

ANNOUNCEMENT OF 2006 GROUP RESULTS

FINANCIAL HIGHLIGHTS

	Year 2006	Year 2005	% Change
	HK\$'M	HK\$'M	
Revenue	1,261.2	1,141.1	+10.5%
Net hotel and management income (including hotel net rental income)	570.5	501.3	+13.8%
Operating profit	414.5	414.3	—
Profit for the year attributable to equity holders of the parent	331.3	528.4	-37.3%
Proposed dividends			
- Final	HK0.6 cent	HK0.55 cent	+9.1%
- Special	HK1.0 cent	—	—
Total dividends for the year	HK1.85 cent	HK0.8 cent	+131.3%

- The overall net profit achieved was relatively lower than that in the preceding year due primarily to the fact that, during the year under review, while general interest costs have increased and much less profit contribution has been attributed from associates, there was also a deferred tax charge as compared to the recognition of substantial deferred tax income last year. However, at the operational level, the core hotel businesses have continued to perform satisfactorily.
- The Group has successfully completed the spin-off and separate listing of Regal Real Estate Investment Trust in March 2007. A gain of not less than HK\$2,000 million, as attributable to the Group's initial disposal of 28% interest in Regal REIT, has been derived and will be reflected in the current financial year of 2007.
- The Group is now well poised to move forward with its expansion plan.

YEAR END RESULTS

Consolidated Income Statement

	Year ended 31st December, 2006 HK\$'M	Year ended 31st December, 2005 HK\$'M
REVENUE (Notes 2 & 3)	1,261.2	1,141.1
Cost of sales	(699.3)	(638.0)
Gross profit	561.9	503.1
Other income and gains (Note 3)	85.5	112.3
Administrative expenses	(93.9)	(69.6)
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION	553.5	545.8
Depreciation and amortisation	(139.0)	(131.5)
OPERATING PROFIT (Note 2)	414.5	414.3
Finance costs (Note 5)	(265.8)	(199.8)
Share of profits and losses of:		
Jointly controlled entity	203.6	128.5
Associates	2.9	83.8
PROFIT BEFORE TAX	355.2	426.8
Tax (Note 6)	(23.9)	101.7
PROFIT FOR THE YEAR	331.3	528.5
Attributable to:		
Equity holders of the parent	331.3	528.4
Minority interests	—	0.1
	331.3	528.5
DIVIDENDS		
Interim	21.1	21.1
Proposed final	54.9	46.1
Proposed special	91.6	—
	167.6	67.2
EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Note 7)		
Basic	HK3.9 cents	HK6.3 cents
Diluted	HK3.3 cents	HK5.2 cents

Consolidated Balance Sheet

	31st December, 2006 HK\$'M	31st December, 2005 HK\$'M
NON-CURRENT ASSETS		
Property, plant and equipment	10.6	2,920.2
Prepaid land lease payments	—	1,088.0
Interest in a jointly controlled entity	2,032.6	1,804.7
Interests in associates	488.8	260.7
Equity investments at fair value through profit or loss	—	140.8
Other loan	65.6	62.1
Deferred tax assets	2.4	98.1
Total non-current assets	2,600.0	6,374.6
CURRENT ASSETS		
Hotel and other inventories	17.8	16.3
Debtors, deposits and prepayments (Note 8)	162.0	134.0
Equity investments at fair value through profit or loss	29.8	9.7
Time deposits	156.3	356.5
Cash and bank balances	66.4	26.9
	432.3	543.4
Assets of a disposal group classified as held for sale (Note 10)	4,046.1	—
Total current assets	4,478.4	543.4
CURRENT LIABILITIES		
Creditors and accruals (Note 9)	(229.4)	(224.6)
Promissory note payable	—	(145.0)
Derivative financial instrument	(0.6)	(5.4)
Interest bearing bank borrowings	(1,718.7)	(1,668.7)
Convertible bonds	(122.5)	—
Tax payable	(2.4)	(1.0)
	(2,073.6)	(2,044.7)
Liabilities directly associated with the assets of a disposal group classified as held for sale (Note 10)	(29.1)	—
Total current liabilities	(2,102.7)	(2,044.7)
NET CURRENT ASSETS/(LIABILITIES)	2,375.7	(1,501.3)
TOTAL ASSETS LESS CURRENT LIABILITIES	4,975.7	4,873.3
NON-CURRENT LIABILITIES		
Convertible bonds	—	(188.4)
Convertible preference shares	(127.7)	(126.9)
Interest bearing bank borrowings	(2,628.8)	(2,766.9)
Deferred tax liabilities	—	(21.9)
Total non-current liabilities	(2,756.5)	(3,104.1)
Net assets	2,219.2	1,769.2
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	91.4	83.7
Equity component of convertible bonds	13.6	21.8
Reserves	1,966.4	1,616.3
Proposed final and special dividends	146.5	46.1
	2,217.9	1,767.9
Minority interests	1.3	1.3
Total equity	2,219.2	1,769.2

