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
2007 Annual Results

HIGHLIGHTS

Key financial results

- Profit before non-operating items increased by 20% to HK$1,088 million. (*2006: HK$904 million*)
- EBITDA increased by 18% to HK$1,510 million. *(2006: HK$1,275 million)*
- Profit attributable to shareholders amounted to HK$3,437 million (*2006: HK$2,094 million*), including revaluation surpluses.
- Earnings per share excluding non-operating items increased by 17% to HK$0.63.
- Shareholders' funds increased by 22% to HK$20,726 million (HK$14.37 per share) as at 31 December 2007. (*2006: HK$16,982 million at HK$11.89 per share*)
- The Group's adjusted net assets amounted to HK$27,032 million (HK$18.75 per share) as at 31 December 2007. (*2006: HK$21,841 million at HK$15.29 per share*)
- Net borrowings decreased by HK$621 million to HK$1,455 million (*2006: HK$2,076 million*), with the net gearing level reduced to 7%. (*2006: 11%*)
- RevPAR for the Group's Peninsula Hotels increased by 16%. (*2006: 13%*)

Key developments

- The 314-room Peninsula Tokyo had its soft-opening on 1 September 2007 and celebrated its grand opening on 14 December 2007.
- Significant progress has been made on the construction of The Peninsula Shanghai and the adjacent hotel apartment tower. The hotel tower reached structural top-out in mid January 2008.
- Approval to proceed with its revitalisation plan was obtained by The Repulse Bay from the Town Planning Board in November 2007 for the construction of new shops and enhanced facilities.
- Construction of the new Peninsula Spa in Beijing began in November 2007 with completion planned for before the Beijing Olympics.
- Approval was given for The Peninsula New York's extensive renovation, which commenced in early 2008 and will include the Peninsula Spa and the Pen-Top Bar.
- Phase two of The Peninsula Manila renovation, which will include a renovation of all of the guestrooms in the Ayala Tower, will begin in 2008.

FINANCIAL AND OPERATING HIGHLIGHTS

	For the year ended 31 December 2007	2006	% Increase/ (Decrease)
Income statement			
Turnover (HK$m)	**4,542**	3,717	22
EBITDA (HK$m)	**1,510**	1,275	18
Profit before non-operating items (HK$m)	**1,088**	904	20
Profit attributable to shareholders (HK$m)	**3,437**	2,094	64
Dividends (HK$m)	**259**	228	14
Earnings per share (HK$)	**2.40**	1.47	63
Earnings per share excluding non-operating items (HK$) *	**0.63**	0.54	17
Dividend per share (HK cents)	**18**	16	13
Dividend cover (times)	**13.3x**	9.2x	45
Interest cover (times)	**13.5x**	8.6x	57
Weighted average gross interest rate	**4.2%**	5.0%	(16)
	As at 31 December 2007	2006	
Balance sheet			
Total assets (HK$m)	**29,500**	24,609	20
Net assets attributable to shareholders (HK$m)	**20,726**	16,982	22
Adjusted net assets attributable to shareholders (HK$m) *	**27,032**	21,841	24
Net assets per share (HK$)	**14.37**	11.89	21
Adjusted net assets per share (HK$) *	**18.75**	15.29	23
Net borrowings (HK$m)	**1,455**	2,076	(30)
Gearing	**7%**	11%	(36)
	For the year ended 31 December 2007	2006	
Cash flow			
Net cash generated from operating activities (HK$m)	**1,481**	1,164	27
Capital expenditure (HK$m)	**808**	645	25
Net cash inflow after interest and dividends before financing activities (HK$m)	**683**	232	194
Share information			
Highest share price (HK$)	**15.46**	13.50	15
Lowest share price (HK$)	**10.90**	8.00	36
Year end closing share price (HK$)	**13.70**	13.14	4
Operating information			
Number of hotel rooms (at 31 December)	**2,874**	2,561	12
Number of employees (at 31 December)	**6,607**	5,921	12
Average occupancy rate			
- Asia	**68%**	70%	(3)
- United States of America	**76%**	74%	3
Average room rate (HK$)			
- Asia	**2,134**	1,605	33
- United States of America	**4,554**	4,129	10
RevPAR (HK$)			
- Asia	**1,460**	1,120	30
- United States of America	**3,451**	3,076	12

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

The Directors hereby announce the audited results for the year ended 31 December 2007, which have been reviewed by the Company's Audit Committee, comprising a majority of independent non-executive directors, one of whom chairs the Committee, and the Company's auditors, KPMG.

CEO REPORT

2007 was a buoyant year for the economies and travel demand in our key markets. Operating from the strength of our brand and their well-established market positions, our hotels and other properties and businesses achieved pleasing results, with this year's profit before non-operating items of HK$1,088 million representing an increase of 20% from last year.

HSH was thus able to continue the sustained recovery which it has enjoyed since coming out of the Asian financial crisis which occurred in the late 1990s, with our EBITDA having improved consistently every year from its low of HK$698 million in 2001 to HK$1,510 million in 2007. Our balance sheet has continued to strengthen, with our gearing decreasing to 7% during the year despite the significant spend on the Peninsula Tokyo project during its final stages of construction.

HOTELS

The highlight of the year for our Company was undoubtedly the opening of the new Peninsula Tokyo hotel. Situated in a most prime location in the Marunouchi business district of Tokyo, within a short walk to the heart of Ginza and overlooking the Imperial Palace and gardens, this project was conceived, designed and constructed in partnership with Mitsubishi Estate Company. With meticulous attention to detail, no effort was spared in creating the 314 guestrooms and suites, the five different and strongly themed restaurants, the lobby, ballroom and other public areas, the dramatic swimming pool and spa and the artwork in the hotel. The philosophy of our Group is to focus on a small number of hotel projects at any one time and thus, this was our first new hotel opening since 2001. From the reaction of hotel guests and the market generally since its soft opening in September 2007, I believe that this focus and attention to detail has paid off, with a hotel that is already proving to be a strong addition to our brand, as well as gaining worldwide recognition in its own right.

Our seven existing Peninsula Hotels generally had a strong year, continuing in their positions as being either top or amongst the leaders in room rate and revenue per available room (RevPAR) in their respective cities. In particular, The Peninsula Hong Kong had a record year in terms of RevPAR, which at HK$2,892 (US$371) represented an increase of 12% from the previous year. This, our flagship hotel, is truly standing proud as it enters its 80th anniversary year.

Elsewhere in Asia, business conditions for the year were somewhat mixed. The Peninsula Beijing faced intense competition from the large number of new luxury hotel openings ahead of the Beijing Olympics and its RevPAR increased by 9% to HK$1,048 (US$134). The Peninsula Bangkok lived through a period of relative political uncertainty in Thailand from the ousting of the former Prime Minister in October 2006 until elections were held in December 2007. In the circumstances, the hotel did well to achieve a RevPAR of HK$1,201 (US$154), up 19% from last year.

