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.

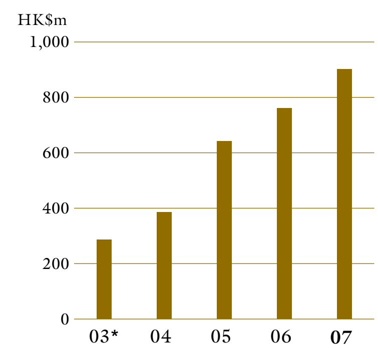
- Hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less depreciation and any provision for impairment, rather than at fair market value. In order to provide shareholders with additional information on the value of the Group's net assets, 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 pages 75 and 76. 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:

Earnings excluding non-operating items and related tax and minority interests effects

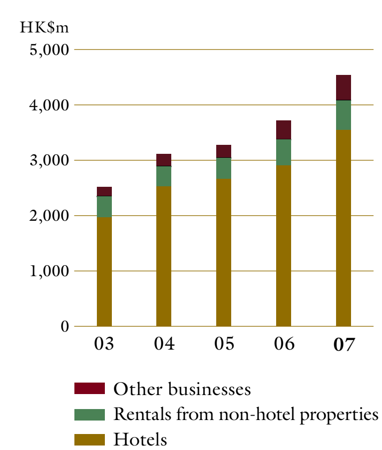


* *The figures for 2003 are stated on the basis of the Company's previous accounting policies, which were changed with effect from 1 January 2005 (with 2004 figures restated).*

(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 by activity



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.

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

Revenue (HK$m)	**2007**		2006	
Hotels				
Rooms	**1,768**	**39%**	1,455	39%
Food and beverage	**1,031**	**23%**	813	22%
Commercial rentals	**463**	**10%**	407	11%
Others	**288**	**6%**	232	6%
	3,550	**78%**	2,907	78%
Rentals from non-hotel properties				
Residential	**386**	**9%**	355	10%
Office	**49**	**1%**	42	1%
Shopping arcades	**95**	**2%**	67	2%
	530	**12%**	464	13%
Other businesses	**462**	**10%**	346	9%
	4,542	**100%**	3,717	100%
Arising in				
Hong Kong	**1,910**	**42%**	1,636	44%
Other Asia	**1,314**	**29%**	886	24%
United States of America	**1,318**	**29%**	1,195	32%
	4,542	**100%**	3,717	100%

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 breakdown of revenues by property is as follows:

Revenue (HK$m)	2007 Rooms	2007 Food and Beverage	2007 Commercial Rentals	2007 Others	2006 Rooms	2006 Food and Beverage	2006 Commercial Rentals	2006 Others
Consolidated hotels								
The Peninsula Hong Kong	**348**	**321**	**317**	**48**	312	291	282	35
The Peninsula New York	**416**	**100**	**31**	**50**	355	91	31	58
The Peninsula Chicago	**326**	**186**	**–**	**59**	302	176	–	56
The Peninsula Tokyo	**97**	**115**	**8**	**23**	–	–	–	–
The Peninsula Bangkok	**162**	**88**	**3**	**26**	136	71	2	13
The Peninsula Beijing	**231**	**95**	**102**	**25**	211	87	90	20
The Peninsula Manila	**136**	**87**	**2**	**20**	88	60	2	23
Quail Lodge Resort	**52**	**39**	**–**	**10**	51	37	–	8
Other revenue	**–**	**–**	**–**	**27**	–	–	–	19
	1,768	**1,031**	**463**	**288**	1,455	813	407	232
Non-consolidated hotel								
The Peninsula Beverly Hills	**300**	**99**	**–**	**54**	267	95	–	51
	2,068	**1,130**	**463**	**342**	1,722	908	407	283

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.

Revenue (HK$m)	2007 Residential	2007 Office	2007 Shopping Arcade	2006 Residential	2006 Office	2006 Shopping Arcade
The Repulse Bay Complex, Hong Kong	**375**	**–**	**38**	344	–	37
The Peak Tower, Hong Kong	**–**	**–**	**55**	–	–	29
St. John's Building, Hong Kong	**–**	**27**	**–**	–	23	–
The Landmark, Ho Chi Minh City	**11**	**22**	**2**	11	19	1
	386	**49**	**95**	355	42	67

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.

