THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 45) website: www.hshgroup.com

# 2010 Annual Results

## HIGHLIGHTS

### Key financial results

- Turnover increased by 12% to HK$4,707 million *(2009: HK$4,218 million)*
- EBITDA increased by 24% to HK$1,143 million *(2009: HK$924 million)*
- Net profit attributable to shareholders amounted to HK$3,008 million *(2009: HK$2,660 million)*
- Underlying profit attributable to shareholders increased by 26% to HK$408 million *(2009: HK$323 million)*
- Earnings per share and underlying earnings per share of HK$2.04 *(2009: HK$1.82)* and HK$0.28 *(2009: HK$0.22)* respectively
- Final dividend of 8 HK cents per share, making a total dividend of 12 HK cents per share for 2010 *(2009: 9 HK cents per share)*
- Shareholders' funds as at 31 December 2010 amounted to HK$29,103 million or HK$19.66 per share *(2009: HK$26,147 million or HK$17.79 per share)*
- The Group's adjusted net assets as at 31 December 2010 amounted to HK$31,888 million (HK$21.55 per share) *(2009: HK$28,571 million at HK$19.44 per share)*

### Key developments

- The Peninsula Shanghai formally opened its doors on 18 March, 2010 with a Grand Opening Gala, ushering in an historic moment for HSH as it returned to one of its two founding cities. Over 3,000 guests from around the world joined the celebrations.
- Under an agreement signed in December 2009, The Peninsula Shanghai has commenced the management of building No. 1 at Bund 33 (the former British Consulate) as a state guesthouse and the leasing of buildings No. 2, 3 and 4 as well as the basement of the Bund 33 complex for commercial usage, as from September 2010.
- Construction work for The Peninsula Paris began in September 2010. By October, site installations had finished while ground and structural works continued through the end of the year.
- A number of successful renovation projects were completed in several of our hotels during the year.
- Significant renovation plans have been approved for The Peninsula Hong Kong and the Repulse Bay Complex to further improve and enhance their value over the next few years.

# FINANCIAL AND OPERATING HIGHLIGHTS

| | **2010** | 2009 *(restated)* | Increase/ (Decrease) |
|---|---|---|---|
| **CONSOLIDATED INCOME STATEMENT** (HK$m) | | | |
| Turnover | **4,707** | 4,218 | 12% |
| EBITDA | **1,143** | 924 | 24% |
| Operating profit | **794** | 586 | 35% |
| Profit attributable to shareholders | **3,008** | 2,660 | 13% |
| Underlying profit attributable to shareholders ** | **408** | 323 | 26% |
| Dividends | **177** | 132 | 34% |
| Earnings per share (HK$) | **2.04** | 1.82 | 12% |
| Underlying earnings per share (HK$) ** | **0.28** | 0.22 | 27% |
| Dividends per share (HK cents) | **12** | 9 | 33% |
| Dividend cover (times) # | **2.3x** | 2.4x | (4%) |
| Interest cover (times) | **7.4x** | 6.8x | 9% |
| Weighted average gross interest rate | **3.2%** | 3.2% | - |
| **CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (HK$m) | | | |
| Total assets | **36,587** | 32,872 | 11% |
| Audited net assets attributable to shareholders | **29,103** | 26,147 | 11% |
| Adjusted net assets attributable to shareholders ** | **31,888** | 28,571 | 12% |
| Audited net assets per share (HK$) | **19.66** | 17.79 | 11% |
| Adjusted net assets per share (HK$) ** | **21.55** | 19.44 | 11% |
| Net borrowings | **1,674** | 1,990 | (16%) |
| Net debt to EBITDA (times) | **1.5x** | 2.2x | (32%) |
| Net debt to equity | **6%** | 8% | (2pp) * |
| Gearing | **5%** | 7% | (2pp) * |
| **CONSOLIDATED STATEMENT OF CASH FLOWS** (HK$m) | | | |
| Net cash generated from operating activities | **1,019** | 761 | 34% |
| Capital expenditure | **(276)** | (269) | 3% |
| Investment in The Peninsula Paris project | **-** | (1,044) | (100%) |
| Net cash inflow/(outflow) after capital expenditure, interest and dividends | **568** | (824) | n/a |
| Capital expenditure to revenue | **6%** | 6% | - |
| **SHARE INFORMATION** (HK$) | | | |
| Highest share price | **14.90** | 11.98 | 24% |
| Lowest share price | **10.32** | 4.26 | 142% |
| Year end closing share price | **13.32** | 11.36 | 17% |
| **OPERATING INFORMATION** | | | |
| Number of hotel rooms | **3,012** | 3,012 | - |
| Average occupancy rate | | | |
| - Hong Kong | **70%** | 57% | 13pp * |
| - Other Asia | **58%** | 48% | 10pp * |
| - United States of America | **65%** | 58% | 7pp * |
| Average room rate (HK$) | | | |
| - Hong Kong | **3,816** | 3,796 | 1% |
| - Other Asia | **1,928** | 1,774 | 9% |
| - United States of America | **4,403** | 4,052 | 9% |
| RevPAR (HK$) | | | |
| - Hong Kong | **2,660** | 2,182 | 22% |
| - Other Asia | **1,114** | 857 | 30% |
| - United States of America | **2,856** | 2,362 | 21% |

* *pp denotes percentage points.*
** *Please refer to calculation in the Financial Review.*
\# *Dividend cover is calculated based on underlying profit attributable to shareholders over dividends.*

The Directors hereby announce the audited results for the year ended 31 December 2010, which have been reviewed by the Company's Audit Committee, comprising a majority of independent non-executive directors, one of whom chairs the Committee, and have been agreed with the Company's auditor, KPMG.

## CHIEF EXECUTIVE OFFICER'S REPORT

The highlight of 2010 was undoubtedly the Grand Opening of The Peninsula Shanghai hotel, which took place on 18 March. Situated in a magnificent location on the famous Bund in Shanghai with commanding views over the Bund and across the river to Pudong, this magnificent hotel represents for our Company a fitting return to one of its founding cities after an absence of over 50 years.

In line with our Company's philosophy of focusing on a small, select number of hotel projects which we hope can rank amongst the world's best, no efforts were spared in the design, construction and service standards of The Peninsula Shanghai and I am pleased to report that this property has already gained widespread recognition both within China and internationally, with the receipt of many prestigious awards.

More generally, 2010 was a year in which we saw some recovery in the global hospitality markets following the significant downturn caused by the economic crisis which started in August 2008. However, whilst hotel revenues recovered partially towards 2008 pre-crisis levels, inflationary pressures have remained on operating and other costs, especially labour costs, and margins continue to be under pressure. The performance of our hotels have varied quite significantly between different geographical locations, with strength in Greater China but recovery lagging in some parts of the US and Japan.

It continues to be a strength of our Group that our hotels business is balanced by a strong mix of commercial properties, including several successful high-end shopping arcades inside our hotels, as well as our well-established commercial, residential and office properties.

With the balance of earnings provided by this diversified portfolio, I am pleased to report that our Group achieved an increase of 24% in earnings before interest, taxation, depreciation and amortisation (EBITDA) to HK$1,143 million in 2010 and an increase of 35% in operating profit to HK$794 million in 2010. We have continued to focus on controlling costs while providing the staff and resources to service the increased business levels and this has resulted in an improvement in our EBITDA margin from 22% in 2009 to 24% in 2010.

Inclusive of non-operating items, being principally the year-end investment property revaluation surpluses, the net profit attributable to shareholders was HK$3,008 million, as compared to HK$2,660 million in 2009. 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$408 million, as compared to HK$323 million in 2009, representing an increase of 26%.

Our financial position remains strong. Our revalued net assets attributable to shareholders increased by 11% to HK$29,103 million, representing HK$19.66 per share and our gearing remained at a very conservative level of 5% at the year-end. Our net cash surplus for the year, after deducting capital expenditure, interest and dividends, amounted to HK$568 million.

***HOTELS***

Our Hotels Division recorded a mixed performance as economies around the world recovered at different speeds and travel demographics shifted from established long-haul markets to intra-regional and domestic markets. Challenges remained in some markets where we operate, including weak corporate business, oversupply of luxury hotels and political instability. Nevertheless, we experienced a strong surge in the second half of the year in markets such as Hong Kong and New York.

China: Amongst the Peninsula Hotels, the strongest performance came from our flagship property **The Peninsula Hong Kong**, where business was revived in both the corporate and leisure segments. Mainland China has become one of the top producing markets for the hotel, along with significant business growth from emerging markets including Russia and the Middle East. The Peninsula Arcade remains highly sought after by leading luxury retail brands and both it and the Office Tower were able to grow their average rent and maintain effectively full occupancy during the year. **The Peninsula Shanghai** held its Grand Opening Gala in March 2010 and has rapidly established itself as the leading hotel in China. Boosted by the World Expo 2010, the hotel benefited from strong demand from both domestic and international travellers and performed well for a hotel in its first full year of operations. The Peninsula Arcade has been fully occupied by leading luxury retail brands and officially opened in July 2010. Interior fit out work continues for the 39-unit Peninsula Residences, which form part of this complex. **The Peninsula Beijing** was able to maintain a leadership position in the capital whilst competition from the large supply of other luxury hotels remained intense. There was a significant recovery in revenue as compared to last year and the important stream of revenue from the Peninsula Arcade remained robust. The hotel's Arcade upgrade is currently underway.

Asia: **The Peninsula Tokyo,** in its third year of operation, has become a landmark in Japan's capital. The hotel saw a surge in Asian and Middle Eastern visitors, who were relatively unaffected by the global economic crisis, and its revenue increased significantly from the previous year. Its wedding market was also robust. In Thailand, **The Peninsula Bangkok** was hit by anti-government demonstrations from April to June, which crippled Bangkok and led to gloomy forecasts for Thailand's vital tourism sector. However, tourism rebounded to a limited extent in the final quarter of the year. At **The Peninsula Manila,** there was a marked improvement in business during 2010 and the hotel was further supported by the opening of Salon de Ning in December. Continuing the Salon de Ning theme at the Peninsula hotels in Hong Kong, Shanghai and New York, this venue has already become a leading nightspot in Manila.

USA: **The Peninsula New York** completed the final phase of its guestroom renovation in September 2010, which positioned the hotel favourably for future growth. The number of business and leisure travellers increased during the year although competition remained intense within the luxury hotel segment. The booming business we experienced in the fourth quarter, reminiscent of the pre-crisis period, bodes well for the hotel. Business was weak for **The Peninsula Chicago,** which is highly dependent on domestic and corporate business. Nevertheless, the hotel continues to be recognised as one of the best in the US and its well-recognised leading market position places it strongly for future recovery. **The Peninsula Beverly Hills** has sustained business remarkably well throughout the economic crisis. In 2010, it enjoyed significant business improvement, particularly from the entertainment industry and the Middle East market. In October 2010, the hotel embarked on a comprehensive guestroom enhancement programme which will continue through the first half of 2011.

