



SUSTAINABILITY REPORT 2009

THE HONGKONG AND SHANGHAI HOTELS, LIMITED

SUSTAINABILITY REPORT

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HSH's GRI Content Index (refer to the Sustainability section under Investor Relations at 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 in this Sustainability Report.



The Global Reporting Initiative (GRI) (www.globalreporting.org) is an independent organisation that is recognised as a United Nations collaborating centre and governed through globally representative, multi-stakeholder bodies and processes. Through these processes, GRI has developed the world's most accepted and used framework for reporting on economic, environmental and social issues and performance, known as the GRI Sustainability Reporting Guidelines. Companies that use the Guidelines can self declare, have an independent body assure and/or have GRI check that its report meets GRI's reporting Levels A, B or C, depending on the number of GRI elements and indicators that are reported on. Reports that are externally assured are noted as such with a "+" symbol and are recognised as meeting Level A+, B+ or C+. This report has been assured by a third party and checked by GRI to meet Level C+.



MESSAGES FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Message from The Hon. Sir Michael Kadoorie, Chairman

Being a responsible corporate citizen and contributing to local communities have been core tenets of our business throughout HSH's history. Our Group is committed to sustainability and last year's Annual Report marked an important milestone in that it outlined our approach to identify and proactively manage sustainability issues and risks in a meaningful way. While we continue to implement our sustainability approach in line with business objectives, we also recognise how important our stakeholders are to the way we conduct business in the communities where we operate.

In 2009, we began to implement our sustainability strategy and I am pleased to share our first year's results in this Report and our plans to expand our sustainability initiatives and further enhance our performance. It is important for us to demonstrate our commitment to transparency in reporting and, in this regard, this year's Report has been verified by an independent assurance provider and the Global Reporting Initiative (GRI) to meet Application Level C+ of GRI's Sustainability Reporting Guidelines.

Clement K.M. Kwok, Chief Executive Officer

In 2008, we reviewed our operations to understand our overall sustainability issues and risks and to develop both our Group's sustainability strategy and separate action plans for seven of our hotels. This comprehensive and systematic framework was reported in our 2008 Annual Report and includes our Sustainability Vision and Policy Statement, which describes our six Group wide, sustainability themes of: Corporate Governance and Ethics; Environment; Employees; Health and Safety; Supply Chain; and Community Investment and Engagement. Despite the difficult economic climate, I would like to emphasise that sustainability remained a key action area for our Group and that we did not waver from sustainability commitments, as managing risks and seizing opportunities are good for business. Our Corporate Social Responsibility Committee (CSRC), which I chair with members from our senior management team, developed guidelines and initiatives

to implement our Group's sustainability strategy. Through our multi-disciplinary approach and with ongoing support from our external sustainability advisor, we continue to integrate sustainability into all our business operations.

Key highlights of our achievements in 2009 include:

- Publishing an enhanced code of conduct and equal opportunities policy and developing a Group wide human resources company manual that will be launched in 2010.
- Developing a comprehensive plan with capital investments and performance targets for energy carbon and water reductions for all of our properties and business.
- Implementing a pilot supply chain initiative with The Peninsula Hong Kong for Group wide roll out in 2010.
- Launching the Group wide operational risk manual to provide our properties and businesses with standardised approaches for:
 - managing occupational health and safety, security and food safety issues
 - preventing and responding to incidents of disease, fire and potential emergencies
- Developing and implementing a Group wide framework for community investment and engagement.
- Appointing a General Manager, Corporate Responsibility and Sustainability.

This year's Report includes more information on these and other initiatives, as well as key performance indicators, quantitative metrics and targets for our Group to assess and enhance our sustainability performance going forward.

Over the next three to five years, our priorities for managing sustainability issues and risks are: (1) reducing our carbon footprint; (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 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 monitoring and reporting of sustainability metrics. We understand that sustainability is an ongoing commitment and we will continue to proactively manage and enhance our performance going forward.

GUIDE FOR READERS

Report scope, parameters and boundaries

For many years, HSH has reported on its contributions to the community in its Annual Reports. While last year's Sustainability Report reported on the Group's overall approach to managing sustainability issues and risks for the first time, this 2009 Sustainability Report builds on previous efforts and reports on progress of key sustainability initiatives and our performance for this calendar year.

Except where noted, the Report scope covers HSH's Head Office in Hong Kong and properties and businesses where HSH has operational control, including: eight of the Group's Peninsula hotels in Hong Kong, Beijing, New York, Chicago, Beverly Hills, Tokyo, Bangkok and Manila; commercial properties including The Repulse Bay Complex, The Peak Tower and St. John's Building in Hong Kong and The Landmark in Vietnam; and other businesses including Peninsula Merchandising and Tai Pan Laundry in Hong Kong. It is important to note that information on Quail Lodge's hotel portion is included in performance statistics for the environmental and employment indicators up until November 2009. While HSH maintains the operation of the Golf Course and Clubhouse, the Group closed the hotel portion of the property in November 2009. Peninsula Boutiques, which are located in HSH properties, are included in the performance reporting statistics, while others which operate in separately owned facilities, such as the Hong Kong International Airport, are not included.

Environmental performance information for The Peninsula Shanghai, which opened on 18 October 2009, as well as the Thai Country Club will be included in the scope of the next Report. While information was not yet available for these properties in 2009, it is worth noting that the Thai Country Club represents only 1.2% of the Group's total turnover.

HSH employees working for the Peninsula Clubs and Consultancy Services and at Cathay Pacific Airways' first and business class lounges at 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, Butterfields' Club and the Cathay Pacific Airways' airport lounges, are not included in environmental performance statistics as we do not own or control the policies of these facilities. Further detail on the nature of the Group's business operations is included in other sections of this Annual Report.

The scope of this Sustainability Report was determined based on a materiality assessment of the sustainability issues and risks relevant to the Group's business operations and aims to cover themes and issues that the Group understands to be important to its stakeholders. While the Global Reporting Initiative's Sustainability Reporting Guidelines (G3) were used to help shape HSH's sustainability strategy and the first Sustainability Report in 2008, this Report marks the first year of meeting GRI's Application Level C+, as checked by GRI. In addition to reporting on the required GRI profile disclosures for Level C, HSH is reporting on a total of 11 GRI performance indicators with partial coverage of an additional six. 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.

CORPORATE GOVERNANCE, ETHICS AND SUSTAINABILITY MANAGEMENT

Corporate governance

Corporate governance is the backbone to HSH's success. It represents the Group's commitment to a framework of business principles and internal controls, which cover all aspects of our business. Our corporate governance practices are outlined in the Corporate Governance Report on pages 73 to 87 of this Annual Report.

Our code on corporate governance has included and followed all of the code and recommended best practices under the Code on Corporate Governance Practices of the Listing Rules (CG Code) except for two¹ where we have deviated from the CG Code. In addition, HSH policies and practices have exceeded the CG Code in some areas. These, together with reasons for deviation, have been explained in our Corporate Governance Report.

Ethics

Ethical conduct is one of HSH's core values and essential to our service integrity. This is enshrined in HSH's code of conduct and equal opportunities policy, which outlines our stringent anti-corruption and anti-bribery policies and approach to handling conflict of interest situations for 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 and purchasing and tendering procedures.

