





Venice Simplon-Orient-Express

In 2007 the legendary Venice Simplon-Orient-Express celebrates 25 years of spectacular service. During the last quarter of a century, guests from all over the world have enjoyed a luxury travel experience unlike any other. Romance, adventure and pleasure are all intimately bound up in journeys that criss-cross Europe between some of the world's most alluring and exciting cities.



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Introduction

Orient-Express Hotels Ltd.

Orient-Express Hotels owns or part-owns, and manages, 49 leisure properties in 25 countries. Thirty-nine are hotels, ranging across five continents, from the Hotel Cipriani in Venice to the Mount Nelson in Cape Town, the Copacabana Palace in Rio de Janeiro, the Observatory in Sydney and Charleston Place in Charleston, South Carolina.

Restaurants include '21' Club in New York and La Cabaña in Buenos Aires. Six tourist trains include the legendary Venice Simplon-Orient-Express in Europe and the Eastern & Oriental Express in Asia. The company also part-owns and manages PeruRail, which operates the Cuzco-Machu Picchu train service used by nearly every tourist to Peru (there are no roads to the famous Inca ruins and otherwise it is a four-day hike). The m.v. Road To Mandalay provides luxury cruises on the Ayeyarwady River in Myanmar.

Orient-Express Hotels seeks out unique properties that have expansion potential. It owns or part-owns its properties because it believes that equity returns are greater than simply management fee income.

Increases in property values allow the company to increase funding against those assets and thus fuel expansion. The unique nature of the assets insulates against competition and therefore allows greater pricing flexibility.

The company avoids the use of a chain brand. Thus, none of its properties are branded "Orient-Express" (except the train and safari camps). Management believes that discriminating travelers will choose an individual property of fame in priority to a chain brand. In the few locations where the company competes with de luxe brand chains (Venice, Lisbon and Rio de Janeiro are examples) it achieves up to 40% higher average rates than the chain brand hotels.

Financial Highlights

	2006 \$000	2005 \$000
Revenue	492,804	433,147
Segment EBITDA ⁽¹⁾	138,095	108,256
Net earnings	39,767	41,539
Earnings per common share	\$0.98	\$1.09
Number of shares (million)	40.7	38.2

(1) See page 37

Front Cover: Reid's Palace
Set high on the cliffs overlooking the ocean, Reid's Palace boasts a breathtaking setting that reflects the drama of Madeira itself.



Chairman's message


April 2, 2007

Dear Shareholder

2006 saw revenue of \$493 million and EBITDA of \$138 million, increases of 14% and 28% respectively over 2005. These results were achieved despite closure of two of our properties early in the year for major upgrade. In common with other leading hotel companies we are well advanced in generating a new profit stream in the form of real estate development tied to our hotels. In our case we have linked such development to our existing properties rather than new builds, while our competitors tend to concentrate on new builds. Our largest property development, Cupecoy Village and La Samanna Villas in St. Martin, is now well advanced and should generate excellent returns in the years 2007–2009 with management fee income thereafter. Our business model calls for us to own or part-own our properties and thus we are able to participate in the increase in real estate values. We believe our share price is underpinned by those values. We do not exclude pure

management agreements but prefer to have an equity stake. We intend to continue to pursue this model. We invested \$112 million in improvements to our properties in 2006 (excluding real estate development). Our experience is that the payback of such investment is rapid, boosting earnings more quickly than for new builds which require time to settle in. We expect to invest \$93 million in our existing properties in 2007, excluding acquisitions. We differ from most hotel companies in that 13% of our EBITDA comes from tourist trains and river and canal cruising. We believe we are the industry leader in luxury rail travel and maintain the highest quality vessels in the inland waterway business. There is considerable scope for expansion in both sectors. In 2006 we completed the acquisition of the six Pansea properties in Southeast Asia and five of them have considerable scope for expansion. I am hopeful we will be adding to our investments in this region before long.

We are constantly seeking acquisitions which are unique, to add to our portfolio. Our spread of activities in 25 countries gives us insight into opportunities which we might otherwise not have if our investments were more geographically restricted. After 13 years with the company, my stepson, Simon Sherwood has decided to step down from his positions of President, CEO and Director. His notice period expires in August, 2007. Simon is 46 and felt he wanted a new challenge in the remainder of his business career. Of course, I was disappointed at his decision but wish him well. He has done a terrific job in managing the company. I expect to remain a non-executive director with the title Founder & Director from the time of the next Annual Meeting of Shareholders. My wife, Shirley Sherwood has played a major supporting role in the company through her development of the gardens at many of our hotel properties, organization of botanical

painting courses and editing the Orient-Express Magazine. Her health does not permit the amount of travel as before so both she and I will play a more limited role in the future, but my experience and effort will be fully available to the new CEO and the board as they may wish. From my perspective your company is in great shape and has an exciting and rewarding future. Sincerely,  James B. Sherwood Chairman & Founder

Villa San Michele
This transformed 15th Century monastery provides a charming mix of rooms and has suites scattered throughout its delightful terraced gardens. The restaurant sits in the loggia of the monastery where guests can dine while enjoying dramatic views over Florence.

President's overview of performance

2006 was another good year for Orient-Express Hotels. Same store RevPAR grew 11% in local currency (10% in US dollars), EBITDA margin rose by almost 300 basis points, and EBITDA was up 28%. In addition to strong operating results, we acquired seven hotels and undertook several renovation projects including major works at Reid's Palace in Madeira.

Europe

Same store RevPAR increased 9% at our European hotels so we enjoyed a strong season. Italy performed particularly well with EBITDA well ahead at all of our hotels. This was the first full year for **Hotel Caruso Belvedere** in Ravello and demand has developed well. In 2006 average room rate was over \$800 and occupancy was 87% so we have pushed prices up for 2007.

Throughout our Italian hotels we have seen a resurgence of US demand combined with growth from some developing markets – particularly Russian guests with their high average spend. The strongest RevPAR growth was at **Hotel Splendido** in Portofino (up 15%) helped by the investment we made to enlarge and improve some of the third floor rooms. The **Villa San Michele** in Fiesole, Florence and the **Hotel Cipriani** in Venice also did well, both up 7%.

In the first quarter we closed **Reid's Palace** in Madeira for a major refurbishment including rebuilding the swimming pools and adding a destination spa. The closure impacted our European results by about \$4 million but it has ensured the future success of the hotel and bookings for 2007 currently sit 95% ahead of the comparable 2006 number. Our other Portuguese hotel, the **Lapa Palace** in Lisbon showed 12% growth in RevPAR but the market is still very weak and our return on investment remains disappointingly low. Residential prices are picking up in the city and we have expansion land so we are investigating whether the property might have greater long term value if redeveloped with a residential component.

We have been working hard at the **Grand Hotel Europe**, in St. Petersburg and have now completely refurbished 120 of the 301 rooms. EBITDA in 2006 grew by \$1.4 million up to \$18.8 million and we expect further improvement this year as the benefit of our better room stock kicks in.

There was a marked improvement in demand and results at our two Spanish hotels. We are working on final permits at the **Hotel Ritz** in Madrid and our plan would be to commence a major refurbishment during 2008. At **La Residencia** in Mallorca we are finishing the eight new suites just in time as bookings are at the strongest level we have ever seen since we acquired the hotel in 2002.

2007 is shaping up well for all our European properties as bookings are 25% up over the same time in 2006. It has been a long time since we have seen such strong booking patterns and this gives our managers the confidence and opportunity to push prices. Much of our cost structure in Europe is fixed, as labor contracts are to a large extent controlled by regulation and are therefore less flexible, so higher RevPAR tends to flow through quite efficiently to EBITDA.

In June 2006, we sold to our partner our 49% interest in **Harry's Bar** restaurant in London. Both the business and our investment have proved very successful and the sale of our stake generated \$3.3 million after-tax profit.

North America

EBITDA for the region increased 25% for the year on the back of 9% same store RevPAR growth. **Maroma Resort and Spa**, our hotel on the Mayan Riviera in Mexico that suffered hurricane damage in 2005 had a good year and demand seems stronger than ever for 2007. While repairing the hurricane damage, we made extensive improvements to the hotel and added eight new beachfront suites.

We have also made improvements at the **Windsor Court Hotel** in New Orleans which is gradually recovering from the impact of the hurricane that hit that city in 2005 adding several new Club floors with dedicated lounge and bar facilities. The tourist attractions in New Orleans are largely intact and demand is returning but the city still faces a major challenge as it rebuilds housing and infrastructure.

In February 2006 we acquired a 75% shareholding in **Casa de Sierra Nevada** located in the historic city of San Miguel Allende, Mexico. We plan to expand and improve the hotel increasing its size to 60 rooms and work is already underway on the first phase of works.

Our biggest refurbishment project is at **El Encanto** in Santa Barbara which we have closed for full refurbishment. It will reopen in 2008 with 91 completely rebuilt rooms, many of which will be cottage suites, plus a new pool, restaurant and spa. The hotel has beautiful views and historic romantic gardens so we are confident of its success.

Our other businesses in the region, **La Samanna** in St. Martin, **Charleston Place** in Charleston, **Keswick Hall** in Charlottesville, **The Inn at Perry Cabin** on Chesapeake Bay and **'21'** Club restaurant in New York, all generated improved EBITDA so the underlying trend in North America is encouraging.

Rest of World

The big news in the region is that we completed the acquisition of six hotels in Southeast Asia, the former 'Pansea' properties. In 2004 we formed a relationship with the owners when we made a convertible loan of \$8 million in return for rights to buy the group at a future date for a pre-agreed multiple of earnings. In July 2006 we reached agreement with the owners to accelerate this buyout so we have now acquired their full interest in these very special properties.

Our timing has proved very advantageous as demand for Southeast Asia is growing. At **Jimbaran Puri Bali** located on Jimbaran beach in Bali we have already refurbished the hotel and have just reached agreement to lease an adjoining parcel of land that will allow us to expand the hotel adding some larger suites with private pools. At our other property in Bali, **Ubud Hanging Gardens** every room already has a private pool. The hotel opened recently (2005) so only minor adjustments are needed.

Hotel Splendido

The beauty of the Cinque Terre region of Italy provides a magnificent backdrop for this hotel. Standing amongst exotic gardens and woodlands, the hotel overlooks Portofino and its colorful harbor below. During the winter of 2005/6 extensive refurbishment on the third floor saw smaller rooms enlarged to create suites. The investment helped lift RevPAR at the hotel by 15%.

Grand Hotel Europe

In 2006 phase I was completed of the planned renovation work at the hotel. The project included the refurbishment of 120 of the guest rooms, creating the atmosphere of an aristocratic private Russian residence. French designer Michel Jouannet oversaw the project focusing on making the rooms intimate, whilst giving the long, elegant hallways of the hotel a warm rich décor. A further \$8 million refurbishment is planned for 2007.



Owned Hotels: Europe

	2006	2005
Segment EBITDA (\$ millions)	52.7	46.6
Same store	RevPAR	357 327
	RevPAR change (in US\$)	+9%
	RevPAR change (in local currency)	+9%

Owned Hotels: North America

	2006	2005
Segment EBITDA (\$ millions)	19.7	15.7
Same store	RevPAR	317 291
	RevPAR change (in US\$)	+9%

Owned Hotels: Rest of World

	2006	2005
Segment EBITDA (\$ millions)	33.0	23.4
Same store	RevPAR	182 162
	RevPAR change (in US\$)	+12%
	RevPAR change (in local currency)	+15%

Napasai in Thailand on the island of Koh Samui showed excellent growth. The property has a large tract of expansion land and we are developing plans to add a destination spa and a new bar set out by the ocean in the near future. We also see potential to add private pools to a number of the units.

We plan similar enhancements to the other three former Pansea hotels, **La Résidence d'Angkor** in Siem Reap, **La Résidence Phou Vao** in Luang Prabang and **The Governor's Residence** in Yangon. In step with the improvements we are building international demand for the properties and should be able to significantly increase profitability.

All the excitement over our expansion in Southeast Asia should not detract from the outstanding performance of many other businesses in other parts of the Rest of World region. The **Copacabana Palace** in Rio de Janeiro added \$3.1 million to EBITDA (up 31%). During 2006 we refurbished the former casino facilities of the hotel and reopened them as banqueting rooms. We are now in the process of building a spa which should open in June 2007. Demand elsewhere in Latin America was equally buoyant and EBITDA at our Peruvian hotels was up 25% with our **Miraflores Park Hotel** in Lima particularly strong (EBITDA up about 80%).

Our southern African businesses all had a good year, most notably the **Mount Nelson Hotel** in Cape Town where EBITDA rose by \$1.4 million up to \$7 million. In a few months time construction starts on a spa at the hotel which we expect to lift demand for the hotel and also to attract local residents.

In Australia we saw some improvement but results remain disappointing. We continue to work on our rate strategy to try and lift prices particularly at our beautiful **Observatory Hotel** in Sydney. Occupancy at hotels in the city has recovered so we hope that room rates will follow in 2007.

Real Estate

Since the fourth quarter of 2006 we have started to separate out real estate development earnings in recognition of the importance of this business activity and its expected earnings in 2007 and beyond. Our largest projects underway are on the island of St. Martin where we own **La Samanna**. On the Dutch side of the island we have our **Cupecoy** development under construction which includes 180 condominiums many of which are pre-sold. On the French side we have seven major **La Samanna Villas** under construction. We put five of these on the market early this year and had buyers and deposits for all of them within weeks at prices of \$5–7 million per villa. We have further land available for development on both the French and Dutch sides of the island.

