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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

2011 Annual Results

HIGHLIGHTS

Key financial results

- Turnover increased by 6% to HK\$5,009 million (2010: HK\$4,707 million)
- EBITDA increased by 6% to HK\$1,211 million (2010: HK\$1,143 million)
- Net profit attributable to shareholders amounted to HK\$2,259 million (2010: HK\$3,008 million)
- Underlying profit attributable to shareholders increased by 14% to HK\$464 million (2010: HK\$408 million)
- Earnings per share and underlying earnings per share of HK\$1.52 (2010: HK\$2.04) and HK\$0.31 (2010: HK\$0.28) respectively
- Final dividend of 10 HK cents per share, making a total dividend of 14 HK cents per share for 2011 (2010: 12 HK cents per share)
- Shareholders' funds as at 31 December 2011 amounted to HK\$31,455 million or HK\$21.11 per share (2010: HK\$29,103 million or HK\$19.66 per share)
- The Group's adjusted net assets as at 31 December 2011 amounted to HK\$34,703 million (HK\$23.29 per share) (2010: HK\$31,888 million at HK\$21.55 per share)

Key developments

- HSH acquired from Hong Kong Construction (Hong Kong) Limited its entire interest in Hong Kong Construction Kam Lung Limited for a cash consideration of HK\$578 million. The acquisition resulted in HSH expanding its effective economic interest in The Peninsula Beijing to 100%.
- The Peninsula Hong Kong began the first phase of its HK\$450 million, 15-month renovation programme in January 2012 that will see all of the hotel's 300 guestrooms and suites completely refurbished. The hotel's food and beverage and banqueting capacities will also be expanded.
- The Repulse Bay embarked on the first of a three-phased, three-year major revitalisation project in July 2011. The first phase involves the upgrading of the public areas in the residential tower at 101 Repulse Bay Road. The second phase commenced in February 2012 with the closure of the de Ricou serviced apartment tower, to be converted into a combination of premium unfurnished apartments and serviced apartments for lease.
- The Peak Tram carried a record 5.8 million passengers.
- HSH's first Peninsula-branded serviced apartments, The Peninsula Residences, are being launched in Shanghai. The 39 furnished apartments range in size from 210 to 779 square meters and are appointed to a very high standard. The Residences adjoin The Peninsula Shanghai hotel on the Bund.

FINANCIAL AND OPERATING HIGHLIGHTS

	2011	2010	Increase/ (Decrease)
CONSOLIDATED INCOME STATEMENT (HK\$m)			
Turnover	5,009	4,707	6%
EBITDA	1,211	1,143	6%
Operating profit	834	794	5%
Profit attributable to shareholders	2,259	3,008	(25%)
Underlying profit attributable to shareholders **	464	408	14%
Dividends	208	177	18%
Earnings per share (HK\$)	1.52	2.04	(25%)
Underlying earnings per share (HK\$) **	0.31	0.28	11%
Dividends per share (HK cents)	14	12	17%
Dividend cover (times) #	2.2x	2.3x	(4%)
Interest cover (times)	9.5x	7.4x	28%
Weighted average gross interest rate	3.1%	3.2%	(0.1pp) *
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK\$m)			
Total assets	38,233	36,587	4%
Audited net assets attributable to shareholders	31,455	29,103	8%
Adjusted net assets attributable to shareholders **	34,703	31,888	9%
Audited net assets per share (HK\$)	21.11	19.66	7%
Adjusted net assets per share (HK\$) **	23.29	21.55	8%
Net borrowings	2,335	1,674	39%
Net debt to EBITDA (times)	1.9x	1.5x	27%
Net debt to equity	7%	6%	1pp *
Gearing	7%	5%	2pp *
CONSOLIDATED STATEMENT OF CASH FLOWS (HK\$m)			
Net cash generated from operating activities	999	1,019	(2%)
Capital expenditure on fixed assets	(312)	(276)	13%
Payment for the acquisition of additional interest in a subsidiary	(578)	-	N/A
Cash and cash equivalents at the year end	1,963	1,644	19%
Capital expenditure on fixed assets as a percentage to revenue	6%	6%	-
SHARE INFORMATION (HK\$)			
Highest share price	14.74	14.90	(1%)
Lowest share price	8.10	10.32	(22%)
Year end closing share price	8.61	13.32	(35%)
OPERATING INFORMATION			
Number of hotel rooms	3,012	3,012	-
Average occupancy rate			
- Hong Kong	74%	70%	4pp *
- Other Asia	57%	58%	(1pp) *
- United States of America	69%	65%	4pp *
Average room rate (HK\$)			
- Hong Kong	4,094	3,816	7%
- Other Asia	1,981	1,928	3%
- United States of America	4,550	4,403	3%
RevPAR (HK\$)			
- Hong Kong	3,043	2,660	14%
- Other Asia	1,122	1,114	1%
- United States of America	3,135	2,856	10%

* pp denotes percentage points.

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

Dividend cover is calculated based on underlying profit attributable to shareholders over dividends.

The Directors hereby announce the audited results for the year ended 31 December 2011, 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

OVERVIEW

Our business in 2011 was affected by mixed market conditions for our various hotel operations in the midst of the continuing global economic uncertainties, as well as by two major natural disasters: the earthquake and resultant tsunami in Japan and the flooding in Bangkok. In the circumstances, we are pleased to be able to report an increase of 14% in our underlying earnings as compared to the previous year.

This financial results were better than we had hoped for in the aftermath of the Japan earthquake and was achieved through the concerted efforts made by our staff across our global operations of which I am most appreciative. I am also immensely proud of the way our staff in Tokyo and Bangkok reacted to the two natural disasters by selflessly providing care, support and help both to their local communities and to affected staff members. These efforts were strongly supplemented by our Company and our colleagues around the world through fundraising efforts and moral support.

HOTELS

Market conditions were varied amongst our hotel businesses, with a number of locations experiencing weak corporate business, oversupply of luxury hotels and political instability, as well as the two natural disasters mentioned above. Our strongest performer was once again The Peninsula Hong Kong. In addition, we saw good signs of recovery at The Peninsula New York and The Peninsula Beverly Hills.

China: The Peninsula Hong Kong performed very well during the year, with a business revival in both the corporate and leisure segments. The top producing markets for the hotel were China, Japan and the USA. There was also healthy growth from new customer markets including Russia and the Middle East. The Peninsula Arcade remains highly sought after by leading luxury retail brands and both this and the Office Tower were able to grow their average rent and maintain effectively full occupancy during the year. **The Peninsula Shanghai**, now in the second full year of operations, has established recognition as one of the very top hotels in China. In the year following the Shanghai World Expo, the hotel benefitted from increased demand from domestic travellers and continued to step up its marketing efforts in mainland cities. The Peninsula Arcade has been fully occupied by leading luxury retail brands. Meanwhile, The Peninsula Residences, which form part of this complex, completed interior fit out work for most of the 39 units and will commence leasing activities in 2012. **The Peninsula Beijing** was able to maintain its leadership position in the capital despite competition from the large supply of other luxury hotels remaining intense. Upgrading work for the Peninsula Arcade was completed during the year, which further strengthened the Arcade's position as the premier luxury goods shopping venue in the Chinese capital. The Arcade continues to provide an important stream of revenue for the hotel.

Asia: The Peninsula Tokyo faced the challenge of a depressed economy in the months following the massive earthquake and tsunami in March 2011, which affected the tourism industry deeply. By the third quarter of the year, business had rebounded to some extent, due partially to a more relaxed visa policy which resulted in the return of some mainland Chinese and other Asian and Middle Eastern visitors, who were relatively unaffected by the softening of global economies. The hotel's wedding

business remained robust. In Thailand, **The Peninsula Bangkok** was recovering from the previous year's political uncertainty following the July 2011 election which produced a more stable government, until the extensive flooding which hit Bangkok in November 2011. Although the hotel was not directly affected by the flood water, the tourism industry was badly hit by the ensuing negative publicity and travel advisories imposed by foreign governments. Once again, the regional markets proved to be more resilient and by December 2011, inbound visitor arrivals to Bangkok had shown some recovery. In the Philippines, **The Peninsula Manila** celebrated its 35th anniversary in 2011 and achieved its highest RevPAR ever. The hotel saw a significant increase in frequent independent travellers' business and enjoyed strong food and beverage business.

USA: Following the completion of its guestroom renovation programme, **The Peninsula New York** enjoyed a good increase in business from some high-end overseas groups and expanded its business mix by focusing efforts on new sectors including technology, energy and entertainment. Business remained weak for **The Peninsula Chicago**, which is highly dependent on domestic and corporate business, although there was slight improvement in business in the second half of the year. The hotel celebrated its 10th anniversary, retaining a leading market position and continuing to be recognised as one of the finest hotels in North America. **The Peninsula Beverly Hills**, which celebrated its 20th anniversary in 2011, enjoyed strong business from the entertainment industry and the Middle East market. The hotel completed a renovation of all its guestrooms and suites, which now carry a refreshed, elegant new look.

Overall, the revenue and EBITDA of the Hotels Division for the year were HK\$3,766 million and HK\$605 million, an increase of 5% and 0.2% respectively as compared to 2010. This result was achieved despite the significant adverse impact of the earthquake in Japan and the flooding in Bangkok. Further details of individual hotel's financial performance can be found in the Financial Review.

COMMERCIAL PROPERTIES

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

The most important asset in this Division is the **Repulse Bay Complex**, the larger part of whose revenue is derived from residential lettings which continued to experience strong demand throughout the year, in line with Hong Kong's robust economy. This was supplemented by the increase in patronage to the Complex's two restaurants and shopping arcade, the latter of which remained fully let throughout the year. In particular, banquet and wedding business remained strong. The total revenue of the Complex rose 7% from 2010 to HK\$538 million.

The **Peak Complex** achieved excellent results in 2011 due to its strong positioning in the tourist market. The Peak Tower maintained 100% occupancy during the year and recorded an increase of 17% in year-on-year revenue which was also boosted by a record number of visitors to the rooftop Sky Terrace 428. St. John's Building enjoyed an effectively 100% occupancy throughout the year with an 18% increase in revenue.

At **The Landmark** in Vietnam, both the office and residential portions maintained high occupancies despite the intense competition in Ho Chi Minh City. The complex also completed the renovation of its health club, which was re-opened in September.

Overall, the revenue and EBITDA of the Commercial Properties Division for the year were HK\$743 million and HK\$493 million respectively, an increase of 8% and 10% as compared to 2010. Further details of individual property's financial performance can be found in the Financial Review.

CLUBS AND SERVICES

The 123-year-old **Peak Tram** has maintained its position as one of Hong Kong's most popular tourist attractions. In 2011, patronage of the Peak Tram rose to a record 5.8 million passengers, a 7% increase from 2010.