HSH's code of conduct and equal opportunities policy was updated in 2009 following a review of its implementation. The updated code specifically addresses a number of issues such as recognising fundamental human rights, outlining clearer policies on non discrimination and providing grievance mechanisms and resolution channels. New training sessions and an e-learning module will be implemented and all staff will be required to demonstrate their understanding of the code through the e-learning



SECTION FIFTEEN CODE OF CONDUCT AND EQUAL OPPORTUNITIES

THE HONGKONG AND SHANGHAI HOTELS, LIMITED

HSH's updated Code of Conduct and Equal Opportunities section in its new Group wide Human Resources Manual.

platform and to confirm in writing their formal acceptance of the code.

Principles of ethics are also included in our purchasing and tendering procedures. We have introduced a new supply chain code of conduct, which is in a pilot stage at The Peninsula Hong Kong prior to a Group wide roll out, which 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 more detail 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.

1. The exceptions are the publication of quarterly financial results and the establishment of a nomination committee for the Board.

Respectful workplace

Ensuring that our workplaces are respectful, fair and transparent and offer equal opportunities for employment and advancement has always been important to HSH. A consolidated, Group wide Human Resources (HR) Manual was developed in 2009, which includes our philosophy on compensation and benefits, a code of conduct and equal opportunities section² and our HR philosophy, purpose and values. The code of conduct 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 supports 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, acknowledgement of the code, audit and management oversight.

Sustainability management

HSH views sustainability as integral to being a responsible and successful business that brings current and long term value to its shareholders and other stakeholders.

HSH's Sustainability Vision and Policy Statement³ provides an overarching framework to guide the Board, Group operations and properties and businesses to ensure that the management and operations of the Group achieve HSH's commitments for its six key sustainability themes of Corporate Governance and Ethics, Environment, Employees, Health and Safety, Supply Chain and Community Investment and Engagement. The Group's sustainability strategy was developed with the assistance of an external consultancy and addresses the economic, environmental and social issues and risks for each of these six themes. Champions of the Group's CSRC have developed and begun to implement and report on initiatives under these six themes. The

seven hotels, which participated in a review of their sustainability performance and opportunities in 2008, are also implementing complementary action plans to address specific issues at the property level. This Sustainability Report provides information on the status of the initiatives undertaken under these six themes in 2009 and the Group's plans for 2010 and beyond.

With the appointment of the Group's former Head of Audit and Risk Management as General Manager, Corporate Responsibility and Sustainability in 2009, HSH now has a dedicated person responsible for coordinating and monitoring the Group's sustainability initiatives. He will work with the Group's management, the CSRC and its Champions to continue providing support to HSH properties and businesses and ensuring the implementation of the sustainability strategy and the continual improvement of the Group's sustainability performance. This will also involve review and assessment of the performance of each property and business according to the Group's sustainability performance indicators. Reporting will include both internal quarterly sustainability reports to the CSRC and external annual sustainability report.

The Group recognises that the ongoing, successful implementation of its strategy requires sharing its sustainability vision with employees, business partners and suppliers and providing them with information, tools and support to enhance their sustainability performance. As part of this initiative, an updated HR Manual has been developed to ensure our HR practices were ethical and standardised across the Group. Important initiatives are also underway with our supply chain. Further details on the concrete initiatives we are undertaking in these and other areas are outlined throughout this Report.

ECONOMIC CONTRIBUTION

As long term success requires being financially viable as well as sustainable, HSH is dedicated to contributing to the communities in which we operate and managing environmental and social issues responsibly. As such, the Group's businesses balance the needs and

2. To view the code of conduct and equal opportunities policy, refer to the Employees' Code of Conduct section under Investor Relations at www.hshgroup.com.

3. To view HSH's sustainability vision and policy statement, refer to the Sustainability section under Investor Relations at www.hshgroup.com.

expectations of our stakeholders while aiming to contribute to the sustainability challenges facing our world.

Details of HSH's financial performance are included in the Annual Report on pages 97 to 171. 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, our employees, our other stakeholders and our communities.

In all of the communities where we operate, we contribute to the local economy through our hotel, property and/or business operations which hire local employees, contribute to local government revenues and purchase local food and beverage items and products and services. Table 1 includes information to demonstrate the economic contributions of our properties and businesses to their local communities in 2009.

Providing high quality services to our guests, customers and tenants is critical to HSH's brand and business success. To achieve this in each of the distinct markets that we serve, it is essential that our employees infuse

our global service standards with local flair, culture and tradition – in effect, our employees are a reflection of HSH's international and local business identity in each of our markets. We are proud to draw on the skills and experience of a select group of internationally trained management staff to work with a majority of locally hired employees in each of our properties and businesses. As at the end of 2009, out of the 139 senior management staff who are members of the local executive committees of our properties and businesses, 71, or 51%, are locals or localised citizens⁴ of the countries in which they are working. As a diverse global company, we will continue to offer international postings to leading employees as part of their learning and 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 2010

- Maintain monetary and in-kind contributions in line with expected economic value generated and distributed.
- Maintain the balance of locally hired and international management staff at HSH properties.



Diversity within The Peninsula Beijing's management team.

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 in the USA and Permanent Residents of Hong Kong are not included.

Table 1 - Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations, community investments and payments to capital providers and governments.

	HK\$m		
	2007	2008	2009
Revenues			
Hotels	3,599	3,905	3,244
Commercial properties	605	677	637
Clubs and services	338	356	337
	4,542	4,938	4,218
Interest income	25	40	15
	4,567	4,978	4,233
Operating costs			
Cost of inventories	380	390	334
Rent and utilities	374	525	531
Other operating expenses	849	1,045	917
Less: property & real estate tax	-70	-77	-84
	1,533	1,883	1,698
Employee wages and benefits	1,346	1,553	1,512
Capital expenditure	687	394	281
Payments to providers of capital			
Dividends	73	94	53
Financing	150	140	139
	223	234	192
Payments to governments			
Hong Kong SAR	73	118	121
Mainland China	113	128	63
USA	164	163	146
Vietnam	7	8	6
Thailand	29	28	20
Japan	(Note 1) -27	22	24
Philippines	23	21	16
Others	3	0	0
	(Note 2) 385	488	396
Community Investments			
Donations (monetary)	1	3	2
Total of costs and distributions	4,175	4,555	4,081

Note 1: Including refund of consumption tax paid in prior years.

Note 2: Inclusive of corporate income tax and property and real estate tax.

N.B.: 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 136 to 139.

EMPLOYEES

Our employees

Empowering and always looking at our relationships with employees as being long term have been at the heart of HSH's business and are critical for delivering the top quality services which define our brand. Globally, the Group's workforce is comprised of full time⁵, part time⁶ and casual⁷ employees. As at the end of 2009, HSH directly employed a total of 6,809 employees with 5,296 in Asia and 1,513 in the United States, including those at hotel and commercial properties, in our businesses and those who are HSH employees but work in facilities which are not owned by HSH.⁸

HSH employed 6,433 full time employees and 376 part time and casual employees at our properties, businesses and in the Head Office. 3,900 of our employees, or 57%, are employed on full time, permanent contracts and 16 are part time or casual employees on permanent contracts. 2,893 of our employees, or 42%, are employed on fixed term, temporary or 'at will'⁹ contracts. HSH has 795 unionised workers¹⁰ who are covered by collective bargaining agreements. This represents 12% of total employees. Table 2 on the opposite page includes more detailed statistics on HSH's employment information.

