1. Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the Financial Statements

The consolidated Financial Statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and a jointly controlled entity.

The measurement basis used in the preparation of the Financial Statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

i) investment properties (see note 1(j)); and
ii) derivative financial instruments (see note 1(g)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of Financial Statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that may have a significant effect on the Financial Statements and major sources of estimation uncertainty are discussed in note 36.

1. Significant accounting policies *continued*

(c) Subsidiaries and minority interests

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

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

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Group, whether directly or indirectly through subsidiaries and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the shareholders of the Company.

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

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

(d) Associates and jointly controlled entities

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

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated Financial Statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(e) and (m)). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

1. Significant accounting policies *continued*

(d) Associates and jointly controlled entities *continued*

When the Group's share of losses exceeds its interest in the associates or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with the Group's long term interests that, in substance, form part of the Group's net investment in the associate or the jointly controlled entity.

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

(e) Goodwill

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

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

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

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

(f) Equity instruments

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

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

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1(h)).

1. Significant accounting policies *continued*

(h) Hedging

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity and is included in the initial cost or other carrying amount of the non-financial asset or non-financial liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

Hedge of net investments in foreign operations

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in other comprehensive income and accumulated separately in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to profit or loss. The ineffective portion is recognised immediately in profit or loss.

(i) Properties, plant and equipment

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

The cost of self-constructed items of properties, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 1(x)).

Gains or losses arising from the retirement or disposal of an item of properties, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

1. Significant accounting policies *continued*

(i) Properties, plant and equipment *continued*

Depreciation is calculated to write off the carrying values of items of properties, plant and equipment, less their estimated residual values, if any, on a straight line basis over the shorter of the unexpired period of the land lease and the anticipated remaining useful lives of the assets. The useful lives which have been adopted are summarised as follows:

• hotel buildings	75 to 150 years
• other buildings	50 years
• golf courses	100 years
• external wall finishes, windows, roofing and glazing works	10 to 40 years
• major plant and machinery	15 to 25 years
• furniture, fixtures and equipment	3 to 20 years
• operating equipment	3 to 5 years
• motor vehicles	5 to 10 years

No depreciation is provided on freehold land as it is deemed to have an indefinite life.

Where parts of an item of properties, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Investment properties

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

Investment properties are stated in the statement of financial position at fair value, unless they are still in the course of construction or development at the reporting date and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(v).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(l)) and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(l).

(k) Investments in hotel management contracts

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

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

1. Significant accounting policies *continued*

(l) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(j)); and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(j)).

(m) Impairment of assets

(i) Impairment of financial assets

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

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

1. Significant accounting policies *continued*

(m) Impairment of assets *continued*

(i) Impairment of financial assets *continued*

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

- For investments in associates and jointly controlled entities recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(m)(ii).
- For unquoted equity instruments carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for unquoted equity instruments carried at cost are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost (such as loans), the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset); where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and loans and other receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and loans and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- hotel and other properties, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- investments in hotel management contracts;
- interests in subsidiaries; and
- goodwill.

1. Significant accounting policies *continued*

(m) Impairment of assets *continued*

(ii) Impairment of other assets *continued*

If any such indication exists, the asset's recoverable amount is estimated.

- *Calculation of recoverable amount*
  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

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

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

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

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

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

(n) Inventories

Land lots for sale and other inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1. Significant accounting policies *continued*

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(m)), except where they are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, they are stated at cost less allowance for impairment of doubtful debts (see note 1(m)).

(p) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(u), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(s) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

In calculating the Group's obligation in respect of a plan, if any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

1. Significant accounting policies *continued*

(s) Employee benefits *continued*

Termination benefits

Termination benefits are recognised when and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

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

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1. Significant accounting policies *continued*

(t) Income tax *continued*

Current tax balances and deferred tax balances and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions, contingent liabilities and financial guarantees issued

Provisions are recognised for liabilities of uncertain timing or amount when the Group or Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, where material, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with the first paragraph of this note if and when (i) it becomes probable that the holder of the guarantee, will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate and the amount that would be determined in accordance with the first paragraph of this note. Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with the second paragraph of this note.

1. Significant accounting policies *continued*

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group or Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Hotel and golf club operations

Revenue is recognised on a basis that reflects the timing, nature and value when the relevant services are provided.

Sale of land lots

Revenue is recognised upon the transfer of legal title of the land lots. Deposits and instalments received on land lots sold prior to the date of revenue recognition are included in the statement of financial position under trade and other payables.

Sale of goods and wholesaling

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership of the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Interest income

Interest income is recognised as it accrues using the effective interest method.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period.

Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income (see note 1(h)).

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

1. Significant accounting policies *continued*

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Related parties

For the purposes of these Financial Statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
ii) the Group and the party are subject to common control;
iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(z) Segment reporting

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

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

2. Changes in accounting policies

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

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

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

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

2. Changes in accounting policies *continued*

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

3. Turnover (HK$m)

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

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

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

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

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

(a) Financing charges

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

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

(b) Other items

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

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

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

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

(a) Taxation in the consolidated income statement represents:

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

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

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

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

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

(b) Reconciliation between tax expense/(benefit) and accounting profit at applicable tax rates:

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

7. Directors' and senior management's remuneration

There are three components of remuneration paid to Executive Directors, as well as senior management and other staff.

Basic compensation
Basic compensation consists of base salary, housing and other allowances and benefits. Basic compensation is reviewed annually, taking into account market conditions and individual performance.

Bonuses and incentives
Bonus payments depend on individual performance and the performance of the Group. In addition, certain incentive payments have been defined in individual employment contracts.

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

For Non-Executive Directors, fees are set in line with market practice, taking account of comparable Hong Kong listed companies, and were fixed at HK$200,000 per annum (2008: HK$200,000 per annum). Non-Executive Directors who are also members of the Executive Committee or the Audit Committee are further entitled to a fixed fee of HK$100,000 per annum (2008: HK$100,000 per annum) for each committee representation. In addition, Non-Executive Directors who are also members of the Remuneration Committee are entitled to a fixed fee of HK$50,000 per annum (2008: HK$50,000 per annum).

