim dividend declared during the year		**71**	57
Final dividend proposed after the balance sheet date		**157**	142
		228	199

CONSOLIDATED BALANCE SHEET (HK$m)

	Note	At 31 December 2006	2005
Non-current assets			
Fixed assets			
- Properties, plant and equipment		**5,223**	4,406
- Investment properties		**17,728**	16,155
		22,951	20,561
Interest in jointly controlled entity		**470**	446
Investment in hotel management contract		**163**	168
Interests in unlisted equity instruments		**52**	52
Derivative financial instruments		**28**	23
Deferred tax assets		**98**	123
		23,762	21,373
Current assets			
Inventories		**86**	77
Debtors and payments in advance	10	**308**	216
Taxation recoverable	9	**3**	3
Derivative financial instruments		**3**	2
Cash and cash equivalents		**447**	301
		847	599
Current liabilities			
Creditors and accruals	11	**(1,111)**	(865)
Interest-bearing borrowings		**(306)**	(139)
Derivative financial instruments		**(8)**	(5)
Current taxation	9	**(93)**	(78)
		(1,518)	(1,087)
Net current liabilities		**(671)**	(488)
Total assets less current liabilities		**23,091**	20,885
Non-current liabilities			
Interest-bearing borrowings		**(2,217)**	(2,475)
Net defined benefit retirement obligation		**(23)**	(23)
Derivative financial instruments		**(206)**	(204)
Deferred tax liabilities		**(2,880)**	(2,577)
		(5,326)	(5,279)
Net assets		**17,765**	15,606
Capital and reserves			
Share capital	12	**714**	709
Reserves		**16,268**	14,187
Total equity attributable to shareholders of the Company		**16,982**	14,896
Minority interests		**783**	710
Total equity		**17,765**	15,606

CONSOLIDATED CASH FLOW STATEMENT (HK$m)

	Note	Year ended 31 December 2006	2005
Operating activities			
Profit before non-operating items		**904**	688
Adjustments for:			
Depreciation		**246**	231
Amortisation			
- land lease premium		**-**	1
- hotel management contract		**5**	6
Financing charges		**125**	163
Dividend income from unlisted equity instruments		**-**	(3)
Interest income		**(6)**	(4)
Share of loss of jointly controlled entity		**1**	3
Loss on disposal of fixed assets		**6**	9
Foreign exchange gain		**-**	(8)
Operating profit before changes in working capital		**1,281**	1,086
(Increase)/decrease in inventories		**(7)**	1
Increase in debtors and payments in advance		**(90)**	(2)
Increase in creditors and accruals		**87**	54
Cash generated from operations		**1,271**	1,139
Net tax paid:			
Hong Kong Profits Tax paid		**(28)**	(35)
Overseas tax paid		**(79)**	(46)
Net cash from operating activities		**1,164**	1,058
Investing activities			
Purchase of fixed assets		**(631)**	(344)
Capital injected/loan granted to jointly controlled entity		**(14)**	(308)
Interest received		**6**	4
Acquisition of subsidiary, net of cash acquired	14	**-**	(2)
Receipt in relation to the disposal of a subsidiary	14	**-**	1,684
Dividend received from unlisted equity instruments		**-**	3
Proceeds from sale of fixed assets		**2**	152
Net cash (used in)/generated from investing activities		**(637)**	1,189
Financing activities			
Drawdown of bank loans		**778**	836
Repayment of bank loans		**(392)**	(2,488)
Net decrease of revolving credits		**(477)**	(234)
Dividends paid to shareholders of the Company		**(108)**	(104)
Interest paid and other financing charges		**(184)**	(210)
Dividends paid to minority shareholders		**(3)**	(5)
Net cash used in financing activities		**(386)**	(2,205)
Net increase in cash and cash equivalents		**141**	42
Cash and cash equivalents at 1 January		**285**	243
Effect of changes in foreign exchange rates		**7**	-
Cash and cash equivalents at 31 December		**433**	285

NOTES TO THE CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED BALANCE SHEET

1. Significant accounting policies and statement of compliance

The audited consolidated income statement and consolidated balance sheet have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRS), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKAS) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong, the requirements of the Hong Kong Companies Ordinance and also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies used in preparation of the consolidated income statement and consolidated balance sheet are consistent with those adopted in 2005, except that Group has changed some of its accounting policies following its adoption of the new and revised HKFRS that are first effective or available for early adoption for the current accounting period. The adoption of these new and revised HKFRS has not resulted in any significant impact on the Group's operations results for the year and financial position as at 31 December 2006.

