Financial Statements

Consolidated Income Statement (HK$m)

	Note	Year ended 31 December 2007	2006
Turnover	3	**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	5(a)	**(112)**	(125)
Net financing charges		**(87)**	(119)
Share of loss of jointly controlled entity		**–**	(1)
Profit before non-operating items	5	**1,088**	904
Increase in fair value of investment properties	14(a)	**3,319**	1,442
(Provision for)/reversal of impairment losses, net	14(a)	**(23)**	200
Net loss on disposal of an unlisted equity instrument	6	**(160)**	–
Profit before taxation		**4,224**	2,546
Taxation			
Current tax	7	**(171)**	(121)
Deferred tax	7	**(561)**	(302)
Profit for the year		**3,492**	2,123
Attributable to:			
Shareholders of the Company	27(a)	**3,437**	2,094
Minority interests	27(a)	**55**	29
Profit for the year		**3,492**	2,123
Earnings per share, basic and diluted (HK$)	11	**2.40**	1.47
Dividends per share (HK cents)		**18**	16
Dividends payable to shareholders of the Company attributable to the year:	12		
Interim dividend declared during the year		**86**	71
Final dividend proposed after the balance sheet date		**173**	157
		259	228

The notes on pages 115 to 179 form part of these Financial Statements.

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
	14	**26,895**	22,951
Interest in jointly controlled entity	16	**509**	470
Interests in unlisted equity instruments	17	**–**	52
Investment in hotel management contract	18	**95**	163
Derivative financial instruments	19(a)	**8**	18
Deferred tax assets	20(b)	**49**	98
		27,556	23,752
Current assets			
Inventories	21	**98**	86
Debtors and payments in advance	22	**425**	308
Taxation recoverable	20(a)	**–**	3
Derivative financial instruments	19(a)	**7**	13
Cash and cash equivalents	23	**1,414**	447
		1,944	857
Current liabilities			
Creditors and accruals	24	**(1,233)**	(1,111)
Interest-bearing borrowings	25	**(564)**	(306)
Derivative financial instruments	19(a)	**(116)**	(69)
Current taxation	20(a)	**(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	25	**(2,305)**	(2,217)
Net defined benefit retirement obligation	29(a)	**(26)**	(23)
Derivative financial instruments	19(a)	**(99)**	(145)
Deferred tax liabilities	20(b)	**(3,413)**	(2,880)
		(5,843)	(5,265)
Net assets		**21,617**	17,765
Capital and reserves			
Share capital	26	**721**	714
Reserves	27(a)	**20,005**	16,268
Total equity attributable to shareholders of the Company		**20,726**	16,982
Minority interests	27(a)	**891**	783
Total equity		**21,617**	17,765

Approved by the Board of Directors on 19 March 2008 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K.M. Kwok, *Directors*

The notes on pages 115 to 179 form part of these Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT (HK$m)

	Note	Year ended 31 December 2007	2006
Operating activities		**1,088**	904
Profit before non-operating items			
Adjustments for:			
Depreciation	14(a)	**330**	246
Amortisation of hotel management contract	18	**5**	5
Interest income		**(25)**	(6)
Financing charges	5(a)	**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		**101**	–
Repayment of capital contribution from an unlisted equity instrument	18	**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	23	**1,398**	433

The notes on pages 115 to 179 form part of these Financial Statements.

Parent Company Balance Sheet (HK$m)

	Note	At 31 December 2007	2006
Non-current assets			
Investments in subsidiaries	15	**94**	94
Derivative financial instruments	19(b)	**94**	96
Deferred tax asset	20(b)	**–**	5
		188	195
Current assets			
Debtors and payments in advance	22	**11,963**	11,153
Derivative financial instruments	19(b)	**52**	45
Cash and cash equivalents	23	**20**	5
		12,035	11,203
Current liabilities			
Creditors and accruals	24	**(36)**	(15)
Derivative financial instruments	19(b)	**(52)**	(57)
Current taxation	20(a)	**(30)**	(38)
		(118)	(110)
Net current assets		**11,917**	11,093
Non-current liabilities			
Deferred tax liabilities	20(b)	**(1)**	–
Derivative financial instruments	19(b)	**(89)**	(112)
Net assets		**12,015**	11,176
Capital and reserves			
Share capital	26	**721**	714
Reserves	27(b)	**11,294**	10,462
Total equity		**12,015**	11,176

Approved by the Board of Directors on 19 March 2008 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K.M. Kwok, *Directors*

The notes on pages 115 to 179 form part of these Financial Statements.

Consolidated Statement of Changes in Equity (HK$m)

	Note	2007	2007	2006	2006
		Year ended 31 December			
Total equity at 1 January					
Attributable to equity shareholders of the Company		**16,982**		14,896	
Minority interests		**783**		710	
			17,765		15,606
Net income for the year recognised directly in equity					
Exchange differences on translation of financial statements of foreign entities		**217**		152	
Cash flow hedges:					
Effective portion of changes in fair value, net of tax		**(43)**		(29)	
		174		123	
Transfer from equity					
Cash flow hedges: transfer from equity					
to profit or loss, net of tax		**3**		20	
to fixed assets, net of tax		**4**		4	
Exchange loss transferred to profit or loss on disposal of an unlisted equity instrument	6	**252**		–	
		259		24	
Net profit for the year		**3,492**		2,123	
Total recognised income for the year			**3,925**		2,270
Dividends distributed to shareholders of the Company:	12				
By means of cash		**(71)**		(108)	
By means of scrip		**(172)**		(105)	
Paid in cash to minority interests		**(2)**		(3)	
			(245)		(216)
Issue of new shares	26		**172**		105
Total equity at 31 December			**21,617**		17,765
Total recognised income for the year attributable to:					
Shareholders of the Company			**3,815**		2,194
Minority interests			**110**		76
			3,925		2,270

The notes on pages 115 to 179 form part of these Financial Statements.

Notes to the Financial Statements

1. Significant accounting policies

(a) Statement of compliance

These Financial Statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These Financial Statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these Financial Statements. The adoption of these new and revised HKFRS has not resulted in any significant impact on the Group's results of operations and financial position for the current accounting period.

(b) Basis of preparation of the Financial Statements

The consolidated Financial Statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a jointly controlled entity.

The measurement basis used in the preparation of the Financial Statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

i) investment properties (see note 1(i));
ii) other leasehold land and buildings, for which the fair values cannot be measured separately at the inception of the lease and the entire lease is classified as a finance lease (see notes 1(h) and (k));
iii) financial instruments classified as available-for-sale securities (see note 1(e)); and
iv) derivative financial instruments (see note 1(f)).

The preparation of Financial Statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that may have a significant effect on the Financial Statements and estimates are discussed in note 36.

1. Significant accounting policies *continued*

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated Financial Statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated Financial Statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)), unless the investment is classified as held for sale.

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated Financial Statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entities recognised for the year (see notes 1(l)).

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method, together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

1. Significant accounting policies *continued*

(d) Jointly controlled entities *continued*

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(e) Equity instruments

The Group's long term investments which are equity in nature (other than investments in subsidiaries, associates and jointly controlled entities) that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are classified as interests in equity instruments and recognised in the balance sheet at cost less provision for impairment losses (see note 1(l)).

Interests in equity instruments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1(g)).

(g) Hedging

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from equity and recognised in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

1. Significant accounting policies *continued*

(g) Hedging *continued*

Cash flow hedges *continued*

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

Hedge of net investments in foreign operations

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity until the disposal of the foreign operation, at which time the cumulative gain or loss recognised directly in equity is recognised in profit or loss. The ineffective portion is recognised immediately in profit or loss.

(h) Properties, plant and equipment

Hotel and other properties held for own use and plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1 (l)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 1(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the carrying values of the assets on a straight line basis over the shorter of the unexpired period of the land lease and the anticipated remaining useful lives of the assets. The useful lives which have been adopted are summarised as follows:

• hotel buildings	75 to 150 years
• other buildings	50 years
• golf courses	100 years
• external wall finishes, windows, roofing and glazing works	10 to 40 years
• major plant and machinery	15 to 25 years
• furniture, fixtures and equipment	3 to 20 years
• operating equipment	3 to 5 years
• motor vehicles	5 to 10 years

No depreciation is provided on freehold land as it is deemed to have an indefinite life.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1. Significant accounting policies *continued*

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(k)) to earn rental income and/or for capital appreciation. These include land held for currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(u).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(k)) and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(k).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

(j) Investment in hotel management contract

Payments for acquiring hotel management contracts are capitalised and are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 1(l)).

Amortisation of investment in hotel management contracts is charged to profit or loss on a straight-line basis over the term of the relevant agreements.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(i)); and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over form the previous lessee.

1. Significant accounting policies *continued*

(k) Leased assets *continued*

Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(l). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(l) Impairment of assets

Impairment of financial assets

Financial assets include loans granted by the Group or Company other than those regarded as long-term interests that in substance form part of the Group's net investments in the jointly controlled entities, interests in unlisted equity instruments (other than investments in subsidiaries, associates and jointly controlled entities) and debtors (including trade debtors and receivables from related parties).

Financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1. Significant accounting policies *continued*

(1) Impairment of assets *continued*

Impairment of financial assets *continued*

If any such evidence exists, an impairment loss is determined and recognised as follows:

- For unquoted equity instruments carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity instruments are not reversed.
- For financial assets carried at amortised cost (such as loans), the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset); where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- hotel and other properties, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- investment in hotel management contracts; and
- interests in subsidiaries and jointly controlled entities.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

1. Significant accounting policies *continued*

(l) Impairment of assets *continued*

Impairment of other assets *continued*

- *Calculation of recoverable amount*
  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- *Recognition of impairment losses*
  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or a cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- *Reversals of impairment losses*
  In respect of assets other than goodwill, an impairment loss is reversed if the recoverable amount of an asset, or the cash-generating unit to which it belongs, exceeds its carrying amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

- *Interim financial reporting and impairment*
  Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

  Impairment losses recognised in an interim period in respect of goodwill and unquoted equity instruments carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(m) Inventories

Land lots for sale and other inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1. Significant accounting policies *continued*

(m) Inventories *continued*

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Trade debtors and other receivables

Trade debtors and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of bad and doubtful debts (see note 1(l)), except where they are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, they are stated at cost less allowance for impairment of bad and doubtful debts (see note 1(l)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade creditors and other payables

Trade creditors and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(t), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

1. Significant accounting policies *continued*

(r) Employee benefits *continued*

Defined benefit retirement plan obligations *continued*

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

In calculating the Group's obligation in respect of a plan, if any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Termination benefits

Termination benefits are recognised when and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity and are expected to reverse in a period, or periods, in which the tax losses or credits can be utilised.