We are of course deeply saddened by the massive earthquake that shook Japan on 11 March 2011 and the suffering and devastation it has caused to the people of Japan. The full extent of the devastation is still to be assessed. However, all of the guests and staff at The Peninsula Tokyo were safe and unharmed and the hotel premises did not suffer any physical damage of significance. On the night of the earthquake, The Peninsula Tokyo opened its doors to the general public, providing hot food and beverages and refreshment facilities to those seeking refuge, while special guestrooms were set aside for pregnant women, mothers with small children, and the elderly who needed a place to rest. The hotel has remained fully operational throughout and will continue to play a role in supporting the community as it faces the challenges that lie ahead as Japan recovers from the earthquake. We have already launched a number of fundraising initiatives in our hotels to assist the relief efforts.

Overall, the revenue and EBITDA of the Hotels Division for the year were HK$3,576 million and HK$604 million, an increase of 12% and 40% respectively as compared to 2009. Further details of individual hotel's financial performance can be found in the Financial Review.

***COMMERCIAL PROPERTIES***

As in past cycles, the Commercial Properties Division proved more resilient during the economic downturn than the Hotels Division, providing stable income contribution to the Group's earnings.

The most important asset in this Division is the **Repulse Bay Complex**. In the first full year after the revitalisation of the Complex's restaurants and shopping arcade, food and beverage income was significantly increased and the shop spaces were fully let, reflecting the success of the renovation. Leasing demand for the apartments remained strong. The total revenue of the Complex rose 8% from 2009 to HK$505 million. In order continually to enhance the value and attractiveness of this important asset, a major improvement plan has been approved. Starting in mid 2011, this will comprise a three-year phased programme that will significantly upgrade all the public areas of the residential towers and improve the layout and efficiency of the serviced apartment tower.

The **Peak Complex** enjoyed an increase in income over 2009, due to its strong positioning in the tourist market. The Peak Tower achieved 100% occupancy during the year and recorded an increase of 24% in year-on-year revenue. The Sky Terrace welcomed a record number of visitors. St. John's Building enjoyed a high occupancy throughout the year with a 6% increase in revenue.

At **The Landmark** in Vietnam, both the office and residential towers maintained high occupancies, yet revenues were 15-18% lower than 2009 due to intense competition in Ho Chi Minh City.

Overall, the revenue and EBITDA of the Commercial Properties Division for the year were HK$688 million and HK$450 million respectively, an increase of 8% as compared to 2009. Further details of individual property's financial performance can be found in the Financial Review.

***CLUBS AND SERVICES***

The 122-year-old Peak Tram has maintained its position as one of Hong Kong's most popular tourist attractions. In 2010, patronage of the Peak Tram rose to a record 5.4 million passengers, an 11% increase from 2009 and in line with the growth in visitor numbers in Hong Kong.

Income from our club management activities rose, with a major contribution coming from our management of the Cathay Pacific lounges at the Hong Kong International Airport. The Thai Country Club maintained the same number of golfers in 2010 but increased its revenue by 12% over 2009. At Quail Lodge, the hotel portion remained closed but the golf course and Clubhouse were open to service the Club's 300-plus members and catering clientele. Peninsula Merchandising achieved record sales in Hong Kong and Asia for its signature mooncakes during Mid Autumn Festival, while retail sales at the Peninsula Boutique in The Peninsula Hong Kong were very strong.

Overall, the revenue and EBITDA of the Clubs & Services Division for the year were HK$443 million and HK$89 million, an increase of 10% and 20% respectively as compared to 2009. Further details of individual clubs and services' financial performance can be found in the Financial Review.

***PROJECTS AND DEVELOPMENTS***

The focus of our projects and development activities continues to be on (i) the establishment of a small and select number of new Peninsula hotels in key international gateway cities and (ii) continual enhancement of our existing hotels and other properties so as to maximize their long term value.

In Shanghai, following the grand opening of the hotel portion in March 2010, we focused on working with the various retail tenants to complete the Peninsula Arcade for its grand opening on 1 July 2010, as well as progressing with the interior construction and fit-out of the 39 apartment units which form part of The Peninsula Shanghai complex. Given the unique location of these apartments and taking a positive view of the long term value of this asset, it has been decided to hold these apartments as investment property and it is expected that they will be offered for rental as from the second half of 2011.

We have also worked closely with a company associated with the Huangpu District Government in relation to the construction and fit-out of the buildings which comprised the former British Consulate, now named Bund 33. Under an agreement signed in December 2009, the Peninsula Shanghai has commenced the management of the building No. 1 as a state guesthouse and the leasing of buildings No. 2, 3 and 4 as well as the basement of the Bund 33 complex for commercial usage, as from September 2010.

The next Peninsula hotel currently under construction is in Paris. Conversion of this magnificent, century-old Beaux Art building to become The Peninsula Paris hotel commenced in September 2010, following the appointment of the general contractor in July 2010. At the same time, interior designs for the hotel’s public areas and guestrooms are at an advanced stage. The Peninsula Paris will be the Group’s first hotel in Europe and is scheduled to open in 2013.

We continue to look for future new Peninsula hotel developments, but remain very selective in seeking opportunities in exceptional locations in key gateway cities which offer the potential to build a hotel to Peninsula’s full requirements. A lot of time and effort goes into this endeavour and I hope to be able to report further progress in due course.

In the meantime, we continue to devote significant efforts to the continual enhancement of our existing assets. During the year, plans have been finalised for an ambitious upgrade of the guestrooms at The Peninsula Hong Kong. The current guestrooms set a new level of technology and functionality within the industry when they were unveiled some 17 years ago and the aim is to raise the bar once more with this new product, the construction of which is expected to commence in 2012 at a projected cost of approximately HK$450 million.

We have also approved a spend of approximately HK$731 million in a phased programme over the next three years to revitalize the public areas of the residential portions of the Repulse Bay Complex, as well as to reconfigure the de Ricou serviced apartment tower to increase efficiency and functionality. We believe this investment will further enhance the value of the Repulse Bay Complex which is currently valued at over HK$13.7 billion.

Of course, many projects are undertaken on an ongoing basis to maintain and enhance our existing hotels and other properties. During the year, these have included the final stage of the guestroom renovation programme at The Peninsula New York, the start of a comprehensive guestroom renovation programme at The Peninsula Beverly Hills and the creation of new outlets such as the Salon de Ning at The Peninsula Manila.

***OUTLOOK***

The strength of our Group continues to emanate from our genuine commitment to the long term, which provides the vision and willingness to invest in assets for their long term value creation and the staying power to ride through shorter term cycles in the economy without compromising the quality of our products and services. In the volatile economic circumstances that we regularly encounter in today's environment, this long term commitment has enabled us to make investment and capital expenditure decisions with a long term outlook and to maintain our service quality and the continuity of our people. With this philosophy in mind, I remain optimistic that we are continuing to chart a course which will maximize the quality and value of our assets and deliver long term returns to our shareholders.

In the more immediate future, we are optimistic that the recovery in some markets that became apparent in the latter part of 2010 will continue into 2011. Generally, the economic development of and outlook for Hong Kong and China, where the bulk of our assets are based, continues to be positive and we expect this to be reflected both in the trading results of our hotel operations and the performance of our non-hotel commercial properties. However, for our operations generally, there is no doubt that in the labour intensive hotel industry, management of margins in the light of an ever increasing cost base continues to be a difficult challenge and the economics between revenue and costs continue to be imbalanced in several of the markets in which we operate.

The impact on our businesses, both in Japan and elsewhere, in the aftermath of this earthquake cannot be fully assessed at this stage. We will, of course, use our best endeavours to manage the financial and other consequences of this disaster and play our part in restoring a healthy operating environment at The Peninsula Tokyo as quickly as possible.

Sustainable development continues to be high on our agenda. Much of our efforts here are focused on the development and well being of our staff, where during the year we rolled out a completely revamped human resources manual. Significant efforts have also been made and continue to be made in the areas of energy efficiency, water consumption, indoor air quality, waste management, responsible sourcing and community involvement. Our energy intensity and water usage intensity figures have continued to improve and a new set of sustainable design standards for hotels has been adopted for our future developments.

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 improved space utilisation, and the development of a small number of the highest quality 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, at the heart of our brand is our passion and our people, who exemplify our values and beliefs in their dealings with our guests and the communities in which we operate. It is the drive and creativity of our people which provide special and memorable experiences for our guests that hopefully sets us apart. I am delighted with the loyalty and long service of our big 'family' and thank them for their commitment.

**Clement K. M. Kwok**
*Chief Executive Officer*
Hong Kong, 22 March 2011

# FINANCIAL REVIEW

## Key components of the financial statement

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, the 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.

**Income statement –** this analyses the Group’s financial performance for the year, showing profitability and comparatives.

**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.

**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.

## 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.

## Basis of preparation of the financial statements

The Group’s 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. HKFRS are issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) 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.

During 2010, the HKICPA has issued a number of amendments and new standards and interpretations (“Revised HKFRS”). The Group has adopted all Revised HKFRS which are effective for the year ended 31 December 2010 and the adoption of the same has not resulted in any significant impact on the Group’s results of operations and financial position.

The Group has also reviewed the Revised HKFRS that are not yet effective for the year ended 31 December 2010 and concluded that, although the *Amendments to HKAS 12 Income Taxes* (the "Amendments") is effective for annual periods beginning on or after 1 January 2012, the early adoption of the Amendments would better present the Group's deferred tax position as at 31 December 2010. In previous years, deferred taxation had 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$3,107 million provision, calculated based on the Hong Kong profits tax rate, primarily in respect of revaluation surpluses on the Group's Hong Kong investment properties. Under the Amendments, deferred tax liabilities in respect of the Group's investment properties are now measured with reference to the tax liabilities that would arise if the properties were disposed of at their carrying values at the reporting date, unless the property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time rather than through sale. In view of the foregoing, the Group is no longer required to provide for deferred tax liabilities in respect of temporary differences arising from revaluation of Hong Kong investment properties and the HK$3,107 million deferred tax liabilities in respect of the Group's Hong Kong investment properties were de-recognised retrospectively as a prior year adjustment in the financial statements for the year ended 31 December 2010.

**The Group's adjusted net asset value**

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 2010. 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 Hong Kong hotel properties on the same rationale as noted above), the Group's net assets attributable to shareholders would increase by HK$2,785 million.

