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

ANNUAL RESULTS, DIVIDEND, CLOSURE OF BOOKS
2009 Annual Results

HIGHLIGHTS

Key financial results

- Turnover decreased by 15% to HK$4,218 million *(2008: HK$4,938 million)*
- EBITDA fell by 35% to HK$924 million *(2008: HK$1,425 million)*
- Profit attributable to shareholders amounted to HK$2,298 million, after including property revaluation gains (net of tax and minority interests), as compared with HK$216 million in 2008
- Underlying profit attributable to shareholders amounted to HK$315 million *(2008: HK$807 million)*
- Earnings per share and underlying earnings per share of HK$1.57 *(2008: HK$0.15)* and HK$0.22 *(2008: HK$0.56)* respectively
- Final dividend of 6 HK cents per share, making a total dividend of 9 HK cents per share for 2009 *(2008: 17 HK cents per share)*
- Shareholders' funds as at 31 December 2009 amounted to HK$23,040 million or HK$15.67 per share *(2008: HK$20,712 million or HK$14.28 per share)*
- The Group's adjusted net assets as at 31 December 2009 amounted to HK$28,541 million (HK$19.42 per share) *(2008: HK$26,589 million at HK$18.34 per share)*

Key developments

- The Peninsula Shanghai soft opened on 18 October 2009, representing HSH's return to one of its two founding roots, Shanghai, after an absence of 55 years. The 235-key hotel is situated on the famous Bund, being the only new building in the last few decades which has a Bund frontage.
- The Repulse Bay Arcade completed an extensive revitalisation programme, which included the introduction of new shops and enhanced facilities, the renovations of The Verandah and Spices restaurants and the creation of a Historical Gallery.
- On 10 September 2009, HSH purchased the remaining 7.5% ownership in The Peninsula Chicago, following which the Group now has full ownership of the hotel.
- The company entered into formal agreements with Qatari Diar Real Estate Investment Company (Q.S.C.) in January 2009 to develop The Peninsula Paris in a historic building in the centre of Paris. The joint venture took possession of the building in March 2009 and the project is underway for planned completion in 2012.

FINANCIAL AND OPERATING HIGHLIGHTS

	For the year ended 31 December 2009	2008	Increase/ (Decrease)	
Consolidated income statement (HK$m)				
Turnover	**4,218**	4,938	(15%)	
EBITDA	**924**	1,425	(35%)	
Operating profit	**586**	1,051	(44%)	
Profit attributable to shareholders	**2,298**	216	964%	
Underlying profit attributable to shareholders **	**315**	807	(61%)	
Dividends	**132**	246	(46%)	
Earnings per share (HK$)	**1.57**	0.15	947%	
Underlying earnings per share (HK$) **	**0.22**	0.56	(61%)	
Dividends per share (HK cents)	**9**	17	(47%)	
Dividend cover (times)	**17.4x**	0.9x	1,833%	
Interest cover (times)	**6.8x**	15.5x	(56%)	
Weighted average gross interest rate	**3.2%**	3.4%	(0.2pp)	*
	As at 31 December			
Consolidated statement of financial position (HK$m)	**2009**	2008		
Total assets	**32,815**	29,587	11%	
Audited net assets attributable to shareholders	**23,040**	20,712	11%	
Adjusted net assets attributable to shareholders **	**28,541**	26,589	7%	
Audited net assets per share (HK$)	**15.67**	14.28	10%	
Adjusted net assets per share (HK$) **	**19.42**	18.34	6%	
Net borrowings	**1,990**	1,198	66%	
Net debt to EBITDA (times)	**2.2x**	0.8x	175%	
Net debt to equity	**9%**	6%	3pp	*
Gearing	**8%**	5%	3pp	*
	For the year ended 31 December			
Consolidated statement of cash flows (HK$m)	**2009**	2008		
Net cash generated from operating activities	**761**	1,208	(37%)	
Capital expenditure	**(269)**	(417)	(35%)	
Investment in the Peninsula Paris project	**(1,044)**	-	-	
Net cash (outflow)/inflow after interest and dividends before financing activities	**(824)**	597	(238%)	
Capital expenditure to revenue	**6%**	8%	(2pp)	*
Share information (HK$)				
Highest share price	**11.98**	14.50	(17%)	
Lowest share price	**4.26**	5.13	(17%)	
Year end closing share price	**11.36**	5.86	94%	
Operating information				
Number of hotel rooms	**3,012**	2,874	5%	
Average occupancy rate				
- Hong Kong	**57%**	71%	(14pp)	*
- Other Asia	**48%**	57%	(9pp)	*
- United States of America	**58%**	68%	(10pp)	*
Average room rate (HK$)				
- Hong Kong	**3,796**	4,095	(7%)	
- Other Asia	**1,774**	2,075	(15%)	
- United States of America	**4,052**	4,626	(12%)	
RevPAR (HK$)				
- Hong Kong	**2,182**	2,927	(25%)	
- Other Asia	**857**	1,191	(28%)	
- United States of America	**2,362**	3,145	(25%)	

