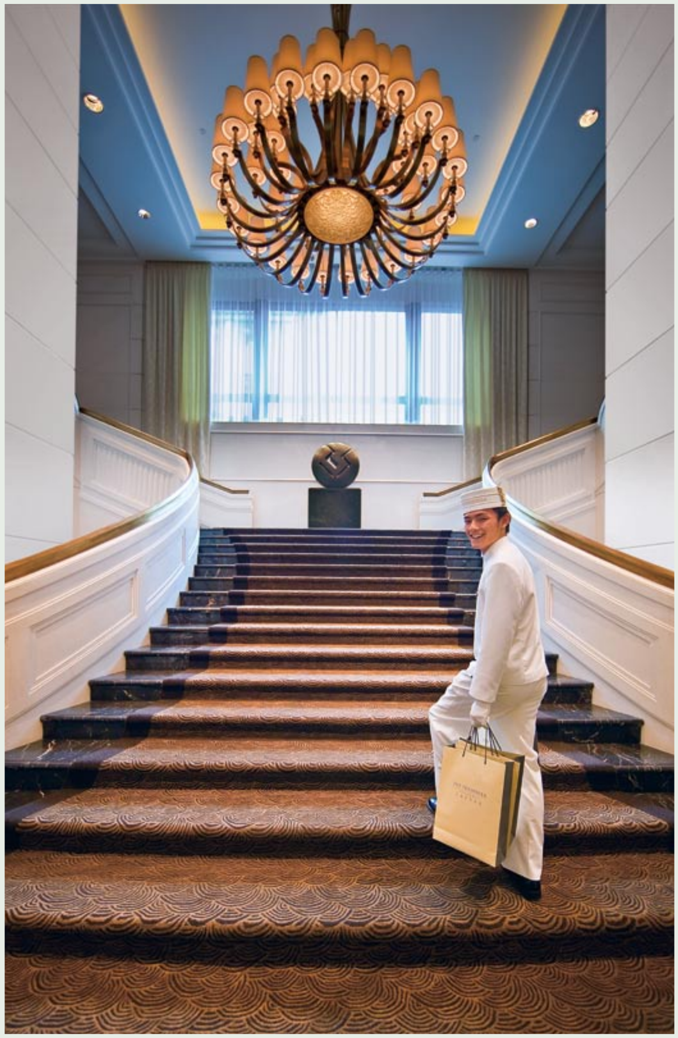


# The Hongkong and Shanghai Hotels, Limited

Annual Report 2009

Stock code: 00045

# Contents



*The triple height lobby at The Peninsula Shanghai.*

# 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 the 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 United States and Europe, as well as the provision of transport, club management and other services.

| HOTELS | | YEAR ACQUIRED/ ESTABLISHED | NUMBER OF ROOMS | HSH OWNERSHIP |
|---|---|---|---|---|
| Asia | The Peninsula Hong Kong | 1928 | 300 | 100% |
| | The Peninsula Shanghai | 2009 | 235 | 50% |
| | The Peninsula Beijing | 1989 | 525 | 42% |
| | The Peninsula Tokyo | 2007 | 314 | 100% |
| | The Peninsula Bangkok | 1998 | 370 | 75% |
| | The Peninsula Manila | 1976 | 497 | 77% |
| USA | The Peninsula New York | 1988 | 239 | 100% |
| | The Peninsula Chicago | 2001 | 339 | 100% |
| | The Peninsula Beverly Hills | 1991 | 193 | 20% |
| Europe | The Peninsula Paris | To be opened in 2012 | 200 | 20% |

| COMMERCIAL 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 | 46,964 | 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% |

| CLUBS & SERVICES | HSH OWNERSHIP |
|---|---|
| Peak Tramways, Hong Kong | 100% |
| Thai Country Club, Bangkok, Thailand | 75% |
| Quail Golf & Country Club* | 100% |
| Clubs & Consultancy Services | 100% |
| Peninsula Merchandising | 100% |
| Tai Pan Laundry, Hong Kong | 100% |

* *Quail Lodge Resort & Golf Club was transferred from the hotels division to the Clubs and Services division following the closure of its hotel portion in 2009.*

# Financial and Operating Highlights

| | 2009 | 2008 | Increase/ (Decrease) |
|---|---|---|---|
| **CONSOLIDATED INCOME STATEMENT** (HK$m) | | | |
| Turnover | **4,218** | 4,938 | (15%) |
| EBITDA | **924** | 1,425 | (35%) |
| Operating profit | **586** | 1,051 | (44%) |
| Profit attributable to shareholders | **2,298** | 216 | 964% |
| Underlying profit attributable to shareholders** | **315** | 807 | (61%) |
| Dividends | **132** | 246 | (46%) |
| Earnings per share (HK$) | **1.57** | 0.15 | 947% |
| Underlying earnings per share (HK$)** | **0.22** | 0.56 | (61%) |
| Dividends per share (HK cents) | **9** | 17 | (47%) |
| Dividend cover (times) | **17.4x** | 0.9x | 1,833% |
| Interest cover (times) | **6.8x** | 15.5x | (56%) |
| Weighted average gross interest rate | **3.2%** | 3.4% | (0.2pp)* |
| **CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (HK$m) | | | |
| Total assets | **32,815** | 29,587 | 11% |
| Audited net assets attributable to shareholders | **23,040** | 20,712 | 11% |
| Adjusted net assets attributable to shareholders** | **28,541** | 26,589 | 7% |
| Audited net assets per share (HK$) | **15.67** | 14.28 | 10% |
| Adjusted net assets per share (HK$)** | **19.42** | 18.34 | 6% |
| Net borrowings | **1,990** | 1,198 | 66% |
| Net debt to EBITDA (times) | **2.2x** | 0.8x | 175% |
| Net debt to equity | **9%** | 6% | 3pp* |
| Gearing | **8%** | 5% | 3pp* |
| **CONSOLIDATED STATEMENT OF CASH FLOWS** (HK$m) | | | |
| Net cash generated from operating activities | **761** | 1,208 | (37%) |
| Capital expenditure | **(269)** | (417) | (35%) |
| Investment in the Peninsula Paris project | **(1,044)** | – | – |
| Net cash (outflow)/inflow after interest and dividends before financing activities | **(824)** | 597 | (238%) |
| Capital expenditure to revenue | **6%** | 8% | (2pp)* |
| **SHARE INFORMATION** (HK$) | | | |
| Highest share price | **11.98** | 14.50 | (17%) |
| Lowest share price | **4.26** | 5.13 | (17%) |
| Year end closing share price | **11.36** | 5.86 | 94% |
| **OPERATING INFORMATION** | | | |
| Number of hotel rooms | **3,012** | 2,874 | 5% |
| Average occupancy rate | | | |
| – Hong Kong | **57%** | 71% | (14pp)* |
| – Other Asia | **48%** | 57% | (9pp)* |
| – United States of America | **58%** | 68% | (10pp)* |
| Average room rate (HK$) | | | |
| – Hong Kong | **3,796** | 4,095 | (7%) |
| – Other Asia | **1,774** | 2,075 | (15%) |
| – United States of America | **4,052** | 4,626 | (12%) |
| RevPAR (HK$) | | | |
| – Hong Kong | **2,182** | 2,927 | (26%) |
| – Other Asia | **857** | 1,191 | (28%) |
| – United States of America | **2,362** | 3,145 | (25%) |

* *pp stands for percentage points*

** *Please refer to the calculation in the financial review section.*

### Opening of The Peninsula Shanghai

The Peninsula Shanghai soft opened on 18 October 2009 and will hold its grand opening ceremony on 18 March 2010, heralding HSH's return to one of its two founding roots, Shanghai, after an absence of 55 years. The 235-key hotel is situated on the famous Bund, being the only new building with a Bund frontage in the last few decades. The hotel features a grand Art Deco style which is reminiscent of the golden era in the 1920s, when HSH operated four leading hotels in Shanghai.

## Signing of formal agreements for The Peninsula Paris

The Company entered into formal agreements with Qatari Diar Real Estate Investment Company in January 2009 to develop The Peninsula Paris in an historic building in the centre of Paris. The joint venture took possession of the building in March 2009 and the project is underway for planned completion in 2012.

## Repulse Bay Arcade Revitalisation

The enhancement of The Repulse Bay Arcade, which included the introduction of new shops and enhanced facilities, the creation of a Historical Gallery and the renovations of The Verandah and Spices restaurants, was completed in phases during the year.


## Signing of a HK$1.225 billion four year term loan facility

On 25 June 2009, a wholly-owned subsidiary of the Group signed a HK$1.225 billion four year term loan facility with a group of seven international banks. The funds will be used for refinancing existing indebtedness and for general corporate purposes.

## Assuming full ownership of The Peninsula Chicago

On 10 September 2009, HSH purchased the remaining 7.5% ownership interest in the hotel, following which HSH now has 100% ownership of The Peninsula Chicago.

## Escolta, a new heritage for The Peninsula Manila

The Peninsula Manila's all-day dining restaurant, Nielsen's, underwent an extensive renovation and expansion, re-opening with a new identity, Escolta, on 20 November 2009. The name Escolta pays homage to a heritage street in Manila which traces its history back to the 19th century. The modern Escolta restaurant seats 200.

## Launch of Peninsula Mini Clubman cars

On 11 December 2009, The Peninsula Hong Kong celebrated its 81st anniversary with two new, bespoke Mini Clubman vehicles added to the hotel's transport fleet. The new cars, finished in signature Peninsula green and each fitted with a rooftop 'box' to hold shopping spoils, are used to chauffeur hotel guests around town for shopping or sightseeing excursions.


## Lifetime Achievement Award for the Chairman

To a standing ovation from Asian hotel industry leaders, the Group's Chairman, The Hon. Sir Michael Kadoorie, received a Lifetime Achievement Award from the Hotel Investment Conference Asia-Pacific on 16 October 2009.

THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司

## Accolades

The Group and its operations received various distinguished awards during 2009. To name but a few: Peninsula Hotels - Best Luxury Hotel Brand, TTG Publishing; The Peninsula New York, hotel and spa – Forbes Five Star Award 2010; HSH Corporate Annual Report – Bronze Award, Hotel & Property Section, Galaxy Awards 2009.


THE PENINSULA

# *A Magnificent Homecoming*

# THE PENINSULA SHANGHAI

The Hongkong and Shanghai Hotels, Limited returned to one of its two founding roots in October 2009 after a half century absence, when The Peninsula Shanghai soft opened with its frontage on the famous Bund.

The origins of the Group can be traced back to Shanghai at the turn of the century. In the 1920s and 1930s, Shanghai's golden era, HSH owned and operated four of the top hotels in China's leading port city: the Majestic, Astor House, Palace and Kalee Hotels.

The Group left Shanghai in 1954 when its last business interests were disposed of; yet over the ensuing years, the vision for an eventual return was never dimmed.

The homecoming began in November 2003 when HSH, through a company owned jointly by HSH and our partner, SPG Land (Holdings) Limited, signed a framework agreement with the New Huang Pu (Group) Company Limited, then a state-owned enterprise, regarding the development of a Peninsula hotel in Shanghai's Waitanyuan area, adjacent to the old British Consulate at the northern end of

the Bund. In May 2004, a project agreement was signed to acquire the land use rights for the designated site. Five months later, in November 2004, a land grant was signed with the Shanghai Real Estate Resources Administration Bureau for the purchase of the land.


**Left:** The Peninsula arrival in style– in one of our bespoke Peninsula green Rolls-Royce Phantoms.

**Below:** The hotel stands on a splendid location with frontage on the Bund.

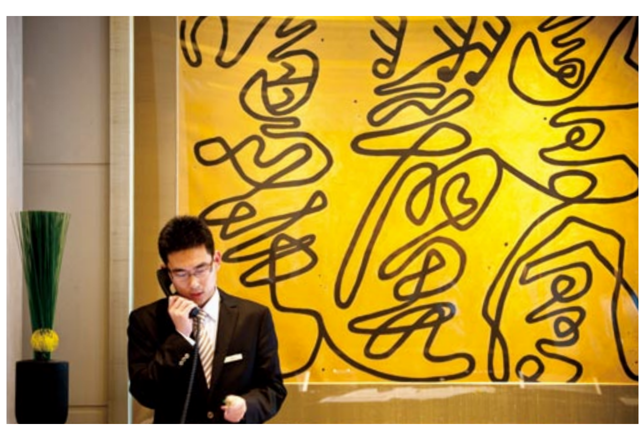
**Right:** An exterior view of the hotel tower.

**Below:** A full-size replica of China's first sea plane is displayed at the Rosamonde Aviation lounge, which is named after Madame Soong Ching Ling, wife of Dr. Sun Yat Sen, China's first President.


In October 2006, the building permit was obtained, thus enabling construction of the complex to begin in the same month. 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 2008, the entire complex – including the retail arcade, podium level and hotel apartment tower – was topped out. With structural works completed, interior fit-out works began apace and were finished a year later, in the summer of 2009.

The total project cost is approximately RMB 3 billion, including land priceand construction and development costs.

The mixed-use project, with approximately one million square feet of gross floor area, comprises a hotel, a hotel apartment tower, a retail arcade and ancillary facilities including a spa, a fitness centre, an indoor swimming pool, a helilounge and five restaurants and bars.



**Above:** "Curl", a six metre high spiral sculpture created by artists Ben Jakober and Yannick Vu.

**Left:** Calligraphy artwork by Wei Li Gang adorns the concierge desk.


THE PENINSULA

The Peninsula Shanghai has 235 guestrooms, including 44 suites, created in an Art Deco style which recalls the golden age of the early part of the 20th century, when Shanghai was feted as the Paris of the East. All the rooms are spacious and finished in exquisite period details with subtle Chinese accents, conceived by Paris-based interior designer, Pierre-Yves Rochon of PYR. One of the suites, the Palace Suite, features an 11,000 square feet wraparound terrace, the largest in Shanghai. The extensive use of exotic materials such as ebony, mahogany, marble and lacquer in the guestrooms is complemented by the latest in the Group's proprietary high technology.

Occupying various levels of the hotel are five restaurants and bars including Yi Long Court restaurant, which serves signature Cantonese cuisine and occupies an entire floor with seven private dining salons and a large dining space; the triple height Lobby Lounge; Sir Elly's Restaurant and Bar and outdoor Terrace on the top floor, which is named after the Group's founder, Sir Elly Kadoorie; Salon de Ning, a late night lounge; and the Compass Bar.

**Opposite page:** The Majestic Suite's sitting room, with a view over the Bund and Pudong.

**Above:** The lobby has become a popular gathering place for business or leisure.

**Right:** The indoor, 25 metre Romanasque swimming pool, lit by a skylight.

**Below:** Traditional Chinese tea is served at the hotel's Chinese restaurant, Yi long Court.

Complementing the guestrooms and dining options are the Rose Ballroom and five function rooms; the Rosamonde Aviation Lounge which carries a full scale replica of China's first seaplane in the 1930s; a Peninsula Spa and an indoor heated swimming pool; a Peninsula Arcade which houses 25 international luxury brands; and a fleet of bespoke Rolls-Royces and BMWs.

Housed in an adjoining tower in the complex, the 14-storey Peninsula Residences carries 39 high-end apartments overlooking either the Bund, the central courtyard or the old British Consulate Gardens.

On 18 October 2009, The Peninsula Shanghai welcomed its first guests. Five months later, on 18 March 2010, approximately 4,000 guests will attend a Gala at the hotel to celebrate the grand opening of Shanghai's latest arrival.



**Above, right:** Touches of Art Deco flair can be found throughout the hotel. Here, an elevator panel in a sunray pattern.

**Left:** 'Welcome home' – from the management and staff of The Peninsula Shanghai.

# Chairman's Statement

*Dear Shareholders,*

The hospitality industry was significantly affected by the global economic downturn, combined with the widespread threat of human swine influenza in some areas, for most of 2009. As regional and international travel patterns changed, the impact on both demand and pricing in our industry were direct and apparent.

Against this background, our Group continued to recognise that these cyclical ups and downs are unavoidable and remained firm in our belief that the value of top quality assets are maximised through long term holding. Most importantly, we have the commitment and resources to invest with an extended horizon in mind, and we are willing to wait patiently for our investments to bear fruit through asset appreciation and enhanced operational earnings over time.

I believe we are now beginning to see some signs that the world's major economies, particularly those in Asia, are stirring back to life. China continues to grow through the recession whilst our key assets in Hong Kong have weathered the downturn relatively well. We are also beginning to see some mild positive signs in some of our other markets.

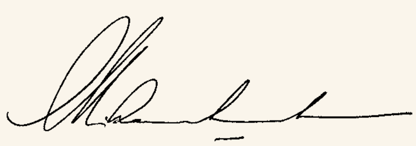
Through this difficult period, it is important to note that whilst our management have had to deal with the revenue downturn through rigorous cost control measures, we were also able to steadfastly uphold the quality of our products and services, for which the Group is well known and recognised.

Nowhere was this better demonstrated than in The Peninsula Hong Kong which has just entered its 82nd year. Our flagship hotel property is not only a prime asset for the Group, but also achieved impressive operational earnings in a difficult year. The hotel's age has not stopped it from looking beyond the past and into the future: the introduction of two Mini Clubman vehicles to add to the hotel's fleet of Rolls-Royce Phantoms demonstrated our keen sense of melding innovation with guests' comfort.

In line with our long term strategy, the Group's assets are balanced between hotels and other commercial and residential properties to provide stability in earnings, particularly in volatile economic cycles. We saw proof of this in the past year when our commercial properties held up much better than the hotels division, partly because we have over the years continued to invest in our complex at The Repulse Bay. The past year saw the completion of the latest renovation of The Repulse Bay Arcade, to complement the previous improvement works which had been done in the apartments.

Perhaps the one single event that most distinguishes this as a year of growth is the opening of The Peninsula Shanghai, which marks the return to one of the two cities in which The Hongkong and Shanghai Hotels was founded. In the golden era of the 1920s and 1930s, our Group owned and managed four leading hotels in Shanghai – the Majestic, Astor House, Palace and Kalee Hotels. After an absence of 55 years, the Group has returned to Shanghai by building a magnificent hotel with its frontage right on the Bund, occupying a splendid location. We believe we have created a landmark property of which my own family is immensely proud and marks a fitting return. It also symbolises the Kadoorie's homecoming: from 1880 when my grandfather, the late Sir Elly Kadoorie, arrived in Shanghai as a young man, his vision for an enduring presence is now continued 130 years later.

In conclusion, from a year of unprecedented challenges, we have maintained our vision and commitment and stand prepared to benefit from an upswing in the global economy. I would like to send my sincere thanks to all our staff, led by our Chief Executive Officer Clement Kwok, for they have been tested and faced complex challenges with a sense of confidence and a commitment to the HSH ideals. They have the full support of our Board of Directors, to whom I also wish to express my gratitude. Together, we have witnessed a willingness to innovate and a tenacity to improve, that leaves me greatly appreciative of the strength and confidence that has grown with the Group and our shared vision for the future.



The Hon. Sir Michael Kadoorie
12 March 2010

# Chief Executive Officer's Report

*"I am pleased to report a set of results which we consider to be satisfactory in the light of the difficult market conditions which prevailed in 2009."*

2009 was the first full year of the economic downturn which was triggered by the collapse of some global financial institutions in September 2008. The hotel industry continued to be significantly affected throughout the year, with the revenue of our hotels generally down by about 23% in the period from January to August 2009, as compared to the corresponding pre-crisis period a year ago. We have also seen a new business paradigm emerging, whereby some new markets have become increasingly important as a source of business, there is greater reliance on domestic and regional patrons and the perception of luxury has become more value conscious.

As we have experienced before during down cycles in the hotel industry, our Group has benefited from holding a diversified portfolio of hotel assets and other commercial and residential investment properties. As a result, I am pleased to report a set of results which we consider to be satisfactory in the light of the difficult market conditions which prevailed in 2009. The Group achieved earnings before interest, taxation, depreciation and amortisation (EBITDA) of HK$924 million, representing a decrease of 35% from 2008, and an operating profit of HK$586 million, 44% less than 2008. This performance is a result of the continuing efforts by managers and staff across all operations in the Group to control costs, seek new sources of revenue and review existing procedures to enhance efficiency. Inclusive of non-operating items, being principally the year-end investment property revaluation surpluses, the net profit attributable to shareholders was HK$2,298 million, as compared to HK$216 million last year. Our underlying profit attributable to shareholders, which we have calculated by excluding the post-tax effects of the property revaluation surpluses and other non-operating items, amounted to HK$315 million, as compared to HK$807 million in 2008.

Our financial position remained strong, with our gearing at a conservative level of 8% at the year-end.

## Hotels

The business of our hotels division was affected by a combination of factors during the year, including the financial downturn and weak business from the corporate sector especially in the US, the threat of the human swine influenza and an oversupply of hotel rooms in several cities where we operate. There was a general decrease in long haul arrivals which impacted on occupancies and room rates. By the fourth quarter there were signs of hotel occupancies stabilising and recovering, yet room rates in markets such as New York, Chicago, Beijing, Bangkok and Manila remained significantly below pre-financial crisis levels.

Amongst the Peninsula Hotels, the strongest performance came from our flagship property The Peninsula Hong Kong, which experienced a marked recovery in the last quarter of the year as the local economy improved and Hong Kong benefited from an increase of visitors from emerging regional markets including mainland China and the Middle East. The Peninsula Arcade was able to grow its average rent and maintain a high occupancy level, as well as a prestigious tenant mix, throughout the year. The Peninsula Beijing faced a very challenging year, with the market continuing to absorb the new supply of luxury hotel rooms built for the 2008 Olympics. However, the hotel's Arcade continued to perform well as the leading destination for luxury brand shopping in Beijing. The Peninsula Shanghai, our latest hotel, soft opened in mid October 2009 and although the hotel had only operated for ten weeks by the end of 2009, business pick up has been good and the hotel has quickly established a strong reputation as a leading destination in China. As the only new build along the Bund, this hotel's magnificent location, stunning architecture, interior design and service levels have already enabled The Peninsula Shanghai to garner several leading industry awards.

Elsewhere in Asia, The Peninsula Tokyo, in its second full year of operation, faced serious competition from other luxury hotels yet benefited from strong wedding business and from a growing number of visitors from the Hong Kong market. The Peninsula Bangkok's business continued to be affected by the political instability in the country, although the hotel was able to maintain its status as one of the finest hotels in Asia and completed a soft refurbishment of guestrooms and suites. The Peninsula Manila, whose newly renovated guestrooms at the Ayala Tower have been well received by guests, completed the renovation of its all-day dining restaurant and renamed it Escolta. The hotel also braved the devastations brought about by Typhoon Ketsana in September, which flooded most of Manila and affected the livelihood of more than 140 of the hotel's employees. We immediately set up an emergency Calamity Assistance Fund to offer relief and support to our Peninsula Manila colleagues.

In the US, The Peninsula New York saw a slight increase in domestic travellers as the number of international arrivals fell. The hotel carried out renovation work on several guestroom floors and completely re-modelled the conference room floor. The results of this, together with the service provided by our colleagues, were rewarding, with the hotel receiving its first ever Forbes Five Star Award as well as being the first hotel within our Group to receive a Forbes Five Star Award for its Spa. The Peninsula Chicago was deeply affected by the low levels of corporate business and citywide conventions. Nevertheless, the hotel was able to maintain its position as the market leader in Chicago and garnered a No.1 City Hotel in the World award from a leading travel trade publication. In September, HSH purchased the remaining 7.5% interest and has assumed full ownership of The Peninsula Chicago. In California, The Peninsula Beverly Hills continued to perform well in 2009 and was able to grow its market share, whilst maintaining its premier position in the Los Angeles market. The situation was quite different in Carmel Valley where, after eight consecutive years of operational losses, the Group decided to close the hotel portion of Quail Lodge Resort and Golf Club in November. The golf course and clubhouse remain open to service members and catering clientele.

Overall, the revenue and EBITDA of the hotels division for the year were HK$3,244 million and HK$410 million, a decrease of 17% and 52% respectively as compared to 2008. Further details of individual hotels' financial performance can be found in the Financial Review (pages 52 to 72).

*"As in past cycles, the Group's commercial properties business proved more resilient during the economic downturn than the hotels business, providing a more stable income contribution to the Group's earnings."*

## Commercial Properties

As in past cycles, the Group's commercial properties business proved more resilient during the economic downturn than the hotels business, providing a more stable income contribution to the Group's earnings.

The most important asset in this division is the Repulse Bay Complex, where despite downward pressure on residential rental renewal rates, income has held up relatively well due to the longer leasing cycle and the attractiveness of its location and services. The total revenue of the Complex fell 10% from last year to HK$469 million. During the year, a significant revitalisation project was completed at the Repulse Bay Arcade, providing a more dynamic assortment of shops, upgrading the key restaurants and enhancing other services which serve the residents of the Complex as well as being a destination for both tourists and local residents. As part of this revitalisation, the interior and support facilities of The Verandah restaurant were enhanced, with an extended entrance hall, a new grand staircase and a Historical Gallery created to preserve the unique history of The Repulse Bay. The Spices restaurant was re-decorated with a new and more distinctive Asian identity. The retail spaces have been fully leased since the renovation while the two renovated restaurants have received wide acclaim from guests and enjoyed an uplift in business.

The Peak Complex was our only major asset to enjoy an increase in income over 2008, due to its strong positioning in the tourist market, enhanced by the revitalisation of the Peak Tower in 2006. The Peak Tower successfully renewed or replaced many leases during the year despite the economic downturn and enjoyed almost full occupancy in its retail spaces throughout the year. Patronage for the Sky Terrace fell slightly in line with the fall in visitor arrivals to Hong Kong while St. John's Building enjoyed a high occupancy throughout the year with slightly increased revenue.

At The Landmark in Vietnam, both the office and residential towers recorded high occupancies, with higher rentals and revenue yields compared to 2008 for the first six months of the year. However, there has been some softening in the occupancy of the serviced apartments towards the end of the year.

## Clubs & Services

The iconic Peak Tram, now 121 years old, has maintained its position as one of Hong Kong's leading tourist destinations. During the year, patronage declined slightly in line with tourism trends in Hong Kong, but this operation continues to be a significant income contributor to the Group.

*"The development and opening of (The Peninsula Shanghai) hotel complex is a most important milestone for the Company, representing a statement of both our brand and our standards and heralding the return of our Company to one of its two founding cities after an absence of 55 years."*

Income from clubs' management remained steady despite the fall in passenger numbers patronising the Cathay Pacific Lounges at the Hong Kong International Airport. The Thai Country Club received fewer golfers than in 2008 and revenues fell as tourist arrivals to Thailand dropped dramatically in the first three quarters of 2009, a result of the ongoing political instability.

The Peninsula Boutique at the Hong Kong International Airport was renovated and re-opened in the summer and despite a difficult operating environment in 2009, Peninsula Merchandising achieved record breaking sales for its Mid Autumn Festival products.

## Projects

A substantial amount of our resources during the year were focused on the construction and completion of The Peninsula Shanghai project, which soft opened on 18 October 2009. The development and opening of this hotel complex is a most important milestone for the Company, representing a statement of both our brand and our standards and heralding the return of our Company to one of its two founding cities after an absence of 55 years. The hotel complex, comprising 992,000 square feet of gross floor area, occupies a most prime position, being the only new build which has a frontage on the famous Bund in Shanghai. The complex includes a 235 room hotel with five restaurants, a ballroom, a Spa and other facilities, 75,347 square feet of high-end retail shopping space and a tower with 39 hotel apartments.

This magnificent hotel, designed in the Art Deco style of the Shanghai golden era of the 1920s and 1930s, took six years of planning, design and construction to complete at a total investment cost of approximately HK$3.4 billion, including land cost. HSH holds a 50% interest in the development alongside its partner, SPG Land (Holdings) Limited. The grand opening of the hotel will take place in March 2010.

On 20 January 2009, the Group invested a total of HK$1,044 million (Euro 102 million) to acquire a 20% interest in a joint venture with Qatari Diar Real Estate Investment Company to develop The Peninsula Paris hotel, together with the right to manage this hotel for a period of 50 years after completion. The Peninsula Paris will be housed in a grand century old Beaux Art building, located on Avenue Kleber near the Arc de Triomphe, which was originally constructed as the Majestic Hotel and more recently was used by the French Government as the Centre International de Conferences. Since signing, significant progress has

been made on this project. The building was vacated at the end of March 2009 and handed over for demolition and strip out work. That was followed by appointments of key project personnel including the project director, executive architect and interior designer. Detailed design work and the planning approval process are well in progress. It is expected that construction will commence in 2010 for planned completion in 2012.

During the year, the Peninsula Shanghai Waitan Hotel Company Limited, our 50% joint venture company, signed an agreement in respect of the development at 33 Waitanyuan, which is the former British Consulate complex adjacent to The Peninsula Shanghai, whereby we will manage the government guest house to be located in the former main consulate building, and lease the remaining buildings which are planned for retail, exhibition and food and beverage usage. It is expected that this development will be completed in phases starting in 2010.

Throughout the year, we continued to evaluate numerous opportunities for new hotel developments. These are reviewed on a highly selective basis with an underlying principle of requiring an 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 the most prime locations in key international gateway cities.

*"... we recognise that the hotel business is cyclical in nature and we believe that all of our hotel properties are well placed, given their market positioning, service quality and strong management teams, to capture a strong share of business as the global market recovery hopefully continues."*

## Outlook

Although we have seen some signs of recovery in our businesses towards the end of 2009, our hotel revenues remain well below the levels prior to the start of the global financial crisis in September 2008. At the same time, we have maintained our service levels and continued to retain and nurture our staff, as a result of which the balance between revenues and costs continues to be a challenge to manage. Nevertheless, we recognise that the hotel business is cyclical in nature and we believe that all of our hotel properties are well placed, given their market positioning, service quality and strong management teams, to capture a strong share of business as the global market recovery hopefully continues. In particular, we look to the growth prospects of The Peninsula Tokyo, now that it is well established in what will be its third full year of operation, the Peninsulas in New York and Manila following their extensive renovations of the past two years and The Peninsula Shanghai in its first full year of operations.


In the commercial properties division, demand for both residential and commercial space in Hong Kong appears to have stabilised following the initial drop in sentiment after the start of the global financial crisis. We were pleased that the retail tenancies in the Peak Tower have been successfully renewed or replaced during 2009 despite the weak general economic situation, testifying to the attractiveness of the Tower as a retail destination following the revitalisation project undertaken in 2006. The retail spaces at The Repulse Bay Arcade were also completely filled following the revitalisation of this Complex in 2009. Revitalisation of the Repulse Bay Arcade has also led to an increase in leasing enquiries on the residential side, which is the main income generator for this Complex and we expect occupancies to pick up slightly in the coming months. The office leasing market has remained stable.

Looking ahead, our mindset is geared towards sustainable growth and development, while addressing resources and quality issues. Much of our investment for the future is focused on human resource development, with a number of training, staff welfare and succession planning initiatives being undertaken under the auspices of our corporate social responsibility programme. As well as employee development and welfare, the other key themes of our corporate social responsibility programme are corporate governance and ethics, environmental protection, sustainable purchasing and sourcing, health and safety and community involvement.

Our corporate development and investment strategy continues to focus on the enhancement of our existing assets, seeking opportunities to increase their value through new concepts or space utilisation and the development of a small number of iconic Peninsula hotels in the most prime locations with the objective of being a long term owner operator. This is the approach which we believe has enabled us to establish and sustain a brand which is now recognised as possibly the leading luxury hotel brand in the world, thereby creating long term value in each Peninsula hotel through both asset value appreciation and operational earnings growth.

Finally, I would like to thank our staff whose diligence, loyalty and dedication form the core of HSH. They have shown solidarity in a year of great challenges. It is most fitting that I should end this message with my appreciation to them as well as to our Chairman, The Honourable Sir Michael Kadoorie, and to our Board of Directors, whose vision will continue to lead the Group on the path to recovery and growth.

Clement K.M. Kwok
12 March, 2010

# General Managers' Reports

## HOTELS

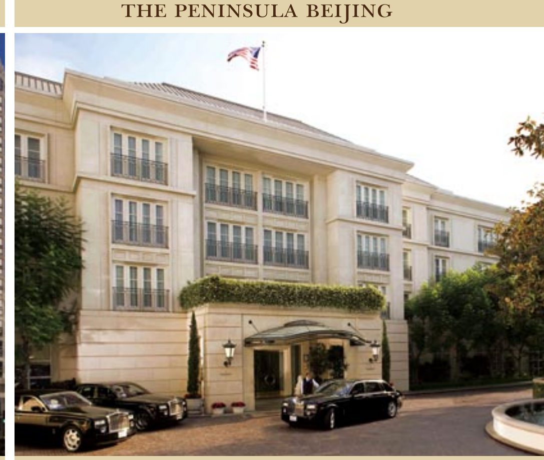

THE PENINSULA HONG KONG


THE PENINSULA SHANGHAI


THE PENINSULA BEIJING


THE PENINSULA NEW YORK


THE PENINSULA CHICAGO


THE PENINSULA BEVERLY HILLS


THE PENINSULA TOKYO

THE PENINSULA BANGKOK

THE PENINSULA MANILA

# COMMERCIAL PROPERTIES


THE REPULSE BAY COMPLEX


THE PEAK TOWER


THE LANDMARK (VIETNAM)

# CLUBS & SERVICES


THE PEAK TRAM


THAI COUNTRY CLUB


QUAIL GOLF AND COUNTRY CLUB

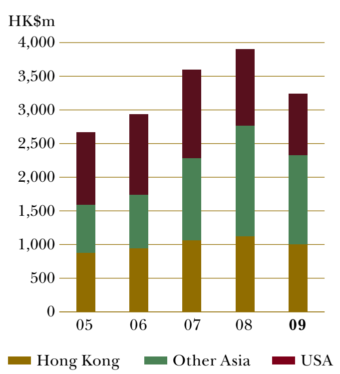

PENINSULA MERCHANDISING

# Hotel Performance Charts

| | Attributable | Revenue (HK$m) | | Available Rooms | | Occupancy % | | ARR (HK$) | | RevPAR (HK$) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Interest % | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| The Peninsula Hong Kong | 100 | **967** | 1,093 | **300** | 300 | **57** | 71 | **3,796** | 4,095 | **2,182** | 2,927 |
| The Peninsula Shanghai* | 50 | **50** | n/a | **235** | n/a | **42** | n/a | **2,209** | n/a | **926** | n/a |
| The Peninsula Beijing | 42 | **295** | 485 | **525** | 525 | **34** | 50 | **1,354** | 2,116 | **457** | 1,065 |
| The Peninsula New York | 100 | **441** | 486 | **239** | 239 | **62** | 64 | **5,317** | 6,338 | **3,317** | 4,048 |
| The Peninsula Chicago | 100 | **379** | 523 | **339** | 339 | **54** | 65 | **2,987** | 3,670 | **1,623** | 2,395 |
| The Peninsula Beverly Hills | 20 | **332** | 444 | **193** | 193 | **61** | 80 | **5,032** | 5,364 | **3,072** | 4,275 |
| The Peninsula Tokyo | 100 | **661** | 677 | **314** | 314 | **60** | 63 | **3,584** | 3,759 | **2,148** | 2,380 |
| The Peninsula Bangkok | 75 | **182** | 269 | **370** | 370 | **48** | 65 | **1,502** | 1,714 | **725** | 1,119 |
| The Peninsula Manila** | 77 | **190** | 210 | **497** | 497 | **57** | 55 | **974** | 1,133 | **555** | 626 |
| Quail Lodge Resort*** | 100 | **99** | 133 | **97** | 97 | **56** | 64 | **1,787** | 2,014 | **1,006** | 1,298 |
| Total | | **3,596** | 4,320 | **3,109** | 2,874 | | | | | | |
| Average | | | | | | **52%** | 62% | **2,752** | 3,162 | **1,436** | 1,962 |

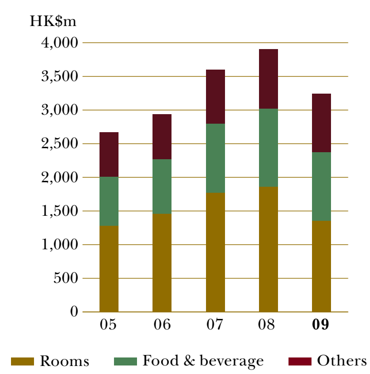
* *The Peninsula Shanghai soft opened in October 2009.*
** *The Ayala Tower's guestrooms were closed for renovation from May to October 2008.*
*** *The Quail Lodge Resort was closed on 16 November 2009.*

**Hotels' revenue by geographical segment**



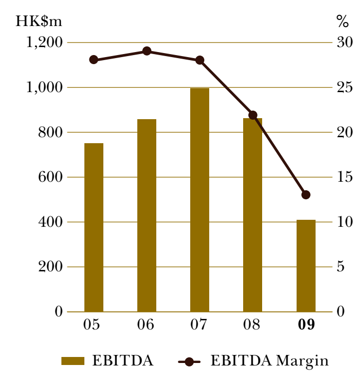

| HK$m | 2005 | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|---|
| Hong Kong | 877 | 939 | 1,061 | 1,122 | **997** |
| Other Asia | 707 | 803 | 1,220 | 1,641 | **1,328** |
| USA | 1,085 | 1,195 | 1,318 | 1,142 | **919** |
| | 2,669 | 2,937 | 3,599 | 3,905 | **3,244** |

**Hotels' revenue by nature**

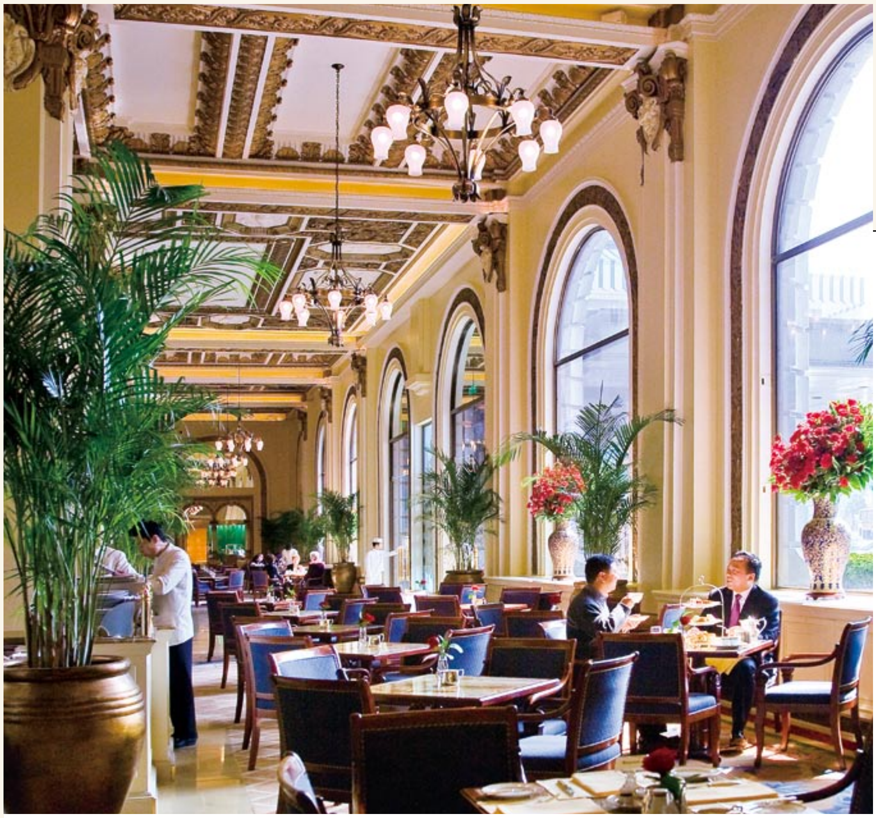



| HK$m | 2005 | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|---|
| Rooms | 1,279 | 1,455 | 1,768 | 1,856 | **1,355** |
| Food & beverage | 728 | 813 | 1,031 | 1,166 | **1,012** |
| Others | 662 | 669 | 800 | 883 | **877** |
| | 2,669 | 2,937 | 3,599 | 3,905 | **3,244** |

**Hotels' EBITDA**




| | 2005 | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|---|
| EBITDA (HK$m) | 751 | 857 | 997 | 863 | **410** |
| EBITDA Margin (%) | 28 | 29 | 28 | 22 | **13** |



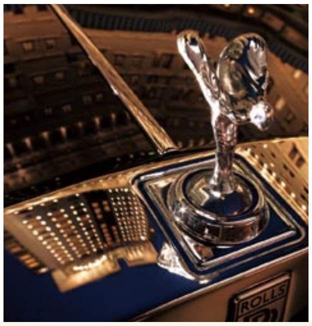
# The Peninsula Hong Kong

100% owned

*The Peninsula Hong Kong was opened in 1928 and is the Group's flagship property, being the first hotel to bear the Peninsula name. Wholly-owned by HSH, the hotel has consistently been regarded as one of the top luxury hotels in the world. In 1994, its facilities were significantly extended and modernised with the addition of the Peninsula 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 first half of the year saw the hotel industry in Hong Kong hit hard by both the global economic downturn and the threat of the human swine influenza, leading to fewer long haul arrivals and a reduction in conventions and exhibitions. The economy began to improve in the third quarter of the year and the recovery continued in the last quarter. Although The Peninsula Hong Kong suffered a sharp drop in business volume, the hotel focused on creating a number of innovative room programmes to offer added benefits and values, as well as expanding the hotel's reach to high potential regional markets, especially mainland China and the Middle East.

- The hotel recorded an ARR of HK$3,796, down 7% from 2008. RevPAR was down 25% from 2008 to HK$2,182 while occupancy dropped 14 percentage points from the year before to 57%.
- Sales, payroll and overhead costs were all strictly controlled at a level below that of 2008.
- The hotel's catering and banquet business was robust during the year. Meanwhile, enhanced marketing efforts across mainland China, the world's largest outbound travel market, led to a 5% increase in affluent mainland Chinese visitors to The Peninsula Hong Kong.
- The Peninsula Arcade and the Office Tower were able to grow their average rent by 3% and 1% respectively. The Arcade continued to maintain an average occupancy of 99% throughout the year, with a high quality tenant mix of luxury brands from around the world.
- On its $81^{st}$ anniversary, the hotel launched two bespoke Mini Clubman vehicles, which are used to chauffeur guests to shopping and sightseeing excursions around town.



# The Peninsula Shanghai

50% owned

*HSH returned to one of its two founding roots, Shanghai, on 18 October 2009 with the soft opening of The Peninsula Shanghai. Located in a splendid location with its frontage on the historic Bund, the property is the first new build on the Bund in the last few decades. The hotel features 235 rooms and suites, five restaurants and bars, a Peninsula Spa, an indoor swimming pool and fitness centre, as well as a Peninsula Arcade featuring top luxury brands. The adjoining Peninsula Residences has 39 units.*

The hotel's guestrooms and facilities were opened in phases and by 3 December 2009, all the guestrooms were put into service. Business has been robust, particularly for banqueting and the Chinese restaurant, Yi Long Court. The Peninsula Shanghai was full for the first time in early December, when Chanel opened its Peter Marino-designed flagship store in China and held the launch of its Spring fashion collection. The hotel will hold its grand opening ceremony on 18 March 2010.

- In its first ten weeks of operation, the hotel achieved an ARR of HK$2,209. RevPAR was HK$926 while occupancy averaged at 42%.
- A special Peninsula introduction rate was launched across major media channels to create awareness for the new hotel. The promotion was very well received, especially amongst short haul regional markets.
- Several of the retail tenants at The Peninsula Shanghai are either flagship stores in mainland China, or made their China debut.
- The Peninsula Shanghai has quickly established itself as the venue of choice in the city for prestigious events.
- The Peninsula Shanghai received several awards shortly after opening, including the 2009 Top Service in the Hotel Industry from China's *World Traveller Magazine*.

# The Peninsula beijing

42% owned

*Opened in 1989, The Peninsula Beijing is situated 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 Peninsula Spa and indoor swimming pool, a fleet of Rolls-Royces and BMWs and one of the most prestigious shopping arcades in Beijing, The Peninsula Arcade, which houses 50 exclusive designer boutiques.*

2009 was a very challenging year for The Peninsula Beijing. The financial crisis which struck predominantly western developed economies led to a significant decrease in overseas arrivals, particularly from the North American and European markets. In addition, the increase in supply of five star hotels in Beijing resulting from the staging of the 2008 Summer Olympics continues to give rise to a very competitive market.

