

SUSTAINABILITY REPORT

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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 Statement¹, 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 two² 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 policy³ 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 section³ 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 local⁴ 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 citizens⁴ 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 : ECI – 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)	22	24	18
Philippines	23	21	16	24
Others	3	0	0	0
	(Note 2)	385	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 employees⁵, 759 part time⁶ and casual⁷ 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 HSH⁸. 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 agreements¹⁰, 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		As at December 2010 Part time / Casual Employees		Total No. of Employees on Permanent Contracts		Total No. of Employees on Fixed Term / Temporary / At Will Contracts
	Management	Non – management	Management	Non – management	Full Time	Part time / Casual	
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
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 committees¹¹. 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 ORSO¹² 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 intranet 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.

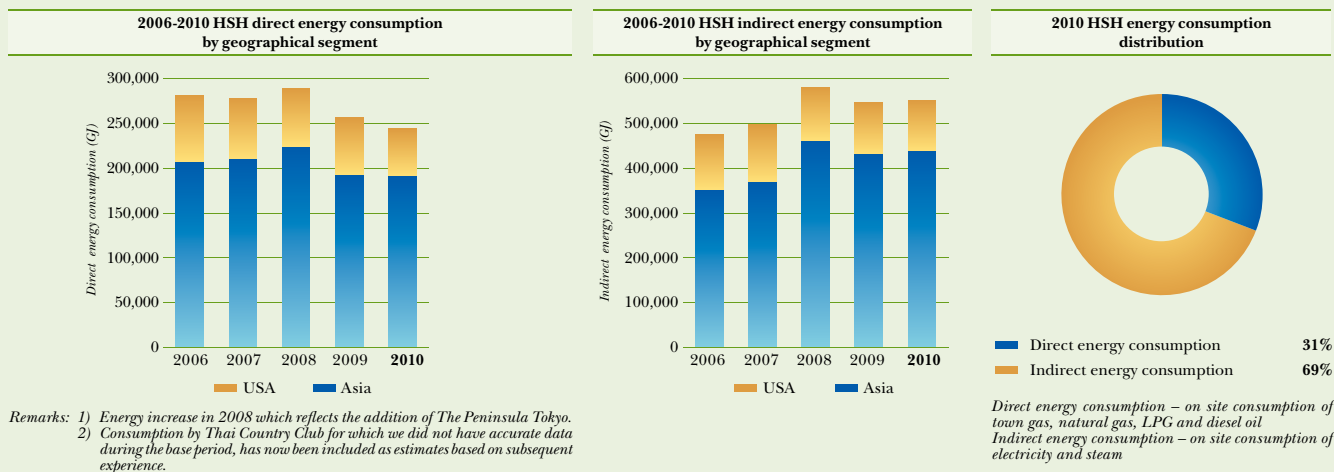
As reported previously, the foundation of our environmental initiatives lies in our 2008 Sustainability Review and the Technical Pilot Studies on indoor air and environmental quality (IAQ/IEQ) and energy and water consumption conducted at the Peninsula hotels in Hong Kong and Chicago. As a result of 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:

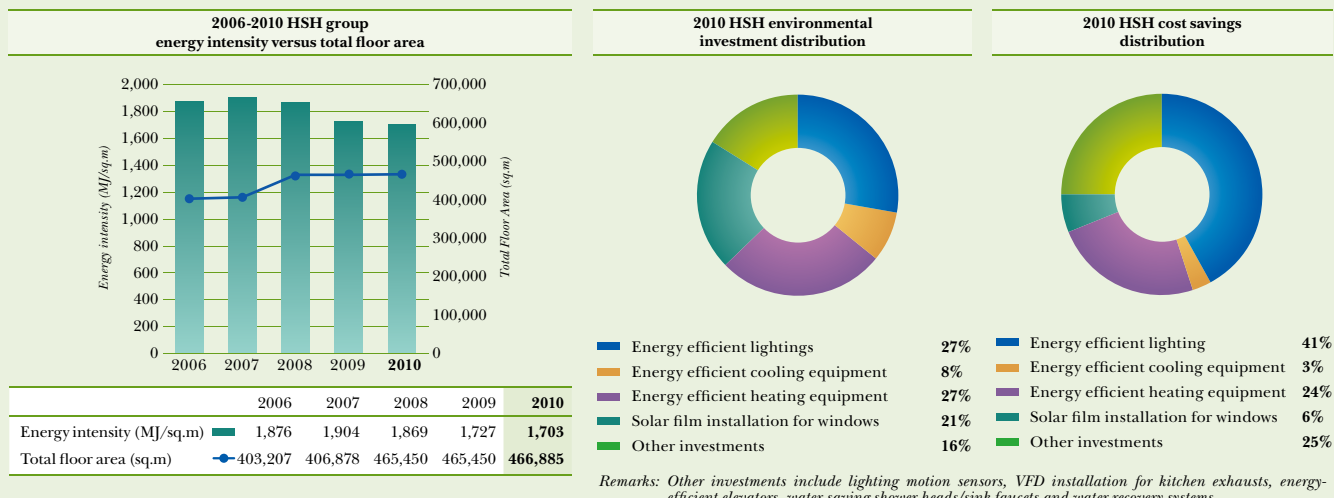
- LED and CFL/fluorescent tube retrofits
- Chiller replacement/retrofits or cooling system upgrades
- Boiler and heating system replacements/retrofits and heat recovery systems
- Heat pump replacements/retrofits/HVAC upgrades
- Solar film shading or window upgrades
- Solar water heating installations
- 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

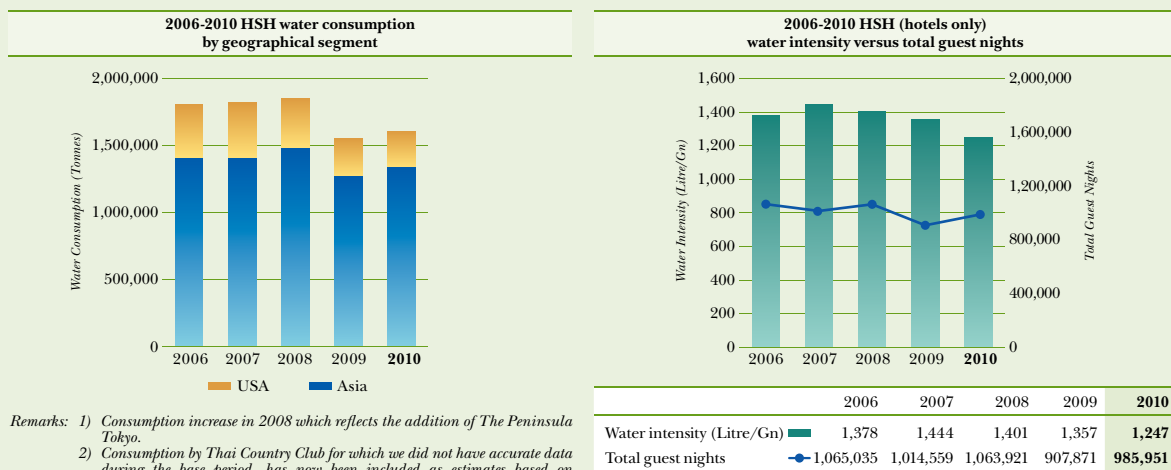


HSH Energy Intensity, Environmental Investment and Cost Savings



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.

Total Water Withdrawal by Source and HSH Water Intensity





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/m²) below its baseline energy intensity average of 1,883 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 HSH's Asia properties and businesses (excluding The Peninsula Shanghai¹³) 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 CO₂ 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 CO₂ 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/m². Energy usage at The Peninsula Shanghai was low during the first year of operations, hence the usage per m² 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 2008¹⁴.

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 m³, the Group's overall consumption of water, which was 1,604,191 m³ in 2010, reduced by 11.9% (equivalent to 217,317 m³). 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/Gn¹⁵. 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 m³ in 2010 (1,549,932 m³ in 2009). The Peninsula Manila also withdrew 106,807 m³ of water (124,899 m³ in 2009) from wells. 141,565 m³ 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 m³ 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, FRIGDES, 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.

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.

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

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



Left : Use of local produce at The Peninsula Beverly Hills

Right : The Peninsula Manila developed bio-degradable packaging

the years to enhance the sustainability of our supply chain. This has been, and will continue to be, a significant and important task.