In 2006, at **Keswick** in Charlottesville, Virginia, we sold 12 home sites and two custom homes around our Arnold Palmer golf course, and have 46 home sites available for sale. Around the property we have rights to add an additional 75 keys, and have been developing plans to build 28 cottage suites near the hotel.

Early in 2006 we acquired the residual shareholding in **Maroma Resort and Spa** on the Mayan Riviera and also contracted to buy an adjoining parcel of land with

the potential for 25–30 major villas. In 2007 we plan to start construction of the first villa so that we can get the full project underway in 2008.

Included in our acquisition of **Napasai** in Thailand were several villas already constructed and available for sale plus a large tract of expansion land so this adds further growth potential for the real estate arm of our business.

Trains and Cruises

These businesses are performing well as EBITDA in 2006 increased 19% to \$18.3 million. They also add a special touch of romance and glamor to our portfolio.

The largest contributor was **PeruRail** (up 17%) buoyed by the success of our luxury **Hiram Bingham** train which runs between Cuzco and Machu Picchu. Our brand flagship the **Venice Simplon-Orient-Express** that runs predominantly between London and Venice also had a very strong year. We invested \$8 million in new wheel sets to give this historic train a smoother ride and results appear to justify the investment as EBITDA in 2006 grew to \$4.9 million (up 14%).

Most exciting is the bookings outlook for 2007. For our trains and cruises portfolio in total, booked revenue currently sits over 30% ahead of the same time last year.

Outlook for 2007

For the industry as a whole very little supply is coming on-line over the next few years. This is largely because of a “hole” in the stream of new hotel projects that appeared post 9/11 due to lower demand and limited availability of finance at the time.

On the demand side there is bright news. During 2006 we saw recovery of US outbound business particularly to Europe and our bookings data would suggest that this is set to continue. We are beginning to see growth in some of the core European markets and are particularly hopeful for the German market (German guests used to be the second largest outbound tourist market in the world). To this we can add exciting pockets of demand from newer markets such as Russia. All of this gives a very broad platform for demand growth over the next few years.

Recent acquisition activity and the general increase in share prices of lodging companies (including ours) appear to indicate that the benevolent outlook for the industry is starting to be recognized more widely. There is always the chance of some major economic slowdown or other cataclysmic event but the best bet must be on situations where the supply and demand fundamentals are good – as they are for the travel industry.

It is interesting to hear so many investors talking about the importance of owning real estate. The strategy of Orient-Express Hotels has long been that of both owning and managing. At this stage in the cycle that appears to be where much of the “smart money” is focused.



Simon M.C. Sherwood
President & CEO

Copacabana Palace
Rio de Janeiro's most iconic beachfront landmark, Copacabana Palace, completed the \$4 million refurbishment of its famed 'Casino' rooms, creating one of the most elegant venues for social and corporate functions in the city. Other improvements include a spa scheduled to open in June 2007.



Mount Nelson Hotel
Extensively refurbished and with a luxurious spa opening in December 2007, the 'Nellie' is a landmark of Cape Town. Nestled on the lower slopes, and set in nine acres of beautifully landscaped gardens it offers stunning views over nearby Table Mountain.



Ubud Hanging Gardens
Situated in the heart of tropical Bali, this former Pansea hotel is made up of 38 luxury villas. Each has a private plunge pool to relax in and enjoy sensational views over the surrounding gardens and Ayung river.

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The Villas of Napasai

These 14 villas are set directly beside the ocean. Property prices in Koh Samui have been increasing rapidly and 10 of the villas are already sold. Napasai has 20 acres of land available for further expansion.

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Directors and Officers

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Directors

James B. Sherwood Chairman of the Board and Founder of Orient-Express Hotels. Previously Founder and Chairman of Sea Containers Ltd.

Simon M.C. Sherwood President and Chief Executive Officer of the Company. Previously Senior Vice President – Leisure of Sea Containers Ltd (1991–2000), prior to which he was Manager, Strategic Consulting of Boston Consulting Group (1986–1990).

John D. Campbell Senior Counsel (retired) of Appleby Hunter Bailhache (attorneys). Mr Campbell is also a Director of Sea Containers Ltd., Chairman of the Board of The Bank of Bermuda Ltd., and a Director of Argus Insurance Co. Ltd.

James B. Hurlock Partner (retired) of White & Case LLP (attorneys). Mr Hurlock was Chairman of the Management Committee of White & Case LLP (1980–2000), overseeing the firm’s worldwide operations.

Prudence M. Leith, OBE, DL Director of Omega International PLC (kitchen furnishings and equipment) and Nations Healthcare Ltd. (healthcare services), and Consultant to Compass Group PLC (catering services). Previously founder, owner and Managing Director of Leith’s Group (restaurants; chef school; contract events and party catering).

J. Robert Lovejoy Managing Director of Groton Partners LLC (private merchant bankers) since 2006. Previously Senior Managing Director of Ripplewood Holdings LLC (a private equity investment firm). Mr Lovejoy, prior to joining Ripplewood in 2000, was a Managing Director of Lazard Frères & Co. LLC and a General Partner of the predecessor partnership for over 15 years.

Georg R. Rafael Managing Director of Rafael Group SAM. Previously Vice Chairman – Executive Committee of Mandarin Oriental Hotels (2000–2002). Managing Director and founder of Rafael Hotels (1986–2000) and Joint Managing Director of Regent International Hotels (1972–1986).

Officers

Dean P. Andrews Vice President – Hotels, North America. Joined the Company in 1997, having been previously with Omni Hotels (1981–1997) working in new hotel development and financial and asset management.

Filip Boyen Vice President – Hotels, Africa, Australasia & Latin America. Previously Managing Director of Orient-Express Hotels, Peru (1999–2005) and General Manager of Bora Bora Lagoon Resort from 1997. Prior to this, held positions with Marco Polo Hotels, Sun International Hotels and Ramada Renaissance.

Roger V. Collins Vice President – Technical Services. An engineer his entire career, he has worked in the hotel industry since 1979 with Grand Metropolitan Hotels, Courage Inns and Taverns, and Trusthouse Forte Hotels, joining Orient-Express Hotels in 1991.

Adrian D. Constant Vice President – Hotels, Europe. Joined the Company from Le Meridien Hotels in 2001, where he had responsibility for the development of its hotels in South America. Has also managed hotels in the Algarve, Malta, London and Madrid.

Edwin S. Hetherington Vice President, General Counsel and Secretary. Previously Vice President, General Counsel and Secretary of Sea Containers Ltd. having joined Orient-Express Hotels in 1980.

Pippa Isbell Vice President – Public Relations. Joined the Company in 1998 after selling the public relations consultancy she founded in 1987, which had clients such as Inter-Continental Hotels, Forte, Hilton International, Jarvis Hotels and Millennium & Copthorne.

Natale Rusconi Vice President. Appointed Managing Director of Hotel Cipriani, Venice, in 1977 and responsible for making Hotel Cipriani one of the world’s top luxury hotels. Previously at the Savoy Hotel and with CIGA Hotels.

Nicholas R. Varian Vice President – Trains, Cruises and Asian Hotels. Joined Orient-Express Hotels in 1985 from P&O Steam Navigation Company and became Vice President responsible for train and cruise activities in 1989 before taking on responsibility for Asian Hotels in 2006.

Paul White Vice President – Finance and Chief Financial Officer. Joined the Company in 1991 from Forte Hotels to work on hotel financial and operational matters and after becoming Vice President – Hotels, Africa, Australia and Latin America took up his present position in 2005. He is a member of the Chartered Institute of Management Accountants.

David C. Williams Vice President – Sales & Marketing. Joined the Company in 1981 and served as Commercial Director responsible for strategic marketing developments and business initiatives in the Americas, Europe and Asia Pacific. Previously with Carlson Marketing Group.

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This report contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. These include statements regarding earnings outlook, investment plans and similar matters that are not historical facts. These statements are based on management's current expectations and are subject to a number of uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Factors that may cause a difference include, but are not limited to, those mentioned in the report, unknown effects on the travel and leisure markets of terrorist activity and any police or military response, varying customer demand and competitive considerations, realization of hotel bookings and reservations and planned property development sales as actual revenue, inability to sustain price increases or to reduce costs, fluctuations in interest rates and currency values, uncertainty of negotiating and completing proposed capital expenditures and acquisitions, adequate sources of capital and acceptability of finance terms, possible loss or amendment of planning permits and delays in construction schedules for expansion or development projects, delays in reopening properties closed for repair or refurbishment and possible cost overruns, shifting patterns of tourism and business travel and seasonality of demand, adverse local weather conditions, uncertainty of recovering on insurance claims for property damage and lost earnings, changing global and regional economic conditions, and legislative, regulatory and political developments. Further information regarding these and other factors is included in the filings by the company with the US Securities and Exchange Commission.

Board of Directors and Shareholders
Orient-Express Hotels Ltd.
Hamilton, Bermuda

We have audited the accompanying consolidated balance sheets of Orient-Express Hotels Ltd. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

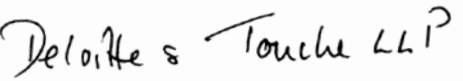
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Orient-Express Hotels Ltd. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006,

in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the accompanying 2004 and 2005 financial statements have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2007 (not presented herein) expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.



Deloitte & Touche LLP
London, England.
March 1, 2007

Consolidated Balance Sheets

Year ended December 31,	2006	2005
	(restated)	
	\$000	\$000
Assets		
Cash and cash equivalents	79,318	38,397
Accounts receivable, net of allowances of \$1,299 and \$980	74,327	59,061
Due from related parties	19,939	17,549
Prepaid expenses and other	9,485	13,061
Inventories	35,789	29,636
Real estate assets	35,821	12,149
Total current assets	254,679	169,853
Property, plant and equipment, net of accumulated depreciation of \$211,136 and \$184,479	1,183,400	1,017,175
Investments	130,124	129,681
Goodwill	121,651	94,390
Other intangible assets	20,149	7,100
Other assets	41,660	33,967
	1,751,663	1,452,166
Liabilities and Shareholders' Equity		
Working capital facilities	46,590	47,108
Accounts payable	26,227	22,680
Due to related parties	1,249	7,374
Accrued liabilities	55,916	43,545
Deferred revenue	25,501	19,339
Current portion of long-term debt and capital leases	83,397	72,151
Total current liabilities	238,880	212,197
Long-term debt and obligations under capital leases	586,300	496,156
Liability for pension benefit	8,677	-
Other liabilities	2,330	-
Deferred income taxes	106,598	89,164
	942,785	797,517
Minority interest	1,882	4,153
Shareholders' equity:		
Preferred shares \$0.01 par value (30,000,000 shares authorized, issued nil)	-	-
Class A common shares \$0.01 par value (120,000,000 shares authorized):		
Issued – 42,196,350 (2005 – 39,399,750)	422	393
Class B common shares \$0.01 par value (120,000,000 shares authorized):		
Issued – 18,044,478 (2005 – 18,044,478)	181	181
Additional paid-in capital	509,762	404,923
Retained earnings	301,785	266,093
Accumulated other comprehensive loss	(4,973)	(20,913)
Less: reduction due to class B common shares owned by a subsidiary – 18,044,478	(181)	(181)
Total shareholders' equity	806,996	650,496
Commitments and contingencies	-	-
	1,751,663	1,452,166

See notes to consolidated financial statements.

Statements of Consolidated Operations

Year ended December 31,	2006	2005	2004
	(restated)	(restated)	(restated)
	\$000	\$000	\$000
Revenue	492,804	433,147	357,284
Expenses:			
Depreciation and amortization	35,676	34,087	28,349
Operating	232,841	205,291	175,547
Selling, general and administrative	146,198	134,108	114,474
Total expenses	414,715	373,486	318,370
Earnings from operations before net finance costs and gain on sale of investment	78,089	59,661	38,914
Gain on sale of investment	6,619	-	-
Interest expense, net	(44,510)	(30,153)	(19,948)
Foreign currency, net	(4,610)	5,065	5,515
Net finance costs	(49,120)	(25,088)	(14,433)
Earnings before income taxes and earnings from unconsolidated subsidiaries	35,588	34,573	24,481
Provision for income taxes	7,791	4,209	2,347
Earnings before earnings from unconsolidated companies	27,797	30,364	22,134
Earnings from unconsolidated companies net of tax	11,970	11,175	9,084
Net earnings	39,767	41,539	31,218
Earnings per share:	\$	\$	\$
Basic	0.98	1.09	0.91
Diluted	0.97	1.08	0.91
Dividends per share	0.10	0.10	0.10

See notes to consolidated financial statements.