- The hotel recorded an ARR of HK$1,354, down 36% from 2008. RevPAR was down 57% from 2008 to HK$457 while occupancy dropped 16 percentage points from the year before to 34%.
- The hotel shifted its marketing focus to attract business from new potential sectors, particularly the regional market.
- The Peninsula Arcade was 97% let during 2009 and maintained its position as the pre-eminent venue in Beijing for luxury goods.
- To take advantage of the lucrative wedding market, the hotel introduced three exclusive wedding packages and collaborated with a major national publication to organise a wedding fair. The results were successful and the event will be repeated on an annual basis.

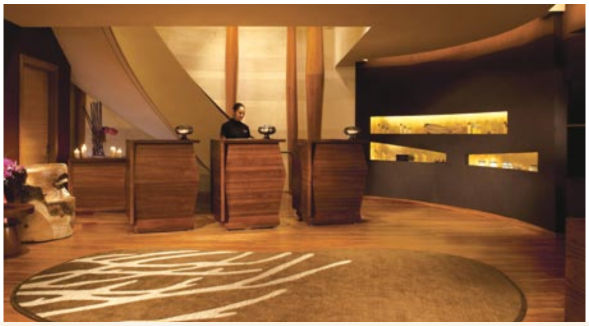

# The Peninsula New York

100% owned

*The Peninsula New York is housed in a 23-storey, 1905 landmark building on Fifth Avenue and 55th Street in mid-town Manhattan. The hotel, acquired by the Group in 1988, has modern interiors yet carries an old world elegance. There are 185 guestrooms and 54 suites, one restaurant and three lounges including Salon de Ning, which is a rooftop lounge and terrace, a Peninsula Spa, a fitness centre and an indoor swimming pool.*

The economic recession continued to affect New York City with room rates in the luxury hotel segment falling 20% below the previous year. Although The Peninsula New York saw declines in both leisure and business travel, the hotel was able to gain over 15% market share through aggressive sales and marketing initiatives.

- The hotel recorded an ARR of HK$5,317, down 16% from 2008. RevPAR was down 18% from 2008 to HK$3,317 while occupancy dropped 2 percentage points from the year before to 62%.
- Although international arrivals fell 10%, there was a slight increase in domestic travellers to New York City as they were attracted by the lower room rates offered by various hotels.
- Efforts were stepped up to bring in new business: the hotel was successful in soliciting several key high volume corporate accounts from the banking industry, while the re-launch of The Peninsula Spa membership also elicited a strong response.
- The Peninsula New York commenced its first phase of room renovation in January, and by May eight floors were completed. In the public areas, a soft renovation of the Lobby and Gotham Lounge were completed in May, while the hotel's meeting space and Fives restaurant were renovated during the summer months and the new look was presented to clients in September.
- All of the five commercial spaces in the hotel were leased for the entire year with increased commercial revenue.



# The Peninsula Chicago

100% owned

*Since its opening in 2001, The Peninsula Chicago has consistently 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.*

A thriving metropolis in Midwest United States, Chicago has been deeply affected by the US economic downturn. The jobless figure in the State of Illinois was 11%, one of the highest rates in America. In addition, Chicago lost its bid to host the 2016 Olympic Games as well as two major citywide conventions in 2012.

- The hotel recorded an ARR of HK$2,987, down 19% from 2008. RevPAR was down 32% from 2008 to HK$1,623 while occupancy fell 11 percentage points from the year before to 54%.
- On 10 September, HSH purchased the remaining 7.5% of the ownership interest in Peninsula Chicago LLC from Tower Summit LLC, which it did not previously hold, for HK$91.3 million (US$11.7 million).
- Despite the prevailing macro economic difficulties, The Peninsula Chicago was able to maintain its position as the market leader in 2009 and was named by Andrew Harper's Hideaway Report as the No. 1 City Hotel in the World.
- Major facility enhancements during the year were kept to a minimum and included renovation of the Spa locker room facilities and replacement of old drycleaning machines with new, eco-friendly models in the laundry operation.
- The hotel's guest mix is 65% transient and 35% group. Despite the economic difficulties, the one segment that grew in 2009 was local visitors. Enhanced marketing efforts within a 500 to 700 mile radius of Chicago, led to a 38% increase in revenue from this segment.

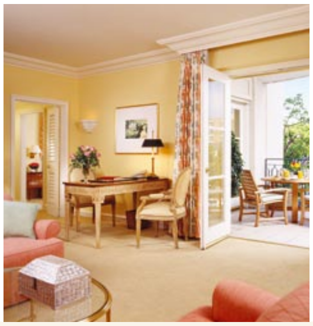
# The Peninsula Beverly Hills

20% owned

*The Peninsula Beverly Hills is located in one of the most prestigious areas of Los Angeles, at the intersection of Wiltshire and 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 four restaurants and bars, a Spa and fitness centre and a large outdoor pool bordered by private cabanas.*

The Peninsula Beverly Hills continued to perform well in a year of soft worldwide economic conditions and was even able to grow its market share. The hotel maintained its premier position in the Los Angeles market.

- The hotel recorded an ARR of HK$5,032, down 6% from 2008. Occupancy fell 19 percentage points to 61% and RevPAR was 28% below 2008. The hotel was, however, able to increase its market share by 12% as compared to 2008, with RevPAR of HK$3,072.
- A second retail store was constructed and leased in 2009 to Henri J. Sillam, which provided additional retail revenue.
- The hotel adopted a sales and marketing strategy whereby a strong rate was maintained while advertisements were directed to focus on packages and promotions. A complimentary extra night's stay, as well as mid-week and weekend promotions were launched to target the regional drive market.
- Plans were put in place for renovation of guestrooms to commence in 2010.



# The Peninsula Tokyo

100% owned

*The Peninsula Tokyo 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 a fitness centre. The hotel is an important component in the revitalisation of the prestigious Marunouchi district, which is the centre of Japan's banking and finance community.*

A strong yen throughout 2009, coupled with a significant drop in foreign visitors to Japan and a competitive business environment, put pressure on luxury hotels' room rates in Tokyo. However, as The Peninsula Tokyo celebrated its second full year of operation, it was able to maintain average rates and RevPAR ahead of the competition.

- The hotel recorded an ARR of HK$3,584, down 5% from 2008. RevPAR was down 10% from 2008 to HK$2,148 while occupancy fell 3 percentage points from the year before to 60%.
- Japan's luxury market has been hit hard by the financial downturn and there was an evident shift in consumer attitude away from the luxury segment. Henceforth, the hotel placed a greater emphasis in offering and promoting value-added incentives to guests, such as through the 'Year of Giving' marketing campaign.
- Whilst there was a significant drop in North American guests, the Hong Kong market continued to grow to a significant level. The wedding market remained prosperous with a 25% increase in the number of wedding receptions held at the hotel.
- All the retail spaces in the hotel remained fully leased throughout the year.

# The Peninsula Bangkok

75% owned

*The luxurious riverside Peninsula Bangkok was opened in 1998. The 37-storey property features 370 guestrooms and suites, three 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 consistently recognised as one of the best hotels in Asia.*

The first nine months of 2009 was a challenging period for Thailand's tourism industry, immediately following the temporary closure of Bangkok's airports in late 2008, as well as continuing political instability in the country. There was a significant decline of international corporate and leisure visitors to Bangkok. The situation improved slightly in the final quarter of the year and despite heavy competition, The Peninsula Bangkok was able to maintain its status as one of the top three hotels in Bangkok.

- The hotel recorded an ARR of HK$1,502, down 12% from 2008. RevPAR was down 35% from 2008 to HK$725 while occupancy dropped 17 percentage points from the year before to 48%.
- The considerable decline in occupancy was partly due to a significant reduction in the number of corporate meetings and tourists visiting Thailand.
- During the year, The Peninsula Bangkok completed the soft refurbishment of 30 Grand Deluxe Suites and installed flat screen LCD television sets in 60 Grand Deluxe Suites and 100 guestrooms. Jesters restaurant was also renovated and turned into a banquet venue in the last quarter.
- The retail arcade remained fully leased throughout the year.

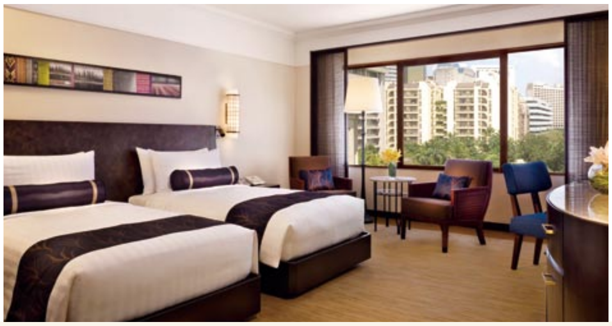
# The Peninsula Manila

77% owned

*The Peninsula Manila is located in the heart of Makati, Manila's business and financial district, at the corner of Ayala and Makati Avenues. Opened in 1976, the 497-room hotel has seven restaurants and bars, a Peninsula Spa and fitness centre and a shopping arcade.*

Business at The Peninsula Manila was consistently weak during the year, which was further aggravated by the Human Swine Influenza and the strong typhoons which hit the country in late September. However, the newly renovated guestrooms at the Ayala Tower were well received by visitors.

- The hotel recorded an ARR of HK$974, down 14% from 2008. RevPAR was down 11% from 2008 to HK$555 while occupancy up 2 percentage points from the year before to 57%.
- Significant capital expenditure projects included: a six month renovation of Nielsen's restaurant, which resulted in a new concept, all-day buffet dining, 200 seat restaurant called Escolta, featuring an aviation themed private dining room. All the guestrooms were fitted with WiFi capabilities, enabling The Peninsula Manila to become the first hotel in Makati to have free WiFi connectivity.
- Following the occurence of Typhoon Ketsana which flooded most of Manila, the Company set up an emergency Calamity Assistance fund to offer immediate relief and support for hotel employees. HK$552,000 was extended to 140 employees (22% of the total number of staff) who were adversely affected.

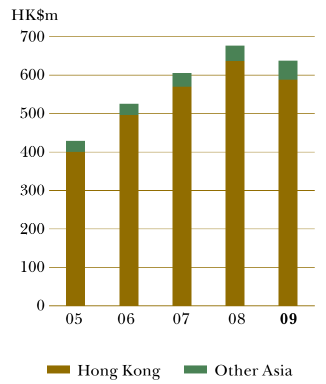


# Commercial Properties and Clubs & Services Performance Charts

| | Attributable Interest % | Revenue (HK$m) 2009 | 2008 | Net Lettable Area (sf) 2009 | 2008 | Occupancy % 2009 | 2008 | Yield (HK$) 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| The Repulse Bay Complex* | 100 | **469** | 520 | **842,549** | 840,575 | **88** | 94 | **37** | 39 |
| The Peak Tower | 100 | **83** | 82 | **67,254** | 67,254 | **99** | 100 | **60** | 60 |
| St. John's Building | 100 | **36** | 34 | **61,102** | 61,102 | **93** | 99 | **35** | 33 |
| The Landmark, Vietnam | 70 | **49** | 41 | **134,409** | 134,409 | **96** | 100 | **29** | 24 |
| Total | | **637** | 677 | **1,105,314** | 1,103,340 | | | | |
| Average | | | | | | **90%** | 95% | **37** | 38 |

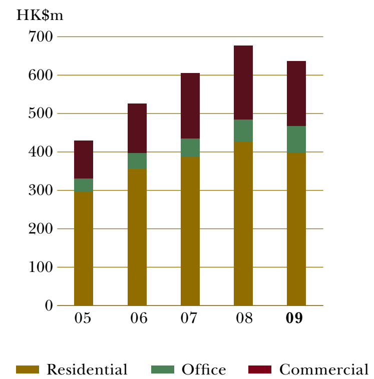
** Part of the Repulse Bay Arcade was closed for revitalisation from March to July 2008, and again from February to August 2009.*

**Rental revenue from Commercial Properties, by geographical location**



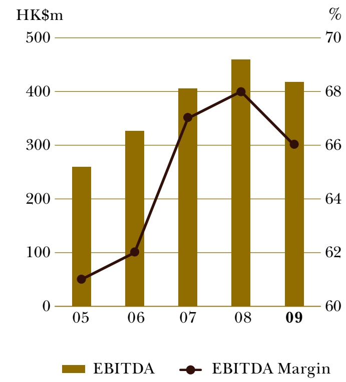

| HK$m | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Hong Kong | 400 | 495 | 570 | 636 | **588** |
| Other Asia | 29 | 31 | 35 | 41 | **49** |
| | 429 | 526 | 605 | 677 | **637** |

**Rental revenue from Commercial Properties, by nature**



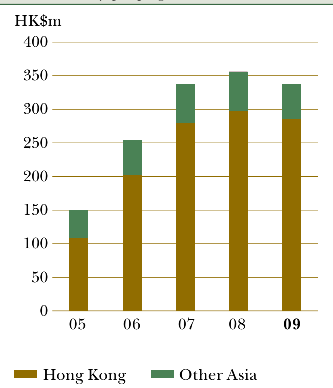

| HK$m | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Residential | 295 | 355 | 386 | 425 | **398** |
| Office | 36 | 42 | 49 | 59 | **70** |
| Commercial | 98 | 129 | 170 | 193 | **169** |
| | 429 | 526 | 605 | 677 | **637** |

**Commercial Properties' EBITDA**



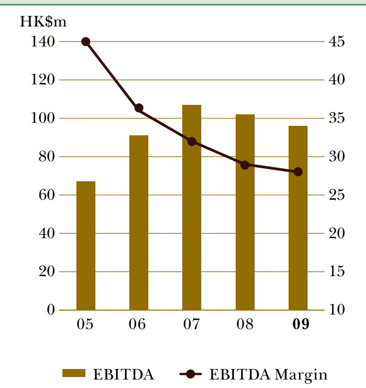

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| EBITDA (HK$m) | 260 | 327 | 406 | 460 | **418** |
| EBITDA Margin (%) | 61 | 62 | 67 | 68 | **66** |

**Revenue from Clubs & Services, by geographical location**




| HK$m | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Hong Kong | 109 | 202 | 279 | 298 | **285** |
| Other Asia | 41 | 52 | 59 | 58 | **52** |
| | 150 | 254 | 338 | 356 | **337** |

**Clubs & Services' EBITDA**




| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| EBITDA (HK$m) | 67 | 91 | 107 | 102 | **96** |
| EBITDA Margin (%) | 45 | 36 | 32 | 29 | **28** |

# The Repulse Bay Complex

100% owned

*The Repulse Bay Complex is comprised of eight apartment towers and a commercial arcade with restaurants and a health wing, built on the site of the famous, former Repulse Bay Hotel. It is located on the scenic south side of Hong Kong Island, overlooking the Repulse Bay beach and South China Sea. The Complex has 795,585 square feet of residential area and 46,964 square feet of commercial area which are held for leasing to tenants.*

The Repulse Bay's position as a premier shopping and dining destination in Island South was further strengthened by extensive enhancements of the Arcade. In early 2009, the Company embarked upon an extensive revitalisation programme for the Repulse Bay Arcade with a view to creating long term value for this asset. The result was a much enhanced Arcade with a tenant mix featuring a more complementary and dynamic assortment of stores and services. The two signature restaurants, The Verandah and Spices, were extensively enhanced, in addition to the creation of a Historical Gallery to preserve the unique history of The Repulse Bay.

- Leasing activities for both the unfurnished and serviced apartments remained strong throughout 2009, despite the general fall in market demand for luxury residential accommodation.
- Usage of the Club facilities remained high as a result of the occupancy levels in the Complex.
- Turnover for the Repulse Bay Complex decreased by 10% compared to 2008, owing to a general drop in rental levels. Turnover was also affected by the temporary closure of the restaurants and some shops during the Arcade revitalisation project.
- The Arcade was re-opened in phases from September onwards and was fully leased by the end of 2009, with a wider range of lifestyle and speciality retailers.
- Both the renovated Verandah and Spices restaurants received wide acclaim from guests, resulting in a positive increase in patronage for a la carte dining and banqueting.

# The Peak Tower

100% owned

*The Peak Tower is an entertainment, retail and dining complex which offers visitors spectacular 360 degree views of Hong Kong from its rooftop Sky Terrace.*

- The Peak Tower enjoyed a 99% occupancy throughout 2009 and recorded a slight increase of 1% in year-on-year revenue.
- A large number of tenancy renewals were successfully completed amid the economic downturn.
- Patronage and revenue for the Peak Tower Sky Terrace were consistent with 2008.
- Key marketing initiatives undertaken included an alliance with Hong Kong Disneyland and the launch of a new website.

# St. John's Building 100% owned

*St. John's Building, an office complex, is situated in Hong Kong's central business district and houses the lower Peak Tram terminus.*

- St. John's Building had a 93% occupancy in 2009. Revenue increased by 6% as a number of leases were renewed during the year.

# The Landmark (Vietnam) 70% owned

- The office tower achieved an average occupancy of 98% for the year, with higher rentals and revenue yields compared to 2008.
- The residential tower achieved an average occupancy of 93% for the year, also achieving higher revenues than in 2008.
- Continuous upgrading work in the residential units and health club were carried out.

# Clubs & Services

*The Group owns and operates the 121-year-old Peak Tram, a major tourist attraction for visitors to Hong Kong's famous Victoria Peak. The Group also owns and manages the Thai Country Club near Bangkok, one of the finest golf clubs in Asia; Quail Golf & Country Club in Carmel, California, USA; Peninsula Merchandising, which operates the Peninsula Boutiques around the world; and Tai Pan Laundry Services in Hong Kong. Under Clubs & Consultancy Services, HSH manages The Hong Kong Club, The Hong Kong Bankers Club and Butterfield's Club in Hong Kong and operates the Cathay Pacific Airways' first and business class lounges in the Hong Kong International Airport.*

## The Peak Tram 100% Owned

- Visitor arrivals to Hong Kong recorded a negative growth in 2009, which resulted in the Peak Tram's revenue and patronage both dropping by 3%.
- Key marketing initiatives undertaken included the offer of a HK$1-ride for children, and aggressive campaigns targeting the tour business from mainland China, Taiwan and India.

## Thai Country Club (Thailand) 75% Owned

- The Thai Country Club had a decrease of 6% in the number of golfers as compared to 2008 with revenues falling by 10%.
- The Club was voted the "Best Clubhouse in Asia" and the "Best Course in Thailand" by readers of the *Asian Golf Monthly Magazine.*

## Quail Golf & Country Club (USA) 100% owned

- The Group decided to close the hotel portion of Quail Lodge on 16 November 2009, after the Resort continued to suffer losses every year in the previous eight years of operations.
- The Golf Course and Clubhouse remain open to service the 300 plus members, as well as catering clientele.
- The 7th Annual Quail Motorsports Gathering in August was a success. The event was launched in 1997 and raises funds for local and national charities.

## Peninsula Merchandising 100% owned

- In 2009, Peninsula Merchandising achieved record sales for its signature mooncakes and related products during the Mid Autumn Festival period.
- The Peninsula Boutique at the Hong Kong International Airport was renovated and re-opened in July.
- In a difficult operating environment in 2009, Peninsula Merchandising achieved revenue and profits that exceeded expectations.

# Awards

## THE PENINSULA HOTELS

- **No. 1 International Hotel Chain – 12th Annual Business Travel Awards** *(Conde Nast Traveler, USA)*
- **Best Luxury Hotel Brand Category – Hotel Chains** *(TTG Travel Awards 2009, Singapore)*
- **The Peninsula Hotels Website, Gold Award of Excellence – Hotel and Lodging Category** *(2009 Communicator Awards)*
- **The Peninsula Hotels Website, Award of Excellence, Outstanding Website Award for Outstanding Achievement in Web Development – Hotel and Lodging Category** *(2009 WebAward)*
- **Four Peninsula Hotels named among the top 20 of The World's Best Hotel in 2009** *(Institutional Investor, USA)*

## THE PENINSULA HONG KONG

- **No. 1 in China – The World's Best Hotels, T + L 500** *(Travel + Leisure, USA)*
- **World's Top 1% Hotels – Expedia Insider's Select 2009** *(Expedia, USA)*
- **Forbes Five Star Award, hotel and spa** *(Forbes Travel Guide, USA)*
- **The World's Top 25 Spas – Readers' Spa Awards 2009** *(Conde Nast Traveller, UK)*

## THE PENINSULA SHANGHAI

- **2010 Best New Arrivals – Shanghai Luxury Hotel** *(Hurun Report, China)*
- **2009 Top Service in the Hotel Industry – Hotels in China** *(World Traveller, China)*
- **2009 Most Desirable Brand amongst Business Elites – 21st Century Luxury Report, Hotels Division** *(21st Century Business Herald, China)*
- **Hottest Venues selected by Local Expatriates – Modern Shanghai Reputation Award** *(Shanghai Morning Post, China)*

## THE PENINSULA BEIJING

- **Gold List – Top 100 World's Best Hotels 2009** *(Conde Nast Traveler, USA)*
- **No. 1 in Beijing and the Highest Rated in Mainland China – 500 World's Best Hotels, Top 44 Asia's Hotels** *(Travel + Leisure, USA)*
- **China's Top 100 Hotels** *(Travel + Leisure, China)*
- **Best Presidential Suite in Beijing** *(Hurun Report, China)*

## THE PENINSULA NEW YORK

- **Top 20 US City Hotels – 2009 Readers' Choice Awards** *(Andrew Harper's Hideaway Report, USA)*
- **Top 50 Large City Hotels in US and Canada – T + L World's Best Awards 2009** *(Travel + Leisure, USA)*
- **Forbes Five Star Award 2010, hotel and spa** *(Forbes Travel Guide, USA)*
- **2009 Automobile Association of America Five Diamond Award** *(USA)*

## THE PENINSULA CHICAGO

- **No. 1 City Hotel in the World – 28th Annual Readers' Survey** *(Andrew Harper's Hideaway Report, USA)*
- **No. 2 Best Hotel in the United States – Annual Readers' Choice Awards** *(Conde Nast Traveler, USA)*
- **Forbes Five Star Award 2009** *(Forbes Travel Guide, USA)*
- **2009 Automobile Association of America Five Diamond Award** *(USA)*

## THE PENINSULA BEVERLY HILLS

- **No. 1 in North America – Awards of Excellence** *(Luxury Travel Advisor, USA)*
- **No. 4 – Top 100 Hotels** *(Conde Nast Traveler, USA)*
- **No. 4 in the US and Canada, No. 20 in the World – World's Best Awards** *(Travel + Leisure, USA)*
- **Forbes Five Star Award 2009** *(Forbes Travel Guide, USA)*

## THE PENINSULA TOKYO

- **No. 7 – 2009 The World's Best Hotels** *(Institutional Investor, UK)*
- **Favorite Hotel/Resort Spa in Far East, Silver Sage Readers' Choice Award** *(Spa Magazine, USA)*
- **Hei Fung Terrace, One Michelin Star** *(2010 Tokyo Michelin Guide, Japan)*
- **Best for Food – The Gold List 2009** *(Conde Nast Traveller, UK)*

## THE PENINSULA BANGKOK

- **No. 1 Best City Hotel in Southeast Asia** *(2008 Gallivanter's Awards for Excellence, UK)*
- **No. 3 Top 10 Best Luxury Hotels in Asia** *(Tripadvisor Travelers Choice Awards 2009, USA)*
- **No. 6 Best Hotels in Asia** *(Conde Nast Traveller, UK)*
- **No. 10 World's Best Hotels for Service in Asia** *(Travel + Leisure, USA)*

## THE PENINSULA MANILA

- **One of the Top 25 Business Hotels in Asia** *(Smart Travel Asia, Hong Kong)*

## PEAK TRAMWAYS

- **CILT Award 2009 – Customer Service Excellence** *(The Chartered Institute of Logistics and Transport, Hong Kong)*

## THAI COUNTRY CLUB

- **Best Clubhouse in Asia and Best Course in Thailand** *(Asian Golf Monthly Magazine, Singapore)*

## THE LANDMARK

- **Best Renovated Building in the South of Vietnam – 2009 Energy Buildings** *(Ministry of Industry, Vietnam)*

## CORPORATE

- **Honourable Mention, Overall Award Category – 2009 HKMA Best Annual Report Awards** *(Hong Kong Management Association, Hong Kong)*
- **Bronze Award, Annual Report, Hotel & Property Section – Galaxy Awards 2009** *(MerComm Inc., USA)*

## Arcade Tenants

| | |
|---|---|
| Ascot Chang | Piaget |
| Berluti | Prada |
| Brioni | Ralph Lauren |
| Canali | Salon denis |
| Chanel | Shanghai Tang |
| Chaumet | Silvano Lattanzi |
| Chopard | Sonia Rykiel |
| Emporio Armani | St. John |
| Georg Jensen | Stefano Ricci |
| Giorgio Armani | Tang Yun |
| Graff | The Peninsula Boutique |
| My Wedding Atelier | Valentino |

## The Peninsula Shanghai (China)

The Peninsula Shanghai came to fruition in the first eight months of the year with all construction and fit out of the hotel tower completed on schedule. The pre-opening team moved into the hotel in May 2009 to prepare for operations to begin. The hotel soft opened on 18 October 2009 with the rooms and public areas opening in phases. By early December, all rooms and facilities in the hotel were fully operational. Initial trading has been in line with expectations and the hotel has already had excellent public and industry recognition via a number of awards. The official Grand Opening on 18 March 2010 will launch the hotel to the local community as a destination society venue.

The Peninsula Shanghai retail arcade features leading luxury brands, including Chanel, Chaumet, Giorgio Armani, Emporio Armani, Graff, Ralph Lauren, Piaget, Berluti and Prada. A number of the brands represented have opened their China flagship stores in the Arcade or opened their first mainland presence. Consequently we believe the Arcade is quickly establishing itself as Shanghai's most luxurious shopping venue. Chanel's store opening on 3 December coincided with the launch of their Spring fashion collection, named the Paris-Shanghai collection, by way of a fashion show on a temporary barge moored on the Huangpu River just outside the hotel, generating excellent publicity for both the hotel and the arcade. The majority of stores are now open with the remainder opening in the coming months.

Construction of The Peninsula Shanghai hotel apartments is in its final phase, with the show apartment and all public areas, including a resident's gym and pool, close to completion. Fit out of the apartments will continue during 2010, while plans are underway to finalise a marketing strategy for the planned sale of the hotel apartments. As these will represent the first 'Peninsula' branded hotel apartments and are located within The Peninsula Shanghai complex on the Bund, there has already been significant interest shown in the 39 apartments in the complex.

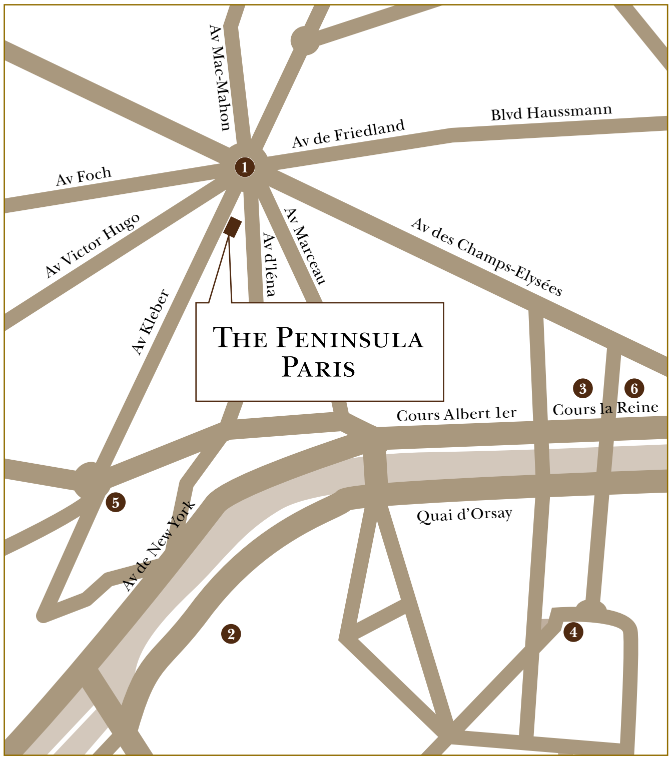
## The Peninsula Paris (France)

HSH's next hotel project, The Peninsula Paris, is scheduled to open in 2012. The site is a century old Beaux Art building located on Avenue Kleber, near the Arc de Triomphe, which was opened in 1908 as the Majestic Hotel and was most recently an International Conference Centre under the auspices of the French Ministry of Foreign Affairs.

In 2009, following the signing of formal agreements in January with our partner, Qatari Diar Real Estate Investment Company and the formation of a joint venture company, Al Maha Majestic S.à r.l., the building was vacated at the end of March 2009 and handed over to the joint venture for stripping out and subsequent construction. Appointments of key personnel have been made, including the Project Director, the executive architect (Richard Martinet) and the interior designer (Thierry Despont).

The building permit was granted by the authorities in June and confirmed in September, following a three-month public consultation period. Concept designs are drawn up for the hotel's guestrooms and public areas, which will feature contemporary flair with reference to the building's original belle époque style.

By October, soft demolition work began on the site. The remaining consultants were appointed and detailed design work continued to progress. The first major phase of work is scheduled to commence in the Spring of 2010, with completion targeted for 2012.




1. *Arc de Triomphe*
2. *Eiffel Tower*
3. *Grand Palais*
4. *Musée de l'Armée – Tombeau de Napoléon 1er*
5. *Musée national de la Marine*
6. *Petit Palais*

## NON-EXECUTIVE CHAIRMAN

**The Hon. Sir Michael Kadoorie**
*GBS, LL.D. (Hon), DSc (Hon), Officier de la Légion d'Honneur, Commandeur de l'Ordre de Leopold II, Commandeur de l'Ordre des Arts et des Lettres*
Aged 68. Appointed a Director in 1964 and elected Chairman in 1985. Sir Michael is a substantial shareholder of the Company by virtue of the Securities and Futures Ordinance. 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, an Independent 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

**Ian Duncan Boyce**
Aged 65. 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 the major shareholders of the Company. (E, A, F, R)

## EXECUTIVE DIRECTORS

### Chief Executive Officer

**Clement King Man Kwok**
Aged 50. 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's 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, a fellow of The Hong Kong Management Association and serves on the Boards of the Community Chest and the Faculty of Business and Economics of the University of Hong Kong. (E, F)

### Chief Financial Officer

**Neil John Galloway**
Aged 41. 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's 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 and acquisitions and equity capital markets business. (F)

### Chief Operating Officer

**Peter Camille Borer**
Aged 56. Appointed to the Board as an Executive Director in April 2004, he is a graduate of the Ecole Hoteliere Lausanne, Switzerland and is now a member of the International Advisory Board of the school. Mr. Borer joined the Group in 1981. 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's entities.

## NON-EXECUTIVE DIRECTORS

**Ronald James McAulay**
Aged 74. 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 by virtue of the Securities and Futures Ordinance. 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.

**William Elkin Mocatta**
Aged 57. 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 to 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 the major 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.

**John Andrew Harry Leigh**

Aged 56. 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 the major shareholders of the Company. (E, F)

**Nicholas Timothy James Colfer**

Aged 50. A Master of Arts and with over 27 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 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 the major shareholders of the Company. He also serves on several other corporate Boards in Hong Kong.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. The Hon. Sir David Kwok Po Li**

*GBM, GBS, OBE, MA Cantab. (Economics & Law), Hon. DSc. (Imperial), Hon. DBA (Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. DSocSc (Lingnan), Hon. LLD (Hong Kong), Hon. LLD (Warwick), Hon. LLD (Cantab), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCIArb, JP, Officier de L'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Officier de la Légion d'Honneur*

Aged 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 China Merchants China Direct Investments Limited and Dow Jones & Company until he resigned in 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.

**Robert Chee Siong Ng**

Aged 57. 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 Limited until he resigned in May 2007. (A)

**Robert Warren Miller**

Aged 76. A Bachelor of Science in Hotel Administration from Cornell University and a Presidential Councillor and Trustee Emeritus of the University, he was appointed to the Board in July 2001. Mr. Miller, a resident of Hong Kong since 1960, is the founder of the DFS Group, Duty Free Shoppers Limited, and Chairman of the Search Group, a private international investment group. (R)

**Patrick Blackwell Paul**

*CBE*

Aged 62. 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)

**Pierre Roger Boppe**

*Chevalier dans l'Ordre National de la Légion d'Honneur*

Aged 62. 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. He was re-designated from a Non-Executive Director to an Independent Non-Executive Director in June 2009.

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

# Senior Management & Key Functions

## 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.*

**Maria Razumich-Zec**
Aged 52. Mrs. Razumich-Zec joined the Group as General Manager of The Peninsula Chicago in 2002 and was promoted to Regional Vice-President – USA East Coast in 2007, with regional responsibilities covering the Peninsula hotels in Chicago and New York.

**Martyn Sawyer**
Aged 52. Group General Manager, Properties and Clubs since 1999, Mr. Sawyer holds responsibility for the Group's commercial properties division, including The Repulse Bay Complex and The Peak Complex in Hong Kong, as well as a number of the Group's operations under the Clubs and Services division. He has been with the Group since 1985.

## KEY FUNCTIONS

### Operations General Managers

**Rainy Chan**
Aged 45. 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, in addition to which she has been promoted to be Area Vice-President – Hong Kong and Bangkok as from 1 May 2010.

**Nicolas Beliard**
Aged 43. Mr. Beliard joined the Company in 2009 as Resident Manager of The Peninsula Hong Kong. He has been promoted to be General Manager of The Peninsula Bangkok as from 1 May 2010.

**Jonathan Crook**
Aged 43. 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.

**Sarah Cruse**
Aged 47. Ms. Cruse joined the Company in 2006 as General Manager of Quail Lodge Resort and Golf Club.

**Donald J. Harrington**
Aged 57. Mr. Harrington joined the Company in 2000 as General Manager of The Peninsula Beijing.

**Palle Ledet Jensen**
Aged 46. 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.

**Charles Morris**
Aged 55. 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 but will leave this position on 30 April 2010.

**Offer Nissenbaum**
Aged 52. Mr. Nissenbaum joined the Group in 2007 as Managing Director of The Peninsula Beverly Hills.

**Robert H. Rechtermann**
Aged 45. Mr. Rechtermann was appointed General Manager of The Peninsula New York in 2007. Previously, he was Resident Manager of The Peninsula Chicago.

**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, Operations Planning and Support.

**Malcolm Thompson**
Aged 59. Mr. Thompson joined the Company in 2006 as General Manager of The Peninsula Tokyo.

**May Tsang**
Aged 38. Ms. Tsang joined the Company in 2001. In January 2009, she was appointed General Manager of the Peak Complex covering The Peak Tower, The Peak Tram and St. John's Building.

## Corporate General Managers

**David Batchelor**
Aged 52. 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.

**Jean Forrest**
Aged 46. 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.

**Ingvar Herland**
Aged 55. 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 hotel and non-hotel properties.

**Shane Izaks**
Aged 47. Mr. Izaks was appointed General Manager, Information Technology in 1995 and is responsible for formulating and implementing information technology strategy at both Group and operational levels.

**Christobelle Liao**
Aged 41. Ms. Liao joined the Company as Company Secretary and Corporate Counsel in 2002.

**John H. Miller**
Aged 50. Mr. Miller joined the Group in 1998 and was appointed General Manager, Design and Planning in 2002. His responsibilities include overseeing the design and planning of new and existing hotel and property developments.

**Sindy Tsui**
Aged 41. 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.

**David Williams**
Aged 60. Mr. Williams joined the Group in 1998 and was appointed General Manager, Corporate Responsibility and Sustainability in December 2009, following a five-year tenure looking after the Group's audit and risk management function. He is now responsible for co-ordinating the implementation and reporting of the Group's corporate social responsibility initiatives.

**Wong Kin Keung**
Aged 62. Mr. Wong joined the Group in 1994 and was appointed General Manager of The Peninsula Shanghai Waitan Hotel Company Limited in 2005, with responsibility for overall management of The Peninsula Shanghai and Peninsula Residences project.

**P.T. Wong**
Aged 42. Mr. Wong first joined the Group in 1996 but left in 2002. In 2006, he re-joined HSH and in 2008, was promoted to be General Manager, Project Coordination and Technical Services (subsequently re-titled General Manager, Project Management), responsible for the project management of new and existing developments.

## Corporate Senior Managers

**Martin Lew**
Aged 44. 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.

**Ernest Tang**
Aged 47. 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.

**Consolidated Statement of Financial Position at 1.1.2009**

| | HK$m |
|---|---|
| **Net assets** | |
| Fixed assets | 26,368 |
| Other long term investments | 631 |
| Deferred tax assets | 38 |
| Derivative financial instruments | 63 |
| Cash at banks and in hand | 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 |

**Consolidated Statement of Cash Flows for the year ended 31.12.2009**

| | | | HK$m |
|---|---|---|---|
| 1 | EBITDA | | 924 |
| | Net tax paid | | (143) |
| | Working capital and other adjustments | | (20) |
| | Net cash inflow from operating activities | | 761 |
| | Interest and other financing charges paid | | (139) |
| | Interest received | | 15 |
| | Dividends paid | | (53) |
| 2 | Investment in the Peninsula Paris project, including the acquisition of the right to manage the hotel after completion of the redevelopment | | (1,044) |
| 3 | Other capital expenditures | | (269) |
| | Net increase in bank borrowings | | 663 |
| | Placement of interest bearing bank deposits with maturity of more than 3 months | | (437) |
| | Other net cash outflow | | (95) |
| | Net decrease in cash and cash equivalents | | (598) |
| | Cash at banks and in hand | 1,995 | |
| | Less: Bank overdrafts | (16) | |
| | Cash and cash equivalents at 1.1.2009 | | 1,979 |
| | Effect of changes in exchange rates | | (1) |
| | Cash and cash equivalents at 31.12.2009* | | 1,380 |
| * | Representing: | | |
| | Cash at banks and in hand | | 1,835 |
| | Bank deposits with maturity of more than 3 months | | (437) |
| | Bank overdrafts | | (18) |
| | | | 1,380 |

**Consolidated Income Statement for the year ended 31.12.2009**

| | | HK$m |
|---|---|---|
| 4 | Turnover | 4,218 |
| | Operating costs before depreciation and amortisation | (3,294) |
| 1 | EBITDA | 924 |
| | Depreciation and amortisation | (338) |
| | Operating profit | 586 |
| | Net financing charges | (86) |
| | Profit after net financing charges | 500 |
| 5 | Share of profit of a jointly controlled entity | 285 |
| 6 | Increase in fair value of investment properties | 1,998 |
| | Other non-operating items | (21) |
| | Taxation | (458) |
| 7 | Minority interests | (6) |
| | Profit attributable to shareholders | 2,298 |

**Consolidated Retained Profits for the year ended 31.12.2009**

| | HK$m |
|---|---|
| Retained profits at 1.1.2009 | 16,063 |
| Profit attributable to shareholders for the year | 2,298 |
| Acquisition of additional shareholding in a subsidiary company | (57) |
| Transfer from other reserve | 1,048 |
| Dividends distributed during the year | (196) |
| Retained profits at 31.12.2009 | 19,156 |

**Consolidated Statement of Financial Position at 31.12.2009**

| | HK$m |
|---|---|
| **Net assets** | |
| Fixed assets | 28,339 |
| Other long term investments | 2,043 |
| Deferred tax assets | 64 |
| Derivative financial instruments | 45 |
| Cash at banks and in hand | 1,835 |
| Other current assets | 489 |
| | 32,815 |
| Bank overdrafts | (18) |
| Bank borrowings | (3,807) |
| Derivative financial instruments | (206) |
| Deferred tax liabilities | (3,543) |
| Other liabilities | (1,293) |
| | 23,948 |
| **Capital and reserves** | |
| Share capital and premium | 3,995 |
| Retained profits | 19,156 |
| Hedging reserve | (116) |
| Other reserves | 5 |
| | 23,040 |
| Minority interests | 908 |
| | 23,948 |

**1 EBITDA**

EBITDA was HK$501 million (35%) lower than that of 2008, mainly due to the reduction in contribution from the Hotels division.

**2 Investment in the Peninsula Paris project**

On 20 January 2009, the Group invested a total of HK$1,044 million (Euro 102 million) to acquire a 20% interest in a joint venture to develop The Peninsula Paris hotel, together with the right to manage this hotel for a period of 50 years after completion. The entire sum of HK$1,044 million was funded by the Group's surplus cash.

**3 Other capital expenditures**

All expenditures were funded by the Group's operating cash flows and the spending in 2009 comprised HK$91 million for the acquisition of the remaining 7.5% interest in The Peninsula Chicago, HK$106 million special project expenses incurred for The Repulse Bay commercial arcade revitalisation and certain one-off projects and HK$163 million for the ongoing renovations of the Group's hotels and commercial properties.

**4 Turnover**

The Hotels division continued to contribute more than 75% of the Group's total turnover. By nature, the revenue of hotels is subject to a higher degree of volatility and this division accounted for 92% of the overall decrease in the Group's turnover. Detailed discussion of the operating performance of each division is set out on pages 55 to 59.

**5 Share of profit of a jointly controlled entity**

This represents the Group's 50% share of profit of The Peninsula Shanghai, which opened gradually from 18 October 2009 and became fully operational as from 3 December 2009. The profit in 2009 included the Group's share of a post-tax non-operating gain of HK$315 million arising from the year end property valuation adjustments.

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

The Group states its investment properties at fair value and gain or loss arising from the change in fair value of investment properties is recognised in the income statement. The year end revaluation of the Group's investment properties has resulted in a non-operating gain of HK$1,998 million, principally attributable to The Repulse Bay Complex and the commercial arcade of The Peninsula Hong Kong.

**7 Taxation**

The taxation charge for the year amounted to HK$458 million, compared to a tax credit of HK$42 million in 2008. It should be noted that the total tax charge in 2009 included a deferred tax charge of HK$308 million (2008: deferred tax credit of HK$163 million) in respect of the change in fair value of the Group's investment properties which was non-operating in nature. In addition, there was a write back of HK$175 million deferred tax arising from the decrease in Hong Kong Profits Tax rate from 17.5% to 16.5% in 2008 which was not recurring in 2009.

## Key components of the financial statements

The objective of the financial statements is to set out the historic financial performance and financial position of the Group. The key components of the financial statements are the income statement, statement of financial position and the statement of cash flows, all of which are inter-related. The information presented in the income statement, the statement of financial position and the statement of cash flows is briefly described below. The Group's summarised financial statements are set out in the Financial Review Summary on pages 50 to 51.

***Income statement*** – this analyses the Group's financial performance for the year, showing profitability and comparatives. The income statement of the Group is set out on page 98 and a detailed discussion of the performance of the Group is set out on pages 55 to 64 of this Financial Review.

***Statement of financial position*** – this summarises the Group's assets and liabilities as at the end of the reporting period and how the net assets were funded. The statement of financial position of the Group is presented on page 100 and a detailed discussion of the financial position of the Group is set out on pages 64 to 67 of this Financial Review.

***Statement of cash flows*** – this provides information about the Group's change in financial position, reconciles the Group's reported income to operating cash flows and analyses how cash generated from operations was applied in investing and financing activities during the year. The statement of cash flows of the Group is set out on page 103 and a detailed discussion of the cash flows is set out on page 68 of this Financial Review.

## Non-accounting performance indicators and operational statistics

To enable users of the financial statements to assess the Group's operating performance in a more comprehensive manner, operating and non-accounting financial performance indicators are included in this Financial Review to supplement the information presented in the financial statements. A summary of the key operational statistics of the Group's individual hotels and commercial properties is set out in the Ten Year Operating Summary on pages 94 to 95.

## The Group's adjusted net asset value

The Group's financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRS). HKFRS are issued by the Hong Kong Institute of Certified Public Accountants designed for general purpose financial statements. Whilst certain management judgements may be applied when preparing the financial statements, the Group is obliged to follow the framework of HKFRS and a set of prescriptive standards under the HKFRS to measure, recognise and record its transactions; and to present and disclose the resultant accounting effects in its financial statements without any departures.

To ensure the Group's financial statements are in full compliance with the HKFRS, deferred taxation has to be provided for all temporary differences between the carrying amounts of assets and liabilities and their tax bases. Accordingly, the deferred tax liabilities of the Group as at 31 December 2009 included a HK$3,077 million provision, calculated based on the Hong Kong Profits Tax rate, in respect of revaluation surpluses on the Group's Hong Kong investment properties. It is the Directors' view that all 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 gains would be capital in nature and would be subject to a nil tax rate in Hong Kong. The Directors therefore expect that the aforesaid HK$3,077 million provision made as at 31 December 2009 would not materialise.

For the purpose of financial statement presentation, the Group has selected the cost model instead of fair value model under the HKFRS as its accounting policy to account for its hotels (other than shopping arcades and offices within the hotels) and golf courses. Under the cost model, hotels and golf courses are measured at depreciated cost less accumulated impairment losses, if any. The fair value model has not been selected in order to avoid the inclusion of unnecessary short term fair value movements in respect of hotel properties and golf courses in the income statement which are considered irrelevant to the underlying economic performance of the hotel and golf course operations. However, in order to provide users of the financial statements 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 2009, the details of which are set out on page 65. 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 noted above), the Group's net assets attributable to shareholders would increase by HK$2,424 million.

