The Hongkong and Shanghai Hotels, Limited

Annual Report 2007

Stock code: 45

Contents

The Peninsula Tokyo, the eighth member of the Peninsula family, soft-opened on 1 September 2007 and celebrated its grand opening on 14 December 2007. Located in the prestigious business district of Marunouchi, opposite the Imperial Palace and Hibiya Park, the 24-storey hotel has 314 guestrooms, four restaurants, two ballrooms, six function rooms, a Peninsula Spa and a spectacular swimming pool, amongst many other key facilities.

Company at a Glance

Incorporated in 1866 and listed on the Hong Kong Stock Exchange (0045), The Hongkong and Shanghai Hotels, Limited is a holding company whose subsidiaries are engaged in the ownership and management of prestigious hotel, commercial and residential properties in key destinations in Asia and the USA. The hotel portfolio of the Group comprises The Peninsula Hong Kong, The Peninsula New York, The Peninsula Chicago, The Peninsula Beverly Hills, The Peninsula Tokyo, The Peninsula Bangkok, The Peninsula Beijing, The Peninsula Manila, The Peninsula Shanghai (opening in 2009) and Quail Lodge Resort and Golf Club in Carmel, California. The property portfolio of the Group includes The Repulse Bay Complex, The Peak Tower and Peak Tram, St. John's Building, The Landmark in Ho Chi Minh City, Vietnam and the Thai Country Club.

HOTELS

- The Peninsula Hong Kong
- The Peninsula New York
- The Peninsula Chicago
- The Peninsula Beverly Hills
- The Peninsula Tokyo
- The Peninsula Bangkok
- The Peninsula Beijing
- The Peninsula Manila
- The Peninsula Shanghai (opening in 2009)
- Quail Lodge Resort and Golf Club

RESIDENTIAL

- The Repulse Bay, Hong Kong
- The Landmark, Ho Chi Minh City

COMMERCIAL

- The Peak Tower, Hong Kong
- The Repulse Bay, Hong Kong

OFFICE

- The Peninsula Office Tower, Hong Kong
- St. John's Building, Hong Kong
- The Landmark, Ho Chi Minh City

OTHER OPERATIONS

- Peak Tramways
- Peninsula Clubs & Consultancy Services
- Peninsula Merchandising Limited
- Thai Country Club

Financial and Operating Highlights

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

* *Please refer to the calculation on page 64 in the Financial Review section.*

2007 Milestones

Opening of The Peninsula Tokyo

After nearly three years of construction, the 314-room Peninsula Tokyo soft-opened on 1 September 2007 and celebrated its grand opening on 14 December 2007. Located opposite the Imperial Palace and Hibiya Park, this new Marunouchi landmark has already been able to earn a distinctive reputation among domestic and international travellers in the few months since it opened.

Launch of The Peak Tram Historical Gallery

The Historical Gallery was opened in the Peak Tram's Lower Terminus in September 2007, paying tribute to the Tram's heritage with 15 showcases and over 200 pieces of memorabilia collected from around the world.

Good progress on the construction of The Peninsula Shanghai

During 2007, significant progress was made on the construction of the hotel and hotel apartment tower. The hotel tower reached structural top-out in mid January 2008.

Construction underway for The Peninsula Beijing Spa

In preparation for the Beijing Olympics, construction of the new Peninsula Spa began in November and is expected to be completed in May 2008. Occupying part of the hotel's third floor wellness, health and fitness facility, the 4,100 square metre Spa will include 12 state-of-the-art treatment rooms.

Renovation at The Peninsula New York

Approval was given for the hotel's extensive renovation, which commenced in early 2008 and will include the Spa and the Pen-Top Bar.

Four new Peninsula Boutiques

In 2007 Peninsula Merchandising opened a shop in Beijing and three shops in Tokyo, Fukuoka and Yokohama, bringing the total number of Peninsula Boutiques to 18 worldwide, including 11 being operated under licence by local franchisees.

Revitalisation of The Repulse Bay

In November 2007, The Repulse Bay obtained Town Planning Board approval to proceed with its revitalisation plan, which is scheduled to begin in 2008 with completion targeted for late 2009. New shops, restaurants and enhanced facilities will be introduced to the Repulse Bay Arcade.

Record year for Cathay Pacific Airways' lounges

As Hong Kong enjoyed a boom in outbound travel, the Group-managed Cathay Pacific Airways' lounges experienced a record year in 2007 with 1.2 million visitors to the first and business class lounges, which are located at the Hong Kong International Airport.

The large hanabi crystal chandelier, inspired by cascading fireworks, crowns the lobby of The Peninsula Tokyo

The making of

The Peninsula Tokyo

The Peninsula Tokyo, the latest addition to the Peninsula family, began as an idea that was conceived in the late 1990s, when The Hongkong and Shanghai Hotels, Limited (HSH) commenced discussions with Mitsubishi Estate Company (MEC) with the objective of building a landmark hotel in Marunouchi, the financial heart of Japan's capital.

It was envisioned that The Peninsula Tokyo would become a key component of the long term revitalisation plan for Marunouchi, an urban redevelopment project spearheaded by MEC.

Marunouchi has been the economic centre of Japan since 1603, generating approximately 20% of Japan's GDP today. The goal of MEC is to turn this financial area into one of the most interactive districts in the world, with a sustainable community which provides diverse facilities both for visitors to and residents working in the district.

The entire Marunouchi area covers about 278 acres between Tokyo Station and the Imperial Palace, and the Peninsula occupies a prime location, on a site of approximately 4,300 square metres. Housed in its own purpose-designed building, The Peninsula Tokyo occupies a strategic location in Marunouchi, facing the Imperial Palace and Gardens and within a short walk from the famous Ginza shopping and entertainment district.

Opposite page, top: A view of the front desk, hewned from Mizumezakura cherry wood.
This page: The hotel faces the Imperial Palace and Gardens.

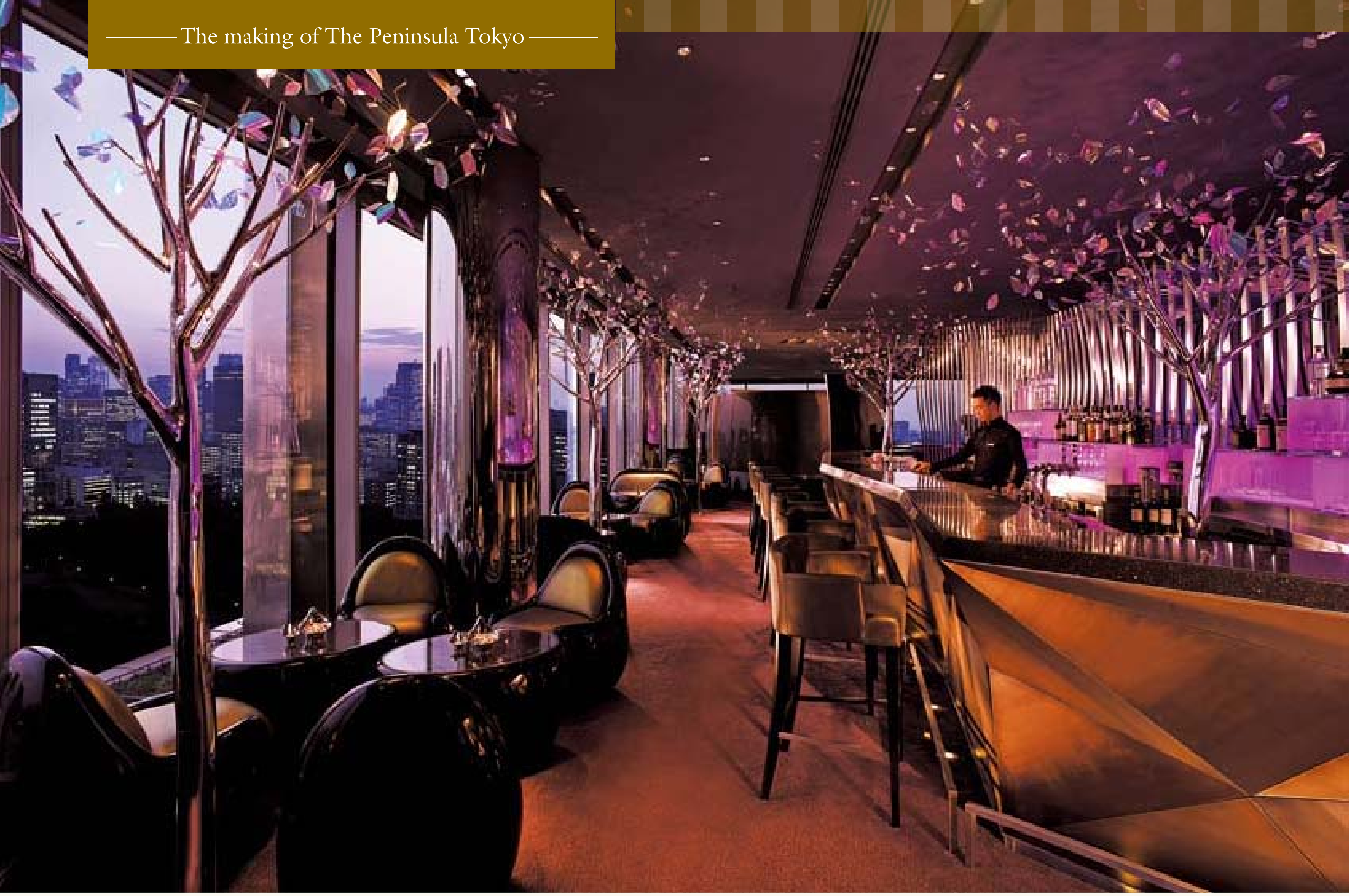
In October 2002, HSH entered into a long-term, 50-year renewable 'partnership lease' with MEC to develop The Peninsula Tokyo. The land for the site was provided by MEC, who also paid for the shell and core of the building. The interior fit-out and FF&E (furniture, fittings and equipment) of the hotel have been supplied by HSH at an investment cost of approximately Yen 16 billion. Construction commenced in October 2004, the hotel was topped out in September 2006, and the building was handed over to HSH for fit out in May 2007.

From the beginning of the project, the objective was to create a hotel with Peninsula style, grandeur and elegance coupled with Japanese design elements. Every aspect of design was carefully reviewed for aesthetics, operating efficiency and functional convenience. Meticulous attention was paid to every detail: before construction began, a fully functioning model

guestroom was built, fully reviewed, extensively tested and improved before being approved.

The Peninsula Tokyo stands 24 storeys high. It features 314 guestrooms, of which 47 are suites. The guestrooms are among the largest and most technologically advanced rooms in Tokyo and embody for the first time the new Peninsula layout which comprises, in addition to the sleeping area, living room and bathroom, a separate dressing room with dressing, luggage and wardrobe space.

Opposite page: A guestroom (above) and a suite bedroom (below). This page: Suite bathroom (above); a dressing room with space for luggage and wardrobe (right).



There are four restaurants, a café and a lounge bar, each offering a distinctive character. Situated on the 24th floor is Peter, which provides a 360-degree view of Tokyo city. Peter's cuisine is international, the setting modern and avant-garde. The second-floor Hei Fung Terrace restaurant, meanwhile, provides the atmosphere of a Suzhou garden as a backdrop for serving authentic Chinese cuisine. There is also the Lobby, where famous Peninsula afternoon teas are served to the accompaniment of live classical music; the Peninsula Café in the basement; and Tsuruya, the famous Kyoto restaurant. The Seven Seas Pacific Aviation Lounge, which shares the 24th floor with Peter, is a Peninsula signature and takes as its theme the history of Japanese civil aviation.

Catering to guests' health and fitness needs is The Peninsula Spa, which occupies 900 square metres of the fifth floor. The centrepiece is the 20-metre heated swimming pool positioned beneath a spectacular

swirling ceiling light; the pool, adjacent 'vitality pool' and indoor-outdoor balcony provide views of nearby Hibiya Park and the Imperial Gardens. In addition there are five function rooms, two ballrooms, a Japanese ceremony room, wedding centre and a chapel. Unique Peninsula signatures can also be found in the vintage Rolls-Royce; a fleet of bespoke, Peninsula-green Rolls-Royces for transporting guests; and the pair of door lions which stand guard at The Peninsula Tokyo's front doors.

The Peninsula Tokyo is a vision melding traditional Japanese art with contemporary 21st century ethos. While advanced technology is evident in the guestrooms, much time has been devoted by 60 artists towards creating more than 1,000 pieces of artwork throughout the hotel: these include a large hanabi crystal chandelier in the lobby which was inspired by cascading fireworks; the front desk hewn from Mizumezakura cherry wood; a bamboo dragon in the

Opposite page: Peter (above) and Hei Fung Terrace (below).
This page: Two views of the indoor swimming pool (above); the Peninsula Spa (below).

lobby; the torn pine needle emblem, or ore-matsuba, woven into the carpet; gold-leaf ceilings in the elevators; hand-cut horse chestnut timber sliding doors in each guestroom; and most spectacularly, a 70-metre high glass fibre sculpture called the Void, suspended in the core of the building and which can be seen from the windows of all elevator landings.

Our staff, the Group's most important asset, is the ultimate key to a Peninsula hotel. General Manager Malcolm Thompson was appointed in spring of 2006, and led a pre-opening team of 25 personnel, the number of which grew to more than 500 by the time the hotel opened in September 2007. HSH also selected a group of 20 Peninsula Ambassadors from 3,000 graduate applicants and sent them to overseas Peninsula hotels for intensive training prior to returning to Tokyo for the opening. Together with the management and other Peninsula Tokyo staff, this new team plays a critical role in carrying on the tradition of high quality personalised services which characterises the Peninsula brand.

On 1 September 2007, The Peninsula Tokyo opened its doors to its first guests. The night before, Peter was formally launched to an audience which included Tokyo's elite and celebrities. Three months later, on 14 December 2007, the hotel celebrated its grand opening with an open house gala which welcomed more than 2,000 guests from Japan and all over the world.

Opposite page: The Void, a 70-metre high glass fibre sculpture suspended in the hotel's core.
This page: The Peninsula Tokyo family on 1 September 2007.

Chairman's Statement

Dear Shareholders,

Whilst we can claim to be the oldest hotel company in Asia, we do not rest on the laurels of history. Our business growth and expansion into key destinations has continued to move ahead over the past 12 months with both new hotel developments and improvements to existing facilities. At the same time, our philosophy of providing luxury facilities and accommodation, coupled with personalised services attuned to the demands of the 21st century clientele, remains paramount.

The highlight of the year 2007 was undoubtedly the opening of The Peninsula Tokyo. This proud new addition to the Peninsula brand overlooks the Imperial Palace and Hibiya Park, and combines traditional Japanese craftsmanship with contemporary design, unique works of art and leading edge technology. It is already proving to be a strong attraction to Japan-based visitors as well as our international guests.

At the same time, the construction of The Peninsula Shanghai with its frontage onto the historic Bund is progressing on schedule and I am confident that towards the end of 2009 we will be ready to open this hotel and hotel apartment complex to guests. By then, we will have a Peninsula presence in nine gateway cities in China, Japan, Thailand, the Philippines and the United States.

The improvement of our existing assets continues to be a key element in our business strategy. The first phase of our renovation programme at The Peninsula Manila has been well received and room rates and revenue at the Makati Tower continued to grow.

The construction of a new spa at The Peninsula Beijing will be completed in May 2008, in time for the influx of visitors we expect the 2008 Olympics to bring to the capital. We will also move forward with plans that involve upgrades and improvements to our hotels in Hong Kong, New York and Beverly Hills.

In Hong Kong, we have received Government planning approval for a revitalisation project to be undertaken at the Repulse Bay Complex. This refit will cover restaurants and retail facilities within the Complex.

To celebrate 120 years of operation by the Peak Tram in Hong Kong in 2008, we have opened The Peak Tram Historical Gallery. Situated at the foot of the tram line, the Gallery pays tribute to both the Tramway and to Hong Kong's own colourful heritage.

The year 2007 has also been a year of industry-wide recognition for our hotels and their management teams and staff. The Peninsula Chicago was ranked the top city hotel in the United States by the highly regarded Andrew Harper's Hideaway Report. All the other Peninsula Hotels also received prestigious awards during the year.

Whilst we are proud of our achievements in 2007, we know we must be prepared for future challenges. That is the nature of our industry and that is why we place great importance on the loyalty and experience of all our staff.

The Beijing Olympics, for example, has attracted many new entrants in the city's luxury hotel sector, which will increase competition in that market. Our response is to look to develop a programme of constant facility improvement and, from a human resource perspective, retain and re-train top staff to ensure we stay ahead of our competitors by offering the finest elements of hotel services. It is also likely that challenges will arise from the general economic and financial markets' uncertainty that we are seeing as we enter into 2008.

For the Group, 2008 will be a special year of anniversaries and celebrations. The Peninsula Hong Kong will turn 80; The Peninsula Bangkok will commemorate its 10th anniversary; The Peninsula New York will mark its 20th year under the Peninsula flag; and Hong Kong's Peak Tramways will celebrate 120 years of history.

Our results and achievements continue to reflect the dedication and commitment of our teams, across all countries, cities and sectors of our business. On behalf of the Board, I thank our staff for sharing our vision, understanding our philosophy, representing our culture and unfailingly delivering a world class service to our clientele.

The Hon. Sir Michael Kadoorie
19 March 2008

Chief Executive Officer's Report

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

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

Hotels

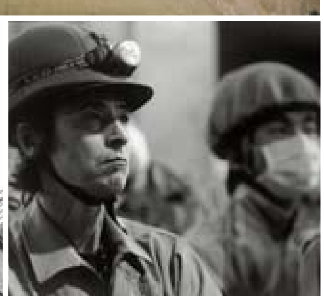
The highlight of the year for our Company was undoubtedly the opening of the new Peninsula Tokyo hotel. Situated in a most prime location in the Marunouchi business district of Tokyo, within a short walk to the heart of Ginza and overlooking the Imperial Palace and Gardens, this project was conceived, designed and constructed in partnership with Mitsubishi Estate Company. With meticulous attention to detail, no effort was spared in creating the 314 guestrooms and suites, the four different and strongly themed restaurants, the lobby, ballroom and other public areas, the dramatic swimming pool and spa and the artwork in the hotel. The philosophy of our

Group is to focus on a small number of hotel projects at any one time and thus, this was our first new hotel opening since 2001. From the reaction of hotel guests and the market generally since its soft opening in September 2007, I believe that this focus and attention to detail has paid off, with a hotel that is already proving to be a strong addition to our brand, as well as gaining worldwide recognition in its own right.

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

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

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



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

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

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

Following the successful outcome of the phase one renovation of The Peninsula Manila, which included all the guestrooms in the Makati Tower, the lobby, the ballroom and some back of house areas, we have

"The highlight of the year for our Company was undoubtedly the opening of the new Peninsula Tokyo hotel."

decided to proceed with phase two of the renovation in 2008, which will include a renovation of all of the guestrooms in the Ayala Tower.

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

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

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

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

Non-hotel properties and operations

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

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

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

"HSH was thus able to continue the sustained recovery which it has enjoyed since coming out of the Asian financial crisis which occurred in the late 1990s."