The Peninsula Manila enjoyed its first full year following the extensive renovation of the Makati Tower, lobby and ballroom, with room rates in the newly renovated rooms achieving a premium of well over 60% above the similar unrenovated rooms. The RevPAR of the hotel ended at HK$752 (US$96) for the year, an increase of 55% as compared to the previous year when it was under renovation for part of the year. Unfortunately, the hotel gained world-wide media attention in November 2007 when it was seized by anti-government rebels and the ensuing attack by government troops significantly damaged the lobby and some other areas of the hotel. Through the outstanding hard work of our staff, the hotel was re-opened for business just four days after this event, although disruption to the business of the hotel continued for a period of time.

The performance of the three Peninsula Hotels in North America has been very strong during the year. The Peninsula New York had a record year, increasing its RevPAR by 17% to HK$4,771 (US$612). The Peninsula Chicago maintained its position as the top hotel in the city and, in a relatively weak year for conventions in the city, increased its RevPAR by 8% to HK$2,638 (US$338). The Peninsula Beverly Hills continued to achieve rate increases, resulting in a RevPAR of HK$4,242 (US$544), up 12% from the previous year.

Quail Lodge, under Peninsula management since April 2006, continued to improve its service standards and offerings but still faces the challenge of filling in the off-peak periods during the year. Quail's RevPAR was up 2% to HK$1,462 (US$187).

We continue to focus on seeking projects to enhance our brand and our services, as well as to improve the return on our hotel assets. The focus on the development of our own exclusive line of Peninsula Spas continued. Following the successful openings of the new Peninsula Spas in our hotels in Hong Kong, Bangkok and Chicago, we have now started the construction of new Peninsula Spas in The Peninsula Beijing, due to be completed in May 2008 prior to the Olympics, and in The Peninsula New York, due to be completed in September 2008. At the same time, the rooftop facilities at The Peninsula New York are being renovated with a new design theme for the popular rooftop bar.

Following the successful outcome of the phase one renovation of The Peninsula Manila, which included all the guestrooms in the Makati Tower, the lobby, the ballroom and some back of house areas, we have decided to proceed with phase two of the renovation in 2008, which will include a renovation of all of the guestrooms in the Ayala Tower.

With generally high levels of inflation in the key economies in which we operate, it continues to be a significant challenge to manage costs while maintaining and improving the level of service provided to guests. Through our efforts to control our operating costs, the EBITDA margin on our hotel businesses, excluding the pre-opening expenses of HK$83 million and the initial operating results of the new Peninsula Tokyo, has increased from 30% last year to 32% in 2007.

The retail arcades in The Peninsula Hong Kong and The Peninsula Beijing continue to be most sought after by top level brands, achieving amongst the highest rentals per square foot in their respective cities and enjoying effective full occupancy. We have been pleased to welcome brands like Harry Winston, Chopard, Goyard, Graff and de Grisogono to our arcades. For the year, The Peninsula Hong Kong arcade achieved 96% occupancy at an average rent of HK$314 per square foot per month and The Peninsula Beijing Arcade achieved 98% occupancy at an average rent of HK$95 per square foot per month.

During the year Peninsula Merchandising opened four Peninsula Boutiques in China and Japan, bringing the total number of shops to 18 around the world.

Overall, the hotel division's revenue and EBITDA for the year were HK$3,550 million and HK$991 million, an increase of 22% and 15% respectively as compared to 2006.

NON-HOTEL PROPERTIES AND OPERATIONS

During the year, the market remained buoyant in Hong Kong for both residential and office lettings and this was reflected in the performance of our properties. The average occupancy at The Repulse Bay was maintained at 92% whilst the rental per square foot of the unfurnished apartments increased to HK$36 per square foot per month, as compared to HK$34 per square foot in 2006. St. John's Building maintained an occupancy of 99% at HK$25 per square foot per month.

The Repulse Bay Arcade, which is architecturally a replica of the famous old Repulse Bay Hotel, is a centre for dining and shopping in the Southside, as well as being one of Hong Kong's leading wedding venues. During the year, we have obtained the approval of the Town Planning Board to proceed with a scheme which would enlarge the retail floor area and enhance the mix of shops and restaurants of the Complex. During 2007, the Arcade was fully let at an average rental of HK$69 per square foot, although lettings will be disrupted for the expected duration of the renovation project from mid 2008 to end 2009.

2007 was the first full year of operations for the Peak Tower in Hong Kong after its extensive renovation and revitalisation which resulted in the creation of additional prime retail and restaurant spaces with superb views, as well as a lively new atrium and the spectacular Sky Terrace at the top of the Tower. The Peak Tower is now fully let at an average rent per square foot of approximately HK$56 and its total revenue for the year was HK$66 million, as compared to HK$23 million in its last full year of operations before the renovation.

Amidst another record year for tourism in Hong Kong, patronage on the Peak Tram grew by 11% to 4.9 million passengers. To enhance this attraction for tourists, we created and opened during the year The Peak Tram Historical Gallery at the lower Peak Tram terminus.

Our other non-hotel operations, including the Thai Country Club, the Landmark office and serviced apartment complex in Vietnam, our club management operations and Tai Pan Laundry all performed positively. Booming air travel meant that we handled a record number of 1.2 million passengers at the Cathay Pacific first and business class lounges managed by us at Hong Kong International Airport.

Overall, the revenue and EBITDA from non-hotel properties and operations for the year were HK$992 million and HK$519 million, an increase of 22% and 25% respectively as compared to 2006.

DEVELOPMENT AND PROJECTS

Fundamental to the Group's business philosophy is our focus on the long-term ownership and management of a limited number of top quality hotels and other properties. We believe that by seeking prime locations and then committing significant human and financial resources to creating exceptional hotels, value will be created for our shareholders through both operating results and long-term asset value appreciation. This strategy means that we will focus our resources on a limited number of new hotel developments at any one time. The quality of the locations that we seek is exemplified by the Peninsula Tokyo and Peninsula Shanghai projects, which are both situated in exceptional prime locations.

The Peninsula Shanghai will be the only new building to be constructed with a frontage onto the Bund, standing alongside the famous preserved buildings on this world-renowned promenade. The complex being developed will comprise a hotel which will include 235 rooms, five restaurants, a lobby, a ballroom, a swimming pool and spa and a 5,300 square metre high-end shopping arcade, as well as 15,600 square metres of hotel apartments.

Construction of the complex started in October 2006 and we have reached the topping-out of the 15 storey hotel tower. It is expected that topping-out of the entire complex will be achieved by June 2008. Designs of the interior spaces are well advanced and the interior fitting-out works have begun. The project is on schedule for the hotel to be completed by the summer of 2009 with a soft opening by the autumn of that year.

We continue to seek other opportunities for new hotel developments on a highly selective basis. We expect to commit to new projects on a measured basis to maintain the focus of our resources, as well as to ensure we only proceed with the most prime locations. A number of discussions are currently underway on potential projects.