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instrument and equity investments, which have been measured at fair value. A disposal group classified as held for sale is stated at the lower of carrying amount and fair value less costs to sell. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest million except where otherwise indicated.

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31st December, 2006 or 31st December, 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The amendment has had no effect on these financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1st January, 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- the hotel ownership and management segment engages in hotel operations and the provision of hotel management services;
- the property development and investment segment includes investments in properties for sale and for their rental income, and the provision of property agency and management services; and
- the others segment mainly comprises the Group's securities trading, other investment business, brewery operations, health products operations, the provision of laundry services and bakery operations.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31st December, 2006 and 2005.

Group

	Hotel ownership and management		Property development and investment		Others		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Segment revenue:										
Sales to external customers	1,202.5	1,082.7	0.9	1.6	57.8	56.8	—	—	1,261.2	1,141.1
Intersegment sales	15.2	2.4	0.3	0.3	2.9	8.9	(18.4)	(11.6)	—	—
Total	<u>1,217.7</u>	<u>1,085.1</u>	<u>1.2</u>	<u>1.9</u>	<u>60.7</u>	<u>65.7</u>	<u>(18.4)</u>	<u>(11.6)</u>	<u>1,261.2</u>	<u>1,141.1</u>
Segment results before depreciation and amortisation	496.7	484.8	0.3	0.2	61.6	63.5	—	—	558.6	548.5
Depreciation and amortisation	(138.8)	(128.7)	(0.1)	(0.1)	(0.1)	(2.7)	—	—	(139.0)	(131.5)
Segment operating results	<u>357.9</u>	<u>356.1</u>	<u>0.2</u>	<u>0.1</u>	<u>61.5</u>	<u>60.8</u>	<u>—</u>	<u>—</u>	<u>419.6</u>	<u>417.0</u>
Interest income and unallocated non-operating and corporate gains									13.2	25.9
Unallocated non-operating and corporate expenses, net									(18.3)	(28.6)
Operating profit									414.5	414.3
Finance costs									(265.8)	(199.8)
Share of profits and losses of:										
Jointly controlled entity	—	—	203.6	128.5	—	—	—	—	203.6	128.5
Associates	(0.4)	(0.4)	3.4	87.9	(0.1)	(3.7)	—	—	2.9	83.8
Profit before tax									355.2	426.8
Tax									(23.9)	(101.7)
Profit for the year									<u>331.3</u>	<u>528.5</u>
Attributable to:										
Equity holders of the parent									331.3	528.4
Minority interests									—	0.1
									<u>331.3</u>	<u>528.5</u>

(a) Business segments (continued)

Group

	Hotel ownership and management		Property development and investment		Others		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Segment assets	145.4	4,142.1	3.4	3.6	44.6	152.7	(0.8)	(0.7)	192.6	4,297.7
Interest in a jointly controlled entity	—	—	2,032.6	1,804.7	—	—	—	—	2,032.6	1,804.7
Interests in associates	6.7	7.1	468.3	239.8	13.8	13.8	—	—	488.8	260.7
Assets of a disposal group classified as held for sale	4,046.1	—	—	—	—	—	—	—	4,046.1	—
Cash and unallocated assets									318.3	554.9
Total assets									<u>7,078.4</u>	<u>6,918.0</u>
Segment liabilities	(207.2)	(179.4)	(0.1)	(0.4)	(5.4)	(3.6)	0.8	0.7	(211.9)	(182.7)
Liabilities directly associated with the assets of a disposal group classified as held for sale	(29.1)	—	—	—	—	—	—	—	(29.1)	—
Bank borrowings and unallocated liabilities									(4,618.2)	(4,966.1)
Total liabilities									<u>(4,859.2)</u>	<u>(5,148.8)</u>
Other segment information:										
Capital expenditure	106.8	76.4	—	—	0.6	1.4	—	—		
Other non-cash expenses	0.1	—	—	—	0.1	0.1	—	—		

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31st December, 2006 and 2005.

