Chief Executive Officer's Report

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

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

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

Hotels

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

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

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

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

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

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Commercial Properties

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

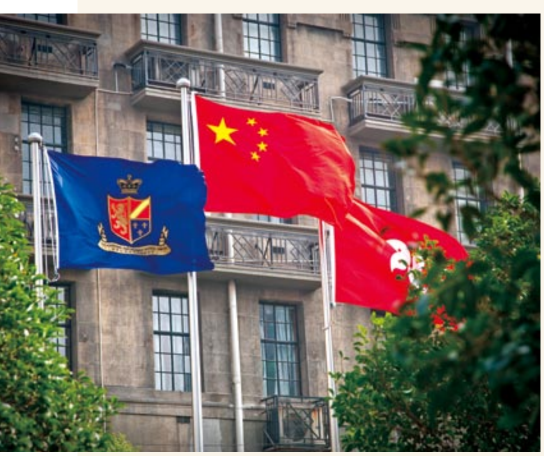
The most important asset in this division is the Repulse Bay Complex, where despite downward pressure on residential rental renewal rates, income has held up relatively well due to the longer leasing cycle and the attractiveness of its location and services. The total revenue of the Complex fell 10%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

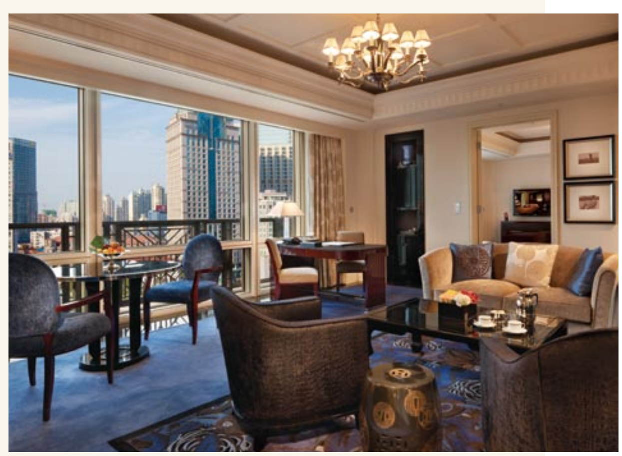
The Peak Complex was our only major asset to enjoy an increase in income over 2008, due to its strong positioning in the tourist market, enhanced by the revitalisation of the Peak Tower in 2006. The Peak Tower successfully renewed or replaced many leases during the year despite the economic downturn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

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

Clubs & Services

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





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

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

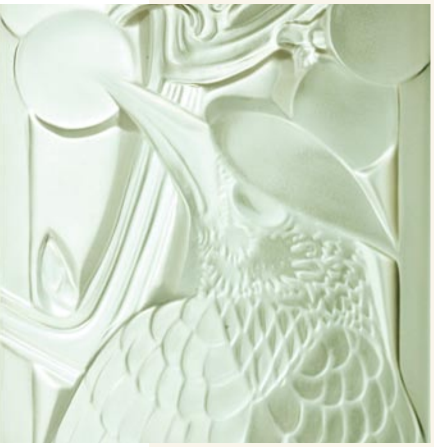
The Peninsula Boutique at the Hong Kong International Airport was renovated and re-opened in the summer and despite a difficult operating environment in 2009, Peninsula Merchandising achieved record breaking sales for its Mid Autumn Festival products.

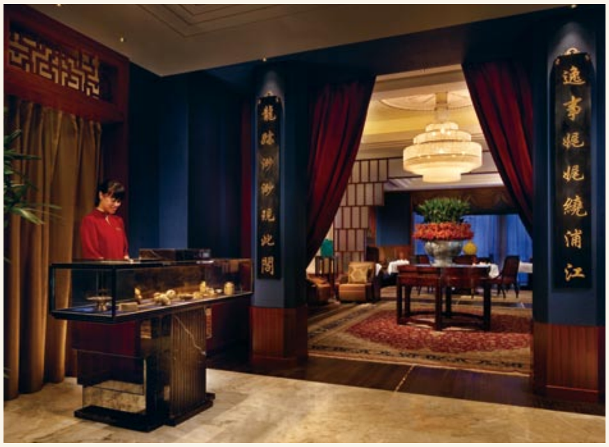
Projects

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

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

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





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

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

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

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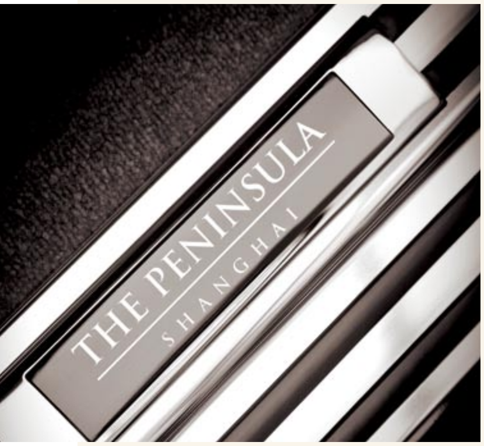
Outlook

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



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

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

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

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

Clement K.M. Kwok
12 March, 2010