* *pp stands for percentage points.*

** *Please refer to calculation in the Financial Review section.*

The Directors hereby announce the audited results for the year ended 31 December 2009, 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

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

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

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

HOTELS

The business of our hotels division was affected by a combination of factors during the year, including the financial downturn and weak business from the corporate sector especially in the US, the threat of the human H1N1 flu epidemic and an oversupply of hotel rooms in several cities where we operate. There was a general decrease in long haul arrivals which impacted on occupancies and room rates. By the fourth quarter there were signs of hotel occupancies stabilising and recovering, yet room rates in markets such as New York, Chicago, Beijing, Bangkok and Manila remained significantly below pre-financial crisis levels.

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

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

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

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

COMMERCIAL PROPERTIES

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

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

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

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

CLUBS AND SERVICES

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

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

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

PROJECTS

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

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

On 20 January 2009, the Group invested a total of HK$1,044 million (Euro 102 million) to acquire a 20% interest in a joint venture with Qatari Diar Real Estate Investment Company (Q.S.C.) to develop The Peninsula Paris hotel, together with the right to manage this hotel for a period of 50 years after completion. The Peninsula Paris will be housed in a grand century-old Beaux Art building, located on Avenue Kleber near the Arc de Triomphe, which was originally constructed as the Majestic Hotel and more recently was used by the French Government as the Centre International de Conferences. Since signing, significant progress has been made on this project. The building was vacated at the end of March 2009 and handed over for demolition and strip out work. That was followed by appointments of key project personnel including the project director, executive architect and interior designer. Detailed design work and the planning approval process are well in progress. It is expected that construction will commence in 2010 for planned completion in 2012.

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

Throughout the year, we continued to evaluate numerous opportunities for new hotel developments. These are reviewed on a highly selective basis with an underlying principle of requiring an ownership interest in the properties which we operate. As such, we expect to commit to new projects on a measured basis to maintain the focus of our resources, as well as to ensure that we only proceed with the most prime locations in key international gateway cities.

OUTLOOK

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

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

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

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

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

Clement K. M. Kwok
Chief Executive Officer
Hong Kong, 12 March 2010

FINANCIAL REVIEW

Key components of the financial statements

The objective of the financial statements is to set out the historic financial performance and financial position of the Group. The key components of the financial statements are the income statement, 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. The income statement of the Group is set out on page 22 and a detailed discussion of the performance of the Group is set out on pages 10 to 18 of this Financial Review.

Statement of financial position – this summarises the Group's assets and liabilities as at the end of the reporting period and how the net assets were funded. The statement of financial position of the Group is presented on page 24 and a detailed discussion of the financial position of the Group is set out on pages 18 to 20 of this Financial Review.

Statement of cash flows – this provides information about the Group's change in financial position, reconciles the Group's reported income to operating cash flows and analyses how cash generated from operations was applied in investing and financing activities during the year. The statement of cash flows of the Group is set out on page 25 and a detailed discussion of the cash flows is set out on pages 20 and 21 of this Financial Review.

