

# FINANCIAL REVIEW SUMMARY

Consolidated Balance Sheet at 31.12.2006		Consolidated Cash Flow Statement for the year ended 31.12.2007	
	HK\$m		HK\$m
<b>Net assets</b>		<b>1</b> EBITDA	1,510
Fixed assets	22,951	Tax paid	(135)
Other long-term investments	685	Working capital and other adjustments	106
Deferred tax assets	98	Cash inflow from operating activities	1,481
Derivative financial instruments	31	Interest and other financing charges paid	(150)
Cash and bank balances	447	Interest received	25
Other current assets	397	Dividends paid	(71)
	24,609	<b>2</b> Capital expenditure	(808)
Bank overdrafts	(14)	Net increase in bank borrowings	254
Bank borrowings	(2,509)	Sales proceeds from disposal of an unlisted equity instrument	101
Derivative financial instruments	(214)	Repayment of capital contribution from an unlisted equity instrument	106
Deferred tax liabilities	(2,880)	Other net cash outflow	(1)
Other liabilities	(1,227)	Net increase in cash	937
	17,765	Cash and bank balances	447
<b>Capital and reserves</b>		Less: Bank overdrafts	(14)
Share capital and premium	3,499	Cash & cash equivalents at 1.1.2007	433
Retained profits	12,918	Effect of changes in exchange rates	28
Hedging reserve	(18)	Cash & cash equivalents at 31.12.2007 *	1,398
Other reserves	583		
	16,982	<b>* Representing:</b>	
Minority interests	783	Cash and bank balances	1,414
	17,765	Bank overdrafts	(16)
			1,398
		<b>Consolidated Income Statement for the year ended 31.12.2007</b>	
			HK\$m
		<b>3</b> Turnover	4,542
		Operating costs before depreciation and amortisation	(3,032)
		<b>1</b> EBITDA	1,510
		Depreciation and amortisation	(335)
		Net financing charges	(87)
		Profit before non-operating items	1,088
		<b>4</b> Increase in fair value of investment properties	3,319
		Provision for impairment losses, net	(23)
		Net loss on disposal of an unlisted equity instrument	(160)
		<b>4</b> Taxation	(732)
		Minority interests	(55)
		Profit attributable to shareholders	3,437
		<b>Consolidated Retained Profits for the year ended 31.12.2007</b>	
			HK\$m
		Retained profits at 1.1.2007	12,918
		Profit attributable to shareholders for the year	3,437
		Dividends distributed during the year	(243)
		Retained profits at 31.12.2007	16,112

**Consolidated Balance Sheet at 31.12.2007**

	HK\$m
<b>Net assets</b>	
Fixed assets	26,895
Other long-term investments	604
Deferred tax assets	49
Derivative financial instruments	15
Cash and bank balances	1,414
Other current assets	523
	29,500
Bank overdrafts	(16)
Bank borrowings	(2,853)
Derivative financial instruments	(215)
Deferred tax liabilities	(3,413)
Other liabilities	(1,386)
	21,617
<b>Capital and reserves</b>	
Share capital and premium	3,671
Retained profits	16,112
Hedging reserve	(53)
Other reserves	996
	20,726
Minority interests	891
	21,617

**1 EBITDA**

EBITDA increased by 18% compared to 2006. The favourable result was mainly due to the positive operating performance of all business segments which is further described in **3** set out below.

**2 Capital expenditure**

Capital expenditure mainly comprised costs incurred for the construction of The Peninsula Tokyo, refurbishment of the Makati Tower in The Peninsula Manila and ongoing renovation undertaken for existing properties of the Group.

**3 Turnover**

Turnover of the Group increased by 22% compared to 2006. The increase was mainly attributable to the hotels division which accounted for approximately 78% of the Group's total turnover.

*Hotels*

After a three-year construction period, The Peninsula Tokyo opened for business on 1 September 2007, contributing to an increase in the Group's room inventory and turnover by 314 and 7% respectively.

The Peninsula Hong Kong had a record year and achieved a RevPAR of HK\$2,892, 12% above that of 2006. Performance of the Group's hotels in other Asian countries was affected by some challenging business and political conditions but these were partially offset in some cases by the appreciation of the local currencies. The Peninsula Beijing faced intense competition due to substantial increase in rooms supply in the city. Despite this, RevPAR of the hotel increased by 9% to HK\$1,048. The Peninsula Bangkok had been operating in a politically unstable environment since the ousting of the former Prime Minister in October 2006. However, RevPAR of the hotel increased by 19% to HK\$1,201 due to the appreciation of Thai Baht against Hong Kong dollar. Benefiting from a full year's operation with the renovated Makati Tower, The Peninsula Manila achieved a RevPAR of HK\$752, above that of 2006 by 55%.

In the USA, all hotels performed well during 2007. The Peninsula New York had a record year, achieving a RevPAR of HK\$4,771, 17% over that of 2006. The Peninsula Chicago continued to maintain its leading RevPAR position in the city, increasing its RevPAR by 8% to HK\$2,638. Quail Lodge achieved a RevPAR at HK\$1,462, 2% above 2006.

*Rentals from non-hotel properties*

Non-hotel properties achieved a total rental revenue of HK\$530 million, up 14% from 2006. Because of continued strong demand for high quality accommodation from the financial services and banking sectors and limited new supply in the market, the Repulse Bay Complex enjoyed an 8% growth of revenue over 2006. The Peak Tower benefited from increased rental revenue following its July 2006 re-opening after its full renovation. St. John's Building and The Landmark, Vietnam were also fully occupied throughout the year at high average rentals.

*Other business segment*

The Peak Tramways enjoyed a record patronage of 4.9 million passengers in 2007, 11% above the previous year. Peninsula Clubs and Consultancy Services showed satisfactory growth of revenues, mainly due to the booming air travel which generated increased revenue from the managed first and business class lounges at the Hong Kong International Airport. Other business units including Peninsula Merchandising, restaurant outlets at The Repulse Bay, the Thai Country Club and the golf club located at Quail Lodge also performed well in 2007 due to the overall buoyant business environment.

**4 Increase in fair value of investment properties**

The Group states its investment properties in the balance sheet at fair value and recognises the gain or loss arising from changes in fair value in the income statement. The revaluation of the Group's investment properties has resulted in an increase in deferred tax liability and hence an additional tax charge of HK\$607 million in 2007.