2. Turnover (HK$m)

The Company is an investment holding company. The Group is principally engaged in the ownership and management of prestigious hotel, commercial and residential properties.

Turnover represents the gross amount invoiced for services, inventories and facilities including management fees and rental income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2006	2005
Hotels		
Rooms	**1,455**	1,297
Food and beverage	**813**	735
Commercial rentals	**407**	377
Others	**275**	257
	2,950	2,666
Rentals from non-hotel properties	**464**	374
Other businesses	**309**	236
	3,723	3,276

3. Segment reporting (HK$m)

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions. The revenue and operating performance of the Group's hotel business segment are subject to a higher degree of seasonal volatility by nature whilst those for the Group's property leasing segment are subject to a relatively lower degree of seasonality.

(a) Business segments

The Group is comprised of the following main business segments:

Hotels	Hotel room accommodation, leasing of commercial shopping arcades and office premises, provision of food and beverage at restaurant outlets, operation of retail outlets and other minor departments such as spa, telephone, guest transportation and laundry within the hotel premises.
Rentals from non-hotel properties	Leasing of commercial and office premises (other than those in hotel properties) and residential apartments.
Other businesses	Various other businesses including operation of golf courses, The Peak Tram, food and beverage outlets other than those in owned Hotels, wholesaling of food and beverage products, laundry, and provision of management and consultancy services for clubs.

	Hotels 2006	Hotels 2005	Rentals from non-hotel properties 2006	Rentals from non-hotel properties 2005	Other businesses 2006	Other businesses 2005	Consolidated 2006	Consolidated 2005
Segment turnover and results - for the year ended 31 December								
Turnover								
Total segment	**2,951**	2,667	**468**	375	**322**	255	**3,741**	3,297
Inter-segment	**(1)**	(1)	**(4)**	(1)	**(13)**	(19)	**(18)**	(21)
	2,950*	2,666	**464**	374	**309**	236	**3,723**	3,276
Segment operating profit before depreciation and amortisation	**882**	769	**328**	263	**71**	60	**1,281**	1,092
Depreciation and amortisation	**(229)**	(213)	**-**	-	**(22)**	(25)	**(251)**	(238)
Segment operating profit	**653**	556	**328**	263	**49**	35	**1,030**	854
Financing charges							**(125)**	(163)
Share of losses of jointly controlled entity	**(1)**	(3)	**-**	-	**-**	-	**(1)**	(3)
Profit before non-operating items							**904**	688
Increase in fair value of investment properties	**582**	585	**859**	488	**1**	16	**1,442**	1,089
Reversal of impairment losses, net	**210**	148	**-**	-	**(10)**	(31)	**200**	117
Net gain on disposal of The Kowloon Hotel							**-**	953
Other non-operating items							**-**	82
Profit before taxation							**2,546**	2,929
Taxation							**(423)**	(208)
Profit for the year							**2,123**	2,721
Segment balance sheet - as at 31 December								
Properties, plant and equipment	**4,876**	4,086	**-**	-	**347**	320	**5,223**	4,406
Investment properties	**6,695**	6,142	**10,639**	9,646	**394**	367	**17,728**	16,155
Interest in jointly controlled entity	**470**	446	**-**	-	**-**	-	**470**	446
Investment in hotel management contract	**163**	168	**-**	-	**-**	-	**163**	168
Interests in unlisted equity instruments	**43**	43	**-**	-	**9**	9	**52**	52
Other segment assets	**303**	232	**33**	21	**58**	40	**394**	293
Derivative financial instruments							**31**	25
Taxation recoverable							**3**	3
Deferred tax assets							**98**	123
Cash and cash equivalents							**447**	301
Total assets							**24,609**	21,972
Liabilities								
Segment liabilities	**735**	639	**209**	185	**190**	64	**1,134**	888
Bank loans and other liabilities							**5,710**	5,478
Total liabilities							**6,844**	6,366
Capital expenditure incurred during the year	**618**	626	**132**	136	**23**	33	**773**	795

