The Hongkong and Shanghai Hotels, Limited

Annual Report 2010

Stock code: 00045

Contents

Company at a Glance

The Hongkong and Shanghai Hotels, Limited (HSH) was incorporated in 1866 and is listed on The Stock Exchange of Hong Kong (00045). HSH is the holding company of a Group which is engaged in the ownership, development and management of prestigious hotel, commercial and residential properties in key locations in Asia, the United States and Europe, as well as the provision of transport, club management and other services.

HSH's businesses are grouped under three divisions: Hotels Division, Commercial Properties Division and Clubs & Services Division.

HOTELS DIVISION		YEAR ACQUIRED/ ESTABLISHED	NUMBER OF ROOMS	HSH OWNERSHIP
Asia	The Peninsula Hong Kong	1928	300	100%
	The Peninsula Shanghai	2009	235	50%
	The Peninsula Beijing	1989	525	42%
	The Peninsula Tokyo	2007	314	100%
	The Peninsula Bangkok	1998	370	75%
	The Peninsula Manila	1976	497	77%
USA	The Peninsula New York	1988	239	100%
	The Peninsula Chicago	2001	339	100%
	The Peninsula Beverly Hills	1991	193	20%
Europe	The Peninsula Paris	Opening in 2013	200	20%

COMMERCIAL PROPERTIES DIVISION		YEAR CURRENT BUILDING OPENED	GROSS FLOOR AREA (SQ. FT.)	HSH OWNERSHIP
Residential	The Repulse Bay, Hong Kong	1976 and 1989	996,788	100%
	The Landmark, Ho Chi Minh City, Vietnam	1994	69,750	70%
Commercial	The Peak Tower, Hong Kong	1996	116,768	100%
	The Repulse Bay, Hong Kong	1989	62,109	100%
Office	The Peninsula Office Tower, Hong Kong	1994	80,430	100%
	St. John's Building, Hong Kong	1983	71,400	100%
	The Landmark, Ho Chi Minh City, Vietnam	1994	108,727	70%

CLUBS & SERVICES DIVISION	HSH OWNERSHIP
Peak Tramways, Hong Kong	100%
Thai Country Club, Bangkok, Thailand	75%
Quail Golf & Country Club, Carmel, USA	100%
Clubs & Consultancy Services	100%
Peninsula Merchandising	100%
Tai Pan Laundry, Hong Kong	100%

Financial and Operating Highlights

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

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

The Peninsula Shanghai's Grand Opening Gala

Amidst a sublime setting and a glittering guest list, The Peninsula Shanghai formally opened its doors on 18 March 2010 with a Grand Opening Gala, ushering in an historic moment for HSH as it returned to one of its two founding cities. The celebrations were officiated by HSH Chairman Sir Michael Kadoorie, SPG Land (Holdings) Limited Chairman David Wang and HSH Chief Executive Officer Clement Kwok, together with fellow Directors. Over 3,000 guests from around the world joined the celebrations.

Opening of The Peninsula Shanghai Arcade

On 1 July 2010, one of Shanghai's most exclusive retail arcades was opened at The Peninsula Shanghai in a ceremony officiated by HSH Chief Executive Officer Clement K.M. Kwok, SPG Land (Holdings) Limited Chairman David Wang and Shanghai Huangpu District Vice Governor Guo Fang. The two-storey, 75,000 square feet Peninsula Arcade is home to 25 international luxury brands.

No. 1 Waitanyuan

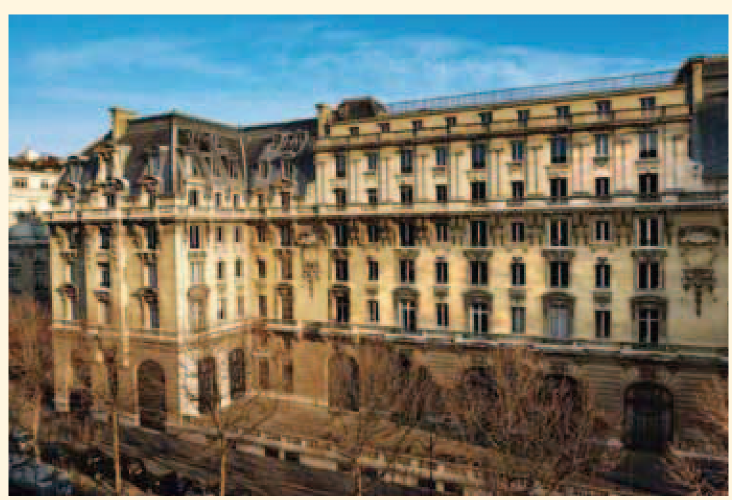
In 2009, HSH was invited by the Shanghai municipal government to be involved with the revitalisation of Bund 33, the site of the former British Consulate and adjacent to The Peninsula Shanghai. The site consists of a large garden and five historic buildings dating from the 1840s. After 16 months of revitalisation work, the restoration of the historic buildings was completed in September 2010. The 2-storey former Consulate was completely refurbished into a State Guest House for hosting visiting dignitaries and renamed as No. 1 Waitanyuan. It is managed by The Peninsula Shanghai. The other buildings have been leased by HSH for commercial uses.

New fleet of MINI Cooper vehicles for two Peninsula Hotels

In late 2010, the Peninsula hotels in New York and Chicago each took delivery of a pair of bespoke MINI Cooper S Clubman vehicles. The new cars are finished in signature Peninsula green, each fitted with a rooftop box to hold shopping bags.

The Peninsula Paris commenced construction

Following the acquisition of an historic building on Avenue Kleber in Paris in early 2009, redevelopment work for converting the building into a Peninsula hotel began in September 2010, after the appointment of the general contractor in July. At the same time, interior designs for the hotel's public areas and guestrooms are at an advanced stage.



Guestroom renovation commenced at The Peninsula Beverly Hills

In October 2010, the hotel began an enhancement project for its guestrooms, suites and villas. The project will continue through the first half year of 2011. The guestrooms will be refurbished with new soft furnishing and updated technology.

Guestroom renovation completed at The Peninsula New York

The Peninsula New York completed the second and final stage of its guestroom renovation project in September 2010, with all guestrooms and suites refurbished. A complete renovation of meeting room facilities was also undertaken during the year.

Launch of "Our Hong Kong"

In celebration of the 82nd anniversary of The Peninsula Hong Kong in December 2010, the hotel's staff contributed their memories of old Hong Kong, which were recorded in pictures, narratives and illustrations in making a book called "Our Hong Kong". The theme will continue throughout 2011 through various restaurant and spa promotions.

Salon de Ning at The Peninsula Manila

The Group's fourth signature themed lounge, Salon de Ning, opened at The Peninsula Manila on 4 December 2010. Inspired by Shanghai's Art Deco period in the 1930s, the lounge resembles an elegant private residence and reflects the glamorous lifestyle of a fictional female character, Madame Ning. The lounge has four opulently themed rooms.

Prestigious award for the Peak Tramways

The prestigious Chartered Institute of Logistics and Transport Award was presented to the Peak Tramways for distinction in attributes including customer service excellence, operational effectiveness, risk management and control, as well as environmental sensitivity.

"... we are keenly aware of the importance of continuity, which in turbulent times provides a solid foundation for HSH to operate and much needed security for our staff."

Dear Shareholders,

Over the past 12 months, our Group has celebrated significant achievements despite the lingering effects of the global economic downturn, which began in the latter part of 2008 and continued to impact our businesses in 2009 and 2010.

In March 2010, we hosted 3,000 guests at the grand opening of The Peninsula Shanghai, a milestone achievement in the history of HSH. This hotel signifies a return to the city which has played an important founding role in the history of our Company. In the 1920s and 1930s, the Group owned four leading hotels in Shanghai. After an absence of 55 years, we have returned with a magnificent hotel complex that stands as a powerful expression of both the Group's heritage and our commitment to the future.

We have ended the financial year with an encouraging level of recovery across our businesses. The extent of the overall improvement compared with the previous 12 months has varied among the different markets in which we operate. While the United States and Japan continue to grapple with the recessionary fall-out, our businesses in China including Hong Kong have performed strongly and remain the backbone of the Group's earnings. We have maintained our focus on the bigger picture by using the time to refine and upgrade our properties and identify cost reductions as well as product and service enhancements. This will enable us to capture future opportunities that will inevitably accompany the upswing in the economic cycle.

Looking at our progress over the past 12 months, we are keenly aware of the importance of continuity, which in turbulent times provides a solid foundation for HSH to operate and much needed security for our staff. Continuity also provides the base from which we can uphold the values, culture and heritage of the Group. Indeed, the respect for the Group's longstanding history and heritage has permeated a range of special projects undertaken in 2010.

Over the past year, we have published two books and established, in conjunction with CLP Holdings, an important publicly-accessible archive known as the Hong Kong Heritage Project, reflecting our commitment to guests and the broader community in Hong Kong. HSH's history book, "Beyond Hospitality", details the development of the Group from the 1850s to 2010 and the impact our businesses have had on the evolution of Hong Kong and Shanghai into leading cities of the 21st century. With the Group celebrating 145 years of operation in 2011, both the book and the archive are timely reminders of the roles we have played in the region. In a further example of Peninsula family commitment, the staff at The Peninsula Hong Kong have produced, on their own initiative, a beautiful book and a deeply personal tribute titled "Our Hong Kong", which takes readers on a journey across the city, encountering sights, sounds and lifestyles as experienced by the staff members themselves.

More recently, the community spirit of the Peninsula 'family' was very much evident in response to the massive earthquake which struck Japan on 11 March 2011. When Tokyo ground to a halt and millions of people were unable to return home, The Peninsula Tokyo opened its doors to the public and provided food, shelter and facilities to those in need. At the time of writing, the hotel continues to respond to this crisis with compassion and strength and I am proud of and commend all our staff concerned.

We have entered the 2011 financial year with the next stages in our development clearly mapped out. A significant phased renovation plan at the Repulse Bay Complex in Hong Kong will soon be underway. In addition, we are finalising plans for a major renovation of our flagship hotel property, The Peninsula Hong Kong, where all 300 guestrooms will be upgraded in two phases of work commencing in 2012.

In Europe, we are continuing to work with our partner towards the 2013 opening of our latest hotel property – The Peninsula Paris. Our first hotel in continental Europe, it will occupy a magnificent historic building on Avenue Kleber in the exclusive 16th arrondissement, close to the Champs Elysées and the Arc de Triomphe.

It is from this solid basis of planning and growth that I look ahead with optimism. We have in place the business strategies, the teams of people and, most importantly, the commitment and culture to face with confidence the challenges presented by an increasingly complex market place. I would like to extend my sincere thanks to all staff, led by our Chief Executive Officer, Clement Kwok and guided by our Board of Directors who have generously shared their extensive knowledge and experience. The Group will continue on the journey it began 145 years ago in the same spirit of a family with a commitment to growth and development.

The Hon. Sir Michael Kadoorie
22 March, 2011

Chief Executive Officer's Report

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

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

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

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

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

With the balance of earnings provided by this diversified portfolio, I am pleased to report that our Group achieved an increase of 24% in earnings before interest, taxation, depreciation and amortisation (EBITDA) to HK$1,143 million in 2010 and an increase of 35% in operating profit to

HK$794 million in 2010. We have continued to focus on controlling costs while providing the staff and resources to service the increased business levels and this has resulted in an improvement in our EBITDA margin from 22% in 2009 to 24% in 2010.

Inclusive of non-operating items, being principally the year-end investment property revaluation surpluses, the net profit attributable to shareholders was HK$3,008 million, as compared to HK$2,660 million in 2009. Our underlying profit attributable to shareholders, which we have calculated by excluding the post-tax effects of the property revaluation surpluses and other non-operating items, amounted to HK$408 million, as compared to HK$323 million in 2009, representing an increase of 26%.

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

Hotels

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

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

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

USA: The Peninsula New York completed the final phase of its guestroom renovation in September 2010, which positioned the hotel favourably for future growth. The number of business and leisure travellers increased during the year although competition remained intense within the luxury hotel segment. The booming business we experienced in the fourth quarter, reminiscent of the pre-crisis period, bodes

"The impact on our businesses, both in Japan and elsewhere, in the aftermath of this earthquake cannot be fully assessed at this stage."

well for the hotel. Business was weak for The Peninsula Chicago, which is highly dependent on domestic and corporate business. Nevertheless, the hotel continues to be recognised as one of the best in the United States and its well-recognised leading market position places it strongly for future recovery. The Peninsula Beverly Hills has sustained business remarkably well throughout the economic crisis. In 2010, it enjoyed significant business improvement, particularly from the entertainment industry and the Middle East market. In October 2010, the hotel embarked on a comprehensive guestroom enhancement programme which will continue through the first half of 2011.

On a sad note, we have to record the huge earthquake that shook Japan on 11 March 2011. The full extent of the devastation is still to be assessed. However, all of the guests and staff at The Peninsula Tokyo were safe and unharmed and the hotel premises did not suffer any physical damage of significance. On the night of the earthquake, The Peninsula Tokyo opened its doors to the general public, providing hot food and beverages and refreshment facilities to those seeking refuge, while special guestrooms were set aside for pregnant women, mothers with small children, and the elderly who needed a place to rest. The hotel has remained fully operational throughout and will continue to play a role in supporting the community where needed as it faces the challenges that lie ahead as Japan recovers from the earthquake.

Overall, the revenue and EBITDA of the Hotels Division for the year were HK$3,576 million and HK$604 million, an increase of 12% and 40% respectively as compared to 2009. Further details of individual hotel's financial performance can be found in the Financial Review (pages 55 to 57).

Commercial Properties

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

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

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

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

Overall, the revenue and EBITDA of the Commercial Properties Division for the year were HK$688 million and HK$450 million respectively, an increase of 8% as compared to 2009. Further details of individual property's financial performance can be found in the Financial Review (pages 57 and 58).

Clubs & Services

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

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

Overall, the revenue and EBITDA of the Clubs & Services Division for the year were HK$443 million and HK$89 million, an increase of 10% and 20% respectively as compared to 2009. Further details of individual clubs and services' financial performance can be found in the Financial Review (pages 58 and 59).

Projects and Developments

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

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

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

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

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

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

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

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

Outlook

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

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

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

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

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

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

Clement K.M. Kwok
22 March, 2011

"... we are optimistic that the recovery in some markets that became apparent in the latter part of 2010 will continue into 2011. Generally, the economic development of and outlook for Hong Kong and China, where the bulk of our assets are based, continues to be positive ..."

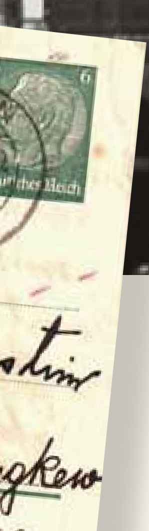
The Heritage

The Hongkong and Shanghai Hotels is celebrating its 145th anniversary in 2011. At the threshold of an era when the world is evolving at a previously unimaginable speed and continuity is challenged by unpredictability, we pause and take time to reflect on our heritage and the attributes which connect us to the past.

Above : *Sir Elly Kadoorie (middle) and sons.*

Right : *A postcard to a Jewish immigrant in Shanghai in the 1930s (courtesy Peter Nash).*

FACTOR




The Hongkong Hotel Co. Limited.

DEBENTURE $500

No.

Above : *When the Hong Kong Hotel opened in 1868, it was dubbed by the media as "the greatest enterprise of the kind in China and Japan".*

Right : *The Hong Kong Hotel company debenture in 1909.*

Top : *The building that housed the Majestic Hotel in Shanghai was built in 1906.*

Above : *The Palace Hotel in Shanghai was opened in 1909.*

Above : *The Astor House Hotel today. The building still retains many elements introduced in the 1920s and continues to provide accommodation for visitors to Shanghai.*

"The HSH heritage is built on a century-and-a-half of tradition, values, experience and passion, as well as the skills passed from generation to generation of the same owning family and members of staff."

The word 'heritage' originated from the French language and means 'to inherit' – to pass on. To us, it is our Company's legacy. It can be seen, felt and experienced in every service that we provide, through every member of staff and expressed in every product that we deliver. The HSH heritage is built on a century-and-a-half of tradition, values, experience and passion, as well as the skills passed from generation to generation of the same owning family and members of staff.

It is this solid foundation that continues to characterise and underscore the Company's development. Whilst evolving to meet the changing demands of the times, the Group has never lost sight of, or respect for, its past. Our portfolio of Peninsula hotels and commercial properties continue to emulate the standards of service and style that earned it the early 20th century accolade as "The Far East's leading hotel company".

The Group's history began in the 19th century with the Hong Kong Hotel and the Peak Tramways, followed by the Astor House, Majestic, Palace and Kalee Hotels in Shanghai, the Grand Hotel des Wagon-Lits in Peking (now Beijing) and the Repulse Bay and Peak Hotels in Hong Kong in the early 20th century. Today, some of these names still exist; others are pages in history. But the memories and the heritage live on - in books, photographs and even at the cinema. These properties and their heritage reflect a glorious past, knowledge of which has put us firmly in the present.

Above : *A driver at The Peninsula Hong Kong poses with the hotel's 1934 Rolls-Royce Phantom II.*

Above : *View of The Peninsula Hong Kong's lobby in 1965.*


PENINSULA HOTEL

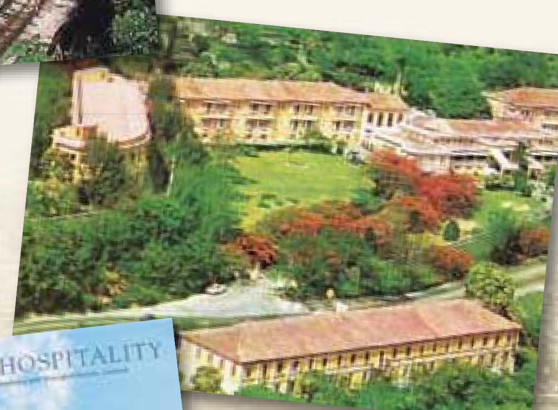
The Full Military Band

2nd Battalion the King's Own Scottish Borderers.

PROGRAMME:

Right : *Opening day programme at The Peninsula Hong Kong 1928.*

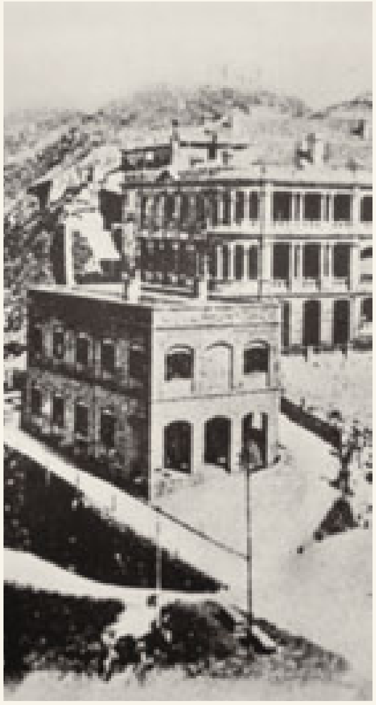
Above : *The Peak Tram, circa 1958.*



Above : *Aerial view of the Repulse Bay Hotel (1920 – 1982).*

To a large extent, the details of this history can be found in "Beyond Hospitality", a written historical record of the Group that was published in March 2010. Among the highlights: the 1923 union of the Shanghai Hotels, Limited and the Hongkong Hotels Company, Limited, leading to the Group we have become today. This union immediately gave rise to two icons - the Majestic Hotel in Shanghai in 1924 and The Peninsula Hong Kong in 1928. The latter went on to become the flagship hotel of the Group and the benchmark for international luxury hotel service.

Left : *"Beyond Hospitality", a book chronicling HSH's development through the centuries.*



Above left : *The Ballroom of the Majestic Hotel boasted a dance floor that was 100 feet across and had a marble and bronze fountain as its centerpiece.*

Above right : *A view of the Peak Hotel, circa 1920s.*

As the Group evolved, so too did its geographic and commercial catchment. Residential complexes can now be found in Hong Kong, Shanghai and Vietnam; high-end shopping arcades in Hong Kong, Beijing and Shanghai provide a steady source of income for the Company; and the Peninsula extended its branding to a variety of merchandise now available around the world. Peninsula hotels were established in Manila, New York, Beijing, Beverly Hills, Bangkok, Chicago, Tokyo and finally, in 2010, the Group returned to Shanghai.

The elements of heritage and tradition are also actively promoted through the Hong Kong Heritage Project, which was launched in 2007. A community initiative, the Heritage Project inventorised the Group's treasures to give our businesses future support. The result is a valuable audio, visual and documentary archive of the activities of the Kadoorie family and their businesses in the 19th and 20th centuries, offering a fascinating view of the development of both Hong Kong and Shanghai as China's two gateway cities through and beyond the two World Wars.

我家故事
OUR HOME, OUR HISTORY

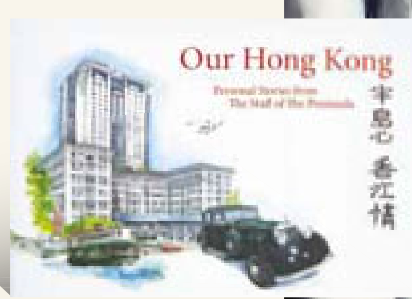
In line with the philanthropic traditions of HSH, the Hong Kong Heritage Project also embraces contemporary education programmes designed to raise an awareness of history amongst young people. In one scheme, a School Oral History programme has been piloted in Sham Shui Po, one of Hong Kong's older districts, where students are encouraged to record and celebrate the area's history through interviews.

Right : *Sir Horace Kadoorie presenting graduation certificates to pupils of Lam Tei Kindergarten. (Courtesy of Mr. Leung Chik)*

Top right : *The Peninsula Hong Kong's staff photo, circa 1940.*
Bottom right : *Pageboys at The Peninsula Hong Kong, circa 1950s.*

HSH's heritage and tradition has always been centered on people. From hotel reservation staff to page boys, from Tram operators to restaurant chefs, all HSH staff epitomise the essence of service. They continue to add to the Group's innate sense of heritage and spirit and nowhere is this more evident than in Hong Kong, where staff at The Peninsula Hong Kong published "Our Hong Kong" in December 2010, a selection of beautifully illustrated personal stories that take guests and other visitors on journeys along the city's less travelled roads. In often deeply personal narratives, the hotel's staff members offer their own richly flavoured guide to Hong Kong, unveiling favourite areas, explaining traditions and reminiscing about family lives and upbringing.

Heritage may take many forms and cover a range of experiences – personal, corporate, national and regional. Within the Group, an awareness of our deep and vibrant heritage is firmly embedded. We are deeply rooted in Hong Kong, but culturally and geographically diversified internationally.



Above : *"Our Hong Kong" – personal narratives from the staff of The Peninsula Hong Kong.*

General Managers' Reports

HOTELS

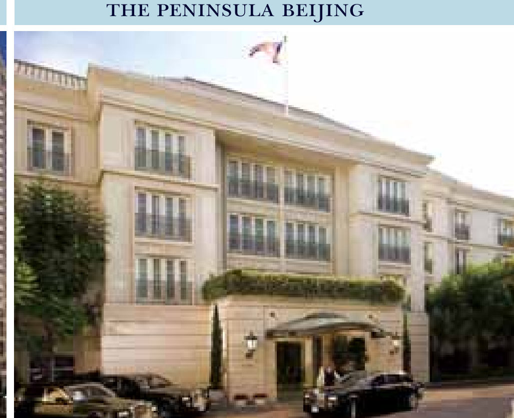
THE PENINSULA HONG KONG

THE PENINSULA SHANGHAI

THE PENINSULA BEIJING

THE PENINSULA NEW YORK

THE PENINSULA CHICAGO



THE PENINSULA BEVERLY HILLS

THE PENINSULA TOKYO

THE PENINSULA BANGKOK

THE PENINSULA MANILA

COMMERCIAL PROPERTIES

THE REPULSE BAY COMPLEX

THE LANDMARK (VIETNAM)

THE PEAK TOWER

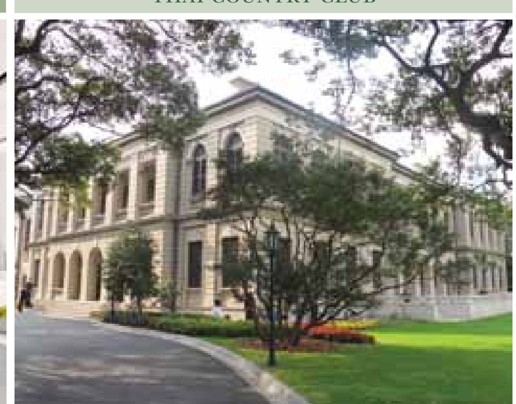
THE PEAK TRAM

CLUBS & SERVICES

THAI COUNTRY CLUB

PENINSULA MERCHANDISING

CATHAY PACIFIC LOUNGES



NO.1 WAITANYUAN

Geographical Presence

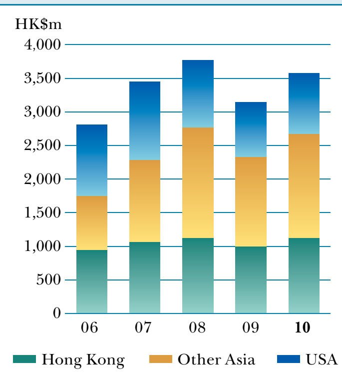
HONG KONG	THE PENINSULA HONG KONG
	THE REPULSE BAY COMPLEX
	THE PEAK TOWER
	THE PEAK TRAM
	ST. JOHN'S BUILDING
	CLUBS & CONSULTANCY SERVICES
	PENINSULA MERCHANDISING
	TAI PAN LAUNDRY
SHANGHAI	THE PENINSULA SHANGHAI
	BUND 33
BEIJING	THE PENINSULA BEIJING
NEW YORK	THE PENINSULA NEW YORK
CHICAGO	THE PENINSULA CHICAGO
BEVERLY HILLS	THE PENINSULA BEVERLY HILLS
TOKYO	THE PENINSULA TOKYO
BANGKOK	THE PENINSULA BANGKOK
	THAI COUNTRY CLUB
MANILA	THE PENINSULA MANILA
HO CHI MINH CITY	THE LANDMARK
CARMEL	QUAIL GOLF AND COUNTRY CLUB
PARIS	THE PENINSULA PARIS

Hotels' Performance Charts

	Attributable Interest %	Revenue (HK$m) 2010	Revenue (HK$m) 2009	Available Rooms 2010	Available Rooms 2009	Occupancy % 2010	Occupancy % 2009	ARR (HK$) 2010	ARR (HK$) 2009	RevPAR (HK$) 2010	RevPAR (HK$) 2009
The Peninsula Hong Kong	100	**1,059**	967	**300**	300	**70**	57	**3,816**	3,796	**2,660**	2,182
The Peninsula Shanghai*	50	**385**	50	**235**	235	**63**	42	**2,830**	2,209	**1,778**	926
The Peninsula Beijing	42.1	**362**	295	**525**	525	**46**	34	**1,409**	1,354	**650**	457
The Peninsula New York	100	**498**	441	**239**	239	**67**	62	**5,570**	5,317	**3,727**	3,317
The Peninsula Chicago	100	**412**	379	**339**	339	**59**	54	**2,965**	2,987	**1,762**	1,623
The Peninsula Beverly Hills	20	**396**	332	**193**	193	**72**	61	**5,147**	5,032	**3,699**	3,072
The Peninsula Tokyo	100	**762**	661	**314**	314	**65**	60	**3,861**	3,584	**2,522**	2,148
The Peninsula Bangkok	75	**183**	182	**370**	370	**49**	48	**1,398**	1,502	**688**	725
The Peninsula Manila	77.4	**240**	190	**497**	497	**69**	57	**1,036**	974	**719**	555
Total		**4,297**	3,497	**3,012**	3,012						
Average						**61%**	52%	**2,819**	2,783	**1,714**	1,449

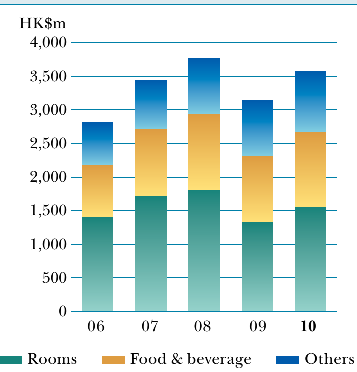
* *The Peninsula Shanghai had its soft opening on 18 October 2009 and formally opened on 18 March 2010.*

Hotels' revenue by geographical segment



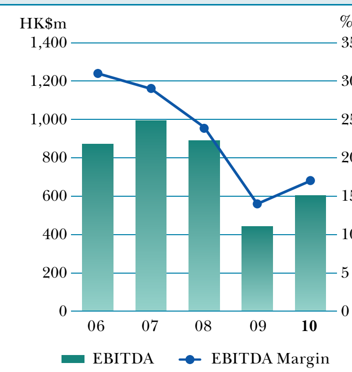
HK$m	2006	2007	2008	2009	2010
Hong Kong	939	1,061	1,122	997	**1,119**
Other Asia	803	1,220	1,641	1,328	**1,547**
USA	1,069	1,168	1,009	820	**910**
	2,811	3,449	3,772	3,145	**3,576**

Hotels' revenue by nature



HK$m	2006	2007	2008	2009	2010
Rooms	1,404	1,716	1,810	1,324	**1,549**
Food & beverage	776	992	1,128	985	**1,123**
Others	631	741	834	836	**904**
	2,811	3,449	3,772	3,145	**3,576**

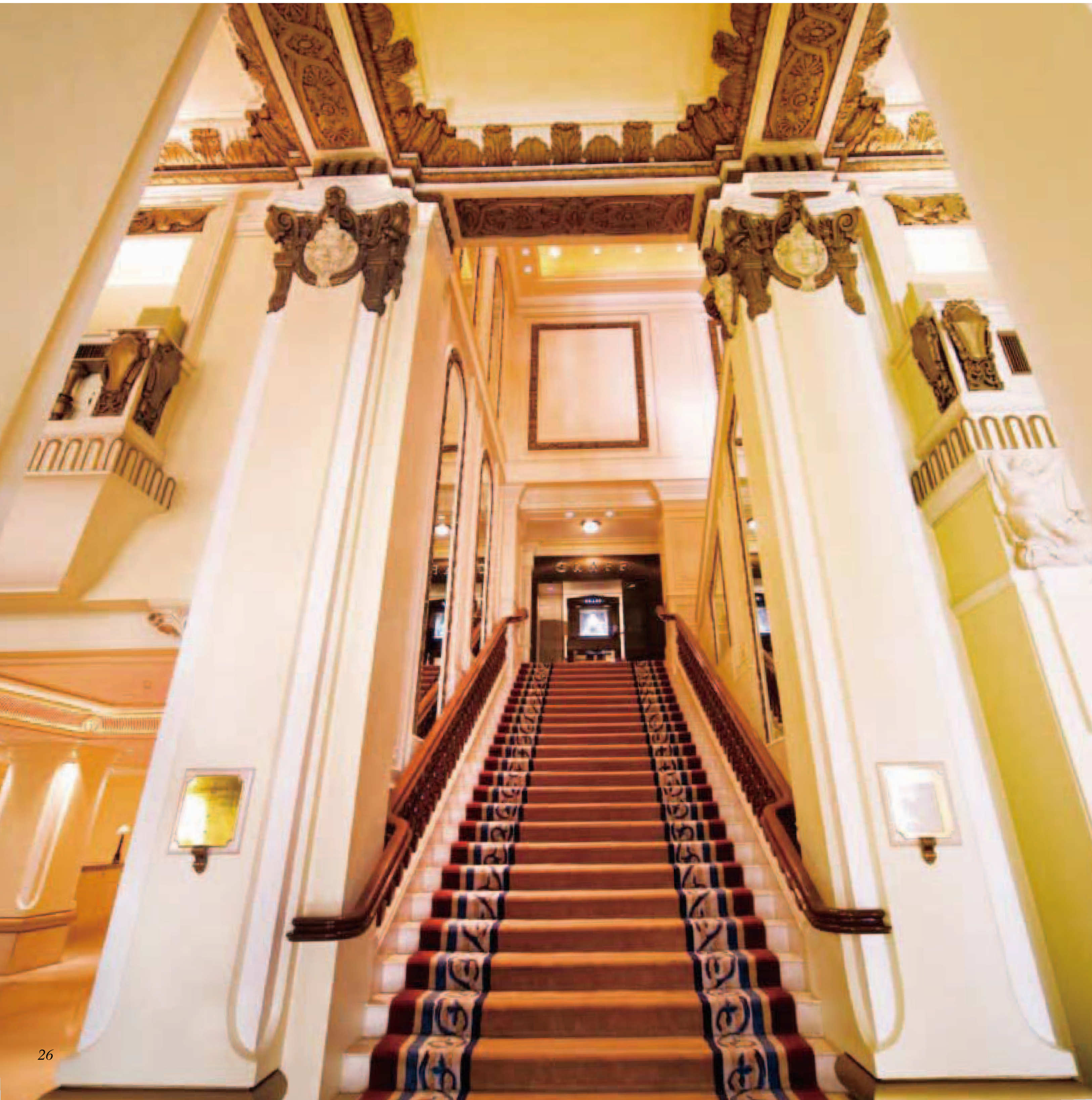
Hotels' EBITDA

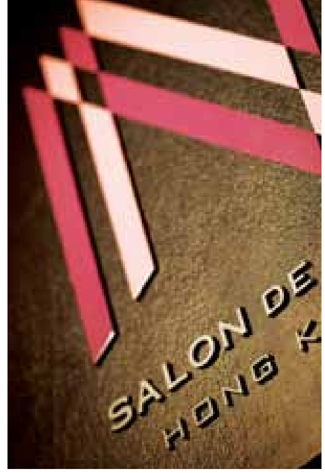


	2006	2007	2008	2009	2010
EBITDA (HK$m)	872	995	890	443	**604**
EBITDA Margin (%)	31	29	24	14	**17**

The Peninsula hong kong

100% owned





Opened in 1928, The Peninsula Hong Kong is HSH's flagship hotel property and the first to bear the Peninsula name. Wholly-owned by HSH, the hotel has consistently been rated as one of the top luxury hotels in the world. The hotel has 300 guestrooms and suites, as well as world renowned restaurants and bars including Gaddi's, Felix, Spring Moon, Chesa and Salon de Ning. There is also a spectacular Peninsula Spa, which was opened in 2006.

2010 was a year of economic recovery and rejuvenation for Asia, particularly Hong Kong. Occupancy returned to pre-crisis levels while the food and beverage outlets enjoyed brisk business. In recognition of the hotel's deep roots in Hong Kong, the hotel's team of 800 staff initiated the production of a book called "Our Hong Kong", which documented personal memories and narratives from the hotel's staff who grew up in Hong Kong or have been residing in Hong Kong for many years. The publication was launched in December 2010 at the hotel's 82nd anniversary. "Our Hong Kong" will provide the theme for the hotel throughout 2011, from which various promotions and guest experiences will be developed.

- The hotel recorded an ARR of HK$3,816, up 1% from 2009. RevPAR was up 22% from 2009 to HK$2,660 while occupancy rose 13 percentage points from the year before to 70%.
- Both the corporate and leisure sectors saw a revival in business, with travellers from the US surpassing those from UK and most of Europe. At the same time, Hong Kong's vast hinterland market – mainland China – has become one of the hotel's top producing markets, along with significant growth of business from emerging markets including Russia, Middle East, Mexico, South Korea and Thailand.
- The Peninsula Hong Kong retained its leadership position in terms of room rates. A rooms promotion in conjunction with the Peninsula hotels in Shanghai and Beijing was well received by both the domestic and overseas markets.
- The restaurants and Spa saw robust business in the final quarter of the year.
- The Peninsula Arcade and the Office Tower were able to grow their average rent by 2% and 23% respectively.
- The Peninsula Arcade maintained an average occupancy of 97% during the year with a high quality tenant mix of luxury brands from around the world. New high-end tenants include Chanel Watch & Jewellery and Goyard, while tenants which expanded their presence in the Arcade include Ralph Lauren and Davidoff.

The Peninsula Shanghai

50% owned

The Group's flagship hotel in mainland China celebrated its first anniversary since soft opening in October 2010. Occupying a splendid location with direct frontage on the historic Bund, The Peninsula Shanghai is the first new building on the Bund in the last few decades and an anchor project in the Waitanyuan development scheme. The hotel features 235 rooms and suites, five restaurants and bars, a Peninsula Spa, an indoor swimming pool and fitness centre, as well as a Peninsula Arcade featuring 25 top luxury brands. The adjoining Peninsula Residences has 39 apartments for lease.

The Peninsula Shanghai held its Grand Opening Gala on 18 March 2010, five months after its soft opening. Over 3,000 guests from around the world joined the celebrations to mark the landmark homecoming of HSH to Shanghai, one of its two founding cities. On 1 July 2010, the Peninsula Arcade held its grand opening and two months later, the hotel assumed management of the historic building, No.1 Waitanyuan in the adjacent former British Consulate site, which has become a State Guest House of the Shanghai municipal government, as well as the leasing of buildings No. 2, 3 and 4 and the basement.

- In its first year of operation, the hotel recorded an ARR of HK$2,830. RevPAR was HK$1,778, while occupancy averaged 63%.
- The World Expo 2010 Shanghai (May to October 2010) provided a global stage to showcase The Peninsula Shanghai to domestic and international visitors and contributed to the hotel's strong performance. Demand from the domestic market was strong, with 60% of all guests being from within the mainland.
- The Peninsula Arcade was fully let with the last shops opening in December 2010. Leading luxury brands featured in the Arcade include Chanel, Giorgio Armani, Graff, Prada and Ralph Lauren.
- Interior fit-out work continued through the year for the Peninsula Residences, which is part of the hotel complex. The Residences will be available for leasing in the second half of 2011.
- The hotel received numerous local and international accolades in its first year of establishment. (read more on page 43)
- The hotel provided the scenic backdrop for the production of director Wayne Wang's movie, "Snow Flower and the Secret Fan", which will make its debut in 2011.

The Peninsula Beijing

42% owned

Opened in 1989, The Peninsula Beijing is situated in the historic city centre, close to Tiananmen Square and is regarded as one of the top hotels in China's capital. The hotel has 525 guestrooms and suites, two restaurants, a Peninsula Spa, an indoor swimming pool, a fleet of Rolls-Royces and BMWs and one of the most prestigious shopping arcades in China, the Peninsula Arcade, which houses 50 exclusive luxury designer boutiques.

China's impressive economic growth in the global economic crisis was the driving force behind a huge increase in domestic demand for the hotel. In 2010, the mainland became the top market segment for The Peninsula Beijing, achieving 33% growth over 2009. The European and North American markets showed some growth but segment revenues were below the 2008 Olympic levels. Competition remained intense in the capital, as additional five star hotels continued to open in an already crowded marketplace.

- The hotel recorded an ARR of HK$1,409, up 4% from 2009. RevPAR was up 42% from 2009 to HK$650 while occupancy rose 12 percentage points from the year before to 46%.
- The commercial sector remained buoyant as the hotel continued to be recognised by discriminating customers as the leading venue for luxury goods in the Chinese capital. An Arcade upgrade is currently underway, in preparation for the introduction of new flagship stores and to ensure the hotel continues as a leading luxury retail destination.
- Food and beverage revenues increased by 41% over 2009 while revenue for the Spa increased by 22%.

The Peninsula New York

100% owned

The Peninsula New York is housed in a 23-storey, 1905 landmark building on Fifth Avenue and 55th Street in mid-town Manhattan. The hotel, acquired by the Group in 1988, carries an old world elegance with modern interiors. There are 185 guestrooms and 54 suites, one restaurant and three lounges including Salon de Ning, a Peninsula Spa, a fitness centre and an indoor swimming pool.

The Peninsula New York benefitted from an increase in business and leisure travels to New York City during 2010. Competition remained intense within the luxury hotel segment but with its interiors completely renovated after a two year phased programme, the hotel is well positioned for future growth.

- The hotel recorded an ARR of HK$5,570, up 5% from 2009. RevPAR was up 12% from 2009 to HK$3,727 while occupancy rose 5 percentage points from the year before to 67%.
- The soft US Dollar and weak Euro led to a decrease in the international business mix. However, the hotel secured several new key financial corporate accounts as a result of increased business travel to the hotel.
- The Peninsula New York completed the final phase of its guestroom renovation in September 2010. Extensive repairs to the hotel's cornice were completed in December 2010. A complete remodelling of the meeting room facilities was also undertaken during the year.
- The hotel added two customised Mini Cooper S Clubman vehicles to its transportation fleet in November 2010.
- Salon de Ning continues to perform strongly with revenues increasing 9.6% from a year ago.
- The renovated meeting rooms helped to increase banquet revenue by 20%, compared to a year ago, with greater demand from both corporate and social clientele.
- The hotel was given the coveted 2010 Forbes Five Star Award for both the property and the Spa.

The Peninsula Chicago

100% owned

Opened in 2001, The Peninsula Chicago is well recognised as one of the finest hotels in North America. As a reflection of its Hong Kong roots, the hotel hosted the President of China and the Chinese delegation in early 2011. The hotel's 339 guestrooms and suites are among the largest in the city, supported by a Peninsula Spa and fitness centre, four restaurants and bar and extensive meeting facilities. The hotel occupies a prime location next to the Water Tower in the heart of Chicago's 'Magnificent Mile' on North Michigan Avenue.

2010 was a challenging year for the United States and The Peninsula Chicago was no exception – the state of Illinois has one of the highest unemployment rates in the country, in addition to intense competition from newly opened five star hotels. The local economy began to see slight signs of improvement in the second half of the year with increased activity in the luxury retail segment. Despite the challenges, The Peninsula Chicago continued to be well-established as the top luxury hotel in Chicago.

- The hotel recorded an ARR of HK$2,965, down 1% from 2009. RevPAR was up 9% from 2009 to HK$1,762 while occupancy rose 5 percentage points from the year before to 59%.
- The hotel's guest mix is 62% transient and 38% group. 93% of its guests were domestic travellers while 7% is from international markets. The negotiated corporate segment grew significantly during the year, benefiting from companies improving their travel policies. Catering business remained strong.
- Avenues, the hotel's signature restaurant, received a 2 star award from the Michelin Red Guide.
- In November 2010, the hotel launched two customised MINI Cooper S Clubman vehicles for guest transportation.
- 2011 will see the hotel's 10th anniversary with several events being undertaken to celebrate this milestone.

The Peninsula Beverly Hills

20% owned

The Peninsula Beverly Hills is located in one of the most prestigious areas of Los Angeles, at the intersection of Wiltshire and Santa Monica Boulevards. Designed to resemble a gracious private residence, the hotel features 193 guestrooms including 36 suites and 16 private villas which are nestled amid lush, tropical gardens. There are four restaurants and bars, a Spa and fitness centre and a large outdoor pool bordered by private cabanas.

The Peninsula Beverly Hills saw significant improvement in business during 2010, particularly from the entertainment industry and the Middle East market. The hotel was able to maintain its leading position in Los Angeles.

