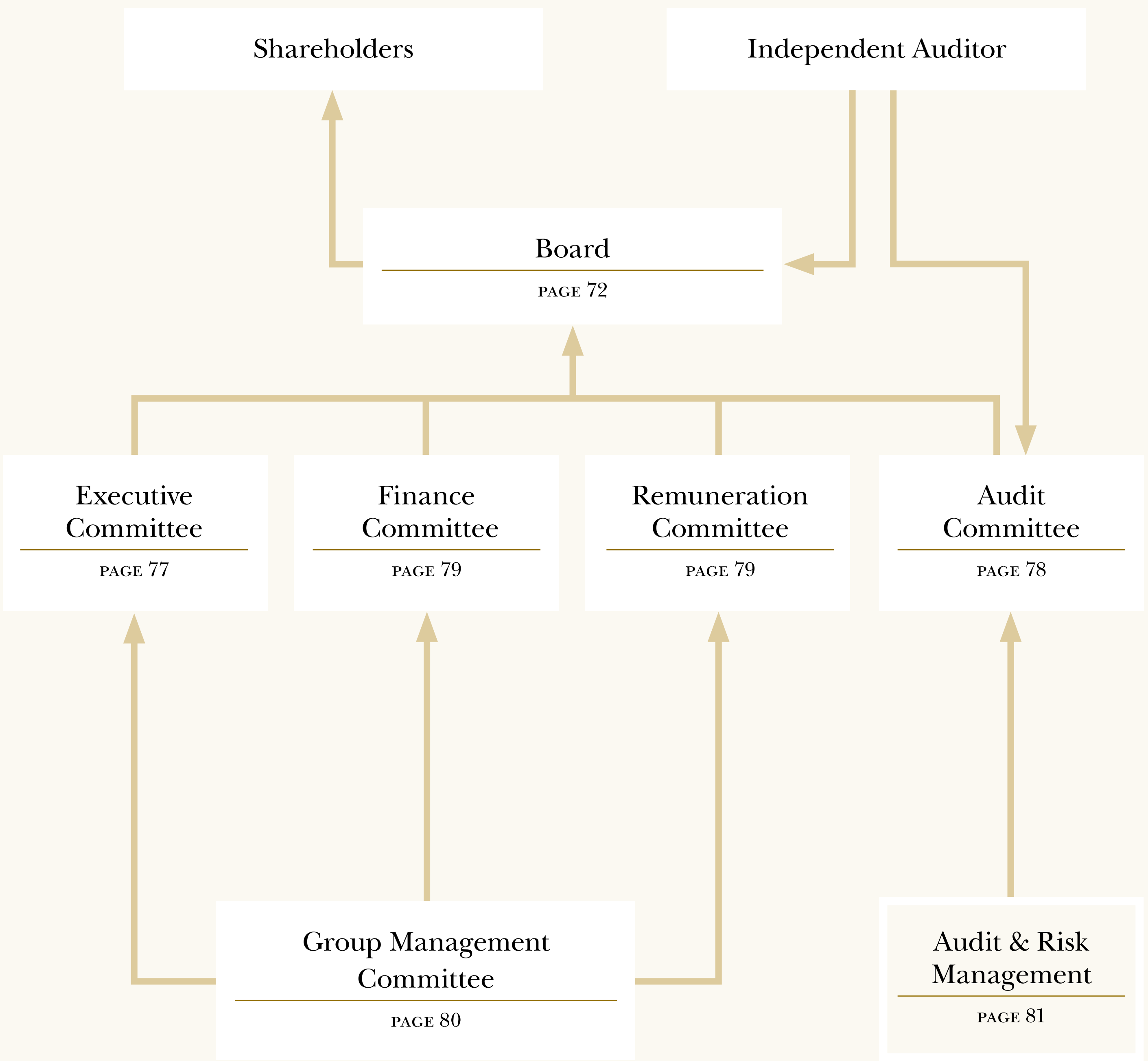
The Hongkong and Shanghai Hotels, Limited

Annual Report 2008

Stock code: 00045

Corporate Governance Structure



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Company at a Glance

The Hongkong and Shanghai Hotels, Limited (HSH) was incorporated in 1866 and is listed on the Stock Exchange of Hong Kong (00045). HSH is a holding company of a Group which is engaged in the development, ownership and management of prestigious hotel, commercial and residential properties in key destinations in Asia, the USA and Europe.

	HOTELS	YEAR ACQUIRED/ ESTABLISHED	NUMBER OF ROOMS	HSH OWNERSHIP
Asia	The Peninsula Hong Kong	1928	300	100%
	The Peninsula Beijing	1989	525	42%
	The Peninsula Tokyo	2007	314	100%
	The Peninsula Bangkok	1998	370	75%
	The Peninsula Manila	1976	497	77%
	The Peninsula Shanghai	Opening in 2009	235	50%
USA	The Peninsula New York	1988	239	100%
	The Peninsula Chicago	2001	339	92.5%
	The Peninsula Beverly Hills	1991	193	20%
	Quail Lodge Resort and Golf Club	1997	97	100%

	PROPERTIES	YEAR CURRENT BUILDING OPENED	GROSS FLOOR AREA (SQ. FT.)	HSH OWNERSHIP
Residential	The Repulse Bay, Hong Kong	1976 and 1989	795,585	100%
	The Landmark, Ho Chi Minh City, Vietnam	1994	52,259	70%
Commercial	The Peak Tower, Hong Kong	1996	67,254	100%
	The Repulse Bay, Hong Kong	1989	28,056	100%
Office	The Peninsula Office Tower, Hong Kong	1994	59,866	100%
	St. John's Building, Hong Kong	1983	60,690	100%
	The Landmark, Ho Chi Minh City, Vietnam	1994	82,150	70%

OTHER OPERATIONS	HSH OWNERSHIP
Peak Tramways, Hong Kong	100%
Thai Country Club, Bangkok, Thailand	75%
Peninsula Clubs & Consultancy Services	100%
Peninsula Merchandising	100%
Tai Pan Laundry, Hong Kong	100%

Financial and Operating Highlights

	2008	2007	% Increase/(Decrease)
INCOME STATEMENT (HK$m)			
Turnover	**4,938**	4,542	8.7
EBITDA	**1,425**	1,510	(5.6)
Profit before non-operating items	**978**	1,088	(10.1)
Profit attributable to shareholders	**216**	3,437	(93.7)
Dividends	**246**	259	(5.0)
Earnings per share (HK$)	**0.15**	2.40	(93.8)
Earnings per share excluding non-operating items (HK$)*	**0.56**	0.63	(11.1)
Dividends per share (HK cents)	**17**	18	(5.6)
Dividend cover (times)	**0.9x**	13.3x	(93.2)
Interest cover (times)	**15.5x**	13.5x	14.8
Weighted average gross interest rate	**3.4%**	4.2%	(19.0)
BALANCE SHEET (HK$m)			
Total assets	**29,587**	29,500	0.3
Audited net assets attributable to shareholders	**20,712**	20,726	(0.1)
Adjusted net assets attributable to shareholders*	**26,589**	27,032	(1.6)
Audited net assets per share (HK$)	**14.28**	14.37	(0.6)
Adjusted net assets per share (HK$)*	**18.34**	18.75	(2.2)
Net borrowings	**1,198**	1,455	(17.7)
Net debt to EBITDA (times)	**0.8x**	1.0x	(20.0)
Net debt to equity	**6%**	7%	(14.3)
Gearing	**5%**	7%	(28.6)
CASH FLOW (HK$m)			
Net cash generated from operating activities	**1,208**	1,481	(18.4)
Capital expenditure	**417**	808	(48.4)
Net cash inflow after interest and dividends before financing activities	**597**	683	(12.6)
Capital expenditure to revenue	**8%**	18%	(55.6)
SHARE INFORMATION			
Highest share price (HK$)	**14.50**	15.46	(6.2)
Lowest share price (HK$)	**5.13**	10.90	(52.9)
Year end closing share price (HK$)	**5.86**	13.70	(57.2)
OPERATING INFORMATION			
Number of hotel rooms	**2,874**	2,874	–
Average occupancy rate			
– Hong Kong	**71%**	77%	(7.8)
– Other Asia	**57%**	68%	(16.2)
– United States of America	**68%**	76%	(10.5)
Average room rate			
– Hong Kong (HK$)	**4,095**	3,774	8.5
– Other Asia (HK$)	**2,075**	1,564	32.7
– United States of America (HK$)	**4,626**	4,554	1.6
RevPAR			
– Hong Kong (HK$)	**2,927**	2,892	1.2
– Other Asia (HK$)	**1,191**	1,069	11.4
– United States of America (HK$)	**3,145**	3,451	(8.9)

* *Please refer to the calculation on pages 54 and 55 in the Financial Review section.*

2008 Milestones

The Peninsula Hong Kong's 80th anniversary

HSH's flagship hotel property, The Peninsula Hong Kong, celebrated its 80th anniversary on 11 December 2008 but dedicated the entire year to giving to the community. A series of celebratory events and activities were held, raising HK$3 million for three local charities.

The Peak Tram's 120th anniversary

One of the world's oldest funicular railways, the Peak Tram celebrated its 120 years of service on 30 May 2008. Thousands of passengers queued up for a nostalgic Tram ride for the same fare that was charged on the Tram's opening day in 1888.

The Peninsula Bangkok's 10th anniversary

On 19 November 2008, The Peninsula Bangkok celebrated its first decade and through four events, raised more than HK$2 million benefiting three local charities and UNICEF Thailand. The hotel also recognised 168 staff members for their continuous service since the hotel began operation.

Corporate accolades

The Group was honoured to receive several corporate awards in the year. The Wall Street Journal listed HSH as one of Asia's Most Admired Companies, ranking second in Hong Kong for quality and ninth for innovation. In the 2008 DHL/South China Morning Post Hong Kong Business Awards, HSH received the 2008 International Award. HSH also received a Gold Award from the Galaxy Awards in the United States for its 2007 Annual Report.

Topping out of The Peninsula Shanghai

Construction of The Peninsula Shanghai hotel, retail arcade and hotel apartment building began in October 2006 and the hotel building was topped out in January 2008, followed by a ceremony in April marking the occasion. Interior fit-out work for the hotel's public areas is in progress, and the hotel is on track for its soft opening in the autumn of 2009.

HSH's entry into Europe

In July 2008, HSH entered into a non-legally binding heads of agreement with Qatari Diar Real Estate Investment Company for a proposed hotel redevelopment in Paris, France. The deal was formally concluded in January 2009 and the hotel is expected to be completed for opening in 2012.

New spa and vehicle fleet at The Peninsula Beijing

In preparation for the Beijing Olympics, a new Spa with 12 treatment suites and thermal and relaxation rooms was opened in May at The Peninsula Beijing. In June, a new vehicle fleet was unveiled, comprising of two bespoke Rolls-Royce Phantoms and 10 BMW 750s.

New spa at The Peninsula New York

Opened in December 2008 after a year-long renovation, the tri-level Peninsula Spa features 12 treatment rooms and is complemented by a new fitness area and a refurbished indoor swimming pool.

Renovation completed for the Ayala Tower

The 11-storey, 249-room Ayala Tower at The Peninsula Manila underwent a five-month renovation and was re-opened in October 2008. The refurbished rooms and suites are among the most spacious in Manila and feature the Peninsula's proprietary in-room technology.

Salon de Ning – new signature lounge concept

Salon de Ning, a new lounge concept, was opened at the Peninsula hotels in Hong Kong and New York in 2008. Named after Madame Ning, a fictional character who lived in Shanghai in the 1930s, Salon de Ning's décor resembles an elegant, East-meets-West private residence featuring a stylish melange of cultures.

Redesigned roof garden at The Peninsula Beverly Hills

The Peninsula Beverly Hills unveiled its redesigned roof garden in May 2008, after an extensive renovation. The new space, which features the hotel's 60-foot outdoor swimming pool, private cabanas with televisions and safes and an outdoor bar and dining area, provides a refined resort oasis in the heart of Beverly Hills.

New website for Peninsula Hotels

A new website for the Peninsula Hotels was launched in August 2008, featuring three languages, interactive maps, three-dimensional function room plans and in-depth information on all aspects of the Peninsula products and destinations.

Chairman's Statement

Dear Shareholders,

Companies across the globe have entered a period of economic uncertainty following the financial crisis in the latter part of 2008. Our 142 years of history encompass a cycle of ups and downs during which we have maintained our motivation to seek further improvements in our products and services. Despite the current challenges, we shall continue to take a long term view and the fluctuations inherent in shorter term cycles will be kept in perspective.

There have been many positive events to record over the past 12 months. The Beijing Olympics provided the world with a unique window on China and the spirit in which the Games were organised and staged will remain in the minds of millions of people for years to come. The Games also highlighted our property, The Peninsula Beijing, where the facilities were upgraded in time to welcome our guests.

Elsewhere, we continued to bring new ideas and enhancements to our hotel products and facilities. This year we saw the opening of the renovated Ayala Tower in The Peninsula Manila, a new spa and health club complex both in New York and Beijing and Salon de Ning lounges in New York and Hong Kong.

The past 12 months have provided us with important milestones. We celebrated 120 years of operation by the Peak Tram, the 10th and 20th anniversaries respectively of The Peninsula Bangkok and The Peninsula New York and, most significantly, the 80th birthday of our flagship hotel property, The Peninsula Hong Kong.

We also witnessed events that posed real challenges and threats. The Sichuan earthquake in China was a sobering reminder of the unpredictable forces of nature, and the Group contributed to assist in relieving the plight of the people in that region. We were also impacted by the fall out from the political unrest in Thailand and the severe repercussions on that country's tourism industry. More recently, the terrorist attack in Mumbai has highlighted security issues which we continue to address.

Given these events, it is an appropriate time for us to step up our efforts towards longer term sustainability. With this objective in mind, we set up a Group Corporate Social Responsibility (CSR) Committee in late 2007 and we have included in this Annual Report a much more comprehensive review of our CSR activities.

We have also taken time to reflect on the contributions of our staff; the people who work so loyally to create our international profile that is synonymous with style, elegance and management excellence. Our family of staff continues to offer dedication and commitment at all levels to ensure that we remain at the forefront of our industry on an increasingly competitive global stage. Their work has been recognised with various accolades including the Company being named by the Asian Wall Street Journal as one of the most admired in Asia and one of the top five most admired companies in Hong Kong. We were also the recipient of the International Award in the 2008 DHL/SCMP Hong Kong Business Awards.

Despite the current uncertainty, we look towards the long term with confidence. Late in 2009, we shall return to one of our roots - Shanghai, with the opening of The Peninsula Shanghai in a splendid location with a frontage directly on the famous Bund. This building will be the only new build in this iconic area where all of the existing structures are protected historical sites. We continue to study the potential of new markets and have recently finalised the agreements to develop The Peninsula Paris, which will be our first property in Europe.

We shall also use this opportunity to renovate and upgrade our existing properties in 2009. The current programme for renovation includes guestrooms at various Peninsula hotels and a revitalisation of The Repulse Bay Arcade in Hong Kong.

This strategy reflects our philosophy of carefully analysing market challenges and identifying and maximising the opportunities they offer with long term vision, planning and justified confidence.

The Hon. Sir Michael Kadoorie
12 March 2009

Chief Executive Officer's Report

2008 was an exceptional year which was marked by the unprecedented global economic and market meltdown triggered in September following the collapse of several leading US financial institutions. Over the past 20 years, the world had enjoyed relative political stability, low inflation and a massive expansion of the global economy, albeit with some market adjustments from time to time. This time, the magnitude and extent of the financial crisis have shaken economies around the world, which we expect will have ramifications on the behaviour of corporations and individuals for several years to come.

As the world faces possibly the most challenging set of economic circumstances since the end of World War Two and the outlook for travel continues to be pessimistic, it is time for us to pause and reflect. Change may be inevitable but we feel that by turning problems on their head, we will see another world which is filled with opportunities. Our Group's greatest strengths – the capacity for innovation, a spirit for excellence, and the dedicated power of our work force – will stand us in good stead in the turbulent times ahead. We believe that we have entered this economic crisis with our Company in a strong financial position and with an excellent and experienced management team, and that our genuine commitment to the long term will differentiate us from our competitors.

Given the very challenging market conditions during the year, with the downturn in the US having started at the beginning of the year well before the global markets collapse in September, we believe that our Company has performed well to have achieved earnings before interest, taxation, depreciation and amortisation (EBITDA) of HK$1,425 million, representing a fall of only 5.6% from 2007, and a profit before non-operating items of only 10% less than 2007, which was a record year for our Group. This performance can be attributed to the excellent efforts of our managers and staff to contain costs and seek new sources of revenue, the earnings improvements arising from the various projects we have undertaken in the past few years to enhance our existing assets and the diversification in our asset portfolio between hotel and non-hotel properties.

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It is very pleasing that we have entered into this financial crisis with a gearing level of only 5%, the lowest for the Company in the past 10 years, and because of this we are well placed to take advantage of expected asset value adjustments to seek further investments. Being in this financial position also meant that we were able to take a long term view and conclude the agreements to invest Euro 100 million for a 20% interest in a very grand, stately building in Paris, which will be re-developed into The Peninsula Paris hotel as our flagship entry into Europe.

Hotels

Our hotels division had a very challenging year, with the slowdown in the US economy affecting our hotels there and in Tokyo from early in the year, followed by the market collapse in September significantly impacting current and future business levels.

The strongest performance came from our flagship hotel The Peninsula Hong Kong, celebrating its 80th anniversary, which ended the year with net profits marginally ahead of its previous record year in 2007. The Peninsula Beijing benefited for a short period from the highly successful Beijing Olympics held in August, but the rest of the year was weak in the light of visa restrictions imposed both before and after the Olympics and the large increase in supply of luxury hotels in Beijing. The Peninsula Bangkok, celebrating its 10th anniversary, enjoyed very healthy business up until August, following which the political turmoil in Thailand, most particularly the occupation of Bangkok's two airports by protestors, resulted in the hotel's business being seriously disrupted. The Peninsula Manila was partially closed during the year for the renovation of the Ayala Tower, which followed the highly successful renovation of the Makati Tower two years ago. This hotel has now completed its rooms renovation programme but is largely dependent on corporate business and faces a weak operating environment in Manila. The newly opened Peninsula Tokyo, in its first full year of operation, has received much acclaim and recognition for its stunning location, the design of its guestrooms and public areas and its service offering. However, it has been challenged by weak market conditions in Tokyo and is still in the process of stabilising its operating cost structures, as a result of which it contributed a loss after depreciation to the Group results.

In the US, business held up relatively well at The Peninsula Beverly Hills, where its market was less directly affected by the financial market fall out. The Peninsula hotels in New York and Chicago have been increasingly affected during the year and have made considerable efforts to contain their costs in this situation. The Peninsula New York was also affected by the closure of its spa, health club and swimming pool for major renovation for most of the year, but now has fabulous new facilities in these areas to ensure the hotel's competitiveness at the top of the New York luxury market. Quail Lodge faced difficult market conditions with the economy affecting its business from the San Francisco Bay Area, which is its main source of customers.

With our emphasis towards the long term, we did not curtail any of the capital investment plans for the enhancement of our existing hotels. During the year, we completed the construction of new Peninsula Spas at the Peninsula hotels in Beijing and New York, the Ayala Tower renovation at The Peninsula Manila, the creation of new Salon de Ning concepts at the Peninsula hotels in Hong Kong and New York and the renovation of the pool terrace at The Peninsula Beverly Hills. In line with Peninsula tradition, The Peninsula Beijing received a new fleet of motor vehicles, including two bespoke Rolls-Royce Phantoms, in time for the Beijing Olympics.

Finally, the retail arcades at the Peninsula hotels in Hong Kong and Beijing have continued to perform well, benefitting from their established position in the market and the continued good relationships with many of the world's leading luxury brands.

Details of the individual hotel's financial performance can be found in the Financial Review (pages 54 to 71).

Non-hotel properties and operations

The Group's non-hotel properties and operations, mainly situated in Hong Kong, have performed well despite the financial turmoil and recorded a total revenue growth of 7% over 2007. Demand continued to be strong for the serviced and unfurnished apartments at The Repulse Bay, although the waiting list for units has declined in the last few months. Again with an eye towards the long term, we are commencing a major renovation of the Repulse Bay Arcade commercial area in order to enhance the restaurants and retail outlets for the enjoyment of both the residents of the complex and outside visitors.

The Peak Complex has had a solid year, with the Peak Tower and St. John's Building both remaining fully let. Additional income was provided by the Sky Terrace and patronage on the Peak Tram increased by 1% over 2007, reaching a record 5 million passengers.

The Landmark in Vietnam remained fully let throughout the year at higher average rentals in the midst of the high inflationary environment there and the Thai Country Club sustained a reasonable level of business, being less affected by the political turmoil in Thailand than The Peninsula Bangkok.

In other operations, higher volumes of passengers in the first three quarters of 2008 for Cathay Pacific's First and Business Class lounges resulted in improved management fees. The Peninsula Merchandising, which operates the Peninsula Boutiques and online sales, performed strongly as additional franchised retail operations were opened.

More details of these divisions' financial performance can be found in the Financial Review (pages 54 to 71).

Overall results

The Group's profit before non-operating items amounted to HK$978 million, representing a decrease of 10% from last year. Our net profit was negatively affected by the impact of the loss arising on the year end revaluation of our investment properties and increased impairment provisions on certain of our hotel assets, resulting in a net profit attributable to shareholders of HK$216 million, as compared to HK$3,437 million last year. It should be noted that the revaluation deficits and impairment provisions are non-cash and non-operating items which relate to assets which we intend to hold long term and have no intention of selling.

"Given the very challenging market conditions during the year, we believe that our Company has performed well to have achieved EBITDA of HK$1,425 million, representing a fall of only 5.6% from 2007."

Most importantly, the Group remained cash flow positive during the year, with the funds generated from our operations of HK$1,429 million, being more than sufficient to cover our capital expenditure, interest and dividend payments, leaving a net cash inflow of HK$553 million for the year.

Our balance sheet remained conservative, with a gearing level of 5% as at the year end. Despite the year end property revaluation deficit and increased impairment provisions, our net asset value remains the same as last year at HK$20,712 million (HK$14.28 per share), while the adjusted net asset value amounted to HK$26,589 million (HK$18.34 per share). It should be noted that the Company has expended HK$1,024 million (equivalent to Euro 100 Million) on its investment in The Peninsula Paris project since the year end.

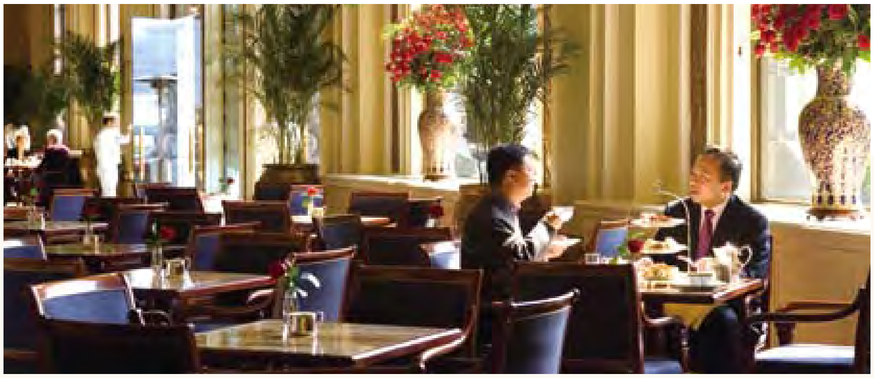
In the light of the uncertain outlook for our business, as well as our continued commitment to investing for the long term future of the Company, the Directors have decided to recommend a final dividend of HK10.5 cents per share, making a total dividend for the year at HK17 cents per share, for consideration by shareholders at the Annual General Meeting.

Projects

The Group's key project under development, The Peninsula Shanghai hotel and apartment complex, made significant progress in 2008 and is now on schedule and within budget for its soft opening in the autumn of 2009. Being the only new building with its frontage directly on the historic Bund, the other such buildings being protected heritage structures, The Peninsula Shanghai has been designed as an iconic flagship hotel to mark the Group's return to one of its two founding roots.

The Peninsula Shanghai complex will comprise 92,160 square meters of gross floor area, housing a 235-room hotel which will feature five restaurants and bars, a Peninsula spa, a helilounge, a high-end shopping arcade and a hotel apartment tower with 39 units. The exterior of the hotel has been designed in sympathy with the existing buildings on the Bund and the interior design recreates the look and feel of the 1920s and 1930s, when Shanghai was feted as the 'Paris of the East'.

The 15-storey hotel tower was topped out in January 2008, followed by a ceremony marking the occasion which took place in April. The entire complex, including the retail arcade, podium level and apartment tower, was topped out in June. This has been followed by interior fit-out works which continues apace. Pre-opening preparations are well in hand with the General Manager and most of his executive team having been appointed.



Separately, the Group has entered into a joint venture with Qatari Diar Real Estate Investment Company, which is wholly-owned by the Qatar Government, to jointly re-develop a stately building on Avenue Kleber in Paris, France as The Peninsula Paris. The building was constructed in 1908 as the Majestic Hotel which at that time was one of the top luxury hotels in Paris and is currently used by the French Ministry of Foreign Affairs as the Centre International de Conferences. We expect to take vacant possession of the building in the second quarter of 2009 with completion of the hotel during 2012.

We continue to seek other opportunities for new hotel developments on a highly selective basis, with an emphasis on assuming ownership interest in the properties which we operate. As such, we expect to commit to new projects on a measured basis to maintain the focus of our resources, as well as to ensure that we only proceed with prime locations in key international gateway cities.

Outlook

The Hongkong and Shanghai Hotels has consistently looked to the long term. Our business philosophy is to seek assets of the highest quality, whether through green field development or renovation of existing buildings, and to design and operate them to the highest possible 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 rental prices in many of our locations, coupled with longer term asset value appreciation.

Within this overall philosophy, our business strategy remains largely unchanged but is evolving to include new approaches in managing our business. Over the past year, we have set up a Corporate Social Responsibility (CSR) Committee to implement a clear strategy and direction on long term sustainability around the Group. The Committee is tasked with scoping the Group's CSR activities, identifying opportunities for improvement, implementing best practices and reporting to our stakeholders. It is believed that this process will also enhance operational efficiencies and generate opportunities to create long term economic value.

Despite the current economic crisis, we continue to proceed with capital improvement works at various properties to ensure that the quality of our assets are maintained and enhanced to the highest possible levels, thereby maintaining our product and brand quality and image for the benefit of the Company in the long term. We remain totally committed to our big 'family' of hard working and loyal staff and continue to invest in their well-being and development. At the same time, much emphasis continues to be placed on controlling our costs, in particular through productivity

"We also see the economic downturn as a possible opportunity to seek new investments and will continue our search for suitable projects within our stringent requirements for quality and location."

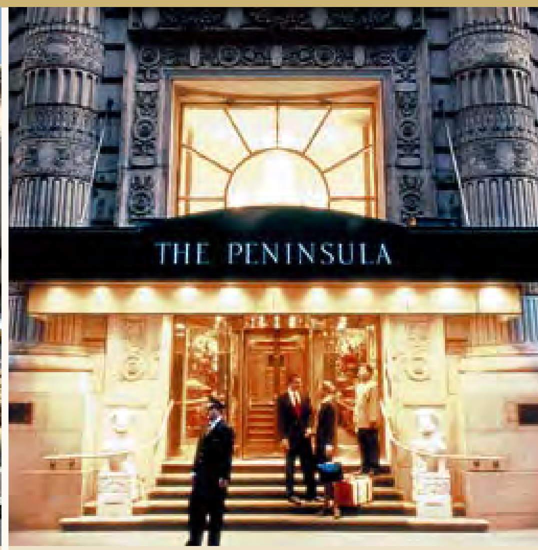
and efficiency improvements, as well as reviewing the necessity of capital expenditure items. We also see the economic downturn as a possible opportunity to seek new investments and will continue our search for suitable projects within our stringent requirements for quality and location.

The start of 2009 has so far been challenging, with many of our hotels experiencing a marked reduction in revenue as compared to the same period last year, albeit the first quarter is a low season for several of our hotels. Hong Kong has so far held up relatively well, but is likely to come under continued pressure from the weak global economy and the worsening economic situation in mainland China. The competitive positioning of our main assets, The Peninsula Hong Kong and The Repulse Bay Complex, is likely to be maintained due to the quality and stature of these properties, but further downward pressures may have an effect on rates and occupancies. Given the longer tenure of property leases, the non-hotel businesses are likely to react on a longer cycle than the hotel businesses. We also hope that certain of our properties will benefit from the recent renovations and enhancements which have been undertaken.

Finally, in the midst of such uncertain times, I would like to reiterate that the biggest protection we have is our genuine commitment to quality and 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 are our wonderful and loyal staff and it is once again fitting that I should end my message with my appreciation to all the members of the Peninsula 'family'.