FINANCE AND RESULTS

I am pleased to report that the Company's profit before non-operating items increased by 20% to HK$1,088 million in 2007. After taking account of non-operating items, the most significant of which was the increase in fair value of investment properties (after providing for its related deferred tax and minority interest) of HK$2,710 million (2006: HK$1,189 million), the profit attributable to shareholders was HK$3,437 million, as compared to HK$2,094 million last year. The earnings per share for the year amounted to HK$2.40 (2006: HK$1.47). We have provided for shareholders' additional information a calculation of our earnings excluding non-operating items, which as set out in the Financial Review section amounts to HK$901 million (2006: HK$761 million), representing earnings per share of HK$0.63 (2006: HK$0.54).

The net asset value attributable to shareholders of the Company has increased significantly to HK$20,726 million (2006: HK$16,982 million), equivalent to HK$14.37 per share (2006: HK$11.89 per share), mainly due to the retained earnings generated by our businesses together with the revaluation of our investment properties. Our financial statements continue to be prepared on the basis that our hotels are recorded at cost less depreciation and any impairment provision. It should be noted that in many cases, the current market value of these hotel properties is significantly higher than book value and we have therefore provided an up to date assessment of their market values by independent appraisers as at 31 December 2007, as set out in the Financial Review section. It should also be noted that the above net asset value figures have been arrived at after making a provision of HK$2,967 million in respect of deferred taxation on the revaluation surplus on investment properties in Hong Kong, which the Directors do not believe will materialize as capital gains on such properties are not taxable in Hong Kong. In the light of the above, the Directors have provided for shareholders' additional information a calculation of our adjusted net asset value, on the basis set out in the Financial Review section, which amounts to HK$27,032 million (equivalent to HK$18.75 per share).

Net borrowings had decreased to HK$1,455 million by the year-end, thus maintaining a very comfortable net gearing ratio of 7% (11% last year). The Company has significant financial capacity to seek and pursue further new developments and asset enhancement projects.

Total capital expenditure during 2007, including investment into The Peninsula Tokyo project, amounted to HK$808 million, as compared to cash generated from operations of HK$1,616 million. Our net cash inflow for the year after payment of interest and dividends and before financing activities was HK$683 million.

The Directors are recommending to shareholders a final dividend for the year of 12 cents per share. Together with the interim dividend of 6 cents per share already paid, the total dividend for the year will be 18 cents per share, an increase of 13% over last year. Shareholders will continue to have the option to receive their dividends in either scrip or cash.

STRATEGY AND OUTLOOK

We are truly a long-term looking business. Our philosophy is to seek assets of the highest quality, whether through green field development or renovation of existing buildings, and to operate them to the highest possible service 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 prices in many of our locations, coupled with longer term asset value appreciation.

Within the overall philosophy set out above, our business strategy has remained largely unchanged during my tenure over the past few years. Once again I am able to confirm that our emphasis continues to be on enhancing our brand quality and image, improving service delivery through staff training, development and empowerment, seeking new hotel and hotel-related developments which are in the best locations and then designing and building those properties to a high quality standard, and continual enhancement of the value and functionality of all space within our existing assets.

In line with the above strategy, we have successfully opened the new Peninsula Tokyo, we are progressing on schedule with The Peninsula Shanghai project and we have been actively seeking other new hotel projects on a selective basis. Our efforts to enhance and improve the value of our existing assets have continued with many renovation and refurbishment projects which have either been completed or are underway.

The biggest operating challenge currently facing us is that our operating costs continue to rise, with continuing inflation and particularly wage and energy cost increases in our main business locations over the past few years. Whilst present business momentum continues to be positive, the outlook for our revenues has been clouded by the current uncertainties in the world economies and financial markets following the sub-prime crisis in the US. Amidst such uncertainties, it is worth remembering that our approach to handling any downturn that may result is for management to react quickly but always to look long-term and value the long-term relationship that we have with our staff.

Looking at the immediate business prospects of our operations, it appears that the hotel business in the US, particularly from the corporate sector, is showing signs of being negatively affected by the uncertainties in the economy and the financial markets. Such a slow down would inevitably also affect our Asian businesses, although presently demand is still good in Hong Kong both for the hotel and for residential lettings where demand mainly comes from the multi-national corporate sector. We are hoping that Thailand will remain stable after the recent elections and that our business in the Philippines will recover after the incursion by the rebels. In Beijing, we are gearing up for the Olympics in the summer but are concerned about possible over-supply of luxury hotels thereafter, resulting from the many new recent openings in anticipation of the Olympics.

Ultimately, the biggest protection we have against the ups and downs of the businesses we operate in is our genuine commitment to 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 is our commitment to our staff and it is once again fitting that I should end this message with my thanks and tribute to all the members of the Peninsula ‘family’ who have worked so hard, with flair as well as loyalty, to achieve these pleasing results.

Clement K. M. Kwok
Chief Executive Officer
Hong Kong, 19 March 2008

FINANCIAL REVIEW

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

- Deferred taxation has been provided, at the profits tax rate, in respect of revaluation surpluses on the Group's investment properties which are mainly held in Hong Kong. It is the Directors' 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$2,967 million as at 31 December 2007, would 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 2007, the details of which are set out on page 16. If these assets are stated at fair market value instead of at cost less depreciation and any provision for impairment (and deferred tax is not provided on the revaluation surplus of the hotel property in Hong Kong on the same rationale as above), the Group's net assets attributable to shareholders would increase by HK$3,339 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$m	**2007**		2006	
Net assets attributable to shareholders per audited balance sheet		**20,726**		16,982
Writing back the deferred taxation provision in respect of revaluation surpluses on Hong Kong investment properties		**2,967**		2,407
Adjusting the value of hotels and golf courses to fair market value	**4,197**		3,127	
Less: Related deferred tax and minority interests	**(858)**		(675)	
		3,339		2,452
Adjusted net assets attributable to shareholders		**27,032**		21,841
Audited net assets per share (HK$)		**14.37**		11.89
Adjusted net assets per share (HK$)		**18.75**		15.29

The Directors believe that the Company's profit and loss account and earnings per share include a number of items which are non-operating and/or non-recurring in nature, such as the increase in fair value of investment properties, impairment provision adjustments for certain properties and the loss on disposal of an investment in Indonesia. 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$m	**2007**	2006
Profit attributable to shareholders	**3,437**	2,094
Increase in fair value of investment properties	**(3,319)**	(1,442)
Net impairment provision adjustments for hotels, golf courses and other properties	**23**	(200)
Net loss on disposal of an investment in Indonesia	**160**	-
Tax and minority interests attributable to non-operating items	**600**	309
Earnings excluding non-operating items and related tax and minority interests effects	**901**	761
Earnings per share excluding non-operating items (HK$)	**0.63**	0.54

INCOME STATEMENT

Turnover

The total turnover of the Group for 2007 of HK$4,542 million was HK$825 million or 22% above 2006. The hotels division accounted for 78% of this increased revenue, a large part of which was attributable to higher average room rates and higher food and beverage revenues. With regard to non-hotel properties, there was strong demand for high-end retail premises and residential space, as well as premium office space, resulting in a 14% growth in rental revenue to HK$530 million.