Statements of Consolidated Cash Flows

Year ended December 31,

	2006 \$000	2005 (restated) \$000	2004 (restated) \$000
Cash flows from operating activities:			
Net earnings	39,767	41,539	31,218
Adjustment to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	35,676	31,085	26,073
Amortization and write-off of finance costs	5,579	3,002	2,276
Undistributed earnings of unconsolidated companies	(7,011)	(2,830)	(3,588)
(Gain)/loss from sale of investments and fixed assets	(7,920)	268	(1,286)
Stock-based compensation	1,179	1,249	1,391
Other non-cash items	1,875	(1,146)	(1,515)
Change in deferred tax	(2,187)	(5,584)	(1,249)
Change in assets and liabilities, net of effects from acquisition of subsidiaries:			
Increase in accounts receivable, prepaid expenses and other	(10,835)	(29,039)	(9,220)
Increase in inventories	(4,075)	(2,605)	(1,208)
Increase in real estate assets held for sale	(12,821)	(7,330)	-
Increase in accounts payable, accrued liabilities, deferred revenue and other liabilities	10,211	7,562	9,673
Dividends received from unconsolidated companies	-	624	-
Total adjustments	9,671	(4,744)	21,347
Net cash provided by operating activities	49,438	36,795	52,565
Cash flows from investing activities:			
Capital expenditures	(111,794)	(114,898)	(65,104)
Acquisitions and investments, net of cash acquired	(47,350)	(103,453)	(38,479)
Proceeds from sale of investments and fixed assets	12,999	-	3,003
Net cash used in investing activities	(146,145)	(218,351)	(100,580)
Cash flows from financing activities:			
Net proceeds from/(repayments of) working capital facilities and redrawable loans	(3,558)	(87,596)	21,336
Issuance of common shares (net)	99,220	121,889	-
Stock options exercised	4,469	1,623	-
Proceeds from long-term debt	423,003	143,040	88,226
Principal payments under long-term debt	(383,401)	(39,552)	(55,053)
Payment of common share dividends	(4,075)	(3,807)	(3,425)
Net cash provided by financing activities	135,658	135,597	51,084
Effect of exchange rate changes on cash	1,970	(1,254)	1,194
Net increase/(decrease) in cash and cash equivalents	40,921	(47,213)	4,263
Cash and cash equivalents at beginning of year	38,397	85,610	81,347
Cash and cash equivalents at end of year	79,318	38,397	85,610

See notes to consolidated financial statements.

Statements of Consolidated Shareholders' Equity

	Preferred Shares At Par Value \$000	Class A Common Shares At Par Value \$000	Class B Common Shares At Par Value \$000	Additional Paid-In Capital \$000	Retained Earnings \$000	Accumulated Other Comprehensive Loss \$000	Common Shares Held By A Subsidiary \$000	Total Comprehensive Income \$000
Balance, January 1, 2004 (as reported)	-	318	205	278,821	252,484	(19,203)	(181)	
Impact of restatement	-	-	-	-	(51,916)	28,002	-	
Balance, January 1, 2004	-	318	205	278,821	200,568	8,799	(181)	
Stock based compensation	-	-	-	1,391	-	-	-	
Dividends on common shares	-	-	-	-	(3,425)	-	-	
Comprehensive income:								
Net earnings on common shares for the year	-	-	-	-	31,218	-	-	31,218
Other comprehensive income	-	-	-	-	-	3,566	-	3,566
Balance, December 31, 2004 (restated)	-	318	205	280,212	228,361	(12,365)	(181)	34,784
Issuance of class A common shares in public offering, net of issuance costs	-	50	-	121,839	-	-	-	
Stock based compensation	-	-	-	1,249	-	-	-	
Stock options exercised	-	1	-	1,623	-	-	-	
Conversion of class B to class A shares	-	24	(24)	-	-	-	-	
Dividends on common shares	-	-	-	-	(3,807)	-	-	
Comprehensive income:								
Net earnings on common shares for the year	-	-	-	-	41,539	-	-	41,539
Other comprehensive loss	-	-	-	-	-	(33,278)	-	(33,278)
Balance, December 31, 2005 (restated)	-	393	181	404,923	266,093	(20,913)	(181)	8,261
Issuance of class A common shares in public offering, net of issuance costs	-	25	-	99,195	-	-	-	
Stock based compensation	-	-	-	1,179	-	-	-	
Stock options exercised	-	4	-	4,465	-	-	-	
Dividends on common shares	-	-	-	-	(4,075)	-	-	
Comprehensive income:								
Net earnings on common shares for the year	-	-	-	-	39,767	-	-	39,767
Other comprehensive income	-	-	-	-	-	15,940	-	15,940
Balance, December 31, 2006	-	422	181	509,762	301,785	(4,973)	(181)	55,707

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

I. Summary of significant accounting policies and basis of presentation

(a) Business
In this report Orient-Express Hotels Ltd. is referred to as the “Company”, and the Company and its subsidiaries are referred to collectively as “OEH”.
At December 31, 2006, OEH owned or invested in 39 deluxe hotels and resorts located in the United States, Mexico, Caribbean, Europe, southern Africa, South America, Southeast Asia, Australia and South Pacific, two restaurants in New York and Buenos Aires, six tourist trains in Europe, Southeast Asia and Peru, and a river cruise ship in Myanmar and five canal boats in France.
(b) Basis of presentation
The accompanying consolidated financial statements reflect the results of operations, financial position and cash flows of the Company and all its majority-owned subsidiaries. The consolidated financial statements have been prepared using the historical basis in the assets and liabilities and the historical results of operations directly attributable to OEH, and all intercompany accounts and transactions between the Company and its subsidiaries have been eliminated. Unconsolidated companies that are 20% to 50% owned are accounted for on an equity basis.
Cash and cash equivalents include all cash balances and highly-liquid investments having original maturities of three months or less.
Certain items in 2005 and 2004 have been reclassified to conform to the current year’s presentation.
“FASB” means Financial Accounting Standards Board and “APB” means Accounting Principles Board, the FASB’s predecessor. “SFAS” means Statement of Financial Accounting Standards of the FASB, and “FIN” or “EITF” means an accounting interpretation of the FASB. “SAB” means Staff Accounting Bulletin of the Securities and Exchange Commission.
(c) Foreign currency
The functional currency for each of the Company’s foreign subsidiaries is the applicable local currency, except for Russia, French West Indies, Mexico, Brazil and Peru where the functional currency is US dollars.
For foreign subsidiaries with a functional currency other than the US dollar, income and expenses are translated into US dollars, the reporting currency of the Company, at the average rates of exchange prevailing during the year. The assets and liabilities are translated into US dollars at the rates of exchange on the balance sheet date and the related translation adjustments are included in accumulated other comprehensive income/ (loss). Translation adjustments arising from intercompany financing, that is long-term investment in nature, is accounted for similarly. Foreign currency transaction gains and losses are recognized in earnings as they occur.
(d) Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates include, among others, the allowance for doubtful accounts, depreciation and amortization, carrying value of assets including intangible assets, employee benefits, taxes and contingencies. Actual results may differ from those estimates.

(e) Stock-based compensation
OEH had previously accounted for stock-based compensation under the guidelines of APB Opinion No. 25, “Accounting for Stock Issued to Employees”, and followed the disclosure-only provisions of SFAS No. 123, “Accounting for Stock-Based Compensation” as amended by SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure”.
With effect from January 1, 2005, the Company adopted SFAS No. 123R, “Share-Based Payment”, and chose the modified prospective application as its transition method. Prior to January 1, 2005, the Company disclosed the pro forma impact to net income had all previously issued stock-based compensation been expensed under the provisions of SFAS No. 123. Upon adoption of SFAS No. 123R, all previously issued stock-based compensation vesting during the 12 months ended December 31, 2005, and those issued during the current year have been reflected in OEH’s net earnings. This resulted in an expense in the 12 months ended December 31, 2006, of \$1,179,000 (2005 – \$1,249,000). See Note 14.
OEH had previously accounted for its stock-based compensation plans under APB Opinion No. 25. Had compensation cost for the Company’s stock option plans been determined based on fair values as of the dates of grant, OEH’s net earnings and earnings per share would have been reported as follows:

Year ended December 31,	2004 (restated) \$000
Net earnings:	
As reported on common shares	31,218
Add: Stock-based compensation expense included in reported net income, net of related tax effects	1,514
Deduct: Total stock-based employee compensation expense determined under fair value-based method, net of related tax	(897)
Pro forma	31,835
Basic and diluted earnings per share:	\$
As reported	0.91
Pro forma	0.93

(f) Revenue recognition
Hotel and restaurant revenues are recognized when the rooms are occupied and the services are performed. Tourist train and cruise revenues are recognized upon commencement of the journey. Deferred revenue consisting of deposits paid in advance is recognized as revenue when the services are performed for hotels and restaurants and upon commencement of tourist train and cruise journeys. Revenues under management contracts are recognized based upon the attainment of certain financial results, primarily revenue and operating earnings, in each contract as defined.
Revenue from real estate activities represents the proceeds from sales of undeveloped lands and developed properties that OEH is holding for sale. Profit from sales of land and developed properties is recognized upon closing using the full accrual method of accounting, provided that all the requirements prescribed by SFAS No. 66, “Accounting for Sales of Real Estate”, have been met. No revenue has been recognized for other real estate properties under development because the criteria for revenue recognition set by SFAS No. 66 have not been met.

(g) Earnings from unconsolidated companies
Earnings from unconsolidated companies include OEH’s share of the net earnings of its equity investments as well as interest income related to loans and advances to the equity investees amounting to \$10,700,000 in 2006 (2005 – \$9,752,000; 2004 – \$8,165,000).
(h) Marketing costs
Marketing costs are expensed as incurred (except in the case of real estate projects, see Note 1(o)) and are reported in selling, general and administrative expenses. Marketing costs include costs of advertising and other marketing activities. These costs were \$34,662,000 in 2006 (2005 – \$32,405,000; 2004 – \$26,780,000).
(i) Interest expense, net
OEH capitalizes interest during the construction of assets. Interest expense, net excludes interest which has been capitalized in the amount of \$1,735,000 in 2006 (2005 – \$448,000; 2004 – \$1,708,000).
(j) Foreign currency, net
Foreign currency, net consists entirely of foreign currency exchange transaction losses of \$4,610,000 in 2006 (2005 – a gain of \$5,065,000; 2004 – a gain of \$5,515,000).
(k) Income taxes
Deferred income taxes result from temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred taxes are recorded at enacted statutory rates and are adjusted as enacted rates change. Classification of deferred tax assets and liabilities corresponds with the classification of the underlying assets and liabilities giving rise to the temporary differences or the period of expected reversal, as applicable. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized based on available evidence.
(l) Earnings per share
Basic earnings per share exclude dilution and are computed by dividing net earnings available to common shareholders by the weighted average number of class A and B common shares outstanding for the period. The number of shares used in computing basic earnings per share was 40,692,000 for the year ended December 31, 2006 (2005 – 38,214,000; 2004 – 34,250,000). The number of shares used in computing diluted earnings per share was 40,960,000 for the year ended December 31, 2006 (2005 – 38,534,000; 2004 – 34,367,000). There were no anti-dilutive securities for any of the years.
The following table is a reconciliation of the net earnings and per share amounts used in the calculation of basic earnings per share and diluted earnings per share:

	Net Earnings (restated) \$000	Number of Shares '000	Per Share Amount (restated) \$
Year ended December 31, 2006:			
Basic earnings per share	39,767	40,692	0.98
Effect of dilutive stock options	-	268	(0.01)
Diluted earnings per share	39,767	40,960	0.97
Year ended December 31, 2005:			
Basic earnings per share	41,539	38,214	1.09
Effect of dilutive stock options	-	320	(0.01)
Diluted earnings per share	41,539	38,534	1.08
Year ended December 31, 2004:			
Basic earnings per share	31,218	34,250	0.91
Effect of dilutive stock options	-	117	-
Diluted earnings per share	31,218	34,367	0.91
(m) Inventories			
Inventories include food, beverages, certain operating stocks and retail goods. Inventories are valued at the lower of cost or market value under the first-in, first-out method.			

(n) Property, plant and equipment, net
Property, plant and equipment, net are stated at cost less accumulated depreciation. The cost of significant renewals and betterments is capitalized and depreciated, while expenditures for normal maintenance and repairs are expensed as incurred.
Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Description	Useful lives
Buildings	Up to 60 years and 10% residual value
Tourist trains	Up to 50 years
River cruise ship and canal boats	25 years
Furniture, fixtures and equipment	5–25 years
Equipment under capital lease and leasehold improvements	Lesser of initial lease term or economic life
(o) Real estate assets	
Real estate assets consist primarily of inventory costs of real estate property developments. Expenditures directly related to non-hotel real estate developments, such as real estate taxes and capital improvements, are capitalized. Inventory costs of real estate development include construction costs and ancillary costs, which are expensed as real estate is sold. OEH also capitalizes direct costs attributable to the sales and marketing of the properties until revenue recognition commences. If a sales contract is cancelled, unrecoverable direct selling costs are expensed upon cancellation. Land property development costs are accumulated by project and are allocated to individual residential units, principally using the relative sales value method.	
(p) Impairment of long-lived assets	
In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, OEH management reviews long-lived assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In the event that an impairment occurs, OEH records a charge to income calculated as the excess of the asset’s carrying value over the estimated fair value.	
(q) Investments	
Investments include equity interests in and advances to unconsolidated companies.	
(r) Goodwill and other intangible assets	
In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets”, goodwill must be evaluated annually to determine impairment. Goodwill is not amortized. The goodwill impairment testing under SFAS No. 142 is performed in two steps, first, the determination of impairment based upon the fair value of a reporting unit as compared with its carrying value and, second, if there is an implied impairment, the measurement of the amount of impairment loss is determined by comparing the implied fair value of goodwill with the carrying amount of that goodwill. Impairment testing is performed annually at year end. At December 31, 2006, there was no impairment. Other intangible assets with indefinite useful lives are also reviewed for impairment in accordance with SFAS No. 142.	
(s) Concentration of credit risk	
Due to the nature of the leisure industry, concentration of credit risk with respect to trade receivables is limited. OEH’s customer base is comprised of numerous customers across different geographic areas.	
(t) Derivative financial instruments	
If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded as a component of accumulated other comprehensive income/(loss) in shareholders’ equity and are recognized in the statement of consolidated operations when the hedged item affects earnings. The ineffective portion of a hedging derivative’s change in the fair value will be immediately recognized in earnings. If the derivative is not designated as a hedge for accounting	

purposes, the change in its fair value is recorded in earnings.