1. Significant accounting policies *continued*

(s) Income tax *continued*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Provisions, contingent liabilities and financial guarantees issued

Provisions are recognised for liabilities of uncertain timing or amount when the Group or Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1. Significant accounting policies *continued*

(t) Provisions, contingent liabilities and financial guarantees issued *continued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, where material, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate and the amount that would be determined in accordance with the first paragraph of this note. Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with the second paragraph of this note.

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group or Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Hotel and Golf Club operations
Revenue is recognised on a basis that reflects the timing, nature and value when the relevant services are provided.

Sale of land lots
Revenue is recognised upon the transfer of legal title of the land lots. Deposits and instalments received on land lots sold prior to the date of revenue recognition are included in the balance sheet under creditors.

Sale of goods and wholesaling
Revenue is recognised when goods are delivered and the related risks and rewards of ownership of the goods have been transferred to the customers. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Rental income from operating leases
Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

1. Significant accounting policies *continued*

(u) Revenue recognition *continued*

Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date.

Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity (see note 1(g)).

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(w) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to become ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1. Significant accounting policies *continued*

(x) Related parties

For the purposes of these Financial Statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
ii) the Group and the party are subject to common control;
iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these Financial Statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade debtors and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing borrowings, tax balances and corporate and financing expenses.

2. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these Financial Statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of Financial Statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the Financial Statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these Financial Statements, in particular in note 30.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 27(e).

Both HKFRS 7 and the amendments to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the Financial Statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 37).

3. 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

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. Profit before non-operating items (HK$m)

Profit before non-operating items is arrived at after charging/(crediting):

(a) Financing charges

	2007	2006
Interest on bank borrowings wholly repayable within five years	**103**	112
Other borrowing costs	**5**	5
Total interest expense on financial liabilities not at fair value through profit or loss	**108**	117
Derivative financial instruments:		
– cash flow hedges, transfer from equity	**10**	10
– held for trading, at fair value through profit or loss	**6**	9
Others*	**(3)**	(2)
	121	134
Less: Amount capitalised into assets under development**	**(9)**	(9)
	112	125

* *Mainly represents the combined effect of exchange differences on foreign currency intra-group loans financed by bank borrowings and changes in fair value of the related currency swaps entered into for the purposes of offsetting these exchange differences.*

** *The average rate used for capitalisation was* ***1.9%*** *(2006: 2.3%).*

5. Profit before non-operating items (HK$m) *continued*

(b) Other items

	2007	2006
Amortisation of hotel management contract	**5**	5
Depreciation	**330**	246
Auditors' remuneration:		
– audit services	**8**	7
– tax services	**1**	1
Foreign exchange gains	**1**	1
Operating lease charges:		
– minimum lease charges for hiring of assets (including property rentals)	**100**	67
– contingent rental (note 33(b))	**12**	9
Interest income	**(25)**	(6)
Rental receivable from investment properties less direct outgoings of **HK$18 million** (2006: HK$21 million)	**(905)**	(796)

6. 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.

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

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

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2007	2006
Profit before taxation	**4,224**	2,546
Notional tax at the domestic income tax rate of 17.5%	**739**	446
Tax effect of non-deductible expenses	**32**	21
Tax effect of non-taxable income	**(11)**	(20)
Tax effect of utilisation of unrecognised tax losses	**(36)**	(30)
Tax effect of tax losses not recognised	**4**	9
Recognition of prior years' tax losses	**–**	(43)
Effect of change in tax rate	**(56)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**63**	38
Others	**(3)**	2
Actual tax expense	**732**	423

8. Directors' and senior management's remuneration

There are three components of remuneration paid to Executive Directors, as well as senior management and other staff.

Basic compensation
Basic compensation consists of base salary, housing and other allowances and benefits. Basic compensation is reviewed annually, taking into account market conditions and individual performance.

Bonuses and incentives
Bonus payments depend on individual performance and the performance of the Group. In addition, certain incentive payments have been defined in the individual employment contracts.

Retirement benefits
Retirement benefits relate to the Group's contribution to retirement funds.

8. Directors' and senior management's remuneration *continued*

For Non-Executive Directors, fees are set in line with market practice, taking account of comparable Hong Kong listed companies and were fixed at HK$100,000 per annum in 2007 and 2006. Non-Executive Directors who are also members of the Executive Committee or the Audit Committee were also entitled to a fixed fee of HK$100,000 per annum for each Committee during the year.

Remuneration for Directors disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and that for senior management disclosed pursuant to corporate governance best practice are as follows:

	Directors' fees (HK$'000)	Basic compensation (HK$'000)	Bonuses & incentives (HK$'000)	Retirement benefits (HK$'000)	Compensation for loss of office (HK$'000)	Total (HK$'000)
2007						
*Executive Directors**						
Mr. Clement K.M. Kwok	–	4,426	5,894	691	–	11,011
Mr. C. Mark Broadley**	–	3,733	3,280	573	–	7,586
Mr. Peter C. Borer	–	3,221	2,154	477	–	5,852
Non-Executive Directors						
The Hon. Sir Michael Kadoorie	200	–	–	–	–	200
Mr. Ian D. Boyce	300	–	–	–	–	300
Mr. Ronald J. McAulay	100	–	–	–	–	100
Mr. William E. Mocatta	100	–	–	–	–	100
Mr. Pierre R. Boppe	100	–	–	–	–	100
Mr. John A.H. Leigh***	200	–	–	–	–	200
Mr. Nicholas T.J. Colfer***	100	–	–	–	–	100
Independent Non-Executive Directors						
Dr. The Hon. Sir David K.P. Li	100	–	–	–	–	100
Mr. Robert C.S. Ng	200	–	–	–	–	200
Mr. Robert W. Miller	100	–	–	–	–	100
Mr. Patrick B. Paul	200	–	–	–	–	200
Senior management (other members of Group Management Committee)*						
Mr. J. Niklaus Leuenberger#	–	1,697	–	123	5,187	7,007
Mr. Martyn P.A. Sawyer	–	2,862	483	278	–	3,623
Ms. Maria Razumich-Zec##	–	2,938	571	140	–	3,649
	1,700	18,877	12,382	2,282	5,187	40,428

8. Directors' and senior management's remuneration *continued*

	Directors' fees (HK$'000)	Basic compensation (HK$'000)	Bonuses & incentives (HK$'000)	Retirement benefits (HK$'000)	Total (HK$'000)
2006					
*Executive Directors**					
Mr. Clement K.M. Kwok	–	4,342	4,719	671	9,732
Mr. C. Mark Broadley**	–	3,657	2,776	556	6,989
Mr. Peter C. Borer	–	3,161	1,701	464	5,326
Non-Executive Directors					
The Hon. Sir Michael Kadoorie	200	–	–	–	200
Mr. Ian D. Boyce	300	–	–	–	300
Mr. James S. Dickson Leach###	76	–	–	–	76
Sir Sidney Gordon###	38	–	–	–	38
Mr. Ronald J. McAulay	100	–	–	–	100
Mr. William E. Mocatta	100	–	–	–	100
Mr. Pierre R. Boppe	100	–	–	–	100
Mr. John A.H. Leigh***	124	–	–	–	124
Mr. Nicholas T.J. Colfer***	62	–	–	–	62
Independent Non-Executive Directors					
Dr. The Hon. Sir David K.P. Li	100	–	–	–	100
Mr. Robert C.S. Ng	200	–	–	–	200
Mr. Robert W. Miller	100	–	–	–	100
Mr. Patrick B. Paul	200	–	–	–	200
Senior management (other members of Group Management Committee)*					
Mr. J. Niklaus Leuenberger#	–	3,571	395	135	4,101
Mr. Martyn P. A. Sawyer	–	2,805	445	272	3,522
	1,700	17,536	10,036	2,098	31,370

* *The Group Management Committee, the Company's management and operations' decision-making authority, is comprised of the three Executive Directors and two senior executives who represent the various key functions and operations of the Company.*

** *Mr. C. Mark Broadley will resign as an Executive Director of the Company with effect from 31 March 2008.*

*** *Messers John A. H. Leigh and Nicholas T.J. Colfer were elected as Non-Executive Directors of the Company on 18 May 2006.*

Mr. J. Niklaus Leuenberger resigned as Senior Vice President, The Americas on 30 April 2007.

Ms. Maria Razumich-Zec has been the General Manager of The Peninsula Chicago since 2002 and took on the role of Regional Vice President – USA East Coast since May 2007. The above figures include her remuneration of HK$1,084,000 in the capacity as General Manager in 2007.

Mr. James S. Dickson Leach and Sir Sidney Gordon retired as Non-Executive Directors of the Company on 18 May 2006.

9. Individuals with highest emoluments

The emoluments of the five individuals with the highest emoluments are disclosed in note 8.

10. Profit attributable to shareholders of the Company (HK$m)

The profit attributable to shareholders of the Company includes a profit of **HK$129 million** (2006: HK$276 million) which has been dealt with in the Financial Statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2007	2006
Amount of profit attributable to shareholders dealt with in the Financial Statements of the Company	**129**	276
Reversal of provision for impairment for interests in subsidiaries	**754**	822
Company's profit for the year	**883**	1,098

At 31 December 2007, the Directors considered that, due to the significant improvement in the operating performance of the subsidiaries and in the property market, the provision for impairment previously made against the interests in subsidiaries should be reversed by **HK$754 million** (2006: HK$822 million).

11. 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.