Local executive committees comprise the senior management in each of HSH's properties and businesses¹¹. In 2009, the composition of the executive committees included 95 males and 44 females, or 68% and 32% respectively.

HSH's employee annual turnover rate was 15.7% in 2009 and 17.8% in 2008. In 2009 and 2008 respectively, the rates were 12.3% and 15.9% for Asian properties and businesses and 23.1% and 24.0% for US hotels. HSH assists its employees to manage their retirements



Future leaders of HSH - employees from across the Group participating in the Group Leadership Programme 2009. The programme focussed on enhancing leadership skills and techniques on how to build high performance teams.

by providing Company pension briefings in Hong Kong on choice of funds for employees approaching retirement and allowing in the trust deed a deferral of three years before disinvestment, to ensure employees have ample time to choose the right time to disinvest. In 2009, the Group formed a new ORSO¹² Committee, chaired by the Chief Financial Officer, to review all aspects of the HSH group retirement plan. The Group appointed new trustees and administrators at the Company's expense to improve the management of the plan and enhance all aspects of service, in particular communication to members. In 2009, we revised our retirement plan trust deed to allow the plan to be portable for internationally mobile staff transferring from one country to another.

In addition, HSH supports job transitioning when required and we post job vacancies in the Group on a fortnightly basis. Our medical insurance plans in Hong Kong allow retirees to transfer their medical insurance without medical underwriting to an individually rated plan covering pre-existing conditions.

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 the Peninsula Clubs and Consultancy Services and Cathay Pacific Airways' first and business class lounges but not The Hong Kong Club, The Hong Kong Bankers Club and Butterfields' Club (i.e. excluding 393 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 employee, either full time or part time, who is covered by a collective bargaining agreement.
11. For Head Office, senior management refers to all employees of grades A-D.
12. "ORSO" refers to the Occupational Retirement Schemes Ordinance.

Table 2 - Total workforce by employment type, employment contract and region

Operations	As at December 2009		As at December 2009		Total no. of employees on permanent contracts		Total no. of employees on fixed term/ temporary/ at will contracts
	Full time employees	Part time/ casual employees	Full Time	Part time/ casual			
	Management	Non-management	Management	Non-management			
ASIA							
Sub totals	552	4,575	0	169	3,887	16	1,393
Sub totals by type & contract	5,127		169		3,903		1,393
Employee total – Asia	5,296				5,296		
USA							
Sub totals	195	1,111	1	206	13	0	1,500
Sub totals by type & contract	1,306		207		13		1,500
Employee total – USA	1,513				1,513		
THE HONGKONG AND SHANGHAI HOTELS, LIMITED							
Totals by type & contract	6,433		376		3,900	16	2,893
Employee total – HSH	6,809				3,916		2,893

Notes:

- *Employees in Asia include those working in the following locations: HSH's Head Office, the Peninsula Hotels in Hong Kong, Shanghai, Beijing, Tokyo, Bangkok and Manila, The Landmark, the Thai Country Club, The Repulse Bay, Peak Tramways, Tai Pan Laundry, Peninsula Merchandising, Peninsula Clubs and Consultancy Services and Cathay Pacific Airways' lounges in the Hong Kong International Airport.*
- *Employees in the USA include those working at the Peninsula hotels in New York, Chicago, Beverly Hills and at Quail Lodge.*
- *"at will" contracts refer to contracts which exist in our US properties, which means an employee is employed at will, and may resign or be terminated from employment at any time for any or no reason, with or without notice.*

To increase retention of experienced staff, HSH takes part in third party, annual compensation and benefits surveys in our major markets to ensure that we maintain our competitiveness. Information on HSH's overall initiatives to support employee welfare was previously covered in the Group's 2008 Sustainability Report.

As noted earlier, in 2009 HSH developed a Group wide HR manual to consolidate elements of the existing employee handbooks of each property and business and to bring a comprehensive and consistent approach

to human resource management, while allowing flexibility to comply with local labour laws and conditions. Specific training on the new HR manual will be completed throughout the Group by the end of 2010.

Employee communication and engagement

In 2009, the Group maintained a wide range of two-way communication and engagement channels, from regular meetings of all staff and CSR committees at a number of HSH properties, to roundtable discussions

among staff at all levels. These channels are also outlined in the Corporate Governance Report on pages 73 to 87 of this Annual Report.

In response to staff feedback, HSH now holds CEO webcasts three times a year, providing an opportunity for all staff to learn more about the Group's strategy and priorities. HSH's Group wide staff newsletter, HSH News, is translated into different languages and posted on the Group's intraweb, an important platform for sharing information with employees.

HSH recognises that an important part of communication is to provide regular and structured feedback and performance reviews to employees to support the long term development of the HSH team. In 2009, 5,783 of HSH's full time employees received regular performance reviews and career development reviews, representing 90% of HSH's full time employees. As these reviews are conducted annually and are mandatory for full time employees, all of The Peninsula Shanghai's full time employees will have received their first reviews by 2010 and will then be included in the Group total.

Employee learning and development

In 2008, HSH developed its five year HR strategy and in 2009, the key HR objectives were as follows: (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; (4) enhancing employee productivity; and (5) providing re-orientation and continuing training for existing staff.

From this strategy, annual learning and development plans are developed to address the learning needs of the organisation.

An important part of the Group's succession planning is the cross exposure programme, which provides opportunities for high potential staff who are new to the Company, as well as existing employees who have been identified as top performers, to gain experience



Screen shot of HSH's Chief Executive Officer, Clement K.M. Kwok, delivering one of his tri-annual messages to employees.



Staff training sessions at The Peninsula Manila.



An example of The Peninsula Tokyo's innovative learning and team building initiatives.

Highlights of key initiatives undertaken by our hotels in 2009 to enhance employee engagement include:



in different functions and locations within the Group, build on their skills and widen their experience. In 2009, individual development plans with learning objectives for 94 high potentials were developed and HSH continued to support and encourage staff to join the programme.

In partnership with the Melbourne Business School, the Group leadership programme is an example of how HSH assists high calibre talent to advance their

careers and acquire new skills. In 2009, we also conducted a review of all training provided and for 2010 we have identified additional developmental programmes, such as the Richard Ivey School of Business Consortium Programme and executive development programmes for top management. Other training available to staff includes e-learning courses and campus held programmes with Cornell University on a variety of hospitality and management development topics.

On a graduate recruitment level, 2009 also saw the first appointment of a HSH corporate management trainee, who is on a learning journey for 18 to 24 months, acquiring the skills to take on an assistant manager position after the programme. Furthermore, a Peninsula Scholar was appointed in 2008 and in 2009, her internship was completed at The Peninsula Hong Kong (her three year tuition fees will also be met by the Company). All internship placements are hosted at the Peninsula hotels with full time employment of the Scholar upon graduation. The key HR objectives for 2010 are provided below.

Objectives for 2010

- Roll out the HR manual at the HR conference for all HR Directors and learning and development teams.
- Review the group pay philosophy and review the Group's incentive programmes.
- Launch an internal mentoring programme with senior executives to develop our talent.
- Commence a programme of engagement surveys to measure employee engagement across the Group.
- Expand the corporate management trainee programme to locations outside Hong Kong.
- Integrate sustainability content into the orientation and other relevant training across the Group.