OEH management formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. OEH links all hedges that are designated as fair value hedges to specific assets or liabilities on the balance sheet or to specific firm commitments. OEH links all hedges that are designated as cash flow hedges to forecasted transactions or to floating rate liabilities on the balance sheet. OEH management also assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Should it be determined that a derivative is not highly effective as a hedge, OEH will discontinue hedge accounting prospectively.

OEH is exposed to interest rate risk on its floating rate debt and management tries to manage the impact of interest rate changes on earnings and cash flows. OEH's policy is to enter into interest rate swap and interest rate cap agreements from time to time to hedge the variability in interest rate cash flows due to interest rate risk on floating rate debt. These swaps convert the floating rate interest payments on a portion of the outstanding debt into fixed payments.

(u) Variable interest entities

Management's evaluation of OEH's joint venture agreements and management contracts has identified one joint venture investment, a cruise business called Afloat in France (see Note 3(b)), in which OEH has variable interests due to the terms of the investment in the entity's activities and the structure of the financial support provided to the entity. The terms of the joint venture agreement do not expose OEH to the majority of expected cash flow variability and, therefore, this entity is not consolidated. OEH's maximum exposure to loss is an investment balance in Afloat in France which was \$610,000 at December 31, 2006.

(v) Recent accounting pronouncements

FIN 48

See Note 11 regarding FIN 48 of the FASB, "Accounting for Uncertainty in Income Taxes".

SAB 108

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). This provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for the Company's fiscal year ended December 31, 2006, with early application encouraged. The adoption of SAB 108 did not have a material impact on OEH's results of operations or financial position.

SFAS 157

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 addresses the need for increased consistency in fair value measurements, defining fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a framework for measuring fair value and expands disclosure requirements. SFAS 157 is effective for the Company's fiscal year ending December 31, 2008. The Company is in the process of evaluating the effects of the adoption of SFAS 157.

SFAS 158

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"). This statement requires an employer to recognize the over-funded or under-funded status of defined benefit pension plans and post-retirement plans (other than a multi-employer plan) as an asset or liability in its statement of financial

position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position and requires disclosure in the notes to financial statements of certain additional information related to net periodic benefit cost for the next fiscal year. SFAS 158 defines the funded status of a defined benefit plan as its assets less its projected benefit obligation and defines the funded status of a post-retirement plan as its assets less its accumulated post-retirement benefit obligation. Calendar year-end companies such as OEH, are required to adopt the recognition and disclosure provisions of SFAS 158 as of December 31, 2006. The measurement date provisions are not required to be adopted until 2008. The Company adopted the recognition and disclosure provisions of SFAS No. 158 with effect from December 31, 2006. See Note 10.

SFAS 159

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115" ("SFAS 159"). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS 159 are elective; however, the amendment to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method, (b) is irrevocable (unless a new election date occurs) and (c) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The adoption of SFAS 159 is not expected to have any impact on OEH's consolidated financial statements.

(w) Other significant events

Due to hurricanes Katrina and Rita, the Windsor Court Hotel in New Orleans suffered damage and remained closed throughout the period from August 29 to October 31, 2005. The Maroma Resort and Spa in Mexico also suffered damage as a result of hurricanes Emily and Wilma and remained closed throughout the period from July 18, 2005 (when the hotel closed for refurbishment) through to February 20, 2006. OEH's insurance covers property damage and loss of earnings under business interruption for up to 12 months after the event. Earnings from operations include within revenue an insurance recovery of \$2,319,000 (2005 – \$4,900,000) for business interruption for the Windsor Court Hotel. Earnings from operations include within revenue an insurance recovery of \$4,906,000 (2005 – \$2,500,000) for business interruption for the Maroma Resort and Spa. The property damage claims submitted as at December 31, 2006 amounted to approximately \$8,000,000 for the Windsor Court Hotel and approximately \$6,000,000 for the Maroma Resort and Spa. The excess of the property damage claims submitted over the losses recorded represents a contingent gain and will only be recognized in the financial statements when realized.

2. Restatement

In adopting SAB 108 effective for the Company's fiscal year ended December 31, 2006, OEH management undertook to re-evaluate certain misstatements identified in prior years' financial statements and as part of the financial closing process management identified additional errors in the historical financial statements as described below. Consequently management has restated the consolidated financial statements presented as of December 31, 2005 and for the years ended December 31, 2005 and 2004. See beginning shareholders' equity for the impact of the restatement for periods prior to 2004. The impact of the restated financial results for the first, second and third quarterly periods of 2006 and the quarterly periods of 2005 are also presented in the summary of quarterly earnings (unaudited) below.

The nature and impact of these adjustments are described below. The impact of these adjustments is shown in the following tables.

Deferred tax on fair value adjustments on prior acquisitions

and other temporary differences

OEH did not record certain deferred tax liabilities, arising principally on the fair value adjustments made on the acquisition of subsidiaries between 1976 and 2002 as well as on other temporary differences in respect of land and buildings. As a result of this error, retained earnings were overstated by \$23,914,000 (cumulatively) at December 31, 2003 (in respect of amortization of the related goodwill arising on the restatement of the deferred taxes in

the period up to the introduction of SFAS No. 142 "Goodwill and Other Intangible Assets" in 2001, offset by the release from the deferred tax provision as the properties were depreciated), and net income was understated by \$204,000 in 2004 and understated by \$806,000 in 2005. As a result of the correction of these errors, OEH recorded a \$38,623,000 increase in goodwill not previously recognized as of December 31, 2005 with a corresponding increase of \$61,527,000 in the deferred tax liability and a decrease of \$22,904,000 in retained earnings to correct these misstatements.

Foreign currency transactions accounting

OEH did not properly apply the provisions of SFAS No. 52, "Foreign Currency Translation", regarding accounting for foreign exchange transactions prior to January 1, 2005. The effect of certain foreign currency transactions was recorded in other comprehensive income instead of in the statement of consolidated earnings. OEH recorded a \$25,210,000 increase in the accumulated other comprehensive income balance as of January 1, 2005 with a corresponding decrease in retained earnings to correct this misstatement. The impact of the misstatement on net earnings for the year ended December 31, 2004 was an understatement of income by \$2,792,000.

The following tables present the impact of the restatement adjustments on OEH's statements of consolidated operations for the years ended December 31, 2005 and 2004:

Year ended December 31, 2005	As Previously Reported \$000	Deferred Tax Matters \$000	Foreign Currency Matters \$000	Restated \$000
Revenue	433,147	-	-	433,147
Expenses:				
Depreciation and amortization	34,087	-	-	34,087
Operating	205,291	-	-	205,291
Selling, general and administrative	134,108	-	-	134,108
Total expenses	373,486	-	-	373,486
Earnings from operations before net finance costs	59,661	-	-	59,661
Interest expense, net	(30,153)	-	-	(30,153)
Foreign currency, net	5,065	-	-	5,065
Net finance costs	(25,088)	-	-	(25,088)
Earnings before income taxes and earnings from unconsolidated companies	34,573	-	-	34,573
Provision for income taxes	5,015	(806)	-	4,209
Earnings before earnings from unconsolidated companies	29,558	806	-	30,364
Earnings from unconsolidated companies, net of tax	11,175	-	-	11,175
Net earnings	40,733	806	-	41,539
Earnings per share:	\$	\$	\$	\$
Basic	1.07	0.02	-	1.09
Diluted	1.06	0.02	-	1.08

Year ended December 31, 2004

	As Previously Reported \$000	Deferred Tax Matters \$000	Foreign Currency Matters \$000	Restated \$000
Revenue	357,284	-	-	357,284
Expenses:				
Depreciation and amortization	28,349	-	-	28,349
Operating	175,547	-	-	175,547
Selling, general and administrative	114,474	-	-	114,474
Total expenses	318,370	-	-	318,370
Earnings from operations before net finance costs	38,914	-	-	38,914
Interest expense, net	(19,948)	-	-	(19,948)
Foreign currency, net	2,723	-	2,792	5,515
Net finance costs	(17,225)	-	2,792	(14,433)
Earnings before income taxes and earnings from unconsolidated companies	21,689	-	2,792	24,481
Provision for income taxes	2,551	(204)	-	2,347
Earnings before earnings from unconsolidated companies	19,138	204	2,792	22,134
Earnings from unconsolidated companies, net of tax	9,084	-	-	9,084
Net earnings	28,222	204	2,792	31,218
Earnings per share:	\$	\$	\$	\$
Basic	0.82	0.01	0.08	0.91
Diluted	0.82	0.01	0.08	0.91

Adjustments identified relating to years prior to 2004 are reflected in the beginning balance of retained earnings in the accompanying statements of consolidated shareholders' equity. The cumulative impact of these adjustments reduced this balance by \$51,916,000 and primarily represents adjustments relating to the deferred tax on prior year acquisitions and foreign currency accounting matters.

The following table represents the impact of the restatement adjustments on OEH's consolidated balance sheet as of December 31, 2005:

Year ended December 31, 2005	As Previously Reported \$000	Effect of Restatement \$000	Restated \$000
Assets			
Cash and cash equivalents	38,397	-	38,397
Accounts receivable, net of allowance of \$980	59,061	-	59,061
Due from related parties	17,549	-	17,549
Prepaid expenses and other	13,061	-	13,061
Inventories	29,636	-	29,636
Real estate assets	12,149	-	12,149
Total current assets	169,853	-	169,853
Property, plant and equipment, net of accumulated depreciation of \$184,479	1,017,175	-	1,017,175
Investments	129,681	-	129,681
Goodwill	55,767	38,623	94,390
Other intangible assets	7,100	-	7,100
Other assets	35,986	(2,019)	33,967
	1,415,562	36,604	1,452,166
Liabilities and Shareholders' Equity			
Working capital facilities	47,108	-	47,108
Accounts payable	22,680	-	22,680
Due to related parties	7,374	-	7,374
Accrued liabilities	43,545	-	43,545
Deferred revenue	19,339	-	19,339
Current portion of long-term debt and capital leases	72,151	-	72,151
Total current liabilities	212,197	-	212,197
Long-term debt and obligations under capital leases	496,156	-	496,156
Deferred income taxes	29,656	59,508	89,164
	738,009	59,508	797,517
Minority interest	4,153	-	4,153
Shareholders' equity:			
Class A common shares	393	-	393
Class B common shares	181	-	181
Additional paid-in capital	404,923	-	404,923
Retained earnings	314,207	(48,114)	266,093
Accumulated other comprehensive loss	(46,123)	25,210	(20,913)
Less: shares owned by subsidiary	(181)	-	(181)
Total shareholders' equity	673,400	(22,904)	650,496
Commitments and contingencies	-	-	-
	1,415,562	36,604	1,452,166

The restatement adjustments discussed above for the years ended December 31, 2005 and 2004 did not impact the major subtotals of OEH's statements of consolidated cash flows.

The following table presents the impact of the restatement adjustments discussed above on OEH's consolidated comprehensive income for the years ended December 31, 2005 and 2004:

Year ended December 31,	2005		2004	
	As Previously Reported \$000	Restated \$000	As Previously Reported \$000	Restated \$000
Net income	40,733	41,539	28,222	31,218
Currency translation adjustments	(33,419)	(33,419)	5,046	2,254
Change in fair value of derivatives	141	141	(301)	(301)
Additional minimum pension liability, net of tax	-	-	1,613	1,613
Total comprehensive income	7,455	8,261	34,580	34,784

The notes to the financial statements also reflect the impact of the restatement adjustments discussed above.

3. Significant acquisitions, dispositions and investments

(a) Acquisitions

2006 Acquisitions:

Pansea Hotels Group

In February 2004, OEH entered into an agreement with the Pansea hotels group, the owner of interests in six deluxe hotels in Southeast Asia, including 50% of the Napasai Hotel in Koh Samui, Thailand. Under this agreement, OEH was to provide a maximum of \$8,000,000 in loans to the hotel holding company which would be convertible after three years into approximately 25% of the holding company's shares. OEH was not managing the hotels but was marketing them along with its other properties.

OEH decided to accelerate the acquisition of the Pansea hotels group in June 2006 by acquiring the 50% of the Napasai hotel-owning company shares not owned by Pansea for \$10,500,000 cash consideration. The rest of the Pansea hotels group was acquired in July 2006 for a total cash consideration of \$33,562,000 (including the original \$8,000,000 loan, accrued interest, other prior payments, and acquisition costs) and assumption of sundry debts owed by the Pansea hotels group to third parties of \$15,524,000.

This strategic acquisition enabled OEH to expand its position in the Southeast Asian market which contributed to the purchase price and resulted in goodwill.

The acquisition of the Pansea hotels group has been accounted for as a purchase in accordance with SFAS No. 141, "Business Combinations". OEH allocated the purchase price for the acquisition based on fair value of assets acquired and liabilities assumed, which is defined as the amount at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties when neither party is acting under compulsion. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

Year ended December 31,	2006
	\$000
Current assets	10,447
Property, plant and equipment	33,665
Goodwill and other intangible assets	27,105
Total assets acquired	71,217
Current liabilities	(7,230)
Liabilities to minority shareholders	(7,818)
Third party debt	(6,115)
Deferred income taxes	(5,992)
Total liabilities assumed	(27,155)
Net assets acquired	44,062

Loan advanced in 2004 and other prior payments	9,950
Paid in June 2006 for 50% of Napasai	10,500
Paid in July 2006 for the rest of Pansea hotel group	23,612
Total cash consideration	44,062

The net assets of Pansea hotels group have been fair valued based on the estimated market values of the freehold and leasehold properties. After fair valuing all other assets and liabilities, goodwill of \$13,815,000 has been recorded of which \$nil will be deductible as operating expenses for tax purposes. Included in the goodwill is a debit balance of \$2,316,000 for minority interest relating to losses carried forward as at the date of acquisition. In the future periods, minority interest share of profits will be credited against goodwill to the extent of the previously recorded minority interest losses.