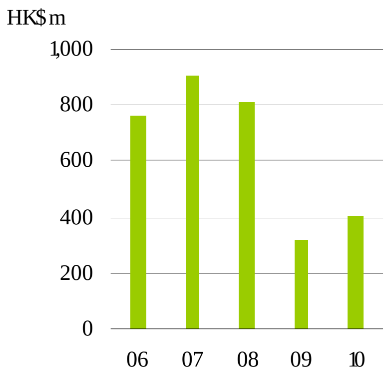
In the light of the above, the Directors have provided the users of the financial statements with a calculation of the Group's adjusted net asset value as at 31 December 2010 on the basis set out below:

| HK$m | | **2010** | | 2009 *(restated)* |
|---|---|---|---|---|
| Net assets attributable to shareholders per audited statement of financial position | | **29,103** | | 26,147 |
| Adjusting the value of hotels and golf courses to fair market value | **3,151** | | 2,559 | |
| Less: Related deferred tax and non-controlling interests | **(366)** | | (135) | |
| | | **2,785** | | 2,424 |
| Adjusted net assets attributable to shareholders | | **31,888** | | 28,571 |
| Audited net assets per share (HK$) | | **19.66** | | 17.79 |
| Adjusted net assets per share (HK$) | | **21.55** | | 19.44 |

**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**



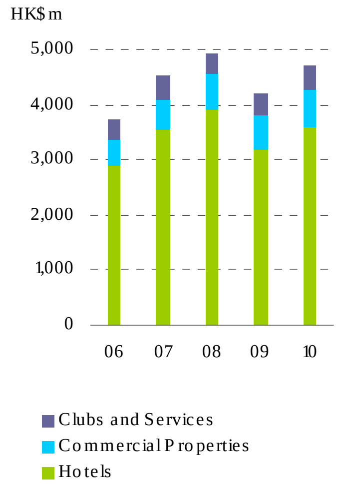

| HK$m | **2010** | 2009 *(restated)* | 2010 vs 2009 |
|---|---|---|---|
| Profit attributable to shareholders | **3,008** | 2,660 | 13% |
| Increase in fair value of investment properties | **(1,938)** | (1,998) | |
| Reversal of impairment losses | **(110)** | - | |
| Share of net property valuation gain of a jointly controlled entity, net of tax | **(614)** | (315) | |
| Other non-operating items | **-** | 21 | |
| Tax and non-controlling interests attributable to non-operating items | **62** | (45) | |
| Underlying profit attributable to shareholders | **408** | 323 | 26% |
| Underlying earnings per share (HK$) | **0.28** | 0.22 | 27% |

## Income statement

### Turnover

The Group's turnover in 2010 amounted to HK$4,707 million, which was HK$489 million or 12% above 2009. The following table sets out the breakdown of consolidated revenues by business segment and by geographical segment:

**Turnover by activity**




| Consolidated revenues by business segment (HK$m) | **2010** | | 2009 *(restated)* | | 2010 vs 2009 |
|---|---|---|---|---|---|
| Hotels | | | | | |
| Rooms | **1,549** | **33%** | 1,355 | 32% | 14% |
| Food and beverage | **1,123** | **24%** | 987 | 23% | 14% |
| Commercial | **567** | **12%** | 556 | 13% | 2% |
| Others | **337** | **7%** | 282 | 7% | 20% |
| Total hotel revenue | **3,576** | **76%** | 3,180 | 75% | 12% |
| Commercial properties | **688** | **15%** | 637 | 15% | 8% |
| Clubs and Services | **443** | **9%** | 401 | 10% | 10% |
| | **4,707** | **100%** | 4,218 | 100% | 12% |

| Consolidated revenues by geographical location (HK$m) | **2010** | | 2009 | | 2010 vs 2009 |
|---|---|---|---|---|---|
| Arising in | | | | | |
| Hong Kong | **2,103** | **45%** | 1,870 | 44% | 12% |
| Other Asia | **1,647** | **35%** | 1,429 | 34% | 15% |
| United States of America | **957** | **20%** | 919 | 22% | 4% |
| | **4,707** | **100%** | 4,218 | 100% | 12% |

***Hotels*** The Hotels Division generated a total revenue of HK$3,576 million, representing an increase of HK$396 million (12%) over 2009. All hotels experienced increased revenue in 2010 compared with 2009, other than The Peninsula Bangkok whose revenue was at the same level as 2009, which is considered to be a good result in the light of the unstable political situation in Thailand. Although not fully consolidated in the Group results, it is worth noting the strong performance of The Peninsula Shanghai in its first year of operation, with revenue of HK$385 million.

The RevPAR in all the hotels, apart from The Peninsula Bangkok, showed growth in 2010 as compared with 2009. The demand in many of the markets in which we operate has strengthened, with higher occupancies being achieved; however, the growth in average room rates was limited due to keen competition within the competitive set.

Shown below is a breakdown of revenue by hotels:

| Breakdown of revenues by hotels (HK$m) | **2010** Rooms | **2010** F&B | **2010** Commercial | **2010** Others | **2010** Total | 2009 (restated) Rooms | 2009 (restated) F&B | 2009 (restated) Commercial | 2009 (restated) Others | 2009 (restated) Total | 2010 vs 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Consolidated hotels | | | | | | | | | | | |
| The Peninsula Hong Kong | **320** | **302** | **379** | **58** | **1,059** | 263 | 285 | 371 | 48 | 967 | 10% |
| The Peninsula Beijing | **143** | **77** | **122** | **20** | **362** | 101 | 55 | 121 | 18 | 295 | 23% |
| The Peninsula New York | **325** | **99** | **34** | **40** | **498** | 289 | 86 | 33 | 33 | 441 | 13% |
| The Peninsula Chicago | **218** | **145** | **-** | **49** | **412** | 201 | 130 | - | 48 | 379 | 9% |
| The Peninsula Tokyo | **319** | **340** | **27** | **76** | **762** | 271 | 297 | 26 | 67 | 661 | 15% |
| The Peninsula Bangkok | **93** | **70** | **3** | **17** | **183** | 98 | 62 | 3 | 19 | 182 | 1% |
| The Peninsula Manila | **131** | **90** | **2** | **17** | **240** | 101 | 70 | 2 | 17 | 190 | 26% |
| Quail Lodge Resort* | **-** | **-** | **-** | **-** | **-** | 31 | 2 | - | 2 | 35 | N/A |
| Management fees income | **-** | **-** | **-** | **60** | **60** | - | - | - | 30 | 30 | 100% |
| | **1,549** | **1,123** | **567** | **337** | **3,576** | 1,355 | 987 | 556 | 282 | 3,180 | 12% |
| Non-consolidated hotels | | | | | | | | | | | |
| The Peninsula Shanghai** | **176** | **150** | **34** | **25** | **385** | 19 | 21 | 8 | 2 | 50 | 670% |
| The Peninsula Beverly Hills | **260** | **90** | **-** | **46** | **396** | 216 | 78 | - | 38 | 332 | 19% |
| | **436** | **240** | **34** | **71** | **781** | 235 | 99 | 8 | 40 | 382 | 104% |

* *Quail Lodge Resort was closed on 16 November 2009.*

** *The Peninsula Shanghai had its soft opening on 18 October 2009 and formally opened on 18 March 2010.*

**The Peninsula Hong Kong:** Total revenue was HK$92 million (10%) higher than 2009, with marked improvement in revenue from all areas and stable revenue from the Arcade. The hotel's RevPAR was 22% higher than 2009, a result of higher occupancy with a noticeable improvement in business from mainland China, USA and Japan. Restaurant and Banquet revenues were higher than 2009 as a result of the improved economic environment in Hong Kong.

**The Peninsula Beijing:** Total revenue was HK$67 million (23%) above 2009, with significant improvement in hotel operations, whilst Arcade rental was maintained at consistent levels with 2009. The competition amongst luxury hotels in Beijing remains intense due to the increased supply and the slow build-up of demand. This situation is expected to continue for some time, resulting in limited opportunity for room rate growth, and forcing the hotel to offer compelling room packages with added value services. Occupancy improved from 34% in 2009 to 46% in 2010, close to the level achieved in 2008 while RevPAR was 42% higher than 2009.

**The Peninsula New York:** Total revenue was HK$57 million (13%) higher than 2009, with improvement in both occupancy and room rate, as well as food and beverage and spa revenues. The hotel increased its RevPAR by 12% over 2009 in the improved economic environment. Travel to New York has increased, but there continues to be significant pressure on room rates within the luxury hotel segment. It is well positioned for further growth as the trading environment is expected to improve.

**The Peninsula Chicago:** Total revenue was HK$33 million (9%) above 2009, as the business base slowly strengthened in Chicago. The hotel's guest mix is almost completely from within North America. The hotel's RevPAR was 9% higher than in 2009, with higher occupancy, but with little increase being achieved in the average room rate. There was significant recognition for the F&B business as the hotel's Avenues restaurant was awarded 2 Michelin stars.

**The Peninsula Tokyo:** Total revenue was HK$101 million (15%) higher than 2009. The increased room revenue was due to higher occupancy and rate, with a return of overseas visitors to Japan. There remains significant pressure on the room rate from international travellers because of the strengthening of the Japanese Yen and the resultant higher US$ cost for rooms as compared to other destinations.

**The Peninsula Bangkok:** Total revenue in 2010 was in line with 2009, which is a result of the political instability that has negatively impacted the tourism industry in Thailand. There has been a significant decline in international visitors, especially leisure travellers and heavy price competition across the city. However, local demand was much stronger than that in 2009, with an increased number of banquet functions and 43% higher banquet revenue.

**The Peninsula Manila:** Total revenue was HK$50 million (26%) higher than 2009. The increased revenue was mainly due to a higher level of occupancy achieved, with a 30% increase in RevPAR and improved food and beverage business. There has been renewed confidence in the Philippine administration following the May 2010 Presidential election, which has led to an improved economic environment. The hotel continued to invest in its F&B operation with the successful opening in December 2010 of the Salon de Ning nightclub and a new cigar bar.

Across the group, most of the shops in the hotels' Arcades are leased on terms of 2 to 3 years. The Company was successful in its tenant retention efforts in an economically challenging year, resulting in a 2% increase in revenue over 2009.

The operating performances of The Peninsula Shanghai and The Peninsula Beverly Hills are provided below, even though these operations are not consolidated as they are not subsidiaries of the Group.

**The Peninsula Shanghai:** Total revenue was HK$385 million. Business levels were strong following the hotel's Grand Opening Gala in mid March 2010 and the hotel also benefited from the World Expo 2010 Shanghai, which was held for six months from May to October 2010. The hotel was able to achieve premium room rates in its first year of operation, comparing favourably against other hotels in the same market segment and ending the year with the highest average room rate and RevPAR in the city.

**The Peninsula Beverly Hills:** Total revenue was HK$64 million (19%) above 2009, due to higher occupancy, which also contributed to higher food and beverage revenue. The hotel's average room rate was less impacted by the economic downturn than our other hotels in the United States and occupancy increased from 61% to 72% in 2010.