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

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

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

Development and projects

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

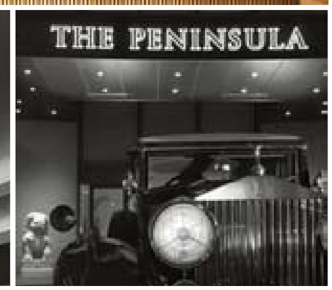
The Peninsula Shanghai will be the only new building to be constructed with a frontage onto the Bund, standing alongside the famous preserved buildings on this world-renowned promenade. The complex being developed will comprise a hotel which will include 235 rooms, five restaurants, a lobby, a ballroom,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

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

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

Finance and results

I am pleased to report that the Company's profit before non-operating items increased by 20% to HK$1,088 million in 2007. After taking account of non-operating items, the most significant of which was the increase in fair value of investment properties (after providing for its related deferred tax and minority interest) of HK$2,710 million (2006: HK$1,189



million), the profit attributable to shareholders was HK$3,437 million, as compared to HK$2,094 million last year. The earnings per share for the year amounted to HK$2.40 (2006: HK$1.47). We have provided for shareholders' additional information a calculation of our earnings excluding non-operating items, which as set out on page 65 amounts to HK$901 million (2006: HK$761 million), representing earnings per share of HK$0.63 (2006: HK$0.54).

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

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

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

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

Strategy and outlook

We are truly a long-term looking business. Our philosophy is to seek assets of the highest quality, whether through green field development or renovation of existing buildings, and to operate them to the highest possible service quality levels. Returns to the Company and its shareholders are generated through the operating results achieved from the ability to charge premium room rates and prices in many of our locations, coupled with longer term asset value appreciation.

"It is worth remembering that our approach to handling any downturn is to look long-term and value the long-term relationship we have with our staff."

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

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

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

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

Ultimately, the biggest protection we have against the ups and downs of the businesses we operate in is our genuine commitment to the long-term, through investing in our assets and our people and in adhering to the beliefs and values which have been proven through the long history of our Company. At the core of this is our commitment to our staff and it is once again fitting that I should end this message with my thanks and tribute to all the members of the Peninsula 'family' who have worked so hard, with flair as well as loyalty, to achieve these pleasing results.

Clement K.M. Kwok
19 March 2008

The Peninsula Hong Kong

General Managers' Reports

THE PENINSULA
HONG KONG

100% owned

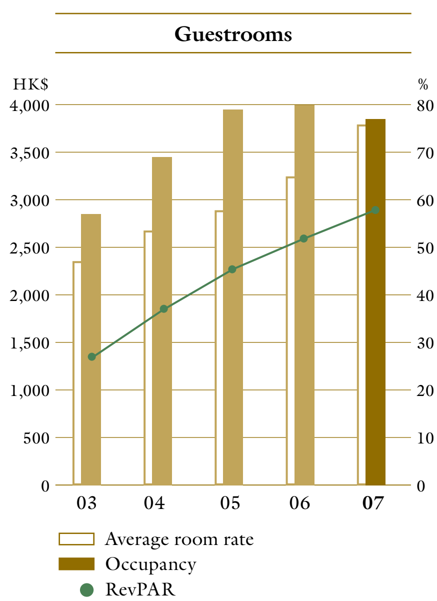
The Peninsula Hong Kong was originally opened in 1928 and is 100% owned by HSH. Through its almost 80 years of history, it has consistently been regarded as one of the top luxury hotels in the world. In 1994, its facilities were significantly extended and modernised with the addition of the Peninsula Tower. Today, it has 300 guestrooms and suites; world-renowned restaurants including Gaddi's, Felix, Spring Moon and Chesa; and a spectacular Peninsula Spa which was opened in mid 2006.

SELECT AWARDS

- **No. 1 in Best Business Hotel in the World – Business Traveller Awards 2007**
  Business Traveller (Germany)
- **No. 1 in Best Hotel in Asia/Pacific – Business Traveller Awards 2007**
  Business Traveller (Germany)
- **No. 1 in Best Overseas Hotel in the World – Gold List 2007**
  Luxury Travel Magazine (Australia)
- **No. 1 in Hong Kong, The World's Best Hotels – T + L 500**
  Travel + Leisure (USA)
- **No. 2 in Top Hotel in Asia – The 20th Annual Readers' Choice Awards**
  Conde Nast Traveler (USA)
- **Favourite Spa in China – Spa Finder Readers' Choice Awards**
  Spa Finder Magazine (USA)

The Peninsula Hong Kong had a record-breaking year in 2007, achieving its highest ever room revenue, room rate and RevPAR. Food and beverage operations, including catering, also enjoyed a boom with a healthy increase in average check. The hotel stands to benefit from mainland China's continual strong growth and the performance of its other key markets including UK, Europe, Japan and Australia.

- The hotel achieved an ARR of HK$3,774, up 17% from 2006; RevPAR was up 12% from 2006 while occupancy dropped 4% from 2006.
- The Peninsula Arcade experienced an average occupancy of 96% during the year. Over 10 new international luxury brands opened in the Arcade, some making their debut in Asia.
- The upgrade of the mezzanine floor of the Peninsula Arcade was completed in late November.



- While the US remained the hotel's largest market, there was growth of visitors from mainland China and emerging markets such as Mexico and the Middle East. The hotel also welcomed more high net worth individuals travelling on private jets.
- The staff restaurant underwent renovation and expansion with more seats added.

Guestrooms	2007	2006	Change
Total number of rooms	**300**	300	–
Average occupancy	**77%**	80%	(4%)
Average room rate	**HK$3,774**	HK$3,228	17%
RevPAR	**HK$2,892**	HK$2,592	12%

Revenue (HK$m)	2007	2006	Change
Hotel	**694**	626	11%
Spa	**23**	12	92%
Commercial rentals	**290**	258	12%
Office rentals	**27**	24	13%
	1,034	920	12%

Sources of guests	2007	2006
USA & Canada	**31%**	33%
Japan	**17%**	17%
Asia	**15%**	16%
Europe	**22%**	22%
Others	**9%**	8%
China	**6%**	4%
FIT	**14%**	13%
Corporate	**24%**	22%
Wholesale	**38%**	42%
Others	**24%**	23%

THE PENINSULA
NEW YORK

100% owned

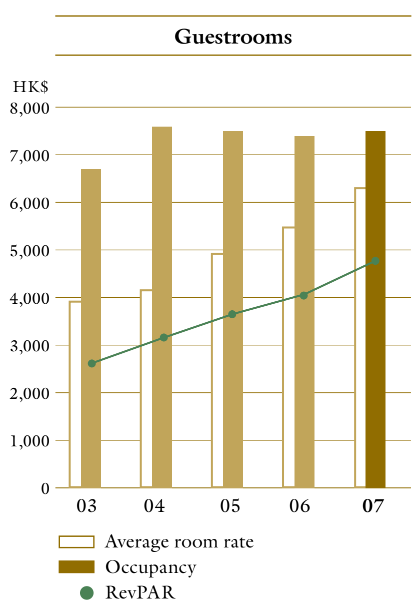
The Peninsula New York is housed in a 23-storey, 1905 landmark in a superb location on Fifth Avenue and 55th Street in mid-town Manhattan. The hotel was acquired in 1988 and completely renovated in 1998. Many of the hotel's original Beaux Arts architectural features have been retained, resulting in a hotel which is modern yet carries an old-world elegance. There are 185 guestrooms and 54 suites, four restaurants and a bar, a Spa and an indoor swimming pool.

SELECT AWARDS

- **2007 AAA Five Diamond Award *(USA)***
- **No. 1 Business Hotel in New York – World's Best Business Hotels**
  Travel + Leisure (USA)
- **Top 20 Hotels in the Americas and Carribean – 2007 Reader's Travel Awards**
  Conde Nast Traveller (UK)
- **Mobil Four-Star Award – 2007 America's Best Hotel and Resort Spas**
  Mobil Travel Guide (USA)

The Peninsula New York, which will celebrate its 20th anniversary in 2008, continued to be one of the room rate and RevPAR leaders in Manhattan. During the year, the hotel benefited from strong market conditions and a record-breaking number of visitors to New York.

- The hotel achieved an ARR of HK$6,326, up 16% from 2006; RevPAR was up 17% from 2006 while occupancy increased 1% from 2006.
- Improvements were made to guestrooms with new carpeting in 56 rooms, upgraded audio visual systems were upgraded in The Peninsula Suite and a new luxury linen programme in the Grand and Peninsula Suites.
- The hotel's public areas were given a fresh look with new carpeting throughout the upper and lower lobbies and staircase, while the marquee at the hotel's main entrance was replaced.
- The hotel began extensive preparations for the planned renovation of the Spa, the swimming pool and the Pen-Top Bar. Construction of this project is now underway with completion scheduled in September 2008.



- Significant marketing initiatives included: a partnership with leading department store Bergdorf Goodman; the Naturally Peninsula Author Series whereby authors were invited to speak at luncheons served with the Group's signature Naturally Peninsula well-being conscious dishes; and participation in New York's Signature Collection programme, which features only the city's upscale hotels and restaurants.

Guestrooms	2007	2006	Change
Total number of rooms	**239**	239	–
Average occupancy	**75%**	74%	1%
Average room rate	**HK$6,326**	HK$5,458	16%
RevPAR	**HK$4,771**	HK$4,066	17%

Revenue (HK$m)	2007	2006	Change
Hotel	**527**	461	14%
Spa	**39**	43	(9%)
Commercial rentals	**31**	31	–
	597	535	12%

Sources of guests	2007	2006
USA & Canada	**65%**	66%
Japan	**2%**	2%
Asia	**2%**	3%
Europe	**21%**	20%
Others	**10%**	9%
FIT	**81%**	93%
Corporate	**16%**	7%
Wholesale	**3%**	–

THE PENINSULA
CHICAGO

92.5% owned

Since its opening in 2001, The Peninsula Chicago has been recognised as one of the finest hotels in North America. The 339 guestrooms and suites are among the largest in the city, supported by a Peninsula Spa and fitness centre, five restaurants and bar and extensive meeting facilities. The hotel occupies a prime location next to the Water Tower in the heart of Chicago's 'Magnificent Mile', at North Michigan Avenue.

SELECT AWARDS

- **Mobil Five Star Award 2008** ***(USA)***
- **AAA Five Diamond Award 2008 for the hotel and Avenues** ***(USA)***
- **No. 1 hotel in the US – 2007/2008 World's Top Hotels, Resorts and Spas Survey**
  Zagat (USA)
- **No. 1 US City Hotel – 26th Annual Reader Survey**
  Andrew Harper's (USA)
- **No. 2 hotel in the World – 2007/2008 World's Top Hotels, Resorts and Spas Survey**
  Zagat (USA)

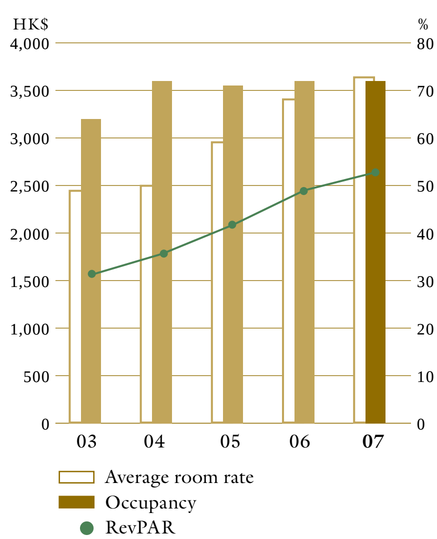
In 2007, the hotel benefited from increased business and direct spending for the city arising from the expanded convention centre.

- The hotel achieved an ARR of HK$3,641, up 7% from 2006; RevPAR was up 8% from 2006 while occupancy remained the same as in 2006.

- Following renovations which began in 2006, the remaining five treatment rooms in The Peninsula Spa were renovated with new wood flooring, doors, wall treatments and artwork installed.

- Plans were approved for a renovation of the guestrooms and an uplift for the Ballroom and The Lobby, which are scheduled to commence in 2008.

Guestrooms



- Special marketing initiatives, which included the American Express promotion and special summer promotion, brought in more than US$2.5 million of new business for the hotel.

Guestrooms	2007	2006	Change
Total number of rooms	**339**	339	–
Average occupancy	**72%**	72%	–
Average room rate	**HK$3,641**	HK$3,398	7%
RevPAR	**HK$2,638**	HK$2,449	8%

Revenue (HK$m)	2007	2006	Change
Hotel	**541**	505	7%
Spa	**30**	29	3%
	571	534	7%

Sources of guests	2007	2006
USA & Canada	**93%**	89%
Asia	**1%**	1%
Europe	**4%**	5%
Others	**2%**	5%
FIT	**36%**	38%
Corporate	**27%**	30%
Others	**37%**	32%

THE PENINSULA
BEVERLY HILLS

20% owned

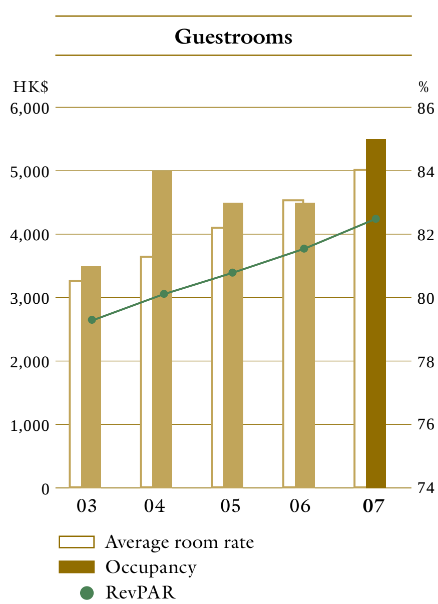
The Peninsula Beverly Hills is located in one of the most prestigious areas of Los Angeles, at the intersection of Wiltshire and South Santa Monica Boulevards. Designed to resemble a gracious private residence, the hotel offers 193 guestrooms including 36 suites and 16 private villas which are nestled amid lush, tropical gardens. There are also four restaurants and bars, a Spa and fitness centre and a large outdoor pool bordered by private cabanas.

SELECT AWARDS

- **AAA Five Diamond Award** *(USA)*
- **AAA Five Diamond Award – The Belvedere Restaurant** *(USA)*
- **Mobil 5 Star Award (USA)**
- **No. 1 Hotel in the Los Angeles Area – 500 World's Best Hotels for 2008**
  Travel + Leisure (USA)
- **Highest ranking hotel in Los Angeles – Gold List**
  Conde Nast Traveler (USA)
- **World's Best Spa – The Peninsula Spa**
  Travel + Leisure (USA)

The Peninsula Beverly Hills continues to be regarded as one of the best luxury hotels in North America and a favoured destination for celebrities in the world's capital of the entertainment industry.

- The hotel achieved an ARR of HK$5,017, up 11% from 2006; RevPAR was up 12% from 2006 while occupancy was up 2%.
- The hotel embarked on a rooftop renovation project in November 2007, which will include a full make-over of the Roof Garden Restaurant, the swimming pool and the hotel's signature individual private cabanas. Completion is scheduled for spring of 2008.
- The fitness centre was enlarged during the year to cater to increasing guest demands.



Guestrooms	**2007**	**2006**	**Change**
Total number of rooms	**193**	194	(1%)
Average occupancy	**85%**	83%	2%
Average room rate	**HK$5,017**	HK$4,523	11%
RevPAR	**HK$4,242**	HK$3,772	12%

Revenue (HK$m)	**2007**	**2006**	**Change**
Hotel	**428**	389	10%
Spa	**25**	24	4%
	453	413	10%

Sources of guests	**2007**	**2006**
USA & Canada	**78%**	85%
Japan	**1%**	1%
Asia	**2%**	2%
Europe	**9%**	7%
Others	**10%**	5%
FIT	**94%**	94%
Corporate	**3%**	1%
Wholesale	**3%**	5%

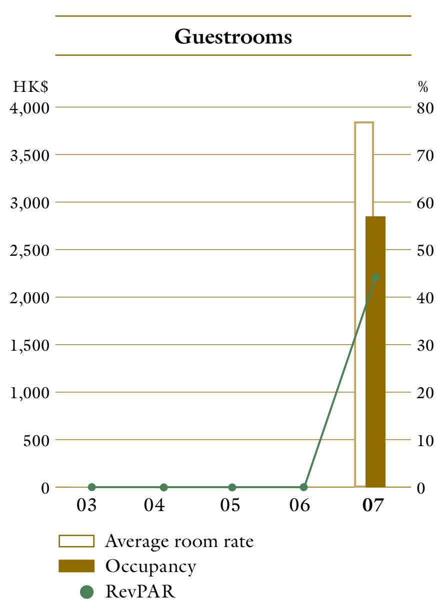
THE PENINSULA
TOKYO

100% owned

The Peninsula Tokyo is the eighth member of the Peninsula family. The hotel is superbly located in the prestigious business district of Marunouchi, opposite the Imperial Palace and Hibiya Park and adjacent to Ginza. It has 314 guestrooms including 47 suites, four restaurants, two ballrooms, six function rooms, a wedding chapel, a Japanese ceremony room, a Peninsula Spa, an indoor swimming pool and fitness centre. The hotel is an important component in the revitalisation of the Marunouchi district, which is the centre of Japan's banking and finance community.

The 314-key Peninsula Tokyo had its soft opening on 1 September and held its grand opening party on 14 December 2007. Since then, this new Marunouchi landmark has already been able to earn a distinctive reputation among domestic and international travellers.

- From 1 September to 31 December 2007, the hotel achieved an ARR of HK$3,853; RevPAR was HK$2,206 while the occupancy was 57%.
- The hotel strategically staged a 'three-tier' release of guestrooms over a period of five weeks, to allow service delivery to adjust to a market where expectations are very high.
- Three major jewellery tenants – Graff, de Grisogono and Chantecler – unveiled their presence for the first time in Japan by opening shops in the hotel's arcade.



- The hotel has enjoyed brisk business in the few months since it opened, benefiting from a large number of weddings, business travellers coming to Tokyo to attend international events and conferences and leisure travellers.

Guestrooms	**2007**
Total number of rooms	**314**
Average occupancy	**57%**
Average room rate	**HK$3,853**
RevPAR	**HK$2,206**

Revenue (HK$m)	**2007**
Hotel	**219**
Spa	**5**
Retail	**11**
Commercial rentals	**8**
	243

Sources of guests	**2007**
USA & Canada	**17%**
Japan	**45%**
Asia	**18%**
Europe	**10%**
Others	**10%**
FIT	**8%**
Corporate	**48%**
Wholesale	**26%**
Others	**18%**

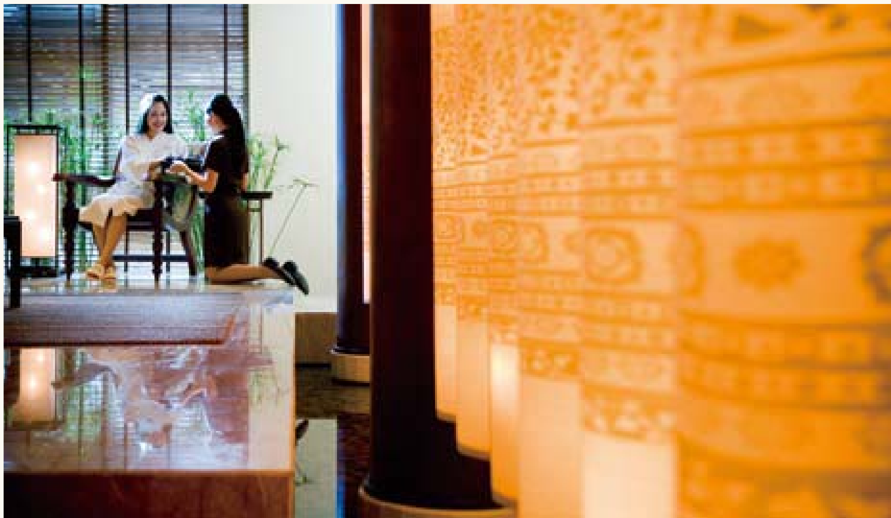
SELECT AWARDS

- **No. 1 New Spa of the Year**
  AsiaSpa Awards 2007
- **No. 1 in Top 15 Hotels for US$250 or less – World's Best Hotel**
  Travel + Leisure (USA)
- **No. 1 in Bangkok and Thailand – T+L 500 World's Best Hotels**
  Travel + Leisure (USA)
- **No. 1 in Best Hotel in Bangkok – Gold List Awards**
  Conde Nast Traveler (USA)
- **No. 2 City Hotel in Bangkok – The World's Best Hotels, Resorts & Hideaways**
  Andrew Harper's Hideaway Report (USA)

THE PENINSULA
BANGKOK

75% owned

The luxurious riverside Peninsula Bangkok was opened in 1998 and has since established itself as one of Asia's finest hotels. The 37-storey hotel features 370 guestrooms and suites, four restaurants, a Peninsula Spa that was opened in late 2006 and which is housed in its own Thai-style villa, and partners with the Group-owned Thai Country Club to offer golf course access to its guests.