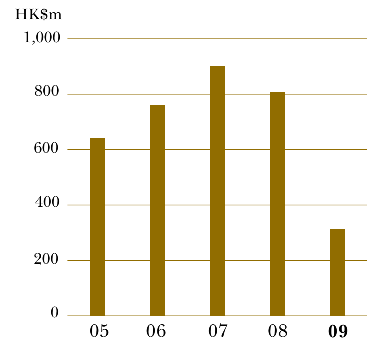
In the light of the above, the Directors have provided the users of the financial statements with a calculation of the Group's adjusted net asset value as at 31 December 2009 on the basis set out below:

| (HK$m) | **2009** | | 2008 | |
|---|---|---|---|---|
| Net assets attributable to shareholders per audited statement of financial position | | **23,040** | | 20,712 |
| Writing back the deferred taxation provision in respect of revaluation surpluses on Hong Kong investment properties | | **3,077** | | 2,723 |
| Adjusting the value of hotels and golf courses to fair market value | **2,559** | | 3,826 | |
| Less: Related deferred tax and minority interests | **(135)** | | (672) | |
| | | **2,424** | | 3,154 |
| Adjusted net assets attributable to shareholders | | **28,541** | | 26,589 |
| Audited net assets per share (HK$) | | **15.67** | | 14.28 |
| Adjusted net assets per share (HK$) | | **19.42** | | 18.34 |

## The Group's underlying earnings

The Group's operating results are mainly derived from the operation of hotels and letting of commercial properties. However, to comply with the HKFRS, the Group is required to include non-operating and non-recurring items, such as the increase in fair value of investment properties and impairment provision adjustments for certain assets, in its income statement. As the Group continues to be managed with principal reference to its underlying operating cash flows and recurring earnings, the Directors have provided for the users of its financial statements calculations of the Group's underlying profit attributable to shareholders and underlying earnings per share, which are determined by excluding the post-tax effects of the property revaluation movements and other non-operating items, as set out below:

**Underlying earnings**




| (HK$m) | 2009 | 2008 |
|---|---|---|
| Profit attributable to shareholders | **2,298** | 216 |
| (Increase)/decrease in fair value of investment properties | **(1,998)** | 593 |
| Net impairment provision adjustments for hotels, golf courses and other properties | – | 176 |
| Share of net property valuation gain of a jointly controlled entity, net of tax | **(315)** | – |
| Other non-operating items | **21** | – |
| Tax and minority interests attributable to non-operating items | **309** | (178) |
| Underlying profit attributable to shareholders | **315** | 807 |
| Underlying earnings per share (HK$) | **0.22** | 0.56 |

## Change in segmental reporting

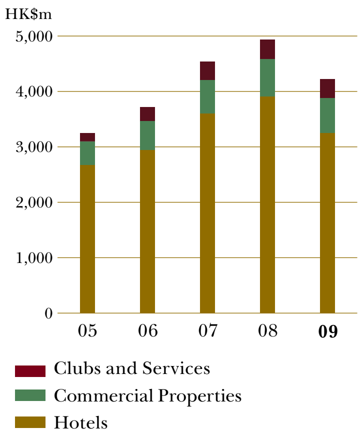
During 2009, the Group has reclassified its reporting segments to: Hotels, Commercial Properties, and Clubs and Services. This has resulted in a consequential adjustment to certain 2008 figures to reflect the comparative results. In 2008 and previous years, the reporting segments were: Hotels, Non-hotel Properties; and other businesses. We believe the reclassification better reflects the Group's operating segments and aligns with how the Group's performance and resources are managed for strategic growth.

## Income Statement

### Turnover

The Group's turnover in 2009 amounted to HK$4,218 million, which was HK$720 million or 15% below 2008. The following table sets out the breakdown of consolidated revenues first by business segment and then by geographical segment:

**Turnover by activity**




| **Consolidated revenues by business segment** (HK$m) | **2009** | | 2008 | |
|---|---|---|---|---|
| Hotels | | | | |
| Rooms | **1,355** | **32%** | 1,856 | 37% |
| Food and beverage | **1,012** | **24%** | 1,166 | 24% |
| Commercial | **556** | **13%** | 545 | 11% |
| Others | **321** | **8%** | 338 | 7% |
| Total hotel revenue | **3,244** | **77%** | 3,905 | 79% |
| Commercial Properties | **637** | **15%** | 677 | 14% |
| Clubs and Services | **337** | **8%** | 356 | 7% |
| | **4,218** | **100%** | 4,938 | 100% |

| **Consolidated revenues by geographical location** (HK$m) | **2009** | | 2008 | |
|---|---|---|---|---|
| Arising in | | | | |
| Hong Kong | **1,870** | **44%** | 2,056 | 42% |
| Other Asia | **1,429** | **34%** | 1,740 | 35% |
| United States of America | **919** | **22%** | 1,142 | 23% |
| | **4,218** | **100%** | 4,938 | 100% |

***Hotels*** During 2009, the hotels division generated a total revenue of HK$3,244 million, representing a decrease of HK$661 million (17%) as compared to 2008. All hotels experienced reduced revenue in 2009 compared with 2008, but the most affected were the Peninsula hotels in Beijing, Chicago and Bangkok, which together accounted for two-thirds of the reduction. The RevPAR in all hotels, apart from The Peninsula Manila, was reduced to levels similar to those achieved in 2004-2005.

The breakdown of revenues by hotels is as follows:

| **Revenue** | **2009** | | | | | 2008 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Breakdown of revenues by hotels** (HK$m) | **Rooms** | **Food and Beverage** | **Commercial** | **Others** | **Total** | Rooms | Food and Beverage | Commercial | Others | Total |
| **Consolidated hotels** | | | | | | | | | | |
| The Peninsula Hong Kong | **263** | **285** | **371** | **48** | **967** | 353 | 321 | 362 | 57 | 1,093 |
| The Peninsula Beijing | **101** | **55** | **121** | **18** | **295** | 236 | 102 | 121 | 26 | 485 |
| The Peninsula New York | **289** | **86** | **33** | **33** | **441** | 354 | 90 | 32 | 10 | 486 |
| The Peninsula Chicago | **201** | **130** | **–** | **48** | **379** | 297 | 167 | – | 59 | 523 |
| The Peninsula Tokyo | **271** | **297** | **26** | **67** | **661** | 302 | 285 | 25 | 65 | 677 |
| The Peninsula Bangkok | **98** | **62** | **3** | **19** | **182** | 153 | 87 | 3 | 26 | 269 |
| The Peninsula Manila | **101** | **70** | **2** | **17** | **190** | 115 | 76 | 2 | 17 | 210 |
| Quail Lodge Resort* | **31** | **27** | **–** | **41** | **99** | 46 | 38 | – | 49 | 133 |
| Management fees income | **–** | **–** | **–** | **30** | **30** | – | – | – | 29 | 29 |
| | **1,355** | **1,012** | **556** | **321** | **3,244** | 1,856 | 1,166 | 545 | 338 | 3,905 |
| **Non-consolidated hotels** | | | | | | | | | | |
| The Peninsula Shanghai** | **19** | **21** | **8** | **2** | **50** | – | – | – | – | – |
| The Peninsula Beverly Hills | **216** | **78** | **–** | **38** | **332** | 302 | 93 | – | 49 | 444 |
| | **235** | **99** | **8** | **40** | **382** | 302 | 93 | – | 49 | 444 |

* *Quail Lodge Resort was closed on 16 November 2009.*
** *The Peninsula Shanghai opened gradually from 18 October 2009 and became fully operational as from 3 December 2009.*

***The Peninsula Hong Kong:*** Total revenue was HK$126 million (12%) lower than 2008, with significantly less revenue from rooms and from food and beverage; although commercial revenue was 2% higher than in 2008. The hotel's RevPAR was 25% lower than 2008, mostly due to lower occupancy, with a noticeable decline in business from long-haul destinations. The lower occupancy impacted on food and beverage revenues, and there was less convention and exhibition business.

***The Peninsula Beijing:*** Total revenue was HK$190 million (39%) below 2008. Occupancy was 34% compared with 50% in 2008, resulting in a 57% lower RevPAR as compared with 2008. The lower occupancy also heavily impacted on the restaurant business levels; although commercial revenue was in line with 2008.

***The Peninsula New York:*** Total revenue was HK$45 million (9%) lower than 2008 principally due to the reduced average room rate, which was 16% lower than in 2008 whilst the hotel's occupancy was just 1.5% lower. The lower average rate resulted in room revenue being HK$65 million (18%) lower than in 2008. The Spa facility re-opened in January 2009 after being closed for almost all of 2008 for renovation, increasing the 2009 Spa revenue by HK$22 million as compared to 2008.

***The Peninsula Chicago:*** Total revenue was HK$144 million (28%) below 2008. Business levels in Chicago have been significantly impacted by the economic environment in the United States, from which approximately 90% of the hotel's room business comes. The hotel's RevPAR was 32% lower than in 2008, with the reduced occupancy also impacting negatively on food and beverage business.

***The Peninsula Tokyo:*** Total revenue was HK$16 million (2%) below 2008; although the hotel's Japanese Yen revenue was 10% lower than 2008. The revenue decline was due mainly to a 10% drop in RevPAR, principally driven by lower average room rate, resulting from the poor business environment in Tokyo. The hotel created many attractive promotions around the "Year of Giving" theme, which have been well received. As a result, food and beverage revenues were only 4% below 2008 and Spa revenue was higher than in 2008.

***The Peninsula Bangkok:*** Total revenue was HK$87 million (32%) below 2008. The political instability, which started in September 2008 and led to a state of emergency and the closure of Bangkok's airports in late November 2008, significantly impacted the tourism industry in Thailand. There has been a significant decline in international visitors, both corporate and leisure, resulting in the hotel's RevPAR declining 35% as compared with 2008, reflecting both lower occupancy and average room rate.

***The Peninsula Manila:*** Total revenue was HK$20 million (10%) below 2008; although the hotel's Philippine Peso revenue was just 2% lower than 2008. The hotel's 2009 revenue was impacted by both the generally poor economic conditions and the strong typhoons in September. The results are not directly comparable with 2008 because half of the hotel's room inventory was not available for sale for five months in 2008 due to the renovation of the Ayala Tower.

***Quail Lodge:*** Total revenue was HK$34 million (26%) lower than in 2008. The hotel portion of the resort closed on 16 November 2009, which resulted in 115 redundancies and associated closure costs of HK$24 million, which was charged to the income statement as a non-operating item. The Golf and Clubhouse remain open to support the approximately 300 members and the property's event business.

Most of the space in the retail arcades in the hotels is leased on long term leases, with rental levels set for the full term of the lease. We have been working closely with the existing tenants through this challenging year to maintain business levels in the commercial arcades and to retain as many tenants as possible. This has been largely successful, resulting in a 2% increase in revenues from the hotels' commercial areas as compared with 2008.

Although the financial results for the Peninsula hotels in Shanghai and Beverly Hills are not consolidated as they are not subsidiaries of the Group, the following comments are included in order to provide a complete review of the operating performance of hotels in the Group.

***The Peninsula Shanghai:*** Total revenue was HK$50 million for the period to 31 December 2009. The hotel opened gradually from 18 October 2009 and became fully operational as from 3 December 2009. The hotel has been promoting attractive introductory room packages since opening, which have been effective in generating awareness of the hotel. There have been major construction works in the area surrounding the hotel, related to the removal of the flyover, and this has made it difficult to access the hotel. This has particularly impacted food and beverage revenue since the opening but it is expected that all such works will be completed by the time of the World Expo in May 2010.

***The Peninsula Beverly Hills:*** Total revenue was HK$112 million (25%) below 2008. Occupancy was 61% compared with 80% in 2008, resulting in a 28% lower RevPAR as compared with 2008. The lower occupancy also impacted on the restaurant and Spa business levels, which were approximately 20% below those of 2008.

***Commercial Properties*** The total rental revenue from commercial properties of HK$637 million was HK$40 million (6%) lower than 2008, mainly due to reduced revenue in The Repulse Bay.

| | **2009** | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| **Breakdown of revenues by Commercial Properties** (HK$m) | **Residential Properties** | **Office** | **Shopping Arcade** | **Total** | Residential Properties | Office | Shopping Arcade | Total |
| The Repulse Bay Complex, Hong Kong | **385** | **–** | **84** | **469** | 412 | – | 108 | 520 |
| The Peak Tower, Hong Kong | **–** | **–** | **83** | **83** | – | – | 82 | 82 |
| St. John's Building, Hong Kong | **–** | **36** | **–** | **36** | – | 34 | – | 34 |
| The Landmark, Ho Chi Minh City | **13** | **34** | **2** | **49** | 13 | 25 | 3 | 41 |
| | **398** | **70** | **169** | **637** | 425 | 59 | 193 | 677 |

***The Repulse Bay Complex, Hong Kong:*** Total revenue was HK$51 million (10%) lower than 2008. The average rent per net available square foot (yield) was HK$2.30 (6%) lower than 2008, having been impacted by weaker demand since the global financial crisis. The cycle of residential accommodation revenues is generally longer than hotel revenues, as residential tenancies are typically fixed leases of a 2–year term. The residential rental market seems to have stabilised and monthly revenue has shown some recovery since September 2009.

***The Peak Tower, Hong Kong:*** Total revenue was in line with 2008 despite the generally poor economic conditions. Occupancy in The Peak Tower remains above 99%, with the majority of existing tenants renewing, upon expiry, the leases which were entered into following the revitalisation of The Peak Tower in 2006. Where tenants have vacated their premises, replacement tenants have been identified with limited disruption to the rental revenue flow. The other main source of income for The Peak Tower is the Sky Terrace, where visitor numbers and revenue were in line with 2008.

***St. John's Building, Hong Kong and The Landmark, Ho Chi Minh City, Vietnam:*** Both properties experienced reduced occupancy, but the average rentals increased sufficiently to enable there to be revenue growth as compared with 2008.

***Clubs and Services*** All of the businesses in this division suffered reduced revenue as compared with 2008; the combined revenue was HK$19 million (5%) below 2008.

| **Breakdown of revenues by individual operations of the Clubs and Services division** (HK$m) | **2009** | 2008 |
|---|---|---|
| Clubs and Consultancy Services | **102** | 103 |
| Peak Tram | **79** | 81 |
| Peninsula Merchandising | **75** | 81 |
| Thai Country Club | **52** | 58 |
| Tai Pan Laundry | **29** | 33 |
| | **337** | 356 |

The revenue from Clubs and Consultancy Services is mainly generated from the management of the Cathay Pacific Airport Lounges, where the management fees are based on the number of passengers using the first and business class lounges. With 6% less passengers, management fee revenue was 2% less than in 2008. Management fees related to clubs in Hong Kong were also slightly lower than in 2008, due to the weaker trading environment and operating results.

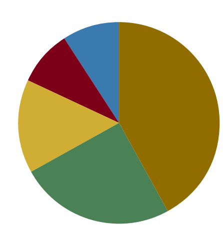
The number of passengers on The Peak Tram was 3% lower than in 2008, with a comparable reduction in revenue, mainly due to fewer visitor arrivals to Hong Kong. There was also a 3-day service suspension for the replacement of a tram haulage rope. The revenue in Peninsula Merchandising was HK$6 million (7%) lower than 2008, with reduced revenue from all of the wholesale markets due to the generally poor economic conditions.

The number of golf rounds in Thai Country Club was 6% lower than in 2008, which resulted in HK$6 million (10%) less revenue, due to the generally poor economic conditions and the political instability resulting in reduced levels of tourism in Thailand. The reduced revenue in Tai Pan Laundry was caused by reduced laundry and dry cleaning volumes from hotels in Hong Kong, which experienced reduced occupancy levels compared with 2008.

**Operating costs**

Operating costs in 2009 were 6% lower than that of 2008, compared with the revenue shortfall of 15%. In the light of the difficult operating environment, additional attention was paid to maintaining and controlling operating costs. A more thorough monthly forecasting process was put in place in order to give a clearer group wide view of the expected operating and cash flow performance. Cash flow was a key focus, first to meet operational needs and then capital funding requirements. The effective management and control of staffing and payroll also required particular attention, as did the strict control of all credit facilities granted to our customers.

**Operating costs**



| | |
|---|---|
| Staff costs and related expenses | **42%** |
| Others | **25%** |
| Rent and utilities | **15%** |
| Cost of inventories | **9%** |
| Depreciation and amortisation | **9%** |

The management teams were tasked to maintain tight control of costs, whilst also making every effort to generate incremental revenue and maintain the highest standards of product and service. Cost control was more challenging given certain external pressures on costs such as union negotiated wage increases, property and real estate tax increases and energy price increases. The management teams also worked closely with suppliers to renegotiate contracts and obtain more favourable terms.

In general, vacant positions resulting from staff resignations were not filled and there was a hiring freeze implemented across the group throughout the year. In addition, where possible, staff worked reduced hours or were re-deployed or multi-tasked to improve efficiency. Salary increments have been limited, although we have awarded merit increases where considered appropriate. We regard our staff as a key component in the value of the Peninsula brand, and are mindful of the investment to recruit and develop this resource.

The combination of these measures has been effective in optimising cash flow, reducing the fixed cost base, and enabling us to avoid making any wholesale redundancies across the group. We consider the right mix has been attained between reducing the cost base and retaining staff.

HK$1,512 million or 42% of direct operating costs are payroll-related. This proportion is in line with that of the previous year. The breakdown of full time employee numbers as at 31 December was as follows:

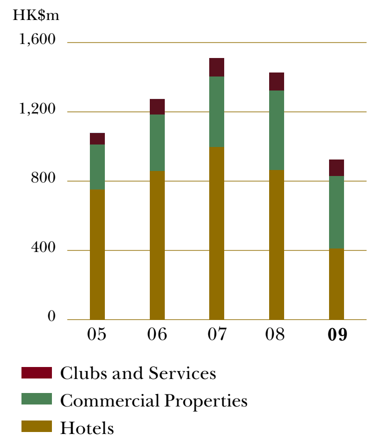
| **Number of full time employees** | **2009** | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Direct Operations** | **Managed Operations** | **Total** | Direct Operations | Managed Operations | Total |
| By division: | | | | | | |
| Hotels | **4,367** | **1,122** | **5,489** | 4,808 | 431 | 5,239 |
| Commercial Properties | **339** | **–** | **339** | 339 | – | 339 |
| Clubs and Services | **605** | **393** | **998** | 659 | 397 | 1,056 |
| | **5,311** | **1,515** | **6,826** | 5,806 | 828 | 6,634 |
| By geographical location: | | | | | | |
| Hong Kong | **1,662** | **393** | **2,055** | 1,737 | 397 | 2,134 |
| Other Asia | **2,705** | **760** | **3,465** | 2,938 | – | 2,938 |
| United States of America | **944** | **362** | **1,306** | 1,131 | 431 | 1,562 |
| | **5,311** | **1,515** | **6,826** | 5,806 | 828 | 6,634 |

The increased number of full time employees in Managed Hotel Operations in 2009 includes the staffing for The Peninsula Shanghai, which opened in October 2009. Without the newly opened hotel, the Managed Hotel Operations would also have shown a decreased number of employees.

## EBITDA and EBITDA margin

EBITDA (earnings before interest, taxation, depreciation and amortisation) decreased by 35% to HK$924 million.

**EBITDA by activity**

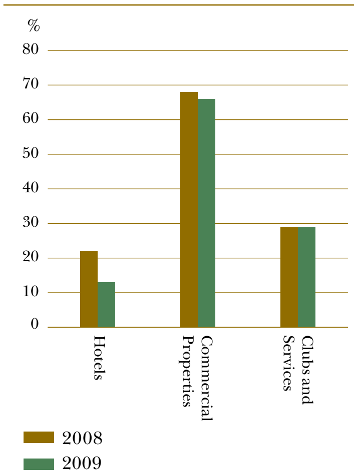



| **EBITDA** (HK$m) | Hong Kong | Other Asia | United States of America | Total | Change 2009/2008 |
|---|---|---|---|---|---|
| **2009** | | | | | |
| Hotels | **419** | **52** | **(61)** | **410** | (52%) |
| Commercial Properties | **386** | **32** | **–** | **418** | (9%) |
| Clubs and Services | **81** | **15** | **–** | **96** | (6%) |
| | **886** | **99** | **(61)** | **924** | (35%) |
| 2008 | | | | | |
| Hotels | 500 | 279 | 84 | 863 | |
| Commercial Properties | 434 | 26 | – | 460 | |
| Clubs and Services | 86 | 16 | – | 102 | |
| | 1,020 | 321 | 84 | 1,425 | |

EBITDA margin represents EBITDA as a percentage of turnover and is analysed as follows.

| **EBITDA margin** | **2009** | 2008 |
|---|---|---|
| Hotels | **13%** | 22% |
| Commercial Properties | **66%** | 68% |
| Clubs and Services | **28%** | 29% |
| Overall EBITDA margin | **22%** | 29% |
| Arising in: | | |
| Hong Kong | **47%** | 50% |
| Other Asia | **7%** | 18% |
| United States of America | **(7%)** | 7% |

**EBITDA margin (%)**



The Hotels division is subject to a relatively high fixed cost base by nature of its businesses, resulting in a greater impact on the EBITDA and the EBITDA margin from a reduction of revenue than would be the case if the fixed cost base was lower. The revenue shortfall during 2009 in the Hotels division had the largest impact on EBITDA.

The decreased EBITDA margin in the Commercial Properties division was mainly attributed to The Repulse Bay, which experienced decreased average rental rates and the closure of the two main restaurants for renovation for five months.

**Depreciation and amortisation**

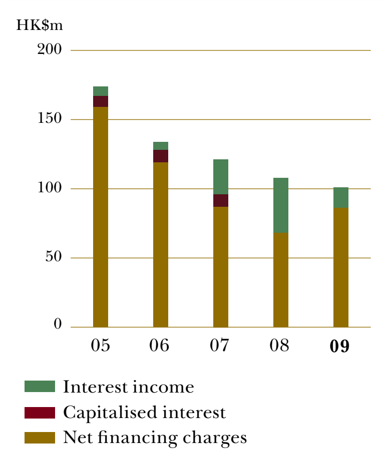
The depreciation and amortisation charge of HK$338 million (2008: HK$374 million) largely relates to the hotels. The Group's hotels are subject to a planned maintenance programme in which capital expenditure is incurred on an ongoing basis for refurbishment and improvement. Therefore, depreciation and amortisation normally account for a significant portion of the Group's fixed overheads. It should be noted that of the total depreciation figure, HK$140 million (2008: HK$145 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.

**Net financing charges**

Financing charges on borrowings in 2009 amounted to HK$101 million (2008: HK$108 million). After netting off interest income of HK$15 million (2008: HK$40 million), a net charge of HK$86 million (2008: HK$68 million) was recognised in the income statement. The 26% increase in net financing charges was mainly due to the decrease in money market deposit rates in 2009 and the reduction in cash balance following the payment of HK$1,044 million consideration in respect of the Peninsula Paris project on 20 January 2009.

The weighted average gross interest rate for the year reduced to 3.2% (2008: 3.4%) after accounting for all hedging activities. Interest cover (operating profit divided by net financing charges) reduced to 6.8 times (2008: 15.5 times) in 2009, mainly due to the decrease in operating profit as a result of the reduction in turnover.

**Net financing charges**



**Non-operating items**
The non-operating items are analysed below.

| (HK$m) | 2009 | 2008 |
|---|---|---|
| Increase/(decrease) in fair value of investment properties | **1,998** | (593) |
| Gain on disposal of investment properties | **18** | – |
| Provision for impairment for hotels and golf courses | **–** | (176) |
| Impairment loss on interest in associates | **(15)** | – |
| Closure costs for Quail Lodge Resort | **(24)** | – |
| | **1,977** | (769) |

The increase in fair value of investment properties for the year was principally attributable to the increase in value for The Repulse Bay Complex and the shopping arcade at The Peninsula Hong Kong. Such increase was a reflection of the improved fundamentals for the Hong Kong property market towards the end of the year, in particular, for luxury residential market and high-end commercial properties.

During the year, the Group disposed of a piece of land in Phuket to a third party and realised a net gain of HK$18 million after accounting for all transaction costs.

On 20 January 2009, the Group invested a total of HK$1,044 million (Euro 102 million) into the Peninsula Paris project. Of this amount, HK$453 million (Euro 44.3 million) was attributed to the acquisition of a 20% equity interest and the related shareholder's loan in Al Maha Majestic S.à r.l. (Al Maha), a company incorporated in Luxembourg, which indirectly owns a 100% interest in a property in Paris to be redeveloped into The Peninsula Paris hotel. HK$591 million (Euro 57.7 million) was attributed to the acquisition of the right to manage The Peninsula Paris upon completion of the property redevelopment. As at 20 January 2009 (the date of completion of acquisition), the Group's share of the fair value of Al Maha's consolidated net assets and shareholder's loan amounted to HK$438 million. The goodwill of HK$15 million, being the difference between the purchase consideration of HK$453 million and the Group's share of the fair value of Al Maha's net assets and shareholder's loan of HK$438 million, was written off as impairment loss during the year.

As part of the Group's initiatives to contain costs and improve operating performance, the resort operation of Quail Lodge, Inc. (a wholly-owned subsidiary of the Group which was acquired in 1997) was closed on 16 November 2009. The costs incurred for the closure of the resort were non-recurring in nature and were therefore written off as non-operating items in the income statement.

**Share of profit/(loss) of a jointly controlled entity**
The Group has a 50% interest in The Peninsula Shanghai complex which is owned by a jointly controlled entity. The complex comprises a hotel, a commercial retail arcade and an apartment hotel of 39 units. The hotel and the commercial retail arcade soft opened on 18 October 2009 and 3 December 2009 respectively. The Group's share of profit in relation to The Peninsula Shanghai of HK$285 million was net of a post-tax non-operating gain of HK$315 million arising from the property valuation adjustments (2008: HK$nil) and pre-opening expenses of HK$37 million (2008: HK$5 million) respectively.

**Taxation**

The breakdown of the taxation charge is as follows:

| (HK$m) | **2009** | 2008 |
|---|---|---|
| Current tax | **120** | 185 |
| Deferred tax: | | |
| Deferred taxation on non-operating items | **308** | (163) |
| Effect of reduced tax rate on deferred tax balances | **–** | (175) |
| Increase in net deferred tax liabilities relating to other temporary differences | **30** | 111 |
| Net tax charge/(credit) in the income statement | **458** | (42) |

The decrease in current tax and deferred tax in respect of other temporary differences was mainly due to the decrease in operating profit.

During 2009, the fair value of the Group's investment properties increased by HK$1,998 million (2008: decreased by HK$593 million) and this resulted in a provision for deferred tax liabilities in respect of revaluation surpluses amounting to HK$308 million (2008: reversal of deferred tax provision amounted to HK$163 million due to a decrease in fair value of investment properties).

As at 31 December 2009, the deferred tax provision in respect of accumulated revaluation surpluses on the Group's investment properties amounted to HK$3,191 million (2008: HK$2,881 million), of which HK$3,077 million (2008: HK$2,723 million) related 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.

## Statement of financial position

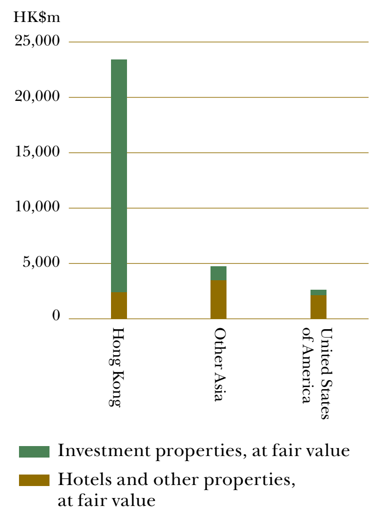
**Fixed assets**

The Group has interests in and manages nine operating hotels in Asia and the USA and is developing a hotel in Paris, in which the Group has a 20% interest.

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 within the 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 users of the financial statements with additional information 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 2009. At the same time, an independent valuation was also performed for the Group's investment properties in accordance with the accounting policies.

A summary of the Group's hotel, investment and other properties showing both the book value and the market value as at 31 December 2009 is set out in the following table.




| | **Market Value** (HK$m) | **Book Value** (HK$m) |
|---|---|---|
| **Hotels** | | |
| **Consolidated hotels** | | |
| The Peninsula Hong Kong | **9,233** | **7,586** |
| The Peninsula Beijing | **1,687** | **1,304** |
| The Peninsula New York | **1,337** | **1,007** |
| The Peninsula Chicago | **1,123** | **1,108** |
| The Peninsula Tokyo | **1,399** | **1,159** |
| The Peninsula Bangkok | **746** | **830** |
| The Peninsula Manila | **303** | **284** |
| Quail Lodge Resort and Golf Club | **91** | **82** |
| | **15,919** | **13,360** |
| **Jointly controlled entity** ***(value attributable to the Group)*** | | |
| The Peninsula Shanghai (50%) | **1,658** | **1,658** |
| **Total for hotels** | **17,577** | **15,018** |
| **Commercial properties** | | |
| The Repulse Bay | **7,692** | **7,692** |
| Repulse Bay Apartments | **4,801** | **4,801** |
| Repulse Bay Garage | **85** | **85** |
| The Peak Tower | **983** | **983** |
| St. John's Building | **612** | **612** |
| The Landmark | **89** | **89** |
| **Total for commercial properties** | **14,262** | **14,262** |
| **Other properties** | | |
| Thai Country Club golf course | **221** | **221** |
| Vacant land near Bangkok | **300** | **300** |
| Quail Lodge land | **62** | **62** |
| Other Hong Kong properties | **42** | **30** |
| **Total for other properties** | **625** | **613** |
| **Total** | **32,464** | **29,893** |

**Interest in a jointly controlled entity**

The balance of HK$815 million as at 31 December 2009 (2008: HK$539 million) represented the Group's 50% indirect interest in The Peninsula Shanghai Waitan Hotel Company Limited, a wholly-owned foreign enterprise incorporated in the People's Republic of China which owns 100% of The Peninsula Shanghai. The increase in balance was mainly due to the Group's share of HK$285 million profit (2008: HK$5 million loss) of this jointly controlled entity during 2009. As explained above, this profit figure includes a post-tax non-operating gain of HK$315 million (2008: HK$nil).

**Interests in associates**

The balance of HK$498 million as at 31 December 2009 (2008: HK$nil) represented the Group's 20% equity interest and 20% share of the related shareholder's loan in Al Maha Majestic S.à r.l., a company incorporated in Luxembourg which indirectly owns a 100% interest in a property in Paris to be redeveloped into The Peninsula Paris hotel. This hotel will be managed by the Group upon completion of the redevelopment, expected to be in 2012.

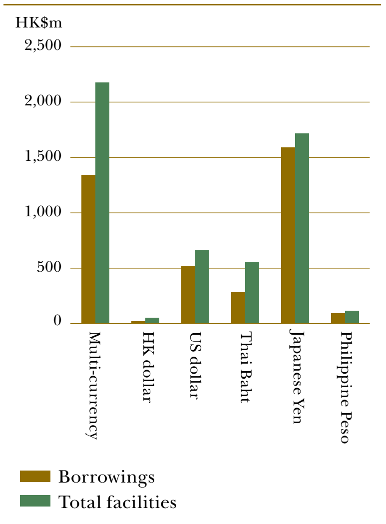
**Investment in hotel management contracts**

As at 31 December 2009, investment in hotel management contracts amounted to HK$730 million as compared to HK$92 million in 2008. The increase in the balance was mainly due to the inclusion of attributed consideration of Euro 57.7 million (HK$641 million translated at the exchange rate ruling at the end of the reporting period) in respect of the right acquired to manage The Peninsula Paris to be developed jointly by the Group and its associate, Al Maha Majestic S.à r.l.

**Borrowings**

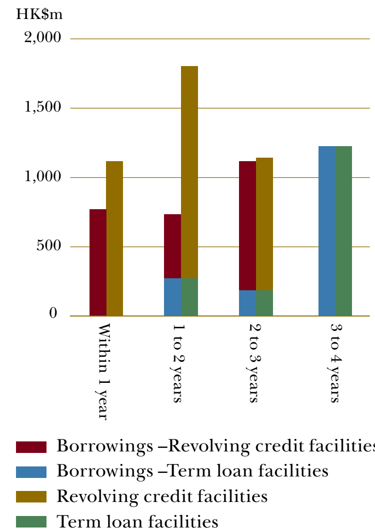
During the year, gross borrowings increased by 20% to HK$3,825 million (2008: HK$3,193 million) principally as a result of a successful term loan financing undertaken in June 2009. Consolidated net borrowings increased to HK$1,990 million (2008: HK$1,198 million), taking account of cash of HK$1,835 million (2008: HK$1,995 million). The reduction in cash was principally due to the investment in connection with The Peninsula Paris.

**Banking facilities and borrowings (by currency)**



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 statement of financial position as the entities owning the assets are not subsidiaries of the Company. The consolidated and non-consolidated borrowings as at 31 December 2009 are summarised as follows:

**Banking facilities and borrowings (by type and maturity)**




| (HK$m) | 2009 Hong Kong | 2009 Other Asia | 2009 United States of America | 2009 Total | 2008 Total |
|---|---|---|---|---|---|
| Consolidated gross borrowings | **1,342** | **1,961** | **522** | **3,825** | 3,193 |
| Non-consolidated borrowings attributable to the Group: | | | | | |
| The Peninsula Beverly Hills (20%) | **–** | **–** | **218** | **218** | 218 |
| The Peninsula Shanghai (50%) | **–** | **930** | **–** | **930** | 422 |
| Non-consolidated borrowings | **–** | **930** | **218** | **1,148** | 640 |
| Consolidated and non-consolidated gross borrowings | **1,342** | **2,891** | **740** | **4,973** | 3,833 |
| Pledged assets attributable to the Group | | | | | |
| For consolidated borrowings | **–** | **–** | **–** | **–** | – |
| For non-consolidated borrowings | **–** | **2,067** | **189** | **2,256** | 1,210 |
| | **–** | **2,067** | **189** | **2,256** | 1,210 |

**Derivative financial instruments**

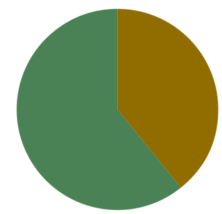
Derivative financial instruments are generally used to hedge interest rate and exchange rate risks of the Group and are recorded at their fair values.

## Statement of cash flows

Net cash generated from operating activities decreased to HK$761 million as compared to HK$1,208 million in 2008. The decrease was mainly due to the significant reduction in revenue, mainly from the hotels segment as explained above. Most of the operating cash flows were applied to capital expenditure, repayment of borrowings and payment of dividends.

On 20 January 2009, The Group paid a total of HK$1,044 million in respect of the Peninsula Paris project. Of this amount, HK$453 million was attributed to the investment of a 20% interest in Al Maha Majestic S.à r.l., a company incorporated in Luxembourg, which indirectly owns a 100% interest in a property in Paris to be redeveloped into The Peninsula Paris hotel and HK$591 million was attributed to the acquisition of the right to manage this hotel upon completion of the redevelopment. The entire sum of HK$1,044 million consideration was funded by the Group's surplus cash.

**Capital expenditure**



| | |
|---|---|
| Other capital expenditure at hotels and properties | **61%** |
| One-off renovation projects | **39%** |

Excluding the cost of investment in the Peninsula Paris project, capital expenditure and payment for acquiring an additional interest in a subsidiary incurred by the Group during 2009 amounted to HK$360 million (2008: HK$420 million) and the breakdown of this sum is as follows:

| (HK$m) | **2009** | 2008 |
|---|---|---|
| One-off renovation projects | **106** | 217 |
| Capital expenditure at hotels and properties | **163** | 200 |
| Payment for the acquisition of an additional interest in a subsidiary | **91** | 3 |
| | **360** | 420 |

The net cash outflow after capital expenditure, interest and dividends before financing activities for the year was HK$824 million, compared to an inflow of HK$597 million in 2008. The net cash outflow was mainly due to the payment of HK$1,044 million for the Peninsula Paris project as explained above.

After accounting for investing and financing activities and excluding bank deposits maturing more than three months amounting to HK$437 million (2008: HK$ nil), cash and cash equivalents as at 31 December 2009 amounted to HK$1,380 million (2008: HK$1,979 million).

## Off balance sheet information

The following transactions and events are not reflected in the Group's income statement, statement of financial position and statement of cash flows but are considered relevant to the users of the financial statements.

## Capital commitments

The Group is committed to enhancing the asset value of its hotel and investment properties and improving the service quality of these assets. As at 31 December 2009, the Group's capital commitment amounted to HK$738 million (2008: HK$2,939 million) and the breakdown is as follows:

| (HK$m) | 2009 | 2008 |
|---|---|---|
| **Capital expenditure** | | |
| Contracted for | **80** | 109 |
| Authorised but not contracted for | **394** | 486 |
| | **474** | 595 |
| **Investment in the Peninsula Paris project** (note) | | |
| Authorised but not contracted for | **–** | 1,572 |
| **The Group's share of capital commitments of a jointly controlled entity** | | |
| Contracted for | **40** | 343 |
| Authorised but not contracted for | **224** | 429 |
| | **264** | 772 |
| | **738** | 2,939 |

*Note: The capital commitment in respect of investment in the Paris project for 2008 consisted of cash consideration payable for the acquisition of a 20% interest in Al Maha Majestic S.à r.l. (Al Maha) and the related hotel management contract and the Group's expected share of redevelopment cost of the Paris property.*

The Group holds a 20% equity interest in Al Maha Majestic S.à r.l. (Al Maha), an associate of the Group responsible for the development of the Peninsula Paris project. The Group's 20% share of the contracted for and authorised but not contracted for capital commitments as at 31 December 2009 amounted to HK$37 million (2008: HK$ nil) and HK$474 million (2008: HK$ nil) respectively. It is planned that these capital commitments will be financed by way of bank borrowings by the associate and only in the event of the associate being unable to arrange the funding would the Group be required to meet the shortfall.

## Contingent liabilities

Contingent liabilities as at 31 December 2009 for the Group and the Company are analysed as follows:

| | Group | | Company | |
|---|---|---|---|---|
| (HK$m) | 2009 | 2008 | 2009 | 2008 |
| Guarantees given in respect of borrowings and other banking facilities for subsidiaries | **–** | – | **3,866** | 3,135 |
| Other guarantees | **1** | 1 | **1** | 1 |
| | **1** | 1 | **3,867** | 3,136 |

The Directors consider that the above contingent liabilities are unlikely to materialise. Therefore, no provision was made in the financial statements.

## Non-adjusting post reporting period event

After the end of reporting period, the Directors proposed a final dividend of 6 HK cents per share in respect of the year ended 31 December 2009, which will be payable on or about 25 June 2010. The final dividend is subject to the approval by shareholders at the forthcoming Annual General Meeting to be held on 12 May 2010 and no provision was made in the financial statements.

## Treasury management

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

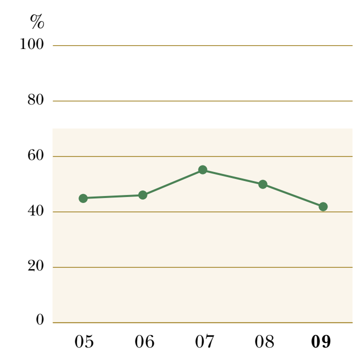
Within the same policy framework, some operating subsidiaries monitor financial risks that are specific to particular transactions within their operations. Associated and jointly controlled companies arrange their own financial and treasury affairs based on their circumstances on a stand-alone basis.

**Liquidity risk**

The Group's policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that it maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to meet its obligations and commitments. On 25 June 2009, HSH Financial Services Limited, a wholly-owned subsidiary, signed a HK$1,225 million four year term loan facility with a syndicate of seven international banks (namely Australia and New Zealand Banking Group Limited, Bank of China (Hong Kong) Limited, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Crédit Agricole Corporate and Investment Bank, HSBC, Industrial and Commercial Bank of China (Asia) Limited and Standard Chartered Bank (Hong Kong) Limited). This facility is unsecured and guaranteed by the Company.

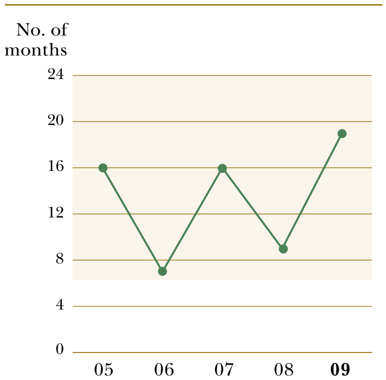
Borrowing requirements are not seasonal as the Group benefits from a steady inflow of income from its leased properties and there is only minor seasonality in its hotel operations. Borrowing requirements tend to follow the pattern of capital expenditure and investment. As such, the level of borrowing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

**Top 3 banks' aggregated committed facility exposure**




Group guideline: (≤70%)

**Financing horizon**




Group guideline: 6 – 24 months

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 2009, the Group's gearing and adjusted gearing (including share of net borrowings of non-consolidated entities) increased to 8% (2008: 5%) and 12% (2008: 8%) respectively.

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.

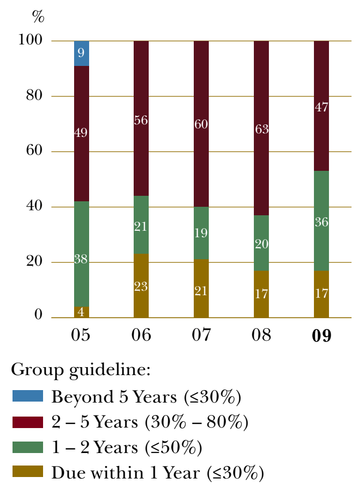
**Interest rate risk**
The Group's interest rate risk management policy focuses on reducing the Group's exposure to changes in interest rates.

In addition to raising funds directly on a fixed rate basis, the Group may use interest rate swaps or cross currency 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.

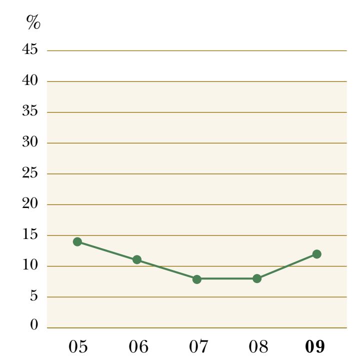
As at 31 December 2009, the Group's fixed to floating interest rate ratio remained at 49% (2008: 49%).

**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 or other derivative financial instruments 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 US$ borrowings in Hong Kong.

**Maturity profile of committed facilities**

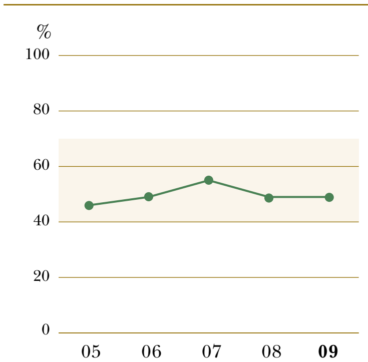



**Adjusted gearing**




Group guideline: (≤40%)

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



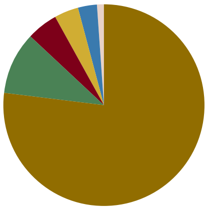

Group guideline: (40% – 70%)

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

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

As at 31 December 2009, after accounting for currency hedging, approximately 77%, 10%, 5%, 4%, 3% and 1% (2008: 78%, 9%, 7%, 0%, 5% and 1%) of the Group's net assets were denominated in Hong Kong dollar, Chinese Renminbi, United States dollar, Euro, Thai Baht and Philippine Peso respectively.