***Commercial properties*** The total revenue from the Commercial Properties Division was HK$51 million (8%) above 2009, attributed to increased revenue from shopping arcades which offset the reduced revenue from residential and office properties.

| Breakdown of revenues by Commercial properties (HK$m) | **2010** | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Residential properties** | **Office** | **Shopping Arcade** | **Total** | Residential properties | Office | Shopping Arcade | Total |
| The Repulse Bay Complex, Hong Kong | **381** | **-** | **124** | **505** | 385 | - | 84 | 469 |
| The Peak Tower, Hong Kong | **-** | **-** | **103** | **103** | - | - | 83 | 83 |
| St. John's Building, Hong Kong | **-** | **38** | **-** | **38** | - | 36 | - | 36 |
| The Landmark, Ho Chi Minh City | **11** | **28** | **3** | **42** | 13 | 34 | 2 | 49 |
| | **392** | **66** | **230** | **688** | 398 | 70 | 169 | 637 |

**The Repulse Bay Complex, Hong Kong:** Total revenue was HK$36 million (8%) above 2009. Residential revenue was in line with 2009. The revenue increase was attributed to commercial rental and food and beverage. The high end residential leasing market recovered to pre-crisis levels during 2010, resulting in increased occupancy for the Complex, albeit with lower average rental rates, resulting in residential revenue being 1% below 2009.

**The Peak Tower, Hong Kong:** Total revenue was HK$20 million (24%) above 2009, based on higher rental revenue from retail tenants. The Sky Terrace saw a 7.5% increase in the number of visitors. Occupancy in the Tower remained above 99%, with the majority of existing tenants renewing their leases upon expiry and where tenants had vacated their premises, replacement tenants were quickly identified with limited disruption to the rental revenue flow.

**St. John’s Building, Hong Kong:** Total revenue was HK$2 million (6%) above 2009, with occupancy averaging 97%. The average rental rates were also 8% higher than the year before.

**The Landmark, Ho Chi Minh City, Vietnam:** Total revenue was HK$7 million (14%) below 2009 due to intense competition in Ho Chi Minh City.

***Clubs and Services*** Apart from Quail Lodge, all businesses within this Division achieved higher revenue as compared to 2009; the combined revenue was HK$42 million (10%) above 2009.

| Breakdown of revenues by individual operations of the Clubs and Services division (HK$m) | **2010** | 2009 *(restated)* |
|---|---|---|
| Clubs and Consultancy Services | **115** | 102 |
| Peak Tram | **95** | 79 |
| Peninsula Merchandising | **95** | 75 |
| Thai Country Club | **58** | 52 |
| Quail Golf and Country Club | **47** | 64 |
| Tai Pan Laundry | **33** | 29 |
| | **443** | 401 |

Revenue from Clubs and Consultancy Services is mainly generated from the operation of the Cathay Pacific Airways’ first and business class lounges at the Hong Kong International Airport, where the revenue is based on the number of passengers utilising the lounges. Passenger flow-through increased 13% during the year, resulting in a 13% (HK$13 million) increase in revenue over 2009. Management fees related to the three Clubs that the Group manages in Hong Kong were in line with 2009 and business levels remained steady. Revenue in 2010 also included fees for consultancy services provided to the Waitanyuan project, which is located beside The Peninsula Shanghai.

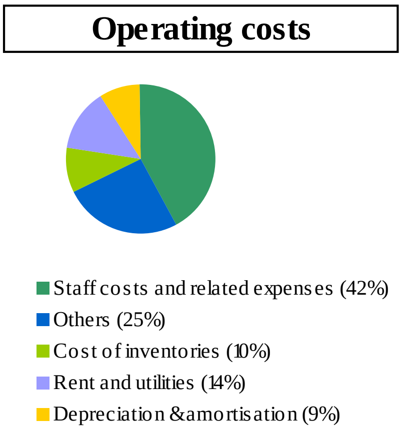
The Peak Tram's patronage rose 11% in 2010, to 5.4 million passengers, the highest record achieved in the Tram's 122 years of history. Revenue increased by HK$16 million or 20% over 2009. For Peninsula Merchandising, revenue was HK$20 million or 27% above 2009. All of the wholesale and retail outlets across Asia recorded revenue growth and stronger trading as compared with 2009, with the more significant increases coming from the outlets in Hong Kong, China and Taiwan.

Total revenue in the Thai Country Club of HK$58 million was HK$6 million (12%) above 2009, due to the stronger Thai Baht; the underlying Thai Baht revenue was in line with 2009. The number of golf rounds was at the same level as 2009, despite the ongoing political tensions in Thailand and reduced number of international visitors.

Total revenue in Quail Lodge Golf and Country Club was HK$17 million (27%) below that of 2009. The hotel portion remained closed and it has been challenging to sell new memberships due to the uncertainty surrounding the future of the golf course and the general economic conditions in California. Total revenue in Tai Pan Laundry was 14% (HK$4 million) higher than in 2009 as a result of the increased business levels in the Hong Kong hotels and other businesses served by the laundry.

**Operating costs**

Operating costs in 2010 were 8% higher than 2009, compared with the 12% increase in group revenue. All business operations have continued to exercise various cost control measures in order to improve profit margins. Operations have continued to work with suppliers to find ways to improve on the price of products and services consumed, while operations also focussed on enhancing work efficiency.

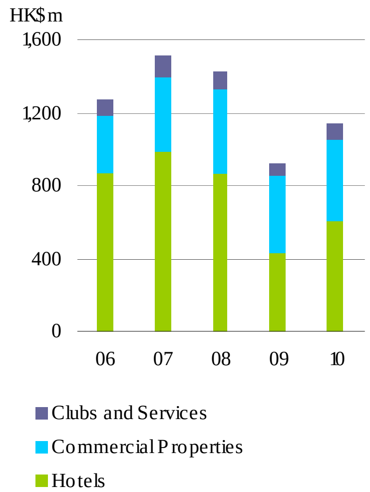



The payroll related costs amounted to HK$1,639 million in 2010, representing 42% of direct operating costs. This cost has increased by 8% over 2009, though the proportion was the same as 2009. The breakdown of full time employee numbers as at 31 December was as follows:

| **Number of full time employees at year end** | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Direct operations** | **Managed operations** | **Total** | Direct operations | Managed operations | Total |
| By division: | | | | | | |
| Hotels | **4,391** | **1,135** | **5,526** | 4,367 | 1,122 | 5,489 |
| Commercial Properties | **339** | **-** | **339** | 339 | - | 339 |
| Clubs and Services | **678** | **412** | **1,090** | 605 | 393 | 998 |
| | **5,408** | **1,547** | **6,955** | 5,311 | 1,515 | 6,826 |
| By geographical location: | | | | | | |
| Hong Kong | **1,740** | **412** | **2,152** | 1,662 | 393 | 2,055 |
| Other Asia | **2,696** | **740** | **3,436** | 2,705 | 760 | 3,465 |
| United States of America | **972** | **395** | **1,367** | 944 | 362 | 1,306 |
| | **5,408** | **1,547** | **6,955** | 5,311 | 1,515 | 6,826 |

The number of full time employees has increased by 129 (2%) as compared with 2009. The number of employees has increased primarily because of the increased business levels and the addition of a new Cathay Pacific lounge facility.

**EBITDA by activity**




## EBITDA and EBITDA margin

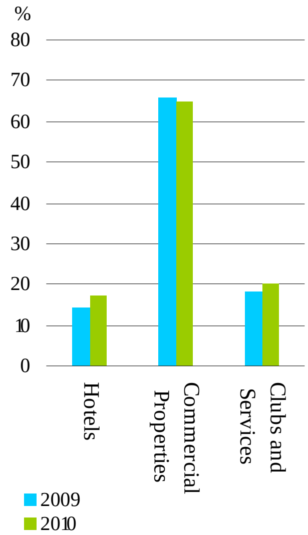
EBITDA (earnings before interest, taxation, depreciation and amortisation) increased by 24% to HK$1,143 million.

| **EBITDA** (HK$m) | **Hong Kong** | **Other Asia** | **United States of America** | **Total** |
|---|---|---|---|---|
| **2010** | | | | |
| Hotels | **461** | **116** | **27** | **604** |
| Commercial Properties | **425** | **25** | **-** | **450** |
| Clubs and Services | **109** | **14** | **(34)** | **89** |
| | **995** | **155** | **(7)** | **1,143** |
| | 87% | 14% | (1%) | 100% |
| 2009 *(Restated)* | | | | |
| Hotels | 419 | 52 | (39) | 432 |
| Commercial Properties | 386 | 32 | - | 418 |
| Clubs and Services | 81 | 15 | (22) | 74 |
| | 886 | 99 | (61) | 924 |
| | 96% | 11% | (7%) | 100% |
| Change | | | | |
| 2010 vs 2009 | 12% | 57% | 89% | 24% |

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

| **EBITDA margin** | **2010** | 2009 |
|---|---|---|
| Hotels | **17%** | 14% |
| Commercial Properties | **65%** | 66% |
| Clubs and Services | **20%** | 18% |
| Overall EBITDA margin | **24%** | 22% |
| Arising in: | | |
| Hong Kong | **47%** | 47% |
| Other Asia | **9%** | 7% |
| United States of America | **(1%)** | (7%) |

**EBITDA margin (%)**



The efforts to control costs and staffing levels have resulted in improved profit margins in most of the businesses within our Group, and for the Group in total, as compared with 2009. The margins have however reduced in some cases, such as The Peninsula Bangkok where there has been pressure on most cost areas, especially payroll without any growth in revenues. There have also been reduced margins in The Landmark Vietnam and Quail Lodge because of the reduced revenue in these businesses.

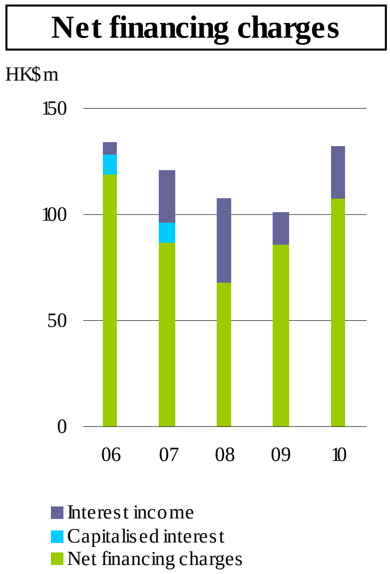
**Depreciation and amortisation**

The depreciation and amortisation charge of HK$349 million (2009: HK$338 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.

**Net financing charges**

Financing charges on borrowings in 2010 amounted to HK$132 million (2009: HK$101 million). After netting off interest income of HK$24 million (2009: HK$15 million), a net charge of HK$108 million (2009: HK$86 million) was recognised in the income statement. The 26% increase in net financing charges was mainly due to the increase in borrowings for the funding of working capital of the Group.

The weighted average gross interest rate for the year remained at 3.2% (2009: 3.2%) after accounting for all hedging activities. Interest cover (operating profit divided by net financing charges) increased to 7.4 times (2009: 6.8 times) in 2010, mainly due to the increase in operating profit as a result of the improved operating performance, in particular for the Hotel division.