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 <i>For middle-aged unskilled persons</i>	Yuen Kong project <i>For children from Yuen Kong Kindergarten</i>	Special activities for the elderly <i>St. James' Settlement Navigation Services</i>	
The Peninsula Shanghai	Kid's Club <i>For children of staff members</i>	Children's Day 2010 <i>For Shanghai Pudong Special School, Home of Sunshine at Waitan Committee</i>		
The Peninsula Beijing	Hotel tour for Shanxi Occupational & Technical College <i>For school teachers and Education Bureau Officers</i>	Christmas visits <i>For Bethel Foster Home and Sun Village</i>	Caring visits <i>For Song Tang Elderly Hospital</i>	
The Peninsula New York	Making strides against breast cancer walkathon <i>For women with breast cancer</i>	Winter wishes <i>For underprivileged children</i>		Sprucing Up Drew Gardens <i>For park in the West Farms Community, Bronx</i>
The Peninsula Chicago	Mock interview training <i>For new refugees and immigrants from Laos, Nepal, Butan and Iraq looking to enter the work force in Chicago</i>	Annual sponsorship breakfast <i>For children living in poverty without access to quality food</i>	Fundraisers: Memory Walk/ Alzheimer's Awareness Month/ Young Professional Group <i>For persons affiliated and/or affected by Alzheimer's disease in greater Chicago area</i>	Fitness for seniors <i>For Lloyd Walking Fitness Center - senior citizens</i>
The Peninsula Beverly Hills	Retraining <i>For disadvantaged members of society</i>	Adopt-a-family <i>For local families who have recently suffered hardships</i>		Fundraising for Rotary Club of Beverly Hills <i>For polio eradication</i>
The Peninsula Tokyo	Educational support - Why we work <i>For children at orphanage</i>	Onigiri (rice ball) project and amenity support <i>For Mutsumi Maternal and Child Dormitory House</i>	Elderly employment <i>For unskilled elderly people who have joined National Re-training School for elderly people</i>	Onigiri (rice ball) project <i>For unemployed people</i>
The Peninsula Bangkok		Love and Care to Bann Ramindra <i>For Home for Children</i>	Love is sharing <i>For Baan Bangkae Elderly Home</i>	Love and care to Masjid <i>For Masjid Suwannabhuni community</i>
The Peninsula Manila	Sharing the light program <i>For Concepcion Integrated School, Marikina City</i>	Sharing the light program <i>For Concepcion Integrated School, Marikina City</i>	PMN chorale christmas caroling for the elderly <i>For the Epiphany of the Lord Parish in Camrin, Novaliches</i>	House building <i>For Habitat for Humanity Families</i>
The Repulse Bay	Guest lecture <i>For students from IVE Tsing Yi</i>	"Little Gentlemen & Little Ladies" <i>For low income families</i>		
The Landmark, Vietnam		Assisting the Vocational Training Center <i>For handicapped children and orphans</i>		