Income from our club management activities rose with positive results coming from our management of the **Cathay Pacific lounges** at the Hong Kong International Airport. Two of the business class lounges at the Airport completed their renovation and re-opened in April 2011 and January 2012 respectively. The **Thai Country Club** saw a decline in the number of golfers from Japan and although the Club did not suffer any physical damage from the flooding in November, the number of rounds were reduced as a result. At **Quail Lodge Golf Club**, the golf course and Clubhouse remained open and the Club hosted another successful edition of The Quail Motorsports Event in August. **Peninsula Merchandising** once again achieved record sales in Hong Kong and Asia for its signature Mid Autumn Festival mooncakes and we are planning to open the first Peninsula Boutique in South Korea in 2012. In Shanghai, **No. 1 Waitanyuan** has gained a fine reputation for its fine food, service and ambiance in the historic setting of the former British Consulate. We have also leased other premises within the Bund 33 complex for commercial usage. The site is managed by The Peninsula Shanghai.

Overall, the revenue and EBITDA of the Clubs & Services Division for the year were HK\$500 million and HK\$113 million, an increase of 13% and 27% respectively as compared to 2010. Further details of individual clubs and services' financial performance can be found in the Financial Review.

PROJECTS AND DEVELOPMENTS

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

The next Peninsula hotel currently under construction is in Paris. Conversion of the magnificent, century-old Beaux Arts building on Avenue Kleber to become The Peninsula Paris commenced in September 2010. Interior design work for the hotel's public areas and guestrooms are at an advanced stage and we will begin interior fit out work in 2012. The Peninsula Paris will be the Group's first hotel in Europe and is scheduled to open in late 2013.

Whilst the search for future new Peninsula hotel developments continue, we remain very selective in seeking opportunities in key gateway cities which will meet Peninsula's full requirements. A lot of time and effort goes into this endeavour and I hope to be able to report further progress in due course.

In the meantime, we continue to devote significant efforts to the continual enhancement of our existing assets. In January 2012, we commenced physical works for the extensive renovation programme for The Peninsula Hong Kong which, over two phases, will encompass a full upgrade of all of the hotel's guestrooms and suites as well as an expansion and upgrade of some restaurant areas. Our willingness to undertake a large scale renovation of a rooms product which is less than 20 years old and which is still highly regarded by guests, is a testament to our determination and commitment to set the highest standards in the global luxury hospitality sector.

An extensive renovation programme of the Repulse Bay Complex is already underway. This will significantly upgrade all the public areas of the apartment towers and completely reconfigure the layout of the serviced apartment tower, de Ricou, in order to improve its efficiency and rental yield. The project, which is divided into three phases, commenced in 2011 and is targeted for completion in 2014.

We believe that the significant investment in The Peninsula Hong Kong and The Repulse Bay projects will further enhance the value of these key assets and help to maintain their leading positions in the market. In addition, a number of projects are undertaken on an ongoing basis to maintain and enhance our existing hotels and other properties. During the year, these have included the completion of renovation at The Peninsula New York and The Peninsula Beverly Hills.

FINANCIAL RESULTS

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

With the balance of earnings provided by this comprehensive and diversified portfolio, I am pleased to report that our Group achieved an increase of 6% in earnings before interest, taxation, depreciation and amortisation (EBITDA) to HK\$1,211 million in 2011 and an increase of 5% in operating profit to HK\$834 million in 2011. The EBITDA margin remained unchanged from 2010, at 24%.

Inclusive of non-operating items, being principally the year-end investment property revaluation surpluses, the net profit attributable to shareholders was HK\$2,259 million, as compared to HK\$3,008 million in 2010. 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\$464 million, as compared to HK\$408 million in 2010, representing an increase of 14%.

Our financial position remains strong. Our revalued net assets attributable to shareholders increased by 9% to HK\$34,703 million, representing HK\$23.29 per share, and our gearing remained at a very conservative level of 7% at the year-end. Our net cash surplus for the year, after deducting capital expenditure, interest and dividends, amounted to HK\$544 million. In addition, a gain of HK\$135 million was credited to reserves on the purchase of additional interest in The Peninsula Beijing.

Based on our results, the Board has recommended a final dividend payable on 29 June 2012 of 10 HK cents per share. Together with the 2011 interim dividend of 4 HK cents per share paid on 4 November 2011, the total dividend in respect of the 2011 financial year will be 14 HK cents per share.

CORPORATE RESPONSIBILITY

2011 has been a year of progress and transition. The Group's Corporate Responsibility Committee which I chair, was established in late 2007 to provide a formal governance structure to address the wider aspects of our environmental, social and ethical responsibilities. In the past three years, we have invested in various environmental engineering projects, with positive effects on energy and water consumption. These investments have brought savings in our utility costs and a satisfactory return on investment. The Group's energy intensity has since reduced by 15.5% and our carbon intensity by 6.1%.

We have also become more conscious of our impact on the world's bio-diversity. In line with our overall effort to switch to produce and materials from more sustainable sources, we decided in 2011 to stop serving shark fin at all our owned food outlets around the world. We continue to build on our long-standing commitment to support the development of the communities in which we operate.

We recognise a need to enhance the degree to which social and environmental responsibility is integrated in our everyday business decision-making. We also see the need to build a wider and deeper understanding among all employees of what it takes for our business to continue to thrive in the long term. We have planned in 2012 to engage the Group's senior management team in a forum to assess key future trends that will impact the Group and to create a shared direction for sustainable business at HSH. This is part of a new and wider employee engagement programme, with a view to generating practical solutions to address our longer term sustainable business challenges. We will further strengthen our internal governance and reporting framework on sustainability to support management decisions, and step up our effort in reaching out to our stakeholders to understand their evolving concerns and expectations.

OUTLOOK

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

Sustainable development continues to be high on our agenda. We are committed to adopt a balanced approach to our economic, environmental and social objectives. As natural resources deplete, technologies develop and sensibilities evolve, we must ensure that we are well placed to continue to deliver luxury and quality to our customers in ways that are both sustainable and that drive business growth.

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

In terms of outlook for 2012, current business trends in most of our hotels are positive, although margins continue to be under pressure and it remains of paramount importance to control our costs and increase our efficiency in delivering services to customers without any compromise to the quality of the experience of our guests. In particular, we are looking to a year of recovery for both Tokyo and Bangkok after the natural disasters experienced in 2011, and for further growth in our China businesses as our luxury hotel products, especially The Peninsula Shanghai, become more established with the rise in demand for luxury hospitality in China. Generally, the economy in Hong Kong and demand for residential and commercial property remain stable although the outlook is laced with caution. Our 2012 earnings will, as previously forewarned, be impacted by the renovations at The Peninsula Hong Kong and the de Ricou serviced apartment tower at The Repulse Bay due to closure periods during the construction works. However, we are hoping to mitigate this impact through increased earnings of our other assets and operations.

Finally, at the heart of our brand is our passion and our people, who exemplify our values and beliefs in their dealing with our guests and the communities in which we operate. It is the drive and creativity of our people which provide special and memorable experiences for our guests that hopefully sets us apart. I am delighted with the loyalty and long service of our big ‘family’ and thank them for their commitment.

Clement K.M. Kwok
30 March, 2012

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.

Statement of financial position – this summarises the Group’s assets and liabilities as at the end of the reporting period and how the net assets were funded.

Statement of cash flows – this provides information about the Group’s change in financial position, reconciles the Group’s reported income to operating cash flows and analyses how cash generated from operations was applied in investing and financing activities during the year.

Non-accounting performance indicators and operational statistics

In addition to accounting information, the Group also discloses non-accounting performance indicators to help readers understand the key drivers of our operating results.

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

Basis of preparation of the financial statements

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

During 2011, the HKICPA has issued a number of amendments and one new interpretation (“Revised HKFRS”). The Group has adopted all Revised HKFRS which are effective for the year ended 31 December 2011 and the adoption of the same has not resulted in any significant impact on the Group’s results of operations and financial position.

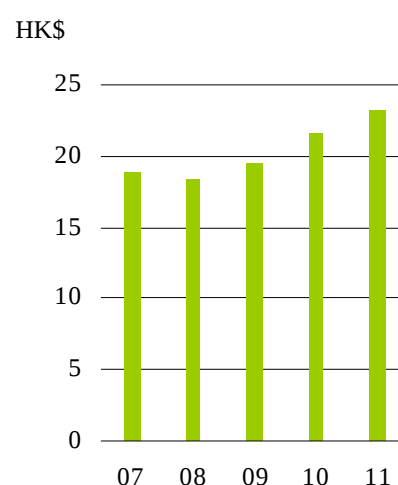
The Group’s adjusted net asset value

The Group’s adjusted net asset value per share as at 31 December 2011, after the adjustment to fair market value for hotels and golf courses, amounted to HK\$23.29, up 8% compared to 2010.

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 2011. If these assets were to be stated at fair market value instead of at cost less depreciation and any provision for impairment, the Group’s net assets attributable to shareholders would increase by HK\$3,248 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 2011 on the basis set out below.

Adjusted NAV per share

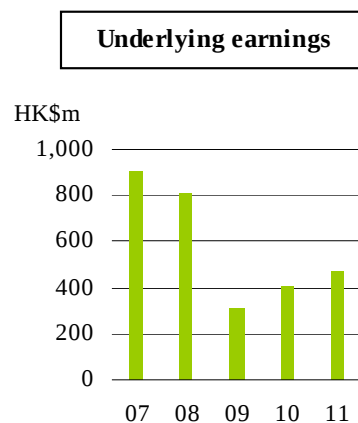


HK\$m	2011	2010
Net assets attributable to shareholders per audited statement of financial position	31,455	29,103
Adjusting the value of hotels and golf courses to fair market value	3,641	3,151
Less: Related deferred tax and non-controlling interests	(393)	(366)
	<u>3,248</u>	<u>2,785</u>
Adjusted net assets attributable to shareholders	<u>34,703</u>	<u>31,888</u>
Audited net assets per share (HK\$)	<u>21.11</u>	<u>19.66</u>
Adjusted net assets per share (HK\$)	<u>23.29</u>	<u>21.55</u>

The Group's underlying earnings

In order to provide additional insight into the performance of its business operations, the Group presents underlying earnings by excluding non-operating and non-recurring items that are considered irrelevant to the underlying operating performance of the Group.

