The Hongkong and Shanghai Hotels, Limited

Annual Report 2011

Stock code: 00045


THE PENINSULA

CONTENTS

COMPANY AT A GLANCE

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

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

HOTELS DIVISION		YEAR ACQUIRED/ ESTABLISHED	NUMBER OF ROOMS	HSH OWNERSHIP
Asia	The Peninsula Hong Kong	1928	300	100%
	The Peninsula Shanghai	2009	235	50%
	The Peninsula Beijing	1989	525	76.6%*
	The Peninsula Tokyo	2007	314	100%
	The Peninsula Bangkok	1998	370	75%
	The Peninsula Manila	1976	497	77%
USA	The Peninsula New York	1988	239	100%
	The Peninsula Chicago	2001	339	100%
	The Peninsula Beverly Hills	1991	193	20%
Europe	The Peninsula Paris	Opening in late 2013	200	20%

COMMERCIAL PROPERTIES DIVISION		YEAR CURRENT BUILDING OPENED	GROSS FLOOR AREA (SQ. FT.)	HSH OWNERSHIP
Residential	The Repulse Bay, Hong Kong	1976 and 1989	996,788	100%
	The Landmark, Ho Chi Minh City, Vietnam	1994	69,750	70%
Commercial	The Peak Tower, Hong Kong	1996	116,768	100%
	The Repulse Bay, Hong Kong	1989	62,909	100%
Office	The Peninsula Office Tower, Hong Kong	1994	80,430	100%
	St. John's Building, Hong Kong	1983	71,400	100%
	The Landmark, Ho Chi Minh City, Vietnam	1994	108,640	70%

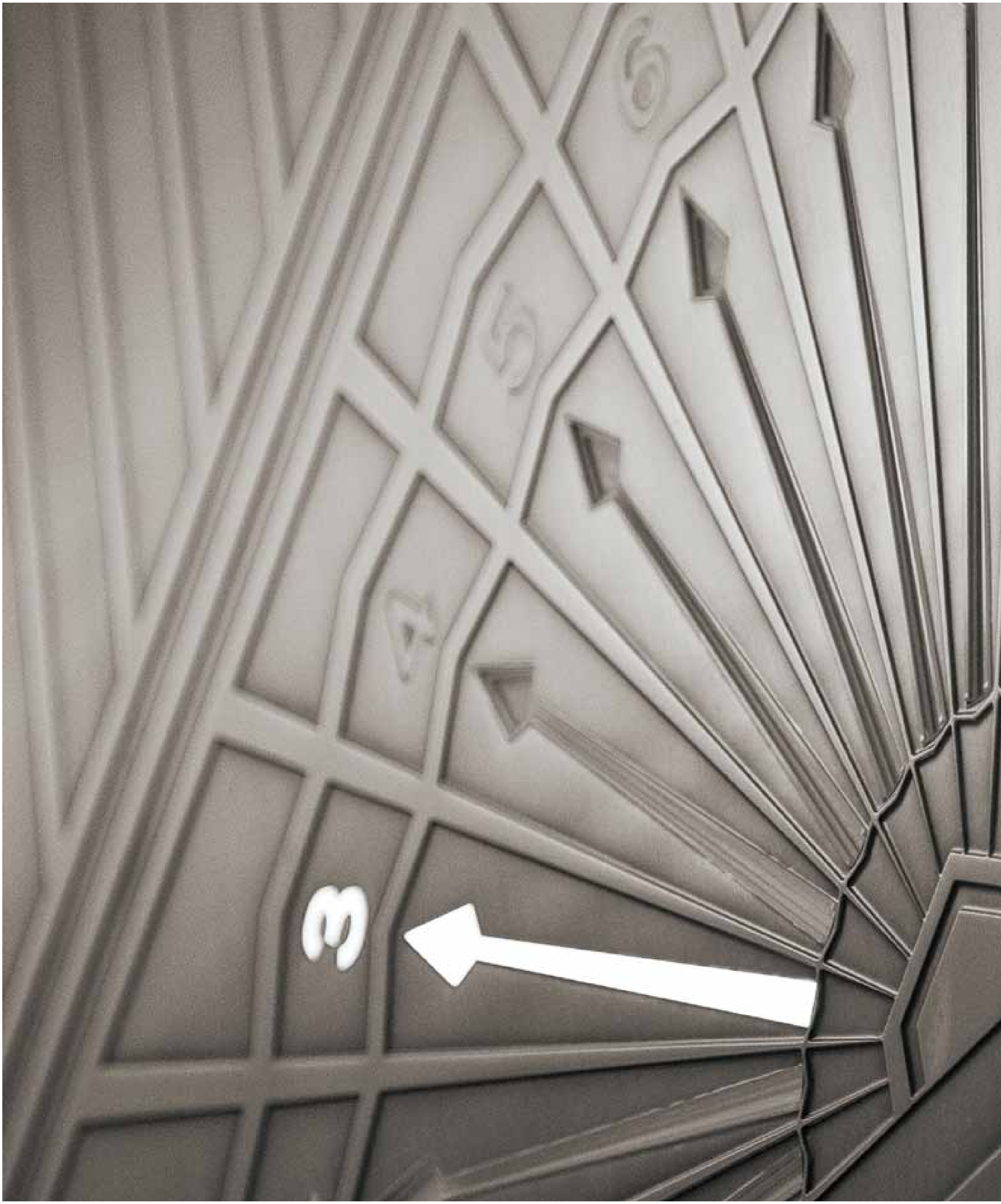
CLUBS AND SERVICES DIVISION	HSH OWNERSHIP
Peak Tramways, Hong Kong	100%
Thai Country Club, Bangkok, Thailand	75%
Quail Lodge Golf Club, Carmel, USA	100%
Peninsula Clubs and Consultancy Services	100%
Peninsula Merchandising	100%
Tai Pan Laundry, Hong Kong	100%

* *HSH owns 100% of the business of The Peninsula Beijing with a reversionary interest to the PRC joint venture partner at the end of the cooperative joint venture period, expiring in 2033.*

FINANCIAL AND OPERATING HIGHLIGHTS

	2011	2010	Increase/ (Decrease)
CONSOLIDATED INCOME STATEMENT (HK$m)			
Turnover	**5,009**	4,707	6%
EBITDA	**1,211**	1,143	6%
Operating profit	**834**	794	5%
Profit attributable to shareholders	**2,259**	3,008	(25%)
Underlying profit attributable to shareholders**	**464**	408	14%
Dividends	**208**	177	18%
Earnings per share (HK$)	**1.52**	2.04	(25%)
Underlying earnings per share (HK$)**	**0.31**	0.28	11%
Dividends per share (HK cents)	**14**	12	17%
Dividend cover (times)#	**2.2x**	2.3x	(4%)
Interest cover (times)	**9.5x**	7.4x	28%
Weighted average gross interest rate	**3.1%**	3.2%	(0.1pp)*
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)			
Total assets	**38,233**	36,587	4%
Audited net assets attributable to shareholders	**31,455**	29,103	8%
Adjusted net assets attributable to shareholders**	**34,703**	31,888	9%
Audited net assets per share (HK$)	**21.11**	19.66	7%
Adjusted net assets per share (HK$)**	**23.29**	21.55	8%
Net borrowings	**2,335**	1,674	39%
Net debt to EBITDA (times)	**1.9x**	1.5x	27%
Net debt to equity	**7%**	6%	1pp*
Gearing	**7%**	5%	2pp*
CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)			
Net cash generated from operating activities	**999**	1,019	(2%)
Capital expenditure on fixed assets	**(312)**	(276)	13%
Payment for the acquisition of additional interest in a subsidiary	**(578)**	–	N/A
Cash and cash equivalents at the year end	**1,963**	1,644	19%
Capital expenditure on fixed assets as a percentage to revenue	**6%**	6%	–
SHARE INFORMATION (HK$)			
Highest share price	**14.74**	14.90	(1%)
Lowest share price	**8.10**	10.32	(22%)
Year end closing share price	**8.61**	13.32	(35%)
OPERATING INFORMATION			
Number of hotel rooms	**3,012**	3,012	–
Average occupancy rate			
– Hong Kong	**74%**	70%	4pp*
– Other Asia	**57%**	58%	(1pp)*
– United States of America	**69%**	65%	4pp*
Average room rate (HK$)			
– Hong Kong	**4,094**	3,816	7%
– Other Asia	**1,981**	1,928	3%
– United States of America	**4,550**	4,403	3%
RevPAR (HK$)			
– Hong Kong	**3,043**	2,660	14%
– Other Asia	**1,122**	1,114	1%
– United States of America	**3,135**	2,856	10%

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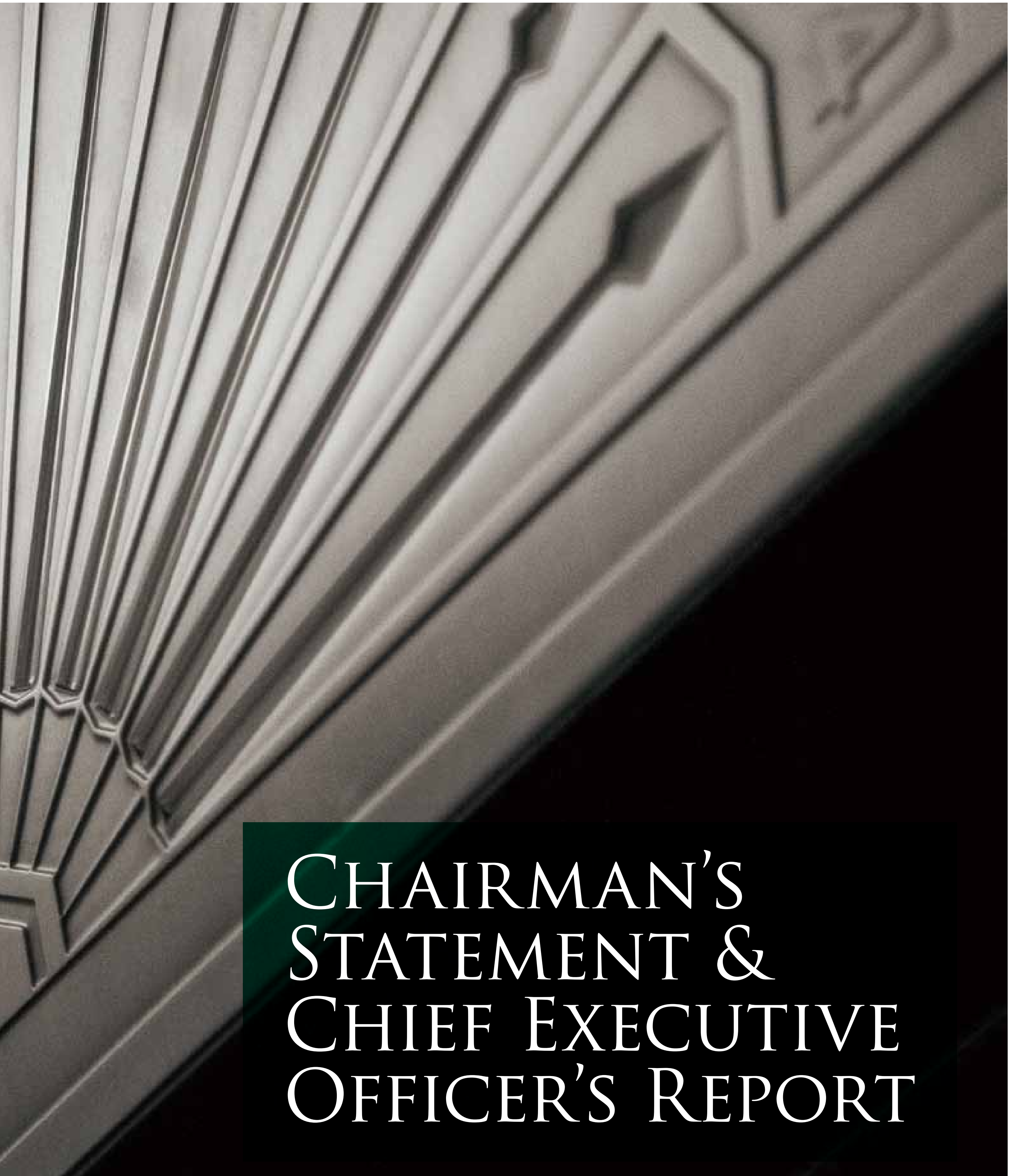


Chairman's Statement & Chief Executive Officer's Report

CHAIRMAN'S STATEMENT

Dear shareholders,

Throughout the long history of our Company since its incorporation in 1866, we have encountered many periods of challenge, as well as satisfying achievements in developing one of the finest luxury hotel brands in the world. 2011 was a year of difficult challenges, with the continuing global economic uncertainty keeping our business operating margins under pressure. The challenges were further exacerbated by two natural disasters, the massive earthquake and tsunami which struck Japan in March 2011 and the major flooding in Bangkok towards the end of the year.

While The Peninsula Tokyo did not suffer any physical damage from the earthquake, the disaster caused considerable disruption to the city of Tokyo and its residents and resulted in a substantial drop in business for much of the remainder of the year. Of more importance from my perspective, our team at the hotel did an exceptional job of looking after and caring for the guests who were on property at the time of the earthquake, as well as providing shelter for over 2,000 members of the public who sought refuge in the hotel immediately after the disaster. Since then, colleagues across our Group operations have responded with moral support, financial assistance and fundraising initiatives aimed at benefiting the victims of the disaster. Our fundraising campaign "Hope for Japan" raised over HK$4 million for disaster victims and a number of other initiatives have been undertaken by the hotel team to offer assistance to the affected area.

The flooding disaster in Bangkok, whilst also leaving the hotel physically unscathed, caused suffering to our staff with many homes being damaged as well as a negative impact on our businesses. Here, our efforts have focused on support and assistance for our staff, which included establishing the Emergency Loan Assistance Fund. I believe that the way in which we responded to both of these disasters reflect the strength and character of the Peninsula family.

Throughout this period of economic uncertainty, we have continued to adhere strongly to the principles of our long term vision, which is to own and operate a small number of top quality hotels which are recognised as being amongst the world's finest. Despite the financial pressures, we have maintained our long term strategy of investing in both existing and new properties. Our expansion is thoughtful and measured and a significant amount of resources is devoted to seeking the next suitable Peninsula hotel development in accordance with our stringent requirements. Our priority is to conduct our businesses to the highest level of integrity, maintain our brand culture and reputation and secure the highest quality portfolio of assets for the long term.

2011 demonstrated once again the importance of diversification in our business portfolio. Amongst our hotel operations, the business environment varied between our operations in different locations, with a strong market in Hong Kong supporting our results in the light of weaknesses in others. The overall effect of the varied market conditions was that the operating results of the Hotels Division were largely flat as compared to the previous year. This was counter balanced, however, by the results of our Commercial Properties Division and the Clubs and Services Division which both achieved improved earnings, with The Repulse Bay and The Peak Complexes in Hong Kong performing particularly well.

During the year, we commenced two major renovation programmes for our two most important assets in Hong Kong. Physical works for the renovation of all the guestrooms at The Peninsula Hong Kong over two phases commenced in January 2012, designed to take our guestroom product to a new level of design efficiency and technology. The Repulse Bay Complex is undergoing a three phased renovation programme, encompassing the public spaces of both residential complexes together with a complete reconfiguration of the de Ricou serviced apartment tower. I am confident that these ambitious programmes will ensure that the aforementioned properties retain their leadership positions in Hong Kong.

I am thrilled about our new hotel property, The Peninsula Paris, which is planned to open in 2013. This will be our first hotel in Europe and its location in a magnificent, historic building on Avenue Kleber in the exclusive 16th arrondissement, close to the Champs Elysées and the Arc de Triomphe, will give it true landmark status.

Corporate sustainability has continued to underpin activities undertaken across all businesses. We are committed to integrating sustainable practices and principles into our operations in a balanced manner, while continuing to provide exceptional levels of service to our customers. We have also worked hard to play a greater role in the communities in which we operate. Our sustainability strategy reflects a philosophy and practice that covers a wide spectrum and sustainability themes, from corporate governance and ethics, through to the delivery of services and products in an environmentally and socially responsible manner.

Our successes are founded in the commitment of staff and I extend my gratitude to all for the dedication shown over the past year. The Group has been skilfully led by our Chief Executive Officer, Clement Kwok, together with the members of the Group Management Committee, and guided by our experienced Board of Directors.

As we look ahead to 2012 and beyond, the Group remains well positioned to take advantage of growth in our established markets. Our staff remains highly motivated and our management teams operate with a clear vision and an intimate knowledge of our industry. Together, we will meet the challenges with viable solutions and resolve potential issues with long term strategies.

The Hon. Sir Michael Kadoorie
30 March 2012

CHIEF EXECUTIVE OFFICER'S REPORT

"This financial result was better than we had hoped for in the aftermath of the Japan earthquake... I am also immensely proud of the way our staff in Tokyo and Bangkok reacted to the two natural disasters by selflessly providing care, support and help both to their local communities and to affected staff members."

Overview

Our business in 2011 was affected by mixed market conditions for our various hotel operations in the midst of the continuing global economic uncertainties, as well as by two major natural disasters: the earthquake and resultant tsunami in Japan and the flooding in Bangkok. In the circumstances, we were pleased to be able to report an increase of 14% in our underlying earnings as compared to the previous year.

This financial result was better than we had hoped for in the aftermath of the Japan earthquake and was achieved through the concerted efforts made by our staff across our global operations of which I am most appreciative. I am also immensely proud of the way our staff in Tokyo and Bangkok reacted to the two natural disasters by selflessly providing care, support and help both to their local communities and to affected staff members. These efforts were strongly supplemented by our Company and our colleagues around the world through fundraising efforts and moral support.

Hotels

Market conditions were varied amongst our hotel businesses, with a number of locations experiencing weak corporate business, oversupply of luxury hotels and political instability, as well as the two natural disasters mentioned above. Our strongest performer was once again The Peninsula Hong Kong. In addition, we saw good signs of recovery at The Peninsula New York and The Peninsula Beverly Hills.

China: The Peninsula Hong Kong performed very well during the year, with a business revival in both the corporate and leisure segments. The top producing markets for the hotel were China, Japan and the USA. There was also healthy growth from new customer markets including Russia and the Middle East. The Peninsula Arcade remains highly sought after by leading luxury retail brands and both this and the Office Tower were able to grow their average rent and maintain effectively full occupancy during the year. The Peninsula Shanghai, now in the second full year of operations, has established recognition as one of the very top hotels in China. In the year following the Shanghai World Expo, the hotel benefited from increased demand from domestic travellers and continued to step up its marketing efforts in mainland cities. The Peninsula Arcade has been fully occupied by leading luxury retail brands. Meanwhile, The Peninsula Residences, which form part of this complex, completed interior fit out work for most of the 39 units and will commence leasing activities in 2012. The Peninsula Beijing was able to maintain its leadership position in the capital despite competition from the large supply of other luxury hotels remaining intense. Upgrading work for the Peninsula Arcade was completed during the year, which further strengthened the Arcade's position as the premier luxury goods shopping venue in the Chinese capital. The Arcade continues to provide an important stream of revenue for the hotel.

Asia: The Peninsula Tokyo faced the challenge of a depressed economy in the months following the massive earthquake and tsunami in March 2011, which affected the tourism industry deeply. By the third quarter of the year, business had rebounded to some extent, due partially to a more relaxed visa policy which resulted in the return of some mainland Chinese and other Asian and Middle Eastern visitors, who were relatively unaffected by the softening of global economies. The hotel's wedding business remained robust. In Thailand, The Peninsula Bangkok was recovering from the previous year's political uncertainty following the July 2011 election which produced a more stable government, until the extensive flooding which hit Bangkok in November 2011. Although the hotel was not directly affected by the flood water, the tourism industry was badly hit by the ensuing negative publicity and travel advisories imposed by foreign governments. Once again, the regional markets proved to be more resilient and by December 2011, inbound visitor arrivals to Bangkok had shown some recovery. In the Philippines, The Peninsula Manila celebrated its 35th anniversary in 2011 and achieved its highest RevPAR ever. The hotel saw a significant increase in frequent independent travellers' business and enjoyed strong food and beverage business.

USA: Following the completion of its guestroom renovation programme, The Peninsula New York enjoyed a good increase in business from some high-end overseas groups and expanded its business mix by focusing efforts on new sectors including technology, energy and entertainment. Business remained weak for The Peninsula Chicago, which is highly dependent on domestic and corporate business, although there was slight improvement in business in the second half of the year. The hotel celebrated its 10th anniversary, retaining a leading market position and continuing to be recognised as one of the finest hotels in North America. The Peninsula Beverly Hills, which celebrated its 20th anniversary in 2011, enjoyed strong business from the entertainment industry and the Middle East market. The hotel completed a renovation of all its guestrooms and suites, which now carry a refreshed, elegant new look.

Overall, the revenue and EBITDA of the Hotels Division for the year were HK$3,766 million and HK$605 million, an increase of 5% and 0.2% respectively as compared to 2010. This result was achieved despite the significant adverse impact of the earthquake in Japan and the flooding in Bangkok. Further details of individual hotel's financial performance can be found in the Financial Review (pages 57 to 59).

Commercial Properties

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

The most important asset in this Division is the Repulse Bay Complex, the larger part of whose revenue is derived from residential lettings which continued to experience strong demand throughout the year, in line with Hong Kong's robust economy. This was supplemented by the increase in patronage to the Complex's two restaurants and shopping arcade, the latter of which remained fully let throughout the year. In particular, banquet and wedding business remained strong. The total revenue of the Complex rose 7% from 2010 to HK$538 million.

The Peak Complex achieved excellent results in 2011 due to its strong positioning in the tourist market. The Peak Tower maintained 100% occupancy during the year and recorded an increase of 17% in year-on-year revenue, which was also boosted by a record number of

> *"We believe that the significant investment in The Peninsula Hong Kong and The Repulse Bay projects will further enhance the value of these key assets and help to maintain their leading positions in the market."*

visitors to the rooftop Sky Terrace 428. St. John's Building enjoyed an effectively 100% occupancy throughout the year with an 18% increase in revenue.

At The Landmark in Vietnam, both the office and residential portions maintained high occupancies despite the intense competition in Ho Chi Minh City. The complex also completed the renovation of its health club, which was re-opened in September.

Overall, the revenue and EBITDA of the Commercial Properties Division for the year were HK$743 million and HK$493 million respectively, an increase of 8% and 10% as compared to 2010. Further details of individual property's financial performance can be found in the Financial Review (page 60).

Clubs and Services

The 123-year-old Peak Tram has maintained its position as one of Hong Kong's most popular tourist attractions. In 2011, patronage of the Peak Tram rose to a record 5.8 million passengers, a 7% increase from 2010.

Income from our club management activities rose with positive results coming from our management of the Cathay Pacific lounges at the Hong Kong International Airport. Two of the business class lounges at the Airport completed their renovation and re-opened in April 2011 and January 2012 respectively. The Thai Country Club saw a decline in the number of golfers from Japan and although the Club did not suffer any physical damage from the flooding in November, the number of rounds were reduced as a result. At Quail Lodge Golf Club, the golf course and Clubhouse remained open and the Club hosted another successful edition of The Quail Motorsports Event in August. Peninsula Merchandising once again achieved record sales in Hong Kong and Asia for its signature Mid Autumn Festival mooncakes and we are planning to open the first Peninsula Boutique in South Korea in 2012. In Shanghai, No. 1 Waitanyuan has gained a fine reputation for its fine food, service and ambiance in the historic setting of the former British Consulate. We have also leased other premises within the Bund 33 complex for commercial usage. The site is managed by The Peninsula Shanghai.

Overall, the revenue and EBITDA of the Clubs and Services Division for the year were HK$500 million and HK$113 million, an increase of 13% and 27% respectively as compared to 2010. Further details of individual clubs and services' financial performance can be found in the Financial Review (page 61).

Projects and developments

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

The next Peninsula hotel currently under construction is in Paris. Conversion of this magnificent, century-old Beaux Arts building on Avenue Kleber to become The Peninsula Paris commenced in September 2010. Interior design work for the hotel's public areas and guestrooms are at an advanced stage and we will begin interior fit out work in 2012. The Peninsula Paris will be the Group's first hotel in Europe and is scheduled to open in late 2013.

Whilst the search for future new Peninsula hotel developments continue, we remain very selective in seeking opportunities in key gateway cities which will meet Peninsula's full requirements. A lot of time and effort goes into this endeavour and I hope to be able to report further progress in due course.

In the meantime, we continue to devote significant efforts to the continual enhancement of our existing assets. In January 2012, we commenced physical works for the extensive renovation programme for The Peninsula Hong Kong which, over two phases, will encompass a full upgrade of all of the hotel's guestrooms and suites as well as an expansion and upgrade of some restaurant areas. Our willingness to undertake a large scale renovation of a rooms product which is less than 20 years old and which is still highly regarded by guests, is a testament to our determination and commitment to set the highest standards in the global luxury hospitality sector.

An extensive renovation programme of the Repulse Bay Complex is already underway. This will significantly upgrade all the public areas of the apartment towers and completely reconfigure the layout of the serviced apartment tower, de Ricou, in order to improve its efficiency and rental yield. The project, which is divided into three phases, commenced in 2011 and is targeted for completion in 2014.

We believe that the significant investment in The Peninsula Hong Kong and The Repulse Bay projects will further enhance the value of these key assets and help to maintain their leading positions in the market. Of course, a number of projects are undertaken on an ongoing basis to maintain and enhance our existing hotels and other properties. During the year, these have included the completion of renovation at The Peninsula New York and The Peninsula Beverly Hills.

Financial results

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

With the balance of earnings provided by this comprehensive and diversified portfolio, I am pleased to report that our Group achieved an increase of 6% in earnings before interest, taxation, depreciation and amortisation (EBITDA) to HK$1,211 million in 2011 and an increase of 5% in operating profit to HK$834 million in 2011. The EBITDA margin remained unchanged from 2010, at 24%.

Inclusive of non-operating items, being principally the year end investment property revaluation surpluses, the net profit attributable to shareholders was HK$2,259 million, as compared to HK$3,008 million in 2010. Our underlying profit attributable to shareholders, which we have calculated by excluding the post-tax effects of the property revaluation surpluses and other non-operating items, amounted to HK$464 million, as compared to HK$408 million in 2011, representing an increase of 14%.

Our financial position remains strong. Our revalued net assets attributable to shareholders increased by 9% to HK$34,703 million, representing HK$23.29 per share, and our gearing remained at a very conservative level of 7% at the year end. Our net cash surplus for the year, after deducting capital expenditure, interest and dividends, amounted to HK$544 million. In addition, a gain of HK$135 million was credited to reserves on the purchase of additional interest in The Peninsula Beijing.

Based on our results, the Board has recommended a final dividend payable on 29 June 2012 of 10 HK cents per share. Together with the 2011 interim dividend of 4 HK cents per share paid on 4 November 2011, the total dividend in respect of the 2011 financial year will be 14 HK cents per share.

Corporate responsibility

2011 has been a year of progress and transition. The Group's Corporate Responsibility Committee which I chair, was established in late 2007 to provide a formal governance structure to address the wider aspects of our environmental, social and ethical responsibilities. In the past three years, we have invested in various environmental engineering projects, with positive effects on energy and water consumption. These investments have brought savings in our utility costs and a satisfactory return on investment. The Group's energy intensity has since reduced by 15.5% and our carbon intensity by 6.1%.

We have also become more conscious of our impact on the world's bio-diversity. In line with our overall effort to switch to produce and materials from more sustainable sources, we decided in 2011 to stop serving shark fin at all our owned food outlets around the world. We continue to build on our long-standing commitment to support the development of the communities in which we operate.

We recognise a need to enhance the degree to which social and environmental responsibility is integrated in our everyday business decision-making. We also see the need to build a wider and deeper understanding among all employees of what it takes for our business to continue to thrive in the long term. We have planned in 2012 to engage the Group's senior management team in a forum to assess key future trends that will impact the Group and to create a shared direction for sustainable business at HSH. This is part of a new and wider employee engagement programme, with a view to generating practical solutions to address our longer term sustainable business challenges. We will further strengthen our internal governance and reporting framework on sustainability to support management decisions, and step up our effort in reaching out to our stakeholders to understand their evolving concerns and expectations.

Outlook

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

Sustainable development continues to be high on our agenda. We are committed to adopt a balanced approach to our economic, environmental and social objectives. As natural resources deplete, technologies develop and sensibilities evolve, we must ensure that we are well placed to continue to deliver luxury and quality to our customers in ways that are both sustainable and that drive business growth.

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

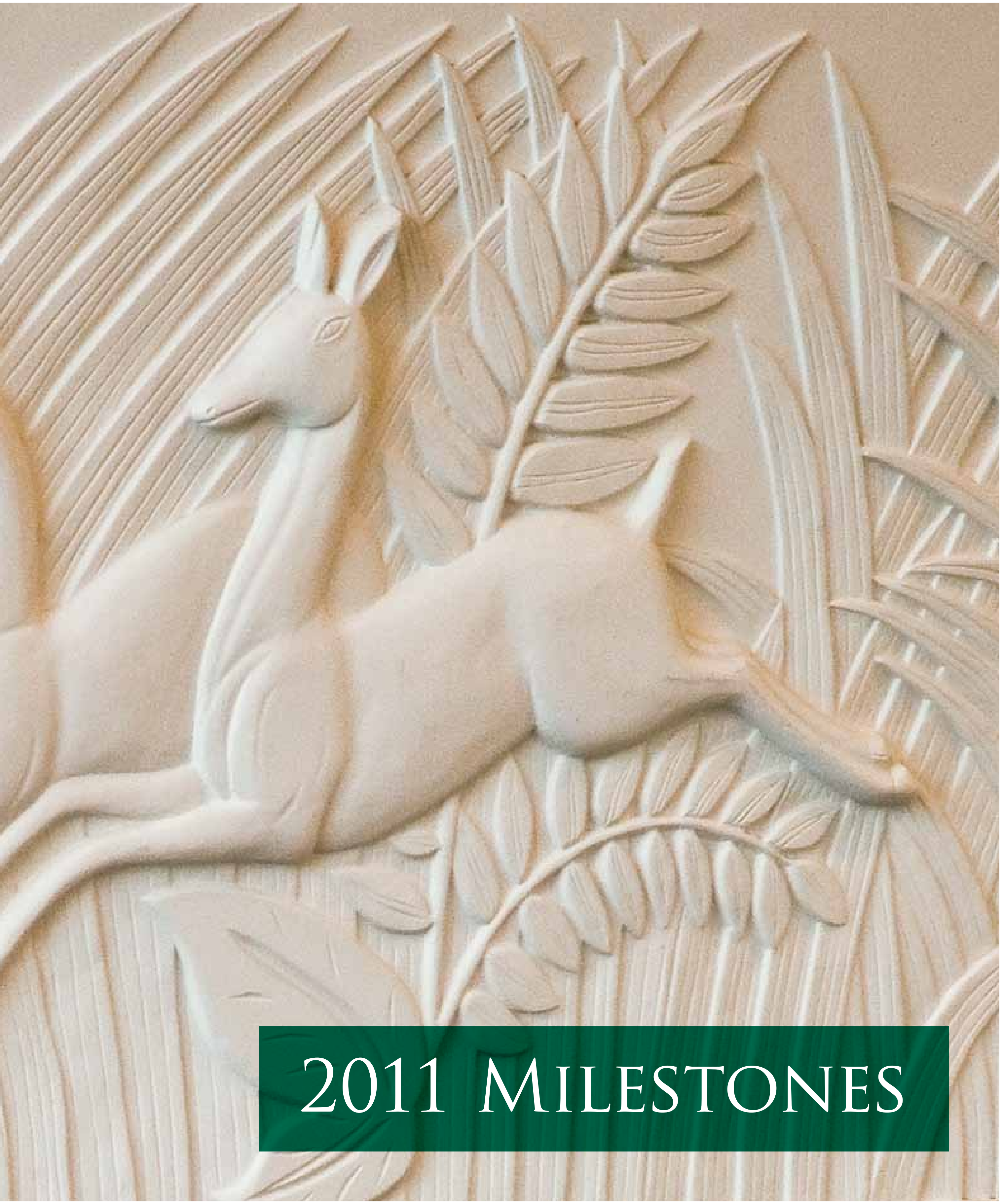
Peninsula hotel through both asset value appreciation and operational earnings growth.

In terms of outlook for the coming year, current business trends in most of our hotels are positive, although margins continue to be under pressure and it remains of paramount importance to control our costs and increase our efficiency in delivering services to customers without any compromise to the quality of the experience of our guests. In particular, we are looking to a year of recovery for both Tokyo and Bangkok after the natural disasters experienced in 2011 and for further growth in our China businesses as our luxury hotel products, especially The Peninsula Shanghai, become more established with the rise in demand for luxury hospitality in China. Generally, the economy in Hong Kong and demand for residential and commercial property remain stable although the outlook is laced with caution. Our 2012 earnings will, as previously forewarned, be impacted by the renovations at The Peninsula Hong Kong and the de Ricou serviced apartment tower at The Repulse Bay due to closure periods during the construction works. However, we are hoping to mitigate this impact through increased earnings of our other assets and operations.

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

Clement K.M. Kwok
30 March 2012

"In terms of outlook for the coming year, current business trends in most of our hotels are positive, although margins continue to be under pressure and it remains of paramount importance to control our costs and increase our efficiency in delivering services to customers without any compromise to the quality of the experience of our guests."



2011 Milestones

Purchase of additional interest in The Peninsula Beijing

In September, the Group acquired from Hong Kong Construction (Hong Kong) Limited its entire interest in Hong Kong Construction Kam Lung Limited for a cash consideration of HK$578 million. The acquisition resulted in HSH expanding its effective economic interest in The Peninsula Beijing to 100%.

Extending help in the face of natural disasters

The March 2011 earthquake and resultant tsunami in Japan, as well as the November 2011 flooding in Thailand, impacted our Group's operations in Tokyo and Bangkok. Our staff in both locations reacted immediately to the two disasters by providing care, support and help to affected staff members and to their local communities. Their efforts have continued in the months following these disasters.

Commencement of The Peninsula Hong Kong guestroom renovation

In January 2012, the 84-year-old hotel began the first phase of its HK$450 million, 15-month renovation programme that will see all of the hotel's 300 guestrooms and suites completely refurbished to a classical modern design. Banqueting capacities will also be expanded through the conversion of a floor of the Office Tower to add a Conference Centre which could accommodate 250 guests.

Major renovation of The Repulse Bay residential towers

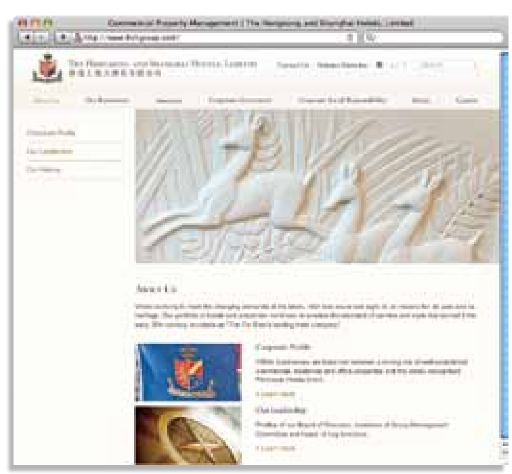
In July 2011, The Repulse Bay embarked on the first of a three-phased, three-year major revitalisation project. The first phase involves the upgrading of the public areas in the residential tower at 101 Repulse Bay Road. The second phase commenced in February 2012 with the closure of the de Ricou serviced apartment tower, to be converted into a combination of premium unfurnished apartments and serviced apartments for lease. The third and final phase, involving the upgrading of the public areas in the other residential tower at 109 Repulse Bay Road, will commence in early 2013 and the entire project is scheduled for completion in 2014.

Record year of patronage for The Peak Tram

In 2011, The Peak Tram carried more than 5.8 million passengers, the highest number ever recorded in a single year. The Peak Tram is 123 years old and is one of Hong Kong's most popular tourist icons.

New HSH corporate website

A revamped HSH corporate website (www.hshgroup.com) was launched in July 2011. The new website carries a more modern and refreshing look and offers expanded information to investors, shareholders and stakeholders in English and traditional Chinese. A mobile version of the website was launched three months later.



Re-opening of two airport lounges in Hong Kong

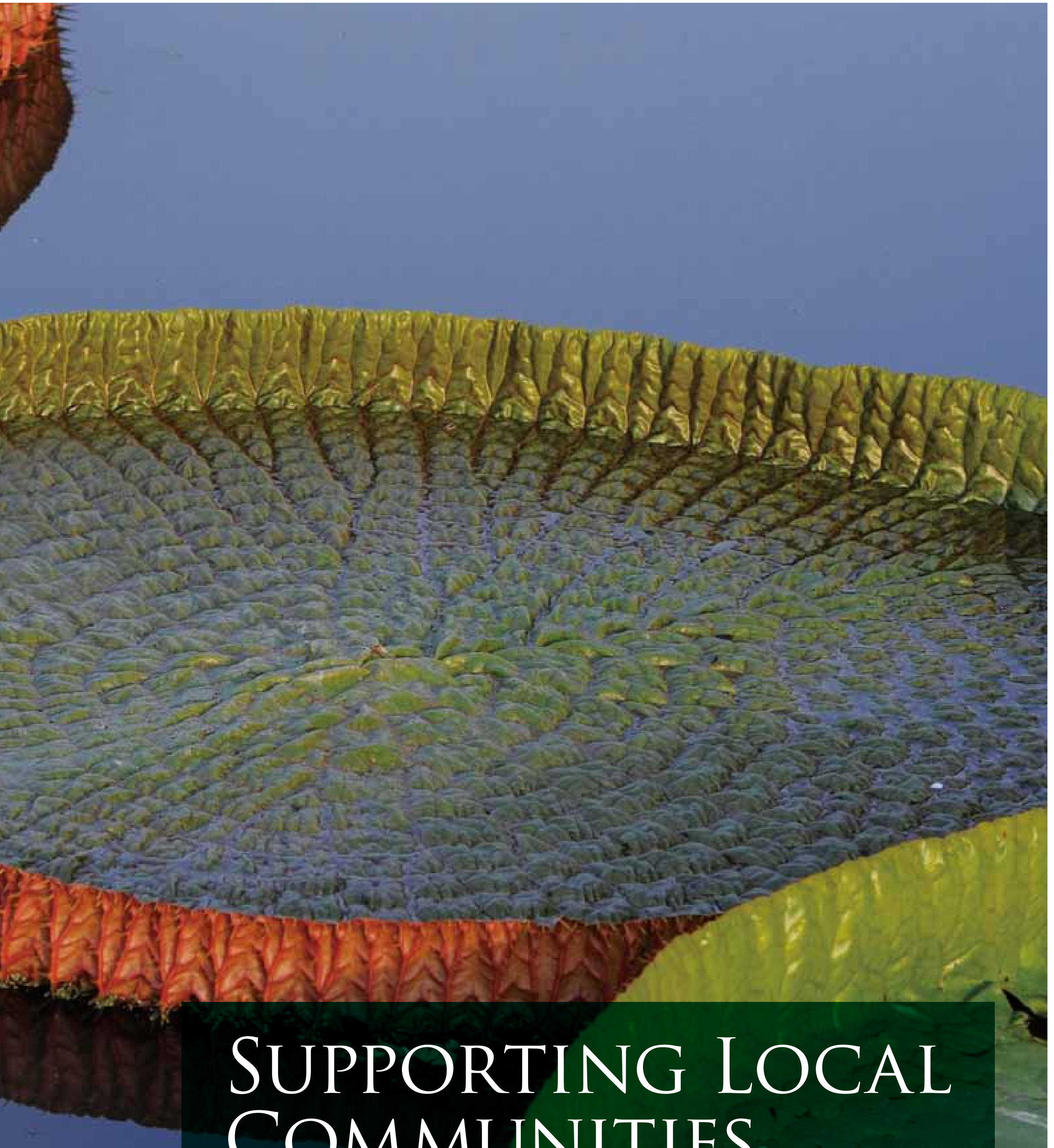
Two Cathay Pacific business class lounges in the Hong Kong International Airport, which are managed by Peninsula Clubs & Consultancy Services, were re-opened in April 2011 and January 2012 respectively after extensive renovation.

Launch of The Peninsula Residences

HSH's first Peninsula-branded serviced apartments, The Peninsula Residences, will be launched in Shanghai in 2012. The 39 furnished apartments range in size from 210 to 779 square metres and are appointed to a very high standard. The Residences, which adjoin The Peninsula Shanghai hotel on the Bund, offer 24-hour concierge and security services, underground secured car parking facility and access to various hotel services. There is also a private indoor swimming pool and fitness centre for residents' use.

Major anniversaries in three Peninsula hotels

In 2011, the Peninsula hotels in Chicago, Beverly Hills and Manila celebrated their 10th, 20th and 35th anniversaries respectively. The occasions were marked by special events organized for the hotels' guests and staff. In addition, The Peninsula Beverly Hills completed the renovation of all its guestrooms during the year.



Supporting Local Communities

Community service is an ethos that runs deep through The Hongkong and Shanghai Hotels' (HSH's) 146 years of history. From philanthropy to sustainability, ethics to community projects, HSH's employee-driven programmes aim to assist, improve and add value to designated sectors of local communities. It enlists the power, passion and enthusiasm of the HSH local workforce and manifests itself in a variety of ways, making a difference in the communities within which HSH operates and where its employees live and work.

Above: *Sir Horace Kadoorie distributing insecticide sprayers to villagers in the New Territories. Photo circa 1950s. (Photo courtesy of the Hong Kong Heritage Project)*

Left: *"Reminiscing Our Home, Our History" exhibition in Tsim Sha Tsui, a premiere of drawings by young artists at the Hong Kong Design Institute for the Hong Kong Heritage Project. (Photo courtesy of the Hong Kong Heritage Project)*

A community heritage

Community spirit can be traced back to HSH's roots in the 19th century. In parallel with the hotels opened in Shanghai and Hong Kong and a business empire that was being launched, the Kadoorie family instilled and nurtured a culture of philanthropy in the Group's business conduct. This philanthropy, even in those early years, focused on communities and education for the less fortunate, both in Asia and in the Middle East.

In line with those early precedents, HSH today seeks to develop relationships that go beyond the transaction of products and services. Whilst the location of each of our hotels and properties may relate to the history of a city, it is our staff, at all levels, who seek to understand and relate to the hearts of the communities.

One of our initiatives is the Hong Kong Heritage Project, which was created in 2007 through a partnership between HSH, CLP Holdings and the Kadoorie family.

The Heritage Project, with its interactive website (www.hongkongheritage.org) featuring written and visual historical records about the people who played a part in the development of HSH and Hong Kong, is an ongoing development rich in information for students, academics and members of the public. The Project has organised many activities since its inception in 2007, through publication of books, public exhibitions and school programmes. It is an effective means of serving the Hong Kong community through preserving and presenting our Group's history, which is very much entwined with the history of Hong Kong.

我家故事
OUR HOME,
OUR HISTORY

香港社會發展回顧
THE HONG KONG HERITAGE PROJECT

***Left:** The "Reminiscing Our Home, Our History" exhibition.*
(Photo courtesy of the Hong Kong Heritage Project)

Right: *The Peninsula Shanghai organised a Migrant Children's Career Day with China's Compassion for Migrant Children organisation in 2011. The young visitors toured the hotel and enjoyed a private boat trip down the Huangpu River.*

Left: *As part of the "Peninsula in Pink" campaign to fundraise for breast cancer research, some Peninsula hotels garlanded the traditional Chinese stone door lions with pink ribbons.*

Key focus areas

HSH also serves local communities through developing projects within three specific categories, as detailed in our annual Sustainability Report: Education for the underprivileged, Children and the Elderly.

In Asia, for example, The Peninsula Beijing works closely with the China Women's University offering a four month internship programme to students. The Peninsula Tokyo has focused its education programme on students with special needs, working closely with city-based high schools and the Tsukuba University on programmes that help and encourage young people with handicaps to upskill themselves and gain self confidence and independence. The Peninsula Tokyo currently employs eight of these students as full time staff. The Peninsula Manila has formed a strong partnership with the National Book Development Board of The Philippines to build a school library. The programme is financed through a series of Christmas fundraising events held at the hotel, together with book donations made by individual staff members.

In the United States, The Peninsula Chicago has focused its community efforts on helping refugees and immigrants begin new lives in the city. In partnership with Heartland Alliance and Refugee One, the hotel and its staff initiated programmes that help people build new lives in safety and with dignity and self reliance. Training, education and skill matching sessions assist people to find work and, as with many of our community programmes, a number of participants have found employment opportunities with the hotel itself.

A commonality across our community service initiatives is the welfare of children and the elderly. The Peninsula New York has established a partnership with City Harvest to launch a children's food drive initiative. In the first half of 2011, staff at the hotel collected 60 kilograms of assorted food to give to the city's needy children. In Hong Kong, both The Repulse Bay and the Peak Tramways have organised recreational outings for groups of children and the elderly. At The Peninsula Chicago, staff embraced the fun of Trick and Treat when they hosted a Halloween lunch for the city's elderly.

Globally, our programmes are driven by staff members who understand that their roles at HSH go beyond the delivery of service to guests. Two key programmes – "Enrich Your Life" which supports terminally ill children and "Think Pink", an awareness and fundraising campaign for breast cancer research – are Group-wide initiatives involving both staff and guests.

Our community work is also localised. Hong Kong staff can often be found at the Yuen Kong Kindergarten in Kowloon mending school fences, paving floors and improving school facilities by donating computers. Schools and young children in remote areas of mainland China are supported through a winter clothing and bedding programme, operated in partnership with the Salvation Army. The Peninsula Beverly Hills' staff regularly spend time with patients at the Children's Hospital of Los Angeles. In Bangkok, young Aids patients benefit from treats and support offered by our staff there.

