THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 45) website: www.hshgroup.com

ANNUAL RESULTS, DIVIDEND, CLOSURE OF BOOKS
2008 Annual Results

HIGHLIGHTS

Key financial results

- Revenue increased by 9% to HK$4,938 million *(2007: HK$4,542 million)*
- EBITDA fell by 5.6% to HK$1,425 million *(2007: HK$1,510 million)*
- Profit before non-operating items fell by 10% to HK$978 million (*2007: HK$1,088 million*)
- Profit attributable to shareholders amounted to HK$216 million (*2007: HK$3,437 million*), after including revaluation deficits and increases in impairment provisions, net of tax and minority interests, which had the effect of reducing the earnings by HK$591 million
- Earnings per share excluding non-operating items fell by 11% to HK$0.56
- Final dividend of HK10.5 cents per share, making a total dividend of HK17 cents per share for 2008 *(2007: HK18 cents per share)*
- Shareholders' funds amounted to HK$20,712 million (HK$14.28 per share) as at 31 December 2008 (*2007: HK$20,726 million at HK$14.37 per share*)
- The Group's adjusted net assets amounted to HK$26,589 million (HK$18.34 per share) as at 31 December 2008 (*2007: HK$27,032 million at HK$18.75 per share*)
- Net borrowings decreased by HK$257 million to HK$1,198 million (*2007: HK$1,455 million*), with the gearing level reduced to 5% (*2007: 7%*)
- RevPAR for the Group's Peninsula hotels fell by 4% (*2007: rose by 16%*)

Key developments

- 2008 was a year of landmark anniversaries: 120th for The Peak Tram, 80th for The Peninsula Hong Kong and 10th for The Peninsula Bangkok
- Key capital enhancements included: a new spa and renovated swimming pool and fitness centre at The Peninsula hotels in Beijing and New York; a fully redesigned roof garden at The Peninsula Beverly Hills; and renovation of all guestrooms in The Peninsula Manila's Ayala Tower
- The Peninsula Shanghai project was topped out in April and construction made good progress, with the project being on time and within budget for soft opening in the autumn of 2009
- HSH signed an agreement with Qatari Diar Real Estate Investment Company to jointly develop an iconic classical building in Paris, France into The Peninsula Paris hotel

FINANCIAL AND OPERATING HIGHLIGHTS

	For the year ended 31 December 2008	2007	% Increase/ (Decrease)
Income statement (HK$m)			
Turnover	**4,938**	4,542	8.7
EBITDA	**1,425**	1,510	(5.6)
Profit before non-operating items	**978**	1,088	(10.1)
Profit attributable to shareholders	**216**	3,437	(93.7)
Dividends	**246**	259	(5.0)
Earnings per share (HK$)	**0.15**	2.40	(93.8)
Earnings per share excluding non-operating items (HK$) *	**0.56**	0.63	(11.1)
Dividends per share (HK cents)	**17**	18	(5.6)
Dividend cover (times)	**0.9x**	13.3x	(93.4)
Interest cover (times)	**15.5x**	13.5x	14.8
Weighted average gross interest rate	**3.4%**	4.2%	(19.0)
	As at 31 December 2008	2007	
Balance sheet (HK$m)			
Total assets	**29,587**	29,500	0.3
Audited net assets attributable to shareholders	**20,712**	20,726	(0.1)
Adjusted net assets attributable to shareholders *	**26,589**	27,032	(1.6)
Audited net assets per share (HK$)	**14.28**	14.37	(0.6)
Adjusted net assets per share (HK$) *	**18.34**	18.75	(2.2)
Net borrowings	**1,198**	1,455	(17.7)
Net debt to EBITDA (times)	**0.8x**	1.0x	(20.0)
Net debt to equity	**6%**	7%	(14.3)
Gearing	**5%**	7%	(28.6)
	For the year ended 31 December 2008	2007	
Cash flow (HK$m)			
Net cash generated from operating activities	**1,208**	1,481	(18.4)
Capital expenditure	**417**	808	(48.4)
Net cash inflow after interest and dividends before financing activities	**597**	683	(12.6)
Capital expenditure to revenue	**8%**	18%	(55.6)
Share information			
Highest share price (HK$)	**14.50**	15.46	(6.2)
Lowest share price (HK$)	**5.13**	10.90	(52.9)
Year end closing share price (HK$)	**5.86**	13.70	(57.2)
Operating information			
Number of hotel rooms	**2,874**	2,874	-
Average occupancy rate			
- Hong Kong	**71%**	77%	(7.8)
- Other Asia	**57%**	68%	(16.2)
- United States of America	**68%**	76%	(10.5)
Average room rate			
- Hong Kong (HK$)	**4,095**	3,774	8.5
- Other Asia (HK$)	**2,075**	1,564	32.7
- United States of America (HK$)	**4,626**	4,554	1.6
RevPAR			
- Hong Kong (HK$)	**2,927**	2,892	1.2
- Other Asia (HK$)	**1,191**	1,069	11.4
- United States of America (HK$)	**3,145**	3,451	(8.9)

* *Please refer to calculation in the Financial Review section.*

The Directors hereby announce the audited results for the year ended 31 December 2008, which have been reviewed by the Company's Audit Committee, comprising a majority of independent non-executive directors, one of whom chairs the Committee, and the Company's auditor, KPMG.

CHIEF EXECUTIVE OFFICER'S REPORT

2008 was an exceptional year which was marked by the unprecedented global economic and market meltdown triggered in September following the collapse of several leading US financial institutions. Over the past twenty years, the world had enjoyed relative political stability, low inflation and a massive expansion of the global economy, albeit with some market adjustments from time to time. This time, the magnitude and extent of the financial crisis have shaken economies around the world, which we expect will have ramifications on the behaviour of corporations and individuals for several years to come.

As the world faces possibly the most challenging set of economic circumstances since the end of World War Two and the outlook for travel continues to be pessimistic, it is time for us to pause and reflect. Change may be inevitable but we feel that by turning problems on their head, we will see another world which is filled with opportunities. Our Group's greatest strengths – the capacity for innovation, a spirit for excellence, and the dedicated power of our work force – will stand us in good stead in the turbulent times ahead. We believe that we have entered this economic crisis with our Company in a strong financial position and with an excellent and experienced management team, and that our genuine commitment to the long-term will differentiate us from our competitors.

Given the very challenging market conditions during the year, with the downturn in the US having started at the beginning of the year well before the global markets collapse in September, we believe that our Company has performed well to have achieved earnings before interest, taxation, depreciation and amortisation ("EBITDA") of HK$1,425 million, representing a fall of only 5.6% from 2007, and a profit before non-operating items of only 10% less than 2007, which was a record year for our Group. This performance can be attributed to the excellent efforts of our managers and staff to contain costs and seek new sources of revenue, the earnings improvements arising from the various projects we have undertaken in the past few years to enhance our existing assets and the diversification in our asset portfolio between hotel and non-hotel properties.

It is very pleasing that we have entered into this financial crisis with a gearing level of only 5%, the lowest for the Company in the past 10 years, and because of this we are well placed to take advantage of expected asset value adjustments to seek further investments. Being in this financial position also meant that we were able to take a long-term view and conclude the agreements to invest Euro 100 million for a 20% interest in a very grand, stately building in Paris, which will be re-developed into The Peninsula Paris hotel as our flagship entry into Europe.

HOTELS

Our hotels division had a very challenging year, with the slowdown in the US economy affecting our hotels there and in Tokyo from early in the year, followed by the market collapse in September significantly impacting current and future business levels.

The strongest performance came from our flagship hotel The Peninsula Hong Kong, celebrating its 80th anniversary, which ended the year with net profits marginally ahead of its previous record year in 2007. The Peninsula Beijing benefited for a short period from the highly successful Beijing Olympics held in August, but the rest of the year was weak in the light of visa restrictions imposed both before and after the Olympics and the large increase in supply of luxury hotels in Beijing. The Peninsula Bangkok, celebrating its 10th anniversary, enjoyed very healthy business up until August, following which the political turmoil in Thailand, most particularly the occupation of Bangkok's two airports by protestors, resulted in the hotel's business being seriously disrupted. The Peninsula Manila was partially closed during the year for the renovation of the Ayala Tower, which followed the highly successful renovation of the Makati Tower two years ago. This hotel has now completed its rooms renovation programme but is largely dependent on corporate business and faces a weak operating environment in Manila. The newly opened Peninsula Tokyo, in its first full year of operation, has received much acclaim and recognition for its stunning location, the design of its guestrooms and public areas and its service offering. However, it has been challenged by weak market conditions in Tokyo and is still in the process of stabilising its operating cost structures, as a result of which it contributed a loss after depreciation to the Group results.