The results of the operation of Pansea hotels group have been included in the consolidated financial statements of OEH from July 21, 2006.

The pro forma results of operations data presented below assume that the Pansea hotels group acquisition had been made at the beginning of 2005. The pro forma data are presented for informational purposes only and are not necessarily indicative of the results of future operations, nor

of the actual results that would have been achieved had the acquisition taken place at the beginning of 2005:

Year ended December 31,	2006	2005
(Pro forma)	\$000	\$000
Revenue	498,808	441,958
Net earnings	37,564	41,942
Earnings per share:	\$	\$
Basic	0.93	1.10
Diluted	0.92	1.09

In December 2006, OEH acquired an additional 34% interest in the former Pansea hotel in Cambodia for a cash consideration of \$1,290,050 increasing its share in the hotel equity from 65% to 99%. The purchase price was partly allocated to fixed assets (\$918,000), resulting in a deferred tax liability of \$184,000. Goodwill of \$318,000 has been recognized on this acquisition, of which \$nil will be deductible for tax purposes.

Casa de Sierra Nevada

In February 2006, OEH acquired a 75% interest in Casa de Sierra Nevada, a 33-room deluxe hotel in San Miguel de Allende, Mexico. The total purchase price, including acquisition costs, was \$8,800,000 paid in cash. The acquisition included adjacent buildings and land.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

Year ended December 31,	2006
	\$000
Property, plant and equipment	8,600
Goodwill and other intangible assets	3,770
Total assets acquired	12,370
Current liabilities	(200)
Other long-term liabilities	
(deferred consideration)	(2,850)
Deferred income taxes	(520)
Total liabilities assumed	(3,570)
Net assets acquired	8,800

The net assets of Casa de Sierra Nevada have been fair valued based on the estimated market value of the buildings. After fair valuing all other assets and liabilities, goodwill of \$3,510,000 has been recorded of which \$nil will be deductible as operating expenses for tax purposes.

The acquisition of Casa de Sierra Nevada has been accounted for as a purchase in accordance with SFAS No. 141, "Business Combinations". The results of the operation have been included in the consolidated financial statements of OEH from February 8, 2006.

In December 2006, OEH acquired a further 5% interest in the hotel for a cash consideration of \$520,000. In accordance with the shareholders' agreement, OEH will purchase a further 5% in January 2009 for a cash consideration equal to a proportion of ten times the previous 12 months' net operating income of the hotel, less its outstanding debt, and the remaining 15% in January 2010 for a cash consideration calculated on the same basis. Guidance in SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", and EITF 00-4, "Majority owner's accounting for a transaction in the shares of a consolidated subsidiary and a derivative indexed to the minority interest in that subsidiary", has been applied to account for the forward contracts for acquisition of the remaining 20%. The liability has been recorded at the fair value of the deferred consideration and the minority interest has been reduced accordingly.

The pro forma results of operations data presented below assume that the Casa de Sierra Nevada acquisition had been made at the beginning of 2005. The pro forma data are presented for informational purposes only and are not necessarily indicative of the results of future operations, nor

of the actual results that would have been achieved had the acquisition taken place at the beginning of 2005:

Year ended December 31,	2006	2005
(Pro forma)	\$000	\$000
Revenue	493,027	435,521
Net earnings	39,867	41,553
Earnings per share:	\$	\$
Basic	0.98	1.09
Diluted	0.98	1.08

Maroma Resort and Spa

Effective January 1, 2006, OEH purchased the remaining 25% interest in Maroma Resort and Spa for a cash consideration of \$5,400,000 bringing its interest to 100%. A deferred tax liability of \$1,853,000 has been recorded on the acquisition. Goodwill of \$4,728,000 has been recognized on this acquisition.

2005 Acquisition:

In February 2005, OEH purchased 100% of the issued equity of LLC Europe Hotel which owns a 93.5% interest in the property operating as the Grand Hotel Europe, St Petersburg, Russia. The remaining interest in the property is owned by the City of St Petersburg. In addition, OEH acquired full management and operational control of the hotel and acquired 100% of a Cyprus company which has agreements with the hotel to provide various management services.

This strategic acquisition enabled OEH to start expansion of its position in the Russian market, which contributed to the purchase price and resulted in goodwill. The total purchase price, including acquisition costs, was \$95,150,000 paid in cash of which \$57,500,000 was financed by a syndicate of banks led by the International Finance Corporation.

The acquisition of the Grand Hotel Europe has been accounted for as a purchase in accordance with SFAS No. 141, "Business Combinations". OEH allocated the purchase price for the acquisition based on fair value of assets acquired and liabilities assumed, which is defined as the amount at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties when neither party is acting under compulsion. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

Year ended December 31,	2006
	\$000
Current assets	2,740
Property, plant and fixtures and fittings	80,500
Trade name	7,100
Goodwill	27,928
Total assets acquired	118,268
Current liabilities and lease obligations	7,842
Deferred income taxes	15,276
Total liabilities assumed	23,118
Net assets acquired	95,150

Goodwill of \$27,928,000 has been recorded of which \$nil will be deductible for tax purposes.

The acquired intangible assets included the trade name which was fair valued at \$7,100,000, and has been assigned an indefinite useful life.

The results of the operation have been included in the consolidated financial statements of OEH from February 8, 2005.

2004 Acquisition:

Effective November 1, 2004, OEH acquired El Encanto Hotel and Garden Villas in Santa Barbara, California for \$26,000,000 paid in cash. Part of the purchase price was financed with a bank loan. The entire purchase price was allocated to tangible fixed assets, primarily land, based on their fair value.

(b) Investments

In June 2006, OEH sold its 49% interest in Harry's Bar in London, England, for a cash consideration of \$9,499,000. The sale of the investment resulted in a gain of \$6,619,000 upon which a tax charge of \$3,325,000 was recorded.

In April 2005, OEH acquired 50% of the equity in The Great Scottish and Western Railway Co. Ltd., which currently operates The Royal Scotsman luxury tourist train on a seasonal service largely within Scotland. The initial investment was \$2,700,000 of which \$1,300,000 was paid in cash and the balance represents 50% of the long-term debt within the company in which OEH has invested. OEH has an option to acquire the remaining 50% of the equity in December 2007 at an enterprise valuation based upon a multiple of the average EBITDA for the previous 36 months, as defined in the purchase agreement. This investment has been accounted for under the equity method of accounting.

In May 2004, OEH acquired a 50% interest in a luxury French canal and river cruise business called Afloat in France. The investment in Afloat in France is accounted for under the equity method of accounting. Also as part of this transaction OEH acquired the five canal boats operated in the business. The total investment in these transactions was \$3,000,000 paid in cash.

Investments represent equity interests of 50% or less and in which OEH exerts significant influence. OEH does not have effective control of these unconsolidated companies and, therefore, accounts for these investments using the equity method.

OEH's investments in and loans and advances to unconsolidated companies amounted to \$130,124,000 at December 31, 2006 (2005 – \$129,681,000). OEH's earnings from unconsolidated companies were \$11,970,000 in 2006 (2005 – \$11,175,000; 2004 – \$9,084,000). See Note 19.

Summarized financial data for unconsolidated companies are as follows :

Year ended December 31,	2006	2005
	\$000	\$000
Current assets	50,782	46,529
Property, plant and equipment, net	347,772	325,769
Other assets	46,022	41,362
Total assets	444,576	413,660

Current liabilities	59,621	53,102
Long-term debt	227,477	204,405
Other liabilities	86,637	88,965
Total shareholders' equity	70,841	67,188
Total liabilities and shareholders' equity	444,576	413,660

Year ended December 31,	2006	2005	2004
Revenue	173,858	159,705	135,250
Earnings from operations before net finance costs	34,509	25,630	19,874
Net earnings/(loss)	2,127	(2,382)	(1,778)

Included in unconsolidated companies is the Charleston Place Hotel to which OEH has made loans in addition to its equity investment. Some of these loans have a conversion feature exercisable by OEH no sooner than 2020 and in limited circumstances before then, under which OEH may convert its loans into additional capital, thereby giving OEH a majority equity interest in the hotel.

Also included in unconsolidated companies are the Peru hotel and PeruRail joint ventures, under which OEH and the other 50% participant must contribute equally additional equity capital needed for the businesses. If the other participant does not meet this obligation, OEH has the right to dilute the other participant and obtain a majority equity interest in the affected joint venture company. OEH also has rights to purchase the other participant's interests, exercisable in limited circumstances such as its bankruptcy.

4. Property, plant and equipment, net

The major classes of property, plant and equipment are as follows:

Year ended December 31,	2006 \$000	2005 \$000
Land and buildings	998,227	860,711
Machinery and equipment	191,050	170,676
Fixtures, fittings and office equipment	186,075	151,754
River cruise ship and canal boats	19,184	18,513
	1,394,536	1,201,654
Less: accumulated depreciation	(211,136)	(184,479)
	1,183,400	1,017,175

The major classes of assets under capital leases included above are as follows:

Year ended December 31,	2006 \$000	2005 \$000
Freehold and leased land and buildings	16,006	14,803
Machinery and equipment	2,205	2,067
Fixtures, fittings and office equipment	1,678	1,817
	19,889	18,687
Less: accumulated depreciation	(2,241)	(1,892)
	17,648	16,795

5. Goodwill

OEH's goodwill consists of \$1,383,000 related to the trains and cruises business segment and \$120,268,000 related to the hotels and restaurants business segment, of which \$27,928,000 relates to the acquisition of the Grand Hotel Europe, \$3,510,000 relates to the estimated purchase price allocation of Casa de Sierra Nevada, \$6,318,000 relates to goodwill arising on the acquisition of Maroma Resort and Spa, and \$14,973,000 relates to the estimated purchase price allocation of the Pansea hotels group.

6. Other intangible assets

Other intangible assets consist of the value of the Grand Hotel Europe tradename of \$7,100,000, the estimated purchase price allocation of \$260,000 for the Casa de Sierra Nevada tradename, and favorable lease intangible assets acquired as part of the acquisition of the Pansea hotels group of \$12,789,000. Amortization expense relating to Pansea favorable lease was approximately \$160,000 for 2006 (2005 – \$nil).

7. Working capital facilities

Working capital facilities are composed of the following, all repayable within one year:

Year ended December 31,	2006 \$000	2005 \$000
Unsecured working capital facilities, with a weighted average interest rate of 5.55% and 5.92%, respectively	46,590	47,108

OEH had approximately \$64,000,000 of working capital lines of credit at December 31, 2006 (2005 – \$54,000,000) issued by various financial institutions and having various expiration dates, of which \$22,208,000 was undrawn (2005 – \$7,100,000).

8. Long-term debt and obligations under capital leases

(a) Long-term debt

Long-term debt consists of the following:

Year ended December 31,	2006 \$000	2005 \$000
Loans from banks collateralized by property, plant and equipment payable over periods of 1 to 11 years, with a weighted average interest rate of 5.80% and 5.51%, respectively, primarily based on LIBOR	649,513	546,593
Loan secured by river cruise ship payable over 3 years, with a weighted interest rate of 6.54% and 5.65%, respectively, based on LIBOR	3,500	4,500
Obligations under capital lease (see Note 8(b))	16,684	17,214
	669,697	568,307
Less: current portion	83,397	72,151
	586,300	496,156

The carrying value of the debt is equal to its fair value.

Certain credit agreements of OEH have restrictive covenants. At December 31, 2006, OEH was in compliance with these covenants, including a minimum consolidated net worth test and a minimum consolidated interest coverage test as defined under a bank-syndicated \$241,000,000 loan facility referred to below. OEH does not currently have any covenants in its loan agreements which limit the payment of dividends.

In July 2006, OEH borrowed \$241,000,000 (€190,000,000) under a bank-syndicated loan facility totalling \$317,000,000 (€250,000,000) secured by four of OEH's Italian hotels, its two Portuguese hotels, and its properties in the U.K. and France. The initial drawdown was used to refinance an existing \$254,000,000 (€201,000,000) loan facility. On repayment of this existing loan facility, outstanding deferred finance costs amounting to \$1,400,000 were written off and a repayment fee of \$1,100,000 was incurred.

The following is a summary of the aggregate maturities of consolidated long-term debt excluding obligations under capital leases at December 31, 2006:

Year ending December 31,	\$000
2007	81,519
2008	74,677
2009	25,381
2010	44,730
2011	385,354
2012 and thereafter	41,352
	653,013

The Company has guaranteed \$552,000,000 of the long-term debt of its subsidiary companies as at December 31, 2006.

The Company has guaranteed, through 2011, \$9,893,000 of the debt obligations of the PeruRail operations, an unconsolidated joint venture in which OEH has a 50% investment and, through 2007, \$4,413,000 of PeruRail contingent obligations relating to the performance of its governmental rail concessions. OEH has guaranteed, through 2007, \$3,000,000 of the debt obligations of Charleston Center LLC, owner of the Charleston Place Hotel in which OEH has a 19.9% equity investment. The Company has guaranteed, through 2007, a \$3,000,000 bank loan to Eastern & Oriental Express Ltd. in which OEH has a 25% equity investment. All of these guarantees were in place before December 31, 2003.