Above: *The Peninsula Hotels collected more than HK$4 million through its "Hope for Japan" campaign, which was donated to the Japanese Red Cross Society.*

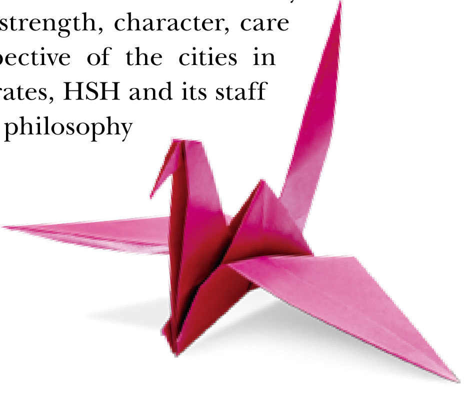
Disaster relief

Hotels are places for rest, recreation and optimum personal attention. But when disaster strikes, they can also provide shelter in a storm. Our hotels have found themselves at the heart of some terrible disasters over the past 18 months and, in each case, we have stepped in with physical, moral and financial support for victims.

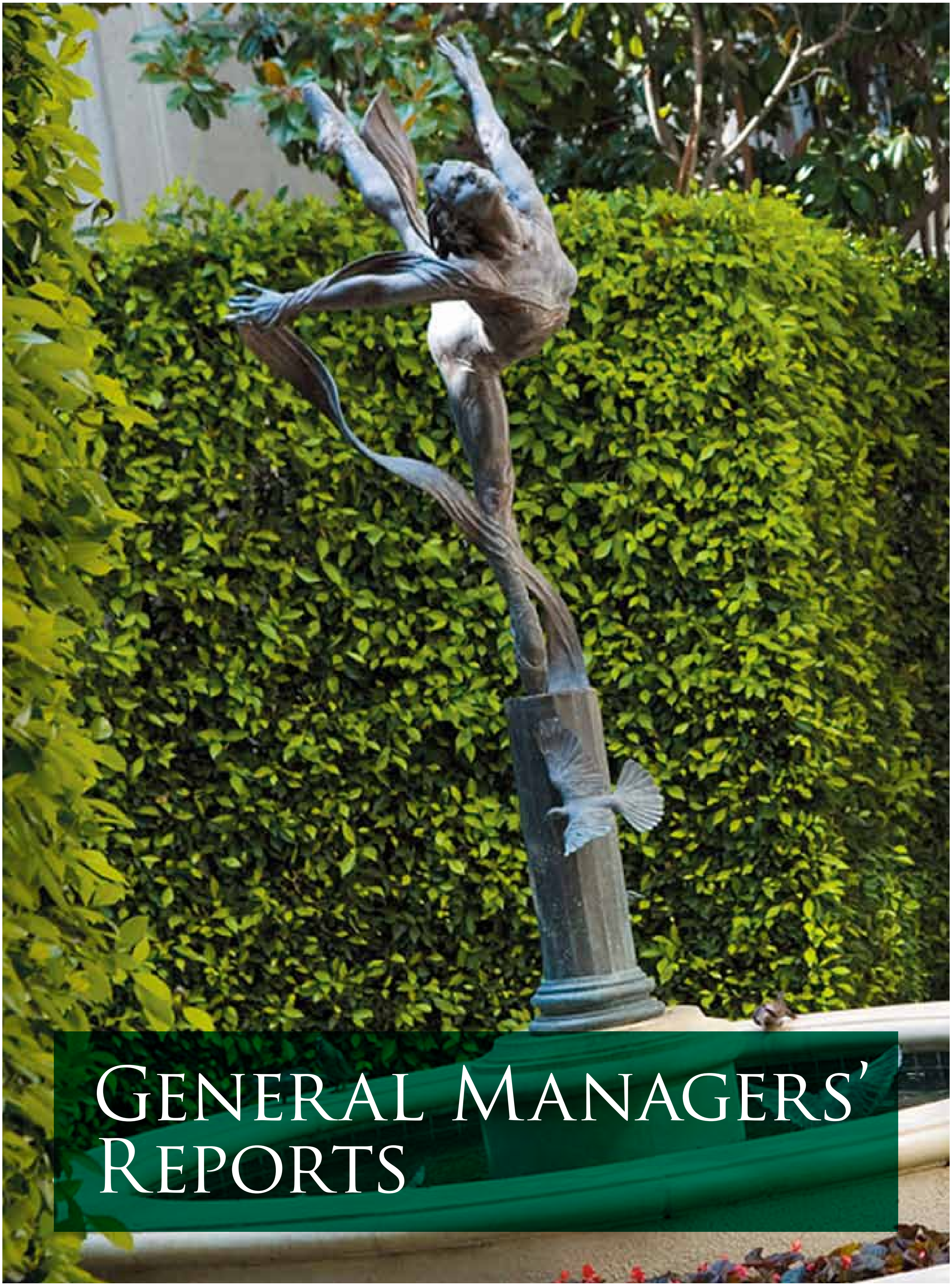
Following the March 2011 earthquake and subsequent tsunami in Japan, The Peninsula Tokyo immediately threw open its doors to take in members of the public who sought shelter. Within minutes, staff were offering hot food and overnight accommodation to over 2,000 members of the public who were stranded by the disrupted transport links, and special guestrooms were set aside for pregnant women, women with young children and the elderly. Just days later, a fundraising initiative called "Hope for Japan" was launched across all Peninsula hotels. More than HK$4 million was raised for the Japanese Red Cross Society's earthquake relief effort. This was followed by "The Peninsula Tokyo Great East Japan Earthquake Hotelier Scholarship", which the hotel launched in February 2012, to benefit students from the devastated Tohoku region.

In October 2011, floods that left The Peninsula Bangkok and the Thai Country Club physically unscathed but caused widespread problems for staff members and their families, also resulted in offers of temporary accommodation and financial assistance by the hotel to help people rebuild their homes and their lives. And, as in the case of the Japan disaster, staff around the world freely offered support to their Bangkok colleagues.

In all aspects of its work, the Peninsula Family continues to show its strength, character, care and resilience. Irrespective of the cities in which the Group operates, HSH and its staff put into practice a true philosophy of community care.



Left: *Staff of The Peninsula Beijing making origami cranes for the "Hope for Japan" campaign.*



General Managers' Reports

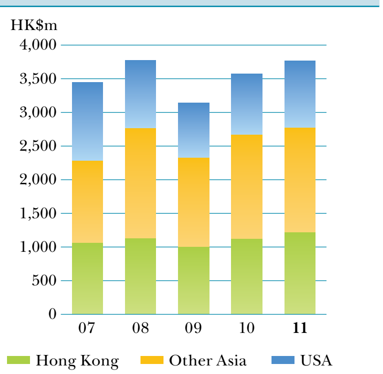
HOTELS' PERFORMANCE CHARTS

	Attributable Interest %	Revenue (HK$m) 2011	Revenue (HK$m) 2010	Available Rooms 2011	Available Rooms 2010	Occupancy % 2011	Occupancy % 2010	ARR (HK$) 2011	ARR (HK$) 2010	RevPAR (HK$) 2011	RevPAR (HK$) 2010
The Peninsula Hong Kong	100	**1,156**	1,059	**300**	300	**74**	70	**4,094**	3,816	**3,043**	2,660
The Peninsula Shanghai*	50	**461**	385	**235**	235	**59**	63	**3,221**	2,830	**1,900**	1,778
The Peninsula Beijing**	76.6	**386**	362	**525**	525	**49**	46	**1,472**	1,409	**719**	650
The Peninsula New York	100	**552**	498	**239**	239	**71**	67	**5,841**	5,570	**4,159**	3,727
The Peninsula Chicago	100	**446**	412	**339**	339	**65**	59	**2,946**	2,965	**1,905**	1,762
The Peninsula Beverly Hills	20	**421**	396	**193**	193	**74**	72	**5,478**	5,147	**4,027**	3,699
The Peninsula Tokyo	100	**699**	762	**314**	314	**54**	65	**4,008**	3,861	**2,171**	2,522
The Peninsula Bangkok	75	**193**	183	**370**	370	**51**	49	**1,480**	1,398	**748**	688
The Peninsula Manila	77.4	**273**	240	**497**	497	**70**	69	**1,133**	1,036	**792**	719
Total		**4,587**	4,297	**3,012**	3,012						
Average						**62%**	61%	**2,973**	2,819	**1,829**	1,714

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

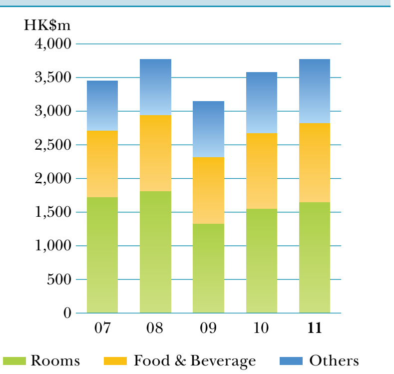
** *With effect from 5 September 2011, the Group increased its legal interest in The Peninsula Beijing from 42.13% to 76.6%. Following the completion of the acquisition, the Group now owns 100% economic interest in the hotel with a reversionary interest to the PRC partner at the end of the co-operative joint venture period.*

Hotels' revenue by geographical segment



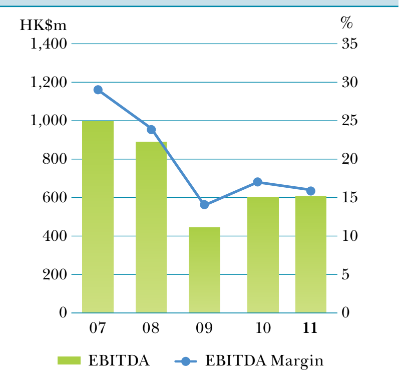
HK$m	2007	2008	2009	2010	2011
Hong Kong	1,061	1,122	997	1,119	**1,217**
Other Asia	1,220	1,641	1,328	1,547	**1,551**
USA	1,168	1,009	820	910	**998**
	3,449	3,772	3,145	3,576	**3,766**

Hotels' revenue by nature



HK$m	2007	2008	2009	2010	2011
Rooms	1,716	1,810	1,324	1,549	**1,642**
Food & Beverage	992	1,128	985	1,123	**1,175**
Others	741	834	836	904	**949**
	3,449	3,772	3,145	3,576	**3,766**

Hotels' EBITDA



	2007	2008	2009	2010	2011
EBITDA (HK$m)	995	890	443	604	**605**
EBITDA Margin (%)	29	24	14	17	**16%**

Opened in 1928, The Peninsula Hong Kong is HSH's flagship hotel property and the first to bear the legendary Peninsula name. Over the ensuing decades, the hotel has consistently been rated as one of the top luxury hotels in the world. The hotel has 300 guestrooms including 53 suites, as well as world renowned restaurants and bars including Gaddi's, Felix, Spring Moon, Chesa and Salon de Ning. There is also a Peninsula Spa, an indoor swimming pool and fitness centre, a fleet of bespoke Rolls-Royce Phantoms and two Mini Cooper vehicles, as well as a rooftop twin helipad.

THE PENINSULA HONG KONG

100% OWNED

The Peninsula Hong Kong enjoyed a year of robust performance in 2011, supported by the sharp growth in tourist arrivals to Hong Kong, especially from mainland China. Both the rooms and food and beverage revenues achieved record high levels. In January 2012, the hotel embarked on a 15-month, two-phased complete guestroom renovation programme which will introduce new technology and timeless luxury to the Peninsula Hong Kong rooms.

- The hotel recorded an average room rate of HK$4,094, up 7% from 2010. RevPAR was up 14% from 2010 to HK$3,043 while occupancy rose 4 percentage points to 74%. The Peninsula Hong Kong maintained its leadership position.
- Both the corporate and leisure sectors enjoyed brisk business with patronage of guests from mainland China, USA and Japan leading the market mix. There was also healthy growth from the Taiwan, Australia and UK markets.
- During the year, major capex projects include a purpose-built chocolate room which was formally opened in January 2012.
- The Peninsula Arcade, one of Hong Kong's premier luxury shopping venues, maintained an average occupancy of 99% throughout the year. The Arcade, which features a top quality tenant mix of local and international luxury brands, grew its average rent by 4%. Following the opening of new Ralph Lauren and Goyard stores in the first quarter of 2011, David Morris and Michael Kors also opened their first retail shops in Hong Kong in the Peninsula Arcade.
- Rentals for the Office Tower remained steady.
- The hotel introduced two new Peninsula Academy programmes: the "*Art of Hospitality*" which offers in-room guests a look at Hong Kong's thriving local art scene from an in-depth curatorial perspective; and "*Explore Hong Kong*", which is based on a book produced by the hotel in 2010 and takes in-room guests on journeys to explore the city from a fresh perspective.
- The year's award highlights: Best Business Hotel in the World and Best Business Hotel in Asia Pacific (*Business Traveller, UK*); No.1 in China – 500 World's Best Hotels (*Travel + Leisure, USA and Southeast Asia*); No. 1 Best Hotel in Asia/Australia – The 2011 Ultratravel 100 Awards (*The Daily Telegraph, UK*); and No. 2 in China – The World's Best Places to Stay, 2011 Gold List (*Conde Nast Traveler, USA*).
- The year's sustainability highlights: The hotel invested in a food bio-digester to turn food waste into waste water as urban Hong Kong offers limited space for food composting. This is part of the hotel's effort in diverting waste from the landfill. In addition, during the year staff volunteers contributed 2,482 hours in serving the community, while visits introducing the history of the hotel were organised for more than 400 students from 25 local schools.

THE PENINSULA SHANGHAI COMPLEX

50% OWNED

In 2011, the number of inbound international travellers to Shanghai fell while 1,800 new high end hotel rooms were opened, making Shanghai one of the most competitive markets in mainland China. The Peninsula Shanghai, in its second full year of operation, tapped the robust domestic travel market in addition to leisure tourism from long haul markets such as the US and Europe, which continued to grow. As a result, the hotel maintained its leading position in Shanghai with the highest RevPAR and average room rate.

- The hotel recorded an average room rate of HK$3,221, up 14% from 2010. RevPAR was up 7% from 2010 to HK$1,900 while occupancy fell 4 percentage points from the year before to 59%.
- Demand for both catering and spa businesses were strong. Catering revenues increased by 11.9% over 2010 as the hotel became the premier choice of venue for luxury brands. Spa revenues improved by 20% over 2010.
- Targetting the growing domestic demand, the hotel staged a roadshow in 10 gateway mainland Chinese cities, building a solid sales and media network across the nation.
- The number of stores in the Peninsula Arcade increased from 25 to 28, including the opening of luxury jeweller Harry Winston. The Arcade remained fully let through the year and a Peninsula café offering light refreshments was opened to serve shoppers.
- At The Peninsula Residences, fit out work for 35 units was completed in December 2011 and continued for the remaining four units. The apartments commenced leasing activities in February 2012.
- In terms of human resources development, a partnership was formed with the UK Institute of Hospitality to offer a two-year diploma course for qualified employees. An offsite staff quarters called The Peninsula Lodge was also created, which provides a rest place for staff during their breaks.
- The year's award highlights: Best Business Hotel in Shanghai and No. 2 Best Business Hotel in Asia (*Business Traveller, UK*); Best Business Hotel in Shanghai – Gold List Award of China Tourism (*National Geographic Traveler, China*); Best Suite (*Hideaway Report, USA*); and Best Presidential Suite, Best Spa and Best Restaurant (Sir Elly's) – Hurun Presidential Awards (*Hurun Report, China*).
- The year's sustainability highlights: Through more efficient energy and water management, the hotel's annual water consumption was reduced by 18% and water intensity by 10% from 2010. Its total energy consumption and energy intensity were both reduced by 10%.

HSH's flagship hotel in mainland China, The Peninsula Shanghai, has quickly established itself as one of the finest hotels in China after the hotel was opened in 2009. Occupying a splendid location with direct frontage on the historic Bund, The Peninsula Shanghai is the first new building on the Bund in the last few decades and an anchor project in the Waitanyuan development scheme. The hotel features 235 rooms, including 44 suites, which offer spectacular views of the Huangpu River, Pudong and Shanghai's skyline. The hotel incorporates five restaurants and bars, a Peninsula Spa, an indoor swimming pool and fitness centre, as well as a Peninsula Arcade featuring 28 top luxury brands. The Complex also includes The Peninsula Residences which has 39 apartments for lease. The units range in size from 210 square metres to 779 square metres and are appointed to very high standards, befitting the Peninsula brand name.

Opened in 1989, The Peninsula Beijing is situated in the historic centre of China's capital, close to Tiananmen Square and is considered one of the top hotels in Beijing. The hotel has 525 guestrooms including 57 suites, two restaurants, a Peninsula Spa, an indoor swimming pool and fitness centre, a transportation fleet comprised of bespoke Rolls-Royces and BMW vehicles, and one of the most prestigious shopping arcades in China, the Peninsula Arcade, which houses 50 exclusive luxury designer boutiques.

THE PENINSULA BEIJING

76.6% OWNED

The Peninsula Beijing benefited from strong demand from the domestic segment, which grew 32% over 2010. There was also encouraging regional demand from the Australasian and Asian markets. Three years after the Beijing Olympics, the city remained overbuilt with a large number of five star hotels; competition is expected to remain intense for the foreseeable future.

- The hotel recorded an average room rate of HK$1,472, up 4% from 2010. RevPAR was up 11% from 2010 to HK$719 while occupancy rose 3 percentage points from the year before to 49%.
- In September, the Group acquired from Hong Kong Construction (Hong Kong) Limited its entire interest in The Peninsula Beijing for a cash consideration of HK$578 million, increasing its economic interest to 100%.
- There was strong demand for luxury retail space in Beijing, benefiting the hotel's Peninsula Arcade which enjoyed the same high occupancy as 2010.
- The Peninsula Arcade underwent a significant renovation programme in 2011 with improvement work on all three levels. Additional escalators were put in to increase pedestrian traffic flow and improve the connectivity of the different levels.
- Major store expansion for two of the Arcade's key tenants will be underway in 2012. Constant brand refinement will help to ensure the continued pre-eminent status of the Peninsula Arcade.
- The year's award highlights: The Most Elegant Spa – Hurun Presidential Awards (*Hurun Report, China*); Huang Ting, The Most Regal Style Restaurant – Hurun Presidential Awards (*Hurun Report, China*); Top Presidential Suite Award, The Best Traditional Chinese Style – Hurun Presidential Awards (*Hurun Report, China*); and Best Therapist of China (*SpaChina, China*).
- The year's sustainability highlights: The hotel achieved Hazard Analysis and Critical Control Points (HACCP) certification. Over the year, it has switched to HACCP approved suppliers for the majority of its fresh produce and provided 4,000 hours of health and safety training to its staff. The hotel also reduced its total energy consumption by 8%.

THE PENINSULA NEW YORK

100% OWNED

The financial capital of the United States was not immune to the global economic slowdown, which was further exacerbated by the debt problems in Europe and led to a drop in European business visitors for the hotel. However, increased business from emerging markets, especially the Middle East, mitigated the impact. The hotel diversified its business mix by focusing its efforts on non-financial sectors, including technology, energy and entertainment.

- The hotel recorded an average room rate of HK$5,841, up 5% from 2010. RevPAR was up 12% from 2010 to HK$4,159 while occupancy rose 4 percentage points from the year before to 71%.
- During the year, all the guestrooms and the Grand Suite completed renovation. The final phase of the two-year renovation programme will commence in the first quarter of 2012 with the refurbishment of the Peninsula Suite.
- A new, outdoor wraparound Sun Terrace was opened in July 2011, offering relaxation space with stunning views of the city's skyline and Central Park.
- The Spa, which was recently renovated, has earned recognition as one of the top hotel spas in North America by the Conde Nast Traveller publications (US and UK editions).
- The year's award highlights: No. 1 Hotel Spa, The Americas & The Carribean – The Reader's Spa Awards 2011 (*Conde Nast Traveller, UK*); No. 2 of Top 50 Hotel Spas, US Mainland – Reader's Poll (*Conde Nast Traveler, USA*); No. 3 Best Hotel in New York City – Best Hotels in the USA (*US News & World Report, USA*); and One of Top Three New York Hotels – 500 World's Best Hotels (*Travel + Leisure, USA*).
- The year's sustainability highlights: The hotel invested in more energy efficient lighting and water saving measures in the past two years, saving some 290 GJ of energy and 4,700 cubic metres of water.

The Peninsula New York, acquired by HSH in 1988, is ideally located on Fifth Avenue and 55th Street in Midtown Manhattan, in the heart of New York City's prestigious shopping, cultural and business district. A 23-storey, 1905 landmark building, the hotel features 185 guestrooms and 54 suites, one restaurant and three lounges including Salon de Ning, a Peninsula Spa, an indoor swimming pool, a fitness centre and a newly added Sun Terrace.

Since its opening in 2001, The Peninsula Chicago has consistently been recognized as one of the finest hotels in North America. The 339 guestrooms including 83 suites are among the largest in the city, supported by a Peninsula Spa, an indoor swimming pool and fitness centre, three restaurants and a bar and extensive meeting facilities. The hotel occupies a prime location next to the Water Tower in the heart of Chicago's 'Magnificent Mile' on North Michigan Avenue.

THE PENINSULA CHICAGO

100% OWNED

The city of Chicago is reliant on convention and meeting business, which continued to be negatively impacted by the economic slowdown in the US and Europe, especially in the first half of 2011. The Chicago economy saw slight improvement in the second half of the year, though not as strong as the east and west coasts. There were increased activities in luxury spending, which were further boosted by the inauguration of direct flights between Chicago and Hong Kong, a key Asian aviation hub, in September 2011.

- The hotel recorded an average room rate of HK$2,946, down 1% from 2010. RevPAR was up 8% from 2010 to HK$1,905 while occupancy rose 6 percentage points from the year before to 65%.
- The Peninsula Chicago celebrated its 10th anniversary on 1 June 2011. A gala was hosted by HSH Chairman Sir Michael Kadoorie and Chief Executive Officer Clement Kwok, which was attended by 1,200 leading business and social members of the local community. Our celebration raised the amount of HK$5.6 million, which was presented to the Rehabilitation Institute of Chicago.
- The hotel received a Five Star Hotel Award from the *Forbes Travel Guide*, which also named the Peninsula Spa as a Four Star Spa. Other award highlights of the year include: No. 1 City Hotel in the World (*Andrew Harper, UK*); No. 1 Hotel in US and Canada – World's Best Awards 2011 (*Travel + Leisure, USA*); 2011 Best Catered Event produced by a Hotel Banquet Department – Peninsula Chicago's 10th Anniversary Party (*Special Events magazine, USA*); and No. 3 Best Hotel in the US (*Conde Nast Traveler, USA*).
- The year's sustainability highlights: The hotel upgraded its heaters to more efficient models, saving 1,345 GJ, which is equivalent to the annual energy related carbon emission from 32 American homes; 2011 also marked the hotel's tenth year involvement in supporting refugees and immigrants to adapt to a new living environment in Chicago. The hotel has been working with local community organisations to offer training and job opportunities to these underprivileged groups.

THE PENINSULA BEVERLY HILLS

20% OWNED

2011 was a challenging year for The Peninsula Beverly Hills as external economic conditions remained unfavourable and the hotel underwent a complete guestroom renovation programme which lasted most of the year. However, the hotel's business was supported by the entertainment industry as well as Middle Eastern clientele. The Peninsula Beverly Hills continued to lead the market in RevPAR.

- The hotel recorded an average room rate of HK$5,478, up 6% from 2010. RevPAR was up 9% from 2010 to HK$4,027 while occupancy rose 2 percentage points from the year before to 74%.
- The hotel celebrated its 20th anniversary in August 2011 with a special ceremony, followed by a breakfast celebration honouring all the hotel staff.
- The hotel completed a renovation of all its guestrooms, suites and villas which instilled an elegant new look infused with Southern Californian colours and textures. The four largest suites were each given its own distinctive colour theme, furnishings and ambiance.
- Managing Director, Offer Nissenbaum, was named Hotelier of the Year by Virtuoso, a leading global travel trade organisation. The hotel was also given the AAA Five Diamond Award 2012 from the Automobile Association of America, and the Forbes Five Star 2012 award from Forbes publication.
- Other award highlights of the year include: Best Hotel in the US and Best Hotel in the Western US – 2011 GT Tested Reader Survey Awards (*Global Traveler, USA*); Best Luxury Spa in North America 2011 – SpaFinder Award (*SpaFinder, USA*); No. 2, The Best City Hotel in North America – 20th Annual Reader Poll, The 2010 Gallivanter's Awards for Excellence (*The Gallivanter's Guide, UK*); and No. 3, Top 100 World's Best Hotels 2011 (*Institutional Investor, USA*).
- The year's sustainability highlights: The hotel started to work with an ISO 14001 certified sustainable seafood supplier to provide more seafood from sustainable sources.

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

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

THE PENINSULA TOKYO

100% OWNED

Following the Great East earthquake and tsunami on 11 March 2011, recovery in travel to Japan grew slowly through the summer months, but when autumn and winter approached the hotel saw improved occupancies, spurred by returning international corporate travel and local leisure business. International luxury leisure travel remained weak over safety concerns from several major leisure markets. The hotel launched major local and international marketing initiatives across all areas of the travel industry and the media to promote business. The local wedding market remained unaffected, with the hotel hosting over 200 weddings in 2011.

- The hotel recorded an average room rate of HK$4,008, up 4% from 2010. RevPAR was down 14% from 2010 to HK$2,171 while occupancy fell 11 percentage points from the year before to 54%.
- In January 2011, the hotel added two Mini Cooper vehicles to its fleet of bespoke Rolls-Royce Phantoms and BMW vehicles.
- In support of the government's call to reduce energy consumption following the massive earthquake and tsunami, The Peninsula Tokyo became the first international luxury hotel in Tokyo to answer the call and launched a "*Save Energy for Japan*" initiative from 1 July to 22 September 2011, which resulted in a 15% reduction in energy consumption.
- In June, the hotel presented a cheque in the amount of HK$4,017,000 to the Japanese Red Cross Society to support relief efforts for the earthquake victims. The money was raised from the Peninsula Hotels' "*Hope for Japan*" fundraising campaign.
- The year's award highlights: No. 1 – World's Best Hotels 2011, Asia (*Institutional Investor, UK*); No. 2 – World's Best Hotels 2011, World (*Institutional Investor, UK*); No. 2 – 500 World's Best Hotels 2012, Japan (*Travel + Leisure, USA*); and No. 3 – Top 125 Hotels, Asia, 2011 Readers' Choice Awards (*Conde Nast Traveler, USA*).
- The year's sustainability highlights: More than 80% of the hotel's total waste were diverted from landfill for recycling and reuse; and the hotel switched to LED lamps in its guestroom corridors, reducing the energy required to light those areas by 92%.

THE PENINSULA BANGKOK

75% OWNED

Political stability returned to Thailand following a peaceful general election in July 2011 that returned Thailand's first female Prime Minister, and boosted the general recovery of the travel industry. However, the extensive flooding over large areas in Thailand spread to Bangkok in November, leading to disrupted inbound travel and depressing the economy. The resulting travel warnings from more than 36 countries crippled the travel industry through the end of 2011.

- The hotel recorded an average room rate of HK$1,480, up 6% from 2010. RevPAR was up 9% from 2010 to HK$748 while occupancy rose 2 percentage points from the year before to 51%.
- The hotel was not damaged by the flooding in Bangkok in November 2011; however, many staff members and their families were affected. They were provided with temporary accommodation at the hotel, as well as financial assistance to rebuild their homes.
- The hotel introduced a new fleet of nine BMW vehicles to service guests. Finished in signature Peninsula green and complete with in-car wireless Internet, the new fleet offers guests outstanding comfort and elegant functionality.
- The year's award highlights: No. 1 Best City Hotel in Southeast Asia – The 2010 Gallivanter's Awards for Excellence (*The Gallivanter's Guide, UK*); Favorite Spa in Asia – 2011 SpaFinder Readers' Choice Awards (*SpaFinder, USA*); No. 2 in Top 5 City Hotels in Asia – 2011 World's Best Service (*Travel + Leisure, USA*); and Mei Jiang, Best Restaurant for exceptional cuisine and service – Thailand Best Restaurants 2011 (*Thailand Tatler*).
- The year's sustainability highlights: The hotel invested HK$700,385 in more energy efficient lighting in the past two years, saving more than 2,785 GJ of energy and HK$592,605 in electricity cost, an 85% return on investment.

Opened in 1998, the luxurious Peninsula Bangkok sits by the Chaopraya River with fantastic views of the Bangkok skyline. The 37-storey property features 370 guestrooms including 67 suites, four restaurants, a Peninsula Spa that is housed in a three-storey, Thai-colonial building, an outdoor swimming pool, a fitness centre, and partners with the Group-owned Thai Country Club to offer golf course access to its guests. The Peninsula Bangkok is consistently recognized as one of the finest hotels in Asia.

The Peninsula Manila is located in the heart of Makati, Manila's business and financial district, at the corner of Ayala and Makati Avenues. Opened in 1976, the hotel has 497 guestrooms including 46 suites, seven restaurants and bars including Escolta and Salon de Ning, an outdoor swimming pool, a fitness centre and a shopping arcade.

THE PENINSULA MANILA

77% OWNED

The Peninsula Manila celebrated its 35th anniversary in 2011 and enjoyed strong business for its rooms and restaurants throughout the year. Salon de Ning, in its first full year of operation, quickly established itself as the city's most sought after entertainment venue. The catering business also saw a rebound in both corporate and social functions and achieved a 9.2% revenue increase over 2010.

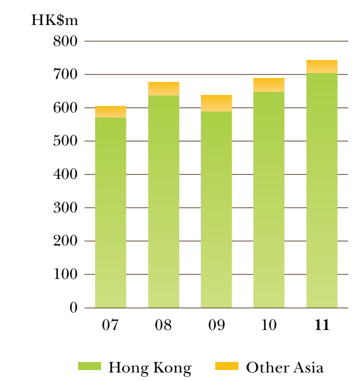
The hotel was impacted by the natural disasters in Japan and Thailand. The March earthquake in Japan led to heavy cancellations from Japanese corporate accounts in the subsequent month. However, the extensive flooding in Thailand brought additional FIT business to the Philippines, which benefited The Peninsula Manila. The hotel also witnessed the devastating impact on the country when typhoon Washi struck the Philippines in November and caused fatal flash floods. The hotel's staff gave generously to relief efforts.

- The hotel recorded an average room rate of HK$1,133, up 9% from 2010. RevPAR was up 10% to HK$792 while occupancy rose 1 percentage point to 70%. The hotel achieved a record RevPAR for the year.
- Significant capital projects carried out during the year include the conversion of the Peninsula Spa into a fitness centre with an expanded gym; the replacement of one chiller and one cooling tower; and renovation of the male staff locker rooms.
- In celebration of the hotel's 35th anniversary, The Peninsula Manila launched a rooms promotion as well as community giving programmes that had a strong focus on the local community.
- The year's award highlights: Best Hotel in Manila in 2011 (*Asiamoney Magazine, UK*); No. 2 in Manila, Philippines – T+L 500 World's Best Hotels (*Travel + Leisure, USA*); No. 2 in The Philippines – 2011 Readers Choice Award (*DestinAsian, Singapore*); and No. 5 – Top 20 Hotels for Value Overall (*Travel + Leisure, USA*).
- The year's sustainability highlights: One in every four employees volunteered their time to serve the community during the year. In addition, the hotel raised funds and provided food and used clothing and linen to aid victims of Typhoon Sendong which left thousands in eastern Philippines homeless.

COMMERCIAL PROPERTIES' AND CLUBS AND SERVICES' PERFORMANCE CHARTS

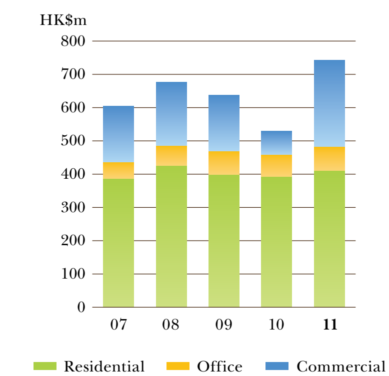
	Attributable	Revenue (HK$m)		Net Lettable Area (SF)		Occupancy %		Yield (HK$)	
	Interest %	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
The Repulse Bay Complex	100	**538**	505	**843,300**	842,660	**92**	92	**40**	38
The Peak Tower	100	**121**	103	**67,254**	67,254	**100**	100	**84**	72
St. John's Building	100	**45**	38	**61,102**	61,102	**100**	97	**44**	37
The Landmark, Vietnam	70	**39**	42	**134,140**	134,140	**91**	92	**21**	23
Total		**743**	688	**1,105,796**	1,105,156				
Average						**92%**	93%	**40**	38

Rental revenue from Commercial Properties, by geographical segment



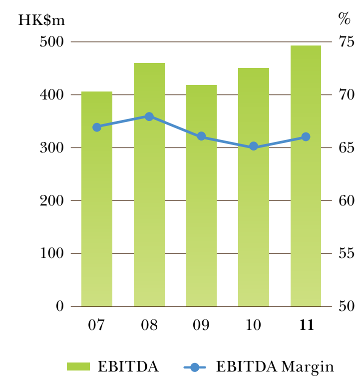
HK$m	2007	2008	2009	2010	**2011**
Hong Kong	570	636	588	646	**704**
Other Asia	35	41	49	42	**39**
	605	677	637	688	**743**

Rental revenue from Commercial Properties, by nature



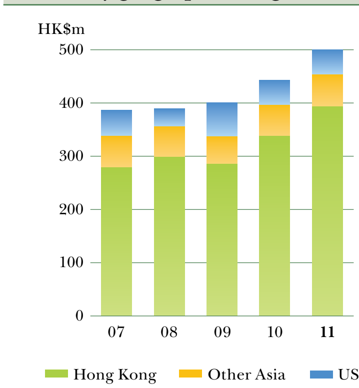
HK$m	2007	2008	2009	2010	**2011**
Residential	386	425	398	392	**410**
Office	49	59	70	66	**71**
Commercial	170	193	169	230	**262**
	605	677	637	688	**743**

Commercial Properties' EBITDA



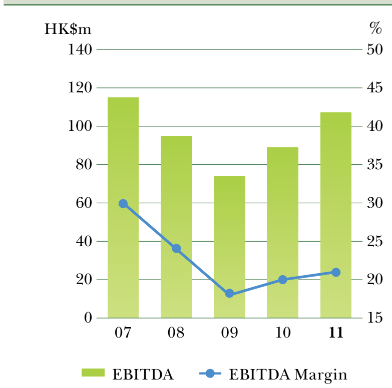
	2007	2008	2009	2010	**2011**
EBITDA (HK$m)	406	460	418	450	**493**
EBITDA Margin (%)	67	68	66	65	**66**

Revenue from Clubs and Services, by geographical segment



HK$m	2007	2008	2009	2010	**2011**
Hong Kong	279	298	285	338	**393**
Other Asia	59	58	52	58	**60**
USA	49	33	64	47	**47**
	387	389	401	443	**500**

Clubs and Services' EBITDA



	2007	2008	2009	2010	**2011**
EBITDA (HK$m)	115	95	74	89	**113**
EBITDA Margin (%)	30	24	18	20	**23**

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

THE REPULSE BAY COMPLEX (HONG KONG, CHINA)

100% OWNED

Both the luxury residential leasing and retail business enjoyed positive growth in 2011 as Hong Kong's economy thrived. The Repulse Bay's position as the premier shopping and dining destination on the south side of Hong Kong Island was further strengthened by the increase in patronage to The Verandah, Spices and the wide range of lifestyle and specialty retailers in the Arcade.

- In July 2011, The Repulse Bay embarked on the first of a three-phased, three-year major revitalization project. Upgrading work commenced for the public areas in the apartment towers at 101 Repulse Bay Road. In February 2012, the de Ricou serviced apartment tower was closed for a complete renovation which will include structural reconfiguration and significant improvements to the apartments' layout and efficiency.
- The robust economy in Hong Kong supported a strong remand for high-end residential leasing. Overall, there was an increase in residential leasing revenue.
- Usage of the Residents Club facilities remained high as a result of the high occupancy.
- The Arcade remained effectively fully occupied and there was a healthy increase in food and beverage revenue. The banquet and wedding business achieved record results in 2011.
- The restored Garage building has been leased to Ferrari and Maserati as their flagship brand centre in Hong Kong.
- The year's sustainability highlights: The Complex's total energy consumption and energy intensity were both reduced by 6%. All newly purchased electrical appliances provided to tenants meet the highest grade 1 or grade 2 energy efficiency labelling standard. All paints used in renovating the apartments are without volatile organic compounds.

THE PEAK TOWER (HONG KONG, CHINA)

100% OWNED

The Peak Tower continued to achieve a strong performance in 2011, showing healthy revenue growth as a result of higher retail rental and increased patronage to the Sky Terrace 428.

- The Peak Tower enjoyed 100% occupancy throughout 2011.
- The outdoor rooftop viewing terrace was rebranded as Sky Terrace 428, with the name indicating the height of the Terrace, which at 428 metres above sea level is Hong Kong's highest viewing deck.
- Strengthened partnership with travel agents, both traditional and online, heightened marketing efforts and a record number of tourist arrivals into Hong Kong all contributed to the strong performance of the Peak Tower.

The Peak Tower is a key tourist destination in Hong Kong, a comprehensive entertainment, retail and dining complex atop Victoria Peak. The outdoor rooftop Sky Terrace 428, Hong Kong's highest, offers visitors spectacular 360-degree views of Hong Kong.

Built in 1983, St. John's is an office building situated in Hong Kong's Central business district, with views of the Hong Kong Park, the Botanical Gardens and the Victoria Harbour. It also houses the lower Peak Tram terminus.

ST. JOHN'S BUILDING (HONG KONG, CHINA)

100% OWNED

- St. John's Building ended the year with full occupancy and an 18% increase in revenue over 2010, attributed to higher occupancy and rental increases upon tenancy renewals.

Opened in 1994 in the core business quarter of Ho Chi Minh City, The Landmark is a 15-storey residential and office complex located on a prime waterfront site. The complex has 65 serviced apartments and 100,000 square feet of first class office space for leasing. The property also includes a restaurant, a bar, a health club with fitness centre, an outdoor swimming pool and a squash court.

THE LANDMARK (VIETNAM)

70% OWNED

- The office portion maintained an average occupancy of 97% for the year while revenue was 7% lower than 2010.
- The residential portion achieved an average occupancy of 81% for the year and revenue was 9% lower than the year before.
- Major capex projects during the year include the renovation of the studio apartments and renovation of the health club, which was re-opened in September 2011 to guests' acclaim.
- The Landmark was named by the Vietnamese government as one of the top 22 companies in District 1 to have excellent relationships with the trade unions.

CLUBS AND SERVICES

The Group owns and operates the historic Peak Tram, a major tourist attraction in Hong Kong. The Group also owns and manages the Thai Country Club near Bangkok, one of the finest golf clubs in Asia; Quail Lodge Golf Club in Carmel, California, USA; Peninsula Merchandising, which operates the Peninsula Boutiques around the world; Tai Pan Laundry services in Hong Kong and Peninsula Clubs & Consultancy Services Limited.

THE PEAK TRAM (HONG KONG, CHINA)

100% OWNED

- In 2011, a record 5.8 million passengers patronized the Peak Tram, which was a 7% increase over 2010. Revenue increased 14% from the year before.
- The Tram saw healthy growth in the tour and pre-purchased segments, particularly the mainland Chinese market.

Hong Kong's oldest and one of the most popular modes of transport, the iconic Peak Tram began operation in 1888, running between the Central business district and Victoria Peak. It is a very popular tourist destination, offering an unforgettable experience to millions of tourists every year.

THAI COUNTRY CLUB (THAILAND)

75% OWNED

- The earthquake and subsequent tsunami in Japan impacted the Thai Country Club, which saw a sharp decrease in the number of Japanese golfers, one of their most important markets.
- The extensive flooding in Bangkok in November 2011 did not physically affect the Club, yet the rounds were significantly reduced as a result of lower patronage of the golf course.

QUAIL LODGE GOLF CLUB (USA)

100% OWNED

- The 9th Annual Quail Motorsports Gathering, one of the premier automobile events in the world, was held in August 2011. The event also raised money to benefit a range of local and national charities, including the California Highway Patrol 11-99 Foundation, CASA of Monterey County, Rancho Cielo and the American Red Cross Monterey Bay Area Chapter.
- The year's sustainability highlights: Through using new drip irrigation system and more efficient water management, total water consumption was reduced by 15% from 2010.

PENINSULA MERCHANDISING

100% OWNED

- In 2011, Peninsula Merchandising again achieved record sales in Hong Kong and Asia for its signature Mid Autumn Festival mooncakes, exceeding previous year's revenue by 43%.
- Overall revenue for the year also increased by 22%.
- Plans were put into place for the first Peninsula Boutique in South Korea in 2012, and for a new retail concept which will also be launched in 2012.

TAI PAN LAUNDRY (HONG KONG, CHINA)

100% OWNED

- Tai Pan Laundry expanded its production capacity by completing the installation of new plant in the first quarter of 2011.
- With enhanced production capacity, production volume increased 13% from 2010 and the facility was able to secure new businesses from three hotels.
- Higher average diesel oil prices and labour costs posed challenges to the operation in 2011.

PENINSULA CLUBS & CONSULTANCY SERVICES

Under Peninsula Clubs & Consultancy Services, HSH manages the prestigious Hong Kong Club, The Hong Kong Bankers Club and Butterfield's in Hong Kong and operates Cathay Pacific Airways' first and business class lounges in the Hong Kong International Airport.

CATHAY PACIFIC LOUNGES, HONG KONG INTERNATIONAL AIRPORT (HONG KONG, CHINA)

- Positive growth in management fees from all businesses.
- The Wing, Cathay Pacific business class lounges, reopened after extensive renovation and improvements in design, facilities and food and beverage offer.

NO. 1 WAITANYUAN (SHANGHAI, CHINA)

- One full year after the opening of No. 1 Waitanyuan, the building has gained a fine reputation among the public for its fine food, service and ambiance in an exclusive and historic setting.

No. 1 Waitanyuan is adjacent to The Peninsula Shanghai and is managed by the hotel. The two-storey, Renaissance style building was constructed in 1872 and is listed as a National Cultural Heritage site. Following extensive restoration work, No.1 Waitanyuan was opened in September 2010 as an official venue of the Shanghai Municipal Government.