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

Remuneration for Directors disclosed pursuant to section 161 of the Hong Kong Companies Ordinance and that for senior management disclosed pursuant to the Listing Rules are as follows:

	Directors' fees (HK$000)	Basic compensation (HK$000)	Bonuses and incentives (HK$000)	Retirement benefits (HK$000)	Total 2009 Δ (HK$000)	Total 2008 Δ (HK$000)
2009						
*Executive Directors**						
Mr. Clement K.M. Kwok	–	**4,705**	**4,224**	**758**	**9,687**	11,270
Mr. Neil J. Galloway**	–	**4,033**	**2,496**	**627**	**7,156**	2,235
Mr. Peter C. Borer	–	**3,458**	**2,033**	**532**	**6,023**	6,180
Mr. C. Mark Broadley***	–	–	–	–	–	1,156
Non-Executive Directors						
The Hon. Sir Michael Kadoorie	**300**	–	–	–	**300**	265
Mr. Ian D. Boyce	**450**	–	–	–	**450**	397
Mr. Ronald J. McAulay	**200**	–	–	–	**200**	165
Mr. William E. Mocatta	**200**	–	–	–	**200**	165
Mr. John A.H. Leigh	**300**	–	–	–	**300**	265
Mr. Nicholas T.J. Colfer	**200**	–	–	–	**200**	165
Independent Non-Executive Directors						
Dr. The Hon. Sir David K.P. Li	**200**	–	–	–	**200**	165
Mr. Robert C.S. Ng	**300**	–	–	–	**300**	265
Mr. Robert W. Miller	**250**	–	–	–	**250**	197
Mr. Patrick B. Paul	**350**	–	–	–	**350**	297
Mr. Pierre R. Boppe****	**200**	–	–	–	**200**	165
Senior management (other members of Group Management Committee)*						
Mr. Martyn P.A. Sawyer	–	**3,009**	**408**	**292**	**3,709**	3,560
Mrs. Maria Razumich-Zec	–	**3,236**	**175**	**156**	**3,567**	3,678
	2,950	**18,441**	**9,336**	**2,365**	**33,092**	30,590

Δ *In line with industry practice, the Group operates a scheme which encourages Directors and senior management to use the facilities of the Group to promote its business. For this purpose, discount cards are issued to the Directors and senior management. The remuneration disclosed does not include the amount of discounts offered to the Directors and senior management.*

* *The Group Management Committee, the Company's management and operations' decision-making authority, comprises the three Executive Directors and two senior executives who represent the various key functions and operations of the Company.*

** *Mr. Neil J. Galloway was appointed as an Executive Director of the Company on 1 September 2008.*

*** *Mr. C. Mark Broadley resigned as an Executive Director of the Company on 31 March 2008.*

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

8. Individuals with highest emoluments (HK$m)

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

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

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

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

The consolidated profit attributable to shareholders of the Company includes a profit of HK$166 million (2008: HK$153 million) which has been dealt with in the Financial Statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

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

At 31 December 2008, the Directors considered that the value of interests in certain subsidiaries was impaired mainly due to decreases in the value of properties owned by them. The property values were primarily determined by independent professional valuers. As a result, a provision for impairment loss of HK$408 million was made.

10. Other comprehensive income (HK$m)

Tax effects relating to each component of other comprehensive income

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

11. Earnings per share

(a) Earnings per share – basic

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

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

(b) Earnings per share – diluted

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

12. Dividends (HK$m)

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

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

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

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

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

13. Segment reporting (HK$m)

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

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

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

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

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

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

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

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

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

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

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

* *Analysis of segment revenue*

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

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

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

Profit

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

Assets

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

(c) Geographical information (HK$m)

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

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

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

14. Fixed assets (HK$m)

(a) Movements of fixed assets

	Group						
	Freehold land	Hotel and other buildings held for own use	Plant, machinery and other fixed assets	Sub-total	Investment properties	Interests in leasehold land held under operating leases	Total fixed assets
Cost or valuation:							
At 1 January 2008	971	6,524	3,621	11,116	21,168	1	32,285
Exchange adjustments	(23)	37	102	116	49	–	165
Additions	–	154	209	363	31	–	394
Disposals	–	(69)	(154)	(223)	–	–	(223)
Transfer	–	78	–	78	(78)	–	–
Fair value adjustment	–	–	–	–	(593)	–	(593)
At 31 December 2008	948	6,724	3,778	11,450	20,577	1	32,028
Representing:							
Cost	948	6,724	3,778	11,450	–	1	11,451
Valuation – 2008	–	–	–	–	20,577	–	20,577
	948	6,724	3,778	11,450	20,577	1	32,028
At 1 January 2009	**948**	**6,724**	**3,778**	**11,450**	**20,577**	**1**	**32,028**
Exchange adjustments	**26**	**59**	**7**	**92**	**9**	**–**	**101**
Additions	**–**	**60**	**123**	**183**	**98**	**–**	**281**
Disposals	**–**	**(3)**	**(74)**	**(77)**	**–**	**–**	**(77)**
Transfer	**(52)**	**(148)**	**(107)**	**(307)**	**108**	**–**	**(199)**
Fair value adjustment	**–**	**–**	**–**	**–**	**1,998**	**–**	**1,998**
At 31 December 2009	**922**	**6,692**	**3,727**	**11,341**	**22,790**	**1**	**34,132**
Representing:							
Cost	**922**	**6,692**	**3,727**	**11,341**	**–**	**1**	**11,342**
Valuation – 2009	**–**	**–**	**–**	**–**	**22,790**	**–**	**22,790**
	922	**6,692**	**3,727**	**11,341**	**22,790**	**1**	**34,132**
Accumulated depreciation and impairment losses:							
At 1 January 2008	365	2,725	2,299	5,389	–	1	5,390
Exchange adjustments	(12)	(58)	12	(58)	–	–	(58)
Charge for the year	–	145	226	371	–	–	371
Provision for impairment losses, net	37	111	28	176	–	–	176
Written back on disposals	–	(68)	(151)	(219)	–	–	(219)
At 31 December 2008	390	2,855	2,414	5,659	–	1	5,660
At 1 January 2009	**390**	**2,855**	**2,414**	**5,659**	**–**	**1**	**5,660**
Exchange adjustments	**13**	**43**	**15**	**71**	**–**	**–**	**71**
Charge for the year	**–**	**140**	**195**	**335**	**–**	**–**	**335**
Transfer	**(31)**	**(94)**	**(74)**	**(199)**	**–**	**–**	**(199)**
Written back on disposals	**–**	**(2)**	**(72)**	**(74)**	**–**	**–**	**(74)**
At 31 December 2009	**372**	**2,942**	**2,478**	**5,792**	**–**	**1**	**5,793**
Net book value:							
At 31 December 2009	**550**	**3,750**	**1,249**	**5,549**	**22,790**	**–**	**28,339**
At 31 December 2008	558	3,869	1,364	5,791	20,577	–	26,368

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

(a) Movements of fixed assets *continued*

Impairment loss

The Group assessed the recoverable amounts of its fixed assets (other than investment properties) at the end of the reporting period date in accordance with the accounting policy as disclosed in note 1(m).

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

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

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

Description of investment properties	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong		
Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited	Members of The Hong Kong Institute of Surveyors
Other Asia*		
Retail shops, offices, residential apartments and vacant land	Sallmanns (Far East) Limited	Members of The Royal Institution of Chartered Surveyors
	Savills Valuation and Professional Services Limited	Members of the Hong Kong Institute of Surveyors
	Jones Lang LaSalle Hotels	Members of Singapore Institute of Surveyors and Valuers
United States of America		
Retail shops and vacant land	HVS	Members of the Appraisal Institute, United States of America

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

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

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

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

(d) Fixed assets leased out under operating leases

The Group leases out its investment properties under operating leases. The leases typically run for an initial period of one to five years, with or without options to renew the leases after that date at which time all terms are renegotiated. Contingent rentals earned from these leases in 2009 amounted to HK$15 million (2008: HK$12 million). All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties. Future minimum rentals receivable under non-cancellable operating leases of these properties are disclosed in note 32(b).