Revenue from other businesses is analysed as follows:

Revenue (HK$m)	**2007**	2006	% Change
The Peak Tram	**78**	66	18%
Cathay Pacific Lounges	**89**	47	89%
Peninsula Merchandising	**76**	62	23%
The Repulse Bay restaurants	**66**	62	6%
Thai Country Club	**59**	52	13%
Quail Lodge Golf Course	**33**	30	10%
Sale of Quail Lodge Land	**16**	–	–
Others	**45**	27	67%
	462	346	34%

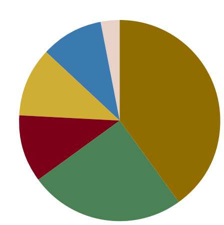
Operating costs

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:

Operating costs



Staff costs and related expenses	**40%**
Others	**25%**
Cost of inventories	**11%**
Rent and utilities	**11%**
Depreciation and amortisation	**10%**
Pre-opening expenses of a hotel	**3%**

	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%

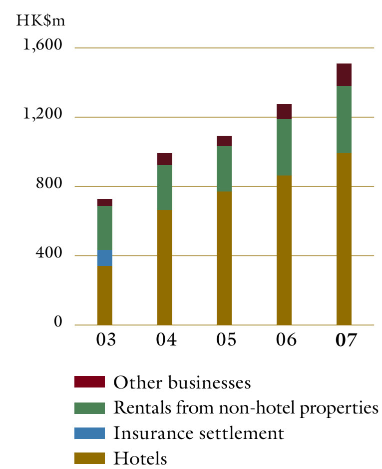
HK$1,346 million or 40% of direct operating costs are payroll-related, down from 44% in 2006. The breakdown of employee numbers at 31 December was as follows:

Number of employees	**2007**			2006		
	Direct operations	**Managed operations**	**Total**	Direct operations	Managed operations	Total
Hotels	**4,732**	**406**	**5,138**	4,190	411	4,601
Property	**329**	**–**	**329**	316	–	316
Other businesses	**636**	**391**	**1,027**	611	393	1,004
	5,697	**797**	**6,494**	5,117	804	5,921
Hong Kong	**1,687**	**391**	**2,078**	1,638	393	2,031
Other Asia	**2,929**	**–**	**2,929**	2,414	–	2,414
United States of America	**1,081**	**406**	**1,487**	1,065	411	1,476
	5,697	**797**	**6,494**	5,117	804	5,921

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.

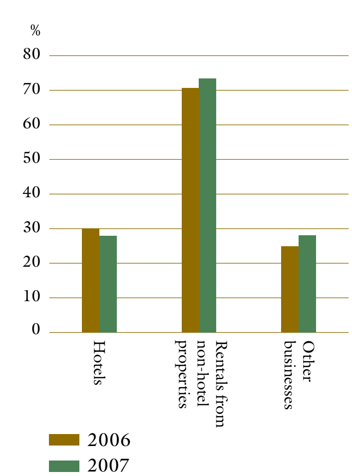
EBITDA by activity



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



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.

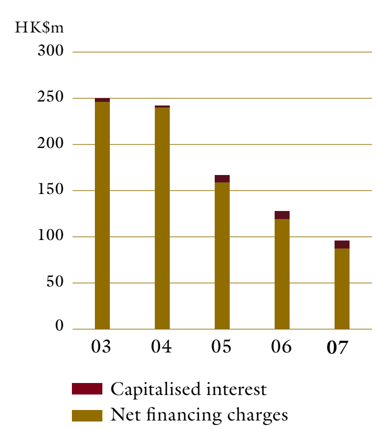
The disposal of an investment in Indonesia in 2007 resulted in an increase of HK$92 million in net assets attributable to shareholders, but a non-operating loss of HK$160 million after taking into account historical exchange losses of HK$252 million previously held in the exchange reserve.

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.

Net financing charges



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.