AWARDS

CORPORATE

- **Silver Award, Non-English 2010 Annual Report: Hotels & Leisure Category** *(2011 ARC Awards, USA)*
- **Silver Award, 2010 Annual Report Written Text: Hotels & Leisure Category** *(2011 ARC Awards, USA)*
- **Silver Award, 2010 Annual Report Cover Photo/Design: Hotels & Leisure Category** *(2011 ARC Awards, USA)*
- **Bronze Award, 2010 Annual Report: Hotel & Property Category** *(2011 Galaxy Awards, USA)*
- **Bronze Award, 2010 Annual Report General Category** *(Hong Kong Management Association, Hong Kong)*
- **Special Mention, Non-Hang Seng Index (Large Market Capitalisation) Category – Best Corporate Governance Disclosure Awards 2011** *(The Hong Kong Institute of CPAs, Hong Kong)*

THE PENINSULA HOTELS

- **No. 1 Hotel Brand – The Best of Business Travel 2011** *(Conde Nast Traveler, USA)*
- **Best International Hotel Chain – 2011 GT Tested Reader Survey Awards** *(Global Traveler, USA)*
- **Best Hotel Chain – Travel Top 50** *(The Australian, Australia)*
- **No. 3 Best Hotel Group Worldwide** *(The Gallivanter's Guide, UK)*
- **Best Brand Favorite Spa Products – 2011 SpaFinder Readers' Choice Awards** *(SpaFinder, UK)*

THE PENINSULA HONG KONG

- **Best Business Hotel in the World and Best Business Hotel in Asia Pacific** *(Business Traveller, UK)*
- **No. 1 in China – 500 World's Best Hotels** *(Travel + Leisure, USA and Southeast Asia)*
- **No. 1 Best Hotel in Asia/Australia – The 2011 Ultratravel 100 Awards** *(The Daily Telegraph, UK)*
- **No.2 in China – The World's Best Places to Stay, 2011 Gold List** *(Conde Nast Traveler, USA)*

THE PENINSULA SHANGHAI

- **Best Business Hotel in Shanghai and No. 2 Best Business Hotel in Asia** *(Business Traveller, UK)*
- **Best Business Hotel in Shanghai – Gold List Award of China Tourism** *(National Geographic Traveler, China)*
- **Best Suite** *(Hideaway Report, USA)*
- **Best Presidential Suite, Best Spa and Best Restaurant (Sir Elly's) – Hurun Presidential Awards** *(Hurun Report, China)*

THE PENINSULA BEIJING

- **The Most Elegant Spa – Hurun Presidential Awards** *(Hurun Report, China)*
- **Huang Ting, The Most Regal Style Restaurant – Hurun Presidential Awards** *(Hurun Report, China)*
- **Top Presidential Suite Award, The Best Traditional Chinese Style – Hurun Presidential Awards** *(Hurun Report, China)*
- **Best Therapist of China** *(SpaChina, China)*

THE PENINSULA NEW YORK

- **No. 1 Hotel Spa, The Americas & The Carribean – The Reader's Spa Awards 2011** *(Conde Nast Traveller, UK)*
- **No. 2 of Top 50 Hotel Spas, US Mainland – Reader's Poll** *(Conde Nast Traveler, USA)*
- **No. 3 Best Hotel in New York City – Best Hotels in the USA** *(US News & World Report, USA)*
- **One of Top Three New York Hotels – 500 World's Best Hotels** *(Travel + Leisure, USA)*

THE PENINSULA CHICAGO

- **No. 1 City Hotel in the World** *(Andrew Harper, UK)*
- **No. 1 Hotel in US and Canada – World's Best Awards 2011** *(Travel + Leisure, USA)*
- **2011 Best Catered Event produced by a Hotel Banquet Department – Peninsula Chicago's 10th Anniversary Party** *(Special Events magazine, USA)*
- **No. 3 Best Hotel in the US** *(Conde Nast Traveler, USA)*

THE PENINSULA BEVERLY HILLS

- **Offer Nissenbaum, Hotelier of the Year – Virtuoso Best of the Best Awards** *(Virtuoso, USA)*
- **Best Hotel in the US and Best Hotel in the Western US – 2011 GT Tested Reader Survey Awards** *(Global Traveler, USA)*
- **Best Luxury Spa in North America 2011 – SpaFinder Award** *(SpaFinder, USA)*
- **No. 2, The Best City Hotel in North America – 20th Annual Reader Poll, The 2010 Gallivanter's Awards for Excellence** *(The Gallivanter's Guide, UK)*
- **No. 3, Top 100 World's Best Hotels 2011** *(Institutional Investor, USA)*

THE PENINSULA TOKYO

- **No. 1 – World's Best Hotels 2011, Asia** *(Institutional Investor, UK)*
- **No. 2 – World's Best Hotels 2011, World** *(Institutional Investor, UK)*
- **No. 2 – 500 World's Best Hotels 2012, Japan** *(Travel + Leisure, USA)*
- **No. 3 – Top 125 Hotels, Asia, 2011 Readers' Choice Awards** *(Conde Nast Traveler, USA)*

THE PENINSULA BANGKOK

- **No. 1 Best City Hotel in Southeast Asia – The 2010 Gallivanter's Awards for Excellence** *(The Gallivanter's Guide, UK)*
- **Favorite Spa in Asia – 2011 SpaFinder Readers' Choice Awards** *(SpaFinder, USA)*
- **No. 2 in Top 5 City Hotels in Asia – 2011 World's Best Service** *(Travel + Leisure, USA)*
- **Mei Jiang, Best Restaurant for exceptional cuisine and service – Thailand Best Restaurants 2011** *(Thailand Tatler)*

THE PENINSULA MANILA

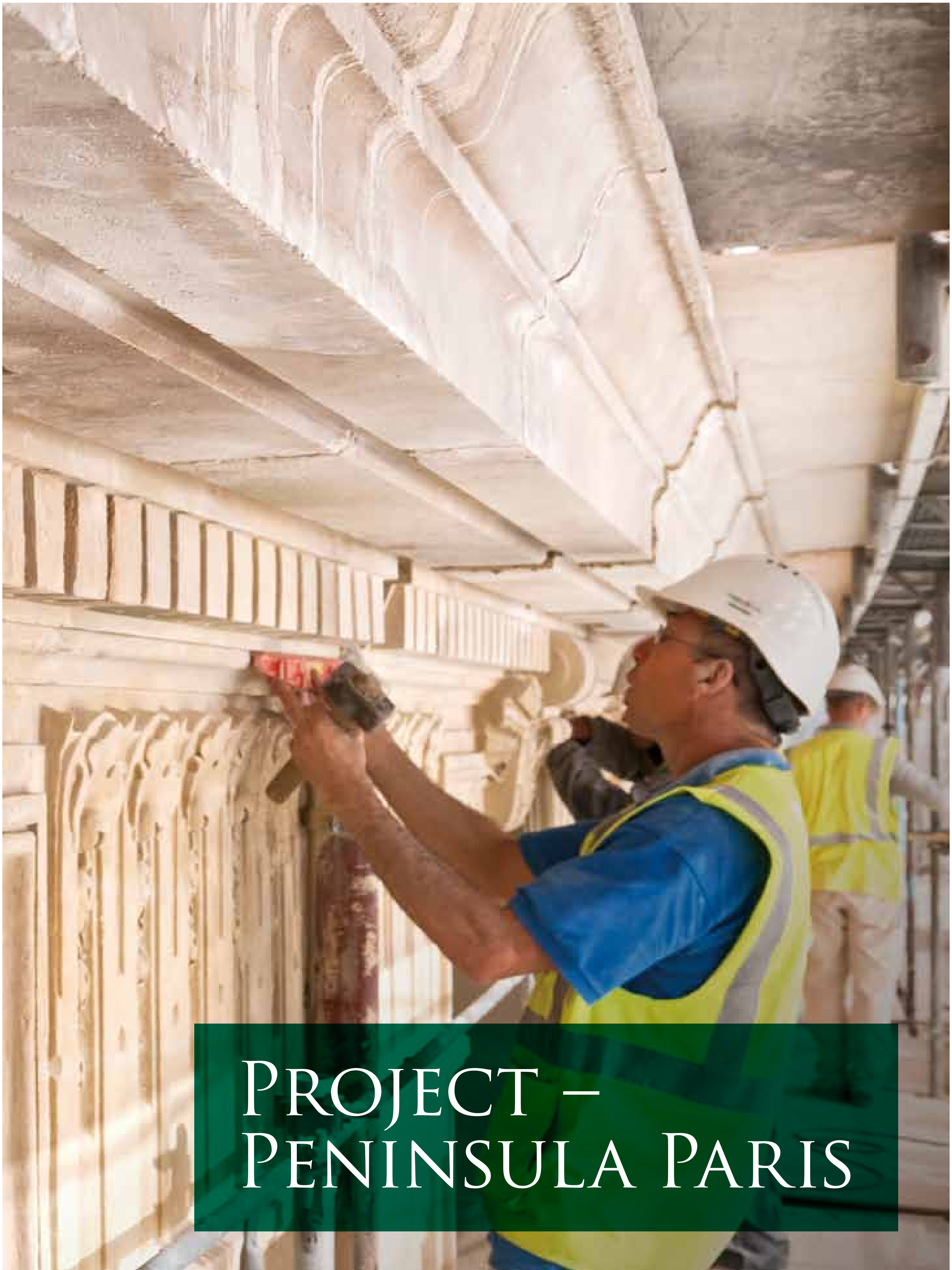
- **Best Hotel in Manila in 2011** *(Asiamoney Magazine, UK)*
- **No. 2 in Manila, Philippines – T+L 500 World's Best Hotels** *(Travel + Leisure, USA)*
- **No. 2 in The Philippines – 2011 Readers Choice Award** *(DestinAsian, Singapore)*
- **No. 5 – Top 20 Hotels for Value Overall** *(Travel + Leisure, USA)*

THAI COUNTRY CLUB

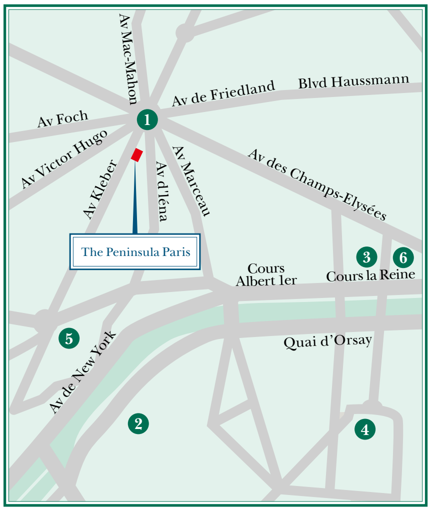
- **No. 2 Best Course in Thailand and No. 2 Best Course in all of Asia Pacific** *(Asian Golf Monthly, Singapore)*

CATHAY PACIFIC LOUNGES

- **Best Lounge in the World – Top 10 Airport Lounges** *(Frommer's, UK)*
- **No. 3 in the World – World's Best Business Class Airline Lounge** *(Skytrax World Airline Awards 2011, USA)*



Project – Peninsula Paris



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

Above: *Sir Michael Kadoorie (second from right) and HSH management on the roof of The Peninsula Paris.*

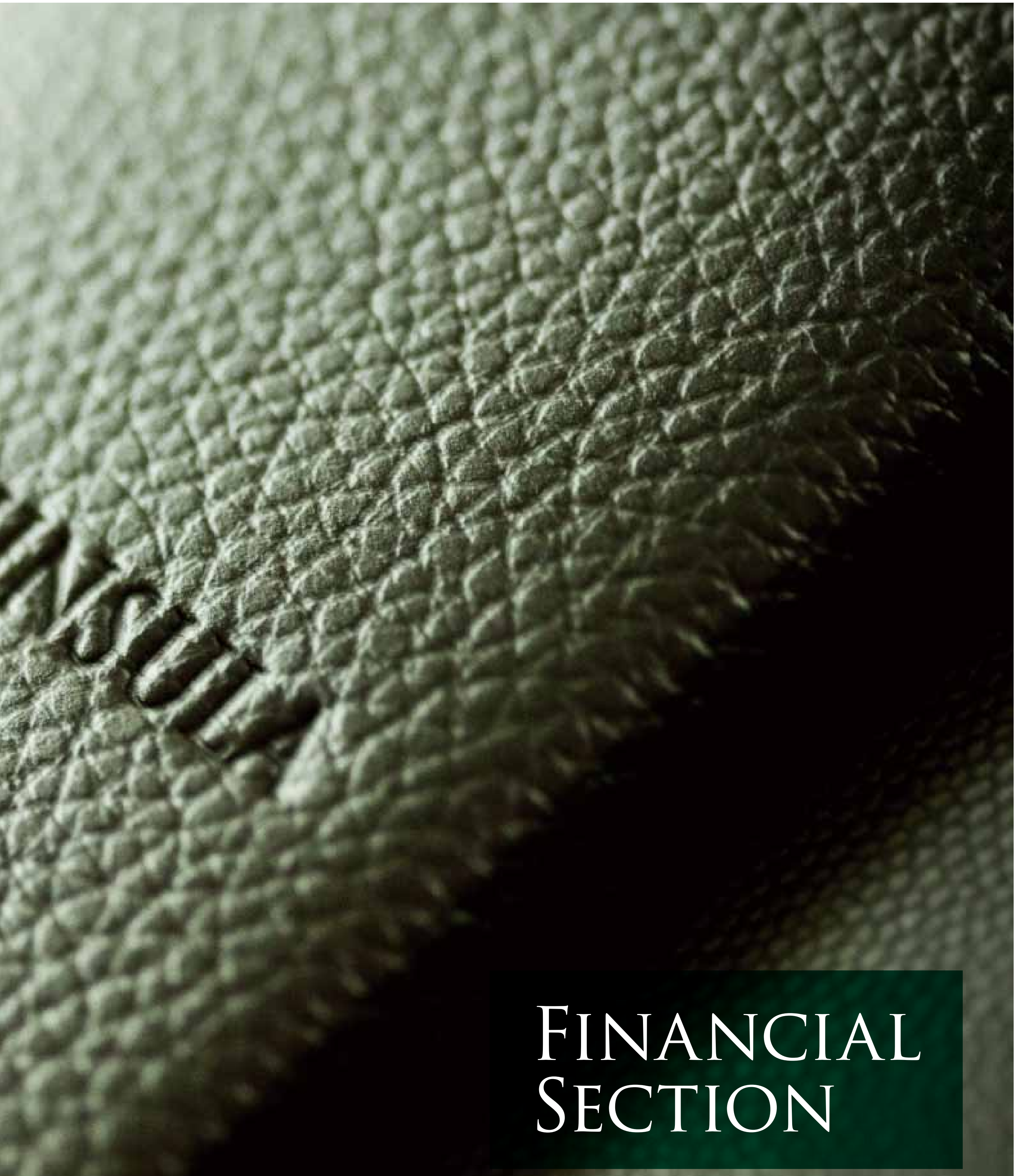
Above: *Renovation in progress inside the building.*

The Peninsula Paris (France) (20% owned)

The Peninsula Paris will be located on Avenue Kleber in the French capital, in a building that originally opened as The Majestic Hotel in 1908. HSH entered into an agreement with Qatari Diar in early 2009 to redevelop the property into a Peninsula hotel, which would also be the Group's first presence in Europe. Qatari Diar's 80% ownership interest in The Peninsula Paris was transferred in 2011 to Qatar National Hotels, Qatar's leading hotel owner and developer.

Development work for The Peninsula Paris made steady progress in 2011. Following the appointment of a general contractor in mid 2010, structural work and excavation of three levels of basement commenced and is now largely complete. The fragility of the century-old structure together with a number of administrative, historical and site constraints raised a number of challenges which have been successfully overcome.

Following a period of extensive planning, liaison with the French historical building authorities and the construction of the Peninsula Paris model room, the interior design phase of the project is now complete. All the major contracts for shell and core, mechanical and electrical work were awarded by mid 2011 and the award of the fit out packages is now well advanced. The fit out work will continue through 2012 and into 2013 with The Peninsula Paris scheduled to open in the latter part of that year.



Financial Section

FINANCIAL REVIEW SUMMARY

Consolidated Statement of Financial Position at 1.1.2011

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

Consolidated Statement of Cash Flows for the year ended 31.12.2011

			HK$m
1	EBITDA		1,211
	Changes in working capital and other adjustments		(65)
	Net tax paid		(146)
2	Purchase of fixed assets		(312)
6	Payment for the acquisition of additional interest in a subsidiary		(578)
	Loans to an associate and a jointly controlled entity		(580)
	Net financing charges and dividends paid		(144)
	Net decrease in bank borrowings		(88)
	Net withdrawal of interest bearing bank deposits with maturity of more than 3 months		990
	Net cash inflow for the year		288
	Cash and bank balances	2,658	
	Less: Bank deposits maturing more than 3 months	(997)	
	Less: Bank overdrafts	(17)	
	Cash & cash equivalents at 1.1.2011		1,644
	Effect of changes in exchange rate		31
	Cash & cash equivalents at 31.12.2011*		1,963
*	Representing:		
	Cash and bank balances		1,984
	Bank deposits maturing more than 3 months		(7)
	Bank overdrafts		(14)
			1,963

Consolidated Income Statement for the year ended 31.12.2011

		HK$m
3	Turnover	5,009
	Operating costs before depreciation and amortisation	(3,798)
1	EBITDA	1,211
	Depreciation and amortisation	(377)
	Operating profit	834
	Net financing charges	(88)
	Profit after net financing charges	746
	Share of result of a jointly controlled entity	(85)
4	Increase in fair value of investment properties	1,841
5	Provision for impairment losses	(20)
	Taxation	(203)
	Non-controlling interests	(20)
	Profit attributable to shareholders	2,259

Consolidated Retained Profits for the year ended 31.12.2011

		HK$m
	Retained profits at 1.1.2011	25,124
	Profit attributable to shareholders for the year	2,259
	Dividends distributed during the year	(177)
6	Gain on acquisition of additional interest in a subsidiary	135
	Retained profits at 31.12.2011	27,341

Consolidated Statement of Financial Position at 31.12.2011

	HK$m
Net assets	
Fixed assets	32,482
Other long term investments	2,564
Deferred tax assets	86
Derivative financial instruments	18
Cash and bank balances	1,984
Other current assets	1,099
	38,233
Bank overdrafts	(14)
Bank borrowings	(4,305)
Derivative financial instruments	(140)
Deferred tax liabilities	(623)
Other liabilities	(1,413)
	31,738
Capital and reserves	
Share capital and premium	4,247
Retained profits	27,341
Hedging reserve	(98)
Other reserves	(35)
	31,455
Non-controlling interests	283
	31,738

1 **EBITDA**
EBITDA was HK$68 million higher than 2010, mainly due to improved performances from the Commercial Properties and Clubs and Services Divisions.

2 **Purchase of fixed assets**
The Group's properties are subject to a planned maintenance programme in which capital expenditure is incurred on an ongoing basis for refurbishment and improvement. The spending in 2011 comprised HK$214 million, HK$82 million and HK$16 million for Hotels, Commercial Properties and Clubs and Services Divisions respectively and these expenditures were funded by the Group's operating cash flows.

3 **Turnover**
The Hotels Division contributed approximately 75% of the Group's total turnover. Despite the business disruptions caused by the earthquake in Japan and the extensive flooding in Bangkok to The Peninsula Tokyo and The Peninsula Bangkok, the Hotels Division achieved a revenue growth of 5% in 2011. In addition, the Commercial Properties and Clubs and Services Divisions also recorded revenue growth by 8% and 13% respectively. Detailed discussion of the operating performance of each Division is set out on pages 56 to 61.

4 **Increase in fair value of investment properties**
The Group states its investment properties at fair value and gain or loss arising from the change in fair value of investment properties is recognised in the income statement. The year end revaluation of the Group's investment properties has resulted in a non-operating gain of HK$1,841 million, principally attributable to The Repulse Bay Complex and the shopping arcade at The Peninsula Hong Kong.

5 **Provision for impairment losses**
Given the adverse operating environment in Quail Lodge Golf Club, the Directors considered its book value should be written down by HK$20 million to its recoverable amount based on its fair value, which was determined by an independent professional valuer with reference to the discounted cash flow valuation model of the asset.

6 **Gain on acquisition of additional interest in a subsidiary**
During the year, the Group increased its legal interest in The Peninsula Beijing from 42.13% to 76.6% for a cash consideration of HK$578 million, which was fully funded by the Group's surplus cash. Upon completion of the acquisition, the Group realised a net gain of HK$135 million, being the difference between the non-controlling interest of HK$713 million acquired and the consideration of HK$578 million paid. As required by the accounting standard HKAS 27 (Revised) *Consolidated and Separate Financial Statements*, the gain was recorded as equity movement in the Group's statement of changes in equity.

FINANCIAL REVIEW

Key components of the financial statements

The objective of the Financial Statements is to set out the historic financial performance and financial position of the Group. The key components of the Financial Statements are the income statement, the statement of financial position and the statement of cash flows, all of which are inter-related. The information presented in the income statement, the statement of financial position and the statement of cash flows is briefly described below. The Group's summarised Financial Statements are set out in the Financial Review Summary on pages 52 and 53.

Income statement – this analyses the Group's financial performance for the year, showing profitability and comparatives. The income statement of the Group is set out on page 134 and a detailed discussion of the performance of the Group is set out on pages 56 to 66 of this Financial Review.

Statement of financial position – this summarises the Group's assets and liabilities as at the end of the reporting period and how the net assets were funded. The statement of financial position of the Group is presented on page 136 and a detailed discussion of the financial position of the Group is set out on pages 66 to 68 of this Financial Review.

Statement of cash flows – this provides information about the Group's change in financial position, reconciles the Group's reported income to operating cash flows and analyses how cash generated from operations was applied in investing and financing activities during the year. The statement of cash flows of the Group is set out on page 139 and a detailed discussion of the cash flows is set out on pages 69 and 70 of this Financial Review.

Non-accounting performance indicators and operational statistics

In addition to accounting information, the Group also discloses non-accounting performance indicators to help readers understand the key drivers of our operating results.

To enable users of the Financial Statements to assess the Group's operating performance in a more comprehensive manner, operating and non-accounting financial performance indicators are included in this Financial Review to supplement the information presented in the Financial Statements. A summary of the key operational statistics of the Group's individual hotels and commercial properties is set out in the Ten Year Operating Summary on pages 129 to 131.

Basis of preparation of the financial statements

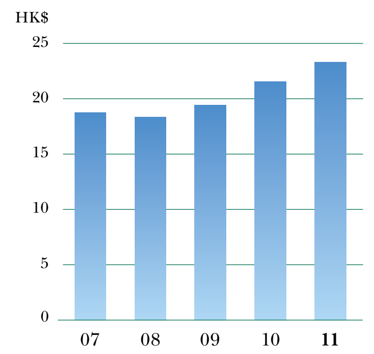
The Group's Financial Statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and interpretations. HKFRS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

During 2011, the HKICPA has issued a number of amendments and one new interpretation ("Revised HKFRS"). The Group has adopted all Revised HKFRS which are effective for the year ended 31 December 2011 and the adoption of the same has not resulted in any significant impact on the Group's results of operations and financial position.

The Group's adjusted net asset value

The Group's adjusted net asset value per share as at 31 December 2011, after the adjustment to fair market value for hotels and golf courses, amounted to HK$23.29, up 8% compared to 2010.

Adjusted NAV per share



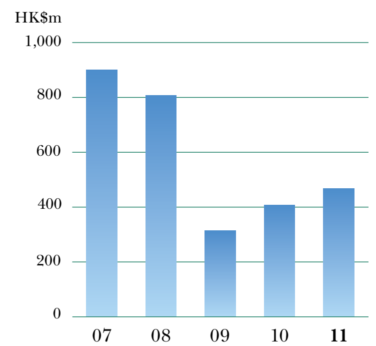
For the purpose of financial statement presentation, the Group has selected the cost model instead of fair value model under the HKFRS as its accounting policy to account for its hotels (other than shopping arcades and offices within the hotels) and golf courses. Under the cost model, hotels and golf courses are measured at depreciated cost less accumulated impairment losses, if any. The fair value model has not been selected in order to avoid the inclusion of unnecessary short term fair value movements in respect of hotel properties and golf courses in the income statement which are considered irrelevant to the underlying economic performance of the hotel and golf course operations. However, in order to provide users of the Financial Statements with additional information on the value of the Group's net assets, the Directors have commissioned an independent third party fair market valuation of the Group's hotel properties and golf courses as at 31 December 2011, the details of which are set out on page 67. If these assets were to be stated at fair market value instead of at cost less depreciation and any provision for impairment, the Group's net assets attributable to shareholders would increase by HK$3,248 million.

In the light of the above, the Directors have provided the users of the Financial Statements with a calculation of the Group's adjusted net asset value as at 31 December 2011 on the basis set out below.

(HK$m)	**2011**		2010	
Net assets attributable to shareholders per audited statement of financial position		**31,455**		29,103
Adjusting the value of hotels and golf courses to fair market value	**3,641**		3,151	
Less: Related deferred tax and non-controlling interests	**(393)**		(366)	
		3,248		2,785
Adjusted net assets attributable to shareholders		**34,703**		31,888
Audited net assets per share (HK$)		**21.11**		19.66
Adjusted net assets per share (HK$)		**23.29**		21.55

The Group's underlying earnings

Underlying earnings



In order to provide additional insight into the performance of its business operations, the Group presents underlying earnings by excluding non-operating and non-recurring items that are considered irrelevant to the underlying operating performance of the Group.

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

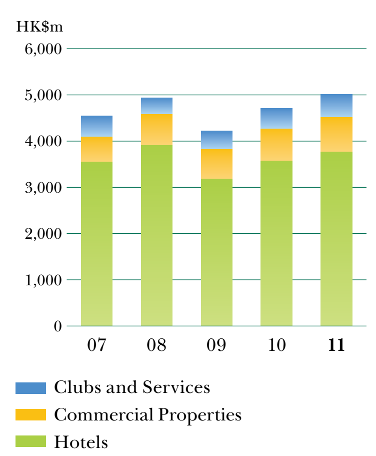
(HK$m)	**2011**	2010	2011 vs 2010
Profit attributable to shareholders	**2,259**	3,008	(25%)
Increase in fair value of investment properties	**(1,841)**	(1,938)	
Provision for/(reversal of) impairment losses	**20**	(110)	
Share of net property valuation gain of a jointly controlled entity, net of tax	**–**	(614)	
Tax and non-controlling interests attributable to non-operating items	**26**	62	
Underlying profit attributable to shareholders	**464**	408	14%
Underlying earnings per share (HK$)	**0.31**	0.28	11%

Income statement

Turnover

The Hotels Division continued to be the main contributor to the Group's revenue, accounting for 75% of the total revenue. Despite the March 2011 earthquake which negatively impacted the business operation of The Peninsula Tokyo, the Hotels Division achieved a revenue growth of 5% in 2011. The Commercial Properties and Clubs and Services Divisions also recorded an increase in revenue, surpassing 2010 by 8% and 13% respectively.

Turnover by activity



The Group's turnover in 2011 amounted to HK$5,009 million, which was HK$302 million or 6% above 2010. The table on the following sets out the breakdown of consolidated revenues by business segment and by geographical segment.

Consolidated revenues by business segment (HK$m)	**2011**		2010		2011 vs 2010
Hotels					
Rooms	**1,642**	**33%**	1,549	33%	6%
Food and beverage	**1,175**	**23%**	1,123	24%	5%
Commercial	**597**	**12%**	567	12%	5%
Others	**352**	**7%**	337	7%	4%
Total hotel revenue	**3,766**	**75%**	3,576	76%	5%
Commercial Properties	**743**	**15%**	688	15%	8%
Clubs and Services	**500**	**10%**	443	9%	13%
	5,009	**100%**	4,707	100%	6%

Consolidated revenues by geographical location (HK$m)	**2011**		2010		2011 vs 2010
Arising in					
Hong Kong	**2,314**	**46%**	2,103	45%	10%
Other Asia	**1,650**	**33%**	1,647	35%	0%
United States of America	**1,045**	**21%**	957	20%	9%
	5,009	**100%**	4,707	100%	6%

Hotels

Apart from The Peninsula Tokyo which was negatively impacted by the earthquake, all Peninsula hotels achieved RevPAR growth in 2011.

The Hotels Division generated a total revenue of HK$3,766 million, representing an increase of HK$190 million (5%) over 2010. Apart from The Peninsula Tokyo, which was negatively affected by the challenging economic environment following the earthquake in March, all the other hotels experienced revenue increases in 2011 as compared with 2010, in the range of 5% to 14%. Although not fully consolidated in the Group results, it is worth noting that The Peninsula Shanghai's revenue increased by HK$76 million (20%) over 2010.

The RevPAR for all the hotels, apart from The Peninsula Tokyo, demonstrated growth in 2011 as demand in many of the markets in which we operate has strengthened, with higher occupancies being achieved. However, the growth in average room rates was generally limited due to keen competition within the competitive set.

Shown below is a breakdown of revenue by hotels:

	2011					2010					
(HK$m)	**Rooms**	**F&B**	**Commercial**	**Others**	**Total**	Rooms	F&B	Commercial	Others	Total	2011 vs 2010
Consolidated hotels											
The Peninsula Hong Kong	**366**	**336**	**393**	**61**	**1,156**	320	302	379	58	1,059	9%
The Peninsula Beijing	**159**	**75**	**133**	**19**	**386**	143	77	122	20	362	7%
The Peninsula New York	**363**	**109**	**34**	**46**	**552**	325	99	34	40	498	11%
The Peninsula Chicago	**236**	**152**	**–**	**58**	**446**	218	145	–	49	412	8%
The Peninsula Tokyo	**275**	**323**	**31**	**70**	**699**	319	340	27	76	762	(8%)
The Peninsula Bangkok	**101**	**72**	**3**	**17**	**193**	93	70	3	17	183	5%
The Peninsula Manila	**142**	**108**	**3**	**20**	**273**	131	90	2	17	240	14%
Management fees income	**–**	**–**	**–**	**61**	**61**	–	–	–	60	60	2%
	1,642	**1,175**	**597**	**352**	**3,766**	1,549	1,123	567	337	3,576	5%
Non-consolidated hotels											
The Peninsula Shanghai	**188**	**160**	**83**	**30**	**461**	176	150	34	25	385	20%
The Peninsula Beverly Hills	**284**	**94**	**–**	**43**	**421**	260	90	–	46	396	6%
	472	**254**	**83**	**73**	**882**	436	240	34	71	781	13%

The Peninsula Hong Kong: Total revenue was HK$97 million (9%) higher than 2010, with marked improvement in all business areas of the hotel and stable rental income from the Arcade and Offices. The revenue in 2011 was a record for the hotel, surpassing the previous record achieved in 2008. The hotel's RevPAR was 14% higher than 2010, resulting from both occupancy and average room rate increases. Food and beverage business levels were also higher, benefiting from the continuing strength of the local economy. The proportion of business from mainland China continued to increase, making it the highest geographical segment in most months in 2011. Mainland China, together with the US and Japan, made up the top three sources of business, which together accounted for 52% of the total rooms sold.

The Peninsula Beijing: Total revenue was HK$24 million (7%) above 2010, with higher occupancy and increased arcade revenue. The competition amongst luxury hotels in Beijing remained intense during 2011 due to the abundant rooms supply and the slow build-up of incremental demand, thus limiting opportunities for room rate growth. Despite this, the hotel achieved improved occupancy from 46% in 2010 to 49% in 2011, whilst RevPAR was 11% higher than 2010. The shopping arcade was renovated in 2011, which has further enhanced its position as the premier venue for the sale of luxury goods in Beijing.

The Peninsula New York: Total revenue was HK$54 million (11%) higher than 2010. The revenue growth was mainly driven by the increased RevPAR, which surpassed 2010 by 12% and resulted in an improved market share position for the hotel.

The Peninsula Chicago: Total revenue was HK$34 million (8%) above 2010, with improved revenue across all areas. The hotel relies almost entirely on domestic business from within North America. The hotel continued to be the leader in terms of room rate and achieved the highest RevPAR in its competitor set in 2011 after increasing its RevPAR by 8%. Due to the low business level, the Avenues restaurant closed its business in September 2011; the space will be converted into a junior ballroom.

The Peninsula Tokyo: Total revenue was HK$63 million (8%) lower than 2010 due to the impact of the March 2011 earthquake on business levels, which fell dramatically following the earthquake. Whilst gradual pick-up in business was seen in the second half of the year, the strengthening of the Japanese Yen has led to significant pressure on the room rate from international travellers which made it difficult for the hotel to increase its RevPAR.

The Peninsula Bangkok: Total revenue was HK$10 million (5%) higher than 2010. The hotel's results through to September 2011 were satisfactory, with revenue 10% above 2010. However, there was disruption from the extensive flooding in Bangkok and the surrounding areas from October 2011 onwards. Business levels are slowly returning, though they remain well below the same months in the previous year.

The Peninsula Manila: Total revenue was HK$33 million (14%) higher than 2010, which resulted in the hotel having a record year. The relatively stable political situation has led to an improved economic environment. The new Salon de Ning lounge, which opened in December 2010, has been very well received and business levels in food and beverage have been building throughout the year.

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

The Peninsula Shanghai: Total revenue was HK$76 million (20%) above 2010. The hotel has established itself as the leader in the city in terms of average room rate and RevPAR. The average room rate was 14% higher than 2010 despite the significant rate pressure from new competitor hotels. However, growth in rooms and food and beverage revenue was moderate due to a lower occupancy achieved without the benefit of the World Expo 2010. For commercial revenue, the increase was mainly due to the contribution from Bund 33, the former British Consulate, which was not ready for commercial use until the end of 2010.

The Peninsula Beverly Hills: Total revenue was HK$25 million (6%) above 2010. The hotel had a higher average room rate and slightly higher occupancy as compared with 2010, despite the extensive guestroom renovation work from October 2010 through to December 2011, as well as the poor economic environment in California. The hotel remains a leader in average room rate in the city and the renovation has given a fresh feel to the rooms that has been well received.

Hotel Commercial Arcades: Across the Group, most of the shops in the hotels' shopping arcades are leased on terms of two to three years. There remains a strong demand for retail space in our hotels in Hong Kong, Beijing and Shanghai. Commercial revenue from these three shopping arcades was HK$74 million (14%) higher than 2010.

Commercial Properties

The residential leasing market in Hong Kong remained strong in 2011 and most properties within the Commercial Properties Division were fully occupied during the year.

The total revenue from the Commercial Properties Division was HK$55 million (8%) above 2010, attributed to higher rental rates from the apartments, shops and offices. The residential leasing market in Hong Kong remained strong in 2011 and most properties in this Division were fully occupied during the year.

(HK$m)	**2011** Residential Properties	Office	Shopping Arcade	Total	2010 Residential Properties	Office	Shopping Arcade	Total	2011 vs 2010
The Repulse Bay Complex, Hong Kong	**400**	**–**	**138**	**538**	381	–	124	505	7%
The Peak Tower, Hong Kong	**–**	**–**	**121**	**121**	–	–	103	103	17%
St. John's Building, Hong Kong	**–**	**45**	**–**	**45**	–	38	–	38	18%
The Landmark, Ho Chi Minh City, Vietnam	**10**	**26**	**3**	**39**	11	28	3	42	(7%)
	410	**71**	**262**	**743**	392	66	230	688	8%

The Repulse Bay Complex, Hong Kong: Total revenue was HK$33 million (7%) above 2010, with increased revenue in all areas as compared with 2010, especially in residential and food and beverage revenue. Although there have been some signs of softening in the high-end residential leasing market as from the last quarter of 2011, there remains significant demand and the complex remains almost fully let.

The Peak Tower, Hong Kong: Total revenue was HK$18 million (17%) above 2010. There was higher rental revenue from retail tenants and higher visitor numbers to The Sky Terrace 428 as compared with 2010. The retail spaces in the Tower remained fully let during 2011, with the majority of existing tenants renewing their leases upon expiry. Whenever there were changes of tenants, higher rental rates were secured with minimal vacancy periods.

St. John's Building, Hong Kong: Revenue was HK$7 million (18%) above 2010, with all offices occupied and higher average rental rates as compared with 2010.

The Landmark, Ho Chi Minh City, Vietnam: Total revenue was HK$3 million (7%) below 2010, largely due to the deflation of the Vietnamese Dong. Whilst occupancy was slightly lower in 2011, the revenue in local currency was basically the same as it was in 2010 as the property was able to attain higher average rental rates.

Clubs and Services

Peninsula Merchandising achieved another record year for its signature mooncakes sales during the Mid-Autumn Festival period, increasing its revenue by 22% in 2011. Other businesses of the Clubs and Services Division also recorded encouraging growth in revenue.

Businesses within this Division mostly achieved higher revenue as compared to 2010. The combined revenue was HK$57 million (13%) above 2010.

(HK$m)	**2011**	2010	2011 vs 2010
Clubs and Consultancy Services	**131**	115	14%
Peninsula Merchandising	**116**	95	22%
Peak Tram	**108**	95	14%
Thai Country Club	**60**	58	3%
Quail Lodge Golf Club	**47**	47	–
Tai Pan Laundry	**38**	33	15%
	500	443	13%

Clubs and Consultancy Services: Management fees from the three Clubs that the Group manages in Hong Kong were 6% higher than 2010 with positive growth in business levels. Revenue from the operation of the Cathay Pacific Airways' first and business class lounges at the Hong Kong International Airport, where the revenue is based on the number of passengers utilising the lounges, increased by 16%.

Peninsula Merchandising: Revenue was HK$21 million or 22% above 2010, with another record year for the sale of signature mooncakes during the Mid-Autumn Festival period, with 43% more revenue than in 2010. The more significant increases in revenue were recorded in the Hong Kong, mainland China and Japan markets.

The Peak Tram: Revenue was HK$13 million or 14% above 2010. The Peak Tram's patronage rose 7% as compared with 2010 to 5.8 million passengers in 2011, which is an all-time record.

Thai Country Club: Revenue was HK$2 million (3%) higher than 2010. There was an impact from the extensive flooding in Bangkok and the surrounding areas in October 2011; but the higher business levels in the earlier part of the year were sufficient to yield an overall revenue increase.

Quail Lodge Golf Club: There was no revenue growth due to the lack of new members and the poor economic environment in California. Golf revenue was lower in 2011 as compared with 2010; although this was offset by increased revenue from The Quail Motorsports Gathering event.

Tai Pan Laundry: Total revenue in Tai Pan Laundry was HK$5 million (15%) higher than 2010 as a result of the increased business levels in the Hong Kong hotels and other businesses served by the laundry as well as new accounts.

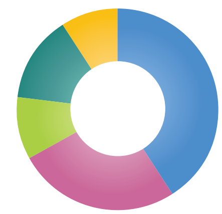
Operating costs

All business operations have exercised cost control measures to maintain or improve profit margins.

Operating costs in 2011 were 6.7% higher than 2010 as compared with the 6.4% revenue increase, resulting in an effectively flat EBITDA margin. The improved EBITDA margins in most operations were offset by the poor results of The Peninsula Tokyo.

All business operations have exercised cost control measures in order to maintain or improve profit margins. Operations have continued to critically analyse all purchasing and supplier contracts and try and maintain staffing levels, despite the increased business volumes, through improved work efficiency.

Operating costs



The Peninsula hotels in Tokyo and Bangkok and the Thai Country Club have worked hard to control their costs following the Japanese earthquake and Bangkok flooding, which resulted in reduced revenues. The Peninsula Shanghai has reduced staffing levels through natural attrition and improved efficiency as the operation stabilises.

Reflecting the above, the Group's full-time headcount increased by less than 1% for the year despite the higher revenues earned. The staff costs and related expenses increased by 5% over 2010 to HK$1,728 million in 2011, representing 41% (2010: 42%) of direct operating costs. The breakdown of the Group's full-time headcount as at 31 December was as follows:

	2011			2010			
Full-time headcount at year end	**Direct Operations**	**Managed Operations**	**Total**	Direct Operations	Managed Operations	Total	2011 vs 2010
By division:							
Hotels	**4,349**	**1,126**	**5,475**	4,309	1,135	5,444	1%
Commercial Properties	**323**	**–**	**323**	331	–	331	(2%)
Clubs and Services	**808**	**416**	**1,224**	768	412	1,180	4%
	5,480	**1,542**	**7,022**	5,408	1,547	6,955	1%
By geographical location:							
Hong Kong	**1,772**	**416**	**2,188**	1,740	412	2,152	2%
Other Asia	**2,742**	**723**	**3,465**	2,696	740	3,436	1%
United States of America	**966**	**403**	**1,369**	972	395	1,367	0%
	5,480	**1,542**	**7,022**	5,408	1,547	6,955	1%

The increase in headcount in the Hotels Division was driven by increased business levels whereas that in the Clubs and Services Division was due to the addition of new Cathay Pacific Lounge facilities.

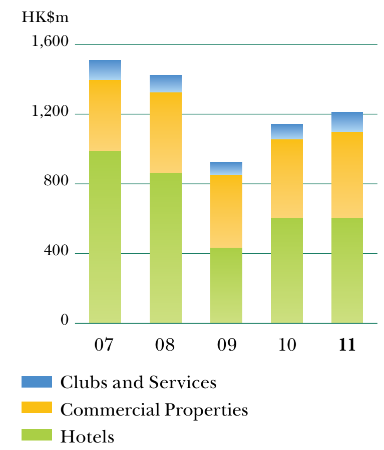
EBITDA and EBITDA margin

The improvement in EBITDA margin for our other hotels was offset by EBITDA margin drop for The Peninsula Tokyo.

EBITDA (earnings before interest, taxation, depreciation and amortisation) increased by 6% to HK$1,211 million.

The Group's EBITDA margin remained flat as the Group's cost base grew faster than revenue in 2011, mainly due to the impact of the earthquake on the business of The Peninsula Tokyo. Excluding The Peninsula Tokyo from the Group results, the Group's EBITDA margin would have improved by 0.5%.

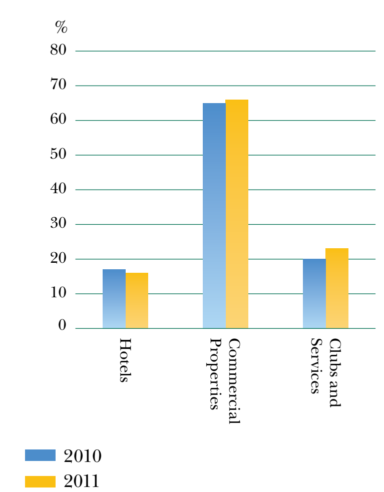
EBITDA by activity



EBITDA (HK$m)	Hong Kong	Other Asia	United States of America	Total
2011				
Hotels	**503**	**71**	**31**	**605**
Commercial Properties	**471**	**22**	**–**	**493**
Clubs and Services	**125**	**15**	**(27)**	**113**
	1,099	**108**	**4**	**1,211**
	91%	**9%**	**0%**	**100%**
2010				
Hotels	461	116	27	604
Commercial Properties	425	25	–	450
Clubs and Services	109	14	(34)	89
	995	155	(7)	1,143
	87%	14%	(1%)	100%
Change 2011 vs 2010	10%	(30%)	157%	6%

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

EBITDA margin	2011	2010
Hotels	**16%**	17%
Commercial Properties	**66%**	65%
Clubs and Services	**23%**	20%
Overall EBITDA margin	**24%**	24%
Arising in:		
Hong Kong	**47%**	47%
Other Asia	**7%**	9%
United States of America	**0%**	(1%)



The EBITDA margin of the Hotels Division in 2011 was 1% lower than 2010, due to the business disruption caused by the earthquake in Japan, without which the Hotel EBITDA margin would have reflected a slight improvement. Nevertheless, as a result of the improvement of the EBITDA margins of the Commercial Properties Division and Clubs and Services Division, the overall EBITDA margin remained stable at 24% (2010: 24%).

Depreciation and amortisation

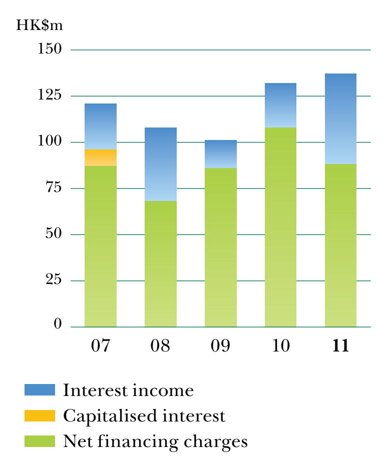
The Group has selected the cost model instead of the fair value model under the HKFRS to account for its hotels. Accordingly, the Group's hotels are subject to depreciation, which accounts for a significant portion of the Group's fixed overheads.

The depreciation and amortisation charge of HK$377 million (2010: HK$349 million) largely relates to the hotels. The Group's hotels are subject to a planned maintenance programme in which capital expenditure is incurred on an ongoing basis for refurbishment and improvement. Therefore, depreciation and amortisation normally account for a significant portion of the Group's fixed overheads.

Net financing charges

The Group seeks to minimise net financing charges and average gross interest rate by investing its surplus cash in low-risk high-yield structured deposits. The Group also makes use of interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk.

Financing charges on borrowings in 2011 amounted to HK$137 million (2010: HK$132 million). After netting off interest income of HK$49 million (2010: HK$24 million), a net charge of HK$88 million (2010: HK$108 million) was recognised in the income statement. The 19% decrease in net financing charges was mainly due to the increase in interest income arising from improved deposit rates during the year.



The weighted average gross interest rate for the year decreased to 3.1% (2010: 3.2%) after accounting for all hedging activities. Interest cover (operating profit divided by net financing charges) increased to 9.5 times (2010: 7.4 times) in 2011, mainly due to the increase in operating profit and interest income.

Non-operating items

The non-operating items are analysed below:

(HK$m)	**2011**	2010
Increase in fair value of investment properties	**1,841**	1,938
(Provision for)/Reversal of impairment losses	**(20)**	110
	1,821	2,048

The increase in fair value of investment properties for the year was principally attributable to the increase in the appraised market value for The Repulse Bay Complex and the shopping arcade at The Peninsula Hong Kong. Such increase was a reflection of the continued strong demand for luxury residential and high-end commercial properties in Hong Kong.

In accordance with its accounting policy, the Group assessed the recoverable amounts of its fixed assets (other than investment properties) as at 31 December 2011. As a result of an adverse operating environment in Quail Lodge Golf Club, the Directors considered its carrying amount should be written down by HK$20 million to its recoverable amount based on its fair value determined by an independent professional valuer with reference to the discounted cash flow valuation model of the assets.

The HK$110 million reversal of the impairment provision in 2010 was in relation to The Peninsula Chicago. Given the improvement in the Chicago hotel market towards the end of 2010, the Directors considered that the impairment provision previously made against the hotel should be fully reversed to its original cost less accumulated depreciation. Such reversal was determined based on the recoverable amount of the property, being its fair value as at 31 December 2010 as determined by an independent professional valuer by reference to the discounted cash flow valuation model of the assets.

Share of result of a jointly controlled entity

The Group has a 50% interest in The Peninsula Shanghai complex which is owned by a jointly controlled entity. The complex comprises a hotel, a shopping arcade and a hotel apartment tower of 39 units. The hotel has established itself as the room rate leader within its competitor set in Shanghai whilst the shopping arcade is fully occupied with a strong mix of international luxury brands. The hotel has also assumed management of Bund 33, the adjacent former British Consulate, comprising the historic building, No. 1 Waitanyuan, which is now used by the Shanghai municipal government as an official venue and other premises which are leased by the hotel for commercial uses.

Despite the World Expo occurring in 2010, the operating performance of the hotel in 2011 was well ahead of 2010 with revenue growth in rooms, food and beverage and commercial operations. For the apartments, as interior fit-out work was still in progress as at 31 December 2011, there was no rental income in 2011. It is expected that the apartments will be available to commence leasing during 2012.

Set out below is an extract of the income statement of the jointly controlled entity, of which the Group has a 50% share:

(HK$m)	**2011**	2010	2011 vs 2010
Income	**461**	385	20%
Operating expenses	**(393)**	(349)	13%
EBITDA	**68**	36	89%

Taxation
The breakdown of the tax charge is as follows:

(HK$m)	**2011**	2010
Current tax	**165**	140
Deferred tax:		
Increase in net deferred tax liabilities relating to revaluation of overseas investment properties	**14**	26
Increase in net deferred tax liabilities relating to other temporary differences	**24**	59
Total tax charge in the income statement	**203**	225

The increase in current tax and deferred tax in respect of other temporary differences was mainly due to the increase in operating profit and accelerated tax depreciation in respect of capital expenditure incurred in 2011.

Statement of financial position

Fixed assets

The Group's hotel properties and golf courses are stated at cost less depreciation. To provide readers with additional information on the fair market value of these fixed assets, the Directors have commissioned independent valuers to perform a fair valuation of these properties as at 31 December 2011.

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

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

According to the Group's accounting policies, hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties are stated at fair value. In order to provide users of the Financial Statements with additional information on the current market value of our hotels and golf courses, the Directors have commissioned independent valuers to perform a fair valuation of these properties (except for The Peninsula Beverly Hills which is 20% owned by the Group) as at 31 December 2011. At the same time, an independent valuation was also performed for the Group's investment properties in accordance with the accounting policies.