Clement K.M. Kwok
12 March 2009

THE PENINSULA HONG KONG

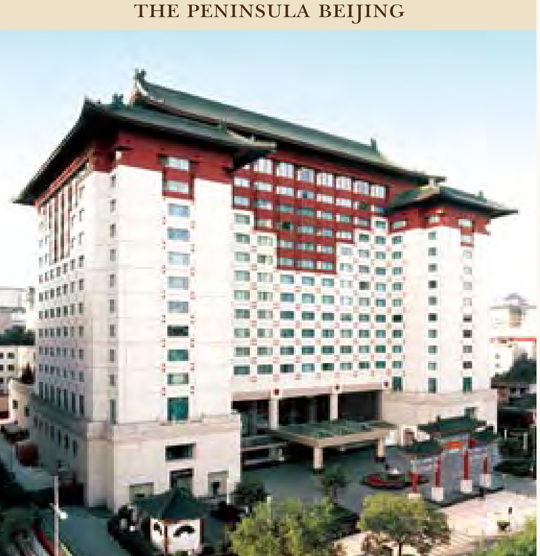


THE PENINSULA NEW YORK

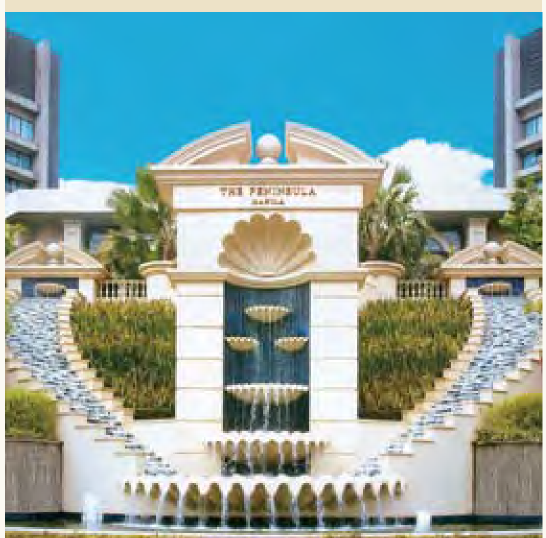
THE PENINSULA CHICAGO

General Managers' Reports

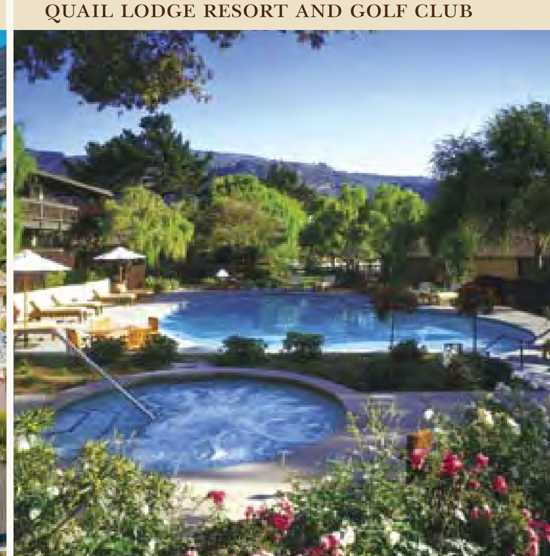
THE PENINSULA BEIJING



THE PENINSULA MANILA



QUAIL LODGE RESORT AND GOLF CLUB



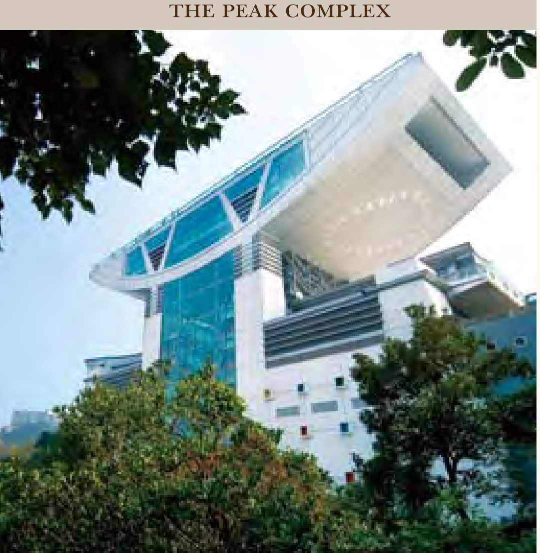
HOTELS

THE PENINSULA BEVERLY HILLS

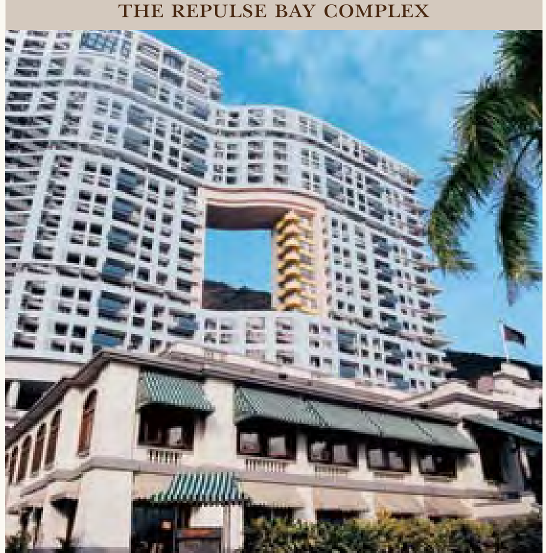
THE PENINSULA TOKYO

THE PENINSULA BANGKOK

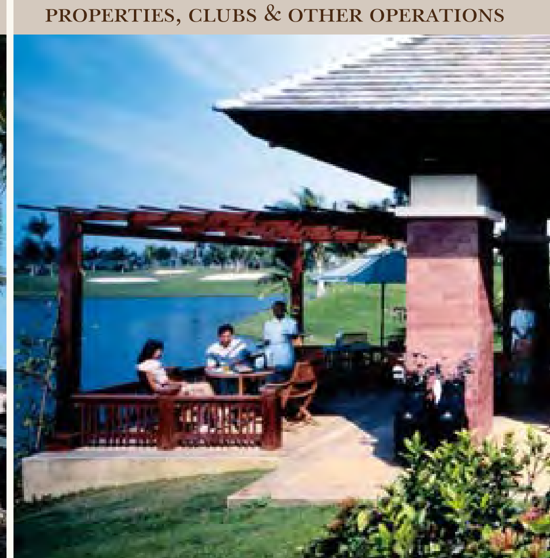
THE PEAK COMPLEX



THE REPULSE BAY COMPLEX



PROPERTIES, CLUBS & OTHER OPERATIONS

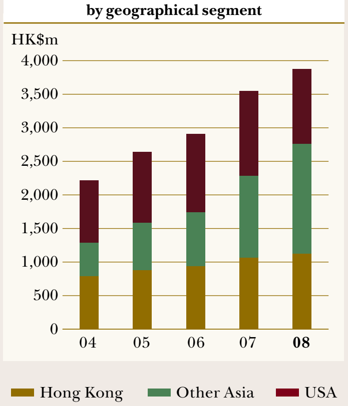


PROPERTIES, CLUBS & OTHER OPERATIONS

HOTEL PERFORMANCE CHARTS

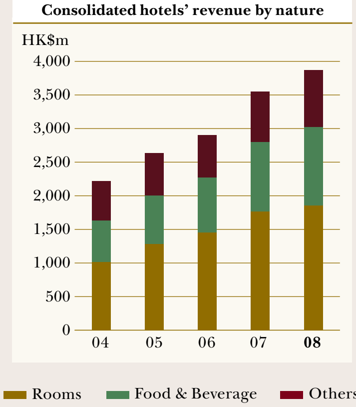
	Attributable	Revenue (HK$m)		Available Rooms		Occupancy %		ARR (HK$)		RevPAR (HK$)	
	Interest %	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
The Peninsula Hong Kong	100	**1,093**	1,034	**300**	300	**71**	77	**4,095**	3,774	**2,927**	2,892
The Peninsula New York	100	**486**	597	**239**	239	**64**	75	**6,338**	6,326	**4,048**	4,771
The Peninsula Chicago	92.5	**523**	571	**339**	339	**65**	72	**3,670**	3,641	**2,395**	2,638
The Peninsula Beverly Hills	20	**444**	453	**193**	193	**80**	85	**5,364**	5,017	**4,275**	4,242
The Peninsula Tokyo	100	**677**	243	**314**	314	**63**	57	**3,759**	3,853	**2,380**	2,206
The Peninsula Bangkok	75	**269**	279	**370**	370	**65**	70	**1,714**	1,708	**1,119**	1,201
The Peninsula Beijing	42	**485**	453	**525**	525	**50**	63	**2,116**	1,664	**1,065**	1,048
The Peninsula Manila	77	**210**	245	**497**	497	**55**	75	**1,133**	1,005	**626**	752
Quail Lodge Resort	100	**100**	101	**97**	97	**64**	71	**2,014**	2,062	**1,298**	1,462
Total		**4,287**	3,976	**2,874**	2,874						
Average						**62%**	72%	**3,162**	2,859	**1,962**	2,050

Consolidated hotels' revenue by geographical segment



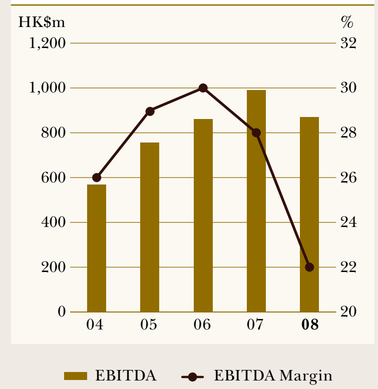
HK$m	2004	2005	2006	2007	**2008**
Hong Kong	791	877	939	1,061	**1,122**
Other Asia	492	707	803	1,220	**1,641**
USA	931	1,054	1,165	1,269	**1,109**
	2,214	2,638	2,907	3,550	**3,872**

Consolidated hotels' revenue by nature



HK$m	2004	2005	2006	2007	**2008**
Rooms	1,015	1,279	1,455	1,768	**1,856**
Food & Beverage	616	728	813	1,031	**1,166**
Others	583	631	639	751	**850**
	2,214	2,638	2,907	3,550	**3,872**

Consolidated hotels' EBITDA



	2004	2005	2006	2007	**2008**
EBITDA (HK$m)	569	755	861	989	**870**
EBITDA Margin (%)	26%	29%	30%	28%	**22%**

THE PENINSULA HONG KONG 100% OWNED

The Peninsula Hong Kong was opened in 1928 and celebrated its 80th anniversary in 2008. Wholly-owned by HSH, the hotel has consistently been regarded as one of the top luxury hotels in Asia and the world. In 1994, its facilities were significantly extended and modernised with the addition of the Peninsula Office Tower. Today, the hotel has 300 guestrooms and suites; world-renowned restaurants and bars including Gaddi's, Felix, Spring Moon, Chesa and Salon de Ning; and a spectacular Peninsula Spa which was opened in 2006.

The Peninsula Hong Kong had another record breaking year in 2008, achieving the city's highest room rate. There was also significant growth in RevPAR and food and beverage spend, as well as in rental income from the Peninsula Arcade and Office Tower. The hotel also saw healthy growth in guest arrivals from key emerging markets such as mainland China, South Korea, Thailand and the Middle East, which offset some decline in traditional long haul markets.

- The hotel achieved an ARR of HK$4,095, up 9% from 2007. RevPAR was up 1% from 2007 while occupancy dropped six percentage points from the year before.
- The Peninsula Arcade and Office Tower performed well, with rental revenue increases of 13% and 25% respectively. Occupancy remained consistently high through the year, at 99% and 97% respectively. A number of high-end international jewellery brands joined the Arcade, adding to the prestige of the location.
- The hotel adopted a full year of celebrations for its 80th anniversary by offering a series of programmes featuring accommodation, food and beverage and spa elements. Other celebratory programmes involved giving to the community of Hong Kong through various fundraising activities, which culminated in a HK$3 million donation to three local charities on 11 December, the hotel's 80th birthday.
- In December, the hotel opened its ninth food and beverage outlet. Salon de Ning is a sophisticated lounge and bar concept with an Art Deco theme that features Chinese and international influences.
- Changing global economic conditions have led to a decline in arrivals from the hotel's traditional long haul markets, especially from the United States. However, there was increased traffic from emerging markets such as mainland China, South Korea, Thailand and the Middle East.

THE PENINSULA NEW YORK 100% OWNED

The Peninsula New York is housed in a 23-storey, 1905 landmark building in a prime location on Fifth Avenue and 55th Street in mid-town Manhattan. The hotel, acquired by the Group in 1988, celebrated its 20th anniversary under the Peninsula name in 2008. The hotel is modern yet carries an old-world elegance. There are 185 guestrooms and 54 suites, four restaurants, a new rooftop lounge and terrace called Salon de Ning, a new Peninsula Spa, a fitness centre and an indoor swimming pool.

The global economic uncertainty has affected travel to New York City in both the business and leisure segments, despite an increase in international visitors due to the weakness of the US Dollar in the early part of 2008. This, combined with the disruption arising from the extensive renovation of the Peninsula Spa, fitness centre and swimming pool during the year, has resulted in the hotel's occupancy dropping by about 11 percentage points as compared to the previous year.

- The hotel achieved an ARR of HK$6,338, up 0.2% from 2007. RevPAR was down 15% from 2007 while occupancy dropped 11 percentage points from the year before.
- International clientele increased 10% year-on-year due to the weaker Dollar and stronger Euro.
- As the hotel celebrated its 20th anniversary under the Peninsula flag, an anniversary package was launched which proved to be a success. Other key marketing initiatives included the development of unique cultural, shopping and weekend packages, as well as value-added promotions.
- The entire top three floors of the hotel were renovated, with the debut of the Salon de Ning rooftop lounge and terrace in May, followed by a complete facelift of the indoor swimming pool and fitness centre in September and the opening of a grand, tri-level Peninsula Spa in December.
- All commercial spaces were let throughout the year.

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, four 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' on North Michigan Avenue.

The US economic recession affected the hospitality market in Chicago, as with other cities in the country. Despite this market environment, The Peninsula Chicago continued to maintain its position as the top hotel in the Chicago luxury hotel segment through continued investment in the property, excellent service and strong brand recognition.

- The hotel achieved an ARR of HK$3,670, up 1% from 2007. RevPAR was down 9% from 2007 while occupancy dropped seven percentage points from the year before.
- The Peninsula Chicago continued to be regarded as one of the best hotels in North America, as exemplified by winning the top spot in the Conde Nast Traveler's 2008 Readers' Choice Awards.
- Important capital expenditure initiatives included carpet replacement on three guestroom floors and the Lobby, as well as installation of plasma televisions on three guestroom floors.
- Since the hotel's room guests are mainly from the United States, the hotel focused its marketing initiatives on the greater Chicago metropolitan area within a 400-600 mile radius. The hotel also enhanced its participation in city-wide conventions and launched special group summer and winter meeting packages.

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 features 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.

The strike organised by the Screen Actors' Guild in early 2008, coupled with the economic recession which surfaced in the third quarter of the year, posed challenges for The Peninsula Beverly Hills. The hotel has consistently been recognised as one of the best hotels in North America and was able to maintain its status as a favoured destination for celebrities in the world's capital of the entertainment industry.

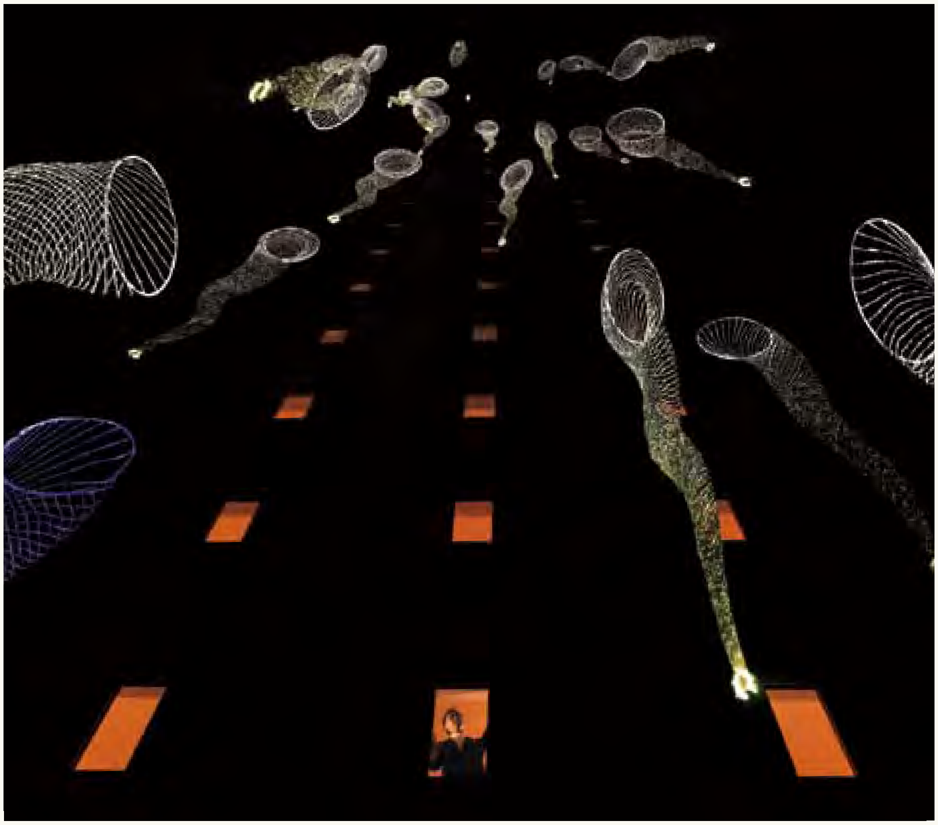
- The hotel achieved an ARR of HK$5,364, up 7% from 2007. RevPAR was up 1% from 2007 while occupancy dropped five percentage points from the year before.
- The first eight months of the year showed positive growth in RevPAR by 6%. Following the onset of the economic recession in September, the last four months of the year indicated a slowdown in business with a 10% negative growth in RevPAR.
- In April, the hotel completed a US$5 million rooftop renovation project which saw a facelift for the outdoor swimming pool, cabanas and restaurants. The re-fitted Roof Garden and pool were well received by guests.
- Key marketing initiatives included an alliance with leading department stores such as Saks Fifth Avenue; promotion of Shop & Spa package; and Internet promotion for the quieter seasons. The hotel also sought to increase its base of domestic corporate accounts.

THE PENINSULA TOKYO 100% OWNED

The Peninsula Tokyo, which was opened in late 2007, 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.

During its first full year of operation, The Peninsula Tokyo has quickly established itself as a leading destination hotel, which is much sought after by local and international business and leisure travellers. The hotel was able to maintain steady growth despite a globally-challenging economic environment.

- The hotel achieved an ARR of HK$3,759, down 2% from 2007. RevPAR was up 8% from 2007 while occupancy rose six percentage points from the year before.
- Its Chinese outlet, the Hei Fung Terrace Cantonese restaurant, received a Michelin star from the 2009 Tokyo Michelin Guide.
- Signature Peninsula products, such as the traditional afternoon tea and Peninsula Boutique confectionary, regularly attracted queues of customers eager to enjoy the products.
- Contributing to the local community, The Peninsula Tokyo became a recognised city landmark by being illuminated with pink lights in October, in a show of support for the Pink Ribbon Breast Cancer Awareness Campaign.
- The hotel continues to build its business and customer base through targeted sales promotions and active participation in community affairs.



THE PENINSULA BANGKOK 75% OWNED

The luxurious riverside Peninsula Bangkok was opened in 1998 and celebrated its 10th anniversary in 2008. The 37-storey property features 370 guestrooms and suites, four restaurants, a Peninsula Spa that is housed in a three-storey Thai style villa; and partners with the Group-owned Thai Country Club to offer golf course access to its guests. The Peninsula Bangkok is recognised as one of the best hotels in Asia, having been voted the best hotel in the world by Travel + Leisure in recent years.

The Peninsula Bangkok achieved record-breaking results in the first eight months of the year. However, events in the final four months of the year, which saw political uncertainties leading to the temporary closure of Bangkok's international and domestic airports in late November, eroded tourist confidence and led to dramatic fall in overseas arrivals.

- The hotel achieved an ARR of HK$1,714, up 0.3% from 2007. RevPAR was down 7% from 2007 while occupancy dropped five percentage points from the year before.
- The Peninsula Bangkok celebrated its first decade by giving back to the community: four charity fundraising events were organised to raise money for UNICEF Thailand, the Disabled Athletes Association of Thailand, the Institute of Sericulture and an art group called Fostering the Artists. A total of US$300,000 was raised.
- Tourist arrivals in Bangkok continued to suffer during Christmas and New Year, traditionally the high season. The short-term future of the tourism industry in Thailand remains difficult to predict.
- Facility enhancements during the year included the renovation of the staff restaurant kitchen and the addition of a river bar at the River Café & Terrace.
- The hotel remained a popular choice for weddings and key marketing initiatives included restaurant and room packages to mark the hotel's 10th anniversary.
- 168 hotel staff members, who had served the hotel since the beginning, were awarded long service certificates on the 10th anniversary of the hotel.

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 Tiananman Square and is regarded as one of Beijing's top hotels. The hotel has 525 guestrooms and suites, two restaurants, a new Peninsula Spa and indoor swimming pool, a new fleet of Rolls-Royce and BMWs and one of the most prestigious shopping arcades in Beijing, The Peninsula Arcade, which houses 50 exclusive designer boutiques.

The most significant event in 2008 was Beijing's hosting of the 2008 Summer Olympics. The Peninsula Beijing, an official sponsor hotel, was fully occupied for the duration of the Games. Yet, the natural disasters in February and May, coupled with travel restrictions imposed by the government surrounding the Olympic Games, led to a decrease in overseas visitor arrivals. In the face of such challenges, 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$2,116, up 27% from 2007. RevPAR was up 2% from 2007 while occupancy dropped 13 percentage points from the year before.
- Construction of a new, state-of-the-art Peninsula Spa was completed and opened in May to guests' acclaim. The new Spa features 12 treatment suites as well as exclusive thermal and relaxation rooms, setting new standards for hotel spas in China's capital.
- In June, a new vehicle fleet was unveiled, comprising of two bespoke Rolls-Royce Phantoms and ten BMW 750s, all dressed in signature Peninsula green.
- The Peninsula Arcade enjoyed very healthy occupancy throughout the year and continued to be the pre-eminent shopping venue in the country for luxury branded goods.

THE PENINSULA MANILA 77% 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 Ayala Tower underwent an extensive renovation this year. The 497-room hotel has seven restaurants and bars, a spa and fitness centre and a shopping arcade.

The Peninsula Manila yielded a 13% increase in average room rate over 2007, although occupancy fell due to the closure of the Ayala Tower for renovation for five months of the year, as well as the global economic uncertainty which curtailed the number of international travellers. The renovation of the Ayala Tower was completed in October 2008 and has been well received by guests.

- The hotel achieved an ARR of HK$1,133, up 13% from 2007. RevPAR was down 17% from 2007 while occupancy dropped 20 percentage points from the year before.
- Renovation of the 249 Ayala Tower guestrooms and the nine function rooms were completed in October. Other major facilities upgraded included the replacement of air handling units in back of house areas and partial replacement of pumps in the plant room.
- Plans were approved to renovate the Nielsen's restaurant in 2009.
- The hotel enjoyed brisk catering business and was the venue of choice for prominent social events hosted by luxury brand names including Salvatore Ferragamo, Tiffany, Armani, Marc Jacobs and Bvlgari.

QUAIL LODGE RESORT AND GOLF CLUB 100% OWNED

Nestled on 850 acres in the heart of picturesque 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. It is also the location for the annual Quail Motorsports event.

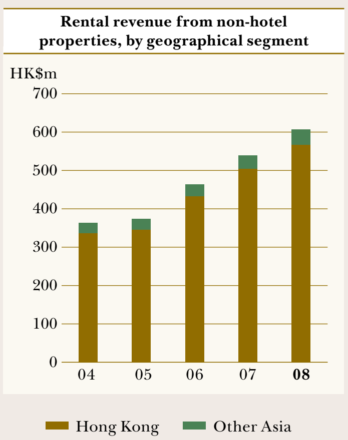
2008 was Quail Lodge's second full year after the resumption of Peninsula management. Efforts continued to be made for the Resort to improve its financial position, including a review of room rates and golf membership fees.

- The Resort achieved an ARR of HK$2,014, down 2% from 2007. RevPAR was down 11% from 2007 while occupancy dropped seven percentage points from the year before.
- Facility upgrades in the year included the completion of the new power cart facility and the acquisition of a new fleet of four shuttle vans for guest transfers and airport pick ups.
- Most of the Resort's guests continued to be US domestic travellers, with the majority being frequent independent travellers and corporate meeting attendees.
- The Resort continued to host the popular, annual Motorsports Gathering The Quail Rally, which was launched in 1997 and raises funds for local and national charities.

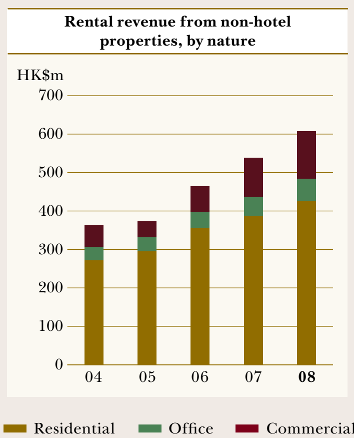
PROPERTIES PERFORMANCE CHARTS

NON-HOTEL PROPERTIES

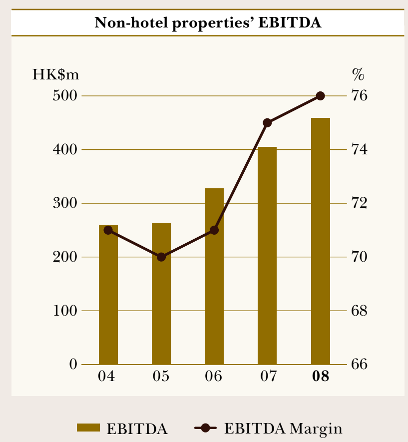
	Attributable Interest %	Revenue (HK$m) 2008	Revenue (HK$m) 2007	Net Lettable Area (sf) 2008	Net Lettable Area (sf) 2007	Occupancy % 2008	Occupancy % 2007	Yield (HK$) 2008	Yield (HK$) 2007
The Repulse Bay Complex	100	**450**	413	**840,575**	838,531	**94**	92	**39**	35
The Peak Tower	100	**82**	64	**67,254**	67,254	**100**	100	**60**	56
St. John's Building	100	**34**	27	**61,102**	61,102	**99**	99	**33**	25
The Landmark, Vietnam	70	**41**	35	**134,409**	134,409	**100**	100	**24**	20
Total		**607**	539	**1,103,340**	1,101,296				
Average						**95%**	94%	**38**	34



HK$m	2004	2005	2006	2007	2008
Hong Kong	336	345	433	504	**566**
Other Asia	28	29	31	35	**41**
	364	374	464	539	**607**

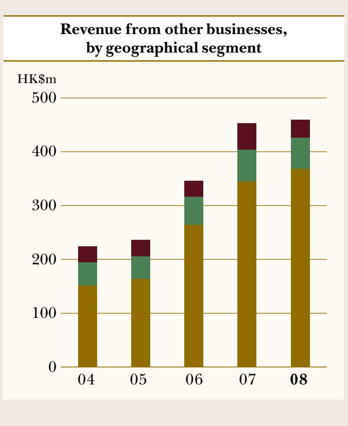


HK$m	2004	2005	2006	2007	2008
Residential	272	295	355	386	**425**
Office	34	36	42	49	**59**
Commercial	58	43	67	104	**123**
	364	374	464	539	**607**

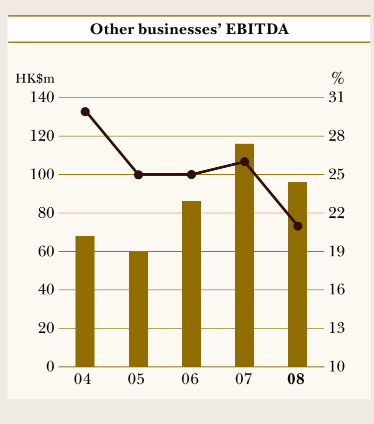


	2004	2005	2006	2007	2008
EBITDA (HK$m)	260	263	328	405	**459**
EBITDA Margin (%)	71%	70%	71%	75%	**76%**

OTHER BUSINESSES



HK$m	2004	2005	2006	2007	2008
Hong Kong	152	164	264	345	**368**
Other Asia	42	41	52	59	**58**
USA	30	31	30	49	**33**
	224	236	346	453	**459**



	2004	2005	2006	2007	2008
EBITDA (HK$m)	68	60	86	116	**96**
EBITDA Margin (%)	30%	25%	25%	26%	**21%**

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 attraction for visitors to Hong Kong's famous Victoria Peak, was re-opened in late 2006 following a major renovation which turned it into an exciting retail, dining and entertainment venue.

The Peak Tram, opened in 1888, celebrated its 120th anniversary in 2008. It is one of the oldest operating funicular railways in the world and is a popular tourist attraction. Up until the year 1904, the Peak Tram was the only vehicle providing mechanised land transport to the citizens of Hong Kong.

- The Peak Tower was fully let during 2008. It achieved strong growth in revenue as a result of the introduction of an entrance fee to the Sky Terrace in late 2007 and higher turnover rent received from tenants.
- The Peak Tram gave a strong performance with a record-breaking annual patronage of 5 million passengers.
- On 20 May 2008, the Peak Tram marked its 120th year of service by offering a HK$0.30 tram ride (the fare charged in 1888), together with a special edition tram ticket and attracted thousands of loyal Tram fans who took advantage of the special price for a unique experience. Proceeds from the day were donated to a local charity.
- St. John's Building was fully occupied throughout the year. Revenue increased significantly due to the limited supply of office space in the central business area.

THE REPULSE BAY COMPLEX 100% OWNED

The Repulse Bay Complex is comprised of eight apartment towers and a commercial arcade with restaurants and health wing, built on the site of the previous famous Repulse Bay Hotel. It is located on the scenic south side of Hong Kong Island, overlooking the sandy Repulse Bay beach and South China Sea. The complex has 795,585 square feet of residential area and 28,056 square feet of commercial area which are held for leasing to tenants.

The enhancements of the Repulse Bay Arcade commenced with the construction of a new Health Wing which was completed in the middle of the year. The introduction of new shops, enhanced facilities and renovation of The Verandah and Spices Restaurant is scheduled for 2009.

- Leasing activity for both unfurnished and serviced apartments remained strong in 2008 due to the continual demand for high quality accommodation and very limited supply of new luxury residential units on the south side of Hong Kong Island.
- Usage of the Club facilities was very high as a result of the high occupancy levels in the Complex.
- The Arcade's restaurants performed well and achieved strong food and beverage revenue growth driven by a high demand for weddings and corporate events.
- Major enhancement projects during the year included the introduction of a new Health Wing offering medical, dental, sports injury rehabilitation and physiotherapy services; as well as the renovation of the Club's indoor swimming pool.

PROPERTIES, CLUBS & 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 the Peninsula Boutiques around the world; and Tai Pan Laundry Services. Operating under Peninsula Clubs and Consultancy Services, the Group 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 achieved 100% occupancy for the office tower, with higher rentals charged due to greater demand for office space in Ho Chi Minh City.
- The residential tower achieved an average occupancy of 99% throughout the year.
- Upgrading works were carried out in the residential apartments.

Clubs & Club Management

- The Thai Country Club played host to 57,000 golfers in 2008 and was the host venue, for the fourth year in a row, of The Volvo Masters of Asia. The Club was voted by readers of the *Asian Golf Monthly Magazine* as the Best Championship Course in Asia and the Best Course in Thailand.
- Key facility upgrade at The Thai Country Club included a replacement of golf course machinery.

Other Operations

- In 2008, Peninsula Merchandising opened its third Peninsula Boutique in Hong Kong. This brought the total number of Peninsula Boutiques to 19 worldwide, of which 12 are operated under licence.