ENVIRONMENT

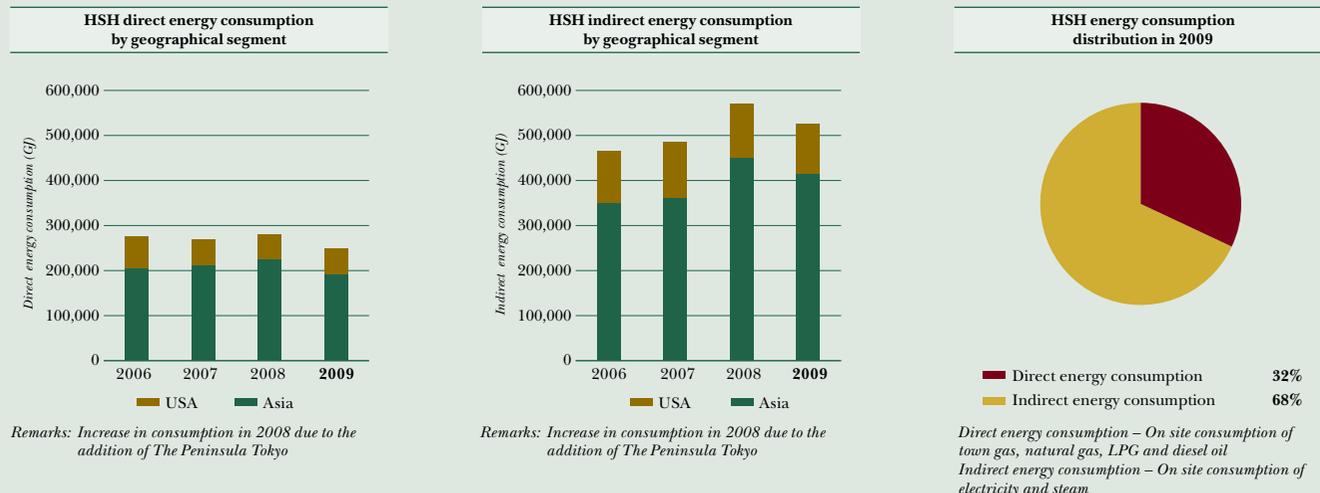
HSH has implemented a variety of environmental initiatives across the Group over the years and appreciates that it is both a necessity and an opportunity to manage its properties and businesses in a way that progressively reduces its environmental footprint. The Group believes in taking responsibility to demonstrate leadership through action, and seeks to adopt practices and initiatives which improve indoor air quality, lower carbon intensity, increase energy and water efficiency and reduce resource consumption and waste generation. HSH also aims to ensure that

new construction and renovation projects are executed with reference to prevailing and credible sustainable building design guidelines and best practices in the industry. HSH is in the process of reviewing priorities related to sustainable design in order to establish a unified set of guidelines that complements our Design Standards and which can be applied to current and future projects. In striving for continual improvement, HSH remains confident in our commitment to provide luxurious services and experiences for our guests, customers and tenants while balancing diverse stakeholder expectations and seeking to increasingly adopt environmental best practices whenever feasible and appropriate for our business.

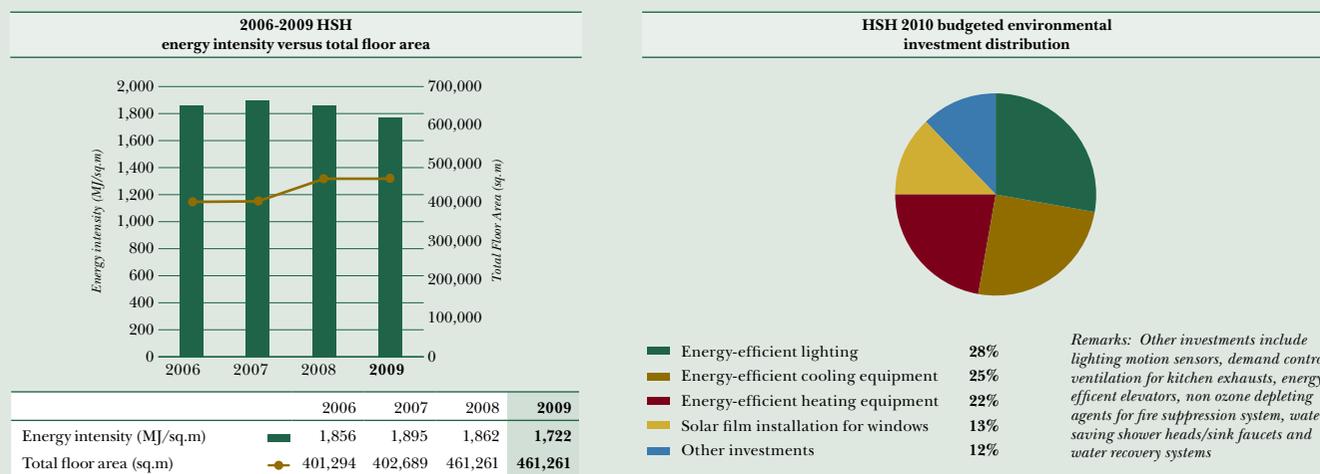
As reported previously, the 2008 sustainability review and the technical pilot studies conducted at the Peninsula hotels in Hong Kong and Chicago on indoor air and environmental quality (IAQ/IEQ) and energy and water consumption found that while a number of important initiatives had already been implemented, there was still potential to enhance the Group's environmental performance. Led by the Group's Chief Engineer, engineers at each property and business reviewed a list of over 100 initiatives to improve energy, water consumption and IAQ/IEQ and developed plans for capital investments across the Group. As presented in *HSH's Consolidated Environmental Performance Indicator Graphs and Diagrams* shown on the opposite page, the plans for 2010 range from retrofitting chillers, boilers, heaters, lighting and shower and water faucets, to installing solar film shading and solar water heaters. Aided by the implementation of over 50 selected initiatives in 2010, the Group aims to reduce energy intensity by 10% by the end of 2010 and an additional 5% potential reduction by the end of 2011, compared to the baseline energy intensity average of 1,871 MJ/m² between 2006 and 2008. The Group will continue to report regularly on implementation progress at the property and business levels via the Chief Engineer, who will work with the CSRC to review progress and recommend future improvement actions.