A summary of the Group's hotel, investment and other properties showing both the book value and the market value as at 31 December 2011 is set out in the following table:

	Group's Interest	Market Value (HK$m)	Book Value (HK$m)
Hotels			
Consolidated hotels			
The Peninsula Hong Kong	100%	**10,589**	**8,574**
The Peninsula Beijing	76.6%*	**1,954**	**1,453**
The Peninsula New York	100%	**1,629**	**1,110**
The Peninsula Chicago	100%	**1,283**	**1,176**
The Peninsula Tokyo	100%	**1,629**	**1,242**
The Peninsula Bangkok	75%	**824**	**812**
The Peninsula Manila	77.4%	**302**	**294**
		18,210	**14,661**
Jointly controlled entity ***(value attributable to the Group)***			
The Peninsula Shanghai	50%	**3,347**	**3,255**
Total for hotels		**21,557**	**17,916**
Commercial properties			
The Repulse Bay	100%	**9,097**	**9,097**
Repulse Bay Apartments	100%	**5,732**	**5,732**
Repulse Bay Garage	100%	**93**	**93**
The Peak Tower	100%	**1,160**	**1,160**
St. John's Building	100%	**784**	**784**
The Landmark	70%	**92**	**92**
Total for commercial properties		**16,958**	**16,958**
Other properties			
Thai Country Club golf course	75%	**247**	**247**
Quail Lodge resort, golf course and vacant land	100%	**96**	**96**
Vacant land near Bangkok	75%	**328**	**328**
Other Hong Kong properties	100%	**69**	**28**
Total for other properties		**740**	**699**
Total		**39,255**	**35,573**

* *The Group increased its legal interest in The Peninsula Beijing from 42.13% to 76.6% during 2011. Following the completion of the acquisition, the Group now owns 100% economic interest in the hotel with a reversionary interest to the PRC partner at the end of the co-operative joint venture period. Details of the acquisition are presented in the Statement of Cash Flows section on page 69.*

Interest in a jointly controlled entity

The balance of HK$1,340 million as at 31 December 2011 (2010: HK$1,374 million) represented the Group's 50% indirect interest in The Peninsula Shanghai Waitan Hotel Company Limited, a wholly-owned foreign enterprise incorporated in the People's Republic of China which owns 100% of The Peninsula Shanghai. The decrease in balance was mainly due to the Group's share of HK$85 million loss (2010: share of HK$526 million profit) of this jointly controlled entity for the year. It should be noted that the 2010 figure included a post-tax non-operating gain of HK$614 million.

Interest in associates

The balance of HK$562 million as at 31 December 2011 (2010: HK$494 million) represented the Group's 20% equity interest in and 20% share of the shareholder's loan to Al Maha Majestic S.à r.l., a company incorporated in Luxembourg which indirectly owns a 100% interest in a property in Paris to be redeveloped into The Peninsula Paris. This hotel will be managed by the Group upon completion of the redevelopment, expected to be in late 2013.

Investment in hotel management contracts

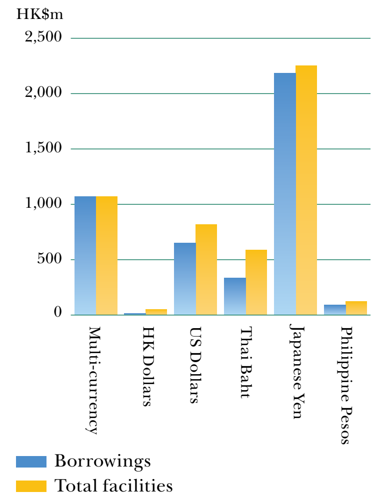
As at 31 December 2011, investment in hotel management contracts amounted to HK$662 million (2010: HK$684 million). The balance included an attributed consideration of Euro 57.7 million in respect of the right acquired to manage The Peninsula Paris to be developed jointly by the Group and its associate, Al Maha Majestic S.à r.l.. The decrease in the balance was mainly due to exchange rate adjustment on retranslating the Euro currency at the year end.

Borrowings

During the year, gross borrowings decreased to HK$4,319 million (2010: HK$4,332 million) whereas consolidated net borrowings increased to HK$2,335 million (2010: HK$1,674 million), taking into account cash of HK$1,984 million (2010: HK$2,658 million). The decrease in cash was mainly due to the payment of HK$578 million for the acquisition of additional interest in The Peninsula Beijing and the advance of an entrustment loan of HK$492 million (RMB400 million) by the Group to The Peninsula Shanghai which is 50% owned.

In addition to the Group's consolidated borrowings, The Peninsula Shanghai (50% owned), The Peninsula Beverly Hills (20% owned) and The Peninsula Paris (20% owned) have non-recourse bank borrowings, which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the Company. The consolidated and non-consolidated borrowings as at 31 December 2011 are summarised as follows:

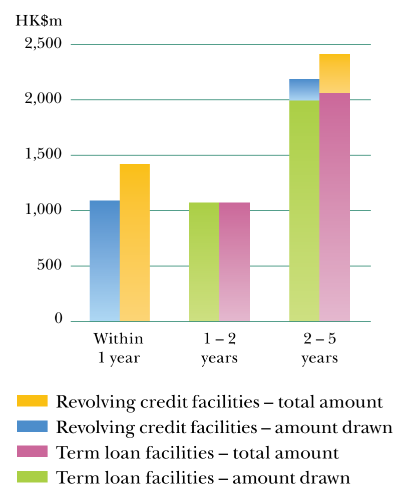
Banking facilities and borrowings (by currency)



	2011					2010
(HK$m)	Hong Kong	Other Asia	United States of America	Europe	Total	Total
Consolidated gross borrowings	**1,078**	**2,599**	**642**	**–**	**4,319**	4,332
Non-consolidated borrowings attributable to the Group*:						
The Peninsula Shanghai (50%)	**–**	**1,176**	**–**	**–**	**1,176**	1,253
The Peninsula Beverly Hills (20%)	**–**	**–**	**218**	**–**	**218**	218
The Peninsula Paris (20%)	**–**	**–**	**–**	**42**	**42**	–
Non-consolidated borrowings	**–**	**1,176**	**218**	**42**	**1,436**	1,471
Consolidated and non-consolidated gross borrowing	**1,078**	**3,775**	**860**	**42**	**5,755**	5,803

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

Banking facilities and borrowings (by type and maturity)



Derivative financial instruments

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

Non-controlling interests

During the year, the Group increased its legal interests in The Peninsula Beijing from 42.13% to 76.6% and this has resulted in a decrease of HK$713 million in non-controlling interests in the Group's balance sheet at 31 December 2011. Further details of this acquisition transaction can be found in the following section.

Statement of cash flows

The cash flows of the Group in 2011 remained strong, with capital expenditure, acquisition of additional interest in The Peninsula Beijing and the Group's financial obligations fully funded by its operating cash flows and surplus cash. After accounting for all funding requirements for investing and financing activities, the Group's cash and cash equivalents as at 31 December 2011 amounted to HK$1.96 billion.

The statement of cash flows of the Group for the year ended 31 December 2011 is summarised below:

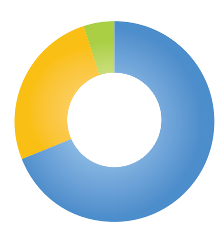
	Year ended 31 December	
(HK$m)	**2011**	2010
EBITDA	**1,211**	1,143
Changes in working capital and other adjustments	**(65)**	31
Net tax paid	**(146)**	(154)
Purchase of fixed assets	**(312)**	(276)
Payment for the acquisition of additional interest in a subsidiary	**(578)**	–
Loans to an associate and a jointly controlled entity	**(580)**	(27)
Net financing charges and dividends paid	**(144)**	(149)
Net (decrease)/increase in bank borrowings	**(88)**	224
Net withdrawal/(placement) of interest-bearing bank deposits with maturity of more than three months	**990**	(560)
Net cash inflow for the year	**288**	232
Cash and cash equivalents at 1 January	**1,644**	1,380
Effect of changes in foreign exchange rates	**31**	32
Cash and cash equivalents at 31 December	**1,963**	1,644

The Group realised a net gain of HK$135 million upon the acquisition of additional interest in The Peninsula Beijing in September 2011.

A majority of the operating cash flows was applied to capital expenditure, including the payment for additional interest in a subsidiary which owns The Peninsula Beijing.

On 5 September 2011, the Group increased its legal interest in The Peninsula Beijing from 42.13% to 76.6% for a cash consideration of HK$578 million, which was fully funded by the Group's surplus cash. Upon completion of the acquisition, the Group realised a net gain of HK$135 million, being the difference between the non-controlling interest of HK$713 million acquired and the consideration of HK$578 million paid. As required by the accounting standard HKAS 27 (Revised), *Consolidated and Separate Financial Statements*, the gain was recorded as equity movement in the Group's statement of changes in equity. Following the completion of the acquisition, the Group now owns 100% economic interest in The Peninsula Beijing with a reversionary interest to the PRC partner at the end of the co-operative joint venture period.

Capital expenditure



Hotels	**69%**
Commercial Properties	**26%**
Clubs and Services	**5%**

Capital expenditure incurred by the Group on upgrading its properties during 2011 amounted to HK$312 million (2010: HK$276 million) and the breakdown of this sum is as follows:

(HK$m)	2011	2010
Hotels	**214**	180
Commercial Properties	**82**	61
Clubs and Services	**16**	35
	312	276

During the year, the Group also advanced an unsecured entrustment loan of HK$492 million (RMB400 million) to The Peninsula Shanghai which is 50% owned. Under the entrustment loan agreement, the loan is repayable on 14 December 2012 and bears an annual interest of 5.5%, being 200 basis points above the deposit rate published by The People's Bank of China on the day on which the drawdown was made.

After accounting for investment and financing activities and excluding bank deposits maturing after more than three months amounting to HK$7 million (2010: HK$997 million), cash and cash equivalents as at 31 December 2011 amounted to HK$1,963 million (2010: HK$1,644 million).

Off balance sheet information

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

Capital commitments

The Group is committed to enhancing the asset value of its hotel and investment properties and improving the service quality of these assets. As at 31 December 2011, the Group's capital commitments amounted to HK$1,831 million (2010: HK$1,931 million) and the breakdown is as follows:

(HK$m)	2011	2010
Capital expenditure		
Contracted for	**360**	60
Authorised but not contracted for	**1,458**	1,703
	1,818	1,763
The Group's share of capital commitments of a jointly controlled entity		
Authorised but not contracted for	**13**	168
	1,831	1,931

The Group's capital commitments as at 31 December 2011 included a total planned spending of HK$1,136 million for a major renovation of the guestrooms at The Peninsula Hong Kong and a significant phased upgrade programme at The Repulse Bay Complex, of which approximately HK$608 million is expected to be spent during 2012.

The Group holds a 20% equity interest in Al Maha Majestic S.à r.l., an associate of the Group responsible for the development of The Peninsula Paris. The Group's 20% share of the contracted for and authorised but not contracted for capital commitments as at 31 December 2011 amounted to HK$195 million (2010: HK$108 million) and HK$215 million (2010: HK$435 million) respectively. The majority of these capital commitments will be financed by the Euro220 million (HK$2.2 billion) non-recourse term loan obtained by the associate.

Contingent liabilities

Contingent liabilities as at 31 December 2011 for the Group and the Company are analysed as follows:

	Group		Company	
(HK$m)	**2011**	2010	**2011**	2010
Guarantees given in respect of borrowings and other banking facilities for subsidiaries	**–**	–	**4,393**	4,402
Other guarantees	**1**	1	**1**	1
	1	1	**4,394**	4,403

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

Non-adjusting post reporting period event

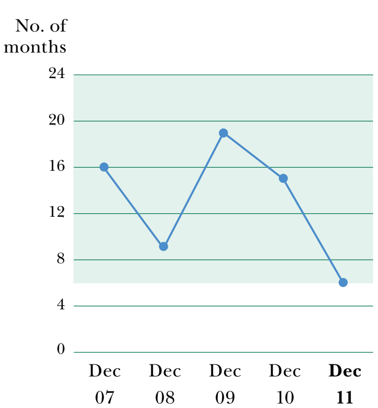
After the end of the reporting period, the Directors proposed a final dividend of 10 HK cents per share in respect of the year ended 31 December 2011, which will be payable on 29 June 2012. The final dividend is subject to the approval by shareholders at the forthcoming Annual General Meeting to be held on 21 May 2012 and no provision was made in the Financial Statements.

Treasury management

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

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

Financing horizon



Group guideline: 6 – 24 months

Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that it maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to meet its obligations and commitments. In August 2011, Peninsula of Chicago LLC, a wholly-owned subsidiary, signed a five year loan facility of US$80 million with an international bank. The facility is unsecured and guaranteed by the Company.

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

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

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

The Group monitors its gearing in accordance with the policy that its adjusted gearing ratio, expressed as the percentage of net borrowings to the total of net borrowings and net assets after taking into account the Group's share of net borrowings and net assets of non-consolidated entities (such as The Peninsula Beverly Hills, The Peninsula Shanghai and The Peninsula Paris), should be kept below 40%. As at 31 December 2011, the Group's gearing and adjusted gearing (including share of net borrowings of non-consolidated entities) increased to 7% (2010: 5%) and 11% (2010: 10%) respectively.

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

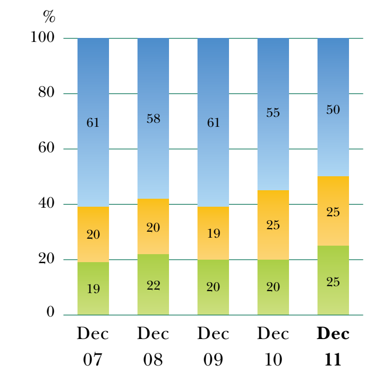
Interest rate risk

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

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

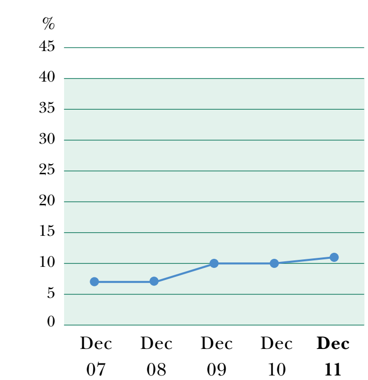
As at 31 December 2011, the Group's fixed to floating interest rate ratio was at 43% (2010: 45%).

Maturity profile of committed facilities – loan drawdown



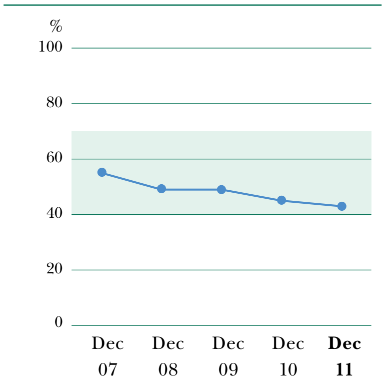
Group guideline:
2 – 5 years (30% – 80%)
1 – 2 years (≤50%)
Due within 1 year (≤30%)

Adjusted gearing



Group guideline: (≤40%)

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



Group guideline: (40% – 70%)

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

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

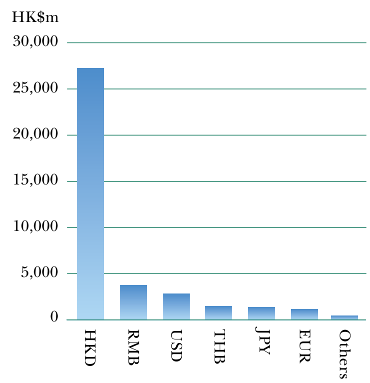
The long term financial obligations of the Group's entities are normally arranged in currencies in which they have substantial positive operational cash flows, thereby establishing natural currency hedges.

As at 31 December 2011, the Group's total assets were principally denominated in Hong Kong Dollars which accounted for 71% of the total asset value.

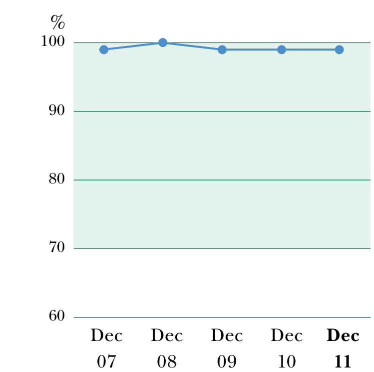
Credit risk
Under normal circumstances, when depositing surplus funds or entering into derivative contracts, the Group manages its exposure to non-performance of counterparties by transacting with counterparties which have a credit rating of at least an investment grade. However, in developing countries,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

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

Total assets



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



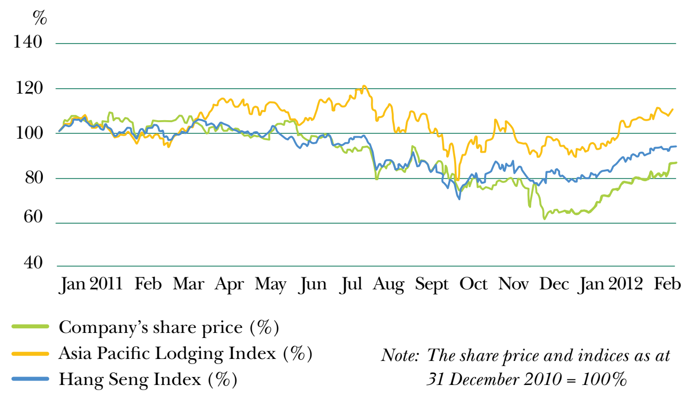
Group guideline: (≥70%)

Share information

The Company's share price closed on 30 March 2012 at HK$10.56, giving a market capitalisation of HK$15.7 billion (US$2.0 billion). This reflects a discount of 50% to net assets attributable to shareholders of the Company, or a discount of 55% to the adjusted net assets (see page 55).

The average closing price during 2011 was HK$12.19, with the highest price of HK$14.74 achieved on 8 February 2011 and the lowest price of HK$8.10 recorded on 1 December 2011.

Share price and indices



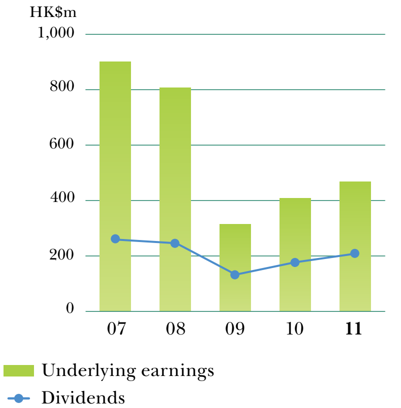
Note: The share price and indices as at 31 December 2010 = 100%

Dividends

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

Given the improved operating results, the Board has recommended a final dividend payable on 29 June 2012 of 10 HK cents per share. Together with the 2011 interim dividend of 4 HK cents per share paid on 4 November 2011, the total dividend in respect of the 2011 financial year will be 14 HK cents per share.

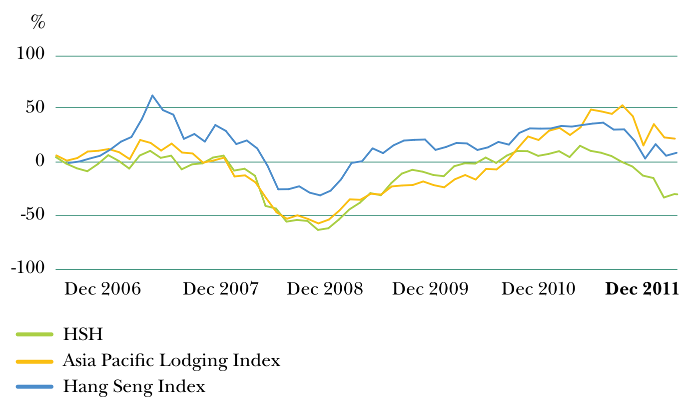
Underlying earnings and dividends

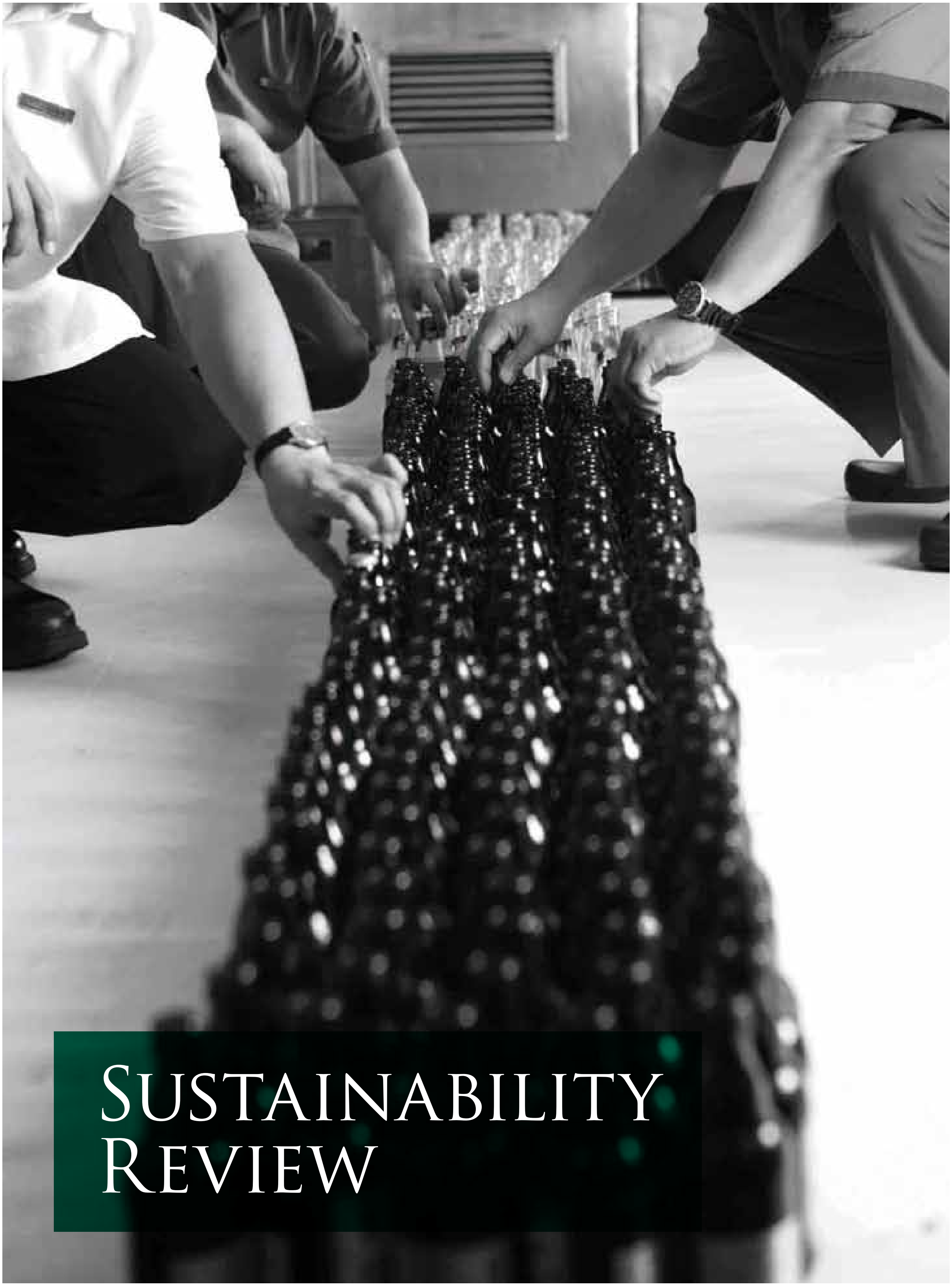


Total shareholder return

Total shareholder return ("TSR") is calculated based on the capital gains and dividends of the stock. HSH had a TSR of -34.73% for 2011. During the period 2006 to 2011, the Company provided an annualised TSR of -6.89%, versus 1.52% and 4.04% for the Hang Seng Index and the Asia Pacific Lodging Index respectively.

Returns of company's shares and indices





Sustainability Review

SUSTAINABILITY REVIEW

Introduction

This section reports on our corporate responsibility and sustainability performance in 2011. Our reporting has evolved since 2008, when we published our first annual Sustainability Report. This year, we have aimed for a better integration of the reporting of our financial and sustainability performance, with a view to reflecting on the importance of taking long term sustainability considerations into our everyday business decision-making.

HSH is committed to transparency and accountability. Stakeholders have a right to accurate, straightforward information about the environmental and social impacts we have as a business, the risks we face and how we are managing them. In that spirit, we acknowledge not only our achievements but also the areas where we need to improve.

In the following pages, we highlight a range of issues of concern to stakeholders and how we are responding to them. We report on our performance in key areas such as energy and water use, waste management, managing and developing our people, responsible sourcing and community engagement.

Where we can, we have provided performance data for this and previous years so readers can form a view of the progress we are making. In order to ensure that we report accurately, we have engaged independent auditor Lloyd's Register Quality Assurance Limited (LRQA) to provide an assurance report on the non-financial data in this Annual Report.

Reporting scope

Except where noted, the scope of reporting in this section covers HSH's hotel properties and other 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 Lodge Golf Club, Peninsula Merchandising and Tai Pan Laundry in Hong Kong. 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.

This report has covered environmental performance information of The Peninsula Shanghai, which soft opened in October 2009 and was not included in the 2010 report. Facilities managed by HSH, including The Hong Kong Club, The Hong Kong Bankers Club and Butterfield's, as well as the Cathay Pacific Airways' first and business class lounges in the Hong Kong International Airport are not included in the environmental performance statistics as we do not own or control the policies of these facilities. However, HSH employees working at these facilities have been included in this Report's workforce statistics. To facilitate comparison over time, statistics of workforce at The Hong Kong Club, The Hong Kong Bankers Club and Butterfield's have been restated in the 2010 and 2009 employee data of this Report.

How we report

This report covers the calendar year 2011. The content and quality of the information reported in this section are guided by the Global Reporting Initiative (GRI) G3 reporting guidelines and key sustainability issues identified by the Group's Corporate Responsibility Committee. To demonstrate HSH's commitment to producing a transparent and credible report, the accuracy of a representative sampling of non-financial data and statements and their compliance to GRI Level C disclosure is assured by Lloyd's Register Quality Assurance and checked by GRI.

This review section is complemented by the Sustainability Data Statements section which includes all our relevant performance data for 2011 (see page 197).

ENGAGING WITH STAKEHOLDERS

Listening to and anticipating the needs and expectations of our customers are at the heart of what we do every day. In addition to our customers, our key stakeholder relations also include shareholders, employees, travel trade partners, suppliers and non-governmental organisations. They are part of the broad range of stakeholders that affect or may be affected by our business activities.

We recognise that we are accountable not only to our shareholders, but also to our other stakeholders, specifically on environmental and social issues which have wider implications for the community where we have a presence. It is both our corporate responsibility and in our long term business interests that we meet our accountabilities to our stakeholders. Understanding what issues are material to them and how their expectations sit with us helps us with our decision-making.

Our approach

We use existing communication channels to engage with our key stakeholders. Whether they are our hotel guests, patrons of our restaurants, or tenants of our properties, we like to solicit their feedback while they are with us. It enables us to maintain a close rapport with these corporate and individual customers. We have meetings with investors on a regular basis throughout the year. Our annual shareholder meeting provides a forum for two-way dialogue between our directors and shareholders. The various networks and forums that we participate in also allow us to gather feedbacks on our sustainability performance informally.

We recognise that the benefits of a well-structured stakeholder engagement process on sustainability issues can be significant. It can help us understand the evolving concerns and expectations that our stakeholders may have, and how the HSH Group is being perceived in terms of our environmental, social and ethical performance. This will provide valuable insights to complement and to guide our internal governance and management of sustainability issues. However, to reach out to our diverse and global network of stakeholders on a regular basis is not without challenge. We have been actively considering various possibilities and learning from others' experience, with a view to developing a process that is manageable, meaningful and adds genuine value in advancing our sustainability commitment. We aim to undertake pilot studies and provide more details in 2012.

How we did in 2011

- ➡ Complete the exercise to identify stakeholders and assess risks across the Group and take appropriate engagement actions
- ➡ Continue to engage stakeholders through existing channels and conduct engagement sessions with priority stakeholders

● *objective achieved* ➡ *on track to achieve objective* ● *objective missed*

Listening to our sustainability partners

In 2011, we began a dialogue with a range of non-governmental organisations (NGOs) and sustainability experts in Hong Kong, where the Group is headquartered, and in the cities where we operate our hotels. Close to 40 stakeholders were consulted through one-on-one meetings with the Group's sustainability team.

It has been a useful process to understand from these stakeholders their views on the priority environmental and social issues for their local communities and on a global level; the issues that they consider relevant and important to the HSH Group; and in what ways they would like us to respond. Issues raised in these discussions included among others sourcing of sustainable seafood and building materials, business sustainability in response to climate change impact, the evolving perception and tension between luxury and the world's sustainability, and more strategic and impactful engagement with the community. This is just a start. We aim to embark on a structured approach to engaging our stakeholders on wider sustainability issues in the coming year.

Listening to our employees

We are running an engagement survey across all our global operations to hear from our employees how they feel about HSH. The first phase covering five operations was completed in 2011 and we have been very encouraged by the results. Over 84% of the 2,155 employees at these five operations participated. The survey showed that our employees are proud to be associated with HSH and are happy to advocate the HSH brand.

The employee engagement survey would not add value to us if it did not identify some areas where we think we can do better. The results told us that there is room for improvement on performance management, employee recognition and increasing two-way communications.

The survey "make a difference" has clearly made an impact on the organisation in fostering collaboration and better understanding amongst different teams. It has identified areas where we can improve, with a view to creating a better workplace for our employees.

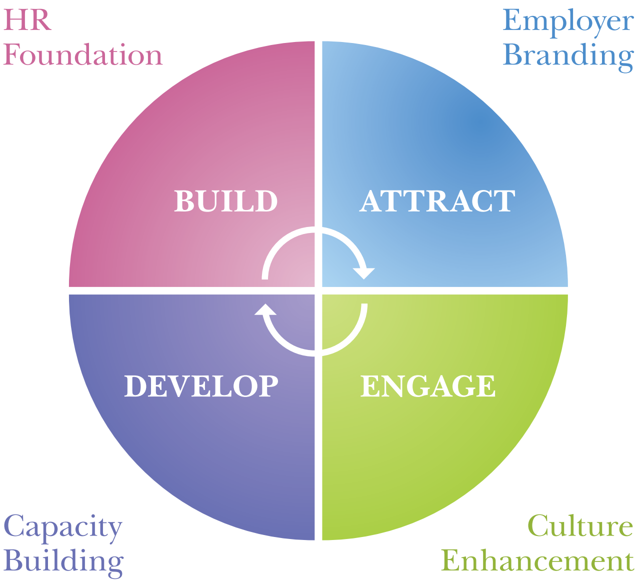
Sindy Tsui
General Manager, Human Resources

The five operations have put in place action plans to address the feedback and to start delivering what has been promised in the action plans for 2012. At the Group level, we have responded to the feedback about strengthening our performance management process and will work on revamping our competencies and management review process in the coming year. We also look forward to introducing the survey to another seven operations in 2012 and to gathering more feedback that will help build a more engaged and effective workforce.

Our 2012 commitment

- Develop a roadmap and strategic framework for stakeholder engagement on environmental, social and ethical issues
- Develop a shared understanding amongst the Group's senior management team on key global trends that may affect our business in the medium to long term
- Develop a Group risk register
- Conduct phase two of Group employee engagement survey

The 4 building blocks of our people strategy



OUR PEOPLE

What make us special to our customers is not just our products, but more importantly our people. Their passion, commitment and creativity to go above and beyond the expectation of our customers define the excellence that HSH stands for.

We aspire to be the employer of choice and treasure long term relationships with our employees. We support, motivate and reward our employees to help them realise their full potential, and are committed to providing an environment that promotes respect and equal opportunities for every employee.

Our approach

At the heart of our Human Resources (HR) strategy is our commitment to creating a culture of engaged employees across HSH's operations, where HSH is recognised as a genuine and caring employer that continually grows and develops its own talent. We will continue to empower our employees to create special memories for our guests. Our HR strategy helps to strengthen our brand and enable our leaders to achieve our business results.

Delivering on our commitments

In 2008, we launched a five-year plan to refresh our HR strategy. The plan identifies areas of focus including our remuneration structure, practices for attracting, developing and retaining staff and succession planning for key management positions. Each year, we set ourselves interim targets towards delivering the five-year plan. In 2011, we focused on expanding our learning and development programmes and employee engagement effort across Group operations.

The HSH Group HR Manual was revamped and launched in 2010. The manual details the Group's approach to every aspect of human resources management and sets out what is expected of each operation. It ensures more consistent practices across the Group while still allowing flexibility to account for local labour conditions and culture. The manual enables a solid foundation to be built for further work on attracting, engaging and developing our talents. The re-alignment of some Group HR practices will also facilitate employee mobility between operations as the Group continues to grow. In 2011, Group operations focused on updating their respective Employee Handbooks and HR guidelines to be in line with the new manual. The first on-site HR operational review was completed in accordance with the manual to ensure compliance and, most importantly, to allow for sharing of best practices.

How we did in 2011

- Launch equal opportunities module as part of Code of Conduct learning programme
- Expand the number of employees undergoing the Executive Development Programme
- Develop corporate training programme for middle managers
- Expand the Peninsula Scholar Programme
- Conduct phase one of Group employee engagement survey
- 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 corporate culture to engage employees

● *objective achieved* ➡ *on track to achieve objective* ● *objective missed*

Our family profile

The Group employs more than 7,500 people around the world, and retains a strong and unique family culture that runs deep through our history. Caring, genuine, passionate and proud are qualities that describe the dynamic and diverse individuals who together form the HSH family. All of these qualities perhaps provide that little bit of magic that sets us apart.

Global Distribution of HSH Employees

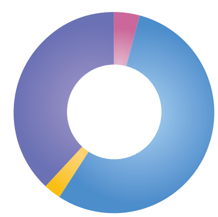
The US	**21%**
Hong Kong	**29%**
Asia (excl. Greater China)	**31%**
Mainland China	**21%**

Celebrate our diverse roots

We embrace diversity in our workforce. For example, The Peninsula New York houses employees from more than 50 nationalities under one roof. A diverse workforce offers us the opportunity to learn from one another and to connect with a wide range of customers. Despite our diverse roots, there is great camaraderie among our employees.

The Group is committed to providing an inclusive workplace that promotes equal opportunities. Our recruitment process and opportunities for career development is not limited by gender, age, nationality, religion, sexual orientation, or disability.

Gender Diversity



Management – Male	**4%**
Non-management – Male	**55%**
Management – Female	**3%**
Non-management – Female	**38%**

Female Staff 41% ♀ ♂ Male Staff 59%

A long term relationship

Retention rate is a key parameter for measuring the success of our people strategy. We value our experienced and knowledgeable staff because they are best placed to provide our special brand of customer service. The average turnover rate for all our operations is 19.5%. Our hotels have a turnover rate of 17.6%, which is well below the industry average[1]; and indeed in The Peninsula Manila, the rate is 7.5%. This is a good level of performance but one we still aim to improve.

Our emphasis on treating everyone with respect regardless of position, providing fair opportunities for growth, and working hard together as a team are key to retaining our talents. The loyalty and long service of our staff speaks for itself.

1. *Reference on average turnover rate of the hospitality industry is made from Walker and Miller (2010) www.ijbssnet.com/journals/Vol_2_No_23_Special_Issue_December_2011/9.pdf*

Ensuring people behave ethically

Honesty, integrity and fair play are the values which shape our culture and guide how we work with each other and our customers. The Code of Conduct and Equal Opportunities Policy articulates our commitment to acting in accordance with these values, setting out the standards of behaviour and ethics we expect at all times from each and every employee. We take our Code of Conduct seriously. Over the year, out of the Group's workforce of over 7,500 colleagues, only a small number of grievances of discrimination were lodged, investigated and dealt with in accordance with the Group's policy, and breaches of the Code of Conduct were recorded and resulted in separation of employment.

The Code of Conduct is structured as a series of policy guidelines on different ethical issues, including bribery and accepting gifts, conflicts of interest and equal opportunities. It also broadly acknowledges and recognises the United Nations' Universal Declaration of Human Rights (UDHR). The principles outlined in the UDHR include denouncing all forms of child exploitation, forced or bonded labour, and recognise the basic right of workers to form and to join trade unions to protect their interests. We are committed to conducting our business in a manner consistent with these principles. In 2011, 29% of our employees are members of trade unions.

For us to maintain and enhance our reputation, it is vital that all employees understand their responsibilities to act ethically. Hence, as part of the Code of Conduct learning programme, a compulsory module focusing on equal opportunities and complaints, investigation and reporting on Code of Conduct matters was launched in 2011. All employees across the Group are required to attend this training and assessment through either a bespoke e-learning platform or classroom-style workshop. By end of the year, more than 90% of the management team and the general employees had completed the module.

Communication leads to community

We understand that we are only as good as our employees who help to shape the experiences of thousands of customers every day. We want our employees to be committed and enthusiastic ambassadors of our brands. The best way to encourage that commitment and enthusiasm is to engage wholeheartedly with our employees, communicating openly with them and providing them with the respect and opportunities to influence how we operate.

It is important to us that people understand our values of integrity, heritage and tradition when they join the HSH family. We use two videos to reach out to our global team: The HSH Story and Portraits of HSH, both of which are available in six languages. To keep people informed during the year, the Group publishes a half-yearly newsletter in four languages and our Chief Executive Officer speaks directly to staff through webcasts three times a year. We also have a Group intranet – unfortunately it has not been used as widely as we would like. A steering committee was set up in 2011 to explore how we might rejuvenate this platform so it is more relevant and engaging for employees.

Many of our individual operations use quarterly town hall meetings to update their staff on priority business and development issues. We recognise the value in two-way communications: engaging staff is not only about talking, it is also about effective listening. Some of our operations run less formal events where employees can express their concerns to the General Manager (GM) and offer their opinions on how to improve their working environment or current practices.

At The Peninsula Hong Kong, a range of different forums are used to reinforce key messages and to ensure staff at all levels are heard. This enables the staff to feel involved in the running of the hotel and be motivated to perform to the very best of their abilities.

Roundtable Meeting with Frontline Staff
- Twice a year, with small groups (8-12) of frontline staff from each department.
- Opportunity for staff to raise concerns to the GM and make suggestions.

Monthly Communication Meetings with Department Heads
- Monthly, with department heads and direct reports.
- Opportunity to discuss with the GM day-to-day challenges and bigger picture issues such as CR and maintenance.

Senior Management Retreat
- Annually, GM and senior managers spend 1.5 days team-building offsite to work on longer term strategic business issues.

Hotel Executive Committee Meeting
- Every two weeks.
- GM to discuss strategic business issues with the senior management team.

Engaging staff in many ways builds commitment

General Staff Team-building Workshop
- Annually, 1 day offsite for GM to share outputs of senior management retreat with general staff.
- Team-building to improve inter-departmental relationship and understanding.

General Staff Meeting
- Quarterly, three sessions to cover staff on overnight, morning, and afternoon shifts.
- GM to provide business overview, key staff movements, CR initiatives and health and safety report.

Intranet Communication
- Periodically, GM communicates to all the staff via "Pen Channel" – video broadcast on intranet and canteen.

Note: CR refers to corporate responsibility.

From learning to development

We take pride in our unending commitment to provide a genuine luxury experience for our customers. Investing in our people is the right thing to do and is essential for enabling us to continue to lead in our pursuit.

Our Learning and Development (L&D) Programmes aim to address the learning needs of all employees, whether they are a senior manager in the corporate office or a frontline staff member in the business operation. Based on the annual analysis of training needs across the organisation, we added a revised executive development training offer, a new programme for middle managers and an expanded scholarship scheme to the 2011 programme.

Preparing the next generation of leaders

Our executive development programme is for Hotel Managers, the second-in-command in our hotel operations. It prepares them for stepping up to General Manager level.

Over the last three years, the programme has played a significant part in our succession planning with all recent appointments to General Manager being internal candidates.

The 2011 programme was re-designed to align with the needs for running our increasingly global business. It includes a new media training course and six months one-on-one coaching with an executive coach.

Top training for middle managers

This new programme helps middle managers to enhance and develop managerial and leadership skills. The 40-hour course covers modules such as Lead by Example, Engage your People and Embrace Innovation.

The scholarship programme goes international

In 2011 we expanded our scholarship programme for hospitality students from one to six participants and it is now available in the US and Asia. We are currently funding three years' tuition for three students in Hong Kong, and the final year's tuition for two in the Philippines and one in the US.

Students spend their summer internships working in our hotels and will be made a job offer when they graduate.

Our international portfolio of luxury hotels makes these scholarships very popular with students. The able students are in turn very popular with our hotel managers, who are keen to keep them when they graduate.

Making better plans for retirement

We have a long-standing reputation for looking after the welfare of our people whether they are new to the company or about to retire. We offer a comprehensive package of staff benefits and are proactively helping our employees to think ahead.

We provide defined contribution retirement coverage for employees in Hong Kong and senior managers in Asia, with local programmes elsewhere. In recent years, we have taken steps to improve the Group retirement scheme. The Group's Occupational Retirement Schemes Ordinance Committee meets quarterly to organise briefings from the scheme's advisers to help employees make more informed plans for their retirement. At the end of 2011, we ran a survey of pension scheme members to assess how they feel about the quality of the advice they are receiving. We will use the results of the survey to improve the financial planning advice sessions in 2012.

Our 2012 commitment

- Roll out a revised management bonus plan for the Group
- Roll out the third module of Code of Conduct online and classroom training on guest data privacy
- Conduct five Operational HR Reviews in accordance with the HSH Group HR Manual.
- Build a competency framework for the Group
- Design a Finance for Business Managers Programme for all Executive Committees in the operations

ENVIRONMENTALLY RESPONSIBLE LUXURY

Buildings account for around 40% of global energy consumption, with significant impact on the world's carbon footprint and energy demand. We develop and manage a portfolio of prestigious hotels and premium properties. This makes driving energy efficiency and hence reducing our carbon footprints the number one environmental challenge for the Group. Increasing energy costs worldwide also makes the case financially compelling.

Water conservation and waste management are other key environmental challenges associated with our business. We endeavour to do our best in identifying and managing the adverse environmental impacts of our business activities. We do this to be accountable to the communities where we operate and to our global marketplace.

Our approach

Our Sustainability Policy[2] guides our commitments to environmental responsibility across the Group. Through discipline, creativity and new technology, we have started to improve our energy and water performance. Most Group operations have also formed specific environmental working groups to drive ideas and initiatives to improve our conservation effort.

We strive to deliver luxury and quality in the most sustainable way possible, and to make environmental planning part of our everyday decision-making. This is in the best long term interests of our shareholders, our customers and the communities in which we operate.

Clement K.M. Kwok
Chief Executive Officer

Central to how we manage our environmental impacts is our steadfast commitment to providing the highest standard of luxury products and services to customers. We task ourselves to find ways to use resources efficiently, to minimise any adverse environmental impacts, and to still exceed customers' expectations.

We recognise that increasing energy and raw material costs, supply chain disruption and the threat of water shortages are some of the potential risks which climate change may pose to our business. A precautionary approach helps us weigh up the risks to the Group and to our stakeholders.

When it comes to considering new capital investment, we take a long term view looking at whole life cycle costs, instead of merely upfront costs. Along with factors, such as cost, quality and functionality, environmental impact has become an integral part in our investment decision-making process.

In December 2010, the HSH Sustainable Design Standards were launched to provide guidance on environmentally responsible practices for new development projects and major renovation work. More work is needed to introduce the standards to the Group's project and operation teams and to incorporate it in the project design process.

How we did in 2011

- ● Cut energy intensity by 15% against 2006-08 baseline
- ➡ Reduce carbon intensity by 10% against 2008 baseline
- ● Reduce water intensity of our Hotels Division by 6% against 2006-08 baseline
- ➡ Phase out the use of ozone depleting substances by 2015
- ➡ Monitor waste generated and collected to improve on waste diversion and reduction
- ➡ Roll out sustainable design standards and guidelines throughout the Group and provide training

● *objective achieved* ➡ *on track to achieve objective* ● *objective missed*

2. *To view HSH's Sustainability Vision and Policy Statement, please refer to www.hshgroup.com/cr*

Energy-wise, carbon-wise

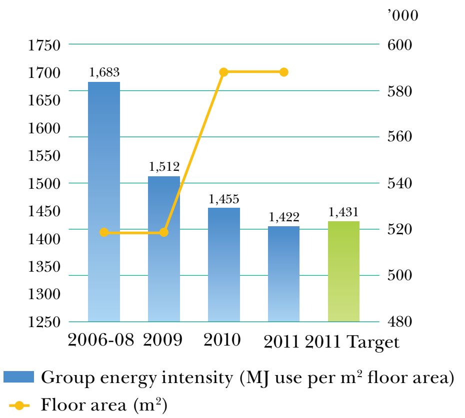
Effective water-heating, good air-conditioning, or tasteful lighting are some of the basic components that create a luxurious environment for our hotel guests or property tenants. Along with the commitment to deliver the highest standard of products and services, we endeavour to continuously improve our energy efficiency and reduce our carbon footprint. In 2011, the Group consumed a total of 836,600 GJ of energy, down 4.7% on 2010. Energy intensity was 15.5% lower than the baseline of 2006-2008 average consumption, achieving our target of reducing energy intensity by 15% by end of 2011.

Our energy consumption in 2011 generated a total of 117,769 tonnes of CO_2 equivalent, which was 9,303 tonnes less than 2010. Along with our business growth over the years, the Group's absolute carbon emissions have increased by 6.6% since 2008, however our Group carbon intensity was 6.1% lower than that of 2008.

Two factors have helped to achieve these. Firstly, our environmental engineering projects, ranging from improvement to lighting efficiency, the application of variable frequency drives in optimising energy load to demand, cooling and heating systems upgrades, and using solar window film to help reduce solar heat load. Over 2010 to 2011, with an investment of HK$24.2 million, these projects saved a total of 44,750 GJ; Secondly, employees are making a difference by changing the way they work to save energy. All Peninsula hotels housekeeping staff receive training to set heating and air conditioning to conserve energy when rooms are not occupied. Behavioural change is never easy to effect. We will expand our employee engagement programme to inspire our people to take more action. This will be a focus for us in 2012 and the medium term.