Awards

CORPORATE

- **One of Asia's Most Admired Companies, 2nd in Hong Kong for quality and 9th for innovation** *(The Wall Street Journal, Asia)*
- **International Award, Hong Kong Business Awards** *(DHL/South China Morning Post, Hong Kong)*
- **Citation for Corporate Governance and Citation for Design, 2008 Best Annual Report Awards** *(Hong Kong Management Association, Hong Kong)*
- **Gold Award, Annual Report Hotel and Property Category – Galaxy Awards 2008** *(MerComm Inc., USA)*

THE PENINSULA HONG KONG

- **Best Overseas Hotel in the World, Gold List 2009** *(Luxury Travel Magazine, Australia)*
- **No. 1 Top Overall Award in the 2008 Hong Kong Hotels category** *(Zagat, USA)*
- **Five-star rating, Hong Kong & Macau Hotels – 2009 Mobil Five Star Award** *(USA)*
- **Five-star rating, Hong Kong & Macau Spas – 2009 Mobil Five Star Award** *(USA)*
- **One of the World's Best Hotels and Resorts, The Forbes Traveler 400** *(Forbes Traveler, USA)*
- **One of the World's Best Business Hotels, International Hong Kong category** *(Travel + Leisure, USA)*

THE PENINSULA NEW YORK

- **2009 AAA Five Diamond Award for the 10th consecutive year** *(USA)*
- **One of the Top 10 US City Hotels – 2008 Readers' Choice Awards** *(Andrew Harper's Hideaway Report, USA)*
- **One of the Top 10 Hotel Spas and one of the Top 54 Spas in North America and the Caribbean and at sea** *(Conde Nast Traveler, USA)*

THE PENINSULA CHICAGO

- **No. 1 Hotel in the US – 2008 Readers' Choice Awards** *(Conde Nast Traveler, USA)*
- **No. 1 US City Hotel – 27th Annual Reader Survey** *(Andrew Harper, USA)*
- **2008 AAA Five-Diamond Award** *(USA)*
- **Mobil Five Star Award 2008** *(USA)*
- **Fine Hotels and Resorts Partner of the Year Award** *(American Express, USA)*

THE PENINSULA BEVERLY HILLS

- **Best Hotel in North America** *(Luxury Travel Show, USA)*
- **Best Luxury Hotel in North America** *(Luxury Advisor Magazine, USA)*
- **AAA Five Diamond Award** *(USA)*
- **Mobil Five Star Award** *(USA)*
- **No. 1 Hotel in the Los Angeles Area – World's Best Awards, USA** *(Travel + Leisure, USA)*

THE PENINSULA TOKYO

- **Best New City Hotel – 19th TTG Travel Awards** *(TTG Travel, Singapore)*
- **Best Business Hotel** *(Fortune magazine, USA)*
- **Best Business Hotel** *(Wallpaper, USA)*
- **Best Hotel Spa – SpaAsia Crystal Awards** *(SpaAsia, Malaysia)*
- **Spa-Goers' Favorite Spa in Japan** *(SpaFinder, USA)*

THE PENINSULA BANGKOK

- **No. 1 World's Best Value – Overall and No. 1 in Asia for US$250-US$400** *(Travel + Leisure, USA)*
- **No. 1 Best City Hotel in Southeast Asia – The Gallivanter's Guide Awards for Excellence 2008** *(The Gallivanter's Guide, UK)*
- **No. 3 in Top 25 Spa Hotels and Resorts, Best in Travel Poll 2008** *(SmartTravelAsia.com)*
- **No. 10 in World's Best Hotels for Service in Asia** *(Travel + Leisure, USA)*
- **Award of Outstanding Performance, Tourism Accommodation Urban in Bangkok – 7th Thailand Tourism Award** *(Tourism Authority of Thailand)*
- **Outstanding Establishment in the Year of 2008 for Achievement on Labour Relations and Welfare** *(Ministry of Labour, Thailand)*

THE PENINSULA BEIJING

- **No. 1 in Beijing – World's Best Business Hotels** *(Travel + Leisure, USA)*
- **No. 1 in Beijing – The Top 100 Hotels and Top 50 Asia Hotels** *(Travel + Leisure, USA)*
- **Most Popular Hotel in Beijing** *(Zagat, USA)*
- **One of the Top 100 World's Best Hotels** *(Conde Nast Traveler, USA)*
- **One of Asia's 50 Best Hotels and One of the 400 World's Best Hotels** *(Forbestraveler.com, USA)*

THE PENINSULA MANILA

- **One of the World's 500 Best in 2008** *(Travel + Leisure, USA)*

QUAIL LODGE RESORT AND GOLF CLUB

- **One of the Top 100 Golf Resorts in the World** *(Conde Nast Traveler, USA)*
- **The Covey restaurant – One of the Top 4 Dining Places on Monterey Peninsula** *(The Monterey Herald, USA)*

Projects

The Peninsula Shanghai

The Group's key project under development, The Peninsula Shanghai hotel and apartment complex, made significant progress in 2008.

Being the only new building with its frontage directly on the historic Bund – the other existing buildings on the Bund being protected heritage structures – The Peninsula Shanghai is located at 32 Zhong Shan Dong Yi Road, with spectacular views of the Bund, Huangpu River and Pudong and is adjacent to the former British Consulate and gardens. The complex will comprise 92,160 square meters of gross floor area, housing a 235-room hotel featuring five restaurants and bars, a Peninsula spa, a helicopter lounge, a high-end shopping arcade and a hotel apartment tower with 39 units.

Construction of the complex began in October 2006. 15 months later, the 15-storey hotel tower was topped out in January 2008, followed by a ceremony marking the occasion which took place in April. By June, the entire complex, including the retail arcade, podium level and apartment tower, was topped out, thus completing all structural works for the project.

The exterior of the hotel tower has been designed in sympathy with the existing buildings on the Bund and the interior design recreates the look and feel of the 1920s and 1930s, when Shanghai was feted as the 'Paris of the East'. The interior of the hotel has received much attention, with the designs of the guestrooms and suites undergoing several rounds of rigorous review, with the aim of improving workmanship and quality of the design, materials and finishes.

Interior decoration for the hotel's public areas, such as the lobby, ballroom, spa, restaurants and helicopter lounge are well under way. The two-storey, approximately 7,000 square meter Peninsula Arcade will feature leading luxury brands along with a Peninsula Boutique and is ready for tenants' fit-out.

In terms of pre-opening preparations, the hotel tower will be handed over to the operations team in May 2009. The General Manager and his executive team have been appointed. An extensive recruitment campaign was launched in February 2008 across key cities in mainland China, as a result of which 14 young staff members were selected to become Peninsula Ambassadors and have been sent to the Peninsula hotels in Beijing and Hong Kong for intensive training, before returning to Shanghai in mid 2009 to become part of the hotel's opening team.

On schedule and within budget to open in the autumn of 2009, The Peninsula Shanghai will mark the Group's return to one of its two founding locations after an absence of 55 years.

1. *Huangpu Park*
2. *The Monument to the People's Heroes*
3. *Bank of China*
4. *China Foreign Exchange Trade Center*
5. *China Construction Bank*
6. *The Bund Center*
7. *Yuyuan Garden*
8. *International Convention Center*
9. *The Oriental Pearl TV Tower*
10. *Shanghai Aquarium*
11. *Jinmao Tower*
12. *Shanghai World Financial Center*

The Peninsula Paris

The Group made important progress in establishing a hotel presence in Europe during the year.

In mid July 2008, the Group entered into a non-legally binding heads of agreement with Qatari Diar Real Estate Investment Company for a proposed hotel development in Paris, France under which HSH would purchase a 20% interest in a subsidiary of Qatari Diar, called Al Maha Majestic S.à r.l. (Majestic) which owns the building to be developed into The Peninsula Paris hotel, for a total cash consideration of Euro 100 million (approximately HK$1 billion) which was fully funded by the Group's surplus cash. In addition, the total renovation cost of the project is expected to be in the region of Euro 250 million (approximately HK$2.7 billion), in relation to which HSH's maximum commitment is capped at Euro 50 million (approximately HK$0.6 billion). It has been agreed with Qatari Diar that this hotel will be constructed in accordance with Peninsula standards and that the resultant Peninsula Paris hotel will be managed by Peninsula for a period of 30 years, with an option to continue management for another 20 years after that. The definitive agreements for this transaction were signed in January 2009.

The building, which currently houses the French Ministry of Foreign Affairs' Centre International de Conferences on Avenue Kleber, was originally constructed and opened in 1908 as the Majestic Hotel, which at that time was one of the top grand hotels in Paris. It is located close to the Arc de Triomphe, within a short walk from the Champs-Elysees.

Re-development of the building to create The Peninsula Paris hotel is scheduled to commence in the second quarter of 2009, following vacant possession of the building, with completion expected by the first quarter of 2012. The property's facilities are expected to include 200 guestrooms and suites.

Directors

1 2 3 4
5 6 7

NON-EXECUTIVE CHAIRMAN

1 **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 67. Appointed a Director in 1964 and elected Chairman in 1985. Sir Michael is a substantial shareholder of the Company. He is the brother-in-law of a fellow Director, Mr. Ronald J. McAulay, and is a Director of several subsidiaries of the Company. He is also Chairman of CLP Holdings Limited, a Non-Executive Director of Hutchison Whampoa Limited, an Alternate Director of Hong Kong Aircraft Engineering Company 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)

NON-EXECUTIVE DEPUTY CHAIRMAN

2 **Ian Duncan Boyce**
Aged 64. 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 is also Chairman of two subsidiaries of the Company. 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, overseeing a number of the Kadoorie family interests in Hong Kong and overseas and, as such, is associated with some substantial shareholders of the Company. (E, A, F, R)

EXECUTIVE DIRECTORS

CHIEF EXECUTIVE OFFICER

3 **Clement King Man Kwok**
Aged 49. 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, and is a Director in most of the Group entities. Mr. Kwok's career began with Price Waterhouse and Barclays de Zoete Wedd in the United Kingdom, following which he returned to Hong Kong in 1986 to work with Schroders Asia. Prior to joining the Group, he had served as Finance Director of MTR Corporation since 1996. He is an Independent Non-Executive Director of Swire Pacific Limited and also serves on the Board of the Community Chest. (E, F)

CHIEF FINANCIAL OFFICER

4 **Neil John Galloway**
Aged 40. With a Bachelor of Laws Degree (with Honours) from the University of Edinburgh, Mr. Galloway joined the Group as Finance Director and Chief Financial Officer in September 2008. He is a Director in most of the Group entities. His career began with Midland Montagu (subsequently HSBC Investment Bank) in 1990 in London with subsequent postings in France, the Philippines and Hong Kong. Mr. Galloway joined ABN AMRO Bank in 2000, where he held a range of senior positions in Hong Kong and the United Kingdom specialising in the telecom, media and technology sectors, and latterly heading the Asian mergers & acquisitions and equity capital markets business. (F)

CHIEF OPERATING OFFICER

5 **Peter Camille Borer**
Aged 55. 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. Mr. Borer is also a Director in most of the Group entities.

NON-EXECUTIVE DIRECTORS

6 **Ronald James McAulay**
Aged 73. 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. Mr. McAulay was appointed to the Board in 1972 and is a substantial shareholder of the Company. He also serves on the Board 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.

7 **William Elkin Mocatta**
Aged 56. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr. Mocatta was appointed to the Board in 1985 and served as Deputy Chairman from 1993 until May 2002. He is also a Director in several subsidiaries of the Company. Mr. Mocatta is an Executive Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with some substantial shareholders of the Company. He holds other non-executive positions including Vice Chairman of CLP Holdings Limited and Chairman of CLP Power Hong Kong Limited. He is also an Alternate Director for The Hon. Sir Michael Kadoorie in Hutchison Whampoa Limited.

8 9 10 11
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8 **Pierre Roger Boppe**
Chevalier dans l'Ordre National de la Légion d'Honneur
Aged 61. A Master of Science from both the Swiss Federal Institute of Technology and Stanford University, Mr. Boppe held various executive positions with the international quality control company SGS and from 1996 until January 2002, he was Managing Director and Chief Executive Officer of the Group. Upon his return to Europe, Mr. Boppe continues to be active in the hotel and travel industries and is involved in microfinance as a non-executive director of BlueOrchard Finance, Geneva. Mr. Boppe was formerly Deputy Chairman of Kuoni Travel Group until he retired in mid 2007.

9 **John Andrew Harry Leigh**
Aged 55. 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 and, as such, is associated with some substantial shareholders of the Company. (E, F)

10 **Nicholas Timothy James Colfer**
Aged 49. A Master of Arts and with over 26 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 and a Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with some substantial shareholders of the Company. He also serves on several other corporate Boards in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

11 **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 70. 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, including China Overseas Land & Investment Limited, COSCO Pacific Limited, Guangdong Investment Limited, The Hongkong and China Gas Company Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited and Vitasoy International Holdings Limited. He was formerly a Director of AviChina Industry & Technology Company Limited, China Merchants China Direct Investments Limited and Dow Jones & Company until he resigned in June 2006, August 2008 and December 2007 respectively. 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.

12 **Robert Chee Siong Ng**
Aged 56. 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. He was formerly a Director of SCMP Group and Yeo Hiap Seng Limited until he resigned in May 2007 and April 2006 respectively. (A)

13 **Robert Warren Miller**
Aged 75. 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)

14 **Patrick Blackwell Paul**
CBE
Aged 61. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr. Paul was appointed to the Board in February 2004. He 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 and Pacific Basin Shipping Limited. Mr. Paul was formerly a Director of Kingsway International Holdings Limited until he resigned in April 2008. 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

1 2 3 4 5 6
7 8 9 10 11 12

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 five senior executives who represent the hotel and non-hotel operations: in addition to Chief Executive Officer Clement K.M. Kwok, Chief Financial Officer Neil J. Galloway and Chief Operating Officer Peter C. Borer, the following are members of the Group Management Committee:

1 **Maria Razumich-Zec**
Aged 51. 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.

2 **Martyn Sawyer**
Aged 51. Group General Manager, Properties and Clubs since 1999, Mr. Sawyer holds regional responsibility for the Group'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 Group since 1985.

KEY FUNCTIONS

OPERATIONS GENERAL MANAGERS

3 **Rainy Chan**
Aged 44. Ms. Chan joined the Company in 1994 and was General Manager of The Peninsula Bangkok from 2004 to 2007. In 2007 she was appointed General Manager of The Peninsula Hong Kong.

4 **Jonathan Crook**
Aged 42. Mr. Crook joined the Company in 2000 and was appointed Resident Manager of The Peninsula Beijing in November 2005 and Hotel Manager of The Peninsula Tokyo in February 2008. In November 2008, he was promoted to be General Manager of The Peninsula Manila.

5 **Sarah Cruse**
Aged 46. Ms. Cruse joined the Company in 2006 as General Manager of Quail Lodge Resort and Golf Club.

6 **Donald J. Harrington**
Aged 56. Mr. Harrington joined the Company in 2000 as General Manager of The Peninsula Beijing.

7 **Palle Ledet Jensen**
Aged 45. Mr. Jensen joined the Company in 1998 and, following a tenure as General Manager of The Hong Kong Club, was appointed General Manager of The Repulse Bay in 2005.

8 **Charles Morris**
Aged 54. Mr. Morris re-joined the Company in 2004 as Resident Manager of The Peninsula Manila. He was appointed General Manager of The Peninsula Bangkok in 2007.

9 **Offer Nissenbaum**
Aged 51. Mr. Nissenbaum joined the Group in 2007 as Managing Director of The Peninsula Beverly Hills.

10 **Robert H. Rechtermann**
Aged 44. Mr. Rechtermann was appointed General Manager of The Peninsula New York in 2007. Previously, he was Resident Manager of The Peninsula Chicago.

11 **Paul Tchen**
Aged 42. Mr. Tchen joined the Company in 1992 and was appointed General Manager of The Peninsula Shanghai in 2008, following a two-year tenure as General Manager of Operations Planning and Support.

12 **Malcolm Thompson**
Aged 58. Mr. Thompson joined the Company in 2006 as General Manager of The Peninsula Tokyo.

13	14	15	16	17	18
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CORPORATE GENERAL MANAGERS

13 David Batchelor
Aged 51. Mr. Batchelor joined the Group in 1994 and served as General Manager of The Peninsula Manila from 2001 to 2008. He was appointed General Manager, Operations Planning and Support in 2008.

14 Jean Forrest
Aged 45. Mrs. Forrest joined the Group in 2005 as General Manager, Marketing and is responsible for developing and implementing global marketing strategies for the Peninsula Hotels.

15 Ingvar Herland
Aged 54. Mr. Herland joined the Group in 2006 and was appointed General Manager, Research & Technology in 2008. He is responsible for the design, development and implementation of technology in the Group's hotels and properties.

16 Shane Izaks
Aged 46. 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.

17 Christobelle Liao
Aged 40. Ms. Liao joined the Company as Company Secretary and Corporate Counsel in 2002.

18 John H. Miller
Aged 49. Mr. Miller joined the Group 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.

19 Sindy Tsui
Aged 40. Ms. Tsui was appointed General Manager, Human Resources in 2007. She is responsible for the Group's strategy on human resources, talent development and training.

20 David Williams
Aged 59. Mr. Williams joined the Group 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.

21 Wong Kin Keung
Aged 61. Mr. Wong joined the Group 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 overall management of The Peninsula Shanghai project.

22 P.T. Wong
Aged 41. Mr. Wong first joined the Group in 1996 but left in 2002. In 2006, he re-joined HSH and in 2008, he was promoted to be General Manager, Project Coordination and Technical Services, responsible for the project management of new and existing hotel developments.

CORPORATE SENIOR MANAGERS

23 Martin Lew
Aged 43. Mr. Lew joined the Company in 2006 as Assistant General Manager, Operational Financial Control. He is responsible for guiding the operations on financial performance, reporting, systems and controls as well as operational budgeting and forecasting.

24 Ernest Tang
Aged 46. Mr. Tang joined the Company in 1996 and was appointed Assistant General Manager, Finance in January 2009. He is a qualified accountant and is responsible for the Group's statutory financial reporting and tax compliance.

Sustainability Report

Background

HSH has a long history of conducting our business operations in a responsible way and contributing to the communities in which we operate. The Group's Corporate Social Responsibility Committee (CSRC) was established in late 2007 to provide a more structured and measurable approach to its ongoing corporate social responsibility (CSR) and sustainability activities. The Committee, chaired by the Chief Executive Officer and represented by senior staff across various operations, met regularly throughout the year.

The CSRC commissioned an external consultancy, Green Building Services Limited (GBS) to assist in scoping, reviewing, and advising the Group on its overall sustainability performance. This involved examining how our businesses impact on, and contribute to, the economies and environments in which we operate, as well as the social impacts and benefits that result from our engagement with staff and other key stakeholders such as investors, guests, customers, business partners and broader communities.

Through the CSRC's work with GBS, HSH has identified key sustainability issues and objectives focused on six major areas, which are set out below in the Sustainability Vision and Policy Statement endorsed by our Board:

HSH Sustainability Vision and Policy Statement

Sustainability Vision

HSH aspires to manage its businesses and operations to high ethical and social responsibility standards as a leading hotel and property group. We are committed to integrating sustainable practices and principles across our operations in a balanced way whilst providing an exceptional level of service to our customers.

Policy Statement

To achieve its Sustainability Vision, HSH supports good corporate governance practices and ethics and strives to deliver world class services and products in an environmentally and socially responsible manner, while ensuring a respectful, safe and healthy environment for our staff that supports their professional and personal development. We will consult with our key stakeholders and share information with them about our sustainability performance, achievements and challenges while seeking to balance their needs and goals with the Company's objectives.

HSH focuses on six sustainability themes:

1

CORPORATE GOVERNANCE AND ETHICS

As a responsible, publicly listed company and to achieve our vision for sustained and healthy, long term growth, we ensure that our business is conducted in accordance with rigorous professional ethical and moral standards, as outlined in our code on corporate governance practices. Adherence to high standards of professionalism, transparency and accountability is reinforced through the oversight of our Board and the CSRC.

2

EMPLOYEES

Supporting, empowering and nurturing our employees are at the heart of HSH's tradition of service excellence. We establish and implement policies that promote a fair and respectful workplace. We invest in our people, providing ongoing training and development opportunities to enhance their career progression. As an equal opportunities employer, HSH promotes diversity among its staff around the world.

3

ENVIRONMENT

HSH seeks to adopt practices and initiatives to contribute to healthy indoor environmental quality, lower carbon intensity, increased energy and water efficiency and reduced resource consumption and waste generation.

4

HEALTH AND SAFETY

HSH is dedicated to ensuring a healthy, safe and secure environment for our employees, guests and customers and promoting awareness of the importance of these issues for risk management and sustainable hospitality.

5

SUPPLY CHAIN

HSH endeavours to procure products, produce, equipment and services that are environmentally and socially responsible. We seek to maximize our sourcing of locally-produced, organic and sustainable products and produce; energy- and water-efficient equipment; and products that are durable and/or recyclable.

6

COMMUNITY INVESTMENT AND ENGAGEMENT

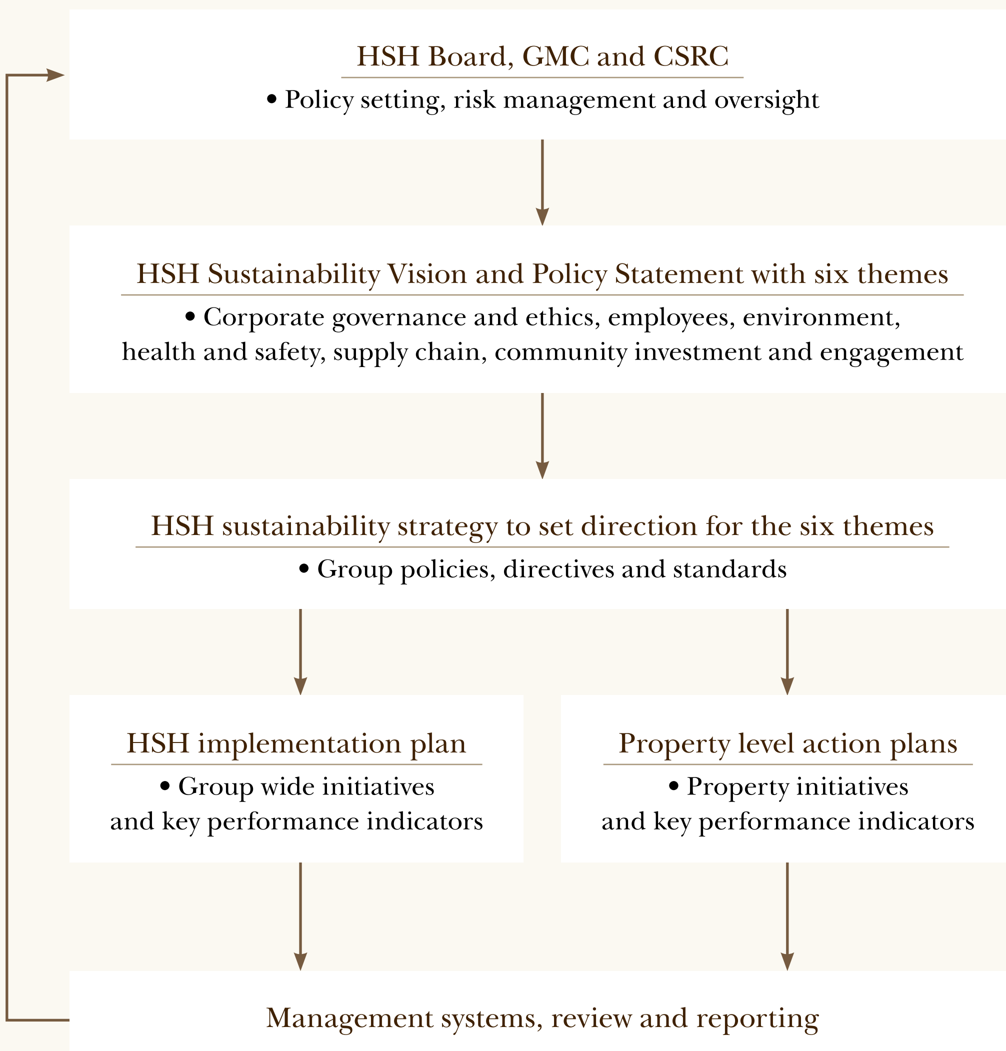
HSH believes that successful businesses thrive in sustainable communities. We are committed to supporting a range of organisations and causes based on the needs of our local communities, and encourage the involvement of our staff in environmental and social projects.

The HSH Sustainability Vision and Policy Statement are at the core of the Group's Sustainability Strategy which continues to evolve with the development and expansion of our business.

Approach

As the first phase of scoping HSH's CSR initiatives across various business operations, beginning in July 2008 GBS undertook a rigorous review of the seven Peninsula hotels in Hong Kong, Beijing, Tokyo, Manila, Bangkok, New York and Chicago to gather information on how sustainability issues are addressed. GBS reported regularly to the CSRC and recommended priorities and actions for each hotel. In addition, detailed technical pilot studies on indoor air and environmental quality (IAQ/IEQ), as well as energy and water consumption, were conducted at the Peninsula hotels in Hong Kong and Chicago.

Below is a chart illustrating the Group's approach to managing sustainability issues:



The results from the reviews showed that our business operations have implemented numerous initiatives across the Group's six sustainability themes, although areas for improvement and consistent application have been identified. We are currently formalizing our short and long term strategies to manage our sustainability risks effectively. Such initiatives will continue to be primarily managed by individual operations under the guidance of CSRC who would in turn have a reporting role to the Group Management Committee and the Board.

CSRC also intends to set measurable performance indicators under each sustainability theme that will enable us to track and further improve our performance and to report on our progress in the future. We also recognize that many standards and certification schemes exist which address different issues, from environmental management to occupational health and safety. We will review these and if appropriate, adopt recognized standards and schemes for our Group.

With assistance from The Salvation Army, the Peninsula Hotels donated down jackets to children living in Mou County in Sichuan, China, which was devastated by the massive earthquake in May 2008

1. Key performance areas

1.1 Corporate governance and ethics

Corporate governance

The Group's corporate governance guidelines are outlined in our code on corporate governance practices and we continue to include a Corporate Governance report in our Annual Report on pages 72 to 85.

Ethics

Ethical conduct is one of HSH's core values and essential to our service integrity at all levels. HSH's Code of Conduct outlines behavioural standards including stringent anti-corruption, anti-bribery policies and handling conflict of interest situations which our staff are required to adhere to. Training in respect of HSH's Code of Conduct is provided to our staff. In 2009, HSH will focus on the consistent implementation of its Code of Conduct.

1.2 Employees

HSH's commitment to support, empower and nurture its 6,634 employees is at the heart of the Group's global business.

Respectful workplace

HSH places great importance on our staff and ensures that our workplaces are respectful, fair and transparent, and offer equal opportunities for employment and advancement. Employee Handbooks outline terms and conditions of employment, expectations for employee behaviour and service delivery, employee rights and benefits. HSH's Policy on Equal Opportunities includes the Group's commitment to strive for a workplace free of discrimination and harassment. These principles and policies are reinforced through ongoing communications and training.

Providing work opportunities for the disabled: employees of The Peninsula Manila's Chocolate Room, who prepare all the chocolates served in the hotel, are hearing-impaired

Several of our hotels and operations also provide work opportunities for people who have disability. For example, employees of The Peninsula Manila's Chocolate Room, which prepares all the chocolates served in the hotel, are hearing-impaired.

Employee communication and engagement

Recognizing that employees are valuable assets of the Group, significant efforts are made at all levels of the Group's businesses to establish effective channels for communicating and engaging with staff and to support their long term development and growth.

A variety of two-way communication channels have been established throughout the Group. Regular meetings are held between general management and staff, and among staff at all levels. Some of our hotels hold roundtable discussions with randomly-selected employees to gather feedback and ideas on a regular basis. A range of communication tools are currently used and mechanisms have been developed to evaluate the effectiveness of employee communications and engagement and to follow-up on issues and ideas raised by staff.

Employee training and development

Training has always been critical for HSH, in line with our emphasis on service excellence. Extensive and continued training to support both 'on-the-job' responsibilities and career development are provided to employees. Training needs and career development opportunities are identified as part of each employee's annual performance appraisal.

A wide variety of courses are provided regularly by the Group's operations to enhance skills and service delivery. Topics include: business and management skills; language skills; first aid, cardiopulmonary resuscitation and disease prevention; personal and food hygiene; occupational health and safety; fire and emergency response; employee rights and equal opportunities; environmental awareness; as well as energy and water conservation.

The Group Firstline Management Development Programme and the Group Professional Development Programme are two examples of professional development opportunities provided to assist staff in advancing their careers. Employees also have the opportunity to participate in cross-exposure training, where they can work in other Group properties to build on their skills and widen their experience. Several of our hotels also support staff participation in distance learning programmes and provide mentoring support.

Employee welfare

To encourage employee retention, HSH seeks to enhance the welfare of our staff beyond market-competitive staff compensation and benefits. For example, staff receive regular medical checks and participate in special activities and celebrations. Some of our hotel properties also provide sleeping quarters on site for staff use between shifts, extra days off to be used as personal or sick days, access to fitness facilities, continuing education and counselling support, voluntary public housing funds, and staff co-operatives which offer loans and operate a small store catering to staff requirements.

1.3 Environmental issues

HSH strives to minimize its operational carbon footprint and to promote environmentally sustainable hospitality practices. To better understand our current performance, the following areas were reviewed as part of the Sustainability Review of the seven participating hotels: consumption of energy, fuel, water, refrigerants and resources; indoor air and environmental quality (IAQ / IEQ); the use, handling, storage and disposal of hazardous materials; waste management and procurement practices. Technical pilot studies conducted at The Peninsula Hong Kong and The Peninsula Chicago also identified specific opportunities to improve efficiencies and performance at those properties as well as for other Group hotels.

Energy and fuel consumption

Reducing the emission of greenhouse gases and our carbon footprint are important priorities and HSH is currently developing its own Group-wide Energy Conservation Manual. Examples of initiatives to reduce energy use that will be taken at the Group and at the individual property level are presented on the next page.

A toy drive organised by The Peninsula Chicago benefited refugee children who had fled war and came to the United States to live in peace. In total, 51 toys were donated to the Interfaith Refugee & Immigration Ministries at Christmas 2008

HSH Group-wide energy conservation measures

(a) Daily monitoring of energy and fuel consumption to identify areas for energy reduction

(b) Phased replacement of chillers, fan coil units, air handling units, laundry and kitchen equipment, electrical appliances and lighting to more energy-efficient models

(c) Synchronizing lighting and ventilation systems with mechanical systems to minimize energy consumption in unoccupied areas

(d) Upgrades to building envelopes to use higher performance glazing and window treatments to mitigate heat gains in tropical climates

(e) Significant training and awareness campaigns for staff to encourage the adoption of energy conservation and environmental practices

The Peninsula Hong Kong has reduced energy use through a preventative maintenance programme for its major engineering systems and chillers, and has adopted variable speed drives for its air handling units and water pumps. Application of seawater-cooled chillers and heat allow for energy-efficient heat rejection to the sea

The Peninsula Chicago uses variable speed drives rather than a constant speed motor for large machinery to reduce energy wastage according to load demand, particularly for cooling and heating systems

The Peninsula Tokyo reduced its energy consumption through enhanced temperature control, turning off lights, using sensors and installing variable frequency drives in equipment

The Peninsula Beijing and **The Peninsula Tokyo** use outside air for their air conditioning systems during cooler months, which significantly reduces the use of the chillers, thereby reducing energy and refrigerant consumption

The Peninsula Bangkok has reduced its energy consumption through a detailed, energy-saving programme that includes sub-metering of key operational areas, installation of energy efficient lighting and replacement of its diesel-fired boilers with LPG

The Peninsula Manila installed flexible lighting controls in all its back of house areas and increased the set point of chilled water for its air conditioning system during night time and periods of low occupancy to reduce energy consumption

The Peninsula New York has reduced its electricity use, primarily as a result of limiting current demand setting on chiller operations, using chilled water as a building coolant and energy savings from its 16 new, high-efficiency air handling units

The Peninsula Manila recycles the fountain water, achieving considerable savings in water consumption

HSH is in the course of implementing a systematic and consistent approach to energy-saving programmes, including measurable indicators and regular reviews for our operations.