12. Dividends (HK$m)

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

	2007	2006
Interim dividend declared and paid of **6 HK cents** per share (2006: 5 HK cents per share)	**86**	71
Final dividend proposed after the balance sheet date of **12 HK cents** per share (2006: 11 HK 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 HK cents** per share (2006: 10 HK cents per share)	**157**	142

13. 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.

13. 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

* *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*

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

(a) Business segments *continued*

	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

(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

14. Fixed assets

(a) Movements of fixed assets (HK$m)

	Freehold land	Hotel and other buildings held for own use	Plant, machinery and other fixed assets	Sub-total	Investment properties	Interests in leasehold land held under operating leases	Total fixed assets
Cost or valuation:							
At 1 January 2006	852	5,271	3,045	9,168	16,155	1	25,324
Exchange adjustments	74	240	51	365	72	–	437
Additions	–	86	564	650	123	–	773
Disposals	–	(20)	(28)	(48)	(2)	–	(50)
Transfer	–	62	–	62	(62)	–	–
Fair value adjustment	–	–	–	–	1,442	–	1,442
At 31 December 2006	926	5,639	3,632	10,197	17,728	1	27,926
Representing:							
Cost	926	5,639	3,632	10,197	–	1	10,198
Valuation – 2006	–	–	–	–	17,728	–	17,728
	926	5,639	3,632	10,197	17,728	1	27,926
At 1 January 2007	**926**	**5,639**	**3,632**	**10,197**	**17,728**	**1**	**27,926**
Exchange adjustments	**44**	**243**	**124**	**411**	**90**	**–**	**501**
Additions	**1**	**643**	**12**	**656**	**31**	**–**	**687**
Disposals	**–**	**(1)**	**(147)**	**(148)**	**–**	**–**	**(148)**
Fair value adjustment	**–**	**–**	**–**	**–**	**3,319**	**–**	**3,319**
At 31 December 2007	**971**	**6,524**	**3,621**	**11,116**	**21,168**	**1**	**32,285**
Representing:							
Cost	**971**	**6,524**	**3,621**	**11,116**	**–**	**1**	**11,117**
Valuation – 2007	**–**	**–**	**–**	**–**	**21,168**	**–**	**21,168**
	971	**6,524**	**3,621**	**11,116**	**21,168**	**1**	**32,285**
Accumulated depreciation:							
At 1 January 2006	344	2,379	2,039	4,762	–	1	4,763
Exchange adjustments	35	124	49	208	–	–	208
Charge for the year	–	110	136	246	–	–	246
Reversal of impairment losses, net	(41)	(143)	(16)	(200)	–	–	(200)
Written back on disposals	–	(16)	(26)	(42)	–	–	(42)
At 31 December 2006	338	2,454	2,182	4,974	–	1	4,975
At 1 January 2007	**338**	**2,454**	**2,182**	**4,974**	**–**	**1**	**4,975**
Exchange adjustments	**22**	**119**	**60**	**201**	**–**	**–**	**201**
Charge for the year	**–**	**140**	**190**	**330**	**–**	**–**	**330**
Provision for impairment losses, net	**5**	**13**	**5**	**23**	**–**	**–**	**23**
Written back on disposals	**–**	**(1)**	**(138)**	**(139)**	**–**	**–**	**(139)**
At 31 December 2007	**365**	**2,725**	**2,299**	**5,389**	**–**	**1**	**5,390**
Net book value:							
At 31 December 2007	**606**	**3,799**	**1,322**	**5,727**	**21,168**	**–**	**26,895**
At 31 December 2006	588	3,185	1,450	5,223	17,728	–	22,951

14. Fixed assets *continued*

(a) Movements of fixed assets (HK$m) *continued*

Impairment loss

The Group assessed the recoverable amounts of its fixed assets (other than investment properties) at the balance sheet date in accordance with the policy as disclosed in note 1(l).

Based on the assessment, the Directors considered that Quail Lodge Resort and Golf Course was further impaired as at 31 December 2007, as a result of the current condition of the property market in California. On this basis, its carrying amount was written down by **HK$25 million** (2006: HK$30 million) to its recoverable amount, which is its fair value less costs to sell, determined by an independent professional valuer.

As at 31 December 2006, the Directors considered that due to the significant improvement in the Chicago hotel property market, the impairment provision previously made against The Peninsula Chicago should be fully reversed by HK$227 million to its original cost less accumulated depreciation. The reversal of the impairment provision was determined based on the recoverable amount of the property, which is its fair value less costs to sell, determined by an independent professional valuer.

14. Fixed assets *continued*

(b) All investment properties of the Group were revalued as at 31 December 2007 on an open market value basis mainly calculated by reference to net rental income allowing for reversionary income potential. The changes in fair value of the investment properties during the year were accounted for in the consolidated income statement. The valuations were carried out by surveyor firms independent of the Group who have staff with experience in the location and category of property being valued. Details of the surveyor firms are as follows:

Description of investment properties	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong		
– Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited	Members of The Hong Kong Institute of Surveyors
Other Asia*		
– Retail shops, offices, residential apartments and vacant land	Sallmanns (Far East) Limited Savills Valuation and Professional Services Limited Jones Lang LaSalle Hotels	Members of The Royal Institution of Chartered Surveyors
United States of America		
– Retail shops and vacant land	HVS	Members of the Appraisal Institute, United States of America

* *Other Asia includes the People's Republic of China, Japan, Thailand, the Philippines and Vietnam.*

(c) The analysis of net book value of land held by the Group is as follows (HK$m):

		2007	2006
Hong Kong	– long term leases	**17,024**	14,034
	– medium term leases	**634**	439
		17,658	14,473
Thailand	– freehold	**677**	631
Vietnam	– medium term lease	**59**	52
Other Asia		**736**	683
United States of America	– freehold	**368**	374
		18,762	15,530
Representing:			
Land classified as investment properties, at fair value		**18,156**	14,942
Freehold land held for own use		**606**	588
		18,762	15,530

14. Fixed assets *continued*

(d) Fixed assets leased out under operating leases

The Group leases out its investment properties under operating leases. The leases typically run for an initial period of one to five years, with or without options to renew the leases after that date at which time all terms are renegotiated. Contingent rentals of these leases were immaterial during 2007 and 2006. All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property. Future minimum rentals receivable under non-cancellable operating leases of these properties are disclosed in note 31(b).

(e) Assets under development

Included under plant, machinery and other fixed assets are assets under development amounting to **HK$58 million** (2006: HK$555 million), which were not subject to depreciation.

(f) Hotel and investment properties, all held through subsidiaries, are as follows:

	Usage
Held in Hong Kong:	
Long term leases (over 50 years):	
The Peninsula Hong Kong, Salisbury Road	Hotel and commercial rentals
The Peninsula Office Tower, 18 Middle Road	Office
The Repulse Bay, 109 Repulse Bay Road	Residential and commercial rentals
Repulse Bay Apartments, 101 Repulse Bay Road	Residential
Repulse Bay Garage, 60 Repulse Bay Road	Commercial rentals
St. John's Building, 33 Garden Road	Office
Medium term lease (between 10 and 50 years):	
The Peak Tower, 128 Peak Road	Commercial rentals
Held in the People's Republic of China:	
Medium term lease (between 10 and 50 years):	
The Peninsula Beijing, 8 Goldfish Lane, Wangfujing, Beijing	Hotel and commercial rentals
Held in Japan:	
Medium term lease (between 10 and 50 years):	
The Peninsula Tokyo, 1-8-1 Yurakucho, Chiyoda-ku, Tokyo	Hotel and commercial rentals
Held in Thailand:	
Freehold:	
The Peninsula Bangkok, 333 Charoennakorn Road, Klongsan, Bangkok 10600	Hotel
Thai Country Club, Bangna-Trad, Chachoengsao	Golf club
Land plots, Bangpakong District, Chachoengsao	Undetermined
Held in the Philippines:	
Medium term lease (between 10 and 50 years):	
The Peninsula Manila, Corner of Ayala and Makati Avenues, 1226 Makati City, Metro Manila	Hotel and commercial rentals

14. Fixed assets *continued*

(f) Hotel and investment properties, all held through subsidiaries, are as follows: *continued*

	Usage
Held in Vietnam:	
Medium term lease (between 10 and 50 years):	
The Landmark,	
5B Ton Duc Thang Street,	
District 1, Ho Chi Minh City	Residential and commercial rentals
Held in the United States of America:	
Freehold/leasehold:	
Quail Lodge Resort and Golf Club,	
8205 Valley Greens Drive, Carmel, California	Hotel and golf club
Vacant land, near Quail Lodge	Undetermined
Freehold/long term leasehold to air rights (over 50 years):	
The Peninsula Chicago,	
108 East Superior Street	
(at North Michigan Avenue), Chicago, Illinois	Hotel
Long term lease (over 50 years):	
The Peninsula New York,	
700 Fifth Avenue at 55th Street, New York	Hotel and commercial rentals

(g) To provide additional information for shareholders, the Directors have commissioned an independent valuation of the Group's hotel properties and golf courses as at 31 December 2007. The total valuation placed on the hotel properties and golf courses, which have a net book value of **HK$5,596 million** (2006: HK$4,588 million), was **HK$9,793 million** (2006: HK$7,715 million) as at 31 December 2007. It is important to note that the surplus of HK$4,197 million and the related deferred taxation and minority interests has not been incorporated in the consolidated Financial Statements but is for additional information only. The valuations were carried out by surveyor firms independent of the Group, details of which are as follows:

Description of hotels and golf courses	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong and other Asia*		
– Hotels	Jones Lang LaSalle Hotels	Members of Singapore Institute of Surveyors and Valuers
– Golf course	Sallmanns (Far East) Limited	Members of The Royal Institution of Chartered Surveyors
United States of America		
– Hotels and golf course	HVS	Members of the Appraisal Institute, United States of America

* *Other Asia includes the People's Republic of China, Japan, Thailand and the Philippines.*

15. Investments in subsidiaries (HK$m)

	2007	2006
Unlisted shares, at cost	**94**	94

Particulars of subsidiaries which principally contributed to the results, assets or liabilities of the Group are presented on page 179. The class of shares held is ordinary unless otherwise stated.