Hotels During 2007, our hotels segment generated a total revenue of HK$3,550 million, representing an increase of HK$643 million (22%) over 2006. This increase included a first time contribution from The Peninsula Tokyo, which opened in September 2007. The increase in revenue was spread throughout the various hotel departments, with room revenue increasing by 22%, food & beverage revenue increasing by 27% and commercial rentals increasing by 14%.

All our hotels recorded strong revenue growth over 2006. The Peninsula Hong Kong achieved another record year in room revenue, with its average room rate increasing by 17% compared with 2006. With food and beverage revenues also growing by 10%, the total hotel revenue of The Peninsula Hong Kong increased by 12%.

Despite the introduction of a number of new international five star hotels to Beijing in the second half of 2007 leading to a 6% drop in occupancy for the year, The Peninsula Beijing achieved a 11% growth in revenue as compared to 2006, with the increased revenue spread throughout the hotel departments.

Conditions in Bangkok gradually improved over the course of the year as conditions under the new government stabilised and the exchange rate strengthened, resulting in a revenue growth of 26% for The Peninsula Bangkok.

For The Peninsula Manila, the renovated Makati Tower has enabled the hotel to enjoy a 42% growth in revenue over 2006. The results were, however, hampered by the rebel occupation of the hotel on 29 November 2007, which saw the hotel closed for three days and business being adversely affected thereafter.

The currencies of the Philippines, Thailand and mainland China have strengthened significantly against the US dollar and consequently the HK dollar, which is pegged to the US dollar. As a result, the Group's reported results for the year, which are stated in HK dollars, show higher growth than the revenue growth in the underlying home currencies as follows:

Hotel	HK$ Revenue growth	Home currency Revenue growth
The Peninsula Manila	42%	25%
The Peninsula Bangkok	26%	7%
The Peninsula Beijing	11%	5%

In the US, demand was generally strong with a healthy economic environment and strong demand from the corporate sector. The Peninsula New York benefited from the favourable market conditions for hotel rooms and achieved a 12% growth in overall revenue. The Peninsula Chicago also continued to maintain its leading market position with a 7% growth in revenue. The Peninsula Beverly Hills continued to perform well and overall revenue increased by 10% over 2006. The restructuring of Quail Lodge continues with RevPAR increasing by 2% over 2006 and total operating revenue increasing by 6%.

The Peninsula Tokyo opened on 1 September 2007 and achieved average room rates and RevPAR in line with our expectations.

The continuing strong consumer demand for high-end retail outlets has resulted in a 14% increase in revenues from the hotels' commercial rentals over 2006 levels.

The year-to-date statistics for the hotels are as follows:

	Occupancy %		Average Room Rate (HK$)		% RevPAR Improvement
	2007	2006	**2007**	2006	
The Peninsula Hong Kong	**77**	80	**3,774**	3,228	12
The Peninsula New York	**75**	74	**6,326**	5,458	17
The Peninsula Chicago	**72**	72	**3,641**	3,398	8
The Peninsula Beverly Hills	**85**	83	**5,017**	4,523	12
The Peninsula Tokyo *	**57**	n/a	**3,853**	n/a	n/a
The Peninsula Bangkok	**70**	71	**1,708**	1,424	19
The Peninsula Beijing	**63**	67	**1,664**	1,436	9
The Peninsula Manila **	**75**	66	**1,005**	737	55
Quail Lodge Resort	**71**	65	**2,062**	2,190	2

* *The Peninsula Tokyo soft-opened in September 2007 and, on average, only 253 rooms were available during the four-month period in 2007.*

** *In 2006, on average, 133 rooms were closed for renovation at The Peninsula Manila.*

Rentals from non-hotel properties The total rental revenue from non-hotel properties of HK$530 million reflected an increase of 14% over 2006. Revenue from The Repulse Bay Complex increased by 8% over 2006, with continued strong demand for high quality accommodation from the financial services and banking sector and limited new supply in the market. The Peak Tower is fully let with a good mix of quality tenants and had its full year of results following its renovation.

St. John's Building and The Landmark, Vietnam have both been fully leased throughout the year, at higher average rentals.

The occupancies and yields of the Group's various investment properties for the year were as follows:

	Occupancy %		Average monthly yield per net available square foot (HK$)	
	2007	2006	**2007**	2006
Residential				
The Repulse Bay (Unfurnished)	**94**	94	**36**	34
The Repulse Bay (Serviced)	**76**	67	**30**	26
The Landmark	**99**	97	**18**	17
Commercial				
The Peninsula Hong Kong	**96**	97	**314**	279
The Peninsula New York	**100**	100	**343**	343
The Peninsula Tokyo *	**100**	n/a	**113**	n/a
The Peninsula Bangkok	**100**	100	**74**	58
The Peninsula Beijing	**98**	96	**95**	85
The Peninsula Manila	**73**	67	**18**	13
The Repulse Bay	**100**	100	**69**	68
The Peak Tower **	**100**	72	**56**	29
Office				
The Peninsula Hong Kong	**100**	100	**28**	23
St. John's Building	**99**	99	**25**	21
The Landmark	**100**	99	**20**	19

* *The Peninsula Tokyo soft-opened in September 2007.*
** *For the first six months of 2006, The Peak Tower was partially closed for renovation.*

Other businesses The Peak Tram enjoyed a record annual patronage of 4.9 million passengers, 11% above 2006, with revenues 18% higher. Food and beverage revenue at The Repulse Bay improved by 6% over 2006, largely due to a high level of wedding business. Revenue from the management of the Cathay Pacific airport lounges represents a full year of operating revenue under the new commercial arrangements, compared with only seven months in 2006.

Revenue from Peninsula Merchandising Limited grew strongly as additional franchised retail operations have been opened. The Thai Country Club has continued to perform steadily and a vacant plot of land at Quail Lodge was sold for HK$16 million during the year.

Operating costs
We have made concerted efforts in all of our businesses to manage costs and improve efficiencies where possible. However, many of our costs are driven by external factors, such as union negotiated wages, property and real estate taxes and energy prices.

Where possible, variable expenses have been managed in line with business volumes, with particular attention being paid to our operating margins. Staffing levels have been kept largely unchanged, except where increases have been justified by additional business needs.

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

	Revenue growth over 2006	Cost growth over 2006
Hotels	22%	26%
Non-hotel properties	14%	4%
Other businesses	34%	26%
Grand Total	22%	25%

It should be noted that this comparison is affected by the impact of The Peninsula Tokyo whose revenues and costs had not yet stabilised in the initial start-up phase in 2007 and in respect of which associated pre-opening expenses of HK$83 million were incurred. Excluding the impact of The Peninsula Tokyo, costs in the hotel segment and total costs grew by 11% and 12% respectively, as compared with increases of 14% in hotel revenue and 16% in total revenue.