Management of Refrigerants

The surveyed hotels have developed inventories of their use of refrigerants and have begun the process of phasing out the use of ozone-depleting substances. Significant capital investments have and continue to be made with the goal of phasing out ozone-depleting substances in our properties by 2015.

Indoor air and environmental quality (IAQ / IEQ)

Healthy IAQ and IEQ are being achieved through a variety of measures. These range from the proper management of ventilation, heating and cooling systems, to controlling maintenance and renovation activities, to using less hazardous paints and cleaning products. During the technical pilot studies, key measurements of air quality such as respirable suspended particulates, carbon monoxide, carbon dioxide, temperature, humidity, and total volatile organic compounds were measured at The Peninsula Hong Kong and The Peninsula Chicago and the results were found to be highly satisfactory. Measurements were compared with internationally-recognized guidelines (eg. ANSI/ASHRAE Standard 55-1992) to show that both hotels fulfilled guideline requirements and demonstrated good IAQ which is cleaner than outside air. The studies also noted that the locations of the air intakes and the exhaust/relief air points were well designed to avoid the mixing of air flows.

Water consumption and conservation

Recognizing our responsibility to conserve water, the Group has implemented a variety of initiatives ranging from changing the frequency of backwashing in swimming pools and landscape irrigation, to treating and reusing water on site, to reducing water wastage in the kitchens. All housekeeping and food and beverage staff follow stringent guidelines for conserving water in their daily operations.

As shown in GBS' pilot study work, The Peninsula Hong Kong and The Peninsula Chicago have well-maintained sand filtration systems and surge tanks to reduce water loss from the swimming pools. The Peninsula Manila uses a sealant that enables the repair of pool tiles without draining water from the pool, thereby achieving considerable savings in water consumption. The Peninsula Tokyo biologically treats wastewater from its kitchen for reuse, reducing consumption of municipal water. Between October 2007 and December 2008, The Peninsula Bangkok reduced its water consumption by 25% through a variety of conservation measures, including reuse of wastewater (which was first treated using on site cultivated biobacteria) for the cooling tower and the lotus ponds at the main entrance, as well as for gardening and cleaning the car park and access road.

Going forward, we will seek to expand our water conservation initiatives throughout other operations of the Group.

"My First Peak View" - the Peak Tram, which celebrated its 120th anniversary in 2008, sponsored 120 children from underprivileged families in Hong Kong to experience a ride on the Tram and a visit to the Peak Tower. The activity was organised with the Hong Kong Federation of Youth Groups

The Peninsula Tokyo was illuminated with pink lights in October 2008, in a show of support for the Pink Ribbon Breast Cancer Awareness Campaign

Resource use, conservation & waste management

Responsible sourcing

We seek to select materials and products that meet our quality requirements and the expectations of our guests and customers in environmentally responsible ways. The Group's high standard for all building materials, equipment and products often means that many products we use are inherently more durable, reusable and efficient. This ranges from new, efficient and environmentally-responsible refrigerators in The Peninsula Tokyo's guestrooms, to high quality linens and towels that are used in all our hotels that are more durable.

Although guest amenities are often wasteful given the usage in small quantities, they nonetheless include environmental-friendly features. For example, the Davi amenities, created exclusively for Peninsula hotels by Gilchrist & Soames, do not contain petrochemical-based formulations and are not tested on animals. The containers use the lowest possible resin weights of PET (polyethylene terephthalate) or HDPE (high density polyethylene) to conserve resource use in the packaging.

To enhance our procurement of environmentally responsible items, we continue to undertake the following:

- develop criteria for new purchases to take into account energy- and water-efficiency, durability, reusability, reused and/or recycled content, non or reduced-chemical and organic content.
- develop environmental criteria for purchases of new furniture, fixtures, bathrooms, paint, carpet, cleaning products and amenities etc.
- review options to purchase more products from organic and/or sustainably managed sources, as well as local or regional companies to reduce the environmental impact of transportation.

Resource conservation in our daily activities

To reduce paper consumption, we maximize the use of electronic communications and file storage systems for general office work, guest logs and nightly reports and whenever possible use e-confirmations for guest reservations. In servicing our guestrooms, we seek to reduce disposable packaging and wrapping in the provision of guest laundry, newspapers, slippers and other items. To reduce wastage, we also ensure that guest amenities are replenished only when needed and that partially used room amenities are reused by staff, or in the case of The Peninsula Hong Kong and The Peninsula New York, excess are provided to the homeless or charities, while at The Peninsula Chicago, they are donated to a local women's shelter.

The Sustainability Review conducted at seven of our hotel properties has identified a number of initiatives taken by individual hotels to reduce resource consumption as well as areas for improvement. The results are shared amongst all our hotels with the view of engaging them to identify additional actions and best practices for implementation going forward.

Managing and reducing waste

All our hotel properties seek to manage waste responsibly and maximize recycling based on what is possible in their local markets. Waste that is collected for recycling by several of our properties include glass, plastic bottles, batteries, paper, beverage containers, wood pallets, old suite carpets, construction waste, corrugated cardboard and cooking oil. Kitchen waste is composted or provided to pig farms where possible.

To further the responsible management and disposal of waste, we are in the process of:

- developing guidelines and specifications on what we purchase and use, and on wastes that are produced.
- developing guidance for our properties to expand their existing recycling and disposal practices where these can be implemented, subject to local market constraints and opportunities.

We recognize that it can be challenging to balance guests' expectations with environmental issues. The Group will continue to review all aspects of our operations and adopt practical, feasible and cost-effective measures that will help to reduce the Company's impact on the environment without compromising on service standards.

1.4 Health and safety issues

Providing a healthy, safe and secure environment for guests, customers, business partners, employees and other stakeholders has always been a priority for the Group. HSH continually evaluates and actively manages security at our properties, implements safe and hygienic working practices, and remains prepared to respond in a professional and timely manner to different situations. This is not only important for ensuring the safety and security of our guests, customers and commercial tenants, but for our staff to minimize injuries and lost work days from injuries.

HSH has conducted comprehensive risk assessments of various operations, implemented systems and provided training to staff to manage and respond to potential risks. The Group also regularly reviews the integrity of these management systems.

The General Manager and staff of The Peninsula Bangkok visited the Wat Nakwang School in Samutsakorn Province in August 2008 and planted trees in a Fruitful Forestation Campaign

To help safeguard the health of our guests and customers, the Group is formalising a plan to control food safety as required by the Hazard Analysis and Critical Control Point (HACCP) system.

The Group is in the process of reviewing the occupational, health and safety and emergency response systems implemented by our hotels and where necessary, will ensure that systems are compatible with the OHSAS 18001 standard which specifies a systematic approach for managing these issues.

1.5 Supply chain

Responsible sourcing has always been a concept followed by the hotels and operations of the Group. Criteria for sourcing have expanded to environmental and sustainability factors in the last decade.

- All our hotels make challenging purchasing decisions every week, striving to maximize the procurement of efficient equipment, locally produced items, natural meats, sustainably harvested seafood and organic dairy, fruits and vegetables.

HSH recognises that there is room for improvement in sustainable sourcing, as well as an opportunity to influence our supply chain. We have built and will continue to build long term relationships with some suppliers that share our sustainability vision. We are currently formalising a more consistent Group-wide sourcing guideline and criteria for assessing suppliers that will be used whenever feasible and practical without compromising on our service quality standards.

1.6 Community investment and engagement

HSH believes that successful businesses thrive in sustainable communities. The Group has been a strong and significant contributor to the communities in which it operates throughout its history and has consistently supported charities such as Make-a-Wish

Marking the hotel's 80th anniversary in 2008, a year-long fundraising campaign conducted by The Peninsula Hong Kong culminated in a HK$3 million donation to three local charities

Foundation. Our properties have increasingly supported a wide range of organizations and causes based on the priority needs of our local communities. As part of our corporate culture, we also strongly support the active individual involvement of staff at all levels in local environmental and social projects.

Moving forward, we continue to contribute to local needs in areas where HSH can add value and share its expertise, and to involve staff in long term, meaningful initiatives with specific groups. We are also developing a strategy for enhancing relationships with our key stakeholders, establishing constructive dialogues and opportunities for understanding stakeholder views, perceptions and needs and increasing their awareness of HSH's commitments and performance.

2. Next Steps

A Group-wide Sustainability Strategy is being developed to provide direction for all hotel and non-hotel properties. The Strategy identifies a number of actions and objectives, under our sustainability themes. Measurable performance indicators will also be identified to track and assess performance.

Over the next year, HSH's priority is to develop directives, standards and initiatives for implementing this Strategy and to set short, medium and long term goals. An important part of this process will be to engage key stakeholder groups to gather their feedback on sustainability performance and to better understand their concerns and expectations going forward.

We also plan to continue to report on our sustainability performance to our stakeholders. This section of our Annual Report lays the groundwork for our expanded reporting in the future using the Global Reporting Initiative's *Sustainability Reporting Guidelines.*

The Repulse Bay hosted a Christmas party for Camp Quality Hong Kong, providing children stricken with cancer with a day of excitement and fun

Staff from The Peninsula Hong Kong participated in Orbis' "Walk for Sight" in March 2008, raising money for Project Orbis

Financial Review Summary

Consolidated Cash Flow Statement for the year ended 31.12.2008

		HK$m
1 EBITDA		1,425
Tax paid		(221)
Working capital and other adjustments		4
Cash inflow from operating activities		1,208
Interest and other financing charges paid		(140)
Interest received		40
Dividends paid		(89)
2 Capital expenditure		(417)
Net increase in bank borrowings		6
Repurchase of shares		(50)
Other net cash outflow		(5)
Net increase in cash		553
Cash and bank balances	1,414	
Less: Bank overdrafts	(16)	
Cash & cash equivalents at 1.1.2008		1,398
Effect of changes in exchange rates		28
Cash & cash equivalents at 31.12.2008 *		1,979
* Representing:		
Cash and bank balances		1,995
Bank overdrafts		(16)
		1,979

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

Consolidated Income Statement for the year ended 31.12.2008

	HK$m
3 Turnover	4,938
Operating costs before depreciation and amortisation	(3,513)
1 EBITDA	1,425
Depreciation and amortisation	(374)
Net financing charges	(68)
Share of loss of a jointly controlled entity	(5)
Profit before non-operating items	978
4 Decrease in fair value of investment properties	(593)
Provision for impairment losses, net	(176)
5 Taxation	42
Minority interests	(35)
Profit attributable to shareholders	216

Consolidated Retained Profits for the year ended 31.12.2008

	HK$m
Retained profits at 1.1.2008	16,112
Profit attributable to shareholders for the year	216
Acquisition of additional shareholding in a subsidiary company	2
Dividends distributed during the year	(267)
Retained profits at 31.12.2008	16,063

Consolidated Balance Sheet at 31.12.2008

	HK$m
Net assets	
Fixed assets	26,368
Other long term investments	631
Deferred tax assets	38
Derivative financial instruments	63
Cash and bank balances	1,995
Other current assets	492
	29,587
Bank overdrafts	(16)
Bank borrowings	(3,177)
Derivative financial instruments	(281)
Deferred tax liabilities	(3,168)
Other liabilities	(1,299)
	21,646
Capital and reserves	
Share capital and premium	3,845
Retained profits	16,063
Hedging reserve	(141)
Other reserves	945
	20,712
Minority interests	934
	21,646

1 **EBITDA**

EBITDA decreased by 5.6% compared to 2007. This was mainly due to the unfavourable operating environment experienced by the hotel segment and details of which are explained in 3 set out below.

2 **Capital expenditure**

Capital expenditure is mainly comprised of costs incurred for the renovation of the Ayala Tower of The Peninsula Manila, the construction of Salon de Ning lounges in The Peninsula Hong Kong and The Peninsula New York and certain ongoing renovations undertaken for existing properties of the Group.

3 **Turnover**

Turnover of the Group increased by 8.7% compared to 2007.

Hotels

Total revenue of the hotel segment was 9% above 2007. This includes a full year's revenue contribution from The Peninsula Tokyo rather than for only four months in 2007. All hotels have been impacted by the global financial crisis since September 2008 and this eroded their revenue to varying degrees. Nonetheless, the Peninsula hotels in Hong Kong, Beijing and Tokyo achieved higher full year revenue in 2008 compared with 2007.

The Peninsula Hong Kong experienced a record year and achieved a RevPAR of HK$2,927, 1% over 2007. A significant proportion of the revenue increase came also from commercial and office rentals. Compared with 2007, The Peninsula Beijing delivered a 2% increase in RevPAR to HK$1,065, despite the difficult business conditions resulting from various natural disasters, travel visa restrictions surrounding the Olympic Games and the increased supply of luxury hotels. The Peninsula Tokyo was in its first full year of operation in 2008 with a RevPAR of HK$2,380, 8% above 2007. The hotel team is focused on enhanced marketing and cost saving initiatives in order to achieve higher revenue and profitability. The performance of The Peninsula Bangkok in the first 8 months of 2008 was at record levels. However, the political instability and the Bangkok airports' closure which happened in the last quarter of 2008 had the effect of offsetting this healthy performance. The hotel finished the year with complex revenue being 4% and RevPAR being 7% below 2007. The Ayala Tower in The Peninsula Manila was renovated from May to October 2008, which resulted in half of the hotel's room inventory being unavailable for sale. As a result, revenue and RevPAR were below 2007 by 14% and 17% respectively.

The Peninsula hotels and Quail Lodge in the USA were adversely impacted by the global financial crisis. RevPAR of The Peninsula Chicago was HK$2,395, 9% below 2007. With the additional impact caused by the renovation of the Spa, health club, swimming pool and the new rooftop bar in 2008, RevPAR of The Peninsula New York was HK$4,048, 15% lower than 2007. Quail Lodge achieved a RevPAR of HK$1,298, 11% below 2007.

Non-hotel properties

The total rental revenue from non-hotel properties of HK$607 million reflects an increase of 13% over 2007, with strong revenue growth in all properties. Revenue of The Repulse Bay Complex increased by 9% over 2007, due to the demand for high quality accommodation and the limited new supply in the market. The Peak Tower is fully let with a good mix of quality tenants. The 2008 revenue benefited from the first full year entrance fees to the Sky Terrace and higher turnover rent from tenants. St. John's Building and The Landmark, Vietnam were both fully leased throughout the year, at higher average rentals.

Other businesses

The higher volume of passengers in the Cathay Pacific airport lounges resulted in improved management fees in 2008, although there was a fall in passenger numbers in the last quarter of the year. The Peak Tram enjoyed a record annual patronage of 5 million passengers, up by 1.3% over 2007, with revenues also slightly higher. Other business units including Peninsula Merchandising and restaurant outlets at The Repulse Bay showed satisfactory growth in 2008 due to the favourable operating conditions specific to their businesses. The Thai Country Club's revenue was impacted by the political situation in Thailand, but managed to limit the revenue decrease to just 2% compared with 2007.

4 **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 a charge of HK$593 million in the income statement in 2008.

5 **Taxation**

The tax credit of HK$42 million recorded in 2008 was mainly due to the reduction of Hong Kong profits tax rate from 17.5% to 16.5% and the decrease in valuation of investment properties and other fixed assets which resulted in a reversal of deferred tax provision.

Financial Review

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

- 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$2,723 million as at 31 December 2008, will not materialise.

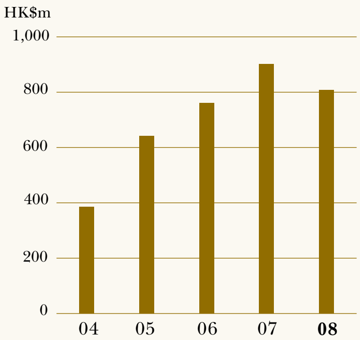
- Hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less depreciation and any provision for impairment, rather than at fair market value. In order to provide shareholders with additional information on the value of the Group's net assets, the Directors have commissioned an independent third party fair market valuation of the Group's hotel properties and golf courses as at 31 December 2008, the details of which are set out on pages 65 and 66. If these assets were to be 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 have increased by HK$3,154 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$m)	**2008**		2007	
Net assets attributable to shareholders per audited balance sheet		**20,712**		20,726
Writing back the deferred taxation provision in respect of revaluation surpluses on Hong Kong investment properties		**2,723**		2,967
Adjusting the value of hotels and golf courses to fair market value	**3,826**		4,197	
Less: Related deferred tax and minority interests	**(672)**		(858)	
		3,154		3,339
Adjusted net assets attributable to shareholders		**26,589**		27,032
Audited net assets per share (HK$)		**14.28**		14.37
Adjusted net assets per share (HK$)		**18.34**		18.75

The Directors believe that the Group's income statement 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 and impairment provision adjustments for certain properties. 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:

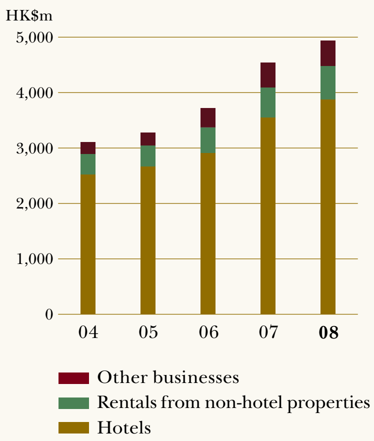
Earnings excluding non-operating items and related tax and minority interests effects



(HK$m)	2008	2007
Profit attributable to shareholders	**216**	3,437
Decrease/(increase) in fair value of investment properties	**593**	(3,319)
Net impairment provision adjustments for hotels, golf courses and other properties	**176**	23
Net loss on disposal of an investment in Indonesia	**–**	160
Tax and minority interests attributable to non-operating items	**(178)**	600
Earnings excluding non-operating items and related tax and minority interests effects	**807**	901
Earnings per share excluding non-operating items (HK$)	**0.56**	0.63

Income Statement

Turnover by activity



Turnover

The total turnover of the Group for 2008 of HK$4,938 million was HK$396 million or 8.7% above 2007, mainly due to a full year's revenue from The Peninsula Tokyo, which opened for business in September 2007. Rentals from non-hotel properties increased by HK$68 million or 13% over 2007.

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

Consolidated revenues by business sector (HK$m)	2008		2007	
Hotels				
Rooms	**1,856**	**38%**	1,768	39%
Food and beverage	**1,166**	**24%**	1,031	23%
Commercial rentals	**545**	**11%**	463	10%
Others	**305**	**6%**	288	6%
	3,872	**79%**	3,550	78%
Rentals from non-hotel properties				
Residential	**425**	**9%**	386	9%
Office	**59**	**1%**	49	1%
Shopping arcade	**123**	**2%**	104	2%
	607	**12%**	539	12%
Other businesses	**459**	**9%**	453	10%
	4,938	**100%**	4,542	100%

Consolidated revenues by geographical segment (HK$m)	2008		2007	
Arising in				
Hong Kong	**2,056**	**42%**	1,910	42%
Other Asia	**1,740**	**35%**	1,314	29%
United States of America	**1,142**	**23%**	1,318	29%
	4,938	**100%**	4,542	100%

Hotels During 2008, the hotel segment generated a total revenue of HK$3,872 million, representing an increase of HK$322 million (9%) over 2007. This includes a full year's revenue contribution of HK$677 million from The Peninsula Tokyo rather than for four months only in 2007. All hotels have been impacted by the global financial crisis since September 2008 and this eroded (to varying degrees) their revenue as compared with the period up to August 2008. Only the Peninsula hotels in Hong Kong, Beijing and Tokyo achieved higher full year revenue in 2008 compared with 2007.

Complex revenue in The Peninsula Hong Kong increased by 5.7% (HK$59 million) over 2007. The increase was mainly from commercial and office rentals and, to a lesser extent, hotel room revenue. The hotel achieved a record year in room revenue and RevPAR, with its average room rate increasing by 9% compared with 2007, although there was a fall in occupancy to 71% (77% in 2007).

The Peninsula Beijing delivered a 7% (HK$32 million) increase in full year complex revenue over 2007, despite the difficult trading conditions resulting from the February snowstorm, the May earthquake, travel visa restrictions surrounding the Olympic Games and the increased supply of luxury hotels. Complex revenue in the Olympic Games' month of August 2008 was HK$65 million (169%) above August 2007.

The Peninsula Tokyo opened in September 2007 and 2008 was therefore its first full year of operation. The hotel has established a strong market position in Tokyo, although it will take some time to achieve the expected operational efficiencies and profitability. Business levels and revenue were impacted by the slowdown in the US economy from early in the year. The hotel team is focused on enhanced marketing and cost saving initiatives in order to achieve higher revenue and profitability in these challenging trading conditions.

Complex revenue in The Peninsula Bangkok for the first eight months of 2008 was at record levels, and was 15% (HK$25 million) above the same period in 2007. However, the political instability which started in September 2008 and led to a state of emergency and the Bangkok airports' closure in late November 2008 had the effect of offsetting this healthy performance, and the hotel finished the year with complex revenue 4% (HK$10 million) lower than 2007.

The Ayala Tower in The Peninsula Manila was renovated from May to October 2008, which resulted in half of the hotel's room inventory being unavailable for sale for nearly six months. The renovation, combined with the impact of the global financial crisis, resulted in revenue being 14% (HK$35 million) below 2007.

The Spa, health club, swimming pool and rooftop lounge in The Peninsula New York were renovated in 2008, adversely impacting room revenue during the closures which lasted throughout most of the year. The additional impact from the global financial crisis since September 2008 resulted in full year complex revenue being 19% (HK$111 million) below 2007, mostly from lower room and spa revenues.

The Peninsula Chicago maintained its leading market position in 2008. However, revenue was 8% (HK$48 million) below 2007, mostly in room revenue due to lower occupancy.

The impact of the global financial crisis has not been felt as much at The Peninsula Beverly Hills and its revenue was only marginally affected amongst our US hotels as compared with 2007, due to the different market environment and guest profile in that hotel. However, complex revenue still ended at 2% (HK$9 million) below 2007.

Quail Lodge's revenue was flat as compared to 2007. Increased revenue from a major annual event offset the lower room revenue, which was 12% (HK$6 million) below 2007.

The continual strong consumer demand for high-end retail outlets has resulted in a further 18% increase in revenues from the hotels' commercial rentals over 2007 levels. We continue to closely follow developments in this sector and quickly respond to any changes in the market conditions.

The breakdown of revenues by property is as follows:

Revenue Breakdown of revenues by property (HK$m)	2008 Rooms	2008 Food and Beverage	2008 Commercial Rentals	2008 Others	2008 Total	2007 Rooms	2007 Food and Beverage	2007 Commercial Rentals	2007 Others	2007 Total
Consolidated hotels										
The Peninsula Hong Kong	**353**	**321**	**362**	**57**	**1,093**	348	321	317	48	1,034
The Peninsula New York	**354**	**90**	**32**	**10**	**486**	416	100	31	50	597
The Peninsula Chicago	**297**	**167**	**–**	**59**	**523**	326	186	–	59	571
The Peninsula Tokyo	**302**	**285**	**25**	**65**	**677**	97	115	8	23	243
The Peninsula Bangkok	**153**	**87**	**3**	**26**	**269**	162	88	3	26	279
The Peninsula Beijing	**236**	**102**	**121**	**26**	**485**	231	95	102	25	453
The Peninsula Manila	**115**	**76**	**2**	**17**	**210**	136	87	2	20	245
Quail Lodge Resort	**46**	**38**	**–**	**16**	**100**	52	39	–	10	101
Other revenue	**–**	**–**	**–**	**29**	**29**	–	–	–	27	27
	1,856	**1,166**	**545**	**305**	**3,872**	1,768	1,031	463	288	3,550
Non-consolidated hotel										
The Peninsula Beverly Hills	**302**	**93**	**–**	**49**	**444**	300	99	–	54	453
	2,158	**1,259**	**545**	**354**	**4,316**	2,068	1,130	463	342	4,003

Non-hotel properties The total rental revenue from non-hotel properties of HK$607 million reflects an increase of 13% over 2007, with strong revenue growth in all properties. Although there were a number of departing residential tenants in The Repulse Bay Complex during the year, these were quickly replaced by new tenants. Revenue increased by 9% over 2007, due to continued strong demand for high quality accommodation from the financial services and multinational sectors and limited new supply in the market.

The Peak Tower is fully let with a good mix of quality tenants. The 2008 revenue benefited from the first full year of entrance fees to the Sky Terrace and higher turnover rent from tenants. St. John's Building and The Landmark, Vietnam were both fully leased throughout the year, at higher average rentals.

Revenue Rental revenues from non-hotel properties (HK$m)	2008 Residential	2008 Office	2008 Shopping Arcade	2008 Total	2007 Residential	2007 Office	2007 Shopping Arcade	2007 Total
The Repulse Bay Complex, Hong Kong	**412**	**–**	**38**	**450**	375	–	38	413
The Peak Tower, Hong Kong	**–**	**–**	**82**	**82**	–	–	64	64
St. John's Building, Hong Kong	**–**	**34**	**–**	**34**	–	27	–	27
The Landmark, Ho Chi Minh City	**13**	**25**	**3**	**41**	11	22	2	35
	425	**59**	**123**	**607**	386	49	104	539

Other businesses The higher volume of passengers in the Cathay Pacific airport lounges resulted in improved management fees in 2008, although there was a fall in passenger numbers in the last quarter of the year. The Peak Tram enjoyed a record annual patronage of 5 million passengers, up by 1.3% over 2007, and slightly higher revenue.

Revenue from Peninsula Merchandising grew by 7% as additional franchised retail operations have been opened. Food and beverage revenue at The Repulse Bay improved by 6% over 2007, largely due to a higher level of wedding and corporate events. The Thai Country Club's revenue was impacted by the political situation in Thailand, as well as the global financial crisis, but managed to limit the revenue decrease compared with 2007 to just 2%.

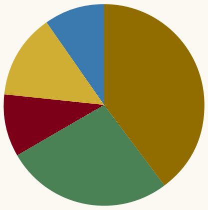
Revenue from other businesses (HK$m)	**2008**	2007	% Change
Cathay Pacific Airport Lounges	**96**	89	8%
Peak Tram	**81**	78	4%
Peninsula Merchandising	**81**	76	7%
The Repulse Bay restaurants	**70**	66	6%
Thai Country Club	**58**	59	(2%)
Quail Lodge Golf Course	**33**	33	–
Tai Pan Laundry	**33**	30	10%
Sale of Quail Lodge Land	**–**	16	(100%)
Others	**7**	6	17%
	459	453	1%

Operating costs

The efforts to manage and contain costs and improve efficiencies have continued in all of our businesses over the course of the year. From September, the major emphasis has been on finding ways to reduce costs in the light of reducing revenues and economic uncertainty.

The challenge with most of the businesses which we operate is that they have large fixed cost bases. Many of our costs are driven by external factors, such as union negotiated wages, property and real estate taxes and energy prices. Given this situation, it is challenging to mitigate the flow through of revenue shortfall to our profits. Our efforts have centred on managing overtime and casual labour costs, re-deployment of staff, cutting or deferring expenditure where possible and reviewing our supplier contracts. In general, most of our properties have been able to mitigate the impact of the downturn in revenue to a reasonable extent. However, this will become more challenging in the event of further revenue downturn.

Operating costs



Staff costs and related expenses	**40%**
Others	**27%**
Cost of inventories	**10%**
Rent and utilities	**13%**
Depreciation and amortisation	**10%**

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

Revenue and cost growth over 2007			*Excluding the impact of The Peninsula Tokyo*	
	Revenue growth over 2007	Cost growth over 2007	*Revenue growth/ (decrease) over 2007*	*Cost growth over 2007*
Hotels	9%	17%	*(3%)*	*1%*
Non-hotel properties	13%	10%	*13%*	*10%*
Other businesses	1%	8%	*1%*	*8%*
Grand Total	9%	16%	*(1%)*	*2%*

This comparison is affected by the impact of a full year of operation for The Peninsula Tokyo in 2008, compared with only four months in 2007. The two italicised columns on the right show the revenue reduction and cost growth after removing the results of The Peninsula Tokyo, which in 2007 included the write-off of HK$83 million of pre-opening expenses. Excluding the impact of The Peninsula Tokyo, costs in the hotel segment and total costs grew by 1% and 2% respectively, as compared with decreases of 3% in hotel revenue and 1% in total revenue.

All hotels reported reduced profit margins at GOP and EBITDA levels, except for The Peninsula Hong Kong. The Peninsula Tokyo and The Peninsula Beijing reported reduced profit margins despite increased revenue, because of the first full year of operation in Tokyo, and increased costs arising in the Olympic Year in Beijing. Other hotels were not able to adjust their cost base sufficiently to offset the reduced revenue levels.

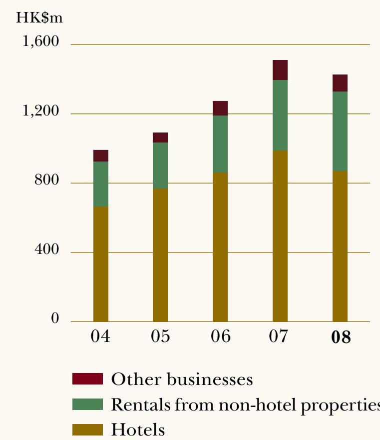
HK$1,553 million or 40% of direct operating costs are payroll-related. This proportion remains the same as that of the previous year. The breakdown of employee numbers at 31 December was as follows:

Number of employees	**2008**			2007		
	Direct operations	**Managed operations**	**Total**	Direct operations	Managed operations	Total
Hotels	**4,808**	**431**	**5,239**	4,732	406	5,138
Properties	**339**	**–**	**339**	329	–	329
Other businesses	**659**	**397**	**1,056**	636	391	1,027
	5,806	**828**	**6,634**	5,697	797	6,494
Hong Kong	**1,737**	**397**	**2,134**	1,687	391	2,078
Other Asia	**2,938**	**–**	**2,938**	2,929	–	2,929
United States of America	**1,131**	**431**	**1,562**	1,081	406	1,487
	5,806	**828**	**6,634**	5,697	797	6,494

EBITDA and EBITDA margin

EBITDA (earnings before interest, taxation, depreciation and amortisation) decreased by 5.6% to HK$1,425 million. Excluding the impact of The Peninsula Tokyo in the first full year of operation, EBITDA would have been HK$1,493 million (the 2007 EBITDA excluding pre-opening expenses and post opening results related to The Peninsula Tokyo would have been HK$1,589 million).