(e) Assets under development

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

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

(f) Hotel and investment properties, all held through subsidiaries, are as follows:

	Usage
Held in Hong Kong:	
Long term leases (over 50 years):	
The Peninsula Hong Kong, Salisbury Road	Hotel and commercial rentals
The Peninsula Office Tower, 18 Middle Road	Office
The Repulse Bay, 109 Repulse Bay Road	Residential and commercial rentals
Repulse Bay Apartments, 101 Repulse Bay Road	Residential
Repulse Bay Garage, 60 Repulse Bay Road	Commercial rentals
St. John's Building, 33 Garden Road	Office
Medium term lease (between 10 and 50 years):	
The Peak Tower, 128 Peak Road	Commercial rentals
Held in The People's Republic of China:	
Medium term lease (between 10 and 50 years):	
The Peninsula Beijing, 8 Goldfish Lane, Wangfujing, Beijing	Hotel and commercial rentals
Held in Japan:	
Medium term lease (between 10 and 50 years):	
The Peninsula Tokyo, 1-8-1 Yurakucho, Chiyoda-ku, Tokyo	Hotel and commercial rentals
Held in Thailand:	
Freehold:	
The Peninsula Bangkok, 333 Charoennakorn Road, Klongsan, Bangkok 10600	Hotel
Thai Country Club, Bangna-Trad, Chachoengsao	Golf club
Land plots, Bangpakong District, Chachoengsao	Undetermined
Held in The Philippines:	
Medium term lease (between 10 and 50 years):	
The Peninsula Manila, Corner of Ayala and Makati Avenues, 1226 Makati City, Metro Manila	Hotel and commercial rentals
Held in Vietnam:	
Medium term lease (between 10 and 50 years):	
The Landmark, 5B Ton Duc Thang Street, District 1, Ho Chi Minh City	Residential and commercial rentals
Held in the United States of America:	
Freehold:	
Quail Lodge Resort and Golf Club, 8205 Valley Greens Drive, Carmel, California	Resort* and golf club
Vacant land, near Quail Lodge	Undetermined
Freehold:	
The Peninsula Chicago, 108 East Superior Street (at North Michigan Avenue), Chicago, Illinois	Hotel
Long term lease (over 50 years):	
The Peninsula New York, 700 Fifth Avenue at 55th Street, New York	Hotel and commercial rentals

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

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

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

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

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

15. Investments in subsidiaries (HK$m)

	Company	
	2009	2008
Unlisted shares, at cost	–	–

During the year ended 31 December 2008, the Company disposed of its entire equity interest in Manila Peninsula Hotel, Inc. with a carrying value of HK$94 million to a wholly-owned subsidiary of the Company at a consideration of Peso 572 million (HK$109 million), resulting in a net gain on disposal of HK$15 million recognised in the Company's Financial Statements. The disposal had no material impact on the Group's consolidated Financial Statements.

15. Investments in subsidiaries (HK$m) *continued*

The following list contains only the particulars of subsidiaries which principally affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
HSH Holdings Limited	Hong Kong	2 shares of HK$1 each	100%	Investment holding
The Peninsula Hotel Limited	Hong Kong	2 shares of HK$1 each	100%*	Hotel investment
The Repulse Bay Apartments Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
The Repulse Bay Company, Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
The Peak Tower Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
Peak Tramways Company, Limited	Hong Kong	450,000 shares of HK$10 each	100%*	Tramway operation
St. John's Building Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
Peninsula Merchandising Limited	Hong Kong	2 shares of HK$1 each	100%*	Wholesaling and retailing of merchandise
Tai Pan Laundry & Dry Cleaning Services, Limited	Hong Kong	5,000,000 shares of HK$1 each	100%*	Laundry and dry cleaning services
HSH Financial Services Limited	Hong Kong	1 share of HK$1	100%	Lending and borrowing of funds
Peninsula Management Holdings Limited	British Virgin Islands/ International	1 share of US$1	100%	Investment holding
Peninsula Clubs and Consultancy Services Limited	Hong Kong	1,000,000 shares of HK$1 each	100%*	Club management
HSH Management Services Limited	Hong Kong	10,000 shares of HK$10 each	100%*	Management and marketing services

15. Investments in subsidiaries (HK$m) *continued*

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
Peninsula International (USA) Limited	United States of America	1,200 shares of US$1 each	100%*	Investment holding
Peninsula of New York, Inc.	United States of America	1,000 shares of US$0.01 each	100%*	Investment holding
Peninsula Chicago LLC	United States of America	Contributed capital of US$57,038,089	100%*#	Hotel investment
Quail Lodge, Inc.	United States of America	10,652 shares of US$100 each	100%*	Golf club and property investment
Peninsula Beverly Hills, Inc.	United States of America	1,000 shares of US$0.01 each	100%*	Investment holding
Peninsula International Investment Holdings Limited	British Virgin Islands/Asia	1 share of US$1	100%	Investment holding
Peninsula of Tokyo Limited	Japan	200 shares of ¥50,000 each	100%*	Hotel investment
The Palace Hotel Co., Ltd.	People's Republic of China	Registered capital of US$161,921,686	42.13%**	Hotel investment
Manila Peninsula Hotel, Inc.	The Philippines	111,840,386 shares of Peso 10 each	77.36%*	Hotel investment
Siam Chaophraya Holdings Company Limited	Thailand	250,000 ordinary shares of THB2,000 each	75%*	Hotel investment
Town and Country Sport Club Company Limited	Thailand	1,250,000 ordinary shares of THB100 each$^{\Delta}$	75%*	Golf club and property investment
International Burotel Company Limited	Vietnam	Registered capital of US$6,866,667	70%*	Property investment
Peninsula International (Lux) Limited S. à r.l.	Luxembourg/ France	12,500 shares of Euro 1 each	100%*	Investment holding

* *Indirectly held.*

** *The Palace Hotel Co., Ltd. (TPH) is a sino-foreign co-operative joint venture registered under PRC laws in which the Group owns 42.13% of the registered capital. TPH is indirectly held and is included as a subsidiary company as the Group controls 76.6% of its voting power.*

\# *During the year, the Group purchased a 7.5% equity interest in Peninsula Chicago LLC (PCH) at a consideration of HK$91 million (US$11.7 million) and PCH now is wholly-owned. This acquisition has no impact on the turnover or profit and loss for the year as it was previously a subsidiary of the Group. The premium on the acquisition of HK$57 million has been recognised directly in equity.*

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

16. Interests in associates (HK$m)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) The loan to the jointly controlled entity is denominated in US dollar, unsecured, interest free and has no fixed repayment terms. It is neither past due nor impaired. The entire loan was contributed as capital of PSW described in note 17(a) above.