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

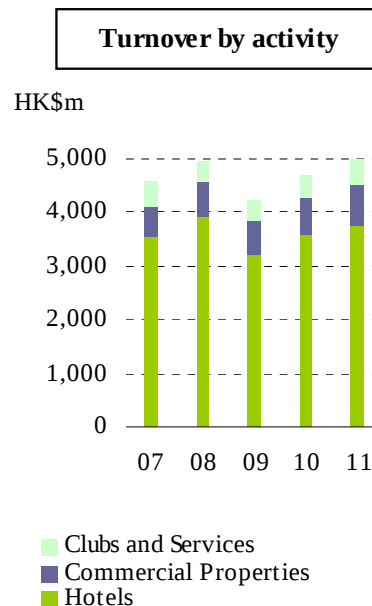


HK\$m	2011	2010	2011 vs 2010
Profit attributable to shareholders	2,259	3,008	(25%)
Increase in fair value of investment properties	(1,841)	(1,938)	
Provision for / (reversal of) impairment losses	20	(110)	
Share of net property valuation gain of a jointly controlled entity, net of tax	-	(614)	
Tax and non-controlling interests attributable to non-operating items	26	62	
Underlying profit attributable to shareholders	464	408	14%
Underlying earnings per share (HK\$)	0.31	0.28	11%

Income statement

Turnover

The Hotels Division continued to be the main contributor to the Group's revenue, accounting for 75% of the total revenue. Despite the March 2011 earthquake which negatively impacted the business operation of The Peninsula Tokyo, the Hotels Division achieved a revenue growth of 5% in 2011. The Commercial Properties and Clubs and Services Divisions also recorded an increase in revenue, surpassing 2010 by 8% and 13% respectively.



The Group's turnover in 2011 amounted to HK\$5,009 million, which was HK\$302 million or 6% above 2010. The table below sets out the breakdown of consolidated revenues by business segment and by geographical segment.

Consolidated revenues by business segment HK\$m	2011		2010		2011 vs 2010
Hotels					
Rooms	1,642	33%	1,549	33%	6%
Food and beverage	1,175	23%	1,123	24%	5%
Commercial	597	12%	567	12%	5%
Others	352	7%	337	7%	4%
Total hotel revenue	3,766	75%	3,576	76%	5%
Commercial Properties	743	15%	688	15%	8%
Clubs and Services	500	10%	443	9%	13%
	5,009	100%	4,707	100%	6%

Consolidated revenues by geographical location HK\$m	2011		2010		2011 vs 2010
Arising in					
Hong Kong	2,314	46%	2,103	45%	10%
Other Asia	1,650	33%	1,647	35%	0%
United States of America	1,045	21%	957	20%	9%
	5,009	100%	4,707	100%	6%

Hotels

Apart from The Peninsula Tokyo which was negatively impacted by the earthquake, all Peninsula hotels achieved RevPAR growth in 2011.

The Hotels Division generated a total revenue of HK\$3,766 million, representing an increase of HK\$190 million (5%) over 2010. Apart from The Peninsula Tokyo, which was negatively affected by the challenging economic environment following the earthquake in March, all the other hotels experienced revenue increases in 2011 as compared with 2010, in the range of 5% to 14%. Although not fully consolidated in the Group results, it is worth noting that The Peninsula Shanghai's revenue increased by HK\$76 million (20%) over 2010.

The RevPAR for all the hotels, apart from The Peninsula Tokyo, demonstrated growth in 2011 as demand in many of the markets in which we operate has strengthened, with higher occupancies being achieved. However, the growth in average room rates was generally limited due to keen competition within the competitive set.

Shown below is a breakdown of revenue by hotels:

											2011 vs 2010
HK\$m	2011					2010					
	Rooms	F&B	Commercial	Others	Total	Rooms	F&B	Commercial	Others	Total	
Consolidated hotels											
The Peninsula Hong Kong	366	336	393	61	1,156	320	302	379	58	1,059	9%
The Peninsula Beijing	159	75	133	19	386	143	77	122	20	362	7%
The Peninsula New York	363	109	34	46	552	325	99	34	40	498	11%
The Peninsula Chicago	236	152	-	58	446	218	145	-	49	412	8%
The Peninsula Tokyo	275	323	31	70	699	319	340	27	76	762	(8%)
The Peninsula Bangkok	101	72	3	17	193	93	70	3	17	183	5%
The Peninsula Manila	142	108	3	20	273	131	90	2	17	240	14%
Management fees income	-	-	-	61	61	-	-	-	60	60	2%
	1,642	1,175	597	352	3,766	1,549	1,123	567	337	3,576	5%
Non-consolidated hotels											
The Peninsula Shanghai	188	160	83	30	461	176	150	34	25	385	20%
The Peninsula Beverly Hills	284	94	-	43	421	260	90	-	46	396	6%
	472	254	83	73	882	436	240	34	71	781	13%

The Peninsula Hong Kong: Total revenue was HK\$97 million (9%) higher than 2010, with marked improvement in all business areas of the hotel and stable rental income from the Arcade and Offices. The revenue in 2011 was a record for the hotel, surpassing the previous record achieved in 2008. The hotel's RevPAR was 14% higher than 2010, resulting from both occupancy and average room rate increases. Food and beverage business levels were also higher, benefitting from the continuing strength of the local economy. The proportion of business from mainland China continued to increase, making it the highest geographical segment in most months in 2011. Mainland China, together with the US and Japan, made up the top three sources of business, which together accounted for 52% of the total rooms sold.

The Peninsula Beijing: Total revenue was HK\$24 million (7%) above 2010, with higher occupancy and increased arcade revenue. The competition amongst luxury hotels in Beijing remained intense during 2011 due to the abundant rooms supply and the slow build-up of incremental demand, thus limiting opportunities for room rate growth. Despite this, the hotel achieved improved occupancy from 46% in 2010 to 49% in 2011, whilst RevPAR was 11% higher than 2010. The shopping arcade was renovated in 2011, which has further enhanced its position as the premier venue for the sale of luxury goods in Beijing.

The Peninsula New York: Total revenue was HK\$54 million (11%) higher than 2010. The revenue growth was mainly driven by the increased RevPAR, which surpassed 2010 by 12% and resulted in an improved market share position for the hotel.

The Peninsula Chicago: Total revenue was HK\$34 million (8%) above 2010, with improved revenue across all areas. The hotel relies almost entirely on domestic business from within North America. The hotel continued to be the leader in terms of room rate and achieved the highest RevPAR in its competitor set in 2011 after increasing its RevPAR by 8%. Due to the low business level, the Avenues restaurant closed its business in September 2011; the space will be converted into a junior ballroom.

The Peninsula Tokyo: Total revenue was HK\$63 million (8%) lower than 2010 due to the impact of the March 2011 earthquake on business levels, which fell dramatically following the earthquake. Whilst gradual pick-up in business was seen in the second half of the year, the strengthening of the Japanese Yen has led to significant pressure on the room rate from international travellers which made it difficult for the hotel to increase its RevPAR.

The Peninsula Bangkok: Total revenue was HK\$10 million (5%) higher than 2010. The hotel's results through to September 2011 were satisfactory, with revenue 10% above 2010. However, there was disruption from the extensive flooding in Bangkok and the surrounding areas from October 2011 onwards. Business levels are slowly returning, though they remain well below the same months in the previous year.

The Peninsula Manila: Total revenue was HK\$33 million (14%) higher than 2010, which resulted in the hotel having a record year. The relatively stable political situation has led to an improved economic environment. The new Salon de Ning lounge, which opened in December 2010, has been very well received and business levels in food and beverage have been building throughout the year.

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

The Peninsula Shanghai: Total revenue was HK\$76 million (20%) above 2010. The hotel has established itself as the leader in the city in terms of average room rate and RevPAR. The average room rate was 14% higher than 2010 despite the significant rate pressure from new competitor hotels. However, growth in rooms and food and beverage revenue was moderate due to a lower occupancy achieved without the benefit of the World Expo 2010. For commercial revenue, the increase was mainly due to the contribution from Bund 33, the former British Consulate, which was not ready for commercial use until the end of 2010.

The Peninsula Beverly Hills: Total revenue was HK\$25 million (6%) above 2010. The hotel had a higher average room rate and slightly higher occupancy as compared with 2010, despite the extensive guestroom renovation work from October 2010 through to December 2011, as well as the poor economic environment in California. The hotel remains a leader in average room rate in the city and the renovation has given a fresh feel to the rooms that has been well received.

Hotel Commercial Arcades: Across the Group, most of the shops in the hotels' shopping arcades are leased on terms of two to three years. There remains a strong demand for retail space in our hotels in Hong Kong, Beijing and Shanghai. Commercial revenue from these three shopping arcades was HK\$74 million (14%) higher than 2010.

Commercial Properties

The residential leasing market in Hong Kong remained strong in 2011 and most properties within the Commercial Properties Division were fully occupied during the year.

The total revenue from the Commercial Properties Division was HK\$55 million (8%) above 2010, attributed to higher rental rates from the apartments, shops and offices. The residential leasing market in Hong Kong remained strong in 2011 and most properties in this Division were fully occupied during the year.

HK\$m	2011				2010				2011 vs 2010
	Residential properties	Office	Shopping Arcade	Total	Residential properties	Office	Shopping Arcade	Total	
The Repulse Bay Complex, Hong Kong	400	-	138	538	381	-	124	505	7%
The Peak Tower, Hong Kong	-	-	121	121	-	-	103	103	17%
St. John's Building, Hong Kong	-	45	-	45	-	38	-	38	18%
The Landmark, Ho Chi Minh City, Vietnam	10	26	3	39	11	28	3	42	(7%)
	410	71	262	743	392	66	230	688	8%

The Repulse Bay Complex, Hong Kong: Total revenue was HK\$33 million (7%) above 2010, with increased revenue in all areas as compared with 2010, especially in residential and food and beverage revenue. Although there have been some signs of softening in the high end residential leasing market as from the last quarter of 2011, there remains significant demand and the complex remains almost fully let.

The Peak Tower, Hong Kong: Total revenue was HK\$18 million (17%) above 2010. There was higher rental revenue from retail tenants and higher visitor numbers to The Sky Terrace 428 as compared with 2010. The retail spaces in the Tower remained fully let during 2011, with the majority of existing tenants renewing their leases upon expiry. Whenever there were changes of tenants, higher rental rates were secured with minimal vacancy periods.

St. John's Building, Hong Kong: Revenue was HK\$7 million (18%) above 2010, with all offices occupied and higher average rental rates as compared with 2010.

The Landmark, Ho Chi Minh City, Vietnam: Total revenue was HK\$3 million (7%) below 2010, largely due to the deflation of the Vietnamese Dong. Whilst occupancy was slightly lower in 2011, the revenue in local currency was basically the same as it was in 2010 as the property was able to attain higher average rental rates.

Clubs and Services

Peninsula Merchandising achieved another record year for its signature mooncakes sales during the Mid-Autumn Festival period, increasing its revenue by 22% in 2011. Other businesses of the Clubs and Services Division also recorded encouraging growth in revenue.

Businesses within this Division mostly achieved higher revenue as compared to 2010. The combined revenue was HK\$57 million (13%) above 2010.