- The hotel recorded an ARR of HK$5,147, up 2% from 2009. RevPAR was up 20% from 2009 to HK$3,699 while occupancy rose 11 percentage points from the year before to 72%.
- In October 2010, the hotel embarked on a guestroom enhancement programme which will continue through the first half of 2011. All 193 guestrooms, including the suites and private villas, will be refurbished and technologically enhanced.
- Group segment business increased to over 9% of overall business, from about 4% the year before. The hotel's enhanced guest loyalty programme also resulted in over 70% repeat guest ratio.
- During the year, The Peninsula Beverly Hills was given both the AAA Five Diamond Award as well as the Forbes Five Star Award. The hotel was consistently ranked amongst the best hotels in North America and in the world by international travel publications. (read more on page 43)

The Peninsula Tokyo

100% owned

The Peninsula Tokyo is prestigiously located in the Marunouchi business district – the heart of Japan's banking and finance community – and directly faces the Imperial Palace, with easy proximity to Ginza and Hibiya Park. The hotel has 314 guestrooms including 47 suites, four restaurants, two ballrooms, six function rooms, a wedding chapel, a Japanese ceremony room, a Peninsula Spa, an indoor swimming pool and a fitness centre.

The Peninsula Tokyo, established in 2007, has become a landmark in Japan's capital. The hotel welcomed a return of overseas visitors, particular from Asia, despite a persistently strong Yen throughout the year. The hotel remained competitively positioned in the luxury segment and recorded strong growth both in terms of business and reputation.

After Japan was struck by the huge earthquake on 11 March 2011, the hotel's management and staff provided support and assistance to guests and the general public at the time of crisis, offering its facilities and shelter to those seeking refuge. All the staff and guests were safe and unharmed and the hotel premises did not suffer any physical damage of significance.

- The hotel recorded an ARR of HK$3,861, up 8% from 2009. RevPAR was up 17% from 2009 to HK$2,522 while occupancy rose 5 percentage points from the year before to 65%.
- Asia and the Middle East provided much business support to The Peninsula Tokyo. The number of guests from mainland China and Gulf countries doubled from 2009, partly because of visa relaxations and partly because of improved economies in those regions. China and the Middle East now rank among the top 10 geographic sources of business for the hotel.
- The hotel opened a new outlet, The Peninsula Boutique & Café at Naka-dori avenue, on 15 March 2010. The Café offers outdoor seating for 20 and is located in one of the most stylish areas in Tokyo.
- All the retail spaces in the hotel were leased during the year.
- The wedding market was also robust, with a 14% increase of wedding receptions held at the hotel.
- The Peninsula Tokyo was named the No. 1 hotel in the Top 100 Hotels in Asia, 2010 Readers' Choice Awards by renowned travel publication, Conde Nast Traveler (US). (read more on page 43)
- Hei Fung Terrace was awarded a Michelin Star for the third consecutive year.

The Peninsula Bangkok

75% owned

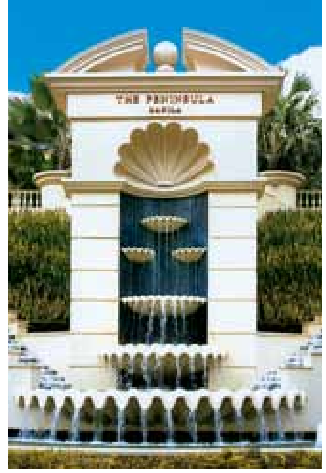
The luxurious riverside Peninsula Bangkok was opened in 1998. The 37-storey property features 370 guestrooms and suites, three restaurants, a Peninsula Spa that is housed in a three-storey Thai style villa; and partners with the Group-owned Thai Country Club to offer golf course access to its guests. The Peninsula Bangkok is consistently recognised as one of the best hotels in Asia.

The first half of 2010 saw ongoing political dissension creating tension for the tourism industry. The prolonged street demonstrations in April and May, which led to a violent army crackdown in June, caused businesses in tourist areas to shut down and certain hotels to close temporarily. Following the restoration of peace in Bangkok, the local tourism industry began a price war to lure travellers to return. Tourism rebounded to a limited extent in the final quarter of the year.

- The hotel recorded an ARR of HK$1,398, down 7% from 2009. RevPAR was down 5% from 2009 to HK$688 while occupancy rose 1 percentage point from the year before to 49%.
- The Peninsula Bangkok was able to maintain its position as a market leader and was named by Travel + Leisure magazine as the No. 1 Top City Hotel in Asia. (read more on page 43)
- Local banquet business thrived during the year. The wedding market remained strong with a 29% increase in the number of wedding functions held at the hotel. The hotel also held an annual wedding showcase to drive business.
- During the year, the hotel completed the soft refurbishment of 100 guestrooms and 28 suites.
- The shopping arcade was fully leased during the year.

The Peninsula Manila

77% owned



The Peninsula Manila is located in the heart of Makati, Manila's business and financial district, at the corner of Ayala and Makati Avenues. Opened in 1976, the 497-room hotel has seven restaurants and bars, including Escolta and Salon de Ning, a Peninsula Spa, a fitness centre and a shopping arcade.

In spite of the global economic downturn, The Peninsula Manila welcomed a marked improvement in business during 2010, fuelled chiefly by a strong demand for guestrooms.

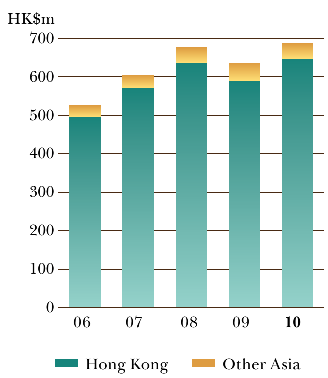
- The hotel recorded an ARR of HK$1,036, up 6% from 2009. RevPAR was up 30% from 2009 to HK$719 while occupancy rose 12 percentage points from the year before to 69%.
- The highlight of the year was marked by the opening of Salon de Ning on 4 December. Joining the Peninsula hotels' signature collection of Shanghai style Art Deco-inspired bars and lounges, Salon de Ning at The Peninsula Manila features four themed rooms, all set in a clubby lounge venue. The Salon has quickly established itself as one of the most stylish venues in Manila, much welcomed by local and foreign guests.
- In the Spring of 2010, major upgrades of the hotel's security measures were carried out. The upgrades included installation of bomb blast film on lower floor glass walls, road blockers, gate shutters and spikes on perimeter concrete walls, as well as the implementation of handheld bomb detectors. These upgrades have made The Peninsula Manila one of the most secure hotels in the city and provide a great competitive advantage by addressing the safety concerns of international clients.
- The hotel's business was negatively impacted in the last quarter of the year as several multinational companies opted to move their meetings to other countries, following several international governments having issued or renewed travel alerts for The Philippines.
- Other significant capital expenditure projects during the year include the renovation of the staff dining room, as well as carpet replacement in the Makati Tower guestroom floors and the Rigodon ballroom.

Commercial Properties' and Clubs & Services' Performance Charts

	Attributable Interest %	Revenue (HK$m) 2010	Revenue (HK$m) 2009	Net Lettable Area (sf) 2010	Net Lettable Area (sf) 2009	Occupancy % 2010	Occupancy % 2009	Yield (HK$) 2010	Yield (HK$) 2009
The Repulse Bay Complex*	100	**505**	469	**842,660**	842,549	**92**	88	**38**	37
The Peak Tower	100	**103**	83	**67,254**	67,254	**100**	99	**72**	60
St. John's Building	100	**38**	36	**61,102**	61,102	**97**	93	**37**	35
The Landmark, Vietnam	70	**42**	49	**134,140**	134,409	**92**	96	**23**	29
Total		**688**	637	**1,105,156**	1,105,314				
Average						**93%**	90%	**38**	37

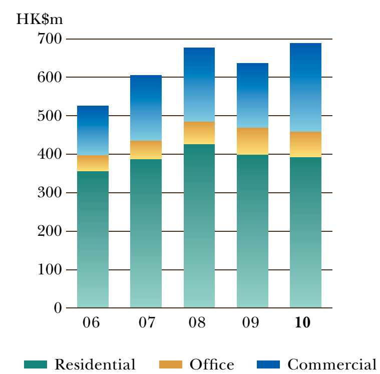
* *Part of the Repulse Bay Arcade was closed for revitalisation from March to July 2008, and again from February to August 2009.*

Rental revenue from Commercial Properties, by geographical segment



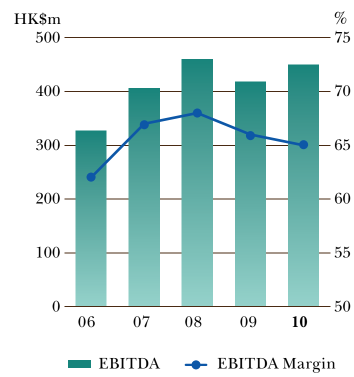
HK$m	2006	2007	2008	2009	2010
Hong Kong	495	570	636	588	**646**
Other Asia	31	35	41	49	**42**
	526	605	677	637	**688**

Rental revenue from Commercial Properties, by nature



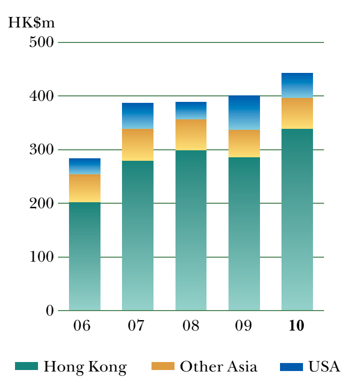
HK$m	2006	2007	2008	2009	2010
Residential	355	386	425	398	**392**
Office	42	49	59	70	**66**
Commercial	129	170	193	169	**230**
	526	605	677	637	**688**

Commercial Properties' EBITDA



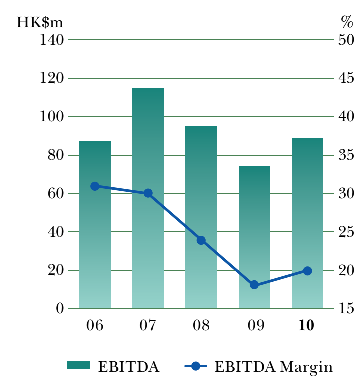
	2006	2007	2008	2009	2010
EBITDA (HK$m)	327	406	460	418	**450**
EBITDA Margin (%)	62	67	68	66	**65**

Revenue from Clubs & Services, by geographical segment



HK$m	2006	2007	2008	2009	2010
Hong Kong	202	279	298	285	**338**
Other Asia	52	59	58	52	**58**
USA	30	49	33	64	**47**
	284	387	389	401	**443**

Clubs & Services' EBITDA



	2006	2007	2008	2009	2010
EBITDA (HK$m)	87	115	95	74	**89**
EBITDA Margin (%)	31	30	24	18	**20**

The Repulse Bay Complex

100% owned

The Repulse Bay Complex is located on the scenic south side of Hong Kong Island, overlooking the famous Repulse Bay beach and South China Sea. The Complex consists of eight apartment towers and a shopping arcade with restaurants and a health wing, built on the site of the former Repulse Bay Hotel (1920 – 1982). All the apartments are held as investment properties for leasing.

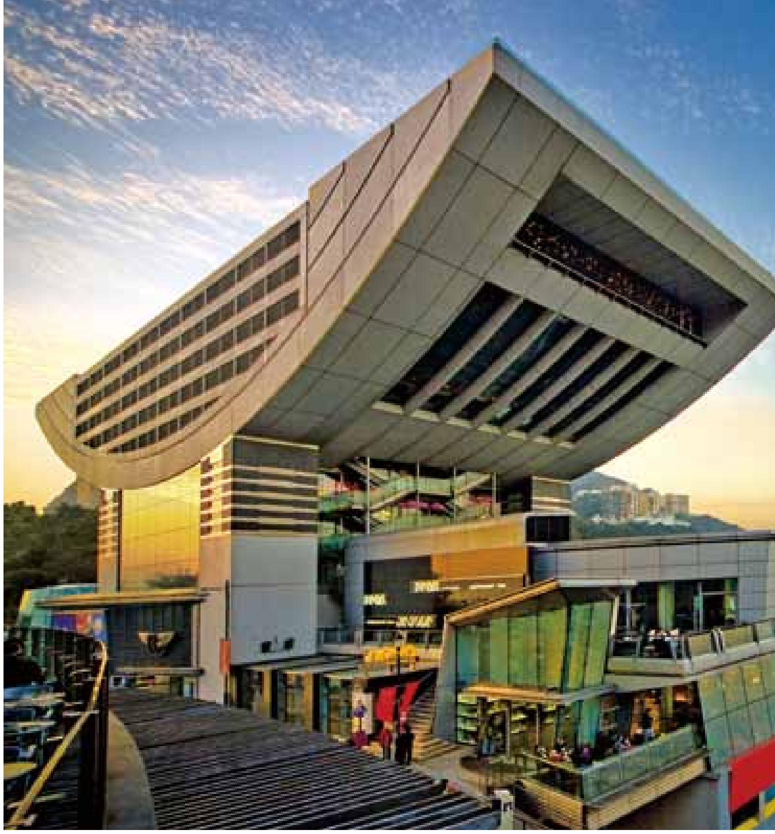
One year after a full revitalisation of the Repulse Bay Complex's restaurants and shopping arcade, the Complex has re-established itself as the premier shopping and dining destination for tourists and residents on the south side of the Island. The Complex is poised to embark on its next phase of major improvement. Commencing in mid 2011, this will comprise a three-year phased programme that will significantly enhance all the public areas of the residential towers and improve the layout and efficiency of the serviced apartment tower.

- Leasing activities for both the unfurnished and serviced apartments were strong, particularly in the second half of the year, reflecting the robustness of Hong Kong's economy. Usage of the Club facilities remained high.
- Turnover for The Repulse Bay Complex increased by 8% compared to 2009. The average rent per net square foot (yield) was HK$38, an increase of 3% compared to 2009.
- The Arcade, which has a varied range of lifestyle and specialty retailers, remained fully leased during the year.
- The new Marquee has quickly established itself as a much sought after banqueting venue. During the year, The Repulse Bay hosted more than 150 weddings and has also become a popular venue of choice for luxury car shows and elaborate product launches.
- The renovated Verandah and Spices restaurants maintained their well-established popularity with patrons. Overall, the food and beverage operation experienced a very good year, delivering the best results both in terms of revenue and profitability, since year 2000.
- The Repulse Bay website was revamped and launched in August 2010, offering the latest information on residential leasing, food and beverage promotions, arcade and community activities as well as arts and cultural events.

The Peak Tower

100% owned

The Peak Tower is a key entertainment, retail and dining complex atop Hong Kong's Victoria Peak, offering visitors spectacular 360 degree views of Hong Kong from its rooftop Sky Terrace.



In 2010, the Peak Tower continued to perform strongly, as a result of increased retail rentals and number of visitors to the Sky Terrace.

- Mainland China, North and Southeast Asia are key sources of business for the Tower. Enhanced promotional efforts in these markets led to a considerable surge in sales to travel agents; the management also deployed a diversified strategy by forming an alliance with several other key tourist attractions in Hong Kong to promote visits.
- The Tower achieved 100% occupancy during the year and recorded an increase of 24% in year-on-year revenue.

St. John's Building 100% owned

Built in 1983, St. John's is an office building situated in Hong Kong's Central business district, close to the SAR government offices and houses the lower Peak Tram terminus.

- St. John's Building ended the year with 97% occupancy. Revenue increased by 6% due to higher occupancy and rental increases upon tenancy renewals.

The Landmark (Vietnam) 70% owned

Opened in 1995 in the core business quarter of Ho Chi Minh City (formerly known as Saigon), The Landmark is a 16-storey residential and office complex located on a prime waterfront site. The complex has 65 serviced apartments, a fully equipped business centre, as well as 100,000 square feet of first class office space for leasing. There are also two restaurants and a luxury leisure boat to ferry guests along the Saigon River.

- The office tower maintained an average occupancy of 98% for the year while revenue was 18% lower than 2009.
- The residential tower achieved an average occupancy of 85% for the year and revenue was 15% lower than the year before.
- Upgrading of the commercial areas and the lobby in the residential tower were carried out during the year.
- The Landmark won an ASEAN energy award for energy efficient building, reflecting its commitment to environmental protection.

Clubs & Services

The Group owns and operates the historic Peak Tram, a major tourist attraction in Hong Kong. The Group also owns and manages the Thai Country Club near Bangkok, one of the finest golf clubs in Asia; Quail Golf & Country Club in Carmel, California, USA; Peninsula Merchandising, which operates the Peninsula Boutiques around the world; and Tai Pan Laundry services in Hong Kong. Under Clubs & Consultancy Services, HSH manages the prestigious Hong Kong Club, The Hong Kong Bankers Club and Butterfield's Club in Hong Kong as well as No.1 Waitanyuan in Shanghai, and operates Cathay Pacific Airways' first and business class lounges in the Hong Kong International Airport.

The Peak Tram 100% owned

- A record-breaking 5.4 million passengers patronised the Peak Tram in 2010, an 11% increase from 2009, while revenue increased 20% from the year before.
- The Tram attracted a growing number of visitors from mainland China, Taiwan, Korea and India, its four new key markets.
- The Peak Tram earned two important awards in recognition for its outstanding performance, safety record and excellent customer services. (read more on page 43)

Thai Country Club (Thailand) 75% owned

- Thai Country Club maintained the same number of golfers in 2010 but revenue increased by 12% over 2009.
- New member relation initiatives were introduced, including a monthly newsletter in three languages (English, Thai and Japanese) and promotions for merchandise in the ProShop.
- The Club was voted the Best Course in Thailand and first runner up for Best Course in Asia Pacific by the Asian Golf Monthly Magazine.

Quail Golf & Country Club (USA) 100% owned

- The 8th Annual Quail Motorsports Gathering, now regarded the premier event in the Monterey Peninsula, was held in August 2010 and raised over US$20,000 to benefit charitable organisations including the American Red Cross Monterey Chapter, Rancho Cielo and Court Appointed Special Advocates.
- The hotel portion of Quail Lodge remained closed but the golf course and Clubhouse remain open to service the Club's 300-plus members and catering clientele.

Peninsula Merchandising 100% owned

- In 2010, Peninsula Merchandising again achieved record sales in Hong Kong and Asia for its signature mooncakes during the Mid Autumn Festival period.
- Overall, revenue and profits exceeded expectations and returned to pre-crisis levels. With the exception of Japan, revenue from this division's major wholesale markets exceeded 2009. Retail sales at the Peninsula Boutique in The Peninsula Hong Kong were very strong.

Tai Pan Laundry (Hong Kong, China) 100% owned

- Tai Pan Laundry expanded its operational premises during the year and the total floor area reached 33,000 square feet.
- A significant replacement of existing equipment with highly automated modern machinery and renovation of the premises is earmarked for 2011, so as to enable the operation to continue with its provision of top quality laundry and dry cleaning services to Hong Kong's luxury hotels and high-end restaurants.

Cathay Pacific Lounges, Hong Kong International Airport (Hong Kong, China)

- The Lounges recorded a 12.9% increase in passenger numbers.
- In anticipation of continuous growth in capacity, Cathay Pacific opened a new airport lounge, The Cabin, in October 2010 which is also managed by HSH.

No. 1 Waitanyuan (Shanghai, China)

- The two-storey, Renaissance style building was constructed in 1872 and is listed as a National Cultural Heritage site. No. 1 Waitanyuan is considered an important element of the historic scenary of the legendary Bund.
- Since the opening on 1 September 2010 of this building as a State Guest House of the Shanghai municipal government, more than 120 events were held in the four months till the end of the year.
- This building is open to the public and it is intended to be used for high-end cultural exhibitions and receptions.

Awards

CORPORATE

- **Gold Award, Annual Report: Hotel & Property** *(Galaxy Awards 2010, USA)*
- **Gold Award, Interior Design: Hotels & Leisure** *(2010 ARC Awards, USA)*
- **Silver Award, Cover Photo/Design: Hotels & Leisure** *(2010 ARC Awards, USA)*
- **Honors Award, Green/Environmentally Sound Annual Report: Hotels & Leisure** *(2010 ARC Awards, USA)*
- **Citation for Corporate Governance Disclosure – Best Annual Reports Awards** *(Hong Kong Management Association, Hong Kong)*
- **Citation for Design – Best Annual Reports Awards** *(Hong Kong Management Association, Hong Kong)*

THE PENINSULA HOTELS

- **No. 1 Best Business Hotel Brand in the World** *(Conde Nast Traveler, USA)*
- **Best Luxury Hotel Brand – The 21st Annual TTG Travel Awards 2010** *(TTG Asia, Singapore)*

THE PENINSULA HONG KONG

- **Gold List 2010 – Best Overseas Hotel in the World** *(Luxury Travel Magazine, Australia)*
- **No. 1 Overseas Business Hotels – 2010 Readers' Travel Award** *(Conde Nast Traveller, UK)*
- **No. 2 World's Best Business Hotel 2010** *(Travel + Leisure, USA)*
- **Best Luxury Hotel/Resort in Asia, Award of Excellence 2010** *(Luxury Travel Advisor, USA)*

THE PENINSULA SHANGHAI

- **Best Business Hotel of the Year 2010** *(Wallpaper* Magazine, UK and Fortune Magazine, USA)*
- **Best Luxury Hotel in Shanghai** *(TTG China Travel Awards 2010, China)*
- **China Hotel Development of the Year** *(China Hotel Development and Financing Conference 2010, China)*
- **Best Luxury Hotel** *(Travel Weekly China & Travel and Meeting Industry Awards 2010, China)*

THE PENINSULA BEIJING

- **No. 2 The World's Best Hotels** *(Institutional Investor, UK)*
- **No. 2 Best Hotels and Resorts in Beijing – DestinAsian Readers' Choice Awards** *(DestinAsian, Indonesia)*
- **No. 8 Top 25 City Hotels in Asia – World's Best Hotels 2010** *(Travel + Leisure, USA)*
- **Readers' Choice Gold List 2010, The World's Best Places to Stay** *(Conde Nast Traveler, USA)*

THE PENINSULA NEW YORK

- **Best Hotel for Service – Fodor's Choice Gold Awards** *(Fodor's Travel Guide, UK)*
- **Salon de Ning, Best Hotel Rooftop Bar – Worldwide** *(Luxury Travel Advisor Award of Excellence 2010, USA)*
- **No. 2 Best Hotel Spas – The Americas & Caribbean, Readers' Spa Awards 2010** *(Conde Nast Traveller, UK)*
- **2010 Forbes Five Star Award, hotel and spa** *(Conde Nast Traveller, UK)*

THE PENINSULA CHICAGO

- **Best Urban Escapes, Fodor's Travel Gold Awards** *(Fodor's Travel Guide, UK)*
- **No. 2 Hotel in USA – Readers' Choice Awards 2010** *(Conde Nast Traveler, USA)*
- **AAA Five Diamond Award, hotel and Avenues** *(USA)*
- **2010 Forbes Five Star Award** *(Conde Nast Traveller, UK)*

THE PENINSULA BEVERLY HILLS

- **No. 4 Top 100 Hotels in United States – 2010 Readers' Choice Awards** *(Conde Nast Traveler, USA)*
- **AAA Five Diamond Award 2010** *(USA)*
- **2010 Forbes Five Star Award** *(Conde Nast Traveller, UK)*
- **The Belvedere, AAA Five Diamond Award 2010** *(USA)*

THE PENINSULA TOKYO

- **No. 1 Hotel in the Top 100 Hotels in Asia – 2010 Readers' Choice Awards** *(Conde Nast Traveler, USA)*
- **No. 2 Best Business Hotel in Tokyo** *(Business Traveller Asia Pacific, Hong Kong)*
- **Best Hotel Spa** *(The Crystal Awards Asia Pacific 2010, Malaysia)*
- **Leading Green Business Hotel of Asia** *(Asia Hotel Forum, Shanghai, China)*

THE PENINSULA BANGKOK

- **No. 1 Top City Hotels in Asia and No. 3 World's Best Business Hotels 2010** *(Travel + Leisure, USA)*
- **No. 1 Best City Hotel in South East Asia** *(The 2009 Gallivanter's Award for Excellence, UK)*
- **Award of Outstanding Performance – Thailand Tourism Award** *(Tourism Authority of Thailand)*
- **Mei Jiang, Thailand Tatler Best Restaurant – Thailand Best Restaurants 2010** *(Thailand Tatler, Thailand)*

THE PENINSULA MANILA

- **No. 2 Best Hotels and Resorts 2010 – Manila** *(DestinAsian, Indonesia)*
- **No. 15 2010 World's Best Hotels – Top 25 City Hotels in Asia** *(Travel + Leisure, USA)*
- **Top 25 Business Hotels in Asia, Top 25 City Hotels in Asia** *(Smart Travel Asia, Hong Kong)*

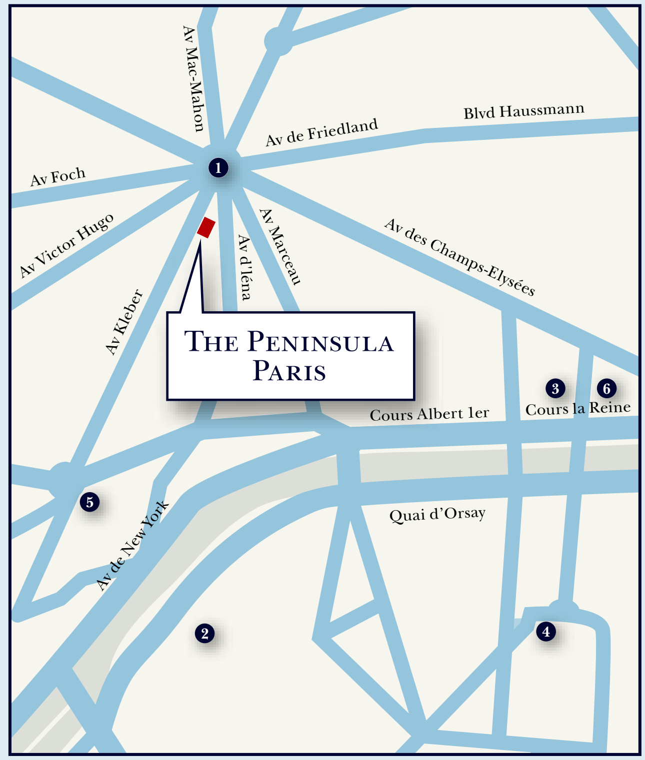
PEAK TRAMWAYS

- **CILT Award 2009 – Customer Services Excellence** *(The Chartered Institute of Logistics and Transport, Hong Kong)*
- **Hong Kong Corporate Branding Award 2010, Transport and Logistics Category** *(Ming Pao Daily and The Chinese University of Hong Kong, Hong Kong)*

The Peninsula Paris (France)

The Peninsula Paris is HSH's next planned hotel opening which will mark the Group's entry into Europe. Housed in a century-old Beaux Arts building on Avenue Kleber, near the Arc de Triomphe, the building was opened in 1908 as the Majestic Hotel and, before being sold by the French Government in 2007, had been operated as an International Conference Centre under the auspices of the French Ministry of Foreign Affairs.

Interior demolition of the existing building, which began in late 2009, was completed in March 2010. In July 2010, a general contractor was appointed to oversee ground work, structural work, site installations and the management of the remaining trades. The first major phase of construction work began in September 2010, encompassing ground work, underpinning, demolition and structural work.



1. *Arc de Triomphe*
2. *Eiffel Tower*
3. *Grand Palais*
4. *Musée de l'Armée – Tombeau de Napoléon 1er*
5. *Musée national de la Marine*
6. *Petit Palais*

Significant progress was made during the year on the hotel's interior design, where the challenge is to complement the history of the building with a modern feel and Peninsula's standards and requirements. As would be expected in a century-old building, a number of issues have to be addressed including the adaptation of the basement layout to satisfy local codes and the development of the interior design to take account of preservation considerations from local regulators. The incorporation of these demands, while simultaneously satisfying HSH's high standards for Peninsula hotels, have resulted in a slight delay to the hotel's forecast completion date and it is now expected that The Peninsula Paris will open in 2013.

DIRECTORS

NON-EXECUTIVE CHAIRMAN

The Hon. Sir Michael Kadoorie
GBS, LL.D. (Hon), DSc (Hon), Officier de la Légion d'Honneur, Commandeur de l'Ordre de Leopold II, Commandeur de l'Ordre des Arts et des Lettres
Aged 69. Appointed a Director in 1964 and elected Chairman in 1985, Sir Michael is a substantial shareholder of the Company by virtue of the Securities and Futures Ordinance. He is the brother-in-law of a fellow Director, Mr. Ronald J. McAulay, and is a Director of several subsidiaries of the Company. He is also Chairman of CLP Holdings Limited, an Independent Non-Executive Director of Hutchison Whampoa Limited, an Alternate Director of Hong Kong Aircraft Engineering Company Limited, a Director of Sir Elly Kadoorie & Sons Limited, as well as holding a number of other directorships. In addition, Sir Michael acts as a trustee of a number of leading, local charitable institutions. (E)

NON-EXECUTIVE DEPUTY CHAIRMAN

Ian Duncan Boyce
Aged 66. A Fellow of the Institute of Chartered Accountants in England and Wales, he was appointed to the Board in 1999 and elected Deputy Chairman in May 2002. Mr. Boyce is also Chairman of two subsidiaries of the Company. Mr. Boyce, based in Hong Kong since 1984, was formerly Managing Director of Schroders Asia and had held executive positions with the S.G. Warburg Group. He is Non-Executive Chairman of Schroder Investment Management (Hong Kong) Limited, a Director of CLP Holdings Limited and Tai Ping Carpets International Limited, and Chairman of Sir Elly Kadoorie & Sons Limited, overseeing a number of the Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. (E, A, F, R)

EXECUTIVE DIRECTORS

CHIEF EXECUTIVE OFFICER

Clement King Man Kwok
Aged 51. A Bachelor of Science in Economics from the London School of Economics and a Member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, he joined the Group in February 2002 as Managing Director and Chief Executive Officer, and is a Director in most of the Group entities. Mr. Kwok's career began with Price Waterhouse and Barclays de Zoete Wedd in the United Kingdom, following which he returned to Hong Kong in 1986 to work with Schroders Asia. Prior to joining the Group, he had served as Finance Director of MTR Corporation since 1996. He is an Independent Non-Executive Director of Swire Pacific Limited, a fellow of The Hong Kong Management Association, a Non-official Member of Harbourfront Commission and serves on the Boards of the Community Chest and the Faculty of Business and Economics of the University of Hong Kong. (E, F)

CHIEF FINANCIAL OFFICER

Neil John Galloway
Aged 42. With a Bachelor of Laws Degree (with Honours) from the University of Edinburgh, Mr. Galloway joined the Group as Finance Director and Chief Financial Officer in September 2008. He is a Director in most of the Group entities. His career began with Midland Montagu (subsequently HSBC Investment Bank) in 1990 in London with subsequent postings in France, the Philippines and Hong Kong. Mr. Galloway joined ABN AMRO Bank in 2000, where he held a range of senior positions in Hong Kong and the United Kingdom specialising in the telecom, media and technology sectors, and latterly heading the Asian mergers and acquisitions and equity capital markets business. (F)

CHIEF OPERATING OFFICER

Peter Camille Borer
Aged 57. Appointed to the Board as an Executive Director in April 2004, he is a graduate of the Ecole Hoteliere Lausanne, Switzerland and is now a member of the International Advisory Board of the school. Mr. Borer joined the Group in 1981. He was appointed General Manager of The Peninsula Hong Kong in 1994, taking on additional regional responsibility in 1999 and culminating in his appointment as Chief Operating Officer, The Peninsula Hotels, in April 2004. Mr. Borer is also a Director in most of the Group entities.

NON-EXECUTIVE DIRECTORS

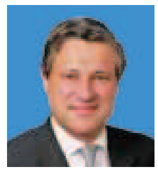
Ronald James McAulay
Aged 75. A graduate of the University of Glasgow, a Member of the Institute of Chartered Accountants of Scotland and brother-in-law of The Hon. Sir Michael Kadoorie. Mr. McAulay was appointed to the Board in 1972 and is a substantial shareholder of the Company by virtue of the Securities and Futures Ordinance. He also serves on the Board of CLP Holdings Limited, Sir Elly Kadoorie & Sons Limited and several other companies. Mr. McAulay is a trustee of the Tate Foundation in London and of various other charitable organisations. He is a member of the International Council of the Victoria and Albert Museum in London.

William Elkin Mocatta
Aged 58. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr. Mocatta was appointed to the Board in 1985 and served as Deputy Chairman from 1993 until May 2002. He is also a Director in several subsidiaries of the Company. Mr. Mocatta is an Executive Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. He holds other non-executive positions including Vice Chairman of CLP Holdings Limited and Chairman of CLP Power Hong Kong Limited. He is also an Alternate Director for The Hon. Sir Michael Kadoorie in Hutchison Whampoa Limited.

John Andrew Harry Leigh

Aged 57. Mr. Leigh was in private practice as a solicitor in Hong Kong and the United Kingdom. He was appointed to the Board in May 2006. He serves on the Boards of CLP Holdings Limited and Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. (E, F)

Nicholas Timothy James Colfer



Aged 51. A Master of Arts and with over 28 years' experience of corporate management in the Asia-Pacific region, principally in real estate, manufacturing and distribution, he was appointed to the Board in May 2006. Mr. Colfer is Chairman of Tai Ping Carpets International Limited and Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. He also serves on several other corporate Boards in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. the Hon. Sir David Kwok Po Li

GBM, GBS, OBE, MA Cantab. (Economics & Law), Hon. DSc. (Imperial), Hon. DBA (Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. DSocSc (Lingnan), Hon. LLD (Hong Kong), Hon. LLD (Warwick), Hon. LLD (Cantab), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCIArb, JP, Officier de L'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Officier de la Légion d'Honneur

Aged 72. Appointed to the Board in 1987, Sir David is Chairman and Chief Executive of The Bank of East Asia, Limited and a Director of numerous other companies in Hong Kong and overseas, including AFFIN Holdings Berhad, China Overseas Land & Investment Limited, COSCO Pacific Limited, Criteria CaixaCorp, S.A., Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited and Vitasoy International Holdings Limited. He was formerly a Director of China Merchants China Direct Investments Limited until he resigned in August 2008. Sir David is a member of the Legislative Council of Hong Kong. He is the Chairman of The Chinese Banks' Association, Limited and the Hong Kong Management Association. He is also a member of the Banking Advisory Committee and the Council of the Treasury Markets Association.

Robert Chee Siong Ng

Aged 58. Called to the English Bar in 1975, Mr. Ng was appointed to the Board in 1987. He is Chairman of Sino Hotels (Holdings) Limited, which owns 3.6% of the Company's issued share capital. He is also Chairman of Sino Land Company Limited and its holding company, Tsim Sha Tsui Properties Limited.

Robert Warren Miller

Aged 77. A Bachelor of Science in Hotel Administration from Cornell University and a Presidential Councillor and Trustee Emeritus of the University, he was appointed to the Board in July 2001. Mr. Miller, a resident of Hong Kong since 1960, is the founder of the DFS Group, Duty Free Shoppers Limited, and Chairman of the Search Group, a private international investment group. (R)

Patrick Blackwell Paul

CBE

Aged 63. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr. Paul was appointed to the Board in February 2004. He began his career with Price Waterhouse in London in 1969. A resident of Hong Kong since 1980, he was Chairman and senior partner of PricewaterhouseCoopers in Hong Kong from 1994 until 2001. He is an Independent Non-Executive Director of Johnson Electric Holdings Limited and Pacific Basin Shipping Limited. Mr. Paul was formerly a Director of Kingsway International Holdings Limited until he resigned in April 2008. His civic commitments include chairing the Supervisory Board of the British Chamber of Commerce in Hong Kong. (A, R)

Pierre Roger Boppe

Chevalier dans l'Ordre National de la Légion d'Honneur

Aged 63. A Master of Science from both the Swiss Federal Institute of Technology and Stanford University, Mr. Boppe held various executive positions with the international quality control company SGS and from 1996 until January 2002, he was Managing Director and Chief Executive Officer of the Group. Upon his return to Europe, Mr. Boppe continues to be active in the hotel and travel industries and is also involved in microfinance. Mr. Boppe was formerly Deputy Chairman of Kuoni Travel Group until he retired in mid 2007. He was re-designated from a Non-Executive Director to an Independent Non-Executive Director in June 2009.

Dr. William Kwok Lun Fung

SBS, OBE, JP

Age 62. Appointed to the Board in January 2011, he graduated from Princeton University with a Bachelor of Science degree in Engineering and also holds an MBA degree from the Harvard Graduate School of Business. He was conferred Honorary Doctorate degrees of Business Administration by the Hong Kong University of Science and Technology and by The Hong Kong Polytechnic University. Dr. Fung is the Group Managing Director of Li & Fung Limited. He also serves as a Non-Executive Director of other Li & Fung group companies including Convenience Retail Asia Limited and Trinity Limited. Dr. Fung is an Independent Non-Executive Director of VTech Holdings Limited, Shui On Land Limited and Sun Hung Kai Properties Limited, and an Independent Director of Singapore Airlines Limited. He is the past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and Hong Kong Committee for the Pacific Economic Cooperation Council. (A)

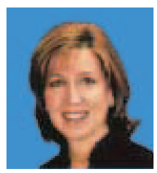
E - Executive Committee members
A - Audit Committee members
F - Finance Committee members
R - Remuneration Committee members

Senior Management & Key Functions

SENIOR MANAGEMENT

Group Management Committee

The Group Management Committee is tasked with making key decisions for the Company's management and operations, under official delegation of authority from the Board. The Committee is comprised of five senior executives who represent the hotel and non-hotel operations: in addition to Chief Executive Officer Clement K.M. Kwok, Chief Financial Officer Neil J. Galloway and Chief Operating Officer Peter C. Borer, the following are members of the Group Management Committee.



Maria Razumich-Zec
Aged 53. Mrs. Razumich-Zec joined the Group as General Manager of The Peninsula Chicago in 2002 and was promoted to Regional Vice-President – USA East Coast in 2007, with regional responsibilities covering the Peninsula hotels in Chicago and New York.

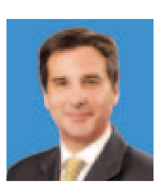
Martyn Sawyer
Aged 53. Group General Manager, Properties and Clubs since 1999, Mr. Sawyer holds regional responsibility for the Group's non-hotel properties and operations including the Repulse Bay Complex and The Peak Complex in Hong Kong, as well as management of properties and clubs in Hong Kong, Vietnam and Thailand. He has been with the Group since 1985.

KEY FUNCTIONS

Operations General Managers

Rainy Chan
Aged 46. Ms. Chan joined the Company in 1994 and was General Manager of The Peninsula Bangkok from 2004 to 2007. In 2007 she was appointed General Manager of The Peninsula Hong Kong, in addition to which she was promoted to be Area Vice-President – Hong Kong and Thailand in 2010.

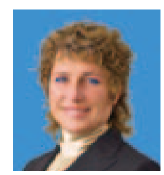
David Batchelor
Aged 53. Mr. Batchelor joined the Group in 1994 and served as General Manager of The Peninsula Manila from 2001 to 2008. He was General Manager, Operations Planning and Support from 2008 to 2011. In March 2011, he took on the newly-created position of Managing Director, The Peninsula Shanghai, tasked with overseeing the management of the hotel complex, including the shopping arcade, Peninsula Residences and Waitanyuan.



Nicolas Beliard
Aged 43. Mr. Beliard joined the Company in 2009 as Resident Manager of The Peninsula Hong Kong. He was promoted to be General Manager of The Peninsula Bangkok in 2010.

Joseph Chong
Aged 43. Mr. Chong joined the Company in 2001 and over the past decade, has worked at the Peninsula hotels in Beijing and Bangkok. He was most recently Hotel Manager of The Peninsula Shanghai, playing an instrumental role in the opening of the hotel in 2009, and has been promoted to be General Manager of The Peninsula Shanghai with effect from April 2011.

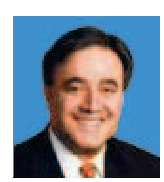
Jonathan Crook
Aged 44. Mr. Crook joined the Company in 2000 and was appointed Resident Manager of The Peninsula Beijing in November 2005 and Hotel Manager of The Peninsula Tokyo in February 2008. In November 2008, he was promoted to be General Manager of The Peninsula Manila. He has been appointed as the General Manager of The Peninsula New York as from April 2011.



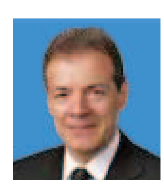
Sarah Cruse
Aged 48. Ms. Cruse joined the Company in 2006 as General Manager of Quail Lodge Resort and Golf Club.

Donald J. Harrington
Aged 58. Mr. Harrington joined the Company in 2000 as General Manager of The Peninsula Beijing.

Palle Ledet Jensen
Aged 47. Mr. Jensen joined the Company in 1998 and, following a tenure as General Manager of The Hongkong Club, was appointed General Manager of The Repulse Bay Complex in 2005.



Offer Nissenbaum
Aged 53. Mr. Nissenbaum joined the Group in 2007 as Managing Director of The Peninsula Beverly Hills.



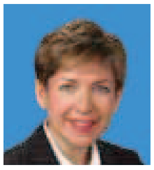
Malcolm Thompson
Aged 60. Mr. Thompson joined the Company in 2006 as General Manager of The Peninsula Tokyo.

May Tsang
Aged 40. Ms. Tsang joined the Company in 2001. In January 2009, she was appointed General Manager of The Peak Complex covering The Peak Tower, The Peak Tram and St. John's Building.

Sonja Vodusek
Aged 43. Ms. Vodusek joined the Company in 2010 and has been promoted to be General Manager of The Peninsula Manila with effect from April 2011. Prior to her promotion, she was Hotel Manager of The Peninsula New York.

Corporate General Managers

Jean Forrest
Aged 47. Mrs. Forrest joined the Group in 2005 as General Manager, Marketing and is responsible for developing and implementing global marketing strategies for the Peninsula Hotels.



Ingvar Herland
Aged 56. Mr. Herland joined the Group in 2006 and was appointed General Manager, Research & Technology in 2008. He is responsible for the design, development and implementation of technology in the Group's hotel and non-hotel properties.

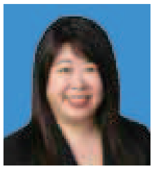
Shane Izaks
Aged 48. Mr. Izaks was appointed General Manager, Information Technology in 1995 and is responsible for formulating and implementing information technology strategy at both Group and operational levels.

Christobelle Liao
Aged 42. Ms. Liao joined the Company as Company Secretary and Corporate Counsel in 2002.

Douglas Lui
Aged 37. Mr. Lui was appointed General Manager, Audit & Risk Management in 2010 and is responsible for providing assurance services on the effectiveness of internal controls and the management of risks.

Paul Tchen
Aged 44. Mr. Tchen joined the Company in 1992 and was appointed General Manager of The Peninsula Shanghai in 2008, following a two-year tenure as General Manager, Operations Planning and Support. From May 2011, he will return to his previous position as General Manager, Operations Planning and Support.