HSH'S CONSOLIDATED ENVIRONMENTAL PERFORMANCE INDICATOR GRAPHS AND DIAGRAMS

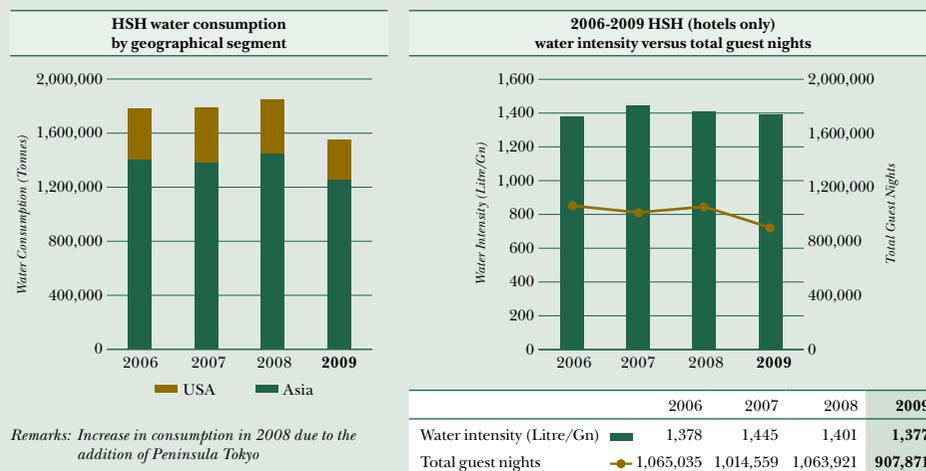
Direct Energy Consumption by Primary Energy Source and Indirect Energy Consumption by Primary Source



HSH Energy Intensity and Budgeted Environmental Investment



Total Water Withdrawal by Source and HSH Water Intensity



Energy and fuel consumption

In 2009, HSH's properties and businesses focused on reducing their energy use and carbon footprint through the implementation of best practice measures outlined in the Group wide energy conservation manual. Overall, as outlined in the graph on page 185, HSH reduced its energy intensity in 2009 by 7.9% (or 149 MJ/m²) over its baseline energy intensity average of 1,871 MJ/m² 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 properties and businesses (for total consumption statistics refer to HSH's Environmental Performance Statistics on page 202 of this Report). The graph also shows that energy consumption per total area for HSH properties



The Peninsula New York installed motion sensors in back of house areas to reduce energy consumption when areas are not in use.

reduced slightly in 2009. This was due primarily to the reduction in guest volumes as well as the adoption of operational efficiency improvements.

Greenhouse gas emissions

HSH's preliminary carbon footprint was 94,060 tonnes of CO₂ equivalent in 2009 and 102,694 tonnes of the same unit in 2008. In calculating its greenhouse gas (GHG) emissions, HSH applied the methodology used by the World Resources Institute (WRI) / World Business Council for Sustainable Development (WBSD) GHG Protocol, as recommended by GRI. 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 as well as, for the 2009 year only, fugitive emissions arising from its refrigeration and air-conditioning equipment. Scope 2 comprises emissions from the generation of purchased electricity and steam. Emissions arising from the combustion of fuel in HSH's mobile combustion sources (e.g. cars and vans) have not been included in HSH's Scope 1 emissions as the required information is not yet available at a Group wide level.



Example of energy efficient, LED cove lighting in The Peninsula Hong Kong's guestroom corridors.

Moving forward, HSH properties and businesses will adopt individual carbon reduction strategies and the Group aims to continue to reduce its emissions of GHGs over its baseline emissions in 2008.¹³ Examples of initiatives taken to reduce energy and fuel use in 2009, at both the Group and individual property level, are presented on page 188.

Management of refrigerants

HSH has developed a detailed plan to phase out its use of ozone depleting substances (ODS). Significant capital investments have and continue to be made to phase out all ODS in our properties, at a minimum in accordance with the requirements of the *Montreal Protocol on Substances that Deplete the Ozone Layer*. In 2009, HSH consumed approximately 1.953 tonnes of ODS, or 0.162 tonnes of CFC-11 equivalent, comprising R22, R12, R123, R141b, R401a and R502. For detailed consumption data by each ODS, please refer to HSH's environmental performance statistics on page 202 of this Report.

Indoor air quality and indoor environmental quality (IAQ & IEQ)

Good IAQ and IEQ levels are achieved at HSH properties through a variety of measures such as proper management of ventilation, heating and cooling systems, controlling maintenance and renovation activities and reducing usage of hazardous



Laying the pool cover at The Peninsula Beijing to reduce water and heat loss and thereby save on water and energy consumption.

paints and cleaning products. Some best practices for enhancing IAQ and IEQ adopted by The Peninsula New York include rehabilitating exhaust fan systems in staff locker rooms, lobby restrooms and banquet restrooms, replacing fibreglass filters in all fan coil units and air conditioning units and increasing the frequency of linen chute and linen room ceiling cleaning. Going forward, HSH will evaluate measures to manage IAQ and IEQ so that best practice standards are maintained across the Group.

Water conservation and consumption

Building on measures that were implemented previously, HSH continues to adopt new initiatives to reduce water consumption. Information on HSH's consumption of water is provided on page 202 and some examples of achievements at both the Group and individual property levels in 2009 are presented on page 189.

Most of the water withdrawn by HSH properties and businesses is from municipal suppliers, comprising 1,429,310 m³ in 2009. The Peninsula Manila also withdrew 124,899 m³ from deep wells. In addition, 128,703 m³ of recycled water was used by the Peninsula hotels in Tokyo and Bangkok, representing 8.3% of HSH's total water consumption in 2009. HSH's consumption total does not include the portion of seawater that is withdrawn by the Hong Kong properties and businesses. The seawater is used for flushing purposes and meters are not available to measure the seawater.

In comparison with the baseline consumption average between 2006 and 2008 of 1,807,093 m³, HSH's overall consumption of water, which was 1,554,209 m³ in 2009, reduced by 14% in 2009 (equivalent to 252,884 m³), primarily due to reductions in guest volumes and also to the adoption of operational efficiency measures. HSH will continue to retrofit existing shower heads and faucets with water efficient replacements and to enhance water efficiency and recovery measures in the Group's laundry facilities going forward.

13. 2008 has been selected as the baseline for calculating HSH's carbon footprint as it marks the year when data from The Peninsula Tokyo's operation was included in the Group's overall figures.

Examples of initiatives taken to reduce energy and fuel use in 2009, at both the Group and individual property levels, are presented below:



Examples of initiatives to reduce water consumption in 2009, at both the Group and individual property levels, are presented below:



Resource use, conservation and waste management

Following last year's review of opportunities for responsible sourcing and reducing consumption and waste generation, HSH developed Group wide sustainability guidelines. While HSH continues to select materials and products that meet our quality requirements and the expectations of our guests and customers, these guidelines enable the Group to seek out more sustainable options whenever feasible and appropriate. The guidelines provide specific advice to our properties and businesses on sourcing products and items which: 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. For example, while HSH previously reported on sourcing of environmentally responsible options for guest amenities specially designed for usage in smaller quantities, the new sustainability guidelines require properties to replace used amenities less frequently and only if they are half empty or less (at which point, used amenities are consumed in staff locker rooms or donated to charities). The guidelines also require that waste materials are reused, recycled and/or collected by licensed contractors for proper disposal.

Highlights of key initiatives undertaken by our properties in 2009 to reduce consumption and waste generation include:

The Peninsula Hong Kong
Between June and November 2009, the hotel recycled a total of 24,134 kg of glass and 48,755 kg of paper waste.

Tai Pan Laundry
Installed third and fifth generation dry cleaning machines, reducing the consumption of dry cleaning solvents. Reduced diesel consumption with a new Heat Recovery System for generating hot water for laundry machines.

The Peninsula New York
Reduced more than 20% its registered chemicals and cleaning supplies. Properly disposed of 70 lbs of used batteries, four cases of florescent lamps (30 per case) and 24 cases of bio-hazardous waste.

The Peninsula Bangkok
The hotel introduced a synergy system to clean its cooling tower, thereby eliminating the use of toxic chemicals for this process and saving Baht 600,000 per annum on toxic chemicals.