* *Analysis of hotels' turnover*

	2006	*2005*
Rooms	***1,455***	*1,297*
Food and beverage	***813***	*735*
Commercial	***407***	*377*
Others	***275***	*257*
	2,950	*2,666*

(b) Geographical segments

The Group's hotel operations and property rental businesses are principally located in Hong Kong, the People's Republic of China, Thailand, the Philippines, Vietnam and the United States of America. The golf course operations are located in Thailand and the United States of America. Other miscellaneous businesses are mostly conducted in Hong Kong.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location in which the business operation is conducted. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		**Other Asia**		**United States of America**	
	2006	2005	**2006**	2005	**2006**	2005
For the year ended 31 December						
Revenue from external customers	**1,636**	1,411	**887**	777	**1,200**	1,088
Segment assets	**17,066**	15,442	**4,168**	3,494	**2,796**	2,584
Capital expenditure incurred during the year	**266**	197	**438**	562	**69**	36
Depreciation and amortisation	**56**	54	**92**	77	**103**	107

4. Net gain on disposal of The Kowloon Hotel (HK$m)

	2006	2005
Gain on disposal of The Kowloon Hotel *(note 14)*	**-**	1,171
Fair value changes of related derivative financial instruments	**-**	(218)
	-	953

Due to the reduction of bank borrowings following the completion of the sale of The Kowloon Hotel, the loan interest hedging ratio was re-adjusted in 2005 by way of offsetting swap arrangements rendering some interest rate swap contracts ineffective, which gave rise to a one-off loss of HK$218 million in 2005.

5. Other non-operating items (HK$m)

	2006	2005
Gain on disposal of investment property	**-**	60
Others	**-**	22
	-	82

6. Income tax in the consolidated income statement (HK$m)

Taxation in the consolidated income statement represents:

	2006	2005
Current tax – Hong Kong Profits Tax		
Provision for the year	**58**	38
Under-provision in respect of prior years	**1**	-
	59	38
Current tax - Overseas		
Provision for the year	**59**	80
Under-provision in respect of prior years	**3**	-
	62	80
	121	118
Deferred tax		
Increase in net deferred tax liabilities relating to revaluation of investment properties in:		
- Hong Kong *	**230**	169
- Overseas	**19**	(5)
Increase/(decrease) in net deferred tax liabilities relating to other temporary differences	**44**	(45)
Transfer to/(from) hedging reserve	**9**	(29)
Origination and reversal of temporary differences	**302**	90
	423	208

The above tax expenses include **HK$305 million** (2005: HK$173 million) in respect of fair value change of investment properties and non-operating items.

The provision for Hong Kong Profits Tax for 2006 is calculated at **17.5%** (2005: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

* *The Directors have no intention of selling the Group's investment properties in Hong Kong, and consider that should any such sale eventuate, any gain would be regarded as capital in nature and would not be subject to any tax in Hong Kong.*

7. Earnings per share

(a) Earnings per share - basic

	2006	2005
Profit attributable to shareholders (HK$m)	**2,094**	2,664
Weighted average number of shares in issue (million shares)	**1,421**	1,411
Earnings per share (HK$)	**1.47**	1.89

(b) Earnings per share - diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2006 and 2005, and hence the diluted earnings per share is the same as the basic earnings per share.