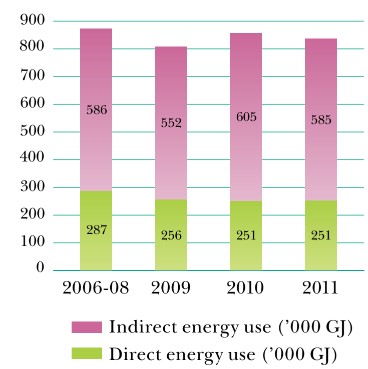
We recognise that the energy and carbon cuts in the past three years were much easier to achieve than those needed in the next three years and beyond. However, we are committed to challenging ourselves in making continuous improvement in this area. Our target for 2012 is to reduce our energy intensity by a further 3%.

Group Energy Intensity

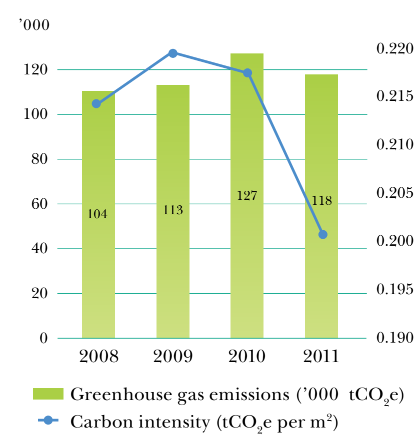


Note: The increase in floor area in 2010 reflects the addition of The Peninsula Shanghai.

Group Energy Use[3]



Group Carbon Emissions and Intensity



3. *Direct energy is energy we use in our operations such as gas for heating or electricity for lighting. Indirect energy is energy consumed to provide the energy we use, for example the fuel burned in power stations to generate our electricity.*

The art of lighting

We are very particular in our choice of lighting, especially in the front-of-house areas in a hotel. They light up the soul and character of our hotels, and are core to the experience we offer to our guests. Our engineers are always on the lookout for more energy-efficient lighting options. We conduct extensive trials of new lights in the back-of-house areas before introducing them into guest areas.

The ongoing re-lamping exercise in the past two years has resulted in saving 11,980 GJ energy over 2010-2011, the equivalent to burning more than 1,300 tonnes of coal for electricity production by a thermal power station!

⇩92% *At our Tokyo hotel, we replaced 496 bulbs in guest corridors with LED lamps towards the end of 2010. It reduces energy required to light those areas by 92%, offering an annual energy saving of 806,215MJ in 2011, which is equivalent to the average annual electricity consumption for lighting of more than 200 Japanese households.*

⇩50% *Looking ahead, our flagship hotel The Peninsula Hong Kong will conduct an ambitious upgrade of its guestrooms in 2012. This landmark renovation also provides an opportunity to reduce the lighting load of all the guestroom floors by more than 50%.*

The art of optimisation

The use of variable frequency drives (VFDs) helps to optimise energy load to the demand of our ventilation systems and pumps. Over 2009-2011 they generated some 3,720 GJ of annual energy savings across the Group.

The heating and cooling systems consume the most energy in a building. In addition to the technical process, our engineers have to understand how to manage cost, safety, efficiency, as well as heat balance and outside climatic conditions. The new laundry steam recovery system at The Peninsula Beijing saved 2,990 GJ in 2011, whilst The Peninsula Chicago upgraded its heaters to more efficient models, saving 1,345 GJ, which is equivalent to the annual electricity-related CO_2 emissions from 32 US homes[4].

Renovation following LEED standard

Refurbishment not only can rejuvenate a property but also offers opportunities to make improvements in its environmental performance. The Repulse Bay Complex comprises eight towers of apartments, restaurants and a commercial arcade. In 2011, it managed to cut energy use in the commercial arcade by 15% through installing variable frequency drives for the ventilation system. All newly purchased electrical appliances such as refrigerators and washing machines provided to its residential tenants are now meeting the highest Grade 1 energy efficiency labeling standard, and Grade 2 as a minimum for split type air-conditioning units. All paints used in renovating the apartments are without any volatile organic compounds (VOCs), which can cause breathing difficulties. In the past two years, switching to low energy lighting and installing recycling bins to encourage its tenants to recycle waste are among the many conservation initiatives at The Repulse Bay Complex.

We have planned a major refurbishment of de Ricou in 2012. The renovation work is being done in accordance with the LEED certification standard (US Green Building Council's Leadership in Energy and Environmental Design standard), in line with the Group's Sustainable Design Standards. In 2012, we have also planned to invest in new oil-free chiller units to support the arcade and restaurants area as well as The Repulse Bay Club, which is a three-level, 60,000 square feet recreation and activity centre.

4. http://www.epa.gov/cleanenergy/energy-resources/calculator.html#results

Minimising our impact on the ozone layer

Ozone-depleting substances (ODS) have a detrimental effect on the ozone layer, damaging the Earth's protection against excessive levels of solar radiation. The Montreal Protocol regulates the phase-out of CFCs, halons, and other ozone-depleting chemicals internationally. Older air-conditioning systems in our hotels and properties are the main sources of our ODS emissions. We have a target to replace all ozone-depleting refrigerants in use by the Group by the end of 2015, and the effort is continuing. We upgraded five chillers in 2011 with environmentally safe refrigerants across our hotels in Beijing (three chillers replaced), Manila and The Landmark in Ho Chi Minh City. Our estimated ODS emissions in 2011 were 92 kg CFC-11 equivalent compared to 146 kg in 2010.

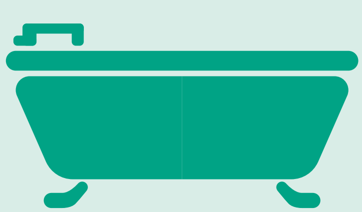
Water-wise

Water was once considered an infinite resource, but no longer. By 2030, more than 40% of humanity will be living in water-stressed areas, including some of the communities where we operate. Just as water is vital for life, it is crucial to our operations, notably to the production of food and energy.

We are pleased to make headway in reducing our water use. Across the Group, we used 1.82 million m^3 of water, down 2% on 2010. Our water savings initiatives in 2011 notched up 171,270 m^3 of water saved (equivalent to just over 850,000 bathtubs). The water intensity of our hotels in 2011 was 1,320 litres per guest night, a 6.5% reduction on the 2006-08 baseline. We therefore met our hotels water intensity reduction target of 6%.

856,360

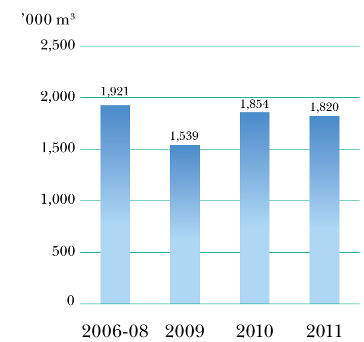
bathtubs saved



Note: 200 litres per bathtub. Reference made from Chinawaterrisk.org

In 2011, 5.2% (94,770 m^3) of our total water consumption was recycled, down from 7.6% (141,565 m^3) in 2010. As an example, our Tokyo hotel saved 15,000 cubic metres of water in 2011 by re-using kitchen wastewater for watering plants and back-of-house toilet flushing.

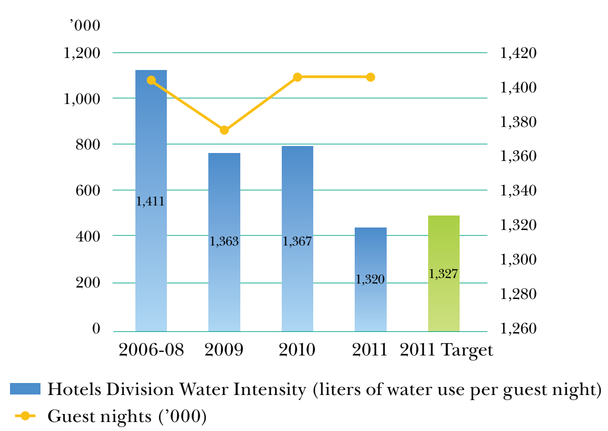
Group Water Consumption



What about HSH in water-stressed regions? Beijing and Shanghai, where our hotels are located, are among China's most water-stressed cities. In 2011, our hotels in Beijing and Shanghai saw a year-on-year reduction of 10% in their water intensity. Their annual water consumption reduced by 2.6% and 18.2% respectively when compared to 2010.

Although the threat of water risk is not immediate, we fully recognise the gravity of the issue and the importance of developing a long term plan in responding to the water challenge.

Hotels Division Water Intensity



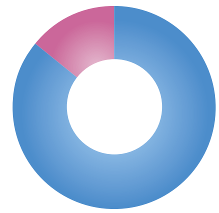
Waste-wise

We continue to improve our understanding of the nature and quantities of the resources we use and the waste generated. Waste management arrangements vary across our operations, largely due to available solutions and infrastructure in the communities where we operate. Our hotels at Beverly Hills, Beijing and Shanghai send their waste to contractors designated by the municipal government for single stream waste segregation and recycling. Other Group operations operate their waste collection and recycling with various waste management vendors and charities, and are always assessing new options to reduce the quantity of waste to landfill.

In 2011, some 2,905 tonnes of food waste and 1,807 tonnes of dry waste were generated from our operations around the world[5]. Of this, 6% of food waste and 28% of dry waste was diverted from landfill for reuse and recycling. Overall, 14% was recycled[6] – the weight of over 150 elephants[7]!

All Group operations recycle glass, wastepaper, plastic bottles, aluminium cans and used cooking oil. For example, in an effort to divert food waste sent to landfill, our hotels in Chicago and Manila have some of their food waste composted for farm use. In 2011, The Peninsula Hong Kong invested in a food bio-digester to turn food waste into waste water, as urban Hong Kong offers limited space for food composting. We work with local partners to recycle used cooking oil into bio-fuel. Since June 2010, The Peninsula Manila started to use converted waste cooking oil to power one of its delivery vans. The van has run 2,210 kilometres since, saving some 230 litres of petroleum fuel.

What happens to our waste?



Turning waste into resources

The housekeeping teams at the Group's hotels in the US join with Clean The World, a US-based non-profit organisation, in collecting used guestroom amenities for distribution to impoverished countries to help prevent deaths caused by diarrhoea and other hygiene-related illnesses. This meaningful programme has also helped the Group to divert tens of thousands of used soap bars and bottled amenities from becoming landfill waste. Instead, they have been turned into products to improve hygiene standards in some deprived communities.

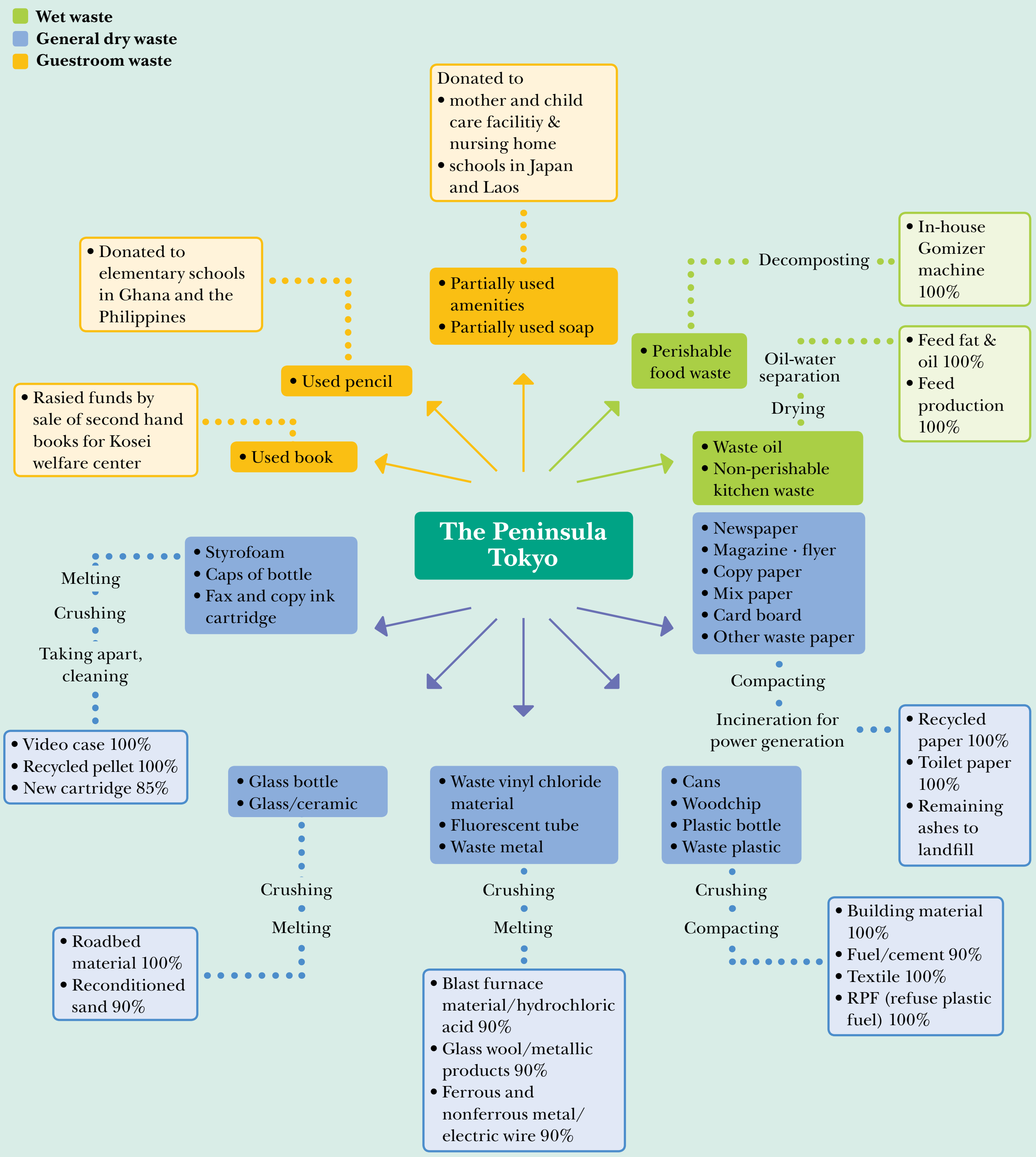
Our 2012 commitment

- Cut energy intensity by a further 3% against 2006-08 baseline
- Enhance the engineering teams' capacity on carbon management
- Reduce Group companies' water intensity by another 2%
- Enhance the robustness of waste management data so as to improve on waste diversion and reduction
- Improve awareness of the sustainable design standards and guidelines throughout the Group and encourage its adoption in new development and major renovation projects

5. *Data from 10 of our 16 properties: all nine Peninsula Hotels and The Repulse Bay Complex.*
6. *The Peninsula Beverley Hills, Beijing and Shanghai are excluded from the percentage calculations. Their wastes are handled by waste contractors designated by local municipal governments.*
7. *According to the online database of animal natural history and classification of the University of Michigan (http://animaldiversity.ummz.umich.edu/site/index.html), the average size of an adult African elephant is around 4,500kg.*

A leader in waste diversion

The Peninsula Tokyo manages a highly organised waste diversion system, supported by a wide range of specialist recycling contractors and the good practice of its employees. The Peninsula Tokyo diverted more than 80% of its total waste from landfill in 2011, sending 96 tonnes of waste for recycling and reuse – more than 260kg every day.



HEALTH AND SAFETY

Making sure our hotels and properties are safe for our guests, tenants, employees, contractors, and the wider community is of the utmost importance to our corporate responsibility. We take an active, hands-on approach to managing safety and security. This enables us to comply with relevant regulatory requirements and helps to protect and enhance our reputation.

Our approach

In common with how we manage other functions, health and safety is managed through policy, procedures and risk assessments across the Group. Central to this is the Operational Risk Manual. Produced in 2009, the manual provides guidelines and standards on crisis management, occupational health and safety management system, disease prevention, fire risk, emergency response and security standards. Group operations have been progressively implementing the manual and the Hotels Division aims to fully adapt the manual to suit the respective operations in 2012. The Peninsula Hong Kong was the first to complete the manual. During the process, we identified skills gaps which we will continue to address through training.

Each hotel and commercial property assigns a designated person to oversee health and safety issues, and a committee which comprises representatives of various departments who meet on a regular basis to review progress. During 2011, our Hotels Division re-organised its risk management team, creating two new Regional Director roles in Asia and the US. These roles take a strategic region-wide view of risk, security and health and safety, facilitate best practice sharing and synergies within the region, drive improvement, and support the implementation of the safety management system. In 2012, the hotel risk management team will undergo a "360 degrees" skills audit. This will give us a greater understanding of the training we need to strengthen the capacity of the team.

How we did in 2011

- ➡ Minimise injury and lost day rates
- ➡ Achieve full implementation of the Operational Risk Manual across the Group, as measured through audits
- ➡ Standardise health & safety risk reporting across the Group
- ● Complete Indoor Air Quality assessments across the Group

● *objective achieved* ➡ *on track to achieve objective* ● *objective missed*

A preventive approach

We are constantly improving the way we track safety data. For 2011, our lost time injury rate was 9.5 and instance rate of occupational disease was 1.2[8]. Initial analysis shows good improvement in safety since 2010; we will report more on this in 2012. Training is fundamental to our approach in managing health and safety concerns. We are expanding the scope of risk management as well as health and safety seminars to reach out to all the employees. Across our operations, 11,147 hours of health and safety training were provided to the employees in 2011. Workplace safety and first aid were the main training topics covered. Many Group operations follow these up with "drip-feed" reminders. We also continually push the use of personal protection equipment and any transgression is treated seriously.

We continually review where our health and safety performance required close attention. As part of our commitment to providing a safe working environment, a priority for 2012 is to improve the tracking of training and incident data. In 2011, we introduced a software to track all employees injury in Hong Kong and this would gradually be rolled out to other operations. Quarterly root causes analysis of the incidents was conducted to devise appropriate preventative measures. In 2012, we will be training our people on how to use a new reporting system for incidents and risks. This will help to ensure consistent classification across Group companies, which will improve the data and the monitoring of our performance in this important area.

Safety before taste

We provide a luxury catering experience for our guests. Our commitment to food safety and hygiene is a core part of our dedication to pursuing gastronomic excellence. Our catering operations follow the principles of Hazard Analysis and Critical Control Points (HACCP), an internationally recognised food safety and hygiene standard for commercial kitchens, or equivalent local standards.

Excellence in safeguarding food safety and hygiene

The Peninsula Beijing is the first in the Group to achieve HACCP certification. During the past two years, we reviewed all aspects of our catering operation, including our food provenance, storage, handling, kitchen cleanliness, serving practices, training, audit and documentation. We have seen strong levels of staff engagement. We identified areas that we can improve and are continuously monitoring our compliance with the standard. We worked with suppliers over the two-year process and now only deal with HACCP approved suppliers for the majority of our fresh produce. In 2011, the hotel also led in the Group in health and safety training, delivering almost 4,000 hours.

8. Data for 2011 exclude The Landmark in Vietnam. Based on the GRI definition, lost time injury rate represents time lost per 100 equivalent employees per year due to non-fatal or fatal injury arising out of or in the course of work, while instance rate of occupational disease is the frequency of occupational diseases (e.g. stress or regular exposure to harmful chemicals) relative to the total time worked by the total workforce in the reporting period. Please refer to Glossary on page 207 for details on how injury rate and instance rate of occupational disease are defined under GRI G3 reporting standards.

Healthy indoor air quality

Air quality in our hotels and properties is constantly monitored to ensure compliance to local and international hygiene standards. Air quality can vary due to airborne bacteria, suspended particles and volatile organic compounds (VOCs) from solvents. Poor indoor air quality increases the risk of respiratory problems. In addition to routine check-ups, all Group operations in 2011 conducted extensive indoor air quality assessments and have listed actions for improvement.

Making sure every breath taken on our premises is a safe breath is our benchmark for managing indoor air quality. To achieve this goal, we carefully manage our indoor environments through cautiously controlled heating, cooling and water systems, ventilation control, well-timed maintenance work and the use of less hazardous paints and cleaning products.

The comfort of the indoor environment relates to how well a building helps people enjoy their life or work within it. It is affected by indoor temperature, humidity, ventilation, use of day-lighting, as well as fire safety and noise level. For any new development or renovation projects, we will take into consideration in the early stage of our project-planning work factors such as the use of flame-retardant materials, maintaining a comfort level of humidity in the air from our heating and cooling system, good insulation for minimising noise transmission and many others.

Our 2012 commitment

- Improve the recording of health and safety training and incident data so as to enhance the management of health and safety issues
- Hotels Division to fully implement the Operational Risk Manual
- All catering operations to review compliance to HACCP or equivalent standards as guidance on food safety
- Review the Indoor Air Quality assessment findings and implement recommendations to improve our IAQ standard

RESPONSIBLE SOURCING

We work with a diverse range of suppliers to source raw materials and products to support our operations around the world. Our supplier relationships are part of our reputation and brand. We seek to buy at competitive rates but not at the expense of labour standards, human rights or the environment. Managing standards across a diverse supply chain network on a global basis is a complex task. Nonetheless, working with our suppliers on responsible sourcing – from food items to building materials – is a key priority for us over the next five years.

Our approach

In 2009, we launched a supply chain code of conduct, which outlines HSH Group's corporate responsibility commitments as well as our expectations of suppliers and contractors on environmental, social and ethical practices. We have communicated the code to our major suppliers and requested that they assess their compliance with the code using self-assessment questionnaires.

We are reviewing the findings and next steps. Based on the reports provided by our suppliers, we believe that they share our sustainability vision and are themselves conducting their businesses in line with our commitments. Since then, Group operations have been progressively making compliance with the code a requirement of our procurement contracts, and have started to visit priority suppliers to communicate the code and to review the level of compliance.

Internally, we can refer to our Group sustainability guidelines for responsible procurement practices. For example, when appropriate and financially viable, we recommend choosing certified energy efficient equipment, organic food produce, paints free of volatile organic compounds (VOCs) and biodegradable cleaning products. Since 2010, all Peninsula hotels and The Repulse Bay have been regularly reporting on how well they do in switching to products and services from sustainable sources. Collecting robust procurement data of such diverse categories of products and raw materials across our global operations is a key challenge. Over the next twelve months, we will develop a more systematic process to track our supply chain performance. We will also look into improving the Group's guidance on responsible sourcing practices and its communication across Group operations.

How we did in 2011

- ● Enhance the robustness of reporting on sustainable sourcing practices
- ➡ Improve how we engage with key suppliers to enhance sustainable sourcing practices
- ➡ Review how well we are using the sustainability guidelines to enhance our sourcing of environmentally and socially responsible goods and services

● *objective achieved* ➡ *on track to achieve objective* ● *objective missed*

Food focus

Reputable and sustainable sources of our food are increasingly becoming part of the luxury gastronomic experience that our guests expect. All our owned food and beverage operations endeavour to source quality produce from local and sustainable sources. These may include, for example, free-range chicken and eggs, certified organic vegetables, and seafood certified by the Marine Stewardship Council[9].

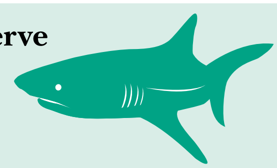
Our chefs are always reviewing the quality, sources and certifications attached to food products. We are making steady progress in shifting to more responsible sources of seafood, vegetables and dairy products.

9. *www.msc.org*

The Peninsula Chicago, with due attention to quality, availability and price, switched 70% of its poultry as well as 80% of eggs and dairy supplies to local organic sources. It combines fresh, local and organic produces on a "Market Menu" which delights its guests.

We aspire to avoid serving any product that is critically endangered, such as those listed in the IUCN Red List of Threatened Species. We aim to offer seafood listed on the WWF Sustainable Seafood Guides[10]. Our intention is genuine but we acknowledge that delivering on it is challenging. Business considerations and inadequate scientific expertise internally may affect how well we do. However, in 2011 we took a definitive stand to ban the sale of shark fin at all our owned food outlets, in an effort to contribute to shark conservation. We will reach out to external experts for guidance and assistance for the work needed in this area.

A commitment to preserve the marine eco-system



We recognise that sharks around the world are increasingly threatened with extinction, primarily due to unsustainable fishing practices. It is difficult to identify shark fin products that have come from non-threatened species and that have not been subject to illegal fishery practices. Hence, the Group announced in November 2011 a new Group Shark Fin Policy which requires HSH companies to stop serving shark fin at all its owned food outlets and to stop consuming shark fin at corporate functions, beginning in 2012.

As Asia's oldest hotel company, based in Hong Kong for over 145 years, we are acutely aware of the importance of shark fin to Chinese culture. We have been monitoring the shark fin issue over a number of years. Given the mounting scientific evidence and increasing public awareness on the drastic decline of shark populations, we believe that the time is right for us to take a definitive stand on removing shark fin from our menus. We hope our decision can contribute to preserving the marine eco-system for the world's future generations.

Forests matter

We have started to assess the paper and timber products we buy and to review how we may ensure that our operational needs are not met at the expense of exploiting the world's forest resources. Forestry that is managed poorly has catastrophic environmental and socio-economic impacts. Uncontrolled deforestation in the paper and timber industry supply chain is a significant global issue. In line with our sustainability vision, we have taken steps since 2009 to switch to recycled paper. We will review the need to provide more specific guidelines on the procurement and use of paper products and expect to provide details in 2012.

Day-to-day choices

There is a clear connection between the environmental performance of a built environment and the type of equipment and materials used. Over the past three years, we have become more conscious of the environmental impact of the choices we make as a buyer. For example, we have upgraded most of our lighting in our properties and the back-of-house of our hotels to certified energy-efficient options, used more biodegradable cleaning products and paints without volatile organic compounds, as well as sourced raw materials from local or nearby locations where we can.

The HSH Sustainable Design Standards also outlines the principles of selecting building materials with a balance of environmental and economic performance in new development and major renovation projects.

Our 2012 commitment

- Improve the framework for tracking our performance on sustainable sourcing practices
- Reduce the environmental impact of our paper procurement requirements and promote sustainable use of forest resources
- Promote the use of sustainable building materials in new development and renovation projects.

10. *wwf.panda.org/what_we_do/how_we_work/conservation/marine/sustainable_fishing/sustainable_seafood/seafood_guides/*

OUR COMMUNITY

We have a long-standing commitment to the communities in which we operate. Started as a family business that stretches back 145 years, we recognise that the success of our business is rooted in the success of the community around us. We are part of those communities, and proud to be so. In Hong Kong, where the company was founded, the history of The Peninsula Hotel is inextricably linked with the history of the city.

Our approach

The communities in which we operate provide the resources, infrastructure and markets that support our businesses. It is to our mutual benefit that we seek to enhance them. Where we can contribute, we will and we do. We tap into the resources we have and encourage our people to engage in initiatives that support the development of our society. Through our partnerships with local non-profit organisations, our employees not only become more deeply connected with their local communities, they also gain motivation and learn new skills.

Caring for the community is a core value that has long been embraced by the company and our staff. From year to year, we continue to assess and enhance the effectiveness of our outreach programmes. We will be reviewing our community investment and engagement strategies during 2012, in an effort to respond to the needs in our society in the most strategic, relevant and focused way.

How we did in 2011

- ➡ Continue to assess and enhance the effectiveness of community activities
- ● Increase staff participation in community activities

● objective achieved ➡ on track to achieve objective ● objective missed

Engage with the community

In 2011, HSH group of companies made cash contributions of close to HK$4.2 million and provided additional support in the form of goods and services. Close to 1,000 staff members across the Group volunteered their time and talents through our employee volunteering programmes, contributing more than 6,000 hours to serve the community. Most of our support went to our long term community partners, while some Group operations also developed new and exciting partnerships with their local charities during the year.

In 2011, at the Group level, we engaged in raising awareness and funds for breast cancer research, contributed to the relief effort in aid of victims of the Great Eastern Japan tsunami as well as provided emergency support for our staff in Thailand whose families were affected by the worst flood in the country's history. Individual Group operations are encouraged to work with their community partners to make a contribution to the welfare of children and the elderly, and education of the underprivileged. These are some of the key developmental challenges that are common to all the communities of which we are a part.

Give a little something to the children

Improving facilities for school children

Over the last four years, we donated winter coats and sanitary equipment to the children at the Zhou Bang Cun Primary School in the Xilin County of GuangXi province, China. This year, we are funding the refurbishment of the school's dormitory including new bunk beds, sheets and blankets.

We wanted to go further and improve their living conditions. Of 354 students, 217 board at the dormitory because their homes are too far away to commute daily. All 217 are crowded into six rooms, each with 40 bunk beds. The current dormitory dates from 1976 and is in poor condition. The bunk bed frames are flimsy, rusted and unsafe for the children.

Hence, in 2011, the Hotels Division engaged our guests in donating over HK$234,000 through the Salvation Army to improve the facilities. The funds helped to buy new bunk beds, mattresses, bed sheets and most importantly new blankets. The money was also used to repaint and update the dilapidated dormitory.

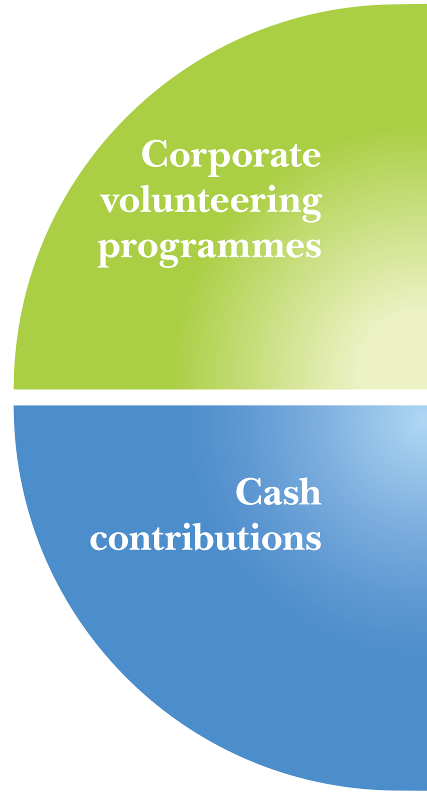
Making wishes come true

A young lady, age 17, found out before Christmas 2010 that she has CML (Chronic Myelogenous Leukemia), a form of cancer of the white blood cells. During her treatment, she stayed with her uncle who is an employee of The Peninsula Manila. Perhaps inspired by her uncle, she has always dreamed of being a hotelier someday, and from 3rd to 6th May 2011 that's exactly what she was.

Through the Make-A-Wish Foundation, she came to The Peninsula Manila and found out how we run the hotel, serve our customers and look after their every need. From back-of-house to the front desk, she saw how the whole operation works. Her family was also invited to stay in the hotel while she was with us. We were only too happy to make her wish come true for a few days.

In 2011...

- 230 programmes
- > 950 staff volunteers
- > 6,000 service hours



- HK$4.2 million by the company
- HK$300,000 raised by the staff

Across the Group...

The Peninsula Bangkok hosted 15 children living with AIDS to breakfast and lunch in the hotel before staff volunteers took them to a theme park; in New York, we ran a food drive gathering over 60 kilograms of food for the city's needy children; and staff volunteers at The Peninsula Shanghai organised a carnival day for children of migrant workers in Shanghai.

Enhance the lives of elderly people

Helping elderly people find a job

For the last four years, The Peninsula Tokyo has been helping elderly people to retrain and find work in the hospitality industry. The National Re-training School for Elderly People teaches them service skills over a period of six months. The Peninsula Tokyo provides them with the opportunity to take the final exam at the hotel and shares feedback on their service skills so they learn where they can continue to improve.

This also gives us the opportunity to consider these elderly students for employment at The Peninsula Tokyo. Over the course of our partnership with the National Re-training School, we have hired 12 elderly students for positions in housekeeping, engineering and other front-of-house operations.

Internship or work exposure programmes

- 880 participants
- > half a million training hours

In-kind donations

- 3,500 hotel room nights
- Food and beverages for 680 events
- 140 spa treatments

Halloween treat for Chicago elders

Staff volunteers of The Peninsula Chicago shared the fun of Halloween with 85 elderly people in their neighbourhood. The volunteers, all dressed up in Halloween costumes, cooked and served a top-quality three-course lunch and entertained these special guests with their amusing performance.

The event was run in partnership with Little Brothers – Friends of the Elderly, a charity organisation that we have supported for a number of years. We are currently exploring creative ways to develop the relationship further in 2012.

Across the Group…

The Peninsula Beijing donated television sets to a local hospital, and in Hong Kong we took groups of elderly people on the Peak Tram to enjoy the panoramic view of the city as well as to visit our hotel and other parts of the city.

Help underprivileged people to help themselves

It's never too late to learn new skills

Many of our hotels are offering internship and vocational training opportunities to underprivileged groups, allowing them to gain skills and experience to earn a living. One of the programmes run by The Peninsula Hong Kong in partnership with Caritas Hong Kong is a retraining scheme for unskilled middle-aged people who are the primary earners in their families.

Since the inception of the partnership in September 2009, we have organised four training sessions, benefiting a total of 14 participants. Nine trainees were offered full-time or temporary positions at The Peninsula Hong Kong after successfully completing their training while another two were offered full-time jobs at other hotels in Hong Kong.

Helping immigrants and refugees to find work

The Peninsula Chicago has been supporting refugees and immigrants for ten years now. Often on the fringe of society, these underprivileged groups can struggle to adapt to a new environment and we aim to help them build lives of dignity and self-reliance in Chicago.

Working with our partners RefugeeOne and the Chinese Mutual Aid Association, we give them mock job interviews, "dos and don'ts" and tips on what to wear to create a positive impression.

This long term initiative has proved a rewarding relationship for everyone: refugees and immigrants can begin new lives and gain livelihood opportunities in the city, and we know we are supporting people with genuine needs and developing potential employees too.

Across the Group…

The Peninsula Beverly Hills offered training opportunities to students who aspire to become hoteliers; and in Tokyo, we have been working with handicapped high-school students for four years, teaching them how to make their own lunch and other basic life skills to gain more independence and confidence.

Respond to the community at times of challenge

2011 saw the world facing a number of catastrophic natural disasters. Among them were the 11th March devastating earthquake and tsunami in Japan and the widespread flooding in Thailand in October. We operate in both countries.

Hope for Japan

On the day that the tsunami and earthquake shocked Japan and the world, The Peninsula Tokyo opened the hotel as an emergency shelter, offering food and blankets to some 800 members of the public who were stranded by the temporary shut-down of the public transportation system. Some of our employees in Tokyo even rushed back to the hotel to join their fellow colleagues in serving our guests and the general public through this difficult time.

Just days after, we launched our Hope for Japan campaign across all Peninsula hotels worldwide to support victims of the disaster. The three-month long fundraising drive had three elements: a donation for each guest stay, a special Japanese-themed Afternoon Tea with 100% of the retail price being donated and "The Tree of 1,000 Cranes" where guests were invited to make a minimum donation of US$5 (HK$40) and receive an origami crane to hang on the tree. The tradition of folding 1,000 origami cranes represents warm wishes for healing and hope during a challenging time. A total of JPY42 million (HK$4.12 million) was raised for the Japanese Red Cross Society in aid of families affected by earthquake and tsunami.

The Peninsula Tokyo subsequently launched "Save Energy For Japan" over the summer, in response to the call from the Japanese government for everyone to contribute to a 10% energy reduction target. The hotel achieved a 15% reduction through various initiatives, including wearing custom-made white polo shirts as uniform. It allowed the hotel to reduce its energy and water consumption for laundering uniform jackets and dress shirts, and for air conditioning.

Without affecting the quality of guest experience, the hotel took other steps to reduce energy use. These included turning off the hotel's exterior lights, changing over 500 interior lights to LED (Light-emitting Diodes) and reducing the use of office and parking area fluorescent lights by 50%. We also lowered the temperature of the indoor swimming and vitality pool by up to one degree and consolidated the food supply in a smaller number of refrigerators so we could turn some of them off.

Providing financial support for our staff in Thailand

When Thailand declared a national emergency after being hit by the worst flood in the country's history, we felt we had to act quickly to support our staff at The Peninsula Bangkok, the Thai Country Club and Siam Chaophraya Holdings' Office in Bangkok who had been affected.

A variety of financial assistance was offered to all employees in Thailand to ease the immediate financial pressures that the employees were facing. The Peninsula Bangkok also housed 143 staff and 73 families whose homes were submerged in water.

Turn The Peninsula pink

"Peninsula in Pink" was expanded to become a new group-wide campaign of the Hotels Division in 2011. The Peninsula Hotels around the world offered their support for Breast Cancer Awareness Month throughout October to raise both awareness and funds for breast cancer.

Breast cancer is the most prevalent cancer in the world today, accounting for one in 10 of all new cancers diagnosed worldwide and nearly one in four female cancer sufferers. The most common cancer found in women in both developed and developing countries, it is the principal cause of death among women globally. Though far less common than in women, it is also possible for men to develop breast cancer, accounting for approximately 1% of all breast cancer cases.

With these grim statistics in mind, every Peninsula hotel harnessed their resources and creativity to offer their own collection of pink initiatives. They included specially created pink-hued cocktails, restaurant promotions, a pink-themed Ladies' Lunch and parties, donations from Spa treatments and from Rolls-Royce trips at the flagship Peninsula Hong Kong. Each Peninsula hotel also worked closely with their local breast cancer organisation in offering information pamphlets and seminars to female guests and hotel staff.

Apart from flower arrangements in pink, some hotels even illuminated their buildings in pink and garlanded the traditional Chinese stone door lions with pink ribbons. An exclusive pink ribbon pin was designed to mark Breast Cancer Awareness Month and worn by our staff members throughout October. Some also participated in breast cancer walks, runs and other activities – all to increase awareness about breast cancer.

"Peninsula in Pink" Afternoon Tea

A signature attraction across all hotels was the "Peninsula in Pink" Afternoon Tea. Through the years, the Peninsula Afternoon Tea has become a hallmark feature of every Peninsula hotel around the world. Each hotel created a pink-themed tea for the month of October, offering a selection of pink-hued cakes and pastries in addition to the traditional scones, clotted cream and preserves. For every "Peninsula in Pink" Afternoon Tea sold, a donation was made to the respective hotel's designated local breast cancer charity.

Our 2012 commitment

- Review the Group's community investment and engagement strategies – the longer term roadmap, the strategic focus and framework.
- Explore new community development initiatives that align with the Group's focus areas and challenges common to the communities where we operate.

DIRECTORS

NON-EXECUTIVE CHAIRMAN

The Hon. Sir Michael Kadoorie
GBS, LL.D. (Hon), DSc (Hon), Officier de la Légion d'Honneur, Commandeur de l'Ordre de Leopold II, Commandeur de l'Ordre des Arts et des Lettres
Aged 70. Appointed a Director in 1964 and elected Chairman in 1985, Sir Michael is a substantial shareholder of the Company by virtue of the Securities and Futures Ordinance. He is the brother-in-law of a fellow Director, Mr. Ronald James McAulay, and is a Director of several subsidiaries of the Company. He is also Chairman of CLP Holdings Limited, an Independent Non-Executive Director of Hutchison Whampoa Limited, an Alternate Director of Hong Kong Aircraft Engineering Company Limited, a Director of Sir Elly Kadoorie & Sons Limited, as well as holding a number of other directorships. In addition, Sir Michael acts as a trustee of a number of leading, local charitable institutions. (E, N)

NON-EXECUTIVE DEPUTY CHAIRMAN

Ian Duncan Boyce
Aged 67. A Fellow of the Institute of Chartered Accountants in England and Wales, he was appointed to the Board in 1999 and elected Deputy Chairman in May 2002. Mr. Boyce is also Chairman of two subsidiaries of the Company. Mr. Boyce, based in Hong Kong since 1984, was formerly Managing Director of Schroders Asia and had held executive positions with the S.G. Warburg Group. He is Non-Executive Chairman of Schroder Investment Management (Hong Kong) Limited, a Director of CLP Holdings Limited and Tai Ping Carpets International Limited, and Chairman of Sir Elly Kadoorie & Sons Limited, overseeing a number of the Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. (E, A, F, R)

EXECUTIVE DIRECTORS

Chief Executive Officer

Clement King Man Kwok
Aged 52. A Bachelor of Science in Economics from the London School of Economics and a Member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, he joined the Group in February 2002 as Managing Director and Chief Executive Officer, and is a Director in most of the Group entities. Mr. Kwok's career began with Price Waterhouse and Barclays de Zoete Wedd in the United Kingdom, following which he returned to Hong Kong in 1986 to work with Schroders Asia. Prior to joining the Group, he had served as Finance Director of MTR Corporation since 1996. He is an Independent Non-Executive Director of Swire Pacific Limited, a fellow of The Hong Kong Management Association, a Council member of the World Travel & Tourism Council, a Non-official Member of the Harbourfront Commission and serves on the Board of the Faculty of Business and Economics of The University of Hong Kong. (E, F)

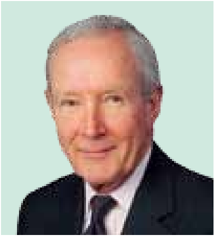
Chief Financial Officer

Neil John Galloway
Aged 43. With a Bachelor of Laws Degree (with Honours) from the University of Edinburgh, Mr. Galloway joined the Group as Finance Director and Chief Financial Officer in September 2008. He is a Director in most of the Group entities. His career began with Midland Montagu (subsequently HSBC Investment Bank) in 1990 in London with subsequent postings in France, the Philippines and Hong Kong. Mr. Galloway joined ABN AMRO Bank in 2000, where he held a range of senior positions in Hong Kong and the United Kingdom specialising in the telecom, media and technology sectors, and latterly heading the Asian mergers and acquisitions and equity capital markets business. (F)

Chief Operating Officer

Peter Camille Borer
Aged 58. Appointed to the Board as an Executive Director in April 2004, he is a graduate of the Ecole Hoteliere Lausanne, Switzerland and is now a member of the International Advisory Board of the school. Mr. Borer joined the Group in 1981. He was appointed General Manager of The Peninsula Hong Kong in 1994, taking on additional regional responsibility in 1999 and culminating in his appointment as Chief Operating Officer, The Peninsula Hotels, in April 2004. Mr. Borer is also a Director in most of the Group entities.

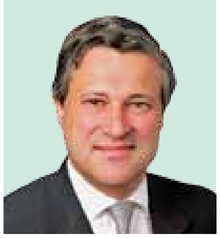
NON-EXECUTIVE DIRECTORS



Ronald James McAulay
Aged 76. A graduate of the University of Glasgow, a Member of the Institute of Chartered Accountants of Scotland and brother-in-law of The Hon. Sir Michael Kadoorie. Mr. McAulay was appointed to the Board in 1972 and is a substantial shareholder of the Company by virtue of the Securities and Futures Ordinance. He also serves on the Board of CLP Holdings Limited, Sir Elly Kadoorie & Sons Limited and several other companies. Mr. McAulay is an Honorary Trustee of the Tate Foundation in London and a trustee of various other charitable organisations. He is a member of the International Council of the Victoria and Albert Museum in London.

William Elkin Mocatta
Aged 59. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr. Mocatta was appointed to the Board in 1985 and served as Deputy Chairman from 1993 until May 2002. He is also a Director in several subsidiaries of the Company. Mr. Mocatta is an Executive Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. He holds other non-executive positions including Vice Chairman of CLP Holdings Limited and Chairman of CLP Power Hong Kong Limited. He is also an Alternate Director for The Hon. Sir Michael Kadoorie in Hutchison Whampoa Limited.

John Andrew Harry Leigh
Aged 58. Mr. Leigh was in private practice as a solicitor in Hong Kong and the United Kingdom. He was appointed to the Board in May 2006. He serves on the Boards of CLP Holdings Limited and Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. (E, F)

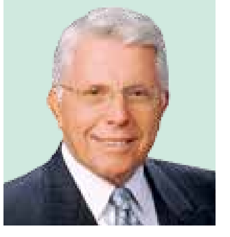


Nicholas Timothy James Colfer
Aged 52. A Master of Arts and with over 29 years' experience of corporate management in the Asia Pacific region, principally in real estate, manufacturing and distribution, he was appointed to the Board in May 2006. Mr. Colfer is Chairman of Tai Ping Carpets International Limited and Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. He also serves on several other corporate Boards in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

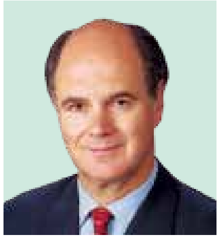
Dr. the Hon. Sir David Kwok Po Li
GBM, GBS, OBE, MA Cantab. (Economics & Law), Hon. DSc. (Imperial), Hon. DBA (Edinburgh Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. DSocSc (Lingnan), Hon. LLD (Hong Kong), Hon. LLD (Warwick), Hon. LLD (Cantab), Hon. DLitt (Macquarie), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCIArb, JP, Officier de L'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l'Ordre National de la Légion d'Honneur
Aged 73. Appointed to the Board in 1987, Sir David is Chairman and Chief Executive of The Bank of East Asia, Limited and a Director of numerous other companies in Hong Kong and overseas, including AFFIN Holdings Berhad, China Overseas Land & Investment Limited, COSCO Pacific Limited, CaixaBank, S.A. (formerly known as Criteria CaixaCorp, S.A.), Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited and Vitasoy International Holdings Limited. Sir David is a member of the Legislative Council of Hong Kong. He is the Chairman of The Chinese Banks' Association, Limited and the Hong Kong Management Association. He is also a member of the Banking Advisory Committee and the Council of the Treasury Markets Association. (N)

Robert Chee Siong Ng
Aged 59. Called to the English Bar in 1975, Mr. Ng was appointed to the Board in 1987. He is Chairman of Sino Hotels (Holdings) Limited, which owns 3.6% of the Company's issued share capital. He is also Chairman of Sino Land Company Limited and its holding company, Tsim Sha Tsui Properties Limited.