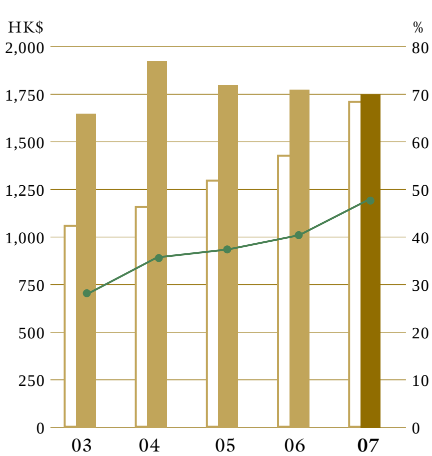


2007 continued to be a challenging year for Thailand, with the New Year Eve's bombing contributing to a decline of international visitors to Bangkok. Nevertheless, The Peninsula Bangkok performed well in a year of uncertainties, winning international accolades for its new Spa facilities and exceptional guest services.

- The hotel achieved an ARR of HK$1,708, up 20% from 2006; RevPAR was up 19% from 2006 while occupancy decreased 1% from 2006.

- Facility enhancements during the year included renovation of the staff restaurant; addition of a third LPG tank which resulted in a considerable reduction in energy cost; and replacement of carpets in 91 guestrooms and two guest corridors.

- The shopping arcade was fully occupied throughout the year.



Guestrooms	2007	2006	Change
Total number of rooms	**370**	370	–
Average occupancy	**70%**	71%	(1%)
Average room rate	**HK$1,708**	HK$1,424	20%
RevPAR	**HK$1,201**	HK$1,010	19%

Revenue (HK$m)	2007	2006	Change
Hotel	**259**	214	21%
Spa	**12**	2	500%
Retail	**5**	4	25%
Commercial rentals	**3**	2	50%
	279	222	26%

Sources of guests	2007	2006
USA & Canada	**20%**	22%
Japan	**9%**	11%
Asia	**31%**	28%
Europe	**27%**	26%
Others	**13%**	13%
FIT	**24%**	23%
Corporate	**27%**	25%
Wholesale	**44%**	47%
Others	**5%**	5%

THE PENINSULA
BEIJING

42% owned

Opened in 1989, The Peninsula Beijing is situated in a highly desirable location in the historic city centre close to the Tiananman Square and is regarded as one of Beijing's top hotels. It was re-branded with the Peninsula name in 2006, following an extensive renovation programme which lasted several years. The hotel has 525 guestrooms and suites, two restaurants, a Spa and one of the most prestigious shopping arcades in Beijing, The Peninsula Arcade, which houses 50 exclusive designer boutiques.

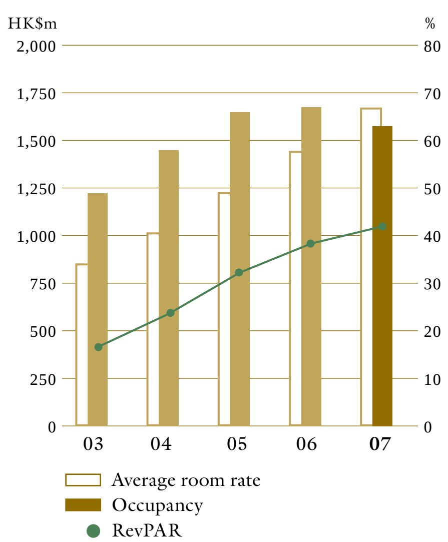
SELECT AWARDS

- **Top 100 World's Best Hotels**
  Conde Nast Traveler (USA)
- **Top 50 Asia's Hotel – T + L 500 The Greatest Hotels in the World**
  Travel + Leisure (USA)
- **Top 20 Overseas Leisure Hotels – Asia and The Indian Subcontinent**
  Conde Nast Traveller (UK)
- **400 World's Best Hotels**
  forbestraveler.com (USA)
- **China's Best Business Hotels**
  Forbes (China)

The year 2007 saw increasingly intense competition in Beijing with many premier international hotel brands establishing a presence in the China capital in the build up to the 2008 Beijing Olympics. The Peninsula Beijing continued to build on its strong brand image and long-established reputation among leisure and corporate travellers.

- The hotel achieved an ARR of HK$1,664, up 16% from 2006; RevPAR was up 9% from 2006 while occupancy decreased 6% from 2006.
- Construction of a new, state-of-the-art Peninsula Spa began in November and is anticipated to be completed in May 2008, in time for the summer Olympics.
- Approval was also given for the hotel's purchase of a new vehicle fleet which will include bespoke Rolls-Royces, reinforcing the hotel as Beijing's premier luxury address.

Guestrooms



- The Peninsula Arcade enjoyed very healthy occupancy throughout the year and continued to be the pre-eminent shopping venue in Beijing for luxury branded goods. Its reputation was further enhanced by the addition of several new brands such as Harry Winston and Valentino during the year.

Guestrooms	**2007**	**2006**	**Change**
Total number of rooms	**525**	525	–
Average occupancy	**63%**	67%	(6%)
Average room rate	**HK$1,664**	HK$1,436	16%
RevPAR	**HK$1,048**	HK$958	9%

Revenue (HK$m)	**2007**	**2006**	**Change**
Hotel	**351**	318	10%
Commercial rentals	**102**	90	13%
	453	408	11%

Sources of guests	**2007**	**2006**
USA & Canada	**35%**	30%
Japan	**6%**	7%
Asia	**33%**	36%
Europe	**19%**	18%
Others	**7%**	9%
FIT	**29%**	30%
Corporate	**18%**	20%
Wholesale	**32%**	29%
Others	**21%**	21%

THE PENINSULA
MANILA

76% owned

The Peninsula Manila is located in the heart of Makati, Manila's business and financial district, at the corners of Ayala and Makati Avenues. Opened in 1976, the hotel's Makati Tower guestrooms, the lobby, Rigodon Ballroom and some back of the house areas underwent an extensive renovation which was completed in late 2006. The 497-room hotel also has seven restaurants and bars, a spa and fitness centre and a shopping arcade.

SELECT AWARDS

- **World's Best Places to Stay – 2007 Gold List**
  Conde Nast Traveler (USA)
- **No. 4 in Asia – World's Best Hotels 2007**
  Travel + Leisure (USA)
- **Philippines' Leading Spa and Philippines' Leading Suite**
  14th World Travel Awards

The Peninsula Manila saw a favourable response to its newly-renovated Makati Tower guestrooms, which resulted in a 36% increase in average room rate. Unfortunately, the brief seizure of the hotel by rebels in late November led to a momentary business interruption.

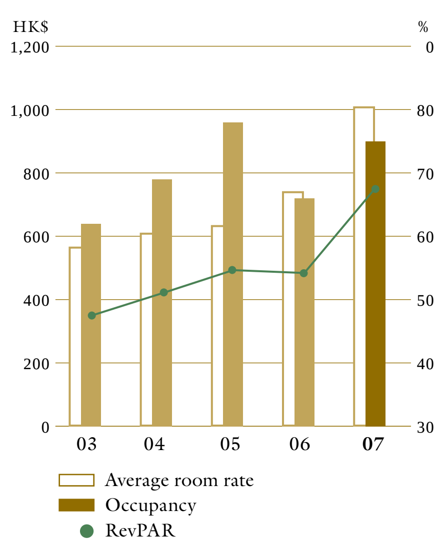
- The hotel achieved an ARR of HK$1,005, up 36% from 2006; RevPAR was up 55% from 2006 while occupancy increased 14% from 2006.

- Major facility enhancements during the year included replacement of the swimming pool deck tiles; renovation of the Pool Snack Bar; re-tiling of Spices restaurant and the main and pastry kitchens; and re-waterproofing of the Ayala and Makati Towers' roof decks.

- Plans were put in place for future renovation of the Ayala Tower guestrooms and second floor function rooms.

- Retail spaces in the hotel's basement shopping arcade, upper lobby and on the Makati side outside the hotel were fully leased, although some shops located on the Ayala side remained vacant.

Guestrooms



- Labour union negotiations continued to be a challenge during the year and the situation remained unresolved at the year end.

- The hotel played host to several major media celebrations in town, and participated in joint promotions with five leading banks.

Guestrooms	2007	2006	Change
Total number of rooms	**497**	497	–
Average occupancy	**75%**	66%*	14%
Average room rate	**HK$1,005**	HK$737	36%
RevPAR	**HK$752**	HK$484	55%

** In 2006, an average of 133 rooms were closed for renovation.*

Revenue (HK$m)	2007	2006	Change
Hotel	**235**	165	42%
Spa	**2**	1	100%
Retail	**6**	5	20%
Commercial rentals	**2**	2	–
	245	173	42%

Sources of guests	2007	2006
USA & Canada	**30%**	32%
Japan	**7%**	10%
Asia	**39%**	36%
Europe	**11%**	10%
Others	**13%**	12%
FIT	**14%**	17%
Corporate	**82%**	77%
Wholesale	**4%**	6%

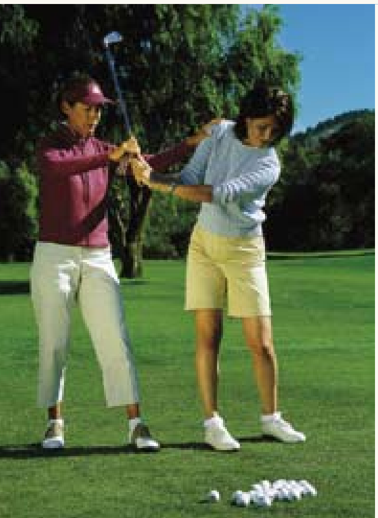
Quail Lodge Resort and Golf Club

100% owned

Nestled on 850 acres in the heart of sunny Carmel Valley in California, Quail Lodge Resort and Golf Club has 97 guestrooms, an 18-hole championship golf course, an outdoor swimming pool, tennis court, two restaurants, a Spa, the Land Rover Experience Driving School and hiking trails through the surrounding woods.

SELECT AWARDS

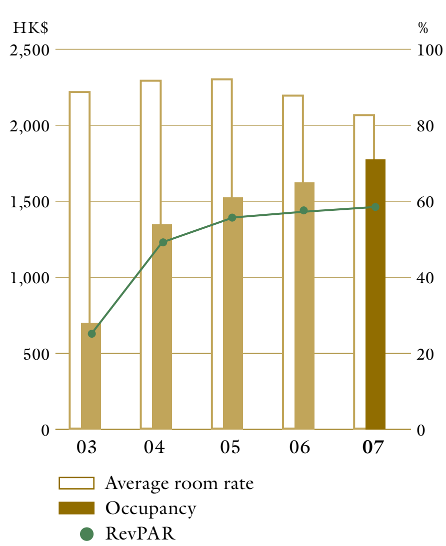
- **AAA Four Diamond Award** ***(USA)***
- **Best Award of Excellence – Covey Restaurant**
  Wine Spectator Magazine (USA)



2007 was Quail Lodge's first full year after the resumption of Peninsula management. This has resulted in a significant effort to re-position the product and enhance the guest experience.

- Quail Lodge achieved an ARR of HK$2,062, down 6% from 2006. RevPAR was up 2% from 2006 while occupancy increased 9% from 2006.
- Improvement continued apace in Quail Lodge's departments with restructuring in the sales and events and the food & beverage departments in particular.
- The Covey Restaurant was revitalised and the Spa was improved with a new treatment menu and new product launches.
- Capital improvements to the Lodge included the addition of air conditioning to 24 guestrooms and construction of a new cart barn which began in September 2007.

Guestrooms



- New resort features were introduced to attract members and guests – for instance, the Lifestyle Academy (with offerings in cuisines and adventures) and Golf Academy were created to enhance guests' experience.
- Quail Lodge also enhanced its profile in the local community by stepping up its media exposure and advertising efforts.

Guestrooms	2007	2006	Change
Total number of rooms	**97**	97	–
Average occupancy	**71%**	65%	9%
Average room rate	**HK$2,062**	HK$2,190	(6%)
RevPAR	**HK$1,462**	HK$1,431	2%

Revenue (HK$m)	2007	2006	Change
Hotel	**96**	91	5%
SPA	**5**	5	–
Golf club	**33**	30	10%
Property sales	**16**	–	100%
	150	126	19%

Sources of guests	2007	2006
USA & Canada	**95%**	95%
Asia	**1%**	1%
Europe	**2%**	1%
Others	**2%**	3%
FIT	**53%**	51%
Corporate	**46%**	49%
Wholesale	**1%**	–

THE PEAK COMPLEX

100% owned

The Peak Complex is comprised of The Peak Tower, The Peak Tram and St. John's Building. The Peak Tower, a major arrival point for visitors to the Peak, was completely renovated and fully re-opened in November 2006, becoming an exciting retail, dining and entertainment venue. The Peak Tram, developed in 1888, is one of the oldest operating funicular railways in the world and is a popular tourist attraction.

In 2007, The Peak Complex benefited from increased tourist arrivals in Hong Kong. The Peak Tram, in particular, set a new record with the 2007 patronage reaching 4.9 million persons.

- The Peak Tower remained fully let throughout the year.
- In September 2007, the Tower's rooftop was re-branded as the Sky Terrace and an entrance fee was introduced.
- The Peak Tram achieved a strong growth in revenue with a record-breaking annual patronage of 4.9 million persons, up 11% from 2006.
- The Peak Tram Historical Gallery was opened at the Tram's Lower Terminus in September. The Gallery aims to pay tribute to the Tram's heritage and history, which is closely associated with that of Hong Kong's. Fifteen showcases, some with life-sized models, exhibit more than 200 pieces of memorabilia collected from around the world. Noteworthy highlights include the reconstructed haulage room from 1926 and the replica of a first generation tramcar.
- St. John's Building was fully leased during 2007, reflecting a high demand for grade A office space in Hong Kong's central business district. This led to a positive increase in revenues and unit rates.

Revenue (HK$m)	**2007**	**2006**	**Change**
St. John's Building	**27**	23	17%
The Peak Tower*	**66**	29	128%
The Peak Tram	**78**	66	18%
	171	118	45%

* *Renovation at The Peak Tower commenced in April 2005 and finished in phases from July 2006. The Tower was fully opened by November 2006.*

THE REPULSE BAY COMPLEX

100% owned

The Repulse Bay Complex is comprised of eight apartment towers and a commercial arcade with restaurants, built on the site of the Group's famous Repulse Bay Hotel. It is located in Repulse Bay on the south side of Hong Kong Island.

Healthy economic conditions in Hong Kong, supported by a strong financial services and banking sector, led to a steady influx of expatriates and their families who demanded high quality accommodation. A fortuitous year in the Chinese lunar calendar also saw a boom in weddings held at The Repulse Bay.

- Leasing activity for both serviced and unfurnished apartments remained strong in 2007 due to the limited supply of new luxury residential units on the south side of Hong Kong Island.
- The restricted supply of residential developments, combined with a sound economy, provided an opportunity for The Repulse Bay to increase rents. The growth in serviced apartment occupancy was also pleasing.
- Usage of the Club's facilities was very high as a result of the improved rental situation.
- The Repulse Bay commercial arcade was fully let throughout the year.
- Food and beverage department produced a strong performance, driven by an exceptionally high level of banqueting business, particularly in the wedding segment.
- A revitalisation and renovation project for the commercial arcade and restaurants was approved by the Hong Kong Government's Town Planning Board and work is expected to commence in the latter half of 2008. When completed, the new look will strengthen The Repulse Bay's position as the premier dining and shopping destination on the south side of Hong Kong Island.

The Repulse Bay Complex	**2007**	**2006**	**Change**
Unfurnished apartments	**353**	353	–
Average occupancy	**94%**	94%	–
Average rental (pnsf)	**HK$36**	HK$34	6%
Serviced apartments	**68**	68	–
Average occupancy	**76%**	67%	13%
Average rental (pnsf)	**HK$30**	HK$26	15%

Revenue (HK$m)	**2007**	**2006**	**Change**
Residential	**375**	344	9%
Club	**14**	14	–
Commercial rentals	**38**	37	3%
Food & beverage	**52**	48	8%
	479	443	8%

PROPERTIES, CLUBS AND OTHER OPERATIONS

The Group owns and manages The Landmark in Ho Chi Minh City, Vietnam, an office and residential complex; the Thai Country Club near Bangkok, one of the finest golf clubs in Asia; Peninsula Merchandising, which operates Peninsula Boutiques around the world and Tai Pan Laundry Services. It also manages The Hong Kong Club, The Hong Kong Bankers Club and Butterfield's Club in Hong Kong, as well as Cathay Pacific Airways' first and business class lounges in the Hong Kong International Airport.

Properties

The Landmark (Vietnam)

- The Landmark exceeded the previous years' performance by achieving a 100% occupancy rate for the office tower and also a higher occupancy rate for the residential tower.

- Higher rentals were charged due to lack of supply for top quality office and accommodation spaces in Ho Chi Minh City, leading to increased revenue.

- The complex's facilities have been constantly upgraded, enabling The Landmark to maintain its position as one of the market leaders in Ho Chi Minh City.

Revenue (HK$m)	2007	2006	Change
The Landmark			
Office	**22**	19	16%
Residential	**13**	12	8%
	35	31	13%

Clubs & Club Management

- The Thai Country Club, entering its second decade in 2007, was voted the Best Golf Course in Thailand and the Best Clubhouse in Asia by the *Asian Golf Monthly Magazine*. The Club played host to The Volvo Masters of Asia in December.

- Cathay Pacific Airways' business class lounge was named No. 2 in the Business Class Lounge category while the airline's first class lounge was named No. 4 in the First Class Category by *Skytrax World Airline Awards*.

- As a result of increased outbound travel from Hong Kong, the number of visitors to the Cathay Pacific lounges grew significantly in 2007 and set a new record with 1.2 million visitors.

Revenue (HK$m)	2007	2006	Change
Thai Country Club	**59**	52	13%
PCCS	**93**	53	75%
	152	105	45%

Other Operations

- Tai Pan Laundry services were in healthy demand during the year, due to excellent hotel occupancies in Hong Kong.

- In 2007, Peninsula Merchandising opened four Peninsula Boutiques in China and Japan, bringing the total number of shops to 18 around the world, including 11 licenced ones.

- Online shopping was launched in Japan, South Korea and the US.

Revenue (HK$m)	2007	2006	Change
Tai Pan Laundry	**30**	21	43%
Peninsula Merchandising	**76**	62	23%
	106	83	28%

Project

A view of The Peninsula Shanghai from across the Bund

The Peninsula Shanghai

The Company has a joint venture agreement with SPG Land pursuant to which The Peninsula Shanghai (BVI) Limited was established for the purpose of developing a Peninsula hotel on the Bund in Shanghai. In May 2004, The Peninsula Shanghai (BVI) Limited signed a project agreement with Shanghai New Huang Pu (Group) Co. Ltd., then a state-owned enterprise, to acquire the land use rights for the designated site in the Waitanyuan area of Shanghai. The land grant contract was signed in October 2004 with the Shanghai Real Estate Resources Administration Bureau for the purchase of the land and the building permit was obtained in October 2006, enabling construction of the complex to begin.