**Net assets**



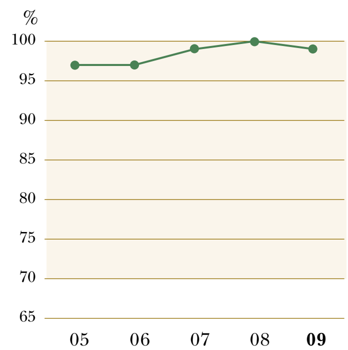
| | |
|---|---|
| HK dollar | **77%** |
| Chinese Renminbi | **10%** |
| US dollar | **5%** |
| Euro | **4%** |
| Thai Baht | **3%** |
| Philippine Peso | **1%** |

**Credit risk**

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

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

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

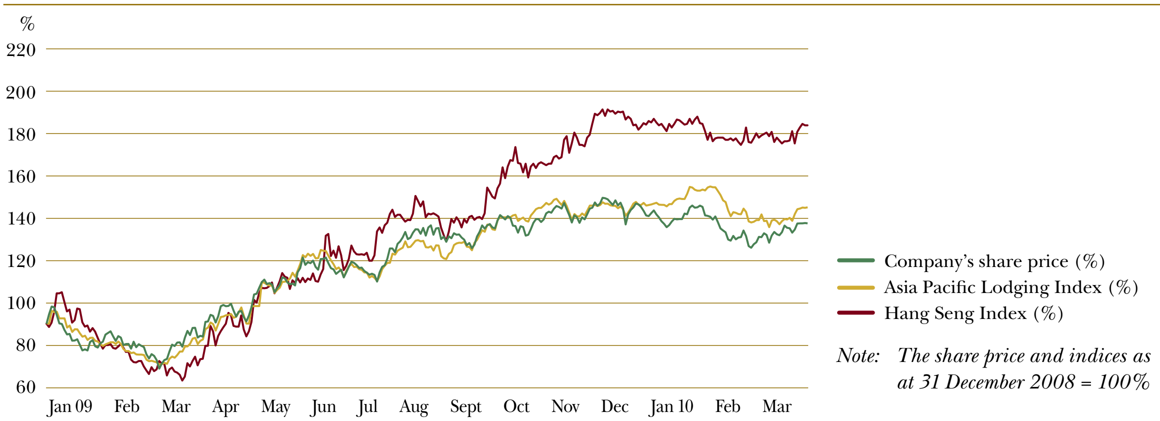



Group guideline: (≥70%)

## Share Information

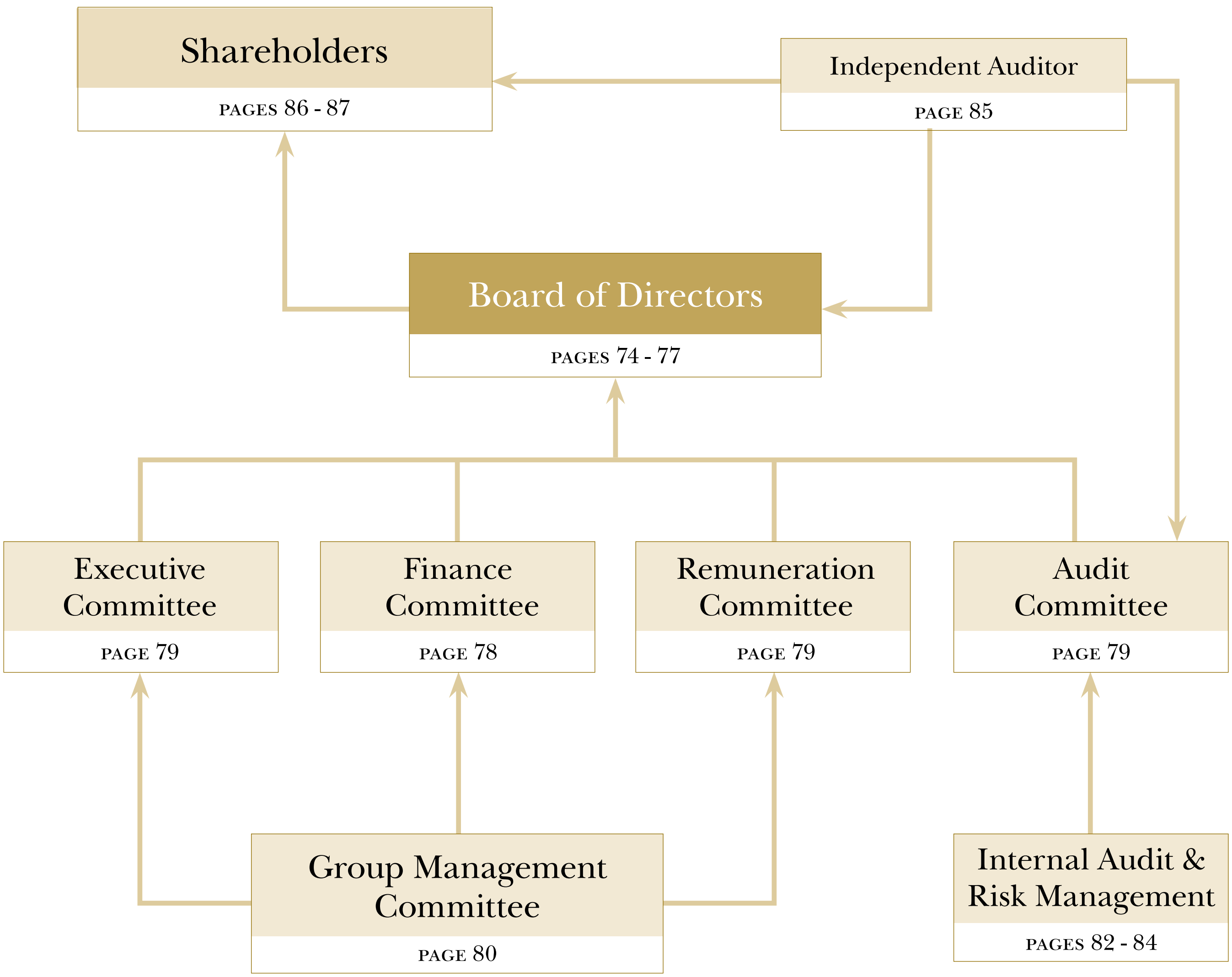
The Company's share price closed on 12 March 2010 at HK$11.34, giving a market capitalisation of HK$16.7 billion (or US$2.1 billion). This reflects a discount of 28% to net assets attributable to shareholders of the Company, or a discount of 42% to the adjusted net assets (see page 53).

**Share price and indices**




*Note: The share price and indices as at 31 December 2008 = 100%*

## Corporate Governance Structure




### HSH commitment

HSH is committed to ensuring that its 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. HSH regularly reviews its policies and practices in light of experience, new development in this area and incoming regulatory requirements.

This Report serves to keep our shareholders and stakeholders abreast of our corporate governance policies and practices.

## Code on corporate governance practices

The Code on Corporate Governance Practices (the CG Code) in Appendix 14 of the Listing Rules sets out the principles of good corporate governance and two levels of recommendations:

- code provisions, with which issuers are expected to comply unless they give considered reasons for any deviation; and
- recommended best practices, which are for guidance only, save that issuers are encouraged to comply or give reasons for deviation.

HSH has applied all of the principles in the CG Code and adopted its own code on corporate governance practices (the HSH Code) which encompasses all code provisions and all recommended best practices in the CG Code except the following:

- ***Publication of quarterly financial results*** 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 Group's performance. Instead the Company has posted on the Company's website its quarterly operating statistics which set out key operating information; and
- ***Establishment of nomination committee*** The Company does not have a separate nomination committee, however the function is performed by the Executive Committee.

Throughout the year, the Company has complied with all the code provisions in the CG Code.

HSH's corporate governance policies and practices exceed the requirements of the code provisions and recommended best practices of the CG Code in the following areas:

- Group's operational general managers and financial controllers certify compliance with certain specific key controls on a monthly basis. Moreover, they submit bi-annual general representation letters to the Chief Executive Officer and Chief Financial Officer confirming their operations' compliance with controls and procedures. These are reviewed personally by the Chief Executive Officer and Chief Financial Officer;
- HSH has disclosed its senior management's interests in HSH shares and received their confirmations of compliance with the Code for Dealing in the Company's Securities by Specified Individuals;
- HSH has issued its Sustainability Report on its annual performance on social and environmental issues and its economic contributions to the community which is posted on the Company's website;
- HSH disseminates the best practices across the Group by posting policies and procedures through training, conferences and the Company's intranet; and
- HSH has set out its ethical standards in the Code of Conduct and Equal Opportunities Policy for matters which include, but are not limited to, bribery and fraud prevention, anti-trust and unfair trade practices, work safety, recognition of fundamental human rights and diversity, discrimination, harassment and victimisation prevention and misconduct reporting to which all employees must adhere. This code was updated in November 2009 and posted on the Company's website.

## 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 Group 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 expenditures, dividend policies and initiating changes in areas critical to the Group's performance;
- strategic capital investments, acquisitions, major financing, new projects and existing assets, 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;
- financial statements and changes in accounting policies;
- 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***

| | |
|---|---|
| Non-Executive Directors | 6 |
| Independent Non-Executive Directors | 5 |
| Executive Directors | 3 |
| **Total** | **14** |

The names and biographical details (including financial, business, family or other material or relevant relationships among members of the Board) of each Director and details of their membership of the Board Committees are set out on pages 46 and 47 and are also posted on the Company's website. Details of the shareholding interests held by the Directors in the Company as at 31 December 2009 are set out on page 91.

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. During 2009, the Board has increased the number of Independent Non-Executive Directors from four to five by re-designating Mr. Pierre R. Boppe, a Non-Executive Director, as an Independent Non-Executive Director. The Board now has five well-qualified Independent Non-Executive Directors which exceeds the minimum requirement of the Listing Rules as to the appointment of at least three independent non-executive directors. The five Independent Non-Executive Directors 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.

***Board process*** The Board meets regularly to perform its function. The dates of the 2009 Board meetings were determined in the last quarter of 2008 and any amendments to this schedule were notified to Directors at least 14 days before a regular Board meeting. All Directors are invited to include matters for discussion in the agenda before each Board meeting. An agenda and comprehensive Board papers are sent to all Directors a week in advance of every Board meeting to ensure Directors have sufficient time to attend to the affairs to be discussed and make informed decisions in the best interest of the Company.

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

The Directors are given timely and clear information at 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 senior management and the advice and services of the Company Secretary, who is responsible for providing Directors with Board papers and related materials, ensuring that Board procedures are followed and advising the Board on all legal and corporate matters.

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 person may be appointed as Director either by the shareholders in a general meeting or by the Board upon the recommendation from the Executive Committee of the Company. A new Director appointed by the Board is subject to election by shareholders at the next annual general meeting and a new Director appointed by the Board to fill a casual vacancy is subject to election by shareholders at the next general meeting. All Non-Executive Directors have letters of appointment valid for a period of three years. All Directors are subject to retirement at the conclusion of the third Annual General Meeting following his appointment by the Company and may offer themselves for re-election.

During 2009, Mr. Ronald J. McAulay, The Hon. Sir David K.P. Li, Mr. John A.H. Leigh, Mr. Nicholas T.J. Colfer and Mr. Neil J. Galloway retired and were all re-elected. Details of the Directors who will retire and offer themselves for re-election in 2010 Annual General Meeting are set out in the Directors' Report. All of these retiring Directors, being eligible, have been confirmed by the Executive Committee and recommended by the Board to stand for re-election at the 2010 Annual General Meeting. The election of each Director will be subject to vote of shareholders by separate resolution.

***Non-Executive Chairman and Chief Executive Officer*** The positions of Non-Executive Chairman and Chief Executive Officer are held separately by The Hon. Sir Michael Kadoorie and Mr. Clement K.M. Kwok respectively and they do not have financial, business, family or other material or relevant relationships with each other. This separation ensures that there is a clear distinction between the responsibilities of the Non-Executive Chairman and the Chief Executive Officer. The respective responsibilities are clearly established and set out in writing.

*Non-Executive Chairman:*

- provides leadership for the Board;
- ensures the Board works effectively and discharges its responsibilities;
- ensures that corporate governance matters are addressed;
- represents the Group externally and communicates with all stakeholders; and
- ensures that the Chief Executive Officer properly and fully briefs all Directors of relevant matters in a timely manner.

*Chief Executive Officer:*

- runs the Group's day-to-day businesses; and
- makes recommendations to the Board on implementation of the Group's strategic objectives.

The Chairman held a meeting on 21 October 2009 with Non-Executive Directors without the presence of the Chief Executive Officer and the other two Executive Directors to discuss management effectiveness and strategic issues. Recommendations made at this meeting were communicated to the management for consideration and implementation.

***Board and Committee meetings and attendance:*** The number of meetings the Board, Audit and Remuneration Committees held during 2009 (including the Annual General Meeting) are shown below together with attendance details:

| | Board | Audit Committee | Remuneration Committee | Annual General Meeting |
|---|---|---|---|---|
| **Non-Executive Directors** | | | | |
| The Hon. Sir Michael Kadoorie, *Non-Executive Chairman* | 4/5 | | | 1/1 |
| Mr. Ian D. Boyce, *Non-Executive Deputy Chairman* | 5/5 | 4/4 | 2/2 | 1/1 |
| Mr. Ronald J. McAulay | 5/5 | | | 1/1 |
| Mr. William E. Mocatta | 5/5 | | | 1/1 |
| Mr. John A.H. Leigh | 4/5 | | | 1/1 |
| Mr. Nicholas T.J. Colfer | 5/5 | | | 1/1 |
| **Independent Non-Executive Directors** | | | | |
| Dr. The Hon. Sir David K.P. Li | 4/5 | | | 1/1 |
| Mr. Robert C.S. Ng | 2/5 | 4/4 | | 1/1 |
| Mr. Pierre R. Boppe | 5/5 | | | 1/1 |
| Mr. Robert W. Miller | 3/5 | | 1/2 | 0/1 |
| Mr. Patrick B. Paul | 5/5 | 4/4 | 2/2 | 1/1 |
| **Executive Directors** | | | | |
| Mr. Clement K.M. Kwok, *Chief Executive Officer* | 5/5 | | | 1/1 |
| Mr. Neil J. Galloway, *Chief Financial Officer* | 5/5 | | | 1/1 |
| Mr. Peter C. Borer, *Chief Operating Officer* | 5/5 | | | 1/1 |

## The Board Committees and Group Management Committee

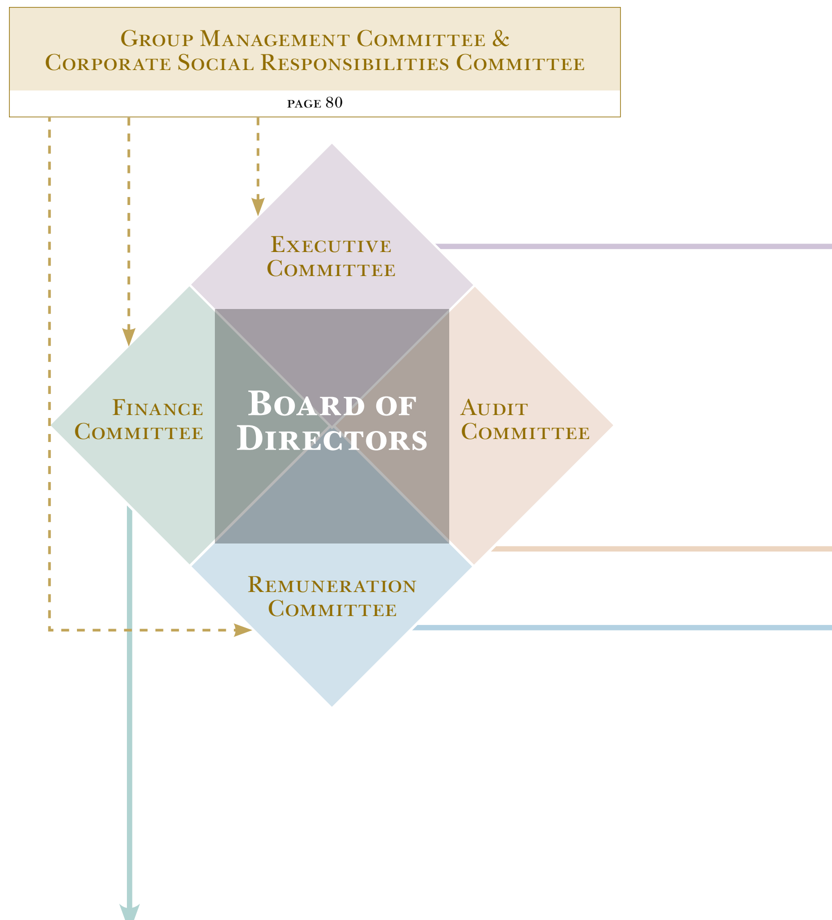
As part of good corporate governance practice, a number of Board Committees have been established. These Committees include representation from Non-Executive and Independent Non-Executive Directors whose independent judgements are important to the execution of the controls and corporate governance standards 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 and are updated from time to time. They are also available in writing upon request to the Company Secretary.

All Committees report to the Board in relation to their decisions, findings or recommendations and seek the Board's approval on specific Board reserved matters 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 Group's business has been delegated to the Chief Executive Officer who exercises his authority in consultation with the Group Management Committee.

All of the above Committees are provided with sufficient resources to discharge their duties.




### Finance Committee

*Composition:* Mr. Ian D. Boyce (Chairman),
Mr. Clement K.M. Kwok,
Mr. Neil J. Galloway and Mr. John A.H. Leigh

*Main responsibilities:*

- reviewing all aspects of the Group'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
- reviewing the annual insurance programme of the Group

*Highlights of work done in 2009:*

- approved a 4-year term loan of HK$1,225 million with a syndicate of seven banks and used the proceeds for refinancing the maturing debts and for general corporate purposes
- approved various term loans and credit facilities for refinancing of inter-company loans and maturing facilities
- reviewed and approved the re-organisation of the legal and debt structures of USA subsidiaries

### Executive Committee

*Composition:* The Hon. Sir Michael Kadoorie (Chairman), Mr. Ian D. Boyce, Mr. Clement K.M. Kwok and Mr. John A.H. Leigh

*Main responsibilities:*

- recommending strategic policy and significant proposals and decisions to the Board
- interacting with other Board Committees on policy submissions
- approving certain capital and revenue investments
- performing functions of a nomination committee

*Highlights of work done in 2009:*

- reviewed and provided strategy and direction to potential projects
- monitored the progress, development and opening of The Peninsula Shanghai
- finalised the acquisition of 20% ownership in The Peninsula Paris in accordance with parameters approved by the Board
- approved the closure of the hotel portion of Quail Lodge Resort and Golf Club
- approved the acquisition of the remaining 7.5% ownership in The Peninsula Chicago

### Remuneration Committee

*Composition:* Mr. Ian D. Boyce (Chairman), Mr. Robert W. Miller and Mr. Patrick B. Paul
Mr. Miller and Mr. Paul are Independent Non-Executive Directors

*Main responsibilities:*

- reviewing Group wide remuneration policies
- reviewing and approving employment terms (including compensations, performance-related bonuses and retirement provisions) for the Executive Directors and other senior staff
- reviewing and recommending Non-Executive Directors' fees and benefits based on workload in overseeing the business of the Company, market trends and practices
- ensuring that no Director approves his own remuneration

*Highlights of work done in 2009:*

- reviewed the 2010 remuneration policy for the Group
- reviewed and approved the bonus for Executive Directors and senior management
- reviewed the letter of appointments of two Non-Executive Directors
- reviewed and endorsed management remuneration proposals in the Group

The Group does not have any long term incentive schemes other than the retirement scheme described in note 30 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. HSH carries out annual review on the Non-Executive Directors fees and ensures their pay are in line with the market practice.

### Audit Committee

*Composition:* Mr. Patrick B. Paul (Chairman), Mr. Ian D. Boyce and Mr. Robert C.S. Ng
Mr. Paul and Mr. Ng are Independent Non-Executive Directors. Mr. Paul is a Fellow of the Institute of Chartered Accountants in England and Wales. None of these committee members is a partner or former partner of KPMG, the Company's independent auditor

*Main responsibilities:*

- overseeing the Company's financial reporting and audit processes with management and the internal and independent auditors
- reviewing the Company's internal controls and how risk is managed on an on-going basis as further set out on pages 82 to 85 under the heading "Internal controls, audit and risk management"

*Highlights of work done in 2009:*

a) on financial reporting and control reviews:
- reviewed the completeness and accuracy of the 2008 Annual Report, the 2009 Interim Report and formal announcements relating to the Group's financial performance
- reviewed the financial reporting and audit processes and policies
- reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget
- conducted discussions with the independent auditor on financial reporting, compliance, accounting treatment and impact on the Company of accounting standards
- reviewed connected transactions and related party transactions
- endorsed the adoption of revised accounting policies for compliance with new accounting standards

b) on the Company's internal audit function:
- reviewed the Group's financial controls, internal control and risk management systems
- agreed the scope of internal audit for 2009, discussed the internal audit reports and matters arising from the reports and reviewed progress against recommendations made in the internal audit reports
- monitored and assessed the role and effectiveness of the Company's internal audit function and made enquiries to management on matters that have come to its attention

c) on the Company's independent auditor, KPMG:
- assessed the independence of KPMG and reviewed their policies for maintaining independence
- reviewed non-audit work awarded to KPMG
- approved the 2009 KPMG fee and considered their re-appointment
- approved the audit plan for 2009 financial report

### Group Management Committee

*Composition:* Mr. Clement K.M. Kwok, (Chairman), Mr. Neil J. Galloway, Mr. Peter C. Borer, Mrs. Maria Razumich-Zec (Regional Vice President – USA East Coast) and Mr. Martyn P.A. Sawyer (Group General Manager for Properties and Clubs)

The Committee is the principal management decision-making body on all day-to-day business of the Group and operates under clear guidelines and delegated authorities approved by the Board.

*Main responsibilities:*

- reviewing and monitoring all aspects of day-to-day operations and business affairs of the Group
- business development
- formulating strategic objectives and action plans including:
    - overall corporate and financial structure
    - strategic investment plans
    - major investments and divestments
    - reviewing and improving operational efficiency
    - determining marketing and branding direction
    - strategy for new developments
    - human resources planning and development
- reviewing internal controls and reporting to the various Board Committees and the Board on different matters
- determining ways to mitigate the risks identified by operational management

### Corporate Social Responsibilities Committee (CSRC)

*Composition:* Mr. Clement K.M. Kwok (Chairman) and selected members of senior management and operations and corporate general managers

The Corporate Social Responsibility Committee, which is a sub-committee of the Group Management Committee, was established in 2007 with a mandate 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 policies and practices on a regular basis.

Further details of the Group's ongoing initiatives and results are provided in the Sustainability Report from pages 173 to 202.

## Directors' responsibilities and disclosures

***Responsibilities of Directors*** On appointment, each Director receives a full introduction covering the entire Group's business and operations and also the legal, regulatory and corporate governance obligations of a director of a listed company in Hong Kong. In addition, Directors are provided with a corporate manual containing all manuals and procedures adopted by the Company which is updated from time to time. The Directors are also updated on changes in relevant laws, accounting policies and regulations on a regular basis. 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. Directors are also encouraged to attend relevant seminars and courses at the cost of the Company.

Directors are given guidelines on their time commitments to the affairs of the Company and corresponding confirmations were received from the Directors in their letters of appointment.

All Directors disclose to the Board their interests as a director or otherwise in other companies or organisations and such declarations are updated annually. In addition, Directors are required to declare their direct or indirect interests, if any, in proposed transactions to be considered by the Board and to withdraw from voting at the relevant meeting(s).

The Company has arranged for liability insurance to indemnify its Directors for their liability arising out of corporation activities. The insurance coverage is reviewed by the Company annually.

***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 2009, 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.

***Confirmation of Independence*** The Company has received from its five Independent Non-Executive Directors, each an annual written confirmation of independence and the Company considers such Directors continue 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.

***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.

***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).

A copy of the Securities Code is sent to each Director of the Company upon his appointment. In addition, during 2009, each Director was reminded of his duties not to deal in the securities of the Company from the Company's financial year end (in respect of annual results) and for the 30 days before the date of the Board meeting approving the Company's interim results (in respect of interim results) until the day after such results are published, and that all his dealings must be conducted in accordance with the Securities Code.

The Company has made specific enquiries of all the Directors regarding any non-compliance with the Model Code and the Securities Code during the year and they have confirmed their full compliance with the required standards set out in both codes.

## Extended application of the Securities Code

The Company has extended the Securities Code to specified employees who, because of their position, are likely to come across unpublished price sensitive information. In addition, every employee is bound by the Code of Conduct issued by the Company, among other things, to keep unpublished price sensitive information confidential and refrain from trading.

Senior management has also confirmed their full compliance with the required standard set out in the Company's adopted Code for Dealing in the Company's Securities by Specified Individuals. Brief particulars and shareholding interests of the senior management are set out on pages 48 and 122.

## Internal controls, audit and risk management

During 2009, the Board, with the assistance of the Audit Committee, has twice reviewed the effectiveness of the Group's internal control system, including all material controls (financial, operational and compliance and risk management functions), to ensure that appropriate levels of protection are in place and the Board confirms that it is effective and adequate. No significant areas of concern which might affect the operational, financial reporting, and compliance functions of the Company were identified.

***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 HSH Code 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. Any revisions to delegation to management and staff below the level of the Chief Executive Officer are approved by Group Management Committee.

The Company has established proper procedures and internal controls of handling and disseminating of price-sensitive information in order to ensure consistent and timely disclosure and fulfillment of its continuous disclosure obligations. Confidential information is restricted to employees on a need-to-know basis to perform his or her duties. Designated persons are authorised to discuss the Company's corporate matters to investors, analysts, the media or other members of the public.

The risk profile of the Group is reviewed and evaluated periodically and risks are ranked in a register for consideration by the Audit Committee. This register influences the scope and coverage of the audit plans submitted to the Audit Committee for approval.

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
- compliance with applicable laws and regulations

The Company has adopted the above definition of internal control provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The following five interrelated components from COSO provided the internal control framework for the Company to monitor its internal control process and achieve its objectives at the operational level.

## Internal Control Framework

| Categories for assessing extent of objective achievement under COSO framework | Internal control system components | How HSH implement the internal control system components |
|---|---|---|
| • Effectiveness and efficiency of operations<br>• Reliability of financial reporting<br>• Compliance with applicable laws and regulations | *Control environment*<br>• Establishes the foundation for the internal control system by providing fundamental discipline and structure | • Establishment of the CMAM, Purchasing and Tendering Procedures, and Code of Conduct and Equal Opportunities Policy<br>• Management exercising discipline over control and approval processes<br>• Segregation of duties<br>• Well defined organisational structure and responsibilities |
| | *Risk assessment*<br>• The identification and analysis by management of relevant risks to achieve, predetermined objectives | • Operational management reviews and evaluates the risks |
| | *Control activities*<br>• Implements policies, procedures and practices that ensure management objectives are achieved and risk mitigation strategies are carried out | • Implementation of CMAM, Purchasing and Tendering Procedures, and Code of Conduct and Equal Opportunities Policy<br>• Group Management Committee regular review on control activities<br>• Key controls checklists |
| | *Information and communication*<br>• Supports all other control components by communicating control responsibilities to employees and by providing information in a form and time frame that allows people to carry out duties | • Monthly financial report for management review<br>• Periodical general managers' financial controllers' and marketing conferences<br>• Company's intranet<br>• Regular training |
| | *Monitoring*<br>• Management or other parties outside the process oversee the internal control process and the application of independent methodologies, by employees within the process | • Checks and balances system within operational function<br>• Internal audit<br>• Periodical financial review by the Board<br>• General Representation Letter<br>• Checking compliance with Hong Kong Financial Reporting Standards and Listing Rules and other regulations |

Moreover, the effectiveness of the systems of internal control of the Group is reviewed bi-annually by the Board with the assistance of the Audit Committee on aspects including 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 Internal Audit and Risk Management Department is supported by five qualified professionals under the leadership of the Head of the Department who reports to the Chief Executive Officer and Chairman of the Audit Committee.

The 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 HSH Code, 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. Moreover, they submit bi-annual general representation letters to the Chief Executive Officer and the Chief Financial Officer confirming their operations' compliance of all internal systems of control and procedures 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 2009 and confirmed that no matters needed to be brought to the attention of the Board.

During 2009, the department conducted audits and reviews of 15 business operations, one development project, four Head Office functions, and IT systems at nine locations including 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.

The Head of the Department also attended two of the four Audit Committee meetings held during 2009 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. The department reviews and, where necessary, challenges the financial operating results to try and find ways to improve profitability. It also initiates or verifies any changes required to operational accounting practices or to improve the monitoring and reporting systems.

During 2009, the OFC Department undertook the following key responsibilities:

- evaluated financial and operational performance, including special projects, with operational general managers and informed the Group Management Committee where required;
- evaluated financial budgets and forecasts and assisted the operational units towards improved performance, reporting Group information to Group Management Committee;
- appraised operational management processes in individual units and identified changes to enhance business process efficiency;
- held financial controllers' meetings to enhance their knowledge and awareness of the Company's policies and procedures and compliance issues;
- shared best practices, innovations and performance data throughout the Group;
- developed strategies to improve the quality of information flows and operating reports based on the needs of the different parties and to better assess operational financial performance; 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.

A summary of fees for audit and non-audit services to the Company's independent auditor, KPMG, for the financial year ended 31 December 2009 is as follows:

| **Nature of the services** | **2009** (HK$m) |
|---|---|
| Audit services | 9 |
| Non-audit services | |
| Taxation services | 1 |
| Due diligence services | 1 |

## Code of Conduct and Equal Opportunity Policy

The Company believes that honesty, integrity and fair play are vital to its business. The Company has a history of succeeding through honest business practices and fair competition. The Company does not seek competitive advantage through illegal or unethical business practices. It competes for business based on the price and quality of its products and services, and awards business on the same basis. The business activities of the Company are conducted in an ethical manner and in compliance with all the applicable laws of each country in which the Company operates.

The Company also recognises the rights of every individual, and is committed to providing an environment that welcomes diversity and provides equal opportunities free from discrimination, harassment and victimisation.

The Company encourages and enables employees to raise serious concerns through its grievance and reporting of misconduct processes.

These policies are communicated to all employees in the Code of Conduct and Equal Opportunities Policy (the Code of Conduct). In November 2009, the existing Code of Conduct was revised to provide more detailed guidelines on how to handle different situations in business dealings and report misconduct and complaints.

All employees are required to abide by this revised Code of Conduct and to acknowledge receipt of it in 2010. Managers ensure their team fully understands and complies with standards and requirements stipulated in the code. Training, including online e-learning programme and classroom training programme, will be launched in 2010.

The Code of Conduct is published on the Company's website and reviewed regularly. The updated version is provided to employees and updated on the Company's websites. The code is benchmarked against emerging standards as the work environment becomes more sophisticated with technological advances and new regulations.

## Shareholder relations and shareholders' rights

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 2009, an AGM circular was distributed to all shareholders at least 20 clear business days prior to the AGM, setting out details of each proposed resolution 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 held briefings and attended 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 were made available to shareholders and the public through the Company's website.

Communication with shareholders is a high priority. The Annual Report and the Interim Report are distributed to individual and institutional shareholders and these reports together with the quarterly operating statistics are also available for download from the Company's website.

Shareholders holding not less than one-twentieth of paid-up capital of the Company can convene an extraordinary general meeting by requisition stating the objects of the meeting, and depositing the signed requisition at the registered office of the Company. The procedures for shareholders to convene and put forward proposals at an annual general meeting or extraordinary general meeting, and to vote by poll at general meetings are posted on the Company's website.

At the AGM held at noon on Wednesday, 13 May 2009 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 2008;
- to declare a final dividend;
- to re-elect five 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 amend the Articles of Association of the Company.

Details of the 2010 proposed resolution are set out in the AGM circular to be dispatched to our shareholders with this Annual Report.

Procedures for conducting a poll were explained by the Chairman at the commencement of the AGM and Computershare Hong Kong Investor Services Limited, the Company's share registrar, was appointed as scrutineer for voting by poll at the 2009 AGM to ensure the voting was properly counted.

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. As the Listing Rules were amended in 2009, the Company had taken this opportunity to amend its articles of association of the Company as well as to modernise its various provisions.

Details of the changes to the articles of association of the Company were disclosed in the 2009 AGM circular to our shareholders.

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

Shareholders and investors may email enquires to the Company's email address, ir@hshgroup.com, which will be handled by the designated persons with the Company.

### Employees engagement

HSH recognises effective employee engagement is vital to the Company's business success. We are committed to enchancing employee engagement through different channels.

Information on our business, performance and developments are regularly given to our employees. This is communicated through the Chief Executive Officer's briefings at head office and to the operations during his regular visits and two webcasts in 2009. The Company also has other communication channels including our in-house magazines, training programmes and our intranet which is accessible to the majority of HSH's employees worldwide. HSH's intranet also provides a platform for our employees to raise suggestions to the management and Executive Directors. Department heads and general managers meet regularly with Executive Directors, through the operations coordination meeting, monthly review meeting, general managers' conference and financial controllers' meeting, to share updates on businesses and best practices and had been used as a means of information dissemination and collection method.

### 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. Details are shown in the Sustainability Report from pages 173 to 202.

### Other information to shareholders

The key dates in the corporate results and meetings calendar are posted on the Company's website in advance. The important dates for 2010 are:

- Annual General Meeting:
  Wednesday, 12 May 2010
- 2010 Interim Results Announcement:
  Wednesday, 25 August 2010

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

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2009.

## Principal activities

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

## 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 52 to 72.

## 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 2009 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 97 to 171.

## Share capital

On 19 June 2009 and 6 November 2009, pursuant to scrip dividend schemes, the Company issued and allotted 16,687,852 shares and 3,441,218 shares respectively at an issue price of HK$6.888 and HK$10.344 per share to the shareholders who elected to receive shares of the Company in lieu of cash for the 2008 final and 2009 interim dividends in respect of the year ended 31 December 2008 and the six months ended 30 June 2009, respectively. All ordinary shares issued rank pari passu in all respects with the existing issued shares.

Save as described above, there were no other changes in the share capital of the Company. Particulars of the share capital of the Company during the year are set out in note 27 to the Financial Statements.

## Dividends

An interim dividend of 3 HK cents per share in respect of the year ending 31 December 2009 was paid during the year 2009. The Directors have recommended a final dividend of 6 HK cents per share. Subject to the approval by shareholders at the forthcoming Annual General Meeting to be held at The Peninsula Hong Kong on 12 May 2010 at 12 noon, such dividend will be payable on or about 25 June 2010 to shareholders whose names appear on the register of members on 12 May 2010. The register of members will be closed from 10 May 2010 to 12 May 2010, 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 registrar, Computershare Hong Kong Investor Services Limited of Shops 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, 7 May 2010.

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 24 May 2010.

## Principal subsidiaries
Particulars of the principal subsidiaries of the Company are set out on pages 133 to 135 and 203.

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

## Capitalised interest
The amount of interest capitalised by the Group in 2009 and 2008 was insignificant.

## Reserves
Movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity and note 28(a) to the Financial Statements respectively. Reserves available for distribution to shareholders are disclosed in note 28(c) to the Financial Statements.

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

## Borrowings
Particulars of all borrowings are set out in note 26 to the Financial Statements

## Charitable donations
Donations made by the Group for charitable purposes during the year amounted to HK$1,689,056 (2008: HK$3,047,518).

## 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 2009 was HK$9.4 million (2008: HK$10.5 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 2009.

## Material related party transactions

Details of material related party transactions which were undertaken in the normal course of business are set out in note 34 to the Financial Statements.

## Directors

Biographical details of the Directors in office at the date of this Report are shown on pages 46 and 47. All the Directors held office for the whole of 2009. Mr. Pierre R. Boppe, a Non-Executive Director, was re-designated as an Independent Non-Executive Director on 29 June 2009.

In accordance with the Articles of Association of the Company, The Hon. Sir Michael Kadoorie, Mr. Ian D. Boyce, Mr. Robert C.S. Ng, Mr. Patrick B. Paul and Mr. Peter C. Borer will retire at the forthcoming Annual General Meeting and being eligible, have agreed to offer themselves for re-election.

None of the Directors 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 48. Mr. Martyn P.A. Sawyer and Mrs. Maria Razumich-Zec also held office for the whole of 2009.

## Interests of Directors and Chief Executive Officer

As at 31 December 2009, 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) | 742,500,056 | 50.497 |
| Mr. Ian D. Boyce | Beneficial Owner | 216,696 | 0.015 |
| Mr. Clement K.M. Kwok | Beneficial Owner | 650,099 | 0.044 |
| Mr. Peter C. Borer | Beneficial Owner | 325,733 | 0.022 |
| Mr. Ronald J. McAulay | Note (b) | 223,101,845 | 15.173 |
| Mr. William E. Mocatta | Beneficial Owner | 17,000 | 0.001 |
| Mr. John A.H. Leigh | Note (c) | 76,029,158 | 5.171 |
| Dr. The Hon. Sir David K.P. Li | Beneficial Owner | 552,146 | 0.038 |
| Mr. Robert C.S. Ng | Family | 126,083 | 0.009 |
| Mr. Pierre R. Boppe | Beneficial Owner | 150,000 | 0.010 |

*Notes:*

(a) *The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 742,500,056 shares in the Company. These shares were held in the following capacity:*
   (i) *149,109,947 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;*
   (ii) *305,039,115 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder; and*
   (iii) *288,350,994 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 742,500,056 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 223,101,845 shares in the Company. These shares were held in the following capacity:*
   (i) *149,109,947 shares were ultimately held by discretionary trusts, of which Mr. Ronald J. McAulay is one of the discretionary objects; and*
   (ii) *73,991,898 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. John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 76,029,158 shares in the Company. These shares were held in the following capacity:*
   (i) *73,991,898 shares were ultimately held by a discretionary trust. Mr. John A.H. Leigh was deemed to be interested in such 73,991,898 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 73,991,898 shares; and*
   (ii) *2,037,260 shares were ultimately held by a discretionary trust. Mr. John A.H. Leigh was deemed to be interested in such 2,037,260 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 2,037,260 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 2009.

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 2009 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 associates, 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 2009, none of the senior management (other than Directors) has any interests in the shares and underlying shares of the Company.

## Interests of substantial shareholders

So far as is known to any Director or Chief Executive Officer of the Company, as at 31 December 2009 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 |
|---|---|---|---|
| Acorn Holdings Corporation | Beneficiary | 149,109,947 | 10.141(i) |
| Bermuda Trust Company Limited | Trustee/Interests of controlled corporations | 530,178,220 | 36.057(i) |
| Bermuda Trust (Cayman) Limited | Trustee/Interests of controlled corporations | 93,363,531 | 6.350(iv) |
| Guardian Limited | Beneficiary/Interests of controlled corporations | 76,029,158 | 5.171(v) |
| Harneys Trustees Limited | Interests of controlled corporations | 595,427,369 | 40.494(iii) |
| Lawrencium Holdings Limited | Beneficiary | 288,350,994 | 19.610(ii) |
| Lawrencium Mikado Holdings Limited | Beneficiary | 305,039,115 | 20.745(ii) |
| The Magna Foundation | Beneficiary | 305,039,115 | 20.745(ii) |
| The Mikado Private Trust Company Limited | Trustee/Interests of controlled corporations | 593,390,109 | 40.356(ii) |
| Mikado Investments (PTC) Limited | Interest of controlled corporation/Beneficiary of trusts | 305,039,115 | 20.745(i) |
| Muriel, Lady Kadoorie | Founder and Beneficiary | 73,991,898 | 5.032(iv) |
| New Mikado Holding Inc. | Trustee | 305,039,115 | 20.745(i) |
| Oak (Unit Trust) Holdings Limited | Trustee | 73,991,898 | 5.032(i) |
| Oak HSH Limited | Beneficiary | 73,991,898 | 5.032 (iv) |
| Mr. Richard Parsons | Trustee | 76,029,158 | 5.171(v) |

*Notes:*

*(i) Bermuda Trust Company Limited was deemed to be interested in the shares in which Acorn Holdings Corporation, New Mikado Holding Inc., Mikado Investments (PTC) Limited, Oak (Unit Trust) Holdings Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies.*

*The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie and/or Mr. Ronald J. McAulay are among the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".*

*(ii) The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited were deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested.*

*The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and a founder as disclosed in "Interests of Directors and Chief Executive Officer".*

*(iii) Harneys Trustees Limited controlled The Mikado Private Trust Company Limited and another company and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.*

*(iv) Bermuda Trust (Cayman) Limited was deemed to be interested in the shares in which Oak HSH Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies.*

*The interests of Bermuda Trust (Cayman) Limited in the shares of the Company include the shares held by a discretionary trust of which Muriel, Lady Kadoorie is a founder and a beneficiary and of which Mr. Ronald J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".*

*(v) Mr. Richard Parsons, in his capacity as one of the trustees of a trust, controlled Guardian Limited and therefore was deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 76,029,158 shares in which Guardian Limited was interested was duplicated within the interests attributed to Mr. Richard Parsons and was also duplicated within the interests attributed to Mr. John A.H. Leigh as disclosed in "Interests of Directors and Chief Executive Officer".*

*(b) Other substantial shareholder*

| | Capacity | Number of shares held in the Company | % of the issued share capital of the Company |
|---|---|---|---|
| Prudential plc | Investment Manager | 102,631,956 | 6.980 |

Except as set out above, as at 31 December 2009 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 2009, 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 2009 or at any time during the year.

## Employee retirement benefits

Details of the Group's employee retirement benefits are shown in note 30 to the Financial Statements.

## Corporate Governance Report

The Corporate Governance Report is set out on pages 73 to 87.