In the US, business held up relatively well at The Peninsula Beverly Hills, where its market was less directly affected by the financial market fall-out. The Peninsula hotels in New York and Chicago have been increasingly affected during the year and have made considerable efforts to contain their costs in this situation. The Peninsula New York was also affected by the closure of its spa, health club and swimming pool for major renovation for most of the year, but now has fabulous new facilities in these areas to ensure the hotel's competitiveness at the top of the New York luxury market. Quail Lodge faced difficult market conditions with the economy affecting its business from the San Francisco Bay Area, which is its main source of customers.

With our emphasis towards the long-term, we did not curtail any of the capital investment plans for the enhancement of our existing hotels. During the year, we completed the construction of new Peninsula Spas at The Peninsula hotels in Beijing and New York, the Ayala Tower renovation at The Peninsula Manila, the creation of new Salon de Ning concepts at The Peninsula hotels in Hong Kong and New York and the renovation of the pool terrace at The Peninsula Beverly Hills. In line with Peninsula tradition, The Peninsula Beijing received a new fleet of motor vehicles, including two bespoke Rolls-Royce Phantoms, in time for the Beijing Olympics.

Finally, the retail arcades at The Peninsula hotels in Hong Kong and Beijing have continued to perform well, benefitting from their established position in the market and the continued good relationships with many of the world's leading luxury brands.

Details of the individual hotel's financial performance can be found in the Financial Review section of this announcement.

NON-HOTEL PROPERTIES AND OPERATIONS

The Group's non-hotel properties and operations, mainly situated in Hong Kong, have performed well despite the financial turmoil and recorded a total revenue growth of 7% over 2007. Demand continued to be strong for the serviced and unfurnished apartments at The Repulse Bay, although the waiting list for units has declined in the last few months. Again with an eye towards the long term, we are commencing a major renovation of the Repulse Bay Arcade commercial area in order to enhance the restaurants and retail outlets for the enjoyment of both the residents of the complex and outside visitors.

The Peak Complex has had a solid year, with the Peak Tower and St. John's Building both remaining fully let. Additional income was provided by the Sky Terrace and patronage on the Peak Tram increased by 1% over 2007, reaching a record 5 million passengers.

The Landmark in Vietnam remained fully let throughout the year at higher average rentals in the midst of the high inflationary environment there and the Thai Country Club sustained a reasonable level of business, being less affected by the political turmoil in Thailand than The Peninsula Bangkok.

In other operations, higher volumes of passengers in the first three quarters of 2008 for Cathay Pacific's First and Business Class lounges resulted in improved management fees. The Peninsula Merchandising, which operates the Peninsula Boutiques and online sales, performed strongly as additional franchised retail operations were opened.

More details of these divisions' financial performance can be found in the Financial Review section of this announcement.

OVERALL RESULTS

The Group's profit before non-operating items amounted to HK$978 million, representing a decrease of 10% from last year. Our net profit was negatively affected by the impact of the loss arising on the year end revaluation of our investment properties and increased impairment provisions on certain of our hotel assets, resulting in a net profit attributable to shareholders of HK$216 million, as compared to HK$3,437 million last year. It should be noted that the revaluation deficits and impairment provisions are non-cash and non-operating items which relate to assets which we intend to hold long-term and have no intention of selling.

Most importantly, the Group remained cash flow positive during the year, with the funds generated from our operations of HK$1,429 million, being more than sufficient to cover our capital expenditure, interest and dividend payments, leaving a net cash inflow of HK$553 million for the year.

Our balance sheet remained conservative, with a gearing level of 5% as at the year end. Despite the year end property revaluation deficit and increased impairment provisions, our net asset value remains the same as last year at HK$20,712 million (HK$14.28 per share), while the adjusted net asset value amounted to HK$26,589 million (HK$18.34 per share). It should be noted that the Company has expended HK$1,024 million (equivalent to Euro 100 Million) on its investment in The Peninsula Paris project since the year end.

In the light of the uncertain outlook for our business, as well as our continued commitment to investing for the long-term future of the Company, the Directors have recommended a final dividend of HK10.5 cents per share, making a total dividend for the year at HK17 cents per share, for consideration by shareholders at the Annual General Meeting.

PROJECTS

The Group's key project under development, The Peninsula Shanghai hotel and apartment complex, made significant progress in 2008 and is now on schedule and within budget for its soft opening in the autumn of 2009. Being the only new building with its frontage directly on the historic Bund, the other such buildings being protected heritage structures, The Peninsula Shanghai has been designed as an iconic flagship hotel to mark the Group's return to one of its two founding roots.

The Peninsula Shanghai complex will comprise 92,160 square meters of gross floor area, housing a 235-room hotel which will feature five restaurants and bars, a Peninsula spa, a helilounge, a high-end shopping arcade and a hotel apartment tower with 39 units. The exterior of the hotel has been designed in sympathy with the existing buildings on the Bund and the interior design recreates the look and feel of the 1920s and 1930s, when Shanghai was feted as the 'Paris of the East'.

The 15-storey hotel tower was topped out in January 2008, followed by a ceremony marking the occasion which took place in April. The entire complex, including the retail arcade, podium level and apartment tower, was topped out in June. This has been followed by interior fit-out works which continue apace. Pre-opening preparations are well in hand with the General Manager and most of his executive team having been appointed.

Separately, the Group has entered into a joint venture with Qatari Diar Real Estate Investment Company, which is wholly-owned by the Qatar Government, to jointly re-develop a stately building on Avenue Kleber in Paris, France as The Peninsula Paris. The building was constructed in 1908 as the Majestic Hotel which at that time was one of the top luxury hotels in Paris and is currently used by the French Ministry of Foreign Affairs as the Centre International de Conferences. We expect to take vacant possession of the building in the second quarter of 2009 with completion of the hotel during 2012.

We continue to seek other opportunities for new hotel developments on a highly selective basis, with an emphasis on assuming ownership interest in the properties which we operate. As such, we expect to commit to new projects on a measured basis to maintain the focus of our resources, as well as to ensure that we only proceed with prime locations in key international gateway cities.

OUTLOOK

The Hongkong and Shanghai Hotels has consistently looked to the long term. Our business philosophy is to seek assets of the highest quality, whether through green field development or renovation of existing buildings, and to design and operate them to the highest possible quality levels. Returns to the Company and its shareholders are generated through the operating results achieved from the ability to charge premium room rates and rental prices in many of our locations, coupled with longer term asset value appreciation.

Within this overall philosophy, our business strategy remains largely unchanged but is evolving to include new approaches in managing our business. Over the past year, we have set up a Corporate Social Responsibility (CSR) Committee to implement a clear strategy and direction on long term sustainability around the Group. The Committee is tasked with scoping the Group's CSR activities, identifying opportunities for improvement, implementing best practices and reporting to our stakeholders. It is believed that this process will also enhance operational efficiencies and generate opportunities to create long term economic value.

Despite the current economic crisis, we continue to proceed with capital improvement works at various properties to ensure that the quality of our assets are maintained and enhanced to the highest possible levels, thereby maintaining our product and brand quality and image for the benefit of the Company in the long term. We remain totally committed to our big 'family' of hard working and loyal staff and continue to invest in their well-being and development. At the same time, much emphasis continues to be placed on controlling our costs, in particular through productivity and efficiency improvements, as well as reviewing the necessity of capital expenditure items. We also see the economic downturn as a possible opportunity to seek new investments and will continue our search for suitable projects within our stringent requirements for quality and location.

The start of 2009 has so far been challenging, with many of our hotels experiencing a marked reduction in revenue as compared to the same period last year, albeit the first quarter is a low season for several of our hotels. Hong Kong has so far held up relatively well, but is likely to come under continued pressure from the weak global economy and the worsening economic situation in mainland China. The competitive positioning of our main assets, The Peninsula Hong Kong and The Repulse Bay Complex, is likely to be maintained due to the quality and stature of these properties, but further downward pressures may have an effect on rates and occupancies. Given the longer tenure of property leases, the non-hotel businesses are likely to react on a longer cycle than the hotel businesses. We also hope that certain of our properties will benefit from the recent renovations and enhancements which have been undertaken.

Finally, in the midst of such uncertain times, I would like to reiterate that the biggest protection we have is our genuine commitment to quality and the long-term, through investing in our assets and our people, and in adhering to the beliefs and values which have been proven through the long history of our Company.   At the core of this are our wonderful and loyal staff and it is once again fitting that I should end my message with my appreciation to all the members of the Peninsula 'family'.