Group

	Hong Kong		Mainland China		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Segment revenue:								
Sales to external customers	1,255.5	1,104.1	5.7	37.0	—	—	1,261.2	1,141.1
Other segment information:								
Segment assets	4,156.9	4,278.9	1.3	18.8	—	—	4,158.2	4,297.7
Capital expenditure	107.4	76.4	—	1.4	—	—	—	—

3. Revenue (which is also the Group's turnover), other income and gains are analysed as follows:

	2006	2005
	HK\$'M	HK\$'M
Revenue		
Hotel operations and management services	1,170.8	1,058.7
Other operations, including estate management, estate agency, laundry services, brewery, health products and bakery operations	8.2	33.8
Rental income from hotel properties	31.7	24.0
Proceeds from sale of equity investments at fair value through profit or loss	50.5	24.6
	<u>1,261.2</u>	<u>1,141.1</u>
Other income		
Bank interest income	4.7	3.9
Interest income from other loan	3.5	4.6
Dividend income from listed investments	3.1	1.7
Settlement amount received less expenses for the business interruption claims in relation to the Group's hotel operations	—	20.9
Others	0.2	9.2
	<u>11.5</u>	<u>40.3</u>
Gains		
Fair value gains on equity investments at fair value through profit or loss, net	6.1	62.3
Fair value gain on derivative financial instrument	4.8	9.0
Gain on disposal of equity investments at fair value through profit or loss	63.1	—
Gain on disposal of subsidiaries	—	0.7
	<u>74.0</u>	<u>72.0</u>
	<u>85.5</u>	<u>112.3</u>

4. An analysis of profit on sale of investments of the Group is as follows:

	2006	2005
	HK\$'M	HK\$'M
Profit on disposal of listed investments	67.5	0.9

5. Finance costs of the Group are as follows:

	2006	2005
	HK\$'M	HK\$'M
Interest on bank loans, convertible bonds and convertible preference shares, wholly repayable within five years	264.6	197.7
Interest on a promissory note payable	1.2	2.1
Total finance costs	<u>265.8</u>	<u>199.8</u>

6. The tax charge/(credit) for the year arose as follows:

	2006	2005
	HK\$'M	HK\$'M
Group:		
Current — Hong Kong		
Provision for tax in respect of profits for the year	—	0.1
Prior year overprovision	—	(5.0)
Current — Overseas		
Provision for tax in respect of profits for the year	0.7	0.6
Prior year underprovision	0.8	—
Deferred tax	22.4	(97.4)
Total tax charge/(credit) for the year	<u>23.9</u>	<u>(101.7)</u>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2005 — 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year.

Tax on the profits of subsidiaries operating overseas is calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing legislation, practices and interpretations thereof.

No provision for tax is required for the jointly controlled entity as no assessable profits were earned by the jointly controlled entity during the year (2005 — Nil).

The share of tax attributable to associates amounting to HK\$0.2 million (2005 — HK\$0.1 million) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

Deferred tax charge/(credit) has been calculated by applying the rate that is expected to apply in the year when the asset is realised or the liability is settled.

7. The calculation of basic earnings per ordinary share is based on the profit for the year attributable to equity holders of the parent of HK\$331.3 million (2005 — HK\$528.4 million), and on the weighted average of 8,485.4 million (2005 — 8,387.6 million) ordinary shares of the Company in issue during the year.

The calculation of diluted earnings per ordinary share for the year ended 31st December, 2006 is based on the adjusted profit for the year attributable to equity holders of the parent of HK\$342.7 million as adjusted for the interest savings arising from the conversion of the convertible bonds into ordinary shares of the Company, and on the adjusted weighted average of 10,448.3 million ordinary shares of the Company that would have been in issue during the year assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into, and the subscription rights attaching to all outstanding warrants of the Company were exercised to subscribe for, ordinary shares of the Company at the beginning of the year. The conversion of the outstanding convertible preference shares of the Company is anti-dilutive for the year. In addition, the exercise price of the share options of the Company outstanding during the year is higher than the average market price of the Company's ordinary shares and, accordingly, they have no dilutive effect on the basic earnings per ordinary share.