Sindy Tsui
Aged 42. Ms. Tsui was appointed General Manager, Human Resources in 2007. She is responsible for the Group's strategy on human resources, talent development and training.



Wong Kin Keung
Aged 63. Mr. Wong joined the Group in 1994 and was appointed General Manager of The Peninsula Shanghai Waitan Hotel Company Limited in 2005, with responsibility for overall management of The Peninsula Shanghai and Peninsula Residences project.

P.T. Wong
Aged 43. Mr. Wong first joined the Group in 1996 but left in 2002. In 2006, he re-joined HSH and was promoted in 2008 to be General Manager, Project Coordination and Technical Services. He was appointed in March 2011 as General Manager, Projects Group, overseeing both the project management and design and planning functions.

Corporate Senior Managers

Martin Lew
Aged 45. Mr. Lew joined the Company in 2006 as Assistant General Manager, Operational Financial Control. He is responsible for guiding the operations on financial performance, reporting, systems and controls as well as operational budgeting and forecasting.

Ernest Tang
Aged 48. Mr. Tang joined the Company in 1996 and was appointed Assistant General Manager, Finance in 2009. He is a qualified accountant and is responsible for the Group's statutory financial reporting and tax compliance.

Financial Review Summary

Consolidated Statement of Cash Flows for the year ended 31.12.2010

			HK$m
1	EBITDA		1,143
	Tax paid		(154)
	Working capital and other adjustments		30
	Cash inflow from operating activities		1,019
	Interest and other financing charges paid		(137)
	Interest received		22
	Dividends paid		(34)
2	Other capital expenditures		(276)
	Net increase in bank borrowings		224
	Placement of deposits with maturity more than 3 months		(560)
	Other net cash outflow		(26)
	Net increase in cash		232
	Cash and bank balances	1,835	
	Less: Bank deposits maturing more than 3 months	(437)	
	Less: Bank overdrafts	(18)	
	Cash & cash equivalents at 1.1.2010		1,380
	Effect of changes in exchange rates		32
	Cash & cash equivalents at 31.12.2010*		1,644
*	Representing:		
	Cash and bank balances		2,658
	Bank deposits maturing more than 3 months		(997)
	Bank overdrafts		(17)
			1,644

Consolidated Statement of Financial Position at 1.1.2010

	HK$m (Restated)*
Net assets	
Fixed assets	28,339
Other long term investments	2,043
Deferred tax assets	121
Derivative financial instruments	45
Cash and bank balances	1,835
Other current assets	489
	32,872
Bank overdrafts	(18)
Bank borrowings	(3,807)
Derivative financial instruments	(206)
Deferred tax liabilities	(493)
Other liabilities	(1,293)
	27,055
Capital and reserves	
Share capital and premium	3,995
Retained profits	22,263
Hedging reserve	(116)
Other reserves	5
	26,147
Non-controlling interests	908
	27,055

* *As a result of the early adoption of the amendments HKAS 12 Income Taxes, the Group has made prior year adjustments. The effect arising from the early adoption of the amendments is summarised in note 2 to the Financial Statements.*

Consolidated Income Statement for the year ended 31.12.2010

		HK$m
3	Turnover	4,707
	Operating costs before depreciation and amortisation	(3,564)
1	EBITDA	1,143
	Depreciation and amortisation	(349)
	Operating profit	794
	Net financing charges	(108)
	Profit after net financing charges	686
4	Share of profit of a jointly controlled entity	526
5	Increase in fair value of investment properties	1,938
	Reversal for impairment losses	110
6	Taxation	(225)
	Non-controlling interests	(27)
	Profit attributable to shareholders	3,008

Consolidated Retained Profits for the year ended 31.12.2010

	HK$m
Retained profits at 1.1.2010 (restated)	22,263
Profit attributable to shareholders for the year	3,008
Dividends distributed during the year	(147)
Retained profits at 31.12.2010	25,124

Consolidated Statement of Financial Position at 31.12.2010

	HK$m
Net assets	
Fixed assets	30,690
Other long term investments	2,552
Deferred tax assets	94
Derivative financial instruments	37
Cash and bank balances	2,658
Other current assets	556
	36,587
Bank overdrafts	(17)
Bank borrowings	(4,315)
Derivative financial instruments	(200)
Deferred tax liabilities	(587)
Other liabilities	(1,384)
	30,084
Capital and reserves	
Share capital and premium	4,113
Retained profits	25,124
Hedging reserve	(125)
Other reserves	(9)
	29,103
Non-controlling interests	981
	30,084

1 **EBITDA**
EBITDA was HK$219 million higher than that of 2009, mainly due to the improvement in the performance of the Hotels Division.

2 **Other capital expenditures**
All expenditures were funded by the Group's operating cash flows and the spending in 2010 comprised HK$180 million, HK$61 million and HK$35 million for Hotels, Commercial Properties and Clubs and Services, respectively.

3 **Turnover**
The Hotels Division contributed approximately 76% of the Group's total turnover. By nature, the revenue of hotels is subject to a higher degree of volatility and this division accounted for 81% of the overall increase in the Group's turnover. Detailed discussion of the operating performance of each division is set out on pages 54 to 59.

4 **Share of profit of a jointly controlled entity**
This represents the Group's 50% share of profit of The Peninsula Shanghai, which opened gradually from 18 October 2009 and became fully operational as from 3 December 2009. The profit in 2010 included the Group's share of a post-tax non-operating gain of HK$614 million arising from the year end property valuation adjustments.

5 **Increase in fair value of investment properties**
The Group states its investment properties at fair value and gain or loss arising from the change in fair value of investment properties is recognised in the income statement. The year end revaluation of the Group's investment properties has resulted in a non-operating gain of HK$1,938 million, principally attributable to The Repulse Bay Complex and the commercial arcade of The Peninsula Hong Kong.

6 **Taxation**
As a result of the early adoption of the amendments to HKAS 12, *Income Taxes*, no deferred tax charge in respect of the change in fair value of the Group's investment properties in Hong Kong was recognised in 2010. Details of the impact of amendments to HKAS 12 are disclosed in notes 2 and 39 to the Financial Statements.

Financial Review

Key components of the financial statement

The objective of the Financial Statements is to set out the historic financial performance and financial position of the Group. The key components of the Financial Statements are the income statement, the statement of financial position and the statement of cash flows, all of which are inter-related. The information presented in the income statement, the statement of financial position and the statement of cash flows is briefly described below. The Group's summarised Financial Statements are set out in the Financial Review Summary on pages 50 and 51.

Income statement – this analyses the Group's financial performance for the year, showing profitability and comparatives. The income statement of the Group is set out on page 98 and a detailed discussion of the performance of the Group is set out on pages 54 to 63 of this Financial Review.

Statement of financial position – this summarises the Group's assets and liabilities as at the end of the reporting period and how the net assets were funded. The statement of financial position of the Group is presented on page 100 and a detailed discussion of the financial position of the Group is set out on pages 63 to 65 of this Financial Review.

Statement of cash flows – this provides information about the Group's change in financial position, reconciles the Group's reported income to operating cash flows and analyses how cash generated from operations was applied in investing and financing activities during the year. The statement of cash flows of the Group is set out on page 103 and a detailed discussion of the cash flows is set out on page 66 of this Financial Review.

Non-accounting performance indicators and operational statistics

To enable users of the Financial Statements to assess the Group's operating performance in a more comprehensive manner, operating and non-accounting financial performance indicators are included in this Financial Review to supplement the information presented in the Financial Statements. A summary of the key operational statistics of the Group's individual hotels and commercial properties is set out in the Ten Year Operating Summary on pages 94 and 95.

Basis of preparation of the financial statements

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

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

The Group has also reviewed the Revised HKFRS that are not yet effective for the year ended 31 December 2010 and concluded that, although the *Amendments to HKAS 12 Income Taxes* (the "Amendments") is effective for annual periods beginning on or after 1 January 2012, the early adoption of the Amendments would better present the Group's deferred tax position as at 31 December 2010. In previous years, deferred taxation had to be provided for all temporary differences between the carrying amounts of assets and liabilities and their tax bases. Accordingly, the deferred tax liabilities of the Group as at 31 December 2009 included a HK$3,107 million provision, calculated based on the Hong Kong profits tax rate, primarily in respect of revaluation surpluses on the Group's Hong Kong investment properties. Under the Amendments, deferred tax liabilities in respect of the Group's investment properties are now measured with reference to the tax liabilities that would arise if the properties were disposed of at their carrying values at the reporting date, unless the property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time rather than through sale. In view of the foregoing, the Group is no longer required to provide for deferred tax liabilities in respect of temporary differences arising from revaluation of Hong Kong investment properties and the HK$3,107 million deferred tax liabilities in respect of the Group's Hong Kong investment properties were de-recognised retrospectively as a prior year adjustment in the Financial Statements for the year ended 31 December 2010. Further details of the effect on the Group's income statement arising from the early adoption of the Amendments are summarised in note 2 to the Financial Statements.

The Group's adjusted net asset value

For the purpose of financial statement presentation, the Group has selected the cost model instead of fair value model under the HKFRS as its accounting policy to account for its hotels (other than shopping arcades and offices within the hotels) and golf courses. Under the cost model, hotels and golf courses are measured at depreciated cost less accumulated impairment losses, if any. The fair value model has not been selected in order to avoid the inclusion of unnecessary short term fair value movements in respect of hotel properties and golf courses in the income statement which are considered irrelevant to the underlying economic performance of the hotel and golf course operations. However, in order to provide users of the Financial Statements with additional information on the value of the Group's net assets, the Directors have commissioned an independent third party fair market valuation of the Group's hotel properties and golf courses as at 31 December 2010, the details of which are set out on page 64. If these assets were to be stated at fair market value instead of at cost less depreciation and any provision for impairment (and deferred tax is not provided on the revaluation surplus of the Hong Kong hotel properties on the same rationale as noted above), the Group's net assets attributable to shareholders would increase by HK$2,785 million.

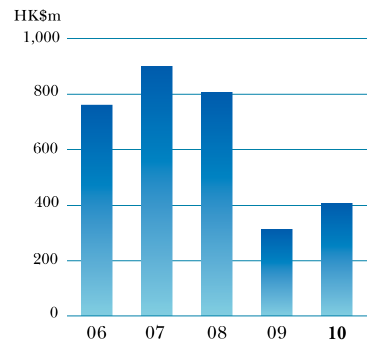
In the light of the above, the Directors have provided the users of the Financial Statements with a calculation of the Group's adjusted net asset value as at 31 December 2010 on the basis set out below:

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

The Group's underlying earnings

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

Underlying earnings



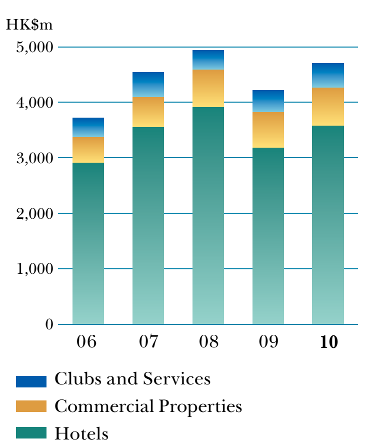
(HK$m)	**2010**	2009 *(restated)*	2010 vs 2009
Profit attributable to shareholders	**3,008**	2,660	13%
Increase in fair value of investment properties	**(1,938)**	(1,998)	
Reversal of impairment losses	**(110)**	–	
Share of net property valuation gain of a jointly controlled entity, net of tax	**(614)**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

Income statement

Turnover

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

Turnover by activity



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

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

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

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

Shown below is a breakdown of revenue by hotels:

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

* *Quail Lodge Resort was closed on 16 November 2009.*
** *The Peninsula Shanghai had its soft opening on 18 October 2009 and formally opened on 18 March 2010.*

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

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

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

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

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

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

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

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

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

The Peninsula Shanghai: Total revenue was HK$385 million. Business levels were strong following the hotel's Grand Opening Gala on 18 March 2010 and the hotel also benefited from the World Expo 2010, which was held for six months from May to October 2010. The hotel was able to achieve premium room rates in its first year of operation, comparing favourably against other hotels in the same market segment and ending the year with the highest average room rate and RevPAR in the city.

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

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

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

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

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

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

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

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

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

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

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

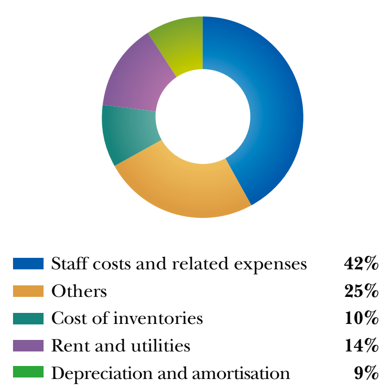
Total revenue in the Thai Country Club of HK$58 million was HK$6 million (12%) above 2009, due to the stronger Thai Baht; the underlying Thai Baht revenue was in line with 2009. The number of golf rounds was at the same level as 2009, despite the ongoing political tensions in Thailand and reduced number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

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

Operating costs

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

Operating costs



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

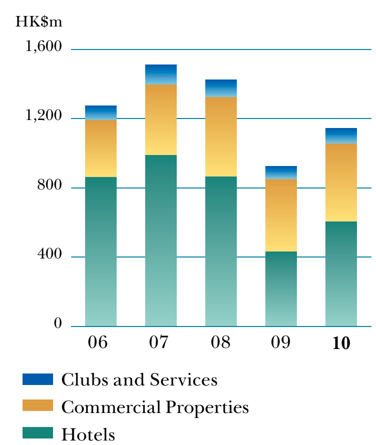
Number of full time employees at year-end	2010 Direct Operations	2010 Managed Operations	2010 Total	2009 Direct Operations	2009 Managed Operations	2009 Total
By division:						
Hotels	**4,391**	**1,135**	**5,526**	4,367	1,122	5,489
Commercial Properties	**339**	**–**	**339**	339	–	339
Clubs and Services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

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

EBITDA and EBITDA margin

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

EBITDA by activity

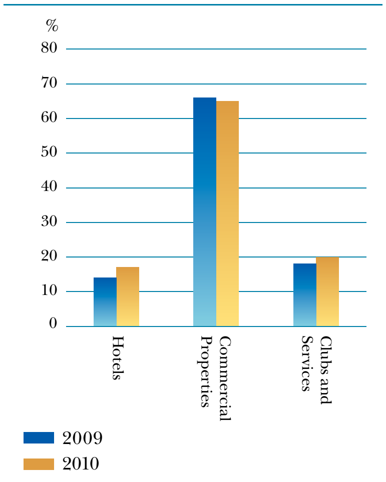


EBITDA (HK$m)	Hong Kong	Other Asia	United States of America	Total
2010				
Hotels	**461**	**116**	**27**	**604**
Commercial Properties	**425**	**25**	**–**	**450**
Clubs and Services	**109**	**14**	**(34)**	**89**
	995	**155**	**(7)**	**1,143**
	87%	**14%**	**(1%)**	**100%**
2009 *(restated)*				
Hotels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

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

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

EBITDA margin (%)



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

Depreciation and amortisation

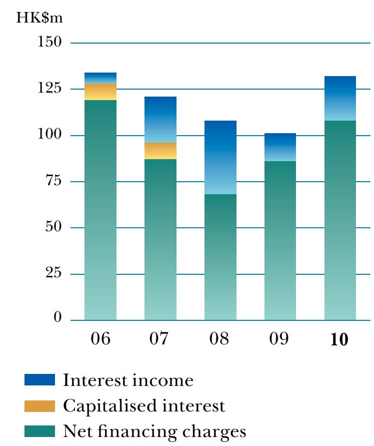
The depreciation and amortisation charge of HK$349 million (2009: HK$338 million) largely relates to the hotels. The Group's hotels are subject to a planned maintenance programme in which capital expenditure is incurred on an ongoing basis for refurbishment and improvement. Therefore, depreciation and amortisation normally account for a significant portion of the Group's fixed overheads.

Net financing charges

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

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

Net financing charges



Non-operating items

The non-operating items are analysed below:

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

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

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

Share of profit of a jointly controlled entity

The Group has a 50% interest in The Peninsula Shanghai complex which is owned by a jointly controlled entity. The complex comprises a hotel, a shopping arcade and a hotel apartment tower of 39 units. The hotel and the shopping arcade officiated their grand openings on 18 March 2010 and 1 July 2010 respectively whereas the hotel apartment tower was still under final construction including interior fit-out as at 31 December 2010. The hotel benefited from the successful World Expo 2010 and achieved a gross revenue of HK$385 million with EBITDA margin of 9.4%. The Group's share of profit in relation to The Peninsula Shanghai of HK$526 million (2009: HK$285 million) was inclusive of a post-tax non-operating gain of HK$614 million arising from the property valuation adjustments (2009: HK$315 million).

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

Taxation
The breakdown of the taxation charge is as follows:

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

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

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

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

Statement of financial position

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

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

According to the Group's accounting policies, hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties are stated at fair value. In order to provide users of the Financial Statements with additional information on the current market value of our hotels and golf courses, the Directors have commissioned independent valuers to perform a fair valuation of these properties (except for The Peninsula Beverly Hills which is 20% owned by the Group) as at 31 December 2010. At the same time, an independent valuation was also performed for the Group's investment properties in accordance with the accounting policies.

A summary of the Group's hotel, investment and other properties showing both the book value and the market value as at 31 December 2010 is set out in the following table:

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

Interest in a jointly controlled entity

The balance of HK$1,374 million as at 31 December 2010 (2009: HK$815 million) represented the Group's 50% indirect interest in The Peninsula Shanghai Waitan Hotel Company Limited, a wholly-owned foreign enterprise incorporated in the People's Republic of China and which owns 100% of The Peninsula Shanghai. The increase in balance was mainly due to the Group's share of HK$526 million profit (2009: HK$285 million) of this jointly controlled entity during 2010. As explained above, this profit figure includes a post-tax non-operating gain of HK$614 million (2009: HK$315 million).

Interest in associates

The balance of HK$494 million as at 31 December 2010 (2009: HK$498 million) represented the Group's 20% equity interest and 20% share of the related shareholder's loan in Al Maha Majestic S.à r.l., a company incorporated in Luxembourg which indirectly owns a 100% interest in a property in Paris to be redeveloped into The Peninsula Paris hotel. This hotel will be managed by the Group upon completion of the redevelopment, expected to be in 2013.

Investment in hotel management contracts

As at 31 December 2010, investment in hotel management contracts amounted to HK$684 million (2009: HK$730 million). The balance included an attributed consideration of Euro 57.7 million in respect of the right acquired to manage The Peninsula Paris to be developed jointly by the Group and its associate, Al Maha Majestic S.à r.l.. The decrease in the balance was mainly due to exchange rate adjustment on retranslating the Euro currency at the year end.

Borrowings

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

In addition to the Group's consolidated borrowings, The Peninsula Shanghai (50% owned) and The Peninsula Beverly Hills (20% owned) have non-recourse bank borrowings, which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the Company. The consolidated and non-consolidated borrowings as at 31 December 2010 are summarised as follows:

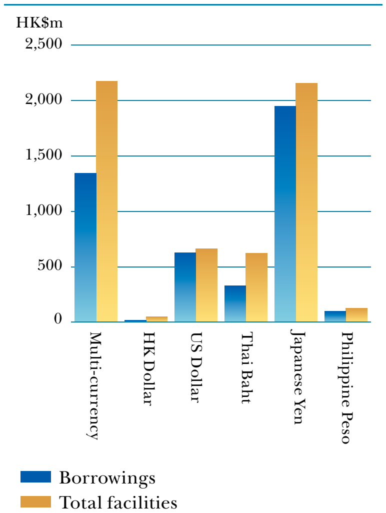
(HK$m)	2010 Hong Kong	2010 Other Asia	2010 United States of America	2010 Total	2009 Total
Consolidated gross borrowings	**1,348**	**2,359**	**625**	**4,332**	3,825
Non-consolidated borrowings attributable to the Group*:					
The Peninsula Shanghai (50%)	**–**	**1,253**	**–**	**1,253**	930
The Peninsula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

** Represented HSH's attributable share of borrowings.*

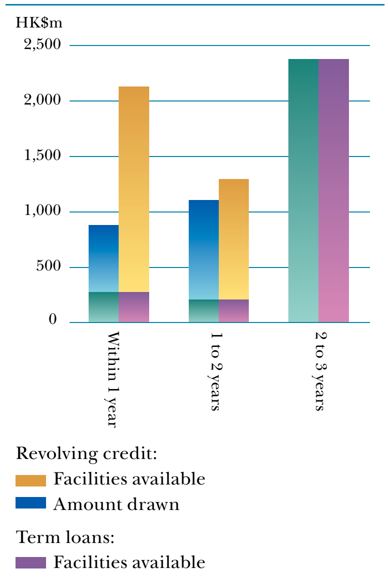
Derivative financial instruments

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

Banking facilities and borrowings (by currency)



Banking facilities and borrowings (by type and maturity)



Statement of cash flows

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

Capital expenditure

Hotels	65%
Commercial Properties	22%
Clubs and Services	13%

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

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

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

After accounting for investing and financing activities and excluding bank deposits maturing after more than three months amounting to HK$997 million (2009: HK$437 million), cash and cash equivalents as at 31 December 2010 amounted to HK$1,644 million (2009: HK$1,380 million).

Off balance sheet information

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

Capital commitments

The Group is committed to enhancing the asset value of its hotel and investment properties and improving the service quality of these assets. As at 31 December 2010, the Group's capital commitment amounted to HK$1,931 million (2009: HK$738 million) and the breakdown is as follows:

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

The Group holds a 20% equity interest in Al Maha Majestic S.à r.l., an associate of the Group responsible for the development of The Peninsula Paris project. The Group's 20% share of the contracted for and authorised but not contracted for capital commitments as at 31 December 2010 amounted to HK$108 million (2009: HK$37 million) and HK$435 million (2009: HK$474 million) respectively. It is planned that these capital commitments will be materially financed by way of bank borrowings by the associate and only in the event of the associate being unable to arrange the funding would the Group be required to meet the shortfall.

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

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

Contingent liabilities

Contingent liabilities as at 31 December 2010 for the Group and the Company are analysed as follows:

	Group		Company	
(HK$m)	**2010**	2009	**2010**	2009
Guarantees given in respect of borrowings and other banking facilities for subsidiaries	**–**	–	**4,402**	3,866
Other guarantees	**1**	1	**1**	1
	1	1	**4,403**	3,867

The Directors consider that the above contingent liabilities are unlikely to materialise. Therefore, no provision was made in the Financial Statements.

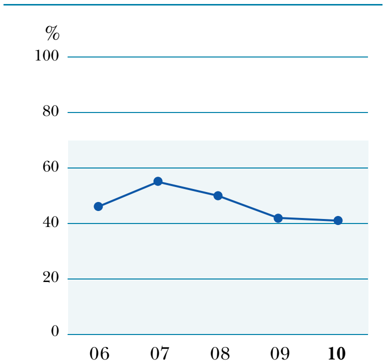
Non-adjusting post reporting period event

After the end of the reporting period, the Directors proposed a final dividend of 8 HK cents per share in respect of the year ended 31 December 2010, which will be payable on 24 June 2011. The final dividend is subject to the approval by shareholders at the forthcoming Annual General Meeting to be held on 16 May 2011 and no provision was made in the Financial Statements.

Treasury Management

All of the Group's financing and treasury activities are centrally managed and controlled at the corporate level, where the majority of the Group's funding needs, currency and interest rate risk exposures are monitored.

Top 3 banks' aggregated committed facility exposure



Group guideline: (≤70%)

Within the same policy framework, some operating subsidiaries monitor financial risks that are specific to particular transactions within their operations. Associated and jointly-controlled companies arrange their own financial and treasury affairs based on their circumstances on a stand-alone basis.

Liquidity risk

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 May 2010, Peninsula of Tokyo Limited, a wholly-owned subsidiary, signed two five-year term loan facilities of JPY6 billion each with two international banks. These facilities are unsecured and guaranteed by the Company.

Borrowing requirements are not seasonal as the Group benefits from a steady inflow of income from its leased properties and there is only minor seasonality in its hotel operations. Borrowing requirements tend to follow the pattern of capital expenditure and investment. As such, the level of borrowing facilities is monitored to ensure sufficient funding whenever there is any potential corporate activity with significant cash flow implication. Whilst all funding methods will be considered, bank financing is currently the Group's main source of funding.

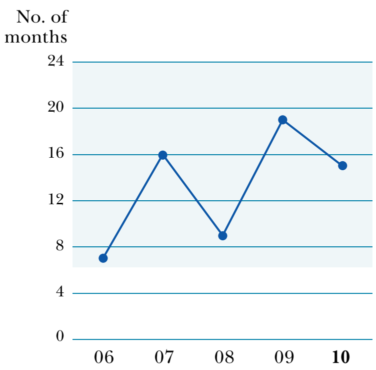
In addition, the Group seeks to maintain a balanced debt maturity profile to minimise refinancing risk.

Generally speaking, mortgage or pledge of assets is not provided to secure borrowing facilities unless significant cost savings or non-recourse financing can be obtained.

The Group monitors its gearing in accordance with the policy that its adjusted gearing ratio, expressed as the percentage of net borrowings to the total of net borrowings and net assets after taking into account the Group's share of net borrowings and net assets of non-consolidated entities (such as The Peninsula Beverly Hills and The Peninsula Shanghai), should be maintained at below 40%. As at 31 December 2010, the Group's gearing decreased to 5% (2009: 7%) and adjusted gearing (including share of net borrowings of non-consolidated entities) remained at 10% (2009: 10%).

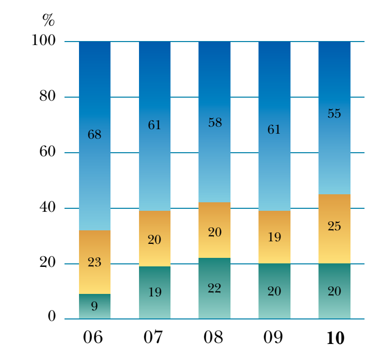
Care is taken to ensure that borrowing facilities do not impose unduly onerous or restrictive covenants and that the terms of the facilities match the underlying funding requirements. The Group's financial position is reviewed periodically to ensure compliance with loan covenants.

Financing horizon



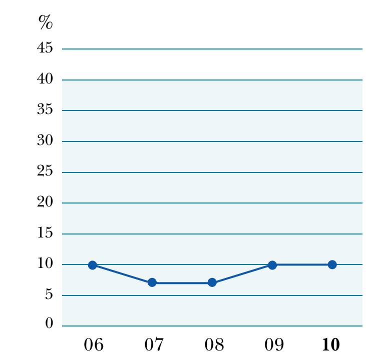
Group guideline: 6 – 24 months

Maturity profile of committed facilities



Group guideline:
2 – 5 years (30% – 80%)
1 – 2 years (≤50%)
Due within 1 year (≤30%)

Adjusted gearing



Group guideline: (≤40%)

Interest rate risk
The Group's interest rate risk management policy focuses on reducing the Group's exposure to changes in interest rates.

In addition to raising funds directly on a fixed rate basis, the Group may use interest rate swaps or cross currency interest rate swaps in managing its long-term interest rate exposure. The policy of fixed and floating rate mix is between 40:60 and 70:30 with a long term target of 50:50.

As at 31 December 2010, the Group's fixed to floating interest rate ratio was at 45% (2009: 49%).

Foreign exchange risk
Significant exposure to movements in exchange rates on individual transactions is monitored and may be hedged by using spot or forward foreign exchange contracts or other derivative financial instruments where active markets for the relevant currencies exist. All significant foreign currency borrowings are usually covered by appropriate currency hedges. Accordingly, the Group does not have any unhedged borrowings denominated in non-functional currencies, other than US Dollar borrowings in Hong Kong.

Translation exposure arising on consolidation of the Group's overseas net assets is reduced, where practicable, by matching assets with borrowings in the same currency or by any other means.

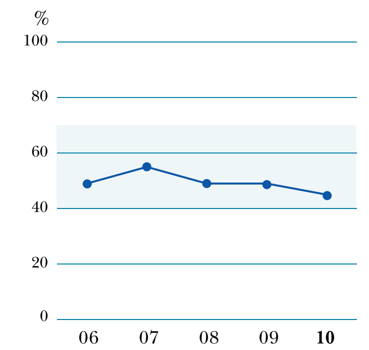
The long-term financial obligations of the Group's entities are normally arranged in currencies in which they have substantial positive operational cash flows, thereby establishing natural currency hedges.

As at 31 December 2010, the Group's total assets were principally denominated in Hong Kong Dollar which accounted for 70% of the total asset value.

Credit risk
Under normal circumstances, when depositing surplus funds or entering into derivative contracts, the Group manages its exposure to non-performance of counterparties by transacting with counterparties which have a credit rating of at least an investment grade. However, in developing countries, it may be necessary to deal with banks of lower credit ratings.

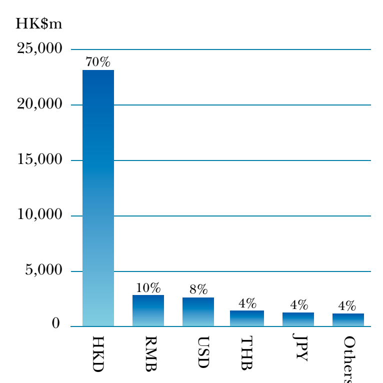
Derivatives are used solely for hedging purposes and not for speculation and the Group only enters into derivative transactions with counterparties which have credit ratings of at least investment grades, even in developing countries, because of the longer term effect.

Long term fixed-to-total borrowings (adjusted for the hedging effect)

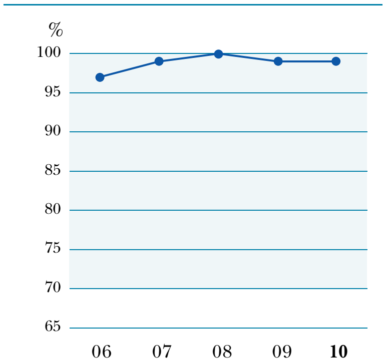


Group guideline: (40% – 70%)

Total assets



Bank deposits at counterparties having credit ratings of at least investment grades



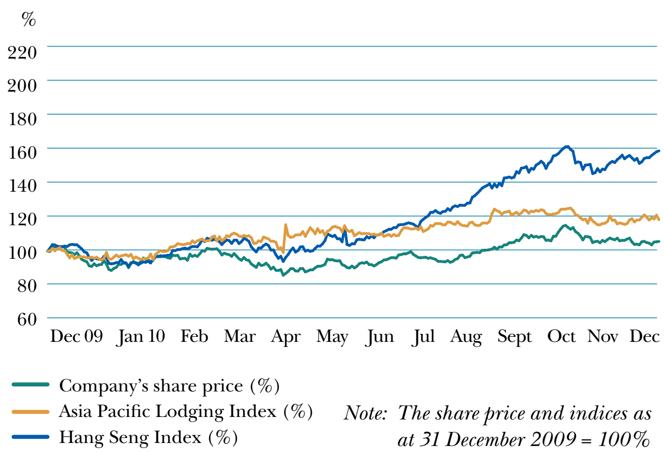
Group guideline: (≥70%)

Share Information

The Company's share price closed on 22 March 2011 at HK$14.1, giving a market capitalisation of HK$20.9 billion (US$2.7 billion). This reflects a discount of 28% to net assets attributable to shareholders of the Company, or a discount of 35% to the adjusted net assets (see page 53).

As reflected in the table on the right, the Company's share price outperformed the Hang Seng Index throughout 2010 and also outperformed the Asia Pacific Lodging Index in the first half of 2010. The average closing price during 2010 was HK$12.49, with the highest closing price of HK$14.9 achieved on 19 October 2010 and the lowest closing price of HK$10.32 recorded on 29 January 2010.

Share price and indices



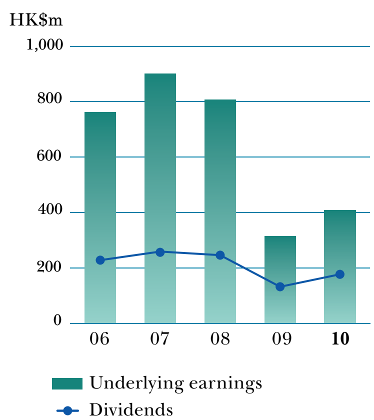
Note: The share price and indices as at 31 December 2009 = 100%

Dividends

In addition to capital appreciation (in the form of the performance of our share price over time), the Company seeks to provide its shareholders with investment return through the payment of dividends. Over the past five years, the Company's dividend payout rates have been between 30% and 45% of underlying earnings.

Given the improved operating results, the Board has recommended a final dividend payable on 24 June 2011 of 8 HK cents per share. Together with the 2010 interim dividend of 4 HK cents per share paid on 5 November 2010, the total dividend in respect of the 2010 financial year will be 12 HK cents per share.

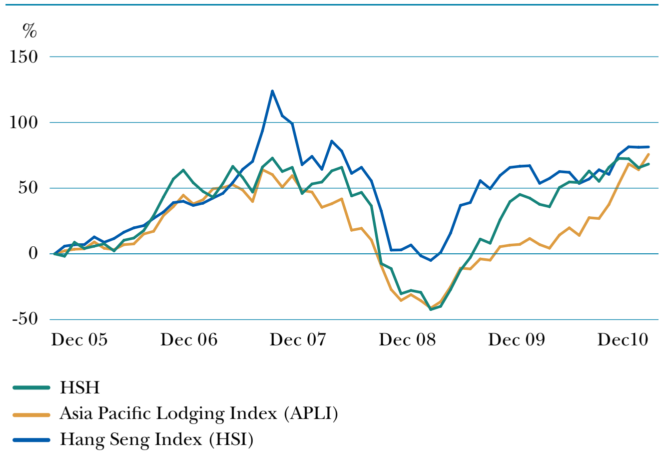
Underlying earnings and dividends



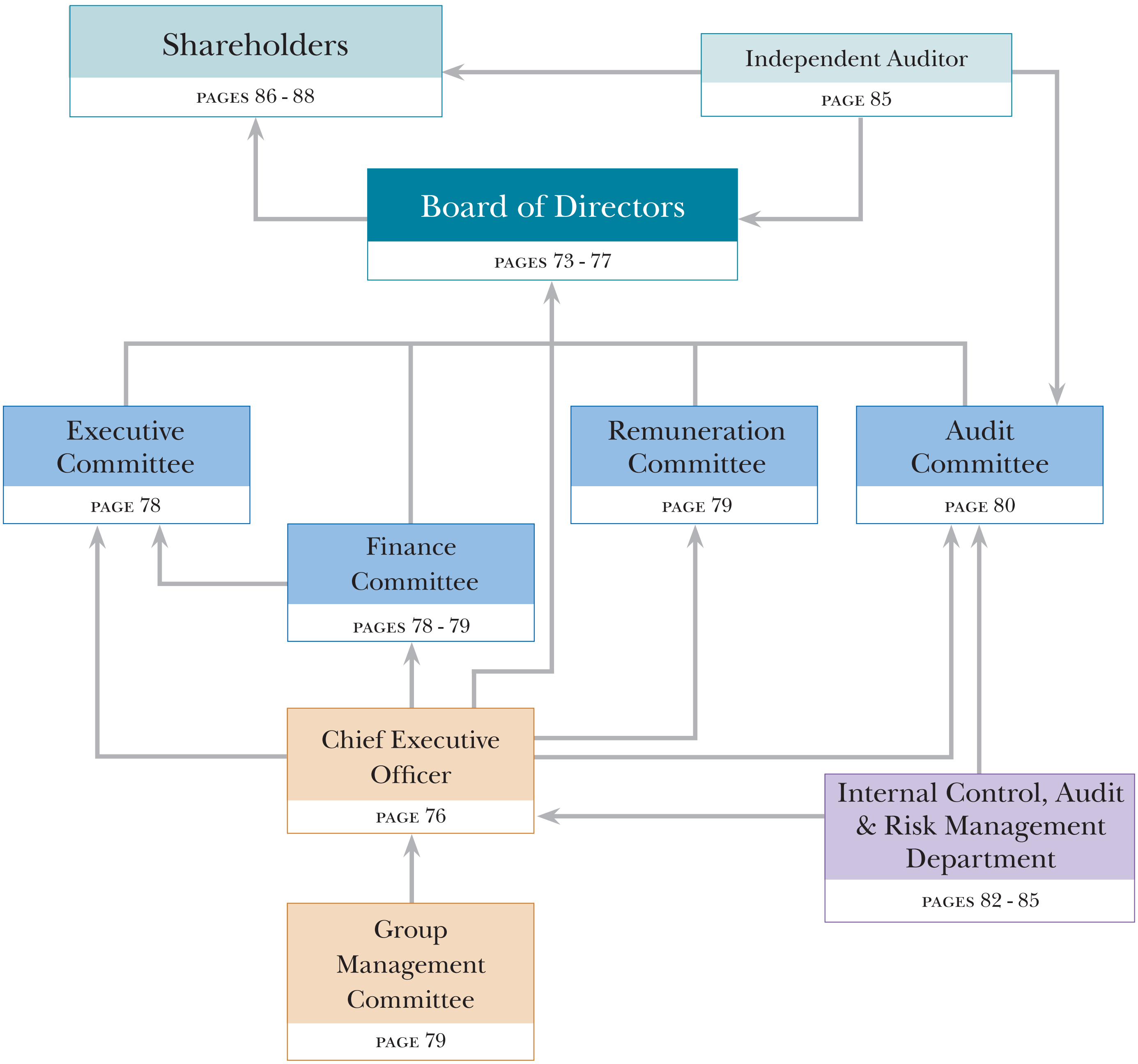
Total Shareholder Return

Total shareholder return ("TSR") is calculated based on the capital gains and dividends of the stock. HSH had a TSR of 18.17% for 2010. During the period from 2006 to 2010, the Company provided an annualised TSR of 10.97%, versus 12.63% and 11.92% for the Hang Seng Index and the Asia Pacific Lodging Index respectively.

TSR – HSH vs HSI and APLI



CORPORATE GOVERNANCE STRUCTURE



HSH COMMITMENT

HSH is committed to ensuring that its business is conducted in accordance with high standards of corporate governance with proper control processes for oversight and management to safeguard the interests of shareholders and stakeholders, and to manage overall business risks.

HSH regularly reviews its policies and practices in light of experience, new development in this area and incoming regulatory requirements.

This Report serves to keep our shareholders and stakeholders abreast of our corporate governance policies and practices.

Code on Corporate Governance

The Code on Corporate Governance Practices (the CG Code) in Appendix 14 of the Listing Rules sets out the principles of good corporate governance and two levels of recommendations:

- code provisions, with which issuers are expected to comply unless they give considered reasons for deviation; and
- recommended best practices, which are for guidance only, save that issuers are encouraged to comply or give reasons for deviation.

HSH has applied all of the principles in the CG Code and adopted its own code on corporate governance practices (the HSH Code) which encompasses all code provisions and all recommended best practices in the CG Code except the following:

- ***Publication of quarterly financial results*** The Board believes that the businesses of the Group are long term and cyclical in nature. Quarterly reporting encourages a short term view on the Group's performance. Instead, the Company has posted on the Company's website its quarterly operating statistics which set out key operating information; and
- ***Establishment of nomination committee*** The Company does not have a separate nomination committee, however the function is performed by the Executive Committee.

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

HSH's corporate governance policies and practices exceed the requirements of the code provisions and recommended best practices of the CG Code in the following areas:

- Group's operational general managers and financial controllers certify compliance with certain specific key controls on a monthly basis. Moreover, they submit bi-annual general representation letters to the Chief Executive Officer and Chief Financial Officer confirming their operations' compliance with controls and procedures. These are carefully analysed with the results reviewed by the Chief Executive Officer and Chief Financial Officer;
- As of 3 January 2011 more than one-third of the HSH Board members are Independent Non-Executive Directors;
- HSH has a policy of disclosing its senior management's interests in HSH shares and received their confirmations of compliance with the Code for Dealing in the Company's Securities by Specified Individuals;
- HSH issues an annual Sustainability Report on its performance on social and environmental issues and its economic contributions to the community, which is posted on the Company's website and included in this Annual Report;

- HSH disseminates the best practices across the Group by posting policies and procedures through training, conferences and the Company's intranet;
- HSH has posted the terms of reference of all Board Committees on the Company's website; and
- HSH has set out its ethical standards in the Code of Conduct and Equal Opportunities Policy for matters which include, but are not limited to, bribery and fraud prevention, anti-trust and unfair trade practices, work safety, recognition of fundamental human rights and diversity, discrimination, harassment and victimisation prevention and misconduct reporting to which all employees must adhere. This code was updated in January 2010 and posted on the Company's website.

The Board

The Board is responsible for the Group's overall strategy as well as its systems of internal controls and risk management. In order to discharge its responsibilities, the Board has established and adhered to clear operating policies and procedures, reporting lines and delegated authorities. The Board acknowledges its responsibility to ensure that good corporate governance practices and procedures are established and practised throughout the Group.

Control environment The overall businesses of the Group are managed by the Board, through oversight of the functions performed by the Executive Committee, the Remuneration Committee, the Audit Committee, the Finance Committee, the Chief Executive Officer and the Group Management Committee. In particular, the Board has established detailed internal control processes to monitor the following areas:

- management and control of the Group's assets, liabilities, revenues and expenditures, dividend policies and initiating changes in areas critical to the Group's performance;
- strategic capital investments, acquisitions, major financing, new projects and existing assets, through stringent project approval processes, purchasing and tendering procedures and, upon completion, detailed post implementation evaluations;
- financial and operating performance, through overall strategic planning and the implementation and maintenance of operational monitoring systems for financial and qualitative performance management;
- financial statements and changes in the accounting policies;
- management of the Company's relationship with stakeholders through ongoing communication with partners, governments, customers and other stakeholders who have a legitimate interest in the conduct of the Group's businesses; and
- risk management, as an ongoing process and through review reports from the General Manager, Audit and Risk Management, where risks faced by the Company are identified, evaluated and appropriately managed.

Board composition

Non-Executive Directors	6
Independent Non-Executive Directors *(increased to six as of 3 January 2011)*	5
Executive Directors	3
Total *(increased to 15 as of 3 January 2011)*	**14**

The names and biographical details (including financial, business, family or other material or relevant relationships among members of the Board) of each Director and details of their membership of the Board Committees are set out on pages 46 and 47 and are also posted on the Company's website. Details of the shareholding interests held by the Directors in the Company as at 31 December 2010 are set out on page 91.

12 of our Directors are non-executive and independent of management, who promote a critical and independent review of the Group's business decisions and management processes. On 3 January 2011, the Board increased the number of Independent Non-Executive Directors from five to six by appointing Dr. William K.L. Fung as an Independent Non-Executive Director. The Board now has six well qualified Independent Non-Executive Directors, a number which exceeds the minimum requirement of the Listing Rules as to the appointment of at least three independent non-executive directors, as well as the recommended best practice for at least one-third of the Board being independent non-executive directors. The six Independent Non-Executive Directors bring a wealth of experience, knowledge and independent judgement and play positive roles on the Board. The non-executive members of the Board also bring a wide range of business and financial experience to the Board and together with the Independent Non-Executive Directors, contribute to the control environment and quality of business decisions taken by the Board.