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

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

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

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

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

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

Available for sale unlisted equity instruments include:

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

The Belvedere Hotel Partnership (BHP) holds a 100% interest in The Peninsula Beverly Hills (PBH). The Group considers it is not in a position to exercise significant influence over this investment.

BHP has pledged its hotel property and other assets to an independent financial institution as security for BHP's loan facility amounting to US$140 million (HK$1,092 million) (2008: US$140 million (HK$1,092 million)). The net carrying amount of these pledged assets amounted to US$65 million (HK$507 million) (2008: US$66 million (HK$515 million)). BHP is an unlimited partnership and the partners are jointly and severally liable for its liabilities.

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

Inncom engages in developing energy management and integrated room automation systems for the lodging industry. The Group's interest in Inncom has been fully provided for in previous years.

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

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

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

Investment in hotel management contracts represents:

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

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

20. Derivative financial instruments (HK$m)

(a) Group

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

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

(b) Company

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

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

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

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

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

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities of the Group recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Group					
	Revaluation of investment properties	Tax allowances in excess of the related depreciation	Provisions and others	Tax losses	Cash flow hedges	Total
Deferred tax arising from:						
At 1 January 2008	3,156	544	(26)	(287)	(23)	3,364
(Credited)/charged to profit or loss	(284)	(34)	8	77	6	(227)
Charged/(credited) to reserves	9	5	–	(9)	(12)	(7)
At 31 December 2008	2,881	515	(18)	(219)	(29)	3,130
At 1 January 2009	**2,881**	**515**	**(18)**	**(219)**	**(29)**	**3,130**
Charged/(credited) to profit or loss	**308**	**61**	**(1)**	**(33)**	**3**	**338**
Charged/(credited) to reserves	**2**	**3**	**(1)**	**2**	**5**	**11**
At 31 December 2009	**3,191**	**579**	**(20)**	**(250)**	**(21)**	**3,479**

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

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

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

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

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

(c) Deferred tax assets not recognised

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

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

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax assets in respect of certain accumulated tax losses of HK$1,017 million (2008: HK$789 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Details of the expiry date of unused tax losses are as follows:

	Group	
	2009	2008
Within 1 year	**55**	37
After 1 year but within 5 years	**186**	67
After 5 years but within 20 years	**776**	670
Without expiry date	**–**	15
	1,017	789

(d) Deferred tax liabilities not recognised

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax liabilities totalling HK$41 million (2008: HK$121 million) in respect of undistributed profits of certain subsidiaries amounting to HK$412 million (2008: HK$688 million), as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

22. Inventories (HK$m)

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

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

23. Trade and other receivables (HK$m)

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

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

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

The ageing analysis of trade debtors is as follows:

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

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

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

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

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

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

25. Trade and other payables (HK$m)

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

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

The ageing analysis of trade creditors is as follows:

	Group		Company	
	2009	2008	**2009**	2008
Less than 3 months	**117**	109	**–**	–
3 to 6 months	**2**	–	**–**	–
	119	109	**–**	–

26. Interest bearing borrowings (HK$m)

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

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

All of the Group's banking facilities are subject to the fulfilment of covenants relating to some of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 31(c). As at 31 December 2009 and 2008, none of the covenants relating to drawn down facilities had been breached.

27. Share capital

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

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

(a) In 2008, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$m
October 2008	7,545,000	6.83	6.26	50

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The aggregate price of HK$50 million paid to repurchase the Company's shares was charged to the general reserve and pursuant to section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled of HK$4 million was transferred from the general reserve to the capital redemption reserve.

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

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

28. Reserves (HK$m)

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

(a) Company

	Share premium	Capital redemption reserve	Capital reserve	Hedging reserve	General reserve	Retained profits	Total
At 1 January 2008	2,950	9	4,975	4	980	2,376	11,294
Dividends approved in respect of the previous year							
– by means of cash	–	–	–	–	–	(42)	(42)
– by means of scrip	126	–	–	–	–	(131)	(5)
Repurchase of shares	–	4	–	–	(50)	–	(46)
Total comprehensive income for the year	–	–	–	45	–	(240)	(195)
Dividends approved in respect of the current year							
– by means of cash	–	–	–	–	–	(47)	(47)
– by means of scrip	44	–	–	–	–	(47)	(3)
At 31 December 2008	3,120	13	4,975	49	930	1,869	10,956
At 1 January 2009	**3,120**	**13**	**4,975**	**49**	**930**	**1,869**	**10,956**
Dividends approved in respect of the previous year							
– by means of cash	**–**	**–**	**–**	**–**	**–**	**(38)**	**(38)**
– by means of scrip	**106**	**–**	**–**	**–**	**–**	**(114)**	**(8)**
Transfer (note 28(b))	**–**	**–**	**–**	**–**	**(930)**	**930**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**(12)**	**–**	**166**	**154**
Dividends approved in respect of the current year							
– by means of cash	**–**	**–**	**–**	**–**	**–**	**(8)**	**(8)**
– by means of scrip	**34**	**–**	**–**	**–**	**–**	**(36)**	**(2)**
At 31 December 2009	**3,260**	**13**	**4,975**	**37**	**–**	**2,769**	**11,054**

28. Reserves (HK$m) *continued*

(b) Nature and purpose of reserves *continued*

Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

Capital reserve

The Company's capital reserve represents the profit recognised on the intra-group transfer of properties as a result of the corporate restructuring in 1991.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges in note 1(h).

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in notes 1(h) and 1(w).

General reserve

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

(c) Distributability of reserves

At 31 December 2009, the aggregate amount of reserves available for distribution to shareholders of the Company, as calculated under the provision of section 79B of the Hong Kong Companies Ordinance was HK$2,769 million (2008: HK$2,799 million). After the end of the reporting period the Directors proposed a final dividend of 6 HK cents per share (2008: 10.5 HK cents per share), amounting to HK$88 million (2008: HK$152 million). This dividend has not been recognised as a liability at the end of the reporting period.

(d) Capital management

The Group takes a long term view of its business and consequently the planning of the use of capital. The Group's primary objectives when managing its capital are to safeguard the Group's ability to continue as a going concern, to secure access to finance at a reasonable cost relative to risk and to provide an appropriate return to shareholders. In so doing, it seeks to achieve an appropriate balance between shareholders' equity and external debt by taking into account the cost of capital and the efficiency of using the capital.

The Group regularly reviews its capital structure and actively monitors current and expected liquidity requirements to ensure its obligations and commitments are met. A proactive approach is taken to forecasting future funding requirements and, when funds are needed, market conditions are evaluated to determine the best form of finance to be secured.

In addition, the Group maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to ensure funds are available to meet its financial obligations and to finance its growth and development.