Non-accounting performance indicators and operational statistics

To enable users of the financial statements to assess the Group's operating performance in a more comprehensive manner, operating and non-accounting financial performance indicators are included in this Financial Review to supplement the information presented in the financial statements.

The Group's adjusted net asset value

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

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

For the purpose of financial statement presentation, the Group has selected the cost model instead of fair value model under the HKFRS as its accounting policy to account for its hotels (other than shopping arcades and offices within the hotels) and golf courses. Under the cost model, hotels and golf courses are measured at depreciated cost less accumulated impairment losses, if any. The fair value model has not been selected in order to avoid the inclusion of unnecessary short-term fair value movements in respect of hotel properties and golf courses in the income statement which are considered irrelevant to the underlying economic performance of the hotel and golf course operations. However, in order to provide users of the financial statements with additional information on the value of the Group's net assets, the Directors have commissioned an independent third party fair market valuation of the Group's hotel properties and golf courses as at 31 December 2009, the details of which are set out on page 19. If these assets were to be stated at fair market value instead of at cost less depreciation and any provision for impairment (and deferred tax is not provided on the revaluation surplus of the hotel property in Hong Kong on the same rationale as noted above), the Group's net assets attributable to shareholders would increase by HK$2,424 million.

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

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

The Group's underlying earnings

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

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

Change in segmental reporting

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

Income statement

Turnover

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

Consolidated revenues by business segment

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

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

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

The breakdown of revenues by hotels is as follows:

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

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

** *The Peninsula Shanghai opened gradually from 18 October 2009 and became fully operational as from 3 December 2009.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating costs

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

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

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

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

HK$1,512 million or 46% of direct operating costs are payroll-related. This proportion is in line with that of the previous year. The breakdown of full time employee numbers as at 31 December was as follows:

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

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

EBITDA and EBITDA margin

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

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

EBITDA margin represents EBITDA as a percentage of turnover and is analysed in the table on the right.

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

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

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

Depreciation and amortisation

The depreciation and amortisation charge of HK$338 million (2008: HK$374 million) largely relates to the hotels. The Group's hotels are subject to a planned maintenance programme in which capital expenditure is incurred on an ongoing basis for refurbishment and improvement. Therefore, depreciation and amortisation normally account for a significant portion of the Group's fixed overheads. It should be noted that of the total depreciation figure, HK$140 million (2008: HK$145 million) relates to depreciation and amortisation of land and buildings, which would not be required if the hotels were accounted for on a fair market value basis instead of the cost and depreciation basis as currently adopted.

Net financing charges

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

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

Non-operating items

The non-operating items are analysed below:

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

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

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

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

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

Share of profit/(loss) of a jointly controlled entity

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

Taxation

The breakdown of the taxation charge is as follows:

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

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

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

As at 31 December 2009, the deferred tax provision in respect of accumulated revaluation surpluses on the Group's investment properties amounted to HK$3,191 million (2008: HK$2,881 million), of which HK$3,077 million (2008: HK$2,723 million) related to Hong Kong investment properties. The Directors consider that the provision for deferred tax liabilities with regard to revaluation surpluses on the investment properties in Hong Kong will not materialise on the grounds that the Group has no intention to sell these properties and, should any such sale eventuate, any gain would be regarded as capital in nature and would not be subject to any tax in Hong Kong.

Statement of financial position

Fixed assets

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

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

According to the Group's accounting policies, hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties are stated at fair value. In order to provide users of the financial statements with additional information on the current market value of our hotels and golf courses, the Directors have commissioned independent valuers to perform a fair valuation of these properties (except for The Peninsula Beverly Hills which is 20% owned by the Group) as at 31 December 2009. At the same time, an independent valuation was also performed for the Group's investment properties in accordance with the accounting policies.