HK\$m	2011	2010	2011 vs 2010
Clubs and Consultancy Services	131	115	14%
Peninsula Merchandising	116	95	22%
Peak Tram	108	95	14%
Thai Country Club	60	58	3%
Quail Lodge Golf Club	47	47	-
Tai Pan Laundry	38	33	15%
	500	443	13%

Clubs and Consultancy Services: Management fees from the three Clubs that the Group manages in Hong Kong were 6% higher than 2010 with positive growth in business levels. Revenue from the operation of the Cathay Pacific Airways' first and business class lounges at the Hong Kong International Airport, where the revenue is based on the number of passengers utilising the lounges, increased by 16%.

Peninsula Merchandising: Revenue was HK\$21 million or 22% above 2010, with another record year for the sale of signature mooncakes during the Mid-Autumn Festival period, with 43% more revenue than in 2010. The more significant increases in revenue were recorded in the Hong Kong, mainland China and Japan markets.

The Peak Tram: Revenue was HK\$13 million or 14% above 2010. The Peak Tram's patronage rose 7% as compared with 2010 to 5.8 million passengers in 2011, which is an all-time record.

Thai Country Club: Revenue was HK\$2 million (3%) higher than 2010. There was an impact from the extensive flooding in Bangkok and the surrounding areas in October 2011; but the higher business levels in the earlier part of the year were sufficient to yield an overall revenue increase.

Quail Lodge Golf Club: There was no revenue growth due to the lack of new members and the poor economic environment in California. Golf revenue was lower in 2011 as compared with 2010; although this was offset by increased revenue from The Quail Motorsports Gathering event.

Tai Pan Laundry: Total revenue in Tai Pan Laundry was HK\$5 million (15%) higher than 2010 as a result of the increased business levels in the Hong Kong hotels and other businesses served by the laundry as well as new accounts.

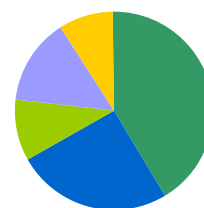
Operating costs

All business operations have exercised cost control measures to maintain or improve profit margins.

Operating costs in 2011 were 6.7% higher than 2010 as compared with the 6.4% revenue increase, resulting in an effectively flat EBITDA margin. The improved EBITDA margins in most operations were offset by the poor results of The Peninsula Tokyo.

All business operations have exercised cost control measures in order to maintain or improve profit margins. Operations have continued to critically analyse all purchasing and supplier contracts and try and maintain staffing levels, despite the increased business volumes, through improved work efficiency.

Operating costs



- Staff costs and related expenses
- Others
- Cost of inventories
- Rent and utilities
- Depreciation and amortisation

The Peninsula hotels in Tokyo and Bangkok and the Thai Country Club have worked hard to control their costs following the Japanese earthquake and Bangkok flooding, which resulted in reduced revenues. The Peninsula Shanghai has reduced staffing levels through natural attrition and improved efficiency as the operation stabilises.

Reflecting the above, the Group's full time headcount increased by less than 1% for the year despite the higher revenues earned. The staff costs and related expenses increased by 5% over 2010 to HK\$1,728 million in 2011, representing 41% (2010: 42%) of direct operating costs. The breakdown of Group's full time headcount as at 31 December was as follows:

	2011			2010			
Full time headcount at year end	Direct operations	Managed operations	Total	Direct operations	Managed operations	Total	2011 vs 2010
By division:							
Hotels	4,349	1,126	5,475	4,309	1,135	5,444	1%
Commercial Properties	323	-	323	331	-	331	(2%)
Clubs and Services	808	416	1,224	768	412	1,180	4%
	5,480	1,542	7,022	5,408	1,547	6,955	1%
By geographical location:							
Hong Kong	1,772	416	2,188	1,740	412	2,152	2%
Other Asia	2,742	723	3,465	2,696	740	3,436	1%
United States of America	966	403	1,369	972	395	1,367	0%
	5,480	1,542	7,022	5,408	1,547	6,955	1%

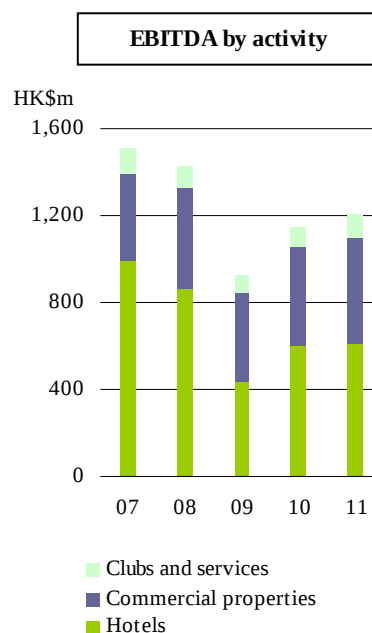
The increase in headcount in the Hotels Division was driven by increased business levels whereas that in the Clubs and Services Division was due to the addition of new Cathay Pacific Lounge facilities.

EBITDA and EBITDA Margin

The improvement in EBITDA margin for our other hotels was offset by EBITDA margin drop for The Peninsula Tokyo.

EBITDA (earnings before interest, taxation, depreciation and amortisation) increased by 6% to HK\$1,211 million.

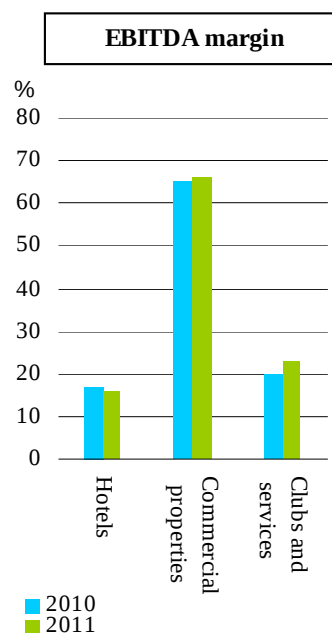
The Group's EBITDA margin remained flat as the Group's cost base grew faster than revenue in 2011, mainly due to the impact of the earthquake on the business of The Peninsula Tokyo. Excluding The Peninsula Tokyo from the Group results, the Group's EBITDA margin would have improved by 0.5%.



EBITDA (HK\$m)	Hong Kong	Other Asia	United States of America	Total
2011				
Hotels	503	71	31	605
Commercial Properties	471	22	-	493
Clubs and Services	125	15	(27)	113
	1,099	108	4	1,211
	91%	9%	0%	100%
2010				
Hotels	461	116	27	604
Commercial Properties	425	25	-	450
Clubs and Services	109	14	(34)	89
	995	155	(7)	1,143
	87%	14%	(1%)	100%
Change 2011 vs 2010	10%	(30%)	157%	6%

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

EBITDA margin	2011	2010
Hotels	16%	17%
Commercial Properties	66%	65%
Clubs and Services	23%	20%
Overall EBITDA margin	24%	24%
Arising in:		
Hong Kong	47%	47%
Other Asia	7%	9%
United States of America	0%	(1%)



The EBITDA margin of the Hotels Division in 2011 was 1% lower than 2010, due to the business disruption caused by the earthquake in Japan, without which the Hotel EBITDA margin would have reflected a slight improvement. Nevertheless, as a result of the improvement of the EBITDA margins of the Commercial Properties Division and Clubs and Services Division, the overall EBITDA margin remained stable at 24% (2010: 24%).

Depreciation and amortisation

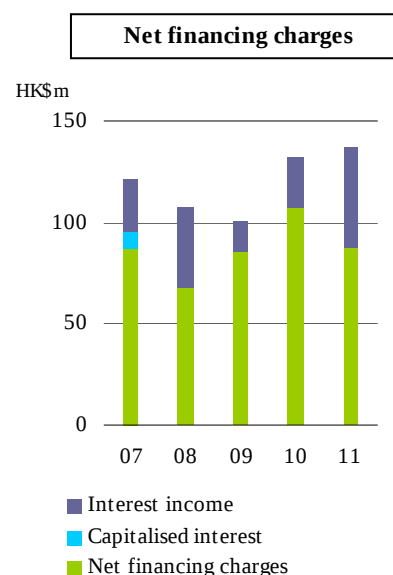
The Group has selected the cost model instead of the fair value model under the HKFRS to account for its hotels. Accordingly, the Group's hotels are subject to depreciation, which accounts for a significant portion of the Group's fixed overheads.

The depreciation and amortisation charge of HK\$377 million (2010: HK\$349 million) largely relates to the hotels. The Group's hotels are subject to a planned maintenance programme in which capital expenditure is incurred on an ongoing basis for refurbishment and improvement. Therefore, depreciation and amortisation normally account for a significant portion of the Group's fixed overheads.

Net financing charges

The Group seeks to minimise net financing charges and average gross interest rate by investing its surplus cash in low-risk high-yield structured deposits. The Group also makes use of interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk.

Financing charges on borrowings in 2011 amounted to HK\$137 million (2010: HK\$132 million). After netting off interest income of HK\$49 million (2010: HK\$24 million), a net charge of HK\$88 million (2010: HK\$108 million) was recognised in the income statement. The 19% decrease in net financing charges was mainly due to the increase in interest income arising from improved deposit rates during the year.



The weighted average gross interest rate for the year decreased to 3.1% (2010: 3.2%) after accounting for all hedging activities. Interest cover (operating profit divided by net financing charges) increased to 9.5 times (2010: 7.4 times) in 2011, mainly due to the increase in operating profit and interest income.

Non-operating items

The non-operating items are analysed below:

HK\$m	2011	2010
Increase in fair value of investment properties	1,841	1,938
(Provision for) / reversal of impairment losses	(20)	110
	1,821	2,048

The increase in fair value of investment properties for the year was principally attributable to the increase in the appraised market value for The Repulse Bay Complex and the shopping arcade at The Peninsula Hong Kong. Such increase was a reflection of the continued strong demand for luxury residential and high-end commercial properties in Hong Kong.

In accordance with its accounting policy, the Group assessed the recoverable amounts of its fixed assets (other than investment properties) as at 31 December 2011. As a result of an adverse operating environment in Quail Lodge Golf Club, the Directors considered its carrying amount should be written down by HK\$20 million to its recoverable amount based on its fair value determined by an independent professional valuer with reference to the discounted cash flow valuation model of the assets.

The HK\$110 million reversal of the impairment provision in 2010 was in relation to The Peninsula Chicago. Given the improvement in the Chicago hotel market towards the end of 2010, the Directors considered that the impairment provision previously made against the hotel should be fully reversed to its original cost less accumulated depreciation. Such reversal was determined based on the recoverable amount of the property, being its fair value as at 31 December 2010 as determined by an independent professional valuer by reference to the discounted cash flow valuation model of the assets.

Share of result 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 shopping arcade and a hotel apartment tower of 39 units. The hotel has established itself as the room rate leader within its competitor set in Shanghai whilst the shopping arcade is fully occupied with a strong mix of international luxury brands. The hotel has also assumed management of Bund 33, the adjacent former British Consulate, comprising the historic building, No. 1 Waitanyuan, which is now used by the Shanghai municipal government as an official venue and other premises which are leased by the hotel for commercial uses.