28. Reserves (HK$m) *continued*

(d) Capital management *continued*

The Group monitors its capital structure on the basis of its gearing ratio, which is expressed as the percentage of net borrowings, defined as interest-bearing loans and borrowings less cash at banks and in hand, to the total of net borrowings and equity attributable to shareholders of the Company. Also the Group's share of net borrowings and equities of the non-consolidated entities (such as the associates, jointly controlled entity and unlisted equity instruments), if any, are also taken into account. The calculations of gearing ratios before and after the non-consolidated entities as at 31 December 2009 and 2008 are as follows:

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

During 2009, the Group continued to operate within its long term treasury management guidelines and maintained the adjusted gearing ratio at well below 40%. Operating and investment decisions are made by making reference to long term cash flow forecasts to ensure that the guidelines are followed.

The Group is subject to covenants imposed by the lenders of the interest-bearing borrowings based on the Group's borrowings and other indebtedness, as well as the amount of equity attributable to shareholders of the Company. The Group complied with the imposed loan covenants on capital requirements for the years ended 31 December 2009 and 2008. Except for the above, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29. Loan to an officer

Loan to an officer of a subsidiary of the Company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

Loans made by a third party under guarantee given by the Company

Name of borrower:	Mr. Martyn P.A. Sawyer
Position:	Group General Manager, Properties and Clubs
Extent of guarantee given to a bank	GBP120,000
Maximum liability under the guarantee:	
at 1 January 2008	HK$1,125,000
at 31 December 2008 and 1 January 2009	HK$1,085,000
at 31 December 2009	HK$1,045,000
Amount paid or liability incurred under the guarantee	HK$nil (2008: HK$nil)

The guarantee is given without recourse to the officer. The Directors do not consider it probable that the Company will be called upon under the guarantee. The guarantee will be outstanding until the loan granted to the officer by the bank is repaid and the loan has a remaining term until 2014.

30. Employee retirement benefits

(a) Defined benefit retirement obligations

The Group maintains several defined benefit retirement plans covering 640 employees (2008: 647 employees) of the Group. Such plans are administered by independent trustees with the assets, if any, held separately from those of the Group.

Quail Lodge, Inc. (QLI), a US subsidiary of the Company, has retirement compensation agreements with certain employees which provide, among other things, that during the employees' lifetime after retirement, QLI will pay such employees retirement compensation equal to 30% of their average salaries in their final three years of employment.

QLI also has a deferred compensation agreement with a now deceased employee who died in 2005. The agreement provides, among other things, that during each of the 10 years after termination of his employment because of retirement, death or disability, such employee or his estate would be paid deferred compensation, adjusted for cost-of-living increases.

QLI has not funded the above retirement and deferred compensation arrangements and the liability in respect of its obligations is fully recognised in its Financial Statements at each year end date based on independent actuarial valuation prepared by qualified staff of Bartel Associates, LLC who are members of the American Academy of Actuaries using the projected unit credit method as at 31 December 2009.

Manila Peninsula Hotel, Inc. (MPHI), a Philippine subsidiary of the Company, operates a non-contributory defined benefit retirement plan which covers all its employees. The plan is administered by an independent trustee with the assets held separately from those of MPHI.

The above plan is funded by contributions from MPHI in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The latest independent actuarial valuation of the plan was prepared by qualified staff of Actuarial Advisers, Inc., who are members of the Actuarial Society of the Philippines using the projected unit credit method as at 31 December 2009. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were 60% (2008: 59%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2009.

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

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

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

30. Employee retirement benefits *continued*

(a) Defined benefit retirement obligations *continued*

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

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

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

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

Movements in plan assets (HK$m):

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

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

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

The actual return on plan assets (taking into account all changes in the fair value of the plan assets excluding contributions paid and received) was net income of HK$2 million (2008: HK$1 million).

30. Employee retirement benefits *continued*

(a) Defined benefit retirement obligations *continued*

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

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

The expected long term rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns without adjustments.

Historical information (HK$m):

	Group			
	2009	2008	2007	2006
Present value of defined benefit obligations	**42**	36	39	32
Fair value of plan assets	**(19)**	(15)	(16)	(11)
Deficit in the plan	**23**	21	23	21
Experience adjustments arising on plan liabilities	**1**	1	1	15
Experience adjustments arising on plan assets	**1**	2	1	1

In accordance with the transition provision for the amendments to HKAS 19, the disclosures above are determined prospectively from 1 January 2006.

30. Employee retirement benefits *continued*

(b) Defined contribution retirement plan

The Group has a defined contribution retirement plan covering 1,299 employees (2008: 1,325 employees) mostly in Hong Kong. The defined contribution retirement plan is formally established under an independent trust with the assets of the funds held separately from those of the Group by an independent trustee. The plan is registered under the Occupational Retirement Schemes Ordinance and is exempted under the Mandatory Provident Fund Schemes (Exemption) Regulation. Employees covered by this plan are not required to make contributions and funds contributed by employers fully vest immediately. The average contribution rate against employees' relevant income for the year was 12% (2008: 12%).

In addition, the Group also participates in the Mandatory Provident Fund Scheme (the MPF Scheme) under the Hong Kong Mandatory Provident Fund Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, operated by an independent service provider to cover 537 employees (2008: 468 employees) in Hong Kong not covered by the above defined contribution retirement plan. The MPF Scheme is a defined contribution retirement plan administrated by independent trustees. Contributions at a fixed rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 per employee, are made to the scheme by both the employer and the employee and vest immediately.

The Group also operates several defined contribution retirement plans including union pension schemes for its overseas subsidiaries covering 2,150 employees (2008: 2,436 employees) in other Asian countries and the United States of America in accordance with respective applicable labour regulations.

Total contributions to all of the above defined contribution retirement plans made by the Group amounting to HK$75 million (2008: HK$70 million) was charged to the income statement during the year.

31. Financial risk management and fair values

The Group is exposed to foreign exchange, interest rate, liquidity and credit risks in its normal course of business. The Group's exposure to these risks and various techniques and derivative financial instruments used to manage these risks, are described below.

(a) Foreign exchange risk

The Group manages its foreign exchange exposure with a view to protecting its net assets and profitability against adverse fluctuations in exchange rates. The Company reports its results in Hong Kong dollar. In the light of the Hong Kong dollar peg, the Group does not hedge United States dollar exposures and it aims to preserve its value in Hong Kong dollar and/or United States dollar terms.

Foreign exchange risk may arise in sale and purchase transactions which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollar, Japanese Yen, Thai Baht, Renminbi and Philippine Peso.

Forecast transactions

In respect of committed future transactions and highly probable forecast transactions, the Group hedges most of the estimated foreign currency transaction exposures if the foreign exchange risk of these exposures is considered to be significant. The Group mainly uses forward exchange contracts to hedge this type of foreign exchange risk and classifies these contracts as cash flow hedges.

At 31 December 2009 and 2008, there were no outstanding forward exchange contracts.

Recognised assets and liabilities

The Group has foreign currency monetary assets and liabilities that are denominated in a currency other than the functional currency of the operations to which they relate. Exchange differences arising on settling or translating these foreign currency monetary items at rates different from those at dates of transactions giving rise to these monetary items are recognised in the income statement.