The calculation of diluted earnings per ordinary share for the year ended 31st December, 2005 was based on the adjusted profit for that year attributable to equity holders of the parent of HK\$539.6 million as adjusted for the interest savings arising from the conversion of the convertible bonds into ordinary shares of the Company, and on the adjusted weighted average of 10,459.6 million ordinary shares of the Company that would have been in issue during that year assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into, and the subscription rights attaching to all outstanding warrants of the Company were exercised to subscribe for, ordinary shares of the Company at the beginning of that year. The conversion of the outstanding convertible preference shares of the Company was anti-dilutive for that year. In addition, the exercise price of the share options of the Company outstanding during that year was higher than the average market price of the Company's ordinary shares and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

8. Included in debtors, deposits and prepayments is an amount of HK\$91.1 million (2005 — HK\$73.0 million) representing the trade debtors of the Group. The aged analysis of such debtors, based on the invoice date, is as follows:

	2006 HK\$'M	2005 HK\$'M
Outstanding balances with ages:		
Within 3 months	81.7	64.6
Between 4 to 6 months	5.8	1.9
Between 7 to 12 months	2.0	4.0
Over 1 year	2.3	3.6
	<u>91.8</u>	<u>74.1</u>
Impairment	(0.7)	(1.1)
	<u>91.1</u>	<u>73.0</u>

Credit terms

Trade debtors, which generally have credit terms of 30 to 90 days, are recognised and carried at their original invoiced amount less impairment which are made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the Group's trade debtors relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

9. Included in creditors and accruals is an amount of HK\$64.2 million (2005 — HK\$45.8 million) representing the trade creditors of the Group. The aged analysis of such creditors, based on the invoice date, is as follows:

	2006 HK\$'M	2005 HK\$'M
Outstanding balances with ages:		
Within 3 months	61.9	45.0
Between 4 to 6 months	1.6	0.8
Between 7 to 12 months	0.6	—
Over 1 year	0.1	—
	<u>64.2</u>	<u>45.8</u>

The trade creditors are non-interest-bearing and are normally settled on 30 to 60-day terms.

10. Subsequent to the balance sheet date, on 30th March, 2007, the Group completed the spin-off of Regal Real Estate Investment Trust ("Regal REIT"), which comprised the global offering and separate listing of the units in Regal REIT on The Stock Exchange of Hong Kong Limited, and all incidental arrangements which primarily involved effectively the disposal of certain assets and liabilities of the Group's subsidiary companies holding directly and indirectly the five hotel properties in Hong Kong (the "Disposal Group") to Regal REIT.

The major classes of assets and liabilities of the Disposal Group classified as held for sale as at 31st December are as follows:

	2006 HK\$'M	2005 HK\$'M
Assets		
Property, plant and equipment	2,899.8	—
Prepaid land lease payments	1,065.8	—
Deferred tax assets	80.5	—
Assets classified as held for sale	<u>4,046.1</u>	—
Liabilities		
Deferred tax liabilities	(29.1)	—
Liabilities directly associated with the assets classified as held for sale	(29.1)	—
Net assets directly associated with the Disposal Group	<u>4,017.0</u>	—

11. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended 31st December, 2006.

DIVIDEND

- In view of the satisfactory progress achieved, the Directors have resolved to recommend the payment of a final dividend of HK0.6 cent (2005 — HK0.55 cent) and a special cash dividend of HK1 cent (2005 — Nil), aggregating to HK1.6 cents (2005 — HK0.55 cent) per ordinary share for the year ended 31st December, 2006, absorbing a total amount of approximately HK\$146.5 million (2005 — HK\$46.1 million), payable to holders of ordinary shares on the Register of Ordinary Shareholders on 12th June, 2007. The special cash dividend being recommended is relatively modest due to the fact that the substantial profit derived from the spin-off transaction will only be reflected in the 2007 financial year. Together with the interim dividend of HK0.25 cent per ordinary share paid in November 2006 (2005 — HK0.25 cent), total dividends (including the special cash dividend) per ordinary share for the year ended 31st December, 2006 will amount to HK1.85 cents (2005 — HK0.8 cent), representing an increase of 131.3% over the total dividends paid for the 2005 financial year.