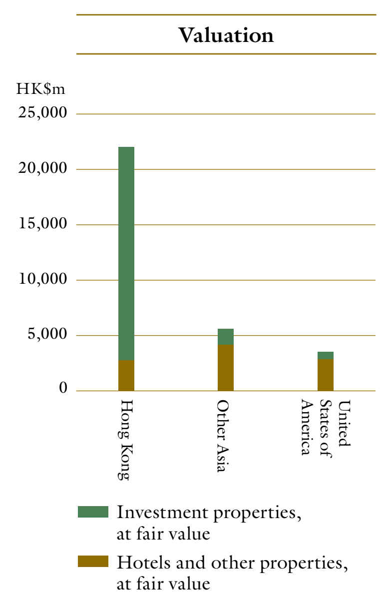
Balance Sheet

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 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 *Lease Expiry Jan-2072*	781,499	75,958	59,866	9,107	100%	9,107	7,106
The Peninsula New York *Lease Expiry Aug-2078*	305,870	7,574	–	1,800	100%	1,800	894
The Peninsula Chicago *Freehold/Leasehold*	403,219	–	–	1,269	92.5%	1,174	1,169
The Peninsula Tokyo *Lease Expiry May-2057*	621,615	11,554	–	1,556	100%	1,556	1,110
The Peninsula Bangkok *Freehold*	732,544	3,246	–	813	75%	610	651
The Peninsula Beijing *Lease Expiry Nov-2033*	790,902	79,036	–	2,177	42.13%	917	595
The Peninsula Manila *Lease Expiry Dec-2027*	921,203	10,469	–	415	76.09%	316	218
Quail Lodge Resort *Freehold*	1,664,460	–	–	151	100%	151	151
	6,221,312	187,837	59,866	17,288		15,631	11,894
Non-consolidated hotel							
The Peninsula Beverly Hills (at net cost)					20%		88
Total for hotels							11,982

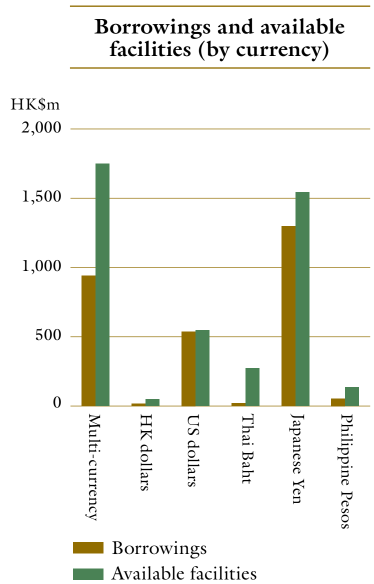
	Total property GFA (sf)	Net lettable area: Shopping arcade (sf)	office (sf)	residential (sf)	Market valuation (HK$m)	HSH interest (%)	Attributable market/ book value (HK$m)
Non-hotel properties for rental							
The Repulse Bay *Lease Expiry May-2068*	805,990	26,012	–	376,893	6,929	100%	6,929
Repulse Bay Apartments *Lease Expiry Mar-2071*	710,763	–	–	418,692	4,390	100%	4,390
Repulse Bay Garage *Lease Expiry Sept-2070*	36,438	16,934	–	–	86	100%	86
The Peak Tower *Lease Expiry Mar-2031*	116,768	67,254	–	–	946	100%	946
St. John's Building *Lease Expiry Aug-2114*	103,857	412	60,690	–	554	100%	554
The Landmark *Lease Expiry Jan-2026*	224,922	–	82,150	52,259	87	70%	61
Total for non-hotel properties for rental	1,998,738	110,612	142,840	847,844	12,992		12,966

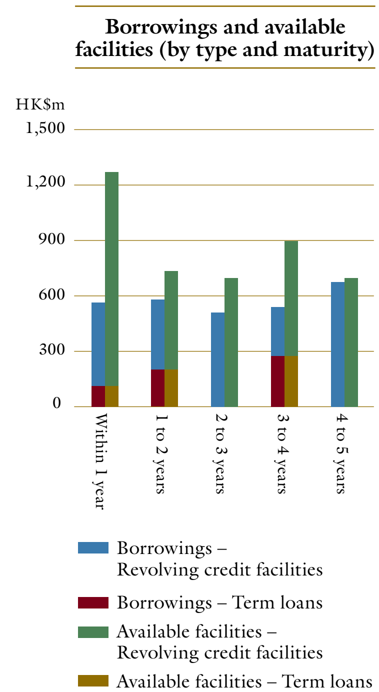
	Total property GFA (sf)	Market valuation (HK$m)	HSH interest (%)	Attributable market value (HK$m)	Attributable book value (HK$m)
Other properties					
Golf courses					
Thai Country Club *Freehold*	7,405,283	224	75%	168	168
Quail Lodge Golf Club *Freehold*	5,846,888	34	100%	34	34
Sub-total for golf courses	13,252,171	258		202	202
Vacant land					
Vacant land near Bangkok *Freehold*	15,040,030	337	75%	253	253
Quail Lodge land *Freehold*	15,470,337	80	100%	80	80
Sub-total for vacant land	30,510,367	417		333	333
Other properties in use					
Po Yip Building, Flats 2&3, 1/F *Lease Expiry Jun-2047*	35,914	31	100%	31	30
1 Lugard Road *Lease Expiry Jan-2077*	4,938	2	100%	2	–
Sun Hing Industrial Building, Units 1&2, 5/F *Lease Expiry Jul-2120*	4,694	4	100%	4	–
Sub-total for other properties in use	45,546	37		37	30
Total for other properties	43,808,084	712		572	565
Total	52,028,134	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.