Robert Warren Miller
Aged 78. A Bachelor of Science in Hotel Administration from Cornell University and a Presidential Councillor and Trustee Emeritus of the University, he was appointed to the Board in July 2001. Mr. Miller, a resident of Hong Kong since 1960, is the founder of the DFS Group, Duty Free Shoppers Limited and Chairman of the Search Group, a private international investment group. (R)

Patrick Blackwell Paul
CBE
Aged 64. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr. Paul was appointed to the Board in February 2004. He began his career with Price Waterhouse in London in 1969. A resident of Hong Kong since 1980, he was Chairman and senior partner of PricewaterhouseCoopers in Hong Kong from 1994 until 2001. He is an Independent Non-Executive Director of Johnson Electric Holdings Limited and Pacific Basin Shipping Limited. His civic commitments include chairing the Supervisory Board of the British Chamber of Commerce in Hong Kong. (A, R)



Pierre Roger Boppe
Chevalier dans l'Ordre National de la Légion d'Honneur
Aged 64. A Master of Science from both the Swiss Federal Institute of Technology and Stanford University, Mr. Boppe held various executive positions with the international quality control company SGS and from 1996 until January 2002, he was Managing Director and Chief Executive Officer of the Group. Upon his return to Europe, Mr. Boppe continues to be active in the hotel and travel industries and is also involved in microfinance. He was re-designated from a Non-Executive Director to an Independent Non-Executive Director in June 2009.

Dr. William Kwok Lun Fung
SBS, OBE, JP
Age 63. Appointed to the Board in January 2011, he graduated from Princeton University with a Bachelor of Science degree in Engineering and also holds an MBA degree from the Harvard Graduate School of Business. He was conferred Honorary Doctorate degrees of Business Administration by the Hong Kong University of Science and Technology and by The Hong Kong Polytechnic University. Dr. Fung is the Executive Deputy Chairman of Li & Fung Limited. He also serves as a Non-Executive Director of other Li & Fung group companies including Convenience Retail Asia Limited and Trinity Limited. He is a Director of the Fung Global Institute, an independent and non-profit think-tank that generates and disseminates innovative thinking and business relevant research on global issues from Asian perspectives. Dr. Fung is an Independent Non-Executive Director of VTech Holdings Limited, Shui On Land Limited and Sun Hung Kai Properties Limited, and an Independent Director of Singapore Airlines Limited. He is the past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and Hong Kong Committee for the Pacific Economic Cooperation Council. (A, N)

E – Executive Committee member
A – Audit Committee member
F – Finance Committee member
R – Remuneration Committee member
N – Nomination Committee member

SENIOR MANAGEMENT & KEY FUNCTIONS

SENIOR MANAGEMENT

Group Management Committee

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

1. **Rainy Chan**
   Aged 47. Ms. Chan joined The Peninsula Hong Kong in 1994 and, after a series of internal promotions, was appointed General Manager of The Peninsula Bangkok from 2004 to 2007. In 2007 she was appointed General Manager of The Peninsula Hong Kong, in addition to which she was promoted to be Area Vice-President – Hong Kong and Thailand in 2010.

2. **Christobelle Liao**
   Aged 43. Ms. Liao is a qualified solicitor in Hong Kong and the United Kingdom. After a number of years in legal practice, she joined the Group as Company Secretary and Corporate Counsel in 2002.

3. **Maria Razumich-Zec**
   Aged 54. Mrs. Razumich-Zec joined the Group as General Manager of The Peninsula Chicago in 2002 and was promoted to be Regional Vice-President – USA East Coast in 2007, with regional responsibilities covering the Peninsula hotels in Chicago and New York.

4. **Martyn Sawyer**
   Aged 54. Group General Manager, Properties and Clubs since 1999, Mr. Sawyer holds regional responsibility for the Group's non-hotel properties and operations including The Repulse Bay Complex and The Peak Complex in Hong Kong, as well as management of properties and clubs in Hong Kong, Vietnam and Thailand. He has been with the Group since 1985.

5. **Sindy Tsui**
   Aged 43. Ms. Tsui was appointed General Manager, Human Resources in 2007. With many years of experience in human resources management in the hospitality industry, she is responsible for the Group's strategy on human resources, talent development and training.

KEY FUNCTIONS

Operational Management

6. **David Batchelor**
   Aged 54. Mr. Batchelor joined the Group in 1994 and served as General Manager of The Peninsula Manila from 2001 to 2008. He was General Manager, Operations Planning and Support from 2008 to 2011. In March 2011, he took on the newly created position of Managing Director, The Peninsula Shanghai, tasked with overseeing the management of the hotel complex, including the shopping arcade, Peninsula Residences and Bund 33.

7. **Nicolas Beliard**
   Aged 45. Mr. Beliard joined the Group in 2009 as Resident Manager of The Peninsula Hong Kong. He was promoted to be General Manager of The Peninsula Bangkok in 2010.

8. **Joseph Chong**
   Aged 44. Mr. Chong joined the Group in 2000 and has worked at the Peninsula hotels in Beijing and Bangkok. In 2009, he became Hotel Manager of The Peninsula Shanghai and played an instrumental role in the opening of the hotel that year. In April 2011, he was promoted to be General Manager of The Peninsula Shanghai.

9. **Jonathan Crook**
   Aged 45. Mr. Crook joined the Group in 2000 and was appointed Resident Manager of The Peninsula Beijing in November 2005 and Hotel Manager of The Peninsula Tokyo in February 2008. In November 2008, he was promoted to be General Manager of The Peninsula Manila. He was appointed General Manager of The Peninsula New York in April 2011.

10. **Sarah Cruse**
    Aged 49. Ms. Cruse joined the Group in 2006 as General Manager of Quail Lodge Resort and Golf Club.

11. **Donald Harrington**
    Aged 59. Mr. Harrington joined the Group in 2000 as General Manager of The Peninsula Beijing.

12. **Palle Ledet Jensen**
    Aged 48. Mr. Jensen joined the Group in 1998 and, following a tenure as General Manager of The Hong Kong Club, was appointed General Manager of The Repulse Bay Complex in 2005.

13. **Offer Nissenbaum**
    Aged 54. Mr. Nissenbaum joined the Group in 2007 as Managing Director of The Peninsula Beverly Hills.

14. **Malcolm Thompson**
    Aged 62. Mr. Thompson joined the Group in 2006 as General Manager of The Peninsula Tokyo.

15. **May Tsang**
    Aged 41. Ms. Tsang joined the Group in 2001. In January 2009, she was appointed General Manager of The Peak Complex covering The Peak Tower, The Peak Tram and St. John's Building.

16. **Sonja Vodusek**
    Aged 44. Ms. Vodusek joined the Group in 2010 and was promoted to be General Manager of The Peninsula Manila in April 2011. Prior to her promotion, she was Hotel Manager of The Peninsula New York.

Corporate Management

17. **Natalie Chan**
    Aged 36. Ms. Chan was appointed in August 2011 as Senior Manager, Corporate Responsibility and Sustainability, responsible for the Group's policy and strategy on corporate responsibility and engagement with environmental, social and ethical issues.

18. **Ming Chen**
    Aged 35. Ms. Chen joined the Group in 2006 and was promoted to be Senior Manager, Business Development and Investor Relations in 2011, with responsibility for identifying new development opportunities for the Group.

19. **Alex Cho**
    Aged 51. Mr. Cho joined the Group in May 2011 as Assistant General Manager, Design. He is responsible for overseeing all design-related aspects for existing and potential projects within the Group.

20. Ingvar Herland
Aged 57. Mr. Herland joined the Group in 2006 and was appointed General Manager, Research & Technology in 2008. He is responsible for the design, development and implementation of technology in the Group's hotel and non-hotel properties.

21. Shane Izaks
Aged 49. Mr. Izaks was appointed General Manager, Information Technology in 1995 and is responsible for formulating and implementing information technology strategy at both Group and operational levels.

22. Suan Beng Lee
Aged 40. Mr. Lee joined the Group in 2008 and was appointed Treasurer in 2009. He is responsible for the Group's cash and treasury management and overseeing the Group's banking relationships.

23. Martin Lew
Aged 46. Mr. Lew is a chartered accountant and joined the Group in 2006 as Assistant General Manager, Operational Financial Control. He is responsible for guiding the operations on financial performance, reporting, systems and controls as well as operational budgeting and forecasting.

24. Douglas Lui
Aged 39. Mr. Lui was appointed General Manager, Audit & Risk Management in 2010 and is responsible for providing assurance services on the effectiveness of internal controls and the management of risks.

25. Ernest Tang
Aged 49. Mr. Tang joined the Group in 1996 and was appointed Assistant General Manager, Finance in 2009. He is a qualified accountant and is responsible for the Group's statutory financial reporting and tax compliance.

26. Paul Tchen
Aged 45. Mr. Tchen joined the Group in 1992 and was appointed General Manager of The Peninsula Shanghai in 2008, following a two year tenure as General Manager, Operations Planning and Support. In May 2011, he returned to his previous position as General Manager, Operations Planning and Support.

27. P.T. Wong
Aged 44. Mr. Wong first joined the Group in 1996 but left in 2002. In 2006, he re-joined HSH and was promoted in 2008 to be General Manager, Project Coordination and Technical Services. He was appointed in March 2011 as General Manager, Projects Group, overseeing both the project management and design and planning functions.

28. Simon Yip
Aged 56. Mr. Yip joined The Peninsula Bangkok in 2001 as Director of Sales & Marketing and was posted to various HSH operations in subsequent years. In January 2012, he was appointed Vice President, Sales for the Peninsula Hotels, tasked with the Peninsula Hotels' sales activities.

CORPORATE GOVERNANCE REPORT

Chairman's overview

Dear Shareholders,

HSH is committed to good corporate governance which is central to the achievement of long term goals, for the benefit of our shareholders and other stakeholders. For our governance programme to be effective, controls are integrated across all operations and based on the principles of integrity, equity and transparency. Governance is an evolving concept, and we strive to continuously review our practices and look for improvements in this area.

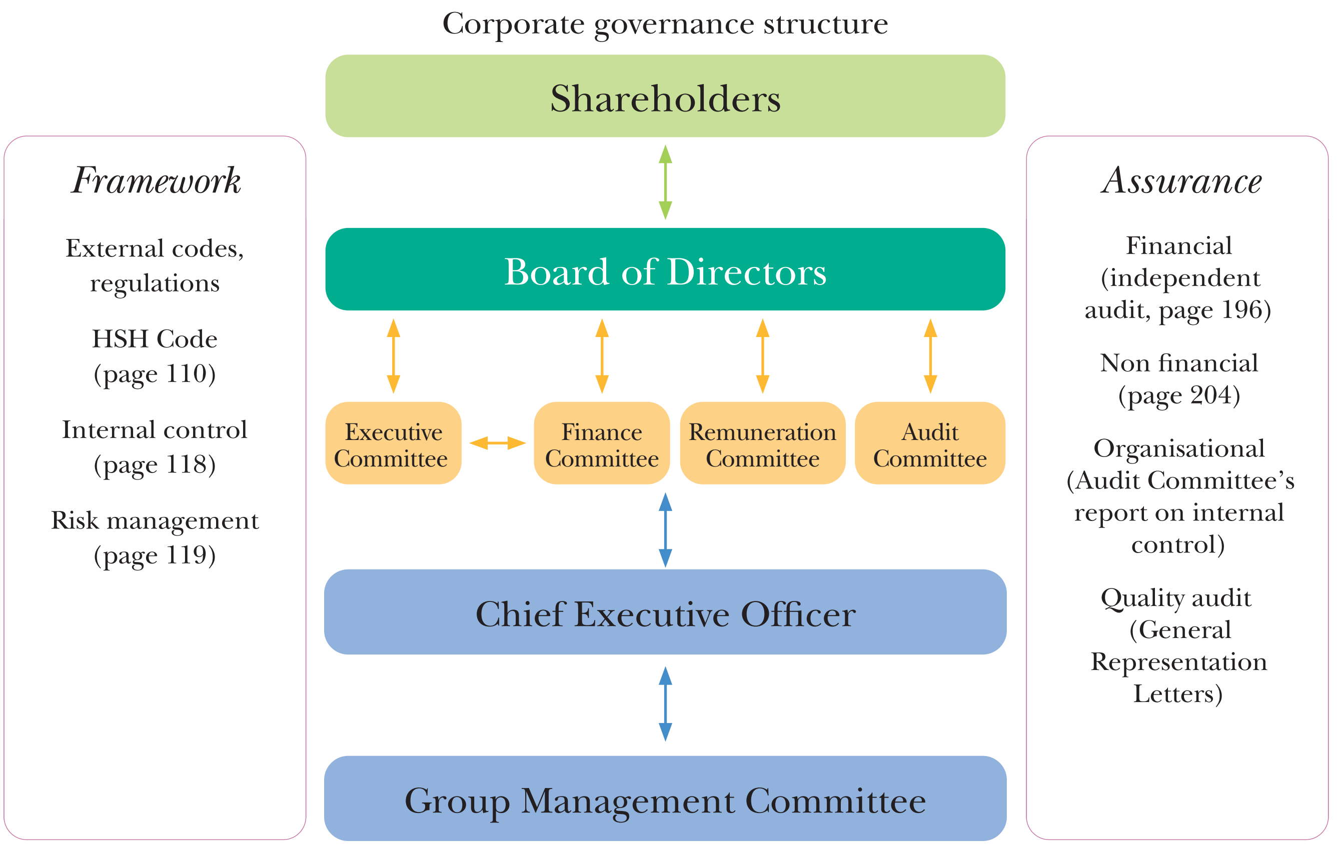
This section of the report sets out our approach to corporate governance and shows how our Board and our Board Committees are structured, what their roles are and how they operate. We also describe our management structure and demonstrate how good governance is an integral part of our everyday business.

As Chairman, promoting high standards of corporate governance is central to my role. In 2011, changes to our corporate governance practices were minimal. However, we welcomed Dr. William K.L. Fung to our Board as an Independent Non-Executive Director and member of the Company's Audit Committee from 3 January 2011.

We have recognised the principles underlying the changes to the new Corporate Governance Code adopted by the Stock Exchange in October 2011. The majority of the changes were already ingrained in our corporate governance practices and the Company continues to review the appropriateness of adoption of the other changes to enhance our existing practices. In all cases we are committed to protecting the interests of our stakeholders.

The Hon. Sir Michael Kadoorie
30 March 2012

HSH corporate governance framework



We operate within a clear governance framework. Our corporate governance framework takes into account the Stock Exchange's Code on Corporate Governance Practices in Appendix 14 of the Listing Rules ("CG Code"). The CG Code sets out the principles of a good corporate governance structure with two levels of recommendations:

- ***code provisions***, which are "comply or explain" provisions; or
- ***recommended best practices***, which are for guidance only, and issuers are encouraged to comply with or give considered reasons for deviation.

We adopted our own Code on Corporate Governance Practices ("HSH Code") in 2005 and review and update it in accordance with changes in the Listing Rules. It applies all the principles in the CG Code.

The Company's approach to the New CG Code

In October 2011, the Stock Exchange amended relevant corporate governance related provisions provided in the Listing Rules and CG Code (collectively, "New CG Code"). The New CG Code will come into effect for the reporting year that starts after 1 April 2012.

The Board recognises the principles underlying the New CG Code and the Company has carried out an extensive review of the existing HSH Code and its corporate governance practices. HSH has already complied with or exceeded the vast majority of the requirements of the New CG Code as set out on the next page.

Our Practices	With respect to the New CG Code ✓= meet ✓✓= exceed
Our Directors are always re-elected individually and shareholders are informed of the reasons that the Board considers the Independent Non-Executive Directors ("INEDs") to be independent at the Annual General Meeting Circular.	✓
Our Directors are kept abreast of all Group matters and provided with monthly operational reports and Executive Committee minutes. All Directors are encouraged to seek clarification from Executive Directors if they have queries on any matters contained in the reports or minutes.	✓
HSH's long term goals have always been clearly stated in our Chief Executive Officer's reports.	✓
We have had in place Directors and officers liability insurances since 1996 and our Finance Committee reviews the insurance coverage annually.	✓
Attendance records of the Directors at the Company's Annual General Meeting are disclosed in the Annual Report.	✓
HSH's independent auditor, KPMG, always attends the Annual General Meeting.	✓
Procedures for shareholders to convene an extraordinary general meeting and make proposal at shareholders' meetings including proposing a person for election as a director of the Company are available on our Company's website.	✓
Changes to the memorandum and articles of association are always disclosed in the Corporate Governance Report.	✓
Company Secretary already fulfils all qualification and training requirements.	✓
During the Company's Board Meeting on 14 December 2011, resolutions were passed to change the Chairman of the Remuneration Committee to an INED with effect from 1 January 2012 and to set up a Nomination Committee comprising Chairman of the Board as Chairman of the Nomination Committee and 2 other INEDs with effect from 30 March 2012.	✓
We have started collecting the training records of Directors since 2012.	✓
HSH has always had a policy and system for employees to raise their concerns and this has been expanded to include our stakeholders.	✓
Shareholders' communication policy and all terms of references for the Board Committees have been updated for 2012.	✓
Our Group's operational General Managers, Directors of Finance and Financial Controllers certify compliance with certain specific key controls on a monthly basis. In addition, they submit bi-annual general representation letters to the Chief Executive Officer and Chief Financial Officer confirming their operations' compliance with controls and procedures. These letters reinforce personal responsibility for good governance and controls at all levels within the Group. The letters are carefully analysed and the analysis results are reviewed by the Chief Executive Officer and Chief Financial Officer, and summarised to the Audit Committee.	✓✓
HSH has set out its ethical standards in the Code of Conduct and Equal Opportunities for matters which include, but are not limited to, bribery and fraud prevention, anti-trust and unfair trade practices, work safety, recognition of fundamental human rights and diversity, discrimination, harassment and victimisation prevention and whistleblowing to which all employees must adhere. This code was updated in August 2011 and posted on the Company's website.	✓✓
HSH's independent auditor KPMG meets with our Audit Committee four times a year.	✓✓
40% of our Board members which are more than one-third of the Board are Independent Non-Executive Directors.	✓✓

The HSH Code has already encompassed all CG Code provisions and recommended best practices, apart from three deviations in regard to the recommended best practice:

- ***Publication of quarterly financial results*** – The Board believes that the businesses of the Group are characterised by its long term and cyclical nature. Quarterly reporting encourages a short term view on the Group's performance. Instead, the Company posts on the Company's website its quarterly operating statistics which set out key operating information to keep the shareholders updated on the periodic performance of the Group;
- ***Establishment of nomination committee*** – The Company did not have a separate nomination committee in 2011, but the functions were performed by the Executive Committee. In late 2011, in light of the New CG Code, the Board has resolved to set up a separate Nomination Committee in March 2012; and
- ***Disclosure of individual senior management remuneration*** – The Board has resolved to adopt the new code provision of disclosing the remuneration payable to senior management by band in note 7 to the Financial Statements.

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

Our Board of Directors

Role of the Board

Our Board protects the interests of our shareholders and stakeholders and is collectively responsible for the success of the Company. It takes responsibility for formulating the overall strategy of the Group, ensuring the effectiveness of its internal controls and risk management systems, and in particular, ensuring that a good corporate governance framework and procedures are established and practiced throughout the Group.

In order to discharge its responsibilities, the Board has established and adhered to clear operating policies and procedures, detailed internal control processes and reporting lines and delegated authorities. While management are relied on to run the Group's day-to-day business, the Board, directly and through four Board Committees, monitors the operations of the Group, holds management accountable for their performances, and probes and challenges management's thoughts and decisions. In addition, the Board reserves powers in relation to the most significant matters of the Group, including but not limited to:

- formulating the long and short term strategic direction of the Group, including development strategy, major investments, acquisitions and disposal of major assets;
- approving financial statements, annual and interim reports and making judgments that are fair and reasonable in its preparation;
- approving the Group's annual budgets and forecasts;
- approving changes in accounting policies;
- approving changes to the Company's capital structure;
- setting dividend policy;
- authorising material borrowings and expenditures;
- approving the appointment of directors for election and/or re-election in general meetings;
- performing corporate governance functions including reviewing the corporate governance framework and procedures of the Group; and
- reviewing the effectiveness of the risk management and internal control systems of the Group through the review of reports from Audit Committee and the Group Management Committee.

Composition of the Board

Our Board currently comprises of fifteen members:

Board of Directors	Number
Non-Executive Directors	6
Independent Non-Executive Directors	6
Executive Directors	3
Total	**15**

Twelve of our Directors – 80% of our Board – are non-executives and independent of management. Of these twelve directors, six of them are INEDs. The number of INEDs exceeds the minimum requirement of both the current and the New CG Code. The Board believes the current balance between Non-Executive Directors, INEDs and Executive Directors is appropriate to provide sufficient checks and balances and challenge management so as to safeguard the interests of shareholders, other stakeholders and the Group.

Separate Non-Executive Chairman and Chief Executive Officer

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

The positions of our Non-Executive Chairman and Chief Executive Officer are held separately.

"I provide leadership to the Board and chair meetings including the Annual General Meeting. I ensure that the Chief Executive Officer and management properly brief all the Directors. I hold meetings annually with the Non-Executive Directors and the INEDs without the Executive Directors present to review management's performance. And I also ensure through the Company Secretary that we have good governance practices in place."

The Hon. Sir Michael Kadoorie,
Chairman

"I lead our management team and all of our operations and Head Office functions and with the Group Management Committee I manage the Group's day-to-day businesses. I provide the Board with the information they need and make recommendations to the Board on all areas of Company strategy, which – when approved – I implement, and I report back to the Board on our progress."

Mr. Clement K.M. Kwok,
Chief Executive Officer

Confirmation of independence by INEDs

The Company has received an annual written confirmation of independence from each of its six INEDs and the Company considers that the Directors continue to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

Three of the INEDs – Dr. the Hon. Sir David K.P. Li, Mr. Robert C.S. Ng and Mr. Robert W. Miller – have served in this capacity for more than nine years. Notwithstanding their long term service, given their extensive business and financial experience, the Board is of the opinion that these three Directors continue to bring independent and objective perspectives to Company's affairs and provide valuable insights and challenges to the management.

Directors' responsibilities are clear to them

Our Directors are jointly responsible for performing the Board's functions. Each of them acts in the best interest of the Company. On appointment, each Director receives an introduction from either the Chief Executive Officer or the Company Secretary covering the entire Group's business and operations and also the legal, regulatory and corporate governance obligations of a director of a listed company in Hong Kong. Directors are also provided with a corporate manual containing the latest version of corporate policies and procedures, and terms of reference adopted by the Company.

Directors are given guidelines on their expected and likely commitments of time to the affairs of the Company.

The Company Secretary and management update the Directors regularly on evolving changes in relevant laws, accounting policies and regulations. Directors are also encouraged to attend relevant seminars and courses at the Company's cost to make themselves aware of relevant changes.

In addition, Directors are introduced to management staff at both the Head Office and within operations and are encouraged to update themselves through these meetings.

Directors are given guidelines on their expected and likely commitments of time to the affairs of the Company and confirm their understanding and agreement when they accept their letters of appointment.

Among the various functions the Directors shall perform, they are in particular responsible for preparing the Financial Statements for each financial period.

These Financial Statements must present a true and fair view of the state of affairs of the Group and of the results and cash flows of the relevant period. The Directors are also responsible for ensuring that the Group operates an efficient financial reporting system and keeps proper accounting records which disclose at any time and with reasonable accuracy the financial position of the Group.

In preparing the Financial Statements for the year ended 31 December 2011, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the Financial Statements on a going concern basis.

Appointment, re-election and removal of Directors

A Director may be appointed either by the shareholders in a general meeting or by the Board upon the recommendation from the Executive Committee of the Company. In December 2011, the Board resolved to set up a Nomination Committee to take over nomination related functions from the Executive Committee from March 2012. This committee will be responsible for nominating suitable individuals for appointment as additional Directors or to fill Board vacancies as and when they arise for the Board's approval.

A new Director appointed by the Board is subject to election by shareholders at the next annual general meeting and a new Director appointed by the Board to fill a casual vacancy is subject to election by shareholders at the next general meeting. In January 2011, Dr. William K.L. Fung was appointed by the Board as an INED of the Company and a member of the Company's Audit Committee. In May 2011, Dr. Fung was elected by the shareholders at the Annual General Meeting.

The election of each Director will be subject to vote of shareholders by separate resolution.

All Non-Executive Directors have letters of appointment valid for a period of three years. All Directors are subject to retirement at the conclusion of the third Annual General Meeting following their appointments by the Company and may offer themselves for re-election. In May 2011, Mr. Clement K.M. Kwok, Mr. William E. Mocatta, Mr. Pierre R. Boppe and Mr. Robert W. Miller retired and all of them were re-elected at the 2011 Annual General Meeting.

Details of the Directors who will retire and offer themselves for re-election in the 2012 Annual General Meeting are set out in the Directors' Report. All of these retiring Directors, being eligible, have been confirmed by the Executive Committee and recommended by the Board to stand for re-election at the 2012 Annual General Meeting. The election of each Director will be subject to vote of shareholders by separate resolution.

Clear and consistent Board processes

The Board meets regularly to perform its functions. The dates of the 2011 Board meetings were determined in the last quarter of 2010 and there were no changes to the scheduled Board meeting dates throughout 2011.

Before each Board meeting, all Directors are invited to include items for the agenda and comprehensive Board papers are sent to all Directors seven days in advance of every Board meeting so that all Directors have sufficient time to review the affairs to be discussed and make informed decisions. The Company Secretary assists the Chairman in preparing the agenda for each meeting and ensures that all applicable rules and regulations regarding the meetings are followed.

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

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

Similar processes apply to our Committee meetings.

2011 Board and Committee attendance

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

The Chairman held a meeting on 19 October 2011 with Non-Executive Directors (including INEDs) without the presence of the Chief Executive Officer and the other two Executive Directors to discuss management effectiveness and strategic issues. Recommendations made at this meeting were communicated to the management for implementing.

Directors' interests

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

The Directors have confirmed their full compliance with the required standards set out in the Model Code and the Securities Code.

During 2011, each Director was specifically reminded of his duties not to deal in the securities of the Company within 60 days before the date of the Board meeting approving the Company's annual results or 30 days before the date of the Board meeting approving the Company's interim results until a day after those results were published. They were also reminded that all their dealings must be conducted in accordance with the Securities Code. In particular, the Directors must seek approval before they deal in any HSH shares.

The Company has made specific enquiries with all the Directors regarding any non-compliance with the Model Code and the Securities Code during the year. The Directors have confirmed their full compliance with the required standards set out in the Model Code and the Securities Code. Details of the shareholding interests held by the Directors in the Company as at 31 December 2011 are set out on page 126.

The Company has further extended the Securities Code to specified employees including senior management who, because of their positions, are likely to come across unpublished price sensitive information. All specified employees have confirmed their full compliance with the required standards set out in the adopted Code for Dealing in the Company's Securities by Specified Individuals. Brief particulars and shareholding interests of the senior management are set out on pages 104 and 126.

In addition, employees are bound by the Code of Conduct issued by the Company, among other things, to keep unpublished price sensitive information confidential and refrain from trading. The Company's Code of Conduct is further set out in the Sustainability Review on page 81.

Conflict of interest and Directors' disclosures

When a Director may have a conflict of interest in connection with a transaction or proposal, the Company will proceed in accordance with the CG Code and discuss such matters in an actual meeting, as opposed to dealing with them by a written resolution. Directors who are involved in the potential conflict of interest would not be counted in the quorum of the meeting and would be reminded to abstain from voting. INEDs with no conflict of interest will be present at meetings dealing with such conflict issues.

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

In 2011, our Directors have disclosed to the Company the number and nature of offices they held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies or organisations and an indication of time involved.

Board Committees and Group management

The Board currently has four committees, the Executive Committee, Finance Committee, Remuneration Committee and Audit Committee. Each of the Committees has representations from Non-Executive and/or INEDs. The Board has also resolved to set up a fifth board committee, the Nomination Committee in 2012.

Our Committees are empowered by the Board under their own terms of reference which set out their authorities and their duties. These terms of reference are posted on the Company's website and also available from the Company Secretary.

The Committees report their decisions and recommendations to the Board and seek the Board's approval on specific Board reserved matters before taking any action.

The day-to-day management of the Group's business is delegated to the Chief Executive Officer who reports to the Board and exercises his/her authority in consultation with the Group Management Committee ("GMC").

GMC is the principal management decision-making body on all day-to-day business of the Group and operates under clear guidelines and delegated authorities approved by the Board. GMC has also set up two sub-committees including the Company's Corporate Responsibility Committee and the ORSO Committee looking after areas related to sustainability and the operation of the HSH Retirement Plan respectively.

Our Committees

Board of Directors

Executive Committee

Members:

- Non-Executive Directors:
  The Hon. Sir Michael Kadoorie (Chairman),
  Mr. Ian D. Boyce,
  Mr. John A.H. Leigh;
- Executive Directors:
  Mr. Clement K.M. Kwok

Responsibilities:
develop and review strategic opportunities and significant investment proposals, oversee the implementation of strategic plans and investment proposals; interact with Finance Committees on its submissions; and perform the functions of a nomination committee, which has been set up in March 2012 and will take over such functions from the Executive Committee.

In 2011:
reviewed and provided strategy and direction to potential projects; monitored the progress and development of The Peninsula Paris and The Peninsula Residences in Shanghai; reviewed and endorsed renovation plans to the Board at The Peninsula Hong Kong and The Repulse Bay complex.

Finance Committee

Members:

- Non-Executive Directors:
  Mr. Ian D. Boyce (Chairman),
  Mr. John A.H. Leigh;
- Executive Directors:
  Mr. Clement K.M. Kwok,
  Mr. Neil J. Galloway

Responsibilities:
review of all financial aspects of the Group's finances (including acquisitions, investments, assets disposal, new projects, establishment of budget parameters, annual operational plans and budgets, Group financial performance, share allotment and repurchase, major treasury policies, granting of guarantees and indemnities), and review of Group's annual insurance programme.

In 2011:
reviewed 2012 budget and business plans of the Group, approved financing for The Peninsula Chicago and The Peninsula Paris; approved loan facilities and other banking/credit facilities for the Group, reviewed and approved treasury guidelines; reviewed the impact of the new accounting standards issues; and reviewed and approved Group insurance renewal.

Remuneration Committee
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Audit Committee
Page 117

Group Management Committee

Members: Mr. Clement K.M. Kwok (Chairman), Mr. Neil J. Galloway, Mr. Peter C. Borer, Mrs. Maria Razumich-Zec, Mr. Martyn P. A. Sawyer, Ms. Rainy Chan (appointed June 2011), Ms. Christobelle Liao (appointed June 2011), Ms. Sindy Tsui (appointed June 2011)

Responsibilities: review and monitoring day-to-day operations and business affairs of the Group; business development; formulate strategic objectives and action plans covering corporate and financial structure, strategic investment plans, major investments and divestments, operational efficiency, marketing and branding, human resources and mitigating risks.

Corporate Responsibility Committee

Members: Chaired by Mr. Clement K.M. Kwok, our Chief Executive Officer and selected members of senior management, operations and corporate General Managers.

Aim: form Group policies and implementation in relation to sustainability; to oversee and monitor the implementation of such policies and practices on a regular basis.

HSH Retirement Plan ORSO Committee

Members: Chaired by Mr. Neil J. Galloway, our Chief Financial Officer and selected members of senior management, operations and corporate General Managers.

Aim: review, monitor and advise or make recommendations on strategic, administrative and operational aspect of the HSH Retirement Plan.

Remuneration Committee

Members

Non-Executive Director	Mr. Ian D. Boyce
INEDs	Mr. Patrick B. Paul (Chairman, w.e.f. 1 January 2012)
	Mr. Robert W. Miller

Main responsibilities of the Remuneration Committee

- approve remuneration philosophy and policies of the Group and bonus schemes for the senior staff;
- review and approve remuneration packages for the Executive Directors and senior management;
- review and recommend Non-Executive Directors' fees and Board Committee fees; and
- ensure that no Director approves his own remuneration.

The Group does not have any long term incentive schemes other than the retirement scheme described in note 30 to the Financial Statements. Additional information on the basis of determining the emoluments payable to the Directors and senior management is set out in note 7 to the Financial Statements.

Chairman's overview

2011 has brought with it more changes in the remuneration environment for our operations worldwide. Our Committee has focused on keeping reasonable and competitive remuneration policies to attract and retain talented staff in the competitive market that we operate in. In 2011, the Committee met three times and the main activities included reviewing and approving the following:

Directors' fees for Non-Executive Directors and INEDs

The Committee reviewed the level of the Company's Directors' Fees for the Non-Executive Directors and INEDs. We took into account the estimated time to be spent on discharging their duties, the responsibilities expected of these Directors and benchmarking against other Hong Kong companies of similar market capitalisation and business. Taking these factors into account, given the overall value INEDs bring to the Company, the Committee recommended increases in Directors' Fees for INEDs and the increase was duly approved by our shareholders at the Annual General Meeting on 16 May 2011. The Committee had also recommended increases in fees of Audit Committee Chairman and members and these increases were approved by the Board on 22 March 2011.

Bonus scheme for senior staff

The Committee also reviewed and approved the proposed changes to the 2010 Bonus Plan for Senior Staff and Executive Directors. Minor modifications were made to the scheme at the recommendation of management to better reflect certain factors including Gross Operating Profit growth and service quality in determining senior staff bonus.

2012 salary increase

One of the tasks of the Committee is to review general salary increases for all operations. At the end of November 2011, the Committee reviewed the 2012 salary proposals in all our operations around the world. Industry data and local inflation levels were taken into consideration. The Committee endorsed the recommendations from management and believed that it was able to strike the right balance between motivating staff and continued pressure on Company's profit margins in 2012.

The Committee also reviewed the overall remuneration of Executive Directors together with their long and shorter term variable remuneration. In addition, the Committee also reviewed remuneration of newly appointed senior management members. We also approved the annual salary increases for Executive Directors and senior management in line with the increase for staff in Hong Kong.

Finally, in light of the New CG Code, Mr. Patrick Paul, an INED of the Company, has replaced me as the chairman of the Committee and will report from January 2012 onwards. I will continue to be a member of the Committee and participate in remuneration related matters of the Group.

Ian D. Boyce

Audit Committee

Members

Non-Executive Director	Mr. Ian D. Boyce
INEDs	Mr. Patrick B. Paul (Chairman)
	Dr. William K.L. Fung (appointed on 3 January 2011)
	Mr. Robert C.S. Ng (resigned on 3 January 2011)

– Mr. Paul is a Fellow of the Institute of Chartered Accountants in England and Wales.
– None of the members is a partner or former partner of KPMG, the Company's independent auditor.

Main responsibilities of the Audit Committee

- oversee the Group's financial reporting and audit processes with management and the internal and independent auditors;
- review the Group's internal controls and how risk is managed on an ongoing basis, as further set out in the "Internal control and risk management Report" immediately following this part; and
- review arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting and other matters.

Chairman's overview

In 2011, we welcomed Dr. William Fung as a new member of the Audit Committee to replace Mr. Robert Ng who had stepped down on 3 January 2011. Between 1 January 2011 and 30 March 2012 (the date of this Report), the Audit Committee met five times in carrying out its responsibilities in relation to financial reporting requirements, risk management and assessment of internal controls. At the invitation of the Committee, meetings were attended by the Chief Executive Officer, the Chief Financial Officer, Assistant General Manager, Finance, General Manager, Audit and Risk Management and the external auditor as required.

During 2011, the major work performed by the Committee included:

- reviewing and recommending that Board to adopt the 2010 Annual Report for the year ended 31 December 2010 and the annual results announcement, and the 2011 Interim Report for the six months ended 30 June 2011 and the interim results announcement;
- reviewing the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget;
- monitoring effectiveness of the system of internal controls and risk management and approval of internal audit plan;
- reviewing the summary of the general representation letters from all operations in respect of their compliance with internal control systems for the reporting periods;
- reviewing the Company's representation letters to the independent auditor;
- reviewing the scope and effectiveness of the external audit function and approved annual audit plan;
- reviewing the reports from KPMG summarising matters arising from their audit on the Group for the reporting periods; as well as non-audit work awarded to KPMG;
- reviewing audit and non-audit fees payable to KPMG for the year ended 31 December 2010 for approval by the Board; and
- reviewing the New CG Code requirement.

At the meeting held on 12 March 2012, the Audit Committee reviewed this Annual Report, including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2011 and the annual results announcement. The Audit Committee made a recommendation to the Board for its approval.

Based on the reports from the independent auditor and General Manager, Audit and Risk Management, the Committee believes the overall financial and operating controls for the Group during 2011 to be effective, sound and sufficient. Material issues raised by internal and the external auditor during 2011 have been or are being addressed by management and there are no issues that are required to be raised to shareholders.

Patrick B. Paul

Internal Control and Risk Management Report

Our internal control structure

We manage risks underlying our conduct of business primarily through internal control, the responsibility of which is divided among our Board, various Board Committees, the Chief Executive Officer and the management, the operations and the Audit & Risk Management Department, as specifically set out in the HSH Code and the Company Management Authority Manual ("CMAM").

These two documents jointly form the control environment – the basis of the internal control system of the Company – by setting out specific approval processes and limits of authority of the Board, the Board Committees, the management and the operations. Both the HSH Code and the CMAM are reviewed and updated from time to time to ensure their continued relevance and effectiveness in controlling governance and expenditure and approving the strategic direction of the Company. Any revisions to the HSH Code and the CMAM that will amend the approval authority delegated by the Board require the Board's approval. Any revisions to the CMAM in relation to the delegation to management and staff below the level of the Chief Executive Officer require GMC approval.

We conduct regular reviews and assessments of the Company's internal control system to ensure its effectiveness.

As mentioned earlier in this Report, the Board reserves the power to monitor and review the effectiveness of the Company's internal control system. The management, through itself, the operations and the Audit & Risk Management Department, on the other hand, carry the responsibility of assessing and implementing the internal control system and reporting on failings and weakness of the system identified in day-to-day business of the Company.

An effective internal control system

We conduct regular reviews and assessments of the Company's internal control system to ensure its effectiveness. The review is conducted by the Board on a bi-annual basis through the Audit Committee which reviews all material controls (including financial, operational and compliance and risk management functions) and covers aspects including:

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

No material areas of concern which might affect the operational, financial reporting and compliance functions of the Company were identified.

The Group's operational General Managers, Directors of Finance and Financial Controllers assess the effectiveness of the internal control system by certifying compliance with certain specified key controls on a monthly basis. They then submit bi-annual general representation letters to the Chief Executive Officer and the Chief Financial Officer confirming the compliance of their operations' internal systems of control and procedures.

These general representation letters reinforce personal responsibility for good corporate governance and controls at all level within the Group. The Chief Executive Officer and the Chief Financial Officer have reviewed the general representation letters submitted for 2011 and these have been summarised to the Audit Committee and they have confirmed that no matters need to be brought to the attention of the Board.

The Board confirms that the system of internal control is effective and adequate. No material areas of concern which might affect the operational, financial reporting and compliance functions of the Company were identified.

A rigorous risk management approach
The Group manages risk based on the guidance of the Committee of Sponsoring Organisations of the Treadway Commission ("COSO"). Our risk management approach aims to achieve three risk management objectives as defined by COSO:

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

To achieve these three objectives at the operational level, the Company established its internal control and risk management framework based on the five interrelated components from COSO:

Internal Control Framework

Complies with definitions of COSO

Risk Monitoring
Key to this component is to involve the management or parties outside of the internal control process to oversee the process and application of independent methodologies.
As HSH, we ensure checks and balances systems are in place within operational functions. We conduct internal audit and have periodical financials reviewed by the Board. We require General Representation Letters from our operational functions and check compliance with Hong Kong Financial Reporting Standards and Listing Rules and other regulations.

Risk Control System and Structure
Key to risk management is an internal control system guided by fundamental discipline and structure.
At HSH we established the CMAM, Purchasing and Tendering Procedures, Code of Conduct and Equal Opportunities Policy for example. We ensured close oversight of control and approval processes. We segregated risk control duties. And we defined risk control structure and responsibilities as well as clear business objective.

Risk Assessment
Key to this is identification and analysis of relevant risks to achieve objectives.
At HSH we deployed operational management reviews and risk evaluation along with regular risk inspections.

Risk Information and Communication
Key to this component is to support all other components by communication control responsibilities and duties to employees.
At HSH we complete monthly financial reports for management review. We arrange periodical conferences among General Managers, and heads of finance, marketing and human resources of our operations. We also communicate through our Group's intranet and conduct regular trainings both online and in classroom.

Control Practices
Key to this component is robust implementation of policies, procedures and practices that ensure management objectives are achieved and risk mitigation strategies are carried out.
At HSH we continue to deliver operational policies and procedures and ensured that GMC regularly reviews control activities using key control checklists.

Our Audit and Risk Management Department
Our internal Audit and Risk Management Department has five qualified professionals under the leadership of the General Manager, Audit and Risk Management who reports to the Chief Executive Officer and Chairman of the Audit Committee.

This department helps the Audit Committee in conducting bi-annual internal reviews of the Company and its subsidiaries. They review material controls, including operational and compliance controls, financial controls and risk management functions. The team also reviews the Company's compliance with the HSH Code, particularly ensuring adherence to the principle of applying adequate checks and balances in approval processes.

This department adopts a rolling three-year audit plan, based on an assessment of the potential risks facing the Company's activities. The audit plans are seen by the Audit Committee for planning and approving the year's audit activities.

The General Manager, Audit and Risk Management also attended all four Audit Committee meetings held during 2011 and met with the independent auditor without management present.

In 2011, this department conducted audits and reviews of twelve business operations and one head office function. No material areas of concern which might affect the operational, financial reporting and compliance functions of the Company were identified.

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

A summary of fees for audit and non-audit services to the Company's independent auditor, KPMG, for the financial years ended 31 December 2011 and 2010 is as follows:

Nature of Services	2011 (HK$m)	2010 (HK$m)
Audit services	9	9
Non-audit services		
Taxation services	1	1
Other services	1	1

Sensitive information is handled with care
The Company has established appropriate procedures and internal controls for handling and disseminating unpublished price sensitive information to ensure consistent and timely disclosure and fulfilment of its continuous disclosure obligations. Confidential information is restricted to employees on a need-to-know basis. Only designated persons are authorised to discuss the Company's corporate matters to investors, analysts, the media or other members of the public.

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

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

During 2011, the OFC Department discharged the following key responsibilities:

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

Our Shareholders

Shareholding information

As at 31 December 2011, HSH had 1,850 registered shareholders. The actual number of investors interested in HSH shares is likely to be much greater, because shares are being held through nominees, investment funds and the Central Clearing and Settlement System ("CCASS") of Hong Kong.

1,850
registered shareholders

Size of registered shareholdings	Number of shareholders	% of shareholders	Number of shares held	% of issued share capital
500 or below	320	17.297	70,613	0.005
501–1,000	179	9.676	144,336	0.010
1,001–10,000	751	40.595	3,276,756	0.220
10,001–100,000	462	24.973	14,696,171	0.986
100,001–500,000	100	5.405	20,902,064	1.402
Above 500,000	38	2.054	1,451,352,448	97.377
Total	**1,850**	**100.000**	**1,490,442,388**	**100.000**

Note: as at 31 December 2011, 36.33% of all HSH issued shares were held through CCASS.

The Kadoorie Family (including interests associated with the Family but excluding interests held by charities associated with the Family) has a combined shareholding of 57.76%. The remaining 42.24% of HSH shares are held by institutional and private investors and a considerable number of those investors are Hong Kong residents.

From publicly available information and within the knowledge of the Directors, HSH has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year ended 31 December 2011 and has continued to maintain such a float as at 30 March 2012.

Communication with shareholders increases transparency

The Company is keen to promote a two-way communication with both individual and institutional shareholders. We believe that continued engagement will build better understanding of the views, opinions and concerns of shareholders.

As well as engaging with shareholders at the Annual General Meeting ("AGM"), our Executive Directors held meetings and attended investor conferences with institutional investors and financial analysts throughout the year.

Shareholders and others can see webcasts of the meetings announcing the latest financial results of the Company on the Company website, along with the presentation materials from these meetings, the Annual Report and Interim Report.

For more information, shareholders and investors can email enquires to ir@hshgroup.com.

Shareholders' rights

Shareholders holding not less than 1/20 of paid-up capital of the Company can convene an extraordinary general meeting by requisition, by stating the objectives of the meeting and depositing the signed requisition at the registered office of the Company.

We have posted on our Company's website the procedures for shareholders to convene and put forward proposals at general meetings including proposing a person for election as a Director, and to vote by poll at general meetings.

2011 Annual General Meeting

The 2011 AGM was held on 16 May 2011 at The Peninsula Hong Kong. There were in total 175 attendees – 108 were registered shareholders and 67 were proxies or corporate representatives.

Separate resolutions were proposed on each issue, including the re-election of individual Directors, and all resolutions proposed at the 2011 AGM were passed. The matters discussed and the percentage of votes cast in favour of the resolutions were:

- receipt of the audited Financial Statements and the reports of the Directors and independent auditor for the year ended 31 December 2010 (100%);
- payment of final dividend of HK$0.08 per share for the year ended 31 December 2010 (99.95%);
- re-election of five retiring Directors – Mr. Clement K.M. Kwok, Mr. William E Mocatta, Mr. Pierre R. Boppe, Mr Robert W. Miller and Dr. William K.L. Fung as Directors of the Company (88.11% to 99.78% in respect of each individual resolutions);
- re-appointment of KPMG as independent auditor of the Company and authorisation of the Directors to fix their remuneration (100%);

Above: HSH's 2011 Annual General Meeting held on 16 May 2011.

- granting of the general mandate to Directors to allot, issue and deal with the Company's shares (73.13%);
- granting of the general mandate to Directors to repurchase the Company's shares (100%);
- authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased (73.23%); and
- fixing the ordinary remuneration of the INEDs (99.99%).

Following due process

Procedures for conducting a poll were explained by the Chairman at the beginning of the AGM and Computershare Hong Kong Investor Services Limited, the Company's share registrar, was appointed as scrutineer for voting by poll at the 2011 AGM to ensure the voting was properly counted. Results of the poll were posted on the Company's and the Hong Kong Stock Exchange's website. Media was invited to observe and report on the AGM.

In 2011, an AGM circular with the notice of the AGM was distributed to all shareholders at least 20 clear business days prior to the AGM, setting out details of each proposed resolution and other relevant information. All Directors, including the Chairmen of the Audit and Remuneration Committees, were present at the 2011 AGM to answer any questions raised by shareholders, which were answered immediately. The Board also followed up on a suggestion from a shareholder and refunded fractional entitlements of scrip dividend in cash to shareholders.