## Public float

As at 12 March 2010, being the latest practicable date prior to the issue of the Annual Report, 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 2010

# Ten Year Operating Summary

| | **2009** | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Hotel and Property Performance** | | | | | | | | | | |
| **The Peninsula Hong Kong** | | | | | | | | | | |
| Occupancy rate | **57%** | 71% | 77% | 80% | 79% | 69% | 57% | 62% | 56% | 55% |
| Average room rate (HK$) | **3,796** | 4,095 | 3,774 | 3,228 | 2,872 | 2,659 | 2,337 | 2,670 | 2,749 | 2,984 |
| RevPAR (HK$) | **2,182** | 2,927 | 2,892 | 2,592 | 2,271 | 1,836 | 1,332 | 1,655 | 1,527 | 1,654 |
| **The Peninsula Shanghai** | | | | | | | | | | |
| (opened October 2009) | | | | | | | | | | |
| Occupancy rate | **42%** | | | | | | | | | |
| Average room rate (HK$) | **2,209** | | | | | | | | | |
| RevPAR (HK$) | **926** | | | | | | | | | |
| **The Peninsula Beijing** | | | | | | | | | | |
| Occupancy rate | **34%** | 50% | 63% | 67% | 66% | 58% | 49% | 63% | 63% | 64% |
| Average room rate (HK$) | **1,354** | 2,116 | 1,664 | 1,436 | 1,219 | 1,008 | 845 | 691 | 671 | 719 |
| RevPAR (HK$) | **457** | 1,065 | 1,048 | 958 | 806 | 589 | 414 | 434 | 420 | 457 |
| **The Peninsula New York** | | | | | | | | | | |
| Occupancy rate | **62%** | 64% | 75% | 74% | 75% | 76% | 67% | 65% | 66% | 78% |
| Average room rate (HK$) | **5,317** | 6,338 | 6,326 | 5,458 | 4,902 | 4,137 | 3,900 | 3,958 | 3,839 | 4,155 |
| RevPAR (HK$) | **3,317** | 4,048 | 4,771 | 4,066 | 3,655 | 3,145 | 2,613 | 2,565 | 2,519 | 3,237 |
| **The Peninsula Chicago** | | | | | | | | | | |
| (opened June 2001) | | | | | | | | | | |
| Occupancy rate | **54%** | 65% | 72% | 72% | 71% | 72% | 64% | 51% | 30% | |
| Average room rate (HK$) | **2,987** | 3,670 | 3,641 | 3,398 | 2,947 | 2,490 | 2,437 | 2,338 | 2,371 | |
| RevPAR (HK$) | **1,623** | 2,395 | 2,638 | 2,449 | 2,087 | 1,781 | 1,560 | 1,197 | 719 | |
| **The Peninsula Beverly Hills** | | | | | | | | | | |
| Occupancy rate | **61%** | 80% | 85% | 83% | 83% | 84% | 81% | 78% | 78% | 85% |
| Average room rate (HK$) | **5,032** | 5,364 | 5,017 | 4,523 | 4,091 | 3,634 | 3,250 | 3,121 | 3,184 | 3,114 |
| RevPAR (HK$) | **3,072** | 4,275 | 4,242 | 3,772 | 3,395 | 3,046 | 2,633 | 2,439 | 2,471 | 2,644 |
| **The Peninsula Tokyo** | | | | | | | | | | |
| (opened September 2007) | | | | | | | | | | |
| Occupancy rate | **60%** | 63% | 57% | | | | | | | |
| Average room rate (HK$) | **3,584** | 3,759 | 3,853 | | | | | | | |
| RevPAR (HK$) | **2,148** | 2,380 | 2,206 | | | | | | | |
| **The Peninsula Bangkok** | | | | | | | | | | |
| Occupancy rate | **48%** | 65% | 70% | 71% | 72% | 77% | 66% | 73% | 73% | 82% |
| Average room rate (HK$) | **1,502** | 1,714 | 1,708 | 1,424 | 1,293 | 1,155 | 1,056 | 986 | 889 | 572 |
| RevPAR (HK$) | **725** | 1,119 | 1,201 | 1,010 | 935 | 893 | 697 | 718 | 646 | 468 |
| **The Peninsula Manila** | | | | | | | | | | |
| Occupancy rate | **57%** | 55% | 75% | 66% | 78% | 69% | 62% | 59% | 48% | 54% |
| Average room rate (HK$) | **974** | 1,133 | 1,005 | 737 | 630 | 606 | 562 | 627 | 815 | 752 |
| RevPAR (HK$) | **555** | 626 | 752 | 484 | 493 | 420 | 349 | 370 | 390 | 410 |

*Notes:*
*Occupancy rates are based on the total number of rooms at each hotel.*

| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Hotel and Property Performance** | | | | | | | | | | |
| **Quail Lodge Resort, Carmel** (accommodation closed from November 2009) | | | | | | | | | | |
| Occupancy rate | **56%** | 64% | 71% | 65% | 61% | 54% | 28% | 54% | 58% | 66% |
| Average room rate (HK$) | **1,787** | 2,014 | 2,062 | 2,190 | 2,297 | 2,288 | 2,214 | 1,871 | 1,962 | 2,062 |
| RevPAR (HK$) | **1,006** | 1,298 | 1,462 | 1,431 | 1,393 | 1,229 | 624 | 1,014 | 1,136 | 1,361 |
| **The Repulse Bay Apartments** | | | | | | | | | | |
| Occupancy rate | **88%** | 94% | 92% | 91% | 82% | 77% | 74% | 77% | 89% | 85% |
| Average monthly yield per square foot (HK$) | **37** | 39 | 35 | 33 | 27 | 25 | 25 | 29 | 33 | 31 |
| **The Landmark, Vietnam** | | | | | | | | | | |
| Occupancy rate – Residential | **93%** | 99% | 99% | 97% | 94% | 95% | 94% | 94% | 87% | 82% |
| Average monthly yield per square foot (HK$) | **21** | 21 | 18 | 17 | 16 | 16 | 15 | 15 | 14 | 14 |
| Occupancy rate – Office | **98%** | 100% | 100% | 99% | 95% | 98% | 100% | 100% | 98% | 91% |
| Average monthly yield per square foot (HK$) | **32** | 26 | 22 | 19 | 17 | 16 | 16 | 15 | 15 | 22 |
| **St. John's Building** | | | | | | | | | | |
| Occupancy rate | **93%** | 99% | 99% | 99% | 90% | 87% | 78% | 83% | 97% | 86% |
| Average monthly yield per square foot (HK$) | **35** | 33 | 25 | 21 | 15 | 15 | 14 | 17 | 21 | 20 |
| **The Peak Tower** | | | | | | | | | | |
| Occupancy rate | **99%** | 100% | 100% | 72% | 31% | 100% | 100% | 98% | 100% | 96% |
| Average monthly yield per square foot (HK$) | **60** | 60 | 56 | 29 | 6 | 28 | 23 | 25 | 24 | 30 |
| **The Peak Tram** | | | | | | | | | | |
| Patronage ('000) | **4,862** | 5,006 | 4,939 | 4,430 | 3,923 | 4,107 | 3,092 | 3,714 | 3,504 | 3,478 |
| Average fare (HK$) | **16** | 16 | 16 | 15 | 14 | 14 | 14 | 14 | 14 | 15 |
| **Employee Numbers** (31 December) | | | | | | | | | | |
| Hotels | **5,489** | 5,239 | 5,138 | 4,601 | 4,334 | 4,814 | 4,748 | 4,918 | 4,974 | 4,780 |
| Commercial Properties | **339** | 339 | 329 | 316 | 307 | 297 | 306 | 315 | 326 | 334 |
| Clubs and Services | **998** | 1,056 | 1,027 | 1,004 | 981 | 955 | 946 | 984 | 1,072 | 1,263 |
| Total employees | **6,826** | 6,634 | 6,494 | 5,921 | 5,622 | 6,066 | 6,000 | 6,217 | 6,372 | 6,377 |

*Notes:*
*Occupancy rates are based on the total number of rooms or space available at each operation.*

# Ten Year Financial Summary

| | **2009** | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Consolidated Income Statement** (HK$m) | | | | | | | | | | |
| Turnover | **4,218** | 4,938 | 4,542 | 3,717 | 3,276 | 3,120 | 2,517 | 2,592 | 2,584 | 3,043 |
| EBITDA | **924** | 1,425 | 1,510 | 1,275 | 1,092 | 992 | 726 | 747 | 698 | 925 |
| EBITDA margin | **22%** | 29% | 33% | 34% | 33% | 32% | 29% | 29% | 27% | 30% |
| Operating profit | **586** | 1,051 | 1,175 | 1,024 | 850 | 749 | 616 | 635 | 579 | 816 |
| Profit attributable to shareholders | **2,298** | 216 | 3,437 | 2,094 | 2,664 | 2,786 | 351 | 293 | 33 | 85 |
| Underlying profit attributable to shareholders* | **315** | 807 | 901 | 761 | 641 | 386 | 285 | 266 | 181 | 328 |
| Dividends | **132** | 246 | 259 | 228 | 199 | 168 | 112 | 93 | 58 | 59 |
| Earnings per share (HK$) | **1.57** | 0.15 | 2.40 | 1.47 | 1.89 | 1.99 | 0.29 | 0.25 | 0.03 | 0.07 |
| Earnings per share excluding non-operating items (HK$) | **0.22** | 0.56 | 0.63 | 0.54 | 0.45 | 0.28 | 0.24 | 0.23 | 0.15 | 0.28 |
| Dividends per share (HK cents) | **9¢** | 17¢ | 18¢ | 16¢ | 14¢ | 12¢ | 8¢ | 8¢ | 5¢ | 5¢ |
| Dividend cover (times) | **17.4x** | 0.9x | 13.3x | 9.2x | 13.4x | 16.6x | 3.1x | 3.2x | 0.6x | 1.4x |
| Interest cover (times) | **6.8x** | 15.5x | 13.5x | 8.6x | 5.2x | 3.1x | 2.5x | 2.2x | 1.7x | 1.9x |
| **Consolidated Statement of Financial Position** (HK$m) | | | | | | | | | | |
| Fixed assets | **28,339** | 26,368 | 26,895 | 22,951 | 20,561 | 20,058 | 19,068 | 18,019 | 17,338 | 18,365 |
| Other assets | **2,641** | 1,224 | 1,191 | 1,211 | 1,110 | 741 | 771 | 712 | 1,025 | 1,334 |
| Cash and bank balances | **1,835** | 1,995 | 1,414 | 447 | 301 | 262 | 217 | 232 | 99 | 272 |
| Total assets | **32,815** | 29,587 | 29,500 | 24,609 | 21,972 | 21,061 | 20,056 | 18,963 | 18,462 | 19,971 |
| Interest-bearing borrowings | **(3,825)** | (3,193) | (2,869) | (2,523) | (2,614) | (4,536) | (4,906) | (5,843) | (5,755) | (5,968) |
| Derivative financial instruments | **(206)** | (281) | (215) | (214) | (209) | – | – | – | – | – |
| Other liabilities (including minority interests) | **(5,744)** | (5,401) | (5,690) | (4,890) | (4,253) | (4,183) | (1,709) | (1,543) | (764) | (914) |
| Net assets attributable to shareholders | **23,040** | 20,712 | 20,726 | 16,982 | 14,896 | 12,342 | 13,441 | 11,577 | 11,943 | 13,089 |
| Net assets per share (HK$) | **$15.67** | $14.28 | $14.37 | $11.89 | $10.51 | $8.80 | $9.59 | $9.90 | $10.22 | $11.18 |
| Net debt to EBITDA (times) | **2.2x** | 0.8x | 1.0x | 1.6x | 2.1x | 4.3x | 6.5x | 7.5x | 8.1x | 6.2x |
| Net debt to equity | **9%** | 6% | 7% | 12% | 16% | 35% | 35% | 48% | 47% | 44% |
| Gearing | **8%** | 5% | 7% | 11% | 13% | 26% | 26% | 33% | 32% | 30% |
| **Consolidated Statement of Cash Flows** (HK$m) | | | | | | | | | | |
| Net cash generated from operating activities | **761** | 1,208 | 1,481 | 1,164 | 1,058 | 992 | 627 | 772 | 863 | 1,453 |
| Capital expenditure | **(269)** | (417) | (808) | (645) | (664) | (360) | (436) | (276) | (537) | (618) |
| Investment in the Peninsula Paris project | **(1,044)** | – | – | – | – | – | – | – | – | – |
| Disposal of The Kowloon Hotel | **–** | – | – | – | 1,684 | 193 | – | – | – | – |
| Net cash (outflow)/inflow after interest and dividends before financing activities | **(824)** | 597 | 683 | 232 | 1,928 | 427 | (156) | 229 | 30 | 503 |
| **Share Information** (HK$) | | | | | | | | | | |
| Highest share price | **$11.98** | $14.50 | $15.46 | $13.50 | $9.65 | $7.50 | $5.60 | $4.35 | $5.40 | $5.30 |
| Lowest share price | **$4.26** | $5.13 | $10.90 | $8.00 | $6.40 | $4.15 | $2.78 | $2.63 | $2.03 | $3.40 |
| Year end closing share price | **$11.36** | $5.86 | $13.70 | $13.14 | $8.50 | $6.95 | $4.53 | $3.30 | $2.90 | $4.30 |

* *Underlying profit attributable to shareholders and underlying earnings per share are calculated by excluding the post-tax effects of the property revaluation movements and other non-operating items.*

*Notes :*

1. *The results for all years prior to 2004 are stated on the basis of the Company's previous accounting policies, which were changed with effect from 1 January 2005 (with 2004 figures restated).*
2. *Figures for 2000 and 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 | Year ended 31 December 2009 | 2008 |
|---|---|---|---|
| **Turnover** | 3 | **4,218** | 4,938 |
| Cost of inventories | | **(334)** | (390) |
| Staff costs and related expenses | | **(1,512)** | (1,553) |
| Rent and utilities | | **(531)** | (525) |
| Other operating expenses | | **(917)** | (1,045) |
| **Operating profit before interest, taxation, depreciation and amortisation (EBITDA)** | | **924** | 1,425 |
| Depreciation and amortisation | | **(338)** | (374) |
| **Operating profit** | | **586** | 1,051 |
| Interest income | | **15** | 40 |
| Financing charges | 4(a) | **(101)** | (108) |
| Net financing charges | | **(86)** | (68) |
| **Profit after net financing charges** | 4 | **500** | 983 |
| Share of profit/(loss) of a jointly controlled entity | 17 | **285** | (5) |
| Increase/(decrease) in fair value of investment properties | 14(a) | **1,998** | (593) |
| Provision for impairment losses, net | 14(a) | **–** | (176) |
| Other non-operating items | 5 | **(21)** | – |
| **Profit before taxation** | | **2,762** | 209 |
| Taxation | | | |
| Current tax | 6 | **(120)** | (185) |
| Deferred tax | 6 | **(338)** | 227 |
| **Profit for the year** | | **2,304** | 251 |
| **Profit attributable to:** | | | |
| Shareholders of the Company | | **2,298** | 216 |
| Minority interests | | **6** | 35 |
| **Profit for the year** | | **2,304** | 251 |
| **Earnings per share, basic and diluted** (HK$) | 11 | **1.57** | 0.15 |

Details of dividends payable to shareholders of the Company attributable to the profit for the year are set out in note 12.

The notes on pages 104 to 171 form part of these Financial Statements.

# Consolidated Statement of Comprehensive Income (HK$m)

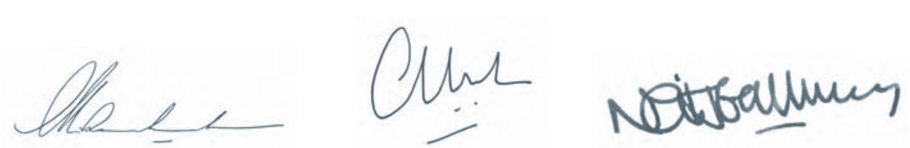
| | Note | Year ended 31 December 2009 | 2008 |
|---|---|---|---|
| **Profit for the year** | | **2,304** | 251 |
| **Other comprehensive income for the year, net of tax:** | 10 | | |
| Exchange differences on translation of: | | | |
| – financial statements of overseas subsidiaries | | **88** | (25) |
| – financial statements of a jointly controlled entity | | **(9)** | 35 |
| – loan to an associate | | **38** | – |
| | | **117** | 10 |
| Cash flow hedges: | | | |
| – effective portion of changes in fair values | | **(21)** | (93) |
| – transfer from equity to profit or loss | | **46** | 5 |
| | | **142** | (78) |
| **Total comprehensive income for the year** | | **2,446** | 173 |
| **Total comprehensive income attributable to:** | | | |
| Shareholders of the Company | | **2,431** | 122 |
| Minority interests | | **15** | 51 |
| **Total comprehensive income for the year** | | **2,446** | 173 |

The notes on pages 104 to 171 form part of these Financial Statements.

# Consolidated Statement of Financial Position (HK$m)

| | | At 31 December | |
|---|---|---|---|
| | Note | **2009** | 2008 |
| **Non-current assets** | | | |
| Fixed assets | | | |
| Properties, plant and equipment | | **5,549** | 5,791 |
| Investment properties | | **22,790** | 20,577 |
| | 14 | **28,339** | 26,368 |
| Interest in associates | 16 | **498** | – |
| Interest in a jointly controlled entity | 17 | **815** | 539 |
| Interests in unlisted equity instruments | 18 | **–** | – |
| Investment in hotel management contracts | 19 | **730** | 92 |
| Derivative financial instruments | 20(a) | **18** | 38 |
| Deferred tax assets | 21(b) | **64** | 38 |
| | | **30,464** | 27,075 |
| **Current assets** | | | |
| Inventories | 22 | **98** | 114 |
| Trade and other receivables | 23 | **391** | 378 |
| Derivative financial instruments | 20(a) | **27** | 25 |
| Cash at banks and in hand | 24 | **1,835** | 1,995 |
| | | **2,351** | 2,512 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | **(1,203)** | (1,188) |
| Interest-bearing borrowings | 26 | **(769)** | (695) |
| Derivative financial instruments | 20(a) | **(95)** | (93) |
| Current taxation | 21(a) | **(67)** | (90) |
| | | **(2,134)** | (2,066) |
| **Net current assets** | | **217** | 446 |
| **Total assets less current liabilities** | | **30,681** | 27,521 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 26 | **(3,056)** | (2,498) |
| Net defined benefit retirement obligation | 30(a) | **(23)** | (21) |
| Derivative financial instruments | 20(a) | **(111)** | (188) |
| Deferred tax liabilities | 21(b) | **(3,543)** | (3,168) |
| | | **(6,733)** | (5,875) |
| **Net assets** | | **23,948** | 21,646 |
| **Capital and reserves** | | | |
| Share capital | 27 | **735** | 725 |
| Reserves | | **22,305** | 19,987 |
| **Total equity attributable to shareholders of the Company** | | **23,040** | 20,712 |
| Minority interests | | **908** | 934 |
| **Total equity** | | **23,948** | 21,646 |

Approved by the Board of Directors on 12 March 2010 and signed on its behalf by:



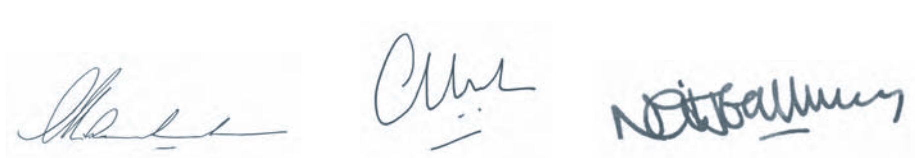
The Hon. Sir Michael Kadoorie, Clement K.M. Kwok, Neil J. Galloway, *Directors*

The notes on pages 104 to 171 form part of these Financial Statements.

# Parent Company Statement of Financial Position (HK$m)

| | Note | At 31 December 2009 | 2008 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 15 | **–** | – |
| Derivative financial instruments | 20(b) | **102** | 196 |
| | | **102** | 196 |
| **Current assets** | | | |
| Trade and other receivables | 23 | **11,786** | 11,626 |
| Derivative financial instruments | 20(b) | **113** | 108 |
| Cash at banks and in hand | | **6** | 29 |
| | | **11,905** | 11,763 |
| **Current liabilities** | | | |
| Bank overdrafts | | **–** | (2) |
| Trade and other payables | 25 | **(39)** | (18) |
| Derivative financial instruments | 20(b) | **(86)** | (87) |
| Current taxation | 21(a) | **(3)** | (3) |
| | | **(128)** | (110) |
| **Net current assets** | | **11,777** | 11,653 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 21(b) | **(7)** | (10) |
| Derivative financial instruments | 20(b) | **(83)** | (158) |
| | | **(90)** | (168) |
| **Net assets** | | **11,789** | 11,681 |
| **Capital and reserves** | | | |
| Share capital | 27 | **735** | 725 |
| Reserves | 28(a) | **11,054** | 10,956 |
| **Total equity** | | **11,789** | 11,681 |

Approved by the Board of Directors on 12 March 2010 and signed on its behalf by:



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

The notes on pages 104 to 171 form part of these Financial Statements.

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

| | | Year ended 31 December | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to shareholders of the Company | | | | | | | | | |
| | Note | Share capital | Share premium | Capital redemption reserve | Hedging reserve | Exchange reserve | General reserve | Retained profits | Total | Minority interests | Total equity |
| **At 1 January 2008** | | 721 | 2,950 | 9 | (53) | (111) | 1,098 | 16,112 | 20,726 | 891 | 21,617 |
| **Changes in equity for 2008:** | | | | | | | | | | | |
| Dividends approved in respect of the previous year | | | | | | | | | | | |
| – by means of cash | | – | – | – | – | – | – | (42) | (42) | – | (42) |
| – by means of scrip | 27(b) | 5 | 126 | – | – | – | – | (131) | – | – | – |
| Repurchase of shares | 27(a) | (4) | – | 4 | – | – | (50) | – | (50) | – | (50) |
| Dividends approved in respect of the current year | | | | | | | | | | | |
| – by means of cash | | – | – | – | – | – | – | (47) | (47) | (5) | (52) |
| – by means of scrip | 27(b) | 3 | 44 | – | – | – | – | (47) | – | – | – |
| Acquisition of additional shareholding in a subsidiary | | – | – | – | – | 1 | – | 2 | 3 | (3) | – |
| Total comprehensive income for the year | | – | – | – | (88) | (6) | – | 216 | 122 | 51 | 173 |
| **Balance at 31 December 2008** | | 725 | 3,120 | 13 | (141) | (116) | 1,048 | 16,063 | 20,712 | 934 | 21,646 |
| **At 1 January 2009** | | **725** | **3,120** | **13** | **(141)** | **(116)** | **1,048** | **16,063** | **20,712** | **934** | **21,646** |
| **Changes in equity for 2009:** | | | | | | | | | | | |
| **Dividends approved in respect of the previous year** | | | | | | | | | | | |
| **– by means of cash** | | – | – | – | – | – | – | **(38)** | **(38)** | – | **(38)** |
| **– by means of scrip** | 27(b) | **8** | **106** | – | – | – | – | **(114)** | – | – | – |
| **Acquisition of minority interests in a subsidiary** | 15 | – | – | – | – | – | – | **(57)** | **(57)** | **(34)** | **(91)** |
| **Transfer** | 28(b) | – | – | – | – | – | **(1,048)** | **1,048** | – | – | – |
| **Dividends approved in respect of the current year** | | | | | | | | | | | |
| **– by means of cash** | | – | – | – | – | – | – | **(8)** | **(8)** | **(7)** | **(15)** |
| **– by means of scrip** | 27(b) | **2** | **34** | – | – | – | – | **(36)** | – | – | – |
| **Total comprehensive income for the year** | | – | – | – | **25** | **108** | – | **2,298** | **2,431** | **15** | **2,446** |
| **Balance at 31 December 2009** | | **735** | **3,260** | **13** | **(116)** | **(8)** | – | **19,156** | **23,040** | **908** | **23,948** |

The notes on pages 104 to 171 form part of these Financial Statements.

# Consolidated Statement of Cash Flows (HK$m)

| | Note | Year ended 31 December 2009 | 2008 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit after net financing charges | | **500** | 983 |
| Adjustments for: | | | |
| Depreciation | 14(a) | **335** | 371 |
| Amortisation of hotel management contract | 19 | **3** | 3 |
| Interest income | | **(15)** | (40) |
| Financing charges | 4(a) | **101** | 108 |
| Loss on disposal of property, plant and equipment | | **3** | 1 |
| Foreign exchange (gains)/losses | | **(1)** | 8 |
| **Operating profit before changes in working capital** | | **926** | 1,434 |
| Decrease/(increase) in inventories | | **16** | (14) |
| (Increase)/decrease in trade and other receivables | | **(12)** | 60 |
| Decrease in trade and other payables | | **(26)** | (51) |
| **Cash generated from operations** | | **904** | 1,429 |
| Net tax paid: | | | |
| Hong Kong Profits Tax paid | | **(123)** | (152) |
| Overseas tax paid | | **(20)** | (69) |
| **Net cash generated from operating activities** | | **761** | 1,208 |
| **Investing activities** | | | |
| Payment for the purchase of fixed assets | | **(269)** | (417) |
| Payment for the acquisition of additional shareholding in a subsidiary | 15 | **(91)** | (3) |
| Payment for the acquisition of interest in associates | 16 | **(453)** | – |
| Loan to an associate | | **(22)** | – |
| Payment for acquisition of hotel management contract | 19 | **(591)** | – |
| Proceeds from sale of fixed assets | | **18** | 3 |
| **Net cash used in investing activities** | | **(1,408)** | (417) |
| **Financing activities** | | | |
| Drawdown of term loans | | **1,414** | – |
| Repayment of term loans | | **(200)** | (120) |
| Net (decrease)/increase in revolving credits | | **(551)** | 126 |
| Placement of interest bearing bank deposits with maturity of more than three months | | **(437)** | – |
| Payment for repurchase of shares | | **–** | (50) |
| Interest paid and other financing charges | | **(139)** | (140) |
| Interest received | | **15** | 40 |
| Dividends paid to shareholders of the Company | | **(46)** | (89) |
| Dividends paid to minority shareholders | | **(7)** | (5) |
| **Net cash generated from/(used in) financing activities** | | **49** | (238) |
| Net (decrease)/increase in cash and cash equivalents | | **(598)** | 553 |
| Cash and cash equivalents at 1 January | | **1,979** | 1,398 |
| Effect of changes in foreign exchange rates | | **(1)** | 28 |
| **Cash and cash equivalents at 31 December** | 24 | **1,380** | 1,979 |

The notes on pages 104 to 171 form part of these 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 (HKFRS), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKAS) 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 (the Listing Rules). A summary of the significant accounting policies adopted by the Group and the Company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Company for the current and prior accounting periods reflected in these Financial Statements.

### (b) Basis of preparation of the Financial Statements

The consolidated Financial Statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and 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(j)); and
ii) derivative financial instruments (see note 1(g)).

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 HKFRS 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 major sources of estimation uncertainty are discussed in note 36.

## 1. Significant accounting policies *continued*

### (c) Subsidiaries and minority interests

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

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

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the 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 statement of financial position 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 and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the shareholders of the Company.

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(m)), unless the investment is classified as held for sale.

### (d) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity 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 an associate or 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 investee's net assets and any impairment loss relating to the investment (see note 1(e) and (m)). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

## 1. Significant accounting policies *continued*

### (d) Associates and jointly controlled entities *continued*

When the Group's share of losses exceeds its interest in the associates or 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 investee. For this purpose, the Group's interest 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 associate or the jointly controlled entity.

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

### (e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 1(m)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (f) Equity instruments

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

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

### (g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in 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(h)).

## 1. Significant accounting policies *continued*

### (h) 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 gains or losses on remeasurement of the derivative financial instrument to fair value is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. 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 reclassified from equity and is 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 until the transaction occurs and it is recognised in accordance with the above policy. 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 in other comprehensive income and accumulated separately in equity in the exchange reserve 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.

### (i) Properties, plant and equipment

Hotel and other properties held for own use and plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 1(m)).

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 and an appropriate proportion of production overheads and borrowing costs (see note 1(x)).

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.

## 1. Significant accounting policies *continued*

### (i) Properties, plant and equipment *continued*

Depreciation is calculated to write off the carrying values of items of properties, plant and equipment, less their estimated residual values, if any, 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.

### (j) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(l)) to earn rental income and/or for capital appreciation. These include land held for currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the statement of financial position at fair value, unless they are still in the course of construction or development at the reporting date and their fair value cannot be reliably determined at that time. 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(v).

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(l)) 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(l).

### (k) Investments in hotel management contracts

Payments for acquiring hotel management contracts are capitalised and are stated in the statement of financial position at cost less accumulated amortisation and impairment losses (see note 1(m)).

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

# 1. Significant accounting policies *continued*

## (l) 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 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(j)); 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.

**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 (see note 1(j)).

## (m) Impairment of assets

### (i) Impairment of financial assets

Investments in equity securities (other than investment in subsidiaries) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sales securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

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

## 1. Significant accounting policies *continued*

### (m) Impairment of assets *continued*

**(i) Impairment of financial assets** *continued*

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

- For investments in associates and jointly controlled entities recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(m)(ii).
- 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 unquoted equity instruments carried at cost are not reversed.
- For trade and other current receivables and other 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.

**(ii) Impairment of other assets**

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and loans and other receivables 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 loans and other receivables 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.

Internal and external sources of information are reviewed at the end of each reporting period 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;
- interests in subsidiaries; and
- goodwill.

## 1. Significant accounting policies *continued*

### (m) Impairment of assets *continued*

**(ii) Impairment of other assets** *continued*

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

- *Reversals of impairment losses*
  In respect of assets other than goodwill, an impairment loss is reversed if the recoverable amount of an asset, or the cash-generating unit to which it belongs, exceeds its carrying amount.

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

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

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

### (n) 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.

## 1. Significant accounting policies *continued*

### (o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(m)), 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 doubtful debts (see note 1(m)).

### (p) 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.

### (q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(u), 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.

### (r) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks 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 statement of cash flows.

### (s) 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 end of the reporting period 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 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.

## 1. Significant accounting policies *continued*

### (s) Employee benefits *continued*

**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.

### (t) 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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

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

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

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

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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

## 1. Significant accounting policies *continued*

### (t) Income tax *continued*

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.

### (u) 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 in accordance with the first paragraph of this note 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*

### (v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 statement of financial position under trade and other payables.

**Sale of goods and wholesaling**
Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership of the goods. 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.

### (w) 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 end of the reporting period.

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 in other comprehensive income (see note 1(h)).

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 dollar at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations are translated into Hong Kong dollar at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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*

### (x) 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.

### (y) 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.

### (z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 2. Changes in accounting policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's Financial Statements:

- HKFRS 8, *Operating segments*;
- HKAS 1 (revised 2007), *Presentation of financial statements*;
- Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*;
- Improvements to HKFRSs (2008);
- Amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*; and
- HKAS 23 (revised 2007), *Borrowing costs.*

The amendment to HKAS 23 has had no material impact on the Group's Financial Statements as the amendment was consistent with the policy already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years. The adoption of HKFRS 8 has resulted in amendments to the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's senior executive management and has resulted in amendments to the reportable segments being identified and presented (see note 13). Corresponding amounts for the prior year have been provided on a basis consistent with the revised segment information.
- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement termed as the consolidated statement of comprehensive income. Corresponding amounts for the prior year have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented. HKAS 1 (revised 2007) also includes changes to the titles of the other primary financial statements in order to better reflect their function. The consolidated balance sheet and the consolidated cash flow statement have been re-termed as the consolidated statement of financial position and the consolidated statement of cash flows respectively.
- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

## 2. Changes in accounting policies *continued*

- The "Improvements to HKFRSs (2008)" comprise a number of minor amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendments have resulted in changes to the Group's accounting policies:
  - As a result of amendments to HKAS 28, *Investments in associates*, impairment losses recognised in respect of associates and jointly controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there is a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.
  - As a result of amendments to HKAS 40, *Investment property*, investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognised in profit or loss. This change in policy has no impact on net assets or profit or loss for any of the periods presented.
- As a result of the adoption of the amendments to HKFRS 7, the Financial Statements include expanded disclosures in note 31(f) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

## 3. Turnover (HK$m)

The Company is an investment holding company; its subsidiary companies, associated companies and jointly controlled entity are engaged in the ownership, management and operations of prestigious hotels, commercial properties and clubs and services.

Turnover represents the gross amount invoiced for services, goods 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:

| | **2009** | 2008 |
|---|---|---|
| Hotels | | |
| Rooms | **1,355** | 1,856 |
| Food and beverage | **1,012** | 1,166 |
| Commercial | **556** | 545 |
| Others | **321** | 338 |
| | **3,244** | 3,905 |
| Commercial Properties | **637** | 677 |
| Clubs and Services | **337** | 356 |
| | **4,218** | 4,938 |

## 4. Profit after net financing charges (HK$m)

Profit after net financing charges is arrived at after charging/(crediting):

### (a) Financing charges

| | 2009 | 2008 |
|---|---|---|
| Interest on bank borrowings wholly repayable within five years | **42** | 68 |
| Other borrowing costs | **5** | 3 |
| Total interest expenses on financial liabilities carried at amortised cost | **47** | 71 |
| Derivative financial instruments: | | |
| – cash flow hedges, transfer from equity | **53** | 27 |
| – at fair value through profit or loss* | **1** | 5 |
| Others | **–** | 5 |
| | **101** | 108 |

* *Mainly represents the change in fair value of interest rate swaps at fair value through profit or loss and the actual net inflow/outflow of interest relating thereto.*

### (b) Other items

| | 2009 | 2008 |
|---|---|---|
| Amortisation of hotel management contract | **3** | 3 |
| Depreciation | **335** | 371 |
| Auditor's remuneration: | | |
| audit services | **9** | 9 |
| tax and other services | **2** | 4 |
| Foreign exchange (gains)/losses | **(1)** | 8 |
| Operating lease charges for properties, including contingent rent of HK$9 million (2008: HK$10 million) (note 34(b)) | **238** | 222 |
| Interest income | **(15)** | (40) |
| Rental receivable from investment properties less direct outgoings of HK$19 million (2008: HK$17 million) | **(991)** | (995) |

## 5. Other non-operating items (HK$m)

| | 2009 | 2008 |
|---|---|---|
| Gain on disposal of investment property | **18** | – |
| Impairment loss on interest in associates (note 16) | **(15)** | – |
| Closure costs for Quail Lodge Resort (note 14(f)) | **(24)** | – |
| | **(21)** | – |

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

### (a) Taxation in the consolidated income statement represents:

| | 2009 | 2008 |
|---|---|---|
| **Current tax – Hong Kong Profits Tax** | | |
| Provision for the year | **101** | 122 |
| Over-provision in respect of prior years | **(1)** | (4) |
| | **100** | 118 |
| **Current tax – Overseas** | | |
| Provision for the year | **36** | 67 |
| Over-provision in respect of prior years | **(16)** | – |
| | **20** | 67 |
| | **120** | 185 |
| **Deferred tax** | | |
| Increase/(decrease) in net deferred tax liabilities relating to revaluation of investment properties in: | | |
| Hong Kong* | **354** | (74) |
| Overseas | **(46)** | (40) |
| Decrease in net deferred tax liabilities relating to the provision for impairment losses | **–** | (49) |
| Effect of decrease in Hong Kong Profits Tax rate on deferred tax balances as at 1 January | **–** | (175) |
| Increase in net deferred tax liabilities relating to other temporary differences | **27** | 105 |
| Transfer from hedging reserve | **3** | 6 |
| | **338** | (227) |
| **Total** | **458** | (42) |

In June 2008, the Hong Kong Government enacted a reduction 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 was calculated at 16.5% of the estimated assessable profits for the year and a deferred tax credit of HK$175 million in respect of deferred tax balances as at 1 January 2008 was recorded in the Group's consolidated income statement for the previous year.

The provision for Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

* *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 expense/(benefit) and accounting profit at applicable tax rates:

| | **2009** | 2008 |
|---|---|---|
| Profit before taxation | **2,762** | 209 |
| Notional tax at the domestic income tax rate of 16.5% (2008: 16.5%) | **456** | 35 |
| Tax effect of non-deductible expenses | **37** | 18 |
| Tax effect of non-taxable income | **(1)** | (5) |
| Tax effect of share of profit/loss of a jointly controlled entity | **(72)** | 1 |
| Tax effect of utilisation of previously unrecognised tax losses | **(44)** | (2) |
| Tax effect of tax losses not recognised | **160** | 51 |
| Effect of change in tax rate on deferred tax balances as at 1 January | **–** | (175) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(59)** | 41 |
| Over-provision in respect of prior years | **(17)** | (4) |
| Others | **(2)** | (2) |
| Actual tax expense/(benefit) | **458** | (42) |

## 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 individual employment contracts.

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

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 (2008: HK$200,000 per annum). Non-Executive Directors who are also members of the Executive Committee or the Audit Committee are further entitled to a fixed fee of HK$100,000 per annum (2008: HK$100,000 per annum) for each committee representation. 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 (2008: HK$50,000 per annum).

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

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 2009 [Δ] (HK$000) | Total 2008 [Δ] (HK$000) |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| *Executive Directors** | | | | | | |
| Mr. Clement K.M. Kwok | – | **4,705** | **4,224** | **758** | **9,687** | 11,270 |
| Mr. Neil J. Galloway** | – | **4,033** | **2,496** | **627** | **7,156** | 2,235 |
| Mr. Peter C. Borer | – | **3,458** | **2,033** | **532** | **6,023** | 6,180 |
| Mr. C. Mark Broadley*** | – | – | – | – | – | 1,156 |
| *Non-Executive Directors* | | | | | | |
| The Hon. Sir Michael Kadoorie | **300** | – | – | – | **300** | 265 |
| Mr. Ian D. Boyce | **450** | – | – | – | **450** | 397 |
| Mr. Ronald J. McAulay | **200** | – | – | – | **200** | 165 |
| Mr. William E. Mocatta | **200** | – | – | – | **200** | 165 |
| Mr. John A.H. Leigh | **300** | – | – | – | **300** | 265 |
| Mr. Nicholas T.J. Colfer | **200** | – | – | – | **200** | 165 |
| *Independent Non-Executive Directors* | | | | | | |
| Dr. The Hon. Sir David K.P. Li | **200** | – | – | – | **200** | 165 |
| Mr. Robert C.S. Ng | **300** | – | – | – | **300** | 265 |
| Mr. Robert W. Miller | **250** | – | – | – | **250** | 197 |
| Mr. Patrick B. Paul | **350** | – | – | – | **350** | 297 |
| Mr. Pierre R. Boppe**** | **200** | – | – | – | **200** | 165 |
| *Senior management (other members of Group Management Committee*)* | | | | | | |
| Mr. Martyn P.A. Sawyer | – | **3,009** | **408** | **292** | **3,709** | 3,560 |
| Mrs. Maria Razumich-Zec | – | **3,236** | **175** | **156** | **3,567** | 3,678 |
| | **2,950** | **18,441** | **9,336** | **2,365** | **33,092** | 30,590 |

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 the 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.*

**** *Mr. Pierre R. Boppe was re-designated from a Non-Executive Director to an Independent Non-Executive Director in June 2009.*

## 8. Individuals with highest emoluments (HK$m)

Details of the five (2008: four) individuals with the highest emoluments in 2009 are disclosed in note 7.

In 2008, of the five individuals with the highest emoluments, four were directors and senior management whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining individual is as follows:

| | 2009 | 2008 |
|---|---|---|
| Basic compensation | – | 3,274 |
| Bonuses and incentives | – | 255 |
| Retirement benefits | – | 251 |
| | – | 3,780 |

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

The consolidated profit attributable to shareholders of the Company includes a profit of HK$166 million (2008: HK$153 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:

| | 2009 | 2008 |
|---|---|---|
| Amount of consolidated profit attributable to shareholders dealt with in the Financial Statements of the Company | **166** | 153 |
| Provision for impairment losses for interests in subsidiaries | – | (408) |
| Gain on disposal of interest in a subsidiary | – | 15 |
| Company's profit/(loss) for the year (note 28(a)) | **166** | (240) |

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 were primarily determined by independent professional valuers. As a result, a provision for impairment loss of HK$408 million was made.

## 10. Other comprehensive income (HK$m)

### Tax effects relating to each component of other comprehensive income

| | 2009 Before-tax amount | 2009 Tax (expense)/benefit | 2009 Net-of-tax amount | 2008 Before-tax amount | 2008 Tax (expense)/benefit | 2008 Net-of-tax amount |
|---|---|---|---|---|---|---|
| Exchange differences on translation of: | | | | | | |
| – financial statements of overseas subsidiaries | **88** | **–** | **88** | (25) | – | (25) |
| – financial statements of a jointly controlled entity | **(9)** | **–** | **(9)** | 35 | – | 35 |
| – loan to an associate | **38** | **–** | **38** | – | – | – |
| | **117** | **–** | **117** | 10 | – | 10 |
| Cash flow hedges: | | | | | | |
| – effective portion of changes in fair values | **(22)** | **1** | **(21)** | (109) | 16 | (93) |
| – transfer from equity to profit or loss | **53** | **(7)** | **46** | 8 | (3) | 5 |
| **Other comprehensive income** | **148** | **(6)** | **142** | (91) | 13 | (78) |

## 11. Earnings per share

### (a) Earnings per share – basic

| | **2009** | 2008 |
|---|---|---|
| Profit attributable to shareholders of the Company (HK$m) | **2,298** | 216 |
| Weighted average number of shares in issue (million shares) | **1,460** | 1,447 |
| Earnings per share (HK$) | **1.57** | 0.15 |

| | ***2009 (million shares)*** | *2008 (million shares)* |
|---|---|---|
| *Issued shares at 1 January* | ***1,450*** | *1,442* |
| *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 2008 final and 2009 interim dividends* | ***10*** | *6* |
| *Weighted average number of shares at 31 December* | ***1,460*** | *1,447* |

### (b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2009 and 2008 and hence the diluted earnings per share is the same as the basic earnings per share.

## 12. Dividends (HK$m)

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

| | 2009 | 2008 |
|---|---|---|
| Interim dividend declared and paid of 3 HK cents per share (2008: 6.5 HK cents per share) | **44** | 94 |
| Final dividend proposed after the end of reporting period of 6 HK cents per share (2008: 10.5 HK cents per share) | **88** | 152 |
| | **132** | 246 |

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

### (b) Dividends payable to shareholders of the Company attributable to the previous financial year, approved and paid during the year

| | 2009 | 2008 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of 10.5 HK cents per share (2008: 12 HK cents per share) | **152** | 173 |

## 13. Segment reporting (HK$m)

The Group manages its businesses by segments which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

| | |
|---|---|
| Hotels | This segment includes revenue generated from operating hotels, leasing of commercial shopping arcades and office premises located within the hotel buildings and the operation of golf courses attached to hotels. |
| Commercial Properties | This segment is engaged in the leasing of commercial and office premises (other than those in hotel properties) and residential apartments and operating food and beverage outlets in such premises. |
| Clubs and Services | This segment is engaged in the operation of golf courses (other than those attached to hotel properties), Peak Tramways, wholesaling and retailing of food and beverage products, laundry services and the provision of management and consultancy services for clubs. |

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

### (a) Segment results and assets (HK$m)

Segment information disclosed in the Financial Statements has been prepared in a manner consistent with the information used by the Group's senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses directly incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other expenses including head office expenses not directly attributable to the reportable segments are allocated to the segments by reference to the respective segments' earnings before interest, taxes, depreciation and amortisation (EBITDA). Interest income and expenses, results of associates and jointly controlled entities, taxes and any non-operating items are not allocated to the various segments.

The measure used for reporting segment results is EBITDA. In addition to receiving information concerning EBITDA, management is provided with segment information concerning depreciation and amortisation.

Segment assets include all tangible and intangible assets and current assets held directly by the respective segments with the exception of interests in associates and jointly controlled entities, derivative financial instruments, deferred tax assets and cash at banks and in hand. Corporate level assets are allocated to the segments by reference to the respective total segments' assets.

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

### (a) Segment results and assets (HK$m) *continued*

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2009 and 2008 is set out as follows:

| | Hotels | | Commercial properties | | Clubs and services | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | Year end 31 December | | | | | | | |
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| **Reportable segment revenue*** | **3,244** | 3,905 | **637** | 677 | **337** | 356 | **4,218** | 4,938 |
| **Reportable segment earnings before interest, tax, depreciation and amortisation (EBITDA)** | **410** | 863 | **418** | 460 | **96** | 102 | **924** | 1,425 |
| Depreciation and amortisation | **(309)** | (349) | **(2)** | (1) | **(27)** | (24) | **(338)** | (374) |
| **Segment operating profit** | **101** | 514 | **416** | 459 | **69** | 78 | **586** | 1,051 |
| **Reportable segments assets** | **14,567** | 13,486 | **14,338** | 12,793 | **653** | 673 | **29,558** | 26,952 |

* *Analysis of segment revenue*

| | *2009* | *2008* |
|---|---|---|
| Hotels | | |
| – *Rooms* | ***1,355*** | *1,856* |
| – *Food and beverage* | ***1,012*** | *1,166* |
| – *Commercial* | ***556*** | *545* |
| – *Others* | ***321*** | *338* |
| | ***3,244*** | *3,905* |
| Commercial Properties | | |
| Rental revenue from: | | |
| – *Residential properties* | ***398*** | *425* |
| – *Office* | ***70*** | *59* |
| – *Shopping arcade* | ***169*** | *193* |
| | ***637*** | *677* |
| Clubs and Services | | |
| – *Operation of lounges* | ***94*** | *96* |
| – *Tramway operation* | ***79*** | *81* |
| – *Others* | ***164*** | *179* |
| | ***337*** | *356* |
| | ***4,218*** | *4,938* |

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

### (b) Reconciliations of reportable segment profit or loss and assets (HK$m)

**Profit**

Reconciliation of segment operating profit to the profit before taxation in the consolidated income statement is not presented as the segment operating profit is the same as the operating profit presented in the consolidated income statement.

**Assets**

| | 2009 | 2008 |
|---|---|---|
| Reportable segments assets | **29,558** | 26,952 |
| Interest in associates | **498** | – |
| Interest in a jointly controlled entity | **815** | 539 |
| Derivative financial instruments | **45** | 63 |
| Deferred tax assets | **64** | 38 |
| Cash at banks and in hand | **1,835** | 1,995 |
| **Consolidated total assets** | **32,815** | 29,587 |

### (c) Geographical information (HK$m)

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's total non-current assets (excluding derivative financial instruments and deferred tax assets). The geographical location of revenue is analysed based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets (excluding derivative financial instruments and deferred tax assets) is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated in respect of intangible assets, and the location of operations, in the case of interests in associates, jointly controlled entities and unlisted equity instruments and investment in hotel management contracts.

| | Revenue from external customers | | Specified non-current assets* | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Hong Kong (place of domicile) | **1,870** | 2,056 | **21,888** | 19,696 |
| Mainland China | **295** | 485 | **2,119** | 1,942 |
| United States of America | **919** | 1,142 | **2,345** | 2,359 |
| Japan | **661** | 677 | **1,158** | 1,280 |
| Thailand | **234** | 327 | **1,359** | 1,356 |
| The Philippines | **190** | 210 | **284** | 277 |
| Vietnam | **49** | 41 | **89** | 89 |
| France | **–** | – | **1,140** | – |
| | **2,348** | 2,882 | **8,494** | 7,303 |
| | **4,218** | 4,938 | **30,382** | 26,999 |

* *Excluding derivative financial instruments and deferred tax assets.*

## 14. 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 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 |
| At 1 January 2009 | **948** | **6,724** | **3,778** | **11,450** | **20,577** | **1** | **32,028** |
| Exchange adjustments | **26** | **59** | **7** | **92** | **9** | **–** | **101** |
| Additions | **–** | **60** | **123** | **183** | **98** | **–** | **281** |
| Disposals | **–** | **(3)** | **(74)** | **(77)** | **–** | **–** | **(77)** |
| Transfer | **(52)** | **(148)** | **(107)** | **(307)** | **108** | **–** | **(199)** |
| Fair value adjustment | **–** | **–** | **–** | **–** | **1,998** | **–** | **1,998** |
| **At 31 December 2009** | **922** | **6,692** | **3,727** | **11,341** | **22,790** | **1** | **34,132** |
| **Representing:** | | | | | | | |
| Cost | **922** | **6,692** | **3,727** | **11,341** | **–** | **1** | **11,342** |
| Valuation – 2009 | **–** | **–** | **–** | **–** | **22,790** | **–** | **22,790** |
| | **922** | **6,692** | **3,727** | **11,341** | **22,790** | **1** | **34,132** |
| **Accumulated depreciation and impairment losses:** | | | | | | | |
| 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 |
| At 1 January 2009 | **390** | **2,855** | **2,414** | **5,659** | **–** | **1** | **5,660** |
| Exchange adjustments | **13** | **43** | **15** | **71** | **–** | **–** | **71** |
| Charge for the year | **–** | **140** | **195** | **335** | **–** | **–** | **335** |
| Transfer | **(31)** | **(94)** | **(74)** | **(199)** | **–** | **–** | **(199)** |
| Written back on disposals | **–** | **(2)** | **(72)** | **(74)** | **–** | **–** | **(74)** |
| **At 31 December 2009** | **372** | **2,942** | **2,478** | **5,792** | **–** | **1** | **5,793** |
| **Net book value:** | | | | | | | |
| **At 31 December 2009** | **550** | **3,750** | **1,249** | **5,549** | **22,790** | **–** | **28,339** |
| At 31 December 2008 | 558 | 3,869 | 1,364 | 5,791 | 20,577 | – | 26,368 |

## 14. 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 end of the reporting period date in accordance with the accounting policy as disclosed in note 1(m).