(b) Obligations under capital leases

The following is a summary of future minimum lease payments under capital leases together with the present value of the minimum lease payments at December 31, 2006:

Year ending December 31,	\$000
2007	2,402
2008	2,663
2009	2,375
2010	2,379
2011	3,796
2012 and thereafter	15,737
Minimum lease payments	29,352
Less: amount of interest contained in above payments	12,668
Present value of minimum lease payments	16,684
Less: current portion	1,878
	14,806

The amount of interest deducted from minimum lease payments to arrive at the present value is the interest contained in each of the leases.

9. Other liabilities

Other liabilities consist of \$2,330,000 of deferred consideration arising on the Casa de Sierra Nevada acquisition (see Note 3(a)).

10. Pension plans

From January 1, 2003, a number of non-US OEH employees participated in a defined benefit pension plan in the U.K. called Orient-Express Services 2003 Pension Scheme. On May 31, 2006, the plan was closed for future benefit accruals.

The significant weighted-average assumptions used to determine net periodic costs of the plan during the year are as follows:

Year ended December 31,	2006	2005	2004
Discount rate	5.10%	5.00%	5.40%
Assumed rates of compensation increases	-	3.25%	3.00%
Expected long-term rate of return on plan assets	7.50%	7.50%	7.00%

The significant weighted-average assumptions used to determine benefit obligations of the plan at year end are as follows:

Year ended December 31,	2006	2005
Discount rate	5.10%	4.75%
Assumed rate of compensation increases	-	3.25%

The discount rate essentially represents the rate of return on high quality corporate bonds at the end of the year in the country in which the assets are held.

In determining the expected long-term rate of return on plan assets, management has evaluated information from OEH's actuaries and financial advisors, including their review of anticipated future long-term performance of individual asset classes and the asset allocation strategy given the anticipated requirements of the plan to determine the average rate of earnings expected on the funds invested.

The weighted-average asset allocation of OEH's defined benefit pension plan as of December 31, 2006 and 2005 by asset category as a percentage of plan assets is as follows:

Year ended December 31,	2006	2005
Asset Category:		
Equity securities	99%	80%
Fixed income investments	-	20%
Other	1%	-
Total	100%	100%

The changes in the benefit obligation, the plan assets and the funded status for the plan were as follows:

Year ended December 31,	2006	2005
	\$000	\$000
Change in benefit obligation:		
Benefit obligation at beginning of year	17,597	13,953
Service cost	459	885
Interest cost	877	699
Plan participants' contributions	128	297
Net transfer in	851	1,001
Actuarial loss	1,435	2,817
Benefits paid	(270)	(258)
Curtailment gain	(1,139)	-
Foreign currency translation	2,439	(1,797)
Benefit obligation at end of year	22,377	17,597

Change in plan assets:		
Fair value of plan assets at beginning of year	9,806	7,540
Actual return on plan assets	1,334	1,673
Employer contributions	813	1,063
Plan participants' contributions	128	297
Net transfer in	378	480
Benefits paid	(270)	(258)
Foreign currency translation	1,511	(989)
Fair value of plan assets at end of year	13,700	9,806
Funded status	(8,677)	(7,791)
Unrecognized net actuarial loss	12,101	10,832
Net amount recognized in retained earnings	3,424	3,041

At December 31, 2006, OEH adopted SFAS No. 158 "Employer's Accounting for Defined Benefit Pensions and Other Post-retirement Plans – An Amendment of FASB Statements No. 87, 88, 106 and 132(R)". The implementation of SFAS No. 158 did not have a material impact on OEH's financial statements.

The following table details certain information with respect to OEH's defined benefit pension plan:

Year ended December 31,	2006	2005
	\$000	\$000
Projected benefit obligation	22,377	17,597
Accumulated benefit obligation	22,377	9,589
Fair value of plan assets	13,700	9,806

The components of net periodic benefit cost for the OEH employees covered under the plan consisted of the following:

Year ended December 31,	2006	2005	2004
	\$000	\$000	\$000
Service cost	459	885	780
Interest cost on projected benefit obligation	877	699	448
Expected return on assets	(824)	(546)	(362)
Net amortization and deferrals	484	417	5
Net periodic benefit cost	996	1,455	871

Additional information about OEH's pension plan is as follows:

Year ended December 31,	2006	2005
	\$000	\$000
Increase in minimum pension liability (net of tax) in other comprehensive income	8,518	-

OEH expects to contribute \$940,000 to its defined benefit pension plan in 2007. The following benefit payments, which reflect assumed future service, are expected to be paid:

Year ending December 31,	\$000
2007	76
2008	78
2009	92
2010	110
2011	174
Next five years	2,030

OEH has another defined benefit pension plan in South Africa for certain employees of the Mount Nelson Hotel. Total number of active members is five, and the remaining members are retired pensioners. The latest actuarial valuation performed as at January 1, 2003 showed a net pension plan surplus of approximately \$459,000 based on fair value of plan assets of \$1,457,000 and projected benefit obligation of \$998,000. Management does not expect significant movements in the balances since the last valuation due to the small size of the plan. The surplus has not been recognized in the financial statements as it is deemed not recoverable.

Certain employees of OEH are members of the British Rail pension plan, which is a governmental multi-employer defined benefit pension plan. Total OEH contributions into the plan for 2006 and 2005 were \$92,000 and \$184,000, respectively.

Certain employees of OEH were members of defined contribution pension plans. Total contributions into the plans were as follows:

Year ended December 31,	2006	2005
	\$000	\$000
Employer's contributions	1,460	1,100

11. Income taxes

The Company is incorporated in Bermuda which does not impose an income tax. OEH's effective tax rate is entirely due to the income taxes imposed by jurisdictions in which OEH conducts business other than Bermuda.

The provision for income taxes consists of the following:

	Year ended December 31, 2006			Year ended December 31, 2005 (restated)			Year ended December 31, 2004 (restated)		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Bermuda	-	-	-	-	-	-	-	-	-
United States	4,016	2,608	6,624	824	(1,509)	(685)	310	502	812
Rest of the world	7,662	(6,495)	1,167	8,969	(4,075)	4,894	4,278	(2,743)	1,535
	11,678	(3,887)	7,791	9,793	(5,584)	4,209	4,588	(2,241)	2,347

The 2006 cost included a current tax cost of \$2,213,000 arising on the sale of Harry's Bar; with no equivalent cost in either 2005 or 2004. Earnings from unconsolidated companies are reported net of tax. The tax provision applicable to these unconsolidated companies in the year ended December 31, 2006 was \$5,741,000 (2005 – \$3,333,000; 2004 – \$2,669,000).

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following represents OEH's net deferred tax liabilities:

Year ended December 31,	2006 \$000	2005 (restated) \$000
Gross deferred tax assets (primarily operating loss carryforwards)	69,299	60,469
Less: valuation allowance	(13,065)	(22,487)
Net deferred tax assets	56,234	37,982
Deferred tax liabilities	(139,592)	(114,826)
Net deferred tax liabilities	(83,358)	(76,844)

The deferred tax assets consist primarily of tax loss carryforwards. The gross amount of tax loss carryforwards is \$199,856,000. Of this amount, \$69,865,000 will expire in the five years ending December 31, 2011 and a further \$11,496,000 will expire in the five years ending December 31, 2016. The remaining losses of \$118,495,000 will expire after December 31, 2016 or have no expiry date. A valuation allowance has been provided against gross deferred tax assets where it is thought more likely than not that the benefits associated with these assets will not be realized. The 2006 income taxes provision includes deferred tax benefits totalling \$8,829,000 that arose on the reduction of valuation allowances established in respect of tax losses in Bora Bora, Portugal and Australia, after OEH concluded that it was more likely than not that these tax losses would be utilized in the future.

The deferred tax liabilities consist primarily of differences between the tax basis of depreciable assets and the adjusted basis as reflected in the financial statements.

Deferred income taxes have not been provided in respect of the tax costs that would arise on the distribution of the retained earnings of OEH's foreign subsidiaries. These earnings have been indefinitely reinvested and there are no plans to distribute these retained earnings in the future.

In July 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes", an interpretation of SFAS No. 109 ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is effective for the Company in the first quarter of the year beginning January 1, 2007. OEH is continuing to evaluate the impact that the adoption of this interpretation will have on its financial position and results of operations, although it estimates the initial FIN 48 provision that will be recognized at January 1, 2007 as an adjustment to retained earnings brought forward will be in the range of \$27,000,000 to \$30,000,000.

12. Supplemental cash flow information

Year ended December 31,	2006 \$000	2005 \$000	2004 \$000
Cash paid for:			
Interest	40,979	29,461	21,436
Income taxes	14,719	10,124	4,071

Non-cash investing and financing activities:

In conjunction with certain acquisitions in 2006, 2005 and 2004 (see Note 3(a)), liabilities were assumed as follows:

Year ended December 31,	2006 \$000	2005 (restated) \$000	2004 (restated) \$000
Fair value of assets acquired	89,551	118,618	30,146
Cash paid	(50,122)	(95,150)	(29,670)
Loan advanced in 2004 and other prior payments	(9,950)	-	-
Liabilities assumed	29,479	23,468	476

13. Shareholders' equity

(a) Public offering

In March 2005, the Company issued and sold through underwriters 5,050,000 class A common shares in a public offering registered in the United States. Net proceeds amounted to \$121,889,000.

In July 2006, the Company issued and sold through underwriters 2,500,000 class A common shares in a public offering registered in the United States. Net proceeds amounted to \$99,220,000.

(b) Dual common share capitalization

The Company has been capitalized with class A common shares, of which there are 120,000,000 authorized, and class B common shares, of which there are 120,000,000 authorized, each convertible at any time into one class A common share. In general, holders of class A and class B common shares vote together as a single class, with holders of class B shares having one vote

per share and holders of class A shares having one-tenth of one vote per share. In all other substantial respects, the class A and class B common shares are the same.

(c) Shareholder rights agreement

The Company has in place a shareholder rights agreement which will be implemented not earlier than the tenth day following the first to occur of (i) the public announcement of the acquisition by a person (other than a subsidiary of the Company) of shares carrying 20% or more of the total voting rights which may be cast at any general meeting of the Company and (ii) the commencement or announcement of a tender offer or exchange offer by a person for shares carrying 30% or more of the total voting rights that may be cast at any general meeting of the Company. At that time, the rights will detach from the class A and class B common shares, and the holders of the rights will be entitled to purchase, for each right held, one one-hundredth of a series A junior participating preferred share of the Company at an exercise

price of \$142 (the "Purchase Price") for each one one-hundredth of such junior preferred share, subject to adjustment in certain events. From and after the date on which any person acquires beneficial ownership of shares carrying 20% or more of the total voting rights which may be cast at any general meeting of the Company, each holder of a right (other than the acquiring person) will be entitled upon exercise to receive, at the then current Purchase Price and in lieu of the junior preferred shares, that number of class A or class B common shares (depending on whether the right was previously attached to a class A or B share) having a market value of twice the Purchase Price. If the Company is acquired or 50% or more of its consolidated assets or earning power is sold, each holder of a right will be entitled to receive, upon exercise at the then current Purchase Price, that amount of common equity of the acquiring company which at the time of such transaction would have a market value of two times the Purchase Price. Also, the Company's board of directors may exchange all or some of the rights for class A and class B common shares (depending on whether the right was previously attached to a class A or B share) if any person acquires

14. Employee stock option plans

Under the Company's 2000 and 2004 stock option plans, options to purchase up to 750,000 and 500,000, respectively, class A and B common shares may be awarded to employees of OEH at fair market value at the date of grant. Options are exercisable three years after award and must be exercised ten years from the date of grant. At December 31, 2006, 357,150 class A common shares were reserved under the 2000 plan for issuance pursuant to options awarded to 36 persons, and 274,450 class A common shares were reserved under the 2004 plan for issuance pursuant to options awarded to 83 persons. The total compensation cost related to unexercised options at December 31, 2006 to be recognized over the period January 1, 2007 to December 31, 2009, is \$2,395,000. The fair value of grants issued in the year to December 31, 2006 were \$2,211,000 (2005 – \$899,000; 2004 – \$1,005,000). Transactions under the plans have been as follows:

	Year ended December 31, 2006		Year ended December 31, 2005		Year ended December 31, 2004	
	Shares	Option Price	Shares	Option Price	Shares	Option Price
Outstanding at beginning of period	787,750	\$13.00–\$28.50	824,000	\$13.00–\$19.00	676,000	\$13.00–\$19.00
Granted	142,750	\$34.88–\$42.87	82,000	\$21.40–\$28.50	150,000	\$14.70
Forfeited	(2,300)	\$14.70–\$36.50	(18,500)	\$13.06–\$28.50	(2,000)	\$13.40
Exercised	(296,600)	\$13.06–\$28.50	(99,750)	\$13.06–\$19.00	-	-
Outstanding at end of period	631,600	\$13.00–\$36.50	787,750	\$13.00–\$28.50	824,000	\$13.00–\$19.00
Exercisable at end of period	275,650	\$13.00–\$19.00	472,250	\$13.00–\$19.00	271,500	\$19.00

The options outstanding at December 31, 2006, were as follows:

	Number of Shares		Weighted Average of			
	Exercise Prices	Outstanding at December 31 2006	Exercisable at December 31 2006	Remaining Contractual Lives	Exercise Prices for Outstanding Options	Exercise Prices for Exercisable Options
	\$13.00	10,000	10,000	5.8	\$13.00	\$13.00
	\$13.06	74,250	74,250	5.8	\$13.06	\$13.06
	\$13.40	60,400	60,400	6.4	\$13.40	\$13.40
	\$14.70	139,000	-	7.6	\$14.70	-
	\$17.09	3,000	3,000	6.8	\$17.09	\$17.09
	\$19.00	116,500	116,500	4.2	\$19.00	\$19.00
	\$19.00	11,500	11,500	3.6	\$19.00	\$19.00
	\$21.40	2,000	-	8.1	\$21.40	-
	\$28.40	33,000	-	8.7	\$28.40	-
	\$28.50	40,000	-	8.5	\$28.50	-
	\$34.88	20,700	-	9.2	\$34.88	-
	\$34.90	26,500	-	9.6	\$34.90	-
	\$36.45	11,000	-	9.7	\$36.45	-
	\$36.50	54,950	-	9.5	\$36.50	-
	\$39.25	3,000	-	9.8	\$39.25	-
	\$42.87	25,800	-	9.9	\$42.87	-
		631,600	275,650			

As of and for year ended December 31,	2006 \$	2005 \$	2004 \$
Weighted average fair value	15.36	11.98	6.70

14. Employee stock option plans (continued)

Estimates of fair values of stock options on the grant dates using the Black-Scholes option pricing model are based on the following assumptions:

As of and for year ended December 31,	2006	2005	2004
Expected share price volatility	40.45%	41.71%	46.33%
Risk-free interest rate	4.95%	4.24%	4.01%
Expected annual dividends per share	\$0.10	\$0.10	\$0.10
Expected life of stock options	5 years	5 years	5 years

15. Commitments and contingencies

Outstanding contracts to purchase fixed assets were approximately \$21,839,000 at December 31, 2006 (2005 – \$24,341,000).