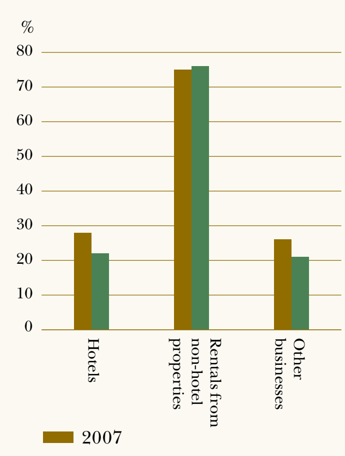
EBITDA by activity



EBITDA (HK$m)	Hong Kong	Other Asia	United States of America	Total
2008				
Hotels	**500**	**279**	**91**	**870**
Rentals from non-hotel properties	**433**	**26**	**–**	**459**
Other businesses	**83**	**20**	**(7)**	**96**
	1,016	**325**	**84**	**1,425**
2007				
Hotels	486	292	211	989
Rentals from non-hotel properties	384	21	–	405
Other businesses	87	21	8	116
	957	334	219	1,510

EBITDA margin represents EBITDA as a percentage of turnover and is analysed in the table on the right. As explained above, the EBITDA margins were affected by the first full year of operating results for The Peninsula Tokyo. Thus, the EBITDA margins excluding the effect of The Peninsula Tokyo are also shown in the next page for comparison purposes.

EBITDA margin (%)



EBITDA margin	2008	2008 (excluding The Peninsula Tokyo)	2007	2007 (excluding The Peninsula Tokyo)
Hotels	**22%**	**29%**	28%	32%
Rental from non-hotel properties	**76%**	**76%**	75%	75%
Other businesses	**21%**	**21%**	26%	26%
Overall EBITDA margin	**29%**	**35%**	33%	37%
Arising in				
Hong Kong	**49%**	**49%**	50%	50%
Other Asia	**19%**	**37%**	25%	39%
United States of America	**7%**	**7%**	17%	17%

The EBITDA margins for the "Rental from non-hotel properties" segment remained stable at 76%, because the slightly lower margins in The Repulse Bay were offset by improved margins in the other businesses in this segment. The reduced margins in The Repulse Bay were mainly due to higher repairs and maintenance costs. The Peak Tower benefited from the full year of Sky Terrace admission charges, and increased rental rates benefitted St. John's Building and The Landmark.

In the "Other businesses" segment, most of the operations had reduced margins despite generally increasing revenue levels. The biggest contributions to EBITDA in this category are The Peak Tram and Thai Country Club. The EBITDA for The Peak Tram was reduced because of the increased rental for the lower Tram terminus, which is being charged by St. John's Building (also a wholly-owned operation) in order to have a more appropriate cost allocation.

Depreciation and amortisation

Depreciation and amortisation for the year of HK$374 million (2007: HK$335 million) largely relates to the hotel properties, as explained above. The increase in depreciation and amortisation was due to the Group maintaining a programme of ongoing capital expenditure to improve and update its hotel properties (including the renovation of the Ayala Tower in The Peninsula Manila) which exceeds the rate of depreciation run-off from previous capital spend. In addition, full year depreciation of HK$85 million (2007: HK$25 million) was provided on The Peninsula Tokyo which was opened for business in September 2007. It should be noted that of the total depreciation figure, HK$145 million (2007: HK$140 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

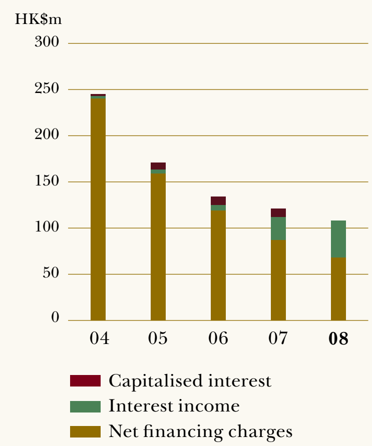
The decrease in fair value of investment properties during the year amounted to HK$593 million (2007: increase of HK$3,319 million), which was mainly attributable to the decrease in value of our properties in Hong Kong, comprising the apartments at The Repulse Bay, the shopping arcade at The Peninsula Hong Kong, St. John's Building and The Peak Tower.

The review by the Directors of the fair value and value in use of our hotels and golf courses resulted in a net impairment provision of HK$176 million (2007: HK$23 million) being made, mainly in relation to The Peninsula Chicago and Quail Lodge.

Net financing charges

Financing charges on borrowings in 2008 amounted to HK$108 million (2007: HK$112 million). After netting off interest income amounting to HK$40 million, a net charge of HK$68 million, which was 22% lower than 2007, was recognised in the income statement. The reduction in net financing charges was due to the decrease of 18% in the amount of net borrowings and the drop in overall interest rates during 2008.

Net financing charges



The weighted average gross interest rate for the year dropped to 3.4% (2007: 4.2%). Interest cover has improved, with operating profit at 15.5 times (2007: 13.5 times) net financing charges for the year.

Taxation

The decrease in taxation charge for the year was mainly due to the following reasons:

- the reduction of Hong Kong profits tax rate from 17.5% to 16.5%; and
- the decrease in fair value of investment properties and impairment in respect of other fixed assets which resulted in a reversal of deferred tax liabilities of HK$163 million (2007: deferred tax charge of HK$598 million).

The details of the taxation credit are as follows:

(HK$m)	**2008**	2007
Current tax	**185**	171
Deferred tax		
Deferred taxation on non-operating items	**(163)**	598
Effect of reduced tax rate on deferred tax balances	**(175)**	(56)
Increase in net deferred tax liabilities relating to other temporary differences	**111**	19
Taxation (credit) / charge in the income statement	**(42)**	732

The deferred tax provision in respect of accumulated revaluation surpluses on the Group's investment properties amounted to HK$2,881 million (2007: HK$3,156 million), of which HK$2,723 million (2007: HK$2,967 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

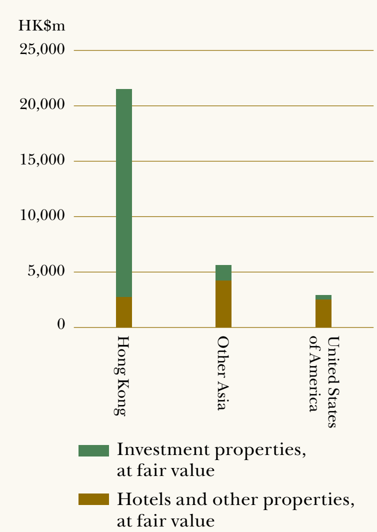
Non-current assets

The Group has interests in and manages nine hotels in Asia and the US and is developing a hotel with retail arcade and apartments in Shanghai.

In addition to hotel properties, the Group owns residential apartments, office towers and commercial 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 2008. 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 2008 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	73,304	59,866	8,872	100%	8,872	6,919
The Peninsula New York *Lease Expiry Aug-2078*	305,870	7,574	–	1,602	100%	1,602	948
The Peninsula Chicago *Freehold/Leasehold*	403,219	–	–	1,123	92.5%	1,039	1,039
The Peninsula Tokyo *Lease Expiry May-2057*	621,615	11,554	–	1,915	100%	1,915	1,281
The Peninsula Bangkok *Freehold*	732,544	3,246	–	784	75%	588	611
The Peninsula Beijing *Lease Expiry Nov-2033*	790,902	79,036	–	1,963	42.13%	827	591
The Peninsula Manila *Lease Expiry Dec-2027*	921,203	10,469	–	335	77.36%	259	215
Quail Lodge Resort *Freehold*	1,664,460	–	–	108	100%	108	108
	6,221,312	185,183	59,866	16,702		15,210	11,712
Non-consolidated hotel							
The Peninsula Beverly Hills (at net cost)					20%		90
Total for hotels							11,802

	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							
The Repulse Bay *Lease Expiry May-2068*	805,990	28,056	–	376,893	6,822	100%	6,822
Repulse Bay Apartments *Lease Expiry Mar-2071*	710,763	–	–	418,692	4,312	100%	4,312
Repulse Bay Garage *Lease Expiry Sept-2070*	36,438	16,934	–	–	81	100%	81
The Peak Tower *Lease Expiry Mar-2031*	116,768	67,254	–	–	897	100%	897
St. John's Building *Lease Expiry Aug-2114*	103,857	412	60,690	–	531	100%	531
The Landmark *Lease Expiry Jan-2026*	224,922	–	82,150	52,259	89	70%	62
Total for non-hotel properties	1,998,738	112,656	142,840	847,844	12,732		12,705

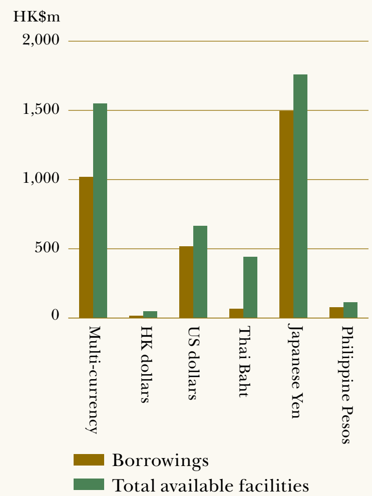
	Total property GFA (sf)	Market valuation (HK$m)	HSH interest (%)	Attributable market value (HK$m)	Attributable book value (HK$m)
Other properties					
Golf courses					
Thai Country Club *Freehold*	7,405,283	214	75%	161	161
Quail Lodge Golf Club *Freehold*	5,846,888	26	100%	26	26
Sub-total for golf courses	13,252,171	240		187	187
Vacant land					
Vacant land near Bangkok *Freehold*	15,040,030	319	75%	239	239
Quail Lodge land *Freehold*	15,470,337	62	100%	62	62
Sub-total for vacant land	30,510,367	381		301	301
Other properties in use					
Po Yip Building, Flats 2&3, 1/F *Lease Expiry Jun-2047*	35,914	32	100%	32	32
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	38		38	32
Total for other properties	43,808,084	659		526	520
Total	52,028,134	30,093		28,441	25,027

Borrowings

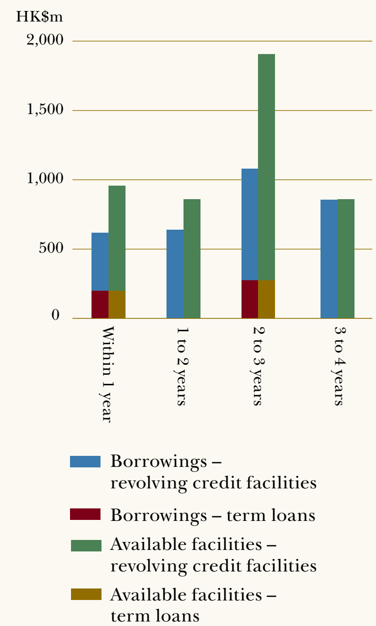
During the year, net borrowings decreased by 18% to HK$1,198 million (2007: HK$1,455 million) and net debt to EBITDA has decreased from 1.0 time to 0.8 time due to the operating cashflows and retained earnings generated by the Group. This borrowing level remains well within the debt capacity of the Group.

In addition to the Group's consolidated borrowings, The Peninsula Beverly Hills (20% owned) and The Peninsula Shanghai (50% owned) have non-recourse bank borrowings, which are not consolidated in the balance sheet as the entities owning the assets are not subsidiaries of the Group. The consolidated and non-consolidated borrowings as at 31 December 2008 are summarised as follows:

Borrowings and available facilities (by currency)



Borrowings and available facilities (by type and maturity)



Borrowings (HK$m)	**2008** Hong Kong	**2008** Other Asia	**2008** United States of America	**2008** Total	2007 Total
Consolidated borrowings	**1,035**	**1,641**	**517**	**3,193**	2,869
Off balance sheet borrowings attributable to the Group					
The Peninsula Beverly Hills (20%)	**–**	**–**	**218**	**218**	218
The Peninsula Shanghai (50%)	**–**	**422**	**–**	**422**	94
Off balance sheet borrowings	**–**	**422**	**218**	**640**	312
Consolidated and non-consolidated borrowings	**1,035**	**2,063**	**735**	**3,833**	3,181
Pledged assets attributable to the Group					
For consolidated borrowings	**–**	**–**	**–**	**–**	–
For off balance sheet borrowings	**–**	**1,016**	**194**	**1,210**	833
	–	**1,016**	**194**	**1,210**	833

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.

Cash Flow Statement

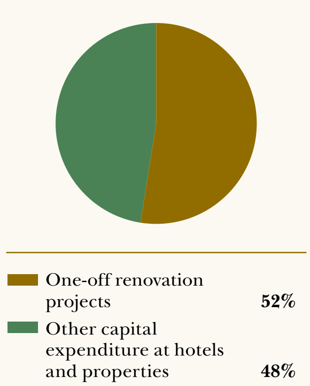
Net cash generated from operating activities decreased to HK$1,208 million as compared to HK$1,481 million in 2007. Most of the operating cash flows were applied to capital expenditure, repayment of net borrowings and payment of dividends.

Total capital expenditure in 2008 amounted to HK$417 million and is analysed as below:

(HK$m)	2008	2007
One-off renovation projects	**217**	46
Other capital expenditure at hotels and properties	**200**	167
New project – Tokyo	**–**	595
	417	808

The Group had a number of one-off renovation projects in 2008, including the renovation of the Ayala Tower in The Peninsula Manila, the construction of Salon de Ning lounges in The Peninsula Hong Kong and The Peninsula New York and the construction of the new health club, swimming pool and spa in The Peninsula New York and The Peninsula Bejing.

Capital expenditure



The net cash inflow after interest and dividends before financing activities was HK$597 million for the year, compared to HK$683 million in 2007. The decrease in net cash inflow was mainly due to the increase in tax paid during the year resulting from the late issuance of tax assessments in respect of previous tax years by the tax authorities and the payment of HK$50 million to repurchase the Company's shares.

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. 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.

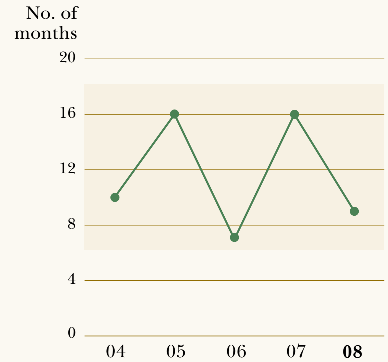
Borrowing requirements are not seasonal as the Group benefits from a steady inflow of income from its leased properties and there is only minor seasonality in its hotel operations. Borrowing requirements tend to follow the pattern of capital expenditure and investment. As such, the level of borrowing facilities is monitored to ensure sufficient funding whenever there is any potential corporate activity with significant cashflow implication. While all funding methods will be considered, bank financing is currently the Group's main source of funding.

In addition, the Group seeks to maintain a balanced debt maturity profile to minimise refinancing risk.

Generally speaking, mortgage or pledge of assets is not provided to secure borrowing facilities unless significant cost savings or non-recourse financing can be obtained.

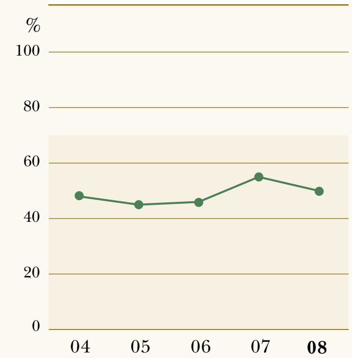
The Group monitors its gearing in accordance with the policy that its adjusted gearing ratio, expressed as the percentage of net borrowings to the total of net borrowings and net assets after taking into account the Group's share of net borrowings and net assets of non-consolidated entities (such as The Peninsula Beverly Hills and The Peninsula Shanghai), should be maintained at below 40%. As at 31 December 2008, the Group's gearing and adjusted gearing (including share of net borrowings of non-consolidated entities) decreased to 5% (2007: 7%) and remained at 8% (2007: 8%) respectively.

Financing horizon



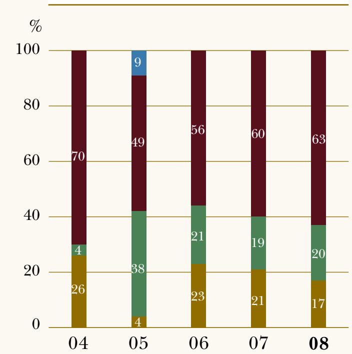
Group guideline: 6 – 18 months

The 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%)

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 funding requirements. The Group's financial position is reviewed periodically to ensure compliance with 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.

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.

As at 31 December 2008, the Group's fixed-to-floating rate ratio was 49%, down from 55% as at 31 December 2007.

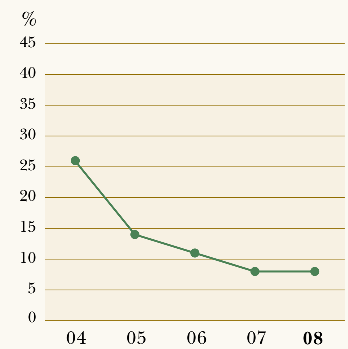
Foreign exchange risk

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 not have any unhedged borrowings denominated in non-functional currencies, other than United States dollar 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.

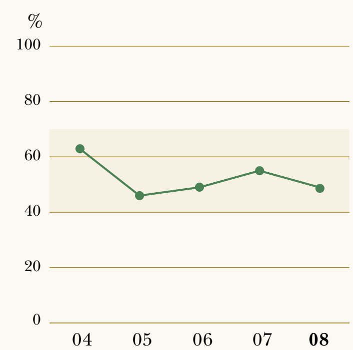
The long term financial obligations of the Group's entities are normally arranged in currencies in which they have substantial positive operational cash flows, thereby establishing natural currency hedges.

Adjusted gearing



Group guideline: (≤40%)

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



Group guideline: (40% – 70%)

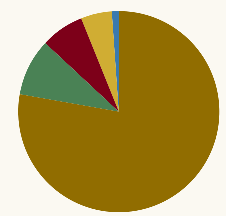
As at 31 December 2008, after accounting for currency hedging, approximately 78%, 9%, 7%, 5% and 1% (2007: 76%, 9%, 10%, 4% and 1%) of the Group's net assets were denominated in Hong Kong dollars, Chinese Renminbi, United States dollars, Thai Baht and Philippine Pesos respectively.

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.

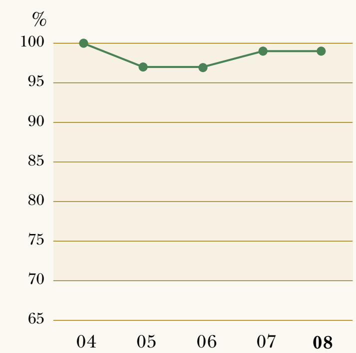
Derivatives are used solely for hedging purposes and not for speculation and the Group only enters into derivative transactions with counterparties which have credit ratings of at least investment grade, even in developing countries, because of the longer term effect.

Net assets



HK dollars	**78%**
Chinese Renminbi	**9%**
US dollars	**7%**
Thai Baht	**5%**
Philippine Pesos	**1%**

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

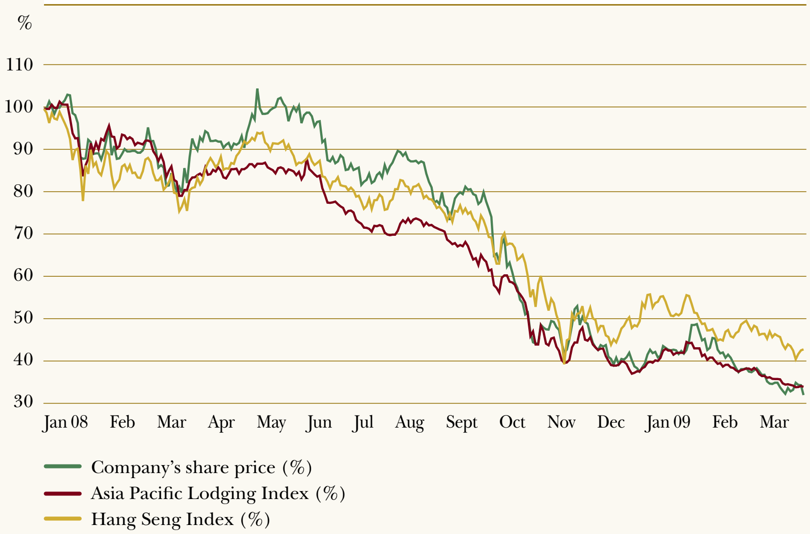


Group guideline: (≥70%)

Share Information

The Company's share price closed on 12 March 2009 at HK$4.43, giving a market capitalisation of HK$6.4 billion (or US$0.8 billion). This reflects a discount of 69% to net assets attributable to shareholders of the Company, or a discount of 76% to the adjusted net assets (see page 54).

Share price and indices



Note: The share price and indices as at 31 December 2007 = 100%

Corporate Governance

Corporate governance infrastructure

The Company is committed to ensuring that the business is conducted in accordance with high standards of corporate governance with proper control processes for oversight and management to safeguard the interests of shareholders and stakeholders, and to manage overall business risks. The Company regularly reviews its own practices in light of new development in this area and incoming regulatory requirements.

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. This Report describes how the Company has applied the CG Code.

Code on corporate governance practices

The Company has adopted its own code on corporate governance practices which encompasses 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. Quarterly reporting encourages a short term view on the Company's performance. As at the date of this publication, the Company is aware of certain proposals issued by the Stock Exchange and Securities and Futures Commission on quarterly financial reporting. The Company intends to review its position in the light of any changes which are introduced in this regard.

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. The Board acknowledges its responsibility to ensure that good corporate governance practices and procedures are established and practised throughout the Group.

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 has resigned with effect from 31 March 2008), Mr. Neil J. Galloway (who was appointed on 1 September 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 36 and 37 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 2008 Board meetings were determined in the last quarter of 2007 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 2008. The attendance record of each Director appears below:

	No. of meetings attended	
Attendance at Board meetings	**2008 (4 meetings in total)**	2007 (4 meetings in total)
Non-Executive Directors		
The Hon. Sir Michael Kadoorie (Non-Executive Chairman)	**4**	4
Mr. Ian D. Boyce (Non-Executive Deputy Chairman)	**4**	4
Mr. Ronald J. McAulay	**2**	2
Mr. William E. Mocatta	**3**	4
Mr. Pierre R. Boppe	**4**	4
Mr. John A.H. Leigh	**4**	3
Mr. Nicholas T.J. Colfer	**4**	4
Independent Non-Executive Directors		
Dr. The Hon. Sir David K.P. Li	**4**	4
Mr. Robert C.S. Ng	**2**	2
Mr. Robert W. Miller	**3**	3
Mr. Patrick B. Paul	**2**	4
Executive Directors		
Mr. Clement K.M. Kwok (Chief Executive Officer)	**4**	4
Mr. C. Mark Broadley (Chief Financial Officer) (resigned 03/08)	**1 (of 1)**	4
Mr. Neil J. Galloway (Chief Financial Officer) (appointed 09/08)	**2 (of 2)**	–
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. Directors who have a potential conflict of interest shall not be counted in the quorum of the meeting and must abstain from voting. 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 2008, one third of the Directors, comprising of Messrs. Clement K.M. Kwok, William E. Mocatta, Pierre R. Boppe and Robert W. Miller, retired by rotation and were all re-elected. Details of the Directors who will offer themselves for re-election in 2009 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.

Non-Executive Chairman and Chief Executive Officer The positions of Non-Executive 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 Non-Executive 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 endeavours to have 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 2008, 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. During 2008, each Director was reminded of his duties not to deal in the securities of the Company one month before the date of the Board meetings to approve the Company's half-year results and annual results until after such results had 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, save for one Director who has advised the Company that due to an inadvertent oversight, a filing required under the Securities and Futures Ordinance and related notification to the Company was not made within the prescribed time limit. As soon as that Director became aware of this oversight, he brought the matter to the attention of the Company and the Stock Exchange and took steps to rectify the filing with the Stock Exchange and the Company. That Director has informed the Company that he would take steps to prevent such late filing from happening in the future.

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. In September 2008, Mr. Neil J. Galloway was appointed as an Executive Director of the Company.

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 2008, financial reporting and control reviews undertaken by the Audit Committee included the following:

- reviewed the completeness and accuracy of the 2007 Annual Report, the 2008 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 independent auditor 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 2008, 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 independent auditor, the Audit Committee undertook the following responsibilities:

- assessed the independence of the independent auditor and reviewed their policies for maintaining independence;
- approved the independent auditor's remuneration and considered their re-appointment; and
- approved the audit plan for 2009.

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 independent auditor 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 independent auditor 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 2008. The attendance record of each member appears below:

	No. of meetings attended	
Attendance at Audit Committee	**2008 (4 meetings in total)**	2007 (4 meetings in total)
Mr. Patrick B. Paul (Committee Chairman)	**4**	4
Mr. Ian D. Boyce	**4**	4
Mr. Robert C.S. Ng	**2**	1

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. Neil J. Galloway 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 2008. The attendance record of each member appears below:

	No. of meetings attended	
Attendance at Remuneration Committee	**2008 (2 meetings in total)**	2007 (2 meetings in total)
Mr. Ian D. Boyce (Committee Chairman)	**2**	2
Mr. Robert W. Miller	**1**	1
Mr. Patrick B. Paul	**2**	1

During 2008, the Remuneration Committee set the remuneration of Mr. Neil J. Galloway on his appointment as an Executive Director of the Company and reviewed the letters of appointment and fees for Non-Executive Directors. The new level of Non-Executive Directors' fees approved at 2008 Annual General Meeting was set after evaluating the responsibilities given to Directors, their workload in overseeing the business of the Company and market trends and practices. The Committee also 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 28 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 7 to the Financial Statements.

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

Group Management Committee

The Group Management Committee is led by the Chief Executive Officer and consists of the three Executive Directors, the Group General Manager for Properties and Clubs and the Regional Vice President – USA East Coast, together representing all the different operations and businesses of the Company. The Committee meets weekly and operates under clear guidelines and delegated authorities approved by the Board. The Committee is responsible for reviewing and monitoring all aspects of day-to-day operations and business affairs of the Company including but not limited to overseeing implementation of investment decisions, reviewing budgets, discussing strategy with operations, reviewing internal controls and reports to the various Board Committees and the Board on different matters.

The Group Management Committee members are Mr. Clement K.M. Kwok, Committee Chairman, Mr. Neil J. Galloway, Mr. Peter C. Borer, Mrs. Maria Razumich-Zec and Mr. Martyn P.A. Sawyer.

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 practices 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 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 practices, particularly ensuring adherence to the principle of applying adequate checks and balances in approval processes.

A rolling three-year audit plan is used, based on an assessment of the potential risks facing the Company's activities. The most recent risk register was provided to the Audit Committee in planning and approving the 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 2008 and confirmed that no matters needed to be brought to the attention of the Board.

During 2008, the Internal Audit and Risk Management Department conducted audits and reviews of 12 business operations, one development project, two Head Office functions, 17 IT systems at four locations and an overseas corporate-owned entity. The reports and reviews were discussed with management and proposals for implementing recommended improvements have been agreed upon, with the status of implementation being reported to the Audit Committee half-yearly and followed up in subsequent audit visits.

Recognising the significance and dependence of the Group's operations on IT systems, a specialist Information Systems Assurance Auditor was employed as part of the Audit and Risk Management team during the year. Risk assessments were conducted for the major IT activities and audit plans were drawn up and implemented accordingly. Computer-aided audit techniques have also been introduced by the Department.

The Head of the Department, who is supported by five qualified professionals, reports to the Chief Executive Officer and has access to the Chairman of the Audit Committee.

The Head of Department also attended three of the four Audit Committee meetings held during 2008 and met with the Chairman of the Audit Committee and the independent auditor 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 operating teams regarding all aspects of operational financial control. The Head of the OFC Department reports directly to the Chief Financial Officer.

The OFC Department provides guidance and support for operational financial controllers and general managers in managing and controlling the Company's assets. This Department reviews and, where necessary, challenges the financial operating results to try and find ways to improve profitability. It also initiates and supports any changes required to improve the monitoring and reporting systems.

In 2008, 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.

Independent auditor

It is important to the Group that the independence of its external auditor is not compromised. The Audit Committee reviews substantial non-audit work awarded to the independent auditor 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 independent auditor, KPMG, provided audit services to the value of HK$9 million. KPMG also provided taxation and due diligence services to the value of HK$4 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 worldwide 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 adopted the 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. These principles are further reinforced in the Employee Handbooks applicable to various business operations. For more information, please refer to Sustainability Report – Corporate Governance and Ethics section.

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 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. In 2008, an AGM circular was 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.

Continuous dialogue between shareholders and the Company on the Company's business is encouraged. During the year, as part of a regular programme of shareholder relations, Executive Directors and our General Manager of Corporate Finance held 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 meetings announcing the latest financial results of the Company and copies of presentation materials from the meetings 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 Wednesday, 7 May 2008 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 independent auditor for the year ended 31 December 2007;
- to declare a final dividend;
- to re-elect four retiring Directors;
- to re-appoint KPMG as independent auditor 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;
- to add shares repurchased to the general mandate given to issue new shares; and
- to determine the ordinary remuneration of the Directors.

Each resolution was voted on by poll and passed and the results of the poll voting were posted on the Company's and the Stock Exchange's websites.

In addition to the shareholder, the 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 2009 are:

- Annual General Meeting: Wednesday, 13 May 2009
- 2009 Interim Results Announcement: Wednesday, 26 August 2009

Details of the public float are set out in the Directors' Report on page 93.

Other stakeholders

The Company believes that good corporate governance requires an assessment of its business decisions by other key stakeholders, in the area of sustainability. In December 2007, the Company formally established the Corporate Social Responsibility Committee to form appropriate Group level policies and practices in all areas related to sustainability, as well as to oversee and monitor the implementation of such practices on a regular basis.

Details of the Group's ongoing initiatives and results are provided in the Sustainability Report from pages 40 to 51.

Directors' Report

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2008.

Principal activities

The principal activity of the Company is investment holding and the principal activities of its subsidiaries and jointly controlled entity 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 54 to 71.

Ten year Operating and Financial Summaries

Summaries of the Group's key operating and financial data for the last ten years are set out on pages 94 to 96.

Financial Statements

The profit of the Group for the year ended 31 December 2008 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 98 to 166.

Share capital

On 13 June 2008 and 14 November 2008, pursuant to scrip dividend schemes, the Company issued and allotted 9,506,570 shares and 6,462,152 shares respectively at an issue price of HK$13.704 and HK$7.394 per share to the shareholders who elected to receive shares of the Company in lieu of cash for the 2007 final and 2008 interim dividends in respect of the year ended 31 December 2007 and the six months ended 30 June 2008, respectively. All ordinary shares issued rank pari passu in all respects with the existing issued shares.

During the year, the Company also repurchased a total of 7,545,000 shares of HK$0.50 each of the Company on the Stock Exchange at an average purchase price of HK$6.60 per share. All the repurchased shares were cancelled subsequently.

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 25 to the Financial Statements.

Dividends

An interim dividend of HK6.5 cents per share in respect of the year ending 31 December 2008 was paid during the year 2008. The Directors have recommended a final dividend of HK10.5 cents per share. Subject to the approval by shareholders at the forthcoming Annual General Meeting to be held at The Peninsula Hong Kong on 13 May 2009 at 12 noon, such dividend will be payable on or about 19 June 2009 to shareholders whose names appear on the register of members on 13 May 2009. The register of members will be closed from 11 May 2009 to 13 May 2009, 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, 8 May 2009.