Despite the World Expo occurring in 2010, the operating performance of the hotel in 2011 was well ahead of 2010 with revenue growth in rooms, food and beverage and commercial operations. For the apartments, as interior fit-out work was still in progress as at 31 December 2011, there was no rental income in 2011. It is expected that the apartments will be available to commence leasing during 2012.

Set out below is an extract of the income statement of the jointly controlled entity, of which the Group has a 50% share:

HK\$m	2011	2010	2011 vs 2010
Income	461	385	20%
Operating expenses	(393)	(349)	13%
EBITDA	68	36	89%

Taxation

The breakdown of the tax charge is as follows:

HK\$m	2011	2010
Current tax	165	140
Deferred tax:		
Increase in net deferred tax liabilities relating to revaluation of overseas investment properties	14	26
Increase in net deferred tax liabilities relating to other temporary differences	24	59
Total tax charge in the income statement	203	225

The increase in current tax and deferred tax in respect of other temporary differences was mainly due to the increase in operating profit and accelerated tax depreciation in respect of capital expenditure incurred in 2011.

Statement of financial position

Fixed assets

The Group's hotel properties and golf courses are stated at cost less depreciation. To provide readers with additional information on the fair market value of these fixed assets, the Directors have commissioned independent valuers to perform a fair valuation of these properties as at 31 December 2011.

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 shopping 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 2011. 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 2011 is set out in the following table:

	Group's Interest	Market Value (HK\$m)	Book Value (HK\$m)
Hotels			
Consolidated hotels			
The Peninsula Hong Kong	100%	10,589	8,574
The Peninsula Beijing	76.6%*	1,954	1,453
The Peninsula New York	100%	1,629	1,110
The Peninsula Chicago	100%	1,283	1,176
The Peninsula Tokyo	100%	1,629	1,242
The Peninsula Bangkok	75%	824	812
The Peninsula Manila	77.4%	302	294
		<u>18,210</u>	<u>14,661</u>
Jointly controlled entity (value attributable to the Group)			
The Peninsula Shanghai	50%	3,347	3,255
Total for hotels		<u>21,557</u>	<u>17,916</u>
Commercial properties			
The Repulse Bay	100%	9,097	9,097
Repulse Bay Apartments	100%	5,732	5,732
Repulse Bay Garage	100%	93	93
The Peak Tower	100%	1,160	1,160
St. John's Building	100%	784	784
The Landmark	70%	92	92
Total for commercial properties		<u>16,958</u>	<u>16,958</u>
Other properties			
Thai Country Club golf course	75%	247	247
Quail Lodge resort, golf course and vacant land	100%	96	96
Vacant land near Bangkok	75%	328	328
Other Hong Kong properties	100%	69	28
Total for other properties		<u>740</u>	<u>699</u>
Total		<u>39,255</u>	<u>35,573</u>

* The Group increased its legal interest in The Peninsula Beijing from 42.13% to 76.6% during 2011. Following the completion of the acquisition, the Group now owns 100% economic interest in the hotel with a reversionary interest to the PRC partner at the end of the co-operative joint venture period. Details of the acquisition are presented in the Statement of Cash Flows section.

Interest in a jointly controlled entity

The balance of HK\$1,340 million as at 31 December 2011 (2010: HK\$1,374 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 decrease in balance was mainly due to the Group's share of HK\$85 million loss (2010: share of HK\$526 million profit) of this jointly controlled entity for the year. It should be noted that the 2010 figure included a post-tax non-operating gain of HK\$614 million.

Interest in associates

The balance of HK\$562 million as at 31 December 2011 (2010: HK\$494 million) represented the Group's 20% equity interest in and 20% share of the shareholder's loan to 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. This hotel will be managed by the Group upon completion of the redevelopment, expected to be in late 2013.

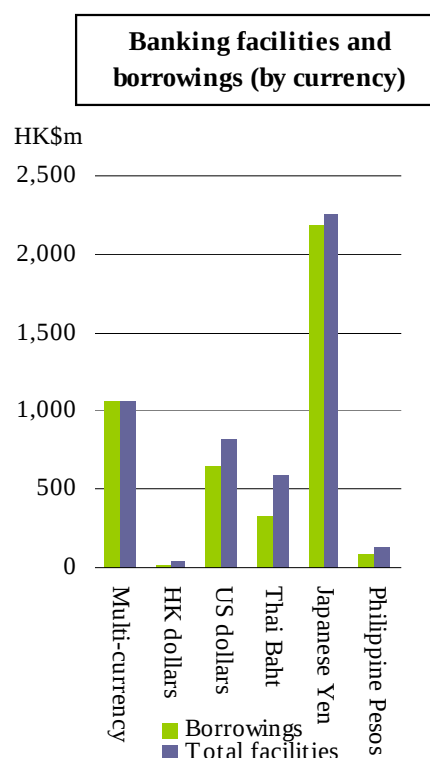
Investment in hotel management contracts

As at 31 December 2011, investment in hotel management contracts amounted to HK\$662 million (2010: HK\$684 million). The balance included an attributed consideration of Euro 57.7 million in respect of the right acquired to manage The Peninsula Paris to be developed jointly by the Group and its associate, Al Maha Majestic S.à r.l.. The decrease in the balance was mainly due to exchange rate adjustment on retranslating the Euro currency at the year end.

Borrowings

During the year, gross borrowings decreased to HK\$4,319 million (2010: HK\$4,332 million) whereas consolidated net borrowings increased to HK\$2,335 million (2010: HK\$1,674 million), taking into account cash of HK\$1,984 million (2010: HK\$2,658 million). The decrease in cash was mainly due to the payment of HK\$578 million for the acquisition of additional interest in The Peninsula Beijing and the advance of an entrustment loan of HK\$492 million (RMB 400 million) by the Group to The Peninsula Shanghai which is 50% owned.

In addition to the Group's consolidated borrowings, The Peninsula Shanghai (50% owned), The Peninsula Beverly Hills (20% owned) and The Peninsula Paris (20% owned) have non-recourse bank borrowings, which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the Company. The consolidated and non-consolidated borrowings as at 31 December 2011 are summarised on next page.



HK\$m	2011					2010
	Hong Kong	Other Asia	United States of America	Europe	Total	Total
Consolidated gross borrowings	1,078	2,599	642	-	4,319	4,332
Non-consolidated borrowings attributable to the Group*:						
The Peninsula Shanghai (50%)	-	1,176	-	-	1,176	1,253
The Peninsula Beverly Hills (20%)	-	-	218	-	218	218
The Peninsula Paris (20%)	-	-	-	42	42	-
Non-consolidated borrowings	-	1,176	218	42	1,436	1,471
Consolidated and non-consolidated gross borrowings	1,078	3,775	860	42	5,755	5,803

* Represented HSH's attributable share of borrowings.

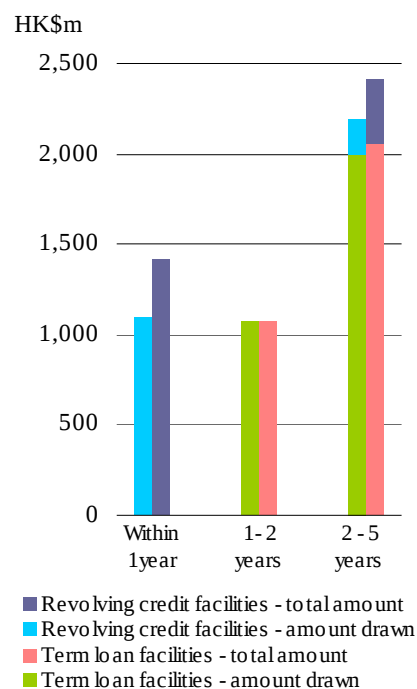
Derivative financial instruments

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

Non-controlling interests

During the year, the Group increased its legal interests in The Peninsula Beijing from 42.13% to 76.6% and this has resulted in a decrease of HK\$713 million in non-controlling interests in the Group's balance sheet at 31 December 2011. Further details of this acquisition transaction can be found in the following section.

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



Statement of cash flows

The cash flows of the Group in 2011 remained strong, with capital expenditure, acquisition of additional interest in The Peninsula Beijing and the Group's financial obligations fully funded by its operating cash flows and surplus cash. After accounting for all funding requirements for investing and financing activities, the Group's cash and cash equivalents as at 31 December 2011 amounted to HK\$1.96 billion.

The statement of cash flows of the Group for the year ended 31 December 2011 is summarised below:

HK\$m	Year ended 31 December	
	2011	2010
EBITDA	1,211	1,143
Changes in working capital and other adjustments	(65)	31
Net tax paid	(146)	(154)
Purchase of fixed assets	(312)	(276)
Payment for the acquisition of additional interest in a subsidiary	(578)	-
Loans to an associate and a jointly controlled entity	(580)	(27)
Net financing charges and dividends paid	(144)	(149)
Net (decrease) / increase in bank borrowings	(88)	224
Net withdrawal / (placement) of interest-bearing bank deposits with maturity of more than three months	990	(560)
Net cash inflow for the year	288	232
Cash and cash equivalents at 1 January	1,644	1,380
Effect of changes in foreign exchange rates	31	32
Cash and cash equivalents at 31 December	1,963	1,644

The Group realised a net gain of HK\$135 million upon the acquisition of additional interest in The Peninsula Beijing in September 2011.

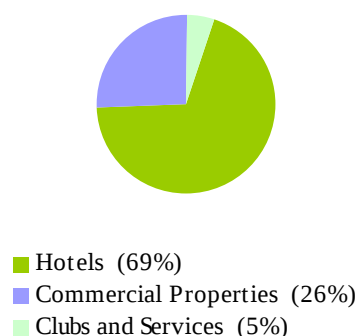
A majority of the operating cash flows was applied to capital expenditure, including the payment for additional interest in a subsidiary which owns The Peninsula Beijing.

On 5 September 2011, the Group increased its legal interest in The Peninsula Beijing from 42.13% to 76.6% for a cash consideration of HK\$578 million, which was fully funded by the Group's surplus cash. Upon completion of the acquisition, the Group realised a net gain of HK\$135 million, being the difference between the non-controlling interest of HK\$713 million acquired and the consideration of HK\$578 million paid. As required by the accounting standard HKAS 27 (Revised), *Consolidated and Separate Financial Statements*, the gain was recorded as equity movement in the Group's statement of changes in equity. Following the completion of the acquisition, the Group now owns 100% economic interest in The Peninsula Beijing with a reversionary interest to the PRC partner at the end of the co-operative joint venture period.