Future rental payments under operating leases in respect of equipment rentals and leased premises are payable as follows:	
Year ended December 31,	\$000
2007	908
2008	660
2009	557
2010	543
2011	198
2012 and thereafter	144
	3,010

Rental expense for the year ended December 31, 2006 amounted to \$2,077,000 (2005 – \$1,911,000; 2004 – \$1,716,000). Under the agreement to acquire The Royal Scotsman (see Note 3(b)), OEH has an option exercisable in December 2007 to acquire the remaining 50% of the outstanding shares at a multiple of EBITDA less existing debt (as defined in the agreement). In the event that OEH does not exercise this option, the existing shareholders have the option to sell the related shares to OEH for £1,400,000 (\$2,400,000) and £2,100,000 (\$3,600,000), respectively. At December 31, 2006, the fair value of this contract was approximately zero. Pursuant to the terms of its investment in the Afloat in France business (see Note 3(b)), OEH purchased an option to acquire the remaining shares in the business, which is exercisable effective on May 9, 2009. Prior to that date, the other shareholders have the right to sell their shares in the business to OEH. Both options have the same exercise prices, which are determined at a multiple of EBITDA less existing debt (as defined in the agreement) during the exercise periods. The exercise price of each option approximates the fair value of the shares at December 31, 2006.

16. Derivative financial instruments

OEH is exposed to interest rate risk on its floating rate debt, and in September 2006 it entered into interest rate swap agreements for the notional amounts of €75,000,000 (\$95,000,000) and €24,700,000 (\$31,000,000) that limit the exposure to a fixed rate level. Although these interest rate swaps economically hedge the interest rate risk, these instruments have not been designated as hedging instruments in 2006. At December 31, 2006 and 2005, the fair values of the outstanding interest rate swaps were accounted for as other non-current assets at \$687,000 and \$nil, respectively.

17. Other comprehensive income/(loss)

The accumulated balances for each component of other comprehensive loss are as follows:

Year ended December 31,	2006	2005
	\$000	(restated) \$000
Foreign currency translation adjustments	3,545	(20,845)
Derivative financial instruments	-	(68)
Additional minimum pension liability, net of tax	(8,518)	-
	(4,973)	(20,913)

The components of comprehensive income/(loss) are as follows:

Year ended December 31,	2006	2005	2004
	\$000	(restated) \$000	(restated) \$000
Net earnings on common shares	39,767	41,539	31,218
Foreign currency translation adjustments	24,390	(33,419)	2,254
Change in fair value of derivatives	68	141	(301)
Additional minimum pension liability, net of tax	(8,518)	-	1,613
Comprehensive income	55,707	8,261	34,784

18. Information concerning financial reporting for segments and operations in different geographical areas

OEH's segment information has been prepared in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". OEH's operations are as three segments, (i) hotels and restaurants, (ii) tourist trains and cruises, and (iii) real estate and property development, and are grouped into various geographical regions. Real estate and property development has been disclosed as a new segment in 2006 and disclosures for the comparative prior periods have been changed to confirm to the new segment presentation. Hotels at December 31, 2006 are located in the United States, Caribbean, Mexico, Europe, southern Africa, South America, Southeast Asia, Australia and South Pacific, restaurants are located in New York and Buenos Aires, tourist trains operate in Europe, Southeast Asia and Peru, a river cruise ship operates in Myanmar and five canal boats in France, and real estate developments are located in the US, Caribbean, Mexico, Europe, Southeast Asia and South Pacific. Segment performance is evaluated based upon segment net earnings before interest expense, foreign currency, tax (including tax on earnings from unconsolidated companies), depreciation, amortization and gain on asset sales ("segment EBITDA"). Segment information is presented in accordance with the accounting policies described in Note 1.

Financial information regarding these business segments is as follows:

Year ended December 31,	2006	2005	2004
	\$000	\$000	\$000
Revenue:			
Hotels and restaurants			
Owned hotels – Europe	180,365	161,188	116,074
– North America	85,492	79,706	71,205
– Rest of World	115,419	95,516	79,576
Hotel management/part ownership interests	9,212	8,663	7,344
Restaurants	22,544	22,162	20,339
	413,032	367,235	294,538
Tourist trains and cruises	63,628	61,207	58,575
Real estate	16,144	4,705	4,171
	492,804	433,147	357,284
Depreciation and amortization:			
Hotels and restaurants			
Owned hotels – Europe	14,243	13,471	9,954
– North America	7,503	7,248	6,536
– Rest of World	9,406	8,675	7,755
Restaurants	936	851	757
	32,088	30,245	25,002
Tourist trains and cruises	3,588	3,842	3,347
	35,676	34,087	28,349
Segment EBITDA:			
Owned hotels – Europe	52,708	46,560	29,868
– North America	19,652	15,686	14,315
– Rest of World	33,033	23,381	18,051
Hotel management/part ownership interests	19,932	17,485	14,885
Restaurants	6,530	5,625	3,911
Tourist trains and cruises	18,316	15,396	13,057
Real estate	3,514	3,078	636
Central overheads	(22,209)	(18,955)	(15,707)
	131,476	108,256	79,016
Year ended December 31,	2006	2005	2004
	\$000	(restated) \$000	(restated) \$000
Segment EBITDA/net earnings reconciliation:			
Segment EBITDA	131,476	108,256	79,016
Add			
Gain on sale of investment	6,619	-	-
Less			
Depreciation and amortization	35,676	34,087	28,349
Interest expense, net	44,510	30,153	19,948
Foreign currency, net	4,610	(5,065)	(5,515)
Provision for income taxes	7,791	4,209	2,347
Share of provision for income taxes of unconsolidated companies	5,741	3,333	2,669
Net earnings	39,767	41,539	31,218
Earnings from unconsolidated companies:			
Hotels and restaurants			
Hotel management/part ownership interests	7,875	7,169	6,437
Restaurants	277	360	223
	8,152	7,529	6,660
Tourist trains and cruises	3,818	3,646	2,424
	11,970	11,175	9,084

18. Information concerning financial reporting for segments and operations in different geographical areas (continued)

	2006 \$000	2005 \$000	2004 \$000
Capital expenditure:			
Hotels and restaurants			
Owned hotels – Europe	48,308	60,359	32,643
– North America	36,345	16,324	14,177
– Rest of World	15,431	23,368	15,214
Restaurants	1,460	1,091	694
	101,544	101,142	62,728
Tourist trains and cruises	9,711	6,170	2,376
Real estate	539	7,586	-
	111,794	114,898	65,104
Identifiable assets:			
Hotels and restaurants			
Owned hotels – Europe	660,083	561,902	
– North America	317,577	241,458	
– Rest of World	429,969	365,126	
Hotel management/part ownership interests	114,378	103,549	
Restaurants	39,416	42,794	
	1,561,423	1,314,829	
Tourist trains and cruises	140,803	121,644	
Real estate	49,437	15,693	
	1,751,663	1,452,166	

Financial information regarding geographic areas based on the location of properties is as follows:

Year ended December 31,	2006 \$000	2005 \$000	2004 \$000
Revenue:			
Europe	237,336	217,275	169,788
North America	123,725	109,019	98,244
Rest of World	131,743	106,853	89,252
	492,804	433,147	357,284
Long-lived assets at book value:			
Europe	662,099	567,406	
North America	364,696	301,978	
Rest of World	428,529	378,962	
	1,455,324	1,248,346	
Long-lived assets at book value constitute the following:			
Property, plant and equipment	1,183,400	1,017,175	
Investments	130,124	129,681	
Goodwill	121,651	94,390	
Other intangible assets	20,149	7,100	
	1,455,324	1,248,346	

19. Related party transactions

For the year ended December 31, 2006, OEH paid subsidiaries of Sea Containers Ltd. (“SCL”) \$2,172,000 (2005 – \$5,757,000) for the provision of various services provided under a services agreement between OEH and SCL which terminated at December 31, 2006. These amounts have been settled in accordance with the services agreement and are included in selling, general and administrative expenses. As of December 31, 2006, SCL is no longer a related party of OEH.

OEH manages under a long-term contract the Charleston Place Hotel (accounted for under the equity method) and has made loans to the hotel-owning company. For the year ended December 31, 2006, OEH earned \$4,939,000 (2005 – \$4,587,000; 2004 – \$3,943,000) in management fees which are recorded in revenue, and \$10,700,000 (2005 – \$9,752,000; 2004 – \$8,165,000) in interest income on partnership and other loans, which is recorded in earnings from unconsolidated companies. These loans have an indefinite maturity period. See Note 3(b).

OEH manages under long-term contracts the Hotel Monasterio and the Machu Picchu Sanctuary Lodge owned by its 50/50 joint venture with local Peruvian interests, as well as the 50/50 owned PeruRail operation, and provides loans, guarantees and other credit accommodation to these joint ventures. In the year ended December 31, 2006, OEH earned management and guarantee fees of \$5,314,000 (2005 – \$4,785,000; 2004 – \$4,337,000)

and loan interest of \$87,000 (2005 – \$116,000; 2004 – \$104,000) which are recorded in revenue. At December 31, 2006, OEH had a \$750,000 subordinated loan to the PeruRail operation with an indefinite maturity date and interest at a spread over LIBOR. All of the guarantees relating to the Company’s investments in Peru were in place prior to December 31, 2003.

OEH manages under a long-term contract the Hotel Ritz in Madrid, Spain, in which OEH holds a 50% interest accounted for under the equity method. For the year ended December 31, 2006, OEH earned \$1,057,000 (2005 – \$1,139,000; 2004 – \$969,000) in management fees, which are included in revenue. See Note 3(b).

OEH has granted to James Sherwood, Chairman and a director of the Company, a right of first refusal to purchase the Hotel Cipriani in Venice, Italy in the event OEH proposes to sell it. The purchase price would be the offered sale price in the case of a cash sale or the fair market value of the hotel, as determined by an independent valuer; in the case of a non-cash sale. Mr. Sherwood has also been granted an option to purchase the hotel at fair market value if a change in control of the Company occurs.

In August 2006, Simon Sherwood, President and Chief Executive Officer of the Company, purchased a villa at the Napasai resort in Koh Samui, Thailand for a market value of \$775,000. The villa will be put into the rental pool of the resort, with revenues split 40/60 as with other villas at the resort in favor of Mr. Sherwood.

Summary of Quarterly Earnings (Unaudited)

As described in Note 2, the Company restated its consolidated financial statements for fiscal years 2005 and 2004 and its quarterly consolidated financial statements for the first, second and third quarters of 2006. The following table of unaudited quarterly financial information during the past two years reflects the impact of restatement.

	Quarter ended						
	December 31	September 30		June 30		March 31	
	As Reported \$000	As Reported \$000	As Restated \$000	As Reported \$000	As Restated \$000	As Reported \$000	As Restated \$000
2006							
Revenue	134,084	144,764	144,764	134,705	134,705	79,251	79,251
Earnings/(losses) before net finance costs and gain on sale of investment	18,475	34,780	34,780	26,553	27,147	(3,091)	(2,313)
Gain on sale of investment	-	-	-	6,619	6,619	-	-
Net finance costs	(11,110)	(14,869)	(14,869)	(13,459)	(14,053)	(8,310)	(9,088)
Earnings/(losses) before income taxes							
from unconsolidated companies	7,365	19,911	19,911	19,713	19,713	(11,401)	(11,401)
(Provision for)/benefit from income taxes	(3,601)	(3,615)	(3,406)	(3,167)	(2,958)	1,964	2,174
Earnings from unconsolidated companies net of tax	2,893	3,925	3,925	3,326	3,326	1,826	1,826
Net earnings/(losses)	6,657	20,221	20,430	19,872	20,081	(7,611)	(7,401)
Net earnings/(losses) per share:	\$	\$	\$	\$	\$	\$	\$
Basic	0.16	0.49	0.49	0.50	0.51	(0.19)	(0.19)
Diluted	0.16	0.48	0.49	0.50	0.50	(0.19)	(0.19)
Dividends per share	0.025	0.025	0.025	0.025	0.025	0.025	0.025

	Quarter ended							
	December 31		September 30		June 30		March 31	
	As Reported \$000	As Restated \$000	As Reported \$000	As Restated \$000	As Reported \$000	As Restated \$000	As Reported \$000	As Restated \$000
2005								
Revenue	98,753	98,753	127,733	127,733	126,252	126,252	80,409	80,409
Earnings/(losses) before net finance costs	9,220	9,220	26,228	26,228	24,294	24,294	(81)	(81)
Net finance costs	(7,539)	(7,539)	(7,819)	(7,819)	(6,231)	(6,231)	(3,499)	(3,499)
Earnings/(losses) before income taxes and earnings from unconsolidated companies	1,681	1,681	18,409	18,409	18,063	18,063	(3,580)	(3,580)
Benefit from income taxes/(provision for)	1,132	1,322	(3,025)	(2,820)	(3,420)	(3,215)	298	504
Earnings from unconsolidated companies net of tax	1,537	1,537	4,099	4,099	3,814	3,814	1,725	1,725
Net earnings/(losses)	4,350	4,540	19,483	19,688	18,457	18,662	(1,557)	(1,351)
Net earnings/(losses) per share:	\$	\$	\$	\$	\$	\$	\$	\$
Basic	0.11	0.12	0.50	0.51	0.47	0.48	(0.04)	(0.02)
Diluted	0.11	0.12	0.49	0.50	0.47	0.48	(0.04)	(0.02)
Dividends per share	0.025	0.025	0.025	0.025	0.025	0.025	0.025	0.025

Five-Year Performance (Unaudited)

As discussed in Note 2 to the Financial Statements, the results for the years ended December 31, 2005, 2004, 2003 and 2002 have been restated.