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

| HK$m | **2010** | 2009 |
|---|---|---|
| Increase in fair value of investment properties | **1,938** | 1,998 |
| Reversal of impairment losses | **110** | - |
| Gain on disposal of investment property | **-** | 18 |
| Impairment loss on interest in associates | **-** | (15) |
| Closure costs for Quail Lodge Resort | **-** | (24) |
| | **2,048** | 1,977 |

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.

In accordance with its accounting policy, the Group assessed the recoverable amounts of its fixed assets (other than investment properties) as at 31 December 2010. In view of the significant improvement in the Chicago hotel property, the Directors considered that the impairment provision of HK$110 million previously made against The Peninsula Chicago should be fully reversed 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 as determined by an independent professional valuer by reference to the discounted cash flow valuation model of the asset.

**Share of profit 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 officiated their grand openings on 18 March 2010 and 1 July 2010 respectively whereas the apartment hotel was still under final construction including interior fit-out as at 31 December 2010. The hotel benefited from the successful World Expo 2010 and achieved a gross revenue of HK$385 million with EBITDA margin of 9.4%. The Group's share of profit in relation to The Peninsula Shanghai of HK$526 million (2009: HK$285 million) was inclusive of a post-tax non-operating gain of HK$614 million arising from the property valuation adjustments (2009: HK$315 million).

The jointly controlled entity has loan facilities with Standard Chartered Bank and Agriculture Bank of China totaling RMB2,335 million of which RMB2,117 million was drawn as at 31 December 2010. 21% of the loans has interest rate fixed for at least 1 year.

**Taxation**
The breakdown of the taxation charge is as follows:

| HK$m | **2010** | 2009 *(restated)* |
|---|---|---|
| Current tax | **140** | 120 |
| Deferred tax: | | |
| Increase/(decrease) in net deferred tax liabilities relating to revaluation of overseas investment properties | **26** | (46) |
| Increase in net deferred tax liabilities relating to other temporary differences | **59** | 22 |
| Net tax charge in the income statement | **225** | 96 |

The increase in current tax and deferred tax in respect of other temporary differences was mainly due to the increase in operating profit and accelerated tax depreciation in respect of capital expenditure incurred in 2010.

During 2010, the fair value of the Group's investment properties increased by HK$1,938 million (2009: HK$1,998 million) of which HK$1,852 million (2009: HK$2,144 million) was attributable to investment properties in Hong Kong. As a result of the early adoption of the *Amendments to HKAS 12 Income Taxes*, provision for deferred tax in respect of valuation gains on Hong Kong investment properties is no longer required.

The 2009 comparative figure in relation to deferred taxation on non-operating items has therefore been restated from a net tax charge of HK$308 million to a net tax credit of HK$46 million and the increase in net deferred tax liabilities relating to other temporary differences has been restated from HK$30 million to HK$22 million.

**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 2010. 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 2010 is set in the table on next page.

| | Group's Interest | Market Value (HK$m) | Book Value (HK$m) |
|---|---|---|---|
| **Hotels** | | | |
| **Consolidated hotels** | | | |
| The Peninsula Hong Kong | 100% | 10,049 | 8,088 |
| The Peninsula Beijing | 42% | 1,799 | 1,354 |
| The Peninsula New York | 100% | 1,477 | 1,068 |
| The Peninsula Chicago | 100% | 1,233 | 1,188 |
| The Peninsula Tokyo | 100% | 1,602 | 1,260 |
| The Peninsula Bangkok | 75% | 805 | 902 |
| The Peninsula Manila | 77% | 317 | 307 |
| | | 17,282 | 14,167 |
| **Jointly controlled entity *(value attributable to the Group)*** | | | |
| The Peninsula Shanghai | 50% | 3,051 | 3,012 |
| **Total for hotels** | | 20,333 | 17,179 |
| **Commercial properties** | | | |
| The Repulse Bay | 100% | 8,425 | 8,425 |
| Repulse Bay Apartments | 100% | 5,241 | 5,241 |
| Repulse Bay Garage | 100% | 87 | 87 |
| The Peak Tower | 100% | 1,082 | 1,082 |
| St. John's Building | 100% | 697 | 697 |
| The Landmark | 70% | 92 | 92 |
| **Total for commercial properties** | | 15,624 | 15,624 |
| **Other properties** | | | |
| Thai Country Club golf course | 75% | 246 | 247 |
| Quail Lodge resort, golf course and vacant land | 100% | 153 | 155 |
| Vacant land near Bangkok | 75% | 348 | 348 |
| Other Hong Kong properties | 100% | 49 | 29 |
| **Total for other properties** | | 796 | 779 |
| **Total** | | 36,753 | 33,582 |

**Interest in a jointly controlled entity**

The balance of HK$1,374 million as at 31 December 2010 (2009: HK$815 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$526 million profit (2009: HK$285 million) of this jointly controlled entity during 2010. As explained above, this profit figure includes a post-tax non-operating gain of HK$614 million (2009: HK$315 million).

**Interest in associates**

The balance of HK$494 million as at 31 December 2010 (2009: HK$498 million) 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 2013.

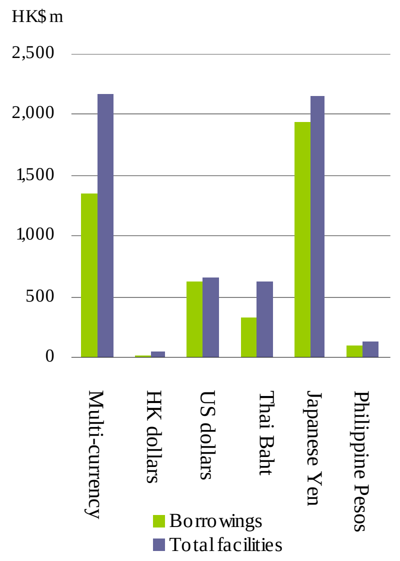
**Investment in hotel management contracts**

As at 31 December 2010, investment in hotel management contracts amounted to HK$684 million (2009: HK$730 million). The balance included an attributed consideration of Euro 57.7 million 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. The decrease in the balance during the year was mainly due to exchange rate adjustment on retranslating the Euro currency at the year end.

**Borrowings**

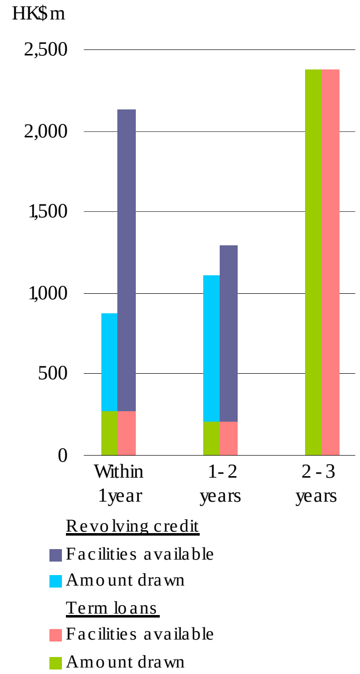
During the year, gross borrowings increased by 13% to HK$4,332 million (2009: HK$3,825 million) whereas consolidated net borrowings decreased to HK$1,674 million (2009: HK$1,990 million), taking account of cash of HK$2,658 million (2009: HK$1,835 million). The reduction in net borrowings was mainly due to the increase in operating cashflows resulting from the improved operating performance of the Hotels division.

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




In addition to the Group's consolidated borrowings, The Peninsula Shanghai (50% owned) and The Peninsula Beverly Hills (20% 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 2010 are summarised as follows:

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



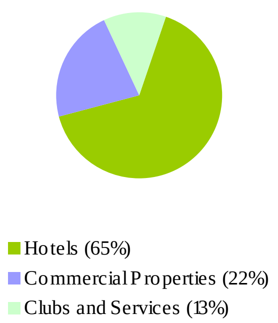
| HK$m | 2010 | | | | 2009 |
|---|---|---|---|---|---|
| | **Hong Kong** | **Other Asia** | **United States of America** | **Total** | Total |
| Consolidated gross borrowings | **1,348** | **2,359** | **625** | **4,332** | 3,825 |
| Non-consolidated borrowings attributable to the Group*: | | | | | |
| The Peninsula Shanghai (50%) | **-** | **1,253** | **-** | **1,253** | 930 |
| The Peninsula Beverly Hills (20%) | **-** | **-** | **218** | **218** | 218 |
| Non-consolidated borrowings | **-** | **1,253** | **218** | **1,471** | 1,148 |
| Consolidated and non-consolidated gross borrowings | **1,348** | **3,612** | **843** | **5,803** | 4,973 |

* Represented HSH's attributable share of borrowings.

**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 increased to HK$1,019 million as compared to HK$761 million in 2009. The increase was mainly due to the increase in revenue, mainly from the Hotels division as explained above. A majority of the operating cash flows was applied to capital expenditure and the payment of interest and dividends.

**Capital expenditure**




Capital expenditure incurred by the Group during 2010 amounted to HK$276 million (2009: HK$360 million) and the breakdown of this sum is as follows:

| HK$m | 2010 | 2009 |
|---|---|---|
| Hotels | **180** | 159 |
| Commercial Properties | **61** | 103 |
| Clubs and Services | **35** | 7 |
| Payment for the acquisition of additional interest in a subsidiary | **-** | 91 |
| | **276** | 360 |

The net cash inflow after capital expenditure, interest and dividends for the year was HK$568 million, compared to an outflow of HK$824 million in 2009. The net cash outflow in 2009 was mainly due to the payment of HK$1,044 million for the acquisition of a 20% interest in the Peninsula Paris project.

After accounting for investing and financing activities and excluding bank deposits maturing after more than three months amounting to HK$997 million (2009: HK$437 million), cash and cash equivalents as at 31 December 2010 amounted to HK$1,644 million (2009: HK$1,380 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 2010, the Group’s capital commitment amounted to HK$1,931 million (2009: HK$738 million) and the breakdown is as follows:

| HK$m | **2010** | 2009 |
|---|---|---|
| **Capital expenditure** | | |
| Contracted for | **60** | 80 |
| Authorised but not contracted for | **1,703** | 394 |
| | **1,763** | 474 |
| **The Group's share of capital commitments of a jointly controlled entity** | | |
| Contracted for | **-** | 40 |
| Authorised but not contracted for | **168** | 224 |
| | **168** | 264 |
| | **1,931** | 738 |

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 2010 amounted to HK$108 million (2009: HK$37 million) and HK$435 million (2009: HK$474 million) respectively. It is planned that these capital commitments will be materially 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.