Capital expenditure incurred by the Group on upgrading its properties during 2011 amounted to HK\$312 million (2010: HK\$276 million) and the breakdown of this sum is as follows:

HK\$m	2011	2010
Hotels	214	180
Commercial Properties	82	61
Clubs and Services	16	35
	<u>312</u>	<u>276</u>

Capital expenditure



During the year, the Group also advanced an unsecured entrustment loan of HK\$492 million (RMB 400 million) to The Peninsula Shanghai which is 50% owned. Under the entrustment loan agreement, the loan is repayable on 14 December 2012 and bears an annual interest of 5.5%, being 200 basis points above the deposit rate published by The People's Bank of China on the day on which the drawdown was made.

After accounting for investment and financing activities and excluding bank deposits maturing after more than three months amounting to HK\$7 million (2010: HK\$997 million), cash and cash equivalents as at 31 December 2011 amounted to HK\$1,963 million (2010: HK\$1,644 million).

Off balance sheet information

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

Capital commitments

The Group is committed to enhancing the asset value of its hotel and investment properties and improving the service quality of these assets. As at 31 December 2011, the Group's capital commitments amounted to HK\$1,831 million (2010: HK\$1,931 million) and the breakdown is as follows:

HK\$m	2011	2010
Capital expenditure		
Contracted for	360	60
Authorised but not contracted for	<u>1,458</u>	<u>1,703</u>
	<u>1,818</u>	<u>1,763</u>
The Group's share of capital commitments of a jointly controlled entity		
Authorised but not contracted for	<u>13</u>	<u>168</u>
	<u>1,831</u>	<u>1,931</u>

The Group's capital commitments as at 31 December 2011 included a total planned spending of HK\$1,136 million for a major renovation of the guestrooms at The Peninsula Hong Kong and a significant phased upgrade programme at The Repulse Bay Complex, of which approximately HK\$608 million is expected to be spent during 2012.

The Group holds a 20% equity interest in Al Maha Majestic S.à r.l., an associate of the Group responsible for the development of The Peninsula Paris. The Group's 20% share of the contracted for and authorised but not contracted for capital commitments as at 31 December 2011 amounted to HK\$195 million (2010: HK\$108 million) and HK\$215 million (2010: HK\$435 million) respectively. The majority of these capital commitments will be financed by the Euro 220 million (HK\$2.2 billion) non-recourse term loan obtained by the associate.

CONSOLIDATED INCOME STATEMENT (HK\$m)

		Year ended 31 December	
	Note	2011	2010
Turnover	3	5,009	4,707
Cost of inventories		(418)	(378)
Staff costs and related expenses		(1,728)	(1,639)
Rent and utilities		(592)	(542)
Other operating expenses		(1,060)	(1,005)
Operating profit before interest, taxation, depreciation and amortisation ("EBITDA")		1,211	1,143
Depreciation and amortisation		(377)	(349)
Operating profit		834	794
Interest income		49	24
Financing charges		(137)	(132)
Net financing charges		(88)	(108)
Profit after net financing charges		746	686
Share of result of a jointly controlled entity	11	(85)	526
Increase in fair value of investment properties	4	1,841	1,938
(Provision for)/reversal of impairment losses	5	(20)	110
Profit before taxation		2,482	3,260
Taxation			
Current tax	6	(165)	(140)
Deferred tax	6	(38)	(85)
Profit for the year		2,279	3,035
Profit attributable to:			
Shareholders of the Company		2,259	3,008
Non-controlling interests		20	27
Profit for the year		2,279	3,035
Earnings per share, basic and diluted (HK\$)	7	1.52	2.04

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK\$m)

	Year ended 31 December	
	2011	2010
Profit for the year	2,279	3,035
Other comprehensive income for the year, net of tax:		
Exchange differences on translation of:		
- financial statements of overseas subsidiaries	(30)	78
- financial statements of a jointly controlled entity	51	33
- loans to an associate	(20)	(31)
- investment in hotel management contracts	(19)	(43)
	(18)	37
Cash flow hedges:		
- effective portion of changes in fair values	(27)	(66)
- transfer from equity to profit or loss	54	57
	9	28
Total comprehensive income for the year	2,288	3,063
Total comprehensive income attributable to:		
Shareholders of the Company	2,260	2,985
Non-controlling interests	28	78
Total comprehensive income for the year	2,288	3,063

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK\$m)

		At 31 December	
	Note	2011	2010
Non-current assets			
Fixed assets			
Properties, plant and equipment		5,679	5,850
Investment properties		<u>26,803</u>	<u>24,840</u>
		32,482	30,690
Interest in associates	10	562	494
Interest in a jointly controlled entity	11	1,340	1,374
Interest in unlisted equity instruments		-	-
Investment in hotel management contracts	12	662	684
Derivative financial instruments		7	14
Deferred tax assets	13(b)	<u>86</u>	<u>94</u>
		<u>35,139</u>	<u>33,350</u>
Current assets			
Inventories		99	105
Trade and other receivables	14	508	451
Amount due from a jointly controlled entity	11(e)	492	-
Derivative financial instruments		11	23
Cash at banks and in hand	15	<u>1,984</u>	<u>2,658</u>
		<u>3,094</u>	<u>3,237</u>
Current liabilities			
Trade and other payables	16	(1,063)	(1,037)
Interest-bearing borrowings	17	(1,090)	(879)
Derivative financial instruments		(63)	(93)
Current taxation	13(a)	<u>(72)</u>	<u>(55)</u>
		<u>(2,288)</u>	<u>(2,064)</u>
Net current assets		<u>806</u>	<u>1,173</u>
Total assets less current liabilities		<u>35,945</u>	<u>34,523</u>
Non-current liabilities			
Interest-bearing borrowings	17	(3,229)	(3,453)
Trade and other payables	16	(254)	(266)
Net defined benefit retirement obligations		(24)	(26)
Derivative financial instruments		(77)	(107)
Deferred tax liabilities	13(b)	<u>(623)</u>	<u>(587)</u>
		<u>(4,207)</u>	<u>(4,439)</u>
Net assets		<u>31,738</u>	<u>30,084</u>
Capital and reserves			
Share capital	18	745	740
Reserves		<u>30,710</u>	<u>28,363</u>
Total equity attributable to shareholders of the Company		<u>31,455</u>	<u>29,103</u>
Non-controlling interests		<u>283</u>	<u>981</u>
Total equity		<u>31,738</u>	<u>30,084</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (HK\$m)

Year ended 31 December										
Attributable to shareholders of the Company										
	Note	Share capital	Share premium	Capital redemption reserve	Hedging reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2010		735	3,260	13	(116)	(8)	22,263	26,147	908	27,055
Changes in equity for 2010:										
Profit for the year		-	-	-	-	-	3,008	3,008	27	3,035
Other comprehensive income		-	-	-	(9)	(14)	-	(23)	51	28
Total comprehensive income for the year		-	-	-	(9)	(14)	3,008	2,985	78	3,063
Dividends approved in respect of the previous year										
- by means of cash		-	-	-	-	-	(19)	(19)	-	(19)
- by means of scrip	18	3	66	-	-	-	(69)	-	-	-
Dividends approved in respect of the current year										
- by means of cash		-	-	-	-	-	(10)	(10)	-	(10)
- by means of scrip	18	2	47	-	-	-	(49)	-	-	-
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	(5)	(5)
Balance at 31 December 2010		740	3,373	13	(125)	(22)	25,124	29,103	981	30,084
Changes in equity for 2011:										
Profit for the year		-	-	-	-	-	2,259	2,259	20	2,279
Other comprehensive income		-	-	-	27	(26)	-	1	8	9
Total comprehensive income for the year		-	-	-	27	(26)	2,259	2,260	28	2,288
Dividends approved in respect of the previous year										
- by means of cash		-	-	-	-	-	(17)	(17)	-	(17)
- by means of scrip	18	4	97	-	-	-	(101)	-	-	-
Dividends approved in respect of the current year										
- by means of cash		-	-	-	-	-	(26)	(26)	-	(26)
- by means of scrip	18	1	32	-	-	-	(33)	-	-	-
Acquisition of non-controlling interest in a subsidiary	19	-	-	-	-	-	135	135	(713)	(578)
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	(13)	(13)
Balance at 31 December 2011		745	3,502	13	(98)	(48)	27,341	31,455	283	31,738

CONSOLIDATED STATEMENT OF CASH FLOWS (HK\$m)

		Year ended 31 December	
	Note	2011	2010
Operating activities			
Profit after net financing charges		746	686
Adjustments for:			
Depreciation		374	346
Amortisation of hotel management contract		3	3
Interest income		(49)	(24)
Financing charges		137	132
Loss on disposal of property, plant and equipment		1	2
Operating profit before changes in working capital		1,212	1,145
Decrease/(increase) in inventories		7	(2)
Increase in trade and other receivables		(51)	(33)
(Decrease)/increase in trade and other payables		(23)	63
Cash generated from operations		1,145	1,173
Net tax paid:			
Hong Kong Profits Tax paid		(106)	(101)
Overseas tax paid		(40)	(53)
Net cash generated from operating activities		999	1,019
Investing activities			
Payment for the purchase of fixed assets		(312)	(276)
Payment for the acquisition of additional interest in a subsidiary	19	(578)	-
Loans to an associate		(88)	(27)
Loan to a jointly controlled entity	11(e)	(492)	-
Proceeds from sale of fixed assets		1	1
Net cash used in investing activities		(1,469)	(302)
Financing activities			
Drawdown of term loans		593	1,151
Repayment of term loans		(196)	-
Net decrease in revolving loans		(485)	(927)
Net withdrawal/(placement) of interest-bearing bank deposits with maturity of more than three months		990	(560)
Interest paid and other financing charges		(139)	(137)
Interest received		51	22
Dividends paid to shareholders of the Company		(43)	(29)
Dividends paid to non-controlling shareholders		(13)	(5)
Net cash generated from/(used in) financing activities		758	(485)
Net increase in cash and cash equivalents		288	232
Cash and cash equivalents at 1 January		1,644	1,380
Effect of changes in foreign exchange rates		31	32
Cash and cash equivalents at 31 December	15	1,963	1,644

NOTES TO THE CONSOLIDATED INCOME STATEMENT, CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, CONSOLIDATED STATEMENT OF FINANCIAL POSITION, CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND CONSOLIDATED STATEMENT OF CASH FLOWS

1. Statement of compliance

The Financial Statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The Financial Statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”).

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

2. Changes in accounting policies

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

- HKAS 24 (revised 2009), *Related party disclosures*;
- Improvements to HKFRSs (2010);
- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*; and
- Amendments to HK(IFRIC) 14, HKAS 19 – *The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, with the exception of the amendments to HKAS 12, *Income taxes*, in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, *Investment property*. The amendments are effective for annual periods beginning on or after 1 January 2012, but as permitted by the amendments, the Group has opted to adopt the amendments early starting in the year ended 31 December 2010.