Year ended December 31,	2006 \$000	2005 \$000	2004 \$000	2003 \$000	2002 \$000
Revenue	492,804	433,147	357,284	315,863	279,268
Gain on sale of investment/hotel asset	6,619**	-	-	4,250*	-
Earnings from unconsolidated companies – net of tax	11,970	11,175	9,084	7,320	8,471
Net earnings	39,767	41,539	31,218	24,963	28,762
Net earnings per share	\$	\$	\$	\$	\$
Basic	0.98	1.09	0.91	0.76	0.93
Diluted	0.97	1.08	0.91	0.76	0.93
Total assets	\$000 1,751,663	\$000 1,452,166	\$000 1,316,058	\$000 1,208,383	\$000 1,037,689
Long-term obligations	669,697	568,307	583,706	554,188	459,016
Shareholders' equity	806,996	650,496	521,280	488,530	404,049
Dividends per share	\$ 0.10	\$ 0.10	\$ 0.10	\$ -	\$ -

* The gain in 2003 related to the sale of the Hotel Quinta do Lago in Portugal.

** The gain in 2006 related to the sale of the investment in Harry's Bar.

Price Range of Common Shares and Dividends (Unaudited)

The class A common shares of the Company are traded on the New York Stock Exchange under the symbol OEH. All of the class B common shares of the Company are owned by a subsidiary of the Company and not listed. The following table presents the quarterly high and low sales prices of a class A common share in 2006 and 2005 as reported for New York Stock Exchange composite transactions:

	2006		2005	
	High \$	Low \$	High \$	Low \$
First quarter	40.35	30.71	26.36	19.60
Second quarter:	43.43	35.05	32.50	25.16
Third quarter	40.97	31.30	33.40	27.28
Fourth quarter	48.05	36.71	32.71	26.15

The Company paid quarterly cash dividends at the rate of \$0.025 per class A and B common share in 2006 and 2005.

Summary of Earnings by Operating Unit and Region (Unaudited)

The revenue and segment net earnings before interest expense (but after interest income from unconsolidated companies), foreign currency, tax (including tax on earnings from unconsolidated companies), depreciation, amortization and gain on investment sale ("segment EBITDA") for the years ended 2006, 2005 and 2004 are analyzed as follows:

Year ended December 31,	2006 \$m	2005 \$m	2004 \$m
Revenue and earnings from unconsolidated companies:			
Owned hotels: – Europe	180.4	161.2	116.1
– North America	85.5	79.7	75.4
– Rest of World	115.5	95.5	79.6
Hotel management and part-ownership interests	19.9	17.5	14.9
Restaurants	22.8	22.5	20.5
Tourist trains and cruises	70.3	66.5	62.5
Real estate and property development	16.1	4.7	-
Total	510.5	447.6	369.0
Segment EBITDA:			
Owned hotels: – Europe	52.7	46.6	29.9
– North America	19.7	15.7	14.3
– Rest of World	33.0	23.4	18.0
Hotel management and part-ownership interests	19.9	17.5	14.9
Restaurants	6.5	5.6	3.9
Tourist trains and cruises	18.3	15.4	13.0
Real estate and property development	3.5	3.1	0.7
Central overheads	(22.1)	(19.0)	(15.7)
Total	131.5	108.3	79.0
Gain on sale of investment	6.6	-	-
Segment EBITDA including gain on sale of investment	138.1	108.3	79.0

The foregoing segment EBITDA reconciles to net earnings as follows:

Year ended December 31,	2006 \$m	2005 \$m	2004 \$m
Net earnings	39.8	41.5	31.2
Add			
Depreciation and amortization	35.6	34.1	28.4
Interest expense, net	44.5	30.2	19.9
Foreign currency, net	4.6	(5.1)	(5.5)
Provision for income taxes	7.8	4.2	2.4
Share of provision for income taxes of unconsolidated companies	5.8	3.4	2.6
Segment EBITDA including gain on sale of investment	138.1	108.3	79.0
Less			
Gain on sale of investment	(6.6)	-	-
Total	131.5	108.3	79.0

Management evaluates the operating performance of the Company's segments on the basis of segment EBITDA and believes that segment EBITDA is a useful measure of operating performance because segment EBITDA is not affected by non-operating factors such as leverage and the historic cost of assets. EBITDA is a financial measure commonly used in the Company's industry. Our segment EBITDA, however, may not be comparable in all instances to EBITDA as disclosed by other companies. Segment EBITDA should not be considered as an alternative to earnings from operations or net earnings (as determined in accordance with US generally accepted accounting principles) as a measure of the Company's operating performance, or as an alternative to net cash provided by operating, investing and financing activities (as determined in accordance with US generally accepted accounting principles) as a measure of the Company's ability to meet cash needs.

Summary of Operating Information for Owned Hotels (Unaudited)

Average Daily Rate (\$)	Year ended December 31,	2006	2005
	Europe	584	526
	North America	325	323
	Rest of World	271	277
	Worldwide	382	375
Rooms Available ('000)	Year ended December 31,	2006	2005
	Europe	298	301
	North America	212	207
	Rest of World	382	336
	Worldwide	892	844
Room Nights Sold ('000)	Year ended December 31,	2006	2005
	Europe	175	176
	North America	148	140
	Rest of World	242	196
	Worldwide	565	512
RevPAR (\$)	Year ended December 31,	2006	2005
	Europe	342	307
	North America	227	219
	Rest of World	172	162
	Worldwide	242	228

Comparable/Same Store RevPAR (\$)	Year ended December 31,	2006	2005	Change %	
				\$	Local Currency
	Europe	357	327	9%	9%
	North America	317	291	9%	9%
	Rest of World	182	162	12%	15%
	Worldwide	262	238	10%	11%

Average daily rate is the average amount achieved for the rooms sold. RevPAR is revenue per available room, that is the rooms' revenue divided by the number of available rooms for each night of operation. Same store RevPAR is a comparison based on the operations of the same units in each period, by excluding the effect of any acquisitions, dispositions or major refurbishments. The same store data excludes the following operations: Hotel Caruso Belvedere, El Encanto, Grand Hotel Europe, Casa de Sierra Nevada and the six Asian hotels. It also excludes La Residencia, Maroma Resort and Spa and Windsor Court Hotel for the periods in which they were closed.

Corporate Governance

The Board of Directors of the Company has established corporate governance measures substantially in compliance with requirements of the New York Stock Exchange ("NYSE"). These include a set of Corporate Governance Guidelines, Charters for each of the Audit Committee, Compensation Committee and Nominating and Governance Committee of the full Board, and a Code of Business Conduct for Directors, Officers and Employees. The Board of Directors has also adopted a Code of Business Practices for the Company's Principal Executive, Financial and Accounting Officers. These documents are published on the Company's website (www.orient-express.com) or may be obtained upon request and without charge by writing to the Company's Secretary at its registered office address (Orient-Express Hotels Ltd., Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda).

Because the Company is a foreign private issuer as defined in the rules of the US Securities and Exchange Commission, it is not required to comply with all NYSE corporate governance requirements as they apply to US domestic companies listed on the NYSE. The Company's corporate governance measures, however, do not differ in any significant way from those requirements.

Shareholder and investor information

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Bermuda
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Fax: +1 (441) 292-8666

Correspondence

Orient-Express Services Limited
20 Upper Ground
London SE1 9PF
England
Tel: +44 (0)20 7921 4123
Fax: +44 (0)20 7921 4180
(Delete first 0 dialling from outside the U.K.)

Website

http://www.orient-express.com

Stock exchange listing

Orient-Express Hotels Ltd. class A common shares are listed on the New York Stock Exchange under the trading symbol OEH.

Share transfer agent and register

Computershare Trust Company N.A.
P.O. Box 43078
Providence, Rhode Island 02940-3010
Tel: +1 (781) 575-2879
website: http://www.computershare.com

Shareholders are encouraged to contact the Transfer Agent directly regarding any change in certificate registration, change of mailing address, lost or stolen certificates, consolidation of multiple accounts, elimination of duplicate mailings and related shareholder service matters. Shareholders may also access their accounts and other information directly through Computershare's website.

Co-registrar of shares

The Bank of Bermuda
6 Front Street
Hamilton HM 11
Bermuda

Independent registered public accounting firm

Deloitte & Touche LLP
Hill House
1 Little New Street
London EC4A 3TR
England



Annual general meeting

The annual general meeting of the shareholders will be held at the registered office of the company at 22 Victoria Street, Hamilton, Bermuda, on June 15, 2007.

Shareholder information

Copies of SEC Form 10-K annual reports, SEC Form 10-Q quarterly reports and other published financial information are available on the Company's website or may be obtained upon request to:

Orient-Express Hotels Inc.
1114 Avenue of the Americas
New York, New York 10036
Tel: +1 (212) 302-5055
Fax: +1 (212) 302-5073

Investor relations

Shareholders, securities analysts, portfolio managers and representatives of financial institutions seeking financial information may contact:

Paul White
Chief Financial Officer
Orient-Express Hotels Ltd.
c/o Orient-Express Services Limited
20 Upper Ground
London SE1 9PF
Tel: +44 (0)20 7921 4038
Fax: +44 (0)20 7921 4180
Email: paul.white@orient-express.com

Media seeking information should contact:

Pippa Isbell
Vice President – Public Relations
Orient-Express Hotels Ltd.
c/o Orient-Express Services Limited
20 Upper Ground
London SE1 9PF
Tel: +44 (0)20 7921 4065
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Email: pippa.isbell@orient-express.com

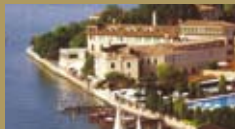
(Delete first 0 dialling from outside the U.K.)

Orient-Express Hotels Ltd.

www.orient-express.com



**Venice Simplon-
Orient-Express**
London, Paris, Venice



Hotel Cipriani
Venice, Italy



Hotel Splendido
Portofino, Italy



Villa San Michele
Florence, Italy



Capannelle
Gaiole in Chianti
Tuscany, Italy



Hotel Caruso Belvedere
Ravello, Italy



Hotel Ritz
Madrid, Spain



La Residencia
Deià, Mallorca, Spain



Lapa Palace
Lisbon, Portugal



Reid's Palace
Madeira, Portugal



Hôtel de la Cité
Carcassonne, France



Afloat in France
Burgundy and
Languedoc, France



Grand Hotel Europe
St. Petersburg, Russia



**Le Manoir aux
Quat'Saisons**
Oxfordshire, England



British Pullman
Britain



Nothorn Belle
Britain



The Royal Scotsman
Scotland



'21' Club
New York, New York



The Inn at Perry Cabin
St. Michaels, Maryland



Keswick Hall
Charlottesville, Virginia



Windsor Court Hotel
New Orleans, Louisiana



Charleston Place
Charleston,
South Carolina



El Encanto
Santa Barbara,
California



Casa de Sierra Nevada
San Miguel de Allende,
Mexico



Maroma Resort and Spa
Riviera Maya, Mexico



La Samanna
St. Martin,
French West Indies



Mount Nelson Hotel
Cape Town, South Africa



The Westcliff
Johannesburg, South Africa



Orient-Express Safaris
Eagle Island Camp,
Botswana



Orient-Express Safaris
Khwai River Lodge,
Botswana



Orient-Express Safaris
Savute Elephant Camp,
Botswana



The Observatory Hotel
Sydney, Australia



Lilianfels Blue Mountains
Katoomba, Australia



Eastern & Oriental Express
Southeast Asia



Road To Mandalay
Ayeyarwady River,
Myanmar



La Résidence d'Angkor
Siem Reap, Cambodia



Ubud Hanging Gardens
Bali, Indonesia



Jimbaran Puri Bali
Bali, Indonesia



La Résidence Phou Vao
Luang Prabang, Laos



The Governor's Residence
Yangon, Myanmar



Napasai
Koh Samui, Thailand



Copacabana Palace
Rio de Janeiro, Brazil



La Cabaña
Buenos Aires, Argentina



Miraflores Park Hotel
Lima, Peru



Hotel Monasterio
Cuzco, Peru



**Machu Picchu
Sanctuary Lodge**
Machu Picchu, Peru



PeruRail
Peru



**Bora Bora Lagoon
Resort & Spa**
Bora Bora, French Polynesia