The Board believes that the balance between Executive, Non-Executive Directors and Independent Non-Executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of shareholders, other stakeholders and the Group.

Board process The Board meets regularly to perform its functions. The dates of the 2010 Board meetings were determined in the last quarter of 2009 and there were no changes to the scheduled Board meeting dates. All Directors are invited to include matters for discussion in the agenda before each Board meeting. An agenda and comprehensive Board papers are sent to all Directors seven days in advance of every Board meeting to ensure Directors have sufficient time to attend to the affairs to be discussed and make informed decisions in the best interest of the Company.

The Company Secretary assists the Chairman in preparing the agenda for the meeting and ensures that all applicable rules and regulations regarding the meetings are followed.

The Directors are given timely and clear information at meetings and at regular intervals so that they can maintain effective control over strategic, financial, operational, compliance and corporate governance issues. They also have unrestricted access to independent professional advice and senior management and the advice and services of the Company Secretary, who is responsible for providing Directors with Board papers and related materials, ensuring that Board procedures are followed and advising the Board on all legal and corporate matters.

The Company Secretary also keeps detailed minutes of each meeting, recording all matters considered by the Board, the decisions reached and any concerns raised or dissenting views expressed by Directors. Draft minutes are sent to all Directors in a timely manner for their comment and final versions of the minutes are available for inspection by all Directors at any time.

Should a potential conflict of interest involving a substantial shareholder or a Director arise, the matter will be discussed in an actual meeting, as opposed to being dealt with by a written resolution. Directors who have a potential conflict of interest would not be counted in the quorum of the meeting and would be reminded to abstain from voting. Independent Non-Executive Directors with no conflict of interest will be present at meetings dealing with such conflict issues.

Appointment, re-election and removal

A person may be appointed as Director either by the shareholders in a general meeting or by the Board upon the recommendation from the Executive Committee of the Company. A new Director appointed by the Board is subject to election by shareholders at the next annual general meeting and a new Director appointed by the Board to fill a casual vacancy is subject to election by shareholders at the next general meeting. All Non-Executive Directors have letters of appointment valid for a period of three years. All Directors are subject to retirement at the conclusion of the third Annual General Meeting following their appointment by the Company and may offer themselves for re-election.

During 2010, The Hon. Sir Michael Kadoorie, Mr. Ian D. Boyce, Mr. Robert C.S. Ng, Mr. Patrick B. Paul and Mr. Peter C. Borer retired and were all re-elected. Details of the Directors who will retire and offer themselves for re-election in the 2011 Annual General Meeting are set out in the Directors' Report. All of these retiring Directors, being eligible, have been confirmed by the Executive Committee and recommended by the Board to stand for re-election at the 2011 Annual General Meeting. The election of each Director will be subject to vote of shareholders by separate resolution.

Non-Executive Chairman and Chief Executive Officer The positions of Non-Executive Chairman and Chief Executive Officer are held separately by The Hon. Sir Michael Kadoorie and Mr. Clement K.M. Kwok and they do not have financial, business, family or other material or relevant relationships with each other. This separation ensures that there is a clear distinction between the responsibilities of the Non-Executive Chairman and the Chief Executive Officer. The respective responsibilities are clearly established and set out in writing.

Non-Executive Chairman:
- provides leadership for the Board;
- reviews the composition of the Board;
- ensures the Board works effectively and discharges its responsibilities;
- ensures that the Chief Executive Officer properly and fully briefs all Directors of relevant matters in a timely manner;
- gives each Director an opportunity to express his views at the Board meetings, encourages the Directors to contribute to the Board's affairs and ensures the Board acts in the best interests of the Company;
- holds meetings annually with the Non-Executive Directors and the Independent Non-Executive Directors without the Executive Directors present;
- ensures, through the Company Secretary, that corporate governance matters are addressed and implemented; and
- ensures that, on his behalf, the Company Secretary settles the agenda for the Board meetings and includes matters proposed by other Directors for inclusion in the agenda.

Under the articles of association of the Company, the Chairman has a casting vote in the event of an equality of votes on any matter to be decided by the Board.

Chief Executive Officer:
- provides leadership for the management;
- manages the Group's day-to-day businesses in consultation with the Group Management Committee;
- makes recommendations to the Board on implementation of the Group's strategic objectives and implements and reports to the Board on the Company's strategy;
- provides all necessary information to the Board to enable the Board to monitor the performance of management;
- leads the Group's communication with stakeholders;
- puts in place programmes for management development and succession; and
- discharges such duties and authority as may be delegated to him by the Board.

Board and Committee meetings and attendance The number of meetings the Board, Audit and Remuneration Committees held during 2010 (including the Annual General Meeting) are shown below together with attendance details:

	Board	Audit Committee	Remuneration Committee	Annual General Meeting
Non-Executive Directors				
The Hon. Sir Michael Kadoorie, *Non-Executive Chairman*	4/5			1/1
Mr. Ian D. Boyce, *Non-Executive Deputy Chairman*	5/5	4/4	2/2	1/1
Mr. Ronald J. McAulay	4/5			1/1
Mr. William E. Mocatta	4/5			1/1
Mr. John A.H. Leigh	3/5			1/1
Mr. Nicholas T.J. Colfer	5/5			1/1
Independent Non-Executive Directors				
Dr. the Hon. Sir David K.P. Li	5/5			1/1
Mr. Robert C.S. Ng	2/5	2/4		1/1
Mr. Pierre R. Boppe	5/5			1/1
Mr. Robert W. Miller	3/5		1/2	0/1
Mr. Patrick B. Paul	4/5	4/4	2/2	1/1
Executive Directors				
Mr. Clement K.M. Kwok, *Chief Executive Officer*	5/5			1/1
Mr. Neil J. Galloway, *Chief Financial Officer*	5/5			1/1
Mr. Peter C. Borer, *Chief Operating Officer*	5/5			1/1

The Chairman held a meeting on 21 October 2010 with Non-Executive Directors (including Independent Non-Executive Directors) without the presence of the Chief Executive Officer and the other two Executive Directors to discuss management effectiveness and strategic issues. Recommendations made at this meeting were communicated to the management for implementation.

The Board Committees and Group Management Committee

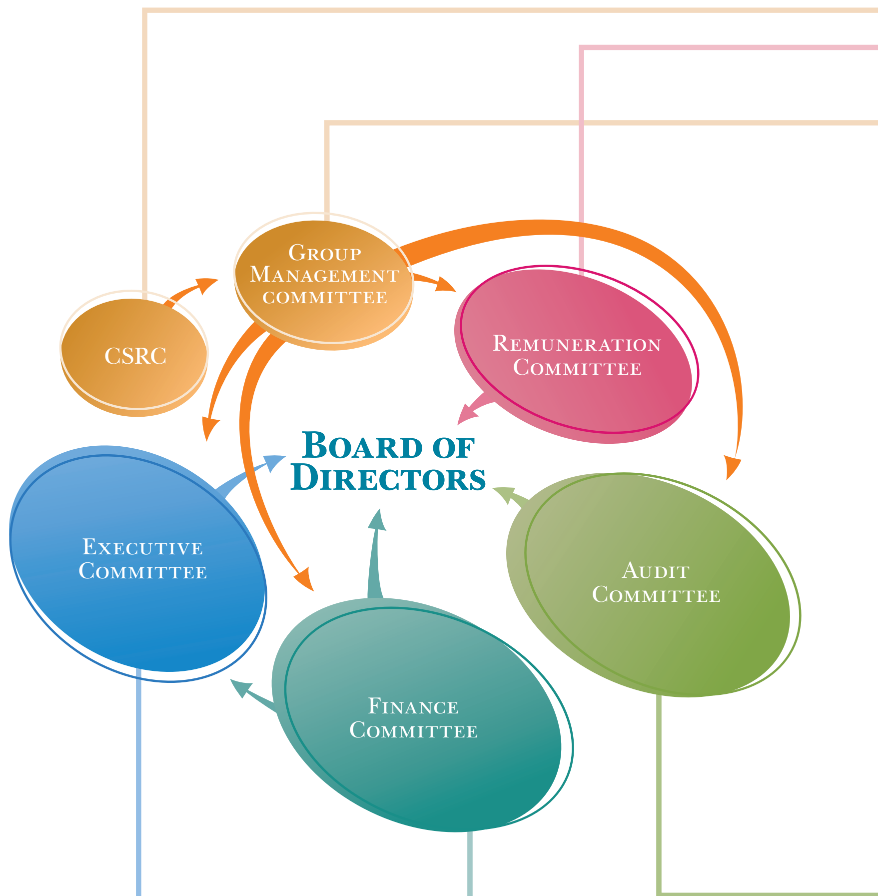
As part of good corporate governance practice, a number of Board Committees have been established. These Committees include representation from Non-Executive and Independent Non-Executive Directors whose independent judgements are important to the execution of the controls and corporate governance standards expected of a publicly listed company. Each Committee has its own specific delegated authorities and duties and operates within defined terms of reference; these terms of reference are posted on the Company's website and are updated from time to time. They are also available in writing upon request to the Company Secretary.

All Committees report to the Board in relation to their decisions, findings and recommendations and seek the Board's approval on specific Board reserved matters before taking any action. Draft minutes of all Board Committee meetings are sent to their respective members in a timely manner for their comments and final versions of the minutes are available for inspection by the respective members or other Board members at any time.

The Board has delegated certain authorities to the Executive, Audit, Finance and Remuneration Committees.

The day-to-day management of the Group's businesses has been delegated to the Chief Executive Officer who exercises his authority in consultation with the Group Management Committee.

All of the above Committees are provided with sufficient resources to discharge their duties.



Executive Committee

Composition: The Hon. Sir Michael Kadoorie (Chairman), Mr. Ian D. Boyce, Mr. Clement K.M. Kwok and Mr. John A.H. Leigh

Main responsibilities:

- recommend strategic policies and significant investment proposals;
- oversee the implementation of strategic plans and investment proposals as approved by the Board;
- interact with other Board Committees on policy submissions; and
- perform the functions of a nomination committee.

Highlights of 2010:

- reviewed and provided strategy and direction to potential projects;
- monitored the progress and development of The Peninsula Paris and The Peninsula Residences in Shanghai;
- reviewed and endorsed the plan for a complete renovation of guestrooms at The Peninsula Hong Kong to the Board;
- reviewed and endorsed the renovation plans for de Ricou, The Repulse Bay, and upgrading public area of The Repulse Bay and Repulse Bay Apartments; and
- identified and nominated the appointment of Dr. William K.L. Fung as an Independent Non-Executive Director, including assessment of his independence, for the Board's consideration.

Finance Committee

Composition: Mr. Ian D. Boyce (Chairman), Mr. Clement K.M. Kwok, Mr. Neil J. Galloway and Mr. John A.H. Leigh

Main responsibilities:

- review all aspects of the Group's finances, including:
  - acquisition, investments, disposal of assets or new project commitments;
  - establishment of budget parameters;
  - establishment and amendment of annual corporate plan and budgets;
  - financial performance of the Group;
  - issue and allotment of shares and shares repurchase;
  - major treasury policies (including debt levels, gearing and foreign exchange risk);
  - granting of guarantees and indemnities
- review the annual insurance programme of the Group.

Group Management Committee

Composition: Mr. Clement K.M. Kwok, (Chairman), Mr. Neil J. Galloway, Mr. Peter C. Borer, Mrs. Maria Razumich-Zec (Regional Vice President – USA East Coast) and Mr. Martyn P.A. Sawyer (Group General Manager for Properties and Clubs)

The Committee is the principal management decision-making body on all day-to-day business of the Group and operates under clear guidelines and delegated authorities approved by the Board.

Main responsibilities:

- review and monitoring all aspects of day-to-day operations and business affairs of the Group;
- business development;
- formulate strategic objectives and action plans including:
  - overall corporate and financial structure;
  - strategic investment plans;
  - major investments and divestments;
  - reviewing and improving operational efficiency;
  - determining marketing and branding direction;
  - strategy for new developments;
  - human resources planning and development
- determining ways to mitigate the risks identified by operational management.

Highlights of 2010:

- reviewed the Group's 2011 budget and business plans;
- approved bilateral term loans of JPY6 billion each with two international banks to refinance the original construction loans for The Peninsula Tokyo;
- approved the electronic banking policy adopted by the Group;
- approved various banking and credit facilities for maturing facilities for the Group;
- reviewed the updated refurbishment budget for The Peninsula Paris;
- reviewed the financials for renovation plans for The Peninsula Hong Kong and de Ricou, The Repulse Bay and public area of The Repulse Bay and Repulse Bay Apartments;
- reviewed the revamp of Company Management Authority Manual; and
- reviewed the impact of the new accounting standards issues.

Audit Committee

page 80

Remuneration Committee

Composition: Mr. Ian D. Boyce (Chairman), Mr. Robert W. Miller and Mr. Patrick B. Paul. Mr. Miller and Mr. Paul are Independent Non-Executive Directors

Main responsibilities:

- approve Group-wide remuneration policies;
- review and approve employment terms (including compensations, performance-related bonuses and retirement provisions) for the Executive Directors and senior management;
- review and recommend Non-Executive Directors' fees and benefits based on workload in overseeing the businesses of the Company, market trends and practices; and
- ensure that no Director approves his own remuneration.

Highlights of 2010:

- reviewed and approved the 2011 remuneration policy for the Group and bonus for senior staff;
- reviewed and approved the remuneration package and bonus for Executive Directors and bonus for senior management;
- reviewed the Directors' fees for Non-Executive Directors and Independent Non-Executive Directors;
- reviewed and approved the improvements to the medical insurance scheme for Directors;
- approved the letter of appointment of Dr. William K.L. Fung; and
- reviewed and approved a revised HSH rewards philosophy to guide compensations and benefits strategy.

The Group does not have any long term incentive schemes other than the retirement scheme described in note 30 to the Financial Statements. Additional information on the basis of determining the emoluments payable to the Directors and senior management is set out in note 7 to the Financial Statements. HSH carries out annual review on the Non-Executive Directors' fees and ensures that their pay are in line with the market practice.

Corporate Social Responsibilities Committee (CSRC)

Composition: Mr. Clement K.M. Kwok (Chairman) and senior management and selected members of operations and corporate general managers

The Corporate Social Responsibility Committee, which is a sub-committee of the Group Management Committee, was established in 2007 with a mandate to form appropriate Group-level policies and practices in all areas related to sustainability, as well as to oversee and monitor the implementation of such policies and practices on a regular basis.

Further details of the Group's ongoing initiatives and results are provided in the Sustainability Report from pages 169 to 202.

Audit Committee

Composition: Mr. Patrick B. Paul (Chairman), Mr. Ian D. Boyce, Mr. Robert C.S. Ng (resigned on 3 January 2011) and Dr. William K.L. Fung (appointed on 3 January 2011)
Mr. Paul, Mr. Ng and Dr. Fung are Independent Non-Executive Directors. Mr. Paul is a Fellow of the Institute of Chartered Accountants in England and Wales. None of these Committee members is a partner or former partner of KPMG, the Company's independent auditor.

Main responsibilities:

- oversee the Company's financial reporting and audit processes with management and the internal and independent auditors; and
- review the Company's internal controls and how risk is managed on an on-going basis, as further set out on pages 82 to 85 under the heading "Internal controls, audit and risk management".

Highlights of 2010:

a) on financial reporting and control reviews:

- reviewed the completeness and accuracy of the 2009 Annual Report, the 2010 Interim Report and formal announcements relating to the Group's financial performance;
- reviewed the financial reporting and audit processes and policies;
- reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget;
- reviewed the summary of internal general representation letters, and KPMG's representation letter;
- conducted discussions with the independent auditor on financial reporting, compliance, accounting treatment and impact on the Company of accounting standards;
- reviewed connected transactions and related party transactions; and
- endorsed the adoption of revised accounting policies for compliance with new accounting standards.

b) on the Company's internal audit function:

- reviewed the effectiveness of the Group's financial controls, internal control and risk management systems;
- agreed the scope of internal audit for 2010, discussed the internal audit reports and matters arising from the reports and reviewed progress against recommendations made in the internal audit reports;
- monitored and assessed the role and effectiveness of the Company's internal audit function and made enquiries to management on matters that have come to its attention; and
- approved the appointment of General Manager, Audit and Risk Management.

c) on the Company's independent auditor, KPMG:

- assessed the independence of KPMG and reviewed their policies for maintaining independence;
- reviewed non-audit work awarded to KPMG;
- approved the 2009 KPMG fee and considered their re-appointment; and
- approved the audit plan for 2010 financial report.

Directors' responsibilities and disclosures

Responsibilities of Directors On appointment, each Director receives a full introduction covering the entire Group's business and operations and also the legal, regulatory and corporate governance obligations of a director of a listed company in Hong Kong. In addition, Directors are provided with a corporate manual containing all corporate policies and procedures, and terms of reference adopted by the Company which are updated from time to time. The Directors are also updated on changes in relevant laws, accounting policies and regulations on a regular basis through management updates to the Board and Board Committees. Directors are encouraged to update their skills, knowledge and familiarity with the Group through ongoing participation at Board and Board Committee meetings and through meeting key people at Head Office and in various properties and operations. Directors are also encouraged to attend relevant seminars and courses at the cost of the Company.

All Directors disclose to the Board their interests as a director or otherwise in other companies or organisations and such declarations are updated annually. In addition, Directors are required to declare their direct or indirect interests, if any, in proposed transactions to be considered by the Board and to withdraw from voting at the relevant meeting(s).

Directors are given guidelines on their time commitments to the affairs of the Company and corresponding confirmations were received from the Directors in their letters of appointment. Directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies or organisation and an indication of time involved.

The Company has arranged for liability insurance to indemnify its Directors for their liability arising out of corporation activities. The insurance coverage is reviewed by the Finance Committee annually.

Directors' responsibilities for the Financial Statements The Directors are responsible for the preparation of the Financial Statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these Financial Statements for the year ended 31 December 2010, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the Financial Statements on a going concern basis. The Directors are responsible for ensuring that the Group operates an efficient financial reporting system and keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Confirmation of independence The Company has received from its lower ease six Independent Non-Executive Directors, each a written confirmation of independence and the Company considers such Directors continue to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. Although three of the Independent Non-Executive Directors, Dr. the Hon. Sir David K.P. Li, Mr. Robert C.S. Ng and Mr. Robert W. Miller have served in this capacity for more than nine years, the Board is of the opinion that the three Directors continue to bring relevant experience and knowledge to the Board and that, notwithstanding their long service, maintain an independent view of the Company's affairs.

Directors' interests in competing business None of the Directors and their respective associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

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

A copy of the Securities Code is sent to each Director of the Company upon his appointment. In addition, during 2010, each Director was reminded of his duties not to deal in the securities of the Company for the 60 days before the date of the Board meeting approving the Company's annual results and 30 days before the date of the Board meeting approving the Company's interim results until the day after such results are published, and that all his dealings must be conducted in accordance with the Securities Code.

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

Extended Application of the Securities Code

The Company has extended the Securities Code to specified employees who, because of their positions, are likely to come across unpublished price sensitive information. In addition, every employee is bound by the Code of Conduct issued by the Company, among other things, to keep unpublished price sensitive information confidential and refrain from trading.

Senior management has also confirmed their full compliance with the required standard set out in the Company's adopted Code for Dealing in the Company's Securities by Specified Individuals. Brief particulars and shareholding interests of the senior management are set out on pages 48 and 92.

Internal controls, audit and risk management

During 2010, the Board, through the Audit Committee, has on an ongoing basis reviewed the effectiveness of the Group's internal control system, including all material controls (financial, operational and compliance and risk management functions), to ensure that appropriate levels of protection are in place and the Board confirms that it is effective and adequate. No significant areas of concern which might affect the operational, financial reporting, and compliance functions of the Company were identified.

Internal controls The division of responsibilities between the Board, the various Board Committees, the Chief Executive Officer and the management is clearly laid out in the HSH Code and the Company Management Authority Manual (CMAM). Both documents deal with the Company's approval processes and the limits of authority for Board Committees and managers. The Company's CMAM is reviewed and updated from time to time to ensure its continued relevance and effectiveness in controlling expenditure and approving the strategic direction of the Company. Any revisions to the CMAM which amend the approval authority delegated by the Board require the Board's approval. Any revisions to delegation to management and staff below the level of the Chief Executive Officer are approved by Group Management Committee. CMAM was revamped in August 2010 to improve clarity and strengthen control in some areas.

The Company has established proper procedures and internal controls of handling and disseminating of price-sensitive information in order to ensure consistent and timely disclosure and fulfilment of its continuous disclosure obligations. Confidential information is restricted to employees on a need-to-know basis to perform his or her duties. Only designated persons are authorised to discuss the Company's corporate matters to investors, analysts, the media or other members of the public.

The risk profile of the Group is reviewed and evaluated periodically based on financial, operational and compliance factors. This profile influences the scope and coverage of the audit plans submitted to the Audit Committee for approval.

The Group maintains a comprehensive risk management approach which addresses its core financial, operational and compliance risks. Mechanisms to monitor such risks are integral to the Group's business operation. Significant risks are identified, reported and mitigated by the management of the respective business operation. Audit and Risk Management department performs independent verification of the mitigating actions.

Internal control is a process, effectuated by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations

The Company has adopted the above definition of internal control provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The following five interrelated components from COSO provided the internal control framework for the Company to monitor its internal control process and achieve its objectives at the operational level.

Internal Control Framework

Categories for assessing extent of objective achievement under COSO framework	Internal control system components	How HSH implement the internal control system components
• Effectiveness and efficiency of operations • Reliability of financial reporting • Compliance with applicable laws and regulations	*Control environment* • Establishes the foundation for the internal control system by providing fundamental discipline and structure	• Establishment of the CMAM, Purchasing and Tendering Procedures, Code of Conduct and Equal Opportunities Policy and other operational procedures • Management exercising discipline over control and approval processes • Segregation of duties • Well defined organisational structure and responsibilities • Set clear business objectives
	Risk assessment • The identification and analysis by management of relevant risks to achieve, predetermined objectives	• Operational management reviews and evaluates the risks
	Control activities • Implements policies, procedures and practices that ensure management objectives are achieved and risk mitigation strategies are carried out	• Implementation of CMAM, Purchasing and Tendering Procedures, Code of Conduct and Equal Opportunities Policy and other operational procedures • Group Management Committee regular review on control activities • Key controls checklists
	Information and communication • Supports all other control components by communicating control responsibilities to employees and by providing information in a form and time frame that allows people to carry out duties	• Monthly financial report for management review • Periodical general managers, financial controllers and marketing and human resources conferences • Company's intranet • Regular training including on-line e-learning programme and classroom training programme
	Monitoring • Management or other parties outside the process oversee the internal control process and the application of independent methodologies, by employees within the process	• Checks and balances system within operational function • Internal audit • Periodical financial review by the Board • General Representation Letter • Checking compliance with Hong Kong Financial Reporting Standards and Listing Rules and other regulations

Moreover, the effectiveness of the systems of internal control of the Group is reviewed on an ongoing basis by the Board through the Audit Committee on aspects including the following:

- the changes since the last annual review in the nature and extent of significant risks and the Group's ability to respond to changes in its business and the external environment;
- the scope and quality of management's ongoing monitoring of risks and of the systems of internal control and where applicable, the work of its internal audit function and other providers of assurance;
- the extent and frequency of the communication of the results of monitoring to the Audit Committee or the Board which enables it to build up a cumulative assessment of the state of control in the Company and the effectiveness with which risk is being managed;
- the incidence of significant control failings or weakness that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
- the effectiveness of the Company's public reporting processes.

In addition the assessment of the effectiveness of the internal control system is also accomplished by the Group's operational general managers and financial controllers certifying compliance with certain specified key controls on a monthly basis. Moreover, they submit bi-annual general representation letters to the Chief Executive Officer and the Chief Financial Officer confirming their operations' compliance of all internal systems of control and procedures and to provide supplementary information should there be any departure from the internal control systems. These general representation letters reinforce personal responsibility for good governance and controls at all levels within the Group. The Chief Executive Officer and the Chief Financial Officer have reviewed the representation letters submitted for 2010 and have confirmed that no matters are needed to be brought to the attention of the Board.

Audit and risk management The Audit and Risk Management Department is supported by five qualified professionals under the leadership of the General Manager, Audit and Risk Management who reports to the Chief Executive Officer and Chairman of the Audit Committee.

The department assists the Audit Committee in conducting internal reviews of the Company and its subsidiaries in respect of material controls, including operational and compliance controls, financial controls and risk management functions. In addition, it also reviews compliance with the HSH Code, particularly ensuring adherence to the principle of applying adequate checks and balances in approval processes.

A rolling three-year audit plan is used, based on an assessment of the potential risks facing the Company's activities. The most recent audit plan was provided to the Audit Committee in planning and approving the year's audit activities.

During 2010, the department conducted audits and reviews of nine business operations, one Head Office function, and IT systems at seven locations including all the US hotels. The reports and reviews were discussed with management and proposals for implementing recommended improvements have been agreed upon, with the status of implementation being reported to the Audit Committee half-yearly and followed up in subsequent audit visits.

The General Manager, Audit and Risk Management also attended three of the four Audit Committee meetings held during 2010 and met with the independent auditor without the presence of management.

The Audit Committee confirmed that nothing of a material nature arose in the Department's reports requiring that it be brought to the attention of shareholders.

Operational financial control The Company's Operational Financial Control (OFC) Department works closely with the operating teams regarding all aspects of operational financial control. The Head of the OFC Department reports to the Chief Financial Officer and Chief Operating Officer.

The OFC Department provides guidance and support for operational financial controllers and general managers in managing and controlling the Company's assets. The department reviews and, where necessary, challenges the financial operating results with a view to improving efficiency and profitability. It also initiates or approves any changes to operational accounting practices or and improvements to the monitoring and reporting systems.

During 2010, the OFC Department undertook the following key responsibilities:

- evaluated monthly financial performance and highlighted any areas of concern to the Group Management Committee, together with the actions being taken to address these;
- evaluated operational and capital budgets and financial forecasts in comparison with historical trends and desired performance levels and identified areas for improvement, reporting Group information to Group Management Committee;
- continued mentoring the operational finance teams in all aspects of financial management and control, with on-site visits as required;
- organised a conference for all operational Directors of Finance, Financial Controllers and Hotel Resident Managers to discuss issues of concern and relevance across the Group, including updates and revisions on the Company's policies and procedures and various compliance issues;
- shared best practices, innovations and performance data throughout the Group, as well as any control issues of concern;
- developed group standard operating procedures related to finance and accounting;
- assisted with the selection and recruitment of operational Directors of Finance and Financial Controllers, as well as the initiation process for the recruited person, as required; and
- participated in the formation and management of strategies for new hotel openings and reviewed pre-opening expense budgets.

Independent auditor

It is important to the Group that the independence of its external auditor is not compromised. The Audit Committee reviews substantial non-audit work awarded to the independent auditor to ensure that there is no adverse effect on actual or perceived independence or objectivity of the audit work itself.

A summary of fees for audit and non-audit services to the Company's independent auditor, KPMG, for the financial year ended 31 December 2010 is as follows:

Nature of services	**2010** (HK$m)
Audit services	9
Non-audit services	
Taxation services	1
Transaction services	1

Code of Conduct and Equal Opportunities Policy

The Company believes that honesty, integrity and fair play are vital to its business. The Company has a history of succeeding through honest business practices and fair competition. The Company does not seek competitive advantage through illegal or unethical business practices. It competes for business based on the price and quality of its products and services and awards business on the same basis. The business activities of the Company are conducted in an ethical manner and in compliance with all the applicable laws of each country/region in which the Company operates.

The Company also recognises the rights of every individual and is committed to providing an environment that welcomes diversity and provides equal opportunities free from discrimination, harassment and victimisation.

The Company encourages and enables employees to raise serious concerns through its grievance and reporting of misconduct processes.

These policies are communicated to all employees in the Code of Conduct and Equal Opportunities Policy (the Code of Conduct). In January 2010, the Code of Conduct was revised and updated to provide more detailed guidelines on how to handle different situations in business dealings and how to report misconduct and complaints.

All employees are required to abide by this revised Code of Conduct and to acknowledge receipt of it by December 2010. Managers are required to ensure their team fully understands and complies with the standards and requirements stipulated in the Code. Internal training, including online e-learning programme to managerial level staff, as well as classroom training programme to non-managerial staff in respect of the Conduct module of the Code of Conduct were launched in September and December 2010 respectively. The internal online e-learning programme for Equal Opportunities module will be launched in 2011.

The Code of Conduct is published on the Company's website and reviewed regularly. The updated version is provided to employees and updated on the Company's website and intranet. The Code is benchmarked against emerging standards as the work environment becomes more sophisticated with technological advances and new regulations.

Shareholding Information

At as 31 December 2010, HSH had 1,888 registered shareholders. The actual number of investors interested in HSH shares is likely to be much greater, due to the ownership of shares being held through nominees, investment funds and the Central Clearing and Settlement System (CCASS) of Hong Kong.

Size of registered shareholdings	Number of shareholders	% of shareholders	Number of shares held	% of issued share capital
500 or below	311	16.472	69,238	0.005
501–1,000	182	9.640	147,265	0.010
1,001–10,000	771	40.837	3,398,001	0.230
10,001–100,000	481	25.477	15,269,068	1.032
100,001–500,000	104	5.508	22,129,763	1.495
Above 500,000	39	2.066	1,438,691,655	97.228
Total	**1,888**	**100.000**	**1,479,704,990**	**100.000**

Note: as at 31 December 2010, 36.28% of all HSH issued shares were held through CCASS.

The Kadoorie Family (including interests associated with the Family but excluding interests held by charities associated with the Family) has a combined shareholding of 57.54%. The remaining 42.46% of HSH shares are held by institutional and private investors and a considerable number of investors are residents in Hong Kong.

From publicly available information and within the knowledge of the Directors, HSH has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year ended 31 December 2010 and has continued to maintain such a float as at 22 March 2011.

Communication with Shareholders

The Company is keen to promote two-way communication with both institutional and private shareholders. The Annual General Meeting (AGM) is the principal occasion at which the Chairman and Directors interface directly with shareholders. In 2010, an AGM circular was distributed to all shareholders at least 20 clear business days prior to the AGM, setting out details of each proposed resolution and other relevant information. All Directors, including the Chairmen of the Audit and Remuneration Committees, are usually present at the 2010 AGM to answer any questions raised by shareholders.

Continuous dialogue between shareholders and the Company on the Company's business is encouraged. During the year, as part of a regular programme of shareholder relations, Executive Directors held meetings and attended investor conferences with institutional shareholders and financial analysts to engage in two-way communication on the Company's performance, plans and objectives. Webcast of the meetings announcing the latest financial results of the Company and copies of presentation materials from the meetings were made available to shareholders and the public through the Company's website.

Communication with shareholders is a high priority. The Annual Report and the Interim Report are distributed to individual and institutional shareholders and these Reports, together with the quarterly operating statistics, can also be downloaded from the Company's website.

Shareholders and investors may email enquires to the Company's email address, ir@hshgroup.com, which will be handled by the designated persons within the Company and would be brought to the attention of the Board when applicable.

Shareholders' Rights

Shareholders holding not less than 1/20 of paid-up capital of the Company can convene an extraordinary general meeting by requisition, by stating the objects of the meeting and depositing the signed requisition at the registered office of the Company. The procedures for shareholders to convene and put forward proposals at an annual general meeting or extraordinary general meeting and to vote by poll at general meetings are posted on the Company's website.

Annual General Meeting

The 2010 AGM was held on 12 May 2010 at The Peninsula Hong Kong. Separate resolutions were proposed on each issue, including the re-election of individual retiring Directors. The matters resolved and the percentage of votes cast in favour of the resolutions are summarised below:

- receipt of the audited Financial Statements and the reports of the Directors and independent auditor for the year ended 31 December 2009 (99.99%);
- payment of final dividend of 6 HK cents per share for the year ended 31 December 2009 (100%);
- re-election of five retiring Directors — The Hon. Sir Michael Kadoorie, Mr. Ian D. Boyce, Mr. Robert C.S. Ng, Mr. Patrick B. Paul and Mr. Peter C. Borer as Directors of the Company (91.68% to 99.91% in respect of each individual resolution);
- re-appointment KPMG as independent auditor of the Company and authorisation of the Directors to fix their remuneration (99.95%);
- approval of granting the general mandate to the Directors to allot, issue and deal with the Company's shares (89.20%);
- approval of granting the general mandate to the Directors to repurchase the Company's shares (99.98%); and
- approval of authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased (89.19%).

Details of the 2011 proposed resolutions are set out in the AGM circular which will be dispatched to our shareholders with this Annual Report.

Procedures for conducting a poll were explained by the Chairman at the commencement of the AGM and Computershare Hong Kong Investor Services Limited, the Company's share registrar, was appointed as scrutineer for voting by poll at the 2010 AGM to ensure the voting was properly counted.

Each resolution was voted on by poll and passed and the results of the poll voting were posted on the Company's and the Hong Kong Stock Exchange's websites.

In addition to shareholders, the media was also invited to attend and report on the AGM.

2010 Annual General Meeting

Employees' Engagement

HSH recognises effective employee engagement is vital to the Company's business success. We are committed to enchancing employee engagement through different channels.

Information on our business, performance and developments are regularly provided to our employees. This is communicated through the Chief Executive Officer's briefings at the head office, to the operations during his regular visits and via a webcast in 2010. The Company also has other communication channels including our staff newsletters, training programmes and our intranet which is accessible by all operations. HSH's intranet also provides a platform for our employees to raise suggestions to the management and Executive Directors. Department heads and general managers meet regularly with Executive Directors, through the operations coordination meeting, monthly review meeting, general managers, marketing and human resources conferences and financial controllers meeting, to share updates on businesses and best practices and had been used as a means of information dissemination and collection method.

Other Stakeholders

The Company believes that good corporate governance takes into account impact on stakeholders in its business decisions. Details of the Group's ongoing sustainability practices together with the main trends, likely developments, key performance indicators, environmental and employees matters and social, ethical and community issues are provided in the Sustainability Report from pages 169 to 202 in this Annual Report.

Other Information to Shareholders

The key dates in the corporate results and meetings calendar are posted on the Company's website in advance. The important dates for 2011 are:

- Annual General Meeting: Monday, 16 May 2011
- 2011 Interim Results Announcement: Wednesday, 24 August 2011

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2010.

Principal Activities

The principal activity of the Company is investment holding and the principal activities of its subsidiaries, associates and jointly controlled entity are the ownership, development and management of hotel, commercial and residential properties in Asia, the United States of America and Europe as well as the provision of transport, club management and other services.

Performance

A discussion and analysis of the Group's performance during the year, the material factors underlying its results and financial position and details of the Group's principal activities are provided in the Financial Review on pages 52 to 70.

Ten Year Operating and Financial Summaries

Summaries of the Group's key operating and financial data for the last ten years are set out on pages 94 to 96.

Financial Statements

The profit of the Group for the year ended 31 December 2010 and the state of the Company's and the Group's affairs as at that date are set out in the Financial Statements on pages 97 to 167.

Share Capital

On 25 June 2010 and 5 November 2010, pursuant to scrip dividend schemes, the Company issued and allotted 5,757,334 shares and 3,555,084 shares respectively at an issue price of HK$11.98 and HK$13.716 per share to the shareholders who elected to receive shares of the Company in lieu of cash for the 2009 final and 2010 interim dividends in respect of the year ended 31 December 2009 and the year ending 31 December 2010, respectively. All ordinary shares issued rank pari passu in all respects with the existing issued shares.

Save as described above, there were no other changes in the share capital of the Company. Particulars of the share capital of the Company during the year are set out in note 27 to the Financial Statements.

Dividends

An interim dividend of 4 HK cents per share in respect of the year ending 31 December 2010 was paid during the year 2010. The Directors have recommended a final dividend of 8 HK cents per share. Subject to the approval by shareholders at the forthcoming Annual General Meeting to be held at The Peninsula Hong Kong on 16 May 2011 at 12 noon, such dividend will be payable on 24 June 2011 to shareholders whose names appear on the register of members on 16 May 2011. The register of members will be closed from 12 May 2011 to 16 May 2011, both days inclusive, during which period no transfer of shares can be registered.

To be entitled to receive the final dividend, shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Company's registrar, Computershare Hong Kong Investor Services Limited, of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 11 May 2011.

The final dividend will be payable in cash but shareholders will have the option of receiving the final dividend in cash or in the form of new shares in respect of part or all of such dividend. The new shares to be issued pursuant to the scrip dividend scheme are subject to their listing being granted by the Listing Committee of the Stock Exchange.

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend, on 23 May 2011.

Principal Subsidiaries

Particulars of the principal subsidiaries of the Company are set out on pages 120, 121 and 203.

Fixed Assets
Movements in fixed assets during the year are set out in note 14 to the Financial Statements.

Capitalised Interest
The amount of interest capitalised by the Group in 2010 and 2009 was insignificant.

Reserves
Movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity and note 28(a) to the Financial Statements respectively. Reserves available for distribution to shareholders are disclosed in note 28(c) to the Financial Statements.

Purchase, Sale and Redemption of Listed Securities
There was no purchase, sale or redemption of the Company's listed securities during the year.

Borrowings
Particulars of all borrowings are set out in note 26 to the Financial Statements.

Charitable Donations
Cash donations made by the Group for charitable purposes during the year amounted to HK$617,040 (2009: $1,689,056).

Major Customers and Suppliers
The diversity and nature of the Group's activities are such that the percentage of sales or purchases attributable to the Group's five largest customers or suppliers is significantly less than 30% of the total and the Directors do not consider any one customer or supplier to be influential to the Group.

Connected Transactions
The Board has reviewed all connected transactions of the Company which were undertaken in the normal course of business and these transactions were exempted from any reporting requirements under the Listing Rules.

Material Related Party Transactions
Details of material related party transactions which were undertaken in the normal course of business are set out in note 34 to the Financial Statements. None of them constitutes a discloseable connected transaction as defined under the Listing Rules.

Directors
Biographical details of the Directors in office at the date of this Report are shown on pages 46 and 47. All the Directors held office throughout the year, with the exception of Dr. William K.L. Fung, who was appointed to the Board as an Independent Non-Executive Director on 3 January 2011.

In accordance with the Articles of Association of the Company, Mr. Clement K.M. Kwok, Mr. William E. Mocatta, Mr. Pierre R. Boppe and Mr. Robert W. Miller will retire at the forthcoming Annual General Meeting and being eligible, have agreed to offer themselves for re-election.

Dr. William K.L. Fung, having been appointed to the Board since the date of the previous Annual General Meeting, will retire at the forthcoming Annual General Meeting in accordance with the Articles of Association and being eligible, will offer himself for re-election.

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Senior Management
Biographical details of senior management at the date of this Report are shown on page 48. Mr. Martyn P.A. Sawyer and Mrs. Maria Razumich-Zec also held office throughout the year.

Interests of Directors and Chief Executive Officer

As at 31 December 2010, the interests and short positions of each Director and the Chief Executive Officer of the Company in the shares, underlying shares and debentures of the Company or any associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (SFO), recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the Model Code) to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares of the Company and its associated corporations

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
The Hon. Sir Michael Kadoorie	Note (a)	755,734,274	51.073
Mr. Ian D. Boyce	Beneficial Owner	218,416	0.015
Mr. Clement K.M. Kwok	Beneficial Owner	655,261	0.044
Mr. Peter C. Borer	Beneficial Owner	328,318	0.022
Mr. Ronald J. McAulay	Note (b)	225,382,646	15.232
Mr. William E. Mocatta	Beneficial Owner	17,000	0.001
Mr. John A.H. Leigh	Note (c)	76,327,818	5.158
Dr. the Hon. Sir David K.P. Li	Beneficial Owner	556,527	0.038
Mr. Robert C.S. Ng	Family	127,083	0.009
Mr. Pierre R. Boppe	Beneficial Owner	150,000	0.010

Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 755,734,274 shares in the Company. These shares were held in the following capacity:

(i) 151,092,088 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;

(ii) 307,460,893 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder; and

(iii) 297,181,293 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.

For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 755,734,274 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in those shares.

(b) Mr. Ronald J. McAulay was deemed (by virtue of the SFO) to be interested in 225,382,646 shares in the Company. These shares were held in the following capacity:

(i) 151,092,088 shares were ultimately held by discretionary trusts, of which Mr. Ronald J. McAulay is one of the discretionary objects; and

(ii) 74,290,558 shares were ultimately held by a discretionary trust, of which Mr. Ronald J. McAulay, his wife and members of his family are discretionary objects.

(c) Mr. John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 76,327,818 shares in the Company. These shares were held in the following capacity:

(i) 74,290,558 shares were ultimately held by a discretionary trust. Mr. John A.H. Leigh was deemed to be interested in such 74,290,558 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 74,290,558 shares; and

(ii) 2,037,260 shares were ultimately held by a discretionary trust. Mr. John A.H. Leigh was deemed to be interested in such 2,037,260 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 2,037,260 shares.

Messrs. Neil J. Galloway, Nicholas T.J. Colfer, Robert W. Miller and Patrick B. Paul, who are Directors of the Company, have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2010.

Certain Directors held qualifying shares in MPHI, a 77.36% subsidiary of the Company, on trust for a subsidiary of the Company.

Except as set out above, as at 31 December 2010 none of the Directors and the Chief Executive Officer of the Company, or any of their spouses, or children under eighteen years of age, has any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations, within the meaning of Part XV of the SFO, recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

At no time during the year was the Company, or its subsidiaries, or its associated companies, a party to any arrangements which enabled any Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or of any other body corporate.

Interests of Senior Management

As at 31 December 2010, none of the senior management (other than Directors) had any interests in the shares and underlying shares of the Company.

Interests of Substantial Shareholders

So far as is known to any Director or the Chief Executive Officer of the Company, as at 31 December 2010 shareholders (other than a Director or the Chief Executive Officer of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Long position in shares of the Company
(a) Substantial shareholders

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Acorn Holdings Corporation	Beneficiary	149,109,947	10.077(i)
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	530,178,220	35.830(i)
Bermuda Trust (Cayman) Limited	Trustee/Interests of controlled corporations	93,363,531	6.310(iv)
Guardian Limited	Beneficiary/Interests of controlled corporations	76,327,818	5.158(v)
Harneys Trustees Limited	Interests of controlled corporations	606,679,446	41.000(iii)
Lawrencium Holdings Limited	Beneficiary	296,317,144	20.025(ii)
Lawrencium Mikado Holdings Limited	Beneficiary	306,566,854	20.718(ii)
The Magna Foundation	Beneficiary	305,039,115	20.615(ii)
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	604,642,186	40.862(ii)
Mikado Investments (PTC) Limited	Interest of controlled corporation/ Beneficiary of trusts	305,039,115	20.615(i)
Muriel, Lady Kadoorie	Founder and Beneficiary	73,991,898	5.000(iv)
New Mikado Holding Inc.	Trustee	305,039,115	20.615(i)
Oak (Unit Trust) Holdings Limited	Trustee	73,991,898	5.000(i)
Oak HSH Limited	Beneficiary	73,991,898	5.000 (iv)
Mr. Richard Parsons	Trustee	76,327,818	5.158(v)

Notes:

(i) Bermuda Trust Company Limited was deemed to be interested in the shares in which Acorn Holdings Corporation, New Mikado Holding Inc., Mikado Investments (PTC) Limited, Oak (Unit Trust) Holdings Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies.