The amendments to HK(IFRIC) 14 have had no material impact on the Group’s Financial Statements as they were consistent with policies already adopted by the Group. HK(IFRIC) 19 has not yet had a material impact on the Group’s Financial Statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

2. Changes in accounting policies *continued*

The impacts of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the Financial Statements in the current and previous periods.

3. Turnover (HK\$m)

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

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

	2011	2010
Hotels (<i>note 9(a)</i>)		
Rooms	1,642	1,549
Food and beverage	1,175	1,123
Commercial	597	567
Others	352	337
	3,766	3,576
Commercial Properties (<i>note 9(a)</i>)	743	688
Clubs and Services (<i>note 9(a)</i>)	500	443
	5,009	4,707

4. Increase in fair value of investment properties

All investment properties of the Group were revalued as at 31 December 2011 on an open market value basis, mainly calculated by reference to net rental income and 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 and who have staff with recent experience in the location and category of the property being valued.

5. (Provision for)/reversal of impairment losses (HK\$m)

The Group assessed the recoverable amounts of its fixed assets (other than investment properties) at the end of the reporting date in accordance with its accounting policy.

Impairment loss (2011)

The Directors considered that Quail Lodge Golf Club was further impaired as at 31 December 2011, as a result of an adverse operating environment. On that basis, its carrying amount should be written down by HK\$20 million to its recoverable amount based on its fair value determined by an independent professional valuer by making reference to the discounted cash flow valuation model of the property, applying a discount rate of 15% and a growth rate of 3% on 10-year cash flow projections.

Reversal of impairment provision (2010)

As at 31 December 2010, the Directors considered that due to the significant improvement in the Chicago hotel property, the impairment provision previously made against The Peninsula Chicago should be fully reversed by HK\$110 million to its original cost less accumulated depreciation. The reversal of the impairment provision was determined based on the recoverable amount of the property, being its fair value as determined by an independent professional valuer by making reference to the discounted cash flow valuation model of the asset, applying a discount rate of 10.6% and a growth rate of 3% on 10-year cash flow projections.

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

	2011	2010
Current tax - Hong Kong Profits Tax		
Provision for the year	123	111
Over-provision in respect of prior years	(7)	(5)
	<u>116</u>	<u>106</u>
Current tax - Overseas		
Provision for the year	49	43
Over-provision in respect of prior years	-	(9)
	<u>49</u>	<u>34</u>
	<u>165</u>	<u>140</u>
Deferred tax		
Increase in net deferred tax liabilities relating to revaluation of overseas investment properties	14	26
Increase in net deferred tax liabilities relating to other temporary differences	20	47
Under-provision in respect of prior years	2	10
Transfer from hedging reserve	2	2
	<u>38</u>	<u>85</u>
Total	<u>203</u>	<u>225</u>

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profit for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

7. Earnings per share

(a) Earnings per share - basic

	2011	2010
Profit attributable to shareholders of the Company (HK\$m)	2,259	3,008
Weighted average number of shares in issue (million shares)	1,484	1,474
Earnings per share (HK\$)	1.52	2.04
	2011	2010
	(million shares)	(million shares)
<i>Issued shares at 1 January</i>	<i>1,480</i>	<i>1,470</i>
<i>Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2010 final and 2011 interim dividends</i>	<i>4</i>	<i>4</i>
<i>Weighted average number of shares at 31 December</i>	<i>1,484</i>	<i>1,474</i>

(b) Earnings per share - diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2011 and 2010 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

	2011	2010
Interim dividend declared and paid of 4 HK cents per share (2010: 4 HK cents per share)	59	59
Final dividend proposed after the end of reporting period of 10 HK cents per share (2010: 8 HK cents per share)	149	118
	208	177

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.

8. Dividends (HK\$m) *continued*

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

	2011	2010
Final dividend in respect of the previous financial year, approved and paid during the year, of 8 HK cents per share (2010: 6 HK cents per share)	<u>118</u>	<u>88</u>

9. Segment reporting (HK\$m)

In a manner consistent with the way in which information is reported internally to the Group's senior executive management for the purposes of resource allocation and performance assessment, the Group's reportable segments are as follows:

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

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

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

The Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses directly incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other expenses, including head office expenses not directly attributable to the reportable segments, are allocated to the segments by reference to the respective segments' earnings before interest, taxation, 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, interest in and amount due from a jointly controlled entity, derivative financial instruments, deferred tax assets, as well as cash at bank and in hand. Corporate level assets are allocated to the segments by reference to the respective total segments' assets.

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
			Year ended 31 December					
	2011	2010	2011	2010	2011	2010	2011	2010
Reportable segment revenue*	3,766	3,576	743	688	500	443	5,009	4,707
Reportable segment earnings before interest, taxation, depreciation and amortisation (EBITDA)	605	604	493	450	113	89	1,211	1,143
Depreciation and amortisation	(349)	(324)	(7)	(6)	(21)	(19)	(377)	(349)
Segment operating profit	256	280	486	444	92	70	834	794
Reportable segments assets	15,908	15,376	17,056	15,706	787	848	33,751	31,930

* Analysis of segment revenue

	2011	2010
Hotels		
- Rooms	1,642	1,549
- Food and beverage	1,175	1,123
- Commercial	597	567
- Others	352	337
	3,766	3,576
Commercial properties		
Rental revenue from:		
- Residential properties	410	392
- Offices	71	66
- Shopping arcades	262	230
	743	688
Clubs and Services		
- Operation of airport lounges	124	106
- Tramway operation	108	95
- Others	268	242
	500	443
	5,009	4,707

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

Assets

	2011	2010
Reportable segments' assets	33,751	31,930
Interest in associates	562	494
Interest in a jointly controlled entity	1,340	1,374
Derivative financial instruments	18	37
Deferred tax assets	86	94
Amount due from a jointly controlled entity	492	-
Cash at banks and in hand	1,984	2,658
Consolidated total assets	38,233	36,587

(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 specified non-current assets (excluding derivative financial instruments and deferred tax assets). The geographical location of revenue is analysed based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment, the location of the operation to which they are allocated in the case of intangible assets, and the location of operations in the case of interests in associates, jointly controlled entities and unlisted equity instruments and investment in hotel management contracts.

	Revenue from external customers		Specified non-current assets	
	2011	2010	2011	2010
Hong Kong (place of domicile)	2,314	2,103	25,597	23,753
Mainland China	386	362	2,793	2,728
United States	1,045	957	2,463	2,495
Japan	699	762	1,242	1,258
Thailand	253	241	1,421	1,514
The Philippines	273	240	295	307
Vietnam	39	42	92	93
France	-	-	1,143	1,094
	2,695	2,604	9,449	9,489
	5,009	4,707	35,046	33,242

10. Interest in associates (HK\$m)

	2011	2010
Loans to an associate *	562	494

* The loans to an associate are denominated in Euros, unsecured, interest-bearing at rates related to the rates published by the French tax authorities and are carried at their estimated recoverable amounts. EUR13 million (HK\$130.9 million) (2010: EUR4.7 million (HK\$48.9 million)) of the loans is repayable in or before November 2014 while the remaining balance of the loans is repayable on 25 April 2017.

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

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
Al Maha Majestic S.à r.l. ("Al Maha")	Incorporated	Luxembourg/France	EUR 12,500	20%	Investment holding
Majestic EURL ("Majestic")	Incorporated	France	EUR 80,000,000	20%	Hotel investment and investment holding

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

(b) The associates' attributable revenue for the year ended 31 December 2011 was HK\$nil (2010: HK\$nil) and the attributable results for the year ended 31 December 2011 are considered to be HK\$nil (2010: HK\$nil). The attributable assets of the associates as at 31 December 2011 were HK\$647 million (2010: HK\$526 million) and the attributable liabilities as at 31 December 2011 were HK\$647 million (2010: HK\$526 million). The associates' attributable accumulated results as at 31 December 2011 were not significant (2010: not significant).

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

	2011	2010
Share of exchange reserve	165	114
Share of retained profits	717	802
Share of net assets	882	916
Loan to a jointly controlled entity (note 11(b))	458	458
	1,340	1,374

11. 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 2011, the paid up capital of EGL and PSW amounted to HK\$1 (2010: HK\$1) and US\$117,500,000 (2010: US\$117,500,000) respectively.

(b) The loan to the jointly controlled entity is denominated in US dollars, unsecured, interest free and has no fixed repayment terms. It is neither past due nor impaired. The entire loan was contributed as capital of PSW described in note 11(a) above.

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

	2011	2010
Non-current assets	6,510	6,024
Current assets	103	191
Current liabilities	(3,226)	(1,160)
Non-current liabilities	(1,623)	(3,224)
Net assets	1,764	1,831
Income	461	385
Operating expenses	(393)	(349)
EBITDA	68	36
Grand/pre-opening expenses	-	(17)
Depreciation	(105)	(95)
Net financing charges	(125)	(100)
Loss before non-operating items	(162)	(176)
Non-operating items*	-	1,698
Taxation - deferred tax	(8)	(470)
(Loss)/profit for the year	(170)	1,052

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

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

- (d) PSW has pledged its land use right, fixed assets and properties under development to an independent financial institution as security for PSW's loan facility amounting to HK\$1,968 million (RMB1,600 million) (2010: HK\$1,894 million (RMB1,600 million)). The net carrying amount of these pledged assets amounted to HK\$6,510 million (RMB5,292 million) (2010: HK\$6,024 million (RMB5,089 million)).
- (e) Pursuant to a tripartite entrustment loan agreement dated 12 December 2011 entered into among a subsidiary of the Group, PSW and a PRC branch of an international bank (the "agent bank"), an unsecured entrustment loan of RMB 400 million (HK\$492 million) was on-lent by the Group to PSW via the agent bank on 15 December 2011. Under the agreement, the loan is repayable on 14 December 2012 and bears an annual interest of 5.5%, which was fixed by reference to the deposit rate published by The People's Bank of China on the day on which the draw down was made plus a margin of 200 basis points.

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

	2011	2010
Cost		
At 1 January	783	826
Exchange adjustments	(19)	(43)
At 31 December	764	783
Accumulated amortisation		
At 1 January	(99)	(96)
Amortisation for the year	(3)	(3)
At 31 December	(102)	(99)
Net book value	662	684

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

Investment in hotel management contracts represents the cost attributable to securing the Group's long term management contracts in respect of The Peninsula Beverly Hills and The Peninsula Paris. The management contract for The Peninsula Paris will be amortised from the date of commencement of hotel operation.