The Peninsula Shanghai is located at 32 Zhong Shan Dong Yi Road, adjacent to the old British Consulate building and its surrounding gardens and with direct frontage onto the famous Bund. When completed, the hotel will feature 15 storeys encompassing 235 guestrooms and suites, five restaurants, banquet facilities including a grand ballroom, a full Peninsula Spa, a swimming pool and arcade. The retail arcade will be housed on two levels, at the lobby level and basement one, spanning over 5,300 square metres, with five street entrances and direct connections to the hotel lobby and carpark. The arcade will house an exclusive selection of world-renowned brands.

In addition, the complex will include a 14 storey hotel apartment building which will contain 39 high-end hotel apartments to be serviced by the Peninsula hotel. The complex is scheduled to open in late 2009, in time for the Shanghai World Expo in 2010, and marking the Group's return to the city after an absence of some 50 years.

During the year, significant progress was made on the construction of the hotel and hotel apartment tower

During 2007, significant progress was made in the construction of the hotel's foundations, basements and super-structure. By early September, the hotel's basement structural works were completed up to level 1 and thereafter construction of the hotel gained full speed with the commencement of super-structural and other works. An average of eight days was taken to complete one floor and the hotel reached structural top-out in mid January 2008.

Building of the hotel apartment tower has also progressed well. In order to ensure the ground's stability, excavation works for the hotel apartment tower could only commence after the completion of the hotel's basement. The hotel apartment's basement works were completed in February 2008.

The hotel occupies a site which will have a total gross floor area of 92,160 square metres (55,974 square metres above ground and 36,186 metres below ground). The initial estimate of the total cost for The Peninsula Shanghai project, which is 50% owned by the Group, is approximately RMB 3 billion.

Directors





(P.54) From left to right, top to bottom: The Hon. Sir Michael Kadoorie, Ian Duncan Boyce, Clement King Man Kwok, Charles Mark Broadley, Peter Camille Borer

(P.55) From left to right, top to bottom: Ronald James McAulay, William Elkin Mocatta, Pierre Roger Boppe, John Andrew Harry Leigh, Nicholas Timothy James Colfer, Dr. The Hon. Sir David Kwok Po Li, Robert Chee Siong Ng, Robert Warren Miller, Patrick Blackwell Paul

CHAIRMAN

The Hon. Sir Michael Kadoorie
GBS, LL.D. (Hon), DSc (Hon), Officier de la Légion d'Honneur, Commandeur de l'Ordre de Leopold II, Commandeur de l'Ordre des Arts et des Lettres
Aged 66. Appointed a Director in 1964 and elected Chairman in 1985, Sir Michael is also Chairman of CLP Holdings Limited, a Non-Executive Director of Hutchison Whampoa Limited, a Director of Sir Elly Kadoorie & Sons Limited, as well as holding a number of other directorships. In addition, Sir Michael acts as a trustee of a number of leading, local charitable institutions. (E)

CHIEF EXECUTIVE OFFICER

Clement King Man Kwok
Aged 48. A Bachelor of Science in Economics from the London School of Economics and a Member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, he joined the Group in February 2002 as Managing Director and Chief Executive Officer. Mr. Kwok's career began with Price Waterhouse and Barclays de Zoete Wedd in the United Kingdom, following which he returned to Hong Kong to work with Schroders Asia. Prior to joining the Group, he had served as Finance Director of MTR Corporation since 1996. He also serves as an Independent Non-Executive Director of Swire Pacific Limited, as well as on the Takeovers and Mergers Panel, the Takeovers Appeal Committee, the Securities and Futures Appeals Tribunal and the Board of the Community Chest. (E, F)

DEPUTY CHAIRMAN

Ian Duncan Boyce
Aged 63. A Fellow of the Institute of Chartered Accountants in England and Wales, he was appointed to the Board in 1999 and elected Deputy Chairman in May 2002. Mr. Boyce, based in Hong Kong since 1984, was formerly Managing Director of Schroders Asia and had held executive positions with the S.G. Warburg Group. He is Non-Executive Chairman of Schroder Investment Management (Hong Kong) Limited, a Director of CLP Holdings Limited and Tai Ping Carpets International Limited, and Chairman of Sir Elly Kadoorie & Sons Limited. (E, A, F, R)

EXECUTIVE DIRECTORS

Charles Mark Broadley
Aged 44. A Master of Arts in Law from Cambridge University, he joined the Group as Finance Director in November 2003. Prior to joining the Group, Mr. Broadley worked in the investment banking industry, both in the United Kingdom and, since 1990, in Hong Kong. His career began with Philips & Drew in London, followed by HSBC Investment Banking. Before moving to HSH, he was a Managing Director with N M Rothschild & Sons in Hong Kong. (F)

Peter Camille Borer
Aged 54. Appointed to the Board as an Executive Director in April 2004, he is a graduate of the Lausanne Hotel School, Switzerland and joined the Group in 1981, enjoying senior roles in the Hong Kong and Bangkok hotel operations, as well as within the corporate office. He was appointed General Manager of The Peninsula Hong Kong in 1994, taking on additional regional responsibility in 1999; and culminating in his appointment as Chief Operating Officer, The Peninsula Hotels, in April 2004.









NON-EXECUTIVE DIRECTORS

Ronald James McAulay
Aged 72. A graduate of the University of Glasgow, a Member of the Institute of Chartered Accountants of Scotland and brother-in-law of The Hon. Sir Michael Kadoorie, he was appointed to the Board in 1972. Mr. McAulay also serves on the Boards of CLP Holdings Limited, Sir Elly Kadoorie & Sons Limited and several other companies. Mr. McAulay is a trustee of the Tate Foundation in London and of various other charitable organisations. He is a member of the International Council of the Victoria and Albert Museum in London.

William Elkin Mocatta
Aged 55. A Fellow of the Institute of Chartered Accountants in England and Wales, he was appointed to the Board in 1985 and served as Deputy Chairman from 1993 until May 2002. Mr. Mocatta is an Executive Director of Sir Elly Kadoorie & Sons Limited and holds other non-executive positions including Vice Chairman of CLP Holdings Limited and Chairman of CLP Power Hong Kong Limited.

Pierre Roger Boppe
Chevalier dans l'Ordre National de la Légion d'Honneur
Aged 60. A Master of Science from both the Swiss Federal Institute of Technology, Lausanne and Stanford University, he was Managing Director and Chief Executive Officer of the Group from 1996 until January 2002. Mr. Boppe is still active in the hospitality industry in Europe where he serves on the Boards of Luxury Lifestyle Hotels and Resorts, a marketing and distribution company, and of Stein Hotels and Resorts, a leading pan-European hotel management company involved with small luxury properties. Mr. Boppe was formerly Deputy Chairman of Kuoni Travel Group until he retired in mid 2007 to become co-founder of a luxury consumer goods company.

John Andrew Harry Leigh
Aged 54. Mr. Leigh was in private practice as a solicitor in Hong Kong and the United Kingdom. He was appointed to the Board in May 2006. He serves on the Boards of CLP Holdings Limited and Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas. (E, F)

Nicholas Timothy James Colfer
Aged 48. A Master of Arts and with over 25 years' experience of corporate management in the Asia-Pacific region, principally in real estate, manufacturing and distribution, he was appointed to the Board in May 2006. Mr. Colfer is Chairman of Tai Ping Carpets International Limited, Director of Sir Elly Kadoorie & Sons Limited and serves on several other corporate Boards in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. The Hon. Sir David Kwok Po Li
GBM, GBS, OBE, MA Cantab. (Economics & Law), Hon. DSc. (Imperial), Hon. DBA (Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. DSocSc (Lingnan), Hon. LLD (Hong Kong), Hon. LLD (Warwick), Hon. LLD (Cantab), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCIArb, JP, Officier de L'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Officier de la Légion d'Honneur.
Aged 69. Appointed to the Board in 1987, Sir David is Chairman and Chief Executive of The Bank of East Asia, Limited and a Director of numerous other companies in Hong Kong and overseas. Sir David is a member of the Legislative Council of Hong Kong. He is the Chairman of The Chinese Banks' Association, Limited and the Hong Kong Management Association. He is also a member of the Banking Advisory Committee and the Council of the Treasury Markets Association.

Robert Chee Siong Ng
Aged 55. Called to the English Bar in 1975, Mr. Ng was appointed to the Board in 1987. He is Chairman of Sino Hotels (Holdings) Limited, which owns 3.6% of the Company's issued share capital. He is also Chairman of Sino Land Company Limited and its holding company, Tsim Sha Tsui Properties Limited. (A)

Robert Warren Miller
Aged 74. A Bachelor of Science in Hotel Administration from Cornell University and a Presidential Councillor and Trustee Emeritus of the University, he was appointed to the Board in July 2001. Mr. Miller, a resident of Hong Kong since 1960, is the founder of the DFS Group, Duty Free Shoppers Limited, and Chairman of the Search Group, a private international investment group. (R)

Patrick Blackwell Paul
CBE
Aged 60. Appointed to the Board in February 2004, Mr. Paul began his career with Price Waterhouse in London in 1969. A resident of Hong Kong since 1980, he was Chairman and senior partner of PricewaterhouseCoopers in Hong Kong from 1994 until 2001. He is an Independent Non-Executive Director of Johnson Electric Holdings Limited, Kingsway International Holdings Limited and Pacific Basin Shipping Limited. His civic commitments include chairing the Supervisory Board of the British Chamber of Commerce in Hong Kong. (A, R)

E - Executive Committee members
A - Audit Committee members
F - Finance Committee members
R - Remuneration Committee members

Senior Management & Key Functions

(P.56) From left to right, top to bottom: Maria Razumich-Zec, Martyn Sawyer, David Batchelor, Rainy Chan, Sarah Cruse, Donald Harrington, Charles Morris, Offer Nissenbaum

(P.57) From left to right, top to bottom: Robert Rechtermann, Malcolm Thompson, Palle Jensen, Jean Forrest, Shane Izaks, Christobelle Liao, John Miller, Paul Tchen, Eymon Tsang, Sindy Tsui, David Williams, K.K. Wong

SENIOR MANAGEMENT

GROUP MANAGEMENT COMMITTEE

The Group Management Committee is tasked with making key decisions for the Company's management and operations, under official delegation of authority from the Board. The Committee is comprised of senior executives who are from various key functions and operations of the Company. In addition to Chief Executive Officer Clement K.M. Kwok, Chief Financial Officer C. Mark Broadley and Chief Operating Officer Peter C. Borer, the following are members of the Group Management Committee:

Maria Razumich-Zec
Aged 50. Mrs. Razumich-Zec joined the Group as General Manager of The Peninsula Chicago in 2002 and was promoted to Regional Vice-President – USA East Coast in 2007, with regional responsibilities covering The Peninsula Hotels in Chicago and New York.

Martyn Sawyer
Aged 50. Group General Manager, Properties and Clubs since 1999, Mr. Sawyer holds regional responsibility for the Company's non-hotel properties and operations, including The Repulse Bay Complex and The Peak Complex in Hong Kong, as well as properties and clubs in Hong Kong, Vietnam and Thailand. He has been with the Company since 1985.

KEY FUNCTIONS

OPERATIONS GENERAL MANAGERS

David Batchelor
Aged 50. Mr. Batchelor was appointed General Manager of The Peninsula Manila in 2001 following seven years with The Peninsula Hong Kong, latterly as Resident Manager.

Rainy Chan
Aged 43. Ms. Chan joined the Company in 1994 and was General Manager of The Peninsula Bangkok from 2004 to 2007. In April 2007 she was appointed General Manager of The Peninsula Hong Kong.

Sarah Cruse
Aged 45. Ms. Cruse joined the Company in 2006 as General Manager of Quail Lodge Resort and Golf Club.

Donald Harrington
Aged 55. Mr. Harrington joined the Company in 2000 as General Manager of The Peninsula Beijing.

Charles Morris
Aged 53. Mr. Morris joined the Company in 2004 as Resident Manager of The Peninsula Manila. He was appointed General Manager of The Peninsula Bangkok in March 2007.

Offer Nissenbaum
Aged 50. Mr. Nissenbaum joined the Group in December 2007 as Managing Director of The Peninsula Beverly Hills.












Robert Rechtermann
Aged 43. Mr. Rechtermann was appointed General Manager of The Peninsula New York in May 2007. Previously, he was Resident Manager of The Peninsula Chicago.

Malcolm Thompson
Aged 57. Mr. Thompson joined the Group in 2006 as General Manager of The Peninsula Tokyo.

Palle Jensen
Aged 44. Mr. Jensen joined the Company in 1998 and was appointed General Manager of The Repulse Bay in 2005.

CORPORATE GENERAL MANAGERS

Jean Forrest
Aged 44. Mrs. Forrest joined the Company in 2005 as General Manager, Marketing and is responsible for developing and implementing global marketing strategies for the Peninsula Hotels.

Shane Izaks
Aged 45. Mr. Izaks was appointed General Manager, Information Technology in 1995 and is responsible for formulating and implementing information technology strategy at both Group and operational levels.

Christobelle Liao
Aged 39. Ms. Liao joined the Company as Company Secretary and Corporate Counsel in 2002.

John Miller
Aged 48. Mr. Miller joined the Company in 1988 and was appointed General Manager, Design and Planning in 2002. His responsibilities include managing the design and planning of new and existing hotel and property developments.

Paul Tchen
Aged 41. Mr. Tchen joined the Company in 1992 and was appointed General Manager, Operations Planning and Support in January 2007. He is also General Manager of Peninsula Merchandising Limited and Peninsula Cosmetics Limited.

Eymon Tsang
Aged 39. Mr. Tsang joined the Company in 1995 and was appointed General Manager, Corporate Finance and Treasurer in 2002. He is responsible for financial reporting and control, liquidity and financial risk management and treasury activities.

Sindy Tsui
Aged 39. Ms. Tsui was appointed General Manager, Human Resources in October 2007. She is responsible for the Group's strategy on human resources, talent development and training.

David Williams
Aged 58. Mr. Williams joined the Company in 1998 and was appointed Head of Audit and Risk Management in 2004, with the responsibility to provide assurance services on the effectiveness of internal controls and the management of risks.

K.K. Wong
Aged 60. Mr. Wong joined the Company in 1994 and was appointed General Manager of The Peninsula Shanghai Waitan Hotel Company Limited in 2005. In this role he is responsible for the project management of the building and completion of The Peninsula Shanghai.

Corporate Social Responsibility

In late 2007, the Company established a Corporate Social Responsibility Committee ("CSRC") tasked with collating information on, assimilating and consolidating existing CSR activities across the Group and setting Group policies to ensure focus and consistency throughout various operations.

The CSRC determined that the Group would initially focus on four main areas: community investment, environmental protection, labour practices and occupational health and safety. Over time, through annual reporting of CSR policies and initiatives, benchmarking CSR performance against internationally-recognised standards and setting rigorous work practice guidelines, the Group aims to continue to be an active and responsible citizen in the communities where it operates.

Community investment

The Group's businesses regularly contribute to many worthwhile causes. The nature and extent of involvement are varied; our philosophy is that each hotel or operation undertakes its own initiatives based on its resources and depending on the needs of the local community. Some examples of community investment activities are highlighted below:

- Donation is an important element of our community giving. In Asia, the Head Office supported Crossroads International by donating computer equipment and furniture. The Peninsula Hong Kong gave duvets to charity while The Peninsula Manila provided old pillowcases and blankets to the Philippine Red Cross. In Beijing, our Peninsula hotel staff visited the Living Tree Foster Home and brought its mentally or physically-handicapped residents a variety of needed supplies.

- In the US, The Peninsula New York gave food and clothing to a cause named New York Cares Coat Drive. The Peninsula Chicago donated unclaimed lost and found items to Homeless Shelters, unused shampoo and in-room toiletries to the Chicago Abused Women's Coalition and donated turkeys to City Harvest over Thanksgiving.

- The Group also fund-raised for a variety of charitable causes. Across all Peninsula Hotels, the spirit of festive giving continued in 2007 with over HK$690,000 (US$88,000) raised for Make-a-Wish Foundation through our Trees of Hope campaign. In the US, The Peninsula New York raised funds for the American Cancer Society, while Quail Lodge fund-raised for The Society for the Prevention of Cruelty to Animals of Monterey County.

- Other forms of community giving included a blood donation drive organised by The Peninsula Manila; offering complimentary tram rides to children, seniors and the disabled by the Peak Tram; sponsoring a Christmas carnival by The Repulse Bay where 250 children suffering from cancer participated. Finally, The Peninsula Hong Kong continued its commitment to the hospitality industry by offering internships to 50 students from Hong Kong and international hospitality schools.

Environmental protection

Protecting the environment in which we operate is a key element of the Group's CSR efforts. Our operations have placed special emphasis on energy saving, waste recycling, water conservation, air quality enhancement and using environmentally friendly products. Some examples of our environmental protection activities include:

A tree planting project initiated by staff at The Peninsula Manila

- Energy saving: installing a system that draws in outside cold air to cool the water that is used to produce cooler air for the hotel's air-conditioning system (The Peninsula Tokyo); encouraging staff to take to the stairs instead of elevators, and switching off some back-of-the-house lights (The Peninsula Hong Kong); or replacing laundry dryers with low-emission, energy efficient models (The Peninsula Beverly Hills).

- Waste recycling: using recycled solid wastes as plant fertiliser while liquid waste were turned into liquid effluent which in turn, was used for watering of garden plants (The Peninsula Bangkok); or sending unused guest supplies to homeless shelters and recycling food surplus (The Peninsula Chicago).

- Water conservation: recyling water which has led to an 18% reduction in the hotel's water consumption (The Peninsula Bangkok); switching to a non-chemical water purifying system that saved the hotel 1.2 million gallons of water a year (The Peninsula Chicago); or re-using the water in the Grand Fountain through the use of sand filtration system, as well as discharging waste water to the city's sewer treatment plant for watering public parks (The Peninsula Manila).

- Air quality enhancement: replacing the usage of diesel fuel with LPG for generating cleaner air and non-toxic fumes (The Peninsula Bangkok); installing sophisticated air filtration in all the guestrooms and public areas (The Peninsula Beijing); or installing variable frequency drives on air handling equipment to improve air quality (The Peninsula Chicago).

- Using environmentally friendly products: applying water-based paint in guestrooms and replacing old refrigerants to a more environmentally friendly type (The Peninsula Hong Kong); using 'friendly' bacteria instead of non-biodegradable liquids in de-clogging and maintaining kitchen drains (The Peninsula Manila); similarly, implementing bio-bacteria cultivation, a cost-efficient process which manufactures friendly bacteria to replace chemicals to combat kitchen grease and unpleasant odours (The Peninsula Bangkok).

The first group of Peninsula Ambassadors at their graduation

Labour practices

Our Group dedicates significant efforts into staff training, career development and staff well-being. We recognise that continuing education and awareness are important, and endeavour to engage staff through different methods. Some examples of our labour practices are highlighted below:

- HSH supports staff training and skills development and the 'Cross Exposure Programme' is an illustration of the training network which the Group provides. Staff who are identified as fast-track performers are selected to participate in the programme.

- The first intake of Peninsula Ambassadors – 20 young employees selected for The Peninsula Tokyo – completed their 10-month training programme in the Peninsula Hotels in Hong Kong and Bangkok and took up their positions at The Peninsula Tokyo as part of the hotel's pre-opening team, infusing Peninsula standards and culture into all areas of this new operation. The programme will continue in 2008 with the recruitment of a new group of Peninsula Ambassadors for The Peninsula Shanghai.