8. Dividends (HK$m)

(a) Dividends payable to shareholders of the Company attributable to the year

	2006	2005
Interim dividend declared and paid of **5 cents** per share (2005: 4 cents per share)	**71**	57
Final dividend proposed after the balance sheet date of **11 cents** per share (2005: 10 cents per share)	**157**	142
	228	199

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006	2005
Final dividend in respect of the previous financial year, approved and paid during the year, of **10 cents** per share (2005: 9 cents per share)	**142**	126

9. Income tax in the balance sheet (HK$m)

(a) Current taxation in the balance sheet represents:

	2006	2005
Provision for Hong Kong Profits Tax for the year	**58**	38
Provisional profits tax paid	**(13)**	(18)
	45	20
Balance of profits tax provision relating to prior years	**9**	3
Provision for overseas taxes	**36**	52
	90	75

Analysed as follows:

	2006	2005
Taxation recoverable	**(3)**	(3)
Current taxation	**93**	78
	90	75

(b) Deferred taxation in the balance sheet

The balance as at 31 December 2006 includes a provision for deferred tax liabilities with regard to revaluation of the Group's investment properties in Hong Kong amounting to **HK$2,407 million** (2005: HK$2,177 million). The Directors have no intention of selling the Group's investment properties in Hong Kong and consider that should any such sale eventuate, any gain would be regarded as capital in nature and would not be subject to any tax in Hong Kong.

10. Debtors and payments in advance (HK$m)

	2006	2005
Trade debtors (ageing analysis is shown below)	**114**	94
Rental deposits and payments in advance	**194**	122
	308	216

The Directors consider that the carrying amount of all debtors and payments in advance approximates their fair value.

The Group has no concentrations of credit risk in view of its large number of customers. The Group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. In respect of the Group's rental income from operating leases, rentals are normally received in advance and sufficient rental deposits are held to cover potential exposure of credit risk. As such, the Group normally does not obtain collateral from its customers.

The ageing analysis of trade debtors is as follows:

	2006	2005
Less than 3 months	**101**	90
3 months to 6 months	**9**	3
More than 6 months	**4**	1
	114	94

11. Creditors and accruals (HK$m)

	2006	2005
Trade creditors (ageing analysis is shown below)	**84**	66
Interest payable	**9**	8
Accruals of fixed assets	**172**	43
Tenants' deposits	**306**	258
Golf membership deposits	**49**	43
Other payables	**491**	447
	1,111	865

The ageing analysis of trade creditors is as follows:

	2006	2005
Less than 3 months	**83**	65
3 months to 6 months	**-**	1
More than 6 months	**1**	-
	84	66

12. Share capital

	2006	2005
Number of shares of HK$0.50 each (million)		
Authorised	**1,800**	1,800
Issued		
At 1 January	**1,417**	1,402
New shares issued	**11**	15
At 31 December	**1,428**	1,417
Nominal value of shares (HK$m)		
Authorised	**900**	900
Issued		
At 1 January	**709**	701
New shares issued	**5**	8
At 31 December	**714**	709

During the year, the Company issued and allotted **5.9 million (at HK$9.33 per share)** (2005: 7.5 million at HK$7.62 per share) and **5 million (at HK$10.128 per share)** (2005: 2.3 million at HK$9.21 per share) new shares in respect of the **2005 final scrip dividend** (2005: 2004 final scrip dividend) and **2006 interim scrip dividend** (2005: 2005 interim scrip dividend) respectively. In 2005, the Company issued and allotted approximately 5.5 million new shares (at HK$5.855 per share) as part consideration to acquire 31.68% additional interest in Manila Peninsula Hotel, Inc. The new shares issued have resulted in an increase in fully paid share capital of **HK$5 million** (2005: HK$8 million) and share premium of **HK$100 million** (2005: HK$103 million). All ordinary shares issued during the year rank pari passu in all respects with the existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

13. Business combination

On 3 March 2005, the Group increased its shareholding in Manila Peninsula Hotel, Inc. ("MPHI") from 40% to 71.68%. The consideration of approximately HK$44 million was satisfied by a cash payment of HK$12 million and the issue and allotment of approximately 5.5 million new shares of the Company at a value of HK$5.855 per share.

On 3 November 2005, the Group further increased its interest in MPHI to 76.09% through the conversion of a shareholder loan amounting to HK$25.9 million for additional shares of MPHI.

The consolidation of MPHI resulted in an increase of approximately HK$147 million in turnover during 2005. Details of the assets and liabilities arising from the acquisition of MPHI are disclosed in note 14.

There was no acquisition during the year ended 31 December 2006.