The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie and/or Mr. Ronald J. McAulay are among the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".

(ii) The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited were deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested.

The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and a founder as disclosed in "Interests of Directors and Chief Executive Officer".

(iii) Harneys Trustees Limited controlled The Mikado Private Trust Company Limited and another company and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.

(iv) Bermuda Trust (Cayman) Limited was deemed to be interested in the shares in which Oak HSH Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies.

The interests of Bermuda Trust (Cayman) Limited in the shares of the Company include the shares held by a discretionary trust of which Muriel, Lady Kadoorie is a founder and a beneficiary and of which Mr. Ronald J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".

(v) Mr. Richard Parsons, in his capacity as one of the trustees of a trust, controlled Guardian Limited and therefore was deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 76,327,818 shares in which Guardian Limited was interested was duplicated within the interests attributed to Mr. Richard Parsons and was also duplicated within the interests attributed to Mr. John A.H. Leigh as disclosed in "Interests of Directors and Chief Executive Officer".

(b) Other substantial shareholder

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Prudential plc	Investment Manager	131,406,587	8.881

Except as set out above, as at 31 December 2010 the Company had not been notified of any substantial shareholder (other than a Director or the Chief Executive Officer of the Company) who had an interest or short position in the shares or underlying shares of the Company that were recorded in the register required to be kept under section 336 of the SFO.

Interests of any Other Persons

As at 31 December 2010, the Company had not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of the SFO.

Directors' Interests in Contracts

No contract of significance to which the Company, its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, subsisted as at 31 December 2010 or at any time during the year.

Employee Retirement Benefits

Details of the Group's employee retirement benefits are shown in note 30 to the Financial Statements.

Corporate Governance Report

The Corporate Governance Report is set out on pages 71 to 88.

Loan Agreements with Covenants Relating to Specific Performance of the Controlling Shareholder

The Company has not entered into any new loan agreements containing any covenant relating to specific performance of the controlling shareholder which is required to be disclosed in accordance with Rule 13.18 of the Listing Rules.

Independent Auditor

The Financial Statements for the year have been audited by KPMG who will retire at the Annual General Meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as independent auditor will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Christobelle Liao
Company Secretary
Hong Kong, 22 March 2011

Ten Year Operating Summary

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
HOTEL AND PROPERTY PERFORMANCE										
The Peninsula Hong Kong*										
Occupancy rate	**70%**	57%	71%	77%	80%	79%	69%	57%	62%	56%
Average room rate (HK$)	**3,816**	3,796	4,095	3,774	3,228	2,872	2,659	2,337	2,670	2,749
RevPAR (HK$)	**2,660**	2,182	2,927	2,892	2,592	2,271	1,836	1,332	1,655	1,527
The Peninsula Shanghai* (opened October 2009)										
Occupancy rate	**63%**	42%								
Average room rate (HK$)	**2,830**	2,209								
RevPAR (HK$)	**1,778**	926								
The Peninsula Beijing*										
Occupancy rate	**46%**	34%	50%	63%	67%	66%	58%	49%	63%	63%
Average room rate (HK$)	**1,409**	1,354	2,116	1,664	1,436	1,219	1,008	845	691	671
RevPAR (HK$)	**650**	457	1,065	1,048	958	806	589	414	434	420
The Peninsula New York										
Occupancy rate	**67%**	62%	64%	75%	74%	75%	76%	67%	65%	66%
Average room rate (HK$)	**5,570**	5,317	6,338	6,326	5,458	4,902	4,137	3,900	3,958	3,839
RevPAR (HK$)	**3,727**	3,317	4,048	4,771	4,066	3,655	3,145	2,613	2,565	2,519
The Peninsula Chicago (opened June 2001)										
Occupancy rate	**59%**	54%	65%	72%	72%	71%	72%	64%	51%	30%
Average room rate (HK$)	**2,965**	2,987	3,670	3,641	3,398	2,947	2,490	2,437	2,338	2,371
RevPAR (HK$)	**1,762**	1,623	2,395	2,638	2,449	2,087	1,781	1,560	1,197	719
The Peninsula Beverly Hills										
Occupancy rate	**72%**	61%	80%	85%	83%	83%	84%	81%	78%	78%
Average room rate (HK$)	**5,147**	5,032	5,364	5,017	4,523	4,091	3,634	3,250	3,121	3,184
RevPAR (HK$)	**3,699**	3,072	4,275	4,242	3,772	3,395	3,046	2,633	2,439	2,471
The Peninsula Tokyo* (opened September 2007)										
Occupancy rate	**65%**	60%	63%	57%						
Average room rate (HK$)	**3,861**	3,584	3,759	3,853						
RevPAR (HK$)	**2,522**	2,148	2,380	2,206						
The Peninsula Bangkok										
Occupancy rate	**49%**	48%	65%	70%	71%	72%	77%	66%	73%	73%
Average room rate (HK$)	**1,398**	1,502	1,714	1,708	1,424	1,293	1,155	1,056	986	889
RevPAR (HK$)	**688**	725	1,119	1,201	1,010	935	893	697	718	646
The Peninsula Manila										
Occupancy rate	**69%**	57%	55%	75%	66%	78%	69%	62%	59%	48%
Average room rate (HK$)	**1,036**	974	1,133	1,005	737	630	606	562	627	815
RevPAR (HK$)	**719**	555	626	752	484	493	420	349	370	390

Notes:

* *All of the average room rates and RevPAR shown above do not include undistributed service charge. Service charge is levied and recorded as revenue in Hong Kong at the rate of 10%, in mainland China at 15% and in Tokyo at 10%.*

Occupancy rates are based on the total number of rooms at each hotel.

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
HOTEL AND PROPERTY PERFORMANCE										
Quail Lodge Resort, USA (accommodation closed from November 2009)										
Occupancy rate	**N/A**	56%	64%	71%	65%	61%	54%	28%	54%	58%
Average room rate (HK$)	**N/A**	1,787	2,014	2,062	2,190	2,297	2,288	2,214	1,871	1,962
RevPAR (HK$)	**N/A**	1,006	1,298	1,462	1,431	1,393	1,229	624	1,014	1,136
The Repulse Bay Apartments										
Occupancy rate	**92%**	88%	94%	92%	91%	82%	77%	74%	77%	89%
Average monthly yield per square foot (HK$)	**36**	37	39	35	33	27	25	25	29	33
The Landmark, Vietnam										
Occupancy rate – Residential	**85%**	93%	99%	99%	97%	94%	95%	94%	94%	87%
Average monthly yield per square foot (HK$)	**18**	21	21	18	17	16	16	15	15	14
Occupancy rate – Office	**98%**	98%	100%	100%	99%	95%	98%	100%	100%	98%
Average monthly yield per square foot (HK$)	**26**	32	26	22	19	17	16	16	15	15
St. John's Building										
Occupancy rate	**97%**	93%	99%	99%	99%	90%	87%	78%	83%	97%
Average monthly yield per square foot (HK$)	**37**	35	33	25	21	15	15	14	17	21
The Peak Tower										
Occupancy rate	**100%**	99%	100%	100%	72%	31%	100%	100%	98%	100%
Average monthly yield per square foot (HK$)	**72**	60	60	56	29	6	28	23	25	24
Peak Tram										
Patronage ('000)	**5,385**	4,862	5,006	4,939	4,430	3,923	4,107	3,092	3,714	3,504
Average fare (HK$)	**17**	16	16	16	15	14	14	14	14	14
Employee Numbers (31 December)										
Hotel	**5,526**	5,489	5,239	5,138	4,601	4,334	4,814	4,748	4,918	4,974
Property	**339**	339	339	329	316	307	297	306	315	326
Miscellaneous	**1,090**	998	1,056	1,027	1,004	981	955	946	984	1,072
Total employees	**6,955**	6,826	6,634	6,494	5,921	5,622	6,066	6,000	6,217	6,372

Note:
Occupancy rates are based on the total number of rooms or space available at each operation.

Ten Year Financial Summary

	2010	2009 *(restated)*	2008 *(restated)*	2007 *(restated)*	2006 *(restated)*	2005 *(restated)*	2004 *(restated)*	2003	2002	2001
Consolidated Income Statement (HK$m)										
Turnover	**4,707**	4,218	4,938	4,542	3,717	3,276	3,120	2,517	2,592	2,584
EBITDA	**1,143**	924	1,425	1,510	1,275	1,092	992	726	747	698
EBITDA margin %	**24%**	22%	29%	33%	34%	33%	32%	29%	29%	27%
Operating profit	**794**	586	1,051	1,175	1,024	850	749	616	635	579
Profit/(loss) attributable to shareholders	**3,008**	2,660	(27)	4,002	2,350	2,830	3,218	351	293	33
Underlying profit attributable to shareholders *	**408**	323	808	906	787	638	381	285	266	181
Dividends	**177**	132	246	259	228	199	168	112	93	58
Earnings/(loss) per share (HK$)	**2.04**	1.82	(0.02)	2.79	1.65	2.01	2.30	0.29	0.25	0.03
Underlying earnings per share (HK$)*	**0.28**	0.22	0.56	0.63	0.55	0.45	0.27	0.24	0.23	0.15
Dividends per share (HK cents)	**12¢**	9¢	17¢	18¢	16¢	14¢	12¢	8¢	8¢	5¢
Dividend cover (times)**	**2.3x**	2.4x	3.3x	3.5x	3.5x	3.2x	2.3x	2.5x	2.9x	3.1x
Interest cover (times)	**7.4x**	6.8x	15.5x	13.5x	8.6x	5.2x	3.1x	2.5x	2.2x	1.7x
Consolidated Statement of Financial Position (HK$m)										
Fixed assets	**30,690**	28,339	26,368	26,895	22,951	20,561	20,058	19,068	18,019	17,338
Other assets	**3,239**	2,698	1,243	1,210	1,211	1,110	741	771	712	1,025
Cash and bank balances	**2,658**	1,835	1,995	1,414	447	301	262	217	232	99
Total assets	**36,587**	32,872	29,606	29,519	24,609	21,972	21,061	20,056	18,963	18,462
Interest–bearing borrowings	**(4,332)**	(3,825)	(3,193)	(2,869)	(2,523)	(2,614)	(4,536)	(4,906)	(5,843)	(5,755)
Derivative financial instruments	**(200)**	(206)	(281)	(215)	(214)	(209)	–	–	–	–
Other liabilities	**(1,971)**	(1,786)	(1,741)	(1,830)	(1,684)	(1,376)	(1,568)	(1,130)	(976)	(735)
Net assets	**30,084**	27,055	24,391	24,605	20,188	17,773	14,957	14,020	12,144	11,972
Non–controlling interests	**(981)**	(908)	(934)	(891)	(783)	(710)	(614)	(579)	(567)	(29)
Net assets attributable to shareholders	**29,103**	26,147	23,457	23,714	19,405	17,063	14,343	13,441	11,577	11,943
Net assets per share (HK$)	**19.66**	17.79	16.18	16.45	13.59	12.04	10.23	9.59	9.90	10.22
Net debt to EBITDA (times)	**1.5x**	2.2x	0.8x	1.0x	1.6x	2.1x	4.3x	6.5x	7.5x	8.1x
Net debt to equity	**6%**	8%	5%	6%	11%	14%	30%	35%	48%	47%
Gearing	**5%**	7%	5%	6%	10%	12%	23%	26%	33%	32%
Consolidated Statement of Cash Flows (HK$m)										
Net cash generated from operating activities	**1,019**	761	1,208	1,481	1,164	1,058	992	627	772	863
Capital expenditure	**(276)**	(269)	(417)	(808)	(645)	(664)	(360)	(436)	(276)	(537)
Investment in the Paris project	**–**	(1,044)	–	–	–	–	–	–	–	–
Disposal of The Kowloon Hotel	**–**	–	–	–	–	1,684	193	–	–	–
Net cash inflow/(outflow) after capital expenditure, interest and dividends	**568**	(824)	597	683	232	1,928	427	(156)	229	30
Share Information (HK$)										
Highest share price	**14.90**	11.98	14.50	15.46	13.50	9.65	7.50	5.60	4.35	5.40
Lowest share price	**10.32**	4.26	5.13	10.90	8.00	6.40	4.15	2.78	2.63	2.03
Year end closing share price	**13.32**	11.36	5.86	13.70	13.14	8.50	6.95	4.53	3.30	2.90

* *Underlying profit attributable to shareholders and underlying earnings per share are calculated by excluding the post-tax effects of the property revaluation movements and other non-operating items.*

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

Notes:

In order to comply with the Amendments to HKAS 12, Income Taxes, during 2010 the Group changed its accounting policy to measure deferred tax liabilities in respect of its investment properties with reference to the tax liabilities that would arise if the properties were disposed of at their carrying amounts at the reporting date, unless the property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time rather than through sale. The change in accounting policy has been applied retrospectively and figures for the years from 2004 to 2009 have been restated for comparison purposes. However, the above change in accounting policy has had no material impact on the results for the years from 2001 to 2003 and figures for these years have not be restated.

Financial Statements

Consolidated Income Statement (HK$m)

	Note	2010	2009 *(restated)*
		Year ended 31 December	
Turnover	3	**4,707**	4,218
Cost of inventories		**(378)**	(334)
Staff costs and related expenses		**(1,639)**	(1,512)
Rent and utilities		**(542)**	(531)
Other operating expenses		**(1,005)**	(917)
Operating profit before interest, taxation, depreciation and amortisation ("EBITDA")		**1,143**	924
Depreciation and amortisation		**(349)**	(338)
Operating profit		**794**	586
Interest income		**24**	15
Financing charges	4(a)	**(132)**	(101)
Net financing charges		**(108)**	(86)
Profit after net financing charges	4	**686**	500
Share of profit of a jointly controlled entity	17	**526**	285
Increase in fair value of investment properties	14(a)	**1,938**	1,998
Reversal of impairment losses	14(a)	**110**	–
Other non-operating items	5	**–**	(21)
Profit before taxation		**3,260**	2,762
Taxation			
Current tax	6	**(140)**	(120)
Deferred tax	6	**(85)**	24
Profit for the year		**3,035**	2,666
Profit attributable to:			
Shareholders of the Company		**3,008**	2,660
Non-controlling interests		**27**	6
Profit for the year		**3,035**	2,666
Earnings per share, basic and diluted (HK$)	11	**2.04**	1.82

Details of dividends payable to shareholders of the Company attributable to the profit for the year are set out in note 12.

The notes on pages 104 to 167 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income (HK$m)

	Note	Year ended 31 December 2010	2009 *(restated)*
Profit for the year		**3,035**	2,666
Other comprehensive income for the year, net of tax:	10		
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**35**	88
– financial statements of a jointly controlled entity		**33**	(9)
– loans to an associate		**(31)**	38
		37	117
Cash flow hedges:			
– effective portion of changes in fair values		**(66)**	(21)
– transfer from equity to profit or loss		**57**	46
		28	142
Total comprehensive income for the year		**3,063**	2,808
Total comprehensive income attributable to:			
Shareholders of the Company		**2,985**	2,793
Non-controlling interests		**78**	15
Total comprehensive income for the year		**3,063**	2,808

The notes on pages 104 to 167 form part of these Financial Statements.

Consolidated Statement of Financial Position (HK$m)

	Note	At 31 December 2010	At 31 December 2009 *(restated)*	At 1 January 2009 *(restated)*
Non-current assets				
Fixed assets				
Properties, plant and equipment		**5,850**	5,549	5,791
Investment properties		**24,840**	22,790	20,577
	14	**30,690**	28,339	26,368
Interest in associates	16	**494**	498	–
Interest in a jointly controlled entity	17	**1,374**	815	539
Interests in unlisted equity instruments	18	**–**	–	–
Investment in hotel management contracts	19	**684**	730	92
Derivative financial instruments	20(a)	**14**	18	38
Deferred tax assets	21(b)	**94**	121	57
		33,350	30,521	27,094
Current assets				
Inventories	22	**105**	98	114
Trade and other receivables	23	**451**	391	378
Derivative financial instruments	20(a)	**23**	27	25
Cash at banks and in hand	24	**2,658**	1,835	1,995
		3,237	2,351	2,512
Current liabilities				
Trade and other payables	25	**(1,037)**	(957)	(939)
Interest-bearing borrowings	26	**(879)**	(769)	(695)
Derivative financial instruments	20(a)	**(93)**	(95)	(93)
Current taxation	21(a)	**(55)**	(67)	(90)
		(2,064)	(1,888)	(1,817)
Net current assets		**1,173**	463	695
Total assets less current liabilities		**34,523**	30,984	27,789
Non-current liabilities				
Interest-bearing borrowings	26	**(3,453)**	(3,056)	(2,498)
Trade and other payables	25	**(266)**	(246)	(249)
Net defined benefit retirement obligations	30(a)	**(26)**	(23)	(21)
Derivative financial instruments	20(a)	**(107)**	(111)	(188)
Deferred tax liabilities	21(b)	**(587)**	(493)	(442)
		(4,439)	(3,929)	(3,398)
Net assets		**30,084**	27,055	24,391
Capital and reserves				
Share capital	27	**740**	735	725
Reserves		**28,363**	25,412	22,732
Total equity attributable to shareholders of the Company		**29,103**	26,147	23,457
Non-controlling interests		**981**	908	934
Total equity		**30,084**	27,055	24,391

Approved by the Board of Directors on 22 March 2011 and signed on its behalf by:

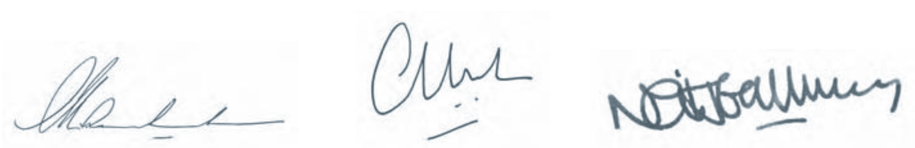
The Hon. Sir Michael Kadoorie, Clement K.M. Kwok, Neil J. Galloway, Directors

The notes on pages 104 to 167 form part of these Financial Statements.

Parent Company Statement of Financial Position (HK$m)

		At 31 December	
	Note	**2010**	2009
Non-current assets			
Investments in subsidiaries	15	**–**	–
Derivative financial instruments	20(b)	**78**	102
		78	102
Current assets			
Trade and other receivables	23	**11,772**	11,786
Derivative financial instruments	20(b)	**101**	113
Cash at banks and in hand		**90**	6
		11,963	11,905
Current liabilities			
Bank overdrafts		**–**	–
Trade and other payables	25	**(46)**	(39)
Derivative financial instruments	20(b)	**(78)**	(86)
Current taxation	21(a)	**(2)**	(3)
		(126)	(128)
Net current assets		**11,837**	11,777
Non-current liabilities			
Deferred tax liabilities	21(b)	**(6)**	(7)
Derivative financial instruments	20(b)	**(64)**	(83)
		(70)	(90)
Net assets		**11,845**	11,789
Capital and reserves			
Share capital	27	**740**	735
Reserves	28(a)	**11,105**	11,054
Total equity		**11,845**	11,789

Approved by the Board of Directors on 22 March 2011 and signed on its behalf by:



The Hon. Sir Michael Kadoorie, Clement K.M. Kwok, Neil J. Galloway, Directors

The notes on pages 104 to 167 form part of these Financial Statements.

Consolidated Statement of Changes in Equity (HK$m)

Year ended 31 December

	Note	Share capital	Share premium	Capital redemption reserve	Hedging reserve	Exchange reserve	General reserve	Retained profits	Total	Non-controlling interests	Total equity
		Attributable to shareholders of the Company									
At 1 January 2009		725	3,120	13	(141)	(116)	1,048	16,063	20,712	934	21,646
Impact of change in accounting policy	39	–	–	–	–	–	–	2,745	2,745	–	2,745
Restated balance at 1 January 2009		725	3,120	13	(141)	(116)	1,048	18,808	23,457	934	24,391
Changes in equity for 2009:											
Profit for the year		–	–	–	–	–	–	2,660	2,660	6	2,666
Other comprehensive income	10	–	–	–	25	108	–	–	133	9	142
Total comprehensive income for the year		–	–	–	25	108	–	2,660	2,793	15	2,808
Dividends approved in respect of the previous year											
– by means of cash		–	–	–	–	–	–	(38)	(38)	–	(38)
– by means of scrip	27	8	106	–	–	–	–	(114)	–	–	–
Acquisition of non-controlling interests in a subsidiary	15	–	–	–	–	–	–	(57)	(57)	(34)	(91)
Transfer	28(b)	–	–	–	–	–	(1,048)	1,048	–	–	–
Dividends approved in respect of the current year											
– by means of cash		–	–	–	–	–	–	(8)	(8)	–	(8)
– by means of scrip	27	2	34	–	–	–	–	(36)	–	–	–
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	(7)	(7)
Restated balance at 31 December 2009 and 1 January 2010		735	3,260	13	(116)	(8)	–	22,263	26,147	908	27,055
Changes in equity for 2010:											
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**3,008**	**3,008**	**27**	**3,035**
Other comprehensive income	10	**–**	**–**	**–**	**(9)**	**(14)**	**–**	**–**	**(23)**	**51**	**28**
Total comprehensive income for the year		**–**	**–**	**–**	**(9)**	**(14)**	**–**	**3,008**	**2,985**	**78**	**3,063**
Dividends approved in respect of the previous year											
– by means of cash		**–**	**–**	**–**	**–**	**–**	**–**	**(19)**	**(19)**	**–**	**(19)**
– by means of scrip	27	**3**	**66**	**–**	**–**	**–**	**–**	**(69)**	**–**	**–**	**–**
Dividends approved in respect of the current year											
– by means of cash		**–**	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**	**–**	**(10)**
– by means of scrip	27	**2**	**47**	**–**	**–**	**–**	**–**	**(49)**	**–**	**–**	**–**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Balance at 31 December 2010		**740**	**3,373**	**13**	**(125)**	**(22)**	**–**	**25,124**	**29,103**	**981**	**30,084**

The notes on pages 104 to 167 form part of these Financial Statements.

Consolidated Statement of Cash Flows (HK$m)

	Note	Year ended 31 December 2010	2009
Operating activities			
Profit after net financing charges		**686**	500
Adjustments for:			
Depreciation	14(a)	**346**	335
Amortisation of hotel management contract	19	**3**	3
Interest income		**(24)**	(15)
Financing charges	4(a)	**132**	101
Loss on disposal of property, plant and equipment		**2**	3
Foreign exchange gains	4(b)	**–**	(1)
Operating profit before changes in working capital		**1,145**	926
(Increase)/decrease in inventories		**(2)**	16
Increase in trade and other receivables		**(33)**	(12)
Increase/(decrease) in trade and other payables		**63**	(26)
Cash generated from operations		**1,173**	904
Net tax paid:			
Hong Kong Profits Tax paid		**(101)**	(123)
Overseas tax paid		**(53)**	(20)
Net cash generated from operating activities		**1,019**	761
Investing activities			
Payment for the purchase of fixed assets		**(276)**	(269)
Payment for the acquisition of additional shareholding in a subsidiary	15	**–**	(91)
Payment for the acquisition of interest in associates	16	**–**	(453)
Loans to an associate		**(27)**	(22)
Payment for acquisition of hotel management contract	19	**–**	(591)
Proceeds from sale of fixed assets		**1**	18
Net cash used in investing activities		**(302)**	(1,408)
Financing activities			
Drawdown of term loans		**1,151**	1,414
Repayment of term loans		**–**	(200)
Net decrease in revolving loans		**(927)**	(551)
Net placement of interest bearing bank deposits with maturity of more than three months		**(560)**	(437)
Interest paid and other financing charges		**(137)**	(139)
Interest received		**22**	15
Dividends paid to shareholders of the Company		**(29)**	(46)
Dividends paid to non-controlling shareholders		**(5)**	(7)
Net cash (used in)/generated from financing activities		**(485)**	49
Net increase/(decrease) in cash and cash equivalents		**232**	(598)
Cash and cash equivalents at 1 January		**1,380**	1,979
Effect of changes in foreign exchange rates		**32**	(1)
Cash and cash equivalents at 31 December	24	**1,644**	1,380

The notes on pages 104 to 167 form part of these Financial Statements.

1. 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 in note 38 on pages 155 to 165.

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. Note 40 provides further information on the possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2010.

2. Changes in accounting policies

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

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

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

2. Changes in accounting policies *continued*

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

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

This change in policy has been applied retrospectively by restating the opening balances at 1 January 2009 and 2010, with consequential adjustments to comparatives for the year ended 31 December 2009. As some of the Group's properties are located in Hong Kong which has no capital gains tax, this has resulted in a reduction in the amount of deferred tax provided on valuation gains. Note 39 provides further information on the impact of amendments to HKAS 12.

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

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

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

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

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

3. Turnover (HK$m)

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

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

	2010	2009 *(restated)*
Hotels (note 13(a))		
Rooms	**1,549**	1,355
Food and beverage	**1,123**	987
Commercial	**567**	556
Others	**337**	282
	3,576	3,180
Commercial Properties (note 13(a))	**688**	637
Clubs and Services (note 13(a))	**443**	401
	4,707	4,218

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

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

(a) Financing charges

	2010	2009
Interest on bank borrowings wholly repayable within five years	**54**	42
Other borrowing costs	**11**	5
Total interest expenses on financial liabilities carried at amortised cost	**65**	47
Derivative financial instruments:		
– cash flow hedges, transfer from equity	**66**	53
– at fair value through profit or loss	**1**	1
	132	101

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

(b) Other items

	2010	2009
Amortisation of hotel management contract	**3**	3
Depreciation	**346**	335
Auditor's remuneration:		
audit services	**9**	9
tax and other services	**2**	2
Foreign exchange gains	**–**	(1)
Minimum operating lease charges for properties, including contingent rent of HK$12 million (2009: HK$9 million) (note 34(b))	**258**	238
Interest income	**(24)**	(15)
Rental receivable from investment properties less direct outgoings of HK$19 million (2009: HK$19 million)	**(1,008)**	(991)

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

	2010	2009
Gain on disposal of investment property	**–**	18
Impairment loss on interest in associates (note 16(b))	**–**	(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:

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

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

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

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

	2010	2009 *(restated)*
Profit before taxation	**3,260**	2,762
Notional tax at the domestic income tax rate of 16.5% (2009: 16.5%)	**538**	456
Tax effect of non-deductible expenses	**54**	37
Tax effect of non-taxable income	**(41)**	(1)
Tax effect of share of profit of a jointly controlled entity	**(132)**	(72)
Tax effect of fair value gain on Hong Kong investment properties	**(312)**	(363)
Tax effect of utilisation of previously unrecognised tax losses	**–**	(44)
Tax effect of derecognition of previously recognised tax losses	**43**	–
Tax effect of tax losses not recognised	**89**	160
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(12)**	(59)
Over provision in respect of prior years	**(4)**	(17)
Others	**2**	(1)
Actual tax expense	**225**	96

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 (2009: 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 (2009: 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 (2009: 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 2010Δ (HK$'000)	Total 2009Δ (HK$'000)
2010						
*Executive Directors**						
Mr. Clement K.M. Kwok	–	**4,723**	**6,200**	**758**	**11,681**	9,687
Mr. Neil J. Galloway	–	**4,054**	**2,931**	**627**	**7,612**	7,156
Mr. Peter C. Borer	–	**3,468**	**2,603**	**532**	**6,603**	6,023
Non-Executive Directors						
The Hon. Sir Michael Kadoorie	**300**	–	–	–	**300**	300
Mr. Ian D. Boyce	**450**	–	–	–	**450**	450
Mr. Ronald J. McAulay	**200**	–	–	–	**200**	200
Mr. William E. Mocatta	**200**	–	–	–	**200**	200
Mr. John A.H. Leigh	**300**	–	–	–	**300**	300
Mr. Nicholas T.J. Colfer	**200**	–	–	–	**200**	200
Independent Non-Executive Directors						
Dr. the Hon. Sir David K.P. Li	**200**	–	–	–	**200**	200
Mr. Robert C.S. Ng	**300**	–	–	–	**300**	300
Mr. Robert W. Miller	**250**	–	–	–	**250**	250
Mr. Patrick B. Paul	**350**	–	–	–	**350**	350
Mr. Pierre R. Boppe	**200**	–	–	–	**200**	200
Senior management (other members of the Group Management Committee)*						
Mr. Martyn P.A. Sawyer	–	**3,033**	**552**	**292**	**3,877**	3,709
Mrs. Maria Razumich-Zec	–	**3,163**	**381**	**156**	**3,700**	3,567
	2,950	**18,441**	**12,667**	**2,365**	**36,423**	33,092

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.*

8. Individuals with highest emoluments (HK$m)

Details of the five (2009: five) individuals with the highest emoluments in 2010 are disclosed in note 7.

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

The consolidated profit attributable to shareholders of the Company includes a profit of HK$92 million (2009: HK$166 million) which has been dealt with in the Financial Statements of the Company.

10. Other comprehensive income (HK$m)

Tax effects relating to each component of other comprehensive income

	2010 Before-tax amount	**2010** Tax (expense)/ benefit	**2010** Net-of-tax amount	2009 Before-tax amount	2009 Tax (expense)/ benefit	2009 Net-of-tax amount
Exchange differences on translation of:						
– financial statements of overseas subsidiaries	**35**	**–**	**35**	88	–	88
– financial statements of a jointly controlled entity	**33**	**–**	**33**	(9)	–	(9)
– loans to an associate	**(31)**	**–**	**(31)**	38	–	38
	37	**–**	**37**	117	–	117
Cash flow hedges:						
– effective portion of changes in fair values	**(75)**	**9**	**(66)**	(22)	1	(21)
– transfer from equity to profit or loss	**66**	**(9)**	**57**	53	(7)	46
Other comprehensive income	**28**	**–**	**28**	148	(6)	142

11. Earnings per share

(a) Earnings per share – basic

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

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

(b) Earnings per share – diluted

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

12. Dividends (HK$m)

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

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

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

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

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

13. Segment reporting (HK$m)

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

Hotels	This segment includes revenues generated from operating hotels, leasing of commercial shopping arcades and office premises located within the hotel buildings.
	The operation of the golf course attached to the hotel was previously grouped under the "Hotels" segment. This operation has been reclassified to the "Clubs and Services" segment to conform with internal management reporting. The comparative figures have been restated accordingly.
Commercial Properties	This segment is engaged in the leasing of commercial and office premises (other than those in hotel properties) and residential apartments, as well as operating food and beverage outlets in such premises.
Clubs and Services	This segment is engaged in the operation of golf courses, the Peak Tramways, wholesaling and retailing of food and beverage products, laundry services and the provision of management and consultancy services for clubs.

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

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

The Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses directly incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other expenses, including head office expenses not directly attributable to the reportable segments, are allocated to the segments by reference to the respective segments' earnings before interest, taxation, depreciation and amortisation (EBITDA). Interest income and expenses, results of associates and jointly controlled entities, taxes and any non-operating items are not allocated to the various segments.

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

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

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 most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out as follows:

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

* *Analysis of segment revenue*

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

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

Assets

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

(c) Geographical information (HK$m)

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

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

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 finance leases	Total fixed assets
Cost or valuation:							
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
At 1 January 2010	**922**	**6,692**	**3,727**	**11,341**	**22,790**	**1**	**34,132**
Exchange adjustments	**73**	**346**	**160**	**579**	**80**	**–**	**659**
Additions	**–**	**47**	**182**	**229**	**32**	**–**	**261**
Disposals	**–**	**(4)**	**(61)**	**(65)**	**–**	**–**	**(65)**
Fair value adjustment	**–**	**–**	**–**	**–**	**1,938**	**–**	**1,938**
At 31 December 2010	**995**	**7,081**	**4,008**	**12,084**	**24,840**	**1**	**36,925**
Representing:							
Cost	**995**	**7,081**	**4,008**	**12,084**	**–**	**1**	**12,085**
Valuation – 2010	**–**	**–**	**–**	**–**	**24,840**	**–**	**24,840**
	995	**7,081**	**4,008**	**12,084**	**24,840**	**1**	**36,925**
Accumulated depreciation and impairment losses:							
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
At 1 January 2010	**372**	**2,942**	**2,478**	**5,792**	**–**	**1**	**5,793**
Exchange adjustments	**36**	**149**	**83**	**268**	**–**	**–**	**268**
Charge for the year	**–**	**143**	**203**	**346**	**–**	**–**	**346**
Reversal of impairment loss	**(22)**	**(72)**	**(16)**	**(110)**	**–**	**–**	**(110)**
Written back on disposals	**–**	**(2)**	**(60)**	**(62)**	**–**	**–**	**(62)**
At 31 December 2010	**386**	**3,160**	**2,688**	**6,234**	**–**	**1**	**6,235**
Net book value:							
At 31 December 2010	**609**	**3,921**	**1,320**	**5,850**	**24,840**	**–**	**30,690**
At 31 December 2009	550	3,750	1,249	5,549	22,790	–	28,339

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

(a) Movements of fixed assets *continued*

Reversal of impairment

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 38(j).

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

(b) All investment properties of the Group were revalued as at 31 December 2010 on an open market value basis, mainly calculated by reference to net rental income and allowing for reversionary income potential. The changes in fair value of the investment properties during the year were accounted for in the consolidated income statement. The valuations were carried out by valuers independent of the Group and who have staff with recent experience in the location and category of the property being valued. 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	Savills Valuation and Professional Services Limited	Members of the Hong Kong Institute of Surveyors
	Jones Lang LaSalle Hotels	Members of the Singapore Institute of Surveyors and Valuers and The Royal Institution of Chartered Surveyors
United States of America		
Retail shops and vacant land	HVS	Members of the Appraisal Institute, United States of America

* *Other Asia includes Mainland 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:

		2010	2009
Hong Kong	– Long term leases	**22,375**	20,607
	– Medium term leases	**1,111**	1,013
Thailand	– Freehold	**1,388**	1,249
Vietnam	– Medium term leases	**93**	89
Other Asia	– Medium term leases	**2,305**	2,133
USA	– Long term leases	**930**	899
	– Freehold	**1,168**	1,100
		29,370	27,090
Representing:			
Land and buildings carried at fair value (investment properties)		**24,840**	22,790
Land and buildings carried at cost		**4,530**	4,300
		29,370	27,090
Interests in leasehold land held for own use under finance leases		**–**	–
		29,370	27,090

(d) Fixed assets leased under operating leases

The Group leases 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 2010 amounted to HK$21 million (2009: HK$15 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$62 million (2009: HK$32 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 Mainland 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 Golf Club	Golf club
Quail Lodge Resort* 8205 Valley Greens Drive, Carmel, California	Undetermined
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 2010. The total valuation placed on the hotel properties and golf courses, which have a net book value of HK$5,701 million (2009: HK$5,415 million), was HK$8,813 million (2009: HK$7,974 million) as at 31 December 2010. It is important to note that the surplus of HK$3,112 million (2009: HK$2,559 million) and the related deferred taxation and non-controlling interests, if any, have not been incorporated in the consolidated Financial Statements but are provided for additional information only. The valuations were carried out by valuers 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 and golf course	Jones Lang LaSalle Hotels	Members of the Singapore Institute of Surveyors and Valuers and 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 Mainland China, Japan, Thailand and The Philippines.*

15. Investments in subsidiaries (HK$m)

	Company	
	2010	2009
Unlisted shares, at cost	**–**	–

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
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

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 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 Pesos 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∆	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. The Group indirectly owns 42.13% of the registered capital of TPH and controls 76.6% of its voting power.*

\# *During the year ended 31 December 2009, the Group purchased the remaining 7.5% equity interest in Peninsula Chicago LLC ("PCH") at a consideration of HK$91 million (US$11.7 million) and PCH is now wholly owned. This acquisition had no impact on the turnover or profit and loss for the year ended 31 December 2009 as it was previously a subsidiary of the Group. The premium on the acquisition of HK$57 million was recognised directly in equity in 2009.*

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

16. Interest in associates (HK$m)

	Group As at 31 December	
	2010	2009
Share of net assets	**–**	–
Goodwill	**15**	15
	15	15
Less: impairment loss (note 5)	**(15)**	(15)
	–	–
Loans to an associate *	**494**	498
	494	498

* *The loans to an associate are denominated in Euros, unsecured, bear interest at rates related to the rates published by the French tax authorities and are carried at their estimated recoverable amounts. Euro 4.7 million (HK$48.9 million) (2009: Euro 2 million (HK$22 million)) of the loans is repayable in or before November 2014 while the remaining balance of the loans is repayable on 25 April 2017.*

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

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

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

(b) On 20 January 2009, the Group invested a total of Euro 102 million (HK$1,004 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 designated 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 Paris project transaction are as follows:

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

The goodwill was written off as non-operating item in 2009.

(c) The associates' attributable revenue for the year ended 31 December 2010 was HK$nil (2009: HK$7 million) and the attributable results for the period ended 31 December 2010 are considered to be HK$nil (2009: HK$nil). The attributable assets of the associates as at 31 December 2010 were HK$526 million (2009: HK$521 million) and the attributable liabilities as at 31 December 2010 were HK$526 million (2009: HK$521 million).

The associates' attributable accumulated results as at 31 December 2010 were not significant.

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

	Group	
	2010	2009
Share of exchange reserve	**114**	81
Share of retained profits	**802**	276
Share of net assets	**916**	357
Loan to a jointly controlled entity (note 17(b))	**458**	458
	1,374	815

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

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

* *The Group's interest in TPS is held indirectly by the Company. TPS holds a 100% direct interest in Evermore Gain Limited ("EGL"), a company incorporated in Hong Kong in 2007, which in turn holds a 100% direct interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"). PSW is a wholly owned foreign enterprise incorporated in the People's Republic of China and is engaged in the development and operation of The Peninsula Shanghai hotel, Peninsula hotel apartments, a retail arcade and ancillary facilities. At 31 December 2010, the paid up capital of EGL and PSW amounted to HK$1 (2009: HK$1) and US$117,500,000 (2009: US$117,500,000) respectively.*

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

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

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

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

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) (2009: US$140 million (HK$1,092 million)). The net carrying amount of these pledged assets amounted to US$66 million (HK$515 million) (2009: US$65 million (HK$507 million)).

In 2010, an advance of HK$10 million (2009: HK$7 million) was 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	
	2010	2009
Cost		
At 1 January	**826**	185
Addition during the year (note (b))	**–**	591
Exchange adjustments	**(43)**	50
At 31 December	**783**	826
Accumulated amortisation		
At 1 January	**(96)**	(93)
Amortisation for the year	**(3)**	(3)
At 31 December	**(99)**	(96)
Net book value	**684**	730

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

Investment in hotel management contracts represents:

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

The original cost of management contract of PBH amounted to US$32 million (HK$248 million). During 2007, an amount of HK$106 million was received from BHP, which was considered by the Directors to be a partial repayment of the initial investment in BHP and accordingly has been treated as a reduction of HK$43 million and HK$63 million in the carrying amount of unlisted equity security and the carrying value of hotel management contract respectively.

(b) During 2009, Euro 57.7 million (HK$591 million) of the Group's investment in The Peninsula Paris project was attributed to the acquisition of the long term hotel management contract in respect of this hotel (note 16). The management contract will be amortised over a period of 50 years from the date of commencement of hotel operations.

20. Derivative financial instruments (HK$m)

(a) Group

	2010 Assets	2010 Liabilities	2009 Assets	2009 Liabilities
Cash flow hedges:				
Interest rate swaps	–	(136)	–	(128)
Cross currency interest rate swaps	–	(9)	–	(1)
	–	(145)	–	(129)
At fair value through profit or loss:				
Interest rate swaps	36	(55)	44	(77)
Foreign exchange swaps	1	–	1	–
Total	37	(200)	45	(206)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	–	(54)	–	(54)
Cross currency interest rate swaps	–	(5)	–	(1)
	–	(59)	–	(55)
At fair value through profit or loss:				
Interest rate swaps	22	(34)	26	(40)
Foreign exchange swaps	1	–	1	–
	23	(93)	27	(95)
Portion to be recovered/(settled) after one year	14	(107)	18	(111)

(b) Company

	2010 Assets	2010 Liabilities	2009 Assets	2009 Liabilities
Cash flow hedges:				
Interest rate swaps	36	–	45	–
At fair value through profit or loss:				
Interest rate swaps	142	(142)	169	(169)
Foreign exchange swaps	1	–	1	–
Total	179	(142)	215	(169)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	22	–	26	–
At fair value through profit or loss:				
Interest rate swaps	78	(78)	86	(86)
Foreign exchange swaps	1	–	1	–
	101	(78)	113	(86)
Portion to be recovered/(settled) after one year	78	(64)	102	(83)

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

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

	Group		Company	
	2010	2009	**2010**	2009
Provision for Hong Kong Profits Tax for the year	**111**	101	**9**	10
Provisional profits tax paid	**(81)**	(75)	**(7)**	(7)
	30	26	**2**	3
Balance of Hong Kong Profits Tax provision relating to prior years	**4**	3	**–**	–
Provision for overseas taxes	**19**	38	**–**	–
	53	67	**2**	3
Represented by:				
Prepaid tax (note 23)	**(2)**	–	**–**	–
Current tax payable (included in current liabilities)	**55**	67	**2**	3
	53	67	**2**	3

(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 2009	2,881	515	(18)	(219)	(29)	3,130
Impact of change in accounting policy (note 39)	(2,723)	(22)	–	–	–	(2,745)
Restated balance at 1 January 2009	158	493	(18)	(219)	(29)	385
(Credited)/charged to profit or loss	(46)	53	(1)	(33)	3	(24)
Charged to reserves	2	3	(1)	2	5	11
Restated balance at 31 December 2009 and 1 January 2010	**114**	**549**	**(20)**	**(250)**	**(21)**	**372**
Charged/(credited) to profit or loss	**26**	**99**	**(4)**	**(38)**	**2**	**85**
Charged/(credited) to reserves	**15**	**16**	**(1)**	**6**	**—**	**36**
At 31 December 2010	**155**	**664**	**(25)**	**(282)**	**(19)**	**493**

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

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

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 At 31 December		At 1 January
	2010	2009 *(restated)*	2009 *(restated)*
Net deferred tax assets (note 39)	**(94)**	(121)	(57)
Net deferred tax liabilities (note 39)	**587**	493	442
	493	372	385

	Company	
	2010	2009
Deferred tax liability arising from cash flow hedges	**6**	7

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

	Group	
	2010	2009
Book depreciation in excess of the related depreciation allowances	**1**	20
Future benefit of tax losses	**535**	381
	536	401

In accordance with the accounting policy set out in note 38(q), the Group has not recognised deferred tax assets in respect of certain accumulated tax losses of HK$1,405 million (2009: HK$1,017 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	
	2010	2009
Within one year	**63**	55
After one year but within five years	**592**	186
After five years but within 20 years	**746**	776
Without expiry date	**4**	–
	1,405	1,017

In accordance with the accounting policy set out in note 38(q), the Group has not recognised deferred tax liabilities totalling HK$39 million (2009: HK$41 million) in respect of undistributed profits of certain subsidiaries amounting to HK$388 million (2009: HK$412 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	
	2010	2009
Food and beverage and others	**105**	98

The cost of inventories recognised as expenses in the consolidated income statement amounted to HK$378 million (2009: HK$334 million).