The Group hedges most of the foreign exchange exposures arising from significant foreign currency monetary assets and liabilities, including foreign currency borrowings. The Group mainly uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge this type of foreign exchange risk and classifies these derivative financial instruments as cash flow hedges or at fair value through profit or loss depending on whether the future foreign currency cash flows are fixed or not.

Changes in the fair value of these cash flow hedges or derivative financial instruments at fair value through profit or loss are recognised in the hedging reserve or the income statement respectively.

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

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

31. Financial risk management and fair values *continued*

(a) Foreign exchange risk *continued*

Recognised assets and liabilities *continued*

In respect of trade receivables and payables that are denominated in a currency other than the functional currency of the operations to which they relate, the Group monitors the net exposure, which is considered not material as at 31 December 2009 and 2008. The Group usually sells and buys foreign currencies at spot rates to settle these debtors and creditors.

Except for foreign currency borrowings hedged by cross currency swaps, all the Group's borrowings are denominated in the functional currency of the operations to which they relate or, in case of group entities whose functional currency is Hong Kong dollar, in either Hong Kong dollar or United States dollar. Given this, it is not expected that there will be any significant currency risk associated with the Group's borrowings.

Net investment in foreign subsidiaries

At 31 December 2009 and 2008, the Group did not hedge any net investment in foreign subsidiaries.

Exposure to foreign exchange risk

At 31 December 2009 and 2008, the Group and the Company had recognised monetary assets and liabilities denominated in a currency other than the functional currency of the entities to which they relate. Differences resulting from the translation of the financial statements of the foreign operations into the Group's presentation currency and exposures arising from inter-company balances which are denominated in a foreign currency and is considered to be in the nature of investment in the subsidiary, jointly controlled entity and associates are excluded. These assets and liabilities are exposed to foreign exchange risk and are detailed as follows:

Group

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

Company

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

31. Financial risk management and fair values *continued*

(a) Foreign exchange risk *continued*

Exposure to foreign exchange risk *continued*

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

	Group		Company	
(US$m)	**2009**	2008	**2009**	2008
Trade and other receivables	**21**	18	**17**	15
Cash at banks and in hand	**4**	22	**1**	4
Interest-bearing borrowings	**(83)**	(70)	**–**	–
Net United States dollar exposure	**(58)**	(30)	**18**	19

In the light of the Hong Kong dollar peg, the Directors consider that the foreign exchange risk associated with this net United States dollar exposure is not expected to be material to the Group and the Company.

Sensitivity analysis

The Group and the Company

The following table indicates the instantaneous change in the Group's and the Company's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group and the Company have significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The sensitivity analysis includes balances between Group companies (except where considered to be in the nature of an investment in a Group company) where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

	Group					
	2009 Increase/(decrease) in			2008 Increase/(decrease) in		
	Foreign exchange rates	**Profit after tax and retained profits (HK$m)**	**Other components of equity (HK$m)**	Foreign exchange rates	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)
Renminbi	**10%**	**–**	**–**	10%	–	–
	(10%)	**–**	**–**	(10%)	–	–
Philippine Peso	**10%**	**–**	**–**	10%	–	–
	(10%)	**–**	**–**	(10%)	–	–
Thailand Baht	**10%**	**–**	**–**	10%	–	–
	(10%)	**–**	**–**	(10%)	–	–
Japanese Yen	**10%**	**–**	**–**	10%	–	–
	(10%)	**–**	**–**	(10%)	–	–

31. Financial risk management and fair values *continued*

(a) Foreign exchange risk *continued*

Sensitivity analysis *continued*

The Group and the Company continued

	Company					
	2009 Increase/(decrease) in			2008 Increase/(decrease) in		
	Foreign exchange rates	**Profit after tax and retained profits (HK$m)**	**Other components of equity (HK$m)**	Foreign exchange rates	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)
Philippine Peso	**10%**	**–**	**–**	10%	–	–
	(10%)	**–**	**–**	(10%)	–	–

Results of the analysis in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in their respective functional currencies.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure the financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group (except where considered to be in the nature of an investment in a Group company) which are denominated in a currency other than the functional currencies of the lenders or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis for 2008.

(b) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. All the Group's borrowings bear floating interest rates that are reset on a regular basis as market interest rates change and hence expose the Group to cash flow interest rate risk. As the borrowing costs are subject to market fluctuations in interest rates, the Group adopts a policy to fix interest rates of 40% to 70% of the exposure, with a long term target of 50%, mainly by way of interest rate swaps, cross currency interest rate swaps or other derivative financial instruments.

Following the disposal of The Kowloon Hotel in 2005, the Group applied the sale proceeds towards reducing bank borrowings and re-adjusting the loan interest hedging ratio, rendering some outstanding interest rate swaps ineffective at the Group level. The Company entered into new interest rate swaps to offset the financial effect of the ineffective interest rate swaps and classified these new swaps as cash flow hedges against intra-group borrowings. However, at the Group level, these pairs of offsetting interest rate swaps are classified as fair value through profit or loss and changes in their fair value are recognised in the consolidated income statement because the intra-group borrowings are eliminated upon consolidation. At 31 December 2009, these pairs of swaps had a total notional principal of HK$1,463 million (2008: HK$2,263 million) maturing over the next 4 years (2008: 5 years).

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

31. Financial risk management and fair values *continued*

(b) Interest rate risk *continued*

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

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

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

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

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

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

31. Financial risk management and fair values *continued*

(b) Interest rate risk *continued*

On the other hand, at 31 December 2009 and 2008, the Group and the Company had short term bank deposits. Since these deposits are placed for short term liquidity purposes, the Group and the Company have no intention to lock in their interest rates for long term. In addition, the Company grants interest-bearing loans to subsidiaries, which are subject to the interest rate risk. The interest rate profile of these bank deposits and intra-group loans, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments, at the end of the reporting period are summarised as follows:

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

Sensitivity analysis

The Group and the Company

The following tables indicate the approximate changes in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the interest rates, with all other variables held constant, to which the Group has significant exposure at the end of the reporting period. As at 31 December 2009 and 2008, the effects were attributable to changes in interest income and expense relating to floating rate financial instruments and gains or losses resulting from changes in the fair value of derivative financial instruments.