Clement K. M. Kwok
Chief Executive Officer
Hong Kong, 12 March 2009

FINANCIAL REVIEW

The Group's Financial Statements are compiled in accordance with Hong Kong accounting standards. The Directors wish to draw the attention of the users of this announcement to the following aspects of the accounting policies which have been adopted by the Group since 2005:-

- Deferred taxation has been provided, at the profits tax rate, in respect of revaluation surpluses on the Group's investment properties which are mainly held in Hong Kong. It is the Directors' view that the Group's investment properties are held for the long term and that if any Hong Kong investment properties were sold, tax would not be payable on such disposal as the gain would be capital in nature and such gains are subject to a nil tax rate in Hong Kong. The Directors therefore expect that the provision for deferred taxation in respect of revaluation surpluses for Hong Kong investment properties, amounting to HK$2,723 million as at 31 December 2008, will not materialise.

- Hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less depreciation and any provision for impairment, rather than at fair market value. In order to provide shareholders with additional information on the value of the Group's net assets, the Directors have commissioned an independent third party fair market valuation of the Group's hotel properties and golf courses as at 31 December 2008, the details of which are set out on pages 16 to 17. If these assets were to be stated at fair market value instead of at cost less depreciation and any provision for impairment (and deferred tax is not provided on the revaluation surplus of the hotel property in Hong Kong on the same rationale as above), the Group's net assets attributable to shareholders would have increased by HK$3,154 million.

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

HK$m	**2008**		2007	
Net assets attributable to shareholders per audited balance sheet		**20,712**		20,726
Writing back the deferred taxation provision in respect of revaluation surpluses on Hong Kong investment properties		**2,723**		2,967
Adjusting the value of hotels and golf courses to fair market value	**3,826**		4,197	
Less: Related deferred tax and minority interests	**(672)**		(858)	
		3,154		3,339
Adjusted net assets attributable to shareholders		**26,589**		27,032
Audited net assets per share (HK$)		**14.28**		14.37
Adjusted net assets per share (HK$)		**18.34**		18.75

The Directors believe that the Group’s income statement and earnings per share include a number of items which are non-operating and/or non-recurring in nature, such as the increase in fair value of investment properties and impairment provision adjustments for certain properties. As the Group continues to be managed with principal reference to its underlying operating cash flows and recurring earnings, the Directors have also provided for shareholders’ additional information a calculation of the Group’s earnings per share excluding non-operating items on the basis set out below:-

HK$m	**2008**	2007
Profit attributable to shareholders	**216**	3,437
Decrease/(increase) in fair value of investment properties	**593**	(3,319)
Net impairment provision adjustments for hotels, golf courses and other properties	**176**	23
Net loss on disposal of an investment in Indonesia	**-**	160
Tax and minority interests attributable to non-operating items	**(178)**	600
Earnings excluding non-operating items and related tax and minority interests effects	**807**	901
Earnings per share excluding non-operating items (HK$)	**0.56**	0.63

INCOME STATEMENT

Turnover

The total turnover of the Group for 2008 of HK$4,938 million was HK$396 million or 8.7% above 2007, mainly due to a full year’s revenue from The Peninsula Tokyo, which opened for business in September 2007. Rentals from non-hotel properties increased by HK$68 million or 13% over 2007.

The following table sets out the breakdown of consolidated revenues between hotels, properties and other businesses by business sector and geographical segment:

Consolidated revenues by business sector - in HK$m	**2008**		2007	
Hotels				
Rooms	**1,856**	***38%***	1,768	*39%*
Food and beverage	**1,166**	***24%***	1,031	*23%*
Commercial rentals	**545**	***11%***	463	*10%*
Others	**305**	***6%***	288	*6%*
	3,872	***79%***	3,550	*78%*
Rentals from non-hotel properties				
Residential	**425**	***9%***	386	*9%*
Office	**59**	***1%***	49	*1%*
Shopping arcades	**123**	***2%***	104	*2%*
	607	***12%***	539	*12%*
Other businesses	**459**	***9%***	453	*10%*
	4,938	***100%***	4,542	*100%*

Consolidated revenues by geographical segment – in HK$m	**2008**		2007	
Arising in				
Hong Kong	**2,056**	***42%***	1,910	*42%*
Other Asia	**1,740**	***35%***	1,314	*29%*
United States of America	**1,142**	***23%***	1,318	*29%*
	4,938	***100%***	4,542	*100%*

Hotels During 2008, the hotels segment generated a total revenue of HK$3,872 million, representing an increase of HK$322 million (9%) over 2007. This includes a full year's revenue contribution of HK$677 million from The Peninsula Tokyo rather than for only four months in 2007. All hotels have been impacted by the global financial and credit crisis since September 2008 and this eroded (to varying degrees) their revenue as compared with the period up to August 2008. Only the Peninsula hotels in Hong Kong, Beijing and Tokyo achieved higher full year revenue in 2008 compared with 2007.

Complex revenue in The Peninsula Hong Kong increased by 5.7% (HK$59 million) over 2007. The increase was mainly from commercial and office rentals and, to a lesser extent, hotel room revenue. The hotel achieved a record year in room revenue and RevPAR, with its average room rate increasing by 9% compared with 2007, although there was a fall in occupancy to 71% (77% in 2007).

The Peninsula Beijing delivered a 7% (HK$32 million) increase in full year complex revenue over 2007, despite the difficult trading conditions resulting from the February snowstorms, the May earthquake, travel visa restrictions surrounding the Olympic Games and the increased supply of luxury hotels. Complex revenue in the Olympic Games month of August 2008 was HK$65 million (169%) above August 2007.

The Peninsula Tokyo opened in September 2007 and 2008 was therefore its first full year of operation. The hotel has established a strong market position in Tokyo, although it will take some time to achieve the expected operational efficiencies and profitability. Business levels and revenue were impacted by the slowdown in the US economy from early in the year, with the global financial crisis adding to this. The hotel team is focused on enhanced marketing and cost saving initiatives in order to achieve higher revenue and profitability in these challenging trading conditions.

Complex revenue in The Peninsula Bangkok for the first eight months of 2008 was at record levels, and was 15% (HK$25 million) above the same period in 2007. However, the political instability which started in September 2008 and led to a state of emergency and the Bangkok airports' closure in late November 2008 had the effect of offsetting this healthy performance, and the hotel finished the year with complex revenue 4% (HK$10 million) lower than 2007.

The Ayala Tower in The Peninsula Manila was renovated from May to October 2008, which resulted in half of the hotel's room inventory being unavailable for sale for nearly six months. The renovation, combined with the impact of the global financial crisis, resulted in revenue being 14% (HK$35 million) below 2007.

The Spa, health club, swimming pool and new Salon de Ning rooftop lounge in The Peninsula New York were renovated in 2008, adversely impacting room revenues during the closures which lasted throughout most of the year. The additional impact from the global financial crisis since September 2008 resulted in full year complex revenue being 19% (HK$111 million) below 2007, mostly from lower rooms and Spa revenues.

The Peninsula Chicago maintained its leading market position in 2008. However, revenue was 8% (HK$48 million) below 2007, mostly in room revenue due to lower occupancy.

The impact of the global financial crisis has not been felt as much at The Peninsula Beverly Hills and its revenue was only marginally affected amongst our US hotels as compared with 2007, due to the different market environment and guest profile in that hotel. However, complex revenue still ended at 2% (HK$9 million) below 2007.

Quail Lodge's revenue was flat as compared to 2007. Increased revenue from a major annual event offset the lower room revenue, which was 12% (HK$6 million) below 2007.

The continual strong consumer demand for high-end retail outlets has resulted in a further 18% increase in revenues from the hotels' commercial rentals over 2007 levels. We continue to closely follow developments in this sector and quickly respond to any changes in the market conditions.