**HSH ADOPTED
SUSTAINABILITY
GUIDELINES TO SUPPORT
THE GROUP'S WASTE
REDUCTION, REUSE AND
RECYCLING ACTIVITIES**

The Peninsula Chicago
Installed a "hydro carbon" dry cleaning machine to reduce chemical consumption. Filtered tap water provided as a plastic/glass bottle alternative in all food and beverage outlets and in banquets. Sent 135,000 ft² of carpet to be recycled and reclaimed by the Carpet America Recovery Effort (CARE). Old computers and armoires donated for reuse or sent for recycling.

The Peninsula Manila
The hotel has ceased to use disposable tissue wrapping for guest laundry; all laundry baskets are now fully lined with reusable cloth. Biodegradable packaging used for take-away items in the lobby will avoid the disposal of around 2,000 styrofoam containers per year. Used coffee grounds are given to the organic farm from which the hotel purchases its organic vegetables for use as a natural fertilizer, thereby diverting over 500 kg of waste per month.

The Peninsula Tokyo
In addition to significantly reducing its food waste with the Gomizer machine, the hotel also enhanced its separation of mixed papers and recycled 9,000 kg of paper in 2009.

The Peninsula Beijing
The hotel dry waste is collected by a designated company which separates materials for reuse and recycling. Wet waste is collected by a farm and converted to animal feed. To reduce waste from highly toxic batteries, the hotel has started to phase in the use of rechargeable batteries for the guestroom remote controls.



The Peninsula Manila replaced its use of disposable liners with these cloth lined laundry baskets.



The organic farm where The Peninsula Manila donates its used coffee grounds as a soil fertiliser and procures its organic vegetables.



The Peninsula Chicago installed a "hydro carbon" dry cleaning machine to reduce chemical consumption.



The Peninsula Tokyo introduced the 'Gomizer' machine in 2009, which converts perishable waste through a cost effective, environmentally responsible yeast/bacteria process into a liquid for safe discharge to the sewage system, thereby dispensing of more than 50 kg of waste per day. As of 1 March 2009, an estimated 15,000 kg of perishable garbage had been processed.



Objectives for 2010

- Reduce energy intensity by 10% in 2010 over our baseline energy intensity average of 1,871 MJ/m² between 2006 and 2008.
- Reduce water intensity by 3% in 2010 over our baseline water intensity average of 1,408 litres/guest night between 2006 and 2008.
- Develop protocols for properties and businesses to conduct resource consumption and waste audits.
- Develop sustainable design guidelines for application to current and future construction and renovation projects.

HEALTH AND SAFETY

HSH has long been dedicated to providing a healthy, safe and secure environment for our guests, customers, business partners, employees and other stakeholders. HSH continually evaluates and actively manages security at our properties, implements safe and hygienic working practices and remains prepared to respond in a professional and timely manner to changing circumstances. This is not only important to ensure the safety and security of our guests, customers and commercial tenants but also to ensure that our staff minimise injuries and lost work days from injuries. Responsibilities are allocated within each business and property to manage these risks for overall operations and in specific functional areas such as food & beverage, engineering and security, with regular auditing by and reporting to HSH.

HSH has conducted comprehensive risk assessments of various operations, implemented systems and provided training to staff to manage and respond to potential risks. The Group also regularly reviews the

integrity of management systems. In 2009, HSH progressively rolled out a Group wide operational risk manual which outlines a consistent and systematic approach for all properties and businesses to manage occupational health and safety and security risks, disease outbreaks, fire and 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. Training and implementation support was also provided at all hotels. Each hotel will conduct regular checks and drills, monitor and report on its performance to HSH and be audited on a bi-annual basis.

Objectives for 2010

- Audit properties' implementation of the operational risk manual and develop action plans to enhance performance where needed.
- Standardise indicators for properties and businesses to report consistently on health and safety and operational risk performance.

Highlights of key initiatives undertaken by our properties in 2009 to enhance the management of health and safety and security issues include:



SUPPLY CHAIN

In 2009, HSH began an important initiative to raise awareness of our commitment to sustainability in our supply chain and to engage our suppliers and contractors to work proactively with us to provide goods, products and services that are sourced, produced and/or delivered in ways which are environmentally and socially responsible, provide local employment and development opportunities and/or incorporate environmental content. While HSH continues to consider a number of other criteria in our sourcing of products and services – e.g. cost, availability, reliability, security of supply and guest and customer expectations – we are committed to increasingly incorporate environmental and social responsibility criteria in our sourcing practices.

This year, HSH launched a new supply chain code of conduct to outline the Group's expectations for its suppliers and contractors and to ensure that their activities comply with applicable labour, occupational health and safety, environmental and other relevant legislation and that ethical business practices are adopted as well as corrective actions (if in violation of the code). In particular, the code states that suppliers and contractors of HSH 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 young workers are not engaged in dangerous work that would cause physical or mental harm.

As a pilot project, The Peninsula Hong Kong distributed the code to the majority of its suppliers and contractors, which together represents over 900 in number and over 90% of the hotel's procurement. A sustainability questionnaire for suppliers and contractors regarding compliance with the code was also sent to 89 suppliers and contractors with an annual spend cut off of HK\$500,000, accounting for 72% of the hotel's annual supply chain spend. The Peninsula Hong Kong contacted these suppliers and contractors directly to discuss supply chain objectives and to encourage them to both respond to the questionnaire and work proactively with the hotel



A visit to the company where The Peninsula Bangkok sources all of its organic eggs.



to achieve these objectives, resulting in a response rate of around 80%. Based on the information received in the completed questionnaires, HSH will refine the questionnaire for Group wide roll out to the supply chains of its properties and businesses in 2010.

HSH properties and businesses make challenging purchasing decisions every week and strive to maximise procurement of efficient equipment, locally produced items, natural meats, sustainably harvested seafood and organic dairy, fruits, vegetables and other items. For example, in 2009 The Peninsula Bangkok continued its efforts to increase its sustainable sourcing practices. 50% of all of its fish and seafood items are procured from one supplier, which The Peninsula Bangkok has inspected and that sources its items from locations where the species are not threatened or endangered, as defined by organisations such as the Monterey Bay Aquarium. The hotel and staff canteen serve organic eggs and milk, cream and yoghurt that are produced locally by a farmer who does not use pesticides to grow the feed for the cows. 80% to 90% of all of the hotel's fresh produce is locally produced, including most of the vegetables, fruits, chicken and pork. The Peninsula Bangkok also targeted to further increase the quantities of organic products purchased; however, the price point of 25% to 40% higher was not considered feasible or potentially acceptable to its customers. The Peninsula Bangkok continues to review organic options and seeks to increase its purchasing when feasible.

As noted earlier, to assist our properties and businesses to increase their procurement of goods and services from more sustainable sources or with enhanced sustainability content, HSH issued the Group wide sustainability guidelines in 2009. These guidelines provide 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. This ranges 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. HSH's 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 or local endangered 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.

HSH continues to build long term relationships with suppliers who share our sustainability vision. While recognising guest/customer preferences and considering the availability of sustainable products, we will seek ongoing improvement in our procurement activities. HSH will review progress in implementing the sustainability guidelines and the sustainability questionnaire, identify opportunities to enhance our current initiatives, source sustainable products and services and influence our supply chain whenever practical and without compromising our service quality standards.

Objectives for 2010

- 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 HSH's properties and businesses.
- Review the implementation of HSH's sustainability guidelines, refine and update as needed to enhance the Group's sourcing of environmentally and socially responsible goods and services.