- A total of 18 middle-tiered managers from Head Office and across operations graduated from the Group Professional Development Programme, a programme for which the Group partnered with Cornell University. Focus after graduation will be placed on the graduate's individual development needs and career planning.

- Various operations organised staff events to strengthen camaraderie and rapport amongst employees. For instance, The Peninsula Manila held its Annual Pen Sports event.

- At The Peninsula Tokyo, the hotel has a programme of employing intellectually handicapped persons for back-of-the-house tasks. 2 staff were employed on this government-subsidised scheme where they are trained and monitored by professional carers. The hotel aims to employ eight such handicapped staff.

- The Group subscribes to ethical employment standards and conditions within the countries in which it operates. It contributes to retirement funds for employees in the owned businesses in its different operational jurisdictions, complying with

Staff at The Peninsula Bangkok

the statutory laws in each country. These schemes are variously mandatory or optional, with some staff choosing not to participate. Below is a summary of the current numbers of staff eligible to participate in these benefits.

Location	Staff
Participating:	
Hong Kong	1,738
Other Asia	1,898
United States of America	822
Total	**4,458**
Non-participating:	
Hong Kong	0
Other Asia	0
United States of America	745
Total	**745**

Occupational health and safety

The Group has well-established health and safety practices in place throughout its operations, which come under the responsibility of experienced and specifically-appointed safety and security staff. Some examples of our occupational health and safety measures are highlighted below:

- The Peninsula New York launched TIPS training for restaurant and bar staff to teach them responsible serving of alcoholic beverages. A personal protection training was also given to staff to assist in self defence.

- The Peninsula Hong Kong implemented staff healthcare initiatives including an allowance to visit registered Chinese medical practitioners, organised health talks and initiated a smoking cessation programme for staff, and also conducted home visits to staff who were on prolonged sick leave.

- At The Peninsula Beverly Hills, anti-slip rubberised floor covering for back-of-the-house steps and landings were installed.

Financial Review Summary

Consolidated Balance Sheet at 31.12.2006

	HK$m
Net assets	
Fixed assets	22,951
Other long-term investments	685
Deferred tax assets	98
Derivative financial instruments	31
Cash and bank balances	447
Other current assets	397
	24,609
Bank overdrafts	(14)
Bank borrowings	(2,509)
Derivative financial instruments	(214)
Deferred tax liabilities	(2,880)
Other liabilities	(1,227)
	17,765
Capital and reserves	
Share capital and premium	3,499
Retained profits	12,918
Hedging reserve	(18)
Other reserves	583
	16,982
Minority interests	783
	17,765

Consolidated Cash Flow Statement for the year ended 31.12.2007

			HK$m
1	EBITDA		1,510
	Tax paid		(135)
	Working capital and other adjustments		106
	Cash inflow from operating activities		1,481
	Interest and other financing charges paid		(150)
	Interest received		25
	Dividends paid		(71)
2	Capital expenditure		(808)
	Net increase in bank borrowings		254
	Sales proceeds from disposal of an unlisted equity instrument		101
	Repayment of capital contribution from an unlisted equity instrument		106
	Other net cash outflow		(1)
	Net increase in cash		937
	Cash and bank balances	447	
	Less: Bank overdrafts	(14)	
	Cash & cash equivalents at 1.1.2007		433
	Effect of changes in exchange rates		28
	Cash & cash equivalents at 31.12.2007 *		1,398
*	Representing:		
	Cash and bank balances		1,414
	Bank overdrafts		(16)
			1,398

Consolidated Income Statement for the year ended 31.12.2007

		HK$m
3	Turnover	4,542
	Operating costs before depreciation and amortisation	(3,032)
1	EBITDA	1,510
	Depreciation and amortisation	(335)
	Net financing charges	(87)
	Profit before non-operating items	1,088
4	Increase in fair value of investment properties	3,319
	Provision for impairment losses, net	(23)
	Net loss on disposal of an unlisted equity instrument	(160)
4	Taxation	(732)
	Minority interests	(55)
	Profit attributable to shareholders	3,437

Consolidated Retained Profits for the year ended 31.12.2007

	HK$m
Retained profits at 1.1.2007	12,918
Profit attributable to shareholders for the year	3,437
Dividends distributed during the year	(243)
Retained profits at 31.12.2007	16,112

Consolidated Balance Sheet at 31.12.2007

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

1 **EBITDA**

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

2 **Capital expenditure**

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

3 **Turnover**

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

Hotels

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

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

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

Rentals from non-hotel properties

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

Other business segment

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

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

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

Financial Review

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

- Deferred taxation has been provided, at the profits tax rate, in respect of revaluation surpluses on the Group's investment properties which are mainly held in Hong Kong. It is the Directors' view that the Group's investment properties are held for the long term and that if any Hong Kong investment properties were sold, tax would not be payable on such disposal as the gain would be capital in nature and such gains are subject to a nil tax rate in Hong Kong. The Directors therefore expect that the provision for deferred taxation in respect of revaluation surpluses for Hong Kong investment properties, amounting to HK$2,967 million as at 31 December 2007, would not materialise.

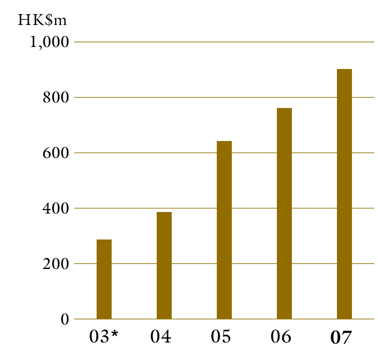
- Hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less depreciation and any provision for impairment, rather than at fair market value. In order to provide shareholders with additional information on the value of the Group's net assets, the Directors have commissioned an independent third party fair market valuation of the Group's hotel properties and golf courses as at 31 December 2007, the details of which are set out on pages 75 and 76. If these assets are stated at fair market value instead of at cost less depreciation and any provision for impairment (and deferred tax is not provided on the revaluation surplus of the hotel property in Hong Kong on the same rationale as above), the Group's net assets attributable to shareholders would increase by HK$3,339 million.

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

(HK$m)	2007		2006	
Net assets attributable to shareholders per audited balance sheet		**20,726**		16,982
Writing back the deferred taxation provision in respect of revaluation surpluses on Hong Kong investment properties		**2,967**		2,407
Adjusting the value of hotels and golf courses to fair market value	**4,197**		3,127	
Less: Related deferred tax and minority interests	**(858)**		(675)	
		3,339		2,452
Adjusted net assets attributable to shareholders		**27,032**		21,841
Audited net assets per share (HK$)		**14.37**		11.89
Adjusted net assets per share (HK$)		**18.75**		15.29

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

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

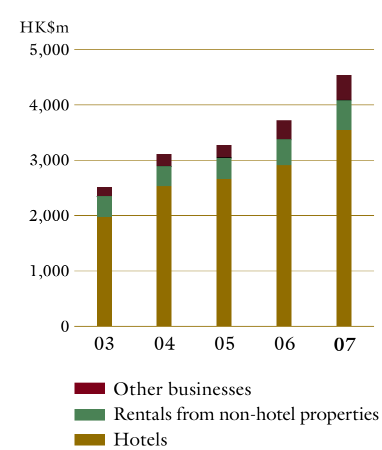


* *The figures for 2003 are stated on the basis of the Company's previous accounting policies, which were changed with effect from 1 January 2005 (with 2004 figures restated).*

(HK$m)	2007	2006
Profit attributable to shareholders	**3,437**	2,094
Increase in fair value of investment properties	**(3,319)**	(1,442)
Net impairment provision adjustments for hotels, golf courses and other properties	**23**	(200)
Net loss on disposal of an investment in Indonesia	**160**	–
Tax and minority interests attributable to non-operating items	**600**	309
Earnings excluding non-operating items and related tax and minority interests effects	**901**	761
Earnings per share excluding non-operating items (HK$)	**0.63**	0.54

Income Statement

Turnover by activity



Turnover

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

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

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

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

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

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

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

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

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

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

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

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

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

The breakdown of revenues by property is as follows:

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

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

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

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

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

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

Revenue from other businesses is analysed as follows:

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

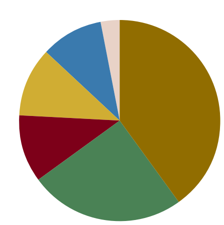
Operating costs

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

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

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

Operating costs



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

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

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

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

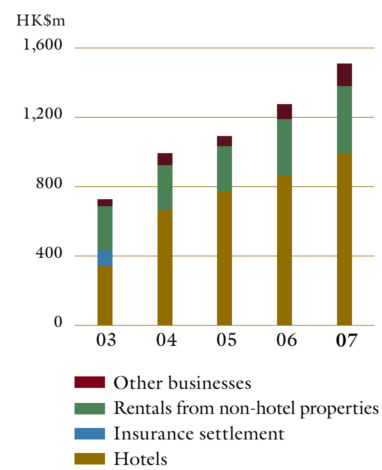
HK$1,346 million or 40% of direct operating costs are payroll-related, down from 44% in 2006. The breakdown of employee numbers at 31 December was as follows:

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

EBITDA and EBITDA margin

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

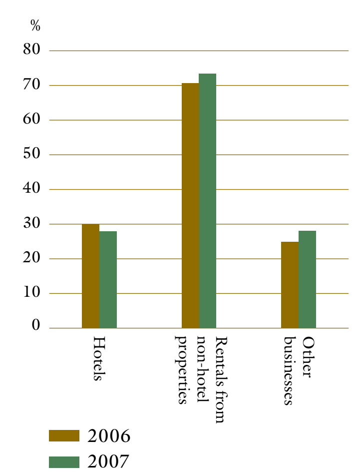
EBITDA by activity



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

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

EBITDA margin



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

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

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

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

Depreciation

Depreciation for the year of HK$335 million (2006: HK$251 million) largely relates to the hotel properties, as explained above. The increase in depreciation was due to the Group maintaining a programme of ongoing capital expenditure to improve and update its hotel properties (including the renovation of Makati Tower in The Peninsula Manila) which exceeds the rate of depreciation run-off from previous capital spend. Also, during the year, depreciation of HK$25 million was provided on The Peninsula Tokyo, which opened in September 2007. It should be noted that of the total depreciation figure, HK$140 million (2006: HK$110 million) relates to depreciation and amortisation of land and buildings, which would not be required if the hotels were accounted for on a fair market value basis instead of the cost and depreciation basis as currently adopted.

Non-operating items

The increase in fair value of investment properties during the year amounted to HK$3,319 million (2006: HK$1,442 million), which was mainly attributable to the increase in value of our properties in Hong Kong, comprising the apartments at The Repulse Bay, the shopping arcade at The Peninsula Hong Kong, St. John's Building and The Peak Tower.

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

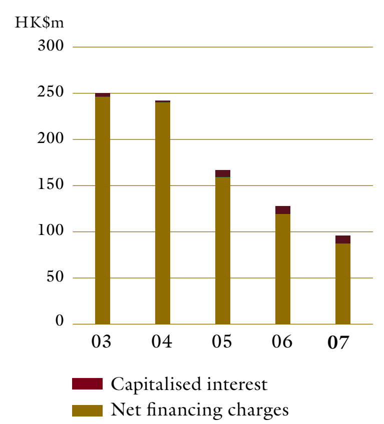
The disposal of an investment in Indonesia in 2007 resulted in an increase of HK$92 million in net assets attributable to shareholders, but a non-operating loss of HK$160 million after taking into account historical exchange losses of HK$252 million previously held in the exchange reserve.

Net financing charges

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

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

Net financing charges



Taxation

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

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

The details of the taxation charge are as follows:

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

The deferred tax provision in respect of accumulated revaluation surpluses on the Group's investment properties amounted to HK$3,156 million (2006: HK$2,556 million), of which HK$2,967 million (2006: HK$2,407 million) relates to Hong Kong investment properties. The Directors consider that the provision for deferred tax liabilities with regard to revaluation surpluses on the investment properties in Hong Kong will not materialise on the grounds that the Group has no intention to sell these properties; and, should any such sale eventuate, any gain would be regarded as capital in nature and would not be subject to any tax in Hong Kong.

Balance Sheet

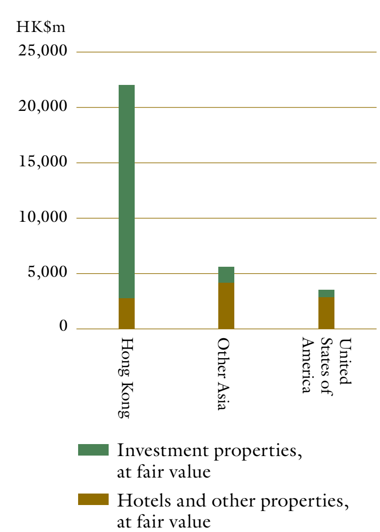
Non-current assets

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

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

According to the Group's accounting policies, hotel properties (other than shopping arcades and offices at hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties are stated at fair value. In order to provide additional information to shareholders on the current market value of our hotels and golf courses, the Directors have commissioned independent valuers to perform a fair valuation of these properties (except for The Peninsula Beverly Hills which is 20% owned by the Group) as at 31 December 2007. At the same time, an independent valuation was also performed for the Group's investment properties in accordance with the accounting policies.

Valuation



A summary of the Group's hotel, investment and other properties (excluding those under development in Shanghai) showing both the book value and the market value attributable to the Group at 31 December 2007 is set out in the following tables.

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

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

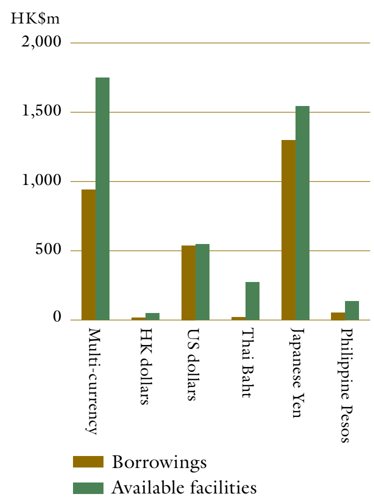
	Total property GFA (sf)	Market valuation (HK$m)	HSH interest (%)	Attributable market value (HK$m)	Attributable book value (HK$m)
Other properties					
Golf courses					
Thai Country Club *Freehold*	7,405,283	224	75%	168	168
Quail Lodge Golf Club *Freehold*	5,846,888	34	100%	34	34
Sub-total for golf courses	13,252,171	258		202	202
Vacant land					
Vacant land near Bangkok *Freehold*	15,040,030	337	75%	253	253
Quail Lodge land *Freehold*	15,470,337	80	100%	80	80
Sub-total for vacant land	30,510,367	417		333	333
Other properties in use					
Po Yip Building, Flats 2&3, 1/F *Lease Expiry Jun-2047*	35,914	31	100%	31	30
1 Lugard Road *Lease Expiry Jan-2077*	4,938	2	100%	2	–
Sun Hing Industrial Building, Units 1&2, 5/F *Lease Expiry Jul-2120*	4,694	4	100%	4	–
Sub-total for other properties in use	45,546	37		37	30
Total for other properties	43,808,084	712		572	565
Total	52,028,134	30,992		29,169	25,513

Borrowings

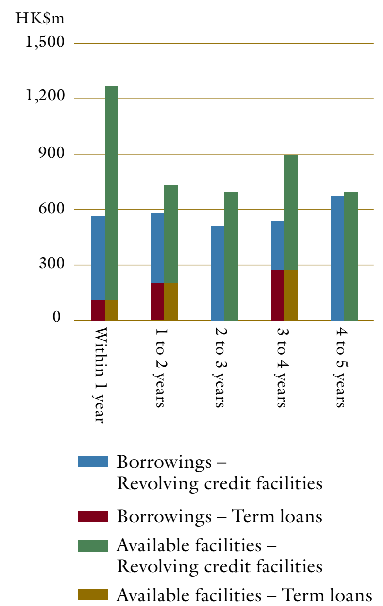
During the year, net borrowings decreased by 30% to HK$1,455 million (2006: HK$2,076 million) due to the operating cashflows and retained earnings generated by the Company. This borrowing level remains well within the debt capacity of the Group.

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

Borrowings and available facilities (by currency)



Borrowings and available facilities (by type and maturity)



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

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

Cash Flow Statement

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

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

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

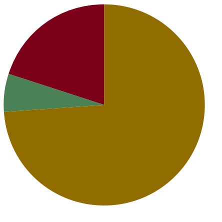
During the year, the Group spent HK$595 million on the development of The Peninsula Tokyo, which was opened on 1 September 2007.

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

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

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

Capital expenditure



New project development – Tokyo	74%
One off renovation projects	6%
Other capital expenditure	20%

Treasury Management

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

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

Liquidity risk

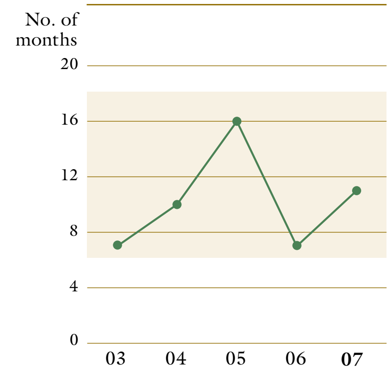
The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants and to ensure that it maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to meet its obligations and commitments.

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

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

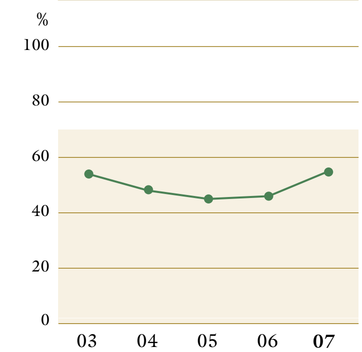
In addition, the Group maintains a well-balanced spread of maturities of borrowing facilities, mostly arranged on a medium to long-term basis to minimise refinancing risk.

Financing horizon



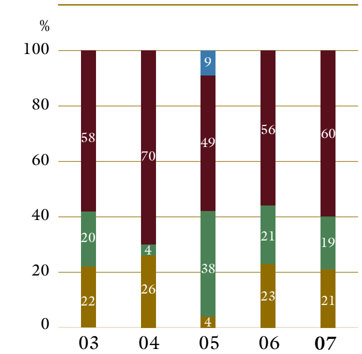
Group guideline: 6-18 months

Top 3 banks' aggregated committed facility exposure



Group guideline: (≤70%)

Maturity profile of committed facilities



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

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

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

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

Interest rate risk

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

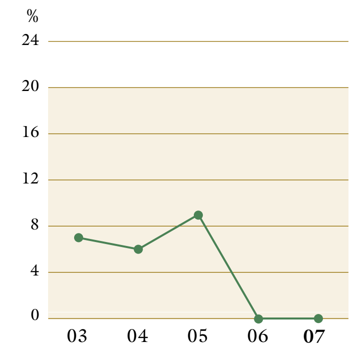
In addition to raising funds directly on a fixed rate basis, the Group may use interest rate swaps in managing its long-term interest rate exposure. The policy of Fixed and Floating Rate Mix is between 40:60 and 70:30 with a long-term target of 50:50. This policy is subject to periodic review at least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

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

Foreign exchange risk

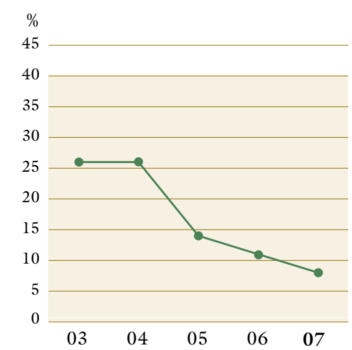
Significant exposure to movements in exchange rates on individual transactions is monitored and may be hedged by using spot or forward foreign exchange contracts where active markets for the relevant currencies exist. All significant foreign currency borrowings are usually covered by appropriate currency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

Borrowing facilities with asset pledge



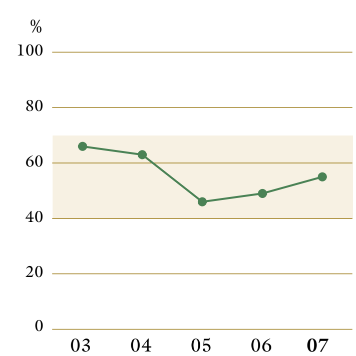
Group guideline (≤20%)

Adjusted Gearing



Group guideline: (≤40%)

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



Group guideline (40% – 70%)

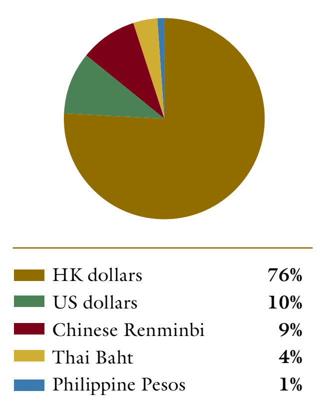
not have any unhedged borrowings denominated in non-functional currencies, other than US$ borrowings in Hong Kong.