In addition to the Group's consolidated borrowings, The Peninsula Beverly Hills (20%-owned) and The Peninsula Shanghai (50%-owned) have obtained non-recourse bank borrowings, which are not consolidated in the balance sheet as the entities owning the assets are not subsidiaries of the Company. The consolidated and non-consolidated borrowings as at 31 December 2007 are summarised as follows:





Borrowings	**2007**				2006
(HK$m)	**Hong Kong**	**Other Asia**	**United States of America**	**Total**	Total
Consolidated borrowings	**957**	**1,374**	**538**	**2,869**	2,523
Off balance sheet borrowings attributable to the Group,					
The Peninsula Beverly Hills (20%)	**–**	**–**	**218**	**218**	117
The Peninsula Shanghai (50%)	**–**	**94**	**–**	**94**	15
Off balance sheet borrowings	**–**	**94**	**218**	**312**	132
Consolidated and non-consolidated borrowings	**957**	**1,468**	**756**	**3,181**	2,655
Pledged assets attributable to the Group					
For consolidated borrowings	**–**	**–**	**–**	**–**	–
For off balance sheet borrowings	**–**	**637**	**196**	**833**	264
	–	**637**	**196**	**833**	264

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

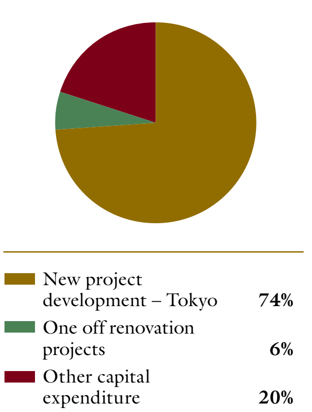
During the year, the Group spent HK$595 million on the development of The Peninsula Tokyo, which was opened on 1 September 2007.

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.

Capital expenditure



Treasury Management

All the Group's financing and treasury activities are centrally managed and controlled at the corporate level, where the majority of the Group's funding needs, currency and interest rate risk exposures are monitored.

Within the same policy framework, some operating subsidiaries monitor financial risks that are specific to particular transactions within their operations. Associated and jointly-controlled companies arrange their own financial and treasury affairs based on their circumstances on a stand-alone basis.

Liquidity risk

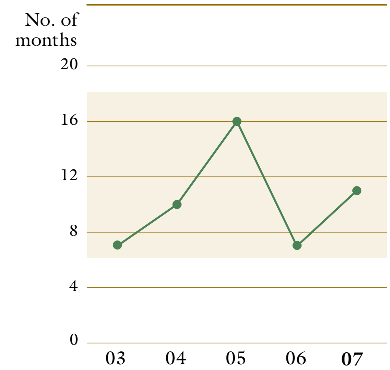
The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants and to ensure that it maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to meet its obligations and commitments.

Borrowing requirements are not seasonal as the Group benefits from a steady inflow of income from its leased properties and there is only minor seasonality in its hotel operations. Borrowing requirements tend to follow the pattern of capital expenditure and investment. As such, the level of borrowing facilities is continuously monitored to ensure efficient bank facilities management. Appropriate funding action will normally be taken whenever there is any corporate activity with significant cashflow implication. In such circumstances all funding channels will be considered although debt financing is currently the Group's main source of funding.