23. Trade and other receivables (HK$m)

	Group		Company	
	2010	2009	**2010**	2009
Loans and other receivables due from subsidiaries	**–**	–	**13,543**	13,559
Provision for impairment	**–**	–	**(1,786)**	(1,786)
	–	–	**11,757**	11,773
Trade debtors (ageing analysis is shown below)	**211**	175	**–**	–
Loans and receivables	**211**	175	**11,757**	11,773
Rental deposits, payments in advance and other receivables	**238**	216	**15**	13
Prepaid tax (note 21(a))	**2**	–	**–**	–
	451	391	**11,772**	11,786

Loans and other receivables due from subsidiaries are unsecured, interest free and have no fixed terms of repayment except for an amount of HK$2,952 million (2009: HK$2,982 million), which bears interest at market rates.

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$75 million (2009: HK$73 million) and HK$9,470 million (2009: HK$9,785 million) respectively. All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

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

23. Trade and other receivables (HK$m) *continued*

The ageing analysis of trade debtors is as follows:

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

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

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

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

	Group	
	2010	2009
Interest-bearing bank deposits	**2,563**	1,771
Cash at banks and in hand	**95**	64
Total cash at banks and in hand	**2,658**	1,835
Less: Bank deposits with maturity of more than three months	**(997)**	(437)
Bank overdrafts (note 26)	**(17)**	(18)
Cash and cash equivalents in the consolidated statement of cash flows	**1,644**	1,380

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

25. Trade and other payables (HK$m)

	Group		Company	
	2010	2009 *(restated)*	**2010**	2009
Trade creditors (ageing analysis is shown below)	**133**	119	**–**	–
Interest payable	**5**	5	**–**	–
Accruals for fixed assets	**17**	32	**–**	–
Tenants' deposits	**308**	295	**–**	–
Guest deposits	**103**	86	**–**	–
Golf membership deposits	**117**	109	**–**	–
Other payables	**620**	557	**20**	21
Other payables to subsidiaries	**–**	–	**26**	18
Financial liabilities measured at amortised cost	**1,303**	1,203	**46**	39
Less: Non-current portion of trade and other payables	**(266)**	(246)	**–**	–
Current portion of trade and other payables	**1,037**	957	**46**	39

The amount of trade and other payables of the Group expected to be settled or recognised as income after more than one year is HK$354 million (2009: HK$340 million). All the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

The ageing analysis of trade creditors is as follows:

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

26. Interest-bearing borrowings (HK$m)

	Group	
	2010	2009
Total facilities available:		
Term loans and revolving credits	**5,491**	5,005
Uncommitted facilities, including bank overdrafts	**306**	278
	5,797	5,283
Utilised at 31 December:		
Term loans and revolving credits	**4,346**	3,830
Uncommitted facilities, including bank overdrafts	**17**	18
	4,363	3,848
Less: Unamortised financing charges	**(31)**	(23)
	4,332	3,825
Represented by:		
Short-term bank loans, repayable within one year or on demand	**862**	751
Bank overdrafts, repayable on demand (note 24)	**17**	18
	879	769
Long-term bank loans, repayable:		
Between one and two years	**1,105**	734
Between two and five years	**2,379**	2,345
	3,484	3,079
Less: Unamortised financing charges	**(31)**	(23)
Non-current portion of long-term bank loans	**3,453**	3,056
Total interest-bearing borrowings	**4,332**	3,825

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

All of the Group's banking facilities are subject to the fulfilment of covenants relating to some of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 31(c). As at 31 December 2010 and 2009, none of the covenants relating to drawn down facilities had been breached.

27. Share capital

	2010	2009
Number of shares of HK$0.50 each (million)		
Authorised	**1,800**	1,800
Issued		
At 1 January	**1,470**	1,450
New shares issued under scrip dividend scheme (note)	**10**	20
At 31 December	**1,480**	1,470
Nominal value of shares (HK$m)		
Authorised	**900**	900
Issued		
At 1 January	**735**	725
New shares issued under scrip dividend scheme (note)	**5**	10
At 31 December	**740**	735

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

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

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

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 2009	3,120	13	4,975	49	930	1,869	10,956
Profit for the year	–	–	–	–	–	166	166
Other comprehensive income	–	–	–	(12)	–	–	(12)
Total comprehensive income for the year	–	–	–	(12)	–	166	154
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	–
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
At 1 January 2010	**3,260**	**13**	**4,975**	**37**	**–**	**2,769**	**11,054**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**92**	**92**
Other comprehensive income	**–**	**–**	**–**	**(7)**	**–**	**–**	**(7)**
Total comprehensive income for the year	**–**	**–**	**–**	**(7)**	**–**	**92**	**85**
Dividends approved in respect of the previous year							
– by means of cash	**–**	**–**	**–**	**–**	**–**	**(19)**	**(19)**
– by means of scrip	**66**	**–**	**–**	**–**	**–**	**(69)**	**(3)**
Dividends approved in respect of the current year							
– by means of cash	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**
– by means of scrip	**47**	**–**	**–**	**–**	**–**	**(49)**	**(2)**
At 31 December 2010	**3,373**	**13**	**4,975**	**30**	**–**	**2,714**	**11,105**

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 38(e).

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 38(t).

General reserve

The general reserve, which represented retained profits previously set aside for general purposes, was transferred to retained profits during 2009.

(c) Distributability of reserves

At 31 December 2010, 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$2,714 million (2009: HK$2,769 million). After the end of the reporting period, the Directors proposed a final dividend of 8 HK cents per share (2009: 6 HK cents per share), amounting to HK$118 million (2009: HK$88 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 bank and in hand, to the total of net borrowings and equity attributable to shareholders of the Company. 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 2010 and 2009 are as follows:

(HK$m)	**2010**	2009 *(restated)*
Interest-bearing borrowings	**4,332**	3,825
Less: Cash at banks and in hand	**(2,658)**	(1,835)
Net borrowings per the statement of financial position	**1,674**	1,990
Share of net borrowings of non-consolidated entities	**1,398**	1,076
Net borrowings adjusted for non-consolidated entities	**3,072**	3,066
Equity attributable to shareholders of the Company per the statement of financial position	**29,103**	26,147
Equity plus net borrowing per the statement of financial position	**30,777**	28,137
Equity plus net borrowing adjusted for non-consolidated entities	**32,175**	29,213
Gearing ratio based on the Financial Statements	**5%**	7%
Gearing ratio adjusted for non-consolidated entities	**10%**	10%

During 2010, 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 2010 and 2009. 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 2009	HK$1,085,000
at 31 December 2009 and 1 January 2010	HK$1,045,000
at 31 December 2010	HK$1,005,000
Amount paid or liability incurred under the guarantee	HK$nil (2009: 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 636 employees (2009: 640 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 2010.

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.

30. Employee retirement benefits *continued*

(a) Defined benefit retirement obligations *continued*

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 2010. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were 84% (2009: 60%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2010.

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

	Group	
	2010	2009
Present value of wholly or partly funded obligations	**46**	42
Fair value of plan assets	**(25)**	(19)
	21	23
Unrecognised actuarial gains	**5**	–
	26	23

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 (2009: HK$4 million) in contributions to defined benefit retirement plans in 2011.

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

	Group	
	2010	2009
Stocks	**19**	14
Mutual funds	**6**	5
	25	19

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

	Group	
	2010	2009
At 1 January	**42**	36
Exchange adjustments	**3**	1
Benefits paid by the plans	**(3)**	(1)
Current service cost	**3**	2
Interest cost	**4**	3
Actuarial (gain)/loss	**(3)**	1
At 31 December	**46**	42

30. Employee retirement benefits *continued*

(a) Defined benefit retirement obligations *continued*

Movements in plan assets (HK$m)**:**

	Group	
	2010	2009
At 1 January	**19**	15
Exchange adjustments	**1**	1
Group's contributions paid to the plans	**4**	2
Benefits paid by the plans	**(3)**	(1)
Actuarial expected return on plan assets	**2**	1
Actuarial gain	**2**	1
At 31 December	**25**	19

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

	Group	
	2010	2009
Current service cost	**3**	2
Interest cost	**4**	3
Actuarial expected return on plan assets	**(2)**	(1)
	5	4

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$3 million (2009: HK$2 million).

The principal actuarial assumptions used as at 31 December 2010 are as follows:

	Group	
	2010	2009
Discount rate	**4% to 8.1%**	4.75% to 9.03%
Expected rate of return on plan assets	**5.5%**	8.5%
Future salary increases	**5%**	5% to 6.77%

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.

30. Employee retirement benefits *continued*

(a) Defined benefit retirement obligations *continued*

Historical information (HK$m):

	Group				
	2010	2009	2008	2007	2006
Present value of defined benefit obligations	**46**	42	36	39	32
Fair value of plan assets	**(25)**	(19)	(15)	(16)	(11)
Deficit in the plan	**21**	23	21	23	21
Experience adjustments arising on plan liabilities	**(2)**	1	1	1	15
Experience adjustments arising on plan assets	**2**	1	2	1	1

(b) Defined contribution retirement plan

The Group has a defined contribution retirement plan covering 1,338 employees (2009: 1,299 employees), most of whom are 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% (2009: 12%).

In addition, the Group 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, which is operated by an independent service provider to cover 452 employees (2009: 537 employees) in Hong Kong who are 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 2,134 employees (2009: 2,150 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 amounted to HK$78 million (2009: HK$75 million) and 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, as well as 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 dollars. 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 Dollars, Japanese Yen, Thai Baht, Renminbi, Philippine Pesos and Euro.

Forecast transactions

In respect of committed future transactions and highly probable forecast transactions, the Group usually 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 2010 and 2009, 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 usually 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 foreign exchange swaps used by the Group and the Company to hedge foreign currency exposures was as follows (HK$m):

	Group		Company	
	2010	2009	**2010**	2009
At fair value through profit or loss (note 20)				
– Foreign exchange swaps	**1**	1	**1**	1

31. Financial risk management and fair values *continued*

(a) Foreign exchange risk *continued*

Recognised assets and liabilities *continued*

All of 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 dollars, in either Hong Kong dollars or United States dollars. 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 2010 and 2009, the Group did not hedge any net investment in foreign subsidiaries.

Exposure to foreign exchange risk

At 31 December 2010 and 2009, 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											
	2010						2009					
(million)	**United States Dollars**	**Japanese Yen**	**Thai Baht**	**Renminbi**	**Philippine Pesos**	**Euro**	United States Dollars	Japanese Yen	Thai Baht	Renminbi	Philippine Pesos	Euro
Trade and other receivables	**25**	**–**	**–**	**–**	**1**	**–**	22	–	–	3	1	–
Cash at banks and in hand	**5**	**–**	**–**	**–**	**12**	**–**	5	–	–	–	15	–
Trade and other payables	**(10)**	**(2)**	**–**	**–**	**(1)**	**(1)**	(11)	–	(2)	(1)	(45)	–
Derivative financial instruments	**(6)**	**–**	**–**	**–**	**–**	**–**	(8)	–	–	–	–	–
Interest-bearing borrowings	**(83)**	**–**	**–**	**–**	**–**	**–**	(83)	–	–	–	–	–
Gross exposure arising from recognised assets and liabilities	**(69)**	**(2)**	**–**	**–**	**12**	**(1)**	(75)	–	(2)	2	(29)	–
Notional amount of derivative financial instruments – held as cash flow hedges	**42**	**–**	**–**	**–**	**–**	**–**	42	–	–	–	–	–
Net exposure arising from recognised assets and liabilities	**(27)**	**(2)**	**–**	**–**	**12**	**(1)**	(33)	–	(2)	2	(29)	–

	Company			
	2010		2009	
(million)	**United States Dollars**	**Philippine Pesos**	States Dollars	Philippine Pesos
Trade and other receivables	**18**	**1**	17	1
Cash at banks and in hand	**1**	**12**	1	15
Overall net exposure	**19**	**13**	18	16

31. Financial risk management and fair values *continued*

(a) Foreign exchange risk *continued*

Based on the sensitivity analysis performed as at 31 December 2010, it was estimated that a increase/decrease of 10% in foreign exchange rate in respect of financial instruments denominated in currency other than the functional currencies, with all other variables held constant, would not have significant impact on the Group's post-tax profits and other components of equity.

(b) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. All of 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 2010, these pairs of swaps had a total notional principal of HK$1,463 million (2009: HK$1,463 million) maturing over the next three years (2009: four years) with a total fair value of HK$(19) million (2009: HK$(33) million).

At 31 December 2010, 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$1,966 million (2009: HK$1,889 million) maturing over the next seven years (2009: eight years) and HK$732 million (2009: HK$732 million) maturing over the next three years (2009: four 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 2010:

	31 December 2010	31 December 2009
Hong Kong Dollar	**2.1% – 4.9%**	2.1% – 4.9%
United States Dollar	**4.6% – 5.8%**	4.6% – 5.8%
Japanese Yen	**1.5% – 2.1%**	1.5% – 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 2010 was as follows (HK$m):

	Group		Company	
	2010	2009	**2010**	2009
Cash flow hedges (note 20)	**(145)**	(129)	**36**	45
At fair value through profit or loss (note 20)	**(19)**	(33)	**–**	–
	(164)	(162)	**36**	45

31. Financial risk management and fair values *continued*

(b) Interest rate risk *continued*

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			
	2010		2009	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**4.7%**	**1,966**	4.5%	1,889
Floating rate borrowings:				
Bank loans	**1.9%**	**2,366**	1.7%	1,936
Total interest-bearing borrowings		**4,332**		3,825
Fixed rate borrowings as a percentage of total borrowings		**45%**		49%

On the other hand, at 31 December 2010 and 2009, 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 at the end of the reporting period, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments are summarised as follows:

	Group				Company			
	2010		2009		**2010**		2009	
	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**	4.6%	732
Floating rate instruments:								
Bank deposits	**1.3%**	**2,563**	0.9%	1,771	**0.8%**	**89**	0.9%	6
Loans to subsidiaries		**–**		–	**0.2%**	**2,220**	0.1%	2,250
Total interest-bearing financial assets		**2,563**		1,771		**3,041**		2,988

31. Financial risk management and fair values *continued*

(b) Interest rate risk *continued*

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 2010 and 2009, 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

	2010 Increase/(decrease) in			2009 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**	**6**	**–**	100	5	–
	(100)	**(6)**	**–**	(100)	(5)	–
Thai Baht	**100**	**(2)**	**–**	100	(2)	–
	(100)	**2**	**–**	(100)	2	–
Japanese Yen	**50**	**(4)**	**20**	50	(3)	20
	(50)	**4**	**(22)**	(50)	3	(21)
Philippine Peso	**200**	**(1)**	**–**	200	(1)	–
	(200)	**1**	**–**	(200)	1	–
HK Dollar	**100**	**12**	**10**	100	6	13
	(100)	**(12)**	**(10)**	(100)	(6)	(13)
US Dollar	**100**	**(2)**	**17**	100	(1)	24
	(100)	**2**	**(17)**	(100)	1	(24)

31. Financial risk management and fair values *continued*

(b) Interest rate risk *continued*

Sensitivity analysis *continued*

The Group and the Company continued

	Company					
	2010 Increase/(decrease) in			2009 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**	**19**	**(6)**	100	18	(9)
	(100)	**(19)**	**6**	(100)	(18)	9
US Dollar	**100**	**1**	**(3)**	100	1	(6)
	(100)	**(1)**	**3**	(100)	(1)	6

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 re-measure those financial instruments held by the Group and 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 2009.

(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 2010, total available borrowing facilities amounted to HK$5,797 million (2009: HK$5,283 million), of which HK$4,363 million (2009: HK$3,848 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$1,145 million (2009: HK$1,175 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 the 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											
	2010						2009					
		Contractual undiscounted cash outflow/(inflow)						Contractual undiscounted cash outflow/(inflow) *(restated)*				
(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	133	133	133	–	–	–	119	119	119	–	–	–
Interest payable	5	5	5	–	–	–	5	5	5	–	–	–
Accruals for fixed assets	17	17	17	–	–	–	32	32	32	–	–	–
Tenants' deposits	308	308	159	70	64	15	295	295	158	69	64	4
Guest deposits	103	103	103	–	–	–	86	86	86	–	–	–
Golf membership deposits	117	117	–	–	–	117	109	109	–	–	–	109
Other payables	620	620	620	–	–	–	557	557	557	–	–	–
Interest-bearing borrowings	4,332	4,511	937	1,149	2,425	–	3,825	3,973	813	774	2,386	–
Interest rate swaps^ (net settled)	191	238	86	61	47	44	205	334	104	86	116	28
	5,826	6,052	2,060	1,280	2,536	176	5,233	5,510	1,874	929	2,566	141
Derivatives settled gross:												
Cross currency interest rate swaps held as cash flow hedging instruments:	9						1					
– outflow		355	11	12	332	–		368	12	12	344	–
– inflow		(343)	(6)	(6)	(331)	–		(349)	(6)	(6)	(337)	–
	9	12	5	6	1	–	1	19	6	6	7	–
	5,835	6,064	2,065	1,286	2,537	176	5,234	5,529	1,880	935	2,573	141
Financial guarantee issued – maximum amount guaranteed (note 33)	–	1	1	–	–	–	–	1	1	–	–	–

^ *In 2005, the Group entered into 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 (note 31(b)). These interest rate swaps with carrying value of HK$36 million (2009: HK$44 million) have been classified as derivative financial assets and have not been included above.*

31. Financial risk management and fair values *continued*

(c) Liquidity risk *continued*

	Company											
	2010						2009					
		Contractual undiscounted cash outflow/(inflow)						Contractual undiscounted cash outflow/(inflow) (restated)				
(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
Other payables	**20**	**20**	**20**	**–**	**–**	**–**	21	21	21	–	–	–
Other payables to subsidiaries	**26**	**26**	**26**	**–**	**–**	**–**	18	18	18	–	–	–
Interest rate swaps (net settled)*	**142**	**160**	**75**	**49**	**36**	**–**	169	258	94	77	87	–
	188	**206**	**121**	**49**	**36**	**–**	208	297	133	77	87	–
Financial guarantee issued: – maximum amount guaranteed (note 33)	**–**	**4,347**	**4,347**	**–**	**–**	**–**	–	3,831	3,831	–	–	–

* *The Company in prior years entered into these interest rate swaps 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 (not included above) as a result of the back-to-back arrangement (see note 20(b)).*

The Company has also issued guarantees in respect of other banking facilities for its subsidiaries. Of the HK$56 million (2009: HK$36 million) guaranteed (note 33), HK$54 million (2009: HK$36 million) represented the fair value of the derivatives financial instruments. The notional value of these derivative financial instruments amounted to HK$770 million (2009: HK$693 million) as at 31 December 2010.

(d) Credit risk

The Group's credit risk is primarily attributable to bank deposits, trade and other receivables 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 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 2010, cash at banks amounted to HK$2,676 million (2009: HK$1,860 million), of which over 90% (2009: 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 A1 (Moody's).

31. Financial risk management and fair values *continued*

(d) Credit risk *continued*

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. Credit limits are set for customers based on their credit worthiness and past history. 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. Other than this, as such, the Group normally does not obtain collateral from its customers. The ageing of trade debtors at 31 December 2010 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; therefore, it is considered that there is no concentration of credit risk as the Group has no significant exposure to individual customers given the large number of 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.

(e) 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.

All derivative financial instruments carried at fair value are categorised as falling under level 2 of the fair value hierarchy.

(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 2010, except that interests in unlisted equity instruments are stated at cost less impairment losses (see note 38(d) as the fair value of the equity instruments cannot be reliably measured). Some of the loans to subsidiaries are at floating interest rates and the carrying amount of these loans approximate to their fair value. Other loans to subsidiaries and advances to the controlled entity are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair values. The Group has no intention of disposing these loans.

31. Financial risk management and fair values *continued*

(f) 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 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 2010	31 December 2009
Hong Kong Dollar	**0.1% – 2.5%**	0.1% – 4.2%
United States Dollar	**0.3% – 2.3%**	0.3% – 4.3%
Japanese Yen	**0.1% – 1.6%**	0.2% – 2.3%

32. Commitments (HK$m)

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

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

32. Commitments (HK$m) *continued*

(a) Capital commitments outstanding at 31 December 2010 not provided for in the Financial Statements were as follows: *continued*

The Group holds a 20% equity interest in Al Maha Majestic S.à r.l. ("Al Maha"), an associate of the Group responsible for the development of The Peninsula Paris project. The Group's 20% share of the contracted for and authorised but not contracted for capital commitments as at 31 December 2010 amounted to HK$108 million (2009: HK$37 million) and HK$435 million (2009: HK$474 million) respectively. It is planned that these capital commitments will be materially financed by way of bank borrowings by the associate and only in the event of the associate being unable to arrange the funding would the Group be required to meet the shortfall.

(b) At 31 December 2010, 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	
	2010	2009	**2010**	2009
Within one year	**(758)**	(777)	**186**	163
After one year but within five years	**(937)**	(703)	**683**	606
After five years	**(49)**	(24)	**8,458**	8,011
	(1,744)	(1,504)	**9,327**	8,780

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.

The Peninsula New York leases a piece of land on which its hotel is situated from a third party under a 99-year lease, commencing in 1979. The present annual lease payment amounts to US$5 million and the lease payment is subject to a pre-determined inflation adjustment every 25 years.

32. Commitments (HK$m) *continued*

(b) At 31 December 2010, 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: *continued*

The Group entered into a 50-year lease with respect to The Peninsula Tokyo, commencing in 2007. The minimum annual rental amounts to JPY1,181 million, which will be adjusted based on an inflation index every 10 years. In addition to the minimum annual rental, the lease is subject to contingent rental calculated based on the operating results of the hotel.

Other than above, the Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under operating leases. These leases typically run for an initial period of two to four years, with an option to renew the lease when all items are renegotiated. None of the leases include contingent rental.

33. Contingent liabilities (HK$m)

Contingent liabilities at 31 December are analysed as follows:

	Group		Company	
	2010	2009	**2010**	2009
Guarantees issued for subsidiaries				
– in respect of bank borrowings	**–**	–	**4,346**	3,830
– in respect of other banking facilities	**–**	–	**56**	36
Other guarantees	**1**	1	**1**	1
	1	1	**4,403**	3,867

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 2010 and 2009.

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, as well as 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 2008 to 31 March 2009 : HK$169,074 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 lease was renewed for three years on 1 April 2010 at a market rent of HK$1,221,090 per month plus service charges of HK$140,895 per month. The amount of rent and service charges paid to KEL during 2010 amounted to HK$16.4 million (2009: HK$16.7 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 2010 amounted to HK$11.8 million (2009: HK$9.4 million).

(c) Unsecured and interest free shareholder's loans amounting to US$58.8 million (HK$458 million) (2009: US$58.8 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 2010, shareholder's loans amounting to US$58.8 million (HK$458 million) (2009: US$58.8 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 2010 amounted to approximately HK$28.7 million (2009: HK$9 million).

In addition, Peninsula Intellectual Property Limited ("PIPL"), a wholly owned subsidiary of the Company, has entered into a service mark licence agreement with PSW. Total service mark licence fees earned by PIPL during 2010 amounted to HK$4.1 million (2009: HK$0.5 million).

34. Material related party transactions *continued*

(d) On 20 January 2009, a wholly owned subsidiary of the Company, Peninsula International (Lux) Limited S. à r.l. ("LUX"), invested a total of Euro 44.3 million (HK$453 million) to acquire a 20% equity interest and 20% of the related shareholder's loan in Al Maha Majestic S.à r.l. ("Al Maha") which holds a 100% equity interest in Majestic EURL ("Majestic"), which in turn owns a property in Paris to be redeveloped into a Peninsula hotel. Following the completion of the acquisition, Al Maha and Majestic became associates of the Group.

During 2010, a total of Euro 2.7 million (2009: Euro 2 million) additional shareholder's loans were advanced by LUX to Al Maha. These loans were made pro rata to the Group's shareholding in Al Maha to fund the progress payments for redevelopment costs incurred by Majestic. As at 31 December 2010, the balance of shareholder's loans amounted to Euro 47.5 million (HK$493.7 million). All the shareholder's loans are unsecured and bear interest at rates related to the rates published by the French tax authorities. Of the balance of Euro 47.5 million, Euro 42.8 million is repayable in April 2017 and the remaining balance is repayable in November 2014.

(e) The Company announced on 6 December 2000 that Kam Lung Investments Limited, a wholly owned subsidiary of the Company, entered into various agreements with the then independent third parties, including China Everbright Group Ltd. ("CEG"), to carry out the restructuring of The Palace Hotel Co., Limited ("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$9.2 million) was recorded in 2010 (2009: RMB8 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 as well as 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.

36. Key sources of estimation uncertainty *continued*

(c) Asset impairment

The Group assesses the impairment of assets in accordance with the accounting policy set out in note 38(j). 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 adoption of amendments to HKAS 12, *Income taxes*, certain comparative figures have been adjusted to reflect the decrease in accrual of deferred tax liabilities related to investment properties carried at fair value. Further details of these changes in accounting policies are disclosed in note 2.

Certain comparative figures have been restated to conform with current year's presentation. Further details are set out in notes 3, 13 and 25 to the Financial Statements.

38. Significant Accounting Policies

(a) Basis of preparation of the Financial Statements

The consolidated Financial Statements for the year ended 31 December 2010 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 38(g)); and
ii) derivative financial instruments (see note 38(e)).

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.

38. Significant Accounting Policies *continued*

(a) Basis of preparation of the Financial Statements *continued*

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.

(b) Subsidiaries and non-controlling 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.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the Company. Non-controlling 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 non-controlling interests and the shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 38(c)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 38(j)), unless the investment is classified as held for sale.

38. Significant Accounting Policies *continued*

(c) 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, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted 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 38(j)). Any acquisition-date excess over costs, 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.

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.

When the group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

(d) 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 38(j)).

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

38. Significant Accounting Policies *continued*

(e) 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.

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 associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged transaction affects profit or loss. The ineffective portion of any gain or loss is recognised immediately in 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.

(f) Properties, plant and equipment

Hotel and other properties held for own use (including buildings held for own use which are situated on leasehold land classified as held under operating leases) and plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 38(j)).

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 38(u)).

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:

- leasehold land classified as held under finance leases is depreciated over the unexpired term of lease
- 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.

38. Significant Accounting Policies *continued*

(f) Properties, plant and equipment *continued*

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.

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 38(i)) 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 38(s).

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 38(i)) 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 38(i).

(h) 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 38(j)).

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.

(i) Leased assets

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 38(g)); 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.

38. Significant Accounting Policies *continued*

(i) Leased assets *continued*

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.

(j) 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.

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 38(c)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 38(j)(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 38(j)(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.

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

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the non-financial assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

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. 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, 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.

38. Significant Accounting Policies *continued*

(j) Impairment of assets *continued*

(ii) Impairment of other assets *continued*

In respect of assets other than goodwill, an impairment loss is reversed to profit or loss 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.

Interim financial reporting and impairment

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.

(k) 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. 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.

(l) Trade debtors and other receivables

Trade debtors and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 38(j)), 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 38(j)).

(m) 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.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 38(r), 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.

(o) 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.

38. Significant Accounting Policies *continued*

(p) 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.

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.

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.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities and 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.

38. Significant Accounting Policies *continued*

(q) Income tax *continued*

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.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 38(g), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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.

Current tax balances and deferred tax balances and movements therein, are presented separately from each other and are not offset.

(r) 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.

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. 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.

38. Significant Accounting Policies *continued*

(s) 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.

(t) 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 and non-monetary assets and liabilities that are stated at fair values and are 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. 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.

The results of foreign operations are translated into Hong Kong dollars 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 dollars 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.

38. Significant Accounting Policies *continued*

(u) 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 become 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.

(v) 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.

(w) 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 most 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.

39. Impact of amendments to HKAS 12

Early adoption of the amendments to HKAS 12, Income taxes

Consolidated income statement for the year ended 31 December 2009

(HK$m)	As previously reported	Increase in net profit arising from the early adoption of amendments to HKAS 12	As restated
Profit before taxation	2,762	–	2,762
Taxation			
Current tax	(120)	–	(120)
Deferred tax	(338)	362	24
Profit for the year	2,304	362	2,666

Consolidated statement of financial position as at 31 December 2009

(HK$m)	As previously reported	Increase in net assets arising from the early adoption of amendments to HKAS 12	As restated
Non-current assets			
Other non-current assets	30,400	–	30,400
Deferred tax assets	64	57	121
	30,464	57	30,521
Current assets	2,351	–	2,351
Current liabilities	(1,888)	–	(1,888)
Net current assets	463	–	463
Total assets less current liabilities	30,927	57	30,984
Non-current liabilities			
Other non-current liabilities	(3,436)	–	(3,436)
Deferred tax liabilities	(3,543)	3,050	(493)
	(6,979)	3,050	(3,929)
Net assets	23,948	3,107	27,055
Capital and reserves			
Share capital	735	–	735
Retained profits	19,156	3,107	22,263
Other reserves	3,149	–	3,149
Total equity attributable to shareholders of the Company	23,040	3,107	26,147
Non-controlling interests	908	–	908
Total equity	23,948	3,107	27,055

39. Impact of amendments to HKAS 12 *continued*

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

Consolidated statement of financial position as at 1 January 2009

(HK$m)	As previously reported	Increase in net assets arising from the early adoption of amendments to HKAS 12	As restated
Non-current assets			
Other non-current assets	27,037	–	27,037
Deferred tax assets	38	19	57
	27,075	19	27,094
Current assets	2,512	–	2,512
Current liabilities	(1,817)	–	(1,817)
Net current assets	695	–	695
Total assets less current liabilities	27,770	19	27,789
Non-current liabilities			
Other non-current liabilities	(2,956)	–	(2,956)
Deferred tax liabilities	(3,168)	2,726	(442)
	(6,124)	2,726	(3,398)
Net assets	21,646	2,745	24,391
Capital and reserves			
Share capital	725	–	725
Retained profits	16,063	2,745	18,808
Other reserves	3,924	–	3,924
Total equity attributable to shareholders of the Company	20,712	2,745	23,457
Non-controlling interests	934	–	934
Total equity	21,646	2,745	24,391

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2010

Up to the date of issue of these Financial Statements, the HKICPA has issued a number of amendments and interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these Financial Statements. These include the following, which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Revised HKAS 24, *Related party disclosures*	1 January 2011
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
HKFRS 9, *Financial instruments*	1 January 2013

The Group is in the process of assessing the impact of these amendments in the period of initial application. So far, the Group has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

Independent Auditor's Report

Independent auditor's report to the shareholders of
The Hongkong and Shanghai Hotels, Limited
香港上海大酒店有限公司
(incorporated in Hong Kong with limited liability)

We have audited the Consolidated Financial Statements of The Hongkong and Shanghai Hotels, Limited (the "Company") set out on pages 98 to 167, which comprise the consolidated and Company statements of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibilities for the Consolidated Financial Statements

The Directors of the Company are responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of Consolidated Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2011

Sustainability Report

GRI Application Level C+

* HSH's GRI Content Index (refer to www.hshgroup.com) outlines where all the relevant information can be located to demonstrate how HSH reports on all of the GRI Profile Disclosures and Indicators required to meet GRI's Application Level C+, as not all of this information is included this Sustainability Report.

Message from The Hon. Sir Michael Kadoorie, Chairman

Three years ago, we decided to develop a formal and measurable process for continuing and expanding our efforts in corporate social responsibility by setting up a Steering Committee under the guidance of our Chief Executive Officer Clement Kwok. The Committee focused its efforts and resources on six aspects: corporate governance and ethics, employees, environment, health and safety, supply chain and community investment and engagement.

This annual Sustainability Report, now in its third year, covers the progress we have made on the previous year's goals. It outlines our decisions and activities in these six core areas in response to seeking continual improvement in conducting our business responsibly across all aspects of our operations. The Report is also proof of our commitment to greater corporate transparency.

Today, perhaps more than ever, societies expect corporations not only to demonstrate high standards of ethical behaviour but also to demonstrate environmental responsibility and support for communities in achieving broader social goals. In this regard, with our company's presence in the hospitality industry spanning 145 years, we believe HSH has a major role to play.

The input of all our staff and stakeholders has been invaluable in helping us to enhance our sustainability efforts and I would like to take this opportunity of thanking all who have contributed to these efforts.

Message from Clement K.M. Kwok, Chief Executive Officer

In last year's Sustainability Report, I noted how we remain committed to implementing our sustainability initiatives. As our business improved in 2010, sustainability continued to be integral to the way the Group operates its hotels, commercial properties and other businesses. An excellent example of our sustainable decision-making can be found in the capital investments we made in 2010, which is helping us to reduce our carbon intensity and our energy and water consumption. These measures enabled us to reduce our energy and water intensity in our hotel properties, even as occupancy rates increased.

We have had a busy year and our Corporate Social Responsibility (CSR) Champions have continued to spearhead our sustainability strategy and assist our properties and businesses to measure and report on our key sustainability metrics. This has not been an easy task. While we have made great progress in raising awareness of our sustainability initiatives across the Group, embedding new systems and refining them for consistent and accurate reporting has been challenging. Over the year, we have worked hard to enhance the robustness of our measurement and reporting systems. In this regard, this year's Report includes an expanded set of performance metrics.

Importantly, 2010 has been a year of progress involving every property and business in the HSH Group in our sustainability efforts. Each of our hotel properties and most of our other businesses have developed their own Sustainability Action Plans in line with the Group's sustainability themes and to support the achievement of the Group targets. Going forward, we will expand our initiatives across our businesses and continue to support and share best practices across the Group. For more information on our business environment and performance, please refer to the Chief Executive Officer's Report on pages 10 to 15 of this Annual Report.

We have reviewed our priorities for managing sustainability challenges and risks over the next three to five years and they continue to be:

1. reducing our carbon footprint intensity;
2. educating, training and empowering our employees to embed sustainability in our operations;
3. working with our suppliers and contractors to increase our sourcing of products and services from materials and sources that are sustainable and help us to reduce our environmental footprint;
4. engaging our stakeholders to better understand their expectations and perceptions regarding our sustainability performance and integrating these views into our Sustainability Strategy and our reporting; and
5. expanding our sustainability initiatives and the monitoring of and reporting on our sustainability metrics.

I recognise the significant progress our Champions have made at the Group level to set policy and provide guidance to our properties and businesses. They have in turn worked together with their teams to implement sustainability initiatives throughout their operations and supported HSH in meeting its overall sustainability targets. We will continue to expand and enhance our sustainability strategy to ensure that HSH continues to meet its commitments for environmental and social responsibility going forward.

We remain committed to transparency in reporting and this is the second year that our report has been checked by an independent third party and the Global Reporting Initiative (GRI) to meet Application Level C+ of GRI's *Sustainability Reporting Guidelines.*

Executive Summary

Sustainability Management and Policy Framework

Managing our sustainability risks and opportunities remains integral to our business success, today and in the future, for the benefit of our shareholders and other stakeholders. Our Sustainability Vision and Policy Statement[1], which outlines HSH's commitments for our six key sustainability themes of corporate governance and ethics, employees, environment, health and safety, supply chain and community investment and engagement, continue to provide a solid framework that guides the policy and operations of our Board and our Group properties and businesses.

2010 marked the first full year of implementing the Group's Sustainability Strategy, which includes actions, performance indicators and targets to address the economic, environmental and social issues and risks for each of our six sustainability themes. Under the guidance of the Group's CSR Committee, HSH's Champions for each of the six themes have set policy and provided guidance at the Group level to support the sustainability initiatives of the properties and businesses. Each property and business has continued to implement its own actions, in line with the Group themes, as part of its own Sustainability Action Plan for 2011. An important task of the CSR Committee has been to review and assess the performance of each property and business according to the sustainability performance indicators of the Group's strategy. Throughout the year, HSH properties and several of its other businesses have submitted their performance information to the Champions for consolidation in HSH's internal, Quarterly Sustainability Reports.

This Sustainability Report provides information on the status of the initiatives undertaken under our six themes in 2010 and the Group's plans for 2011 and beyond. It is important to note that over the year it has been challenging to build a robust system of monitoring and reporting that is consistently applied throughout the Group. As such, some of the performance indicators included in this Report are provided as estimates. This is particularly the case for some of the supply chain indicators where information was either not available or challenging to collect. An important task for 2011 will be to continue our efforts to make the reporting of performance more systematic.

1. *To view HSH's Sustainability Vision and Policy Statement, please refer to www.hshgroup.com.*

Summary of 2010 Achievements

This Sustainability Report provides details of our achievements and challenges in 2010. Performance highlights include:

- Rollout of the HSH Human Resources Manual to all businesses, 84% of managers and 71% of other employees trained on the Code of Conduct and expanding our suite of learning and development programmes available to our high performing staff

- Investing over HK$10 million, together with a comprehensive plan, for energy, carbon and water conservation that has resulted in impressive reductions and cost savings with attractive returns on investment and exceeding our intensity reduction targets for energy and water use (the targets were set to be achieved gradually towards year end. In fact, our performance was better than forecast as intensity reductions were achieved over the year as a whole):

  Energy target – 10% from base period (2006 – 2008)
  Achieved – 9.6% (over the whole year)

  Water target – 3% from base period (2006 – 2008)
  Achieved – 11.4% (over the whole year)

- Rolling out our sustainable supply chain initiative across the Group and tracking our purchase of items with sustainability features, enabling us to report that 84% of lighting in back of house areas is energy efficient, 90% of our cleaning products are biodegradable and 23% and 65% of individual food and beverage items are locally sourced

- Supporting our properties to implement the Group wide Operational Risk Manual and measuring our performance

- Enhancing the strategic focus for our community investment and engagement activities across the Group and the effectiveness of our initiatives – our monetary and in-kind donations increased over last year as well as our hours spent on volunteer work

Guide To Reading This Sustainability Report

Report scope, parameters and boundaries

As previously reported, HSH reports its performance and contributions to the community in the Annual Report. HSH's Sustainability Report 2008 introduced the Group's overall approach to managing sustainability issues and risks for the first time and the Sustainability Report 2009 reported on our progress in implementing the key sustainability initiatives. This year, the Sustainability Report 2010 provides updates on how we have expanded the implementation of our Group Sustainability Strategy and our property and business level Sustainability Action Plans.

Except where noted, the Report scope covers HSH's head office in Hong Kong as well as properties and businesses where HSH has operational control, including: the Peninsula hotels in Hong Kong, Shanghai, Beijing, New York, Chicago, Beverly Hills, Tokyo, Bangkok and Manila; non-hotel properties including The Repulse Bay Complex, The Peak Complex and The Landmark in Ho Chi Minh City; and other businesses including Thai Country Club, Quail Golf and Country Club, Peninsula Merchandising and Tai Pan Laundry in Hong Kong. With regard to the environmental indicators, consumption by the Thai Country Club for which we did not have accurate data during the base period (2006-2008), has now been included as estimates based on subsequent experience. The Peninsula Boutiques in various Peninsula hotels are included in the performance reporting statistics, while Peninsula Boutiques in separately-owned facilities, such as the Hong Kong International Airport, are not included. Environmental performance information for The Peninsula Shanghai, which soft opened on 18 October 2009, will be included in our Group performance statistics in 2011. Please refer to the Environmental Performance Statistics on page 199 for information on this hotel's environmental performance in 2010.

HSH employees working for Clubs & Consultancy Services and at Cathay Pacific Airways' first and business class lounges in the Hong Kong International Airport are included in this Report's employee statistics. Facilities managed by HSH, including The Hong Kong Club, The Hong Kong Bankers Club and Butterfields' Club, as well as the Cathay Pacific lounges are not included in the environmental performance statistics as we do not own or control the policies of these facilities. Further details of the nature of HSH's business operations are included in other sections of this Annual Report.

This year's Sustainability Report addresses issues that we believe are material to our business and our stakeholders. In defining the key issues to guide our Sustainability Strategy and Report, we formalised our approach to assessing materiality in 2010. Our materiality process links our business risk assessment and our stakeholder mapping and classification processes. This includes assessing our overall sustainability issues to determine the extent to which they could impact on our business strategy and the extent to which our priority stakeholders could impact our reputation or business strategy with regard to these issues. In 2010, our materiality process was conducted as a desktop exercise by our CSR Committee. Going forward, we aim to include stakeholder feedback on both the issues we cover in our Report and the extent of coverage provided to those issues.

For the second consecutive year, the Sustainability Report meets the criteria of Global Reporting Initiative's *Sustainability Reporting Guidelines* (G3) for Application Level C+. In addition to reporting on the required ten GRI Profile Disclosures for Level C, HSH is reporting on a total of 21 GRI Performance Indicators with partial coverage of an additional four. These indicators were selected for their materiality and where reliable information for reporting could currently be collected by HSH. To demonstrate HSH's commitment to producing a transparent and credible report, Lloyd's Register Quality Assurance was engaged to assure the accuracy of a representative sampling of data and claims included in the Report and to assess adherence of the Report to GRI's Level C Application Level. The assurance statement is presented on page 200 of this Report. The Report has also been checked by GRI to meet GRI's Application Level C+.

Corporate Governance and Ethics

Corporate Governance

Corporate governance is the foundation of HSH's success, representing HSH's commitment to a framework of business principles and internal controls, which extend to all elements of our business. The Corporate Governance Report in this Annual Report (pages 71 to 88) outlines our corporate governance policies and practices.

HSH's Code on Corporate Governance Practices includes and follows all of the Code and recommended practices under the Code of Corporate Governance Practices of the Listing Rules (the "CG Code") except for two[2] where we have deviated from the CG Code. In addition, HSH's governance policies and practices have exceeded the CG Code in some areas. These, together with reasons for deviation, have been explained in the Corporate Governance Report.

Ethics

HSH's Code of Conduct and Equal Opportunities policy outlines our stringent anti-corruption and anti-bribery policies and approach to handling conflict of interest situations for our staff at all levels. These issues are also addressed through HSH's Code on Corporate Governance Practices, Codes for Dealing in the Company's Securities by Directors / Specified Individuals, the Company Management Authority Manual as well as Purchasing and Tendering Procedures.