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

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

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

Net assets

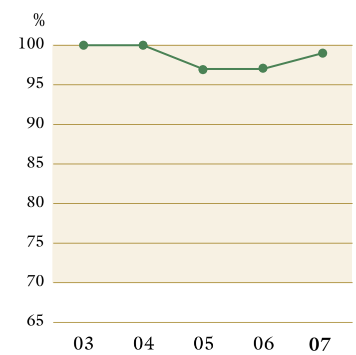


Credit risk

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

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

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

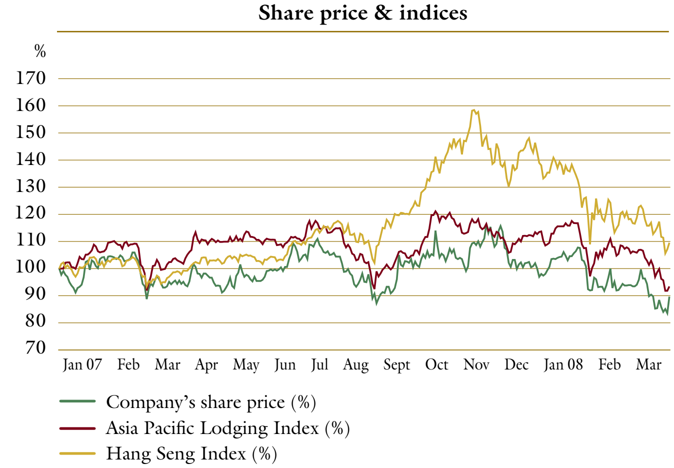


Group guideline (≥70%)

Share Information

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

Share price & indices



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

Corporate Governance

Corporate governance infrastructure

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

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

Code on corporate governance

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

Throughout the year, the Company has complied with all the code provisions and the majority of the recommended best practices as set out in the CG Code. One of the recommended best practices that the Company has deviated from is contained in Section C.1.4 of the CG Code in relation to the production of quarterly statements. The Company has chosen not to comply with this recommended reporting practice as the Board believes that the businesses of the Group are long term and cyclical in nature. The Company is of the view that the existing half-year and annual reporting requirements, together with the rules on price-sensitive information and notifiable transactions, are sufficient for the timely dissemination of material information to shareholders. However, the Company would review its position if and when there is a clear demand from shareholders for quarterly reporting.

The Board

The Board is responsible for the Group's overall strategy, its systems of internal controls and risk management. In order to discharge its responsibilities, the Board has established and adhered to clear operating policies and procedures, reporting lines and delegated authorities.

Control environment The overall business of the Company is managed by the Board, by overseeing the functions performed by the Executive Committee, the Finance Committee and the Group Management Committee. In particular, the Board has established detailed internal control processes to monitor the following areas:

- management and control of the Group's assets, liabilities, revenues and expenditure and initiating changes in areas critical to the Group's performance;
- strategic capital investments and new projects, through stringent project approval processes, purchasing and tendering procedures and, upon completion, detailed post-implementation evaluations;
- financial and operational performance, through overall strategic planning and the implementation and maintenance of operational monitoring systems for financial and qualitative performance management;
- the management of the Company's relationship with stakeholders, through ongoing communication with partners, governments, customers and other stakeholders who have a legitimate interest in the conduct of the Group's business; and

- risk management, as an ongoing process and through review reports from the Head of Audit and Risk Management where risks faced by the Company are identified, evaluated and appropriately managed.

Board composition The Board has 14 Directors:

- three Executive Directors – Mr. Clement K.M. Kwok, Mr. C. Mark Broadley (who will resign with effect from 31 March 2008) and Mr. Peter C. Borer;
- seven Non-Executive Directors comprising the Chairman The Hon. Sir Michael Kadoorie, the Deputy Chairman Mr. Ian D. Boyce, Mr. Ronald J. McAulay, Mr. William E. Mocatta, Mr. Pierre R. Boppe, Mr. John A.H. Leigh and Mr. Nicholas T.J. Colfer; and
- four Independent Non-Executive Directors comprising Dr. The Hon. Sir David K.P. Li, Mr. Robert C.S. Ng, Mr. Robert W. Miller and Mr. Patrick B. Paul.

11 of our Directors are non-executive and independent of management, which promotes a critical and independent review of the Group's business decisions and management processes. The Board includes four well qualified Independent Non-Executive Directors who bring a wealth of experience, knowledge and independent judgement to the Board. The non-executive members of the Board also bring a wide range of business and financial experience to the Board and together with the Independent Non-Executive Directors, contribute to the control environment and quality of business decisions taken by the Board.

The Board believes that the balance between Executive and Non-Executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of shareholders, other stakeholders and the Group.

Included in the composition of the Board are two family members of the majority shareholder: the Chairman, The Hon. Sir Michael Kadoorie and his brother-in-law, Mr. Ronald J. McAulay. Several Board members are also Directors of other businesses with which the majority shareholder is connected. They are Mr. Ian D. Boyce, Mr. William E. Mocatta, Mr. John A.H. Leigh and Mr. Nicholas T.J. Colfer.

The Directors' biographical details are set out on pages 54 and 55 and are also posted on the Company's website at www.hshgroup.com.

Board meetings The Board meets regularly to review business performance, business development and overall strategic policies, ensuring a sound system of internal control and risk management. Within the Board's purview are matters such as financial statements, dividend policy, major financings, material investments in new projects and existing assets, risk management strategy, acquisitions and changes in accounting policy. The Board also delegates matters to its Board Committees, the Group Management Committee, the Executive Directors and other senior management.

The dates of the 2007 Board meetings were determined in the last quarter of 2006 and any amendments to this schedule were notified to Directors at least 14 days before a regular Board meeting. Suitable arrangements are in place to allow all Directors the opportunity to include matters for discussion in the agenda of each Board meeting. An agenda and comprehensive Board papers are sent to all Directors at least three days in advance of every Board meeting.

The Company Secretary assists the Chairman in preparing the agenda for the meeting and ensures that all applicable rules and regulations regarding the meetings are followed.

The Board held four meetings during 2007. The attendance record of each Director is set out below:

	No. of meetings attended	
Attendance at Board meetings	**2007 (4 meetings in total)**	2006 (4 meetings in total)
Non-Executive Directors		
The Hon. Sir Michael Kadoorie (Chairman)	**4**	4
Mr. Ian D. Boyce (Deputy Chairman)	**4**	4
Mr. Ronald J. McAulay	**2**	2
Mr. William E. Mocatta	**4**	4
Mr. Pierre R. Boppe	**4**	3
Mr. John A.H. Leigh (appointed 05/06)	**3**	2 (of 2)
Mr. Nicholas T.J. Colfer (appointed 05/06)	**4**	2 (of 2)
Sir Sidney Gordon (retired 05/06)	**–**	0 (of 2)
Mr. James S. Dickson Leach (retired 05/06)	**–**	0 (of 2)
Independent Non-Executive Directors		
Dr. The Hon. Sir David K.P. Li	**4**	4
Mr. Robert C.S. Ng	**2**	1
Mr. Robert W. Miller	**3**	3
Mr. Patrick B. Paul	**4**	4
Executive Directors		
Mr. Clement K.M. Kwok (Chief Executive Officer)	**4**	4
Mr. C. Mark Broadley (Chief Financial Officer)	**4**	4
Mr. Peter C. Borer (Chief Operating Officer)	**4**	4

The Directors are given timely and clear information both at the meetings and at regular intervals so that they can maintain effective control over strategic, financial, operational, compliance and corporate governance issues. They also have unrestricted access to independent professional advice and the advice and services of the Company Secretary, who is responsible for providing Directors with Board papers and related materials and ensuring that Board procedures are followed.

The Company Secretary also keeps detailed minutes of each meeting, recording all matters considered by the Board, the decisions reached and any concerns raised or dissenting views expressed by Directors. Draft minutes are sent to all Directors in a timely manner for their comment and final versions of the minutes are available for inspection by all Directors at any time.

Should a potential conflict of interest involving a substantial shareholder or a Director arise, the matter will be discussed in an actual meeting, as opposed to being dealt with by written resolution. Independent Non-Executive Directors with no conflict of interest will be present at meetings dealing with such conflict issues.

Appointment, re-election and removal A new Director appointed by the Board is subject to election by shareholders at the next annual general meeting. All Non-Executive Directors have letters of appointment valid for a period of three years, subject to re-election on retirement by rotation. All Directors are subject to retirement by rotation and may offer themselves for re-election. During 2007, one third of the Directors, comprising The Hon. Sir Michael Kadoorie, Mr. Ian D. Boyce, Mr. Robert C.S. Ng and Mr. Patrick B. Paul retired by rotation and were all re-elected. In addition, Executive Director Mr. Peter C. Borer offered himself for re-election and was re-elected. Details of the Directors who will offer themselves for re-election in 2008 are set out in the Directors' Report.

Confirmation of independence The Company has received from Dr. The Hon. Sir David K.P. Li, Mr. Robert C.S. Ng, Mr. Robert W. Miller and Mr. Patrick B. Paul, Independent Non-Executive Directors, an annual written confirmation of independence and the Company considers such Directors to be independent in accordance with the independence guidelines set out in rule 3.13 of the Listing Rules. Although two of the Independent Non-Executive Directors, Dr. The Hon. Sir David K.P. Li and Mr. Robert C.S. Ng have served in this capacity for more than nine years, the Directors are of the opinion that the two Directors continue to bring relevant experience and knowledge to the Board and that, notwithstanding their long service, maintain an independent view of the Company's affairs.

Chairman and Chief Executive Officer The positions of Chairman and Chief Executive Officer are segregated.

The Hon. Sir Michael Kadoorie was Non-Executive Chairman throughout the year. He is also the Non-Executive Chairman of CLP Holdings Limited and a Non-Executive Director of Hutchison Whampoa Limited. It is the responsibility of the Chairman to provide leadership for the Board and to ensure that it works effectively and discharges its responsibilities, to ensure that corporate governance matters are addressed, to represent the Group externally and communicate in particular with all stakeholders. He also ensures that the Chief Executive Officer properly and fully brief all Directors of relevant matters in a timely manner.

Mr. Clement K.M. Kwok was the Chief Executive Officer throughout the year. He has the responsibility to recommend to the Board and to implement the Group's strategic objectives. He is also responsible for the executive day-to-day management of the Group. Mr. Clement K.M. Kwok is an Independent Non-Executive Director of Swire Pacific Limited.

Responsibilities of Directors

The Directors combined have a range of skills and experience and each brings an independent judgement and considerable knowledge to the Board's discussions and decisions. On appointment, each Director receives a full introduction covering all the Group's business and operations and also the legal, regulatory and corporate governance obligations of a director of a listed company in Hong Kong. Directors are encouraged to update their skills, knowledge and familiarity with the Group through ongoing participation at Board and Board Committee meetings and through meeting key people at Head Office and in various properties and operations. The Company has at least one Board meeting a year held at one of the Group's operations abroad.

All Directors disclose to the Board their interests as a Director or otherwise in other companies or organisations and such declarations are updated annually.

Directors' interests in competing business None of the Directors and their respective associates has any competing interests which need to be disclosed pursuant to rule 8.10 of the Listing Rules.

Directors' responsibilities for the Financial Statements The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these Financial Statements for the year ended 31 December 2007, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the Financial Statements on a going concern basis. The Directors are responsible for ensuring that the Group operates an efficient financial reporting system and keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Dealing in Company's securities by Directors The Company has adopted its Code for Dealing in the Company's Securities by Directors (the "Securities Code") on terms no less exacting than the required standard set out in the Stock Exchange's Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "Model Code"). The Company has also extended this code to specified employees.

A copy of the Securities Code is sent to each Director of the Company upon his appointment. Thereafter, one month before the date of the Board meetings to approve the Company's half-year result and annual result, each Director is reminded of his duties not to deal in the securities of the Company until after such results have been published and that all his dealings must be conducted in accordance with the Securities Code.

Under the Securities Code, Directors and specified employees of the Company are required to notify the Chief Executive Officer or in his absence, the Chief Financial Officer and receive a dated written acknowledgement before dealing in the securities of the Company and in the case of the Chief Executive Officer himself, he must notify the Chairman and receive a dated written acknowledgement before any dealing.

The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Securities Code during the year and they have confirmed that they have fully complied with the required standard set out in both codes.

The Board Committees

As part of good corporate governance practice, a number of Board Committees have been established. These Committees include representation from Non-Executive and Independent Non-Executive Directors whose independent judgements are important to the execution of the controls and corporate governance standards expected of a publicly listed company. Each Committee has its own specific delegated authorities and operates within defined terms of reference; these terms of reference are posted on the Company's website at www.hshgroup.com and are updated from time to time. All Committees report to the Board in relation to their decisions, findings or recommendations and in certain specific situations, to seek the Board's approval before taking any action. Draft minutes of all Board Committee meetings are sent to their respective members in a timely manner for their comments and final versions of the minutes are available for inspection by the respective members or other Board members at any time.

The Board delegated certain authorities to the Executive, Audit, Finance and Remuneration Committees. The day-to-day management of the Company's business has been delegated to the Chief Executive Officer who exercises his authority in consultation with the Group Management Committee.

Executive Committee The Executive Committee meets at least twice per month. The Committee is responsible for reviewing and recommending strategic policy and the most significant investment proposals and business decisions to the Board and as such, it interacts with the Audit, Finance and Remuneration Committees in respect of their policy submissions. It is authorised to approve capital and revenue investment within levels approved by the Board. The members of the Executive Committee comprise The Hon. Sir Michael Kadoorie, Committee Chairman, Mr. Ian D. Boyce, Mr. Clement K.M. Kwok and Mr. John A.H. Leigh.

The Company does not have a separate nomination committee; the nomination and appointment of new Directors are functions of the Executive Committee. The Executive Committee reviews on a regular basis the need to appoint Directors with specific business acumen in appropriate sectors that would further enhance the present skill set, or add expertise in the hospitality industry or a developing business sector.

Nominations of suitable candidates are invited from all Directors and nominees are considered by the Executive Committee and then by the Board.

Audit Committee The Audit Committee oversees the Company's financial reporting and audit processes through liaison and reviews with management and the internal and external auditors. The composition of the Audit Committee includes only Non-Executive Directors of which the majority are independent. The Audit Committee members are Mr. Patrick B. Paul, Committee Chairman, Mr. Ian D. Boyce and Mr. Robert C.S. Ng.

All members of the Committee have financial and/or legal backgrounds that enable them to assess the fiscal well-being of the Company, compliance and risk assessment as well as to act impartially in discharging their duties and responsibilities. No former partner of the Company's existing auditing firm acted as a member of the Audit Committee within one year from ceasing to be a partner or having any financial interest in the auditing firm.

During 2007, financial reporting and control reviews undertaken by the Audit Committee included the following:

- reviewed the completeness and accuracy of the 2006 Annual Report, the 2007 Interim Report and formal announcements relating to the Group's financial performance;
- reviewed the financial reporting and audit processes and policies;
- conducted discussions with the external auditors on financial reporting, compliance, accounting treatment and impact on the Company of accounting standards; and
- reviewed connected transactions of the Company.

In relation to the Company's internal audit function, the Audit Committee undertook the following responsibilities:

- reviewed the Group's financial controls, internal control and risk management systems;
- agreed the scope of internal audit for 2007, discussed the internal audit reports and matters arising from the reports and reviewed progress against recommendations made in the internal audit reports; and
- monitored and assessed the role and effectiveness of the Company's internal audit function.

In relation to the Company's external auditors, the Audit Committee undertook the following responsibilities:

- assessed the independence of the external auditors and reviewed their policies for maintaining independence;
- approved the external auditors' remuneration and considered their re-appointment; and
- approved the audit plan for 2008.

The Audit Committee reviews and reports to the Board on the financial reporting reviews as well as the Company's compliance with internal control, risk management and all other relevant regulatory compliance matters. Details of the Company's internal controls and how risk is managed is set out below under the heading "Internal controls, audit and risk management".

The Audit Committee invited the Company's external auditors to attend all its meetings and also met with the valuers of the principal assets of the Group. In addition, the Chairman of the Audit Committee met with the external auditors and Head of Audit and Risk Management Department with no Executive Directors present. He also met with the Chief Executive Officer, the Chief Financial Officer and divisional heads within the Company.

The Audit Committee held four meetings during 2007. The attendance record of each member appears below:

	No. of meetings attended	
Attendance at Audit Committee	**2007 (4 meetings in total)**	2006 (5 meetings in total)
Mr. Patrick B. Paul (Committee Chairman)	**4**	5
Mr. Ian D. Boyce	**4**	5
Mr. Robert C.S. Ng	**1**	2

Finance Committee The Finance Committee meets at least twice per month to review all aspects of the Company's finances, including such items as new investments or project commitments, establishment of budget parameters, major treasury policies (including debt levels, gearing and foreign exchange risk), granting of guarantees and indemnities and reviewing the annual insurance programme of the Group. It exercises the delegated authority granted to it by the Board and reports to the Executive Committee and to the Board as necessary. Members of the Finance Committee are: Mr. Ian D. Boyce, Committee Chairman, Mr. Clement K.M. Kwok, Mr. C. Mark Broadley and Mr. John A.H. Leigh.

Remuneration Committee The Remuneration Committee is composed solely of Non-Executive Directors of which the majority is independent. Committee members are Mr. Ian D. Boyce, Committee Chairman, Mr. Robert W. Miller and Mr. Patrick B. Paul.

The Remuneration Committee meets at appropriate intervals to formulate and recommend remuneration policy to the Board, including Group-wide remuneration policies. In relation to Executive Directors, the Remuneration Committee reviews and recommends employment terms for the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer. Furthermore, the Remuneration Committee also discussed with the Chief Executive Officer in relation to the remuneration package of Executive Directors other than the Chief Executive Officer. The Committee also reviews and recommends Directors' fees for Non-Executive Directors serving on Board Committees. No Director plays a part in any discussions about his own remuneration.

The Committee is provided with benchmark reports from internal and external sources for evaluation of market trends and the competitive levels of remuneration being offered to Executive Directors and staff. The Committee assesses compensation, performance-related bonuses and retirement provisions against market norms which are relevant to its scope of business and geographical locations. Fees and benefits for Non-Executive Directors are also evaluated based on market trends and market practices.