COMMUNITY INVESTMENT AND ENGAGEMENT

HSH has actively engaged in supporting and working with local communities throughout our history. Our properties and businesses have all supported charities such as Make-a-Wish and other groups and organisations that reflect the unique needs of each of the diverse communities in which we operate. As part of our corporate culture, we strongly support the active and individual involvement of staff at all levels in local environmental and social projects. HSH also recognises the importance of heritage to HSH's brand and the community and is proud to be one of three founders and funders of the Hong Kong Heritage Project.

In 2009, a Group wide framework for community investment and engagement was developed to assist properties with their efforts. This includes focusing activities where our expertise and experience can add value, such as sharing professional knowledge through educational and training initiatives and on projects which reflect the needs of the local community. Each property has been encouraged to focus on the three themes of education, children and the elderly, as well as other causes based on local priority needs. The goal is to involve staff in meaningful initiatives with specific groups to bring long term, sustainable benefits to the community and to HSH.

Each property has established a committee to plan and oversee the implementation of their strategic community investment and engagement activities and to monitor and report progress and results to HSH's CSRC. The CSRC will regularly review activities to ensure that community investment and engagement remain aligned with the Group's strategy and is effectively and efficiently implemented.

Examples of how HSH has implemented this Group wide strategy in 2009, along with a breakdown of these contributions based on monetary and in-kind donations to charitable organisations, as well as time spent on community or professional/ training initiatives, are provided in the diagram and Table 3 on the next two pages. As this is the first year that the Group has reported its community investment activities in a consolidated manner, the table also provides an indication of the nature and level of activities in 2009.

The Hong Kong Heritage Project is a unique archive of preserved records collected by the Kadoorie family and the various Kadoorie business interests, including The Hongkong and Shanghai Hotels, China Light and Power and the Kadoorie Farm. Archived materials related to the Kadoorie brothers' personal and business interests and philanthropic pursuits provide a rare historical snapshot of Hong Kong since the 1880s, including events in Shanghai and Hong Kong during the Second World War and the reconstruction period that followed.



The Peninsula Hong Kong supports the Home of Love to care for families living below the poverty line by providing tuition classes for children, donating toys and food and organising social activities.

In partnership with Caritas – Hong Kong, The Peninsula Hong Kong initiated a training programme to equip women with skills to re-enter the work force.



The Peninsula Beijing supports the Living Tree, an organisation which assists orphans suffering from a brain disorder called amentia, through donations of items for daily use such as milk powder, CD players, juice extractors, rice cookers, shampoo, etc.



The Peninsula Beijing also supports Sun Village, a community of children of imprisoned parents, by donating kitchen equipment and items for daily use, including shampoo, bed sheets, body lotion, hand cream, etc.

The Peninsula Hong Kong
The hotel donated 407 hotel gift certificates (with a total value of HK\$1,759,466) in support of local charities. The hotel also organised 22 activities for local charities which benefited 465 people in need and involved 263 hotel staff volunteering a total of 918 hours.

The Peninsula Bangkok
The hotel planted 250 mangroves covering an area of 1,600 m² at King Rama V fort, an initiative of Her Majesty the Queen Sirikit.

The Peninsula New York
The hotel donated toys to children in need, gave US\$15,350 in products and services to the "Make a Wish" Foundation and US\$450 in turkey vouchers for needy New Yorkers, and participated in the American Cancer Society's Daffodil Days. The hotel also hosted internships for hospitality students from various colleges and universities as well as hotel tours and presentations.

The Repulse Bay
The Complex organised charity events and donations for several organisations such as Camp Quality for children undergoing treatment for cancer and the Hong Chi Association to support the employment of mentally-challenged people.

**HSH ADOPTED A
STRATEGIC FRAMEWORK
TO FOCUS ITS
COMMUNITY
INVESTMENT AND
ENGAGEMENT
ACTIVITIES**

The Peninsula Chicago
The hotel staff volunteered at two new children's organisations – the Chicago Children's Memorial Hospital and a local orphanage; partnered with three charities, supported the Chicago Abused Women's Coalition, donated turkeys to a homeless shelter and organised a hotel Toy Drive; supported the Cooking Hospitality Institute of Chicago's job fair and conducted practice interview sessions for refugees at Heartland Alliance and Interfaith Refugee & Immigration.

The Peninsula Manila
The hotel's community events ranged from tree planting along the Osmena Highway to building houses for Habitat for Humanity to organising a soup kitchen and preparing food for 1,000 people impacted by typhoon Ondoy. PMN also started an on-the-job apprenticeship training with a quarterly intake of students from several local schools.

The Peninsula Tokyo
The hotel adopted a third charity, "Hands on Tokyo" which uses activity-based approaches to support local charities. 31 staff visited orphanages, homes and schools for visually-challenged children and 40 staff. On two occasions, they made rice balls and delivered them to homeless people in Tokyo as part of an "Onigiri" project.

The Peninsula Beijing
The hotel supports homes that care for children who are mentally-challenged, have imprisoned parents or are visually-challenged and the Song Tang home for the elderly. The hotel provided over 40 year-long internships for students from provinces in China. Despite limits on recruitment, the hotel hired two physically challenged employees with one as a telephone operator and the other in the graphics department.

Table 3: An indicative overview of the nature and level of community investment activities in 2009 across the Group

	Activity Units				Donation Unit		
	No. of events	No. of staff volunteers	Total volunteering hours	No. of participants	Kg of items donated	No. of items donated	US \$
Community work	107	1,004	2,084	11,483	–	1,244	26,844
Items donated for recycling	–	–	–	–	–	–	2,345
Distance learning / continued education	54	634	3,599	1,051	–	–	10,256
Donations in kind	33	–	–	–	750	390	215,648
Donations in kind from staff					730	1,731	--
Monetary Donations							
From hotels/ businesses	–	–	–	–	–	–	55,527
From staff	–	–	–	–	–	–	12,497
Seminars / workshops	90	819	2,470	3,211	–	–	–
Internship / work exposure	70	–	82,916	371	–	–	–
Heritage tours	248	329	13,761	1,657	–	–	–
TOTAL		2,216	104,830	17,773	1,480	3,365	–
TOTAL MONETARY VALUE OF COMMUNITY INVESTMENT ACTIVITIES							\$ 323,118

Note:

- Donations in kind include hotel room nights, food and beverage items and spa items donated for charity fundraising.



The Landmark in Vietnam joined other sponsors in the Helmets for Kids project with the support of the Asia Injury Prevention, an American non-profit organisation that aims to improve road safety in the developing world.



Chicago Children's Memorial Hospital Christmas visit by The Peninsula Chicago's Page Bear Peter and Reservations Manager as the Holiday Elf.



The Peninsula Bangkok donated revenue generated from a garage sale to purchase a washing machine for the Ban Bhudaraksa Phythai Baby Home, a residence for babies with AIDS.



The Peninsula Tokyo's 'Green Committee', comprising 16 members from all divisions of the hotel, organised a clean up campaign around the hotel to raise environmental awareness in Tokyo.

88 volunteers from The Peninsula Manila worked for 2 consecutive Saturdays to lay the foundation for one of the first houses to be built at a new Habitat for Humanity site in Nagpayong, Pasig City.