2. *The exceptions are the publication of quarterly financial results and the establishment of a nomination committee for the Board.*

In 2010, HSH's updated HR Company Manual was provided to all general managers of properties, businesses and HR departments and shared on our intraweb system. The Manual was launched at the annual HR conference in July and all HR managers were provided with an Operational Review Document to assist them to review their own practices against the HR Company Manual. The HR Company Manual importantly includes HSH's Code of Conduct (CoC) and Equal Opportunities policy[3] that was updated in 2010 to specifically address a number of issues, such as recognising fundamental human rights, outlining clearer policies on non-discrimination and providing grievance mechanisms and resolution channels. Classroom training sessions were delivered by HR teams during orientation and re-orientation on the CoC in 2010 and will continue into 2011. An online HSH bespoke e-learning programme was developed with an assessment for senior managers to complete.

Our Purchasing and Tendering Procedures also meet ethical principles. Following on from the pilot launch with The Peninsula Hong Kong's suppliers, HSH's Supply Chain Code of Conduct was distributed to all of the Group's suppliers and contactors in 2010. The Code requires that HSH's suppliers and contractors do not seek competitive advantage through illegal or unethical business practices and that they shall only compete for business based on price, quality and performance standards of their products and services. As described in previous Reports and in the Supply Chain section below, HSH does not condone any form of forced or harmful child labour for its own business operations and those of its suppliers and contractors.

The Group regularly audits a range of business risks including fraud throughout its properties and businesses. In addition, all of our hotels have 'mystery' customers and guest visits.

Respectful workplace

HSH's updated HR Company Manual includes a Code of Conduct and Equal Opportunities section[3] and our HR philosophy, purpose and values. The Company's pay philosophy will be communicated in the HR Manual in 2011. The CoC section outlines HSH's policies and expectations for its employees to be ethical, fair and honest in fulfilling their job responsibilities, recognises the human rights of every individual and states the Group's commitment to an environment which welcomes diversity and provides equal opportunities free from discrimination, harassment and victimisation. HSH encourages and enables employees to raise serious concerns through its grievance channels without retribution and ensures compliance with its policies through training and acknowledgement of the Code.

To raise awareness of HSH's expectations for a respectful workplace, a training initiative will be launched to support the Equal Opportunities policy in 2011. This will involve a bespoke, online programme for managers to ensure a formalised and standardised approach is adopted across the Group. A classroom product will be designed for general staff training.

In 2011, HSH will implement, with the assistance of a third party survey organisation, a comprehensive, web-based employee engagement survey for five locations as a first phase. The survey will ask staff for their perceptions of HSH and their views on their working environment, career development, welfare and other related topics. To maximise the learning from the survey, in 2011, training will take place for champions to ensure appropriate action planning sessions will be held as a follow up to survey findings and explore opportunities to address ideas and challenges at the departmental and hotel/business levels.

3. To view the Code of Conduct and Equal Opportunities policy, please refer to www.hshgroup.com.

Economic Contribution

HSH appreciates that to be successful as a business it must maintain its financial viability, responsibly manage its environmental and social issues and contribute to the communities where we operate. HSH therefore aims to contribute positively to the sustainability of our communities in ways that meet the needs and expectations of our stakeholders. In 2010 our economic value generated increased by 5% over 2009 and our cash donations to charitable institutions, together with sponsorship of community programmes, increased from HK$1.7 to HK$2.1 million (an increase of 25%).

Pages 71 to 88 of this Annual Report outlines how our governance, management and oversight mechanisms enable us to achieve our longstanding goal of being a successful and viable business, for the benefit of our investors, employees, other stakeholders and the communities in which we operate.

Our properties and businesses contribute to the communities in which we operate by hiring local[4] employees, contributing to local government revenues and purchasing local food and beverage items and products and services. Table 1 on the next page includes information to demonstrate these economic contributions in 2010.

HSH operates in distinct locations around the world, each with their own local traditions and culture. Critical to our brand is providing high quality, internationally recognised services to our guests, customers and tenants in ways that integrate unique local flair. To successfully achieve this, our teams combine the skills and experience of a select group of internationally trained management staff and a majority of locally hired employees in each property and business. As at the end of 2010, of the 160 senior staff (139 in 2009) who are members of the local executive committees of properties and businesses, 89, or 56%, were locals or localised citizens[4] of the countries in which they were working, compared to 71, or 51%, in 2009. As a diverse, global company, we will continue to offer international postings to high potential employees as part of their career development and to hire and nurture local talent in the markets that we serve, thereby contributing to local employment while consistently delivering on our exceptional service standards.

Objectives for 2011
• Maintain monetary and in-kind contributions in line with expected economic value generated and distributed.
• Maintain a balance between locally-hired and international management staff at HSH properties.

4. *Local refers to individuals either born in or who have the legal right to reside indefinitely (e.g. naturalised citizens) in the same geographic market as the operation. Green card holders and permanent residents are not included.*

Table 1 : EC1 – Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments and payments to capital providers and governments

		HK$m			
		2007	2008	2009*	**2010**
Revenues					
Hotel properties		3,599	3,905	*3,180*	**3,576**
Commercial properties		605	677	637	**688**
Clubs and services		338	356	*401*	**443**
		4,542	4,938	4,218	**4,707**
Interest income		25	40	15	**24**
		4,567	**4,978**	**4,233**	**4,731**
Operating Costs					
Cost of inventories		380	390	334	**378**
Rent and utilities		374	525	531	**542**
Other operating expenses		849	1,045	917	**1,005**
Less: property & real estate tax		-70	-77	-84	**-78**
		1,533	**1,883**	**1,698**	**1,847**
Employee Wages and Benefits		**1,346**	**1,553**	**1,512**	**1,639**
Capital Expenditure		**687**	**394**	**281**	**261**
Payments to Providers of Capital					
Dividends		73	94	53	**34**
Financing		150	140	139	**137**
		223	**234**	**192**	**171**
Payments to Governments					
Hong Kong		73	118	121	**86**
Mainland China		113	128	63	**72**
USA		164	163	146	**140**
Vietnam		7	8	6	**10**
Thailand		29	28	20	**26**
Japan	*(Note 1)*	-27	22	24	**18**
Philippines		23	21	16	**24**
Others		3	0	0	**0**
	(Note 2)	**385**	**488**	**396**	**376**
Community Investments					
Donations *(monetary)*		**1**	**3**	2	**2**
Total of costs and distributions		**4,175**	**4,555**	**4,081**	**4,296**

** Certain 2009 information has been revised and restated in 2010 due to reclassification of income sources.*

Note 1: Including refund of consumption tax paid in prior years.

Note 2: Inclusive of corporate income tax and property and real estate tax.

Apart from economic value retained in the form of capital expenditures, details of retained earnings can be found on page 102 of this Annual Report, in the Consolidated Statement of Changes in Equity. In addition, details of investments in subsidiaries, associates, jointly-controlled entities, equity instruments and management contracts may be found in the Consolidated Statement of Cash Flows on page 103 and items 16 to 19 of the Notes to the Financial Statements on pages 122 to 125.

Revenues from hotels and clubs & services are restated above in italics for the year 2009.

Employees

Our employees

HSH's brand is defined by the quality of service provided by our valued employees at each of our hotel properties and businesses. It has always been in our corporate culture to foster long term relationships with our employees, enabling them to grow and develop their careers. HSH's workforce is comprised of 6,544 full time employees[5], 759 part time[6] and casual[7] employees. As at the end of 2010, we directly employed a total of 7,303 employees with 5,706 in Asia and 1,597 in the United States, including those at our hotel and non-hotel properties and businesses, as well as those who are HSH employees but work in facilities that are not owned by HSH[8]. 4,010 of our employees, or 55%, are employed on full time, permanent contracts and 51 are part time and casual employees on permanent contracts. 3,242 of our employees, or 44%, are employed on fixed term, temporary or "at will"[9] contracts. HSH has 1,551 unionised workers that are covered by collective bargaining agreements[10], representing 21% of our total employees. Table 2 on the next page includes more detailed statistics on HSH's employment information.

HSH's Chief Executive Officer, Clement Kwok, with Hong Kong staff at the Community Chest's Walk for Millions. The staff's families and friends were also invited.

5. *A 'full time employee' is defined according to national legislation and practice regarding working time.*
6. *A 'part time employee' is an employee whose working hours per week, month or year are less than 'full time' as defined in the above note.*
7. *A 'casual' employee is hired on a flexible basis to meet the needs of the organisation.*
8. *This includes Clubs & Consultancy Services and at Cathay Pacific's first and business class lounges in the Hong Kong International Airport but not The Hong Kong Club, The Hong Kong Bankers Club and Butterfields' Club (i.e. excluding 412 employees in these Clubs).*
9. *All employees are employed 'at will' by US hotels, which means an employee may resign or be terminated from employment at any time for any or no reason, with or without notice.*
10. *Refers to any employees either full time or part time, who is covered by a collective bargaining agreement.*

Table 2 : LA1 – Total workforce by employment type, employment contract and region

Operations	As at December 2010 Full time Employees: Management	As at December 2010 Full time Employees: Non – management	As at December 2010 Part time / Casual Employees: Management	As at December 2010 Part time / Casual Employees: Non – management	Total No. of Employees on Permanent Contracts: Full Time	Total No. of Employees on Permanent Contracts: Part time / Casual	**Total No. of Employees on Fixed Term / Temporary / At Will Contracts**
ASIA REGION							
Sub-totals	370	4,814	0	522	4,008	31	1,667
Sub-totals by type & contract	**5,184**		**522**		**4,039**		**1,667**
Employee total – Asia region	**5,706**				**5,706**		
US REGION							
Sub-totals	99	1,261	0	237	2	20	1,575
Sub-totals by type & contract	**1,306**		**237**		**22**		**1,575**
Employee total – US region	**1,597**				**1,597**		
THE HONGKONG AND SHANGHAI HOTELS, LIMITED							
Totals by type & contract	**6,544**		**759**		**4,010**	**51**	**3,242**
Employee total – HSH Group	**7,303**				**4,061**		**3,242**

Notes:
Employees in the Asia region include those working in the following locations: HSH's head office, the Peninsula hotels in Hong Kong, Shanghai, Beijing, Tokyo, Bangkok, Manila, The Repulse Bay Complex, The Landmark, The Peak Complex, Thai Country Club, Peninsula Merchandising, Clubs and Consultancy Services, Cathay Pacific lounges in the Hong Kong International Airport and a staff member seconded to The Peninsula Paris project.

Employees in the US region include those working at the Peninsula hotels in New York, Chicago and Beverly Hills as well as Quail Golf and Country Club.

Managers at each HSH property and business are members of the local executive committees[11]. In 2010, the composition of the executive committees included 109 males (95 in 2009) and 51 females (44 in 2009), or 68% and 32% respectively (same as in 2009).

The composition of the Executive Committees in 2010 was as follows:
- Under 30 years of age – 1
- 30 to 50 years – 116
- Over 50 – 43

In 2010, HSH's employee annual turnover rate was 19.7%, which was an increase over 15.7% in 2009 and 17.8% in 2008. In 2010, 2009 and 2008, the rates were 20.4%, 12.3% and 15.9% respectively for our Asia properties and businesses and 17.3%, 23.1% and 24% respectively for our US properties. As our hotel property in Paris is in the development phase, turnover rates are not applicable. We note that turnover in Asia increased in 2010 and decreased in the US. While we primarily attribute the higher rate of employee turnover this year to conditions in the markets in which we operate, we will continue to carefully monitor staff turnover rates. HSH will also review and discuss with employees the results of its engagement survey to identify opportunities to enhance employee retention. For information on turnover by region, gender and age group, refer to HSH's online GRI Content Index.

11. For Head Office, it refers to all management employees of grades A to *D.*

In 2010, HSH's updated HR Company Manual, covering all aspects of HR management, was launched at the annual HR conference. HSH properties and businesses have begun to update their Employee Handbooks to bring them in line with the Group's comprehensive and consistent approach to human resource management, while allowing flexibility to comply with local labour laws and conditions. The Head Office Staff Handbook and Employee Guide have been revised for all employees, with acknowledgement forms all returned.

Employee communication and engagement

As in previous years, the Group maintained a wide range of two-way communication and engagement channels, from regular general meetings of all staff and CSR committees at HSH properties and businesses, to roundtable discussions among staff at all levels. These channels are also outlined in the Corporate Governance Report on pages 71 to 88 of this Annual Report.

HSH published its CEO Webcast once this year, responding to staff requests for more information on the Group's strategy and priorities. Since 2009 when we started to engage our employees through CEO webcasts, approximately 450 hits per webcast have been registered. This does not include the occasions when the webcasts are shared en masse at local town hall and other meetings. HSH's staff newsletter, the HSH News, continues to be translated into different languages and posted on the Group's intraweb, an important information platform for sharing information with employees.

Providing regular and structured feedback and performance reviews to employees is critical to support the long term development of the HSH team. In 2010, 6,527 of HSH's full time employees received regular performance reviews and career development reviews, representing 99.7% of HSH's full time employees, an increase from 90% in 2009.

As noted earlier, HSH will implement a comprehensive engagement survey to gather views from employees (for five locations as a first phase), providing another important channel to engage staff on key issues and identity areas for follow-up by HSH.

During the year, there has been a Group wide programme of mentoring and engagement with HSH's operations in order to coordinate our CSR activities and to embed sustainable activities into HSH's culture. Presentations on the Company's sustainability philosophy, the context of the individual themes and the reporting structure have been made to different groups of managers throughout the year. These include the Group's general managers, operation managers and directors of finance. In addition, a telephone conference was held for both the US and Asia regions, with all of HSH's operational Executive Committee members online, where the participants were advised on how to structure their CSR efforts through the formation of sustainability committees in each operation.

The Adviser for Corporate Responsibility and Sustainability has conducted mentoring visits to operations in the US, Hong Kong and China to assist in the practical application of managing sustainability activities. As a result of these visits a number of best practices have been disseminated around the Group in the form of a newsletter and the minutes of the operational CSR Committee meetings are published on a dedicated Intraweb site for all businesses to access and share information. The Intraweb has also been used to make advisory and other published material on sustainability matters available to all managers in the organisation.

The Peninsula Bangkok created their own CSR logo for internal communication.

An outdoor CSR training workshop at The Peninsula Bangkok

Employee training and development
HSH is into the third year of its five-year HR strategy. The key objectives for 2010 remained as: (1) ensuring that the Group's remuneration philosophy and incentives retain talent; (2) establishing succession plans for managerial level positions; (3) enhancing HSH's practices and programmes for identifying, attracting, training and developing high-calibre talent; and (4) enhancing employee productivity.

Based on this strategy, the 2010 Group Learning and Development Plan was tailored and implemented by each property and business to address their learning needs. Examples of key initiatives undertaken in 2010 included:

- 270 employees joining the Cornell University e-learning programme, studying a variety of hospitality and management development topics.
- 18 employees joining the Group Leadership Programme, which has run for the past three years in partnership with the Melbourne Business School and involves staff focussing on two to three learning objectives under the guidance of their general manager.
- Four hotel manager-level executives participated in the Executive Development Programme where they underwent a 360° feedback review and were coached by an HSH Director or member of the Group Management Committee for an 18-month period based on agreed individual development plans.
- In the Richard Ivey Business School Consortium Programme, two employees participated in the Executive Development Programme and two in specialist programmes, both of which included participants from leading global and Hong Kong firms.
- Two Corporate Management Trainees were undertaking their training at The Peninsula Hong Kong and a third joined The Peninsula Chicago. They are graduates from hotel schools.
- The HSH Peninsula Scholar Programme supported one student in Hong Kong. A similar programme will commence in the United States in 2011. The Scholars will conduct internships within the Group and will be offered employment by HSH upon graduation.
- One HSH executive was awarded the Hong Kong Management Association (HKMA) 50th Anniversary Scholarship and will pursue a Professional Diploma in Customer Service Management. This executive was one of 50 recipients to receive a full scholarship in 2010. In addition, two HSH executives were awarded scholarships in the G21 Global Postgraduate

Diploma in Business Administration sponsored by MasterCard. The Scholarship programme focuses on the professional development of female managers and aims to empower women through education and in turn, helping them to realise their full potential.

An important part of the Group's succession planning remains its Cross Exposure Programme, which provides opportunities for high potential staff new to the company and for existing employees who have been identified as top performers to gain experience in different functions and locations within the Group, build on their skills and widen their experience. In 2010, individual development plans with learning objectives for 198 high potential employees were developed and HSH continued to support and encourage staff to join the programme.

HSH's orientation training was updated to engage new employees on the Group's sustainability vision, policy and strategy. Going forward, the sustainability content will be expanded and integrated into other relevant training going forward.

Employee welfare

HSH is committed to provide a working environment that supports the health and well being of our employees. To increase retention of experienced staff, HSH continues to participate in third party, annual compensation and benefits surveys in our major markets to ensure that we maintain our competitiveness. HSH also continues to implement a variety of initiatives to support employee welfare, which have been reported in previous Sustainability Reports.

To assist employees with their retirement, the HSH Group Retirement Plan provides ORSO[12] coverage for employees in Hong Kong and senior managers in Asia, and coverage in line with local programmes for employees outside of Hong Kong. Briefings on ORSO and retirement options have been provided in Hong Kong on choice of funds for employees approaching retirement; in November, 64 out of 114 retiring members in the Scheme attended the briefing. In the Trust Deed, employees are allowed a deferral of three years before disinvestment to ensure that they have ample time to choose the right time to disinvest. The Group's ORSO Committee, formed in 2009 and chaired by the Chief Financial Officer, reviews all aspects of the HSH Group Retirement Plan. In 2010, the Chief Financial Officer conducted a webcast to provide information on retirement planning to employees and to update them on revisions to the fund choices. The revised choices include 16 funds and the performance of the funds will be reviewed four times a year by the ORSO Committee. HSH is planning to conduct a survey to gather feedback and identify opportunities to enhance the ORSO plan in 2011 and to roll out further retirement planning sessions across the Group. In addition and as noted in previous Reports, HSH supports job transitioning when required and we post job vacancies in the Group on a fortnightly basis on the intraweb. Our medical insurance plans in Hong Kong allow retirees (certain conditions apply) to transfer their medical insurance without medical underwriting to an individually rated plan covering pre-existing conditions.

In 2010, HSH established its pay philosophy and the Group will continue to evaluate new compensation and benefits initiatives in line with the results of the staff engagement survey that will be launched in 2011 to assess, among other topics, employee welfare issues across the Group.

12. ORSO refers to the Occupational Retirement Schemes Ordinance.

Enhance employee welfare

- Training for Code of Conduct and Equal Opportunities policy underway and continued in 2011; e-learning Code of Conduct module launched for all management members
- Compensation and benefits surveys conducted annually
- Various health, exercise and retirement programmes provided
- The Peninsula Bangkok received the Outstanding Employer Award recognised by the Thai Ministry of Labour for four consecutive years
- The Peninsula Beijing's staff quarters provide television and DVD equipment for staff breaks and beds for those on a late or early shift
- The Peninsula Shanghai established The Peninsula Kids Club to enhance employees' English capability and create a different learning experience for local children
- The Peak Complex introduced a Work Balance Programme that includes movie nights, photography, bowling competitions and staff barbecues

Train and engage employees in corporate strategy and sustainability

- CEO webcast conducted and translated into local languages to update the Group on HSH's strategy and activities
- Increased use of the intraweb to share information and engage employees; ongoing engagement channels include regular meetings, newsletters, seminars, parties, etc.
- CSR committees established in all hotels and most businesses; ongoing communication on CSR through round tables with general managers, meetings, training, team building workshops, notice boards, newsletters, suggestion boxes, campaigns and activities
- The Peninsula Bangkok held a workshop for all of its 121 middle managers on CSR and business sustainability where 12 new projects were initiated and its "Yes to CSR!" logo was created
- The Peninsula Beijing recognises model employees and supervisors and those who receive guest compliments with monthly awards

Ensure employees receive training and career development support

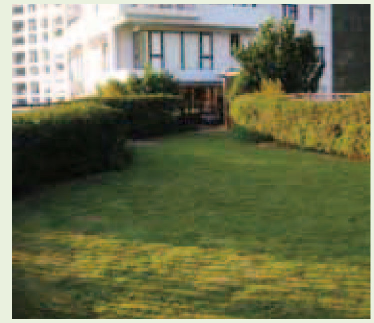
Continuous training and development activities across all operations, including:

- Orientation for new staff
- English language training
- Customer service
- Train-the-trainer
- Steps for supervision
- Management development workshop
- Departmental training (technical training)
- E-Cornell programmes
- Group leadership programme
- Cross exposure
- Health and safety, hygiene, emergency response training

Objectives for 2011

- As part of the Code of Conduct e-learning programme, launch an Equal Opportunities module to all managers
- Expand the number of employees undergoing the Executive Development Programme
- Develop corporate training programme for middle managers on effective presentation and communication skills, efficiency and leadership
- Expand the Peninsula Scholar Programme in Hong Kong and the United States
- Conduct phase 1 of Group Engagement Surveys to measure employee engagement, welfare and leadership
- Continue the roll out of retirement planning sessions across the Group and implement surveys for ORSO plan members
- Roll out videos on HSH's Heritage and Portraits of HSH to enhance engagement with employees






Top left to right : *The Peninsula Hong Kong's installation of solar film to guestroom windows*
Thai Country Club's new generation of electric golf carts
The Repulse Bay's green roof

Bottom left to right : *The Peninsula Hong Kong's newly installed water metres*
The Peninsula Chicago's energy-efficient water boiler
The Repulse Bay's sky garden

Environment

As outlined in our two previous Sustainability Reports, reducing our environmental footprint has been a key driver of our overall Sustainability Strategy. It is our responsibility to continually review our operations and adopt new technologies and behaviours that will contribute to sustainable buildings, healthy indoor air quality, lower carbon intensity, increased energy and water efficiency and reduced resource consumption and waste generation. Our commitment to environmental responsibility is in line with our tradition of service excellence. We have and will continue to provide luxurious services and experiences for our guests, customers and tenants in an environmentally responsible way that balances the diverse expectations of our stakeholders.

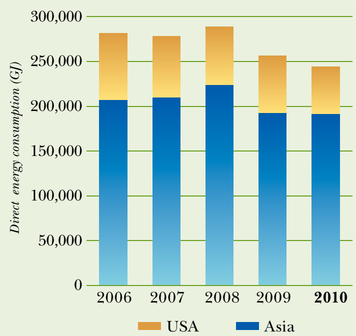
As reported previously, the foundation of our environmental initiatives lies in our 2008 Sustainability Review and the Technical Pilot Studies on indoor air and environmental quality (IAQ/IEQ) and energy and water consumption conducted at the Peninsula hotels in Hong Kong and Chicago. As a result of these studies, over 100 potential energy and water saving and IAQ/IEQ initiatives were identified in 2009. Led by the Groups's Chief Engineer, engineers at each property and business selected 76 energy and water conservation initiatives for implementation in 2010, as part of the capital investment plans across the Group. As presented in HSH's Consolidated Environmental Performance Indicator Graphs and Diagrams on the next page, the Group not only reached but exceeded its reduction targets, through a number of measures that included:

- LED and CFL/fluorescent tube retrofits
- Chiller replacement/retrofits or cooling system upgrades
- Boiler and heating system replacements/retrofits and heat recovery systems
- Heat pump replacements/retrofits/HVAC upgrades
- Solar film shading or window upgrades
- Solar water heating installations
- Variable frequency drive (VFD) installations
- Demand/control system installation
- Elevator/escalator upgrades
- Electrical system upgrades
- Shower head/faucet/water reduction retrofits

HSH's Consolidated Environmental Performance Indicator Graphs and Diagrams

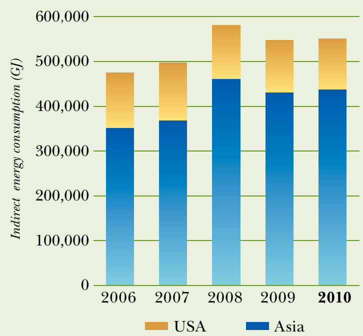
Direct Energy Consumption by Primary Energy Source and Indirect Energy Consumption by Primary Source

2006-2010 HSH direct energy consumption by geographical segment

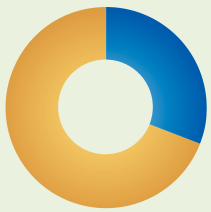


Remarks: 1) Energy increase in 2008 which reflects the addition of The Peninsula Tokyo.
2) Consumption by Thai Country Club for which we did not have accurate data during the base period, has now been included as estimates based on subsequent experience.

2006-2010 HSH indirect energy consumption by geographical segment



2010 HSH energy consumption distribution

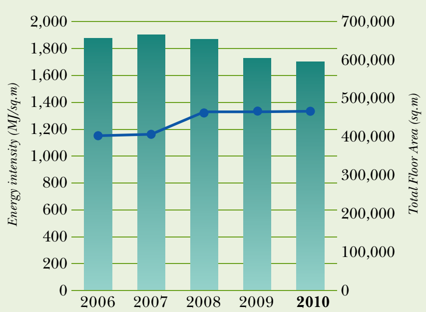


Direct energy consumption	31%
Indirect energy consumption	69%

Direct energy consumption – on site consumption of town gas, natural gas, LPG and diesel oil
Indirect energy consumption – on site consumption of electricity and steam

HSH Energy Intensity, Environmental Investment and Cost Savings

2006-2010 HSH group energy intensity versus total floor area



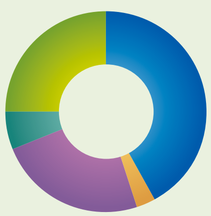
	2006	2007	2008	2009	2010
Energy intensity (MJ/sq.m)	1,876	1,904	1,869	1,727	**1,703**
Total floor area (sq.m)	403,207	406,878	465,450	465,450	**466,885**

Remarks: Consumption by Thai Country Club for which we did not have accurate data during the base period, has now been included as estimates based on subsequent experience.

2010 HSH environmental investment distribution

Energy efficient lightings	27%
Energy efficient cooling equipment	8%
Energy efficient heating equipment	27%
Solar film installation for windows	21%
Other investments	16%

2010 HSH cost savings distribution

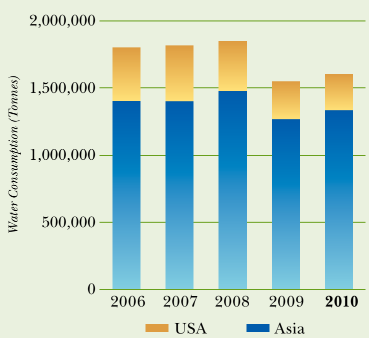


Energy efficient lighting	41%
Energy efficient cooling equipment	3%
Energy efficient heating equipment	24%
Solar film installation for windows	6%
Other investments	25%

Remarks: Other investments include lighting motion sensors, VFD installation for kitchen exhausts, energy-efficient elevators, water-saving shower heads/sink faucets and water recovery systems.

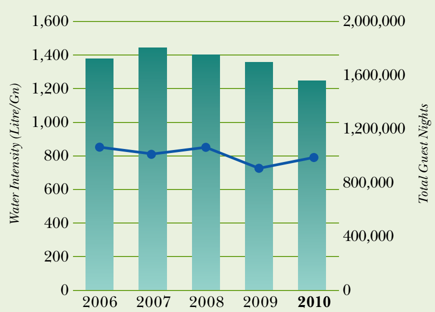
Total Water Withdrawal by Source and HSH Water Intensity

2006-2010 HSH water consumption by geographical segment



Remarks: 1) Consumption increase in 2008 which reflects the addition of The Peninsula Tokyo.
2) Consumption by Thai Country Club for which we did not have accurate data during the base period, has now been included as estimates based on subsequent experience.

2006-2010 HSH (hotels only) water intensity versus total guest nights



	2006	2007	2008	2009	2010
Water intensity (Litre/Gn)	1,378	1,444	1,401	1,357	**1,247**
Total guest nights	1,065,035	1,014,559	1,063,921	907,871	**985,951**

Top : *The Peninsula Bangkok's new and more efficient flatwork ironer*

Above : *The Repulse Bay's variable frequency drive unit*

Above : *The Repulse Bay's power factor correction equipment*

Above : *The Repulse Bay's Euro V compliant shuttle bus*

Our Group energy reduction target, to be achieved by the end of 2010, was for energy intensity to have reduced by 10% compared to the average baseline intensity from 2006 to 2008. The Group almost met this target over the whole year, with a reduction of 9.6%, and significantly over-achieved in reducing our water intensity by 11.4% (target was 3%), compared to our baseline consumption average between 2006 and 2008. We remain committed to reducing our energy and water intensity by a further 5% and 3%, respectively, below the base period by the end of 2011 through further capital investments in reduction technologies and enhanced employee awareness of best practices.

Energy and fuel consumption

In 2010, HSH properties and businesses implemented a number of technical upgrades and encouraged employees to change behaviour to reduce their energy use. Great emphasis has been placed on not impacting the guest experience or comfort, whilst making every effort to reduce energy consumption. Overall, as outlined in the graph on page 184, HSH reduced its energy intensity in 2010 by 9.6% (to 1,703 MJ/m^2) below its baseline energy intensity average of 1,883 MJ/m^2 between 2006 and 2008. An average baseline was selected to account for the addition of The Peninsula Tokyo to the Group's overall consumption data in 2008. The graphs also report on HSH's direct and indirect energy consumption by primary source and present geographical data on energy consumed by HSH's Asia properties and businesses (excluding The Peninsula Shanghai[13]) and the United States. For total consumption statistics, please refer to the Environmental Performance Statistics on page 199. The reductions in energy intensity are due to the adoption of efficient lighting, cooling and heating equipment and elevators, the installation of solar film for windows, lighting motion sensors, VFDs for kitchen exhausts and our employees' energy conservation practices.

Greenhouse gas emissions

The Group generated 107,781 tonnes of CO_2 equivalent in 2010, which was 356 tonnes more than 2009. While there was an absolute increase in the 2010 footprint, the actual average emission intensity was reduced by 10.9% versus the base period, as guest nights increased in 2010 (6.5% if The Peninsula Shanghai is included). HSH also began to collect information on its Scope 1 emissions arising from the combustion of fuel in HSH's mobile combustion sources (e.g. cars and vans), which comprised of 1,668 tonnes of CO_2 equivalent in 2010.

13. *If The Peninsula Shanghai's energy consumption of 82,092 GJ had been included in the energy intensity calculation for 2010, the reduction in intensity for the Group would be restated as 13% and the actual intensity would be 1,639 MJ/m^2. Energy usage at The Peninsula Shanghai was low during the first year of operations, hence the usage per m^2 is lower than other properties.*

As in 2009, to calculate its greenhouse gas (GHG) emissions, HSH applied the methodology used by the World Resources Institute (WRI)/World Business Council for Sustainable Development (WBCSD) GHG Protocol, recommended for use in the GRI Indicator Protocol for EN16. HSH included its major Scope 1 and 2 sources of GHGs in calculating its emissions. HSH's Scope 1 emissions include emissions from fuel oil and gas in stationary combustion sources, from mobile combustion sources and fugitive emissions arising from its refrigeration and air-conditioning equipment. Scope 2 comprises emissions from the generation of purchased electricity and steam.

With regard to energy consumption and emissions of GHGs, HSH will continue to implement and expand its carbon reduction strategies within all of its properties and businesses. Our approach is to diligently monitor the effectiveness of our existing measures, to enhance maintenance and behavioural practices where needed and to continue to adopt new technical measures that require capital investment to continue to reduce our carbon footprint over our baseline emissions in 2008[14].

Management of refrigerants

HSH continues to implement its phase out plan for the use of ozone-depleting substances (ODS). Significant capital investments have been and continue to be made to implement this plan, including The Peninsula Beijing replacing three of its four chillers in 2010, with the remaining one to be replaced in 2011.

These actions are, at a minimum, in accordance with the requirements of the Montreal Protocol on Substances that Deplete the Ozone Layer. In 2010, HSH consumed approximately 2.02 tonnes of ODS, or 0.136 tonnes of CFC-11 equivalent, comprising R12, R22, R123, R502, R414b and R502. This represents an 0.8% reduction over 2009 when 1.953 tonnes were consumed. For detailed consumption data by each ODS please refer to the Environmental Performance Statistics on page 199.

Indoor air and environmental quality (IAQ & IEQ)

The effective management of IAQ and IEQ levels at HSH properties and businesses is essential for providing a safe and healthy environment for our guests, tenants and employees. We carefully manage our indoor environments through a variety of measures such as proper management of ventilation, heating and cooling systems, controlling maintenance and renovation activities, as well as reducing the usage of hazardous paints and cleaning products. In 2010, our sustainability guidelines called on hotels and businesses to use and report on their use of low VOC paint and biodegradable cleaning products. Going forward, properties are planning to evaluate measures to continue to manage IAQ and IEQ in line with best practice standards.

Each operation has made budget provisions in 2011 for an IAQ/IEQ assessment and will then analyse what is required to effect improvements where necessary.

Water consumption and conservation

In 2010, HSH continued to adopt new initiatives to reduce water consumption, including the installation of water-efficient showers and faucets and best operational practices. In comparison with the baseline consumption average between 2006 and 2008 of 1,821,508 m^3, the Group's overall consumption of water, which was 1,604,191 m^3 in 2010, reduced by 11.9% (equivalent to 217,317 m^3). Our hotels' water intensity, measured by guest nights, reduced from 1,357 L/Gn in 2009 to 1,247 L/Gn in 2010, representing a reduction of 110 L/Gn[15]. This was achieved as a result of new conservation measures (there was an increase in the number of guest nights from 2009 to 2010).

More detailed information on the Group's consumption of water is provided in the graphs on page 184. Most of the water withdrawn by properties and businesses is from municipal suppliers, comprising 1,604,191 m^3 in 2010 (1,549,932 m^3 in 2009). The Peninsula Manila also withdrew 106,807 m^3 of water (124,899 m^3 in 2009) from wells. 141,565 m^3 of recycled

14. 2008 has been selected as the baseline for calculating HSH's carbon footprint as it marks the year when The Peninsula Tokyo had its first full year of operation.

15. If The Peninsula Shanghai's water consumption of 247,236 m^3 had been included in the water intensity calculation for 2010, the reduction in intensity for the Group would be restated as 3.1%. During the opening year of operations, The Peninsula Shanghai had a lower occupancy than other hotels in the group and the water intensity in litres per guest night was therefore higher than average.


Above left : *The Peak Complex's installation of energy-efficient lighting*

Above right : *The Peninsula Manila's water recovery system for its dry cleaning plant*

water was used by the Peninsula hotels in Bangkok and Tokyo, representing 8.8% of HSH's total water consumption in 2010. The Group's consumption total does not include the portion of seawater that is consumed by the properties and businesses in Hong Kong, where seawater is used for flushing purposes and meters are not available to measure seawater.

In 2011, the Group plans to continue to implement water conservation measures including retrofitting existing shower heads and faucets with water efficient replacements and to enhance water efficiency and recovery measures in the Group's laundry facilities. While these measures are important, it must be noted that HSH periodically reviews its policy to address potential hygiene risks, which can involve an increase in water consumption as cleaning regimes are updated.

Resource use, conservation and waste management

HSH's approach to reducing resource consumption and waste generation flows from its sustainability guidelines that call on properties and businesses to initially select materials and products that meet our quality requirements, the expectations of our guests and customers and our sustainability criteria whenever feasible and appropriate. The guidelines provide specific guidance on sourcing products and items that: have sustainable content or features; are produced in environmentally and socially responsible manners; and/or result in less waste being generated by being durable, reusable, biodegradable, recyclable or having less packaging. The guidelines also require that waste materials are reused, recycled and/or collected by licensed contractors for proper disposal.

Examples of key achievements that our Group has made in conserving resources and reducing waste are provided in the diagram on page 189. As reported in the supply chain section below, we have made a significant effort in 2010 to better understand the nature and quantities of the resources we use and the waste generated. This information, which is reported to HSH on a quarterly basis, will be used to update the criteria in our sustainability guidelines where appropriate and, where possible, to set performance targets for specific materials. For example, where sustainable options are used by the majority in our Group this can become a Group-wide directive. However, it is important to note that the setting of criteria and performance targets must account for the fact that our business is conducted in very diverse markets around the world where the availability of particular products and services can vary greatly. In this regard, we did not develop protocols for conducting resource consumption and waste audits in 2010 as we had previously planned. Going forward, we will continue to update our sustainability guidelines and review and assess their implementation on a quarterly basis.

Sustainable building

In 2010, we undertook an initiative to review all our building and renovation specifications and guidelines to identify where we could update them to integrate sustainability considerations. Our new Sustainable Design Standards & Guidelines, launched in December 2010, adopt an internationally recognised green building framework for new hotel developments and the renovation of existing properties, covering the following key topics:

- integrated design process
- site sustainability
- energy efficiency
- water conservation
- enhanced indoor environmental quality (IEQ)
- material and resource conservation (environmentally preferable products)

Energy efficient lighting

- The Peninsula Bangkok replaced existing incandescent lamps with T5 in back of house, LED for halogen/par and compact fluorescent lamps in various areas; installed motion sensors back of house
- The Peninsula Beijing replaced all exit lights and guest floor landing cove lights with LED, 63% of public area T12 lights with T5 and all staff building corridor lights with T5
- The Peninsula Hong Kong has installed LED in its guest floor cove lights and blocks guest floors during low season with blind curtains to minimise the use of air conditioning
- The Peninsula Manila is progressively replacing its fluorescent exit lights, halogen lights and fluorescent T8 tubes with LED in selected locations
- The Peninsula New York installed 164 Occu-Smart light fixtures in stairwells and 88 energy efficient fluorescent light fixtures in mechanical equipment rooms
- Butterfield's Club installed energy saving motion sensors
- The Peak Complex changed back of house lighting to T5 and front of house spot lights to LED lights, installed energy efficient lighting in Peak Tram terminus and in the Peak Tram compartments, and shortened the operation period of escalators in the Peak Tower
- The Repulse Bay upgraded all lights in its lift lobbies and Club House to LED
- The Thai Country Club is using T5 lighting in the main kitchen and in all renovated areas on the property; motion detectors and timers are being progressively installed

Solar film installation on windows

- The Peninsula Beijing installed 3M films to guestroom windows to cut down the energy cost of air conditioning supply
- The Peninsula Hong Kong installed 3M films on all guestroom windows to reduce its use of air conditioning as a result of the reduction of the solar load

Energy-efficient heating, air conditioning and heat recovery (boilers, fuels, heat pumps, laundry)

- The Peninsula Bangkok installed a new heat exchanger
- The Peninsula Beijing recovers exhaust steam to preheat the hot water system for laundry and staff facilities and replaced main fresh air supply fan for the east side of guest floors to cut down energy cost of air conditioning supply
- The Peninsula Shanghai recovers laundry condensation water to heat water and enlarged the capacity of its chiller by 80% to utilise the cold energy for space cooling and reduce electricity consumption
- The Peninsula Beverly Hills uses steam energy for its pressing and dry cleaning operations, low temperature detergents and replaced two of its dryers with models that are 25% more energy efficient
- The Peninsula Chicago's new gas boiler uses 1/3 less energy and VFD cooling towers have been installed
- Cathay Pacific Lounges aligned its air conditioning with the Hong Kong Government's recommended temperature of 25.5°C and conducted delamping in its offices and back of house
- The Thai Country Club replaced six air conditioner units in the main kitchen and one in the Pro Shop with the most environmentally responsible units available in Thailand

Energy efficient electric and internal combustion motors (chillers, fans, pumps, escalators, elevators, fridges, vehicles)

- The Peninsula Bangkok installed a new flatwork and folder machine for laundry
- The Peninsula Manila introduced a fuel additive, resulting in 5 to 10% savings on diesel fuel. Its purchasing van now runs on waste vegetable oil
- The Thai Country Club purchased a new fleet of electric golf carts, which are the most advanced, energy-efficient golf carts on the market with the lowest operating expenses and new green mowers that use a hybrid system with significantly reduced fuel consumption and noise pollution
- The Repulse Bay upgraded all AHUs and its swimming pool pump with VFD; two new buses were purchased with Euro V engines, which are more fuel efficient and emit less nitrogen oxides than the previously used Euro IV engines and meet the latest and toughest emission standards in the world

Reduce water consumption

- The Peninsula Bangkok uses recycled water in its cooling tower and ponds and for gardening and road cleaning, saving 7,500 cubic meters of water per month
- The Peninsula Beijing installed water efficient shower heads and faucets in its staff lavatories
- The Peninsula Beverly Hills installed sensor controlled wash sinks in all back of house areas except the kitchen, water meters in various key departments, aerators in back of house devices and all sprinklers are on a nightly timer and adjusted for seasonality and native plant needs
- The Peninsula Hong Kong installed water meters in individual kitchens and the laundry and sensor-controlled faucets in all staff lavatories
- The Peninsula Manila installed a water recovery system for its new laundry dry cleaner, saving around 10 litres per minute of water and 13 waterless urinals back of house, saving around 3.75 litres of water per usage
- The Peninsula New York completed the installation of 1.5 gpm sink aerators in all guestrooms and installed touch free faucets in back of house restrooms
- The Peninsula Shanghai modified the cooling system of the laundry's dry cleaning machine, reducing 20 tonnes of water consumption per day
- The Peak Tower lowered the flow rate of the water taps in the washrooms and the Peak Complex uses natural run off from the mountain for planting, cleaning and construction along the Tram track
- The Repulse Bay installed automatic taps at the management office toilet and upgraded showers and taps with water efficient faucets

Improve waste management

- The Peninsula Bangkok recycles its glass, paper products, plastic bottles, aluminum cans and cooking oil and uses biodegradable takeaway food containers
- The Peninsula Beverly Hills uses sustainably sourced paper and reusable tablecloths back of house, recycles toner cartridges, recycles or composts the majority of its waste, recycles oil and grease from kitchens, no longer uses plastic wrapping for guests' dry cleaning and donates all used guest amenities to "Clean the World" which sanitises and passes them onto people in need
- The Peninsula Chicago recycles its cardboard, glass, plastic, paper and wet waste and donates all of its used guest amenities to homeless shelters
- The Peninsula Hong Kong recycles its compact fluorescent tubes, waste paint cans, used printer/copier toner cartridges, batteries, waste cooking oil, used fluorescent tubes, carton boxes, paper, glass, aluminium cans, scrap metal and plastic wastes
- The Peninsula Boutique in The Peninsula Manila provides biodegradable bags and the hotel's food and beverage outlets switched from using plastic food containers and Styrofoam to biodegradable containers made of pulp. The hotel recycles its plastics, glass, tin cans, metals, white goods and paper products. Its used cooking oil is converted into bio-diesel and it donates its soda can tabs to "Tahanang Walang Hagdan" for recycling into wheelchairs
- The Peninsula Tokyo decomposes its kitchen waste and recycles it for use as flushing water for its back of house lavatories
- Cathay Pacific Lounges recycle its waste paper, carton boxes, plastic bottles and cans and sends its used cooking oil for conversion into bio-diesel
- The Thai Country Club donates its old uniforms, locker room towels and other linen to orphanages and charities in Thailand and its old IT equipment to a Buddhist Wat for re-conditioning for use by schools and orphanages

Objectives for 2011

- Reduce energy intensity by a further 5% in 2011 over the baseline energy intensity average between 2006 ~ 2008
- Reduce carbon intensity* by 10% over the base period average of 2006 ~ 2008
- Reduce water intensity by a further 3% in 2011 over the baseline water intensity average between 2006 ~ 2008
- Monitor the quantities of waste and materials collected for recycling and proper disposal and identify opportunities to further reduce waste
- Roll out sustainable design standards and guidelines throughout the Group and provide training
- IAQ/IEQ assessments to be carried out across the Group in 2011

* *Emissions from vehicle fuel are not included in the carbon intensity reduction target as 2010 was the first year that HSH measured vehicle fuel and thus it was not comparable against the baseline of 2006 – 2008.*

Provide a healthy, safe and hygienic environment for employees, customers and guests

The Peninsula hotels conduct regular training on fire prevention and drills, bomb threat, emergency response, crisis preparedness, first aid, hazardous material use, handling and disposal, personal protection equipment training, bed bugs prevention, manual handling instruction, blood-borne pathogens and personal hygiene, hygiene/HACCP and transportation safety

The Peninsula Chicago has monthly surprise inspections by a third party company to measure performance and ensure compliance with health and safety guidelines

Health And Safety

As always, providing guests, customers, business partners, employees and other stakeholders with a healthy, safe and secure environment is of paramount importance to HSH. To achieve this, we actively manage security issues at our properties, implement safe and hygienic working practices and remain prepared to respond in a professional and timely manner to changing circumstances. Key to this is also providing training and support to our staff to minimise injuries and lost work days from injuries. The Group average for 2010 was 14 injuries per 100 employees per year; this included the most minor of injuries requiring first aid, as well as those resulting in lost days. The Group absenteeism rate (from injuries) was 65 days per 100 employees per year. Further analysis is being carried out on the causes and severity of injuries to enhance our training and prevention practices. We can also report that, except for a small fire caused by contractors on the roof of The Peninsula Manila that was promptly extinguished, we did not have any significant incident in 2010. We will remain diligent in supporting our employees and contractors to adopt safe practices in the workplace.