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

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

Interest in a jointly controlled entity

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

Interest in associates

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

Investment in hotel management contracts

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

Borrowings

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

In addition to the Group's consolidated borrowings, The Peninsula Beverly Hills (20% owned) and The Peninsula Shanghai (50% owned) have non-recourse bank borrowings, which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the Company. The consolidated and non-consolidated borrowings as at 31 December 2009 are summarised as follows:

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

Derivative financial instruments

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

Statement of cash flows

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

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

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

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

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

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

Consolidated Income Statement (HK$m)

	Note	Year ended 31 December 2009	2008
Turnover	2	**4,218**	4,938
Cost of inventories		**(334)**	(390)
Staff costs and related expenses		**(1,512)**	(1,553)
Rent and utilities		**(531)**	(525)
Other operating expenses		**(917)**	(1,045)
Operating profit before interest, taxation, depreciation and amortisation ("EBITDA")		**924**	1,425
Depreciation and amortisation		**(338)**	(374)
Operating profit		**586**	1,051
Interest income		**15**	40
Financing charges		**(101)**	(108)
Net financing charges		**(86)**	(68)
Profit after net financing charges		**500**	983
Share of profit/(loss) of a jointly controlled entity	10	**285**	(5)
Increase/(decrease) in fair value of investment properties	4	**1,998**	(593)
Provision for impairment losses, net		**-**	(176)
Other non-operating items	5	**(21)**	-
Profit before taxation		**2,762**	209
Taxation			
Current tax	6	**(120)**	(185)
Deferred tax	6	**(338)**	227
Profit for the year		**2,304**	251
Profit attributable to:			
Shareholders of the Company		**2,298**	216
Minority interests		**6**	35
Profit for the year		**2,304**	251
Earnings per share, basic and diluted (HK$)	7	**1.57**	0.15

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

Consolidated Statement of Comprehensive Income (HK$m)

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

Consolidated Statement of Financial Position (HK$m)

	Note	At 31 December 2009	2008
Non-current assets			
Fixed assets			
Properties, plant and equipment		**5,549**	5,791
Investment properties		**22,790**	20,577
		28,339	26,368
Interest in associates	9	**498**	-
Interest in a jointly controlled entity	10	**815**	539
Interests in unlisted equity instruments		**-**	-
Investment in hotel management contracts	11	**730**	92
Derivative financial instruments		**18**	38
Deferred tax assets	12(b)	**64**	38
		30,464	27,075
Current assets			
Inventories		**98**	114
Trade and other receivables	13	**391**	378
Derivative financial instruments		**27**	25
Cash at banks and in hand	14	**1,835**	1,995
		2,351	2,512
Current liabilities			
Trade and other payables	15	**(1,203)**	(1,188)
Interest-bearing borrowings		**(769)**	(695)
Derivative financial instruments		**(95)**	(93)
Current taxation	12(a)	**(67)**	(90)
		(2,134)	(2,066)
Net current assets		**217**	446
Total assets less current liabilities		**30,681**	27,521
Non-current liabilities			
Interest-bearing borrowings		**(3,056)**	(2,498)
Net defined benefit retirement obligation		**(23)**	(21)
Derivative financial instruments		**(111)**	(188)
Deferred tax liabilities	12(b)	**(3,543)**	(3,168)
		(6,733)	(5,875)
Net assets		**23,948**	21,646
Capital and reserves			
Share capital	16	**735**	725
Reserves		**22,305**	19,987
Total equity attributable to shareholders of the Company		**23,040**	20,712
Minority interests		**908**	934
Total equity		**23,948**	21,646

Consolidated Statement of Cash Flows (HK$m)

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

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 consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, the requirements of the Hong Kong Companies Ordinance and also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies used in preparation of the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows are consistent with those adopted in 2008, except that the Group has changed some of its accounting policies following its adoption of the new and revised HKFRSs and number of a amendments to HKFRSs and new interpretations that are first effective for the current accounting period. The adoption of these new and revised HKFRSs has not resulted in any significant impact on the Group’s operating results for the year and financial position as at 31 December 2009, except for the change in certain disclosures as follows:

- HKFRS 8, *Operating segments*, requires segment disclosure to be based on the way that the Group’s chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group’s chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years. The adoption of HKFRS 8 has resulted in amendments to the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group’s senior executive management and has resulted in amendments to the reportable segments being identified and presented (see note 3). Corresponding amounts for the prior year have been provided on a basis consistent with the revised segment information.