CLOSURE OF REGISTER

- The Register of Ordinary Shareholders will be closed from Friday, 8th June 2007 to Tuesday, 12th June, 2007, both days inclusive, during which period no transfers of shares will be effected. In order to qualify for the proposed final dividend, all transfers of ordinary shares, duly accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Thursday, 7th June, 2007, and all documents for subscriptions of the outstanding 2007 warrants, duly accompanied by the relevant warrant certificates together with the relevant subscription moneys, must be lodged with the Company's branch registrar no later than 4:00 p.m. on Thursday, 7th June, 2007. The relevant dividend warrants are expected to be despatched on or about 29th June, 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

- During the year under review, net cash inflow from operating activities totalled HK\$481.5 million (2005 — HK\$455.9 million). Net interest payment for the year amounted to HK\$268.2 million (2005 — HK\$182.5 million). The increase in the net interest payment was largely due to the increased interest rates.
- Aggregate depreciation and amortisation provided for the year under review amounted to HK\$139.0 million (2005 — HK\$131.5 million). The amount of the depreciation on the hotel buildings and amortisation of the prepaid land lease payments charged to the income statement for the year of HK\$99.5 million (2005 — HK\$99.2 million) had no actual impact on the operating cash flows.
- As at 31st December, 2006, the Group's borrowings net of cash and bank balances amounted to HK\$4,375.0 million (2005 — HK\$4,367.5 million). The Group's gearing ratio based on total assets of HK\$7,078.4 million per financial statements herein presented (2005 — HK\$6,918.0 million) was 61.8% (2005 — 63.1%).
- During the year under review, as the Group's borrowings were primarily denominated in Hong Kong dollar currency, being the same currency in which the Group's major revenues are derived, and with interest determined with reference to interbank offered rates, no hedging instruments for currency or interest rates purposes have been deployed.
- Following the successful completion of the spin-off of Regal REIT on 30th March, 2007, as described in further details under the section headed "Outlook" below, the Group repaid all of its bank debts and, in addition, retained net cash proceeds of approximately HK\$2,160 million.
- Information in relation to the maturity profile of the borrowings, the pledge of assets and the contingent liabilities of the Group as of 31st December, 2006 is disclosed in the annual report of the Company for the year ended 31st December, 2006 (the "2006 Annual Report"), which will be despatched to shareholders on or before 30th April, 2007. During the year under review, the Company continued to adopt similar funding, treasury and remuneration policies as disclosed in the interim report of the Company for the six months ended 30th June, 2006. Detailed information in such aspects is contained in the Company's 2006 Annual Report.

- The Group has no immediate plans for material investments or capital assets, other than those as disclosed in the sections headed "Operating Highlights" and "Outlook" below.
- The Group's significant investments during the year principally comprised its ownership and operating interests in the five Regal Hotels in Hong Kong and the investment in the jointly controlled Regalia Bay development. The performance of the Group's hotel operations during the year under review, their future prospects, the commentary on the local hotel industry and changes in general market conditions and their potential impact on the operating performance as well as the progress and prospects on the Regalia Bay development are contained in the sections headed "Operating Highlights" and "Outlook" below, respectively.

OPERATING HIGHLIGHTS

- For the year ended 31st December, 2006, the Group achieved a consolidated profit attributable to shareholders of HK\$331.3 million, as compared with the profit of HK\$528.4 million attained for the financial year in 2005. The overall net profit achieved was relatively lower than that in the preceding year due primarily to the fact that, while general interest costs have increased and much less profit contribution has been attributed from associates, there was also a deferred tax charge as compared to the recognition of substantial deferred tax income last year.
- At the operational level, total operating profits (including hotel net rental income) generated by the five Regal Hotels in Hong Kong and the Group's hotel management business amounted to HK\$570.5 million in the year under review, which represented an increase of 13.8% over the HK\$501.3 million attained in 2005.
- The Group has successfully completed the spin-off and separate listing of Regal Real Estate Investment Trust on the Hong Kong Stock Exchange in March 2007. As further elaborated below, under the spin-off transaction, the Group has disposed of its interests in the five Regal Hotels in Hong Kong to Regal REIT at a gross sale consideration of HK\$12,500 million and, at the same time, has entered into leases with Regal REIT for the leasing of the five hotels for a term until 31st December, 2015. The Group has derived from the transaction a gain of not less than HK\$2,000 million, which is attributable to the Group's initial disposal of 28% interest in Regal REIT and before taking into account further gains that may arise from any exercise of the over-allotment option. The profit derived will be reflected in the results of the current financial year of 2007.
- After the spin-off transaction, the operational model of the Group will be substantially different from that undertaken in the year under review, as the Group will no longer own the five Regal Hotels in Hong Kong directly, but will however continue to be the hotel operator pursuant to the leases with Regal REIT as the new hotel owner. Consequently, there will not be any more depreciation and amortisation charges with respect to the hotel properties, but the rental payments under the leases will be charged as operational expenses in the Group's income statement. On the other hand, the Group's interests in Regal REIT will be treated as investments in an associate and the results of Regal REIT will be accounted for by the Group on an equity-accounting basis.