The breakdown of revenues by property is as follows:

Revenue	**2008**					2007				
Breakdown of Revenue by Property – in HK$m	**Rooms**	**F&B**	**Commercial rentals**	**Others**	**Total**	Rooms	F&B	Commercial rentals	Others	Total
Consolidated hotels										
The Peninsula Hong Kong	**353**	**321**	**362**	**57**	**1,093**	348	321	317	48	1,034
The Peninsula New York	**354**	**90**	**32**	**10**	**486**	416	100	31	50	597
The Peninsula Chicago	**297**	**167**	**-**	**59**	**523**	326	186	-	59	571
The Peninsula Tokyo	**302**	**285**	**25**	**65**	**677**	97	115	8	23	243
The Peninsula Bangkok	**153**	**87**	**3**	**26**	**269**	162	88	3	26	279
The Peninsula Beijing	**236**	**102**	**121**	**26**	**485**	231	95	102	25	453
The Peninsula Manila	**115**	**76**	**2**	**17**	**210**	136	87	2	20	245
Quail Lodge Resort	**46**	**38**	**-**	**16**	**100**	52	39	-	10	101
Other revenue	**-**	**-**	**-**	**29**	**29**	-	-	-	27	27
	1,856	**1,166**	**545**	**305**	**3,872**	1,768	1,031	463	288	3,550
Non-consolidated hotel										
The Peninsula Beverly Hills	**302**	**93**	**-**	**49**	**444**	300	99	-	54	453
	2,158	**1,259**	**545**	**354**	**4,316**	2,068	1,130	463	342	4,003

Non-hotel properties The total rental revenue from non-hotel properties of HK$607 million reflects an increase of 13% over 2007, with strong revenue growth in all properties. Although there were a number of departing residential tenants in the Repulse Bay Complex during the year, these were quickly replaced by new tenants. Revenue increased by 9% over 2007, due to continued strong demand for high quality accommodation from the financial services and multinational sectors and limited new supply in the market.

The Peak Tower is fully let with a good mix of quality tenants. The 2008 revenue benefited from the first full year and entrance fees to the Sky Terrace and higher turnover rent from tenants. St. John's Building and The Landmark, Vietnam were both fully leased throughout the year, at higher average rentals.

Revenue	**2008**				2007			
Rental Revenue from non-hotel properties - HK$m	**Residential**	**Office**	**Shopping Arcade**	**Total**	Residential	Office	Shopping Arcade	Total
The Repulse Bay Complex, Hong Kong	**412**	**-**	**38**	**450**	375	-	38	413
The Peak Tower, Hong Kong	**-**	**-**	**82**	**82**	-	-	64	64
St. John's Building, Hong Kong	**-**	**34**	**-**	**34**	-	27	-	27
The Landmark, Ho Chi Minh City	**13**	**25**	**3**	**41**	11	22	2	35
	425	**59**	**123**	**607**	386	49	104	539

Other businesses The higher volume of passengers in the Cathay Pacific airport lounges resulted in improved management fees in 2008, although there was a fall in passenger numbers in the last quarter of the year. The Peak Tram enjoyed a record annual patronage of 5 million passengers, up by 1.3% over 2007, with revenues also slightly higher.

Revenue from Peninsula Merchandising Limited grew by 7% as additional franchised retail operations have been opened. Food and beverage revenue at The Repulse Bay improved by 6% over 2007, largely due to a higher level of wedding and corporate events. The Thai Country Club's revenue was impacted by the political situation in Thailand, as well as the global financial crisis, but managed to limit the revenue decrease compared with 2007 to just 2%.

Revenue from other businesses – in HK$m	**2008**	2007	% Change
Cathay Pacific Airport Lounges	**96**	89	8%
The Peak Tram	**81**	78	4%
Peninsula Merchandising	**81**	76	7%
The Repulse Bay restaurants	**70**	66	6%
Thai Country Club	**58**	59	(2%)
Quail Lodge Golf Course	**33**	33	-
Tai Pan Laundry	**33**	30	10%
Sale of Quail Lodge land	**-**	16	(100%)
Others	**7**	6	17%
	459	453	1%

Operating costs

The efforts to manage and contain costs and improve efficiencies have continued in all of our businesses over the course of the year. From September, the major emphasis has been on finding ways to reduce costs in the light of reducing revenues and economic uncertainty.

The challenge with most of the businesses which we operate is that they have large fixed cost bases. Many of our costs are driven by external factors, such as union negotiated wages, property and real estate taxes and energy prices. Given this situation, it is challenging to mitigate the flow through of revenue shortfall to our profits. Our efforts have centred on managing overtime and casual labour costs, re-deployment of staff, cutting or deferring expenditure where possible and reviewing our supply contracts. In general, most of our properties have been able to mitigate the impact of the downturn in revenue to a reasonable extent. However, this will become more challenging in the event of further revenue downturn.

The growth in revenue and operating costs can be analysed by business segment, as shown in the first two columns of the following table:

			Excluding the impact of The Peninsula Tokyo	
Revenue and cost growth over 2007	Revenue growth over 2007	Cost growth over 2007	*Revenue growth/(decrease) over 2007*	*Cost growth over 2007*
Hotels	9%	17%	*(3%)*	*1%*
Non-hotel properties	13%	10%	*13%*	*10%*
Other businesses	1%	8%	*1%*	*8%*
Grand Total	9%	16%	*(1%)*	*2%*

This comparison is affected by the impact of a full year of operation for The Peninsula Tokyo in 2008, compared with only four months in 2007. The two italicised columns on the right show the revenue reduction and cost growth after removing the results of The Peninsula Tokyo, which in 2007 included the write-off of HK$83 million of pre-opening expenses. Excluding the impact of The Peninsula Tokyo, costs in the hotel segment and total costs grew by 1% and 2% respectively, as compared with decreases of 3% in hotel revenue and 1% in total revenue.

All hotels reported reduced profit margins at GOP and EBITDA levels, except for The Peninsula Hong Kong. The Peninsula Tokyo and The Peninsula Beijing reported reduced profit margins despite increased revenue, because of the first full year of operations in Tokyo, and increased costs arising in the Olympic Year in Beijing. Other hotels were not able to adjust their cost base sufficiently to offset the reduced revenue levels.

HK$1,553 million or 40% of direct operating costs are payroll-related. This proportion remains the same as that of the previous year. The breakdown of employee numbers at 31 December was as follows:

Number of employees	**2008**			2007		
	Direct operations	**Managed operations**	**Total**	Direct operations	Managed operations	Total
Hotels	**4,808**	**431**	**5,239**	4,732	406	5,138
Property	**339**	**-**	**339**	329	-	329
Other businesses	**659**	**397**	**1,056**	636	391	1,027
	5,806	**828**	**6,634**	5,697	797	6,494
Hong Kong	**1,737**	**397**	**2,134**	1,687	391	2,078
Other Asia	**2,938**	**-**	**2,938**	2,929	-	2,929
United States of America	**1,131**	**431**	**1,562**	1,081	406	1,487
	5,806	**828**	**6,634**	5,697	797	6,494

EBITDA and EBITDA margin

EBITDA (earnings before interest, taxation, depreciation and amortisation) decreased by 5.6% to HK$1,425 million. Excluding the impact of The Peninsula Tokyo in the first full year of operation, EBITDA would have been HK$1,493 million. (The 2007 EBITDA excluding pre-opening expenses and post opening results related to The Peninsula Tokyo would have been HK$1,589 million.)

EBITDA HK$m	**Hong Kong**	**Other Asia**	**United States of America**	**Total**
2008				
Hotels	**500**	**279**	**91**	**870**
Rentals from non-hotel properties	**433**	**26**	**-**	**459**
Other businesses	**83**	**20**	**(7)**	**96**
	1,016	**325**	**84**	**1,425**
2007				
Hotels	486	292	211	989
Rentals from non-hotel properties	384	21	-	405
Other businesses	87	21	8	116
	957	334	219	1,510

EBITDA margin represents EBITDA as a percentage of turnover and is analysed in the following table. As explained above, the EBITDA margins were affected by the first full year of operating results for The Peninsula Tokyo. Thus, the EBITDA margins excluding the effect of The Peninsula Tokyo are also shown for comparison purposes.

EBITDA margin	**2008**	**2008** (excluding The Peninsula Tokyo)	2007	2007 (excluding The Peninsula Tokyo)
Hotels	**22%**	**29%**	28%	32%
Rental from non-hotel properties	**76%**	**76%**	75%	75%
Other businesses	**21%**	**21%**	26%	26%
Overall EBITDA margin	**29%**	**35%**	33%	37%
Arising in				
Hong Kong	**49%**	**49%**	50%	50%
Other Asia	**19%**	**37%**	25%	39%
United States of America	**7%**	**7%**	17%	17%

The EBITDA margins for the "Rental from non-hotel properties" segment remained stable at 76%, because the slightly lower margins in The Repulse Bay were offset by improved margins in the other businesses in this segment. The reduced margins in The Repulse Bay were mainly due to higher repairs and maintenance costs. The Peak Tower benefited from the full year of Sky Terrace admission charges and increased rental rates benefited St. John's Building and The Landmark.