As at 31 December 2008, the Directors considered that impairment provisions were required in respect of The Peninsula Chicago and Quail Lodge Resort and Golf Course, due to the adverse operating environment and the condition of the property market. On this basis, the carrying amounts of these two properties were written down by HK$126 million and HK$53 million respectively to their respective recoverable amounts, being their fair values less costs to sell as determined by an independent professional valuer. The values were determined using discounted cash flows by applying discount rates of 10%–11% and a growth rate of 3% over 10-year cash flow projections.

The directors also considered that, due to the improvement in the industrial property market in Hong Kong during the year ended 31 December 2008, the impairment provision previously made against the Tai Pan factory should be fully reversed by HK$3 million to its original cost less accumulated depreciation. The reversal of the impairment provision was determined based on the recoverable amount of the property, being its fair value less costs to sell as determined by an independent professional valuer by making reference to the observable market prices for similar assets.

**(b)** All investment properties of the Group were revalued as at 31 December 2009 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 recent 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 | Members of The Royal Institution of Chartered Surveyors |
| | Savills Valuation and Professional Services Limited | Members of the Hong Kong Institute of Surveyors |
| | Jones Lang LaSalle Hotels | Members of Singapore Institute of Surveyors and Valuers |
| **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.*

## 14. Fixed assets (HK$m) *continued*

### (c) The analysis of net book value of properties is as follows:

| | | 2009 | 2008 |
|---|---|---|---|
| In Hong Kong | – Long term leases | **20,607** | 18,470 |
| | – Medium term leases | **1,013** | 929 |
| Thailand | – Freehold | **1,249** | 1,246 |
| Vietnam | – Medium term leases | **89** | 89 |
| Other Asia | – Medium term leases | **2,133** | 2,262 |
| USA | – Long term leases | **899** | 868 |
| | – Freehold | **1,100** | 1,140 |
| | | **27,090** | 25,004 |
| *Representing:* | | | |
| Land and buildings carried at fair value | | **22,790** | 20,577 |
| Land and buildings carried at cost | | **4,300** | 4,427 |
| | | **27,090** | 25,004 |
| Interests in leasehold land held for own use under operating leases | | **–** | – |
| | | **27,090** | 25,004 |

### (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 in 2009 amounted to HK$15 million (2008: HK$12 million). All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties. Future minimum rentals receivable under non-cancellable operating leases of these properties are disclosed in note 32(b).

### (e) Assets under development

Included within properties, plant and equipment are assets under development amounting to HK$32 million (2008: HK$138 million), which were not subject to depreciation.

## 14. 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: | |
| Quail Lodge Resort and Golf Club, 8205 Valley Greens Drive, Carmel, California | Resort* and golf club |
| Vacant land, near Quail Lodge | Undetermined |
| Freehold: | |
| 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 |

* *Quail Lodge Resort was closed for business in November 2009.*

## 14. Fixed assets (HK$m) *continued*

**(g)** To provide additional information for shareholders, the Directors commissioned an independent valuation of the Group's hotel properties and golf courses as at 31 December 2009. The total valuation placed on the hotel properties and golf courses, which have a net book value of HK$5,415 million (2008: HK$5,651 million), was HK$7,974 million (2008: HK$9,477 million) as at 31 December 2009. It is important to note that the surplus of HK$2,559 million (2008: HK$3,826 million) and the related deferred taxation and minority interests have not been incorporated in the consolidated Financial Statements but are provided for additional information only. The valuations were carried out by surveyor firms independent of the Group, details of which are as follows:

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

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

## 15. Investments in subsidiaries (HK$m)

| | Company | |
|---|---|---|
| | **2009** | 2008 |
| Unlisted shares, at cost | – | – |

During the year ended 31 December 2008, the Company disposed of its entire equity interest in Manila Peninsula Hotel, Inc. with a carrying value of HK$94 million to a wholly-owned subsidiary of the Company at a consideration of Peso 572 million (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.

## 15. 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 | 100% | Lending and borrowing of funds |
| Peninsula Management Holdings Limited | British Virgin Islands/ International | 1 share of US$1 | 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 |

## 15. 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 International (USA) Limited | United States of America | 1,200 shares of US$1 each | 100%* | Investment holding |
| 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 | 100%*# | Hotel investment |
| Quail Lodge, Inc. | United States of America | 10,652 shares of US$100 each | 100%* | 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 | 100% | Investment holding |
| Peninsula of Tokyo Limited | Japan | 200 shares of ¥50,000 each | 100%* | Hotel investment |
| The Palace Hotel Co., Ltd. | 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 Peso 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 Euro 1 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 purchased a 7.5% equity interest in Peninsula Chicago LLC (PCH) at a consideration of HK$91 million (US$11.7 million) and PCH now is wholly-owned. This acquisition has no impact on the turnover or profit and loss for the year as it was previously a subsidiary of the Group. The premium on the acquisition of HK$57 million has been recognised directly in equity.*

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

## 16. Interests in associates (HK$m)

| | Group As at 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Unlisted shares, at cost | **–** | – |
| Goodwill | **15** | – |
| | **15** | – |
| Less: impairment loss (note 5) | **(15)** | – |
| | **–** | – |
| Loans to an associate* | **498** | – |
| | **498** | – |

* *The loans to an associate are denominated in Euros, are unsecured, bear interest at rates related to the rates published by the French tax authorities and are carried at their estimated recoverable amounts. Euro 2 million (HK$22 million) of the loans is repayable in or before November 2014 while the remaining balance of the loans is repayable on 25 April 2017.*

**(a)** Details of the principal unlisted associates are as follows:

| Company name | Form of business structure | Place of incorporation and operation | Particulars of issued and paid up capital | Group's effective interest* | Principal activity |
|---|---|---|---|---|---|
| Al Maha Majestic S.à r.l (Al Maha) | Incorporated | Luxembourg/ France | Euro 12,500 | 20% | Investment holding |
| Majestic EURL (Majestic) | Incorporated | France | Euro 20,000,000 | 20% | Hotel investment and investment holding |

* *The Group's effective interest is held indirectly by the Company. Al Maha holds a 100% direct interest in Majestic.*

**(b)** On 20 January 2009, the Group invested a total of Euro 102 million (HK$1,044 million) into the Peninsula Paris project. Of this amount, Euro 44.3 million (HK$453 million) was attributed to the acquisition of a 20% equity interest and 20% of the related shareholder's loan in Al Maha which owns a property in Paris to be redeveloped into a Peninsula hotel, and Euro 57.7 million (HK$591 million) was attributed to the acquisition of the right to manage this hotel upon completion of redevelopment (see note 19).

Details of the goodwill that arose in respect of the Peninsula Paris project transaction are as follows:

| | |
|---|---|
| Purchase consideration | 453 |
| Fair value of net assets acquired and shareholder's loan | (438) |
| Goodwill | 15 |

**(c)** The associates' attributable revenue for the period ended 31 December 2009 amounted to HK$7 million and the attributable results for the period ended 31 December 2009 are considered to be HK$nil. The attributable assets of the associates as at 31 December 2009 are HK$521 million and the attributable liabilities as at 31 December 2009 are considered to be HK$521 million.

## 17. Interest in a jointly controlled entity (HK$m)

| | Group 2009 | 2008 |
|---|---|---|
| Unlisted shares, at cost (note 17(a)) | – | – |
| Share of exchange reserve | **81** | 90 |
| Share of retained profits/(accumulated losses) | **276** | (9) |
| Share of net assets | **357** | 81 |
| Loan to a jointly controlled entity (note 17(b)) | **458** | 458 |
| | **815** | 539 |

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

| Company name | Form of business structure | Place of incorporation | Particulars of issued and paid up capital | Group's effective interest* | Principal activity |
|---|---|---|---|---|---|
| The Peninsula Shanghai (BVI) Limited (TPS) | Incorporated | British Virgin Islands | US$1,000 | 50% | Investment holding |

* *The Group's interest in TPS is held indirectly by the Company. 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 development and operation of The Peninsula Shanghai hotel, Peninsula hotel apartments, a retail arcade and ancillary facilities. At 31 December 2009, the paid up capital of EGL and PSW amounted to HK$1 (2008: HK$1) and US$117,500,000 (2008: US$117,500,000) respectively.*

**(b)** The loan to the jointly controlled entity is denominated in US dollar, unsecured, 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 17(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.

| | 2009 | 2008 |
|---|---|---|
| Non-current assets | **3,317** | 2,034 |
| Current assets | **964** | 38 |
| Current liabilities | **(589)** | (134) |
| Non-current liabilities | **(2,977)** | (1,775) |
| **Net assets** | **715** | 163 |
| Income | **50** | – |
| Expenses | **(70)** | – |
| Pre-opening expenses | **(74)** | (9) |
| Non-operating items* | **840** | – |
| Taxation – deferred tax | **(176)** | – |
| Profit/(loss) for the year | **570** | (9) |

* *Non-operating items represent property valuation adjustments in respect of the jointly controlled entity.*

## 17. Interest in a jointly controlled entity (HK$m) *continued*

**(d)** PSW has pledged its land use right, fixed assets and properties under development to an independent financial institution as security for PSW's loan facility amounting to RMB1,600 million (2008: RMB1,600 million). The net carrying amount of these pledged assets amounted to RMB3,639 million (2008: RMB1,791 million).

## 18. Interests in unlisted equity instruments (HK$m)

Available for sale unlisted equity instruments include:

| | Ownership interest held indirectly | Place of establishment |
|---|---|---|
| The Belvedere Hotel Partnership | 20% | United States of America |
| Inncom International, Inc. (Inncom) | 17.33% | United States of America |

The Belvedere Hotel Partnership (BHP) holds a 100% interest in The Peninsula Beverly Hills (PBH). 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 (HK$1,092 million) (2008: US$140 million (HK$1,092 million)). The net carrying amount of these pledged assets amounted to US$65 million (HK$507 million) (2008: US$66 million (HK$515 million)). BHP is an unlimited partnership and the partners are jointly and severally liable for its liabilities.

In 2009, an advance of HK$7 million has been made to PBH which is unsecured, bears interest with reference to its bank borrowing rates and has no fixed date of repayment. The amount is included in trade and other receivables.

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.

## 19. Investment in hotel management contracts (HK$m)

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| At 1 January | **92** | 95 |
| Exchange adjustment | **50** | – |
| Addition during the year | **591** | – |
| Amortisation for the year | **(3)** | (3) |
| At 31 December | **730** | 92 |

## 19. Investment in hotel management contracts (HK$m) *continued*

Investment in hotel management contracts represents:

(a) The cost of investment in The Belvedere Hotel Partnership attributable to securing the Group's long term management contract in respect of The Peninsula Beverly Hills hotel for a period of 45 years.

(b) As discussed in note 16, during 2009, Euro 57.7 million (HK$591 million) of the Group's investment in The Peninsula Paris project was attributed to the acquisition of the long term hotel management contract in respect of this hotel. The management contract will be amortised from the date of commencement of hotel operations.

## 20. Derivative financial instruments (HK$m)

### (a) Group

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | Assets | Liabilities |
| Cash flow hedges: | | | | |
| Interest rate swaps | **–** | **(128)** | – | (161) |
| Cross currency interest rate swaps | **–** | **(1)** | – | – |
| | **–** | **(129)** | – | (161) |
| At fair value through profit or loss: | | | | |
| Interest rate swaps | **44** | **(77)** | 59 | (109) |
| Foreign exchange swap | **1** | **–** | – | – |
| Cross currency swaps | **–** | **–** | 4 | (11) |
| Total | **45** | **(206)** | 63 | (281) |
| Less: Portion to be recovered/(settled) within one year | | | | |
| Cash flow hedges: | | | | |
| Interest rate swaps | **–** | **(54)** | – | (42) |
| Cross currency interest rate swaps | **–** | **(1)** | – | – |
| | **–** | **(55)** | – | (42) |
| At fair value through profit or loss: | | | | |
| Interest rate swaps | **26** | **(40)** | 21 | (40) |
| Foreign exchange swap | **1** | **–** | – | – |
| Cross currency swaps | **–** | **–** | 4 | (11) |
| | **27** | **(95)** | 25 | (93) |
| Portion to be recovered/(settled) after one year | **18** | **(111)** | 38 | (188) |

## 20. Derivative financial instruments (HK$m) *continued*

### (b) Company

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | Assets | Liabilities |
| Cash flow hedges: | | | | |
| Interest rate swaps | **45** | **–** | 59 | – |
| At fair value through profit or loss: | | | | |
| Interest rate swaps | **169** | **(169)** | 234 | (234) |
| Foreign exchange swap | **1** | **–** | – | – |
| Cross currency swaps | **–** | **–** | 11 | (11) |
| Total | **215** | **(169)** | 304 | (245) |
| Less: Portion to be recovered/(settled) within one year | | | | |
| Cash flow hedges: | | | | |
| Interest rate swaps | **26** | **–** | 21 | – |
| At fair value through profit or loss: | | | | |
| Interest rate swaps | **86** | **(86)** | 76 | (76) |
| Foreign exchange swap | **1** | **–** | – | – |
| Cross currency swap | **–** | **–** | 11 | (11) |
| | **113** | **(86)** | 108 | (87) |
| Portion to be recovered/(settled) after one year | **102** | **(83)** | 196 | (158) |

## 21. Income tax in the statement of financial position (HK$m)

### (a) Current taxation in the statement of financial position represents:

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Provision for Hong Kong Profits Tax for the year | **101** | 122 | **10** | 13 |
| Provisional profits tax paid | **(75)** | (75) | **(7)** | (10) |
| | **26** | 47 | **3** | 3 |
| Balance of Hong Kong Profits Tax provision relating to prior years | **3** | 5 | **–** | – |
| Provision for overseas taxes | **38** | 38 | **–** | – |
| | **67** | 90 | **3** | 3 |

## 21. Income tax in the statement of financial position (HK$m) *continued*

### (b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities of the Group recognised in the consolidated statement of financial position 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 2008 | 3,156 | 544 | (26) | (287) | (23) | 3,364 |
| (Credited)/charged to profit or loss | (284) | (34) | 8 | 77 | 6 | (227) |
| Charged/(credited) to reserves | 9 | 5 | – | (9) | (12) | (7) |
| At 31 December 2008 | 2,881 | 515 | (18) | (219) | (29) | 3,130 |
| **At 1 January 2009** | **2,881** | **515** | **(18)** | **(219)** | **(29)** | **3,130** |
| Charged/(credited) to profit or loss | **308** | **61** | **(1)** | **(33)** | **3** | **338** |
| Charged/(credited) to reserves | **2** | **3** | **(1)** | **2** | **5** | **11** |
| **At 31 December 2009** | **3,191** | **579** | **(20)** | **(250)** | **(21)** | **3,479** |

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the statement of financial position.

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| Net deferred tax assets | **(64)** | (38) |
| Net deferred tax liabilities* | **3,543** | 3,168 |
| | **3,479** | 3,130 |

| | Company | |
|---|---|---|
| | **2009** | 2008 |
| Deferred tax liability arising from cash flow hedges | **7** | 10 |

* *The balance as at 31 December 2009 includes deferred tax liabilities in respect of revaluation of the Group's investment properties in Hong Kong amounting to HK$3,077 million (2008: HK$2,723 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.*

## 21. Income tax in the statement of financial position (HK$m) *continued*

### (c) Deferred tax assets not recognised

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| Book depreciation in excess of the related depreciation allowances | **20** | 22 |
| Future benefit of tax losses | **381** | 272 |
| Provisions and others | **–** | 7 |
| | **401** | 301 |

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax assets in respect of certain accumulated tax losses of HK$1,017 million (2008: HK$789 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 | |
|---|---|---|
| | **2009** | 2008 |
| Within 1 year | **55** | 37 |
| After 1 year but within 5 years | **186** | 67 |
| After 5 years but within 20 years | **776** | 670 |
| Without expiry date | **–** | 15 |
| | **1,017** | 789 |

### (d) Deferred tax liabilities not recognised

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax liabilities totalling HK$41 million (2008: HK$121 million) in respect of undistributed profits of certain subsidiaries amounting to HK$412 million (2008: HK$688 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.

## 22. Inventories (HK$m)

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| Food and beverage and others | **98** | 114 |

The cost of inventories recognised as expenses in the consolidated income statement amounted to HK$334 million (2008: HK$390 million).

## 23. Trade and other receivables (HK$m)

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Loans and other receivables due from subsidiaries | **–** | – | **13,559** | 13,398 |
| Provision for impairment | **–** | – | **(1,786)** | (1,786) |
| | **–** | – | **11,773** | 11,612 |
| Trade debtors (ageing analysis is shown below) | **175** | 198 | **–** | – |
| Loans and receivables | **175** | 198 | **11,773** | 11,612 |
| Rental deposits and payments in advance | **216** | 180 | **13** | 14 |
| | **391** | 378 | **11,786** | 11,626 |

Loans and other receivables due from subsidiaries are unsecured, interest free and have no fixed terms of repayment except for an amount of HK$2,982 million (2008: HK$2,857 million) which bears interest at market rates.

The Directors consider that the carrying amount of all trade and other receivables approximates their fair value. The amount of the Group's and the Company's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK$73 million (2008: HK$88 million) and HK$9,785 million (2008: HK$10,161 million) respectively. All of the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

The ageing analysis of trade debtors is as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| Current | **145** | 159 |
| Less than 1 month past due | **19** | 25 |
| 1 to 3 months past due | **9** | 13 |
| More than 3 months but less than 12 months past due | **2** | 1 |
| Amounts past due | **30** | 39 |
| | **175** | 198 |

Trade debtors are normally due within 30 days from the date of billing. The Group's credit policy is set out in note 31(d).

No impairment is considered necessary for any of the trade debtors as they relate to a wide range of independent customers with no recent history of default and are considered to be fully recoverable.

## 24. Cash at banks and in hand (HK$m)

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| Interest-bearing bank deposits | **1,771** | 1,972 |
| Cash at banks and in hand | **64** | 23 |
| Total cash at banks and in hand | **1,835** | 1,995 |
| Less: Bank deposits with maturity of more than three months | **(437)** | – |
| Bank overdrafts (note 26) | **(18)** | (16) |
| Cash and cash equivalents in the consolidated statement of cash flows | **1,380** | 1,979 |

Cash at banks and in hand at the end of the year include deposits with banks of HK$706 million (2008: HK$577 million) held by subsidiaries which are subject to prevailing regulatory and foreign exchange restrictions.

## 25. Trade and other payables (HK$m)

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Trade creditors (ageing analysis is shown below) | **119** | 109 | **–** | – |
| Interest payable | **5** | 4 | **–** | – |
| Accruals for fixed assets | **32** | 20 | **–** | – |
| Tenants' deposits | **295** | 296 | **–** | – |
| Golf membership deposits | **109** | 109 | **–** | – |
| Other payables | **643** | 650 | **21** | 13 |
| Other payables to subsidiaries | **–** | – | **18** | 5 |
| Financial liabilities measured at amortised cost | **1,203** | 1,188 | **39** | 18 |

The amount of trade and other payables of the Group expected to be settled or recognised as income after more than one year is HK$340 million (2008: HK$334 million). All of the other trade and other payables 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 | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Less than 3 months | **117** | 109 | **–** | – |
| 3 to 6 months | **2** | – | **–** | – |
| | **119** | 109 | **–** | – |

## 26. Interest bearing borrowings (HK$m)

| | Group 2009 | Group 2008 |
|---|---|---|
| Total facilities available: | | |
| Term loans and revolving credits | **5,005** | 4,225 |
| Uncommitted facilities, including bank overdrafts | **278** | 355 |
| | **5,283** | 4,580 |
| Utilised at 31 December: | | |
| Term loans and revolving credits | **3,830** | 3,177 |
| Uncommitted facilities, including bank overdrafts | **18** | 16 |
| | **3,848** | 3,193 |
| Less: Unamortised financing charges | **(23)** | – |
| | **3,825** | 3,193 |
| *Represented by:* | | |
| Short term bank loans, repayable within one year or on demand | **751** | 679 |
| Bank overdrafts, repayable on demand (note 24) | **18** | 16 |
| | **769** | 695 |
| Long term bank loans, repayable: | | |
| Between one and two years | **734** | 640 |
| Between two and five years | **2,345** | 1,858 |
| | **3,079** | 2,498 |
| Less: Unamortised financing charges | **(23)** | – |
| Non-current portion of long term bank loans | **3,056** | 2,498 |
| **Total interest-bearing borrowings** | **3,825** | 3,193 |

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 statement of financial position 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 31(c). As at 31 December 2009 and 2008, none of the covenants relating to drawn down facilities had been breached.

## 27. Share capital

| | 2009 | 2008 |
|---|---|---|
| **Number of shares of HK$0.50 each** (million) | | |
| Authorised | **1,800** | 1,800 |
| Issued | | |
| At 1 January | **1,450** | 1,442 |
| Repurchase of shares (note (a)) | **–** | (8) |
| New shares issued under scrip dividend scheme (note (b)) | **20** | 16 |
| At 31 December | **1,470** | 1,450 |
| **Nominal value of shares** (HK$m) | | |
| Authorised | **900** | 900 |
| Issued | | |
| At 1 January | **725** | 721 |
| Repurchase of shares (note (a)) | **–** | (4) |
| New shares issued under scrip dividend scheme (note (b)) | **10** | 8 |
| At 31 December | **735** | 725 |

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) In 2008, 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 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 was transferred from the general reserve to the capital redemption reserve.

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

| | | | Increase in | |
|---|---|---|---|---|
| | Number of shares million | Scrip price HK$ | share capital HK$m | share premium HK$m |
| **2009** | | | | |
| 2008 final scrip dividend | **17** | **6.888** | **8** | **106** |
| 2009 interim scrip dividend | **3** | **10.344** | **2** | **34** |
| | **20** | | **10** | **140** |
| 2008 | | | | |
| 2007 final scrip dividend | 10 | 13.704 | 5 | 126 |
| 2008 interim scrip dividend | 6 | 7.394 | 3 | 44 |
| | 16 | | 8 | 170 |

## 28. Reserves (HK$m)

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

### (a) Company

| | Share premium | Capital redemption reserve | Capital reserve | Hedging reserve | General reserve | Retained profits | Total |
|---|---|---|---|---|---|---|---|
| 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) |
| Total comprehensive income for the year | – | – | – | 45 | – | (240) | (195) |
| Dividends approved 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 |
| **At 1 January 2009** | **3,120** | **13** | **4,975** | **49** | **930** | **1,869** | **10,956** |
| Dividends approved in respect of the previous year | | | | | | | |
| – by means of cash | **–** | **–** | **–** | **–** | **–** | **(38)** | **(38)** |
| – by means of scrip | **106** | **–** | **–** | **–** | **–** | **(114)** | **(8)** |
| Transfer (note 28(b)) | **–** | **–** | **–** | **–** | **(930)** | **930** | **–** |
| Total comprehensive income for the year | **–** | **–** | **–** | **(12)** | **–** | **166** | **154** |
| Dividends approved in respect of the current year | | | | | | | |
| – by means of cash | **–** | **–** | **–** | **–** | **–** | **(8)** | **(8)** |
| – by means of scrip | **34** | **–** | **–** | **–** | **–** | **(36)** | **(2)** |
| **At 31 December 2009** | **3,260** | **13** | **4,975** | **37** | **–** | **2,769** | **11,054** |

## 28. Reserves (HK$m) *continued*

### (b) Nature and purpose of reserves *continued*

**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(h).

**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(h) and 1(w).

**General reserve**

The general reserve, which represented retained profits previously set aside for general purposes, was transferred to retained profits during the current year.

### (c) Distributability of reserves

At 31 December 2009, 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$2,769 million (2008: HK$2,799 million). After the end of the reporting period the Directors proposed a final dividend of 6 HK cents per share (2008: 10.5 HK cents per share), amounting to HK$88 million (2008: HK$152 million). This dividend has not been recognised as a liability at the end of the reporting period.

### (d) 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.

## 28. Reserves (HK$m) *continued*

### (d) 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 at banks and in hand, 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 associates, jointly controlled entity and unlisted equity instruments), if any, are also taken into account. The calculations of gearing ratios before and after the non-consolidated entities as at 31 December 2009 and 2008 are as follows:

| (HK$m) | 2009 | 2008 |
|---|---|---|
| Interest-bearing borrowings | **3,825** | 3,193 |
| Less: Cash at banks and in hand | **(1,835)** | (1,995) |
| Net borrowings per audited statement of financial position | **1,990** | 1,198 |
| Share of net borrowings of non-consolidated entities | **1,076** | 622 |
| Net borrowings adjusted for non-consolidated entities | **3,066** | 1,820 |
| Equity attributable to shareholders of the Company per audited statement of financial position | **23,040** | 20,712 |
| Gearing ratio based on audited Financial Statements | **8%** | 5% |
| Gearing ratio adjusted for non-consolidated entities | **12%** | 8% |

During 2009, 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 guidelines are 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 2009 and 2008. Except for the above, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 29. 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 2008 | HK$1,125,000 |
| at 31 December 2008 and 1 January 2009 | HK$1,085,000 |
| at 31 December 2009 | HK$1,045,000 |
| Amount paid or liability incurred under the guarantee | HK$nil (2008: 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.

## 30. Employee retirement benefits

### (a) Defined benefit retirement obligations

The Group maintains several defined benefit retirement plans covering 640 employees (2008: 647 employees) of the Group. Such plans are administered 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 the American Academy of Actuaries using the projected unit credit method as at 31 December 2009.

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 using the projected unit credit method as at 31 December 2009. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were 60% (2008: 59%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2009.

**The amounts recognised in the Group's statement of financial position are as follows** (HK$m):

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| Present value of wholly or partly funded obligations | **42** | 36 |
| Fair value of plan assets | **(19)** | (15) |
| | **23** | 21 |

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay HK$4 million (2008: HK$4 million) in contributions to defined benefit retirement plans in 2010.

## 30. Employee retirement benefits *continued*

### (a) Defined benefit retirement obligations *continued*

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| Stocks | **14** | 11 |
| Mutual funds | **5** | 4 |
| | **19** | 15 |

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| At 1 January | **36** | 39 |
| Exchange adjustments | **1** | (4) |
| Benefits paid by the plans | **(1)** | (2) |
| Current service cost | **2** | 2 |
| Interest cost | **3** | 2 |
| Actuarial loss/(gain) | **1** | (1) |
| At 31 December | **42** | 36 |

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| At 1 January | **15** | 16 |
| Exchange adjustments | **1** | (2) |
| Group's contributions paid to the plans | **2** | 3 |
| Benefits paid by the plans | **(1)** | (1) |
| Actuarial expected return on plan assets | **1** | 1 |
| Actuarial gain/(loss) | **1** | (2) |
| At 31 December | **19** | 15 |

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| Current service cost | **2** | 2 |
| Interest cost | **3** | 2 |
| Actuarial expected return on plan assets | **(1)** | (1) |
| | **4** | 3 |

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$2 million (2008: HK$1 million).

## 30. Employee retirement benefits *continued*

### (a) Defined benefit retirement obligations *continued*

**The principal actuarial assumptions used as at 31 December 2009 are as follows:**

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| Discount rate | **from 4.75% to 9.03%** | from 4.75% to 10.88% |
| Expected rate of return on plan assets | **8.5%** | 4.8% |
| Future salary increases | **5% to 6.77%** | 5% |

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 | | | |
|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 |
| Present value of defined benefit obligations | **42** | 36 | 39 | 32 |
| Fair value of plan assets | **(19)** | (15) | (16) | (11) |
| Deficit in the plan | **23** | 21 | 23 | 21 |
| Experience adjustments arising on plan liabilities | **1** | 1 | 1 | 15 |
| Experience adjustments arising on plan assets | **1** | 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.

## 30. Employee retirement benefits *continued*

### (b) Defined contribution retirement plan

The Group has a defined contribution retirement plan covering 1,299 employees (2008: 1,325 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% (2008: 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 537 employees (2008: 468 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 2,150 employees (2008: 2,436 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$75 million (2008: HK$70 million) was charged to the income statement during the year.

## 31. 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 dollar. 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 the transactions relate. The currencies giving rise to this risk are primarily United States dollar, Japanese Yen, Thai Baht, Renminbi and Philippine Peso.

**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 2009 and 2008, 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 cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge this type of foreign exchange risk and classifies these derivative financial instruments as cash flow hedges or at fair value through profit or loss 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 at fair value through profit or loss are recognised in the hedging reserve or the income statement respectively.

The net fair value of the outstanding cross currency swaps and foreign exchange swaps used by the Group and the Company to hedge foreign currency exposures was as follows (HK$m):

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| At fair value through profit or loss (note 20(a)) | | | | |
| – Cross currency swap | **–** | (7) | **–** | – |
| – Foreign exchange swap | **1** | – | **1** | – |
| | **1** | (7) | **1** | – |

## 31. Financial risk management and fair values *continued*

### (a) Foreign exchange risk *continued*

**Recognised assets and liabilities** *continued*

In respect of trade receivables and payables 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 2009 and 2008. The Group usually sells and buys foreign currencies at spot rates to settle these debtors and creditors.

Except for foreign currency borrowings hedged by cross 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 dollar, in either Hong Kong dollar or United States dollar. 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 2009 and 2008, the Group did not hedge any net investment in foreign subsidiaries.

**Exposure to foreign exchange risk**

At 31 December 2009 and 2008, 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 exposures 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, jointly controlled entity and associates are excluded. These assets and liabilities are exposed to foreign exchange risk and are detailed as follows:

| | Group | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | | | | | 2008 | | | | |
| (million) | **United States Dollar** | **Japanese Yen** | **Thai Baht** | **Renminbi** | **Philippine Peso** | United States Dollar | Japanese Yen | Thai Baht | Renminbi | Philippine Peso |
| Trade and other receivables | **22** | **–** | **–** | **3** | **1** | 19 | – | – | – | 1 |
| Cash at banks and in hand | **5** | **–** | **–** | **–** | **15** | 24 | – | – | – | 3 |
| Trade and other payables | **(11)** | **–** | **(2)** | **(1)** | **(45)** | (8) | (2) | (2) | – | (36) |
| Derivative financial instruments | **(8)** | **–** | **–** | **–** | **–** | (11) | – | – | – | – |
| Interest-bearing borrowings | **(83)** | **–** | **–** | **–** | **–** | (70) | – | – | – | – |
| Gross exposure arising from recognised assets and liabilities | **(75)** | **–** | **(2)** | **2** | **(29)** | (46) | (2) | (2) | – | (32) |
| Notional amount of derivative financial instruments | | | | | | | | | | |
| – held as cash flow hedges | **42** | **–** | **–** | **–** | **–** | – | – | – | – | – |
| – used as economic hedges | **–** | **–** | **–** | **–** | **–** | 29 | – | – | – | – |
| Net exposure arising from recognised assets and liabilities | **(33)** | **–** | **(2)** | **2** | **(29)** | (17) | (2) | (2) | – | (32) |

| | Company | | | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| (million) | **United States Dollar** | **Philippine Peso** | United States Dollar | Philippine Peso |
| Trade and other receivables | **17** | **1** | 15 | 1 |
| Cash at banks and in hand | **1** | **15** | 4 | 3 |
| Overall net exposure | **18** | **16** | 19 | 4 |

## 31. Financial risk management and fair values *continued*

### (a) Foreign exchange risk *continued*

**Exposure to foreign exchange risk** *continued*

At 31 December 2009 and 2008, the above exposures include the following United States dollar assets and liabilities recognised in group entities whose functional currency is Hong Kong dollar:

| | Group | | Company | |
|---|---|---|---|---|
| (US$m) | **2009** | 2008 | **2009** | 2008 |
| Trade and other receivables | **21** | 18 | **17** | 15 |
| Cash at banks and in hand | **4** | 22 | **1** | 4 |
| Interest-bearing borrowings | **(83)** | (70) | **–** | – |
| Net United States dollar exposure | **(58)** | (30) | **18** | 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 following table 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 end of the reporting period 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 (except where considered to be in the nature of an investment in a Group company) where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **2009 Increase/(decrease) in** | | | 2008 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%** | **–** | **–** | 10% | – | – |
| | **(10%)** | **–** | **–** | (10%) | – | – |
| Philippine Peso | **10%** | **–** | **–** | 10% | – | – |
| | **(10%)** | **–** | **–** | (10%) | – | – |
| Thailand Baht | **10%** | **–** | **–** | 10% | – | – |
| | **(10%)** | **–** | **–** | (10%) | – | – |
| Japanese Yen | **10%** | **–** | **–** | 10% | – | – |
| | **(10%)** | **–** | **–** | (10%) | – | – |

## 31. Financial risk management and fair values *continued*

### (a) Foreign exchange risk *continued*

**Sensitivity analysis** *continued*

*The Group and the Company continued*

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | 2009 Increase/(decrease) in | | | 2008 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%** | **–** | **–** | 10% | – | – |
| | **(10%)** | **–** | **–** | (10%) | – | – |

Results of the analysis in the above table represent an aggregation of the instantaneous effects on each of the Group entities' 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 end of the reporting period, including inter-company payables and receivables within the Group (except where considered to be in the nature of an investment in a Group company) which are denominated in a currency other than the functional currencies of the lenders or the borrower. 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 2008.

### (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, cross currency 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, at the Group level, these pairs of offsetting interest rate swaps are classified as fair value through profit or loss 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 2009, these pairs of swaps had a total notional principal of HK$1,463 million (2008: HK$2,263 million) maturing over the next 4 years (2008: 5 years).

During the year, the Group had entered into cross currency interest rate swap arrangements to swap a newly drawn US$42 million loan into Hong Kong dollar at a fixed rate. The arrangement has been classified as a cash flow hedge.

## 31. Financial risk management and fair values *continued*

### (b) Interest rate risk *continued*

At 31 December 2009, the Group and the Company had interest rate swaps and cross currency interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK$1,889 million (2008: HK$1,575 million) and HK$732 million (2008: HK$1,132 million) maturing over the next 8 years (2008: 9 years) and 4 years (2008: 5 years) respectively. Changes in fair value of these 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 swaps at 31 December 2009:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Hong Kong dollar | **2.1% to 4.9%** | 4.8% to 4.9% |
| United States dollar | **4.6% to 5.8%** | 4.6% to 5.8% |
| Japanese Yen | **1.5% to 2.1%** | 1.5% to 2.1% |

The net fair value of all the interest rate swaps and cross currency interest rate swaps entered into by the Group and the Company at 31 December 2009 was as follows (HK$m):

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Cash flow hedges | **(129)** | (161) | **45** | 59 |
| At fair value through profit or loss | **(33)** | (50) | **–** | – |
| | **(162)** | (211) | **45** | 59 |

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period, after taking into account the effect of interest rate swaps and cross currency interest rate swaps designated as cash flow hedging instruments:

| | Group | | | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | **Effective interest rate** | **HK$m** | Effective interest rate | HK$m |
| **Fixed rate borrowings:** | | | | |
| Bank loans | **4.5%** | **1,889** | 3.8% | 1,575 |
| **Floating rate borrowings:** | | | | |
| Bank loans | **1.7%** | **1,936** | 1.9% | 1,618 |
| **Total interest-bearing borrowings** | | **3,825** | | 3,193 |
| **Fixed rate borrowings as a percentage of total borrowings** | | **49%** | | 49% |

## 31. Financial risk management and fair values *continued*

### (b) Interest rate risk *continued*

On the other hand, at 31 December 2009 and 2008, 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 end of the reporting period are summarised as follows:

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | | 2008 | | **2009** | | 2008 | |
| | **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 | | **–** | | – | **4.6%** | **732** | 4.2% | 1,132 |
| **Floating rate instruments:** | | | | | | | | |
| Bank deposits | **0.9%** | **1,771** | 1.6% | 1,972 | **0.9%** | **6** | 1.3% | 29 |
| Loans to subsidiaries | | **–** | | – | **0.1%** | **2,250** | 0.2% | 1,725 |
| **Total interest-bearing financial assets** | | **1,771** | | 1,972 | | **2,988** | | 2,886 |

**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 end of the reporting period. As at 31 December 2009 and 2008, 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 | | | | | |
|---|---|---|---|---|---|---|
| | **2009 Increase/(decrease) in** | | | 2008 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** | **5** | **–** | 100 | 4 | – |
| | **(100)** | **(5)** | **–** | (100) | (4) | – |
| Thailand Baht | **100** | **(2)** | **–** | 100 | (2) | – |
| | **(100)** | **2** | **–** | (100) | 2 | – |
| Japanese Yen | **50** | **(3)** | **20** | 50 | (3) | 13 |
| | **(50)** | **3** | **(21)** | (50) | 3 | (14) |
| Philippine Peso | **200** | **(1)** | **–** | 200 | (1) | – |
| | **(200)** | **1** | **–** | (200) | 1 | – |
| HK dollar | **100** | **6** | **13** | 100 | 11 | 14 |
| | **(100)** | **(6)** | **(13)** | (100) | (11) | (14) |
| US dollar | **100** | **(1)** | **24** | 100 | 2 | 19 |
| | **(100)** | **1** | **(24)** | (100) | (2) | (19) |

## 31. Financial risk management and fair values *continued*

### (b) Interest rate risk *continued*

**Sensitivity analysis** *continued*

*The Group and the Company continued*

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | **2009 Increase/(decrease) in** | | | 2008 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** | **18** | **(9)** | 100 | 14 | (10) |
| | **(100)** | **(18)** | **9** | (100) | (14) | 11 |
| US dollar | **100** | **1** | **(6)** | 100 | – | (8) |
| | **(100)** | **(1)** | **6** | (100) | – | 9 |

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 end of the reporting period 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 end of the reporting period. 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 end of the reporting period, 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 2008.

### (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 compliance with loan covenants 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 2009, total available borrowing facilities amounted to HK$5,283 million (2008: HK$4,580 million) of which HK$3,848 million (2008: HK$3,193 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$1,175 million (2008: HK$1,048 million).

## 31. Financial risk management and fair values *continued*

### (c) Liquidity risk *continued*

The following table details the remaining contractual maturities at the end of the reporting period 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 end of the reporting period) and the earliest date the Group and the Company can be required to pay:

Group

| | 2009 | | | | | | 2008 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Contractual undiscounted cash outflow/(inflow) | | | | | | Contractual undiscounted cash outflow/(inflow) | | | | |
| (HK$m) | Statement of financial position carrying amount | Total | 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 | Statement of financial position carrying amount | Total | 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 | 119 | 119 | 119 | – | – | – | 109 | 109 | 109 | – | – | – |
| Interest payable | 5 | 5 | 5 | – | – | – | 4 | 4 | 4 | – | – | – |
| Accruals for fixed assets | 32 | 32 | 32 | – | – | – | 20 | 20 | 20 | – | – | – |
| Tenants' deposits | 295 | 295 | 295 | – | – | – | 296 | 296 | 296 | – | – | – |
| Golf membership deposits | 109 | 109 | – | – | – | 109 | 109 | 109 | – | – | – | 109 |
| Other payables | 643 | 643 | 643 | – | – | – | 650 | 650 | 650 | – | – | – |
| Interest-bearing borrowings | 3,825 | 3,973 | 813 | 774 | 2,386 | – | 3,193 | 3,298 | 738 | 674 | 1,886 | – |
| Interest rate swaps^ (net settled) | 205 | 334 | 104 | 86 | 116 | 28 | 270 | 362 | 93 | 84 | 158 | 27 |
| | 5,233 | 5,510 | 2,011 | 860 | 2,502 | 137 | 4,651 | 4,848 | 1,910 | 758 | 2,044 | 136 |
| Derivatives settled gross: | | | | | | | | | | | | |
| Cross currency interest rate swaps held as cash flow hedging instruments: | 1 | | | | | | – | | | | | |
| – outflow | | 368 | 12 | 12 | 344 | – | | – | – | – | – | – |
| – inflow | | (349) | (6) | (6) | (337) | – | | – | – | – | – | – |
| Other currency swaps: | – | | | | | | 11 | | | | | |
| – outflow | | – | – | – | – | – | | 240 | 240 | – | – | – |
| – inflow | | – | – | – | – | – | | (229) | (229) | – | – | – |
| | 1 | 19 | 6 | 6 | 7 | – | 11 | 11 | 11 | – | – | – |
| | 5,234 | 5,529 | 2,017 | 866 | 2,509 | 137 | 4,662 | 4,859 | 1,921 | 758 | 2,044 | 136 |
| Financial guarantee issued – maximum amount guaranteed (note 33) | – | 1 | 1 | – | – | – | – | 1 | 1 | – | – | – |

^ *The Group previously entered into new interest rate swaps to offset the financial effect of some interest rate swaps which were rendered ineffective subsequent to the repayment of bank borrowings after the disposal of The Kowloon Hotel in 2005 (note 31(b)). These new interest rate swaps have carrying value of HK$44 million (2008: HK$59 million) and have been classified as derivative financial assets.*

## 31. Financial risk management and fair values *continued*

### (c) Liquidity risk *continued*

| | Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | | | | | | 2008 | | | | | |
| | | **Contractual undiscounted cash outflow/(inflow)** | | | | | | Contractual undiscounted cash outflow/(inflow) | | | | |
| (HK$m) | **Statement of financial position carrying amount** | **Total** | **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** | Statement of financial position carrying amount | Total | 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 | **21** | **21** | **21** | **–** | **–** | **–** | 13 | 13 | 13 | – | – | – |
| Other payables to subsidiaries | **18** | **18** | **18** | **–** | **–** | **–** | 5 | 5 | 5 | – | – | – |
| Interest rate swaps (net settled) | | | | | | | | | | | | |
| – cash flow hedge | **–** | **–** | **–** | **–** | **–** | **–** | – | – | – | – | – | – |
| – at fair value through profit or loss* | **169** | **258** | **94** | **77** | **87** | **–** | 234 | 299 | 86 | 77 | 136 | – |
| | **208** | **297** | **133** | **77** | **87** | **–** | 252 | 317 | 104 | 77 | 136 | – |
| Other currency swap*: | **–** | | | | | | 11 | | | | | |
| – outflow | | **–** | **–** | **–** | **–** | **–** | | 240 | 240 | – | – | – |
| – inflow | | **–** | **–** | **–** | **–** | **–** | | (229) | (229) | – | – | – |
| | **–** | **–** | **–** | **–** | **–** | **–** | 11 | 11 | 11 | – | – | – |
| | **208** | **297** | **133** | **77** | **87** | **–** | 263 | 328 | 115 | 77 | 136 | – |
| Financial guarantee issued: | | | | | | | – | | | | | |
| – maximum amount guaranteed (note 33) | **–** | **3,831** | **3,831** | **–** | **–** | **–** | – | 3,099 | 3,099 | – | – | – |

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

The Company has also issued guarantees in respect of other banking facilities for its subsidiaries. At 31 December 2009, the maximum amount guaranteed totalled HK$36 million (2008: HK$37 million) (note 33).

## 31. Financial risk management and fair values *continued*

### (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.

To minimise credit exposure for bank deposits and derivative financial instruments, the Group transacts with financial institutions with good credit ratings and diversifies its exposure to various financial institutions in accordance with the group guidelines. All bank deposits are subject to a single counterparty exposure limit and a composite counterparty exposure limit. The credit ratings of the financial institutions are closely monitored throughout the lives of the transactions.

At 31 December 2009, cash at banks amounted to HK$1,860 million (2008: HK$2,002 million), of which over 90% (2008: 90%) was placed with financial institutions with credit ratings of no less than BBB (issued by Standard & Poor's Rating Services (S&P)) or Baa2 (issued by Moody's Investors Services, Inc.(Moody's)) and there was no significant concentration risk to any single counterparty.