The Group’s authorised but not contracted for commitments as at 31 December 2010 included a planned spending of HK$1,181 million for a major renovation of the guestrooms of The Peninsula Hong Kong (“PHK”) and a significant phased upgrade programme at The Repulse Bay complex (“TRB”). The spending profile of this capital commitment is analysed as follows:

| HK$m | PHK | TRB | Total |
|---|---|---|---|
| During 2011 | 93 | 175 | 268 |
| During 2012 | 266 | 318 | 584 |
| During 2013 | 83 | 218 | 301 |
| After 2013 | 8 | 20 | 28 |
| | 450 | 731 | 1,181 |

## CONSOLIDATED INCOME STATEMENT (HK$m)

| | Note | Year ended 31 December 2010 | 2009 (restated) |
|---|---|---|---|
| **Turnover** | 3 | **4,707** | 4,218 |
| Cost of inventories | | **(378)** | (334) |
| Staff costs and related expenses | | **(1,639)** | (1,512) |
| Rent and utilities | | **(542)** | (531) |
| Other operating expenses | | **(1,005)** | (917) |
| **Operating profit before interest, taxation, depreciation and amortisation ("EBITDA")** | | **1,143** | 924 |
| Depreciation and amortisation | | **(349)** | (338) |
| **Operating profit** | | **794** | 586 |
| Interest income | | **24** | 15 |
| Financing charges | | **(132)** | (101) |
| Net financing charges | | **(108)** | (86) |
| **Profit after net financing charges** | | **686** | 500 |
| Share of profit of a jointly controlled entity | 11 | **526** | 285 |
| Increase in fair value of investment properties | 4 | **1,938** | 1,998 |
| Reversal of impairment losses | 5 | **110** | - |
| Other non-operating items | | **-** | (21) |
| **Profit before taxation** | | **3,260** | 2,762 |
| Taxation | | | |
| Current tax | 6 | **(140)** | (120) |
| Deferred tax | 6 | **(85)** | 24 |
| **Profit for the year** | | **3,035** | 2,666 |
| **Profit attributable to:** | | | |
| Shareholders of the Company | | **3,008** | 2,660 |
| Non-controlling interests | | **27** | 6 |
| **Profit for the year** | | **3,035** | 2,666 |
| **Earnings per share, basic and diluted** (HK$) | 7 | **2.04** | 1.82 |

Details of dividends payable to shareholders of the Company attributable to the profit for the year are set out in note 8.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK$m)

| | Year ended 31 December | |
|---|---|---|
| | **2010** | 2009 *(restated)* |
| **Profit for the year** | **3,035** | 2,666 |
| **Other comprehensive income for the year, net of tax:** | | |
| Exchange differences on translation of: | | |
| - financial statements of overseas subsidiaries | **35** | 88 |
| - financial statements of a jointly controlled entity | **33** | (9) |
| - loans to an associate | **(31)** | 38 |
| | **37** | 117 |
| Cash flow hedges: | | |
| - effective portion of changes in fair values | **(66)** | (21) |
| - transfer from equity to profit or loss | **57** | 46 |
| | **28** | 142 |
| **Total comprehensive income for the year** | **3,063** | 2,808 |
| **Total comprehensive income attributable to:** | | |
| Shareholders of the Company | **2,985** | 2,793 |
| Non-controlling interests | **78** | 15 |
| **Total comprehensive income for the year** | **3,063** | 2,808 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)

| | Note | **At 31 December 2010** | At 31 December 2009 *(restated)* | At 1 January 2009 *(restated)* |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Fixed assets | | | | |
| Properties, plant and equipment | | **5,850** | 5,549 | 5,791 |
| Investment properties | | **24,840** | 22,790 | 20,577 |
| | | **30,690** | 28,339 | 26,368 |
| Interest in associates | 10 | **494** | 498 | - |
| Interest in a jointly controlled entity | 11 | **1,374** | 815 | 539 |
| Interests in unlisted equity instruments | | **-** | - | - |
| Investment in hotel management contracts | 12 | **684** | 730 | 92 |
| Derivative financial instruments | | **14** | 18 | 38 |
| Deferred tax assets | 13(b) | **94** | 121 | 57 |
| | | **33,350** | 30,521 | 27,094 |
| **Current assets** | | | | |
| Inventories | | **105** | 98 | 114 |
| Trade and other receivables | 14 | **451** | 391 | 378 |
| Derivative financial instruments | | **23** | 27 | 25 |
| Cash at banks and in hand | 15 | **2,658** | 1,835 | 1,995 |
| | | **3,237** | 2,351 | 2,512 |
| **Current liabilities** | | | | |
| Trade and other payables | 16 | **(1,037)** | (957) | (939) |
| Interest-bearing borrowings | 17 | **(879)** | (769) | (695) |
| Derivative financial instruments | | **(93)** | (95) | (93) |
| Current taxation | 13(a) | **(55)** | (67) | (90) |
| | | **(2,064)** | (1,888) | (1,817) |
| **Net current assets** | | **1,173** | 463 | 695 |
| **Total assets less current liabilities** | | **34,523** | 30,984 | 27,789 |
| **Non-current liabilities** | | | | |
| Interest-bearing borrowings | 17 | **(3,453)** | (3,056) | (2,498) |
| Trade and other payables | 16 | **(266)** | (246) | (249) |
| Net defined benefit retirement obligations | | **(26)** | (23) | (21) |
| Derivative financial instruments | | **(107)** | (111) | (188) |
| Deferred tax liabilities | 13(b) | **(587)** | (493) | (442) |
| | | **(4,439)** | (3,929) | (3,398) |
| **Net assets** | | **30,084** | 27,055 | 24,391 |
| **Capital and reserves** | | | | |
| Share capital | 18 | **740** | 735 | 725 |
| Reserves | | **28,363** | 25,412 | 22,732 |
| **Total equity attributable to shareholders of the Company** | | **29,103** | 26,147 | 23,457 |
| Non-controlling interests | | **981** | 908 | 934 |
| **Total equity** | | **30,084** | 27,055 | 24,391 |

## CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)

| | Note | Year ended 31 December 2010 | 2009 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit after net financing charges | | **686** | 500 |
| Adjustments for: | | | |
| Depreciation | | **346** | 335 |
| Amortisation of hotel management contract | | **3** | 3 |
| Interest income | | **(24)** | (15) |
| Financing charges | | **132** | 101 |
| Loss on disposal of property, plant and equipment | | **2** | 3 |
| Foreign exchange gains | | **-** | (1) |
| **Operating profit before changes in working capital** | | **1,145** | 926 |
| (Increase)/decrease in inventories | | **(2)** | 16 |
| Increase in trade and other receivables | | **(33)** | (12) |
| Increase/(decrease) in trade and other payables | | **63** | (26) |
| **Cash generated from operations** | | **1,173** | 904 |
| Net tax paid: | | | |
| Hong Kong Profits Tax paid | | **(101)** | (123) |
| Overseas tax paid | | **(53)** | (20) |
| **Net cash generated from operating activities** | | **1,019** | 761 |
| **Investing activities** | | | |
| Payment for the purchase of fixed assets | | **(276)** | (269) |
| Payment for the acquisition of additional shareholding in a subsidiary | | **-** | (91) |
| Payment for the acquisition of interest in associates | | **-** | (453) |
| Loans to an associate | | **(27)** | (22) |
| Payment for acquisition of hotel management contract | | **-** | (591) |
| Proceeds from sale of fixed assets | | **1** | 18 |
| **Net cash used in investing activities** | | **(302)** | (1,408) |
| **Financing activities** | | | |
| Drawdown of term loans | | **1,151** | 1,414 |
| Repayment of term loans | | **-** | (200) |
| Net decrease in revolving loans | | **(927)** | (551) |
| Net placement of interest bearing bank deposits with maturity of more than three months | | **(560)** | (437) |
| Interest paid and other financing charges | | **(137)** | (139) |
| Interest received | | **22** | 15 |
| Dividends paid to shareholders of the Company | | **(29)** | (46) |
| Dividends paid to non-controlling shareholders | | **(5)** | (7) |
| **Net cash (used in)/generated from financing activities** | | **(485)** | 49 |
| Net increase/(decrease) in cash and cash equivalents | | **232** | (598) |
| Cash and cash equivalents at 1 January | | **1,380** | 1,979 |
| Effect of changes in foreign exchange rates | | **32** | (1) |
| **Cash and cash equivalents at 31 December** | 15 | **1,644** | 1,380 |

***NOTES TO THE CONSOLIDATED INCOME STATEMENT, CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND CONSOLIDATIED STATEMENT OF CASH FLOWS***

## 1. Significant accounting policies and statement of compliance

These audited 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").

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.

## 2. Changes in accounting policies

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two 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 3 (revised 2008), *Business combinations*;
- Amendments to HKAS 27, *Consolidated and separate financial statements*;
- Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*;
- Amendments to HKAS 28, *Investments in associates*;
- Amendments to HKAS 31, *Interest in joint ventures*;
- HK(IFRIC) 17, *Distributions of non-cash assets to owners*;
- Improvements to HKFRSs (2009);
- Amendment to HKAS 39, *Financial instruments: Recognition and measurement – eligible hedged items*;
- HK(Int) 5, *Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause*; and
- Amendments to HKAS 12, *Income taxes*

## 2. Changes in accounting policies *continued*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, with the exception of the amendments to HKAS 12, *Income taxes*, in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, *Investment property*. The amendments are effective for annual periods beginning on or after 1 January 2012, but as permitted by the amendments, the Group has opted to adopt the amendments early.

***Early adoption of the amendments to HKAS 12, Income taxes***

The change in policy arising from the amendments to HKAS 12 is the only change which has had a material impact on the current or comparative periods. As a result of this change in policy, the Group now measures any deferred tax liability in respect of its investment properties with reference to the tax liability that would arise if the properties were disposed of at their carrying amounts at the reporting date, unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time rather than through sale. Previously, where these properties were held under leasehold interests, deferred tax was generally measured using the tax rate that would apply as a result of recovery of the asset's value through use.

This change in policy has been applied retrospectively by restating the opening balances at 1 January 2009 and 2010, with consequential adjustments to comparatives for the year ended 31 December 2009. As some of the Group's properties are located in Hong Kong which has no capital gains tax, this has resulted in a reduction of HK$3,107 million deferred tax liabilities in respect of the Group's Hong Kong investment properties, which was derecognised retrospectively as a prior year adjustment.

***Other changes in accounting policies as a result of development in HKFRSs***

The amendments to HKAS 39 and the issuance of HK(Int) 5 have had no material impact on the Group's Financial Statements, as the amendments were consistent with the policies already adopted by the Group. The rest of the above developments have resulted in changes in accounting policies but none of these changes in policies have a material impact on the current or comparative periods for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5, HKAS 28, HKAS 31 and HK(IFRIC) 17 have not yet had a material effect on the Group's Financial Statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of such previous transactions.

- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests – previously known as minority interests – in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

- The amendment introduced by the Improvements to HKFRSs (2009) omnibus standard in respect of HKAS 17, Leases, has resulted in a change of classification of some of the Group's leasehold land interests located in Hong Kong from being an operating lease to a finance lease, but this had no material impact on the amounts recognised in respect of these leases, as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

## 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 operation of 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:

| | **2010** | 2009 *(restated)* |
|---|---|---|
| Hotels *(note 9(a))* | | |
| Rooms | **1,549** | 1,355 |
| Food and beverage | **1,123** | 987 |
| Commercial | **567** | 556 |
| Others | **337** | 282 |
| | **3,576** | 3,180 |
| Commercial Properties *(note 9(a))* | **688** | 637 |
| Clubs and Services *(note 9(a))* | **443** | 401 |
| | **4,707** | 4,218 |

## 4. Increase in fair value of investment properties

All investment properties of the Group were revalued as at 31 December 2010 on an open market value basis mainly calculated by reference to net rental income allowing for reversionary income potential. The increase 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.