In the "Other businesses" segment, most operations had reduced margins despite generally increasing revenue levels. The biggest contributors to EBITDA in this category are The Peak Tram and Thai Country Club. The EBITDA in The Peak Tram was reduced because of the increased rental for the lower Tram terminus, which is being charged by St. John's Building (also a full owned operation) in order to have a more appropriate cost allocation.

Depreciation and amortisation

Depreciation and amortisation for the year of HK$374 million (2007: HK$335 million) largely relates to the hotel properties, as explained above. The increase in depreciation and amortisation was due to the Group maintaining a programme of ongoing capital expenditure to improve and update its hotel properties (including the renovation of Ayala Tower in The Peninsula Manila) which exceeds the rate of depreciation run-off from previous capital spend. In addition, full year depreciation of HK$85 million (2007: HK$25 million) was provided on The Peninsula Tokyo which was opened for business in September 2007. It should be noted that of the total depreciation figure, HK$145 million (2007: HK$140 million) relates to depreciation and amortisation of land and buildings, which would not be required if the hotels were accounted for on a fair market value basis instead of the cost and depreciation basis as currently adopted.

Non-operating items

The decrease in fair value of investment properties during the year amounted to HK$593 million (2007: increase of HK$3,319 million), which was mainly attributable to the decrease in value of our properties in Hong Kong, comprising the apartments at The Repulse Bay, the shopping arcade at The Peninsula Hong Kong, St. John's Building and The Peak Tower.

The review by the Directors of the fair value and value in use of our hotels and golf courses resulted in a net impairment provision of HK$176 million (2007: HK$23 million) being made, mainly in relation to The Peninsula Chicago and Quail Lodge.

Net financing charges

Financing charges on borrowings in 2008 amounted to HK$108 million (2007: HK$112 million). After netting off interest income amounting to HK$40 million, a net charge of HK$68 million, which was 22% lower than 2007, was recognised in the income statement. The reduction in net financing charges was due to the decrease of 18% in the amount of net borrowings and the drop in overall interest rates during 2008.

The weighted average gross interest rate for the year dropped to 3.4% (2007: 4.2%). Interest cover has improved, with operating profit at 15.5 times (2007: 13.5 times) net financing charges for the year.

Taxation

The decrease in taxation charge for the year was mainly due to the following reasons:

- the reduction of Hong Kong profits tax rate from 17.5% to 16.5%; and

- the decrease in fair value of investment properties and impairment in respect of other fixed assets which resulted in a reversal of deferred tax liabilities of HK$163 million (2007: deferred tax charge of HK$598 million).

The details of the taxation charge are as follows:

HK$m	**2008**	2007
Current Tax	**185**	171
Deferred tax:		
Deferred taxation on non-operating items	**(163)**	598
Effect of reduced tax rate on deferred tax balances	**(175)**	(56)
Increase in net deferred tax liabilities relating to other temporary differences	**111**	19
Taxation (credit) / charge in the income statement	**(42)**	732

The deferred tax provision in respect of accumulated revaluation surpluses on the Group's investment properties amounted to HK$2,881 million (2007: HK$3,156 million), of which HK$2,723 million (2007: HK$2,967 million) relates to Hong Kong investment properties. The Directors consider that the provision for deferred tax liabilities with regard to revaluation surpluses on the investment properties in Hong Kong will not materialise on the grounds that the Group has no intention to sell these properties and, should any such sale eventuate, any gain would be regarded as capital in nature and would not be subject to any tax in Hong Kong.

BALANCE SHEET

Non-current assets

The Group has interests in and manages nine hotels in Asia and the US and is developing a hotel with a retail arcade and apartments in Shanghai.

In addition to hotel properties, the Group owns residential apartments, office towers and commercial arcades for rental purposes.

According to the Group's accounting policies, hotel properties (other than shopping arcades and offices at hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties are stated at fair value. In order to provide additional information to shareholders on the current market value of our hotels and golf courses, the

Directors have commissioned independent valuers to perform a fair valuation of these properties (except for The Peninsula Beverly Hills which is 20% owned by the Group) as at 31 December 2008. At the same time, an independent valuation was also performed for the Group's investment properties in accordance with the accounting policies.

A summary of the Group's hotel, investment and other properties (excluding those under development in Shanghai) showing both the book value and the market value attributable to the Group at 31 December 2008 is set out in the following tables.

	Total property GFA (sf)	Net lettable area Shopping arcade (sf)	Net lettable area Office (sf)	Market valuation (HK$m)	HSH interest (%)	Attributable Market value (HK$m)	Attributable book value (HK$m)
Hotels							
Consolidated hotels							
The Peninsula Hong Kong	781,499	73,304	59,866	8,872	100%	8,872	6,919
Lease Expiry Jan-2072							
The Peninsula New York	305,870	7,574	-	1,602	100%	1,602	948
Lease Expiry Aug-2078							
The Peninsula Chicago	403,219	-	-	1,123	92.5%	1,039	1,039
Freehold/Leasehold							
The Peninsula Tokyo	621,615	11,554	-	1,915	100%	1,915	1,383
Lease Expiry May-2057							
The Peninsula Bangkok	732,544	3,246	-	784	75%	588	611
Freehold							
The Peninsula Beijing	790,902	79,036	-	1,963	42.13%	827	591
Lease Expiry Nov-2033							
The Peninsula Manila	921,203	10,469	-	335	77.36%	259	215
Lease Expiry Dec-2027							
Quail Lodge Resort	1,664,460	-	-	108	100%	108	108
Freehold							
	6,221,312	185,183	59,866	16,702		15,210	11,814
Non-consolidated hotel							
The Peninsula Beverly Hills (at net cost)					20%		90
Total for hotels							11,904

	Total property GFA (sf)	Net lettable area Shopping arcade (sf)	Net lettable area Office (sf)	Net lettable area Residential (sf)	Market valuation (HK$m)	HSH interest (%)	Attributable Market/book value (HK$m)
Non-hotel properties							
The Repulse Bay	805,990	28,056	-	376,893	6,822	100%	6,822
Lease Expiry May-2068							
Repulse Bay Apartments	710,763	-	-	418,692	4,312	100%	4,312
Lease Expiry Mar-2071							
Repulse Bay Garage	36,438	16,934	-	-	81	100%	81
Lease Expiry Sept-2070							
The Peak Tower	116,768	67,254	-	-	897	100%	897
Lease Expiry Mar-2031							
St. John's Building	103,857	412	60,690	-	531	100%	531
Lease Expiry Aug-2114							
The Landmark	224,922	-	82,150	52,259	89	70%	62
Lease Expiry Jan-2026							
Total for non-hotel properties	1,998,738	112,656	142,840	847,844	12,732		12,705

	Total property GFA (sf)	Market valuation (HK$m)	HSH interest (%)	Attributable market value (HK$m)	Attributable book value (HK$m)
Other properties					
Golf courses					
Thai Country Club	7,405,283	214	75%	161	161
Freehold					
Quail Lodge Golf Club	5,846,888	26	100%	26	26
Freehold					
Sub-total for golf courses	13,252,171	240		187	187
Vacant land					
Vacant land near Bangkok	15,040,030	319	75%	239	239
Freehold					
Quail Lodge land	15,470,337	62	100%	62	62
Freehold					
Sub-total for vacant land	30,510,367	381		301	301
Other properties in use					
Po Yip Building, Flats 2&3, 1/F	35,914	32	100%	32	32
Lease Expiry Jun-2047					
1 Lugard Road	4,938	2	100%	2	-
Lease Expiry Jan-2077					
Sun Hing Industrial Building, Units 1&2, 5/F	4,694	4	100%	4	-
Lease Expiry Jul-2120					
Sub-total for other properties in use	45,546	38		38	32
Total for other properties	43,808,084	659		526	520
Total	**52,028,134**	**30,093**		**28,441**	**25,129**

Borrowings

During the year, net borrowings decreased by 18% to HK$1,198 million (2007: HK$1,455 million) and net debt to EBITDA has decreased from 1.0 times to 0.8 times due to the operating cashflows and retained earnings generated by the Group. This borrowing level remains well within the debt capacity of the Group.