The Remuneration Committee met twice during 2007. The attendance record of each member appears below:

Attendance at Remuneration Committee	No. of meetings attended **2007** **(2 meetings in total)**	2006 (2 meetings in total)
Mr. Ian D. Boyce (Committee Chairman)	**2**	2
Mr. Robert W. Miller	**1**	1
Mr. Patrick B. Paul	**1**	2

During 2007, the Remuneration Committee reviewed matters relating to remuneration for Directors and senior management, as well as discussed the Group's remuneration policy.

The Group does not have any long-term incentive schemes other than the retirement scheme described in note 29 to the Financial Statements. Additional information on the basis of determining the emoluments payable to the Directors and senior management is set out in note 8 to the Financial Statements.

The Company has not adopted any share option scheme during the year.

Internal controls, audit and risk management

The Board has reviewed the effectiveness of the Group's internal control system to ensure that appropriate levels of protection are in place and confirms that it is effective and adequate.

Internal controls The division of responsibilities between the Board, the various Board Committees, the Chief Executive Officer and the management is clearly laid out in the Company's own code of corporate governance and the Company Management Authority Manual ("CMAM"). Both documents deal with the Company's approval processes and the limits of authority for Board Committees and managers. The Company's CMAM is reviewed and updated from time to time to ensure its continued relevance and effectiveness in controlling expenditure and approving the strategic direction of the Company. Any revisions to the CMAM which amend the approval authority delegated by the Board require the Board's approval.

The Company has adopted the definition of internal control provided by The Committee of Sponsoring Organisations of the National Commission on Fraudulent Reporting ("COSO"), which states that:

"Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations;
- reliability of financial reporting; and
- compliance with applicable laws and regulations."

The effectiveness of the systems of internal control is reviewed by the Chief Executive Officer annually and includes the following:

- the changes since the last annual review in the nature and extent of significant risks and the Group's ability to respond to changes in its business and the external environment;
- the scope and quality of management's ongoing monitoring of risks and of the systems of internal control and where applicable, the work of its internal audit function and other providers of assurance;
- the extent and frequency of the communication of the results of monitoring to the Audit Committee or the Board which enables it to build up a cumulative assessment of the state of control in the Company and the effectiveness with which risk is being managed;
- the incidence of significant control failings or weakness that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
- the effectiveness of the Company's public reporting processes.

Internal audit and risk management The Company's Internal Audit and Risk Management Department assists the Board in conducting annual internal reviews of the Company and its subsidiaries in respect of material controls, including operational and compliance controls, financial controls and risk management functions. In addition, it also reviews compliance with the Company's own code on corporate governance, particularly ensuring adherence to the principle of applying adequate checks and balances in approval processes.

Prior to the compilation of the rolling three-year audit plan, a re-assessment of the potential risks facing the Company's activities is carried out. However, a revised ranking of the Company's risk register was completed in late 2007 and was provided to the Audit Committee in planning and approving the subsequent year's audit activities.

Part of the assessment of the effectiveness of the internal control system is accomplished by the Group's operational general managers and financial controllers certifying compliance with certain specified key controls on a monthly basis. This is in addition to the requirement to submit a general representation letter to the Chief Executive Officer and the Chief Financial Officer confirming compliance by themselves and their subordinates of successful implementation of all internal systems of control and procedures in their respective units and to provide supplementary information should there be any departure from the internal control systems. These general representation letters reinforce personal responsibility for good governance and controls at all levels within the Group. The Chief Executive Officer and the Chief Financial Officer have reviewed the representation letters submitted for 2007 and confirmed that no matters needed to be brought to the attention of the Board.

During 2007, the Internal Audit and Risk Management Department conducted audits and reviews of 15 business operations, three development projects, two Head Office functions, a new IT system and an overseas corporate-owned entity. Each review gives rise to a report highlighting recommendations for the more effective management of risks and each operation is awarded a control rating based on the COSO principles of control or an assessment of the significance of residual risks, after taking the internal control systems into consideration. Such reports are discussed with management and proposals for implementing recommended improvements are agreed upon, the status of which is reported to the Audit Committee half-yearly and followed-up in subsequent audit visits.

Due to the materiality of the development projects for the future of the Company, particular emphasis is placed on compliance with the Company's purchasing and tendering procedures during the course of the development process. The Internal Audit and Risk Management Department monitors these projects from inception through the design and construction phases, through to pre- and post-opening operations.

The Head of the Department reports to the Chief Executive Officer and has access to the Chairman of the Audit Committee. He is supported by four qualified professionals, a majority of whom are members of the Institute of Internal Auditors.

The Head of Department also attended three of the four Audit Committee meetings held during 2007 and attended regular meetings with the Chairman of the Audit Committee and the external auditors without the presence of management. In the opinion of the Audit Committee, nothing of a material nature arose in the Department's reports requiring that it be brought to the attention of shareholders.

Operational financial control The Company's Operational Financial Control ("OFC") Department works closely with the operational financial control teams in various operations. The Head of the OFC Department reports directly to the Chief Financial Officer.

The OFC Department provides guidance and support for the general managers and financial controllers of the various operations in managing and controlling the Company's assets, ensuring the proper running of monitoring and reporting systems and initiating and supporting any changes required to improve business performance. The OFC Department co-ordinates the financial reporting information received from various operations on a regular basis, to ensure it is received on time, is consistent, complete and accurate and in the agreed format. The information is then adjusted and summarised for relevant Directors and Board Committees so that they can maintain full and effective control over financial and operational compliance and corporate governance issues.

In 2007, the OFC Department undertook the following key responsibilities:

- evaluated financial and operational performance, including special projects, with operational general managers and advised the Chief Financial Officer accordingly;
- evaluated marketing plans and financial plans and gave direction to the operational units towards improved performance as agreed between the operational units and management;
- appraised operational management processes and activated changes to enhance business process efficiency;
- created opportunities for the exchange of best practices, innovations and sharing of performance data throughout the Group;
- developed strategies to continuously improve the quality of information flows, by designing and implementing high quality, user-focused operating reports used to facilitate the assessment of operational financial performance against established criteria; and
- participated in the formation and management of strategies for new hotel openings and reviewed pre-opening expense budgets.

External auditors

It is important to the Group that the independence of its external auditors is not compromised. The Audit Committee reviews substantial non-audit work awarded to the external auditors to ensure that there is no adverse effect on actual or perceived independence or objectivity of the audit work itself. During the year, the Company's auditors, KPMG, provided audit services to the value of HK$8.1 million. KPMG also provided taxation services to the value of HK$0.9 million.

Ethics and business conduct

Integrity, duty, tradition of service and the pursuit of excellence are cornerstones of the Company's core values. This is consistent with the Company having been in the service business for many years and having a loyal following of customers world-wide who expect high standards of quality in all aspects of the Company, including its employees. In order to achieve these standards, the Company's management and employees must apply business principles, ethics and conduct consistent with those expected of the Board, its shareholders and other stakeholders. Managers and employees of the Company are encouraged to initiate improvements and play a responsible part in the Company's success and maintain effective communications at all levels in order to develop better understanding and to assist in decision making.

The Company believes that honesty, integrity and fair play are important assets in its business. All employees of the Company must ensure that the Company's reputation is not tarnished by dishonesty, disloyalty or corruption. The Company has a detailed code of conduct, which communicates the ethical values of the Company, sets out standards of behaviour expected from employees and provides guidelines on how to handle different situations in business dealings with colleagues, customers, suppliers, contractors, consultants and professional firms.

A broad summary of the code of conduct is published on the Group's website at www.hshgroup.com, covering the Group's policies on the following areas: bribery, illegal gifts and commissions, accepting/offering advantages, entertainment and hospitality industry practice, use of proprietary information, handling conflict of interest situations, insider trading, misuse of the Company's assets and resources, loans, personal conduct outside hours of work including outside employment, monitoring of compliance and the means of enforcement, understanding and compliance of the code of conduct, violation of the code of conduct and complaints.

In addition to the values to which the Company expects its staff to adhere in their daily business practices, the code sets out the process for resolution of internal ethical problems that may arise within the workplace. Arrangements are in place in which the Company's employees may, in confidence, raise concerns about possible improprieties in business, workplace ethics and other areas. These arrangements are covered in the Company's code of conduct and policy on equal opportunities. The Company has a set of complaint procedures in place to ensure that any matters of concern are investigated and dealt with appropriately.

The code of conduct and policy on equal opportunities are reviewed regularly and benchmarked against emerging standards as the work environment becomes more sophisticated and as technological advances create new behavioural dynamics.

Shareholder relations

The Company is keen to promote two-way communications both with its institutional and its private shareholders. The Annual General Meeting ("AGM") is the principal occasion at which the Chairman and Directors may interface directly with the shareholders. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. All Directors, including the Chairmen of the Audit and Remuneration Committees, are usually present at the AGM to answer any questions raised by shareholders.

During the year, continuous dialogue between shareholders and the Company on the Company's business is encouraged. As part of a regular programme of shareholder relations, Executive Directors and our General Manager of Corporate Finance hold briefings and attend road-shows with institutional shareholders and financial analysts to engage in two-way communications on the Company's performance, plans and objectives. Webcast of the meeting announcing the latest financial results of the Company and copies of presentation materials from the meeting are made available to shareholders and public through the corporate website.

Communication with shareholders is a high priority. The Annual Report and accounts and the Interim Report are distributed to individual and institutional shareholders and are also available for download from the Company's website at www.hshgroup.com. Shareholders and investors may email their enquiries to the Company's email address, ir@hshgroup.com, which will be handled by the designated persons within the Company.

At the AGM held at noon on Friday, 11 May 2007 at The Peninsula Hong Kong, separate resolutions were proposed on the following issues:

- to receive the audited Financial Statements and the reports of the Directors and auditors for the year ended 31 December 2006;
- to declare a final dividend;
- to re-elect five retiring Directors;
- to re-appoint KPMG as auditors of the Company at a fee to be agreed by the Directors;
- to grant a general mandate to issue new shares;
- to grant a general mandate for share repurchase; and
- to add shares repurchased to the general mandate given to issue new shares.

Each resolution was voted on by poll and passed and the results of the poll voting were posted on the Company's website as well as published in the media the following day.

In addition to the shareholders, media are also invited to attend and report on the AGM.

The key dates in the corporate results and meetings calendar are also posted on the Company's website in advance. The important dates for 2008 are:

- Annual General Meeting: Wednesday, 7 May 2008
- 2008 Interim Results Announcement: Wednesday, 10 September 2008.

Details of the public float are set out in the Directors' Report on page 105.

Other stakeholders

The Company believes that good corporate governance requires an assessment of its business decisions by other key stakeholders, in the area of corporate social responsibility ("CSR"). In December 2007, the Company formally established the CSR Committee to form appropriate group level policies and practices in all areas related to CSR, as well as to oversee and monitor the implementation of such practices on a regular basis. The scope of the responsibilities that come within the ambit of the CSR Committee include, but is not limited to, environment protection, energy efficiency and conservation, environmental quality within the Group's properties, green environment policies for guests, waste recycling, health and safety and employee workplace.

Details of the Group's ongoing CSR initiatives and other employment development practices and benefits, community relations and health and safety practices are provided in the Corporate Social Responsibility section from pages 58 to 61.

Directors' Report

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2007.

Principal activities

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are the ownership and management of hotel, retail, commercial and residential properties in Asia and the United States of America.

Performance

A discussion and analysis of the Group's performance during the year, the material factors underlying its results and financial position and details of the Group's principal activities are provided in the Financial Review on pages 64 to 81.

Ten year operating and financial summaries

Summaries of the Group's operating and financial data for the last ten years are set out on pages 106 to 108.

Financial Statements

The profit of the Group for the year ended 31 December 2007 and the state of the Company's and the Group's affairs as at that date are set out in the Financial Statements on pages 110 to 179.

Share capital

On 15 June 2007 and 16 November 2007, pursuant to scrip dividend schemes, the Company issued and allotted 9,229,985 shares and 4,091,212 shares respectively at an issue price of HK$12.584 and HK$13.808 per share to the shareholders who elected to receive shares of the Company in lieu of cash for the 2006 final and 2007 interim dividends in respect of the year ended 31 December 2006 and the six months ended 30 June 2007, respectively.

All ordinary shares issued rank pari passu in all respects with the existing issued shares. Save as described above, there were no other changes in the share capital of the Company. Particulars of the share capital of the Company during the year are set out in note 26 to the Financial Statements.

Dividends

An interim dividend of 6 HK cents per share in respect of the year ending 31 December 2007 was paid during the year 2007. The Directors have recommended a final dividend of 12 HK cents per share. Subject to the approval by shareholders at the forthcoming Annual General Meeting to be held at The Peninsula Hong Kong on 7 May 2008 at 12 noon, such dividend will be payable on or about 13 June 2008 to shareholders whose names appear on the register of members on 7 May 2008. The register of members will be closed from 5 May 2008 to 7 May 2008, both days inclusive, during which period no transfer of shares can be registered.

To be entitled to receive the final dividend, shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Company's registrars, Computershare Hong Kong Investor Services Limited of Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 2 May 2008.

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

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend on or about 14 May 2008.

Principal subsidiaries

Particulars of the principal subsidiaries of the Company are set out on page 179.

Fixed assets

Movements in fixed assets during the year are set out in note 14 to the Financial Statements.

Capitalised interest

Interest amounting to HK$9 million (2006: HK$9 million) was capitalised by the Group during the year as set out in note 5(a) to the Financial Statements.

Reserves

Reserves available for distribution to shareholders and movements in the reserves of the Company and the Group during the year are set out in note 27 to the Financial Statements.

Purchase, sale and redemption of listed securities

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

Borrowings

Particulars of all borrowings are set out in note 25 to the Financial Statements.

Charitable donations

Donations made by the Group for charitable purposes during the year amounted to HK$954,380 (2006: HK$1,163,900).

Major customers and suppliers

The diversity and nature of the Group's activities are such that the percentage of sales or purchases attributable to the Group's five largest customers or suppliers is significantly less than 30% of the total and the Directors do not consider any one customer or supplier to be influential to the Group.

Connected transactions

The Board has reviewed all connected transactions of the Company and the following is required to be disclosed under the Listing Rules:

Continuing connected transaction

The Peninsula Manila is owned by Manila Peninsula Hotel, Inc. ("MPHI") which was a 40% associate of the Group prior to 3 March 2005. MPHI became a subsidiary on 3 March 2005 following the completion of an offer made to the 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 lease became a continuing connected transaction as defined under the Listing Rules following the completion of the offer. An announcement of the continuing connected transaction was made on 8 July 2005. The amount of the contingent rent paid to Ayala under the lease for 2007 was HK$12.2 million (2006: HK$8.8 million).

The Directors, including all the Independent Non-Executive Directors, have reviewed the above continuing connected transaction and confirmed that the transaction:

(i) was negotiated in 1975, by the management of MPHI at that time, is in the ordinary and usual course of business of MPHI based on normal commercial terms and on arm's length basis; and

(ii) is beneficial and necessary for the continuation of MPHI's business and is fair and reasonable in the interests of the Company and its shareholders as a whole.

The Company's auditors have also reviewed the continuing connected transaction described above and confirmed to the Board of Directors of the Company that based on their work performed:

(i) the transaction had received the approval of the Company's Board of Directors;

(ii) nothing came to their attention that caused them to believe that the connected transaction was not entered into in accordance with the terms of the related agreement governing the connected transaction; and

(iii) the cap amount (i.e. 5% of the gross income of MPHI, as defined in the announcement dated 8 July 2005) was not exceeded during the year ended 31 December 2007.

Material related party transactions

Details of material related party transactions which were undertaken in the normal course of business are set out in note 33 to the Financial Statements.

Directors

Biographical details of the Directors in office at the date of this Report are shown on pages 54 and 55. All the Directors held office for the whole of 2007. Mr. C. Mark Broadley will resign from the Board on 31 March 2008.

In accordance with the Articles of Association of the Company, Messrs. Clement K.M. Kwok, William E. Mocatta, Pierre R. Boppe and Robert W. Miller will retire by rotation at the forthcoming Annual General Meeting and being eligible, have agreed to offer themselves for re-election.

None of the Directors to be proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Senior management

Biographical details of the senior management at the date of this Report are shown on page 56. Mr. Martyn Sawyer held office for the whole of 2007 and Mrs. Maria Razumich-Zec was appointed as a member of the Group Management Committee on 1 May 2007.

Interests of Directors and Chief Executive

As at 31 December 2007, the interests and short positions of each Director and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") to be notified to the Company and the Stock Exchange were as follows:

Long position in shares of the Company and its associated corporations

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
The Hon. Sir Michael Kadoorie	Note (a)	721,327,168	50.028
Mr. Ian D. Boyce	Beneficial Owner	209,141	0.015
Mr. Clement K.M. Kwok	Beneficial Owner	627,428	0.044
Mr. C. Mark Broadley	Beneficial Owner	209,140	0.015
Mr. Peter C. Borer	Beneficial Owner	178,355	0.012
Mr. Ronald J. McAulay	Note (b)	498,721,525	34.589
Mr. William E. Mocatta	Note (c)	1,017,000	0.071
Mr. Pierre R. Boppe	Beneficial Owner	150,000	0.010
Mr. John A.H. Leigh	Note (d)	371,567,442	25.770
Dr. The Hon. Sir David K.P. Li	Beneficial Owner	532,895	0.037
Mr. Robert C.S. Ng	Family	122,758	0.009

Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 721,327,168 shares in the Company. These shares were held in the following capacity:

(i) 426,925,755 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and discretionary objects.

(ii) 294,401,413 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.

For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 721,327,168 shares referred to in note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in those shares.

(b) Mr. Ronald J. McAulay was deemed (by virtue of the SFO) to be interested in 498,721,525 shares in the Company. These shares were held in the following capacity:

(i) 426,925,755 shares were ultimately held by discretionary trusts, of which Mr. Ronald J. McAulay is one of the discretionary objects.

(ii) 71,795,770 shares were ultimately held by a discretionary trust, of which Mr. Ronald J. McAulay, his wife and members of his family are discretionary objects.

(c) Mr. William E. Mocatta is the founder of a discretionary trust which is the ultimate owner of the 1,017,000 shares.

(d) Mr. John A.H. Leigh, in his capacity as one of the trustees of a charitable trust which is one of the ultimate owners of unit trusts which indirectly hold 371,567,442 shares, was deemed to be interested in the 371,567,442 shares.

Messrs. Nicholas T.J. Colfer, Robert W. Miller and Patrick B. Paul, who are Directors of the Company, have each confirmed that they had no interests in the shares of the Company as at 31 December 2007.

Certain Directors held qualifying shares in MPHI, a 76.09% subsidiary of the Company, on trust for a subsidiary of the Company.

Except as set out above, as at 31 December 2007 none of the Directors and Chief Executive of the Company, or any of their spouses, or children under eighteen years of age, has any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations, within the meaning of Part XV of the SFO, recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

At no time during the year was the Company, or its subsidiaries or its associated companies, a party to any arrangements which enabled any Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or of any other body corporate.