- As a result of the adoption of HKAS 1 (revised 2007), *Presentation of financial statements*, details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement termed as the consolidated statement of comprehensive income. Corresponding amounts for the prior year have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented. HKAS 1 (revised 2007) also includes changes to the titles of the other primary financial statements in order to better reflect their function. The consolidated balance sheet and the consolidated cash flow statement have been re-termed as the consolidated statement of financial position and the consolidated statement of cash flows respectively.

1. Significant accounting policies and statement of compliance *continued*

- As a result of the adoption the amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*, the financial statements include expanded disclosures about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

2. Turnover (HK$m)

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

Turnover represents the gross amount invoiced for services, goods and facilities including management fees and rental income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

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

3. Segment reporting (HK$m)

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

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

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

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

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

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

Segment assets include all tangible and intangible assets and current assets held directly by the respective segments with the exception of interests in associates and jointly controlled entities, derivative financial instruments, deferred tax assets and cash at 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 2009 and 2008 is set out as follows:

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

**** Analysis of segment revenue***

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

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

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

Profit

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

Assets

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

(c) Geographical information (HK$m)

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

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

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

4. Increase/(decrease) in fair value of investment properties

All investment properties of the Group were revalued as at 31 December 2009 on an open market value basis mainly calculated by reference to net rental income allowing for reversionary income potential. The changes in fair value of the investment properties during the year were accounted for in the consolidated income statement. The valuations were carried out by valuers independent of the Group who have staff with recent experience in the location and category of property being valued.

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

	2009	2008
Gain on disposal of investment property	**18**	-
Impairment loss on interest in associates *(note 9)*	**(15)**	-
Closure costs for Quail Lodge Resort	**(24)**	-
	(21)	-

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

(a) Taxation in the consolidated income statement represents:

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

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

In June 2008, the Hong Kong Government enacted a reduction in the profits tax rate in Hong Kong from 17.5% to 16.5% commencing with the fiscal year 2008/09. Accordingly, the provision for Hong Kong Profits Tax for 2008 was calculated at 16.5% of the estimated assessable profits for the year and a deferred tax credit of HK$175 million in respect of deferred tax balances as at 1 January 2008 was recorded in the Group's consolidated income statement for the previous year.

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

* *It should be noted that the Directors have no intention of selling the Group's investment properties in Hong Kong and consider that should any such sale eventuate, any gain would be regarded as capital in nature and would not be subject to any tax in Hong Kong.*

7. Earnings per share

(a) Earnings per share - basic

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

	2009 (million shares)	*2008 (million shares)*
Issued shares at 1 January	***1,450***	*1,442*
Effect of repurchase of shares	***-***	*(1)*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2008 final and 2009 interim dividends	***10***	*6*
Weighted average number of shares at 31 December	***1,460***	*1,447*

(b) Earnings per share - diluted

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

8. Dividends (HK$m)

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

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

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

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

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

9. Interest in associates (HK$m)

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

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

9. 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) On 20 January 2009, the Group invested a total of Euro 102 million (HK$1,044 million) into the Peninsula Paris project. Of this amount, Euro 44.3 million (HK$453 million) was attributed to the acquisition of a 20% equity interest and 20% of the related shareholder's loan in Al Maha which owns a property in Paris to be redeveloped into a Peninsula hotel, and Euro 57.7 million (HK$591 million) was attributed to the acquisition of the right to manage this hotel upon completion of redevelopment (see note 11).

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

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

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

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

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

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

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

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

* *The Group's interest in TPS is held indirectly by the Company. TPS holds a 100% direct interest in Evermore Gain Limited ("EGL"), a company incorporated in Hong Kong in 2007, which in turn holds a 100% direct interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"). PSW is a wholly owned foreign enterprise incorporated in the People's Republic of China and is engaged in the development and operation of The Peninsula Shanghai hotel, Peninsula hotel apartments, a retail arcade and ancillary facilities. At 31 December 2009, the paid up capital of EGL and PSW amounted to HK$1 (2008: HK$1) and US$117,500,000 (2008: US$117,500,000) respectively.*

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

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

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

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

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

11. Investment in hotel management contracts (HK$m)

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

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) As discussed in note 9, during 2009, Euro 57.7 million (HK$591 million) of the Group's investment in the Peninsula Paris project was attributed to the acquisition of the long term hotel management contract in respect of this hotel. The management contract will be amortised from the date of commencement of hotel operations.