In addition to the Group's consolidated borrowings, The Peninsula Beverly Hills (20% owned) and The Peninsula Shanghai (50% owned) have non-recourse bank borrowings, which are not consolidated in the balance sheet as the entities owning the assets are not subsidiaries of the Group. The consolidated and non-consolidated borrowings as at 31 December 2008 are summarised as follows:

HK$m	**2008**				2007
	Hong Kong	**Other Asia**	**United States of America**	**Total**	Total
Consolidated borrowings	**1,035**	**1,641**	**517**	**3,193**	2,869
Off balance sheet borrowings attributable to the Group,					
The Peninsula Beverly Hills (20%)	**-**	**-**	**218**	**218**	218
The Peninsula Shanghai (50%)	**-**	**422**	**-**	**422**	94
Off balance sheet borrowings	**-**	**422**	**218**	**640**	312
Consolidated and non-consolidated borrowings	**1,035**	**2,063**	**735**	**3,833**	3,181
Pledged assets attributable to the Group					
For consolidated borrowings	**-**	**-**	**--**	**-**	-
For off balance sheet borrowings	**-**	**1,016**	**194**	**1,210**	833
	-	**1,016**	**194**	**1,210**	833

Derivative financial instruments

Derivative financial instruments are generally used to hedge interest rate and exchange rate risks of the Group and are recorded at their fair value.

Cash flow statement

Net cash generated from operating activities decreased to HK$1,208 million as compared to HK$1,481 million in 2007. Most of the operating cash flows were applied to capital expenditure, repayment of net borrowings and payment of dividends.

Total capital expenditure in 2008 amounted to HK$417 million and is analysed as below:

HK$m	**2008**	2007
New Project – Tokyo	**-**	595
One-off renovation projects	**217**	46
Capital expenditure at hotels and properties	**200**	167
	417	808

The Group had a number of one-off renovation projects in 2008, including renovation of the Ayala Tower of The Peninsula Manila, the construction of the Salon de Ning lounges in The Peninsula Hong Kong and The Peninsula New York and the construction of the new health club, swimming pool and spa in The Peninsula New York and The Peninsula Beijing.

The net cash inflow after interest and dividends before financing activities was HK$597 million for the year, compared to HK$683 million in 2007. The decrease in the net cash inflow was mainly due to the increase in tax paid during the year resulting from the late issuance of tax assessments in respect of previous tax years by the tax authorities and the payment of HK$50 million to repurchase the Company's shares.

CONSOLIDATED INCOME STATEMENT *(HK$m)*

	Note	Year ended 31 December 2008	2007
Turnover	2	**4,938**	4,542
Cost of inventories		**(390)**	(380)
Staff costs and related expenses		**(1,553)**	(1,346)
Rent and utilities		**(525)**	(374)
Pre-opening expenses of a hotel	4	**-**	(83)
Other operating expenses		**(1,045)**	(849)
Operating profit before depreciation and amortisation ("EBITDA")		**1,425**	1,510
Depreciation and amortisation		**(374)**	(335)
Operating profit		**1,051**	1,175
Interest income		**40**	25
Financing charges		**(108)**	(112)
Net financing charges		**(68)**	(87)
Share of loss of a jointly controlled entity		**(5)**	-
Profit before non-operating items		**978**	1,088
(Decrease)/increase in fair value of investment properties	5	**(593)**	3,319
Provision for impairment losses, net	6	**(176)**	(23)
Net loss on disposal of an unlisted equity instrument	7	**-**	(160)
Profit before taxation		**209**	4,224
Taxation			
Current tax	8	**(185)**	(171)
Deferred tax	8	**227**	(561)
Profit for the year		**251**	3,492
Attributable to:			
Shareholders of the Company		**216**	3,437
Minority interests		**35**	55
Profit for the year		**251**	3,492
Earnings per share, basic and diluted (HK$)	9	**0.15**	2.40
Dividends per share (HK cents)		**17**	18
Dividends payable to shareholders of the Company attributable to the year:	10		
Interim dividend declared during the year		**94**	86
Final dividend proposed after the balance sheet date		**152**	173
		246	259

CONSOLIDATED BALANCE SHEET (HK$m)

	Note	At 31 December 2008	2007
Non-current assets			
Fixed assets			
Properties, plant and equipment		**5,791**	5,727
Investment properties		**20,577**	21,168
		26,368	26,895
Interest in a jointly controlled entity		**539**	509
Interests in unlisted equity instruments		**-**	-
Investment in a hotel management contract		**92**	95
Derivative financial instruments		**38**	8
Deferred tax assets	14(b)	**38**	49
		27,075	27,556
Current assets			
Inventories		**114**	98
Debtors and payments in advance	11	**378**	425
Derivative financial instruments		**25**	7
Cash and cash equivalents	12	**1,995**	1,414
		2,512	1,944
Current liabilities			
Creditors and accruals	13	**(1,188)**	(1,233)
Interest-bearing borrowings		**(695)**	(564)
Derivative financial instruments		**(93)**	(116)
Current taxation	14(a)	**(90)**	(127)
		(2,066)	(2,040)
Net current assets/(liabilities)		**446**	(96)
Total assets less current liabilities		**27,521**	27,460
Non-current liabilities			
Interest-bearing borrowings		**(2,498)**	(2,305)
Net defined benefit retirement obligation		**(21)**	(26)
Derivative financial instruments		**(188)**	(99)
Deferred tax liabilities	14(b)	**(3,168)**	(3,413)
		(5,875)	(5,843)
Net assets		**21,646**	21,617
Capital and reserves			
Share capital	15	**725**	721
Reserves		**19,987**	20,005
Total equity attributable to shareholders of the Company		**20,712**	20,726
Minority interests		**934**	891
Total equity		**21,646**	21,617

CONSOLIDATED CASH FLOW STATEMENT (HK$m)

	Note	Year ended 31 December 2008	2007
Operating activities			
Profit before non-operating items		**978**	1,088
Adjustments for:			
Depreciation		**371**	330
Amortisation of a hotel management contract		**3**	5
Interest income		**(40)**	(25)
Financing charges		**108**	112
Share of loss of a jointly controlled entity		**5**	-
Loss on disposal of property, plant and equipment		**1**	8
Foreign exchange loss/(gain)		**8**	(1)
Operating profit before changes in working capital		**1,434**	1,517
Increase in inventories		**(14)**	(9)
Decrease/(increase) in debtors and payments in advance		**60**	(105)
(Decrease)/increase in creditors and accruals		**(51)**	213
Cash generated from operations		**1,429**	1,616
Net tax paid:			
Hong Kong Profits Tax paid		**(152)**	(61)
Overseas tax paid		**(69)**	(74)
Net cash generated from operating activities		**1,208**	1,481
Investing activities			
Payment for the purchase of property, plant and equipment		**(417)**	(808)
Payment for the acquisition of additional shareholding in a subsidiary company		**(3)**	-
Sales proceeds from disposal of an unlisted equity instrument	7	**-**	101
Repayment of capital contribution from an unlisted equity instrument		**-**	106
Proceeds from sale of property, plant and equipment		**3**	1
Net cash used in investing activities		**(417)**	(600)
Financing activities			
Drawdown of term loans		**-**	817
Repayment of term loans		**(120)**	(1,793)
Net increase in revolving credits		**126**	1,230
Payment for repurchase of shares		**(50)**	-
Interest received		**40**	25
Interest paid and other financing charges		**(140)**	(150)
Dividends paid to shareholders of the Company		**(89)**	(71)
Dividends paid to minority shareholders		**(5)**	(2)
Net cash (used in)/generated from financing activities		**(238)**	56
Net increase in cash and cash equivalents		**553**	937
Cash and cash equivalents at 1 January		**1,398**	433
Effect of changes in foreign exchange rates		**28**	28
Cash and cash equivalents at 31 December	12	**1,979**	1,398

NOTES TO THE CONSOLIDATED INCOME STATEMENT, CONSOLIDATED BALANCE SHEET AND CONSOLIDATED CASH FLOW STATEMENT

1. Significant accounting policies and statement of compliance

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

The accounting policies used in preparation of the consolidated income statement, consolidated balance sheet and consolidated cash flow statement are consistent with those adopted in 2007, except that Group has changed some of its accounting policies following its adoption of the new and revised HKFRSs that are first effective or available for early adoption for the current accounting period. The adoption of these new and revised HKFRSs has not resulted in any significant impact on the Group's operating results for the year and financial position as at 31 December 2008. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. Turnover (HK$m)

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

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

	2008	2007
Hotels		
Rooms	**1,856**	1,768
Food and beverage	**1,166**	1,031
Commercial rentals	**545**	463
Others	**305**	288
	3,872	3,550
Rentals from non-hotel properties	**607**	539
Other businesses	**459**	453
	4,938	4,542

3. Segment reporting (HK$m)

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

(a) Business segments

The Group comprises the following main business segments:

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

3. Segment reporting **(HK$m)** *(continued)*

(a) Business segments *(continued)*

	Hotels		Rentals from non-hotel properties		Other businesses		Inter-segment elimination		Consolidated	
	For the year ended 31 December									
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Segment turnover and results										
Turnover										
External segment	**3,872 ***	3,550	**607**	539	**459**	453	**-**	-	**4,938**	4,542
Inter-segment	**7**	7	**12**	9	**21**	15	**(40)**	(31)	**-**	-
	3,879	3,557	**619**	548	**480**	468	**(40)**	(31)	**4,938**	4,542
Segment operating profit before depreciation and amortisation	**870**	989	**459**	405	**96**	116	**-**	-	**1,425**	1,510
Depreciation and amortisation	**(347)**	(311)	**-**	-	**(27)**	(24)	**-**	-	**(374)**	(335)
Segment operating profit	**523**	678	**459**	405	**69**	92	**-**	-	**1,051**	1,175
Interest income									**40**	25
Financing charges									**(108)**	(112)
Net financing charges									**(68)**	(87)
Share of loss of a jointly controlled entity	**(5)**	-	**-**	-	**-**	-	**-**	-	**(5)**	-
Profit before non-operating items									**978**	1,088
(Decrease)/increase in fair value of investment properties	**(285)**	996	**(284)**	2,323	**(24)**	-	**-**	-	**(593)**	3,319
(Provision for)/reversal of impairment losses	**(167)**	(24)	**-**	-	**(9)**	1	**-**	-	**(176)**	(23)
Net loss on disposal of an unlisted equity instrument	**-**	-	**-**	-	**-**	(160)	**-**	-	**-**	(160)
Profit before taxation									**209**	4,224
Taxation									**42**	(732)
Profit for the year									**251**	3,492

	Hotels		Rentals from non-hotel properties		Other businesses		Inter-segment elimination		Consolidated	
	As at 31 December									
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Segment balance sheet										
Assets										
Properties, plant and equipment	**5,411**	5,332	**-**	-	**380**	395	**-**	-	**5,791**	5,727
Investment properties	**7,464**	7,759	**12,732**	12,992	**381**	417	**-**	-	**20,577**	21,168
Interest in a jointly controlled entity	**539**	509	**-**	-	**-**	-	**-**	-	**539**	509
Investment in a hotel management contract	**92**	95	**-**	-	**-**	-	**-**	-	**92**	95
Other segment assets	**400**	433	**26**	32	**67**	59	**(1)**	(1)	**492**	523
Derivative financial instruments									**63**	15
Deferred tax assets									**38**	49
Cash and cash equivalents									**1,995**	1,414
Total assets									**29,587**	29,500
Liabilities										
Segment liabilities	**762**	828	**222**	215	**226**	217	**(1)**	(1)	**1,209**	1,259
Bank loans and other liabilities									**6,732**	6,624
Total liabilities									**7,941**	7,883
Capital expenditure incurred during the year	**332**	592	**30**	39	**32**	64	**-**	-	**394**	695

**** Analysis of hotels' turnover***

	2008	*2007*
Rooms	***1,856***	*1,768*
Food and beverage	***1,166***	*1,031*
Commercial rentals	***545***	*463*
Others	***305***	*288*
	3,872	*3,550*

3. Segment reporting (HK$m) *(continued)*

(b) Geographical segments

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

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

	Hong Kong		Other Asia		United States of America	
	2008	2007	**2008**	2007	**2008**	2007
For the year ended 31 December						
Revenue from external customers	**2,056**	1,910	**1,740**	1,314	**1,142**	1,318
Segment assets	**19,855**	20,302	**5,170**	5,108	**2,466**	2,612
Capital expenditure incurred during the year	**79**	102	**169**	517	**146**	76
Depreciation and amortisation	**78**	69	**201**	142	**95**	124

4. Pre-opening expenses of a hotel (HK$m)

The Group incurred the following pre-opening expenses for The Peninsula Tokyo ("PTK"), which is owned by Peninsula of Tokyo Limited, a wholly owned subsidiary of the Company. PTK was opened in September 2007.

	2008	2007
Staff costs and related expenses	**-**	36
Rent and utilities	**-**	4
Other operating expenses	**-**	43
	-	83

5. (Decrease)/increase in fair value of investment properties

All investment properties of the Group were revalued as at 31 December 2008 on an open market value basis mainly calculated by reference to net rental income allowing for reversionary income potential. The changes in fair value of the investment properties during the year were accounted for in the consolidated income statement. The valuations were carried out by valuers independent of the Group who have staff with experience in the location and category of property being valued.

6. Provision for impairment losses, net

The Group assessed the recoverable amounts of its fixed assets (other than investment properties) at the balance sheet date in accordance with its accounting policies. Based on this assessment, the Directors considered that impairment provisions were required in respect of The Peninsula Chicago and Quail Lodge Resort and Golf Course as at 31 December 2008, due to the adverse operating environment and the current condition of the property market. On this basis, the carrying amounts of these two properties were written down by **HK$126 million** (2007: HK$nil) and **HK$53 million** (2007: HK$25 million) respectively to their respective recoverable amounts, being their fair values less costs to sell as determined by an independent professional valuer.

7. Net loss on disposal of an unlisted equity instrument

The net loss on disposal of an unlisted equity instrument during 2007 relates to disposal of the Group's entire 20% interest in PT Ciputra Adigraha, an unlisted equity instrument in Indonesia.

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

Taxation in the consolidated income statement represents:

	2008	2007
Current tax – Hong Kong Profits Tax		
Provision for the year	**122**	99
Over-provision in respect of prior years	**(4)**	(4)
	118	95
Current tax - Overseas		
Provision for the year	**67**	79
Over-provision in respect of prior years	**-**	(3)
	67	76
	185	171
Deferred tax		
(Decrease)/increase in net deferred tax liabilities relating to revaluation of investment properties in:		
Hong Kong *	**(74)**	560
Overseas	**(40)**	47
Decrease in deferred tax liabilities relating to the provision for impairment losses	**(49)**	(9)
Effect of decrease in tax rate on deferred tax balances as at 1 January		
Hong Kong	**(175)**	-
Overseas	**-**	(56)
Increase in net deferred tax liabilities relating to other temporary differences	**105**	13
Transfer from hedging reserve	**6**	6
	(227)	561
Total	**(42)**	732

8. Income tax in the consolidated income statement (HK$m) *(continued)*

In June 2008, the Hong Kong Government enacted a reduction in the profits tax rate in Hong Kong from 17.5% to 16.5% commencing with the fiscal year 2008/09. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at **16.5%** (2007: 17.5%) of the estimated assessable profits for the year and a deferred tax credit of **HK$175 million** (2007: HK$nil) in respect of deferred tax balances as at 1 January 2008 has been recorded in the Group's consolidated income statement for the current year.

In March 2007, the government of The People's Republic of China ("PRC") enacted a reduction in the foreign enterprise income tax rate applicable to the Group's operations in the PRC from 33% to 25% which became effective from 1 January 2008. Accordingly, a deferred tax credit of HK$56 million was recorded in the Group's consolidated income statement during the previous year.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

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

9. Earnings per share

(a) Earnings per share - basic

	2008	2007
Profit attributable to shareholders of the Company (HK$m)	**216**	3,437
Weighted average number of shares in issue (million shares)	**1,447**	1,434
Earnings per share (HK$)	**0.15**	2.40

	2008 (million shares)	*2007 (million shares)*
Issued shares at 1 January	***1,442***	*1,428*
Effect of repurchase of shares	***(1)***	*-*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2007 final and 2008 interim dividends	***6***	*6*
Weighted average number of shares at 31 December	***1,447***	*1,434*

(b) Earnings per share - diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2008 and 2007 and hence the diluted earnings per share is the same as basic earnings per share.

10. Dividends (HK$m)

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

	2008	2007
Interim dividend declared and paid of **HK6.5 cents per share** (2007: HK 6 cents per share)	**94**	86
Final dividend proposed after the balance sheet date **of HK10.5 cents per share** (2007: HK12 cents per share)	**152**	173
	246	259

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

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

	2008	2007
Final dividend in respect of the previous financial year, approved and paid during the year, of **HK12 cents per share** (2007: HK11 cents per share)	**173**	157

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

	2008	2007
Trade debtors (ageing analysis is shown below)	**198**	227
Rental deposits and payments in advance	**180**	198
	378	425

The Directors consider that the carrying amount of all debtors and payments in advance approximates their fair value. The amount of debtors and payments in advance expected to be recovered or recognised as expenses after more than one year is **HK$88 million** (2007: HK$67 million). All of the other debtors and payments in advance are expected to be recovered or recognised as expenses within one year.