For derivative financial instruments, the credit ratings of the financial institutions were no less than A+ (S&P) 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 2009 is summarised in note 23.

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 statement of financial position after deducting any impairment allowance. Except for the financial guarantee given by the Group as set out in note 33, the Group does not provide any other guarantee which would expose the Group or the Company to any material credit risk.

## 31. Financial risk management and fair values *continued*

### (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 (HK$m)

#### (i) Financial instruments carried at fair value

HKFRS 7, *Financial Instruments: Disclosures*, requires the disclosure of the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy as defined in HKFRS 7 with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

The fair value of all derivative financial instruments are categorised as level 2.

#### (ii) Fair values of financial instruments carried at other than fair value

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009, except that interests in unlisted equity instruments are stated at cost less impairment losses (see note 1(f) as the fair value of the equity instruments cannot be reliably measured). 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 these loans.

## 31. Financial risk management and fair values *continued*

### (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 and foreign exchange swaps are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. The fair values of interest rate swaps, cross currency swaps and cross currency interest rate swaps are the estimated amount that the Group or Company would receive or pay to terminate the swaps at the end of the reporting period, taking into account current interest rates, foreign exchange 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 end of the reporting period. Where other pricing models are used, inputs are based on market related data at the end of the reporting period.

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

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Hong Kong dollar | **0.1% – 4.2%** | 0.3% – 4.1% |
| United States dollar | **0.3% – 4.3%** | 1.0% – 3.5% |
| Thai Baht | **n/a** | 1.8% |
| Japanese Yen | **0.2% – 2.3%** | 0.6% – 1.8% |

**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.

## 32. Commitments (HK$m)

### (a) Capital commitments outstanding at 31 December 2009 not provided for in the Financial Statements were as follows:

| | **As at 31 December 2009** | As at 31 December 2008 |
|---|---|---|
| **Capital expenditure** | | |
| Contracted for | **80** | 109 |
| Authorised but not contracted for | **394** | 486 |
| | **474** | 595 |
| **Investment in The Peninsula Paris project** (note) | | |
| Authorised but not contracted for | **–** | 1,572 |
| **The Group's share of capital commitments of a jointly controlled entity** | | |
| Contracted for | **40** | 343 |
| Authorised but not contracted for | **224** | 429 |
| | **264** | 772 |
| | **738** | 2,939 |

*Note: The capital commitment in respect of investment in the Paris project for 2008 consisted of cash consideration payable for the acquisition of a 20% interest in Al Maha Majestic S.à r.l. (Al Maha) and the related hotel management contract and the Group's expected share of redevelopment cost of the Paris property.*

The Group holds a 20% equity interest in Al Maha Majestic S.à r.l. (Al Maha), an associate of the Group responsible for the development of The Peninsula Paris project. The Group's 20% share of the contracted for and authorised but not contracted for capital commitments as at 31 December 2009 amounted to HK$37 million (2008: HK$nil) and HK$474 million (2008: HK$nil) respectively. It is planned that these capital commitments will be financed by way of bank borrowings by the associate and only in the event of the associate being unable to arrange the funding would the Group be required to meet the shortfall.

## 32. Commitments (HK$m) *continued*

### (b) At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases of the Group in respect of land and buildings are (receivable)/payable as follows:

| | Group | | | |
|---|---|---|---|---|
| | Receivable | | Payable* | |
| | **2009** | 2008 | **2009** | 2008 |
| Within 1 year | **(777)** | (768) | **163** | 179 |
| After 1 year but within 5 years | **(703)** | (770) | **606** | 623 |
| After 5 years | **(24)** | (61) | **8,011** | 8,315 |
| | **(1,504)** | (1,599) | **8,780** | 9,117 |

* *The future minimum lease payments under non-cancellable operating leases primarily relate to undiscounted contractual amounts in respect of long term leases of The Peninsula New York and The Peninsula Tokyo.*

Following the completion of the restructuring of The Palace Hotel Co., Ltd. (TPH) on 13 December 2002, the Group is committed to making an annual payment of a minimum of RMB8 million to China Everbright Group Limited (CEG) up to and including 11 November 2033 (the Annual Payment). The Annual Payment is a deemed lease payment and is included as a payment under non-cancellable operating leases of the Group (note 34(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 lease upon expiry 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 JPY 1,181 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.

## 33. Contingent liabilities (HK$m)

Contingent liabilities at 31 December are analysed as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Guarantees issued for subsidiaries | | | | |
| – in respect of bank borrowings | **–** | – | **3,830** | 3,098 |
| – in respect of other banking facilities | **–** | – | **36** | 37 |
| Other guarantees | **1** | 1 | **1** | 1 |
| | **1** | 1 | **3,867** | 3,136 |

The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured using observable market data 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 2009 and 2008.

## 34. Material related party transactions

Other than the directors' remuneration and the guarantee given in respect of a loan to an officer as disclosed in note 7 and note 29 respectively, and loans to an associate and a jointly controlled entity as disclosed in note 16 and note 17 respectively, material related party transactions are set out as follows:

**(a)** Under a three-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 plus service charges of HK$169,074 per month (1 April 2007 to 31 March 2008: HK$161,560 per month) from Kadoorie Estates Limited (KEL), which is the manager of the registered owner which is controlled by one of the substantial shareholders. The amount of rent and service charges paid to KEL during 2009 amounted to HK$16.7 million (2008: HK$16.6 million).

**(b)** The Peninsula Manila is owned by Manila Peninsula Hotel, Inc. (MPHI – previously a 40% associate of the Company). 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 2009 amounted to HK$9.4 million (2008: HK$10.5 million). This lease falls under the Listing Rules as a continuing connected transaction. Details of this continuing connected transaction are disclosed in the Directors' Report.

## 34. Material related party transactions *continued*

**(c)** Unsecured and interest free shareholder's loans amounting to US$58.75 million (HK$458 million) (2008: 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 2009, shareholder's loans amounting to US$58.75 million (HK$458 million) (2008: US$58.75 million (HK$458 million)) was contributed as capital of PSW through EGL.

Under various agreements with PSW, HSH Management Services Limited (HMS), a wholly owned subsidiary of the Company, agreed to provide PSW with technical and design advisory, pre-opening, consultancy, management and marketing services with fees being determined based on normal market terms. The gross amount of fees earned by HMS during 2009 amounted to approximately HK$9 million (2008 HK$5 million).

In addition, Peninsula Intellectual Property Limited (PIPL), a wholly-owned subsidiary of the Company, has also entered into a service mark licence agreement with PSW. Total service mark licence fees earned by PIPL during 2009 amounted to HK$0.5 million (2008: HK$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 then independent third parties, including China Everbright Group Limited (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 RMB8 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 RMB8 million (HK$9.1 million) was recorded in 2009 (2008: RMB 8 million (HK$9.1 million)).

## 35. Non-adjusting post reporting period events

After the end of the reporting period, the Directors proposed a final dividend, the details of which are disclosed in note 12.

## 36. Key sources of estimation uncertainty

Notes 30(a) and 31 contain information about the assumptions and their risk factors relating to defined 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 statement of financial position 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 end of the reporting period, 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 operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of properties, plant and equipment would increase depreciation charges and decrease non-current assets.

During the year, the estimated useful lives of certain properties, plant and equipment were revised prospectively with effect from 1 January 2009 resulting in a net decrease in the Group's annual deprecation charge of approximately HK$35 million (2008: HK$ nil).

### (c) Asset impairment

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

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

### (d) Deferred tax assets

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

## 37. Comparative figures

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, and HKFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

## 38. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2009

Up to the date of issue of these Financial Statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective the year ended 31 December 2009 and which have not been adopted in these financial statements.

| | Effective for accounting periods beginning on or after |
|---|---|
| HKFRS 3 (Revised), Business combinations | 1 July 2009 |
| Amendments to HKAS 27, *Consolidated and separate financial statements* | 1 July 2009 |
| Amendments to HKAS 39, *Financial instruments: Recognition and measurement – Eligible hedged items* | 1 July 2009 |
| Improvement to HKFRSs 2009 | 1 July 2009 or 1 January 2010 |
| HKFRS 9, *Financial instruments* | 1 January 2013 |

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

# 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 171, which comprise the consolidated and Company statements of financial position as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2009 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 2010

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*HSH's GRI Content Index (refer to the Sustainability section under Investor Relations at www.hshgroup.com) outlines where all the relevant information can be located to demonstrate how HSH reports on all of the GRI profile disclosures and indicators required to meet GRI's application level C+, as not all of this information is included in this Sustainability Report.*

*The Global Reporting Initiative (GRI) (www.globalreporting.org) is an independent organisation that is recognised as a United Nations collaborating centre and governed through globally representative, multi-stakeholder bodies and processes. Through these processes, GRI has developed the world's most accepted and used framework for reporting on economic, environmental and social issues and performance, known as the GRI Sustainability Reporting Guidelines. Companies that use the Guidelines can self declare, have an independent body assure and/or have GRI check that its report meets GRI's reporting Levels A, B or C, depending on the number of GRI elements and indicators that are reported on. Reports that are externally assured are noted as such with a "+" symbol and are recognised as meeting Level A+, B+ or C+. This report has been assured by a third party and checked by GRI to meet Level C+.*

## Messages From The Chairman and Chief Executive Officer

**Message from The Hon. Sir Michael Kadoorie, Chairman**

Being a responsible corporate citizen and contributing to local communities have been core tenets of our business throughout HSH's history. Our Group is committed to sustainability and last year's Annual Report marked an important milestone in that it outlined our approach to identify and proactively manage sustainability issues and risks in a meaningful way. While we continue to implement our sustainability approach in line with business objectives, we also recognise how important our stakeholders are to the way we conduct business in the communities where we operate.

In 2009, we began to implement our sustainability strategy and I am pleased to share our first year's results in this Report and our plans to expand our sustainability initiatives and further enhance our performance. It is important for us to demonstrate our commitment to transparency in reporting and, in this regard, this year's Report has been verified by an independent assurance provider and the Global Reporting Initiative (GRI) to meet Application Level C+ of GRI's Sustainability Reporting Guidelines.

**Clement K.M. Kwok, Chief Executive Officer**

In 2008, we reviewed our operations to understand our overall sustainability issues and risks and to develop both our Group's sustainability strategy and separate action plans for seven of our hotels. This comprehensive and systematic framework was reported in our 2008 Annual Report and includes our Sustainability Vision and Policy Statement, which describes our six Group wide, sustainability themes of: Corporate Governance and Ethics; Environment; Employees; Health and Safety; Supply Chain; and Community Investment and Engagement. Despite the difficult economic climate, I would like to emphasise that sustainability remained a key action area for our Group and that we did not waver from sustainability commitments, as managing risks and seizing opportunities are good for business. Our Corporate Social Responsibility Committee (CSRC), which I chair with members from our senior management team, developed guidelines and initiatives to implement our Group's sustainability strategy. Through our multi-disciplinary approach and with ongoing support from our external sustainability advisor, we continue to integrate sustainability into all our business operations.

Key highlights of our achievements in 2009 include:

- Publishing an enhanced code of conduct and equal opportunities policy and developing a Group wide human resources company manual that will be launched in 2010.
- Developing a comprehensive plan with capital investments and performance targets for energy carbon and water reductions for all of our properties and business.
- Implementing a pilot supply chain initiative with The Peninsula Hong Kong for Group wide roll out in 2010.
- Launching the Group wide operational risk manual to provide our properties and businesses with standardised approaches for:
  - managing occupational health and safety, security and food safety issues
  - preventing and responding to incidents of disease, fire and potential emergencies
- Developing and implementing a Group wide framework for community investment and engagement.
- Appointing a General Manager, Corporate Responsibility and Sustainability.

This year's Report includes more information on these and other initiatives, as well as key performance indicators, quantitative metrics and targets for our Group to assess and enhance our sustainability performance going forward.

Over the next three to five years, our priorities for managing sustainability issues and risks are: (1) reducing our carbon footprint; (2) educating, training and empowering our employees to embed sustainability in our operations; (3) working with our suppliers and contractors to increase our sourcing of products and services from materials and sources that are sustainable and help to reduce our environmental footprint; (4) engaging our stakeholders to better understand their expectations and perceptions regarding our sustainability performance and integrating these views into our sustainability strategy and our reporting; and (5) expanding our sustainability initiatives and monitoring and reporting of sustainability metrics. We understand that sustainability is an ongoing commitment and we will continue to proactively manage and enhance our performance going forward.

## Guide for readers

**Report scope, parameters and boundaries**

For many years, HSH has reported on its contributions to the community in its Annual Reports. While last year's Sustainability Report reported on the Group's overall approach to managing sustainability issues and risks for the first time, this 2009 Sustainability Report builds on previous efforts and reports on progress of key sustainability initiatives and our performance for this calendar year.

Except where noted, the Report scope covers HSH's Head Office in Hong Kong and properties and businesses where HSH has operational control, including: eight of the Group's Peninsula hotels in Hong Kong, Beijing, New York, Chicago, Beverly Hills, Tokyo, Bangkok and Manila; commercial properties including The Repulse Bay Complex, The Peak Tower and St. John's Building in Hong Kong and The Landmark in Vietnam; and other businesses including Peninsula Merchandising and Tai Pan Laundry in Hong Kong. It is important to note that information on Quail Lodge's hotel portion is included in performance statistics for the environmental and employment indicators up until November 2009. While HSH maintains the operation of the Golf Course and Clubhouse, the Group closed the hotel portion of the property in November 2009. Peninsula Boutiques, which are located in HSH properties, are included in the performance reporting statistics, while others which operate in separately owned facilities, such as the Hong Kong International Airport, are not included.

Environmental performance information for The Peninsula Shanghai, which opened on 18 October 2009, as well as the Thai Country Club will be included in the scope of the next Report. While information was not yet available for these properties in 2009, it is worth noting that the Thai Country Club represents only 1.2% of the Group's total turnover.

HSH employees working for the Peninsula Clubs and Consultancy Services and at Cathay Pacific Airways' first and business class lounges at the Hong Kong International Airport are included in this Report's employee statistics. Facilities managed by HSH, including The Hong Kong Club, The Hong Kong Bankers Club, Butterfields' Club and the Cathay Pacific Airways' airport lounges, are not included in environmental performance statistics as we do not own or control the policies of these facilities. Further detail on the nature of the Group's business operations is included in other sections of this Annual Report.

The scope of this Sustainability Report was determined based on a materiality assessment of the sustainability issues and risks relevant to the Group's business operations and aims to cover themes and issues that the Group understands to be important to its stakeholders. While the Global Reporting Initiative's Sustainability Reporting Guidelines (G3) were used to help shape HSH's sustainability strategy and the first Sustainability Report in 2008, this Report marks the first year of meeting GRI's Application Level C+, as checked by GRI. In addition to reporting on the required GRI profile disclosures for Level C, HSH is reporting on a total of 11 GRI performance indicators with partial coverage of an additional six. These indicators were selected for their materiality and where reliable information for reporting could currently be collected by HSH. To demonstrate HSH's commitment to producing a transparent and credible report, Lloyd's Register Quality Assurance was engaged to assure the accuracy of a representative sampling of data and claims included in the Report and to assess adherence of the Report to GRI's Level C Application Level. The assurance statement is presented on page 200 of this Report.

## Corporate Governance, Ethics And Sustainability Management

**Corporate governance**

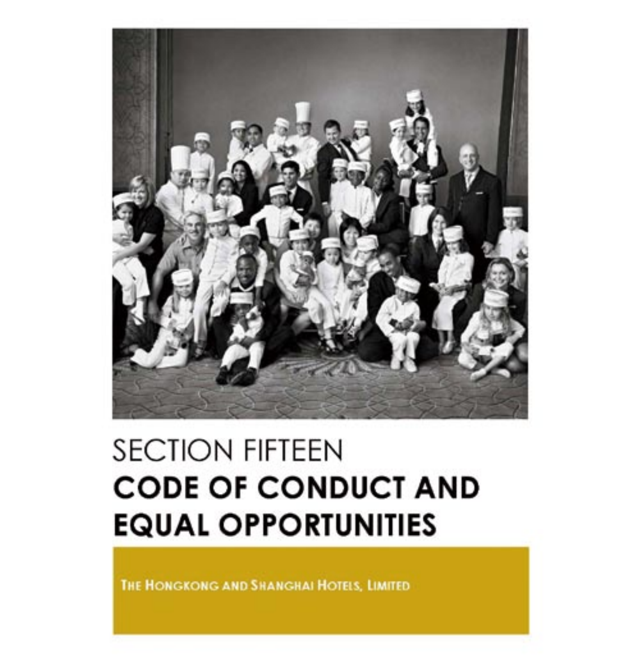
Corporate governance is the backbone to HSH's success. It represents the Group's commitment to a framework of business principles and internal controls, which cover all aspects of our business. Our corporate governance practices are outlined in the Corporate Governance Report on pages 73 to 87 of this Annual Report.

Our code on corporate governance has included and followed all of the code and recommended best practices under the Code on Corporate Governance Practices of the Listing Rules (CG Code) except for two[1] where we have deviated from the CG Code. In addition, HSH policies and practices have exceeded the CG Code in some areas. These, together with reasons for deviation, have been explained in our Corporate Governance Report.

**Ethics**

Ethical conduct is one of HSH's core values and essential to our service integrity. This is enshrined in HSH's code of conduct and equal opportunities policy, which outlines our stringent anti-corruption and anti-bribery policies and approach to handling conflict of interest situations for staff at all levels. These issues are also addressed through HSH's code on corporate governance practices, codes for dealing in the Company's securities by Directors/specified individuals, the Company management authority manual and purchasing and tendering procedures.

HSH's code of conduct and equal opportunities policy was updated in 2009 following a review of its implementation. The updated code specifically addresses a number of issues such as recognising fundamental human rights, outlining clearer policies on non discrimination and providing grievance mechanisms and resolution channels. New training sessions and an e-learning module will be implemented and all staff will be required to demonstrate their understanding of the code through the e-learning platform and to confirm in writing their formal acceptance of the code.




*HSH's updated Code of Conduct and Equal Opportunities section in its new Group wide Human Resources Manual.*

Principles of ethics are also included in our purchasing and tendering procedures. We have introduced a new supply chain code of conduct, which is in a pilot stage at The Peninsula Hong Kong prior to a Group wide roll out, which requires that HSH's suppliers and contractors do not seek competitive advantage through illegal or unethical business practices and that they shall only compete for business based on price, quality and performance standards of their products and services. As described in more detail in the Supply Chain section below, HSH does not condone any form of forced or harmful child labour for its own business operations and those of its suppliers and contractors.

The Group regularly audits a range of business risks including fraud throughout its properties and businesses. In addition, all of our hotels have 'mystery' customers and guest visits.

1. *The exceptions are the publication of quarterly financial results and the establishment of a nomination committee for the Board.*

**Respectful workplace**

Ensuring that our workplaces are respectful, fair and transparent and offer equal opportunities for employment and advancement has always been important to HSH. A consolidated, Group wide Human Resources (HR) Manual was developed in 2009, which includes our philosophy on compensation and benefits, a code of conduct and equal opportunities section[2] and our HR philosophy, purpose and values. The code of conduct section outlines HSH's policies and expectations for its employees to be ethical, fair and honest in fulfilling their job responsibilities, recognises the human rights of every individual and states the Group's commitment to an environment which supports diversity and provides equal opportunities free from discrimination, harassment and victimisation. HSH encourages and enables employees to raise serious concerns through its grievance channels without retribution and ensures compliance with its policies through training, acknowledgement of the code, audit and management oversight.

**Sustainability management**

HSH views sustainability as integral to being a responsible and successful business that brings current and long term value to its shareholders and other stakeholders.

HSH's Sustainability Vision and Policy Statement[3] provides an overarching framework to guide the Board, Group operations and properties and businesses to ensure that the management and operations of the Group achieve HSH's commitments for its six key sustainability themes of Corporate Governance and Ethics, Environment, Employees, Health and Safety, Supply Chain and Community Investment and Engagement. The Group's sustainability strategy was developed with the assistance of an external consultancy and addresses the economic, environmental and social issues and risks for each of these six themes. Champions of the Group's CSRC have developed and begun to implement and report on initiatives under these six themes. The seven hotels, which participated in a review of their sustainability performance and opportunities in 2008, are also implementing complementary action plans to address specific issues at the property level. This Sustainability Report provides information on the status of the initiatives undertaken under these six themes in 2009 and the Group's plans for 2010 and beyond.

With the appointment of the Group's former Head of Audit and Risk Management as General Manager, Corporate Responsibility and Sustainability in 2009, HSH now has a dedicated person responsible for coordinating and monitoring the Group's sustainability initiatives. He will work with the Group's management, the CSRC and its Champions to continue providing support to HSH properties and businesses and ensuring the implementation of the sustainability strategy and the continual improvement of the Group's sustainability performance. This will also involve review and assessment of the performance of each property and business according to the Group's sustainability performance indicators. Reporting will include both internal quarterly sustainability reports to the CSRC and external annual sustainability report.

The Group recognises that the ongoing, successful implementation of its strategy requires sharing its sustainability vision with employees, business partners and suppliers and providing them with information, tools and support to enhance their sustainability performance. As part of this initiative, an updated HR Manual has been developed to ensure our HR practices were ethical and standardised across the Group. Important initiatives are also underway with our supply chain. Further details on the concrete initiatives we are undertaking in these and other areas are outlined throughout this Report.

## Economic Contribution

As long term success requires being financially viable as well as sustainable, HSH is dedicated to contributing to the communities in which we operate and managing environmental and social issues responsibly. As such, the Group's businesses balance the needs and

2. *To view the code of conduct and equal opportunities policy, refer to the Employees' Code of Conduct section under Investor Relations at www.hshgroup.com.*
3. *To view HSH's sustainability vision and policy statement, refer to the Sustainability section under Investor Relations at www.hshgroup.com.*

expectations of our stakeholders while aiming to contribute to the sustainability challenges facing our world.

Details of HSH's financial performance are included in the Annual Report on pages 97 to 171. Our governance, management and oversight mechanisms enable us to achieve our longstanding goal of being a successful and viable business, for the benefit of our investors, our employees, our other stakeholders and our communities.

In all of the communities where we operate, we contribute to the local economy through our hotel, property and/or business operations which hire local employees, contribute to local government revenues and purchase local food and beverage items and products and services. Table 1 includes information to demonstrate the economic contributions of our properties and businesses to their local communities in 2009.

Providing high quality services to our guests, customers and tenants is critical to HSH's brand and business success. To achieve this in each of the distinct markets that we serve, it is essential that our employees infuse our global service standards with local flair, culture and tradition – in effect, our employees are a reflection of HSH's international and local business identity in each of our markets. We are proud to draw on the skills and experience of a select group of internationally trained management staff to work with a majority of locally hired employees in each of our properties and businesses. As at the end of 2009, out of the 139 senior management staff who are members of the local executive committees of our properties and businesses, 71, or 51%, are locals or localised citizens[4] of the countries in which they are working. As a diverse global company, we will continue to offer international postings to leading employees as part of their learning and development and to hire and nurture local talent in the markets that we serve, thereby contributing to local employment while consistently delivering on our exceptional service standards.

**Objectives for 2010**

- Maintain monetary and in-kind contributions in line with expected economic value generated and distributed.
- Maintain the balance of locally hired and international management staff at HSH properties.

*Diversity within The Peninsula Beijing's management team.*

4. *Local refers to individuals either born in or who have the legal right to reside indefinitely (e.g. naturalised citizens) in the same geographic market as the operation. Green card holders in the USA and Permanent Residents of Hong Kong are not included.*

Table 1 - Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations, community investments and payments to capital providers and governments.

| | | HK$m | | |
|---|---|---|---|---|
| | | 2007 | 2008 | **2009** |
| **Revenues** | | | | |
| Hotels | | 3,599 | 3,905 | 3,244 |
| Commercial properties | | 605 | 677 | 637 |
| Clubs and services | | 338 | 356 | 337 |
| | | 4,542 | 4,938 | 4,218 |
| Interest income | | 25 | 40 | 15 |
| | | **4,567** | **4,978** | **4,233** |
| **Operating costs** | | | | |
| Cost of inventories | | 380 | 390 | 334 |
| Rent and utilities | | 374 | 525 | 531 |
| Other operating expenses | | 849 | 1,045 | 917 |
| Less: property & real estate tax | | -70 | -77 | -84 |
| | | **1,533** | **1,883** | **1,698** |
| **Employee wages and benefits** | | **1,346** | **1,553** | **1,512** |
| **Capital expenditure** | | **687** | **394** | **281** |
| **Payments to providers of capital** | | | | |
| Dividends | | 73 | 94 | 53 |
| Financing | | 150 | 140 | 139 |
| | | **223** | **234** | **192** |
| **Payments to governments** | | | | |
| Hong Kong SAR | | 73 | 118 | 121 |
| Mainland China | | 113 | 128 | 63 |
| USA | | 164 | 163 | 146 |
| Vietnam | | 7 | 8 | 6 |
| Thailand | | 29 | 28 | 20 |
| Japan | *(Note 1)* | -27 | 22 | 24 |
| Philippines | | 23 | 21 | 16 |
| Others | | 3 | 0 | 0 |
| | *(Note 2)* | **385** | **488** | **396** |
| **Community Investments** | | | | |
| Donations *(monetary)* | | **1** | **3** | **2** |
| **Total of costs and distributions** | | **4,175** | **4,555** | **4,081** |

*Note 1: Including refund of consumption tax paid in prior years.*
*Note 2: Inclusive of corporate income tax and property and real estate tax.*
*N.B.: Apart from economic value retained in the form of capital expenditures, details of retained earnings can be found on page 102 of this Annual Report, in the consolidated statement of changes in equity. In addition, details of investments in subsidiaries, associates, jointly controlled entities, equity instruments and management contracts may be found in the consolidated statement of cash flows on page 103 and items 16 to 19 of the notes to the financial statements on pages 136 to 139.*

## Employees

**Our employees**

Empowering and always looking at our relationships with employees as being long term have been at the heart of HSH's business and are critical for delivering the top quality services which define our brand. Globally, the Group's workforce is comprised of full time[5], part time[6] and casual[7] employees. As at the end of 2009, HSH directly employed a total of 6,809 employees with 5,296 in Asia and 1,513 in the United States, including those at hotel and commercial properties, in our businesses and those who are HSH employees but work in facilities which are not owned by HSH.[8]


*Future leaders of HSH - employees from across the Group participating in the Group Leadership Programme 2009. The programme focussed on enhancing leadership skills and techniques on how to build high performance teams.*

HSH employed 6,433 full time employees and 376 part time and casual employees at our properties, businesses and in the Head Office. 3,900 of our employees, or 57%, are employed on full time, permanent contracts and 16 are part time or casual employees on permanent contracts. 2,893 of our employees, or 42%, are employed on fixed term, temporary or 'at will'[9] contracts. HSH has 795 unionised workers[10] who are covered by collective bargaining agreements. This represents 12% of total employees. Table 2 on the opposite page includes more detailed statistics on HSH's employment information.

Local executive committees comprise the senior management in each of HSH's properties and businesses[11]. In 2009, the composition of the executive committees included 95 males and 44 females, or 68% and 32% respectively.

HSH's employee annual turnover rate was 15.7% in 2009 and 17.8% in 2008. In 2009 and 2008 respectively, the rates were 12.3% and 15.9% for Asian properties and businesses and 23.1% and 24.0% for US hotels. HSH assists its employees to manage their retirements by providing Company pension briefings in Hong Kong on choice of funds for employees approaching retirement and allowing in the trust deed a deferral of three years before disinvestment, to ensure employees have ample time to choose the right time to disinvest. In 2009, the Group formed a new ORSO[12] Committee, chaired by the Chief Financial Officer, to review all aspects of the HSH group retirement plan. The Group appointed new trustees and administrators at the Company's expense to improve the management of the plan and enhance all aspects of service, in particular communication to members. In 2009, we revised our retirement plan trust deed to allow the plan to be portable for internationally mobile staff transferring from one country to another.

In addition, HSH supports job transitioning when required and we post job vacancies in the Group on a fortnightly basis. Our medical insurance plans in Hong Kong allow retirees to transfer their medical insurance without medical underwriting to an individually rated plan covering pre-existing conditions.

5. *A "full time employee" is defined according to national legislation and practice regarding working time.*
6. *A "part time employee" is an employee whose working hours per week, month or year are less than "full time" as defined in the above note.*
7. *A "casual" employee is hired on a flexible basis to meet the needs of the organisation.*
8. *This includes the Peninsula Clubs and Consultancy Services and Cathay Pacific Airways' first and business class lounges but not The Hong Kong Club, The Hong Kong Bankers Club and Butterfields' Club (i.e. excluding 393 employees in these Clubs).*
9. *All employees are employed "at will" by US hotels, which means an employee may resign or be terminated from employment at any time for any or no reason, with or without notice.*
10. *Refers to any employee, either full time or part time, who is covered by a collective bargaining agreement.*
11. *For Head Office, senior management refers to all employees of grades A-D.*
12. *"ORSO" refers to the Occupational Retirement Schemes Ordinance.*

Table 2 - Total workforce by employment type, employment contract and region

| | **As at December 2009** | | **As at December 2009** | | | | |
|---|---|---|---|---|---|---|---|
| | **Full time employees** | | **Part time/ casual employees** | | **Total no. of employees on permanent contracts** | | **Total no. of employees on fixed term/ temporary/ at will contracts** |
| Operations | Management | Non-management | Management | Non-management | Full Time | Part time/ casual | |
| **ASIA** | | | | | | | |
| **Sub totals** | 552 | 4,575 | 0 | 169 | 3,887 | 16 | 1,393 |
| **Sub totals by type & contract** | **5,127** | | **169** | | **3,903** | | **1,393** |
| **Employee total – Asia** | **5,296** | | | | **5,296** | | |
| **USA** | | | | | | | |
| **Sub totals** | 195 | 1,111 | 1 | 206 | 13 | 0 | 1,500 |
| **Sub totals by type & contract** | **1,306** | | **207** | | **13** | | **1,500** |
| **Employee total – USA** | **1,513** | | | | **1,513** | | |
| **THE HONGKONG AND SHANGHAI HOTELS, LIMITED** | | | | | | | |
| **Totals by type & contract** | **6,433** | | **376** | | **3,900** | **16** | **2,893** |
| **Employee total – HSH** | **6,809** | | | | **3,916** | | **2,893** |

*Notes:*

- *Employees in Asia include those working in the following locations: HSH's Head Office, the Peninsula Hotels in Hong Kong, Shanghai, Beijing, Tokyo, Bangkok and Manila, The Landmark, the Thai Country Club, The Repulse Bay, Peak Tramways, Tai Pan Laundry, Peninsula Merchandising, Peninsula Clubs and Consultancy Services and Cathay Pacific Airways' lounges in the Hong Kong International Airport.*
- *Employees in the USA include those working at the Peninsula hotels in New York, Chicago, Beverly Hills and at Quail Lodge.*
- *"at will" contracts refer to contracts which exist in our US properties, which means an employee is employed at will, and may resign or be terminated from employment at any time for any or no reason, with or without notice.*

To increase retention of experienced staff, HSH takes part in third party, annual compensation and benefits surveys in our major markets to ensure that we maintain our competitiveness. Information on HSH's overall initiatives to support employee welfare was previously covered in the Group's 2008 Sustainability Report.

As noted earlier, in 2009 HSH developed a Group wide HR manual to consolidate elements of the existing employee handbooks of each property and business and to bring a comprehensive and consistent approach to human resource management, while allowing flexibility to comply with local labour laws and conditions. Specific training on the new HR manual will be completed throughout the Group by the end of 2010.

**Employee communication and engagement**

In 2009, the Group maintained a wide range of two-way communication and engagement channels, from regular meetings of all staff and CSR committees at a number of HSH properties, to roundtable discussions among staff at all levels. These channels are also outlined in the Corporate Governance Report on pages 73 to 87 of this Annual Report.

In response to staff feedback, HSH now holds CEO webcasts three times a year, providing an opportunity for all staff to learn more about the Group's strategy and priorities. HSH's Group wide staff newsletter, HSH News, is translated into different languages and posted on the Group's intraweb, an important platform for sharing information with employees.

HSH recognises that an important part of communication is to provide regular and structured feedback and performance reviews to employees to support the long term development of the HSH team. In 2009, 5,783 of HSH's full time employees received regular performance reviews and career development reviews, representing 90% of HSH's full time employees. As these reviews are conducted annually and are mandatory for full time employees, all of The Peninsula Shanghai's full time employees will have received their first reviews by 2010 and will then be included in the Group total.

**Employee learning and development**

In 2008, HSH developed its five year HR strategy and in 2009, the key HR objectives were as follows: (1) ensuring that the Group's remuneration philosophy and incentives retain talent; (2) establishing succession plans for managerial level positions; (3) enhancing HSH's practices and programmes for identifying, attracting, training and developing high calibre talent; (4) enhancing employee productivity; and (5) providing re-orientation and continuing training for existing staff.

From this strategy, annual learning and development plans are developed to address the learning needs of the organisation.

An important part of the Group's succession planning is the cross exposure programme, which provides opportunities for high potential staff who are new to the Company, as well as existing employees who have been identified as top performers, to gain experience


*Screen shot of HSH's Chief Executive Officer, Clement K.M. Kwok, delivering one of his tri-annual messages to employees.*

*Staff training sessions at The Peninsula Manila.*

*An example of The Peninsula Tokyo's innovative learning and team building initiatives.*

Highlights of key initiatives undertaken by our hotels in 2009 to enhance employee engagement include:

**HSH Developed its Group wide, Human Resources Company Manual with an updated Code of Conduct and Equal Opportunities policy**

**The Peninsula Bangkok**
The hotel holds bi-monthly "Make it Better" sessions where departmental representatives meet with the General Manager. To enhance communications, The hotel introduced one-day departmental review sessions that will be expanded to include all departmental section heads.

**The Peninsula Beijing**
In May 2009, the hotel launched a hotel-wide Green Campaign to raise environmental awareness and the Green Committee held an ideas competition for employees to identify new environmental initiatives (237 staff contributions were received). In this spirit, the trade union organised a well attended, tree planting outing for employees.

**The Peninsula Chicago**
The hotel held a variety of culinary-themed and other employee challenge events and continued the work of its Green Committee. The hotel attended the Illinois Lodging Association which recognises "Stars of the Industry", participated in City of Chicago's "Hospitality 'H' Games", and introduced new incentive and recognition programmes.

**The Peninsula New York**
The hotel's Spa and Front Desk introduced new incentive programmes for its staff and, in 2009, the hotel nominated its leading employees for New York City Guest Contact awards, resulting in 11 employees receiving awards and the bellman nominee being recognised as a top ten finalist.

**The Peninsula Tokyo**
The hotel's Green Team issues the monthly "Green Times" newsletter, organises blood donations and events such as bowling competitions for visually-challenged people, charity golf competitions and attends exhibitions (e. g. Eco Products 2009) to find new ideas on environmentally responsible products and initiatives.

in different functions and locations within the Group, build on their skills and widen their experience. In 2009, individual development plans with learning objectives for 94 high potentials were developed and HSH continued to support and encourage staff to join the programme.

In partnership with the Melbourne Business School, the Group leadership programme is an example of how HSH assists high calibre talent to advance their careers and acquire new skills. In 2009, we also conducted a review of all training provided and for 2010 we have identified additional developmental programmes, such as the Richard Ivey School of Business Consortium Programme and executive development programmes for top management. Other training available to staff includes e-learning courses and campus held programmes with Cornell University on a variety of hospitality and management development topics.

On a graduate recruitment level, 2009 also saw the first appointment of a HSH corporate management trainee, who is on a learning journey for 18 to 24 months, acquiring the skills to take on an assistant manager position after the programme. Furthermore, a Peninsula Scholar was appointed in 2008 and in 2009, her internship was completed at The Peninsula Hong Kong (her three year tuition fees will also be met by the Company). All internship placements are hosted at the Peninsula hotels with full time employment of the Scholar upon graduation. The key HR objectives for 2010 are provided below.

**Objectives for 2010**

- Roll out the HR manual at the HR conference for all HR Directors and learning and development teams.
- Review the group pay philosophy and review the Group's incentive programmes.
- Launch an internal mentoring programme with senior executives to develop our talent.
- Commence a programme of engagement surveys to measure employee engagement across the Group.
- Expand the corporate management trainee programme to locations outside Hong Kong.
- Integrate sustainability content into the orientation and other relevant training across the Group.

## Environment

HSH has implemented a variety of environmental initiatives across the Group over the years and appreciates that it is both a necessity and an opportunity to manage its properties and businesses in a way that progressively reduces its environmental footprint. The Group believes in taking responsibility to demonstrate leadership through action, and seeks to adopt practices and initiatives which improve indoor air quality, lower carbon intensity, increase energy and water efficiency and reduce resource consumption and waste generation. HSH also aims to ensure that new construction and renovation projects are executed with reference to prevailing and credible sustainable building design guidelines and best practices in the industry. HSH is in the process of reviewing priorities related to sustainable design in order to establish a unified set of guidelines that complements our Design Standards and which can be applied to current and future projects. In striving for continual improvement, HSH remains confident in our commitment to provide luxurious services and experiences for our guests, customers and tenants while balancing diverse stakeholder expectations and seeking to increasingly adopt environmental best practices whenever feasible and appropriate for our business.

As reported previously, the 2008 sustainability review and the technical pilot studies conducted at the Peninsula hotels in Hong Kong and Chicago on indoor air and environmental quality (IAQ/IEQ) and energy and water consumption found that while a number of important initiatives had already been implemented, there was still potential to enhance the Group's environmental performance. Led by the Group's Chief Engineer, engineers at each property and business reviewed a list of over 100 initiatives to improve energy, water consumption and IAQ/IEQ and developed plans for capital investments across the Group. As presented in *HSH's Consolidated Environmental Performance Indicator Graphs and Diagrams* shown on the opposite page, the plans for 2010 range from retrofitting chillers, boilers, heaters, lighting and shower and water faucets, to installing solar film shading and solar water heaters. Aided by the implementation of over 50 selected initiatives in 2010, the Group aims to reduce energy intensity by 10% by the end of 2010 and an additional 5% potential reduction by the end of 2011, compared to the baseline energy intensity average of 1,871 $MJ/m^2$ between 2006 and 2008. The Group will continue to report regularly on implementation progress at the property and business levels via the Chief Engineer, who will work with the CSRC to review progress and recommend future improvement actions.

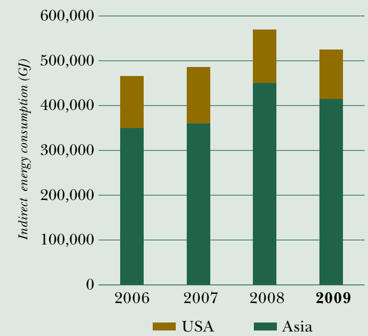
## HSH's Consolidated Environmental Performance Indicator Graphs And Diagrams

### Direct Energy Consumption by Primary Energy Source and Indirect Energy Consumption by Primary Source

**HSH direct energy consumption by geographical segment**

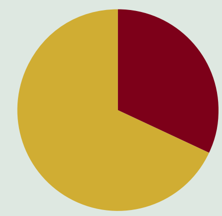

*Remarks: Increase in consumption in 2008 due to the addition of The Peninsula Tokyo*

**HSH indirect energy consumption by geographical segment**




*Remarks: Increase in consumption in 2008 due to the addition of The Peninsula Tokyo*

**HSH energy consumption distribution in 2009**



- Direct energy consumption **32%**
- Indirect energy consumption **68%**

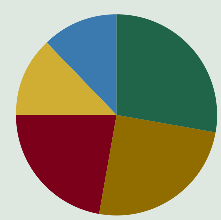
*Direct energy consumption – On site consumption of town gas, natural gas, LPG and diesel oil*
*Indirect energy consumption – On site consumption of electricity and steam*

### HSH Energy Intensity and Budgeted Environmental Investment

**2006-2009 HSH energy intensity versus total floor area**


| | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Energy intensity (MJ/sq.m) | 1,856 | 1,895 | 1,862 | **1,722** |
| Total floor area (sq.m) | 401,294 | 402,689 | 461,261 | **461,261** |

**HSH 2010 budgeted environmental investment distribution**

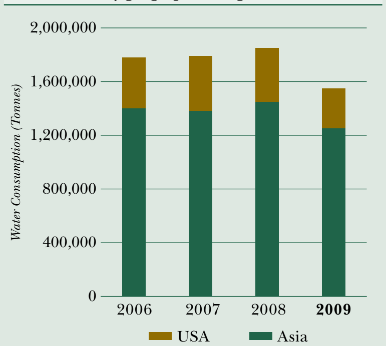


- Energy-efficient lighting **28%**
- Energy-efficient cooling equipment **25%**
- Energy-efficient heating equipment **22%**
- Solar film installation for windows **13%**
- Other investments **12%**

*Remarks: Other investments include lighting motion sensors, demand control ventilation for kitchen exhausts, energy efficent elevators, non ozone depleting agents for fire suppression system, water saving shower heads/sink faucets and water recovery systems*

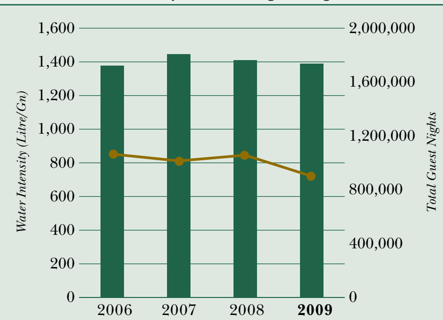
### Total Water Withdrawal by Source and HSH Water Intensity

**HSH water consumption by geographical segment**




*Remarks: Increase in consumption in 2008 due to the addition of Peninsula Tokyo*

**2006-2009 HSH (hotels only) water intensity versus total guest nights**




| | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Water intensity (Litre/Gn) | 1,378 | 1,445 | 1,401 | **1,377** |
| Total guest nights | 1,065,035 | 1,014,559 | 1,063,921 | **907,871** |

**Energy and fuel consumption**

In 2009, HSH's properties and businesses focused on reducing their energy use and carbon footprint through the implementation of best practice measures outlined in the Group wide energy conservation manual. Overall, as outlined in the graph on page 185, HSH reduced its energy intensity in 2009 by 7.9% (or 149 MJ/$m^2$) over its baseline energy intensity average of 1,871 MJ/$m^2$ between 2006 and 2008. An average baseline was selected to account for the addition of The Peninsula Tokyo to the Group's overall consumption data in 2008. The graphs also report on HSH's direct and indirect energy consumption by primary source and present geographical data on energy consumed by properties and businesses (for total consumption statistics refer to HSH's Environmental Performance Statistics on page 202 of this Report). The graph also shows that energy consumption per total area for HSH properties reduced slightly in 2009. This was due primarily to the reduction in guest volumes as well as the adoption of operational efficiency improvements.

*The Peninsula New York installed motion sensors in back of house areas to reduce energy consumption when areas are not in use.*

*Example of energy efficient, LED cove lighting in The Peninsula Hong Kong's guestroom corridors.*

**Greenhouse gas emissions**

HSH's preliminary carbon footprint was 94,060 tonnes of $CO_2$ equivalent in 2009 and 102,694 tonnes of the same unit in 2008. In calculating its greenhouse gas (GHG) emissions, HSH applied the methodology used by the World Resources Institute (WRI) / World Business Council for Sustainable Development (WBSD) GHG Protocol, as recommended by GRI. HSH included its major Scope 1 and 2 sources of GHGs in calculating its emissions. HSH's Scope 1 emissions include emissions from fuel oil and gas in stationary combustion sources as well as, for the 2009 year only, fugitive emissions arising from its refrigeration and air-conditioning equipment. Scope 2 comprises emissions from the generation of purchased electricity and steam. Emissions arising from the combustion of fuel in HSH's mobile combustion sources (e.g. cars and vans) have not been included in HSH's Scope 1 emissions as the required information is not yet available at a Group wide level.

Moving forward, HSH properties and businesses will adopt individual carbon reduction strategies and the Group aims to continue to reduce its emissions of GHGs over its baseline emissions in 2008.[13] Examples of initiatives taken to reduce energy and fuel use in 2009, at both the Group and individual property level, are presented on page 188.

**Management of refrigerants**

HSH has developed a detailed plan to phase out its use of ozone depleting substances (ODS). Significant capital investments have and continue to be made to phase out all ODS in our properties, at a minimum in accordance with the requirements of the *Montreal Protocol on Substances that Deplete the Ozone Layer.* In 2009, HSH consumed approximately 1.953 tonnes of ODS, or 0.162 tonnes of CFC-11 equivalent, comprising R22, R12, R123, R141b, R401a and R502. For detailed consumption data by each ODS, please refer to HSH's environmental performance statistics on page 202 of this Report.