HOTELS

Hong Kong

- In 2006, Hong Kong received a new record number of 25.3 million visitor arrivals, a growth of approximately 8.1% over the comparative figure in 2005, which generated for Hong Kong total tourism expenditure of some HK\$117.3 billion. There were about 13.6 million visitors from Mainland China in 2006, a year-on-year increase of approximately 8.4%, while steady growth was also seen in those from most major long haul markets.
- For the year under review, the hotels in Hong Kong as a whole continued to catch up in achieved room rates, as the overall hotel room rates in Hong Kong still lag behind those prevailing in other major international cities. On the other hand, due to the moderately increased hotel room supply in 2006, average hotel room occupancy rate has only modestly grown from 86% in 2005 to 87% in 2006.
- Total revenue from the Group's hotel operations (including rental income) and management business increased by approximately 11.1% from HK\$1,082.7 million for the year ended 31st December, 2005 to HK\$1,202.5 million in 2006. The increased revenue was mainly attributable to the increase in the average room rates

P.4 (Regal Hotels)

achieved by the Group's five hotels in Hong Kong and an improvement in the mix of business and leisure travelers. Compared on a year-on-year basis, the combined average room rate of the five hotels in 2006 enhanced by approximately 11.5% in 2006. While Regal Airport Hotel is still working to catch up on its room occupancy, the other four Regal Hotels in Hong Kong were steadily operating at an average occupancy level of about 90%. Overall for the five hotels, the combined average room occupancy in 2006 was maintained at about 81%, approximately the same level as that recorded in 2005. Taking into account the intermittent disruptions on the business operations caused by the asset enhancement programme and renovation works, the operating results achieved by the Group's hotels in Hong Kong in the year under review should be considered as satisfactory.

- The present marketing strategy for the Regal Airport Hotel is to further build up its customer base and occupancy level ahead of room rate optimisation, so as to facilitate future yield enhancement when the business activities at the airport community further mature, particularly with the opening of the Asia World-Expo Convention Center in December 2005 and the SkyMart just a few months ago. To strengthen its position and competitiveness, the hotel has completed in the latter part of 2006 the Executive Conference Center comprising 13 new state-of-the-art meeting and conference rooms as well as the renovation of 21 hotel rooms fitted with spa facilities. In this regard, the hotel has been able to secure increasing business from the growing meetings, incentives, conventions and exhibitions segment (MICE). Businesses from MICE segment are most sought after by hotels as they tend to produce much larger business volume and the customers from this segment usually have a higher per capita spending.
- A major part of the asset enhancement programme planned for the four hotels is scheduled to be completed before the end of the third quarter in 2007. The remaining phase relates to the addition of three stories, comprising 274 additional rooms, on top of the existing hotel building at the Regal Riverside Hotel in Shatin, the construction works for which will soon commence and are targeted to be completed before the end of 2008.
- By the end of the third quarter this year, the total hotel room stock of the five Regal Hotels in Hong Kong will increase from the present number of 3,348 to 3,542 and, when the asset enhancement programme is fully completed, will boost the aggregate number of hotel rooms to 3,816.