Interests of senior management

As at 31 December 2007, the interests of the senior management (other than Directors) in the shares and underlying shares of the Company were as follows:

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Mr. Martyn P.A. Sawyer	Beneficial Owner	26,012	0.0018

Interests of substantial shareholders

So far as is known to any Director or Chief Executive of the Company, as at 31 December 2007, shareholders (other than a Director or the Chief Executive of the Company) who have an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Long position in shares of the Company

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company	
Bermuda Trust Company Limited	Trustee	793,122,938	55.008	(i)
The Mikado Private Trust Company Limited	Trustee	721,327,168	50.028	(ii)
Bermuda Trust (Cayman) Limited	Trustee	441,886,247	30.647	(v)
Acorn Holdings Corporation	Beneficiary	426,925,755	29.610	(i)
Lawrencium Holdings Limited	Beneficiary	426,925,755	29.610	(i)
Harneys Trustees Limited	Interest of controlled corporation	425,585,643	29.517	(v)
Goshawk Investments Limited (now known as Merlin Investments No. 2 Limited)	Beneficiary	370,401,101	25.690	(i)
Guardian Limited	Beneficiary	371,567,442	25.770	(i)
Lakshmi Company Limited	Beneficiary	370,401,101	25.690	(v)
Merlin Investments Limited	Beneficiary	370,401,101	25.690	(v)
Mr. Jason Holroyd Whittle	Beneficiary	370,401,101	25.690	(i)
Mrs. Deborah Whittle	Beneficiary	370,401,101	25.690	(i)
Mr. Richard Parsons	Trustee	371,567,442	25.770	(i)
New Boron Holding Corporation	Trustee	370,401,101	25.690	(iii)
New Xenon Holding Corporation	Trustee	370,401,101	25.690	(iii)
Lawrencium Mikado Holdings Limited	Beneficiary	294,401,413	20.419	(ii)
The Magna Foundation	Beneficiary	293,127,687	20.330	(i)
Mikado Holding Inc. (now known as New Mikado Holding Inc.)	Trustee	294,401,413	20.419	(iv)
Mikado Investments Limited	Interest of controlled corporation/ Beneficiary of trusts	294,401,413	20.419	(iv)

These interests are duplicated to the extent of 6,954,925,085 shares. The net total of 793,122,938 shares reflects duplication of various Directors' interests as set out in the section "Interests of Directors and Chief Executive" of this Report.

Notes:

(i) The 793,122,938 shares in which Bermuda Trust Company Limited was deemed to be interested as a trustee include (1) the shares in which Acorn Holdings Corporation, Lawrencium Holdings Limited, Goshawk Investments Limited (now known as Merlin Investments No. 2 Limited), Guardian Limited, Mr. Jason Holroyd Whittle, Mrs. Deborah Whittle and Mr. Richard Parsons were deemed to be interested; (2) the shares in which Mikado Investments Limited, The Magna Foundation and Lawrencium Mikado Holdings Limited were deemed to be interested; and (3) the shares in which The Mikado Private Trust Company Limited was deemed to be interested.

(ii) The Mikado Private Trust Company Limited controlled Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.

(iii) The 426,925,755 shares in which Acorn Holdings Corporation and Lawrencium Holdings Limited were deemed to be interested as beneficiaries includes the 370,401,101 shares in which New Boron Holding Corporation and New Xenon Holding Corporation were deemed to be interested as trustee.

(iv) The shares in which Mikado Investments Limited was deemed to be interested as a beneficiary comprises the shares in which Mikado Holding Inc. (now known as New Mikado Holding Inc.) as trustee and The Magna Foundation as beneficiary were deemed to be interested.

(v) Harneys Trustees Limited was deemed to be interested in the 370,401,101 shares in which New Boron Holding Corporation and New Xenon Holding Corporation were interested by virtue of having direct control over New Xenon Holding Corporation. Harneys Trustees Limited was also deemed to be interested in another 55,184,542 shares through other controlled corporations. Lakshmi Company Limited and Merlin Investments Limited were deemed to be interested in the shares in which New Xenon Holding Corporation was interested. Bermuda Trust (Cayman) Limited controlled Lakshmi Company Limited and Merlin Investments Limited and was therefore deemed to be interested in the shares in which Lakshmi Company Limited and Merlin Investments Limited were interested.

Except as set out above, as at 31 December 2007 the Company had not been notified of any substantial shareholder (other than a Director or Chief Executive of the Company) who had an interest or short position in the shares or underlying shares of the Company that were recorded in the register required to be kept under section 336 of the SFO.

Interests of any other persons

As at 31 December 2007, the Company had not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of Part XV of the SFO.

Directors' interests in contracts

No contract of significance to which the Company, its subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted as at 31 December 2007 or at any time during the year.

Employee retirement benefits

Details of the Group's employee retirement benefits are shown in note 29 to the Financial Statements.

Corporate governance

The Corporate Governance Report is set out on pages 82 to 96.

Public float

As at 19 March 2008, the latest practicable date, based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital is held by the public.

Loan agreements with covenants relating to specific performance of the controlling shareholder

The Company has not entered into any new loan agreements containing any covenant relating to specific performance of the controlling shareholder which is required to be disclosed in accordance with rule 13.18 of the Listing Rules.

Auditors

The Financial Statements for the year have been audited by KPMG who will retire at the Annual General Meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Christobelle Liao
Company Secretary
Hong Kong, 19 March 2008

Ten Year Operating Summary

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
HOTEL AND PROPERTY PERFORMANCE										
The Peninsula Hong Kong										
Occupancy rate	**77%**	80%	79%	69%*	57%	62%	56%	55%	50%	47%
Average room rate (HK$)	**3,774**	3,228	2,872	2,659	2,337	2,670	2,749	2,984	2,834	2,776
RevPAR (HK$)	**2,892**	2,592	2,271	1,836	1,332	1,655	1,527	1,654	1,419	1,305
The Peninsula New York (closed January 1998, re-opened November 1998)										
Occupancy rate	**75%**	74%	75%	76%	67%	65%	66%	78%	62%	34%
Average room rate (HK$)	**6,326**	5,458	4,902	4,137	3,900	3,958	3,839	4,155	3,882	4,643
RevPAR (HK$)	**4,771**	4,066	3,655	3,145	2,613	2,565	2,519	3,237	2,390	1,600
The Peninsula Chicago (opened June 2001)										
Occupancy rate	**72%**	72%	71%	72%	64%	51%	30%			
Average room rate (HK$)	**3,641**	3,398	2,947	2,490	2,437	2,338	2,371			
RevPAR (HK$)	**2,638**	2,449	2,087	1,781	1,560	1,197	719			
The Peninsula Beverly Hills										
Occupancy rate	**85%**	83%	83%	84%	81%	78%	78%	85%	82%	81%
Average room rate (HK$)	**5,017**	4,523	4,091	3,634	3,250	3,121	3,184	3,114	3,041	2,992
RevPAR (HK$)	**4,242**	3,772	3,395	3,046	2,633	2,439	2,471	2,644	2,481	2,412
The Peninsula Tokyo (opened September 2007)										
Occupancy rate	**57%****									
Average room rate (HK$)	**3,853**									
RevPAR (HK$)	**2,206**									
The Peninsula Bangkok (opened November 1998)										
Occupancy rate	**70%**	71%	72%	77%	66%	73%	73%	82%	32%	9%
Average room rate (HK$)	**1,708**	1,424	1,293	1,155	1,056	986	889	572	770	1,362
RevPAR (HK$)	**1,201**	1,010	935	893	697	718	646	468	249	119
The Peninsula Beijing										
Occupancy rate	**63%**	67%	66%***	58%***	49%	63%	63%	64%	59%	63%
Average room rate (HK$)	**1,664**	1,436	1,219	1,008	845	691	671	719	734	809
RevPAR (HK$)	**1,048**	958	806	589	414	434	420	457	431	510
The Peninsula Manila										
Occupancy rate	**75%**	66%****	78%	69%	62%	59%	48%	54%	60%	51%
Average room rate (HK$)	**1,005**	737	630	606	562	627	815	752	886	1,202
RevPAR (HK$)	**752**	484	493	420	349	370	390	410	533	612

Notes:
Occupancy rates are based on the total number of rooms at each hotel. It should be noted that:
* *In 2004, on average, 31 rooms were closed for renovation at The Peninsula Hong Kong.*
** *The Peninsula Tokyo soft-opened in September 2007 and, on average, only 253 rooms were available during the four-month period in 2007.*
*** *In 2005 and 2004, on average, 41 and 30 rooms were closed for renovation at The Peninsula Beijing.*
**** *In 2006, on average, 133 rooms were closed for renovation at The Peninsula Manila.*

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
HOTEL AND PROPERTY PERFORMANCE										
Quail Lodge Resort, Carmel										
Occupancy rate	**71%**	65%	61%	54%	28%*	54%	58%	66%	64%	65%
Average room rate (HK$)	**2,062**	2,190	2,297	2,288	2,214	1,871	1,962	2,062	1,869	1,961
RevPAR (HK$)	**1,462**	1,431	1,393	1,229	624	1,014	1,136	1,361	1,188	1,273
The Repulse Bay Apartments										
Occupancy rate	**92%**	91%	82%	77%	74%	77%	89%	85%	76%	89%
Average monthly yield per square foot (HK$)	**35**	33	27	25	25	29	33	31	31	42
The Landmark, Vietnam										
Occupancy rate – Residential	**99%**	97%	94%	95%	94%	94%	87%	82%	84%	75%
Average monthly yield per square foot (HK$)	**18**	17	16	16	15	15	14	14	16	20
Occupancy rate – Office	**100%**	99%	95%	98%	100%	100%	98%	91%	98%	100%
Average monthly yield per square foot (HK$)	**20**	19	17	16	16	15	15	22	33	36
St. John's Building										
Occupancy rate	**99%**	99%	90%	87%	78%	83%	97%	86%	69%	67%
Average monthly yield per square foot (HK$)	**25**	21	15	15	14	17	21	20	21	38
The Peak Tower										
Occupancy rate	**100%**	72%**	31%**	100%	100%	98%	100%	96%	93%	98%
Average monthly yield per square foot (HK$)	**56**	29	6	28	23	25	24	30	36	44
The Peak Tram										
Patronage ('000)	**4,939**	4,430	3,923	4,107	3,092	3,714	3,504	3,478	3,277	3,312
Average fare (HK$)	**16**	15	14	14	14	14	14	15	14	14
Employee Numbers (31 December)										
Hotels	**5,138**	4,601	4,334	4,814	4,748	4,918	4,974	4,780	4,837	4,779
Property	**329**	316	307	297	306	315	326	334	375	402
Miscellaneous	**1,027**	1,004	981	955	946	984	1,072	1,263	1,398	1,380
Total employees	**6,494**	5,921	5,622	6,066	6,000	6,217	6,372	6,377	6,610	6,561

Notes:
Occupancy rates are based on the total number of rooms or space available at each non-hotel / resort operation. It should be noted that:
* *In 2003, on average, 37 rooms were closed for renovation at Quail Lodge Resort, Carmel.*
** *Renovation of premises at The Peak Tower commenced in April 2005 and finished in phases from July 2006. The Tower was fully opened by November 2006.*

Ten Year Financial Summary

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
CONSOLIDATED INCOME STATEMENT (HK$m)										
Turnover	**4,542**	3,717	3,276	3,120	2,517	2,592	2,584	3,043	3,610	2,140
EBITDA	**1,510**	1,275	1,092	992	726	747	698	925	745	889
Profit before non-operating items	**1,088**	904	688	495	364	344	230	369	213	562
Profit/(loss) attributable to shareholders	**3,437**	2,094	2,664	2,786	351	293	33	85	569	(1,832)
Dividends	**259**	228	199	168	112	93	58	59	59	58
Earnings per share (HK$)	**2.40**	1.47	1.89	1.99	0.29	0.25	0.03	0.07	0.49	(1.58)
Earnings per share excluding non-operating items (HK$)	**0.63**	0.54	0.45	0.28	0.24	0.23	0.15	0.28	0.13	0.33
Dividends per share (HK cents)	**18¢**	16¢	14¢	12¢	8¢	8¢	5¢	5¢	5¢	5¢
Dividend cover (times)	**13.3x**	9.2x	13.4x	16.6x	3.1x	3.2x	0.6x	1.4x	9.6x	–
Interest cover (times)	**13.5x**	8.6x	5.2x	3.1x	2.5x	2.2x	1.7x	1.9x	1.5x	3.6x
CONSOLIDATED BALANCE SHEET (HK$m)										
Fixed assets	**26,895**	22,951	20,561	20,058	19,068	18,019	17,338	18,365	16,910	15,326
Other assets	**1,191**	1,211	1,110	741	771	712	1,025	1,334	2,239	2,822
Cash and bank balances	**1,414**	447	301	262	217	232	99	272	132	152
Total assets	**29,500**	24,609	21,972	21,061	20,056	18,963	18,462	19,971	19,281	18,300
Interest-bearing borrowings	**2,869**	2,523	2,614	4,536	4,906	5,843	5,755	5,968	6,555	6,854
Derivative financial instruments	**215**	214	209	–	–	–	–	–	–	–
Other liabilities (including minority interests)	**5,690**	4,890	4,253	4,183	1,709	1,543	764	914	945	1,081
Net assets attributable to shareholders	**20,726**	16,982	14,896	12,342	13,441	11,577	11,943	13,089	11,781	10,365
Net assets per share (HK$)	**$14.37**	$11.89	$10.51	$8.80	$9.59	$9.90	$10.22	$11.18	$10.18	$8.96
Gearing	**7%**	11%	13%	26%	26%	33%	32%	30%	35%	39%
CONSOLIDATED CASH FLOW (HK$m)										
Net cash generated from operating activities	**1,481**	1,164	1,058	992	627	772	863	1,453	1,418	350
Capital expenditure	**808**	645	664	360	436	276	537	618	527	788
Net cash inflow/(outflow) after interest and dividends before financing activities	**683**	232	1,928	427	(156)	229	30	503	395	(1,177)
SHARE INFORMATION										
Highest share price (HK$)	**$15.46**	$13.50	$9.65	$7.50	$5.60	$4.35	$5.40	$5.30	$7.70	$7.40
Lowest share price (HK$)	**$10.90**	$8.00	$6.40	$4.15	$2.78	$2.63	$2.03	$3.40	$4.53	$3.15
Year end closing share price (HK$)	**$13.70**	$13.14	$8.50	$6.95	$4.53	$3.30	$2.90	$4.30	$5.15	$5.50

Notes :

1. *The results for all years prior to 2004 are stated on the basis of the Company's previous accounting policies, which were changed with effect from 1 January 2005 (with 2004 figures restated).*
2. *Figures for years 1998 to 2001 have not been restated in respect of HKAS 12 "Income taxes" or SSAP 12 (Revised) "Income taxes" as it is not practicable to quantify the effects for those years.*

Financial Statements

Consolidated Income Statement (HK$m)

	Note	2007	2006
		Year ended 31 December	
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)

		At 31 December	
	Note	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	Group 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*

	Company											
	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
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.

Principal Subsidiary Companies

At 31 December 2007

THE HONGKONG AND SHANGHAI HOTELS, LIMITED (THE "COMPANY")
香港上海大酒店有限公司
Hong Kong

HSH HOLDINGS LIMITED
Hong Kong – 2 shares of HK$1 each Investment holding

THE PENINSULA HOTEL LIMITED
半島酒店有限公司
Hong Kong – 2 shares of HK$1 each Hotel investment

PEAK TRAMWAYS COMPANY, LIMITED
山頂纜車有限公司
Hong Kong – 450,000 shares of HK$10 each Tramway operation

THE PEAK TOWER LIMITED
凌霄閣有限公司
Hong Kong – 2 shares of HK$1 each Property investment

PENINSULA MERCHANDISING LIMITED
半島商品有限公司
Hong Kong – 2 shares of HK$1 each Wholesaling & retailing of merchandise

THE REPULSE BAY COMPANY, LIMITED
淺水灣有限公司
Hong Kong – 2 shares of HK$1 each Property investment

TAI PAN LAUNDRY & DRY CLEANING SERVICES, LIMITED
大班洗衣有限公司
Hong Kong – 5,000,000 shares of HK$1 each Laundry and dry cleaning services

THE REPULSE BAY APARTMENTS LIMITED
淺水灣花園大廈有限公司
Hong Kong – 2 shares of HK$1 each Property investment

ST. JOHN'S BUILDING LIMITED
聖約翰大廈有限公司
Hong Kong – 2 shares of HK$1 each Property investment

HSH FINANCIAL SERVICES LIMITED
Hong Kong – 1 share of HK$1 Lending and borrowing of funds

PENINSULA INTERNATIONAL INVESTMENT HOLDINGS LIMITED
British Virgin Islands/Asia – 1 share of US$1 Investment holding

THE PALACE HOTEL CO., LTD. (42.13%*)
王府飯店有限公司
People's Republic of China – Registered capital of US$161,921,686 Hotel investment

INTERNATIONAL BUROTEL COMPANY LIMITED (70%)
Vietnam – Registered capital of US$6,866,667 Property investment

PENINSULA OF TOKYO LIMITED
Japan – 200 shares of ¥50,000 each Hotel investment

SIAM CHAOPHRAYA HOLDINGS COMPANY LIMITED (75%)
Thailand – 250,000 ordinary shares of THB2,000 each Hotel investment

TOWN AND COUNTRY SPORT CLUB COMPANY LIMITED (75%)
Thailand – 1,250,000 ordinary shares of THB100 each[Δ] Golf club and property investment

MANILA PENINSULA HOTEL, INC. (MPHI†)
The Philippines – 111,840,386 shares of Pesos 10 each Hotel investment

PENINSULA INTERNATIONAL (USA) LIMITED
United States of America – 1,200 shares of US$1 each Investment holding

PENINSULA OF NEW YORK, INC.
United States of America – 1,000 shares of US$0.01 each Investment holding

PENINSULA CHICAGO LLC (92.5%)
United States of America – Contributed capital of US$57,038,089 Hotel investment

PENINSULA BEVERLY HILLS, INC.
United States of America – 1,000 shares of US$0.01 each Investment holding

QUAIL LODGE, INC.
United States of America – 10,652 shares of US$100 each Resort, golf club and property investment

PENINSULA MANAGEMENT HOLDINGS LIMITED
British Virgin Islands/International – 1 share of US$1 Investment holding

PENINSULA CLUBS AND CONSULTANCY SERVICES LIMITED
半島會所管理及顧問服務有限公司
Hong Kong – 1,000,000 shares of HK$1 each Club management

HSH MANAGEMENT SERVICES LIMITED
香港上海大酒店管理服務有限公司
Hong Kong – 10,000 shares of HK$10 each Management and marketing services

Investment holding company
Tangible asset holding company
Operating company
Held directly
Held indirectly

* TPH is a sino-foreign co-operative joint venture registered under PRC laws of which the Group owns 42.13% registered capital. TPH is included as a subsidiary company as the Group controls 76.6% voting power of it.

† MPHI is a 76.09% subsidiary, of which 48.70% interest is directly held by the Company.

Δ 5,000 shares are fully paid up and the remaining 1,245,000 shares are partially paid up at THB25 each.

The Group's principal subsidiary companies as at 31 December 2007 are shown in this chart, with details of their place of incorporation, principal place of business, the issued ordinary share capital/ contributed capital/ registered capital and main activities. All are 100% owned except where indicated. The Directors consider that a chart containing details of all subsidiary companies would be of excessive length and complexity and therefore only the particulars of those subsidiary companies which principally affect the results or assets of the Group are included.

Auditor's Report

Independent auditor's report to the shareholders of
The Hongkong and Shanghai Hotels, Limited
香港上海大酒店有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated Financial Statements of The Hongkong and Shanghai Hotels, Limited (the "Company") set out on pages 110 to 179, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibilities for the Financial Statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these Financial Statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated Financial Statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
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19 March 2008

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Russia 810 800 2536 1012
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TdA – Concept, design and production www.tda.com.hk Consulted by Strategic Financial Relations Limited www.sprg.com.hk
Photos provided by Ms. Noriko Yamaguchi: pages 4 (bottom left), 14, 20, 24 (top right and bottom) and 60

The Hongkong and Shanghai Hotels, Limited
香港上海大酒店有限公司

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