**Indoor air quality and indoor environmental quality (IAQ & IEQ)**

Good IAQ and IEQ levels are achieved at HSH properties through a variety of measures such as proper management of ventilation, heating and cooling systems, controlling maintenance and renovation activities and reducing usage of hazardous paints and cleaning products. Some best practices for enhancing IAQ and IEQ adopted by The Peninsula New York include rehabilitating exhaust fan systems in staff locker rooms, lobby restrooms and banquet restrooms, replacing fibreglass filters in all fan coil units and air conditioning units and increasing the frequency of linen chute and linen room ceiling cleaning. Going forward, HSH will evaluate measures to manage IAQ and IEQ so that best practice standards are maintained across the Group.

*Laying the pool cover at The Peninsula Beijing to reduce water and heat loss and thereby save on water and energy consumption.*

**Water conservation and consumption**

Building on measures that were implemented previously, HSH continues to adopt new initiatives to reduce water consumption. Information on HSH's consumption of water is provided on page 202 and some examples of achievements at both the Group and individual property levels in 2009 are presented on page 189.

Most of the water withdrawn by HSH properties and businesses is from municipal suppliers, comprising 1,429,310 $m^3$ in 2009. The Peninsula Manila also withdrew 124,899 $m^3$ from deep wells. In addition, 128,703 $m^3$ of recycled water was used by the Peninsula hotels in Tokyo and Bangkok, representing 8.3% of HSH's total water consumption in 2009. HSH's consumption total does not include the portion of seawater that is withdrawn by the Hong Kong properties and businesses. The seawater is used for flushing purposes and meters are not available to measure the seawater.

In comparison with the baseline consumption average between 2006 and 2008 of 1,807,093 $m^3$, HSH's overall consumption of water, which was 1,554,209 $m^3$ in 2009, reduced by 14% in 2009 (equivalent to 252,884 $m^3$), primarily due to reductions in guest volumes and also to the adoption of operational efficiency measures. HSH will continue to retrofit existing shower heads and faucets with water efficient replacements and to enhance water efficiency and recovery measures in the Group's laundry facilities going forward.

13. *2008 has been selected as the baseline for calculating HSH's carbon footprint as it marks the year when data from The Peninsula Tokyo's operation was included in the Group's overall figures.*

Examples of initiatives taken to reduce energy and fuel use in 2009, at both the Group and individual property levels, are presented below:

**HSH reduced its energy intensity by 7.9%, over its average baseline consumption between 2006 and 2008**

**The Peninsula Hong Kong**
Installed LED flexible light cords in cove ceiling lights in 10 guest floor corridors and in the Nathan Room.
Installed a total of 50 LED bulbs in the ceiling down lights of six guest lifts, the Business Centre and in all showcases in the G/F lobby area.

**The Peninsula New York**
Installed energy efficient lighting and motion switches in several back of the house areas.
Synchronised Opera PMS system with ELV system in guestrooms to turn off lights and air conditioning upon guest check out.
Replaced all steam traps in main steam room, kitchen, mechanical equipment rooms and for all air handling units.

**The Peninsula Chicago**
Installed motion sensors to turn off lights in 95% of vacant back of the house areas.
Installed energy efficient CFLs in the corridor hallway lighting of four guestroom floors.
Installed new pool heaters in the Spa with an 85% efficiency rating.
Completed synchronisation of Opera PMS system to turn off lights upon guest check out.

**The Peninsula Tokyo**
Replaced incandescent and halogen bulbs with LED lights, including 40 lamps in the driveway canopy and 112 in guest floor corridors.
Plan to retrofit remaining guest floor corridors with LED, followed by public areas.
Sourced a safe liquid to cover the swimming pool at night, which reduces evaporation, conserves heat, and reduces window cleaning required during the winter months due to condensation build up.

**The Peninsula Beijing**
Replaced the last of hotel's old cooling towers with an energy efficient model and all fire exit signs with LED units.
Optimized laundry machines to reduce the wash cycle temperature.
Reorganised cold storage facilities to convert four walk in refrigerators for dry storage and installed new refrigerator door seals in all kitchens.

**The Peninsula Manila**
Replaced all fluorescent lights with energy saving lamps or CFLs in the plant room and basement carpark.
Service lift upgrade underway with high-efficiency hoisting motors and state of the art electronic controls.
Conducted a study to replace the T5 cove lights in guest floor corridors with LED; savings of 30% – 40% anticipated for the 3rd floor of the Ayala building hallway.

**The Peninsula Bangkok**
Began phased plan to replace incandescent and halogen lighting with CFLs.
Implemented a campaign with incentives for staff to conserve energy.
Monthly meetings of the Energy Conservation team share the results of the energy conservation programme and discuss new initiatives.

Examples of initiatives to reduce water consumption in 2009, at both the Group and individual property levels, are presented below:

**The Peninsula New York**
Reduced overall water consumption by 31% over its average consumption from 2006 to 2008 through the installation of low flow sink aerators in 50% of the guestroom and touchfree faucets, urinals and toilets in public areas.

**The Peninsula Manila**
Waterless urinals were installed at the Executive Office in November 2009, saving three to four litres per usage per urinal.

**HSH reduced its water consumption by 14% in 2009 over its average baseline consumption between 2006 and 2008**

**The Lankmark, Vietnam**
Saved 1,000 $m^3$/year, with a 36% ROI, by installing new, water efficient toilets.

**The Peninsula Beijing**
Reduced water consumption by 16%, compared to consumption in 2008, by installing water sub meters to monitor consumption and identify wastage.
Installed water saving shower heads in all employee locker rooms.
Applied a pool cover overnight to reduce evaporation.

**Resource use, conservation and waste management**
Following last year's review of opportunities for responsible sourcing and reducing consumption and waste generation, HSH developed Group wide sustainability guidelines. While HSH continues to select materials and products that meet our quality requirements and the expectations of our guests and customers, these guidelines enable the Group to seek out more sustainable options whenever feasible and appropriate. The guidelines provide specific advice to our properties and businesses on sourcing products and items which: have sustainable content or features; are produced in environmentally and socially responsible manners, and/or result in less waste being generated by being durable, reusable, biodegradable, recyclable or having less packaging. For example, while HSH previously reported on sourcing of environmentally responsible options for guest amenities specially designed for usage in smaller quantities, the new sustainability guidelines require properties to replace used amenities less frequently and only if they are half empty or less (at which point, used amenities are consumed in staff locker rooms or donated to charities). The guidelines also require that waste materials are reused, recycled and/or collected by licensed contractors for proper disposal.

Highlights of key initiatives undertaken by our properties in 2009 to reduce consumption and waste generation include:

## HSH adopted Sustainability Guidelines to support the Group's waste reduction, reuse and recycling activities

**The Peninsula Hong Kong**
Between June and November 2009, the hotel recycled a total of 24,134 kg of glass and 48,755 kg of paper waste.

**The Peninsula New York**
Reduced more than 20% its registered chemicals and cleaning supplies. Properly disposed of 70 lbs of used batteries, four cases of florescent lamps (30 per case) and 24 cases of bio-hazardous waste.

**The Peninsula Chicago**
Installed a "hydro carbon" dry cleaning machine to reduce chemical consumption.
Filtered tap water provided as a plastic/glass bottle alterative in all food and beverage outlets and in banquets.
Sent 135,000 $ft^2$ of carpet to be recycled and relaimed by the Carpet America Recovery Effort (CARE).
Old computers and armoirs donated for reuse or sent for recycling.

**The Peninsula Tokyo**
In addition to significantly reducing its food waste with the Gomizer machine, the hotel also enhanced its separation of mixed papers and recycled 9,000 kg of paper in 2009.

**The Peninsula Beijing**
The hotel dry waste is collected by a designated company which separates materials for reuse and recycling. Wet waste is collected by a farm and converted to animal feed. To reduce waste from highly toxic batteries, the hotel has started to phase in the use of rechargeable batteries for the guestroom remote controls.

**The Peninsula Manila**
The hotel has ceased to use disposable tissue wrapping for guest laundry; all laundry baskets are now fully lined with reusable cloth.
Biodegradable packaging used for take-away items in the lobby will avoid the disposal of around 2,000 styrofoam containers per year.
Used coffee grounds are given to the organic farm from which the hotel purchases its organic vegetables for use as a natural fertilizer, thereby diverting over 500 kg of waste per month.

**The Peninsula Bangkok**
The hotel introduced a synergy system to clean its cooling tower, thereby eliminating the use of toxic chemicals for this process and saving Baht 600,000 per annum on toxic chemicals.

**Tai Pan Laundry**
Installed third and fifth generation dry cleaning machines, reducing the consumption of dry cleaning solvents.
Reduced diesel consumption with a new Heat Recovery System for generating hot water for laundry machines.

The Peninsula Manila replaced its use of disposable liners with these cloth lined laundry baskets.

The organic farm where The Peninsula Manila donates its used coffee grounds as a soil fertiliser and procures its organic vegetables.


*The Peninsula Chicago installed a "hydro carbon" dry cleaning machine to reduce chemical consumption.*


*The Peninsula Tokyo introduced the 'Gomizer' machine in 2009, which converts perishable waste through a cost effective, environmentally responsible yeast/bacteria process into a liquid for safe discharge to the sewage system, thereby dispensing of more than 50 kg of waste per day. As of 1 March 2009, an estimated 15,000 kg of perishable garbage had been processed.*

**Objectives for 2010**

- Reduce energy intensity by 10% in 2010 over our baseline energy intensity average of 1,871 $MJ/m^2$ between 2006 and 2008.
- Reduce water intensity by 3% in 2010 over our baseline water intensity average of 1,408 litres/guest night between 2006 and 2008.
- Develop protocols for properties and businesses to conduct resource consumption and waste audits.
- Develop sustainable design guidelines for application to current and future construction and renovation projects.

## Health And Safety

HSH has long been dedicated to providing a healthy, safe and secure environment for our guests, customers, business partners, employees and other stakeholders. 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 changing circumstances. This is not only important to ensure the safety and security of our guests, customers and commercial tenants but also to ensure that our staff minimise injuries and lost work days from injuries. Responsibilities are allocated within each business and property to manage these risks for overall operations and in specific functional areas such as food & beverage, engineering and security, with regular auditing by and reporting to HSH.

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 management systems. In 2009, HSH progressively rolled out a Group wide operational risk manual which outlines a consistent and systematic approach for all properties and businesses to manage occupational health and safety and security risks, disease outbreaks, fire and other emergency response systems in line with the OHSAS 18001 standard and to adopt food safety and hygiene practices as required by the hazard analysis and critical control point (HACCP) system. Training and implementation support was also provided at all hotels. Each hotel will conduct regular checks and drills, monitor and report on its performance to HSH and be audited on a bi-annual basis.

**Objectives for 2010**

- Audit properties' implementation of the operational risk manual and develop action plans to enhance performance where needed.
- Standardise indicators for properties and businesses to report consistently on health and safety and operational risk performance.

Highlights of key initiatives undertaken by our properties in 2009 to enhance the management ot health and safety and security issues include:

**HSH rolled out its Group wide Operational Risk Manual with on site training for all hotels**

**The Peninsula New York**
Reduced its accident rate by 4% compared to 2008 and saved on workers' compensation. The hotel was recognised by the New York Police Department's Counter-Terrorist Bureau and 25 members of the hotel's security team and key managers participated in the NYPD's counter terrorism training.

**The Peninsula Tokyo**
The hotel's Director of Risk Management, in cooperation with the HR Department, organised monthly meetings on health and safety topics and accident prevention, resulting in a considerable reduction in serious, work-related accidents from 14 hospital cases in 2008 to 4 cases in 2009.

**The Peninsula Manila**
The hotel's Security Department launched a bi-monthly health and safety inspection and awareness raising campaign in September 2009 and has since conducted eight inspections. Following the inspections of hotel areas, photos depicting areas for improvement are shared to raise awareness of health and safety issues.

**The Peninsula Beijing**
The hotel established a food safety committee in 2009, obtained hygiene certifications from all of its vendors and documented the origins of all food delivered to the hotel. The hotel aims to achieve HACCP certification in 2010.

A visit to the company where The Peninsula Bangkok sources all of its organic eggs.


## Supply Chain

In 2009, HSH began an important initiative to raise awareness of our commitment to sustainability in our supply chain and to engage our suppliers and contractors to work proactively with us to provide goods, products and services that are sourced, produced and/or delivered in ways which are environmentally and socially responsible, provide local employment and development opportunities and/or incorporate environmental content. While HSH continues to consider a number of other criteria in our sourcing of products and services – e.g. cost, availability, reliability, security of supply and guest and customer expectations – we are committed to increasingly incorporate environmental and social responsibility criteria in our sourcing practices.

This year, HSH launched a new supply chain code of conduct to outline the Group's expectations for its suppliers and contractors and to ensure that their activities comply with applicable labour, occupational health and safety, environmental and other relevant legislation and that ethical business practices are adopted as well as corrective actions (if in violation of the code). In particular, the code states that suppliers and contractors of HSH shall not use any forced labour, whether in the form of prison labour, indentured labour, bonded labour or otherwise and shall comply with the national minimum age of employment, or the age of completion of compulsory education, or any otherwise specified exceptions and shall ensure that young workers are not engaged in dangerous work that would cause physical or mental harm.

As a pilot project, The Peninsula Hong Kong distributed the code to the majority of its suppliers and contractors, which together represents over 900 in number and over 90% of the hotel's procurement. A sustainability questionnaire for suppliers and contractors regarding compliance with the code was also sent to 89 suppliers and contractors with an annual spend cut off of HK$500,000, accounting for 72% of the hotel's annual supply chain spend. The Peninsula Hong Kong contacted these suppliers and contractors directly to discuss supply chain objectives and to encourage them to both respond to the questionnaire and work proactively with the hotel to achieve these objectives, resulting in a response rate of around 80%. Based on the information received in the completed questionnaires, HSH will refine the questionnaire for Group wide roll out to the supply chains of its properties and businesses in 2010.

HSH properties and businesses make challenging purchasing decisions every week and strive to maximise procurement of efficient equipment, locally produced items, natural meats, sustainably harvested seafood and organic dairy, fruits, vegetables and other items. For example, in 2009 The Peninsula Bangkok continued its efforts to increase its sustainable sourcing practices. 50% of all of its fish and seafood items are procured from one supplier, which The Peninsula Bangkok has inspected and that sources its items from locations where the species are not threatened or endangered, as defined by organisations such as the Monterey Bay Aquarium. The hotel and staff canteen serve organic eggs and milk, cream and yoghurt that are produced locally by a farmer who does not use pesticides to grow the feed for the cows. 80% to 90% of all of the hotel's fresh produce is locally produced, including most of the vegetables, fruits, chicken and pork. The Peninsula Bangkok also targeted to further increase the quantities of organic products purchased; however, the price point of 25% to 40% higher was not considered feasible or potentially acceptable to its customers. The Peninsula Bangkok continues to review organic options and seeks to increase its purchasing when feasible.

As noted earlier, to assist our properties and businesses to increase their procurement of goods and services from more sustainable sources or with enhanced sustainability content, HSH issued the Group wide sustainability guidelines in 2009. These guidelines provide specific guidance on the nature and types of sustainability content/features to procure when available and feasible for all of the Group's major items and services. This ranges from procuring energy efficient equipment certified to relevant standard schemes, to LEED-recommended building materials, to locally produced food items and wood, paper, fish and seafood from sustainably managed and/or certified sources when available, appropriate and financially viable. HSH's approach to managing biodiversity issues is particularly relevant for its sourcing of fish and seafood for its food and beverage outlets and in both renovation and construction activities. The guidelines require hotels and businesses to avoid procuring items that are deemed to be on an international or local endangered or critically endangered species list, such as the International Union for Conservation of Nature's (IUCN) Red List of Threatened Species or the World Wide Fund for Nature's (WWF) Sustainable Seafood Guides, whenever possible but recognise that given customer expectations, strict adherence to these guidelines may not always be achievable.

HSH continues to build long term relationships with suppliers who share our sustainability vision. While recognising guest/customer preferences and considering the availability of sustainable products, we will seek ongoing improvement in our procurement activities. HSH will review progress in implementing the sustainability guidelines and the sustainability questionnaire, identify opportunities to enhance our current initiatives, source sustainable products and services and influence our supply chain whenever practical and without compromising our service quality standards.

**Objectives for 2010**

- Review results of The Peninsula Hong Kong's supply chain pilot, refine the questionnaire for suppliers and contractors as needed and roll out to the supply chains of all HSH's properties and businesses.
- Review the implementation of HSH's sustainability guidelines, refine and update as needed to enhance the Group's sourcing of environmentally and socially responsible goods and services.

## Community Investment And Engagement

HSH has actively engaged in supporting and working with local communities throughout our history. Our properties and businesses have all supported charities such as Make-a-Wish and other groups and organisations that reflect the unique needs of each of the diverse communities in which we operate. As part of our corporate culture, we strongly support the active and individual involvement of staff at all levels in local environmental and social projects. HSH also recognises the importance of heritage to HSH's brand and the community and is proud to be one of three founders and funders of the Hong Kong Heritage Project.

In 2009, a Group wide framework for community investment and engagement was developed to assist properties with their efforts. This includes focusing activities where our expertise and experience can add value, such as sharing professional knowledge through educational and training initiatives and on projects which reflect the needs of the local community. Each property has been encouraged to focus on the three themes of education, children and the elderly, as well as other causes based on local priority needs. The goal is to involve staff in meaningful initiatives with specific groups to bring long term, sustainable benefits to the community and to HSH.

Each property has established a committee to plan and oversee the implementation of their strategic community investment and engagement activities and to monitor and report progress and results to HSH's CSRC. The CSRC will regularly review activities to ensure that community investment and engagement remain aligned with the Group's strategy and is effectively and efficiently implemented.

Examples of how HSH has implemented this Group wide strategy in 2009, along with a breakdown of these contributions based on monetary and in-kind donations to charitable organisations, as well as time spent on community or professional/ training initiatives, are provided in the diagram and Table 3 on the next two pages. As this is the first year that the Group has reported its community investment activities in a consolidated manner, the table also provides an indication of the nature and level of activities in 2009.

The Hong Kong Heritage Project is a unique archive of preserved records collected by the Kadoorie family and the various Kadoorie business interests, including The Hongkong and Shanghai Hotels, China Light and Power and the Kadoorie Farm. Archived materials related to the Kadoorie brothers' personal and business interests and philanthropic pursuits provide a rare historical snapshot of Hong Kong since the 1880s, including events in Shanghai and Hong Kong during the Second World War and the reconstruction period that followed.

*The Peninsula Hong Kong supports the Home of Love to care for families living below the poverty line by providing tuition classes for children, donating toys and food and organising social activities.*

*In partnership with Caritas – Hong Kong, The Peninsula Hong Kong initiated a training programme to equip women with skills to re-enter the work force.*

*The Peninsula Beijing supports the Living Tree, an organisation which assists orphans suffering from a brain disorder called amentia, through donations of items for daily use such as milk powder, CD players, juice extractors, rice cookers, shampoo, etc.*

*The Peninsula Beijing also supports Sun Village, a community of children of imprisoned parents, by donating kitchen equipment and items for daily use, including shampoo, bed sheets, body lotion, hand cream, etc.*

**HSH ADOPTED A STRATEGIC FRAMEWORK TO FOCUS ITS COMMUNITY INVESTMENT AND ENGAGEMENT ACTIVITIES**

**The Peninsula Hong Kong**
The hotel donated 407 hotel gift certificates (with a total value of HK$1,759,466) in support of local charities. The hotel also organised 22 activities for local charities which benefited 465 people in need and involved 263 hotel staff volunteering a total of 918 hours.

**The Peninsula New York**
The hotel donated toys to children in need, gave US$15,350 in products and services to the "Make a Wish" Foundation and US$450 in turkey vouchers for needy New Yorkers, and participated in the American Cancer Society's Daffodil Days.
The hotel also hosted internships for hospitality students from various colleges and universities as well as hotel tours and presentations.

**The Peninsula Chicago**
The hotel staff volunteered at two new children's organisations – the Chicago Children's Memorial Hospital and a local orphanage;
partnered with three charities, supported the Chicago Abused Women's Coalition, donated turkeys to a homeless shelter and organised a hotel Toy Drive; supported the Cooking Hospitality Institute of Chicago's job fair and conducted practice interview sessions for refugees at Heartland Alliance and Interfaith Refugee & Immigration.

**The Peninsula Tokyo**
The hotel adopted a third charity, "Hands on Tokyo" which uses activity-based approaches to support local charities. 31 staff visited orphanages, homes and schools for visually-challenged children and 40 staff. On two occasions, they made rice balls and delivered them to homeless people in Tokyo as part of an "Onigiri" project.

**The Peninsula Beijing**
The hotel supports homes that care for children who are mentally-challenged, have imprisoned parents or are visually-challenged and the Song Tang home for the elderly. The hotel provided over 40 year-long internships for students from provinces in China.
Despite limits on recruitment, the hotel hired two physically challenged employees with one as a telephone operator and the other in the graphics department.

**The Peninsula Manila**
The hotel's community events ranged from tree planting along the Osmena Highway to building houses for Habitat for Humanity to organising a soup kitchen and preparing food for 1,000 people impacted by typhoon Ondoy. PMN also started an on-the-job apprenticeship training with a quarterly intake of students from several local schools.

**The Repulse Bay**
The Complex organised charity events and donations for several organisations such as Camp Quality for children undergoing treatment for cancer and the Hong Chi Assocation to support the employment of mentally-challenged people.

**The Peninsula Bangkok**
The hotel planted 250 mangroves covering an area of 1,600 m2 at King Rama V fort, an initiative of Her Majesty the Queen Sirikit.

Table 3: An indicative overview of the nature and level of community investment activities in 2009 across the Group

| | Activity Units | | | | Donation Unit | | |
|---|---|---|---|---|---|---|---|
| | No. of events | No. of staff volunteers | Total volunteering hours | No. of participants | Kg of items donated | No. of items donated | US $ |
| Community work | 107 | 1,004 | 2,084 | 11,483 | – | 1,244 | 26,844 |
| Items donated for recycling | – | – | – | – | – | – | 2,345 |
| Distance learning / continued education | 54 | 634 | 3,599 | 1,051 | – | – | 10,256 |
| Donations in kind | 33 | – | – | – | 750 | 390 | 215,648 |
| Donations in kind from staff | | | | | 730 | 1,731 | –- |
| **Monetary Donations** | | | | | | | |
| From hotels/ businesses | – | – | – | – | – | – | 55,527 |
| From staff | – | – | – | – | – | – | 12,497 |
| Seminars / workshops | 90 | 819 | 2,470 | 3,211 | – | – | – |
| Internship / work exposure | 70 | – | 82,916 | 371 | – | – | – |
| Heritage tours | 248 | 329 | 13,761 | 1,657 | – | – | – |
| **TOTAL** | | **2,216** | **104,830** | **17,773** | **1,480** | **3,365** | – |
| **TOTAL MONETARY VALUE OF COMMUNITY INVESTMENT ACTIVITIES** | | | | | | | **$ 323,118** |

*Note:*

- *Donations in kind include hotel room nights, food and beverage items and spa items donated for charity fundraising.*


*The Landmark in Vietnam joined other sponsors in the Helmets for Kids project with the support of the Asia Injury Prevention, an American non-profit organisation that aims to improve road safety in the developing world.*

*Chicago Children's Memorial Hospital Christmas visit by The Peninsula Chicago's Page Bear Peter and Reservations Manager as the Holiday Elf.*

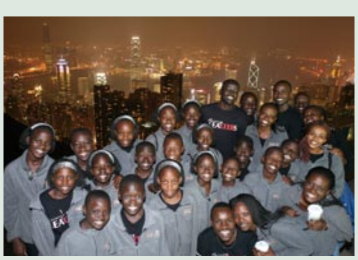

*The Peninsula Bangkok donated revenue generated from a garage sale to purchase a washing machine for the Ban Bhudaraksa Phyathai Baby Home, a residence for babies with AIDS.*


*88 volunteers from The Peninsula Manila worked for 2 consecutive Saturdays to lay the foundation for one of the first houses to be built at a new Habitat for Humanity site in Nagpayong, Pasig City.*

*The Peninsula Tokyo's 'Green Committee', comprising 16 members from all divisions of the hotel, organised a clean up campaign around the hotel to raise environmental awareness in Tokyo.*

*The Peninsula Bangkok planted 200 mangrove trees at King Rama V Fort, Samutprakarn Province.*

*HSH's Chief Executive Officer, Clement Kwok, with participants of the Walk for Millions 2010 event which was organised by the Community Chest to support its family and child welfare services.*



*The Peak Tram staff from Hong Kong supported visits to the Peak by children who were affected by the 2008 earthquake in Sichuan, as well as the Watoto Children's Choir from Uganda.*

**Objective for 2010**

- Review community investment and engagement activities undertaken by properties and businesses to identify opportunities to enhance strategic actions and increase beneficial impacts.

## Stakeholder Engagement

For many years, HSH has been engaging in various types of stakeholder engagement and communications at both the Head Office level and across all operations as a company listed on the Stock Exchange of Hong Kong and with our history dating back to 1866. Being an international property and hospitality company, HSH also appreciates that a diverse group of stakeholders have different interests and expectations for our business operations.

We have identified our stakeholders as those who have a direct or indirect stake or interest in the financial, environmental and/or social performance of our businesses. Our stakeholders include: shareholders; investors; lenders; employees; guests; customers; tenants; business partners; suppliers; regulators; the media; trade associations and institutions; governments; non-governmental organisations; and local residents and communities. While HSH already engages with its stakeholders at the Group, property and business levels on various matters of interest, we recognise that we would benefit from a systematic approach to identify other potential stakeholder groups, assess and classify their needs and areas of concern, and to integrate the engagement process into our wider corporate responsibility efforts. Therefore, in 2010 we will introduce a Stakeholder Mapping and Classification (SMC) protocol across the Head Office and our operations and plan for training on stakeholder engagement and facilitating structured stakeholder dialogues. It is our aim that future reporting will incorporate the views and key issues raised by stakeholders and how HSH addresses this feedback.

**Objective for 2010**

- Roll out a Stakeholder Classification and Engagement Manual to the Group's operations and plan for providing training and support for properties and businesses to identify their stakeholders, map their issues and conduct targeted, stakeholder engagement initiatives.

## FEEDBACK AND CONTACT INFORMATION

We welcome your comments and suggestions on our Sustainability Report and how we can enhance our reporting in the future. Please send your feedback to:

David Williams
*General Manager,*
*Corporate Responsibility and Sustainability*

The Hongkong and Shanghai Hotels, Limited
8th Floor, St. George's Building
2 Ice House Street
Central, Hong Kong
davidwilliams@peninsula.com

More information on The Hongkong and Shanghai Hotels, Limited is available on the corporate website at www.hshgroup.com.

## LRQA Assurance Statement

**Terms of Assurance Engagement**

Lloyd's Register Quality Assurance (Shanghai) Co Limited (LRQA) was commissioned by The Hongkong and Shanghai Hotels, Limited (HSH) to independently assure its Sustainability Report 2009 (hereafter referred to as "the Report") included within the 2009 Annual Report for the financial year ending 31 December 2009.

The assurance engagement was undertaken against the Global Reporting Initiative's Sustainability Reporting Guidelines (GRI G3), 2006.

The scope of the assurance engagement did not extend to data and information accessed through links that take the reader out of the Report. LRQA corroborated only that data and information were transcribed accurately or the correct reference was provided. The objectives of the assurance engagement were to review that the report achieved the requirements of GRI Application Level C and to verify the reliability of the specified sustainability performance information against GRI G3.

The Report has been prepared and approved by the management of HSH, who are also responsible for the collection and presentation of information within it. LRQA was responsible for carrying out an assurance engagement on the Report, in accordance with our contract with HSH.

**LRQA's approach**

The assurance engagement was conducted in the HSH Head Office, 8th Floor, St. George's Building, 2 Ice House Street, Central, Hong Kong.

Our assurance approach was risk based and undertaken as a sampling exercise of the data and information disclosed in the Report. It covered the following activities:

- Reviewing HSH's stakeholder engagement process and related information;
- Evaluating HSH's material issues against our own independent analysis of stakeholder issues;
- Carrying out a benchmarking exercise of high level material issues by reviewing sustainability reports written by HSH's peers;
- Understanding how HSH determines, responds and reports on its material issues;
- Interviewing HSH's senior management and their external consultant to understand HSH's reporting processes and use of sustainability performance data within their business decision making processes;
- Interviewing key personnel to understand HSH's processes for setting performance indicators and for monitoring progress made during the reporting period;
- Verifying HSH's data and information management processes; and
- Validating HSH's self declaration of GRI G3 application level C.

**LRQA's conclusions and findings[1]**
To form our conclusions we have obtained and reviewed sufficient evidence to provide the moderate level of assurance stated in the terms of the engagement.

Based on the terms of the engagement, in LRQA's opinion nothing has come to our attention that would lead us to believe that HSH has not met the conditions for the GRI G3, at application level $C^+$.

**Reliability of specified sustainability performance information**
The processes for sustainability performance data and information collection, aggregation and management were implemented and established. Nothing has come to our attention that would lead us to believe that the specified sustainability performance is not reliable or that information has been mis-stated.

**LRQA's recommendations**
HSH is committed to continually improve its stakeholder engagement, expand its sustainability initiatives, develop the monitoring of its sustainability metrics and report on these in future. With regards to its Sustainability Report in future years, we recommend that HSH should address the following:

- Establish a systematic approach to its stakeholder engagement process;
- Enhance its process for determining material issues by introducing specific criteria;
- Report on the performance of its quality of service (for example, customer satisfaction and customer property management);
- Provide more data on waste management; and
- Implement a programme of internal data and information verification.

**For and on behalf of LRQA (Shanghai) Co Ltd**

19 March 2010[2]

*1. Conclusions given are based upon full disclosure by HSH of all relevant data and information.*
*2. This document is subject to the provisions about third party liability and is valid for one year.*

**Third party liability**
LRQA, its affiliates and subsidiaries and their respective officers, employees or agents are, individually and collectively, referred to in this clause as the 'Lloyd's Register Group'. The Lloyd's Register Group assumes no responsibility and shall not be liable to any person for any loss, damage or expense caused by reliance on the information or advice in this document or howsoever provided, unless that person has signed a contract with the relevant Lloyd's Register Group entity for the provision of this information or advice and in that case any responsibility or liability is exclusively on the terms and conditions set out in that contract.

**LRQA's Competence and Independence**
LRQA ensures the selection of appropriately qualified individuals based on a rigorous appraisal of their training, qualifications and experience. The team conducting the assurance of the Report was multi-disciplinary and has been involved in assurance assessments from the outset of external verification of nonfinancial performance reports. LRQA's internal systems have been designed to manage and review assurance and certification assessments. This involves independent review by senior management of the outcome derived from the process applied to the assurance of corporate reports.

**Independence of LRQA from HSH**
LRQA and HSH operate as discrete and independent legal entities. LRQA did not provide any other service to HSH.

**Conflict of interest**
LRQA is part of the Lloyd's Register Group. Lloyd's Register Group recognises that potential conflicts of interest may exist which could impact on its independent assurance and certification activities. Lloyd's Register Group is committed to identifying and managing such conflicts so that they do not adversely impact its independence and impartiality. In order to protect the integrity, neither LRQA nor any other Lloyd's Register Group company will provide services which create a conflict and compromise the independence and impartiality of third party assurance and certification. The Lloyd's Register Group will never verify its own solutions to a customer's problem.

The English version of this statement is the only valid version. The Lloyd's Register Group assumes no responsibility for versions translated into other Languages

## HSH's Environmental Performance Statistics

| GRI Indicator Code | GRI Performance Indicator | 2006 | 2007 | 2008 with the addition of The Peninsula Tokyo | 2009 | 2010 target with the addition of The Peninsula Shanghai |
|---|---|---|---|---|---|---|
| *EN 3 | Direct energy consumption by primary energy source | 276,848 GJ | 273,545 GJ | 284,963 GJ | 254,947 GJ | 269,128 GJ |
| *EN 4 | Indirect energy consumption by primary source | 467,815 GJ | 489,432 GJ | 573,698 GJ | 539,386 GJ | 599,026 GJ |
| *Energy intensity | | 1,856 MJ/m$^2$ | 1,895 MJ/m$^2$ | 1,862 MJ/m$^2$ | 1,722 MJ/m$^2$ | 1685 MJ/m$^2$ |
| *% Energy intensity reduction (compared to 2006-2008 baseline average) | | | | | 7.9% | 10% |
| *EN 8 | Total water withdrawal by source | 1,787,122 m$^3$ | 1,800,517 m$^3$ | 1,833,639 m$^3$ | 1,554,209 m$^3$ | |
| *EN10 | Percentage and total volume of water recycled and reused | | | | 8.3%<br>128,703 m$^3$ | |
| **Water intensity – hotels only | | 1,378 Litres/ Guest Night | 1,445 Litres/ Guest Night | 1,401 Litres/ Guest Night | 1,377 Litres/ Guest Night | 1,366 Litres/ Guest Night |
| **% Water intensity reduction – hotels only (compared to 2006-2008 baseline average) | | | | | 2.2% | 3% |
| *EN 16 | Total direct and indirect greenhouse gas emission by weight | | | 102,694 tonnes of $CO_2$ equivalent | 94,060 tonnes of $CO_2$ equivalent | |
| *EN 19 | Emission of ozone-depleting substances by weight | | | | ODS / Tonnes / Tonnes of CFC-11 equivalent<br>R12 / 0.028 / 0.028<br>R22 / 1.508 / 0.083<br>R123 / 0.2 / 0.004<br>R141b / 0.084 / 0.009<br>R401a / 0.004 / 0.002<br>R502 / 0.129 / 0.036<br>Total / 1.953 / 0.162 | |
| *HSH Total Floor Area | | 401,294 m$^2$ | 402,689 m$^2$ | 461,261 m$^2$ | 461,261 m$^2$ | 515,225 m$^2$ |
| **HSH Guest nights – hotels only | | 1,065,035 | 1,014,559 | 1,063,921 | 907,871 | 1,044,662 |

* *Including all the Peninsula Hotels, The Repulse Bay, The Peak Tower, St. John's Building, The Landmark in Vietnam, Quail Lodge and Tai Pan Laundry only*

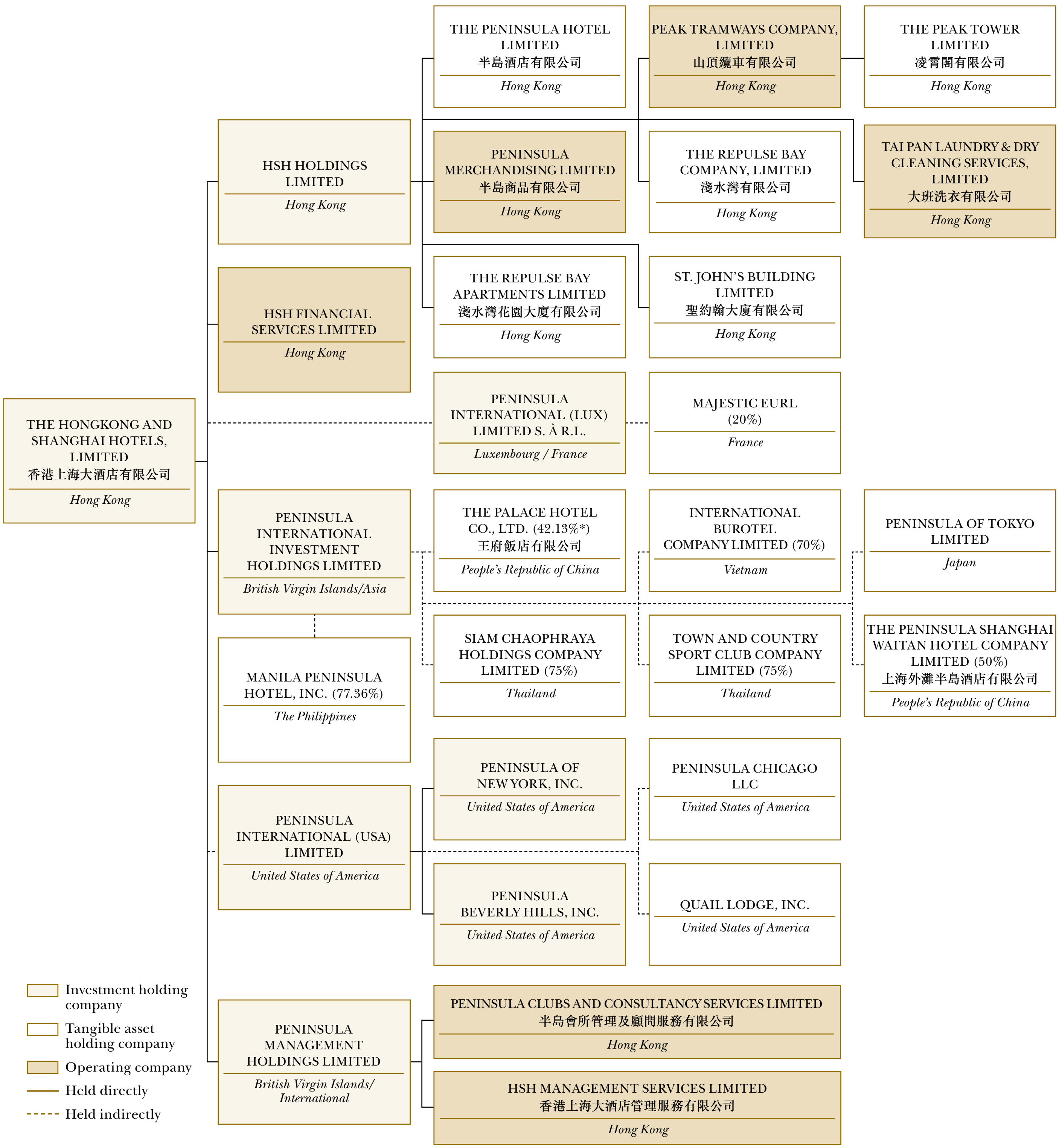
** *Including all the Peninsula Hotels and Quail Lodge*

*Please note that:*

1) *The Thai Country Club is not included in the above calculations.*
2) *In 2007, Tai Pan Laundry expanded its floor area.*
3) *The Peninsula Tokyo had its first full year of operations in 2008.*
4) *In 2009, EN16 includes the fugitive emissions from refrigeration and air conditioning equipment.*
5) *On 16 November 2009, HSH closed the hotel portion of Quail Lodge Resort and Golf Club.*
6) *On 18 October 2009, The Peninsula Shanghai soft opened and will be included in the Group's environmental performance statistics in 2010.*

# Principal Subsidiaries, Associate and Jointly Controlled Entity

At 31 December 2009




* 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, associate and jointly controlled entity which principally affect the results, assets and liabilities of the Group are shown in the chart above.

All subsidiaries are 100% owned except where indicated, and their details are disclosed in note 15.

The Group's interests in Majestic EURL (associate) and The Peninsula Shanghai Waitan Hotel Company Limited (jointly controlled entity) are held indirectly. Details of the Group's associate and jointly controlled entity are disclosed in notes 16 and 17 respectively.

# Information for Investors

## Board Of Directors

The Hon. Sir Michael Kadoorie [E]
*Non-Executive Chairman*

Ian Duncan Boyce [EAFR]
*Non-Executive Deputy Chairman*

## Executive Directors

Clement King Man Kwok [EF]
*Managing Director & Chief Executive Officer*

Neil John Galloway [F]
*Chief Financial Officer*

Peter Camille Borer
*Chief Operating Officer*

## Non-Executive Directors

Ronald James McAulay
William Elkin Mocatta
John Andrew Harry Leigh [EF]
Nicholas Timothy James Colfer

## Independent Non-Executive Directors

Dr. The Hon. Sir David Kwok Po Li
Robert Chee Siong Ng [A]
Robert Warren Miller [R]
Patrick Blackwell Paul [AR]
Pierre Roger Boppe

## Company Secretary

Christobelle Yi Ching Liao

## Auditor

KPMG
Certified Public Accountants, Hong Kong

*E – Executive Committee Member*
*A – Audit Committee Member*
*F – Finance Committee Member*
*R – Remuneration Committee Member*

## Shareholders' Calendar

Last day to register for final dividend: 7 May 2010 4:30pm
Closure of Register of Members: 10 May 2010 to 12 May 2010 (both days inclusive)

Annual General Meeting: 12 May 2010

Deadline for scrip dividend election forms: 15 June 2010 4:30pm

Final Dividend: 6 HK cents per share
Payable: 25 June 2010

## Company Websites

HSH Corporate: www.hshgroup.com
The Peninsula Hotels: www.peninsula.com

## Investor Enquiries

Webpage: www.hshgroup.com/ir
E-mail: ir@hshgroup.com

## Registered Office

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Tel: (852) 2840 7788
Fax: (852) 2810 4306

## Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong
Customer Services Hotline: (852) 2862 8555
Fax: (852) 2865 0990/2529 6087
E-mail: hkinfo@computershare.com.hk

## Listing Information

Stock Code: 45

# Reservations & Contact Addresses

## Hotels

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Fax: (852) 2722 4170
Email: phk@peninsula.com

**The Peninsula Shanghai**
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Tel: (86-21) 2327 2888
Fax: (86-21) 2327 2000
E-mail: psh@peninsula.com

**The Peninsula Beijing**
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Fax: (86-10) 6510 6311
Email: pbj@peninsula.com

**The Peninsula New York**
700 Fifth Avenue at 55th Street
New York, NY 10019, USA
Tel: (1-212) 956 2888
Fax: (1-212) 903 3949
Toll Free: (1-800) 262 9467
(USA only)
Email: pny@peninsula.com

**The Peninsula Chicago**
108 East Superior Street
(at North Michigan Avenue)
Chicago, Illinois 60611, USA
Tel: (1-312) 337 2888
Fax: (1-312) 751 2888
Toll Free: (1-866) 288 8889
(USA only)
Email: pch@peninsula.com

**The Peninsula Beverly Hills**
9882 South Santa Monica
Boulevard, Beverly Hills
California 90212, USA
Tel: (1-310) 551 2888
Fax: (1-310) 788 2319
Toll Free: (1-800) 462 7899
(USA and Canada only)
Email: pbh@peninsula.com

**The Peninsula Tokyo**
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Tokyo, 100-0006, Japan
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Fax: (81-3) 6270 2000
Email: ptk@peninsula.com

**The Peninsula Bangkok**
333 Charoennakorn Road
Klongsan, Bangkok 10600
Thailand
Tel: (66-2) 861 2888
Fax: (66-2) 861 1112
Email: pbk@peninsula.com

**The Peninsula Manila**
Corner of Ayala and
Makati Avenues
1226 Makati City, Metro Manila
Republic of The Philippines
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Fax: (63-2) 815 4825
Email: pmn@peninsula.com

**Global Customer Service Centre**
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Hong Kong
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Fax: (852) 2732 2933
Email: reservationgcsc@peninsula.com

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Australia 1 800 116 888
Brazil 0800 891 9601
Canada 011 800 2828 3888
China North 10 800 852 3888
China South 10 800 152 3888
France 00 800 3046 5111
Germany 00 800 3046 5111
Italy 800 789 365
Japan 0053 165 0498
Mexico 001 800 123 4646
Russia 810 800 2536 1012
Singapore 001 800 2828 3888
Spain 900 937 652
Switzerland 00 800 3046 5111
Taiwan 00 800 2828 3888
Thailand 001 800 2828 3888
United Kingdom 00 800 2828 3888
United States of America 1 866 382 8388

## Commercial Properties

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Fax: (84-8) 3822 5161
Email: info@landmark-saigon.com

**The Peak Tower and The Peak Tram**
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Tel: (852) 2849 7654
Fax: (852) 2849 6237
Email: info@thepeak.com.hk

**St. John's Building**
33 Garden Road, Central, Hong Kong
Tel: (852) 2526 4926
Email: sjbmanagement@peninsula.com

## Clubs & Services

**Thai Country Club**
88 Moo 1
Bangna-Trad Km. 35.5
Thambon Pimpa
Bangpakong District
Chacheongsao 24180, Thailand
Tel: (66-2) 651 5300
Fax: (66-2) 651 5307
Email: inquiry@thaicountryclub.com

**Quail Golf & Country Club**
8205 Valley Greens Drive, Carmel
California 93923, USA
Tel: (1-831) 624 2888
Fax: (1-831) 624 3726
Email: info@quaillodge.com

TdA – Concept, design and production www.tda.com.hk Consulted by Strategic Financial Relations Limited www.sprg.com.hk

THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司

www.hshgroup.com