The People's Republic of China

- Benefiting from the buoyant economy in China, the two managed hotels in Shanghai continued to perform satisfactorily. The Group has been managing successfully these two hotels in Shanghai since 1997 with high repute and this is exemplary of the quality and dedication of professional services that the Group commits to its hotel management business.
- To enhance the image and recognition of the Regal brand, the Group is planning to strengthen and expand its footholds in China, through development of new hotel projects and the provision of management services, with initial focus on major cities.
- In January 2007, the Group entered into a letter of intent with Cosmopolitan International Holdings Limited, a listed company in Hong Kong, to participate in a large scale development project in Shenyang City, Liaoning Province, the subject of an overall development cooperation framework agreement between Cosmopolitan and the Shenyang Menrong Economic District.
- Under the letter of intent, the Group will provide consultancy services to Cosmopolitan with respect to the hotel and related project, comprising hotels, service apartments, shopping, exhibition, entertainment and recreational facilities, to be included within the overall development project. The Group will also have the right of first refusal to invest in 55% interest (or such other percentage as may be mutually agreed) in the hotel and related project, subject to Cosmopolitan having entered into a legally binding agreement with the relevant government authorities.
- In early April 2007, the Group together with other investors entered into a conditional subscription agreement with Cosmopolitan, pursuant to which the Group has agreed to subscribe for new convertible bonds in a principal amount of HK\$102.5 million proposed to be issued by Cosmopolitan group, which will be convertible into new ordinary shares of Cosmopolitan at an initial conversion price of HK\$0.205 per share and, if not converted, will be redeemable on the third anniversary of the date of issue of the convertible bonds at a yield to maturity of 5% per annum.

PROPERTIES

Hong Kong

Regalia Bay, Stanley

- For the year under review, the Regalia Bay, a project that is 70% owned by the Group, contributed a profit of approximately HK\$203.6 million to the Group mainly from a write back of provision. The Group is optimistic of the high-end luxury residential market and will continue to lease out the remaining houses for rental income unless the prices offered by prospective purchasers are attractive.

The People's Republic of China

Development project in the Central Business District of Beijing

- As reported in the Interim Report 2006, the Group and Paliburg Holdings Limited each beneficially owns a 50% equity interest in a company which, in turn, holds a 59% interest in an investee company established in the PRC, the remaining 41% interest of which is held by a local joint venture partner. The investee company has fully settled the land premium payable under the Land Grant Contracts for the Phase I land in April 2006 and is seeking to obtain the relevant Land Use Right Certificate. In the meanwhile, the investee company is actively working to secure its rights to the remaining Phase II land site comprised in the overall development project. The overall development project, comprising both Phase I and Phase II, is expected to have total permissible gross floor area of about 4,630,000 square feet encompassing office, hotel, commercial, residential and car parking accommodations. Due to the longer time anticipated to be needed to obtain relevant planning approvals and to secure the development rights to the Phase II land site, it is expected that there will be a delay in the overall development timetable for this project.

OUTLOOK

- With the booming economy in China, the number of visitors from the Mainland will continue to increase in large numbers. To cater to the influx of visitors from Mainland as well as from overseas countries, Hong Kong is undertaking and planning a number of transport infrastructure projects, including additional land linkages between Hong Kong and Southern China, the enhancement of facilities at the Hong Kong International Airport and a new cruise terminal in South East Kowloon. In addition, Hong Kong is also embarking on the expansion of its various tourism and conference infrastructure, in order to secure the position of Hong Kong as a financial centre of global significance, an international conference and exhibition centre as well as a transport and aviation hub.
- Over the next few years, there will be a number of new hotels scheduled for completion in Hong Kong, but a majority of these new hotels is located in non-traditional tourist areas. Moreover, based on the forecast growth in visitor arrivals, it is anticipated that the demand for hotel rooms in Hong Kong will continue to outstrip supply and while average room occupancy will be maintained at a high level, average room rate should be able to further improve.
- The five Regal Hotels in Hong Kong continued to perform well during the first few months of 2007 in keeping with their forecast trend of growing profitability. Apart

from the second phase works at the Regal Riverside Hotel, the asset enhancement programme is targeted to be completed before the end of the third quarter in 2007, which will bring into operation 194 additional new hotel rooms. Given the favourable operating environment presently prevailing, the Directors are confident that the five Regal Hotels in Hong Kong will be able to generate in 2007 much enhanced operating profits than those attained in 2006.