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.	√	<ul style="list-style-type: none"> 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 (five locations) 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
Review the Group pay philosophy and review the Group's incentive programmes.	<ul style="list-style-type: none"> Pay philosophy reviewed by Remuneration Committee on 6 December 2010. Incentive scheme to be reviewed in 2011. 	
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.	Design phase started, data collection February 2011	
Expand the Corporate Management Trainee Programme to locations beyond Hong Kong	√	
Integrate sustainability content into the orientation and other relevant training across the Group	√	
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)	<ul style="list-style-type: none"> 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 a further 3% in 2011 over its baseline water intensity average between 2006 and 2008 Roll out sustainable design standards & guidelines throughout the Group in 2011 and provide training
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)	
Develop protocols for properties and businesses to conduct resource consumption and waste audits	In process	
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
<p>Health and Safety Audit properties' implementation of the Operational Risk Manual and develop action plans to enhance performance where needed</p> <p>Standardise indicators for properties and businesses to report consistently on health and safety and operational risk performance.</p>	<ul style="list-style-type: none"> • Hotels 80% complete • Non hotels started in September 2010 and planned to complete in June 2011 • 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 	<ul style="list-style-type: none"> • 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
<p>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.</p> <p>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</p>	<ul style="list-style-type: none"> • Hotels done in July 2010 • Non hotels done in December 2010 <p>√</p>	<ul style="list-style-type: none"> • 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
<p>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</p> <p>Maintain monetary and in-kind contributions in line with expected economic value generated and distributed</p>	<p>√</p> <p>√ Economic value + 5% and cash donations to charitable institutions and sponsorship of community programmes + 25%</p>	<ul style="list-style-type: none"> • 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.
<p>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.</p>	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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	2008 (addition of PTK)																																																																												
		2006	2007	2008	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/m ²	1,904 MJ/m ²	1,869 MJ/m ²	1,727 MJ/m ²	1703 MJ/m ²																																																																								
* % Energy Intensity reduction (compared to 2006-2008 baseline average)					8.3%	9.6%																																																																								
*EN 8	Total water withdrawal by source	1,801,743 m ³	1,814,527 m ³	1,848,255 m ³	1,549,932 m ³	1,604,191 m ³																																																																								
EN10	Percentage and total volume of water recycled and reused				8.3% 128,703 m ³	8.8% 141,565 m ³																																																																								
**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					<ul style="list-style-type: none"> • 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				<table border="1"> <thead> <tr> <th colspan="2"></th> <th colspan="2">Tonne of CFC-11 equivalent</th> <th colspan="2"></th> <th colspan="2">Tonne of CFC-11 equivalent</th> </tr> <tr> <th>ODS</th> <th>Tonne</th> <th>ODS</th> <th>Tonne</th> <th>ODS</th> <th>Tonne</th> <th>ODS</th> <th>Tonne</th> </tr> </thead> <tbody> <tr> <td>R12</td> <td>0.028</td> <td>R12</td> <td>0.021</td> <td>R12</td> <td>0.021</td> <td>R12</td> <td>0.021</td> </tr> <tr> <td>R22</td> <td>1.508</td> <td>R22</td> <td>1.36</td> <td>R22</td> <td>1.36</td> <td>R22</td> <td>1.36</td> </tr> <tr> <td>R123</td> <td>0.2</td> <td>R123</td> <td>0.5</td> <td>R123</td> <td>0.5</td> <td>R123</td> <td>0.5</td> </tr> <tr> <td>R414b</td> <td>0.084</td> <td>R414b</td> <td>0.0022</td> <td>R414b</td> <td>0.0022</td> <td>R414b</td> <td>0.0022</td> </tr> <tr> <td>R401a</td> <td>0.004</td> <td>R401a</td> <td>0.05</td> <td>R401a</td> <td>0.05</td> <td>R401a</td> <td>0.05</td> </tr> <tr> <td>R502</td> <td>0.129</td> <td>R502</td> <td>0.084</td> <td>R502</td> <td>0.084</td> <td>R502</td> <td>0.084</td> </tr> <tr> <td>Total</td> <td>1.953</td> <td>Total</td> <td>2.02</td> <td>Total</td> <td>2.02</td> <td>Total</td> <td>2.02</td> </tr> </tbody> </table>			Tonne of CFC-11 equivalent				Tonne of CFC-11 equivalent		ODS	Tonne	ODS	Tonne	ODS	Tonne	ODS	Tonne	R12	0.028	R12	0.021	R12	0.021	R12	0.021	R22	1.508	R22	1.36	R22	1.36	R22	1.36	R123	0.2	R123	0.5	R123	0.5	R123	0.5	R414b	0.084	R414b	0.0022	R414b	0.0022	R414b	0.0022	R401a	0.004	R401a	0.05	R401a	0.05	R401a	0.05	R502	0.129	R502	0.084	R502	0.084	R502	0.084	Total	1.953	Total	2.02	Total	2.02	Total	2.02	
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Total	1.953	Total	2.02	Total	2.02	Total	2.02																																																																							
* HSH total floor area		403,207 m ²	406,878 m ²	465,450 m ²	465,450 m ²	466,885 m ²																																																																								
**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 findings¹

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 2011²

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.



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

A handwritten signature in blue ink, appearing to read "Nelmara Arbex", is written over a faint, large watermark of the GRI logo in the background.

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative



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.