Please refer to note 34 for information on the transfer of unlisted shares directly held by the Company to its wholly owned subsidiary subsequent to the balance sheet date.

16. Interest in jointly controlled entity (HK$m)

	Group	
	2007	2006
Unlisted shares, at cost (note 16(a))	**–**	–
Share of exchange reserve	**55**	16
Share of losses	**(4)**	(4)
Share of net assets	**51**	12
Loan to jointly controlled entity (note 16(b))	**458**	458
	509	470

(a) Details of the jointly controlled entity are as follows:

				Proportion of ownership interest			
Company name	Form of business structure	Place of incorporation/ formation	Particulars of issued and paid up capital	Group's effective interest	Held directly by Company	Held indirectly by subsidiary	Principal activity
The Peninsula Shanghai (BVI) Limited ("TPS")*	Incorporated	British Virgin Islands	US$1,000	50%	–	50%	Investment holding

* *TPS holds a 100% direct interest in Evermore Gain Limited ("EGL"), a company incorporated in Hong Kong in 2007, which in turn holds a 100% direct interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"). PSW is a wholly foreign owned enterprise incorporated in the People's Republic of China and is engaged in the project for the development and construction of a hotel to be branded "The Peninsula Shanghai", a Peninsula hotel apartment, a retail arcade and ancillary facilities. At 31 December 2007, the paid up capital of EGL and PSW amounted to* ***HK$1*** *and* ***US$73,500,000*** *(2006: US$73,500,000) respectively.*

(b) The loan to the jointly controlled entity is denominated in US dollars, unsecured and interest free and has no fixed repayment terms. It is neither past due nor impaired. Part of the loan was contributed as capital of PSW while the remaining portion was on-lent to PSW on an interest-free basis for the purpose of funding the development of the project described in note 16(a) above.

16. Interest in jointly controlled entity (HK$m) *continued*

(c) Set out below is a summary of the financial information on the jointly controlled entity, of which the Group has a 50% share.

	2007	2006
Non-current assets	**1,274**	982
Current assets	**24**	33
Current liabilities	**(85)**	(39)
Non-current liabilities	**(1,111)**	(952)
Net assets	**102**	24
Expenses and loss for the year	**(1)**	(3)

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

	Group	
	2007	2006
Unlisted equity securities, at cost	**43**	129
Less: Repayment (note 18)	**(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. 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 6).

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

	Group 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 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.

19. Derivative financial instruments (HK$m)

(a) Group

	31 December 2007		31 December 2006	
	Assets	**Liabilities**	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	**1**	**(61)**	10	(34)
Forward foreign exchange contracts	**–**	**–**	3	–
Currency swap	**–**	**(23)**	–	(23)
	1	**(84)**	13	(57)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	**9**	**(89)**	1	(118)
Currency swaps	**5**	**(42)**	17	(39)
Total	**15**	**(215)**	31	(214)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	**–**	**(15)**	1	(9)
Forward foreign exchange contracts	**–**	**–**	3	–
Currency swap	**–**	**(23)**	–	(8)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	**2**	**(36)**	–	(41)
Currency swaps	**5**	**(42)**	9	(11)
	7	**(116)**	13	(69)
Portion to be recovered/(settled) after one year	**8**	**(99)**	18	(145)

19. Derivative financial instruments (HK$m) *continued*

(b) Company

	31 December 2007		31 December 2006	
	Assets	**Liabilities**	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	**8**	**(3)**	1	(29)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	**133**	**(133)**	123	(123)
Currency swap	**5**	**(5)**	17	(17)
Total	**146**	**(141)**	141	(169)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	**2**	**(2)**	–	(12)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	**45**	**(45)**	36	(36)
Currency swap	**5**	**(5)**	9	(9)
	52	**(52)**	45	(57)
Portion to be recovered/(settled) after one year	**94**	**(89)**	96	(112)

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

(a) Current taxation in the balance sheet represents:

	Group		Company	
	2007	2006	**2007**	2006
Provision for Hong Kong Profits Tax for the year	**99**	58	**23**	27
Provisional profits tax paid	**(24)**	(13)	**–**	–
	75	45	**23**	27
Balance of profits tax provision relating to prior years	**11**	9	**7**	11
Provision for overseas taxes	**41**	36	**–**	–
	127	90	**30**	38

Analysed as follows:

	Group		Company	
	2007	2006	**2007**	2006
Taxation recoverable	**–**	(3)	**–**	–
Current taxation	**127**	93	**30**	38
	127	90	**30**	38

20. Income tax in the balance sheet (HK$m) *continued*

(b) Deferred tax assets and liabilities recognised

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

Group

	Revaluation of investment properties	Tax allowances in excess of the related depreciation	Provisions and others	Tax losses	Cash flow hedges	Total
Deferred tax arising from:						
At 1 January 2006	2,295	492	(24)	(276)	(33)	2,454
Charged/(credited) to profit or loss	249	67	(4)	(19)	–	293
Charged/(credited) to reserves	12	15	–	(1)	9	35
At 31 December 2006	2,556	574	(28)	(296)	(24)	2,782
At 1 January 2007	**2,556**	**574**	**(28)**	**(296)**	**(24)**	**2,782**
Charged/(credited) to profit or loss	**590**	**(44)**	**–**	**9**	**–**	**555**
Charged to reserves	**10**	**14**	**2**	**–**	**1**	**27**
At 31 December 2007	**3,156**	**544**	**(26)**	**(287)**	**(23)**	**3,364**

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.

	Group	
	2007	2006
Net deferred tax asset recognised on the balance sheet	**(49)**	(98)
Net deferred tax liability recognised on the balance sheet	**3,413**	2,880
	3,364	2,782

	Company	
	2007	2006
Deferred tax liability/(asset) arising from cash flow hedges	**1**	(5)

(c) Deferred tax assets not recognised

The Group has not recognised the following potential deferred tax assets:

	Group	
	2007	2006
Book depreciation in excess of depreciation allowances	**89**	39
Future benefit of tax losses	**45**	66
Provision and others	**25**	16
	159	121

20. Income tax in the balance sheet (HK$m) *continued*

(c) Deferred tax assets not recognised *continued*

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax assets in respect of certain cumulative tax losses of **HK$140 million** (2006: HK$329 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Details of the expiry date of unused tax losses are as follows:

	Group	
	2007	2006
Within 1 year	**41**	40
After 1 year but within 5 years	**44**	51
After 5 years but within 10 years	**30**	2
Without expiry date	**25**	236
	140	329

(d) Deferred tax liabilities not recognised

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax liabilities totalling **HK$200 million** (2006: HK$66 million) in respect of unremitted earnings of certain subsidiaries amounting to **HK$1,001 million** (2006: HK$522 million), as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

21. Inventories (HK$m)

	Group	
	2007	2006
Land lots for sale	**–**	4
Food and beverage and others	**98**	82
	98	86

The cost of inventories recognised as expenses in the consolidated income statement amounted to **HK$380 million** (2006: HK$283 million).

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

	Group		Company	
	2007	2006	**2007**	2006
Loans and other receivables due from subsidiaries	**–**	–	**13,855**	13,789
Provision for impairment	**–**	–	**(1,901)**	(2,655)
	–	–	**11,954**	11,134
Trade debtors (ageing analysis is shown below)	**227**	114	**–**	–
Loans and receivables	**227**	114	**11,954**	11,134
Rental deposits and payments in advance	**198**	194	**9**	19
	425	308	**11,963**	11,153

Loans and other receivables due from subsidiaries are unsecured, interest free and have no fixed terms of repayment except for an amount of **HK$2,890 million** (2006: HK$3,361 million) which bears interest at market rates. The Directors consider that the carrying amount of all debtors and payments in advance approximates their fair value.

The amount of the Group's and the Company's 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) and **HK$10,543 million** (2006: HK$9,257 million) respectively. 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:

	Group	
	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. The Group's credit policy is set out in note 30(d).

23. Cash and cash equivalents (HK$m)

	Group		Company	
	2007	2006	**2007**	2006
Interest-bearing bank deposits	**1,372**	323	**20**	4
Cash at bank and in hand	**42**	124	**–**	1
Cash and cash equivalents in the balance sheet	**1,414**	447	**20**	5
Bank overdrafts (note 25)	**(16)**	(14)		
Cash and cash equivalents in the consolidated cash flow statement	**1,398**	433		

Cash and cash equivalents at the end of the year include deposits with banks of **HK$493 million** (2006: HK$222 million) held by subsidiaries that are not freely remittable to the holding company because of currency exchange restrictions.

24. Creditors and accruals (HK$m)

	Group		Company	
	2007	2006	**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	**14**	10
Other payables to subsidiaries	**–**	–	**22**	5
Financial liabilities measured at amortised cost	**1,233**	1,111	**36**	15

The amount of creditors and accruals of the Group 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:

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

25. Interest-bearing borrowings (HK$m)

	Group	
	2007	2006
Total facilities available:		
Term loans and revolving credits	**3,840**	3,942
Uncommitted facilities, including bank overdrafts	**457**	1,116
	4,297	5,058
Utilised at 31 December:		
Term loans and revolving credits	**2,833**	2,463
Uncommitted facilities, including bank overdrafts	**36**	60
	2,869	2,523
Represented by:		
Short-term bank loans, repayable within one year or on demand	**548**	257
Current portion of long-term bank loans, repayable within one year	**–**	35
Bank overdrafts, repayable on demand (note 23)	**16**	14
	564	306
Long-term bank loans, repayable:		
Within one year	**–**	35
Between one and two years	**580**	537
Between two and five years	**1,725**	1,680
	2,305	2,252
Less: Current portion of long-term bank loans	**–**	(35)
Non-current portion of long-term bank loans	**2,305**	2,217
Total interest-bearing borrowings	**2,869**	2,523

All of the non-current interest-bearing borrowings are carried at amortised cost. The non-current portion of long-term bank loans are not expected to be settled within one year and all borrowings are unsecured.