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

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

	2011	2010
Provision for Hong Kong Profits Tax for the year	123	111
Provisional profits tax paid	(79)	(81)
	44	30
Balance of Hong Kong Profits Tax provision relating to prior years	-	4
Provision for overseas taxes	28	19
	72	53
<i>Represented by:</i>		
Prepaid tax (note 14)	-	(2)
Current tax payable (included in current liabilities)	72	55
	72	53

(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 2010	114	549	(20)	(250)	(21)	372
Charged/(credited) to profit or loss	26	99	(4)	(38)	2	85
Charged/(credited) to reserves	15	16	(1)	6	-	36
At 31 December 2010 and at 1 January 2011	155	664	(25)	(282)	(19)	493
Charged to profit or loss	14	16	2	4	2	38
Charged/(credited) to reserves	(1)	2	-	-	5	6
At 31 December 2011	168	682	(23)	(278)	(12)	537

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable.

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

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

The following amounts, determined after appropriate offsetting, are shown separately on the statement of financial position.

	2011	2010
Net deferred tax assets	(86)	(94)
Net deferred tax liabilities	623	587
	<u>537</u>	<u>493</u>

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

	2011	2010
Trade debtors (ageing analysis is shown below)	202	211
Rental deposits, payments in advance and other receivables	306	238
Prepaid tax (<i>note 13(a)</i>)	-	2
	<u>508</u>	<u>451</u>

The amount of trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK\$139 million (2010: HK\$75 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

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

The ageing analysis of trade debtors is as follows:

	2011	2010
Current	<u>177</u>	<u>185</u>
Less than one month past due	18	22
One to three months past due	6	3
More than three months but less than 12 months past due	1	1
Amounts past due	<u>25</u>	<u>26</u>
	<u>202</u>	<u>211</u>

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

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

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

	2011	2010
Interest-bearing bank deposits	1,882	2,563
Cash at banks and in hand	102	95
Total cash at banks and in hand	1,984	2,658
Less: Bank deposits with maturity of more than three months	(7)	(997)
Bank overdrafts (<i>note 17</i>)	(14)	(17)
Cash and cash equivalents in the consolidated statement of cash flows	1,963	1,644

Cash at banks and in hand at the end of the reporting period include deposits with banks of HK\$416 million (2010: HK\$858 million) held by overseas subsidiaries which are subject to prevailing regulatory and foreign exchange restrictions.

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

	2011	2010
Trade creditors (ageing analysis is shown below)	148	133
Interest payable	4	5
Accruals for fixed assets	50	17
Tenants' deposits	324	308
Guest deposits	116	103
Golf membership deposits	107	117
Other payables	568	620
Financial liabilities measured at amortised cost	1,317	1,303
Less: Non-current portion of trade and other payables	(254)	(266)
Current portion of trade and other payables	1,063	1,037

The amount of trade and other payables expected to be settled or recognised as income after more than one year is HK\$341 million (2010: HK\$354 million). All the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

The ageing analysis of trade creditors is as follows:

	2011	2010
Less than three months	145	131
Three to six months	3	2
	148	133

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

	2011	2010
Total facilities available:		
Term loans and revolving credits	4,605	5,491
Uncommitted facilities, including bank overdrafts	296	306
	<u>4,901</u>	<u>5,797</u>
Utilised at 31 December:		
Term loans and revolving credits	4,335	4,346
Uncommitted facilities, including bank overdrafts	14	17
	<u>4,349</u>	<u>4,363</u>
Less: Unamortised financing charges	(30)	(31)
	<u>4,319</u>	<u>4,332</u>
<i>Represented by:</i>		
Short term bank loans, repayable within one year or on demand	1,076	862
Bank overdrafts, repayable on demand (<i>note 15</i>)	14	17
	<u>1,090</u>	<u>879</u>
Long term bank loans, repayable:		
Between one and two years	1,072	1,105
Between two and five years	2,187	2,379
	<u>3,259</u>	<u>3,484</u>
Less: Unamortised financing charges	(30)	(31)
Non-current portion of long term bank loans	<u>3,229</u>	<u>3,453</u>
Total interest-bearing borrowings	<u>4,319</u>	<u>4,332</u>

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

All of the Group's banking facilities are subject to the fulfilment of covenants relating to some of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2011 and 2010, none of the covenants relating to drawn down facilities had been breached.

18. Share capital

	2011	2010
Number of shares of HK\$0.50 each (million)		
Authorised	1,800	1,800
Issued		
At 1 January	1,480	1,470
New shares issued under scrip dividend scheme (<i>note</i>)	10	10
At 31 December	1,490	1,480
Nominal value of shares (HK\$m)		
Authorised	900	900
Issued		
At 1 January	740	735
New shares issued under scrip dividend scheme (<i>note</i>)	5	5
At 31 December	745	740

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

Note

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

	Number of shares million	Scrip price HK\$	Increase in	
			share capital HK\$m	share premium HK\$m
2011				
2010 final scrip dividend	7.7	13.200	4	97
2011 interim scrip dividend	3.1	10.880	1	32
	10.8		5	129
2010				
2009 final scrip dividend	5.8	11.980	3	66
2010 interim scrip dividend	3.6	13.716	2	47
	9.4		5	113

19. Acquisition of additional interest in a subsidiary

On 5 September 2011, Kam Lung Investments Limited (“KLI”), a wholly owned subsidiary of the Company, acquired from Hong Kong Construction (Hong Kong) Limited (“HKC”) its entire interests (including the shareholders’ loan) in Hong Kong Construction Kam Lung Limited (“HKCKL”) for a cash consideration of HK\$578 million. As HKC was a 45% substantial shareholder of HKCKL, the acquisition falls under Listing Rules as a connected transaction, and is disclosed in the Directors’ Report.

HKCKL is a 76.6% foreign joint venture partner of The Palace Hotel Co., Ltd. (“TPH”), a sino-foreign co-operative joint venture established in the People’s Republic of China, which holds a 100% interest in The Peninsula Beijing. Upon completion of the acquisition, HKCKL became a wholly owned subsidiary of the Company and HKC ceased to have any interest in HKCKL. Accordingly, following the completion of the acquisition, the Company’s indirect legal interest in TPH increased from 42.13% to 76.6%. Despite this, the Group now owns 100% of the economic interest in The Peninsula Beijing with reversionary interest to the PRC partner at the end of the co-operative joint venture period.

The cash consideration of HK\$578 million was fully funded by the Group’s surplus cash and was arrived at after arm’s length negotiations between KLI and HKC taking into account the contractual entitlements of the parties, the expected additional investments to be made through to the end of the term of TPH joint venture arrangements and with reference to the fair value of HKCKL’s investment in The Peninsula Beijing as at 30 June 2011. As a result of the transaction, the Group realised a net gain of HK\$135 million, being the difference between the book balance of HK\$713 million non-controlling interest acquired and the consideration of HK\$578 million paid. As required by HKAS 27 (Revised), *Consolidated and Separate Financial Statements*, the gain was recorded as equity movement in the Group’s statement of changes in equity for the year ended 31 December 2011.

20. Commitments (HK\$m)

Capital commitments outstanding at 31 December 2011 not provided for in the Financial Statements were as follows:

	2011	2010
Capital expenditure		
Contracted for	360	60
Authorised but not contracted for		
- major renovation of the guestrooms of The Peninsula Hong Kong	256	450
- upgrade programme at The Repulse Bay Complex	590	731
- others	612	522
	1,818	1,763
The Group's share of capital commitments of a jointly controlled entity		
Contracted for	-	-
Authorised but not contracted for	13	168
	13	168
	1,831	1,931

The Group holds a 20% equity interest in Al Maha Majestic S.à r.l. ("Al Maha"), an associate of the Group responsible for the development of The Peninsula Paris project. The Group's 20% share of the contracted for and authorised but not contracted for capital commitments as at 31 December 2011 amounted to HK\$195 million (2010: HK\$108 million) and HK\$215 million (2010: HK\$435 million) respectively. It is planned that these capital commitments will be materially financed by way of bank borrowings by the associate and only in the event of the associate being unable to arrange the funding would the Group be required to meet the shortfall.

OTHER CORPORATE INFORMATION

Purchase, sale or redemption of listed securities

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

Corporate governance

The Company is committed to good corporate governance which is central to the achievement of long term goals, for the benefit of its shareholders and other stakeholders. The Corporate Governance Report in the 2011 Annual Report sets out in details the Company's corporate governance policies and practices.

The Company adopted its own Code on Corporate Governance Practices in 2005 and reviews and updates it in accordance with changes in the Listing Rules. It applies all the principles in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules (the CG Code), save for the publication of quarterly financial results, the establishment of a nomination committee for Directors and disclosure of individual senior management remuneration, as disclosed in the 2011 Annual Report.

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

Dealings in the Company's securities by Directors and Specified Individuals

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

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

The Company has further extended the Securities Code to specified employees including senior management who, because of their positions, are likely to come across unpublished price sensitive information. All specified employees have confirmed their full compliance with the required standards set out in the adopted Code for Dealing in the Company's Securities by Specified Individuals.

Final dividend

The Directors have recommended a final dividend of 10 HK cents per share. Subject to the approval by shareholders at the forthcoming Annual General Meeting (AGM), such dividend will be payable on 29 June 2012 to shareholders whose names appear on the register of members on 29 May 2012.

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 1 June 2012.

Closure of register of members

For shareholders' entitlement to attend and vote at the AGM:

Latest time to lodge transfer documents	4:30 p.m. on 16 May 2012
Closure of register of members	17 May 2012 to 21 May 2012 (both days inclusive)
Record date	21 May 2012
AGM	21 May 2012

For shareholders' entitlement to receive the final dividend:

Latest time to lodge transfer documents	4:30 p.m. on 24 May 2012
Closure of register of members	25 May 2012 to 29 May 2012 (both days inclusive)
Record date	29 May 2012
Final dividend payment date	29 June 2012

During the closure of register of members, no transfers of shares will be registered. In order to qualify for the right to attend and vote at the AGM and for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before the above latest time to lodge transfer documents.

AGM and Annual Report

The AGM will be held at The Peninsula Hong Kong on 21 May 2012 at 12 noon. The Notice of AGM and 2011 Annual Report will be dispatched to the shareholders as well as published on the websites of the Company and the Stock Exchange on or about 18 April 2012.

By Order of the Board

Christobelle Liao

Company Secretary

Hong Kong, 30 March 2012

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

Non-Executive Chairman

The Hon. Sir Michael Kadoorie

Non-Executive Deputy Chairman

Ian Duncan Boyce

Executive Directors

Managing Director and Chief Executive Officer

Clement King Man Kwok

Chief Financial Officer

Neil John Galloway

Chief Operating Officer

Peter Camille Borer

Non-Executive Directors

Ronald James McAulay

William Elkin Mocatta

John Andrew Harry Leigh

Nicholas Timothy James Colfer

Independent Non-Executive Directors

Dr. the Hon. Sir David Kwok Po Li

Robert Chee Siong Ng

Robert Warren Miller

Patrick Blackwell Paul

Pierre Roger Boppe

Dr. William Kwok Lun Fung