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 20 May 2009.

Principal subsidiaries

Particulars of the principal subsidiaries of the Company are set out on pages 133, 134 and 168.

Fixed assets

Movements in fixed assets during the year are set out in note 13 to the Financial Statements.

Capitalised interest

The amount of interest capitalised by the Group in 2008 was insignificant (2007: HK$9 million). Details of interest capitalised are set out in note 4(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 26 to the Financial Statements.

Purchase, sale and redemption of listed securities

During the year, the Company repurchased a total of 7,545,000 shares of HK$0.50 each of the Company on the Stock Exchange for a total cash consideration of HK$50 million at an average purchase price of HK$6.60 per share. Details of this share repurchase exercise are set out in note 25 to the Financial Statements. All of these shares have been cancelled by the Company. The repurchases were made for the benefit of the shareholders with a view to enhancing the net asset value and earnings per share of the Company.

Save as disclosed above, 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 24 to the Financial Statements.

Charitable donations

Donations made by the Group for charitable purposes during the year amounted to HK$3,047,518 (2007: HK$954,380).

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 of the Company 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 a Director of MPHI. Ayala is entitled to receive 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 rent paid to Ayala under the lease for 2008 was HK$10.5 million (2007: HK$12.2 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 and in the interests of the Company and its shareholders as a whole.

The Company's auditor has 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 2008.

Material related party transactions

Details of material related party transactions which were undertaken in the normal course of business are set out in note 32 to the Financial Statements.

Directors

Biographical details of the Directors in office at the date of this Report are shown on pages 36 and 37. All the Directors held office for the whole of 2008 with the exception of Mr. Neil J. Galloway who was appointed to the Board as Executive Director, Finance Director and Chief Financial Officer of the Company on 1 September 2008 in place of Mr. C. Mark Broadley who resigned on 31 March 2008.

In accordance with the Articles of Association of the Company, Mr. Ronald J. McAulay, Dr. The Hon. Sir David K.P. Li, Mr. John A.H. Leigh and Mr. Nicholas T.J. Colfer will retire by rotation at the forthcoming Annual General Meeting and being eligible, have agreed to offer themselves for re-election.

Mr. Neil J. Galloway, having been appointed to the Board since the date of the last Annual General Meeting, will retire at the forthcoming Annual General Meeting in accordance with the Company's articles of association and being eligible, will offer himself 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 38. Mr. Martyn P.A. Sawyer and Mrs. Maria Razumich-Zec held office for the whole of 2008.

Interests of Directors and Chief Executive Officer

As at 31 December 2008, the interests and short positions of each Director and the Chief Executive Officer 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)	738,311,095	50.909
Mr. Ian D. Boyce	Beneficial Owner	212,826	0.015
Mr. Clement K.M. Kwok	Beneficial Owner	638,486	0.044
Mr. Peter C. Borer	Beneficial Owner	249,916	0.017
Mr. Ronald J. McAulay	Note (b)	508,805,573	35.084
Mr. William E. Mocatta	Note (c)	1,017,000	0.070
Mr. Pierre R. Boppe	Beneficial Owner	150,000	0.010
Mr. John A.H. Leigh	Note (d)	377,133,448	26.004
Dr. The Hon. Sir David K.P. Li	Beneficial Owner	542,284	0.037
Mr. Robert C.S. Ng	Family	123,832	0.009

Notes:

(a) *The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 738,311,095 shares in the Company. These shares were held in the following capacity:*
  (i) *436,021,024 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and/or discretionary objects.*
  (ii) *302,290,071 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 738,311,095 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 508,805,573 shares in the Company. These shares were held in the following capacity:*
  (i) *436,021,024 shares were ultimately held by discretionary trusts, of which Mr. Ronald J. McAulay is one of the discretionary objects.*
  (ii) *72,784,549 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 377,133,448 shares, was deemed to be interested in the 377,133,448 shares.*

Messrs. Neil J. Galloway, 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 or any of its associated corporations as at 31 December 2008.

Certain Directors held qualifying shares in MPHI, a 77.36% subsidiary of the Company, on trust for a subsidiary of the Company.

Except as set out above, as at 31 December 2008 none of the Directors and Chief Executive Officer 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 2008, 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	26,469	0.0018

Interests of substantial shareholders

So far as is known to any Director or Chief Executive Officer of the Company, as at 31 December 2008 shareholders (other than a Director or the Chief Executive Officer 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

(a) Substantial shareholders

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Bermuda Trust Company Limited	Trustee	808,395,644	55.741(i)
The Mikado Private Trust Company Limited	Trustee	735,611,095	50.723(ii)
Bermuda Trust (Cayman) Limited	Trustee	449,917,997	31.023(vii)
Acorn Holdings Corporation	Beneficiary	436,021,024	30.065(i)
Lawrencium Holdings Limited	Beneficiary	436,021,024	30.065(i)
Harneys Trustees Limited	Interest of controlled corporation	436,021,024	30.065(v)
Merlin Investments No. 2 Limited	Beneficiary	377,133,448	26.004(i)
Guardian Limited	Beneficiary	377,133,448	26.004(i)
Lakshmi Company Limited	Beneficiary	377,133,448	26.004(vi)
Merlin Investments Limited	Beneficiary	377,133,448	26.004(vi)
Mr. Jason Holroyd Whittle	Beneficiary	377,133,448	26.004(i)
Mrs. Deborah Whittle	Beneficiary	377,133,448	26.004(i)
Mr. Richard Parsons	Trustee	377,133,448	26.004(i)
New Boron Holding Corporation	Trustee	377,133,448	26.004(iii)
New Xenon Holding Corporation	Trustee	377,133,448	26.004(iii)
Lawrencium Mikado Holdings Limited	Beneficiary	299,590,071	20.658(ii)
The Magna Foundation	Beneficiary	293,127,687	20.212(iv)
New Mikado Holding Inc.	Trustee	299,590,071	20.658(iv)
Mikado Investments Limited (now known as Mikado Investments (PTC) Limited)	Interest of controlled corporation/ Beneficiary of trusts	299,590,071	20.658(iv)
Oak (Unit Trust) Holdings Limited	Trustee	72,784,549	5.019(i)
Oak HSH Limited	Beneficiary	72,784,549	5.019(vii)

These interests are duplicated to the extent of 7,225,260,194 shares. The net total of 811,095,644 shares reflects duplication of various Directors' interests as set out in the section "Interests of Directors and Chief Executive Officer" of this Report.

Notes:

(i) The 808,395,644 shares in which Bermuda Trust Company Limited was deemed to be interested as a trustee included (1) the shares in which Acorn Holdings Corporation, Lawrencium Holdings Limited, 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 (now known as Mikado Investments (PTC) Limited), The Magna Foundation and Lawrencium Mikado Holdings Limited were deemed to be interested; (3) the shares in which The Mikado Private Trust Company Limited was deemed to be interested; and (4) the shares in which Oak (Unit Trust) Holdings 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 shares in which Acorn Holdings Corporation and Lawrencium Holdings Limited were deemed to be interested as beneficiaries includes the 377,133,448 shares in which New Boron Holding Corporation and New Xenon Holding Corporation were deemed to be interested.

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

(v) The 436,021,024 shares in which Harneys Trustees Limited was deemed to be interested by virtue of having control over various controlled corporations included (1) the shares in which New Boron Holding Corporation and New Xenon Holding Corporation were deemed to be interested; (2) the shares in which Lawrencium Holdings Limited was deemed to be interested; and (3) the shares in which other controlled corporations were deemed to be interested.

(vi) Lakshmi Company Limited and Merlin Investments Limited were deemed to be interested in the shares in which New Xenon Holding Corporation was interested.

(vii) Bermuda Trust (Cayman) Limited controlled Lakshmi Company Limited, Merlin Investments Limited and Oak HSH Limited and was therefore deemed to be interested in the shares in which Lakshmi Company Limited, Merlin Investments Limited and Oak HSH Limited were interested.

(b) Other substantial shareholder

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Prudential plc	Investment Manager	72,700,295	5.013

Except as set out above, as at 31 December 2008 the Company had not been notified of any substantial shareholder (other than a Director or the Chief Executive Officer 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 2008, 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 2008 or at any time during the year.

Employee retirement benefits

Details of the Group's employee retirement benefits are shown in note 28 to the Financial Statements.

Corporate governance

The Corporate Governance report is set out on pages 72 to 85.

Public float

As at 12 March 2009, 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.

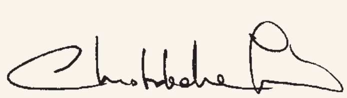
Loan agreements with covenants relating to specific performance of the controlling shareholder

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.

Independent Auditor

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 independent auditor will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



Christobelle Liao
Company Secretary
Hong Kong, 12 March 2009

Ten Year Operating Summary

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
HOTEL AND PROPERTY PERFORMANCE										
The Peninsula Hong Kong										
Occupancy rate	**71%**	77%	80%	79%	69%*	57%	62%	56%	55%	50%
Average room rate (HK$)	**4,095**	3,774	3,228	2,872	2,659	2,337	2,670	2,749	2,984	2,834
RevPAR (HK$)	**2,927**	2,892	2,592	2,271	1,836	1,332	1,655	1,527	1,654	1,419
The Peninsula New York										
Occupancy rate	**64%**	75%	74%	75%	76%	67%	65%	66%	78%	62%
Average room rate (HK$)	**6,338**	6,326	5,458	4,902	4,137	3,900	3,958	3,839	4,155	3,882
RevPAR (HK$)	**4,048**	4,771	4,066	3,655	3,145	2,613	2,565	2,519	3,237	2,390
The Peninsula Chicago (opened June 2001)										
Occupancy rate	**65%**	72%	72%	71%	72%	64%	51%	30%		
Average room rate (HK$)	**3,670**	3,641	3,398	2,947	2,490	2,437	2,338	2,371		
RevPAR (HK$)	**2,395**	2,638	2,449	2,087	1,781	1,560	1,197	719		
The Peninsula Beverly Hills										
Occupancy rate	**80%**	85%	83%	83%	84%	81%	78%	78%	85%	82%
Average room rate (HK$)	**5,364**	5,017	4,523	4,091	3,634	3,250	3,121	3,184	3,114	3,041
RevPAR (HK$)	**4,275**	4,242	3,772	3,395	3,046	2,633	2,439	2,471	2,644	2,481
The Peninsula Tokyo (opened September 2007)										
Occupancy rate	**63%**	57%**								
Average room rate (HK$)	**3,759**	3,853								
RevPAR (HK$)	**2,380**	2,206								
The Peninsula Bangkok										
Occupancy rate	**65%**	70%	71%	72%	77%	66%	73%	73%	82%	32%
Average room rate (HK$)	**1,714**	1,708	1,424	1,293	1,155	1,056	986	889	572	770
RevPAR (HK$)	**1,119**	1,201	1,010	935	893	697	718	646	468	249
The Peninsula Beijing										
Occupancy rate	**50%**	63%	67%	66%***	58%***	49%	63%	63%	64%	59%
Average room rate (HK$)	**2,116**	1,664	1,436	1,219	1,008	845	691	671	719	734
RevPAR (HK$)	**1,065**	1,048	958	806	589	414	434	420	457	431
The Peninsula Manila										
Occupancy rate	**55%#**	75%	66%#	78%	69%	62%	59%	48%	54%	60%
Average room rate (HK$)	**1,133**	1,005	737	630	606	562	627	815	752	886
RevPAR (HK$)	**626**	752	484	493	420	349	370	390	410	533

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 respectively were closed for renovation at The Peninsula Beijing.*
\# *In 2008 and 2006, on average 249 and 133 rooms respectively were closed for renovation at The Peninsula Manila.*

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
HOTEL AND PROPERTY PERFORMANCE										
Quail Lodge Resort, Carmel										
Occupancy rate	**64%**	71%	65%	61%	54%	28%*	54%	58%	66%	64%
Average room rate (HK$)	**2,014**	2,062	2,190	2,297	2,288	2,214	1,871	1,962	2,062	1,869
RevPAR (HK$)	**1,298**	1,462	1,431	1,393	1,229	624	1,014	1,136	1,361	1,188
The Repulse Bay Apartments										
Occupancy rate	**94%****	92%	91%	82%	77%	74%	77%	89%	85%	76%
Average monthly yield per square foot (HK$)	**39**	35	33	27	25	25	29	33	31	31
The Landmark, Vietnam										
Occupancy rate – Residential	**99%**	99%	97%	94%	95%	94%	94%	87%	82%	84%
Average monthly yield per square foot (HK$)	**21**	18	17	16	16	15	15	14	14	16
Occupancy rate – Office	**100%**	100%	99%	95%	98%	100%	100%	98%	91%	98%
Average monthly yield per square foot (HK$)	**26**	22	19	17	16	16	15	15	22	33
St. John's Building										
Occupancy rate	**99%**	99%	99%	90%	87%	78%	83%	97%	86%	69%
Average monthly yield per square foot (HK$)	**33**	25	21	15	15	14	17	21	20	21
The Peak Tower										
Occupancy rate	**100%**	100%	72%***	31%***	100%	100%	98%	100%	96%	93%
Average monthly yield per square foot (HK$)	**60**	56	29	6	28	23	25	24	30	36
The Peak Tram										
Patronage ('000)	**5,006**	4,939	4,430	3,923	4,107	3,092	3,714	3,504	3,478	3,277
Average fare (HK$)	**16**	16	15	14	14	14	14	14	15	14
Employee Numbers (31 December)										
Hotels	**5,239**	5,138	4,601	4,334	4,814	4,748	4,918	4,974	4,780	4,837
Properties	**339**	329	316	307	297	306	315	326	334	375
Miscellaneous	**1,056**	1,027	1,004	981	955	946	984	1,072	1,263	1,398
Total no. of employees	**6,634**	6,494	5,921	5,622	6,066	6,000	6,217	6,372	6,377	6,610

Notes:
Occupancy rates are based on the total number of rooms or space available at each operation. It should be noted that:
** In 2003, on average 37 rooms were closed for renovation at Quail Lodge Resort, Carmel.*
*** Part of the Repulse Bay's Commercial Arcade was closed for revitalisation project from March to July 2008.*
**** Renovation of The Peak Tower commenced in April 2005 and finished in phases from July 2006. The Tower was fully re-opened in November 2006.*

Ten Year Financial Summary

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
CONSOLIDATED INCOME STATEMENT (HK$m)										
Turnover	**4,938**	4,542	3,717	3,276	3,120	2,517	2,592	2,584	3,043	3,610
EBITDA	**1,425**	1,510	1,275	1,092	992	726	747	698	925	745
EBITDA margin %	**29%**	33%	34%	33%	32%	29%	29%	27%	30%	21%
Profit before non-operating items	**978**	1,088	904	688	495	364	344	230	369	213
Profit attributable to shareholders	**216**	3,437	2,094	2,664	2,786	351	293	33	85	569
Dividends	**246**	259	228	199	168	112	93	58	59	59
Earnings per share (HK$)	**0.15**	2.40	1.47	1.89	1.99	0.29	0.25	0.03	0.07	0.49
Earnings per share excluding non-operating items (HK$)	**0.56**	0.63	0.54	0.45	0.28	0.24	0.23	0.15	0.28	0.13
Dividends per share (HK cents)	**17¢**	18¢	16¢	14¢	12¢	8¢	8¢	5¢	5¢	5¢
Dividend cover (times)	**0.9x**	13.3x	9.2x	13.4x	16.6x	3.1x	3.2x	0.6x	1.4x	9.6x
Interest cover (times)	**15.5x**	13.5x	8.6x	5.2x	3.1x	2.5x	2.2x	1.7x	1.9x	1.5x
CONSOLIDATED BALANCE SHEET (HK$m)										
Fixed assets	**26,368**	26,895	22,951	20,561	20,058	19,068	18,019	17,338	18,365	16,910
Other assets	**1,224**	1,191	1,211	1,110	741	771	712	1,025	1,334	2,239
Cash and bank balances	**1,995**	1,414	447	301	262	217	232	99	272	132
Total assets	**29,587**	29,500	24,609	21,972	21,061	20,056	18,963	18,462	19,971	19,281
Interest-bearing borrowings	**3,193**	2,869	2,523	2,614	4,536	4,906	5,843	5,755	5,968	6,555
Derivative financial instruments	**281**	215	214	209	-	-	-	-	-	-
Other liabilities (including minority interests)	**5,401**	5,690	4,890	4,253	4,183	1,709	1,543	764	914	945
Net assets attributable to shareholders	**20,712**	20,726	16,982	14,896	12,342	13,441	11,577	11,943	13,089	11,781
Net assets per share (HK$)	**$14.28**	$14.37	$11.89	$10.51	$8.80	$9.59	$9.90	$10.22	$11.18	$10.18
Net debt to EBITDA (times)	**0.8x**	1.0x	1.6x	2.1x	4.3x	6.5x	7.5x	8.1x	6.2x	8.6x
Net debt to equity	**6%**	7%	12%	16%	35%	35%	48%	47%	44%	55%
Gearing	**5%**	7%	11%	13%	26%	26%	33%	32%	30%	35%
CONSOLIDATED CASH FLOW (HK$m)										
Net cash generated from operating activities	**1,208**	1,481	1,164	1,058	992	627	772	863	1,453	1,418
Capital expenditure	**417**	808	645	664	360	436	276	537	618	527
Net cash inflow/(outflow) after interest and dividends before financing activities	**597**	683	232	1,928	427	(156)	229	30	503	395
SHARE INFORMATION										
Highest share price (HK$)	**$14.50**	$15.46	$13.50	$9.65	$7.50	$5.60	$4.35	$5.40	$5.30	$7.70
Lowest share price (HK$)	**$5.13**	$10.90	$8.00	$6.40	$4.15	$2.78	$2.63	$2.03	$3.40	$4.53
Year end closing share price (HK$)	**$5.86**	$13.70	$13.14	$8.50	$6.95	$4.53	$3.30	$2.90	$4.30	$5.15

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 from 1999 to 2001 have not been restated in respect of HKAS 12 "Income taxes" or SSAP 12 (Revised) "Income taxes" as it is not practical to quantify the effects for those years.*

Financial Statements

Consolidated Income Statement *(HK$m)*

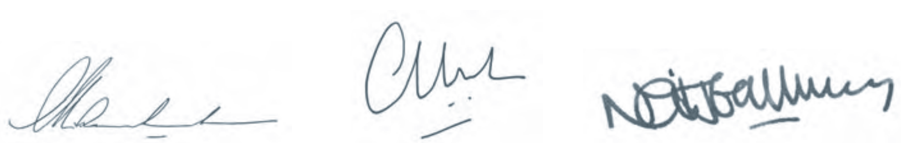
	Note	2008	2007
		Year ended 31 December	
Turnover	2	**4,938**	4,542
Cost of inventories		**(390)**	(380)
Staff costs and related expenses		**(1,553)**	(1,346)
Rent and utilities		**(525)**	(374)
Pre-opening expenses of a hotel	3	**–**	(83)
Other operating expenses		**(1,045)**	(849)
Operating profit before depreciation and amortisation ("EBITDA")		**1,425**	1,510
Depreciation and amortisation		**(374)**	(335)
Operating profit		**1,051**	1,175
Interest income		**40**	25
Financing charges	4(a)	**(108)**	(112)
Net financing charges		**(68)**	(87)
Share of loss of a jointly controlled entity		**(5)**	–
Profit before non-operating items	4	**978**	1,088
(Decrease)/increase in fair value of investment properties	13(a)	**(593)**	3,319
Provision for impairment losses, net	13(a)	**(176)**	(23)
Net loss on disposal of an unlisted equity instrument	5	**–**	(160)
Profit before taxation		**209**	4,224
Taxation			
Current tax	6	**(185)**	(171)
Deferred tax	6	**227**	(561)
Profit for the year		**251**	3,492
Attributable to:			
Shareholders of the Company	26(a)	**216**	3,437
Minority interests	26(a)	**35**	55
Profit for the year		**251**	3,492
Earnings per share, basic and diluted (HK$)	10	**0.15**	2.40
Dividends per share (HK cents)		**17**	18
Dividends payable to shareholders of the Company attributable to the year:	11		
Interim dividend declared during the year		**94**	86
Final dividend proposed after the balance sheet date		**152**	173
		246	259

The notes on pages 103 to 166 form part of these Financial Statements.

Consolidated Balance Sheet *(HK$m)*

	Note	At 31 December 2008	2007
Non-current assets			
Fixed assets			
Properties, plant and equipment		**5,791**	5,727
Investment properties		**20,577**	21,168
	13	**26,368**	26,895
Interest in a jointly controlled entity	15	**539**	509
Interests in unlisted equity instruments	16	**–**	–
Investment in a hotel management contract	17	**92**	95
Derivative financial instruments	18(a)	**38**	8
Deferred tax assets	19(b)	**38**	49
		27,075	27,556
Current assets			
Inventories	20	**114**	98
Debtors and payments in advance	21	**378**	425
Derivative financial instruments	18(a)	**25**	7
Cash and cash equivalents	22	**1,995**	1,414
		2,512	1,944
Current liabilities			
Creditors and accruals	23	**(1,188)**	(1,233)
Interest-bearing borrowings	24	**(695)**	(564)
Derivative financial instruments	18(a)	**(93)**	(116)
Current taxation	19(a)	**(90)**	(127)
		(2,066)	(2,040)
Net current assets/(liabilities)		**446**	(96)
Total assets less current liabilities		**27,521**	27,460
Non-current liabilities			
Interest-bearing borrowings	24	**(2,498)**	(2,305)
Net defined benefit retirement obligation	28(a)	**(21)**	(26)
Derivative financial instruments	18(a)	**(188)**	(99)
Deferred tax liabilities	19(b)	**(3,168)**	(3,413)
		(5,875)	(5,843)
Net assets		**21,646**	21,617
Capital and reserves			
Share capital	25	**725**	721
Reserves	26(a)	**19,987**	20,005
Total equity attributable to shareholders of the Company		**20,712**	20,726
Minority interests	26(a)	**934**	891
Total equity		**21,646**	21,617

Approved by the Board of Directors on 12 March 2009 and signed on its behalf by:



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

The notes on pages 103 to 166 form part of these Financial Statements.

Consolidated Cash Flow Statement *(HK$m)*

	Note	Year ended 31 December 2008	2007
Operating activities			
Profit before non-operating items		**978**	1,088
Adjustments for:			
Depreciation	13(a)	**371**	330
Amortisation of a hotel management contract	17	**3**	5
Interest income		**(40)**	(25)
Financing charges	4(a)	**108**	112
Share of loss of a jointly controlled entity		**5**	–
Loss on disposal of property, plant and equipment		**1**	8
Foreign exchange losses/(gains)		**8**	(1)
Operating profit before changes in working capital		**1,434**	1,517
Increase in inventories		**(14)**	(9)
Decrease/(increase) in debtors and payments in advance		**60**	(105)
(Decrease)/increase in creditors and accruals		**(51)**	213
Cash generated from operations		**1,429**	1,616
Net tax paid:			
Hong Kong Profits Tax paid		**(152)**	(61)
Overseas tax paid		**(69)**	(74)
Net cash generated from operating activities		**1,208**	1,481
Investing activities			
Payment for the purchase of property, plant and equipment		**(417)**	(808)
Payment for the acquisition of additional shareholding in a subsidiary company		**(3)**	–
Sales proceeds from disposal of an unlisted equity instrument		**–**	101
Repayment of capital contribution from an unlisted equity instrument	17	**–**	106
Proceeds from sale of property, plant and equipment		**3**	1
Net cash used in investing activities		**(417)**	(600)
Financing activities			
Drawdown of term loans		**–**	817
Repayment of term loans		**(120)**	(1,793)
Net increase in revolving credits		**126**	1,230
Payment for repurchase of shares		**(50)**	–
Interest received		**40**	25
Interest paid and other financing charges		**(140)**	(150)
Dividends paid to shareholders of the Company		**(89)**	(71)
Dividends paid to minority shareholders		**(5)**	(2)
Net cash (used in)/generated from financing activities		**(238)**	56
Net increase in cash and cash equivalents		**553**	937
Cash and cash equivalents at 1 January		**1,398**	433
Effect of changes in foreign exchange rates		**28**	28
Cash and cash equivalents at 31 December	22	**1,979**	1,398

The notes on pages 103 to 166 form part of these Financial Statements.

Parent Company Balance Sheet *(HK$m)*

	Note	At 31 December 2008	2007
Non-current assets			
Investments in subsidiaries	14	**–**	94
Derivative financial instruments	18(b)	**196**	94
		196	188
Current assets			
Debtors and payments in advance	21	**11,626**	11,963
Derivative financial instruments	18(b)	**108**	52
Cash and cash equivalents	22	**29**	20
		11,763	12,035
Current liabilities			
Bank overdraft	22	**(2)**	–
Creditors and accruals	23	**(18)**	(36)
Derivative financial instruments	18(b)	**(87)**	(52)
Current taxation	19(a)	**(3)**	(30)
		(110)	(118)
Net current assets		**11,653**	11,917
Non-current liabilities			
Deferred tax liabilities	19(b)	**(10)**	(1)
Derivative financial instruments	18(b)	**(158)**	(89)
		(168)	(90)
Net assets		**11,681**	12,015
Capital and reserves			
Share capital	25	**725**	721
Reserves	26(b)	**10,956**	11,294
Total equity		**11,681**	12,015

Approved by the Board of Directors on 12 March 2009 and signed on its behalf by:

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

The notes on pages 103 to 166 form part of these Financial Statements.

Consolidated Statement of Changes in Equity *(HK$m)*

	Note	2008	2008	2007	2007
		Year ended 31 December			
Total equity at 1 January					
Attributable to equity shareholders of the Company		**20,726**		16,982	
Minority interests		**891**		783	
			21,617		17,765
Net (loss)/income for the year recognised directly in equity					
Exchange differences on translation of financial statements of foreign entities		**10**		217	
Cash flow hedges:					
effective portion of changes in fair value, net of tax		**(93)**		(43)	
		(83)		174	
Transfer from equity					
Cash flow hedges: transfer from equity					
to profit or loss, net of tax		**5**		3	
to fixed assets, net of tax		**–**		4	
Exchange loss transferred to profit or loss on disposal of an unlisted equity instrument	5	**–**		252	
		5		259	
Net profit for the year		**251**		3,492	
Total recognised income for the year			**173**		3,925
Dividends	11				
Distributed to shareholders of the Company:					
by means of cash		**(89)**		(71)	
by means of scrip		**(178)**		(172)	
Paid in cash to minority interests		**(5)**		(2)	
			(272)		(245)
Issue of new shares	25		**178**		172
Share repurchased					
Par value	25	**(4)**		–	
Premium paid	25	**(46)**		–	
			(50)		–
Total equity at 31 December			**21,646**		21,617
Total recognised income for the year attributable to:					
Shareholders of the Company			**122**		3,815
Minority interests			**51**		110
			173		3,925

The notes on pages 103 to 166 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 and the Company is set out below.

The HKICPA has issued a number of new interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group and the Company. However, none of the new interpretations or amendment effective for the current accounting period are relevant to the Group's or the Company's operations. The Group and the Company have not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

(b) Basis of preparation of the Financial Statements

The consolidated Financial Statements for the year ended 31 December 2008 is comprised of 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 note 1(k)); and
iii) derivative financial instruments (see note 1(f)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

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 34.

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 Group, 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 allocates 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 one which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group 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 note 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.

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 entities, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

1. Significant accounting policies *continued*

(e) Equity instruments

The Group's long term investments which are equity in nature (other than investments in subsidiaries, associates and jointly-controlled entities), 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 non-financial 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 reclassified from equity to 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 reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

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 is reclassified from equity to profit or loss immediately.

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 is reclassified from equity to profit or loss. The ineffective portion is recognised immediately in profit or loss.

1. Significant accounting policies *continued*

(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 properties, 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, as well as 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 properties, 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 properties, 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.

(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 properties, 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.

1. Significant accounting policies *continued*

(j) Investments in hotel management contracts

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 investments 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 from the previous lessee.

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.

1. Significant accounting policies *continued*

(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 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.

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.

1. Significant accounting policies *continued*

(l) Impairment of assets *continued*

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;
- investments in hotel management contracts; and
- interests in subsidiaries and jointly-controlled entities.

If any such indication exists, the asset's recoverable amount is estimated.

- *Calculation of recoverable amount*

  The recoverable amount of an asset is the greater of its fair value less costs to sell 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*

  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.

  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 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.

1. Significant accounting policies *continued*

(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.

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.

1. Significant accounting policies *continued*

(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.

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 ten percent 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.

1. Significant accounting policies *continued*

(s) Income tax *continued*

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 assets 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.

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.

1. Significant accounting policies *continued*

(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.

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 profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss 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.

1. Significant accounting policies *continued*

(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.

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 relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

1. Significant accounting policies *continued*

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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.

(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. 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:

	2008	2007
Hotels		
Rooms	**1,856**	1,768
Food and beverage	**1,166**	1,031
Commercial rentals	**545**	463
Others	**305**	288
	3,872	3,550
Rentals from non-hotel properties	**607**	539
Other businesses	**459**	453
	4,938	4,542

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

The Group incurred the following pre-opening expenses for The Peninsula Tokyo (PTK), which is owned by Peninsula of Tokyo Limited, a wholly-owned subsidiary of the Company. PTK was opened in September 2007.

	2008	2007
Staff costs and related expenses	**–**	36
Rent and utilities	**–**	4
Other operating expenses	**–**	43
	–	83

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

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

(a) Financing charges

	2008	2007
Interest on bank borrowings wholly repayable within five years	**68**	102
Other borrowing costs	**3**	5
Total interest expenses on financial liabilities carried at amortised cost	**71**	107
Derivative financial instruments:		
cash flow hedges, transfer from equity	**27**	10
held for trading, at fair value through profit or loss*	**5**	6
Others**	**5**	(2)
	108	121
Less: Amount capitalised into assets under development***	**–**	(9)
	108	112

* *Mainly represents the change in fair value of interest rate swaps held for trading.*

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

*** *The weighted average interest rate used for capitalisation in 2007 was 1.9%.*

(b) Other items

	2008	2007
Amortisation of hotel management contract	**3**	5
Depreciation	**371**	330
Auditors' remuneration:		
audit services	**9**	8
tax and other services	**4**	1
Foreign exchange losses/(gains)	**8**	(1)
Operating lease charges, including contingent rent of **HK$10 million** (2007: HK$12 million) (note 32(b))	**222**	112
Interest income	**(40)**	(25)
Rental receivable from investment properties less direct outgoings of **HK$17 million** (2007: HK$18 million)	**(995)**	(905)

5. Net loss on disposal of an unlisted equity instrument

The net loss on disposal of an unlisted equity instrument during 2007 relates to disposal of the Group's entire 20% interest in PT Ciputra Adigraha, an unlisted equity instrument in Indonesia.