	Revenue growth over 2006	Cost growth over 2006
Hotels (excluding The Peninsula Tokyo)	14%	11%
Grand Total (excluding The Peninsula Tokyo)	16%	12%

EBITDA and EBITDA margin

EBITDA (earnings before interest, taxation, depreciation and amortisation) rose by 18% to HK$1,510 million, with increases in all divisions.

EBITDA

HK$m	**Hong Kong**	**Other Asia**	**United States of America**	**Total**
2007				
Hotels	**487**	**293**	**211**	**991**
Rentals from non-hotel properties	**368**	**21**	**-**	**389**
Other businesses	**101**	**21**	**8**	**130**
	956	**335**	**219**	**1,510**
2006				
Hotels	408	279	174	861
Rentals from non-hotel properties	310	18	-	328
Other businesses	73	17	(4)	86
	791	314	170	1,275

EBITDA margin represents EBITDA as a percentage of turnover and is analysed in the following table. As explained above, the EBITDA margins were affected in 2007 by the initial operating results and pre-opening expenses of the newly opened Peninsula Tokyo. Thus, the EBITDA margins excluding the effect of The Peninsula Tokyo are also shown for comparison purposes.

EBITDA margin	**2007**	**2007** (excluding The Peninsula Tokyo)	**2006**
Hotels	**28%**	32%	30%
Rentals from non-hotel properties	**73%**	73%	71%
Other businesses	**28%**	28%	25%
Overall profit margin	**33%**	37%	34%
Arising in			
Hong Kong	**50%**	50%	48%
Other Asia	**25%**	39%	35%
United States of America	**17%**	17%	14%

The EBITDA margins improved in all our hotels during the year, except The Peninsula Beijing where increasing payroll costs due to the tight labour situation in the city have impacted profit margins. The combined EBITDA margin for all the hotels excluding The Peninsula Tokyo was 32%, an increase of 7% over the 2006 EDITDA margin of 30%.

All the businesses in the non-hotel properties segment recorded improvements in margin performance. The increased turnover in The Repulse Bay Complex was mostly in residential revenue, which has a higher profit margin and resulted in overall improved complex profitability. The Peak Tower benefited from increased rental revenue following its July 2006 re-opening after its full renovation and increasing rental revenue in St. John’s Building and The Landmark contributed to improved profit margins.

The improved EBITDA margin in the other businesses segment resulted from the increase in revenue and good cost control measures, as well as the inclusion in 2007 of a profit from the sale of a vacant plot of land at Quail Lodge.

Depreciation

Depreciation for the year of HK$335 million (2006*:* HK$251 million) largely relates to the hotel properties, as explained above. The increase in depreciation was due to the Group maintaining a programme of ongoing capital expenditure to improve and update its hotel properties (including the renovation of Makati Tower in The Peninsula Manila) which exceeds the rate of depreciation run-off from previous capital spend. Also, during the year, depreciation of HK$25 million was provided on The Peninsula Tokyo, which opened in September 2007. It should be noted that of the total depreciation figure, HK$140 million (2006: HK$110 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 increase in fair value of investment properties during the year amounted to HK$3,319 million (2006: HK$1,442 million), which was mainly attributable to the increase 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 values in use of our hotels and golf courses resulted in a net impairment provision of HK$23 million being made, mainly in relation to Quail Lodge.

The disposal of an investment in Indonesia in 2007 resulted in an increase of HK$92 million in net assets attributable to shareholders, but a non-operating loss of HK$160 million after taking into account historical exchange losses of HK$252 million previously held in the exchange reserve.

Net financing charges

Financing charges on borrowings in 2007 amounted to HK$121 million (2006: HK$134 million), of which HK$9 million (2006: HK$9 million) was capitalised mainly in respect of The Peninsula Tokyo project. After netting off interest income amounting to HK$25 million, a net charge of HK$87 million, which was 27% lower than 2006, was recognised in the income statement. The reduction in net financing charges was due to the decrease of 30% in the amount of net borrowings during 2007.

The weighted average gross interest rate for the year dropped to 4.2% (2006: 5.0%). Interest cover has improved, with operating profit at 14 times (2006: 9 times) net financing charges for the year.

Taxation

The taxation charge for the year increased as compared to 2006 mainly due to the following reasons:

- the taxation on current year's operating profit increased due to the higher taxable earnings; and
- the changes in valuation of investment properties and other fixed assets have resulted in an increased deferred tax charge of HK$598 million (2006: HK$305 million).

The details of the taxation charge are as follows:

HK$m	**2007**	2006
Taxation on operating profit for the year	**197**	157
Tax adjustments related to prior years:-		
Recognition of prior years' tax losses	**-**	(43)
(Over)/under provision of current tax liabilities	**(7)**	4
Taxation on operating items	**190**	118
Deferred taxation on non-operating items	**598**	305
Effect of reduced tax rate on deferred tax balances	**(56)**	-
Taxation in the income statement	**732**	423

The deferred tax provision in respect of accumulated revaluation surpluses on the Group's investment properties amounted to HK$3,156 million (2006: HK$2,556 million), of which HK$2,967 million (2006: HK$2,407 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

Following the opening of The Peninsula Tokyo on 1 September 2007, the Group now has interests in and manages nine hotels in Asia and the USA and is developing a hotel with retail and apartments in Shanghai.

In addition to hotel properties, the Group owns residential apartments, office towers and shopping 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 2007. 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 2007 is set out in the following table.

	Market Valuation (HK$m)	HSH Interest (%)	Attributable Market Value (HK$m)	Attributable Book Value (HK$m)
Hotels				
Consolidated hotels				
The Peninsula Hong Kong	9,107	100%	9,107	7,106
The Peninsula New York	1,800	100%	1,800	894
The Peninsula Chicago	1,269	92.5%	1,174	1,169
The Peninsula Tokyo	1,556	100%	1,556	1,110
The Peninsula Bangkok	813	75%	610	651
The Peninsula Beijing	2,177	42.13%	917	595
The Peninsula Manila	415	76.09%	316	218
Quail Lodge Resort	151	100%	151	151
	17,288		15,631	11,894
Non-consolidated hotel				
The Peninsula Beverly Hills (at net cost)	N/A	20%	N/A	88
Total for hotels	17,288		15,631	11,982
Non-hotel properties for rental				
The Repulse Bay	6,929	100%	6,929	6,929
Repulse Bay Apartments	4,390	100%	4,390	4,390
Repulse Bay Garage	86	100%	86	86
The Peak Tower	946	100%	946	946
St. John's Building	554	100%	554	554
The Landmark	87	70%	61	61
Total for non-hotel properties for rental	12,992		12,966	12,966
Other properties				
Golf courses				
Thai Country Club	224	75%	168	168
Quail Lodge Golf Club	34	100%	34	34
Sub-total for golf courses	258		202	202
Vacant land				
Vacant land near Bangkok	337	75%	253	253
Quail Lodge Land	80	100%	80	80
Sub-total for vacant land	417		333	333
Other properties in use				
Po Yip Building, Flats 2&3, 1/F	31	100%	31	30
1 Lugard Road	2	100%	2	-
Sun Hing Industrial Building, Units 1&2, 5/F	4	100%	4	-
Sub-total for other properties in use	37		37	30
Total for other properties	712		572	565
Total (excluding properties under development)	**30,992**		**29,169**	**25,513**

Borrowings

During the year, net borrowings decreased by 30% to HK$1,455 million (2006: HK$2,076 million) due to the operating cashflows and retained earnings generated by the Company. This borrowing level remains well within the debt capacity of the Group.