All of the Group's banking facilities are subject to the fulfillment of covenants relating to some of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 30. As at 31 December 2007 and 2006, none of the covenants relating to drawn down facilities had been breached.

26. Share capital

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

27. Reserves (HK$m)

(a) Group

	Attributable to equity shareholders of the Company								
	Share premium	Capital redemption reserve	Hedging reserve	Exchange reserve	General reserve	Retained profits	Sub-total	Minority interests	Total
At 1 January 2006	2,685	9	(15)	(627)	1,098	11,037	14,187	710	14,897
Dividends approved in respect of the previous year	52	–	–	–	–	(142)	(90)	–	(90)
Exchange differences on translation of financial statements of									
– overseas subsidiaries	–	–	–	92	–	–	92	49	141
– jointly controlled entity	–	–	–	11	–	–	11	–	11
Cash flow hedges: effective portion of changes in fair value, net of tax	–	–	(27)	–	–	–	(27)	(2)	(29)
Cash flow hedges: transfer from equity to									
– profit or loss, net of tax	–	–	20	–	–	–	20	–	20
– fixed assets, net of tax	–	–	4	–	–	–	4	–	4
Profit for the year	–	–	–	–	–	2,094	2,094	29	2,123
Dividends declared in respect of the current year	48	–	–	–	–	(71)	(23)	(3)	(26)
At 31 December 2006	2,785	9	(18)	(524)	1,098	12,918	16,268	783	17,051
At 1 January 2007	**2,785**	**9**	**(18)**	**(524)**	**1,098**	**12,918**	**16,268**	**783**	**17,051**
Dividends approved in respect of the previous year	**111**	–	–	–	–	**(157)**	**(46)**	–	**(46)**
Exchange differences on translation of financial statements of									
– overseas subsidiaries	–	–	–	**122**	–	–	**122**	**56**	**178**
– jointly controlled entity	–	–	–	**39**	–	–	**39**	–	**39**
Exchange loss realised upon disposal of an unlisted equity instrument	–	–	–	**252**	–	–	**252**	–	**252**
Cash flow hedges: effective portion of changes in fair value, net of tax	–	–	**(42)**	–	–	–	**(42)**	**(1)**	**(43)**
Cash flow hedges: transfer from equity to									
– profit or loss, net of tax	–	–	**3**	–	–	–	**3**	–	**3**
– fixed assets, net of tax	–	–	**4**	–	–	–	**4**	–	**4**
Profit for the year	–	–	–	–	–	**3,437**	**3,437**	**55**	**3,492**
Dividends declared in respect of the current year	**54**	–	–	–	–	**(86)**	**(32)**	**(2)**	**(34)**
At 31 December 2007	**2,950**	**9**	**(53)**	**(111)**	**1,098**	**16,112**	**20,005**	**891**	**20,896**

27. Reserves (HK$m) *continued*

(b) Company

	Share premium	Capital redemption reserve	Capital reserve	Hedging reserve	General reserve	Retained profits	Total
At 1 January 2006	2,685	9	4,975	(46)	980	851	9,454
Dividends approved in respect of the previous year	52	–	–	–	–	(142)	(90)
Cash flow hedge: effective portion of changes in fair value, net of tax	–	–	–	6	–	–	6
Cash flow hedge: transfer from equity to profit or loss, net of tax	–	–	–	17	–	–	17
Profit for the year	–	–	–	–	–	1,098	1,098
Dividends declared in respect of the current year	48	–	–	–	–	(71)	(23)
At 31 December 2006	2,785	9	4,975	(23)	980	1,736	10,462
At 1 January 2007	**2,785**	**9**	**4,975**	**(23)**	**980**	**1,736**	**10,462**
Dividends approved in respect of the previous year	**111**	–	–	–	–	**(157)**	**(46)**
Cash flow hedge: effective portion of changes in fair value, net of tax	–	–	–	**14**	–	–	**14**
Cash flow hedge: transfer from equity to profit or loss, net of tax	–	–	–	**13**	–	–	**13**
Profit for the year	–	–	–	–	–	**883**	**883**
Dividends declared in respect of the current year	**54**	–	–	–	–	**(86)**	**(32)**
At 31 December 2007	**2,950**	**9**	**4,975**	**4**	**980**	**2,376**	**11,294**

(c) Nature and purpose of reserves

Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

Capital reserve

The Company's capital reserve represents the profit recognised on the intra-group transfer of properties as a result of the corporate restructuring in 1991.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges in note 1(g).

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in notes 1(g) and 1(v).

General reserve

General reserve represents retained profits set aside for general purposes.

27. Reserves (HK$m) *continued*

(d) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to shareholders of the Company was **HK$3,356 million** (2006: HK$2,716 million). After the balance sheet date the Directors proposed a final dividend of **12 HK cents per share** (2006: 11 HK cents per share), amounting to **HK$173 million** (2006: HK$157 million). This dividend has not been recognised as a liability at the balance sheet date.

(e) Capital management

The Group takes a long term view of its business and consequently the planning of the use of capital. The Group's primary objectives when managing its capital are to safeguard the Group's ability to continue as a going concern, to secure access to finance at a reasonable cost relative to risk and to provide an appropriate return to shareholders. In so doing, it seeks to achieve an appropriate balance between shareholders' equity and external debt by taking into account the cost of capital and the efficiency of using the capital.

The Group regularly reviews its capital structure and actively monitors current and expected liquidity requirements to ensure its obligations and commitments are met. A proactive approach is taken to forecasting future funding requirements and, when funds are needed, market conditions are evaluated to determine the best form of finance to be secured.

In addition, the Group maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to ensure funds are available to meet its financial obligations and to finance its growth and development.

The Group monitors its capital structure on the basis of its gearing ratio, which is expressed as the percentage of net borrowings, defined as interest-bearing loans and borrowings less cash and cash equivalents, to the total of net borrowings and equity attributable to shareholders of the Company. Also the Group's share of net borrowings and equities of the non-consolidated entities (such as the jointly controlled entity and unlisted equity instrument), if any, are also taken into account. The calculations of gearing ratios before and after the non-consolidated entities as at 31 December 2007 and 2006 are as follows:

(HK$m)	**2007**	2006
Interest-bearing borrowings	**2,869**	2,523
Less: Cash and cash equivalents	**(1,414)**	(447)
Net borrowings per audited balance sheet	**1,455**	2,076
Share of net borrowings of non-consolidated entities	**296**	113
Net borrowings adjusted for non-consolidated entities	**1,751**	2,189
Equity attributable to shareholders of the Company per audited balance sheet	**20,726**	16,982
Gearing ratio based on audited financial statements	**7%**	11%
Gearing ratio adjusted for non-consolidated entities	**8%**	11%

27. Reserves (HK$m) *continued*

(e) Capital management *continued*

During 2007, the Group continued to operate within its long term treasury management guidelines and maintained the adjusted gearing ratio at well below 40%. Operating and investment decisions are made by making reference to long term cash flow forecasts to ensure that the guideline is followed.

The Group is subject to covenants imposed by the lenders of the interest-bearing borrowings based on the Group's borrowings and other indebtedness, as well as the amount of equity attributable to shareholders of the Company. The Group complied with the imposed loan covenants on capital requirements for the years ended 31 December 2007 and 2006.

28. Loans to officers

Loans to officers of the Company and its subsidiaries disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

(a) Loans made by a third party under guarantees given by the Company

Name of borrower:	Mr. Martyn P. A. Sawyer
Position:	Group General Manager, Properties and Clubs
Extent of guarantee given to a bank	GBP120,000
Maximum liability under the guarantee:	
at 1 January 2006	HK$1,205,000
at 31 December 2006 and 1 January 2007	HK$1,165,000
at 31 December 2007	HK$1,125,000
Amount paid or liability incurred under the guarantee	**HK$nil** (2006: HK$nil)

The guarantee is given without recourse to the officer. The Directors do not consider it probable that the Company will be called upon under the guarantee. The guarantee will be outstanding until a loan granted to the officer by the bank is repaid and the loan has a remaining term until 2014.

(b) Loans made by a subsidiary of the Company

Name of borrower:	Mr. Peter C. Borer
Position:	Director
Terms of the loan:	
– duration and repayment terms	5 years to May 2007
– interest rate	The Company's borrowing rate
– security	Borrower's retirement fund
Balance of the loan:	
at 1 January 2006	HK$559,727
at 31 December 2006 and 2007	HK$nil
Maximum balance outstanding during 2006:	HK$559,727

There was no amount due but unpaid, nor any provision made against the principal amount of or interest on this loan at 31 December 2007 and 2006.

The Company does not have the right to call upon the security held as collateral in the absence of default by the officer.

29. Employee retirement benefits

(a) Defined benefit retirement obligations

Quail Lodge, Inc. ("QLI"), a U.S. subsidiary of the Company, has retirement compensation agreements with certain employees which provide, among other things, that during the employees' lifetime after retirement, QLI will pay such employees retirement compensation equal to 30% of their average salaries in their final three years of employment.

QLI also has a deferred compensation agreement with a now deceased employee who died in 2005. The agreement provides, among other things, that during each of the 10 years after termination of his employment because of retirement, death or disability, such employee or his estate would be paid deferred compensation, adjusted for cost-of-living increases.

QLI has not funded the above retirement and deferred compensation arrangements and the liability in respect of its obligations was fully recognised in its Financial Statements at each year end date based on independent actuarial valuation.

Manila Peninsula Hotel, Inc. ("MPHI"), a Philippine subsidiary of the Company, operates a non-contributory defined benefit retirement plan which covers all its employees. The plan is administered by an independent trustee with the assets held separately from those of MPHI.

The above plan is funded by contributions from MPHI in accordance with an independent actuary's recommendation based on annual actuarial valuation. The latest independent actuarial valuation of the plan was prepared by qualified staff of Actuarial Advisers, Inc., who are members of the Actuarial Society of the Philippines, using the projected unit credit method at 31 December 2007. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were **56%** (2006: 50%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2007.