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

(a) Taxation in the consolidated income statement represents:

	2008	2007
Current tax – Hong Kong Profits Tax		
Provision for the year	**122**	99
Over-provision in respect of prior years	**(4)**	(4)
	118	95
Current tax – Overseas		
Provision for the year	**67**	79
Over-provision in respect of prior years	**–**	(3)
	67	76
	185	171
Deferred tax		
(Decrease)/increase in net deferred tax liabilities relating to revaluation of investment properties in:		
Hong Kong*	**(74)**	560
Overseas	**(40)**	47
Decrease in deferred tax liabilities relating to the provision for impairment losses	**(49)**	(9)
Effect of decrease in tax rate on deferred tax balances as at 1 January		
Hong Kong	**(175)**	–
Overseas	**–**	(56)
Increase in net deferred tax liabilities relating to other temporary differences	**105**	13
Transfer from hedging reserve	**6**	6
	(227)	561
Total	**(42)**	732

In June 2008, the Hong Kong Government enacted a change in the profits tax rate in Hong Kong from 17.5% to 16.5% commencing with the fiscal year 2008/09. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at **16.5%** (2007: 17.5%) of the estimated assessable profits for the year and a deferred tax credit of **HK$175 million** (2007: HK$nil) in respect of deferred tax balances as at 1 January 2008 has been recorded in the Group's consolidated income statement for the current year.

In March 2007, the government of the People's Republic of China (PRC) enacted 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 was recorded in the Group's consolidated income statement during the previous year.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

* *It should be noted that 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.*

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

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

	2008	2007
Profit before taxation	**209**	4,224
Notional tax at the domestic income tax rate of **16.5%** (2007: 17.5%)	**35**	739
Tax effect of non-deductible expenses	**18**	32
Tax effect of non-taxable income	**(5)**	(11)
Tax effect of utilisation of previously unrecognised tax losses	**(2)**	(36)
Tax effect of tax losses not recognised	**51**	4
Effect of change in tax rate on deferred tax balances as at 1 January	**(175)**	(56)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**41**	63
Others	**(5)**	(3)
Actual tax (benefit)/expense	**(42)**	732

7. 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.

7. 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$200,000 per annum** (2007: HK$100,000 per annum). The 2008 fee level was approved at the Annual General Meeting on 7 May 2008 and took effect on 8 May 2008. Non-Executive Directors who are also members of the Executive Committee or the Audit Committee are entitled to a fixed fee of **HK$100,000 per annum** (2007: HK$100,000 per annum) for each Committee during the year. In addition, Non-Executive Directors who are also members of the Remuneration Committee are entitled to a fixed fee of **HK$50,000 per annum** (2007: HK$nil).

Remuneration for Directors disclosed pursuant to section 161 of the Hong Kong Companies Ordinance and that for senior management disclosed pursuant to the Listing Rules are as follows:

	Directors' fees (HK$000)	Basic compensation (HK$000)	Bonuses and incentives (HK$000)	Retirement benefits (HK$000)	Total Δ (HK$000)
2008					
*Executive Directors**					
Mr. Clement K.M. Kwok	–	**4,628**	**5,905**	**737**	**11,270**
Mr. Neil J. Galloway**	–	**1,329**	**701**	**205**	**2,235**
Mr. Peter C. Borer	–	**3,372**	**2,293**	**515**	**6,180**
Mr. C. Mark Broadley***	–	**1,007**	–	**149**	**1,156**
Non-Executive Directors					
The Hon. Sir Michael Kadoorie	**265**	–	–	–	**265**
Mr. Ian D. Boyce	**397**	–	–	–	**397**
Mr. Ronald J. McAulay	**165**	–	–	–	**165**
Mr. William E. Mocatta	**165**	–	–	–	**165**
Mr. Pierre R. Boppe	**165**	–	–	–	**165**
Mr. John A.H. Leigh	**265**	–	–	–	**265**
Mr. Nicholas T. J. Colfer	**165**	–	–	–	**165**
Independent Non-Executive Directors					
Dr. The Hon. Sir David K.P. Li	**165**	–	–	–	**165**
Mr. Robert C.S. Ng	**265**	–	–	–	**265**
Mr. Robert W. Miller	**197**	–	–	–	**197**
Mr. Patrick B. Paul	**297**	–	–	–	**297**
Senior management (other members of Group Management Committee)*					
Mr. Martyn P.A. Sawyer	–	**2,945**	**329**	**286**	**3,560**
Mrs. Maria Razumich-Zec#	–	**3,161**	**353**	**164**	**3,678**
	2,511	**16,442**	**9,581**	**2,056**	**30,590**

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

	Directors' fees (HK$000)	Basic compensation (HK$000)	Bonuses and incentives (HK$000)	Retirement benefits (HK$000)	Compensation for loss of office (HK$000)	Total Δ (HK$000)
2007						
*Executive Directors**						
Mr. Clement K.M. Kwok	–	4,426	5,894	691	–	11,011
Mr. Peter C. Borer	–	3,221	2,154	477	–	5,852
Mr. C. Mark Broadley***	–	3,733	3,280	573	–	7,586
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. Martyn P.A. Sawyer	–	2,862	483	278	–	3,623
Mrs. Maria Razumich-Zec#	–	2,938	571	140	–	3,649
Mr. J. Niklaus Leuenberger##	–	1,697	–	123	5,187	7,007
	1,700	18,877	12,382	2,282	5,187	40,428

Δ *In line with industry practice, the Group operates a scheme which encourages Directors and senior management to use the facilities of the Group to promote its business. For this purpose, discount cards are issued to the Directors and senior management. The remuneration disclosed does not include the amount of discounts offered to the Directors and senior management.*

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

** *Mr. Neil J. Galloway was appointed as an Executive Director of the Company on 1 September 2008.*

*** *Mr. C. Mark Broadley resigned as an Executive Director of the Company on 31 March 2008.*

\# *Mrs. 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 in May 2007. The above figures include her remuneration of HK$1,084,000 in her capacity as General Manager in 2007.*

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

8. Individuals with the highest emoluments (HK$000)

Of the five individuals with the highest emoluments, **four** (2007: five) are Directors and senior management whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining **one** (2007: nil) individual is as follows:

	2008	2007
Basic compensation	**3,274**	–
Bonuses and incentives	**255**	–
Retirement benefits	**251**	–
	3,780	–

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

The profit attributable to shareholders of the Company includes a profit of **HK$153 million** (2007: HK$129 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:

	2008	2007
Amount of profit attributable to shareholders dealt with in the Financial Statements of the Company	**153**	129
(Provision for)/reversal of impairment losses for interests in subsidiaries	**(408)**	754
Gain on disposal of interest in a subsidiary company within the Group	**15**	–
Company's (loss)/profit for the year	**(240)**	883

At 31 December 2008, the Directors considered that the value of interests in certain subsidiaries was impaired mainly due to decreases in the value of properties owned by them. The property values have been primarily determined by independent professional valuers. As a result, a provision for impairment loss of HK$408 million has been made.

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

10. Earnings per share

(a) Earnings per share – basic

	2008	2007
Profit attributable to shareholders of the Company (HK$m)	**216**	3,437
Weighted average number of shares in issue (million shares)	**1,447**	1,434
Earnings per share (HK$)	**0.15**	2.40

	2008 (million shares)	*2007 (million shares)*
Issued shares at 1 January	***1,442***	*1,428*
Effect of repurchase of shares	***(1)***	*–*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2007 final and 2008 interim dividends	***6***	*6*
Weighted average number of shares at 31 December	***1,447***	*1,434*

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2008 and 2007 and hence the diluted earnings per share is the same as basic earnings per share.

11. Dividends (HK$m)

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

	2008	2007
Interim dividend declared and paid of **HK6.5 cents per share** (2007: HK6 cents per share)	**94**	86
Final dividend proposed after the balance sheet date of **HK10.5 cents per share** (2007: HK12 cents per share)	**152**	173
	246	259

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

	2008	2007
Final dividend in respect of the previous financial year, approved and paid during the year, of **HK12 cents per share** (2007: HK11 cents per share)	**173**	157

12. 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 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 seasonal volatility.

(a) Business segments

The Group comprises the following main business segments:

Hotels	Renting of 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 Tram, 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.

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

(a) Business segments *continued*

	Hotels		Rentals from non-hotel properties		Other businesses		Inter-segment elimination		Consolidated	
	For the year ended 31 December									
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Segment turnover and results										
Turnover										
External segment	**3,872***	3,550	**607**	539	**459**	453	**–**	–	**4,938**	4,542
Inter-segment	**7**	7	**12**	9	**21**	15	**(40)**	(31)	**–**	–
	3,879	3,557	**619**	548	**480**	468	**(40)**	(31)	**4,938**	4,542
Segment operating profit before depreciation and amortisation	**870**	989	**459**	405	**96**	116	**–**	–	**1,425**	1,510
Depreciation and amortisation	**(347)**	(311)	**–**	–	**(27)**	(24)	**–**	–	**(374)**	(335)
Segment operating profit	**523**	678	**459**	405	**69**	92	**–**	–	**1,051**	1,175
Interest income									**40**	25
Financing charges									**(108)**	(112)
Net financing charges									**(68)**	(87)
Share of loss of a jointly-controlled entity	**(5)**	–	**–**	–	**–**	–	**–**	–	**(5)**	–
Profit before non-operating items									**978**	1,088
(Decrease)/increase in fair value of investment properties	**(285)**	996	**(284)**	2,323	**(24)**	–	**–**	–	**(593)**	3,319
(Provision for)/reversal of impairment losses	**(167)**	(24)	**–**	–	**(9)**	1	**–**	–	**(176)**	(23)
Net loss on disposal of an unlisted equity instrument	**–**	–	**–**	–	**–**	(160)	**–**	–	**–**	(160)
Profit before taxation									**209**	4,224
Taxation									**42**	(732)
Profit for the year									**251**	3,492

* *Analysis of hotels' turnover*

	2008	*2007*
Rooms	***1,856***	*1,768*
Food and beverage	***1,166***	*1,031*
Commercial rentals	***545***	*463*
Others	***305***	*288*
	3,872	*3,550*

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

(a) Business segments *continued*

	Hotels		Rentals from non-hotel properties		Other businesses		Inter-segment elimination		Consolidated	
	As at 31 December									
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Segment balance sheet										
Assets										
Properties, plant and equipment	**5,411**	5,332	**–**	–	**380**	395	**–**	–	**5,791**	5,727
Investment properties	**7,464**	7,759	**12,732**	12,992	**381**	417	**–**	–	**20,577**	21,168
Interest in a jointly-controlled entity	**539**	509	**–**	–	**–**	–	**–**	–	**539**	509
Investment in a hotel management contract	**92**	95	**–**	–	**–**	–	**–**	–	**92**	95
Other segment assets	**400**	433	**26**	32	**67**	59	**(1)**	(1)	**492**	523
Derivative financial instruments									**63**	15
Deferred tax assets									**38**	49
Cash and cash equivalents									**1,995**	1,414
Total assets									**29,587**	29,500
Liabilities										
Segment liabilities	**762**	828	**222**	215	**226**	217	**(1)**	(1)	**1,209**	1,259
Bank loans and other liabilities									**6,732**	6,624
Total liabilities									**7,941**	7,883
Capital expenditure incurred during the year	**332**	592	**30**	39	**32**	64	**–**	–	**394**	695

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

(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	
	2008	2007	**2008**	2007	**2008**	2007
For the year ended 31 December						
Revenue from external customers	**2,056**	1,910	**1,740**	1,314	**1,142**	1,318
Segment assets	**19,855**	20,302	**5,170**	5,108	**2,466**	2,612
Capital expenditure incurred during the year	**79**	102	**169**	517	**146**	76
Depreciation and amortisation	**78**	69	**201**	142	**95**	124

13. Fixed assets (HK$m)

(a) Movements of fixed assets

	Group						
	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 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
At 1 January 2008	**971**	**6,524**	**3,621**	**11,116**	**21,168**	**1**	**32,285**
Exchange adjustments	**(23)**	**37**	**102**	**116**	**49**	**–**	**165**
Additions	**–**	**154**	**209**	**363**	**31**	**–**	**394**
Disposals	**–**	**(69)**	**(154)**	**(223)**	**–**	**–**	**(223)**
Transfer	**–**	**78**	**–**	**78**	**(78)**	**–**	**–**
Fair value adjustment	**–**	**–**	**–**	**–**	**(593)**	**–**	**(593)**
At 31 December 2008	**948**	**6,724**	**3,778**	**11,450**	**20,577**	**1**	**32,028**
Representing:							
Cost	**948**	**6,724**	**3,778**	**11,450**	**–**	**1**	**11,451**
Valuation – 2008	**–**	**–**	**–**	**–**	**20,577**	**–**	**20,577**
	948	**6,724**	**3,778**	**11,450**	**20,577**	**1**	**32,028**
Accumulated depreciation and impairment losses:							
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
At 1 January 2008	**365**	**2,725**	**2,299**	**5,389**	**–**	**1**	**5,390**
Exchange adjustments	**(12)**	**(58)**	**12**	**(58)**	**–**	**–**	**(58)**
Charge for the year	**–**	**145**	**226**	**371**	**–**	**–**	**371**
Provision for impairment losses, net	**37**	**111**	**28**	**176**	**–**	**–**	**176**
Written back on disposals	**–**	**(68)**	**(151)**	**(219)**	**–**	**–**	**(219)**
At 31 December 2008	**390**	**2,855**	**2,414**	**5,659**	**–**	**1**	**5,660**
Net book value:							
At 31 December 2008	**558**	**3,869**	**1,364**	**5,791**	**20,577**	**–**	**26,368**
At 31 December 2007	606	3,799	1,322	5,727	21,168	–	26,895

13. Fixed assets (HK$m) *continued*

(a) Movements of fixed assets *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 accounting policy as disclosed in note 1(l).

Based on this assessment, the Directors considered that impairment provisions were required in respect of The Peninsula Chicago and Quail Lodge Resort and Golf Course as at 31 December 2008, due to the adverse operating environment and the current condition of the property market. On this basis, the carrying amounts of these two properties were written down by **HK$126 million** (2007: HK$nil) and **HK$53 million** (2007: HK$25 million) respectively to their respective recoverable amounts, being their fair values less costs to sell as determined by an independent professional valuer.

The Directors also considered that, due to the improvement in the industrial property market in Hong Kong, the impairment provision previously made against the Tai Pan factory should be fully reversed by **HK$3 million** (2007: HK$2 million) to its original cost less accumulated depreciation. The reversal of the impairment provision was determined based on the recoverable amount of the property.

(b) All investment properties of the Group were revalued as at 31 December 2008 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 valuers independent of the Group who have staff with experience in the location and category of property being valued. Details of the valuers 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	Members of The Royal Institution of Chartered Surveyors
	Jones Lang LaSalle Hotels	Members of the Institute of Surveyors and Valuers, Singapore
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.*

13. Fixed assets (HK$m) *continued*

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

		2008	2007
Hong Kong	– long term leases	**16,477**	17,024
	– medium term leases	**570**	634
		17,047	17,658
Thailand	– freehold	**648**	677
Vietnam	– medium term lease	**60**	59
Other Asia		**708**	736
United States of America	– freehold	**318**	368
		18,073	18,762
Representing:			
Land classified as investment properties, at fair value		**17,515**	18,156
Freehold land held for own use		**558**	606
		18,073	18,762

(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 earned from these leases were immaterial during 2008 and 2007. 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 30(b).

(e) Assets under development

Included within properties, plant and equipment are assets under development amounting to **HK$138 million** (2007: HK$58 million), which were not subject to depreciation.

13. Fixed assets (HK$m) *continued*

(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
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

13. Fixed assets (HK$m) *continued*

(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 2008. The total valuation placed on the hotel properties and golf courses, which have a net book value of **HK$5,651 million** (2007: HK$5,596 million), was **HK$9,477 million** (2007: HK$9,793 million) as at 31 December 2008. It is important to note that the surplus of **HK$3,826 million** (2007: 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.*

14. Investments in subsidiaries (HK$m)

	Company	
	2008	2007
Unlisted shares, at cost	–	94

During the year, 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 (HK$109 million), resulting in a net gain on disposal of HK$15 million recognised in the Company's Financial Statements. The disposal had no material impact on the Group's consolidated Financial Statements.

14. Investments in subsidiaries (HK$m) *continued*

The following list contains only the particulars of subsidiaries which principally affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
HSH Holdings Limited	Hong Kong	2 shares of HK$1 each	100%	Investment holding
The Peninsula Hotel Limited	Hong Kong	2 shares of HK$1 each	100%*	Hotel investment
The Repulse Bay Apartments Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
The Repulse Bay Company, Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
The Peak Tower Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
Peak Tramways Company, Limited	Hong Kong	450,000 shares of HK$10 each	100%*	Tramway operation
St. John's Building Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
Peninsula Merchandising Limited	Hong Kong	2 shares of HK$1 each	100%*	Wholesaling and retailing of merchandise
Tai Pan Laundry & Dry Cleaning Services, Limited	Hong Kong	5,000,000 shares of HK$1 each	100%*	Laundry and dry cleaning services
HSH Financial Services Limited	Hong Kong	1 share of HK$1 each	100%	Lending and borrowing of funds
Peninsula Management Holdings Limited	British Virgin Islands/ International	1 share of US$1 each	100%	Investment holding
Peninsula Clubs and Consultancy Services Limited	Hong Kong	1,000,000 shares of HK$1 each	100%*	Club management
HSH Management Services Limited	Hong Kong	10,000 shares of HK$10 each	100%*	Management and marketing services
Peninsula International (USA) Limited	United States of America	1,200 shares of US$1 each	100%*	Investment holding

14. Investments in subsidiaries (HK$m) *continued*

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
Peninsula of New York, Inc.	United States of America	1,000 shares of US$0.01 each	100%*	Investment holding
Peninsula Chicago LLC	United States of America	Contributed capital of US$57,038,089	92.5%*	Hotel investment
Quail Lodge, Inc.	United States of America	10,652 shares of US$100 each	100%*	Resort, golf club and property investment
Peninsula Beverly Hills, Inc.	United States of America	1,000 shares of US$0.01 each	100%*	Investment holding
Peninsula International Investment Holdings Limited	British Virgin Islands/Asia	1 share of US$1 each	100%	Investment holding
Peninsula of Tokyo Limited	Japan	200 shares of ¥50,000 each	100%*	Hotel investment
The Palace Hotel Co., Ltd.	The People's Republic of China	Registered capital of US$161,921,686	42.13%**	Hotel investment
Manila Peninsula Hotel, Inc.	The Philippines	111,840,386 shares of Pesos 10 each	77.36%*#	Hotel investment
Siam Chaophraya Holdings Company Limited	Thailand	250,000 ordinary shares of THB2,000 each	75%*	Hotel investment
Town and Country Sport Club Company Limited	Thailand	1,250,000 ordinary shares of THB100 each[Δ]	75%*	Golf club and property investment
International Burotel Company Limited	Vietnam	Registered capital of US$6,866,667	70%*	Property investment
Peninsula International (Lux) Limited S. à r.l.	Luxembourg/ France	12,500 shares of EUR1 each	100%*	Investment holding

* *Indirectly held.*

** *The Palace Hotel Co., Ltd. (TPH) is a sino-foreign co-operative joint venture registered under PRC laws in which the Group owns 42.13% of the registered capital. TPH is indirectly held and is included as a subsidiary company as the Group controls 76.6% of its voting power.*

\# *During the year, the Group acquired an additional 1.27% equity interest in Manila Peninsula Hotel, Inc. (MPHI) at a consideration of Philippine Pesos 15 million (HK$3 million), increasing the Group's ownership interest in MPHI from 76.09% to 77.36%.*

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

15. Interest in a jointly-controlled entity (HK$m)

	Group	
	2008	2007
Unlisted shares, at cost (note 15(a))	**–**	–
Share of exchange reserve	**90**	55
Share of losses	**(9)**	(4)
Share of net assets	**81**	51
Loan to a jointly-controlled entity (note 15(b))	**458**	458
	539	509

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

Company name	Form of business structure	Place of incorporation/ formation	Particulars of issued and paid up capital	Proportion of ownership interest: 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-owned foreign 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 2008, the paid up capital of EGL and PSW amounted to* ***HK$1*** *(2007: HK$1) and* ***US$117,500,000*** *(2007: 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. The entire loan was contributed as capital of PSW described in note 15(a) above.

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

	2008	2007
Non-current assets	**2,034**	1,274
Current assets	**38**	24
Current liabilities	**(134)**	(85)
Non-current liabilities	**(1,775)**	(1,111)
Net assets	**163**	102
Expenses and losses for the year	**(9)**	(1)

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

	Group	
	2008	2007
Available for sale unlisted equity instruments, at net cost	**–**	43
Less: Repayment (note 17)	**–**	(43)
	–	–

Unlisted equity instruments include:

	Ownership interest held indirectly	Place of establishment
The Belvedere Hotel Partnership (BHP)	20%	United States of America
Inncom International, Inc. (Inncom)	17.45%	United States of America

BHP holds a 100% interest in The Peninsula Beverly Hills. The Group considers it 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** (2007: US$140 million). The net carrying amount of these pledged assets amounted to **US$66 million** (2007: US$65 million). BHP is an unlimited partnership and the partners are jointly and severally liable for its liabilities.

Inncom engages in developing energy management and integrated room automation systems for the lodging industry. The Group's interest in Inncom has been fully provided for in previous years.

17. Investment in a hotel management contract (HK$m)

	Group	
	2008	2007
Investment in a hotel management contract, at cost	**248**	248
Less: Repayment	**(63)**	(63)
Less: Accumulated amortisation	**(93)**	(90)
	92	95

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 the hotel management contract respectively.

18. Derivative financial instruments (HK$m)

(a) Group

	2008 Assets	2008 Liabilities	2007 Assets	2007 Liabilities
Cash flow hedges				
Interest rate swaps	–	(161)	1	(61)
Currency swap	–	–	–	(23)
	–	(161)	1	(84)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	59	(109)	9	(89)
Currency swaps	4	(11)	5	(42)
Total	63	(281)	15	(215)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	–	(42)	–	(15)
Currency swap	–	–	–	(23)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	21	(40)	2	(36)
Currency swaps	4	(11)	5	(42)
	25	(93)	7	(116)
Portion to be recovered/(settled) after one year	38	(188)	8	(99)

(b) Company

	2008 Assets	2008 Liabilities	2007 Assets	2007 Liabilities
Cash flow hedges				
Interest rate swaps	59	–	8	(3)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	234	(234)	133	(133)
Currency swap	11	(11)	5	(5)
Total	304	(245)	146	(141)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	21	–	2	(2)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	76	(76)	45	(45)
Currency swap	11	(11)	5	(5)
	108	(87)	52	(52)
Portion to be recovered/(settled) after one year	196	(158)	94	(89)

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

(a) Current taxation in the balance sheet represents:

	Group		Company	
	2008	2007	**2008**	2007
Provision for Hong Kong profits tax for the year	**122**	99	**13**	23
Provisional profits tax paid	**(75)**	(24)	**(10)**	–
	47	75	**3**	23
Balance of Hong Kong profits tax provision relating to prior years	**5**	11	**–**	7
Provision for overseas taxes	**38**	41	**–**	–
	90	127	**3**	30

(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 2007	2,556	574	(28)	(296)	(24)	2,782
Charged/(credited) to profit or loss	590	(44)	–	9	6	561
Charged to reserves	10	14	2	–	(5)	21
At 31 December 2007	3,156	544	(26)	(287)	(23)	3,364
At 1 January 2008	**3,156**	**544**	**(26)**	**(287)**	**(23)**	**3,364**
Charged/(credited) to profit or loss	**(284)**	**(34)**	**8**	**77**	**6**	**(227)**
Charged to reserves	**9**	**5**	**–**	**(9)**	**(12)**	**(7)**
At 31 December 2008	**2,881**	**515**	**(18)**	**(219)**	**(29)**	**3,130**

The balance as at 31 December 2008 includes a provision for deferred tax liabilities in respect of revaluation of the Group's investment properties in Hong Kong amounting to **HK$2,723 million** (2007: HK$2,967 million). The Directors have no current 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.

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

(b) Deferred tax assets and liabilities recognised *continued*

	Group 2008	Group 2007
Net deferred tax assets recognised in the balance sheet	**(38)**	(49)
Net deferred tax liabilities recognised in the balance sheet	**3,168**	3,413
	3,130	3,364

	Company 2008	Company 2007
Deferred tax liabilities arising from cash flow hedges	**10**	1

(c) Deferred tax assets not recognised

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

	Group 2008	Group 2007
Book depreciation in excess of the depreciation allowances	**22**	89
Future benefit of tax losses	**272**	45
Provisions and others	**7**	25
	301	159

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax assets in respect of certain accumulated tax losses of **HK$789 million** (2007: HK$140 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 2008	Group 2007
Within 1 year	**37**	41
After 1 year but within 5 years	**67**	44
After 5 years but within 20 years	**670**	30
Without expiry date	**15**	25
	789	140

(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$121 million** (2007: HK$200 million) in respect of unremitted earnings of certain subsidiaries amounting to **HK$688 million** (2007: HK$1,001 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.

20. Inventories (HK$m)

	Group	
	2008	2007
Food and beverage and others	**114**	98

The cost of inventories recognised as expenses in the consolidated income statement amounted to **HK$390 million** (2007: HK$380 million).

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

	Group		Company	
	2008	2007	**2008**	2007
Loans and other receivables due from subsidiaries	**–**	–	**13,398**	13,855
Provision for impairment	**–**	–	**(1,786)**	(1,901)
	–	–	**11,612**	11,954
Trade debtors (ageing analysis is shown below)	**198**	227	**–**	–
Loans and receivables	**198**	227	**11,612**	11,954
Rental deposits and payments in advance	**180**	198	**14**	9
	378	425	**11,626**	11,963

Loans and other receivables due from subsidiaries are unsecured, interest free and have no fixed terms of repayment except for an amount of **HK$2,857 million** (2007: HK$2,890 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$88 million** (2007: HK$67 million) and **HK$10,161 million** (2007: HK$10,543 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	
	2008	2007
Current	**159**	170
Less than 1 month past due	**25**	33
1 to 3 months past due	**13**	21
More than 3 months but less than 12 months past due	**1**	3
Amounts past due	**39**	57
	198	227

Trade debtors are normally due within 30 days from the date of billing. The Group's credit policy is set out in note 29(d).

22. Cash and cash equivalents (HK$m)

	Group		Company	
	2008	2007	**2008**	2007
Interest-bearing bank deposits	**1,972**	1,372	**29**	20
Cash at bank and in hand	**23**	42	**–**	–
Cash and cash equivalents in the balance sheet	**1,995**	1,414	**29**	20
Bank overdrafts (note 24)	**(16)**	(16)	**(2)**	–
Cash and cash equivalents in the consolidated cash flow statement	**1,979**	1,398	**27**	20

Cash and cash equivalents at the end of the year include deposits with banks of **HK$577 million** (2007: HK$493 million) held by subsidiaries that are not freely remittable to the holding company because of currency exchange restrictions.

23. Creditors and accruals (HK$m)

	Group		Company	
	2008	2007	**2008**	2007
Trade creditors (ageing analysis is shown below)	**109**	142	**–**	–
Interest payable	**4**	6	**–**	–
Accruals for fixed assets	**20**	42	**–**	–
Tenants' deposits	**296**	278	**–**	–
Golf membership deposits	**109**	114	**–**	–
Other payables	**650**	651	**13**	14
Other payables to subsidiaries	**–**	–	**5**	22
Financial liabilities measured at amortised cost	**1,188**	1,233	**18**	36

The amount of creditors and accruals of the Group expected to be settled or recognised as income after more than one year is **HK$334 million** (2007: HK$349 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	
	2008	2007	**2008**	2007
Less than 3 months	**109**	141	**–**	–
More than 6 months	**–**	1	**–**	–
	109	142	**–**	–

24. Interest-bearing borrowings (HK$m)

	Group	
	2008	2007
Total facilities available:		
Term loans and revolving credits	**4,225**	3,840
Uncommitted facilities, including bank overdrafts	**355**	457
	4,580	4,297
Utilised at 31 December:		
Term loans and revolving credits	**3,177**	2,833
Uncommitted facilities, including bank overdrafts	**16**	36
	3,193	2,869
Represented by:		
Short term bank loans, repayable within one year or on demand	**679**	548
Bank overdrafts, repayable on demand (note 22)	**16**	16
	695	564
Long term bank loans, repayable:		
Between one and two years	**640**	580
Between two and five years	**1,858**	1,725
Non-current portion of long term bank loans	**2,498**	2,305
Total interest-bearing borrowings	**3,193**	2,869

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

All of the Group's banking facilities are subject to the fulfilment 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 29. As at 31 December 2008 and 2007, none of the covenants relating to drawn down facilities had been breached.

25. Share capital

	2008	2007
Number of shares of HK$0.50 each (million shares)		
Authorised	**1,800**	1,800
Issued		
At 1 January	**1,442**	1,428
Repurchase of shares (note (a))	**(8)**	–
New shares issued under scrip dividend scheme (note (b))	**16**	14
At 31 December	**1,450**	1,442
Nominal value of shares (HK$m)		
Authorised	**900**	900
Issued		
At 1 January	**721**	714
Repurchase of shares (note (a))	**(4)**	–
New shares issued under scrip dividend scheme (note (b))	**8**	7
At 31 December	**725**	721

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.

(a) During the year, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$m
October 2008	7,545,000	6.83	6.26	50

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The aggregate price of **HK$50 million** (2007: HK$nil) paid to repurchase the Company's shares was charged to the general reserve and pursuant to section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled of **HK$4 million** (2007: HK$nil) was transferred from the general reserve to the capital redemption reserve.