Derivative financial instruments

Derivative financial instruments are generally used to hedge interest rate and exchange rate risks of the Group and are recorded at their fair value. There was no significant change in the fair value of the derivative financial assets and liabilities during 2007.

CASH FLOW STATEMENT

Net cash generated from operating activities increased to HK$1,481 million as compared to HK$1,164 million in 2006. Most of the operating cash flows were applied to capital expenditure, repayment of net borrowings and payment of dividends.

Total capital expenditure in 2007 amounted to HK$808 million and is analysed as below:

HK$m	**2007**	2006
New project development – Tokyo	**595**	194
– Shanghai	**-**	14
One-off renovation projects	**46**	290
Capital expenditure at hotels and properties	**167**	147
	808	645

During the year, the Group spent HK$595 million on the development of The Peninsula Tokyo, which was opened on 1 September 2007.

The Group had a number of minor renovations in 2007, including improvement of the fire safety system in The Repulse Bay, creation of the Historical Gallery in The Peak Tram's lower terminus and plant expansion for Tai Pan Laundry.

In addition, capital expenditure of HK$167 million was incurred on ongoing capital projects at our hotels and other properties during the year.

The net cash inflow after interest and dividends before financing activities was HK$683 million for the year, compared to HK$232 million in 2006. The increase in the net cash inflow was mainly due to the improvement in the operating results, as well as reduction in interest expenses.

CONSOLIDATED INCOME STATEMENT (HK$m)

	Note	Year ended 31 December 2007	2006
Turnover	2	**4,542**	3,717
Cost of inventories		**(380)**	(283)
Staff costs and related expenses		**(1,346)**	(1,181)
Rent and utilities		**(374)**	(263)
Pre-opening expenses of a hotel	4	**(83)**	(7)
Other operating expenses		**(849)**	(708)
Operating profit before depreciation and amortisation ("EBITDA")		**1,510**	1,275
Depreciation and amortisation		**(335)**	(251)
Operating profit		**1,175**	1,024
Interest income		**25**	6
Financing charges		**(112)**	(125)
Net financing charges		**(87)**	(119)
Share of loss of jointly controlled entity		**-**	(1)
Profit before non-operating items		**1,088**	904
Increase in fair value of investment properties		**3,319**	1,442
(Provision for)/reversal of impairment losses, net		**(23)**	200
Net loss on disposal of an unlisted equity instrument	5	**(160)**	-
Profit before taxation		**4,224**	2,546
Taxation			
Current tax	6	**(171)**	(121)
Deferred tax	6	**(561)**	(302)
Profit for the year		**3,492**	2,123
Attributable to:			
Shareholders of the Company		**3,437**	2,094
Minority interests		**55**	29
Profit for the year		**3,492**	2,123
Earnings per share, basic and diluted (HK$)	7	**2.40**	1.47
Dividends per share (HK cents)		**18**	16
Dividends payable to shareholders of the Company attributable to the year:	8		
Interim dividend declared during the year		**86**	71
Final dividend proposed after the balance sheet date		**173**	157
		259	228

***CONSOLIDATED BALANCE SHEET** (HK$m)*

	Note	At 31 December 2007	2006
Non-current assets			
Fixed assets			
- Properties, plant and equipment		**5,727**	5,223
- Investment properties		**21,168**	17,728
		26,895	22,951
Interest in jointly controlled entity		**509**	470
Interests in unlisted equity instruments	9	**-**	52
Investment in hotel management contract	10	**95**	163
Derivative financial instruments		**8**	18
Deferred tax assets		**49**	98
		27,556	23,752
Current assets			
Inventories		**98**	86
Debtors and payments in advance	11	**425**	308
Taxation recoverable	12	**-**	3
Derivative financial instruments		**7**	13
Cash and cash equivalents		**1,414**	447
		1,944	857
Current liabilities			
Creditors and accruals	13	**(1,233)**	(1,111)
Interest-bearing borrowings		**(564)**	(306)
Derivative financial instruments		**(116)**	(69)
Current taxation	12	**(127)**	(93)
		(2,040)	(1,579)
Net current liabilities		**(96)**	(722)
Total assets less current liabilities		**27,460**	23,030
Non-current liabilities			
Interest-bearing borrowings		**(2,305)**	(2,217)
Net defined benefit retirement obligation		**(26)**	(23)
Derivative financial instruments		**(99)**	(145)
Deferred tax liabilities		**(3,413)**	(2,880)
		(5,843)	(5,265)
Net assets		**21,617**	17,765
Capital and reserves			
Share capital	14	**721**	714
Reserves		**20,005**	16,268
Total equity attributable to shareholders of the Company		**20,726**	16,982
Minority interests		**891**	783
Total equity		**21,617**	17,765

CONSOLIDATED CASH FLOW STATEMENT (HK$m)

	Note	Year ended 31 December 2007	2006
Operating activities			
Profit before non-operating items		**1,088**	904
Adjustments for:			
Depreciation		**330**	246
Amortisation of hotel management contract	10	**5**	5
Interest income		**(25)**	(6)
Financing charges		**112**	125
Share of loss of jointly controlled entity		**-**	1
Loss on disposal of fixed assets		**8**	6
Foreign exchange gain		**(1)**	-
Operating profit before changes in working capital		**1,517**	1,281
Increase in inventories		**(9)**	(7)
Increase in debtors and payments in advance		**(105)**	(90)
Increase in creditors and accruals		**213**	87
Cash generated from operations		**1,616**	1,271
Net tax paid:			
Hong Kong Profits Tax paid		**(61)**	(28)
Overseas tax paid		**(74)**	(79)
Net cash generated from operating activities		**1,481**	1,164
Investing activities			
Purchase of fixed assets		**(808)**	(631)
Capital injected/loan granted to jointly controlled entity		**-**	(14)
Sales proceeds from disposal of an unlisted equity instrument	5	**101**	-
Repayment of capital contribution from an unlisted equity instrument	10	**106**	-
Proceeds from sale of fixed assets		**1**	2
Net cash used in investing activities		**(600)**	(643)
Financing activities			
Drawdown of bank loans		**817**	778
Repayment of bank loans		**(1,793)**	(392)
Net increase/(decrease) of revolving credits		**1,230**	(477)
Interest received		**25**	6
Interest paid and other financing charges		**(150)**	(184)
Dividends paid to shareholders of the Company		**(71)**	(108)
Dividends paid to minority shareholders		**(2)**	(3)
Net cash generated from /(used in) financing activities		**56**	(380)
Net increase in cash and cash equivalents		**937**	141
Cash and cash equivalents at 1 January		**433**	285
Effect of changes in foreign exchange rates		**28**	7
Cash and cash equivalents at 31 December		**1,398**	433