HSH's Chief Executive Officer, Clement Kwok, with participants of the Walk for Millions 2010 event which was organised by the Community Chest to support its family and child welfare services.

The Peninsula Bangkok planted 200 mangrove trees at King Rama V Fort, Samutprakarn Province.



The Peak Tram staff from Hong Kong supported visits to the Peak by children who were affected by the 2008 earthquake in Sichuan, as well as the Watoto Children's Choir from Uganda.

Objective for 2010

- Review community investment and engagement activities undertaken by properties and businesses to identify opportunities to enhance strategic actions and increase beneficial impacts.

STAKEHOLDER ENGAGEMENT

For many years, HSH has been engaging in various types of stakeholder engagement and communications at both the Head Office level and across all operations as a company listed on the Stock Exchange of Hong Kong and with our history dating back to 1866. Being an international property and hospitality company, HSH also appreciates that a diverse group of stakeholders have different interests and expectations for our business 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 businesses. Our stakeholders include: shareholders; investors; lenders; employees; guests; customers; tenants; business partners; suppliers; regulators; the media; trade associations and institutions; governments; non-governmental organisations; and local residents and communities. While HSH already engages with its stakeholders at the Group, property and business levels on various matters of interest, we recognise that we would benefit from a systematic approach to identify other potential stakeholder groups, assess and classify their needs and areas of concern, and to integrate the engagement process into our wider corporate responsibility efforts. Therefore, in 2010 we will introduce a Stakeholder Mapping and Classification (SMC) protocol across the Head Office and our operations and plan for training on stakeholder engagement and facilitating structured stakeholder dialogues. It is our aim that future reporting will incorporate the views and key issues raised by stakeholders and how HSH addresses this feedback.

Objective for 2010

- Roll out a Stakeholder Classification and Engagement Manual to the Group's operations and plan for providing training and support for properties and businesses to identify their stakeholders, map their issues and conduct targeted, stakeholder engagement initiatives.

FEEDBACK AND CONTACT INFORMATION

We welcome your comments and suggestions on our Sustainability Report and how we can enhance our reporting in the future. Please send your feedback to:

David Williams
*General Manager,
 Corporate Responsibility and Sustainability*

The Hongkong and Shanghai Hotels, Limited
 8th Floor, St. George's Building
 2 Ice House Street
 Central, Hong Kong
 davidwilliams@peninsula.com

More information on The Hongkong and Shanghai Hotels, Limited is available on the corporate website at www.hshgroup.com.

LRQA ASSURANCE STATEMENT

Terms of Assurance Engagement

Lloyd's Register Quality Assurance (Shanghai) Co Limited (LRQA) was commissioned by The Hongkong and Shanghai Hotels, Limited (HSH) to independently assure its Sustainability Report 2009 (hereafter referred to as "the Report") included within the 2009 Annual Report for the financial year ending 31 December 2009.

The assurance engagement was undertaken against the Global Reporting Initiative's Sustainability Reporting Guidelines (GRI G3), 2006.

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 objectives of the assurance engagement were to review that the report achieved the requirements of GRI Application Level C and to verify the reliability of the specified sustainability performance information against GRI G3.

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 in the HSH Head Office, 8th Floor, 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; and
- Validating HSH's self declaration of GRI G3 application level C.

LRQA's conclusions and findings¹

To form our conclusions we have obtained and reviewed sufficient evidence to provide the moderate level of assurance stated in the terms of the engagement.

Based on the terms of the engagement, in LRQA's opinion nothing has come to our attention that would lead us to believe that HSH has not met the conditions for the GRI G3, at application level C+.

Reliability of specified sustainability performance information

The processes for sustainability performance data and information collection, aggregation and management were implemented and established. Nothing has come to our attention that would lead us to believe that the specified sustainability performance is not reliable or that information has been mis-stated.

LRQA's recommendations

HSH is committed to continually improve its stakeholder engagement, expand its sustainability initiatives, develop the monitoring of its sustainability metrics and report on these in future. With regards to its Sustainability Report in future years, we recommend that HSH should address the following:

- Establish a systematic approach to its stakeholder engagement process;
- Enhance its process for determining material issues by introducing specific criteria;
- Report on the performance of its quality of service (for example, customer satisfaction and customer property management);
- Provide more data on waste management; and
- Implement a programme of internal data and information verification.

For and on behalf of LRQA (Shanghai) Co Ltd



19 March 2010²

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 nonfinancial 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 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.

The English version of this statement is the only valid version. The Lloyd's Register Group assumes no responsibility for versions translated into other Languages

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.

HSH'S ENVIRONMENTAL PERFORMANCE STATISTICS

GRI Indicator Code	GRI Performance Indicator	2006	2007	2008 with the addition of The Peninsula Tokyo	2009	2010 target with the addition of The Peninsula Shanghai
*EN 3	Direct energy consumption by primary energy source	276,848 GJ	273,545 GJ	284,963 GJ	254,947 GJ	269,128 GJ
*EN 4	Indirect energy consumption by primary source	467,815 GJ	489,432 GJ	573,698 GJ	539,386 GJ	599,026 GJ
*Energy intensity		1,856 MJ/m ²	1,895 MJ/m ²	1,862 MJ/m ²	1,722 MJ/m ²	1685 MJ/m ²
*% Energy intensity reduction (compared to 2006-2008 baseline average)					7.9%	10%
*EN 8	Total water withdrawal by source	1,787,122 m ³	1,800,517 m ³	1,833,639 m ³	1,554,209 m ³	
*EN10	Percentage and total volume of water recycled and reused				8.3% 128,703 m ³	
**Water intensity – hotels only		1,378 Litres/ Guest Night	1,445 Litres/ Guest Night	1,401 Litres/ Guest Night	1,377 Litres/ Guest Night	1,366 Litres/ Guest Night
***% Water intensity reduction – hotels only (compared to 2006-2008 baseline average)					2.2%	3%
*EN 16	Total direct and indirect greenhouse gas emission by weight			102,694 tonnes of CO ₂ equivalent	94,060 tonnes of CO ₂ equivalent	
*EN 19	Emission of ozone-depleting substances by weight				Tonnes of CFC-11 equivalent	
					ODS	Tonnes
					R12	0.028
					R22	1.508
					R123	0.2
					R141b	0.084
					R401a	0.004
					R502	0.129
					Total	1.953
*HSH Total Floor Area		401,294 m ²	402,689 m ²	461,261 m ²	461,261 m ²	515,225 m ²
**HSH Guest nights – hotels only		1,065,035	1,014,559	1,063,921	907,871	1,044,662

* Including all the Peninsula Hotels, The Repulse Bay, The Peak Tower, St. John's Building, The Landmark in Vietnam, Quail Lodge and Tai Pan Laundry only

** Including all the Peninsula Hotels and Quail Lodge

Please note that:

- 1) The Thai Country Club is not included in the above calculations.
- 2) In 2007, Tai Pan Laundry expanded its floor area.
- 3) The Peninsula Tokyo had its first full year of operations in 2008.
- 4) In 2009, EN16 includes the fugitive emissions from refrigeration and air conditioning equipment.
- 5) On 16 November 2009, HSH closed the hotel portion of Quail Lodge Resort and Golf Club.
- 6) On 18 October 2009, The Peninsula Shanghai soft opened and will be included in the Group's environmental performance statistics in 2010.