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

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

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

12. 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 2008	3,156	544	(26)	(287)	(23)	3,364
(Credited)/charged to profit or loss	(284)	(34)	8	77	6	(227)
Charged/(credited) to reserves	9	5	-	(9)	(12)	(7)
At 31 December 2008	2,881	515	(18)	(219)	(29)	3,130
At 1 January 2009	**2,881**	**515**	**(18)**	**(219)**	**(29)**	**3,130**
Charged/(credited) to profit or loss	**308**	**61**	**(1)**	**(33)**	**3**	**338**
Charged/(credited) to reserves	**2**	**3**	**(1)**	**2**	**5**	**11**
At 31 December 2009	**3,191**	**579**	**(20)**	**(250)**	**(21)**	**3,479**

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

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

* *The balance as at 31 December 2009 includes deferred tax liabilities in respect of revaluation of the Group's investment properties in Hong Kong amounting to HK$3,077 million (2008: HK$2,723 million). The Directors have no current intention of selling the Group's investment properties in Hong Kong and consider that should any such sale eventuate, any gain would be regarded as capital in nature and would not be subject to any tax in Hong Kong.*

13. Trade and other receivables (HK$m)

	2009	2008
Trade debtors (ageing analysis is shown on next page)	**175**	198
Rental deposits and payments in advance	**216**	180
	391	378

13 Trade and other receivables (HK$m) *continued*

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

The ageing analysis of trade debtors is as follows:

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

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

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

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

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

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

15. Trade and other payables (HK$m)

	2009	2008
Trade creditors (ageing analysis is on next page)	**119**	109
Interest payable	**5**	4
Accruals for fixed assets	**32**	20
Tenants' deposits	**295**	296
Golf membership deposits	**109**	109
Other payables	**643**	650
Financial liabilities measured at amortised cost	**1,203**	1,188

15. Trade and other payables (HK$m) *continued*

The amount of trade and other payables of the Group expected to be settled or recognised as income after more than one year is HK$340 million (2008: HK$334 million). All of the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The ageing analysis of trade creditors is as follows:

	2009	2008
Less than 3 months	**117**	109
3 to 6 months	**2**	-
	119	109

16. Share capital

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

All ordinary shares issued during the year rank pari passu in all respects with the existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(a) During the year, there was no purchase, sale or redemption of the Company's shares.

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

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

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

The Company has applied all of the principles in the Code on Corporate Governance Practices (the 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 recommended best practices in the CG Code except the following:

- *Publication of quarterly financial results* The Board believes that the businesses of the Group are long term and cyclical in nature. Quarterly reporting encourages a short term view on the Group's performance. Instead the Company has posted on the Company's website its quarterly operating statistics which set out key operating information; and

- *Establishment of nomination committee* The Company does not have a separate nomination committee, however the function is performed by the Executive Committee.

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

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

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 or about 24 May 2010.

Annual General Meeting and book close dates

The Annual General Meeting will be held at The Peninsula Hong Kong on 12 May 2010 at 12 noon. The register of members will be closed from 10 May 2010 to 12 May 2010 inclusive, and subject to the passing of the necessary resolution at the forthcoming Annual General Meeting, the final dividend will be payable on or about 25 June 2010 to shareholders whose names appear on the register of members on 12 May 2010.

To be entitled to receive the final dividend, shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Company's registrars, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 7 May 2010.

Miscellaneous

The Annual Report of the Company containing all the information required by the Stock Exchange Listing Rules will be despatched to the shareholders as well as published on the websites of the Company and the Stock Exchange in mid April.

By Order of the Board
Christobelle Liao
Company Secretary

Hong Kong, 12 March 2010

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