NOTES TO THE CONSOLIDATED INCOME STATEMENT, CONSOLIDATED BALANCE SHEET AND CONSOLIDATIED 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 (HKFRS), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKAS) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong, the requirements of the Hong Kong Companies Ordinance and also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies used in preparation of the consolidated income statement, consolidated balance sheet and consolidated cash flow statement are consistent with those adopted in 2006, except that Group has changed some of its accounting policies following its adoption of the new and revised HKFRS that are first effective or available for early adoption for the current accounting period. The adoption of these new and revised HKFRS has not resulted in any significant impact on the Group's operating results for the year and financial position as at 31 December 2007.

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:

	2007	2006
Hotels		
Rooms	**1,768**	1,455
Food and beverage	**1,031**	813
Commercial rentals	**463**	407
Others	**288**	232
	3,550	2,907
Rentals from non-hotel properties	**530**	464
Other businesses	**462**	346
	4,542	3,717

3. Segment reporting (HK$m)

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

(a) Business segments

The Group is comprised of the following main business segments:

Hotels	Hotel room accommodation, leasing of commercial shopping arcades and office premises, provision of food and beverage at restaurant outlets, operation of retail outlets and other minor departments such as spa, telephone, guest transportation and laundry within the hotel premises.
Rentals from non-hotel properties	Leasing of commercial and office premises (other than those in hotel properties) and residential apartments.
Other businesses	Various other businesses including operation of golf courses, The Peak Tramways, viewing terrace, 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		Consolidated	
	For the year ended 31 December							
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Segment turnover and results								
Turnover								
Total segment	**3,557**	2,908	**539**	468	**477**	359	**4,573**	3,735
Inter-segment	**(7)**	(1)	**(9)**	(4)	**(15)**	(13)	**(31)**	(18)
	3,550 *	2,907	**530**	464	**462**	346	**4,542**	3,717
Segment operating profit before depreciation and amortisation	**991**	861	**389**	328	**130**	86	**1,510**	1,275
Depreciation and amortisation	**(311)**	(229)	**-**	-	**(24)**	(22)	**(335)**	(251)
Segment operating profit	**680**	632	**389**	328	**106**	64	**1,175**	1,024
Interest income							**25**	6
Financing charges							**(112)**	(125)
Net financing charges							**(87)**	(119)
Share of losses of jointly controlled entity	**-**	(1)	**-**	-	**-**	-	**-**	(1)
Profit before non-operating items							**1,088**	904
Increase in fair value of investment properties	**996**	582	**2,323**	859	**-**	1	**3,319**	1,442
(Provision for)/reversal of impairment losses, net	**(24)**	210	**-**	-	**1**	(10)	**(23)**	200
Net loss on disposal of an unlisted equity instrument	**-**	-	**-**	-	**(160)**	-	**(160)**	-
Profit before taxation							**4,224**	2,546
Taxation							**(732)**	(423)
Profit for the year							**3,492**	2,123

	Hotels		Rentals from non-hotel properties		Other businesses		Consolidated	
	As at 31 December							
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Segment balance sheet								
Assets								
Properties, plant and equipment	**5,332**	4,876	**-**	-	**395**	347	**5,727**	5,223
Investment properties	**7,759**	6,695	**12,992**	10,639	**417**	394	**21,168**	17,728
Interest in jointly controlled entity	**509**	470	**-**	-	**-**	-	**509**	470
Interests in unlisted equity instruments	**-**	43	**-**	-	**-**	9	**-**	52
Investment in hotel management contract	**95**	163	**-**	-	**-**	-	**95**	163
Other segment assets	**433**	303	**32**	33	**58**	58	**523**	394
Derivative financial instruments							**15**	31
Taxation recoverable							**-**	3
Deferred tax assets							**49**	98
Cash and cash equivalents							**1,414**	447
Total assets							**29,500**	24,609
Liabilities								
Segment liabilities	**828**	735	**214**	209	**217**	190	**1,259**	1,134
Bank loans and other liabilities							**6,624**	5,710
Total liabilities							**7,883**	6,844
Capital expenditure incurred during the year	**592**	618	**39**	132	**64**	23	**695**	773

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

	2007	*2006*
Rooms	***1,768***	*1,455*
Food and beverage	***1,031***	*813*
Commercial rentals	***463***	*407*
Others	***288***	*232*
	3,550	*2,907*

(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**	
	2007	2006	**2007**	2006	**2007**	2006
For the year ended 31 December						
Revenue from external customers	**1,910**	1,636	**1,314**	886	**1,318**	1,195
Segment assets	**20,302**	17,066	**5,108**	4,168	**2,612**	2,796
Capital expenditure incurred during the year	**102**	266	**517**	438	**76**	69
Depreciation and amortisation	**69**	56	**142**	92	**124**	103

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

The Group incurred the following pre-opening expenses for The Peninsula Tokyo, which is owned by Peninsula of Tokyo Limited, a wholly owned subsidiary of the Company.

	2007	2006
Staff costs and related expenses	**36**	3
Rent and utilities	**4**	1
Other operating expenses	**43**	3
	83	7

5. Net loss on disposal of an unlisted equity instrument (HK$m)

	2007	2006
Sales proceeds	**101**	-
Less: Carrying value of the unlisted equity instrument	**(9)**	-
Gain on disposal, before transfer of exchange reserve	**92**	-
Exchange losses previously held in exchange reserve	**(252)**	-
Net loss on disposal reported in consolidated income statement	**(160)**	-

During the year, the Group disposed of its entire 20% interest in PT Ciputra Adigraha, an unlisted equity instrument in Indonesia. The exchange losses of HK$252 million previously held in exchange reserve were transferred to the consolidated income statement upon the disposal.

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

Taxation in the consolidated income statement represents:

	2007	2006
Current tax – Hong Kong Profits Tax		
Provision for the year	**99**	58
(Over)/under-provision in respect of prior years	**(4)**	1
	95	59
Current tax - Overseas		
Provision for the year	**79**	59
(Over)/under-provision in respect of prior years	**(3)**	3
	76	62
	171	121
Deferred tax		
Increase in net deferred tax liabilities relating to revaluation of investment properties in:		
- Hong Kong *	**560**	230
- Overseas	**47**	19
Effect of decrease in tax rate on deferred tax balances	**(56)**	-
Increase in net deferred tax liabilities relating to other temporary differences	**4**	44
Transfer from hedging reserve	**6**	9
Origination and reversal of temporary differences	**561**	302
	732	423

The above tax expenses include HK$598 million (2006: HK$305 million) in respect of fair value change of investment properties and other non-operating items.