## 5. Reversal of impairment losses

The Group's fixed assets (other than investment properties which are stated at fair value based on independent valuation) are stated at cost less accumulated depreciation and impairment losses. In accordance with its accounting policy, the Group assessed the recoverable amounts of its fixed assets (other than investment properties) as at 31 December 2010. In view of the significant improvement in the Chicago hotel property, the Directors considered that the impairment provision of HK$110 million previously made against The Peninsula Chicago should be fully reversed 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 as determined by an independent professional valuer by reference to the discounted cash flow valuation model of the asset.

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

| | 2010 | 2009 *(restated)* |
|---|---|---|
| **Current tax - Hong Kong Profits Tax** | | |
| Provision for the year | **111** | 101 |
| Over-provision in respect of prior years | **(5)** | (1) |
| | **106** | 100 |
| **Current tax - Overseas** | | |
| Provision for the year | **43** | 36 |
| Over-provision in respect of prior years | **(9)** | (16) |
| | **34** | 20 |
| | **140** | 120 |
| **Deferred tax** | | |
| Increase/(decrease) in net deferred tax liabilities relating to revaluation of overseas investment properties | **26** | (46) |
| Increase in net deferred tax liabilities relating to other temporary differences | **47** | 19 |
| Under-provision in respect of prior years | **10** | - |
| Transfer from hedging reserve | **2** | 3 |
| | **85** | (24) |
| **Total** | **225** | 96 |

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 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.

## 7. Earnings per share

### (a) Earnings per share - basic

| | 2010 | 2009 *(restated)* |
|---|---|---|
| Profit attributable to shareholders of the Company (HK$m) | **3,008** | 2,660 |
| Weighted average number of shares in issue (million shares) | **1,474** | 1,460 |
| Earnings per share (HK$) | **2.04** | 1.82 |

| | ***2010 (million shares)*** | *2009 (million shares)* |
|---|---|---|
| *Issued shares at 1 January* | ***1,470*** | *1,450* |
| *Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2009 final and 2010 interim dividends* | ***4*** | *10* |
| *Weighted average number of shares at 31 December* | ***1,474*** | *1,460* |

## 7. Earnings per share *continued*

### (b) Earnings per share - diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2010 and 2009 and hence the diluted earnings per share is the same as the basic earnings per share.

## 8. Dividends (HK$m)

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

| | **2010** | 2009 |
|---|---|---|
| Interim dividend declared and paid of 4 HK cents per share (2009: 3 HK cents per share) | **59** | 44 |
| Final dividend proposed after the end of reporting period of 8 HK cents per share (2009: 6 HK cents per share) | **118** | 88 |
| | **177** | 132 |

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

| | **2010** | 2009 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of 6 HK cents per share (2009: 10.5 HK cents per share) | **88** | 152 |

## 9. Segment reporting (HK$m)

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's reportable segments are as follows:

| | |
|---|---|
| Hotels | This segment includes revenue generated from operating hotels, leasing of commercial shopping arcades and office premises located within the hotel buildings.<br><br>The operation of the golf course attached to the hotel was previously grouped under the "Hotels" segment. This operation has been reclassified to the "Clubs and Services" segment to conform with internal management reporting. The comparative figures have been restated accordingly. |

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

| | |
|---|---|
| Commercial Properties | This segment is engaged in the leasing of commercial and office premises (other than those in hotel properties) and residential apartments, as well as operating food and beverage outlets in such premises. |
| Clubs and Services | This segment is engaged in the operation of golf courses, The Peak Tram, wholesaling and retailing of food and beverage products, laundry services and the provision of management and consultancy services for clubs. |

No operating segments have been aggregated to form the reportable segments.

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

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, as well as cash at bank and in hand. Corporate level assets are allocated to the segments by reference to the respective total segments' assets.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out as follows:

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

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

| | Hotels | | Commercial Properties | | Clubs and Services | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | Year ended 31 December | | | | | | | |
| | **2010** | 2009 *(restated)* | **2010** | 2009 *(restated)* | **2010** | 2009 *(restated)* | **2010** | 2009 *(restated)* |
| **Reportable segment revenue*** | **3,576** | 3,180 | **688** | 637 | **443** | 401 | **4,707** | 4,218 |
| **Reportable segment earnings before interest, tax, depreciation and amortisation (EBITDA)** | **604** | 432 | **450** | 418 | **89** | 74 | **1,143** | 924 |
| Depreciation and amortisation | **(324)** | (314) | **(6)** | (5) | **(19)** | (19) | **(349)** | (338) |
| **Segment operating profit** | **280** | 118 | **444** | 413 | **70** | 55 | **794** | 586 |
| **Reportable segments assets** | **15,376** | 14,479 | **15,706** | 14,338 | **848** | 741 | **31,930** | 29,558 |

* *Analysis of segment revenue*

| | ***2010*** | *2009 (restated)* |
|---|---|---|
| Hotels | | |
| - *Rooms* | ***1,549*** | *1,355* |
| - *Food and beverage* | ***1,123*** | *987* |
| - *Commercial* | ***567*** | *556* |
| - *Others* | ***337*** | *282* |
| | ***3,576*** | *3,180* |
| Commercial properties | | |
| Rental revenue from: | | |
| - *Residential Properties* | ***392*** | *398* |
| - *Offices* | ***66*** | *70* |
| - *Shopping Arcade* | ***230*** | *169* |
| | ***688*** | *637* |
| Clubs and Services | | |
| - *Operation of airport lounges* | ***106*** | *94* |
| - *Tramway operation* | ***95*** | *79* |
| - *Others* | ***242*** | *228* |
| | ***443*** | *401* |
| | ***4,707*** | *4,218* |

### (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, since the segment operating profit is the same as the operating profit presented in the consolidated income statement.

**Assets**

| | **2010** | 2009 *(restated)* |
|---|---|---|
| Reportable segments' assets | **31,930** | 29,558 |
| Interest in associates | **494** | 498 |
| Interest in a jointly controlled entity | **1,374** | 815 |
| Derivative financial instruments | **37** | 45 |
| Deferred tax assets | **94** | 121 |
| Cash at banks and in hand | **2,658** | 1,835 |
| Consolidated total assets | **36,587** | 32,872 |

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

### (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 specified 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 specified 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 the case 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 | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Hong Kong (place of domicile) | **2,103** | 1,870 | **23,753** | 21,888 |
| Mainland China | **362** | 295 | **2,728** | 2,119 |
| United States | **957** | 919 | **2,495** | 2,345 |
| Japan | **762** | 661 | **1,258** | 1,158 |
| Thailand | **241** | 234 | **1,514** | 1,359 |
| The Philippines | **240** | 190 | **307** | 284 |
| Vietnam | **42** | 49 | **93** | 89 |
| France | **-** | - | **1,094** | 1,140 |
| | **2,604** | 2,348 | **9,489** | 8,494 |
| | **4,707** | 4,218 | **33,242** | 30,382 |

## 10. Interest in associates (HK$m)

| | **As at 31 December** | |
|---|---|---|
| | **2010** | 2009 |
| Share of net assets | **-** | - |
| Goodwill | **15** | 15 |
| | **15** | 15 |
| Less: impairment loss | **(15)** | (15) |
| | **-** | - |
| Loans to an associate * | **494** | 498 |
| | **494** | 498 |

* *The loans to an associate are denominated in Euros, unsecured, interest bearing at rates related to the rates published by the French tax authorities and are carried at their estimated recoverable amounts. Euro 4.7 million (HK$48.9 million) (2009: 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.*

## 10. Interest in associates (HK$m) *continued*

(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 | EUR 12,500 | 20% | Investment holding |
| Majestic EURL ("Majestic") | Incorporated | France | EUR 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) The associates' attributable revenue for the year ended 31 December 2010 was HK$nil (2009: HK$7 million) and the attributable results for the period ended 31 December 2010 are considered to be HK$nil (2009: HK$nil). The attributable assets of the associates as at 31 December 2010 were HK$526 million (2009: HK$521 million) and the attributable liabilities as at 31 December 2010 were HK$526 million (2009: HK$521 million). The associates' attributable accumulated results as at 31 December 2010 were not significant.

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

| | 2010 | 2009 |
|---|---|---|
| Share of exchange reserve | **114** | 81 |
| Share of retained profits | **802** | 276 |
| Share of net assets | **916** | 357 |
| Loan to a jointly controlled entity *(note 11(b))* | **458** | 458 |
| | **1,374** | 815 |

**(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 2010, the paid up capital of EGL and PSW amounted to HK$1 (2009: HK$1) and US$117,500,000 (2009: US$117,500,000) respectively.*

**(b)** The loan to the jointly controlled entity is denominated in US dollars, 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 11(a) above.

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

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

| | **2010** | 2009 |
|---|---|---|
| Non-current assets | **6,024** | 3,317 |
| Current assets | **191** | 964 |
| Current liabilities | **(1,160)** | (589) |
| Non-current liabilities | **(3,224)** | (2,977) |
| **Net assets** | **1,831** | 715 |
| Income | **385** | 50 |
| Operating expenses | **(349)** | (47) |
| EBITDA | **36** | 3 |
| Grand/pre-opening expenses | **(17)** | (74) |
| Depreciation | **(95)** | (12) |
| Net financing charges | **(100)** | (11) |
| Loss before non-operating items | **(176)** | (94) |
| Non-operating items* | **1,698** | 840 |
| Taxation - deferred tax | **(470)** | (176) |
| **Profit for the year** | **1,052** | 570 |

* *Non-operating items represent property valuation adjustments in respect of the jointly controlled entity, including apartments classified as investment properties.*

**(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 HK$1,894 million (RMB1,600 million) (2009: HK$1,818 million (RMB1,600 million)). The net carrying amount of these pledged assets amounted to HK$6,024 million (RMB5,089 million) (2009: HK$4,134 million (RMB3,639 million)).

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

| | **2010** | 2009 |
|---|---|---|
| **Cost** | | |
| At 1 January | **826** | 185 |
| Addition during the year *(note (b))* | **-** | 591 |
| Exchange adjustments | **(43)** | 50 |
| At 31 December | **783** | 826 |
| **Accumulated amortisation** | | |
| At 1 January | **(96)** | (93) |
| Amortisation for the year | **(3)** | (3) |
| At 31 December | **(99)** | (96) |
| Net book value | **684** | 730 |

The amortisation charge for the year is included in "Depreciation and amortisation" in the consolidated income statement.

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

Investment in hotel management contracts represents:

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

**(b)** 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 over a period of 50 years from the date of commencement of hotel operations.