The amounts recognised in the Group's balance sheet are as follows (HK$m):

	Group	
	2007	2006
Present value of wholly or partly funded obligations	**39**	32
Fair value of plan assets	**(16)**	(11)
	23	21
Unrecognised actuarial gains	**3**	2
	26	23

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay HK$4 million in contributions to defined benefit retirement plans in 2008.

29. Employee retirement benefits *continued*

(a) Defined benefit retirement obligations *continued*

Plan assets consist of the following (HK$m):

	Group	
	2007	2006
Stocks	**11**	6
Mutual funds	**5**	5
	16	11

Movements in the present value of the defined benefit obligations (HK$m):

	Group	
	2007	2006
At 1 January	**32**	28
Exchange adjustments	**5**	1
Benefits paid by the plans	**(2)**	(3)
Current service cost	**3**	3
Interest cost	**2**	2
Actuarial (gain)/loss	**(1)**	1
At 31 December	**39**	32

Movements in plan assets (HK$m):

	Group	
	2007	2006
At 1 January	**11**	8
Exchange adjustments	**3**	1
Group's contributions paid to the plans	**3**	2
Benefits paid by the plans	**(1)**	(1)
Actuarial expected return on plan assets	**1**	1
Actuarial loss	**(1)**	–
At 31 December	**16**	11

The expense recognised as staff costs in the consolidated income statement is as follows (HK$m):

	Group	
	2007	2006
Current service cost	**3**	3
Interest cost	**2**	2
Actuarial expected return on plan assets	**(1)**	(1)
Actuarial gains	**–**	(2)
	4	2

29. Employee retirement benefits *continued*

(a) Defined benefit retirement obligations *continued*

The actual return on plan assets (taking into account all changes in the fair value of the plan assets excluding contributions paid and received) was net income of **HK$1 million** (2006: HK$1 million).

The principal actuarial assumptions used as at 31 December 2007 are as follows:

	Group	
	2007	2006
Discount rate	**from 4.7% to 8.3%**	from 4.7% to 11.6%
Expected rate of return on plan assets	**6.8%**	9.6%
Future salary increases	**from 3% to 5.3%**	from 3% to 5.7%

The expected long-term rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns without adjustments.

Historical information (HK$m):

	Group	
	2007	2006
Present value of defined benefit obligations	**39**	32
Fair value of plan assets	**(16)**	(11)
Deficit in the plan	**23**	21
Experience adjustments arising on plan liabilities	**1**	15
Experience adjustments arising on plan assets	**1**	1

In accordance with the transition provision for the amendments to HKAS 19, the disclosures above are determined prospectively from 1 January 2006.

(b) Defined contribution retirement plan

The Group has a defined contribution retirement plan covering **1,293 employees** (2006: 1,259 employees) mostly in Hong Kong. The defined contribution retirement plan is formally established under an independent trust with the assets of the funds held separately from those of the Group by an independent trustee. The plan is registered under the Occupational Retirement Schemes Ordinance and is exempted under the Mandatory Provident Fund Schemes (Exemption) Regulation. Employees covered by this plan are not required to make contributions and funds contributed by employers are fully vested immediately. The average contribution rate against employees' relevant income for the year was **12%** (2006: 12%).

In addition, the Group also participates in the Mandatory Provident Fund Scheme operated by an independent service provider to cover **445 employees** (2006: 398 employees) in Hong Kong not covered by the above defined contribution retirement plan. Contributions at a fixed rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 per employee, are made to the scheme and are vested immediately.

29. Employee retirement benefits *continued*

(b) Defined contribution retirement plan *continued*

The Group also operates several defined contribution retirement plans including union pension schemes for its overseas subsidiaries covering **2,388 employees** (2006: 2,384 employees) in other Asian countries and the United States of America in accordance with respective applicable labour regulations.

Total contributions to all of the above defined contribution retirement plans made by the Group amounting to **HK$69 million** (2006: HK$58 million) were charged to the income statement during the year.

30. Financial instruments

The Group is exposed to foreign exchange, interest rate, liquidity and credit risks in its normal course of business. Various techniques and derivative financial instruments are used to control or reduce these risks, as described below.

(a) Foreign exchange risk

The Group manages its foreign exchange exposure with a view to protecting its net assets and profitability against adverse fluctuations in exchange rates. The Company reports its results in Hong Kong dollars. In the light of the Hong Kong dollar peg, the Group does not hedge US dollar exposures and it aims to preserve its value in Hong Kong dollar and/or United States dollar terms.

Forecast transactions

Foreign exchange risk may arise in sale and purchase transactions that are denominated in a currency other than the functional currency of the operations to which they relate.

In respect of committed future transactions and highly probable forecast transactions, the Group hedges most of the estimated foreign currency transaction exposures if the foreign exchange risk of these exposures is considered to be significant. The Group mainly uses forward exchange contracts to hedge this type of foreign exchange risk and classifies these contracts as cash flow hedges.

At 31 December 2006, the Group had forward foreign exchange contracts hedging forecast transactions with a net fair value of HK$3 million in respect of a project in Tokyo, recognised as derivative financial instruments. These forward exchange contracts were fully utilised in 2007.

Recognised assets and liabilities

The Group has foreign currency monetary assets and liabilities that are denominated in a currency other than the functional currency of the operations to which they relate. Exchange differences arising on settling or translating these foreign currency monetary items at rates different from those at dates of transactions giving rise to these monetary items are recognised in the income statement.

The Group hedges most of the foreign exchange exposures arising from significant foreign currency monetary assets and liabilities, including foreign currency borrowings. The Group mainly uses currency swaps or forward exchange contracts to hedge this type of foreign exchange risk and classifies these derivative financial instruments as cash flow hedges or held for trading depending on whether the future foreign currency cash flows are fixed or not. Changes in the fair value of these cash flow hedges or derivative financial instruments held for trading are recognised in the hedging reserve or the income statement respectively.

30. Financial instruments *continued*

(a) Foreign exchange risk *continued*

Recognised assets and liabilities continued

At 31 December 2007, the net fair value of currency swaps used by the Group to hedge foreign currency borrowings was as follows (HK$m):

	Group	
	2007	2006
Cash flow hedges (note 19(a))	**(23)**	(23)
Held for trading (note 19(a))	**(37)**	(22)
	(60)	(45)

In respect of other debtors and creditors that are denominated in a currency other than the functional currency of the operations to which they relate, the Group monitors the net exposure, which is not material. The Group usually sells and buys foreign currencies at spot rates to settle these debtors and creditors.

Except for foreign currency borrowings hedged by currency swaps or forward foreign exchange contracts, all the Group's borrowings are denominated in the functional currency of the operations to which they relate or, in case of Group entities whose functional currency is Hong Kong dollars, in either Hong Kong dollars or United States dollars. Given this, it is not expected that there will be any significant currency risk associated with the Group's borrowings.

Net investment in foreign subsidiary

At 31 December 2007 and 2006, the Group did not hedge any net investment in foreign subsidiaries.

30. Financial instruments *continued*

(a) Foreign exchange risk *continued*

Exposure to foreign exchange risk

At 31 December 2007 and 2006, the Group and the Company had recognised monetary assets and liabilities (including highly probable forecast transactions that were hedged by derivative financial instruments) denominated in a currency other than the functional currency of the entity to which they relate. These assets and liabilities are exposed to foreign exchange risk and are detailed as follows:

	Group						
	2007				2006		
(million)	United States Dollars	Japanese Yen	Hong Kong Dollars	Philippine Pesos	United States Dollars	Japanese Yen	Philippine Pesos
Trade and other receivables	23	–	–	–	24	–	5
Cash and cash equivalents	25	–	–	13	4	–	23
Trade and other payables	(7)	(1)	(5)	(27)	(2)	(1)	(27)
Interest-bearing borrowings	(66)	(1,599)*	–	–	(81)	(2,132)*	–
Gross exposure arising from recognised assets and liabilities	(25)	(1,600)	(5)	(14)	(55)	(2,133)	1
Notional amount of derivative financial instruments held as cash flow hedges	–	1,599*	–	–	–	2,132*	–
Net exposure arising from recognised assets and liabilities	(25)	(1)	(5)	(14)	(55)	(1)	1
Highly probable forecast purchases hedged by derivative financial instruments	–	–	–	–	(4)	–	–
Notional amount of derivative financial instruments held as cash flow hedges	–	–	–	–	4	–	–
Net exposure arising from forecast transactions	–	–	–	–	–	–	–
Overall net exposure	(25)	(1)	(5)	(14)	(55)	(1)	1

* *As at 31 December 2007 and 2006, a Thai subsidiary had an amortising bank loan in Japanese yen, which was hedged and swapped to its functional currency by means of a cross currency swap. The Group classifies this currency swap as a cash flow hedge as disclosed in note 19(a).*

30. Financial instruments *continued*

(a) Foreign exchange risk *continued*

Exposure to foreign exchange risk continued

	Company			
	2007		2006	
(million)	**United States Dollars**	**Philippine Pesos**	United States Dollars	Philippine Pesos
Trade and other receivables	**17**	**–**	18	5
Cash and cash equivalents	**2**	**13**	–	23
Overall net exposure	**19**	**13**	18	28

At 31 December 2007 and 2006, the above exposures include the following US dollar assets and liabilities recognised in Group entities whose functional currency is Hong Kong dollars:

	Group		Company	
(US$m)	**2007**	2006	**2007**	2006
Trade and other receivables	**20**	22	**17**	18
Cash and cash equivalents	**20**	–	**2**	–
Interest-bearing borrowings	**(66)**	(81)	**–**	–
Net US dollar exposure	**(26)**	(59)	**19**	18

In the light of the Hong Kong dollar peg, the Directors consider that the foreign exchange risk associated with this net US dollar exposure is not expected to be material to the Group and the Company.

30. Financial instruments *continued*

(a) Foreign exchange risk *continued*

Sensitivity analysis

The Group and the Company

Assuming that the relevant foreign currencies had strengthened/weakened by not more than **10%** (2006: 12%) at 31 December 2007 and the changes had been applied to each of the Group entities' and the Company's exposure to foreign exchange risk for monetary assets and liabilities (including balances between Group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower) in existence at that date, with all other variables held constant, the impact on profit after tax, retained profits and other components of equity is not expected to be material.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date.