The ageing analysis of trade debtors is as follows:

	2008	2007
Current	**159**	170
Less than 1 month past due	**25**	33
1 to 3 months past due	**13**	21
More than 3 months but less than 12 months past due	**1**	3
Amounts past due	**39**	57
	198	227

Trade debtors are normally due within 30 days from the date of billing.

12. Cash and cash equivalents (HK$m)

	2008	2007
Interest-bearing bank deposits	**1,972**	1,372
Cash at bank and in hand	**23**	42
Cash and cash equivalents in the balance sheet	**1,995**	1,414
Bank overdrafts	**(16)**	(16)
Cash and cash equivalents in the consolidated cash flow statement	**1,979**	1,398

Cash and cash equivalents at the end of the year include deposits with banks of **HK$577 million** (2007: HK$493 million) held by subsidiaries that are not freely remittable to the holding company because of currency exchange restrictions.

13. Creditors and accruals (HK$m)

	2008	2007
Trade creditors (ageing analysis is shown below)	**109**	142
Interest payable	**4**	6
Accruals for fixed assets	**20**	42
Tenants' deposits	**296**	278
Golf membership deposits	**109**	114
Other payables	**650**	651
	1,188	1,233

The amount of creditors and accruals of the Group expected to be settled or recognised as income after more than one year is **HK$334 million** (2007: HK$349 million). All of the other creditors and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

The ageing analysis of trade creditors is as follows:

	2008	2007
Less than 3 months	**109**	141
More than 6 months	**-**	1
	109	142

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

(a) Current taxation in the balance sheet represents

	2008	2007
Provision for Hong Kong Profits Tax for the year	**122**	99
Provisional profits tax paid	**(75)**	(24)
	47	75
Balance of Hong Kong Profits Tax provision relating to prior years	**5**	11
Provision for overseas taxes	**38**	41
	90	127

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities of the Group recognised in the consolidated balance sheet and the movements during the year are as follows:

	Revaluation of investment properties	Tax allowances in excess of the related depreciation	Provisions and others	Tax losses	Cash flow hedges	Total
Deferred tax arising from:						
At 1 January 2007	2,556	574	(28)	(296)	(24)	2,782
Charged/(credited) to profit or loss	590	(44)	-	9	6	561
Charged to reserves	10	14	2	-	(5)	21
At 31 December 2007	3,156	544	(26)	(287)	(23)	3,364
At 1 January 2008	**3,156**	**544**	**(26)**	**(287)**	**(23)**	**3,364**
Charged/(credited) to profit or loss	**(284)**	**(34)**	**8**	**77**	**6**	**(227)**
Charged to reserves	**9**	**5**	**-**	**(9)**	**(12)**	**(7)**
At 31 December 2008	**2,881**	**515**	**(18)**	**(219)**	**(29)**	**3,130**

The balance as at 31 December 2008 includes a provision for deferred tax liabilities in respect of revaluation of the Group's investment properties in Hong Kong amounting to **HK$2,723 million** (2007: HK$2,967 million). The Directors have no current intention of selling the Group's investment properties in Hong Kong and consider that should any such sale eventuate, any gain would be regarded as capital in nature and would not be subject to any tax in Hong Kong.

	2008	2007
Net deferred tax assets recognised in the balance sheet	**(38)**	(49)
Net deferred tax liabilities recognised in the balance sheet	**3,168**	3,413
	3,130	3,364

15. Share capital

	2008	2007
Number of shares of HK$0.50 each (million)		
Authorised	**1,800**	1,800
Issued		
At 1 January	**1,442**	1,428
Repurchase of shares *(note (a))*	**(8)**	-
New shares issued under scrip dividend scheme *(note (b))*	**16**	14
At 31 December	**1,450**	1,442
Nominal value of shares (HK$m)		
Authorised	**900**	900
Issued		
At 1 January	**721**	714
Repurchase of shares *(note (a))*	**(4)**	-
New shares issued under scrip dividend scheme *(note (b))*	**8**	7
At 31 December	**725**	721

All ordinary shares issued during the year rank pari passu in all respects with the existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(a) During the year, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited. Details of the shares repurchased are disclosed in the Other Corporate Information section of this announcement.

(b) During the year, the Company issued and allotted new shares which were fully paid under the scrip dividend scheme as follows:

	Number of shares million	Scrip price HK$	Increase in share capital HK$m	Increase in share premium HK$m
2008				
2007 final scrip dividend	**10**	**13.704**	**5**	**126**
2008 interim scrip dividend	**6**	**7.394**	**3**	**44**
	16		**8**	**170**
2007				
2006 final scrip dividend	10	12.584	5	111
2007 interim scrip dividend	4	13.808	2	54
	14		7	165

OTHER CORPORATE INFORMATION

Purchase, sale and redemption of listed securities

During the year, the Company repurchased a total of 7,545,000 shares of HK$0.50 each of the Company on the Stock Exchange at an average purchase price of HK$6.60 per share. All the repurchased shares were cancelled subsequently. The aggregate price of HK$50 million paid to repurchase the Company's shares was charged to the general reserve and pursuant to section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled of HK$4 million was transferred from general reserve to the capital redemption reserve. The repurchases were made for the benefit of the shareholders with a view to enhancing the net asset value and earnings per share of the Company. Details of the share repurchase exercise are as follows:

Month of the repurchases	**Number of the shares repurchased**	**Highest price paid per share** *HK$*	**Lowest price paid per share** *HK$*	**Aggregate price paid** *HK$m*
October 2008	7,545,000	6.83	6.26	50

Save as disclosed above, there was no purchase, sale or redemption of the Company's listed securities during the year.

Corporate governance infrastructure

The Company is committed to ensuring that the business is conducted in accordance with high standards of corporate governance with proper control processes for oversight and management to safeguard the interests of shareholders and stakeholders, and to manage overall business risks. The Company regularly reviews its own practices in light of new development in this area and incoming regulatory requirements.

The Company continues to welcome the principles-based approach of the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 of the Listing Rules and the flexibility this provides concerning the adoption and implementation of corporate policies and procedures. The Corporate Governance Report set out in the Annual Report describes how the Company has applied the CG Code.

Code on corporate governance practices

The Company has adopted its own code on corporate governance practices which encompasses all code provisions and most of the recommended best practices in the CG Code.

Throughout the year, the Company has complied with all the code provisions and the majority of the recommended best practices as set out in the CG Code. One of the recommended best practices that the Company has deviated from is contained in Section C.1.4 of the CG Code in relation to the production of quarterly statements. The Company has chosen not to comply with this recommended reporting practice as the Board believes that the businesses of the Group are long term and cyclical in nature. Quarterly reporting encourages a short term view on the Company's performance. As at the date of this publication, the Company is aware of certain proposals issued by the Stock Exchange and Securities and Futures Commission on quarterly financial reporting. The Company intends to review its position in the light of any changes which are introduced in this regard.

Final dividend

The final dividend will be payable in cash but shareholders will have the option of receiving the final dividend in cash or in the form of new shares in respect of part or all of such dividend. The new shares to be issued pursuant to the scrip dividend scheme are subject to their listing being granted by the Listing Committee of the Stock Exchange.

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend on or about 20 May 2009.

Annual General Meeting and book close dates

The Annual General Meeting will be held at The Peninsula Hong Kong on 13 May 2009 at 12 noon. The register of members will be closed from 11 May 2009 to 13 May 2009 inclusive, and subject to the passing of the necessary resolution at the forthcoming Annual General Meeting, the final dividend will be payable on or about 19 June 2009 to shareholders whose names appear on the register of members on 13 May 2009.

To be entitled to receive the final dividend, shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Company's registrars, Computershare Hong Kong Investor Services Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 8 May 2009.

Miscellaneous

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

By Order of the Board
Christobelle Liao
Company Secretary

Hong Kong, 12 March 2009

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

Non-Executive Chairman
The Hon. Sir Michael Kadoorie

Non-Executive Deputy Chairman
Ian Duncan Boyce

Executive Directors

Managing Director and Chief Executive Officer
Clement King Man Kwok

Chief Financial Officer
Neil John Galloway

Chief Operating Officer
Peter Camille Borer

Non-Executive Directors

Ronald James McAulay
William Elkin Mocatta
Pierre Roger Boppe
John Andrew Harry Leigh
Nicholas Timothy James Colfer

Independent Non-Executive Directors

Dr. The Hon. Sir David Kwok Po Li
Robert Chee Siong Ng
Robert Warren Miller
Patrick Blackwell Paul