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

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

| | **2010** | 2009 |
|---|---|---|
| Provision for Hong Kong Profits Tax for the year | **111** | 101 |
| Provisional profits tax paid | **(81)** | (75) |
| | **30** | 26 |
| Balance of Hong Kong Profits Tax provision relating to prior years | **4** | 3 |
| Provision for overseas taxes | **19** | 38 |
| | **53** | 67 |
| *Represented by:* | | |
| Prepaid tax *(note 14)* | **(2)** | - |
| Current tax payable (included in current liabilities) | **55** | 67 |
| | **53** | 67 |

## 13. 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:

| | 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 2009 | 2,881 | 515 | (18) | (219) | (29) | 3,130 |
| Impact of change in accounting policy | (2,723) | (22) | - | - | - | (2,745) |
| Restated balance at 1 January 2009 | 158 | 493 | (18) | (219) | (29) | 385 |
| (Credited)/charged to profit or loss | (46) | 53 | (1) | (33) | 3 | (24) |
| Charged to reserves | 2 | 3 | (1) | 2 | 5 | 11 |
| Restated balance at 31 December 2009 and 1 January 2010 | 114 | 549 | (20) | (250) | (21) | 372 |
| Charged/(credited) to profit or loss | **26** | **99** | **(4)** | **(38)** | **2** | **85** |
| Charged/(credited) to reserves | **15** | **16** | **(1)** | **6** | **-** | **36** |
| **At 31 December 2010** | **155** | **664** | **(25)** | **(282)** | **(19)** | **493** |

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.

| | **At 31 December** | | At 1 January |
|---|---|---|---|
| | **2010** | 2009 *(restated)* | 2009 *(restated)* |
| Net deferred tax assets | **(94)** | (121) | (57) |
| Net deferred tax liabilities | **587** | 493 | 442 |
| | **493** | 372 | 385 |

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

| | 2010 | 2009 |
|---|---|---|
| Trade debtors (ageing analysis is shown below) | **211** | 175 |
| Rental deposits, payments in advance and other receivables | **238** | 216 |
| Prepaid tax *(note 13(a))* | **2** | - |
| | **451** | 391 |

The amount of the Group's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK$75 million (2009: HK$73 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

The Directors consider that the carrying amount of all trade and other receivables approximates their fair value.

The ageing analysis of trade debtors is as follows:

| | 2010 | 2009 |
|---|---|---|
| Current | **185** | 145 |
| Less than one month past due | **22** | 19 |
| One to three months past due | **3** | 9 |
| More than three months but less than 12 months past due | **1** | 2 |
| Amounts past due | **26** | 30 |
| | **211** | 175 |

Trade debtors are normally due within 30 days from the date of billing.

No impairment is considered necessary for any of the trade debtors including those that are past due as they relate to a wide range of independent customers that have a good track record with the Group, with no recent history of default and are considered by the management to be fully recoverable.

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

| | 2010 | 2009 |
|---|---|---|
| Interest-bearing bank deposits | **2,563** | 1,771 |
| Cash at banks and in hand | **95** | 64 |
| Total cash at banks and in hand | **2,658** | 1,835 |
| Less: Bank deposits with maturity of more than three months | **(997)** | (437) |
| Bank overdrafts *(note 17)* | **(17)** | (18) |
| Cash and cash equivalents in the consolidated statement of cash flows | **1,644** | 1,380 |

Cash at banks and in hand at the end of the year include deposits with banks of HK$858 million (2009: HK$706 million) held by overseas subsidiaries which are subject to prevailing regulatory and foreign exchange restrictions.

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

| | 2010 | 2009 *(restated)* |
|---|---|---|
| Trade creditors (ageing analysis is shown below) | **133** | 119 |
| Interest payable | **5** | 5 |
| Accruals for fixed assets | **17** | 32 |
| Tenants' deposits | **308** | 295 |
| Guest deposits | **103** | 86 |
| Golf membership deposits | **117** | 109 |
| Other payables | **620** | 557 |
| Financial liabilities measured at amortised cost | **1,303** | 1,203 |
| Less: Non-current portion of trade and other payables | **(266)** | (246) |
| Current portion of trade and other payables | **1,037** | 957 |

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$354 million (2009: HK$340 million). All the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The director considers that, the carrying amount of all trade and other payables approximate their fair value.

The ageing analysis of trade creditors is as follows:

| | 2010 | 2009 |
|---|---|---|
| Less than three months | **131** | 117 |
| Three to six months | **2** | 2 |
| | **133** | 119 |

## 17. Interest-bearing borrowings (HK$m)

| | **2010** | 2009 |
|---|---|---|
| Total facilities available: | | |
| Term loans and revolving credits | **5,491** | 5,005 |
| Uncommitted facilities, including bank overdrafts | **306** | 278 |
| | **5,797** | 5,283 |
| Utilised at 31 December: | | |
| Term loans and revolving credits | **4,346** | 3,830 |
| Uncommitted facilities, including bank overdrafts | **17** | 18 |
| | **4,363** | 3,848 |
| Less: Unamortised financing charges | **(31)** | (23) |
| | **4,332** | 3,825 |
| *Represented by:* | | |
| Short-term bank loans, repayable within one year or on demand | **862** | 751 |
| Bank overdrafts, repayable on demand *(note 15)* | **17** | 18 |
| | **879** | 769 |
| Long-term bank loans, repayable: | | |
| Between one and two years | **1,105** | 734 |
| Between two and five years | **2,379** | 2,345 |
| | **3,484** | 3,079 |
| Less: Unamortised financing charges | **(31)** | (23) |
| Non-current portion of long-term bank loans | **3,453** | 3,056 |
| **Total interest-bearing borrowings** | **4,332** | 3,825 |

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. As at 31 December 2010 and 2009, none of the covenants relating to drawn down facilities had been breached.

## 18. Share capital

| | **2010** | 2009 |
|---|---|---|
| **Number of shares of HK$0.50 each** (million) | | |
| Authorised | **1,800** | 1,800 |
| Issued | | |
| At 1 January | **1,470** | 1,450 |
| New shares issued under scrip dividend scheme *(note)* | **10** | 20 |
| At 31 December | **1,480** | 1,470 |

## 18. Share capital *continued*

| | **2010** | 2009 |
|---|---|---|
| **Nominal value of shares** (HK$m) | | |
| Authorised | **900** | 900 |
| Issued | | |
| At 1 January | **735** | 725 |
| New shares issued under scrip dividend scheme *(note)* | **5** | 10 |
| At 31 December | **740** | 735 |

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.

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

| | Number of shares million | Scrip price HK$ | Increase in share capital HK$m | Increase in share premium HK$m |
|---|---|---|---|---|
| **2010** | | | | |
| 2009 final scrip dividend | **5.8** | **11.980** | **3** | **66** |
| 2010 interim scrip dividend | **3.6** | **13.716** | **2** | **47** |
| | **9.4** | | **5** | **113** |
| 2009 | | | | |
| 2008 final scrip dividend | 16.7 | 6.888 | 8 | 106 |
| 2009 interim scrip dividend | 3.4 | 10.344 | 2 | 34 |
| | 20.1 | | 10 | 140 |

## 19. Commitments (HK$m)

Capital commitments outstanding at 31 December 2010 not provided for in the Financial Statements were as follows:

| | **As at 31 December 2010** | As at 31 December 2009 |
|---|---|---|
| **Capital expenditure** | | |
| Contracted for | **60** | 80 |
| Authorised but not contracted for | | |
| - major renovation of the guestrooms of The Peninsula Hong Kong | **450** | - |
| - upgrade programme at The Repulse Bay Complex | **731** | - |
| - others | **522** | 394 |
| | **1,763** | 474 |
| **The Group's share of capital commitments of a jointly controlled entity** | | |
| Contracted for | **-** | 40 |
| Authorised but not contracted for | **168** | 224 |
| | **168** | 264 |
| | **1,931** | 738 |

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 2010 amounted to HK$108 million (2009: HK$37 million) and HK$435 million (2009: HK$474 million) respectively. It is planned that these capital commitments will be materially 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.

## 20. Comparative figures

As a result of the adoption of amendments to HKAS 12, *Income taxes*, certain comparative figures have been adjusted to reflect the decrease in accrual of deferred tax liabilities related to investment properties carried at fair value. Further details of these changes in accounting policies are disclosed in note 2.

Certain comparative figures have been restated to conform with current year's presentation.

## OTHER CORPORATE INFORMATION

### Purchase, sale and redemption of listed securities

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

### Corporate governance

The Company 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. The Company regularly reviews its policies and practices in light of experience, new developments in corporate governance area and incoming regulatory requirements.

The Corporate Governance Report set out in the 2010 Annual Report serves to keep our shareholders and stakeholders abreast of our corporate governance policies and practices.

The Company has applied all of the principles in the Code on Corporate Governance Practices (CG Code) in Appendix 14 of the Listing Rules and adopted its own code on corporate governance practices which encompasses all code provisions and all the recommended best practices in the CG Code save for the publication of quarterly financial results and the establishment of a nomination committee for Directors, as disclosed in the 2010 Annual Report.

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

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

The Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code and the Securities Code during the period and they have confirmed their full compliance with the required standard set out in both Codes.

The Company has also extended the Securities Code to specified employees who, because of their positions, are likely to come across unpublished price sensitive information.

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.

### Final dividend

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 23 May 2011.

### Closure of register of members

The register of members will be closed from 12 May 2011 to 16 May 2011, 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 Wednesday, 11 May 2011.

Subject to the passing of the necessary resolution at 2011 Annual General Meeting, the final dividend will be payable on 24 June 2011 to shareholders whose names appear on the register of members on 16 May 2011.

**Annual General Meeting and Annual Report**

The Annual General Meeting (AGM) will be held at The Peninsula Hong Kong on 16 May 2011 at 12 noon. The Notice of 2011 AGM and 2010 Annual Report will be dispatched to the shareholders as well as published on the websites of the Company and the Stock Exchange on or about 11 April 2011.

By Order of the Board
**Christobelle Liao**
*Company Secretary*

Hong Kong, 22 March 2011

As at the date of this announcement, the Board of Directors of the Company comprises the following Directors:

*Non-Executive Chairman*
The Hon. Sir Michael Kadoorie

*Non-Executive Deputy Chairman*
Ian Duncan Boyce

**Executive Directors**
*Managing Director and Chief Executive Officer*
Clement King Man Kwok

*Chief Financial Officer*
*Neil John Galloway*

*Chief Operating Officer*
Peter Camille Borer

**Non-Executive Directors**
Ronald James McAulay
William Elkin Mocatta
John Andrew Harry Leigh
Nicholas Timothy James Colfer

**Independent Non-Executive Directors**
Dr. The Hon. Sir David Kwok Po Li
Robert Chee Siong Ng
Robert Warren Miller
Patrick Blackwell Paul
Pierre Roger Boppe
Dr. William Kwok Lun Fung