Other information to shareholders

The key dates in the corporate results and meetings calendar are posted on the Company's website in advance. Important dates for 2012 are:

- AGM: Monday 21 May 2012
- Interim Results Announcement: Wednesday, 22 August 2012

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2011.

Principal activities

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

Performance

A discussion and analysis of the Group's performance during the year, the material factors underlying its results and financial position and details of the Group's principal activities are provided in the Financial Review on pages 54 to 74.

Ten year operating and financial summaries

Summaries of the Group's key operating and financial data for the last ten years are set out on pages 129 to 132.

Financial statements

The profit of the Group for the year ended 31 December 2011 and the state of the Company's and the Group's affairs as at that date are set out in the Financial Statements on pages 133 to 195.

Share capital

On 24 June 2011 and 4 November 2011, pursuant to scrip dividend schemes, the Company issued and allotted 7,666,620 shares and 3,070,778 shares respectively at an issue price of HK$13.20 and HK$10.88 per share to the shareholders who elected to receive shares of the Company in lieu of cash for the 2010 final and 2011 interim dividends in respect of the year ended 31 December 2010 and the year ending 31 December 2011, respectively. All ordinary shares issued rank pari passu in all respects with the existing issued shares.

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

Dividends

An interim dividend of 4 HK cents per share in respect of the year ending 31 December 2011 was paid during the year 2011. The Directors have recommended a final dividend of 10 HK cents per share. Subject to the approval by shareholders at the forthcoming Annual General Meeting to be held at The Peninsula Hong Kong on 21 May 2012 at 12 noon, such dividend will be payable on 29 June 2012 to shareholders whose names appear on the register of members on 29 May 2012.

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

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend on 1 June 2012.

Principal subsidiaries

Particulars of the principal subsidiaries of the Company are set out on pages 153 to 155 and 209.

Fixed assets

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

Capitalised interest

The amount of interest capitalised by the Group in 2011 and 2010 was insignificant.

Reserves

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

Purchase, sale or redemption of listed securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

Borrowings

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

Charitable donations

Cash donations made by the Group for charitable purposes during the year amounted to HK$4,162,707 (2010: HK$617,040).

Major customers and suppliers

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

Connected transactions

The Board has reviewed all connected transactions of the Company. All of these transactions were exempted from any reporting requirements under the Listing Rules except the following:

On 5 September 2011, Kam Lung Investments Limited, a wholly owned subsidiary of the Company, acquired from Hong Kong Construction (Hong Kong) Limited ("HKC") its entire interests (including its shareholders' loan) in Hong Kong Construction Kam Lung Limited ("HKCKL") for a cash consideration of HK$578 million. HKCKL owns 76.6% interest in The Palace Hotel Co., Ltd. which is the owner company of The Peninsula Beijing. HKC was a 45% substantial shareholder of HKCKL and the acquisition constituted a connected transaction of the Company. Upon completion of the acquisition, HKCKL became a wholly owned subsidiary of the Company. The acquisition allowed the Group to increase its effective interest in The Palace Hotel Co., Ltd. which is consistent with the Group's strategy of owning and managing The Peninsula Hotels. Details of the transaction were disclosed in the announcement of the Company dated 5 September 2011.

Material related party transactions

Details of material related party transactions are set out in note 34 to the Financial Statements.

Directors

Biographical details of the Directors in office at the date of this Report are shown on pages 100 to 103. All the Directors held office throughout the year, with the exception of Dr. William K.L. Fung, who was appointed to the Board as an Independent Non-Executive Director on 3 January 2011.

In accordance with the Articles of Association of the Company, Mr. Neil J. Galloway, Mr. Ronald J. McAulay, Mr. John A.H. Leigh, Mr. Nicholas T.J. Colfer and Dr. the Hon. Sir David K.P. Li will retire at the forthcoming Annual General Meeting and being eligible, have agreed to offer themselves for re-election.

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

Senior management

Biographical details of senior management at the date of this Report are shown on page 104. Mr. Martyn Sawyer and Mrs. Maria Razumich-Zec held office throughout the year. Ms. Christobelle Liao, Ms. Rainy Chan and Ms. Sindy Tsui were appointed as members of the Group Management Committee on 1 June 2011.

Interests of Directors and the Chief Executive Officer

As at 31 December 2011, the interests and short positions of each Director and the Chief Executive Officer of the Company in the shares, underlying shares and debentures of the Company or any associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "Model Code") to be notified to the Company and the Stock Exchange, were set out on the next page.

Long position in shares of the Company and its associated corporations

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
The Hon. Sir Michael Kadoorie	Note (a)	780,999,689	52.401
Mr. Ian D. Boyce	Beneficial Owner	220,546	0.015
Mr. Clement K.M. Kwok	Beneficial Owner	661,655	0.044
Mr. Peter C. Borer	Beneficial Owner	331,521	0.022
Mr. Ronald J. McAulay	Note (b)	245,050,516	16.441
Mr. William E. Mocatta	Beneficial Owner	17,000	0.001
Mr. John A.H. Leigh	Note (c)	74,893,927	5.025
Dr. the Hon. Sir David K.P. Li	Beneficial Owner	561,956	0.038
Mr. Robert C.S. Ng	Family	127,853	0.009
Mr. Pierre R. Boppe	Beneficial Owner	150,000	0.010

Notes:

(a) *The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 780,999,689 shares in the Company. These shares were held in the following capacity:*
   (i) *170,156,589 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;*
   (ii) *310,461,510 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder; and*
   (iii) *300,381,590 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.*
   For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 780,999,689 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in those shares.

(b) *Mr. Ronald J. McAulay was deemed (by virtue of the SFO) to be interested in 245,050,516 shares in the Company. These shares were held in the following capacity:*
   (i) *170,156,589 shares were ultimately held by discretionary trusts, of which Mr. Ronald J. McAulay is one of the discretionary objects; and*
   (ii) *74,893,927 shares were ultimately held by a discretionary trust, of which Mr. Ronald J. McAulay, his wife and members of his family are discretionary objects.*

(c) *Mr. John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 74,893,927 shares in the Company. These shares were ultimately held by a discretionary trust. Mr. John A.H. Leigh was deemed to be interested in such 74,893,927 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 74,893,927 shares.*

Messrs. Neil J. Galloway, Nicholas T.J. Colfer, Robert W. Miller, Patrick B. Paul and Dr. William K.L. Fung, who are Directors of the Company, have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2011.

Certain Directors held qualifying shares in Manila Peninsula Hotel, Inc., a 77.36% subsidiary of the Company, on trust for a subsidiary of the Company.

Except as set out above, as at 31 December 2011 none of the Directors and the Chief Executive Officer of the Company, or any of their spouses, or children under eighteen years of age, has any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations, within the meaning of Part XV of the SFO, recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

Interests of senior management

As at 31 December 2011, none of the senior management (other than Directors) had any interests in the shares and underlying shares of the Company.

Interests of substantial shareholders

So far as is known to any Director or the Chief Executive Officer of the Company, as at 31 December 2011 shareholders (other than a Director or the Chief Executive Officer of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, were set out on the next page.

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

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Acorn Holdings Corporation	Beneficiary	170,156,589	11.417(i)
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	555,512,026	37.272(i)
Bermuda Trust (Cayman) Limited	Trustee/Interests of controlled corporations	79,893,927	5.360(iv)
Guardian Limited	Beneficiary/Interests of controlled corporations	74,893,927	5.025(v)
Harneys Trustees Limited	Interests of controlled corporations	610,543,100	40.964(iii)
Lawrencium Holdings Limited	Beneficiary	300,081,590	20.134(ii)
Lawrencium Mikado Holdings Limited	Beneficiary	310,461,510	20.830(ii)
The Magna Foundation	Beneficiary	305,039,115	20.466(ii)
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	610,543,100	40.964(ii)
Mikado Investments (PTC) Limited	Interest of controlled corporation/ Beneficiary of trusts	310,461,510	20.830(i)
Muriel, Lady Kadoorie*	Founder and Beneficiary	74,619,591	5.007(iv)
New Mikado Holding Inc.	Trustee	310,461,510	20.830(i)
Oak (Unit Trust) Holdings Limited	Trustee	74,893,927	5.025(i)
Oak HSH Limited	Beneficiary	74,893,927	5.025(iv)
Mr. Richard Parsons	Trustee	74,893,927	5.025(v)

* *Muriel, Lady Kadoorie passed away on 5 December 2011.*

Notes:

(i) Bermuda Trust Company Limited was deemed to be interested in the shares in which Acorn Holdings Corporation, New Mikado Holding Inc., Mikado Investments (PTC) Limited and Oak (Unit Trust) Holdings Limited were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies.
The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie and/or Mr. Ronald J. McAulay are among the discretionary objects as disclosed in "Interests of Directors and the Chief Executive Officer".

(ii) The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited were deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested.
The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and a founder as disclosed in "Interests of Directors and the Chief Executive Officer".

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

(iv) Bermuda Trust (Cayman) Limited was deemed to be interested in the shares in which Oak HSH Limited and another company were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies.
The interests of Bermuda Trust (Cayman) Limited in the shares of the Company include the shares held by a discretionary trust of which the late Muriel, Lady Kadoorie was a founder and a beneficiary and of which Mr. Ronald J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors and the Chief Executive Officer".

(v) Mr. Richard Parsons, in his capacity as one of the trustees of a trust, controlled Guardian Limited and therefore was deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 74,893,927 shares in which Guardian Limited was interested was duplicated within the interests attributed to Mr. Richard Parsons and was also duplicated within the interests attributed to Mr. John A.H. Leigh as disclosed in "Interests of Directors and the Chief Executive Officer".

(b) Other substantial shareholder

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Prudential plc	Interest of controlled corporation	148,632,089	9.972

Except as set out above, as at 31 December 2011 the Company had not been notified of any substantial shareholder (other than a Director or the Chief Executive Officer of the Company) who had an interest or short position in the shares or underlying shares of the Company that were recorded in the register required to be kept under section 336 of the SFO.

Interests of any other persons

As at 31 December 2011, the Company had not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of the SFO.

Directors' interests in contracts

No contract of significance to which the Company, its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, subsisted as at 31 December 2011 or at any time during the year.

Employee retirement benefits

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

Corporate Governance Report

The Corporate Governance Report is set out on pages 107 to 123.

Loan agreements with covenants relating to specific performance of the controlling shareholder

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

Independent auditor

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

By Order of the Board

Christobelle Liao
Company Secretary
Hong Kong, 30 March 2012

TEN YEAR OPERATING SUMMARY

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
The Peninsula Hong Kong**										
Occupancy rate	**74%**	70%	57%	71%	77%	80%	79%	69%	57%	62%
Average room rate (HK$)	**4,094**	3,816	3,796	4,095	3,774	3,228	2,872	2,659	2,337	2,670
RevPAR (HK$)	**3,043**	2,660	2,182	2,927	2,892	2,592	2,271	1,836	1,332	1,655
The Peninsula Shanghai** (opened October 2009)										
Occupancy rate	**59%**	63%	42%							
Average room rate (HK$)	**3,221**	2,830	2,209							
RevPAR (HK$)	**1,900**	1,778	926							
The Peninsula Beijing**										
Occupancy rate	**49%**	46%	34%	50%	63%	67%	66%	58%	49%	63%
Average room rate (HK$)	**1,472**	1,409	1,354	2,116	1,664	1,436	1,219	1,008	845	691
RevPAR (HK$)	**719**	650	457	1,065	1,048	958	806	589	414	434
The Peninsula New York										
Occupancy rate	**71%**	67%	62%	64%	75%	74%	75%	76%	67%	65%
Average room rate (HK$)	**5,841**	5,570	5,317	6,338	6,326	5,458	4,902	4,137	3,900	3,958
RevPAR (HK$)	**4,159**	3,727	3,317	4,048	4,771	4,066	3,655	3,145	2,613	2,565
The Peninsula Chicago										
Occupancy rate	**65%**	59%	54%	65%	72%	72%	71%	72%	64%	51%
Average room rate (HK$)	**2,946**	2,965	2,987	3,670	3,641	3,398	2,947	2,490	2,437	2,338
RevPAR (HK$)	**1,905**	1,762	1,623	2,395	2,638	2,449	2,087	1,781	1,560	1,197
The Peninsula Beverly Hills										
Occupancy rate	**74%**	72%	61%	80%	85%	83%	83%	84%	81%	78%
Average room rate (HK$)	**5,478**	5,147	5,032	5,364	5,017	4,523	4,091	3,634	3,250	3,121
RevPAR (HK$)	**4,027**	3,699	3,072	4,275	4,242	3,772	3,395	3,046	2,633	2,439
The Peninsula Tokyo** (opened September 2007)										
Occupancy rate	**54%**	65%	60%	63%	57%					
Average room rate (HK$)	**4,008**	3,861	3,584	3,759	3,853					
RevPAR (HK$)	**2,171**	2,522	2,148	2,380	2,206					
The Peninsula Bangkok										
Occupancy rate	**51%**	49%	48%	65%	70%	71%	72%	77%	66%	73%
Average room rate (HK$)	**1,480**	1,398	1,502	1,714	1,708	1,424	1,293	1,155	1,056	986
RevPAR (HK$)	**748**	688	725	1,119	1,201	1,010	935	893	697	718
The Peninsula Manila										
Occupancy rate	**70%**	69%	57%	55%	75%	66%	78%	69%	62%	59%
Average room rate (HK$)	**1,133**	1,036	974	1,133	1,005	737	630	606	562	627
RevPAR (HK$)	**792**	719	555	626	752	484	493	420	349	370

Notes:

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

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
The Peninsula Hong Kong**										
Occupancy rate	**74%**	70%	57%	71%	77%	80%	79%	69%	57%	62%
Average room rate (HK$)	**4,094**	3,816	3,796	4,095	3,774	3,228	2,872	2,659	2,337	2,670
RevPAR (HK$)	**3,043**	2,660	2,182	2,927	2,892	2,592	2,271	1,836	1,332	1,655
The Peninsula Shanghai**										
(opened October 2009)										
Occupancy rate	**59%**	63%	42%							
Average room rate (RMB)	**2,670**	2,453	1,947							
RevPAR (RMB)	**1,575**	1,541	816							
The Peninsula Beijing**										
Occupancy rate	**49%**	46%	34%	50%	63%	67%	66%	58%	49%	63%
Average room rate (RMB)	**1,220**	1,221	1,193	1,883	1,611	1,471	1,282	1,071	897	734
RevPAR (RMB)	**596**	563	403	947	1,015	982	848	626	440	461
The Peninsula New York										
Occupancy rate	**71%**	67%	62%	64%	75%	74%	75%	76%	67%	65%
Average room rate (US$)	**749**	714	682	813	811	700	628	530	500	507
RevPAR (US$)	**533**	478	425	519	612	521	469	403	335	329
The Peninsula Chicago										
Occupancy rate	**65%**	59%	54%	65%	72%	72%	71%	72%	64%	51%
Average room rate (US$)	**378**	380	383	471	467	436	378	319	312	300
RevPAR (US$)	**244**	226	208	307	338	314	268	228	200	153
The Peninsula Beverly Hills										
Occupancy rate	**74%**	72%	61%	80%	85%	83%	83%	84%	81%	78%
Average room rate (US$)	**702**	660	645	688	643	580	525	466	417	400
RevPAR (US$)	**516**	474	394	548	544	484	435	390	338	313
The Peninsula Tokyo**										
(opened September 2007)										
Occupancy rate	**54%**	65%	60%	63%	57%					
Average room rate (JPY)	**40,889**	43,183	43,377	49,579	57,792					
RevPAR (JPY)	**22,150**	28,207	25,996	31,392	33,091					
The Peninsula Bangkok										
Occupancy rate	**51%**	49%	48%	65%	70%	71%	72%	77%	66%	73%
Average room rate (THB)	**5,825**	5,675	6,657	7,336	7,051	6,915	6,717	5,977	5,622	5,438
RevPAR (THB)	**2,943**	2,793	3,216	4,788	4,958	4,903	4,857	4,621	3,710	3,963
The Peninsula Manila										
Occupancy rate	**70%**	69%	57%	55%	75%	66%	78%	69%	62%	59%
Average room rate (PHP)	**6,300**	5,925	6,000	6,494	5,831	4,858	4,452	4,316	3,925	4,145
RevPAR (PHP)	**4,405**	4,114	3,415	3,586	4,362	3,192	3,480	2,991	2,433	2,449

Notes:

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

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Quail Lodge Golf Club, USA (accommodation closed from November 2009)										
Occupancy rate	**N/A**	N/A	56%	64%	71%	65%	61%	54%	28%	54%
Average room rate (HK$)	**N/A**	N/A	1,787	2,014	2,062	2,190	2,297	2,288	2,214	1,871
RevPAR (HK$)	**N/A**	N/A	1,006	1,298	1,462	1,431	1,393	1,229	624	1,014
The Repulse Bay Apartments										
Occupancy rate	**91%**	92%	88%	94%	92%	91%	82%	77%	74%	77%
Average monthly yield per square foot (HK$)	**38**	36	37	39	35	33	27	25	25	29
The Landmark, Vietnam										
Occupancy rate – Residential	**81%**	85%	93%	99%	99%	97%	94%	95%	94%	94%
Average monthly yield per square foot (HK$)	**17**	18	21	21	18	17	16	16	15	15
Occupancy rate – Office	**97%**	98%	98%	100%	100%	99%	95%	98%	100%	100%
Average monthly yield per square foot (HK$)	**24**	26	32	26	22	19	17	16	16	15
St. John's Building										
Occupancy rate	**100%**	97%	93%	99%	99%	99%	90%	87%	78%	83%
Average monthly yield per square foot (HK$)	**44**	37	35	33	25	21	15	15	14	17
The Peak Tower										
Occupancy rate	**100%**	100%	99%	100%	100%	72%	31%	100%	100%	98%
Average monthly yield per square foot (HK$)	**84**	72	60	60	56	29	6	28	23	25
Peak Tram										
Patronage ('000)	**5,777**	5,385	4,862	5,006	4,939	4,430	3,923	4,107	3,092	3,714
Average fare (HK$)	**19**	17	16	16	16	15	14	14	14	14
Full-Time Headcount (31 December)										
Hotels	**5,475**	5,444	5,489	5,239	5,138	4,601	4,334	4,814	4,748	4,918
Commercial Properties	**323**	331	339	339	329	316	307	297	306	315
Clubs and Services	**1,224**	1,180	998	1,056	1,027	1,004	981	955	946	984
Total headcount	**7,022**	6,955	6,826	6,634	6,494	5,921	5,622	6,066	6,000	6,217

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

TEN YEAR FINANCIAL SUMMARY

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Consolidated Income Statement (HK$m)										
Turnover	**5,009**	4,707	4,218	4,938	4,542	3,717	3,276	3,120	2,517	2,592
EBITDA	**1,211**	1,143	924	1,425	1,510	1,275	1,092	992	726	747
EBITDA margin %	**24%**	24%	22%	29%	33%	34%	33%	32%	29%	29%
Operating profit	**834**	794	586	1,051	1,175	1,024	850	749	616	635
Profit/(loss) attributable to shareholders	**2,259**	3,008	2,660	(27)	4,002	2,350	2,830	3,218	351	293
Underlying profit attributable to shareholders *	**464**	408	323	808	906	787	638	381	285	266
Dividends	**208**	177	132	246	259	228	199	168	112	93
Earnings/(loss) per share (HK$)	**1.52**	2.04	1.82	(0.02)	2.79	1.65	2.01	2.30	0.29	0.25
Underlying earnings per share (HK$)*	**0.31**	0.28	0.22	0.56	0.63	0.55	0.45	0.27	0.24	0.23
Dividends per share (HK cents)	**14¢**	12¢	9¢	17¢	18¢	16¢	14¢	12¢	8¢	8¢
Dividend cover (times)**	**2.2x**	2.3x	2.4x	3.3x	3.5x	3.5x	3.2x	2.3x	2.5x	2.9x
Interest cover (times)	**9.5x**	7.4x	6.8x	15.5x	13.5x	8.6x	5.2x	3.1x	2.5x	2.2x
Consolidated Statement of Financial Position (HK$m)										
Fixed assets	**32,482**	30,690	28,339	26,368	26,895	22,951	20,561	20,058	19,068	18,019
Other assets	**3,767**	3,239	2,698	1,243	1,210	1,211	1,110	741	771	712
Cash and bank balances	**1,984**	2,658	1,835	1,995	1,414	447	301	262	217	232
Total assets	**38,233**	36,587	32,872	29,606	29,519	24,609	21,972	21,061	20,056	18,963
Interest-bearing borrowings	**(4,319)**	(4,332)	(3,825)	(3,193)	(2,869)	(2,523)	(2,614)	(4,536)	(4,906)	(5,843)
Derivative financial instruments	**(140)**	(200)	(206)	(281)	(215)	(214)	(209)	–	–	–
Other liabilities	**(2,036)**	(1,971)	(1,786)	(1,741)	(1,830)	(1,684)	(1,376)	(1,568)	(1,130)	(976)
Net assets	**31,738**	30,084	27,055	24,391	24,605	20,188	17,773	14,957	14,020	12,144
Non-controlling interests	**(283)**	(981)	(908)	(934)	(891)	(783)	(710)	(614)	(579)	(567)
Net assets attributable to shareholders	**31,455**	29,103	26,147	23,457	23,714	19,405	17,063	14,343	13,441	11,577
Net assets per share (HK$)	**21.11**	19.66	17.79	16.18	16.45	13.59	12.04	10.23	9.59	9.90
Net debt to EBITDA (times)	**1.9x**	1.5x	2.2x	0.8x	1.0x	1.6x	2.1x	4.3x	6.5x	7.5x
Net debt to equity	**7%**	6%	8%	5%	6%	11%	14%	30%	35%	48%
Gearing	**7%**	5%	7%	5%	6%	10%	12%	23%	26%	33%
Consolidated Statement of Cash Flows (HK$m)										
Net cash generated from operating activities	**999**	1,019	761	1,208	1,481	1,164	1,058	992	627	772
Capital expenditure on fixed assets	**(312)**	(276)	(269)	(417)	(808)	(631)	(344)	(227)	(432)	(206)
Net cash inflow/(outflow) after capital expenditure, interest and dividends	**(614)**	568	(824)	597	683	232	1,928	427	(156)	229
Share Information										
Highest share price (HK$)	**14.74**	14.90	11.98	14.50	15.46	13.50	9.65	7.50	5.60	4.35
Lowest share price (HK$)	**8.10**	10.32	4.26	5.13	10.90	8.00	6.40	4.15	2.78	2.63
Year end closing share price (HK$)	**8.61**	13.32	11.36	5.86	13.70	13.14	8.50	6.95	4.53	3.30

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

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

Notes :

In order to comply with the Amendments to HKAS 12, Income Taxes, during 2010, the Group changed its accounting policy to measure deferred tax liabilities in respect of its investment properties with reference to the tax liabilities that would arise if the properties were disposed of at their carrying amounts at the reporting date, unless the property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time rather than through sale. The change in accounting policy has been applied retrospectively and figures for the years 2004 to 2009 have been restated for comparison purposes. However, the above change in accounting policy has had no material impact on the results for the years 2002 and 2003 and figures for these years have not been restated.

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT (HK$m)

	Note	Year ended 31 December 2011	2010
Turnover	3	**5,009**	4,707
Cost of inventories		**(418)**	(378)
Staff costs and related expenses		**(1,728)**	(1,639)
Rent and utilities		**(592)**	(542)
Other operating expenses		**(1,060)**	(1,005)
Operating profit before interest, taxation, depreciation and amortisation ("EBITDA")		**1,211**	1,143
Depreciation and amortisation		**(377)**	(349)
Operating profit		**834**	794
Interest income		**49**	24
Financing charges	5	**(137)**	(132)
Net financing charges		**(88)**	(108)
Profit after net financing charges	4	**746**	686
Share of result of a jointly controlled entity	17	**(85)**	526
Increase in fair value of investment properties	14(b)	**1,841**	1,938
(Provision for)/reversal of impairment losses	14(a)	**(20)**	110
Profit before taxation		**2,482**	3,260
Taxation			
Current tax	6	**(165)**	(140)
Deferred tax	6	**(38)**	(85)
Profit for the year		**2,279**	3,035
Profit attributable to:			
Shareholders of the Company		**2,259**	3,008
Non-controlling interests		**20**	27
Profit for the year		**2,279**	3,035
Earnings per share, basic and diluted (HK$)	11	**1.52**	2.04

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

The notes on pages 140 to 195 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK$m)

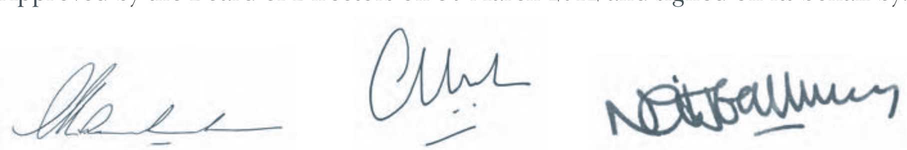
	Note	Year ended 31 December 2011	2010
Profit for the year		**2,279**	3,035
Other comprehensive income for the year, net of tax:	10		
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**(30)**	78
– financial statements of a jointly controlled entity		**51**	33
– loans to an associate		**(20)**	(31)
– investment in hotel management contracts		**(19)**	(43)
		(18)	37
Cash flow hedges:			
– effective portion of changes in fair values		**(27)**	(66)
– transfer from equity to profit or loss		**54**	57
		9	28
Total comprehensive income for the year		**2,288**	3,063
Total comprehensive income attributable to:			
Shareholders of the Company		**2,260**	2,985
Non-controlling interests		**28**	78
Total comprehensive income for the year		**2,288**	3,063

The notes on pages 140 to 195 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)

	Note	At 31 December 2011	2010
Non-current assets			
Fixed assets			
Properties, plant and equipment		**5,679**	5,850
Investment properties		**26,803**	24,840
	14	**32,482**	30,690
Interest in associates	16	**562**	494
Interest in a jointly controlled entity	17	**1,340**	1,374
Interest in unlisted equity instruments	18	**–**	–
Investment in hotel management contracts	19	**662**	684
Derivative financial instruments	20(a)	**7**	14
Deferred tax assets	21(b)	**86**	94
		35,139	33,350
Current assets			
Inventories	22	**99**	105
Trade and other receivables	23	**508**	451
Amount due from a jointly controlled entity	34(f)	**492**	–
Derivative financial instruments	20(a)	**11**	23
Cash at banks and in hand	24	**1,984**	2,658
		3,094	3,237
Current liabilities			
Trade and other payables	25	**(1,063)**	(1,037)
Interest-bearing borrowings	26	**(1,090)**	(879)
Derivative financial instruments	20(a)	**(63)**	(93)
Current taxation	21(a)	**(72)**	(55)
		(2,288)	(2,064)
Net current assets		**806**	1,173
Total assets less current liabilities		**35,945**	34,523
Non-current liabilities			
Interest-bearing borrowings	26	**(3,229)**	(3,453)
Trade and other payables	25	**(254)**	(266)
Net defined benefit retirement obligations	30(a)	**(24)**	(26)
Derivative financial instruments	20(a)	**(77)**	(107)
Deferred tax liabilities	21(b)	**(623)**	(587)
		(4,207)	(4,439)
Net assets		**31,738**	30,084
Capital and reserves			
Share capital	27	**745**	740
Reserves		**30,710**	28,363
Total equity attributable to shareholders of the Company		**31,455**	29,103
Non-controlling interests		**283**	981
Total equity		**31,738**	30,084

Approved by the Board of Directors on 30 March 2012 and signed on its behalf by:



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

The notes on pages 140 to 195 form part of these Financial Statements.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION (HK$m)

	Note	At 31 December 2011	2010
Non-current assets			
Investment in subsidiaries	15	**–**	–
Derivative financial instruments	20(b)	**40**	78
		40	78
Current assets			
Trade and other receivables	23	**11,785**	11,772
Derivative financial instruments	20(b)	**58**	101
Cash at banks and in hand		**286**	90
		12,129	11,963
Current liabilities			
Trade and other payables	25	**(46)**	(46)
Derivative financial instruments	20(b)	**(47)**	(78)
Current taxation	21(a)	**(2)**	(2)
		(95)	(126)
Net current assets		**12,034**	11,837
Non-current liabilities			
Deferred tax liabilities	21(b)	**(3)**	(6)
Derivative financial instruments	20(b)	**(33)**	(64)
		(36)	(70)
Net assets		**12,038**	11,845
Capital and reserves			
Share capital	27	**745**	740
Reserves	28(a)	**11,293**	11,105
Total equity		**12,038**	11,845

Approved by the Board of Directors on 30 March 2012 and signed on its behalf by:

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

The notes on pages 140 to 195 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (HK$m)

		Year ended 31 December Attributable to shareholders of the Company								
	Note	Share capital	Share premium	Capital redemption reserve	Hedging reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2010		735	3,260	13	(116)	(8)	22,263	26,147	908	27,055
Changes in equity for 2010:										
Profit for the year		–	–	–	–	–	3,008	3,008	27	3,035
Other comprehensive income	10	–	–	–	(9)	(14)	–	(23)	51	28
Total comprehensive income for the year		–	–	–	(9)	(14)	3,008	2,985	78	3,063
Dividends approved in respect of the previous year										
– by means of cash		–	–	–	–	–	(19)	(19)	–	(19)
– by means of scrip	27	3	66	–	–	–	(69)	–	–	–
Dividends approved in respect of the current year										
– by means of cash		–	–	–	–	–	(10)	(10)	–	(10)
– by means of scrip	27	2	47	–	–	–	(49)	–	–	–
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	(5)	(5)
Balance at 31 December 2010		740	3,373	13	(125)	(22)	25,124	29,103	981	30,084
Changes in equity for 2011:										
Profit for the year		**–**	**–**	**–**	**–**	**–**	**2,259**	**2,259**	**20**	**2,279**
Other comprehensive income	10	**–**	**–**	**–**	**27**	**(26)**	**–**	**1**	**8**	**9**
Total comprehensive income for the year		**–**	**–**	**–**	**27**	**(26)**	**2,259**	**2,260**	**28**	**2,288**
Dividends approved in respect of the previous year										
– by means of cash		**–**	**–**	**–**	**–**	**–**	**(17)**	**(17)**	**–**	**(17)**
– by means of scrip	27	**4**	**97**	**–**	**–**	**–**	**(101)**	**–**	**–**	**–**
Dividends approved in respect of the current year										
– by means of cash		**–**	**–**	**–**	**–**	**–**	**(26)**	**(26)**	**–**	**(26)**
– by means of scrip	27	**1**	**32**	**–**	**–**	**–**	**(33)**	**–**	**–**	**–**
Acquisition of non-controlling interest in a subsidiary	34(e)	**–**	**–**	**–**	**–**	**–**	**135**	**135**	**(713)**	**(578)**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(13)**	**(13)**
Balance at 31 December 2011		**745**	**3,502**	**13**	**(98)**	**(48)**	**27,341**	**31,455**	**283**	**31,738**

The notes on pages 140 to 195 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)

		Year ended 31 December	
	Note	**2011**	2010
Operating activities			
Profit after net financing charges		**746**	686
Adjustments for:			
Depreciation	14(a)	**374**	346
Amortisation of hotel management contract	19	**3**	3
Interest income		**(49)**	(24)
Financing charges	5	**137**	132
Loss on disposal of property, plant and equipment		**1**	2
Operating profit before changes in working capital		**1,212**	1,145
Decrease/(increase) in inventories		**7**	(2)
Increase in trade and other receivables		**(51)**	(33)
(Decrease)/increase in trade and other payables		**(23)**	63
Cash generated from operations		**1,145**	1,173
Net tax paid:			
Hong Kong profits tax paid		**(106)**	(101)
Overseas tax paid		**(40)**	(53)
Net cash generated from operating activities		**999**	1,019
Investing activities			
Payment for the purchase of fixed assets		**(312)**	(276)
Payment for the acquisition of additional interest in a subsidiary	34(e)	**(578)**	–
Loans to an associate		**(88)**	(27)
Loan to a jointly controlled entity	34(f)	**(492)**	–
Proceeds from sale of fixed assets		**1**	1
Net cash used in investing activities		**(1,469)**	(302)
Financing activities			
Drawdown of term loans		**593**	1,151
Repayment of term loans		**(196)**	–
Net decrease in revolving loans		**(485)**	(927)
Net withdrawal/(placement) of interest-bearing bank deposits with maturity of more than three months		**990**	(560)
Interest paid and other financing charges		**(139)**	(137)
Interest received		**51**	22
Dividends paid to shareholders of the Company		**(43)**	(29)
Dividends paid to non-controlling shareholders		**(13)**	(5)
Net cash generated from/(used in) financing activities		**758**	(485)
Net increase in cash and cash equivalents		**288**	232
Cash and cash equivalents at 1 January		**1,644**	1,380
Effect of changes in foreign exchange rates		**31**	32
Cash and cash equivalents at 31 December	24	**1,963**	1,644

The notes on pages 140 to 195 form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance

These Financial Statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These Financial Statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group and the Company is set out in note 37 on pages 185 to 194.

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Company for the current and prior accounting periods reflected in these Financial Statements. Note 38 provides further information on the possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011.

2. Changes in accounting policies

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

- HKAS 24 (revised 2009), *Related party disclosures*;
- Improvements to HKFRSs (2010);
- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*; and
- Amendments to HK(IFRIC) 14, HKAS 19 – *The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, with the exception of the amendments to HKAS 12, *Income taxes*, in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, *Investment property*. The amendments are effective for annual periods beginning on or after 1 January 2012, but as permitted by the amendments, the Group has opted to adopt the amendments early starting in the year ended 31 December 2010.

The amendments to HK(IFRIC) 14 have had no material impact on the Group's Financial Statements as they were consistent with policies already adopted by the Group. HK(IFRIC) 19 has not yet had a material impact on the Group's Financial Statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

The impacts of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in note 20 are consistent with the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the Financial Statements in the current and previous periods.

3. Turnover (HK$m)

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

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

	2011	2010
Hotels (note 13(a))		
Rooms	**1,642**	1,549
Food and beverage	**1,175**	1,123
Commercial	**597**	567
Others	**352**	337
	3,766	3,576
Commercial Properties (note 13(a))	**743**	688
Clubs and Services (note 13(a))	**500**	443
	5,009	4,707

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

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

	2011	2010
Amortisation of hotel management contract	**3**	3
Depreciation	**374**	346
Auditor's remuneration:		
audit services	**9**	9
tax and other services	**2**	2
Foreign exchange gains	**(1)**	–
Minimum operating lease charges for properties, including contingent rent of HK$15 million (2010: HK$12 million) (note 34(b))	**281**	258
Interest income	**(49)**	(24)
Rentals receivable from investment properties less direct outgoings of HK$19 million (2010: HK$19 million)	**(1,067)**	(1,008)

5. Financing charges (HK$m)

	2011	2010
Interest on bank borrowings wholly repayable within five years	**61**	54
Other borrowing costs	**13**	11
Total interest expenses on financial liabilities carried at amortised cost	**74**	65
Derivative financial instruments:		
– cash flow hedges, transfer from equity	**62**	66
– at fair value through profit or loss	**1**	1
	137	132

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

(a) Taxation in the consolidated income statement represents:

	2011	2010
Current tax – Hong Kong profits tax		
Provision for the year	**123**	111
Over-provision in respect of prior years	**(7)**	(5)
	116	106
Current tax – Overseas		
Provision for the year	**49**	43
Over-provision in respect of prior years	**–**	(9)
	49	34
	165	140
Deferred tax		
Increase in net deferred tax liabilities relating to revaluation of overseas investment properties	**14**	26
Increase in net deferred tax liabilities relating to other temporary differences	**20**	47
Under-provision in respect of prior years	**2**	10
Transfer from hedging reserve	**2**	2
	38	85
Total	**203**	225

The provision for Hong Kong profits tax for 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profit for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

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

	2011	2010
Profit before taxation	**2,482**	3,260
Notional tax at the domestic income tax rate of 16.5% (2010: 16.5%)	**410**	538
Tax effect of non-deductible expenses	**62**	54
Tax effect of non-taxable income	**(61)**	(41)
Tax effect of share of loss/(profit) of a jointly controlled entity	**21**	(132)
Tax effect of fair value gain on Hong Kong investment properties	**(298)**	(312)
Tax effect of utilisation of previously unrecognised tax losses	**(3)**	–
Tax effect of derecognition of previously recognised tax losses	**8**	43
Tax effect of tax losses not recognised	**83**	89
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(11)**	(12)
Over provision in respect of prior years	**(5)**	(4)
Others	**(3)**	2
Actual tax expense	**203**	225

7. Directors' and senior management's remuneration

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

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

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

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

Other benefits
Other benefits consist of medical, insurance and other benefits in kind.

For Non-Executive Directors ("NEDs") and Independent Non-Executive Directors ("INEDs"), fees are set in line with market practice, taking account of comparable Hong Kong listed companies and were fixed at HK$200,000 per annum and HK$250,000 per annum respectively (2010: HK$200,000 per annum for both NEDs and INEDs). The 2011 fee level was approved at the Annual General Meeting and took effect on 16 May 2011. NEDs who are also members of the Executive Committee are further entitled to a fixed fee of HK$100,000 per annum (2010: HK$100,000 per annum). INEDs who also act(s) as Chairman and members of the Audit Committee is/are further entitled to a fixed fee of HK$175,000 per annum (2010: HK$100,000 per annum) and HK$120,000 per annum (2010: HK$100,000 per annum) respectively. In addition, NEDs and INEDs who are also members of the Remuneration Committee are entitled to a fixed fee of HK$50,000 per annum (2010: HK$50,000 per annum).

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

	Directors' fees (HK$'000)	Basic compensation (HK$'000)	Bonuses and incentives (HK$'000)	Retirement benefits (HK$'000)	Other benefits (HK$'000)	Total$^{\Delta}$ 2011 (HK$'000)	Total$^{\Delta}$ 2010 (HK$'000)
2011							
Executive Directors							
Clement K.M. Kwok	–	4,748	6,829	781	151	12,509	11,681
Neil J. Galloway	–	4,012	2,538	646	189	7,385	7,612
Peter C. Borer	–	3,444	3,021	548	124	7,137	6,603
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	300	–	–	–	–	300	300
Ian D. Boyce	463	–	–	–	–	463	450
Ronald J. McAulay	200	–	–	–	–	200	200
William E. Mocatta	200	–	–	–	–	200	200
John A.H. Leigh	300	–	–	–	–	300	300
Nicholas T. J. Colfer	200	–	–	–	–	200	200
Independent Non-Executive Directors							
Dr. the Hon. Sir David K.P. Li	231	–	–	–	–	231	200
Robert C.S. Ng	231	–	–	–	–	231	300
Robert W. Miller	281	–	–	–	–	281	250
Patrick B. Paul	428	–	–	–	–	428	350
Pierre R. Boppe	231	–	–	–	–	231	200
Dr. William K.L. Fung	344	–	–	–	–	344	–
	3,409	12,204	12,388	1,975	464	30,440	28,846

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

Remuneration for senior management (other members of the Group Management Committee*) disclosed pursuant to the Listing Rules falls within the following bands:

	2011 Number	2010 Number
HK$3,000,001 – HK$4,000,000	**3**	2
HK$4,000,001 – HK$5,000,000	**2**	–

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

* *The Group Management Committee, the Company's management and operations' decision-making authority, comprises the three Executive Directors and five (2010: two) senior executives who represent the various key functions and operations of the Company.*

8. Individuals with highest emoluments (HK$'000)

Of the five individuals with the highest emoluments, three (2010: five) are Directors and senior management whose emoluments are disclosed in note 7. The emoluments of the two (2010: nil) individuals with the highest emoluments are within the following bands:

	2011 Number	2010 Number
HK$4,500,001 – HK$5,000,000	**2**	–

The aggregate of the emoluments in respect of the remaining two (2010: nil) individuals is as follows:

	2011	2010
Basic compensation	**5,256**	–
Bonuses and incentives	**444**	–
Retirement benefits	**499**	–
Other benefits	**3,480**	–
	9,679	–

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

The consolidated profit attributable to shareholders of the Company includes a profit of HK$252 million (2010: HK$92 million) which has been dealt with in the Financial Statements of the Company.

10. Other comprehensive income (HK$m)

Tax effects relating to each component of other comprehensive income

	2011			2010		
	Before-tax amount	**Tax (expense)/ benefit**	**Net-of-tax amount**	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– financial statements of overseas subsidiaries	**(30)**	**–**	**(30)**	78	–	78
– financial statements of a jointly controlled entity	**51**	**–**	**51**	33	–	33
– loans to an associate	**(20)**	**–**	**(20)**	(31)	–	(31)
– investment in hotel management contracts	**(19)**	**–**	**(19)**	(43)	–	(43)
	(18)	**–**	**(18)**	37	–	37
Cash flow hedges:						
– effective portion of changes in fair values	**(30)**	**3**	**(27)**	(75)	9	(66)
– transfer from equity to profit or loss	**62**	**(8)**	**54**	66	(9)	57
Other comprehensive income	**14**	**(5)**	**9**	28	–	28

11. Earnings per share

(a) Earnings per share – basic

	2011	2010
Profit attributable to shareholders of the Company (HK$m)	**2,259**	3,008
Weighted average number of shares in issue (million shares)	**1,484**	1,474
Earnings per share (HK$)	**1.52**	2.04

	2011 (million shares)	*2010 (million shares)*
Issued shares at 1 January	***1,480***	*1,470*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2010 final and 2011 interim dividends	***4***	*4*
Weighted average number of shares at 31 December	***1,484***	*1,474*

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2011 and 2010 and hence the diluted earnings per share is the same as the basic earnings per share.

12. Dividends (HK$m)

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

	2011	2010
Interim dividend declared and paid of 4 HK cents per share (2010: 4 HK cents per share)	**59**	59
Final dividend proposed after the end of reporting period of 10 HK cents per share (2010: 8 HK cents per share)	**149**	118
	208	177

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

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

	2011	2010
Final dividend in respect of the previous financial year, approved and paid during the year, of 8 HK cents per share (2010: 6 HK cents per share)	**118**	88

13. Segment reporting (HK$m)

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

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

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

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

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

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

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	Year ended 31 December							
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Reportable segment revenue*	**3,766**	3,576	**743**	688	**500**	443	**5,009**	4,707
Reportable segment earnings before interest, taxation, depreciation and amortisation (EBITDA)	**605**	604	**493**	450	**113**	89	**1,211**	1,143
Depreciation and amortisation	**(349)**	(324)	**(7)**	(6)	**(21)**	(19)	**(377)**	(349)
Segment operating profit	**256**	280	**486**	444	**92**	70	**834**	794
Reportable segments assets	**15,908**	15,376	**17,056**	15,706	**787**	848	**33,751**	31,930

* *Analysis of segment revenue*

	2011	*2010*
Hotels		
– *Rooms*	***1,642***	*1,549*
– *Food and beverage*	***1,175***	*1,123*
– *Commercial*	***597***	*567*
– *Others*	***352***	*337*
	3,766	*3,576*
Commercial properties		
Rental revenue from:		
– *Residential properties*	***410***	*392*
– *Offices*	***71***	*66*
– *Shopping arcades*	***262***	*230*
	743	*688*
Clubs and Services		
– *Operation of airport lounges*	***124***	*106*
– *Tramway operation*	***108***	*95*
– *Others*	***268***	*242*
	500	*443*
	5,009	*4,707*

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

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

Profit

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

Assets

	2011	2010
Reportable segments' assets	**33,751**	31,930
Interest in associates	**562**	494
Interest in a jointly controlled entity	**1,340**	1,374
Derivative financial instruments	**18**	37
Deferred tax assets	**86**	94
Amount due from a jointly controlled entity	**492**	–
Cash at banks and in hand	**1,984**	2,658
Consolidated total assets	**38,233**	36,587

(c) Geographical information (HK$m)

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

	Revenue from external customers		Specified non-current assets	
	2011	2010	2011	2010
Hong Kong (place of domicile)	**2,314**	2,103	**25,597**	23,753
Mainland China	**386**	362	**2,793**	2,728
United States	**1,045**	957	**2,463**	2,495
Japan	**699**	762	**1,242**	1,258
Thailand	**253**	241	**1,421**	1,514
The Philippines	**273**	240	**295**	307
Vietnam	**39**	42	**92**	93
France	**–**	–	**1,143**	1,094
	2,695	2,604	**9,449**	9,489
	5,009	4,707	**35,046**	33,242

14. Fixed assets (HK$m)

(a) Movements of fixed assets

	Group						
	Freehold land	Hotel and other buildings held for own use	Plant, machinery and other fixed assets	Sub-total	Investment properties	Interests in leasehold land held under finance leases	Total fixed assets
Cost or valuation:							
At 1 January 2010	922	6,692	3,727	11,341	22,790	1	34,132
Exchange adjustments	73	346	160	579	80	–	659
Additions	–	47	182	229	32	–	261
Disposals	–	(4)	(61)	(65)	–	–	(65)
Fair value adjustment	–	–	–	–	1,938	–	1,938
At 31 December 2010	995	7,081	4,008	12,084	24,840	1	36,925
Representing:							
Cost	995	7,081	4,008	12,084	–	1	12,085
Valuation – 2010	–	–	–	–	24,840	–	24,840
	995	7,081	4,008	12,084	24,840	1	36,925
At 1 January 2011	**995**	**7,081**	**4,008**	**12,084**	**24,840**	**1**	**36,925**
Exchange adjustments	**(39)**	**(47)**	**22**	**(64)**	**12**	**–**	**(52)**
Additions	**–**	**53**	**172**	**225**	**110**	**–**	**335**
Disposals	**–**	**(3)**	**(28)**	**(31)**	**–**	**–**	**(31)**
Fair value adjustment	**–**	**–**	**–**	**–**	**1,841**	**–**	**1,841**
At 31 December 2011	**956**	**7,084**	**4,174**	**12,214**	**26,803**	**1**	**39,018**
Representing:							
Cost	**956**	**7,084**	**4,174**	**12,214**	**–**	**1**	**12,215**
Valuation – 2011	**–**	**–**	**–**	**–**	**26,803**	**–**	**26,803**
	956	**7,084**	**4,174**	**12,214**	**26,803**	**1**	**39,018**
Accumulated depreciation and impairment losses:							
At 1 January 2010	372	2,942	2,478	5,792	–	1	5,793
Exchange adjustments	36	149	83	268	–	–	268
Charge for the year	–	143	203	346	–	–	346
Reversal of impairment loss	(22)	(72)	(16)	(110)	–	–	(110)
Written back on disposals	–	(2)	(60)	(62)	–	–	(62)
At 31 December 2010	386	3,160	2,688	6,234	–	1	6,235
At 1 January 2011	**386**	**3,160**	**2,688**	**6,234**	**–**	**1**	**6,235**
Exchange adjustments	**(20)**	**(53)**	**9**	**(64)**	**–**	**–**	**(64)**
Charge for the year	**–**	**140**	**234**	**374**	**–**	**–**	**374**
Impairment loss	**–**	**13**	**7**	**20**	**–**	**–**	**20**
Written back on disposals	**–**	**(2)**	**(27)**	**(29)**	**–**	**–**	**(29)**
At 31 December 2011	**366**	**3,258**	**2,911**	**6,535**	**–**	**1**	**6,536**
Net book value:							
At 31 December 2011	**590**	**3,826**	**1,263**	**5,679**	**26,803**	**–**	**32,482**
At 31 December 2010	609	3,921	1,320	5,850	24,840	–	30,690

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

(a) Movements of fixed assets *continued*

The Group assessed the recoverable amounts of its fixed assets (other than investment properties) at the end of the reporting date in accordance with the accounting policy as disclosed in note 37(j).