14. Net cash (outflow)/inflow of cash and cash equivalents arising from the acquisition/disposal of subsidiaries during 2005 (HK$m)

	Acquisition	Disposal
Cash consideration paid	(12)	-
Balance of sales consideration received, net of expenses	-	1,687
Cash and cash equivalents acquired/(disposed of)	10	(3)
	(2)	1,684

Details of net assets acquired/(disposed of) and the consideration (paid)/received are analysed below:

	Acquisition	Disposal
Properties, plant and equipment	176	(264)
Investment properties	8	(452)
Current assets	20	(18)
Cash and cash equivalents	10	(3)
Current taxation	(1)	7
Deferred taxation	6	7
Current liabilities	(42)	18
Interest-bearing borrowings	(10)	-
Minority interests	(40)	-
Net assets acquired/(disposed of)	127	(705)
Interest in an associate	(83)	-
Gain on disposal of a subsidiary *(note 4)*	-	(1,171)
	44	(1,876)
Consideration:		
Cash consideration paid	(12)	-
New shares issued	(32)	-
Sales consideration received, net of expenses	-	1,876
	(44)	1,876

OTHER CORPORATE INFORMATION

Purchase, sale and redemption of listed securities
There was no purchase, sale or redemption of the Company's listed securities during the year.

Corporate governance
The Company is committed to fulfilling its responsibilities to shareholders by ensuring that the proper processes for oversight and management of its businesses are in place, in operation and are regularly reviewed. The Board acknowledges its responsibility to ensure that good corporate governance practices and procedures are established.

The Company welcomes the principles-based approach of the Code on Corporate Governance Practices (CG Code) in Appendix 14 of the Listing Rules and the flexibility this provides concerning the adoption and implementation of corporate policies and procedures.

Throughout the year, the Company has complied with all the code provisions and the majority of the recommended best practices as set out in the CG Code. In March 2005, the Company adopted its own code on corporate governance which was updated in October 2005 and which encompassed all code provisions and most of the recommended best practices in the CG Code.

One of the recommended best practices that the Company has deviated from is contained in Section C.1.4 of the CG Code in relation to the production of quarterly statements. The Company has chosen not to comply with this recommended reporting practice as the Board believes that, as a matter of principle and practice, quarterly reports in relation to the Group's business promote an undue short term focus in a business which is long term in nature. The Company would review its position if and when there was a clear demand from shareholders for quarterly.

Details of the Company's corporate governance practices and processes will be set out in the 2006 Annual Report.

Annual General Meeting and book close dates
The Annual General Meeting will be held at The Peninsula Hong Kong on 11 May 2007 at 12 noon. The register of members will be closed from 8 May 2007 to 11 May 2007 inclusive, and subject to the passing of the necessary resolution at the forthcoming Annual General Meeting, the final dividend will be payable on or about 15 June 2007 to shareholders whose names appear on the register of members on 11 May 2007. Shareholders will be given the option to receive their dividend in the form of scrip rather than cash.

To be entitled to receive the final dividend, shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Company's registrars, Computershare Hong Kong Investor Services Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:00 p.m. on Monday, 7 May 2007.

Miscellaneous
The Annual Report of the Company containing all the information required by the Stock Exchange Listing Rules will be despatched to the shareholders as well as published on the websites of the Company and the Stock Exchange in due course.

By Order of the Board
Christobelle Liao
Company Secretary
Hong Kong, 15 March 2007

As at the date of this announcement, the Board of Directors of the Company comprises the following Directors:

The Hon. Sir Michael Kadoorie *(Chairman)*
Ian D Boyce *(Deputy Chairman)*
Clement K M Kwok
(Managing Director and Chief Executive Officer)
Ronald J McAulay
William E Mocatta
Dr The Hon. Sir David K P Li*
Robert C S Ng*
Pierre R Boppe
Robert W Miller*
C Mark Broadley *(Chief Financial Officer)*
Patrick B Paul*
Peter C Borer *(Chief Operating Officer)*
John A H Leigh
Nicholas T J Colfer

* Independent Non-Executive Director

Please also refer to the published version of this announcement in The Standard.