For prudence sake, committed facilities are preferred but uncommitted facilities may be considered where cost savings can be attained. Also, to allow for more flexibility, revolving loans are preferred but term loans may be considered where cost savings are available.

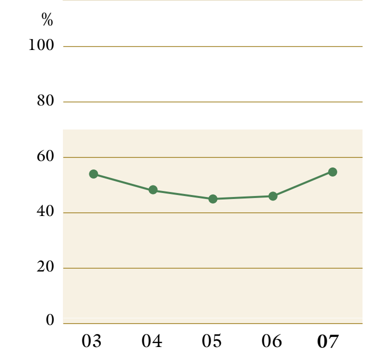
In addition, the Group maintains a well-balanced spread of maturities of borrowing facilities, mostly arranged on a medium to long-term basis to minimise refinancing risk.

Financing horizon



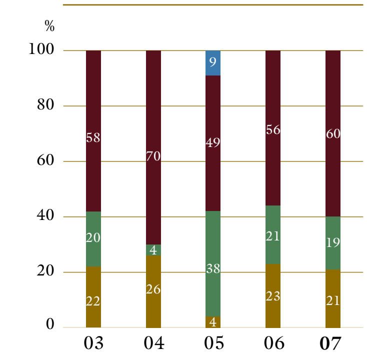
Group guideline: 6-18 months

Top 3 banks' aggregated committed facility exposure



Group guideline: (≤70%)

Maturity profile of committed facilities



Group guideline:
- Beyond 5 Years (≤30%)
- 2 – 5 Years (30% – 80%)
- 1 – 2 Years (≤50%)
- Due within 1 Year (≤30%)

Generally speaking, mortgage or pledge of assets is not provided to secure borrowing facilities unless significant cost savings with acceptable risks can be obtained, such as project-based financing.

The Group monitors its gearing in accordance with the policy that its adjusted gearing ratio, expressed as the percentage of net borrowings to the total of net borrowings and net assets after taking into account the Group's share of net borrowings and net assets of non-consolidated entities (such as The Peninsula Beverly Hills and The Peninsula Shanghai), should be maintained at below 40%. As at 31 December 2007, the Group's gearing and adjusted gearing (including share of net borrowings of non-consolidated entities) decreased to 7% (2006: 11%) and 8% (2006: 11%) respectively. The low level of gearing means that the Group has a strong financial capability to seek growth opportunities and to undertake new investments.

Care is taken to ensure that borrowing facilities do not impose unduly onerous or restrictive covenants and that the terms of the facilities match the underlying requirements. The Group's financial position is reviewed periodically to ensure compliance of loan covenants.

Interest rate risk

The Group's interest rate risk management policy focuses on reducing the Group's exposure to changes in interest rates. Moreover, under certain circumstances, such as in developing countries, it may be possible to make use of interest rate instruments to reduce the overall interest expenses.

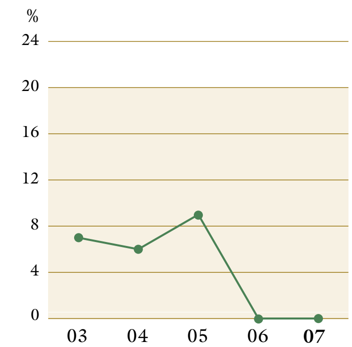
In addition to raising funds directly on a fixed rate basis, the Group may use interest rate swaps in managing its long-term interest rate exposure. The policy of Fixed and Floating Rate Mix is between 40:60 and 70:30 with a long-term target of 50:50. This policy is subject to periodic review at least once a year.

The interest rates on 55% of the Group's borrowings were fixed as at 31 December 2007.

Foreign exchange risk

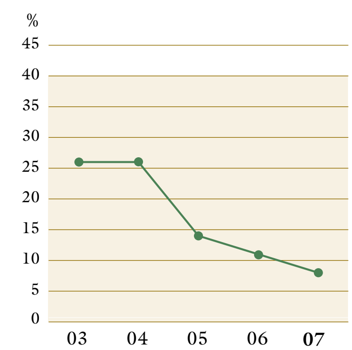
Significant exposure to movements in exchange rates on individual transactions is monitored and may be hedged by using spot or forward foreign exchange contracts where active markets for the relevant currencies exist. All significant foreign currency borrowings are usually covered by appropriate currency hedges. Accordingly, the Group does