(b) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. All the Group's borrowings bear floating interest rates that are reset on a regular basis as market interest rates change and hence expose the Group to cash flow interest rate risk. As the borrowing costs are subject to market fluctuations in interest rates, the Group adopts a policy to fix interest rates of 40% to 70% of the exposure, with a long-term target of 50%, mainly by way of interest rate swaps or other derivative financial instruments.

Following the disposal of The Kowloon Hotel in 2005, the Group applied the sale proceeds towards reducing bank borrowings and re-adjusting the loan interest hedging ratio, rendering some outstanding interest rate swaps ineffective at the Group level. The Company entered into new interest rate swaps to offset the financial effect of the ineffective interest rate swaps and classified these new swaps as cash flow hedges against intra-group borrowings. However, the Group classified these pairs of offsetting interest rate swaps as held for trading and changes in their fair value are recognised in the consolidated income statement because the intra-group borrowings are eliminated upon consolidation. At 31 December 2007, these pairs of swaps had a total notional principal of **HK$2,463 million** (2006: HK$3,458 million) maturing over the next **six years** (2006: seven years).

At 31 December 2007, the Group and the Company had interest rate swaps that are classified as cash flow hedges with a total notional contract amount of **HK$1,474 million** (2006: HK$1,446 million) and **HK$1,232 million** (2006: HK$1,729 million) maturing over the next **10 years** (2006: 11 years) and **six years** (2006: seven years) respectively. Changes in fair value of these interest rate swaps for cash flow hedges are recognised in the hedging reserve. The Group locked in the following ranges of fixed rates by the interest rate swaps at 31 December 2007:

	31 December 2007	31 December 2006
HK dollars	**4.8% to 4.9%**	4.8% to 4.9%
US dollars	**4.6% to 5.8%**	4.6% to 5.8%
Japanese yen	**1.5% to 2.1%**	1.5% to 2.1%

30. Financial instruments *continued*

(b) Interest rate risk *continued*

The net fair value of all the interest rate swaps, recognised as derivative financial instruments, entered into by the Group and the Company at 31 December 2007 was as follows (HK$m):

	Group		Company	
	2007	2006	**2007**	2006
Cash flow hedges	**(60)**	(24)	**5**	(28)
Held for trading	**(80)**	(117)	**–**	–
	(140)	(141)	**5**	(28)

The following table details the interest rate profile of the Group's borrowings at the balance sheet date, after taking into account the effect of interest rate swaps and currency swap designated as cash flow hedging instruments.

	Group			
	2007		2006	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**4.3%**	**1,585**	4.7%	1,394
Floating rate borrowings:				
Bank loans	**3.0%**	**1,284**	5.0%	1,129
Total interest-bearing borrowings		**2,869**		2,523
Fixed rate borrowings as a percentage of total borrowings		**55%**		55%

30. Financial instruments *continued*

(b) Interest rate risk *continued*

On the other hand, at 31 December 2007 and 2006, the Group and the Company had short term bank deposits. Since these deposits are placed for short term liquidity purposes, the Group and the Company have no intention to lock in their interest rates for long term. In addition, the Company grants interest-bearing loans to subsidiaries, which are subject to the interest rate risk. The interest rate profile of these bank deposits and intra-group loans, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments, at the balance sheet date are summarised as follows:

	Group				Company			
	2007		2006		**2007**		2006	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m	**Effective interest rate**	**HK$m**	Effective interest rate	HK$m
Fixed rate instruments:								
Loans to subsidiaries		**–**		–	**4.1%**	**1,232**	3.7%	1,632
Floating rate instruments:								
Bank deposits	**3.2%**	**1,372**	1.8%	323	**3.8%**	**20**	4.3%	4
Loans to subsidiaries		**–**		–	**1.9%**	**1,658**	4.9%	1,729
Total interest-bearing financial assets		**1,372**		323		**2,910**		3,365

Sensitivity analysis

The Group and the Company

Assuming that the interest rates had increased/decreased by not more than **180 basis points** (2006: 180 basis points) at 31 December 2007 and the changes had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments (which include bank borrowings and deposits) in existence at that date, with all other variables held constant, the impact on profit after tax, retained profits and other components of equity is not expected to be material.

The basis points increase or decrease represent management's assessment of reasonably possible changes in interest rates over the period until the next annual balance sheet date.

(c) Liquidity risk

Borrowings and cash management, including short term investment of surplus cash, are arranged centrally to cover expected cash demands. 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 in the short and longer term.

At 31 December 2007, total available borrowing facilities amounted to **HK$4,297 million** (2006: HK$5,058 million) of which **HK$2,869 million** (2006: HK$2,523 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled **HK$1,007 million** (2006: HK$1,479 million).

30. Financial instruments *continued*

(c) Liquidity risk *continued*

The following table details the remaining contractual maturities at the balance sheet date of the Group's and Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

	Group											
	2007						2006					
(HK$'m)	Carrying amount	Total contractual undiscounted cash outflow/(inflow)	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Carrying amount	Total contractual undiscounted cash outflow/(inflow)	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Trade creditors	142	142	142	–	–	–	84	84	84	–	–	–
Interest payable	6	6	6	–	–	–	9	9	9	–	–	–
Accruals of fixed assets	42	42	42	–	–	–	172	172	172	–	–	–
Tenant's deposits	339	339	339	–	–	–	306	306	306	–	–	–
Golf membership deposit	53	53	53	–	–	–	49	49	49	–	–	–
Other payable	651	651	651	–	–	–	491	491	491	–	–	–
Interest bearing borrowings	2,869	3,065	642	631	1,792	–	2,523	2,832	407	625	1,800	–
Interest rate swaps (net settled)	150	187	49	34	71	33	152	220	50	46	77	47
	4,252	4,485	1,924	665	1,863	33	3,786	4,163	1,568	671	1,877	47
Derivatives settled gross:												
Currency swap held as cash flow hedging instrument:	23						23					
– outflow		135	135	–	–	–		173	5	168	–	–
– inflow		(112)	(112)	–	–	–		(142)	(2)	(140)	–	–
Other currency swaps:	42						39					
– outflow		242	242	–	–	–		243	14	229	–	–
– inflow		(194)	(194)	–	–	–		(183)	(2)	(181)	–	–
	65	71	71	–	–	–	62	91	15	76	–	–
	4,317	4,556	1,995	665	1,863	33	3,848	4,254	1,583	747	1,877	47

30. Financial instruments *continued*

(c) Liquidity risk *continued*

(HK$m)	Company 2007 Carrying amount	Total contractual undiscounted cash outflow/ (inflow)	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	2006 Carrying amount	Total contractual undiscounted cash outflow/ (inflow)	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Other payable	14	14	14	–	–	–	10	10	10	–	–	–
Other payable to subsidiaries	22	22	22	–	–	–	5	5	5	–	–	–
Interest rate swaps (net settled)												
– cash flow hedge	3	3	2	1	–	–	29	34	12	9	12	1
– held for trading*	133	136	43	29	56	8	123	146	37	34	56	19
	172	175	81	30	56	8	167	195	64	43	68	20
Other currency swap*:	5						17					
– outflow		205	205	–	–	–		218	12	206	–	–
– inflow		(194)	(194)	–	–	–		(183)	(2)	(181)	–	–
	5	11	11	–	–	–	17	35	10	25	–	–
	177	186	92	30	56	8	184	230	74	68	68	20

* *The Company entered into these interest rate swaps and currency swap on a back-to-back basis for the benefit of its subsidiaries. Accordingly, derivative financial liabilities arising from them are fully offset by corresponding derivative financial assets as a result of the back-to-back arrangement (see note 19(b)).*

(d) Credit risk

The Group's credit risk is primarily attributable to bank deposits, trade debtors and derivative financial instruments and is monitored on an ongoing basis.

Cash is deposited with financial institutions with good credit ratings that are located where the Group entities are operated. At 31 December 2007, bank deposits amounted to **HK$1,424 million** (2006: HK$400 million), of which over **90%** (2006: 90%) were made to financial institutions with credit ratings of no less than BBB (Standard & Poor's) or Baa2 (Moody's). It is considered unlikely that any of these financial institutions will fail to meet their obligations.

Transactions involving derivative financial instruments are with financial institutions with sound credit ratings. Given their high credit ratings, it is considered unlikely that any of these financial institutions will fail to meet their obligations. At 31 December 2007, the credit ratings of these financial institutions were no less than A+ (Standard & Poor's) or Aa3 (Moody's).

30. Financial instruments *continued*

(d) Credit risk *continued*

The Group has no concentrations of credit risk in view of its large number of customers. The Group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. Credit evaluations are performed for all significant customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are normally due within 30 days from the date of billing. In respect of the Group's rental income from operating leases, rentals are normally received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. As such, the Group normally does not obtain collateral from its customers. The ageing of trade debtors at 31 December 2007 is summarised in note 22.

The Group's exposure to credit risk is influenced mainly by individual characteristics of each customer. The default risk of the industry and country in which the customers operate also has an influence on credit risk but to a lesser extent.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including the derivative financial instrument, in the balance sheet after deducting any impairment allowance. Except for the financial guarantee given by the Group as set out in note 32, the Group does not provide any other guarantee which would expose the Group or the Company to any material credit risk.

(e) Equity price risk

The Group or the Company is not subject to any material equity price risk.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 except that interests in unlisted equity instruments are stated at cost less impairment losses (see note 1(e)). The fair values of the equity instruments cannot be reasonably measured because they can only be sold either with the consent of third parties or in an illiquid market. The loans to subsidiaries are unsecured, interest free and have no fixed repayment term. Given these terms it is not meaningful to disclose the fair values of loans to subsidiaries. The Group has no intention of disposing of these loans.

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Derivative financial instruments

Forward foreign exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. The fair value of interest rate swaps is the estimated amount that the Group or Company would receive or pay to terminate the swaps at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

30. Financial instruments *continued*

(g) Estimation of fair values *continued*

Derivative financial instruments continued

When discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

The Group uses the following discount rates for determining fair value of derivative financial instruments.