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

In March 2007, the government of The People's Republic of China ("PRC") announced 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 (2006: Nil) has been recorded in the Group's consolidated income statement.

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

7. Earnings per share

(a) Earnings per share - basic

	2007	2006
Profit attributable to shareholders of the Company (HK$m)	**3,437**	2,094
Weighted average number of shares in issue (million shares)	**1,434**	1,421
Earnings per share (HK$)	**2.40**	1.47

	2007 (million shares)	*2006 (million shares)*
Issued shares at 1 January	***1,428***	*1,417*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2006 final and 2007 interim dividends	***6***	*4*
Weighted average number of shares at 31 December	***1,434***	*1,421*

(b) Earnings per share - diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2007 and 2006, and hence the diluted earnings per share is the same as the basic earnings per share.

8. Dividends (HK$m)

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

	2007	2006
Interim dividend declared and paid of 6 cents per share (2006: 5 cents per share)	**86**	71
Final dividend proposed after the balance sheet date of 12 cents per share (2006: 11 cents per share)	**173**	157
	259	228

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

	2007	2006
Final dividend in respect of the previous financial year, approved and paid during the year, of 11 cents per share (2006: 10 cents per share)	**157**	142

9. Interests in unlisted equity instruments (HK$m)

	2007	2006
Unlisted equity securities, at cost	**43**	129
Less: Repayment (note 10)	**(43)**	-
Less: Impairment loss	**-**	(77)
	-	52

Unlisted equity securities include:

	Ownership interest held indirectly	Place of establishment
The Belvedere Hotel Partnership	20%	United States of America

The Belvedere Hotel Partnership ("BHP") holds a 100% interest in The Peninsula Beverly Hills ("PBH"). The Group is not in a position to exercise significant influence over this investment.

BHP has pledged its hotel property and other assets to an independent financial institution as security for BHP's loan facility amounting to US$140 million (2006: US$75 million) and the net carrying amount of these pledged assets amounted to US$65 million (2006: US$65 million). BHP is an unlimited partnership and the partners are jointly and severally liable for its liabilities.

The Group's 20% interest in PT Ciputra Adigraha with a carrying value of HK$9 million was sold during 2007 at a consideration of HK$101 million (see Note 5).

10. Investment in hotel management contract (HK$m)

	2007	2006
Investment in hotel management contract, at cost	**248**	248
Less: Repayment	**(63)**	-
Less: Accumulated amortisation	**(90)**	(85)
	95	163

Investment in a hotel management contract represents the cost of investment in The Belvedere Hotel Partnership ("BHP") attributable to securing the Group's long term management contract in respect of The Peninsula Beverly Hills ("PBH") hotel for a period of 45 years.

An amount of HK$106 million was received from BHP during 2007, which is considered by the directors to be a partial repayment of the initial investment in BHP, and accordingly has been treated as a reduction of HK$43 million and HK$63 million in the carrying value of unlisted equity security and the carrying value of hotel management contract respectively.

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

	2007	2006
Trade debtors (ageing analysis is shown below)	**227**	114
Rental deposits and payments in advance	**198**	194
	425	308

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$67 million (2006: HK$43 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:

	2007	2006
Current	**170**	83
Less than 1 month past due	**33**	9
1 to 3 months past due	**21**	18
More than 3 months but less than 12 months past due	**3**	3
More than 12 months past due	**-**	1
Amounts past due	**57**	31
	227	114

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

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

(a) Current taxation in the balance sheet represents:

	2007	2006
Provision for Hong Kong Profits Tax for the year	**99**	58
Provisional profits tax paid	**(24)**	(13)
	75	45
Balance of profits tax provision relating to prior years	**11**	9
Provision for overseas taxes	**41**	36
	127	90

Analysed as follows:

	2007	2006
Taxation recoverable	**-**	(3)
Current taxation	**127**	93
	127	90

(b) Deferred taxation in the balance sheet

The balance as at 31 December 2007 includes a provision for deferred tax liabilities with regard to revaluation of the Group’s investment properties in Hong Kong amounting to HK$2,967 million (2006: HK$2,407 million). The Directors have no intention of selling the Group’s investment properties in Hong Kong and consider that should any such sale eventuate, any gain would be regarded as capital in nature and would not be subject to any tax in Hong Kong.

13. Creditors and accruals (HK$m)

	2007	2006
Trade creditors (ageing analysis is shown below)	**142**	84
Interest payable	**6**	9
Accruals of fixed assets	**42**	172
Tenants' deposits	**339**	306
Golf membership deposits	**53**	49
Other payables	**651**	491
Financial liabilities measured at amortised cost	**1,233**	1,111

The amount of creditors and accruals expected to be settled or recognised as income after more than one year is HK$349 million (2006: HK$306 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:

	2007	2006
Less than 3 months	**141**	83
More than 6 months	**1**	1
	142	84

14. Share capital

	2007	2006
Number of shares of HK$0.50 each (million)		
Authorised	**1,800**	1,800
Issued		
At 1 January	**1,428**	1,417
New shares issued	**14**	11
At 31 December	**1,442**	1,428
Nominal value of shares (HK$m)		
Authorised	**900**	900
Issued		
At 1 January	**714**	709
New shares issued	**7**	5
At 31 December	**721**	714

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

	Number of shares	Scrip price	Increase in share capital	Increase in share premium
	million	HK$	HK$'m	HK$'m
2007				
2006 final scrip dividend	**10**	**12.584**	**5**	**111**
2007 interim scrip dividend	**4**	**13.808**	**2**	**54**
	14		**7**	**165**
2006				
2005 final scrip dividend	6	9.33	3	52
2006 interim scrip dividend	5	10.128	2	48
	11		5	100

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.

OTHER CORPORATE INFORMATION

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

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

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.

Code on corporate governance
The Company has adopted its own code on corporate governance which encompassed 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. The Company is of the view that the existing half-year and annual reporting requirements, together with the rules on price-sensitive information and notifiable transactions, are sufficient for the timely dissemination of material information to shareholders. However, the Company would review its position if and when there is a clear demand from shareholders for quarterly reporting.

Details of the Company's corporate governance practices and processes will be set out in the 2007 Annual Report.

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 14 May 2008.

Annual General Meeting and book close dates
The Annual General Meeting will be held at The Peninsula Hong Kong on 7 May 2008 at 12 noon. The register of members will be closed from 5 May 2008 to 7 May 2008 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 13 June 2008 to shareholders whose names appear on the register of members on 7 May 2008.

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, 2 May 2008.

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 mid April.

By Order of the Board
Christobelle Liao
Company Secretary

Hong Kong, 19 March 2008

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

Chairman
The Hon. Sir Michael Kadoorie

Deputy Chairman
Ian Duncan Boyce

Executive Directors
Managing Director and Chief Executive Officer
Clement King Man Kwok

Chief Financial Officer
Charles Mark Broadley

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