Borrowing facilities with asset pledge



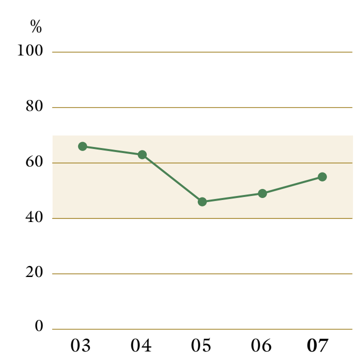
Group guideline (≤20%)

Adjusted Gearing



Group guideline: (≤40%)

Long term fixed-to-total borrowings (adjusted for the hedging effect)



Group guideline (40% – 70%)

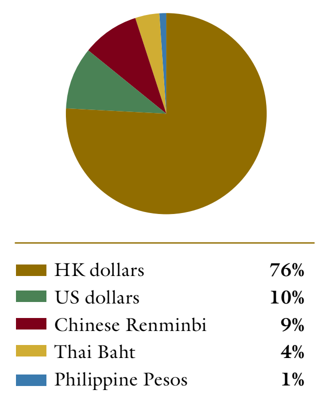
not have any unhedged borrowings denominated in non-functional currencies, other than US$ borrowings in Hong Kong.

Translation exposure arising on consolidation of the Group's overseas net assets is reduced, where practicable, by matching assets with borrowings in the same currency or by any other means.

The long-term financial obligations of the Group's entities are normally arranged in currencies in which they have substantial positive operational cash flows, thereby establishing natural currency hedges.

As at 31 December 2007, after accounting for currency hedging, approximately 76%, 10%, 9%, 4% and 1% (2006: 76%, 10%, 9%, 4% and 1%) of the Group's net assets were denominated in Hong Kong dollars, United States dollars, Chinese Renminbi, Thai Baht and Philippine Pesos respectively.

Net assets

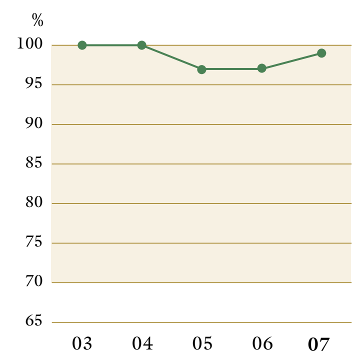


Credit risk

Under normal circumstances, when depositing surplus funds or entering into derivative contracts, the Group manages its exposure to non-performance of counterparties by transacting with counterparties which have a credit rating of at least an investment grade. However, in developing countries, it may be necessary to deal with banks of lower credit ratings.

Derivatives are used solely for hedging purposes and not for speculation and the Group only enters into derivative transactions with counterparties which have credit ratings of at least investment grades, even in developing countries, because of the longer term effect.

Bank deposits at counterparties having credit ratings of at least investment grades

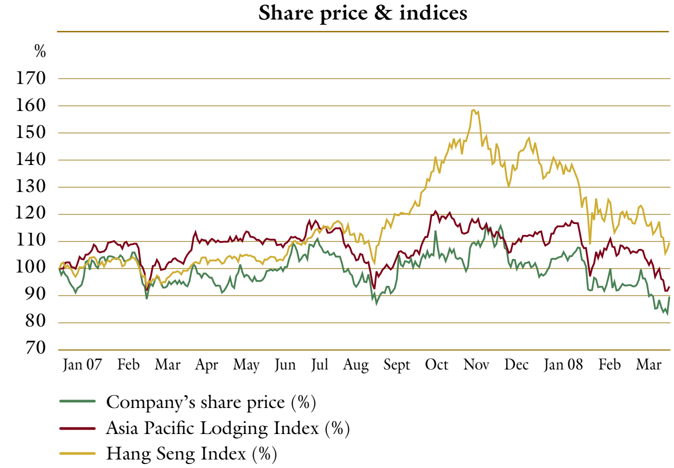


Group guideline (≥70%)

Share Information

The Company's share price closed on 19 March 2008 at HK$11.78, giving a market capitalisation of HK$17 billion (or US$2.2 billion). This reflects a discount of 18% to net assets attributable to shareholders of the Company, or a discount of 37% to the adjusted net assets (see page 64).

Share price & indices



Note: The share price and indices as at 31 December 2006 = 100%