	31 December 2007	31 December 2006
Hong Kong dollar	**3.3% – 4.7%**	3.9% – 4.8%
United States dollar	**3.0% – 5.1%**	4.7% – 5.5%
Thai baht	**3.7% – 4.3%**	5.1% – 5.3%
Japanese yen	**0.7% – 2.6%**	0.5% – 2.7%
Philippine peso	**N/A**	6.4%

Interest-bearing borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar borrowings.

31. Commitments (HK$m)

(a) Capital commitments outstanding at 31 December 2007 not provided for in the Financial Statements were as follows:

	Group	
	2007	2006
Contracted for	**81**	376
Authorised but not contracted for	**1,954**	1,871
	2,035	2,247

Capital commitments include the Group's share of capital commitments of The Peninsula Shanghai Waitan Hotel Company Limited amounting to **HK$1,255 million** (2006: HK$950 million).

31. Commitments (HK$m) *continued*

(b) At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases of the Group in respect of land and buildings are (receivable)/payable as follows:

	Receivable		Payable	
	2007	2006	**2007**	2006
Within 1 year	**(683)**	(633)	**150**	83
After 1 year but within 5 years	**(880)**	(808)	**638**	520
After 5 years	**(126)**	(149)	**7,588**	7,502
	(1,689)	(1,590)	**8,376**	8,105

Following the completion of the restructuring of The Palace Hotel Co., Ltd. ("TPH") on 13 December 2002, the Group is committed to making an annual payment of a minimum of RMB 8 million to China Everbright Group Limited ("CEG") up to and including 11 November 2033 (the "Annual Payment"). The Annual Payment is a deemed lease payment and is included as a payment under non-cancellable operating leases of the Group (note 33(d)).

Manila Peninsula Hotel, Inc. ("MPHI") became a non-wholly owned subsidiary of the Group on 3 March 2005. The Peninsula Manila, the hotel owned by MPHI, is situated on a piece of land which belongs to Ayala Hotel, Inc. ("Ayala"). The hotel land lease was negotiated in 1975 by the management of MPHI at the time with Ayala in the ordinary and usual course of business based on normal commercial terms and on an arm's length basis (the "Land Lease"). The initial term of the Land Lease was from 31 December 1975 to 31 December 2001, with an option to renew until 31 December 2027 on the same terms and conditions, which was exercised by MPHI. Pursuant to the terms and conditions, MPHI is committed to paying Ayala annual rental at 5% of its gross income on a quarterly basis. As Ayala is an associate of an MPHI director (hence a connected person of the parent company) and MPHI is a non wholly-owned subsidiary, the Land Lease therefore became a continuing connected transaction as defined under the Listing Rules.

The Group also leases certain pieces of land in respect of its hotels located in the United States of America from third parties under long term leases. In addition, the Group leases a number of office premises under operating leases that typically run for an initial period of two to four years with an option to renew the leases when all the terms are renegotiated. None of these leases includes contingent rentals.

The Group entered into a 50-year lease with respect to The Peninsula Tokyo commencing in 2007. The minimum annual rental amounts to JPY1,181 million, which will be adjusted based on an inflation index every ten years. In addition to the minimum annual rental, the lease is subject to contingent rental calculated based on the operating results of the hotel.

32. Contingent liabilities (HK$m)

Contingent liabilities at 31 December are analysed as follows:

	Group		Company	
	2007	2006	**2007**	2006
Guarantees given in respect of borrowings and other banking facilities for subsidiaries	**–**	–	**2,876**	2,508
Other guarantees	**1**	3	**1**	3
	1	3	**2,877**	2,511

The Company has not recognised any deferred income for the guarantees given in respect of borrowing and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was HK$nil.

The Directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect at 31 December 2007 and 2006.

33. Material related party transactions

(a) Under a 4-year tenancy agreement which commenced on 1 April 2003, a wholly owned subsidiary, HSH Management Services Limited, leased the 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rate of approximately HK$469,650 plus service charges of HK$146,531 (up to September 2006) and HK$161,560 (from October 2006 onwards) per month from Kadoorie Estates Limited ("KEL") which is an agent for the owner which is controlled by one of the substantial shareholders. The lease was renewed for three years on 1 April 2007 at a market rent of approximately HK$1,221,090 plus service charges of HK$161,560 per month. The amount of rent and service charges paid to KEL during 2007 amounted to **HK$14.3 million** (2006: HK$7.4 million).

33. Material related party transactions *continued*

(b) The Peninsula Manila is owned by Manila Peninsula Hotel, Inc. ("MPHI" – previously a 40% associate of the Company). MPHI became a subsidiary on 3 March 2005 following the completion of an offer made to shareholders as announced on 29 October 2004. The Peninsula Manila is situated on a piece of land owned by Ayala Hotels, Inc. ("Ayala"), an associate of an MPHI Director. Ayala is entitled to receive contingent rental from MPHI based on 5% of the gross income of MPHI pursuant to a land lease contract dated 2 January 1975 with an initial term from 31 December 1975 to 31 December 2001 and as extended to 31 December 2027. The amount of the contingent rent paid to Ayala under the lease during 2007 amounted to **HK$12.2 million** (2006: HK$8.8 million). This lease falls under Listing Rules as a continuing connected transaction. Details of this continuing connected transaction are disclosed in the Directors' Report.

(c) Security and interest-free shareholder's loans totalling **US$58.75 million (HK$458 million)** (2006: US$58.75 million (HK$458 million)) were granted by Peninsula International Investment Holdings Limited ("PIIHL"), a wholly-owned subsidiary of the Company, to The Peninsula Shanghai (BVI) Limited ("TPS"), a 50% jointly controlled entity of the Group. The loans are unsecured, interest free and have no fixed terms of repayment. TPS indirectly holds a 100% interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"), a foreign owned enterprise incorporated in the People's Republic of China, engaged in the development of The Peninsula Shanghai project.

As at 31 December 2007, shareholder's loans amounting to **US$36.75 million (HK$287 million)** (2006: US$36.75 million (HK$287 million)) was contributed as capital of PSW through Evermore Gain Limited ("EGL") and the balance of **US$22 million (HK$171 million)** (2006: US$22 million (HK$171 million)) was on-lent by TPS to PSW on an interest-free basis for the purpose of funding the project.

In addition, under a Pre-Opening Design and Advisory Services Agreement dated 24 October 2006, HSH Management Services Limited ("HMS"), a wholly owned subsidiary of the Company, agreed to provide technical and design advisory services to PSW. Conditional upon the performance by HMS of its obligations under the agreement, PSW has agreed to pay services fees in the aggregate amount of US$1.17 million (HK$9.1 million) to HMS.

33. Material related party transactions *continued*

(d) The Company announced on 6 December 2000 that Kam Lung Investments Limited, a wholly owned subsidiary of the Company, entered into various agreements with the then independent third parties, including China Everbright Group Ltd. ("CEG"), to carry out the restructuring of The Palace Hotel Co., Limited ("TPH"), the owner of The Peninsula Beijing. Upon completion of the restructuring under the terms of the agreement as announced, CEG was entitled to appoint two representatives as Directors of TPH's Board consisting of nine members and to receive a priority payment of a minimum of RMB 8 million up to and including 11 November 2033 ("Annual Payment"). Completion of the restructuring took place on 13 December 2002 and the Annual Payment became payable. The Annual Payment in an amount of **RMB 8 million (HK$ 8.5 million)** was recorded in 2007 (2006: RMB 8 million (HK$8 million)).

(e) A subsidiary, Manila Peninsula Hotel, Inc. ("MPHI"), was granted unsecured banking facilities of up to Peso 70 million (approximately HK$9.9 million) by Bank of Philippine Islands ("BPI") based on normal commercial terms. Approximately 35% of BPI's equity is held by Ayala, and BPI is also an associate of an MPHI director. The maximum balance of loan owed by MPHI to BPI during 2006 amounted to Peso 15 million (approximately HK$2.4 million). The loan was fully repaid on 13 February 2006.

34. Non-adjusting post balance sheet events

(a) After the balance sheet date the Directors proposed a final dividend, the details of which are disclosed in note 12.

(b) On 23 January 2008, the Company disposed of its entire equity interest in Manila Peninsula Hotel, Inc. with a carrying value of HK$94 million to a wholly owned subsidiary of the Company at a consideration of Peso 572 million, resulting in a net gain on disposal of HK$15 million to be recognised in the Company's Financial Statements for 2008. The disposal had no material impact on the Group's consolidated Financial Statements.

(c) On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government proposed a reduction in the Hong Kong Profits Tax rate from 17.5% to 16.5% with effect from the fiscal year 2008-09. Subject to Legislative Council's approval and formal adoption of this reduced tax rate, the Group's accumulated net deferred tax liabilities as at 1 January 2008 would be reduced by HK$175 million.

35. Comparative figures

As a result of adopting HKFRS 7, *Financial instruments: Disclosures* and the amendments to HKAS 1, *Presentation of financial statements: Capital disclosures*, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 2.

36. Key sources of estimation uncertainty

Notes 29(a) and 30 contain information about the assumptions and their risk factors relating to define benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

Valuation of investment properties
Investment properties are included in the balance sheet at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential. The assumptions adopted in the property valuation are based on the market conditions existing at the balance sheet date, with reference to current market sales prices and the appropriate capitalisation rate.

Estimated useful lives of properties, plant and equipment
The Group estimates the useful lives of its properties, plant and equipment based on the periods over which the assets are expected to be available for use. The Group reviews annually their estimated useful lives, based on factors that include asset utilisation, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of properties, plant and equipment would increase depreciation charges and decrease non-current assets.

Asset impairment
The Group assesses the impairment of assets in accordance with the accounting policy set out in note 1(l). The factors that the Group considers important in identifying indications of impairment and in assessing the impairment include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant negative industry or economic trends.

Deferred tax assets
The Group reviews the carrying amounts of deferred taxes at each balance sheet date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilised.

37. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of these Financial Statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these Financial Statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

In addition, HKFRS 8, Operating segments, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the Financial Statements.