Objectives for 2011

- Minimise injury and lost day rates
- Achieve full implementation of the Operational Risk Manual across the Group, as measured through audits
- Standardise risk reporting across the Group

In 2010, we began a significant initiative to apply a consistent and systematic approach to risks across the Group. The Manager of Operational Risk visited all but two of HSH's properties to provide hands on guidance and training to assist the operations to integrate the Operational Risk Manual into their local systems. This comprehensive Manual outlines our approach for properties and businesses to manage occupational health and safety and security risks, prevent disease outbreaks, fire, manage other emergency response systems in line with the OHSAS 18001 standard and to adopt food safety and hygiene practices as required by the Hazard Analysis and Critical Control Point (HACCP) system. In tailoring the Manual, each operation is required to develop safety and security action plans covering crisis management, occupational health and safety and minimum security standards. The remaining properties and businesses will receive on site implementation support on the Manual in 2011.

Going forward, all properties and businesses will continue to conduct regular checks and drills and monitor and report on their performance to the Group. The Manager for Operational Risk will also conduct bi-annual audits to ensure compliance with the relevant local laws and HSH's Operational Risk Manual.

Supply Chain

An important element of our sustainability strategy, one where Group action can effect change, is in our purchase of goods and services. In 2009, we embarked on an initiative to engage our suppliers and contractors by not only communicating our sustainability expectations but learning about their management and sourcing practices. While HSH continues to consider a number of other criteria in the sourcing of products and services – eg. cost, availability, reliability, security of supply and guest and customer expectations – we are committed to increasingly incorporating environmental and social responsibility criteria in our sourcing practices and working with our suppliers over the years to enhance the sustainability of our supply chain. This has been, and will continue to be, a significant and important task.


Left : *Use of local produce at The Peninsula Beverly Hills*

Right : *The Peninsula Manila developed bio-degradable packaging*

Our supply chain initiative has involved the following key elements:

- The launch of a Supply Chain Code of Conduct in 2009, which outlines the Group's expectations for its suppliers and contractors to ensure that their activities comply with applicable labour, occupational health and safety, environmental and other relevant legislation and that ethical business practices and corrective actions are adopted. In particular, the Code states that suppliers and contractors shall not use any forced labour, whether in the form of prison labour, indentured labour, bonded labour or otherwise and shall comply with the national minimum age of employment, or the age of completion of compulsory education, or any otherwise specified exceptions, and shall ensure that any young workers are not engaged in dangerous work that would cause physical or mental harm.
- In 2009, The Peninsula Hong Kong piloted the distribution of the Code and a Sustainability Questionnaire for Suppliers and Contractors to a majority of its suppliers and contractors (please refer to the Sustainability Report 2009 for details).
- Based on the information received in the completed questionnaires, the questionnaire was refined and in 2010 it was sent to suppliers representing 80% of the total spend for the other Peninsula hotels and The Repulse Bay. The Code of Conduct was also distributed to all of their suppliers.
- In total, 3,592 copies of the Code of Conduct and 1,004 questionnaires were distributed. The response rate to the questionnaire in 2010 was 64% (644 completed questionnaires received). Responses to the questionnaire appear to demonstrate that the majority of our suppliers share our sustainability vision and are themselves conducting their businesses in line with our Code of Conduct. In 2011, the Peninsula hotels and The Repulse Bay will follow up with its key suppliers to discuss opportunities to increase our sourcing of sustainable products.
- The Group wide sustainability guidelines was updated in 2010 to provide more specific guidance on the nature and types of sustainability content/features to procure when available and feasible for all of the Group's major items and services. These items range from procuring energy efficient equipment certified to relevant standard schemes, to LEED-recommended building materials, to locally produced food items and wood, paper, fish and seafood from sustainably managed and/or certified sources when available, appropriate and financially viable.
- From January 2010 onward, all Peninsula hotels and The Repulse Bay have been reporting on a quarterly basis on their implementation of the sustainability guidelines and specifically on quantities purchased of over 15 items, ranging from energy efficient lighting, paper with recycled content and low VOC paint, to sustainably sourced fish. While a consistent format has been used, it has proven challenging to provide a robust report on a number of items in supply chains due to a lack of information or inconsistent measurement techniques. Throughout the year, significant effort was made to clarify the information reported and as such the indicators included in this Report are reported as estimates. As this reporting becomes more routine, it is expected that the robustness of the information will improve.

As the majority of the Group's purchases involve food items, challenging purchasing decisions need to be made every week if not every day. The sustainability guidelines have provided a framework for all properties and businesses to strive, when feasible and cost effective, to maximise procurement of efficient equipment, locally produced items, natural meats, sustainably harvested seafood and organic dairy, fruits, vegetables and other items. Our approach to managing biodiversity issues is particularly relevant for its sourcing of fish and seafood for its food and beverage outlets and in both renovation and construction activities. The guidelines require hotels and businesses to avoid procuring items that are deemed to be on an international, local or critically endangered species list, such as the International Union for Conservation of Nature's (IUCN) Red List of Threatened Species or the World Wide Fund for Nature's (WWF) Sustainable Seafood Guides, whenever possible but recognise that given customer expectations, strict adherence to these guidelines may not always be achievable.

Key achievements made in sustainable purchasing in 2010 by our properties and businesses are highlighted below. Of particular note, we are pleased that the majority of our fresh food items are procured locally (i.e. within two to three hours of travel time of our operations by land or water-bound transportation) as this significantly reduces our indirect carbon footprint. It should be noted that these are estimated percentages for purchases made by all our hotels and The Repulse Bay during the last quarter of 2010:

- 84% of back of house lighting is energy efficient (i.e. LED, CFL or T5)
- 90% of cleaning products are biodegradable
- Locally sourced items comprise 67% of eggs, 59% of vegetables, 51% of milk, yogurt and cream, 47% of meat, 38% of fish and seafood, 35% of fruit and 23% of cheese and butter

Left : *Cathay Pacific Lounges return cardboard to suppliers for re-use*

Right : *Cathay Pacific Lounges recycle cooking oil by converting to bio diesel fuel*

For fish and seafood items, some items are from sources that claim to be sustainable and/or certified as sustainable. Similarly, some of our egg and meat items are free range and some of our dairy and eggs are certified organic. Going forward, we aim to enhance the rigour of our sourcing and reporting on these issues where possible and when more reliable information is available.

In 2011, we will identify key risks in our supply chain and work directly with relevant suppliers to address these risks through on-site monitoring and/or purchasing alternatives. We will also continue to explore ways to enhance our procurement activities and influence our supply chains, while recognising guest/customer preferences, maintaining our service standards and considering the availability of sustainable products. In this regard, The Repulse Bay established a food supplier audit system that involves the Procurement Manager and Executive Chef annually auditing the factory conditions of its key suppliers. Suppliers will be classified into Grades A to C and remedial action will be required as needed to remain a supplier.

Objectives for 2011

- Enhance the robustness of reporting on sustainable sourcing
- Enhance engagement with key suppliers to seek opportunities to enhance sustainable sourcing
- Review the implementation of the sustainability guidelines and refine and update as needed to enhance the Group's sourcing of environmentally and socially responsible goods and services

Community Investment And Engagement

Since its beginnings, HSH has been active in supporting communities in the locations of its businesses. The Group contributes to the Make-a-Wish campaign and in our diverse communities, we also support a variety of local organisations and causes through monetary and in-kind donations, fostering new skills and volunteering. In comparison with our efforts in 2009, our operations in 2010 increased their monetary donations by HK$723,434 (+137%), donations in kind by HK$205,538 (+5%) and hours spent volunteering by 2,077 hours (+99%).

The Peninsula hotels participated in a host of breast cancer initiatives throughout October 2010. October is the global breast cancer awareness month, during which organisations large and small raise funds to fight a disease afflicting hundreds of thousands of women annually. Enriching Your Life was the theme of our hotels' efforts. Pink being the colour associated with breast cancer charity campaigns, a number of our hotels elaborated on this theme, for instance:

- The front entrance and name of The Peninsula Chicago were illuminated in pink. It was the predominant colour in floral arrangements at afternoon teas and dinners, from which monies were donated to The Lynn Sage Cancer Research Foundation. The hotel Spa staged the Pretty in Pink initiative, under which donations were made from the costs of manicures, massages and facials.
- At The Peninsula New York, US$5 was donated to Making Strides Against Breast Cancer for every Afternoon Chari-tea served in the Gotham Lounge.
- The Peninsula Beverly Hills raised funds by serving afternoon Peninsula Pink Teas, during which guests received a glass of pink champagne.
- The Peninsula Tokyo hosted The Rockin' Pink Party, featuring a celebrity DJ, with proceeds of US$20,000 going to local breast cancer charities. Donations were also realised through dining, afternoon tea and spa promotions.
- The Peninsula Manila staff sported pink ribbons and joined forces with Avon Walk and Run Against Breast Cancer to promote a Kiss Goodbye to Breast Cancer walk and five kilometre run.
- The exterior of The Peninsula Hong Kong was backlit in pink to promote breast cancer awareness month. Pink was adopted as the theme colour at the serving of afternoon tea and all funds raised via a donation box at the Concierge Desk were presented to the Hong Kong Breast Cancer Foundation.

In 2010, HSH's businesses continued to review and align their community investment and engagement activities against the Group wide framework for community investment and engagement and to assess the effectiveness of their efforts. The aim of the framework was to focus the Group's expertise and experience in areas where it can best add value within the three themes of education, children and the elderly, as well as other causes based on local priority needs. Properties and businesses were encouraged to share their professional knowledge through educational and training initiatives, to implement projects that reflect the needs of the local community and to engage with local organisations on a long-term basis to build sustainable partnerships for action. As in previous years, the community investment committees have been monitoring and reporting progress and results to HSH's CSR Committee.

An overall breakdown of HSH's 2010 community investment and engagement activities by strategic theme and our contributions based on donations, both monetary and in-kind, to charitable organisations, time spent on community or professional/training initiatives, are provided in Tables 3 and 4 on the next two pages.

Table 3 : An overview of the nature and level of community investment activity in 2010 and 2009 across the Group by strategic theme

Community Investment and Engagement Theme	Education	Children	The Elderly	Other Initiatives
The Peninsula Hong Kong	Retraining scheme *For middle-aged unskilled persons*	Yuen Kong project *For children from Yuen Kong Kindergarten*	Special activities for the elderly *St. James' Settlement Navigation Services*	
The Peninsula Shanghai	Kid's Club *For children of staff members*	Children's Day 2010 *For Shanghai Pudong Special School, Home of Sunshine at Waitan Committee*		
The Peninsula Beijing	Hotel tour for Shanxi Occupational & Technical College *For school teachers and Education Bureau Officers*	Christmas visits *For Bethel Foster Home and Sun Village*	Caring visits *For Song Tang Elderly Hospital*	
The Peninsula New York	Making strides against breast cancer walkathon *For women with breast cancer*	Winter wishes *For underprivileged children*		Sprucing Up Drew Gardens *For park in the West Farms Community, Bronx*
The Peninsula Chicago	Mock interview training *For new refugees and immigrants from Laos, Nepal, Butan and Iraq looking to enter the work force in Chicago*	Annual sponsorship breakfast *For children living in poverty without access to quality food*	Fundraisers: Memory Walk/ Alzheimer's Awareness Month/ Young Professional Group *For persons affiliated and/or affected by Alzheimer's disease in greater Chicago area*	Fitness for seniors *For Lloyd Walking Fitness Center - senior citizens*
The Peninsula Beverly Hills	Retraining *For disadvantaged members of society*	Adopt-a-family *For local families who have recently suffered hardships*		Fundraising for Rotary Club of Beverly Hills *For polio eradication*
The Peninsula Tokyo	Educational support - Why we work *For children at orphanage*	Onigiri (rice ball) project and amenity support *For Mutsumi Maternal and Child Dormitory House*	Elderly employment *For unskilled elderly people who have joined National Re-training School for elderly people*	Onigiri (rice ball) project *For unemployed people*
The Peninsula Bangkok		Love and Care to Bann Ramindra *For Home for Children*	Love is sharing *For Baan Bangkae Elderly Home*	Love and care to Masjid *For Masjid Suwannabhuni community*
The Peninsula Manila	Sharing the light program *For Concepcion Integrated School, Marikina City*	Sharing the light program *For Concepcion Integrated School, Marikina City*	PMN chorale christmas caroling for the elderly *For the Epiphany of the Lord Parish in Camrin, Novaliches*	House building *For Habitat for Humanity Families*
The Repulse Bay	Guest lecture *For students from IVE Tsing Yi*	"Little Gentlemen & Little Ladies" *For low income families*		
The Landmark, Vietnam		Assisting the Vocational Training Center *For handicapped children and orphans*		

Table 4 : An overview of the nature and level of community investment activities in 2010 and 2009 across the Group

			2010 Total	2009 Total
Community work		No. of events	375	107
		No. of volunteers	2,420	1,004
		Total hours	3,788	2,084
		Total participants	6,745	1,023
		Dollar (HK)	$634,226	$209,383
		Kg	1,880	0
		Pcs	33,630	1,244
Participation in local community organisations		No. of events	67	0
		No. of volunteers	85	0
		Total hours	372.5	0
		No. of participants	465	0
Donations in kind	Hotel room nights	No. of events	479	531
		Dollar (HK)	$3,140,818	$3,293,979
	Hotel food & beverage	No. of events	498	367
		Dollar (HK)	$767,403	$397,199
	Hotel spa	No. of events	124	126
		Dollar (HK)	$423,501	$435,006
	From staff	Pcs	186	1,731
Monetary donations	From hotels	Dollar (HK)	$605,514	$429,530
	From staff	Dollar (HK)	$644,927	$97,477
Seminars/Workshops		No. of events	50	46
		No. of volunteers	97	169
		Total hours	340.1	239.25
		No. of participants	2,031	1,163
Internships/Work Exposure		Total hours	301,025	82,916
		No. of participants	501	371
Peninsula Tours (2009: Heritage Tours)		No. of events	27	2
		No. of volunteers	49	7
		Total hours	110.5	150
		No. of participants	455	57
Retraining Schemes		No. of events	71	25
		No. of volunteers	91	64
		Total hours	4,988	3,599
		Total participants	192	22

Note : Community work is defined as activities that are organised for charities which involve staff as volunteers. Participation in local community or business organisations summarises the hotel's participation in industry/educational organisations to benefit the community. For example, service on the Board of Ocean Park Hong Kong, Hong Kong Polytechnic University, Advisory Board of LEAP and participation on the steering committee of the Hong Kong Hotels Association.

Objectives for 2011

- Continue to assess and enhance the effectiveness of strategic community investment and engagement activities
- Increase staff participation in community investment and engagement activities

Stakeholder Engagement

As part of conducting business, HSH has always engaged with its diverse stakeholders through various engagement and communication channels at both the Head Office level and across all of its operations. We have identified our stakeholders as those who have a direct or indirect stake or interest in the financial, environmental and/or social performance of our business. Inherent in our approach is the recognition that our diverse group of stakeholders has different interests and expectations for our business operations.

In our 2009 Report, we identified our key stakeholder groups and stated that we planned to introduce a stakeholder mapping and classification (SMC) protocol across the Head Office and operations and to plan for structured stakeholder dialogues. After careful consideration by the CSR Committee, it was decided to first focus our efforts on HSH's stakeholders at the Group level. While HSH already engages with its stakeholders at the Group, property and business levels on various matters of interest, we recognise the benefits of a more systematic approach.

In 2010, we adopted a risk-based approach to mapping and classifying our stakeholders, which included the following key steps:

1. Identifying our stakeholder groups, including our employees, customers, shareholders, business partners, tenants, financial institutions, government, non-governmental organisations, industry associations, suppliers, media, travel agents, hotel schools and other academic institutions
2. Assessing the extent to which each of these stakeholder groups pose a risk to HSH's business strategy and/or reputation and the likely impact of the risks
3. Assessing the nature and effectiveness of either our risk management practices currently in place or our current types of engagement (the residual risk)
4. Identifying priority stakeholder groups and potential channels for engagement based on residual risk to HSH or where it would be in HSH's interest to be more proactive in engaging its stakeholders.

The results of the above assessment are included in the stakeholder risk analysis matrix. As noted above, the matrix outlines our current engagement channels with stakeholders that include regular meetings, shareholder meetings, employee meetings, town halls, webcasts, industry association meetings, questionnaires, media briefings, events, cooperative events, lectures and internships. This matrix serves as an important tool for us to track and plan future engagements and to re-analyse risks and opportunities with stakeholder groups. We also plan to share the approach with operations for them to develop their own matrices and enhance their stakeholder engagement where appropriate. We also aim to incorporate stakeholder views and key issues in the future and to include information on how HSH addresses this feedback in future Reports.

Objectives for 2011

- Complete the exercise to identify stakeholders and assess risks across the Group. Take appropriate engagement actions
- Continue to engage stakeholders through existing channels and conduct engagement sessions with priority stakeholders

Request For Feedback And Contact Information

We welcome your comments and suggestions on our report and how we can enhance our reporting in the future. Please send your feedback to David Williams, Adviser on Corporate Social Responsibility and Sustainability, at:

The Hongkong and Shanghai Hotels, Limited
8th Floor, St. George's Building
2 Ice House Street
Central, Hong Kong SAR
or via email on csrconsultant@peninsula.com

HSH Sustainability Objectives – achievements for 2010 and targets for 2011

2010 Objectives	Status	2011 Objectives
Employees		
Roll out HR Company Manual at the HR conference for all HR directors and learning and development teams.	√	• As part of the Code of Conduct e-learning programme, launch an Equal Opportunities module to all managers
Review the Group pay philosophy and review the Group's incentive programmes.	• Pay philosophy reviewed by Remuneration Committee on 6 December 2010. • Incentive scheme to be reviewed in 2011.	• Expand the number of employees undergoing the Executive Development Programme • Develop corporate training programme for middle managers on effective presentation and communication skills, efficiency and leadership
Launch an internal mentoring programme with senior executives to develop our talent.	√	• Expand the Peninsula Scholar Programme in Hong Kong and the United States.
Commence a programme of engagement surveys to measure employee engagement across the Group.	Design phase started, data collection February 2011	• Conduct phase 1 (five locations) of Group engagement surveys to measure employee engagement, welfare and leadership
Expand the Corporate Management Trainee Programme to locations beyond Hong Kong	√	• Continue the roll out of retirement planning sessions across the Group and implement surveys for ORSO plan members
Integrate sustainability content into the orientation and other relevant training across the Group	√	• Roll out videos on HSH's Heritage and Portraits of HSH to enhance engagement with employees
Maintain a balance of locally hired and international management staff at properties	√	
Environment		
Reduce energy intensity by 10% (to 1,695 MJ/m^2) in 2010 over its baseline energy intensity average of 1,883 MJ/m^2 between 2006 and 2008	√ Actual 1,703 (9.6% reduction from base)	• Reduce energy intensity by a further 5% in 2011 over its baseline energy intensity average between 2006 and 2008 by end of 2011 • Reduce carbon intensity** by 10% over base period average of 2006 ~ 2008
Reduce water intensity by 3% (to 1,365 l/gn) in 2010 over its baseline water intensity average of 1,407 litres/guest night between 2006 and 2008 (this target is for hotels)	√ Actual 1,247 (11.4% reduction from base)	• Reduce water intensity by a further 3% in 2011 over its baseline water intensity average between 2006 and 2008
Develop protocols for properties and businesses to conduct resource consumption and waste audits	In process	• Roll out sustainable design standards & guidelines throughout the Group in 2011 and provide training
Develop sustainable design guidelines for application to current and future construction and renovation projects	√	

** *Emissions from vehicle fuel are not included in the carbon intensity reduction target as 2010 was the first year that HSH measured vehicle fuel and thus not comparable against the baseline of 2006 to 2008*

2010 Objectives	Status	2011 Objectives
Health and Safety Audit properties' implementation of the Operational Risk Manual and develop action plans to enhance performance where needed	• Hotels 80% complete • Non hotels started in September 2010 and planned to complete in June 2011	• Minimise injury and lost day rates • Achieve full implementation of the Operational Risk Manual across the Group, as measured through audits • Standardise risk reporting across the Group
Standardise indicators for properties and businesses to report consistently on health and safety and operational risk performance.	• Hotels - health and safety reporting done with quarterly self audit on operational risks and half yearly reviews • Non hotels started in September 2010 and planned to complete in June 2011	
Supply Chain Review results of The Peninsula Hong Kong's supply chain pilot, refine the Questionnaire for Suppliers and Contractors as needed and roll out to the supply chains of all properties and businesses.	• Hotels done in July 2010 • Non hotels done in December 2010	• Enhance the robustness of reporting on sustainable sourcing • Enhance engagement with key suppliers to seek opportunities to improve sustainable sourcing • Review the going implementation of the sustainability guidelines and refine and update as needed to enhance the Group's sourcing of environmentally and socially responsible goods and services
Review the implementation of HSH's sustainability guidelines and refine and update as needed to enhance the Group's sourcing of environmentally and socially responsible goods and services	√	
Community Investment and Engagement Review community investment and engagement activities undertaken by properties and businesses to identify opportunities to enhance strategic actions and increase their beneficial impacts	√	• Continue to assess and enhance the effectiveness of our strategic community investment and engagement activities • Increase staff participation in our community investment and engagement activities.
Maintain monetary and in-kind contributions in line with expected economic value generated and distributed	√ Economic value + 5% and cash donations to charitable institutions and sponsorship of community programmes + 25%	
Stakeholder Engagement Roll out stakeholder classification and engagement manual and plan for providing training and support for properties and businesses to identify their stakeholders, map their issues and conduct targeted, stakeholder engagement initiatives.	• Risk based application of SMC for Group level stakeholders completed • Expansion of engagement at Group level and SMC throughout the Group to be determined in 2011	• Complete the exercise to identify stakeholders and assess risks across the Group. Take appropriate engagement actions • Continue to engage stakeholders through existing channels and conduct engagement sessions with priority stakeholders

HSH's Environmental Performance Statistics

GRI Code	GRI Performance Indicator	2006	2007	2008 (addition of PTK)	2009	2010
*EN 3	Direct energy consumption by primary energy source	281,303 GJ	277,965 GJ	288,667 GJ	256,174 GJ	244,053 GJ
*EN 4	Indirect energy consumption by primary source	475,263 GJ	496,880 GJ	581,145 GJ	547,846 GJ	551,273 GJ
	Total direct and indirect	756,565 GJ	774,844 GJ	869,811 GJ	804,020 GJ	795,326 GJ
*EN 5	Energy saved due to conservation and efficiency improvements vs 2009					8694 GJ
*Energy Intensity		1,876 MJ/m²	1,904 MJ/m²	1,869 MJ/m²	1,727 MJ/m²	1703 MJ/m²
* % Energy Intensity reduction (compared to 2006-2008 baseline average)					8.3%	9.6%
*EN 8	Total water withdrawal by source	1,801,743 m³	1,814,527 m³	1,848,255 m³	1,549,932 m³	1,604,191 m³
EN10	Percentage and total volume of water recycled and reused				8.3% 128,703 m³	8.8% 141,565 m³
**Water intensity – hotels only		1,378 Litres/Guest Night	1,444 Litres/Guest Night	1,401 Litres/Guest Night	1,357 Litres/Guest Night	1,247 Litres/Guest Night
**% Water intensity reduction – hotels only (compared to 2006-2008 baseline average)					3.6%	11.4%
EN16	Total direct and indirect GHG emission by weight			110,469 tonnes of CO_2 equivalent	107,425 tonnes of CO_2 equivalent	107,781 tonnes of CO_2 equivalent (109,449 tonnes of CO_2 equivalent including mobile combustion sources)
EN18	Initiatives to reduce GHG emissions and reduction achieved					• Energy-efficient lighting, cooling and heating equipment • Solar film installation for windows • Others – include lighting motion sensors, good practice, VFD installation for kitchen exhausts, energy-efficient elevators
EN19	Emission of ozone-depleting substances by weight				ODS / Tonne / Tonne of CFC-11 equivalent R12 / 0.028 / 0.028 R22 / 1.508 / 0.083 R123 / 0.2 / 0.004 R414b / 0.084 / 0.009 R401a / 0.004 / 0.002 R502 / 0.129 / 0.036 Total / 1.953 / 0.162	ODS / Tonne / Tonne of CFC-11 equivalent R12 / 0.021 / 0.021 R22 / 1.36 / 0.075 R123 / 0.5 / 0.01 R414b / 0.0022 / 0.0001 R401a / 0.05 / 0.002 R502 / 0.084 / 0.028 Total / 2.02 / 0.136
* HSH total floor area		403,207 m²	406,878 m²	465,450 m²	465,450 m²	466,885 m²
**HSH guest night – hotels only		1,065,035	1,014,559	1,063,921	907,871	985,951

LRQA Assurance Statement

Terms of Assurance Engagement

Lloyd's Register Quality Assurance Limited (LRQA) was commissioned by The Hong Kong Shanghai Hotels Limited (HSH) to independently assure its Sustainability Report 2010 (hereafter referred to as "the Report") included within the Annual Report 2010 for the financial year ending 31 December 2010. Our assurance covered HSH head office in Hong Kong and those properties and businesses where HSH has operational control.

The assurance engagement was undertaken against the Global Reporting Initiative Sustainability Reporting Guidelines (GRI G3), 2006. Our objective was to verify that the Report met the requirements of GRI's application level C and that HSH's data and claims were accurate.

The scope of the assurance engagement did not extend to data and information accessed through links that take the reader out of the Report. LRQA corroborated only that data and information were transcribed accurately or the correct reference was provided.

The Report has been prepared and approved by the management of HSH, who are also responsible for the collection and presentation of information within it. LRQA was responsible for carrying out an assurance engagement on the Report, in accordance with our contract with HSH.

LRQA's approach

The assurance engagement was conducted only in the HSH Head Office, St. George's Building, 2 Ice House Street, Central, Hong Kong.

Our assurance approach was risk-based and undertaken as a sampling exercise of the data and information disclosed in the Report. It covered the following activities:

- Reviewing HSH's stakeholder engagement process and related information;
- Evaluating HSH's material issues against our own independent analysis of stakeholder issues;
- Carrying out a benchmarking exercise of high-level material issues by reviewing sustainability reports written by HSH's peers;
- Understanding how HSH determines, responds and reports on its material issues;
- Interviewing HSH's senior management and their external consultant to understand HSH's reporting processes and use of sustainability performance data within their business decision-making processes;
- Interviewing key personnel to understand HSH's processes for setting performance indicators and for monitoring progress made during the reporting period;
- Verifying HSH's data and information management processes;
- Validating HSH's self-declaration of GRI G3 application level C; and
- Obtaining sufficient evidence, that we consider necessary for us, to give a limited level of assurance.

Note 1: Economic performance data was taken direct from the audited financial accounts.
Note 2: No source data was verified for accuracy and completeness.

LRQA's conclusions and findings[1]

HSH has met the requirements for GRI´s application level C+ as we found nothing that would cause us to contradict this conclusion and nothing has come to our attention that would lead us to believe that the performance data is not accurate or that information has been mis-stated.

LRQA's recommendations, HSH should:

- Implement a systematic approach to stakeholder engagement and in next year's report describe the process;
- Improve the detail of data provided on waste management by reporting total weight of waste by type and disposal method.

For and on behalf of LRQA Ltd, Hong Kong

10 March 2011[2]

Third party liability

LRQA, its affiliates and subsidiaries and their respective officers, employees or agents are, individually and collectively, referred to in this clause as the 'Lloyd's Register Group'. The Lloyd's Register Group assumes no responsibility and shall not be liable to any person for any loss, damage or expense caused by reliance on the information or advice in this document or howsoever provided, unless that person has signed a contract with the relevant Lloyd's Register Group entity for the provision of this information or advice and in that case any responsibility or liability is exclusively on the terms and conditions set out in that contract.

LRQA's Competence and Independence

LRQA ensures the selection of appropriately qualified individuals based on a rigorous appraisal of their training, qualifications and experience. The team conducting the assurance of the Report was multi-disciplinary and has been involved in assurance assessments from the outset of external verification of non-financial performance reports. LRQA's internal systems have been designed to manage and review assurance and certification assessments. This involves independent review by senior management of the outcome derived from the process applied to the assurance of corporate reports.

Independence of LRQA from HSH

LRQA and HSH operate as discrete and independent legal entities. LRQA did not provide any other consulting service to HSH.

Conflict of interest

LRQA is part of the Lloyd's Register Group. Lloyd's Register Group recognises that potential conflicts of interest may exist which could impact on its independent assurance and certification activities. Lloyd's Register Group is committed to identifying and managing such conflicts so that they do not adversely impact its independence and impartiality. In order to protect the integrity, neither LRQA nor any other Lloyd's Register Group company will provide services which create a conflict and compromise the independence and impartiality of third party assurance and certification. The Lloyd's Register Group will never verify its own solutions to a customer's problem.

LRQA assured the English version of HSH's Sustainability Report 2010. Other available language version(s) have not been checked for errors or changes in the meaning of data and information due to translation.

If there are any conflicts between English and Chinese versions of this statement, the English version of this statement will prevail.

1. *Conclusions given are based upon full disclosure by HSH of all relevant data and information.*
2. *This document is subject to the provisions about third party liability and is valid for one year.*

Global Reporting Initiative™

Statement
GRI Application Level Check

GRI hereby states that **The Hongkong & Shanghai Hotels, Limited** has presented its report "Sustainability Report 2010" to GRI's Report Services which have concluded that the report fulfills the requirements of Application Level C+. GRI Application Levels communicate the extent to which the content of the G3 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

18 March 2011, Amsterdam

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

C+ GRI REPORT GRI CHECKED

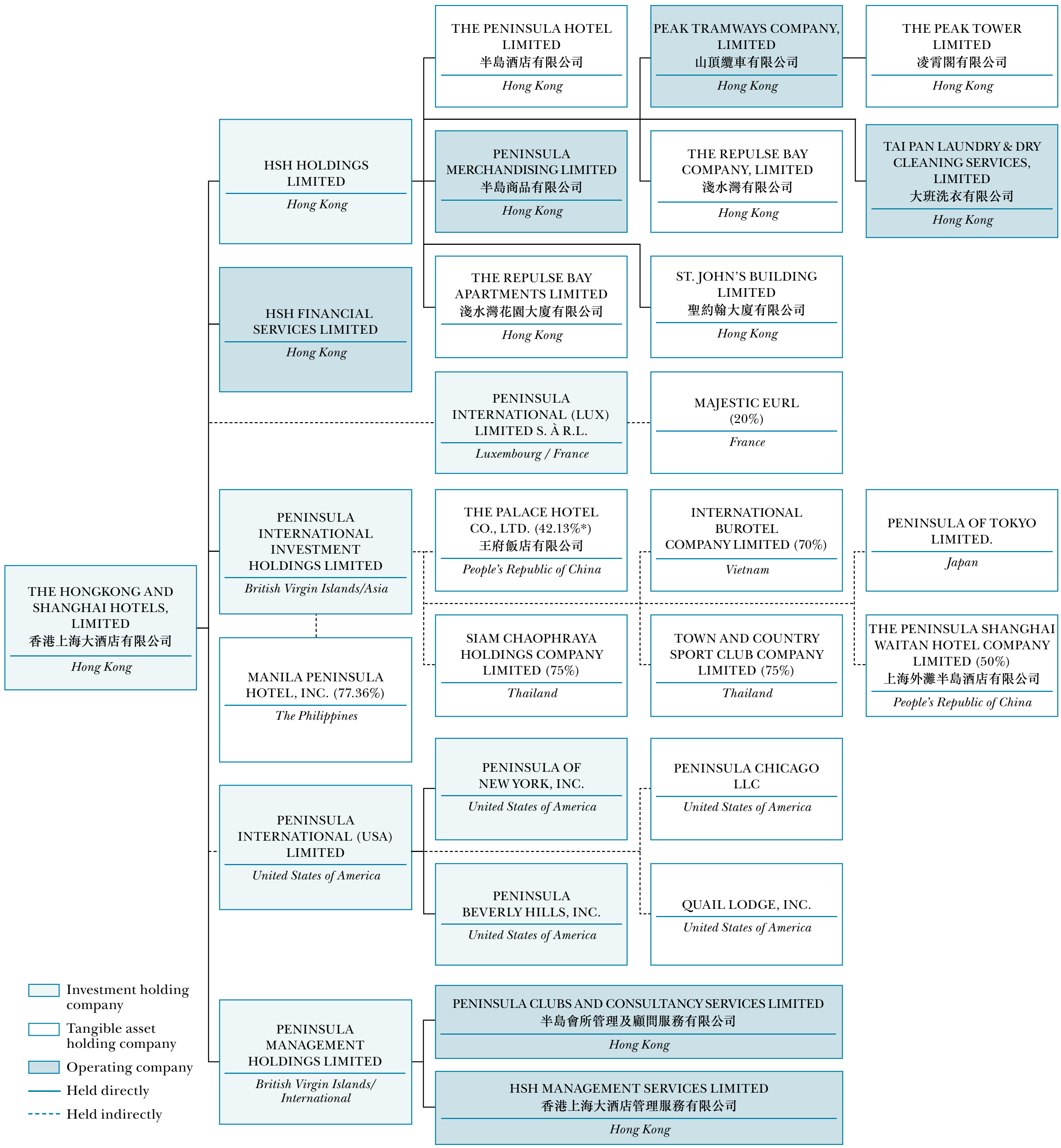
The "+" has been added to this Application Level because HSH Management Services Ltd has submitted (part of) this report for external assurance. GRI accepts the reporter's own judgment for choosing its assurance Provider and for deciding the scope of the assurance.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance.
www.globalreporting.org

Disclaimer: *Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 16 March 2011. GRI explicitly excludes the statement being applied to any later changes to such material.*

Principal Subsidiaries, Associates and Jointly Controlled Entity

As at 31 December 2010



* 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 included as a subsidiary company as the Group controls 76.6% of its voting power.

The Group's subsidiaries, associates and jointly controlled entity which principally affect the results, assets and liabilities of the Group are shown in the chart above.

All subsidiaries are 100% owned except where indicated and their details are disclosed in Note 15.

The Group's interests in Majestic EURL (associate) and The Peninsula Shanghai Waitan Hotel Company Limited (jointly controlled entity) are held indirectly. Details of the Group's associates and jointly controlled entity are disclosed in notes 16 and 17 respectively.

Information for Investors

Board Of Directors

The Hon. Sir Michael Kadoorie [E]
Non-Executive Chairman

Ian Duncan Boyce [EAFR]
Non-Executive Deputy Chairman

Executive Directors

Clement King Man Kwok [EF]
Managing Director & Chief Executive Officer

Neil John Galloway [F]
Chief Financial Officer

Peter Camille Borer
Chief Operating Officer

Non-Executive Directors

Ronald James McAulay
William Elkin Mocatta
John Andrew Harry Leigh [EF]
Nicholas Timothy James Colfer

Independent Non-Executive Directors

Dr. the Hon. Sir David Kwok Po Li
Robert Chee Siong Ng
Robert Warren Miller [R]
Patrick Blackwell Paul [AR]
Pierre Roger Boppe
Dr. William Kwok Lun Fung [A]

E – Executive Committee Member
A – Audit Committee Member
F – Finance Committee Member
R – Remuneration Committee Member

Company Secretary

Christobelle Yi Ching Liao

Auditor

KPMG
Certified Public Accountants, Hong Kong

Shareholders' Calendar

Last day to register for final dividend: 11 May 2011 4:30pm
Closure of Register of Members: 12 May 2011 to 16 May 2011 (both days inclusive)

Annual General Meeting: 16 May 2011

Deadline for scrip dividend election forms: 15 June 2011 4:30pm

Final Dividend: 8 HK cents per share
Payable: 24 June 2011

Company Websites

HSH Corporate: www.hshgroup.com

Investor Enquiries

Webpage: www.hshgroup.com/ir
E-mail: ir@hshgroup.com

Registered Office

8th Floor, St. George's Building,
2 Ice House Street, Central, Hong Kong
Tel: (852) 2840 7788
Fax: (852) 2810 4306

Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong
Customer Services Hotline: (852) 2862 8555
Fax: (852) 2865 0990/2529 6087
E-mail: hkinfo@computershare.com.hk

Listing Information

Stock Code: 00045

Reservations & Contact Addresses

Hotels

The Peninsula Hong Kong
Salisbury Road, Kowloon
Hong Kong
Tel: (852) 2920 2888
Fax: (852) 2722 4170
Email: phk@peninsula.com

The Peninsula Shanghai
No. 32 The Bund
32 Zhong Shan Dong Yi Road
Shanghai 200002
People's Republic of China
Tel: (86-21) 2327 2888
Fax: (86-21) 2327 2000
Email: psh@peninsula.com

The Peninsula Beijing
8 Goldfish Lane, Wangfujing
Beijing 100006
People's Republic of China
Tel: (86-10) 8516 2888
Fax: (86-10) 6510 6311
Email: pbj@peninsula.com

The Peninsula New York
700 Fifth Avenue at 55th Street
New York, NY 10019, USA
Tel: (1-212) 956 2888
Fax: (1-212) 903 3949
Toll Free: (1-800) 262 9467
(USA only)
Email: pny@peninsula.com

The Peninsula Chicago
108 East Superior Street
(at North Michigan Avenue)
Chicago, Illinois 60611, USA
Tel: (1-312) 337 2888
Fax: (1-312) 751 2888
Toll Free: (1-866) 288 8889
(USA only)
Email: pch@peninsula.com

The Peninsula Beverly Hills
9882 South Santa Monica
Boulevard, Beverly Hills
California 90212, USA
Tel: (1-310) 551 2888
Fax: (1-310) 788 2319
Toll Free: (1-800) 462 7899
(USA and Canada only)
Email: pbh@peninsula.com

The Peninsula Tokyo
1-8-1 Yurakucho, Chiyoda-ku
Tokyo, 100-0006, Japan
Tel: (81-3) 6270 2888
Fax: (81-3) 6270 2000
Email: ptk@peninsula.com

The Peninsula Bangkok
333 Charoennakorn Road
Klongsan, Bangkok 10600
Thailand
Tel: (66-2) 861 2888
Fax: (66-2) 861 1112
Email: pbk@peninsula.com

The Peninsula Manila
Corner of Ayala and
Makati Avenues
1226 Makati City, Metro Manila
Republic of The Philippines
Tel: (63-2) 887 2888
Fax: (63-2) 815 4825
Email: pmn@peninsula.com

Global Customer Service Centre
5th Floor, The Peninsula Office Tower,
18 Middle Road, Kowloon
Hong Kong
Tel: (852) 2926 2888
Fax: (852) 2732 2933
Email: reservationgcsc@peninsula.com

Toll free from:
Argentina 0800 888 7227
Australia 1 800 116 888
Brazil 0800 891 9601
Canada 011 800 2828 3888
China 4001 200 618
France 00 800 3046 5111
Germany 00 800 3046 5111
Italy 800 789 365
Japan 0053 165 0498
Mexico 001 800 123 4646
Russia 810 800 2536 1012
Singapore 001 800 2828 3888
Spain 900 937 652
Switzerland 00 800 3046 5111
Taiwan 00 800 2828 3888
Thailand 001 800 2828 3888
United Kingdom 00 800 2828 3888
United States of America 1 866 382 8388

Commercial Properties

The Repulse Bay
109 Repulse Bay Road
Hong Kong
Tel: (852) 2292 2888
Fax: (852) 2812 2176
Email: marketingtrb@peninsula.com

The Landmark
5B Ton Duc Thang, District 1
Ho Chi Minh City, Vietnam
Tel: (84-8) 3822 2098
Fax: (84-8) 3822 5161
Email: info@landmark-saigon.com

The Peak Tower and The Peak Tram
No. 1 Lugard Road
The Peak, Hong Kong
Tel: (852) 2849 7654
Fax: (852) 2849 6237
Email: info@thepeak.com.hk

St. John's Building
33 Garden Road, Central, Hong Kong
Tel: (852) 2526 4926
Email: sjbmanagement@peninsula.com

Clubs & Services

Thai Country Club
88 Moo 1
Bangna-Trad Km. 35.5
Thambon Pimpa
Bangpakong District
Chacheongsao 24180, Thailand
Tel: (66-2) 651 5300
Fax: (66-2) 651 5307
Email: inquiry@thaicountryclub.com

Quail Golf & Country Club
8205 Valley Greens Drive, Carmel
California 93923, USA
Tel: (1-831) 624 2888
Fax: (1-831) 624 3726
Email: info@quaillodge.com

TdA – Concept, design and production www.tda.com.hk Consulted by Strategic Financial Relations Limited www.sprg.com.hk

The Hongkong and Shanghai Hotels, Limited
香港上海大酒店有限公司

www.hshgroup.com