25. Share capital *continued*

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

	Number of shares million	Scrip price HK$	Increase in Share capital HK$m	Increase in Share premium HK$m
2008				
2007 final scrip dividend	**10**	**13.704**	**5**	**126**
2008 interim scrip dividend	**6**	**7.394**	**3**	**44**
	16		**8**	**170**
2007				
2006 final scrip dividend	10	12.584	5	111
2007 interim scrip dividend	4	13.808	2	54
	14		7	165

26. 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 2007	2,785	9	(18)	(524)	1,098	12,918	16,268	783	17,051
Dividends approved in respect of the previous year									
– by means of cash	–	–	–	–	–	(41)	(41)	–	(41)
– by means of scrip	111	–	–	–	–	(116)	(5)	–	(5)
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									
– by means of cash	–	–	–	–	–	(30)	(30)	(2)	(32)
– by means of scrip	54	–	–	–	–	(56)	(2)	–	(2)
At 31 December 2007	2,950	9	(53)	(111)	1,098	16,112	20,005	891	20,896
At 1 January 2008	**2,950**	**9**	**(53)**	**(111)**	**1,098**	**16,112**	**20,005**	**891**	**20,896**
Dividends approved in respect of the previous year									
– by means of cash	**–**	**–**	**–**	**–**	**–**	**(42)**	**(42)**	**–**	**(42)**
– by means of scrip	**126**	**–**	**–**	**–**	**–**	**(131)**	**(5)**	**–**	**(5)**
Repurchase of shares	**–**	**4**	**–**	**–**	**(50)**	**–**	**(46)**	**–**	**(46)**
Acquisition of additional shareholding in a subsidiary company	**–**	**–**	**–**	**1**	**–**	**2**	**3**	**(3)**	**–**
Exchange differences on translation of financial statements of									
– overseas subsidiaries	**–**	**–**	**–**	**(41)**	**–**	**–**	**(41)**	**16**	**(25)**
– a jointly controlled entity	**–**	**–**	**–**	**35**	**–**	**–**	**35**	**–**	**35**
Cash flow hedges: effective portion of changes in fair value, net of tax	**–**	**–**	**(93)**	**–**	**–**	**–**	**(93)**	**–**	**(93)**
Cash flow hedges: transfer from equity to									
– profit or loss, net of tax	**–**	**–**	**5**	**–**	**–**	**–**	**5**	**–**	**5**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**216**	**216**	**35**	**251**
Dividends declared in respect of the current year									
– by means of cash	**–**	**–**	**–**	**–**	**–**	**(47)**	**(47)**	**(5)**	**(52)**
– by means of scrip	**44**	**–**	**–**	**–**	**–**	**(47)**	**(3)**	**–**	**(3)**
At 31 December 2008	**3,120**	**13**	**(141)**	**(116)**	**1,048**	**16,063**	**19,987**	**934**	**20,921**

26. Reserves (HK$m) *continued*

(b) Company

	Share premium	Capital redemption reserve	Capital reserve	Hedging reserve	General reserve	Retained profits	Total
At 1 January 2007	2,785	9	4,975	(23)	980	1,736	10,462
Dividends approved in respect of the previous year							
– by means of cash	–	–	–	–	–	(41)	(41)
– by means of scrip	111	–	–	–	–	(116)	(5)
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							
– by means of cash	–	–	–	–	–	(30)	(30)
– by means of scrip	54	–	–	–	–	(56)	(2)
At 31 December 2007	2,950	9	4,975	4	980	2,376	11,294
At 1 January 2008	**2,950**	**9**	**4,975**	**4**	**980**	**2,376**	**11,294**
Dividends approved in respect of the previous year							
– by means of cash	**–**	**–**	**–**	**–**	**–**	**(42)**	**(42)**
– by means of scrip	**126**	**–**	**–**	**–**	**–**	**(131)**	**(5)**
Repurchase of shares	**–**	**4**	**–**	**–**	**(50)**	**–**	**(46)**
Cash flow hedge: effective portion of changes in fair value, net of tax	**–**	**–**	**–**	**36**	**–**	**–**	**36**
Cash flow hedge: transfer from equity to profit or loss, net of tax	**–**	**–**	**–**	**9**	**–**	**–**	**9**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(240)**	**(240)**
Dividends declared in respect of the current year							
– by means of cash	**–**	**–**	**–**	**–**	**–**	**(47)**	**(47)**
– by means of scrip	**44**	**–**	**–**	**–**	**–**	**(47)**	**(3)**
At 31 December 2008	**3,120**	**13**	**4,975**	**49**	**930**	**1,869**	**10,956**

26. Reserves (HK$m) *continued*

(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.

(d) Distributability of reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to shareholders of the Company, as calculated under the provision of section 79B of the Hong Kong Companies Ordinance was **HK$2,799 million** (2007: HK$3,356 million). After the balance sheet date the Directors proposed a final dividend of **HK10.5 cents per share** (2007: HK12 cents per share), amounting to **HK$152 million** (2007: HK$173 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.

26. Reserves (HK$m) *continued*

(e) Capital management *continued*

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 2008 and 2007 are as follows:

(HK$m)	**2008**	2007
Interest-bearing borrowings	**3,193**	2,869
Less: Cash and cash equivalents	**(1,995)**	(1,414)
Net borrowings per audited balance sheet	**1,198**	1,455
Share of net borrowings of non-consolidated entities	**622**	296
Net borrowings adjusted for non-consolidated entities	**1,820**	1,751
Equity attributable to shareholders of the Company per audited balance sheet	**20,712**	20,726
Gearing ratio based on audited Financial Statements	**5%**	7%
Gearing ratio adjusted for non-consolidated entities	**8%**	8%

During 2008, 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 2008 and 2007.

27. Loan to an officer

Loan to an officer of a subsidiary of the Company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows

Loans made by a third party under guarantee 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 2007	HK$1,165,000
– at 31 December 2007 and 1 January 2008	HK$1,125,000
– at 31 December 2008	HK$1,085,000
Amount paid or liability incurred under the guarantee	HK$nil (2007: 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 the loan granted to the officer by the bank is repaid and the loan has a remaining term until 2014.

28. Employee retirement benefits

(a) Defined benefit retirement plans

The Group maintains several defined benefit retirement plans covering **647 employees** (2007: 641 employees) of the Group. Such plans are administrated by independent trustees with the assets, if any, held separately from those of the Group.

Quail Lodge, Inc. (QLI), a US 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 is fully recognised in its Financial Statements at each year end date based on independent actuarial valuation prepared by qualified staff of Bartel Associates, LLC who are members of American Academy of Actuaries.

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 an 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. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were **59%** (2007: 56%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2008.

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

	Group	
	2008	2007
Present value of wholly or partly funded obligations	**36**	39
Fair value of plan assets	**(15)**	(16)
	21	23
Unrecognised actuarial gains	**–**	3
	21	26

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 12 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** (2007: HK$4 million) in contributions to defined benefit retirement plans in 2009.

28. Employee retirement benefits (HK$m) *continued*

(a) Defined benefit retirement plans *continued*

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

	Group	
	2008	2007
Stocks	**11**	11
Mutual funds	**4**	5
	15	16

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

	Group	
	2008	2007
At 1 January	**39**	32
Exchange adjustments	**(4)**	5
Benefits paid by the plans	**(2)**	(2)
Current service cost	**2**	3
Interest cost	**2**	2
Actuarial loss	**(1)**	(1)
At 31 December	**36**	39

Movements in plan assets (HK$m)**:**

	Group	
	2008	2007
At 1 January	**16**	11
Exchange adjustments	**(2)**	3
Group's contributions paid to the plans	**3**	3
Benefits paid by the plans	**(1)**	(1)
Actuarial expected return on plan assets	**1**	1
Actuarial loss	**(2)**	(1)
At 31 December	**15**	16

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

	Group	
	2008	2007
Current service cost	**2**	3
Interest cost	**2**	2
Actuarial expected return on plan assets	**(1)**	(1)
	3	4

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** (2007: HK$1 million).

28. Employee retirement benefits (HK$m) *continued*

(a) Defined benefit retirement plans *continued*

The principal actuarial assumptions used as at 31 December 2008 are as follows:

	Group	
	2008	2007
Discount rate	**4.75% – 10.88%**	4.7% – 8.3%
Expected rate of return on plan assets	**4.8%**	6.8%
Future salary increases	**5%**	3% – 5.3%

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		
	2008	2007	2006
Present value of defined benefit obligations	**36**	39	32
Fair value of plan assets	**(15)**	(16)	(11)
Deficit in the plan	**21**	23	21
Experience adjustments arising on plan liabilities	**1**	1	15
Experience adjustments arising on plan assets	**2**	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 plans

The Group has a defined contribution retirement plan covering **1,325 employees** (2007: 1,293 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 fully vest immediately. The average contribution rate against employees' relevant income for the year was **12%** (2007: 12%).

In addition, the Group also participates in the Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, operated by an independent service provider to cover **468 employees** (2007: 445 employees) in Hong Kong not covered by the above defined contribution retirement plan. The MPF Scheme is a defined contribution retirement plan administrated by independent trustees. 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 by both the employer and the employee and vest immediately.

The Group also operates several defined contribution retirement plans including union pension schemes for its overseas subsidiaries covering **2,436 employees** (2007: 2,388 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$70 million** (2007: HK$65 million) was charged to the income statement during the year.

29. Financial risk management and fair values

The Group is exposed to foreign exchange, interest rate, liquidity and credit risks in its normal course of business. The Group's exposure to these risks and various techniques and derivative financial instruments used to manage these risks, are 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 United States dollar exposures and it aims to preserve its value in Hong Kong dollar and/or United States dollar terms.

Foreign exchange risk may arise in sale and purchase transactions which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars, Japanese Yen, Thai Baht and Philippine Pesos.

Forecast transactions

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 2008 and 2007, there were no outstanding forward exchange contracts.

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.

At 31 December 2008, the net fair value of currency swaps used by the Group to hedge foreign currency borrowings was as follows (HK$m):

	Group	
	2008	2007
Cash flow hedges (note 18(a))	–	(23)
Held for trading (note 18(a))	**(7)**	(37)
	(7)	(60)

29. Financial risk management and fair values *continued*

(a) Foreign exchange risk *continued*

Recognised assets and liabilities *continued*

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 considered not material as at 31 December 2008 and 2007. 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, 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 subsidiaries

At 31 December 2008 and 2007, the Group did not hedge any net investment in foreign subsidiaries.

Exposure to foreign exchange risk

At 31 December 2008 and 2007, the Group and the Company had recognised monetary assets and liabilities denominated in a currency other than the functional currency of the entities to which they relate. Differences resulting from the translation of the Financial Statements of the foreign operations into the Group's presentation currency and exposure arising from inter-company balances which are denominated in a foreign currency and is considered to be in the nature of investment in the subsidiary are excluded. These assets and liabilities are exposed to foreign exchange risk and are detailed as follows:

	Group							
	2008				2007			
(million)	**United States dollars**	**Japanese Yen**	**Thai Baht**	**Philippine Pesos**	United States dollars	Japanese Yen	Hong Kong dollars	Philippine Pesos
Debtors and payments in advance	**19**	**–**	**–**	**1**	23	–	–	–
Cash and cash equivalents	**24**	**–**	**–**	**3**	25	–	–	13
Creditors and accruals	**(8)**	**(2)**	**(2)**	**(36)**	(7)	(1)	(5)	(27)
Derivative financial instruments	**(11)**	**–**	**–**	**–**	(6)	–	–	–
Interest-bearing borrowings	**(70)**	**–**	**–**	**–**	(66)	(1,599)*	–	–
Gross exposure arising from recognised assets and liabilities	**(46)**	**(2)**	**(2)**	**(32)**	(31)	(1,600)	(5)	(14)
Notional amount of derivative financial instruments								
– held as cash flow hedges	**–**	**–**	**–**	**–**	–	1,599*	–	–
– used as economic hedges	**29**	**–**	**–**	**–**	25	–	–	–
Net exposure arising from recognised assets and liabilities	**(17)**	**(2)**	**(2)**	**(32)**	(6)	(1)	(5)	(14)

* *As at 31 December 2007, 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.*

29. Financial risk management and fair values *continued*

(a) Foreign exchange risk *continued*

Exposure to foreign exchange risk *continued*

	Company			
	2008		2007	
(million)	**United States dollars**	**Philippine Pesos**	United States dollars	Philippine Pesos
Debtors and payments in advance	**15**	**1**	17	–
Cash and cash equivalents	**4**	**3**	2	13
Overall net exposure	**19**	**4**	19	13

At 31 December 2008 and 2007, the above exposures include the following United States dollar assets and liabilities recognised in Group entities whose functional currency is Hong Kong dollars:

	Group		Company	
(US$m)	**2008**	2007	**2008**	2007
Debtors and payments in advance	**18**	20	**15**	17
Cash and cash equivalents	**22**	20	**4**	2
Interest-bearing borrowings	**(70)**	(66)	**–**	–
Net United States dollar exposure	**(30)**	(26)	**19**	19

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

Sensitivity analysis

The Group and the Company

The table on the next page indicates the instantaneous change in the Group's and the Company's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group and the Company have significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The sensitivity analysis includes 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.

29. Financial risk management and fair values *continued*

(a) Foreign exchange risk *continued*

Sensitivity analysis *continued*

Group

	2008 Increase/(Decrease) in			2007 Increase/(Decrease) in		
	Foreign exchange rates	**Profit after tax and retained profits (HK$m)**	**Other components of equity (HK$m)**	Foreign exchange rates	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)
Renminbi	**10%**	**–**	**–**	7%	1	–
	(10%)	**–**	**–**	(7%)	(1)	–
Philippine Peso	**10%**	**–**	**–**	6%	–	–
	(10%)	**–**	**–**	(6%)	–	–
Thai Baht	**10%**	**–**	**–**	10%	(1)	–
	(10%)	**–**	**–**	(10%)	1	–
Japanese Yen	**10%**	**–**	**–**	6%	–	–
	(10%)	**–**	**–**	(6%)	–	–

Company

	2008 Increase/(Decrease) in			2007 Increase/(Decrease) in		
	Foreign exchange rates	**Profit after tax and retained profits (HK$m)**	**Other components of equity (HK$m)**	Foreign exchange rates	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)
Philippine Peso	**10%**	**–**	**–**	6%	–	–
	(10%)	**–**	**–**	(6%)	–	–

Results of the analysis in the above table represent an aggregation of the instantaneous effects on each of the Group entity's profit after tax and equity measured in their respective functional currencies.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure the financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lenders or the borrowers. The analysis excludes differences that would result from the translation of the Financial Statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis for 2007.

29. Financial risk management and fair values *continued*

(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 2008, these pairs of swaps had a total notional principal of **HK$2,263 million** (2007: HK$2,463 million) maturing over the next **5 years** (2007: 6 years).

At 31 December 2008, the Group and the Company had interest rate swaps that are classified as cash flow hedges with a total notional contract amount of **HK$1,575 million** (2007: HK$1,474 million) and **HK$1,132 million** (2007: HK$1,232 million) maturing over the next **9 years** (2007: 10 years) and **5 years** (2007: 6 years) respectively. Changes in fair value of these interest rate swaps accounted for as 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 2008:

	2008	2007
Hong Kong dollars	**4.8% – 4.9%**	4.8% – 4.9%
United States dollars	**4.6% – 5.8%**	4.6% – 5.8%
Japanese Yen	**1.5% – 2.1%**	1.5% – 2.1%

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 2008 was as follows (HK$m):

	Group		Company	
	2008	2007	**2008**	2007
Cash flow hedges	**(161)**	(60)	**59**	5
Held for trading	**(50)**	(80)	**–**	–
	(211)	(140)	**59**	5

29. Financial risk management and fair values *continued*

(b) Interest rate risk *continued*

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 swaps designated as cash flow hedging instruments.

	Group			
	2008		2007	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**3.8%**	**1,575**	4.3%	1,585
Floating rate borrowings:				
Bank loans	**1.9%**	**1,618**	3.0%	1,284
Total interest-bearing borrowings		**3,193**		2,869
Fixed rate borrowings as a percentage of total borrowings		**49%**		55%

On the other hand, at 31 December 2008 and 2007, 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			
	2008		2007		**2008**		2007	
	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		**–**		–	**4.2%**	**1,132**	4.1%	1,232
Floating rate instruments:								
Bank deposits	**1.6%**	**1,972**	3.2%	1,372	**1.3%**	**29**	3.8%	20
Loans to subsidiaries		**–**		–	**0.2%**	**1,725**	1.9%	1,658
Total interest-bearing financial assets		**1,972**		1,372		**2,886**		2,910

29. Financial risk management and fair values *continued*

(b) Interest rate risk *continued*

Sensitivity analysis

The Group and the Company

The following tables indicate the approximate changes in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the interest rates, with all other variables held constant, to which the Group has significant exposure at the balance sheet date. As at 31 December 2008 and 2007, the effects were attributable to changes in interest income and expense relating to floating rate financial instruments and gains or losses resulting from changes in the fair value of derivative financial instruments.

Group

	2008 Increase/(Decrease) in			2007 Increase/(Decrease) in		
	Interest rates (basis points)	**Profit after tax and retained profits (HK$m)**	**Other components of equity (HK$m)**	Interest rates (basis points)	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)
Renminbi	**100**	**4**	**–**	120	4	–
	(100)	**(4)**	**–**	(120)	(4)	–
Thai Baht	**100**	**(2)**	**–**	80	(2)	–
	(100)	**2**	**–**	(80)	2	–
Japanese Yen	**50**	**(3)**	**13**	30	(1)	7
	(50)	**3**	**(14)**	(30)	1	(7)
Philippine Peso	**200**	**(1)**	**–**	180	(1)	–
	(200)	**1**	**–**	(180)	1	–
HK dollar	**100**	**11**	**14**	80	4	14
	(100)	**(11)**	**(14)**	(80)	(4)	(15)
US dollar	**100**	**2**	**19**	110	4	25
	(100)	**(2)**	**(19)**	(110)	(4)	(26)

29. Financial risk management and fair values *continued*

(b) Interest rate risk *continued*

Sensitivity analysis *continued*

	Company					
	2008			2007		
	Increase/(Decrease) in			Increase/(Decrease) in		
	Interest rates (basis points)	**Profit after tax and retained profits (HK$m)**	**Other components of equity (HK$m)**	Interest rates (basis points)	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)
HK dollar	**100**	**14**	**(10)**	80	11	(15)
	(100)	**(14)**	**11**	(80)	(11)	16
US dollar	**100**	**–**	**(8)**	110	–	(12)
	(100)	**–**	**9**	(110)	–	12

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to remeasure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of exposure to cash flow interest rate risk arising from the floating rate non-derivative financial instruments (which include bank borrowings and deposits) held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such changes in interest rates. The analysis has been performed on the same basis for 2007.

29. Financial risk management and fair values *continued*

(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 2008, total available borrowing facilities amounted to **HK$4,580 million** (2007: HK$4,297 million) of which **HK$3,193 million** (2007: HK$2,869 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled **HK$1,048 million** (2007: HK$1,007 million).

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											
	2008						2007					
(HK$m)	Balance sheet 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	Balance sheet 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	109	109	109	–	–	–	142	142	142	–	–	–
Interest payable	4	4	4	–	–	–	6	6	6	–	–	–
Accruals for fixed assets	20	20	20	–	–	–	42	42	42	–	–	–
Tenants' deposits	354	354	354	–	–	–	339	339	339	–	–	–
Golf membership deposits	51	51	51	–	–	–	53	53	53	–	–	–
Other payables	650	650	650	–	–	–	651	651	651	–	–	–
Interest-bearing borrowings	3,193	3,298	738	674	1,886	–	2,869	3,065	642	631	1,792	–
Interest rate swaps (net settled)	270	362	93	84	158	27	150	187	49	34	71	33
	4,651	4,848	2,019	758	2,044	27	4,252	4,485	1,924	665	1,863	33
Derivatives settled gross:												
Currency swap held as cash flow hedging instrument	–						23					
– outflow		–	–	–	–	–		135	135	–	–	–
– inflow		–	–	–	–	–		(112)	(112)	–	–	–
Other currency swap	11						42					
– outflow		240	240	–	–	–		242	242	–	–	–
– inflow		(229)	(229)	–	–	–		(194)	(194)	–	–	–
	11	11	11	–	–	–	65	71	71	–	–	–
	4,662	4,859	2,030	758	2,044	27	4,317	4,556	1,995	665	1,863	33

29. Financial risk management and fair values *continued*

(c) Liquidity risk *continued*

	Company											
	2008						2007					
(HK$m)	Balance sheet 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	Balance sheet 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 payables	13	13	13	–	–	–	14	14	14	–	–	–
Other payables to subsidiaries	5	5	5	–	–	–	22	22	22	–	–	–
Interest rate swaps (net settled)												
– cash flow hedge	–	–	–	–	–	–	3	3	2	1	–	–
– held for trading*	234	299	86	77	136	–	133	136	43	29	56	8
	252	317	104	77	136	–	172	175	81	30	56	8
Other currency swap*	11						5					
– outflow		240	240	–	–	–		205	205	–	–	–
– inflow		(229)	(229)	–	–	–		(194)	(194)	–	–	–
	11	11	11	–	–	–	5	11	11	–	–	–
	263	328	115	77	136	–	177	186	92	30	56	8

* *The Company entered into these interest rate swaps and currency swaps 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.*

(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 2008, bank deposits amounted to **HK$2,002 million** (2007: HK$1,424 million), of which over **90%** (2007: 90%) was placed with 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 2008, the credit ratings of these financial institutions were no less than A+ (Standard & Poor's) or Aa3 (Moody's).

The Group has no concentration 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 2008 is summarised in note 21.

29. Financial risk management and fair values *continued*

(d) Credit risk *continued*

The Group's exposure to credit risk is influenced mainly by individual characteristics of each customer rather than the industry or country in which the customers operate and therefore it is considered that there is no concentration of credit risk as the Group has no significant exposure to individual customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including the derivative financial instruments, in the balance sheet after deducting any impairment allowance. Except for the financial guarantee given by the Group as set out in note 31, 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

Equity price risk represents the risk that the fair value of an equity financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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 2008. 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.

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.

	2008	2007
Hong Kong dollar	**0.3% – 4.1%**	3.3% – 4.7%
United States dollar	**1.0% – 3.5%**	3.0% – 5.1%
Thai Baht	**1.8%**	3.7% – 4.3%
Japanese Yen	**0.6% – 1.8%**	0.7% – 2.6%

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.

30. Commitments (HK$m)

(a) Capital commitments outstanding at 31 December 2008 not provided for in the Financial Statements were as follows:

	Group	
	2008	2007
Contracted for	**109**	81
Authorised but not contracted for	**3,494**	1,954
	3,603	2,035

Capital commitments authorised but not contracted for include the Group's share of capital commitments for The Peninsula Shanghai Waitan Hotel Company Limited amounting to **HK$1,436 million** (2007: HK$1,255 million). The amount also includes the Group's capital commitment in respect of the Paris project of **HK$1,572 million** (2007: HK$nil), of which HK$1,024 million was paid subsequent to 31 December 2008 (see note 33(b)).

(b) At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are (receivable)/payable as follows:

	Group			
	Receivable		Payable	
	2008	2007	**2008**	2007
Within 1 year	**(768)**	(683)	**179**	150
After 1 year but within 5 years	**(770)**	(880)	**623**	638
After 5 years	**(61)**	(126)	**8,315**	7,588
	(1,599)	(1,689)	**9,117**	8,376

Following the completion of the restructuring of The Palace Hotel Co., Ltd. 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 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 32(d)).

The Peninsula Manila, the hotel owned by Manila Peninsula Hotel, Inc. (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 is 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.

31. Contingent liabilities (HK$m)

Contingent liabilities at 31 December are analysed as follows:

	Group		Company	
	2008	2007	**2008**	2007
Guarantees given in respect of borrowings and other banking facilities for subsidiaries	**–**	–	**3,135**	2,876
Other guarantees	**1**	1	**1**	1
	1	1	**3,136**	2,877

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 2008 and 2007.

32. Material related party transactions

Other than Directors' remuneration and the guarantee given in respect of a loan to an officer as disclosed in note 7 and note 27 respectively, material related party transactions are set out as follows:

(a) Under a 3 year tenancy agreement which commenced on 1 April 2007, a wholly-owned subsidiary of the Company, HSH Management Services Limited, has leased the 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rent of approximately **HK$1,221,090** (1 April 2003 to 31 March 2007: HK$469,650 per month) plus service charges of **HK$161,560** per month (1 October 2006 to 31 March 2007: HK$161,560 per month) from Kadoorie Estates Limited (KEL), which is an agent for the owner that is controlled by one of the substantial shareholders. The amount of rent and service charges paid to KEL during 2008 amounted to **HK$16.6 million** (2007: HK$14.3 million).

(b) The Peninsula Manila is owned by Manila Peninsula Hotel, Inc. (MPHI). MPHI became a subsidiary of the Company 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 a director of MPHI. 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 contingent rent paid to Ayala under the lease during 2008 amounted to **HK$10.5 million** (2007: HK$12.2 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 amounting to **US$58.75 million (HK$458 million)** (2007: 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 were provided in proportion to PIIHL's shareholding in TPS and are unsecured, interest free and have no fixed terms of repayment. TPS owns a 100% interest in Evermore Gain Limited (EGL) which in turn 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 2008, shareholder's loans amounting to **US$58.75 million (HK$458 million)** were contributed as capital of PSW through EGL. As at 31 December 2007, shareholder's loans amounting to US$36.75 million (HK$287 million) had been contributed as capital of PSW and the balance of US$22 million (HK$171 million) was lent by TPS to PSW on an interest free basis for the purpose of funding the project.

32. Material related party transactions *continued*

(c) *continued*

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. HMS is entitled to receive services fees in the aggregate amount of US$1.17 million (HK$9.1 million) from PSW for the performance of pre-opening design and advisory services. The amount of technical and design advisory services fee earned by HMS during 2008 amounted to **HK$3 million** (2007: HK$3 million).

In addition, HMS has also entered into various management, marketing and consultancy agreements with PSW during the year. Total fees for pre-opening and other consultancy services fees income earned by HMS amounted to **HK$2 million** (2007: HK$nil).

(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., Ltd. (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$9.1 million)** was recorded (2007: RMB 8 million (HK$8.5 million)).

33. 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 11.

(b) On 20 January 2009, the Group entered into a set of agreements with an unrelated third party to acquire a 20% interest in a company which owns a property in Paris. The consideration in respect of this investment amounting to approximately Euro 100 million (approximately HK$1,024 million) was fully funded by the Group's surplus cash and was paid to the unrelated third party on 20 January 2009. The Group and the third party have agreed to re-develop the property into a Peninsula hotel and ancillary facilities to be managed by the Group for a period of 30 years, with an automatic renewal for a further 20 years subject to meeting certain performance criteria. The expected financial commitment of the Group to acquire the interest in the property, together with its share of the re-development costs, is estimated to be Euro 150 million (approximately HK$1,572 million), being the purchase consideration plus the expected commitment of Euro 50 million (approximately HK$548 million) in respect of the total renovation cost (note 30(a)).

34. Key sources of estimation uncertainty

Notes 28(a) and 29 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:

(a) 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.

(b) 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 operations 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.

(c) 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; and
- significant negative industry or economic trends.

(d) 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.

35. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2008

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 2008 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 these amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

HKFRS 8, "Operating Segments" and HKAS 1 (revised 2007), "Presentation of Financial Statements", which are effective for annual periods beginning on or after 1 January 2009, may result in amended disclosures in the consolidated Financial Statements, including restatement of comparative amounts in the first period of adoption.

Independent 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 98 to 166, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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

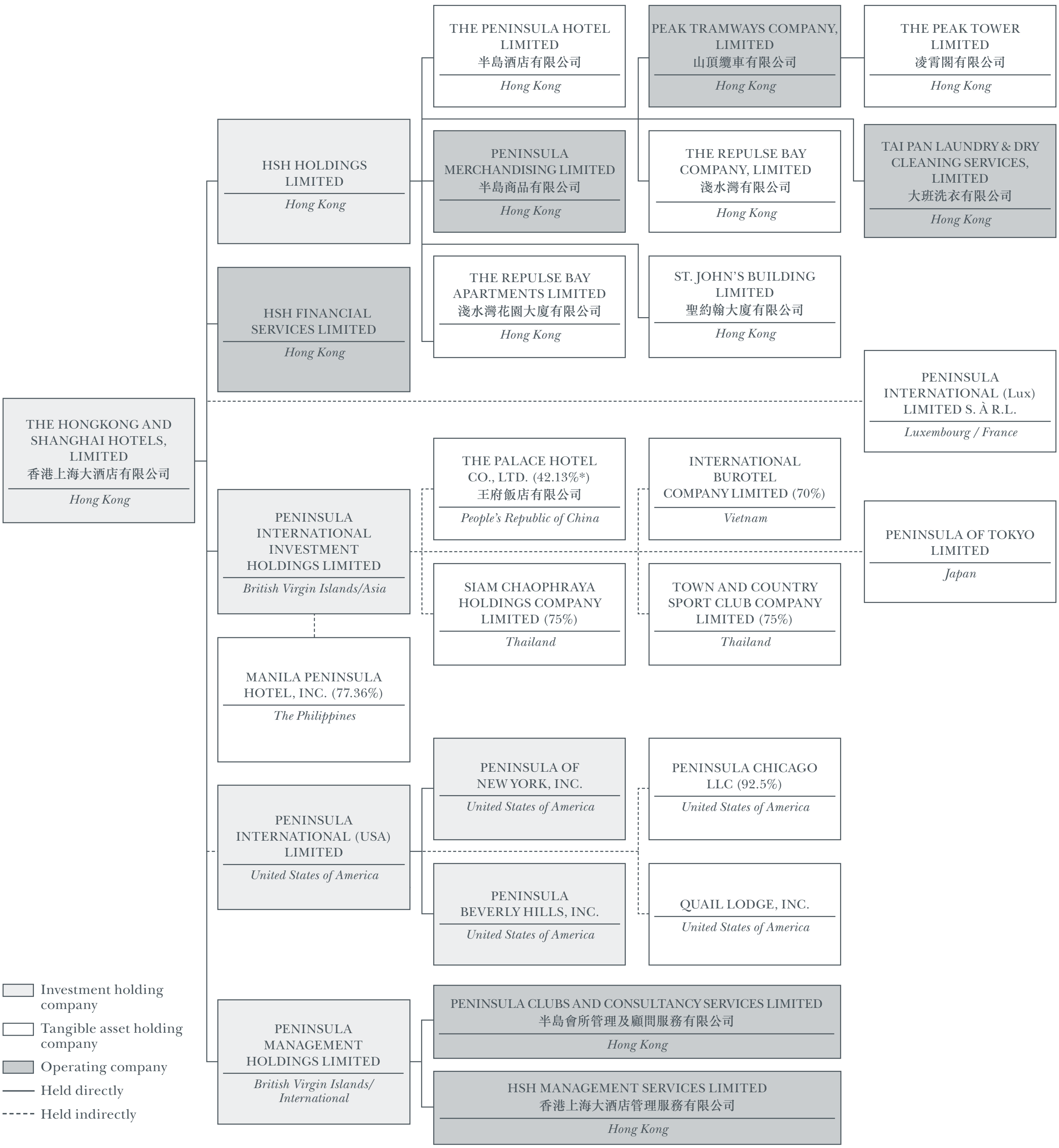
In our opinion, the consolidated Financial Statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

12 March 2009

Principal Subsidiary Companies

At 31 December 2008



* The Palace Hotel Co., Ltd. (TPH) is a sino-foreign co-operative joint venture registered under PRC laws in which the Group owns 42.13% of the registered capital. TPH is included as a subsidiary company as the Group controls 76.6% of its voting power.

The Group's subsidiaries which principally affect the results, assets and liabilities of the Group are shown in the chart above. All are 100% owned except where indicated. For details of these subsidiaries, please refer to Note 14.

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China North 10 800 852 3888
China South 10 800 152 3888
France 800 3046 5111
Germany 800 3046 5111
Italy 800 789 365
Japan 0120 563 888
Mexico 01 800 123 4646
Russia 810 800 2536 1012
Singapore 001 800 2828 3888
Spain 900 937 652
Switzerland 800 3046 5111
Taiwan 00 800 2828 3888
Thailand 001 800 2828 3888
United Kingdom 00 800 2828 3888
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THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司

www.hshgroup.com