- Subsequent to the year end, the Group has successfully completed on 30th March, 2007 the spin-off of Regal REIT, which is now separately listed on the main board of the Hong Kong Stock Exchange. Detailed information on the spin-off proposal was contained in the circular to shareholders dated 21st February, 2007.
- Summarily, pursuant to the spin-off proposal, the Group sold its interests in the five Regal Hotels in Hong Kong to Regal REIT at a gross sale consideration of HK\$12,500 million. As part of the transaction, the Group leased from Regal REIT the five Regal Hotels on the terms set out in the relevant lease agreements, with lease terms that continue until 31st December, 2015. The rents payable for the period from 30th March, 2007 to 31st December, 2010 consist of escalating base rents, starting from HK\$476 million for the period from the lease commencement date to 31st December, 2007 to HK\$780 million for 2010, plus variable rents. The rents payable for the term after 2010 will be determined by a jointly appointed independent professional property valuer, subject to a floor rent of HK\$400 million per annum. The Group has also been appointed as the hotel manager for the five Regal Hotels for a term of 20 years from 30th March, 2007, on the terms set out in the relevant hotel management agreements. Regal REIT is managed by Regal Portfolio Management Limited, which is a wholly-owned subsidiary of the Group but functioning independently.
- Out of the gross proceeds received, approximately HK\$6,000 million was applied by the Group to subscribe initially for approximately 72% of the total outstanding units of Regal REIT. The Group has granted to the joint international underwriters under the initial public offering of Regal REIT an over-allotment option for up to approximately 4.2% of the total outstanding units of Regal REIT owned by the Group.
- Another HK\$4,350 million of the proceeds received has been applied to repay all the outstanding bank indebtedness of the Group. Consequently, the Group is now free of any bank debt and the remaining proceeds in the amount of approximately HK\$2,160 million have been retained for general working capital and for the funding of new acquisitions and investments.
- In addition, the Group has derived from the transaction a gain of not less than HK\$2,000 million, which is attributable to the Group's initial disposal of 28% interest in Regal REIT and before taking into account further gains that may arise if the over-allotment option is exercised.
- Following the completion of the spin-off of Regal REIT, the Group plans to further expand its investments in the property and hotel development sectors. When suitable opportunities arise, the Group will also seek to diversify into other sectors that are complementary to its existing business base. Initial focus will be placed to secure appropriate hotel and other property development opportunities in major cities in Mainland China. The Group believes that the undertaking by the Group of new hotel developments will not only facilitate the planned expansion of its hotel management network, but potentially will also foster the parallel growth of Regal REIT through the right of first refusal granted to Regal REIT, as and when the Group should decide to dispose of any of its developed hotels after they have been completed and started to operate profitably. The Group is in the course of finalising a dynamic and sustainable Strategic Development Plan for the long term growth of the Group, which will take into consideration the Group's present and potential financial strength, its extensive experience, expertise and business network as well as its strong alliance with Century City International Holdings Limited, Paliburg and the newly listed Regal REIT.
- As the gain realised on the spin-off of Regal REIT will be reflected in the current financial year, 2007 will undoubtedly be a very fruitful year for the Group. Given that the Group's financial position has now been substantially strengthened, the Group is now well poised to move forward with its expansion plan and the Directors are confident that the Group will be able to grow from strength to strength and to generate to shareholders increasing returns.

REVIEW OF RESULTS

- The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31st December, 2006, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditors.

CORPORATE GOVERNANCE

- The Company has complied with the Code Provisions in the Code of Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the year ended 31st December, 2006, except that:
 - (1) The roles of the Chairman and Chief Executive Officer are not separated and performed by two different individuals due to practical necessity on account of the Group's corporate operating structure.
 - (2) The Non-Executive Director and the Independent Non-Executive Directors of the Company were not appointed for specific terms, but arrangements have been put in place such that the Non-Executive Director and the Independent Non-Executive Directors would retire, and are subject to re-election, either by rotation in accordance with the provisions of the Bye-laws of the Company or on a voluntary basis, at least once every three years.

ANNUAL GENERAL MEETING

- An Annual General Meeting of the Company will be convened on Tuesday, 12th June, 2007. The Notice of the Annual General Meeting will be published in newspapers and sent to the shareholders of the Company, together with the Company's 2006 Annual Report, in due course.

BOARD OF DIRECTORS

- As at the date of this announcement, the Board comprises the following members:

Executive Directors: Mr. LO Yuk Sui (Chairman and Chief Executive Officer) Ms. Belinda YEUNG Bik Yiu (Chief Operating Officer) Mr. Donald FAN Tung Mr. Jimmy LO Chun To Miss LO Po Man Mr. Kenneth NG Kwai Kai	Non-Executive Director: Dr. Francis CHOI Chee Ming, JP (Vice Chairman)	Independent Non-Executive Directors: Ms. Alice KAN Lai Kuen Mr. NG Siu Chan Mr. WONG Chi Keung
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By Order of the Board
LO YUK SUI
Chairman

Hong Kong, 19th April, 2007