	Group					
	2009 Increase/(decrease) in			2008 Increase/(decrease) in		
	Interest rates (basis points)	**Profit after tax and retained profits (HK$m)**	**Other components of equity (HK$m)**	Interest rates (basis points)	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)
Renminbi	**100**	**5**	**–**	100	4	–
	(100)	**(5)**	**–**	(100)	(4)	–
Thailand Baht	**100**	**(2)**	**–**	100	(2)	–
	(100)	**2**	**–**	(100)	2	–
Japanese Yen	**50**	**(3)**	**20**	50	(3)	13
	(50)	**3**	**(21)**	(50)	3	(14)
Philippine Peso	**200**	**(1)**	**–**	200	(1)	–
	(200)	**1**	**–**	(200)	1	–
HK dollar	**100**	**6**	**13**	100	11	14
	(100)	**(6)**	**(13)**	(100)	(11)	(14)
US dollar	**100**	**(1)**	**24**	100	2	19
	(100)	**1**	**(24)**	(100)	(2)	(19)

31. Financial risk management and fair values *continued*

(b) Interest rate risk *continued*

Sensitivity analysis *continued*

The Group and the Company continued

	Company					
	2009 Increase/(decrease) in			2008 Increase/(decrease) in		
	Interest rates (basis points)	**Profit after tax and retained profits (HK$m)**	**Other components of equity (HK$m)**	Interest rates (basis points)	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)
HK dollar	**100**	**18**	**(9)**	100	14	(10)
	(100)	**(18)**	**9**	(100)	(14)	11
US dollar	**100**	**1**	**(6)**	100	–	(8)
	(100)	**(1)**	**6**	(100)	–	9

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of exposure to cash flow interest rate risk arising from the floating rate non-derivative financial instruments (which include bank borrowings and deposits) held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such changes in interest rates. The analysis has been performed on the same basis for 2008.

(c) Liquidity risk

Borrowings and cash management, including short term investment of surplus cash, are arranged centrally to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that it maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to meet its obligations and commitments in the short and longer term.

At 31 December 2009, total available borrowing facilities amounted to HK$5,283 million (2008: HK$4,580 million) of which HK$3,848 million (2008: HK$3,193 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$1,175 million (2008: HK$1,048 million).

31. Financial risk management and fair values *continued*

(c) Liquidity risk *continued*

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

Group

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

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

31. Financial risk management and fair values *continued*

(c) Liquidity risk *continued*

Company

(HK$m)	2009 Statement of financial position carrying amount	2009 Contractual undiscounted cash outflow/(inflow) Total	2009 Within 1 year or on demand	2009 More than 1 year but less than 2 years	2009 More than 2 years but less than 5 years	2009 More than 5 years	2008 Statement of financial position carrying amount	2008 Contractual undiscounted cash outflow/(inflow) Total	2008 Within 1 year or on demand	2008 More than 1 year but less than 2 years	2008 More than 2 years but less than 5 years	2008 More than 5 years
Other payables	21	21	21	–	–	–	13	13	13	–	–	–
Other payables to subsidiaries	18	18	18	–	–	–	5	5	5	–	–	–
Interest rate swaps (net settled)												
– cash flow hedge	–	–	–	–	–	–	–	–	–	–	–	–
– at fair value through profit or loss*	169	258	94	77	87	–	234	299	86	77	136	–
	208	297	133	77	87	–	252	317	104	77	136	–
Other currency swap*:	–						11					
– outflow		–	–	–	–	–		240	240	–	–	–
– inflow		–	–	–	–	–		(229)	(229)	–	–	–
	–	–	–	–	–	–	11	11	11	–	–	–
	208	297	133	77	87	–	263	328	115	77	136	–
Financial guarantee issued:							–					
– maximum amount guaranteed (note 33)	–	3,831	3,831	–	–	–	–	3,099	3,099	–	–	–

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

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

31. Financial risk management and fair values *continued*

(d) Credit risk

The Group's credit risk is primarily attributable to bank deposits, trade debtors and derivative financial instruments and is monitored on an ongoing basis.

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

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

For derivative financial instruments, the credit ratings of the financial institutions were no less than A+ (S&P) or Aa3 (Moody's).

The Group has no concentration of credit risk in view of its large number of customers. The Group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. Credit evaluations are performed for all significant customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are normally due within 30 days from the date of billing. In respect of the Group's rental income from operating leases, rentals are normally received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. As such, the Group normally does not obtain collateral from its customers. The ageing of trade debtors at 31 December 2009 is summarised in note 23.

The Group's exposure to credit risk is influenced mainly by individual characteristics of each customer rather than the industry or country in which the customers operate and therefore it is considered that there is no concentration of credit risk as the Group has no significant exposure to individual customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including the derivative financial instruments, in the statement of financial position after deducting any impairment allowance. Except for the financial guarantee given by the Group as set out in note 33, the Group does not provide any other guarantee which would expose the Group or the Company to any material credit risk.

31. Financial risk management and fair values *continued*

(e) Equity price risk

Equity price risk represents the risk that the fair value of an equity financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group or the Company is not subject to any material equity price risk.

(f) Fair values (HK$m)

(i) Financial instruments carried at fair value

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

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

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

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

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009, except that interests in unlisted equity instruments are stated at cost less impairment losses (see note 1(f) as the fair value of the equity instruments cannot be reliably measured). The loans to subsidiaries are unsecured, interest free and have no fixed repayment term. Given these terms it is not meaningful to disclose the fair values of loans to subsidiaries. The Group has no intention of disposing these loans.

31. Financial risk management and fair values *continued*

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Derivative financial instruments

Forward foreign exchange contracts and foreign exchange swaps are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. The fair values of interest rate swaps, cross currency swaps and cross currency interest rate swaps are the estimated amount that the Group or Company would receive or pay to terminate the swaps at the end of the reporting period, taking into account current interest rates, foreign exchange rates and the current creditworthiness of the swap counterparties.

When discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period. Where other pricing models are used, inputs are based on market related data at the end of the reporting period.

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

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

Interest-bearing borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar borrowings.

32. Commitments (HK$m)

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

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

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

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

32. Commitments (HK$m) *continued*

(b) At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases of the Group in respect of land and buildings are (receivable)/payable as follows:

	Group			
	Receivable		Payable*	
	2009	2008	**2009**	2008
Within 1 year	**(777)**	(768)	**163**	179
After 1 year but within 5 years	**(703)**	(770)	**606**	623
After 5 years	**(24)**	(61)	**8,011**	8,315
	(1,504)	(1,599)	**8,780**	9,117

* *The future minimum lease payments under non-cancellable operating leases primarily relate to undiscounted contractual amounts in respect of long term leases of The Peninsula New York and The Peninsula Tokyo.*

Following the completion of the restructuring of The Palace Hotel Co., Ltd. (TPH) on 13 December 2002, the Group is committed to making an annual payment of a minimum of RMB8 million to China Everbright Group Limited (CEG) up to and including 11 November 2033 (the Annual Payment). The Annual Payment is a deemed lease payment and is included as a payment under non-cancellable operating leases of the Group (note 34(d)).

The Peninsula Manila, the hotel owned by Manila Peninsula Hotel, Inc. (MPHI), is situated on a piece of land which belongs to Ayala Hotel, Inc. (Ayala). The hotel land lease was negotiated in 1975 by the management of MPHI at the time with Ayala in the ordinary and usual course of business based on normal commercial terms and on an arm's length basis (the Land Lease). The initial term of the Land Lease was from 31 December 1975 to 31 December 2001, with an option to renew until 31 December 2027 on the same terms and conditions, which was exercised by MPHI. Pursuant to the terms and conditions, MPHI is committed to paying Ayala annual rental at 5% of its gross income on a quarterly basis. As Ayala is an associate of an MPHI Director (hence a connected person of the parent company) and MPHI is a non wholly-owned subsidiary, the Land Lease therefore is a continuing connected transaction as defined under the Listing Rules.

The Group also leases certain pieces of land in respect of its hotels located in the United States of America from third parties under long term leases. In addition, the Group leases a number of office premises under operating leases that typically run for an initial period of two to four years with an option to renew the lease upon expiry when all the terms are renegotiated. None of these leases includes contingent rentals.

The Group entered into a 50 year lease with respect to The Peninsula Tokyo commencing in 2007. The minimum annual rental amounts to JPY 1,181 million, which will be adjusted based on an inflation index every ten years. In addition to the minimum annual rental, the lease is subject to contingent rental calculated based on the operating results of the hotel.

33. Contingent liabilities (HK$m)

Contingent liabilities at 31 December are analysed as follows:

	Group		Company	
	2009	2008	**2009**	2008
Guarantees issued for subsidiaries				
– in respect of bank borrowings	**–**	–	**3,830**	3,098
– in respect of other banking facilities	**–**	–	**36**	37
Other guarantees	**1**	1	**1**	1
	1	1	**3,867**	3,136

The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured using observable market data and their transaction price was HK$nil.

The Directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect at 31 December 2009 and 2008.

34. Material related party transactions

Other than the directors' remuneration and the guarantee given in respect of a loan to an officer as disclosed in note 7 and note 29 respectively, and loans to an associate and a jointly controlled entity as disclosed in note 16 and note 17 respectively, material related party transactions are set out as follows:

(a) Under a three-year tenancy agreement which commenced on 1 April 2007, a wholly owned subsidiary of the Company, HSH Management Services Limited, has leased the 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rent of approximately HK$1,221,090 plus service charges of HK$169,074 per month (1 April 2007 to 31 March 2008: HK$161,560 per month) from Kadoorie Estates Limited (KEL), which is the manager of the registered owner which is controlled by one of the substantial shareholders. The amount of rent and service charges paid to KEL during 2009 amounted to HK$16.7 million (2008: HK$16.6 million).

(b) The Peninsula Manila is owned by Manila Peninsula Hotel, Inc. (MPHI – previously a 40% associate of the Company). MPHI became a subsidiary of the Company on 3 March 2005 following the completion of an offer made to shareholders as announced on 29 October 2004. The Peninsula Manila is situated on a piece of land owned by Ayala Hotels, Inc. (Ayala), an associate of a director of MPHI. Ayala is entitled to receive contingent rental from MPHI based on 5% of the gross income of MPHI pursuant to a land lease contract dated 2 January 1975 with an initial term from 31 December 1975 to 31 December 2001 and as extended to 31 December 2027. The amount of contingent rent paid to Ayala under the lease during 2009 amounted to HK$9.4 million (2008: HK$10.5 million). This lease falls under the Listing Rules as a continuing connected transaction. Details of this continuing connected transaction are disclosed in the Directors' Report.

34. Material related party transactions *continued*

(c) Unsecured and interest free shareholder's loans amounting to US$58.75 million (HK$458 million) (2008: US$58.75 million (HK$458 million)) were granted by Peninsula International Investment Holdings Limited (PIIHL), a wholly-owned subsidiary of the Company, to The Peninsula Shanghai (BVI) Limited (TPS), a 50% jointly controlled entity of the Group. The loans were provided in proportion to PIIHL's shareholding in TPS and are unsecured, interest free and have no fixed terms of repayment. TPS owns a 100% interest in Evermore Gain Limited (EGL) which in turn holds a 100% interest in The Peninsula Shanghai Waitan Hotel Company Limited (PSW), a foreign owned enterprise incorporated in the People's Republic of China, engaged in the development of The Peninsula Shanghai project.

As at 31 December 2009, shareholder's loans amounting to US$58.75 million (HK$458 million) (2008: US$58.75 million (HK$458 million)) was contributed as capital of PSW through EGL.

Under various agreements with PSW, HSH Management Services Limited (HMS), a wholly owned subsidiary of the Company, agreed to provide PSW with technical and design advisory, pre-opening, consultancy, management and marketing services with fees being determined based on normal market terms. The gross amount of fees earned by HMS during 2009 amounted to approximately HK$9 million (2008 HK$5 million).

In addition, Peninsula Intellectual Property Limited (PIPL), a wholly-owned subsidiary of the Company, has also entered into a service mark licence agreement with PSW. Total service mark licence fees earned by PIPL during 2009 amounted to HK$0.5 million (2008: HK$nil).

(d) The Company announced on 6 December 2000 that Kam Lung Investments Limited, a wholly-owned subsidiary of the Company, entered into various agreements with then independent third parties, including China Everbright Group Limited (CEG), to carry out the restructuring of The Palace Hotel Co., Ltd. (TPH), the owner of The Peninsula Beijing. Upon completion of the restructuring under the terms of the agreement as announced, CEG was entitled to appoint two representatives as Directors of TPH's Board consisting of nine members and to receive a priority payment of a minimum of RMB8 million up to and including 11 November 2033 (Annual Payment). Completion of the restructuring took place on 13 December 2002 and the Annual Payment became payable. The Annual Payment in an amount of RMB8 million (HK$9.1 million) was recorded in 2009 (2008: RMB 8 million (HK$9.1 million)).

35. Non-adjusting post reporting period events

After the end of the reporting period, the Directors proposed a final dividend, the details of which are disclosed in note 12.

36. Key sources of estimation uncertainty

Notes 30(a) and 31 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Valuation of investment properties

Investment properties are included in the statement of financial position at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential. The assumptions adopted in the property valuation are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

(b) Estimated useful lives of properties, plant and equipment

The Group estimates the useful lives of its properties, plant and equipment based on the periods over which the assets are expected to be available for use. The Group reviews annually their estimated useful lives, based on factors that include asset utilisation, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of properties, plant and equipment would increase depreciation charges and decrease non-current assets.

During the year, the estimated useful lives of certain properties, plant and equipment were revised prospectively with effect from 1 January 2009 resulting in a net decrease in the Group's annual deprecation charge of approximately HK$35 million (2008: HK$ nil).

(c) Asset impairment

The Group assesses the impairment of assets in accordance with the accounting policy set out in note 1(m). The factors that the Group considers important in identifying indications of impairment and in assessing the impairment include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant negative industry or economic trends.

(d) Deferred tax assets

The Group reviews the carrying amounts of deferred taxes at each the end of the reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilised.

37. Comparative figures

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, and HKFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

38. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2009

Up to the date of issue of these Financial Statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective the year ended 31 December 2009 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
HKFRS 3 (Revised), Business combinations	1 July 2009
Amendments to HKAS 27, *Consolidated and separate financial statements*	1 July 2009
Amendments to HKAS 39, *Financial instruments: Recognition and measurement – Eligible hedged items*	1 July 2009
Improvement to HKFRSs 2009	1 July 2009 or 1 January 2010
HKFRS 9, *Financial instruments*	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.