Impairment loss (2011)

The Directors considered that Quail Lodge Golf Club was further impaired as at 31 December 2011, as a result of an adverse operating environment. On that basis, its carrying amount should be written down by HK$20 million to its recoverable amount based on its fair value determined by an independent professional valuer by making reference to the discounted cash flow valuation model of the property, applying a discount rate of 15% and a growth rate of 3% on 10-year cash flow projections.

Reversal of impairment provision (2010)

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

(b) All investment properties of the Group were revalued as at 31 December 2011 on an open market value basis, mainly calculated by reference to net rental income and allowing for reversionary income potential. The changes in fair value of the investment properties during the year were accounted for in the consolidated income statement. The valuations were carried out by valuers independent of the Group and who have staff with recent experience in the location and category of the property being valued. Details of the valuers are as follows:

Description of investment properties	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong		
Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited	Members of the Hong Kong Institute of Surveyors
Other Asia*		
Retail shops, offices, residential apartments and vacant land	Savills Valuation and Professional Services Limited	Members of the Hong Kong Institute of Surveyors
	HVS	Members of the Singapore Institute of Surveyors and Valuers
United States of America		
Retail shops and vacant land	HVS	Members of the Appraisal Institute, United States of America

* *Other Asia includes mainland China, Japan, Thailand, The Philippines and Vietnam.*

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

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

		2011	2010
Hong Kong	– Long term leases	**24,145**	22,375
	– Medium term leases	**1,188**	1,111
Thailand	– Freehold	**1,298**	1,388
Vietnam	– Medium term leases	**92**	93
Other Asia	– Medium term leases	**2,424**	2,305
USA	– Long term leases	**969**	930
	– Freehold	**1,103**	1,168
		31,219	29,370
Representing:			
Land and buildings carried at fair value (investment properties)		**26,803**	24,840
Land and buildings carried at cost		**4,416**	4,530
		31,219	29,370
Interests in leasehold land held for own use under finance leases		**–**	–
		31,219	29,370

(d) Fixed assets leased under operating leases

The Group leases its investment properties under operating leases. The leases typically run for an initial period of one to five years, with or without options to renew the leases after that date at which time all terms are renegotiated. Contingent rentals earned from these leases in 2011 amounted to HK$29 million (2010: HK$21 million). All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties. Future minimum rentals receivable under non-cancellable operating leases of these properties are disclosed in note 32(b).

(e) Assets under development

Included within properties, plant and equipment are assets under development amounting to HK$57 million (2010: HK$62 million), which were not subject to depreciation.

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

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

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

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

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

(g) To provide additional information for shareholders, the Directors commissioned an independent valuation of the Group's hotel properties and golf courses as at 31 December 2011. The total valuation placed on the hotel properties and golf courses, which have a net book value of HK$5,489 million (2010: HK$5,701 million), was HK$9,038 million (2010: HK$8,813 million) as at 31 December 2011. It is important to note that the surplus of HK$3,549 million (2010: HK$3,112 million) and the related deferred taxation and non-controlling interests, if any, have not been incorporated in the consolidated Financial Statements but are provided for additional information only. The valuations were carried out by valuers independent of the Group, details of which are as follows:

Description of hotels and golf courses	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong and other Asia		
Hotels and golf course	HVS	Members of the Singapore Institute of Surveyors and Valuers
United States of America		
Hotels and golf course	HVS	Members of the Appraisal Institute, United States of America

15. Investment in subsidiaries (HK$m)

	Company	
	2011	2010
Unlisted shares, at cost	**–**	–

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

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

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
HSH Holdings Limited	Hong Kong	2 shares of HK$1 each	100%	Investment holding
The Peninsula Hotel Limited	Hong Kong	2 shares of HK$1 each	100%*	Hotel investment
The Repulse Bay Apartments Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
The Repulse Bay Company Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
The Peak Tower Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
Peak Tramways Company, Limited	Hong Kong	450,000 shares of HK$10 each	100%*	Tramway operation
St. John's Building Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
Peninsula Merchandising Limited	Hong Kong	2 shares of HK$1 each	100%*	Wholesaling and retailing of merchandise
Tai Pan Laundry & Dry Cleaning Services, Limited	Hong Kong	5,000,000 shares of HK$1 each	100%*	Laundry and dry cleaning services
HSH Financial Services Limited	Hong Kong	1 share of HK$1	100%	Lending and borrowing of funds
Peninsula Management Holdings Limited	British Virgin Islands/ International	1 share of US$1	100%	Investment holding
Peninsula Clubs and Consultancy Services Limited	Hong Kong	1,000,000 shares of HK$1 each	100%*	Club management
HSH Management Services Limited	Hong Kong	10,000 shares of HK$10 each	100%*	Management and marketing services
Peninsula International (USA) Limited	United States of America	1,200 shares of US$1 each	100%*	Investment holding
Peninsula New York Hotel LLC	United States of America	Contributed capital of US$323,500,000	100%*	Hotel investment

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

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
Peninsula Chicago LLC	United States of America	Contributed capital of US$57,038,089	100%*	Hotel investment
Quail Lodge, Inc.	United States of America	10,652 shares of US$100 each	100%*	Golf club and property investment
Peninsula Beverly Hills, Inc.	United States of America	1,000 shares of US$0.01 each	100%*	Investment holding
Peninsula International Investment Holdings Limited	British Virgin Islands/Asia	1 share of US$1	100%	Investment holding
Peninsula of Tokyo Limited	Japan	200 shares of ¥50,000 each	100%*	Hotel investment
The Palace Hotel Co., Ltd.	People's Republic of China	Registered capital of US$161,921,686	76.6%**	Hotel investment
Manila Peninsula Hotel, Inc.	The Philippines	111,840,386 shares of Pesos10 each	77.36%*	Hotel investment
Siam Chaophraya Holdings Company Limited	Thailand	250,000 ordinary shares of THB2,000 each	75%*	Hotel investment
Town and Country Sport Club Company Limited	Thailand	1,250,000 ordinary shares of THB100 each$^{\Delta}$	75%*	Golf club and property investment
International Burotel Company Limited	Vietnam	Registered capital of US$6,866,667	70%*	Property investment
Peninsula International (Lux) Limited S. à r.l.	Luxembourg/ France	12,500 shares of EUR1 each	100%*	Investment holding

* *Indirectly held.*

** *The Palace Hotel Co., Ltd. ("TPH") is a sino-foreign co-operative joint venture. During the year ended 31 December 2011, the Group increased its legal interest in the registered capital of TPH from 42.13% to 76.6%. Further details of the acquisition transaction are disclosed in note 34(e).*

The acquisition of additional interest in TPH has no impact on the Group's turnover or profit and loss for the year as the Group has been controlling the board as well as the financial and operating policies of TPH and thus treating it as a subsidiary since 2002.

$^{\Delta}$ *5,000 shares are fully paid up and the remaining 1,245,000 shares are partially paid up at THB25 each.*

16. Interest in associates (HK$m)

	Group	
	2011	2010
Loans to an associate*	**562**	494

* *The loans to an associate are denominated in Euros, unsecured, interest-bearing at rates related to the rates published by the French tax authorities and are carried at their estimated recoverable amounts. EUR13 million (HK$130.9 million) (2010: EUR4.7 million (HK$48.9 million)) of the loans is repayable in or before November 2014 while the remaining balance of the loans is repayable on 25 April 2017.*

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

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
Al Maha Majestic S.à r.l. ("Al Maha")	Incorporated	Luxembourg/ France	EUR12,500	20%	Investment holding
Majestic EURL ("Majestic")	Incorporated	France	EUR80,000,000	20%	Hotel investment and investment holding

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

(b) The associates' attributable revenue for the year ended 31 December 2011 was HK$nil (2010: HK$nil) and the attributable results for the year ended 31 December 2011 are considered to be HK$nil (2010: HK$nil). The attributable assets of the associates as at 31 December 2011 were HK$647 million (2010: HK$526 million) and the attributable liabilities as at 31 December 2011 were HK$647 million (2010: HK$526 million). The associates' attributable accumulated results as at 31 December 2011 were not significant (2010: not significant).

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

	Group	
	2011	2010
Share of exchange reserve	**165**	114
Share of retained profits	**717**	802
Share of net assets	**882**	916
Loan to a jointly controlled entity (note 17(b))	**458**	458
	1,340	1,374

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

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

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

* *The Group's interest in TPS is held indirectly by the Company. TPS holds a 100% direct interest in Evermore Gain Limited ("EGL"), a company incorporated in Hong Kong in 2007, which in turn holds a 100% direct interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"). PSW is a wholly owned foreign enterprise incorporated in the People's Republic of China and is engaged in the development and operation of The Peninsula Shanghai hotel, Peninsula hotel apartments, a retail arcade and ancillary facilities. At 31 December 2011, the paid up capital of EGL and PSW amounted to HK$1 (2010: HK$1) and US$117,500,000 (2010: US$117,500,000) respectively.*

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

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

	2011	2010
Non-current assets	**6,510**	6,024
Current assets	**103**	191
Current liabilities	**(3,226)**	(1,160)
Non-current liabilities	**(1,623)**	(3,224)
Net assets	**1,764**	1,831
Income	**461**	385
Operating expenses	**(393)**	(349)
EBITDA	**68**	36
Grand/pre-opening expenses	**–**	(17)
Depreciation	**(105)**	(95)
Net financing charges	**(125)**	(100)
Loss before non-operating items	**(162)**	(176)
Non-operating items*	**–**	1,698
Taxation – deferred tax	**(8)**	(470)
(Loss)/profit for the year	**(170)**	1,052

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

(d) PSW has pledged its land use right, fixed assets and properties under development to an independent financial institution as security for PSW's loan facility amounting to HK$1,968 million (RMB1,600 million) (2010: HK$1,894 million (RMB1,600 million)). The net carrying amount of these pledged assets amounted to HK$6,510 million (RMB5,292 million) (2010: HK$6,024 million (RMB5,089 million)).

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

Available for sale unlisted equity instruments include:

	Ownership interest held indirectly	Place of establishment
The Belvedere Hotel Partnership	20%	United States of America
Inncom International, Inc. ("Inncom")	17.29%	United States of America

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

BHP has pledged its hotel property and other assets to an independent financial institution as security for BHP's loan facility, amounting to US$140 million (HK$1,092 million) (2010: US$140 million (HK$1,092 million)). The net carrying amount of these pledged assets amounted to US$73 million (HK$569 million) (2010: US$66 million (HK$515 million)).

In 2011, a net sum of HK$27 million (2010: HK$10 million) was advanced to PBH which is unsecured, bears interest with reference to its bank borrowing rates and has no fixed date of repayment. The amount is included in trade and other receivables.

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

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

	Group	
	2011	2010
Cost		
At 1 January	**783**	826
Exchange adjustments	**(19)**	(43)
At 31 December	**764**	783
Accumulated amortisation		
At 1 January	**(99)**	(96)
Amortisation for the year	**(3)**	(3)
At 31 December	**(102)**	(99)
Net book value	**662**	684

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

Investment in hotel management contracts represents the cost attributable to securing the Group's long term management contracts in respect of The Peninsula Beverly Hills and The Peninsula Paris. The management contract for The Peninsula Paris will be amortised from the date of commencement of hotel operation.

20. Derivative financial instruments (HK$m)

(a) Group

	2011 Assets	2011 Liabilities	2010 Assets	2010 Liabilities
Cash flow hedges:				
Interest rate swaps	**–**	**(107)**	–	(136)
Cross currency interest rate swaps	**–**	**(8)**	–	(9)
	–	**(115)**	–	(145)
At fair value through profit or loss:				
Interest rate swaps	**18**	**(25)**	36	(55)
Foreign exchange swaps	**–**	**–**	1	–
Total	**18**	**(140)**	37	(200)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	**–**	**(42)**	–	(54)
Cross currency interest rate swaps	**–**	**(5)**	–	(5)
	–	**(47)**	–	(59)
At fair value through profit or loss:				
Interest rate swaps	**11**	**(16)**	22	(34)
Foreign exchange swaps	**–**	**–**	1	–
	11	**(63)**	23	(93)
Portion to be recovered/(settled) after one year	**7**	**(77)**	14	(107)

(b) Company

	2011 Assets	2011 Liabilities	2010 Assets	2010 Liabilities
Cash flow hedges:				
Interest rate swaps	**18**	**–**	36	–
At fair value through profit or loss:				
Interest rate swaps	**80**	**(80)**	142	(142)
Foreign exchange swaps	**–**	**–**	1	–
Total	**98**	**(80)**	179	(142)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	**11**	**–**	22	–
At fair value through profit or loss:				
Interest rate swaps	**47**	**(47)**	78	(78)
Foreign exchange swaps	**–**	**–**	1	–
	58	**(47)**	101	(78)
Portion to be recovered/(settled) after one year	**40**	**(33)**	78	(64)

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

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

	Group		Company	
	2011	2010	**2011**	2010
Provision for Hong Kong profits tax for the year	**123**	111	**9**	9
Provisional profits tax paid	**(79)**	(81)	**(7)**	(7)
	44	30	**2**	2
Balance of Hong Kong profits tax provision relating to prior years	**–**	4	**–**	–
Provision for overseas taxes	**28**	19	**–**	–
	72	53	**2**	2
Represented by:				
Prepaid tax (note 23)	**–**	(2)	**–**	–
Current tax payable (included in current liabilities)	**72**	55	**2**	2
	72	53	**2**	2

(b) Deferred tax assets and liabilities recognised

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

	Group					
	Revaluation of investment properties	Tax allowances in excess of the related depreciation	Provisions and others	Tax losses	Cash flow hedges	Total
Deferred tax arising from:						
At 1 January 2010	114	549	(20)	(250)	(21)	372
Charged/(credited) to profit or loss	26	99	(4)	(38)	2	85
Charged/(credited) to reserves	15	16	(1)	6	–	36
At 31 December 2010 and 1 January 2011	**155**	**664**	**(25)**	**(282)**	**(19)**	**493**
Charged to profit or loss	**14**	**16**	**2**	**4**	**2**	**38**
Charged/(credited) to reserves	**(1)**	**2**	**–**	**–**	**5**	**6**
At 31 December 2011	**168**	**682**	**(23)**	**(278)**	**(12)**	**537**

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

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

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable.

The following amounts, determined after appropriate offsetting, are shown separately on the statement of financial position.

	Group	
	2011	2010
Net deferred tax assets	**(86)**	(94)
Net deferred tax liabilities	**623**	587
	537	493

	Company	
	2011	2010
Deferred tax liability arising from cash flow hedges	**3**	6

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

	Group	
	2011	2010
Book depreciation in excess of the related depreciation allowances	**–**	1
Future benefit of tax losses	**671**	535
	671	536

In accordance with the accounting policy set out in note 37(q), the Group has not recognised deferred tax assets in respect of certain accumulated tax losses of HK$1,813 million (2010: HK$1,405 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Details of the expiry date of unused tax losses are as follows:

	Group	
	2011	2010
Within one year	**20**	63
After one year but within five years	**858**	592
After five years but within 20 years	**901**	746
Without expiry date	**34**	4
	1,813	1,405

In accordance with the accounting policy set out in note 37(q), the Group has not recognised deferred tax liabilities totalling HK$29 million (2010: HK$39 million) in respect of undistributed profits of certain subsidiaries amounting to HK$290 million (2010: HK$388 million), as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

22. Inventories (HK$m)

	Group	
	2011	2010
Food and beverage and others	**99**	105

The cost of inventories recognised as expenses in the consolidated income statement amounted to HK$418 million (2010: HK$378 million).

23. Trade and other receivables (HK$m)

	Group		Company	
	2011	2010	**2011**	2010
Loans and other receivables due from subsidiaries	**–**	–	**13,565**	13,543
Provision for impairment	**–**	–	**(1,786)**	(1,786)
	–	–	**11,779**	11,757
Trade debtors (ageing analysis is shown below)	**202**	211	**–**	–
Loans and receivables	**202**	211	**11,779**	11,757
Rental deposits, payments in advance and other receivables	**306**	238	**6**	15
Prepaid tax (note 21(a))	**–**	2	**–**	–
	508	451	**11,785**	11,772

Loans and other receivables due from subsidiaries are unsecured, interest free and have no fixed terms of repayment except for an amount of HK$2,476 million (2010: HK$2,952 million), which bears interest at market rates.

The amount of the Group's and the Company's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK$139 million (2010: HK$75 million) and HK$9,897 million (2010: HK$9,470 million) respectively. All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

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

The ageing analysis of trade debtors is as follows:

	Group	
	2011	2010
Current	**177**	185
Less than one month past due	**18**	22
One to three months past due	**6**	3
More than three months but less than 12 months past due	**1**	1
Amounts past due	**25**	26
	202	211

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

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

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

	Group		Company	
	2011	2010	**2011**	2010
Interest-bearing bank deposits	**1,882**	2,563	**285**	89
Cash at banks and in hand	**102**	95	**1**	1
Total cash at banks and in hand	**1,984**	2,658	**286**	90
Less: Bank deposits with maturity of more than three months	**(7)**	(997)	**–**	–
Bank overdrafts (note 26)	**(14)**	(17)	**–**	–
Cash and cash equivalents in the consolidated statement of cash flows	**1,963**	1,644	**286**	90

Cash at banks and in hand at the end of the reporting period include deposits with banks of HK$416 million (2010: HK$858 million) held by overseas subsidiaries which are subject to prevailing regulatory and foreign exchange restrictions.

25. Trade and other payables (HK$m)

	Group		Company	
	2011	2010	**2011**	2010
Trade creditors (ageing analysis is shown below)	**148**	133	**–**	–
Interest payable	**4**	5	**–**	–
Accruals for fixed assets	**50**	17	**–**	–
Tenants' deposits	**324**	308	**–**	–
Guest deposits	**116**	103	**–**	–
Golf membership deposits	**107**	117	**–**	–
Other payables	**568**	620	**21**	20
Other payables to subsidiaries	**–**	–	**25**	26
Financial liabilities measured at amortised cost	**1,317**	1,303	**46**	46
Less: Non-current portion of trade and other payables	**(254)**	(266)	**–**	–
Current portion of trade and other payables	**1,063**	1,037	**46**	46

The amount of trade and other payables of the Group expected to be settled or recognised as income after more than one year is HK$341 million (2010: HK$354 million). All the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

The ageing analysis of trade creditors is as follows:

	Group	
	2011	2010
Less than three months	**145**	131
Three to six months	**3**	2
	148	133

26. Interest-bearing borrowings (HK$m)

	Group	
	2011	2010
Total facilities available:		
Term loans and revolving credits	**4,605**	5,491
Uncommitted facilities, including bank overdrafts	**296**	306
	4,901	5,797
Utilised at 31 December:		
Term loans and revolving credits	**4,335**	4,346
Uncommitted facilities, including bank overdrafts	**14**	17
	4,349	4,363
Less: Unamortised financing charges	**(30)**	(31)
	4,319	4,332
Represented by:		
Short term bank loans, repayable within one year or on demand	**1,076**	862
Bank overdrafts, repayable on demand (note 24)	**14**	17
	1,090	879
Long term bank loans, repayable:		
Between one and two years	**1,072**	1,105
Between two and five years	**2,187**	2,379
	3,259	3,484
Less: Unamortised financing charges	**(30)**	(31)
Non-current portion of long term bank loans	**3,229**	3,453
Total interest-bearing borrowings	**4,319**	4,332

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

All of the Group's banking facilities are subject to the fulfilment of covenants relating to some of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 31(c). As at 31 December 2011 and 2010, none of the covenants relating to drawn down facilities had been breached.

27. Share capital

	2011	2010
Number of shares of HK$0.50 each (million)		
Authorised	**1,800**	1,800
Issued		
At 1 January	**1,480**	1,470
New shares issued under scrip dividend scheme (note)	**10**	10
At 31 December	**1,490**	1,480
Nominal value of shares (HK$m)		
Authorised	**900**	900
Issued		
At 1 January	**740**	735
New shares issued under scrip dividend scheme (note)	**5**	5
At 31 December	**745**	740

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

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

			Increase in	
	Number of shares million	*Scrip price HK$*	*share capital HK$m*	*share premium HK$m*
2011				
2010 final scrip dividend	***7.7***	***13.200***	***4***	***97***
2011 interim scrip dividend	***3.1***	***10.880***	***1***	***32***
	10.8		***5***	***129***
2010				
2009 final scrip dividend	*5.8*	*11.980*	*3*	*66*
2010 interim scrip dividend	*3.6*	*13.716*	*2*	*47*
	9.4		*5*	*113*

28. Reserves (HK$m)

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

(a) Company

	Share premium	Capital redemption reserve	Capital reserve	Hedging reserve	Retained profits	Total
At 1 January 2010	3,260	13	4,975	37	2,769	11,054
Profit for the year	–	–	–	–	92	92
Other comprehensive income	–	–	–	(7)	–	(7)
Total comprehensive income for the year	–	–	–	(7)	92	85
Dividends approved in respect of the previous year						
– by means of cash	–	–	–	–	(19)	(19)
– by means of scrip	66	–	–	–	(69)	(3)
Dividends approved in respect of the current year						
– by means of cash	–	–	–	–	(10)	(10)
– by means of scrip	47	–	–	–	(49)	(2)
At 31 December 2010	3,373	13	4,975	30	2,714	11,105
At 1 January 2011	**3,373**	**13**	**4,975**	**30**	**2,714**	**11,105**
Profit for the year	**–**	**–**	**–**	**–**	**252**	**252**
Other comprehensive income	**–**	**–**	**–**	**(16)**	**–**	**(16)**
Total comprehensive income for the year	**–**	**–**	**–**	**(16)**	**252**	**236**
Dividends approved in respect of the previous year						
– by means of cash	**–**	**–**	**–**	**–**	**(17)**	**(17)**
– by means of scrip	**97**	**–**	**–**	**–**	**(101)**	**(4)**
Dividends approved in respect of the current year						
– by means of cash	**–**	**–**	**–**	**–**	**(26)**	**(26)**
– by means of scrip	**32**	**–**	**–**	**–**	**(33)**	**(1)**
At 31 December 2011	**3,502**	**13**	**4,975**	**14**	**2,789**	**11,293**

28. Reserves (HK$m) *continued*

(b) Nature and purpose of reserves

Share premium and capital redemption reserve

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

Capital reserve

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

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges in note 37(e).

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 37(t).

(c) Distributability of reserves

At 31 December 2011, the aggregate amount of reserves available for distribution to shareholders of the Company, as calculated under the provision of section 79B of the Hong Kong Companies Ordinance, was HK$2,789 million (2010: HK$2,714 million). After the end of the reporting period, the Directors proposed a final dividend of 10 HK cents per share (2010: 8 HK cents per share), amounting to HK$149 million (2010: HK$118 million). This dividend has not been recognised as a liability at the end of the reporting period.

(d) Capital management

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

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

28. Reserves (HK$m) *continued*

(d) Capital management *continued*

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

The Group monitors its capital structure on the basis of its gearing ratio, which is expressed as the percentage of net borrowings, defined as interest-bearing loans and borrowings less cash at bank and in hand, to the total of net borrowings and equity attributable to shareholders of the Company. The Group's share of net borrowings and equities of the non-consolidated entities (such as the associates, jointly controlled entity and unlisted equity instruments), if any, are also taken into account. The calculations of gearing ratios before and after the non-consolidated entities as at 31 December 2011 and 2010 are as follows:

(HK$m)	2011	2010
Interest-bearing borrowings	**4,319**	4,332
Less: Cash at banks and in hand	**(1,984)**	(2,658)
Net borrowings per the statement of financial position	**2,335**	1,674
Share of net borrowings of non-consolidated entities	**1,401**	1,398
Net borrowings adjusted for non-consolidated entities	**3,736**	3,072
Equity attributable to shareholders of the Company per the statement of financial position	**31,455**	29,103
Equity plus net borrowing per the statement of financial position	**33,790**	30,777
Equity plus net borrowing adjusted for non-consolidated entities	**35,191**	32,175
Gearing ratio based on the Financial Statements	**7%**	5%
Gearing ratio adjusted for non-consolidated entities	**11%**	10%

During 2011, the Group continued to operate within its long term treasury management guidelines and maintained the adjusted gearing ratio at well below 40%. Operating and investment decisions are made by making reference to long term cash flow forecasts to ensure that the guidelines are followed.

The Group is subject to covenants imposed by the lenders of the interest-bearing borrowings based on the Group's borrowings and other indebtedness, as well as the amount of equity attributable to shareholders of the Company. The Group complied with the imposed loan covenants on capital requirements for the years ended 31 December 2011 and 2010. Except for the above, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29. Loan to an officer

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

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

Name of borrower	Mr. Martyn P.A. Sawyer
Position	Group General Manager, Properties and Clubs
Extent of guarantee given to a bank	GBP120,000
Maximum liability under the guarantee:	
at 1 January 2010	HK$1,045,000
at 31 December 2010 and 1 January 2011	HK$1,005,000
at 31 December 2011	HK$965,000
Amount paid or liability incurred under the guarantee	HK$nil (2010: HK$nil)

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

30. Employee retirement benefits

(a) Defined benefit retirement obligations

The Group maintains several defined benefit retirement plans covering 629 employees (2010: 636 employees) of the Group. Such plans are administered by independent trustees with the assets, if any, held separately from those of the Group.

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

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

QLI has not funded the above retirement and deferred compensation arrangements and the liability in respect of its obligations is fully recognised in its Financial Statements at each year end date, based on independent actuarial valuation prepared by qualified staff of Bartel Associates, LLC, who are members of the American Academy of Actuaries, using the projected unit credit method as at 31 December 2011.

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

The above plan is funded by contributions from MPHI in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The latest independent actuarial valuation of the plan was prepared by qualified staff of Actuarial Advisers, Inc., who are members of the Actuarial Society of the Philippines, using the projected unit credit method as at 31 December 2011. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were 74% (2010: 84%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2011.

30. Employee retirement benefits *continued*

(a) Defined benefit retirement obligations *continued*

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

	Group	
	2011	2010
Present value of wholly or partly funded obligations	**48**	46
Fair value of plan assets	**(29)**	(25)
	19	21
Unrecognised actuarial gains	**5**	5
	24	26

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay HK$4 million (2010: HK$4 million) in contributions to defined benefit retirement plans in 2012.

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

	Group	
	2011	2010
Stocks	**22**	19
Mutual funds	**7**	6
	29	25

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

	Group	
	2011	2010
At 1 January	**46**	42
Exchange adjustments	**(1)**	3
Benefits paid by the plans	**(2)**	(3)
Current service cost	**3**	3
Interest cost	**3**	4
Actuarial gain	**(1)**	(3)
At 31 December	**48**	46

Movements in plan assets (HK$m):

	Group	
	2011	2010
At 1 January	**25**	19
Exchange adjustments	**–**	1
Group's contributions paid to the plans	**4**	4
Benefits paid by the plans	**(1)**	(3)
Actuarial expected return on plan assets	**1**	2
Actuarial gain	**–**	2
At 31 December	**29**	25

30. Employee retirement benefits *continued*

(a) Defined benefit retirement obligations *continued*

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

	Group	
	2011	2010
Current service cost	**3**	3
Interest cost	**3**	4
Actuarial expected return on plan assets	**(1)**	(2)
	5	5

The actual return on plan assets (taking into account all changes in the fair value of the plan assets excluding contributions paid and received) was net income of HK$1 million (2010: HK$3 million).

The principal actuarial assumptions used as at 31 December 2011 are as follows:

	Group	
	2011	2010
Discount rate	**3.5% – 7%**	4% – 8.1%
Expected rate of return on plan assets	**7%**	5.5%
Future salary increases	**4% – 5%**	5%

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

Historical information (HK$m)**:**

	Group				
	2011	2010	2009	2008	2007
Present value of defined benefit obligations	**48**	46	42	36	39
Fair value of plan assets	**(29)**	(25)	(19)	(15)	(16)
Deficit in the plan	**19**	21	23	21	23
Experience adjustments arising on plan liabilities	**(1)**	(2)	1	1	1
Experience adjustments arising on plan assets	**–**	2	1	2	1

(b) Defined contribution retirement plans

The Group has a defined contribution retirement plan covering 1,357 employees (2010: 1,338 employees), most of whom are in Hong Kong. The defined contribution retirement plan is formally established under an independent trust with the assets of the funds held separately from those of the Group by an independent trustee. The plan is registered under the Occupational Retirement Schemes Ordinance and is exempted under the Mandatory Provident Fund Schemes (Exemption) Regulation. Employees covered by this plan are not required to make contributions and funds contributed by employers fully vest immediately. The average contribution rate against employees' relevant income for the year was 13% (2010: 12%).

30. Employee retirement benefits *continued*

(b) Defined contribution retirement plans *continued*

In addition, the Group participates in the Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, which is operated by an independent service provider to cover 463 employees (2010: 452 employees) in Hong Kong who are not covered by the above defined contribution retirement plan. The MPF Scheme is a defined contribution retirement plan administrated by independent trustees. Contributions at a fixed rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 per employee, are made to the Scheme by both the employer and the employee and vest immediately.

The Group also operates several defined contribution retirement plans, including union pension schemes for its overseas subsidiaries covering 2,194 employees (2010: 2,134 employees) in other Asian countries and the United States of America, in accordance with respective applicable labour regulations.

Total contributions to all of the above defined contribution retirement plans made by the Group amounted to HK$83 million (2010: HK$78 million) and was charged to the income statement during the year.

31. Financial risk management and fair values

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

(a) Foreign exchange risk

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

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

Forecast transactions

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

At 31 December 2011 and 2010, there were no outstanding forward exchange contracts.

Recognised assets and liabilities

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

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

31. Financial risk management and fair values *continued*

(a) Foreign exchange risk *continued*

Recognised assets and liabilities *continued*

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

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

	Group		Company	
	2011	2010	**2011**	2010
At fair value through profit or loss (note 20)				
– Foreign exchange swaps	**–**	1	**–**	1

All of the Group's borrowings are denominated in the functional currency of the operations to which they relate or, in case of group entities whose functional currency is Hong Kong dollars, in either Hong Kong dollars or United States dollars. Given this, it is not expected that there will be any significant currency risk associated with the Group's borrowings.

Net investment in foreign subsidiaries

At 31 December 2011 and 2010, the Group did not hedge any net investment in foreign subsidiaries.

Exposure to foreign exchange risk

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The amounts of the exposure are shown in original currency. Differences resulting from the translation of the Financial Statements of the foreign operations into the Group's presentation currency and exposures arising from inter-company balances which are denominated in a foreign currency and is considered to be in the nature of investment in the subsidiary, jointly controlled entity and associates are excluded.

	Group					
	2011		2010			
(million)	**United States Dollars**	**Philippine Pesos**	United States Dollars	Japanese Yen	Philippine Pesos	Euros
Trade and other receivables	**28**	**–**	25	–	1	–
Cash at banks and in hand	**7**	**6**	5	–	12	–
Trade and other payables	**(10)**	**–**	(10)	(2)	(1)	(1)
Derivative financial instruments	**(3)**	**–**	(6)	–	–	–
Interest-bearing borrowings	**(48)**	**–**	(83)	–	–	–
Gross exposure arising from recognised assets and liabilities	**(26)**	**6**	(69)	(2)	12	(1)
Notional amount of derivative financial instruments						
– held as cash flow hedges	**42**	**–**	42	–	–	–
Net exposure arising from recognised assets and liabilities	**16**	**6**	(27)	(2)	12	(1)

31. Financial risk management and fair values *continued*

(a) Foreign exchange risk *continued*

Exposure to foreign exchange risk *continued*

(million)	Company 2011 United States Dollars	Company 2011 Philippine Pesos	Company 2010 United States Dollars	Company 2010 Philippine Pesos
Trade and other receivables	**19**	**–**	18	1
Trade and other payables	**(4)**	**–**	(4)	–
Cash at banks and in hand	**4**	**6**	1	12
Overall net exposure	**19**	**6**	15	13

Based on the sensitivity analysis performed as at 31 December 2011, it was estimated that a increase/decrease of 10% in foreign exchange rate in respect of financial instruments denominated in currency other than the functional currencies, with all other variables held constant, would not have significant impact on the Group's post-tax profits and other components of equity.

(b) Interest rate risk

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

Following the disposal of The Kowloon Hotel in 2005, the Group applied the sale proceeds towards reducing bank borrowings and re-adjusting the loan interest hedging ratio, rendering some outstanding interest rate swaps ineffective at the Group level. The Company entered into new interest rate swaps to offset the financial effect of the ineffective interest rate swaps and classified these new swaps as cash flow hedges against intra-group borrowings. However, at the Group level, these pairs of offsetting interest rate swaps are classified as fair value through profit or loss and changes in their fair values are recognised in the consolidated income statement as the intra-group borrowings are eliminated upon consolidation. At 31 December 2011, these pairs of swaps had a total notional principal of HK$595 million (2010: HK$1,463 million) maturing over the next two years (2010: three years) with a total fair value of HK$(7) million (2010: HK$(19) million).

At 31 December 2011, the Group and the Company had interest rate swaps and cross currency interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK$1,843 million (2010: HK$1,966 million) maturing over the next six years (2010: seven years) and HK$298 million (2010: HK$732 million) maturing over the next two years (2010: three years) respectively. Changes in fair value of these swaps accounted for as cash flow hedges are recognised in the hedging reserve. The Group locked in the following ranges of fixed rates by the swaps at 31 December 2011:

	31 December 2011	31 December 2010
Hong Kong Dollars	**2.1% – 4.9%**	2.1% – 4.9%
United States Dollars	**0.7% – 5.8%**	4.6% – 5.8%
Japanese Yen	**1.5% – 2.1%**	1.5% – 2.1%

31. Financial risk management and fair values *continued*

(b) Interest rate risk *continued*

The net fair value of all the interest rate swaps and cross currency interest rate swaps entered into by the Group and the Company at 31 December 2011 was as follows (HK$m):

	Group		Company	
	2011	2010	**2011**	2010
Cash flow hedges (note 20)	**(115)**	(145)	**18**	36
At fair value through profit or loss (note 20)	**(7)**	(19)	**–**	–
	(122)	(164)	**18**	36

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

	Group			
	2011		2010	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**4.3%**	**1,845**	4.7%	1,966
Floating rate borrowings:				
Bank loans	**2.1%**	**2,474**	1.9%	2,366
Total interest-bearing borrowings		**4,319**		4,332
Fixed rate borrowings as a percentage of total borrowings		**43%**		45%

On the other hand, at 31 December 2011 and 2010, the Group and the Company had short term bank deposits. Since these deposits are placed for short term liquidity purposes, the Group and the Company have no intention to lock in their interest rates for long term. In addition, the Company/Group grants interest-bearing loans to subsidiaries/a jointly controlled entity, which are subject to interest rate risk. The interest rate profile of these bank deposits and intra-group loans at the end of the reporting period, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments is summarised as follows:

	Group				Company			
	2011		2010		**2011**		2010	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m	**Effective interest rate**	**HK$m**	Effective interest rate	HK$m
Fixed rate instruments:								
Loans to subsidiaries		**–**		–	**4.8%**	**298**	4.6%	732
Amount due from a jointly controlled entity	**5.5%**	**492**		–		**–**		–
Floating rate instruments:								
Bank deposits	**1.9%**	**1,882**	1.3%	2,563	**1.7%**	**285**	0.8%	89
Loans to subsidiaries		**–**		–	**0.2%**	**2,178**	0.2%	2,220
Total interest-bearing financial assets		**2,374**		2,563		**2,761**		3,041

31. Financial risk management and fair values *continued*

(b) Interest rate risk *continued*

Sensitivity analysis

The Group and the Company

The following tables indicate the approximate changes in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the interest rates, with all other variables held constant, to which the Group has significant exposure at the end of the reporting period. As at 31 December 2011 and 2010, the effects were attributable to changes in interest income and expense relating to floating rate financial instruments and gains or losses resulting from changes in the fair value of derivative financial instruments.

Group

	2011 Increase/(decrease) in			2010 Increase/(decrease) in		
	Interest rates (basis points)	**Profit after tax and retained profits (HK$m)**	**Other components of equity (HK$m)**	Interest rates (basis points)	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)
Renminbi	**100**	**3**	**–**	100	6	–
	(100)	**(3)**	**–**	(100)	(6)	–
Thai Baht	**100**	**(2)**	**–**	100	(2)	–
	(100)	**2**	**–**	(100)	2	–
Japanese Yen	**50**	**(5)**	**19**	50	(4)	20
	(50)	**5**	**(19)**	(50)	4	(22)
Philippine Pesos	**200**	**(1)**	**–**	200	(1)	–
	(200)	**1**	**–**	(200)	1	–
HK Dollars	**100**	**10**	**7**	100	12	10
	(100)	**(10)**	**(7)**	(100)	(12)	(10)
US Dollars	**100**	**(1)**	**12**	100	(2)	17
	(100)	**1**	**(12)**	(100)	2	(17)

Company

	2011 Increase/(decrease) in			2010 Increase/(decrease) in		
	Interest rates (basis points)	**Profit after tax and retained profits (HK$m)**	**Other components of equity (HK$m)**	Interest rates (basis points)	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)
HK Dollars	**100**	**20**	**(3)**	100	19	(6)
	(100)	**(20)**	**3**	(100)	(19)	6
US Dollars	**100**	**1**	**(1)**	100	1	(3)
	(100)	**(1)**	**1**	(100)	(1)	3

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise, assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group and which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of exposure to cash flow interest rate risk arising from the floating rate non-derivative financial instruments (which include bank borrowings and deposits) held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such changes in interest rates. The analysis has been performed on the same basis for 2010.

31. Financial risk management and fair values *continued*

(c) Liquidity risk

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

At 31 December 2011, total available borrowing facilities amounted to HK$4,901 million (2010: HK$5,797 million), of which HK$4,349 million (2010: HK$4,363 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$270 million (2010: HK$1,145 million).

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

Group

	2011						2010					
		Contractual undiscounted cash outflow/(inflow)						Contractual undiscounted cash outflow/(inflow)				
(HK$m)	Statement of financial position carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Statement of financial position carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Trade creditors	**148**	**148**	**148**	**–**	**–**	**–**	133	133	133	–	–	–
Interest payable	**4**	**4**	**4**	**–**	**–**	**–**	5	5	5	–	–	–
Accruals for fixed assets	**50**	**50**	**50**	**–**	**–**	**–**	17	17	17	–	–	–
Tenants' deposits	**324**	**324**	**177**	**52**	**80**	**15**	308	308	159	70	64	15
Guest deposits	**116**	**116**	**116**	**–**	**–**	**–**	103	103	103	–	–	–
Golf membership deposits	**107**	**107**	**–**	**–**	**–**	**107**	117	117	–	–	–	117
Other payables	**568**	**568**	**568**	**–**	**–**	**–**	620	620	620	–	–	–
Interest-bearing borrowings	**4,319**	**4,528**	**1,154**	**1,124**	**2,250**	**–**	4,332	4,511	937	1,149	2,425	–
Interest rate swaps ^ (net settled)	**132**	**152**	**60**	**47**	**36**	**9**	191	238	86	61	47	44
	5,768	**5,997**	**2,277**	**1,223**	**2,366**	**131**	5,826	6,052	2,060	1,280	2,536	176
Derivatives settled gross:												
Cross currency interest rate swaps held as cash flow hedging instruments:	**8**						9					
– outflow		**344**	**12**	**332**	**–**	**–**		355	11	12	332	–
– inflow		**(335)**	**(6)**	**(329)**	**–**	**–**		(343)	(6)	(6)	(331)	–
	8	**9**	**6**	**3**	**–**	**–**	9	12	5	6	1	–
	5,776	**6,006**	**2,283**	**1,226**	**2,366**	**131**	5,835	6,064	2,065	1,286	2,537	176
Financial guarantee issued – maximum amount guaranteed (note 33)	**–**	**1**	**1**	**–**	**–**	**–**	–	1	1	–	–	–

^ *In 2005, the Group entered into interest rate swaps to offset the financial effect of some interest rate swaps which were rendered ineffective, subsequent to the repayment of bank borrowings after the disposal of The Kowloon Hotel (note 31(b)). These interest rate swaps with carrying value of HK$18 million (2010: HK$36 million) have been classified as derivative financial assets and have not been included above.*

31. Financial risk management and fair values *continued*

(c) Liquidity risk *continued*

Company

(HK$m)	2011 Statement of financial position carrying amount	2011 Contractual undiscounted cash outflow/(inflow) Total	2011 Within 1 year or on demand	2011 More than 1 year but less than 2 years	2011 More than 2 years but less than 5 years	2011 More than 5 years	2010 Statement of financial position carrying amount	2010 Contractual undiscounted cash outflow/(inflow) Total	2010 Within 1 year or on demand	2010 More than 1 year but less than 2 years	2010 More than 2 years but less than 5 years	2010 More than 5 years
Other payables	21	21	21	–	–	–	20	20	20	–	–	–
Other payables to subsidiaries	25	25	25	–	–	–	26	26	26	–	–	–
Interest rate swaps (net settled)*	80	82	48	34	–	–	142	160	75	49	36	–
	126	128	94	34	–	–	188	206	121	49	36	–
Financial guarantee issued:												
– maximum amount guaranteed (note 33)	–	4,336	4,336	–	–	–	–	4,347	4,347	–	–	–

* *The Company in prior years entered into these interest rate swaps on a back-to-back basis for the benefit of its subsidiaries. Accordingly, derivative financial liabilities arising from them are fully offset by corresponding derivative financial assets (not included above) as a result of the back-to-back arrangement (see note 20(b)).*

The Company has also issued guarantees in respect of other banking facilities for its subsidiaries. Of the HK$58 million (2010: HK$56 million) guaranteed (note 33), HK$56 million (2010: HK$54 million) represented the fair value of the derivative financial instruments. The notional value of these derivative financial instruments amounted to HK$921 million (2010: HK$770 million) as at 31 December 2011.

(d) Credit risk

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

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

At 31 December 2011, cash at banks amounted to HK$2,018 million (2010: HK$2,676 million), of which over 90% (2010: 90%) was placed with financial institutions with credit ratings of no less than BBB (issued by Standard & Poor's Rating Services ("S&P")) or Baa2 (issued by Moody's Investors Services, Inc. ("Moody's")) and there was no significant concentration risk to any single counterparty.

For derivative financial instruments, the credit ratings of the financial institutions were no less than A+ (S&P) or A1 (Moody's).

31. Financial risk management and fair values *continued*

(d) Credit risk *continued*

The Group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. Credit evaluations are performed for all significant customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Credit limits are set for customers based on their credit worthiness and past history. Trade receivables are normally due within 30 days from the date of billing. In respect of the Group's rental income from operating leases, rentals are normally received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. Other than this, as such, the Group normally does not obtain collateral from its customers. The ageing of trade debtors at 31 December 2011 is summarised in note 23.

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

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

(e) Fair values (HK$m)

(i) Financial instruments carried at fair value

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

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

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

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

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2011, except that interests in unlisted equity instruments are stated at cost less impairment losses (see note 37(d) as the fair value of the equity instruments cannot be reliably measured). Some of the loans to subsidiaries are at floating interest rates and the carrying amount of these loans approximate their fair value. Other loans to subsidiaries and advances to the controlled entity are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair values. The Group has no intention of disposing these loans.

31. Financial risk management and fair values *continued*

(f) Estimation of fair values

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

Derivative financial instruments

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

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

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

	31 December 2011	31 December 2010
Hong Kong Dollar	**0.2% – 0.9%**	0.1% – 2.5%
United States Dollar	**0.2% – 1.1%**	0.3% – 2.3%
Japanese Yen	**0.1% – 1.0%**	0.1% – 1.6%

32. Commitments (HK$m)

(a) Capital commitments outstanding at 31 December 2011 not provided for in the Financial Statements were as follows:

	2011	2010
Capital expenditure		
Contracted for	**360**	60
Authorised but not contracted for		
– major renovation of the guestrooms of The Peninsula Hong Kong	**256**	450
– upgrade programme at The Repulse Bay Complex	**590**	731
– others	**612**	522
	1,818	1,763
The Group's share of capital commitments of a jointly controlled entity		
Contracted for	**–**	–
Authorised but not contracted for	**13**	168
	13	168
	1,831	1,931

The Group holds a 20% equity interest in Al Maha Majestic S.à r.l. ("Al Maha"), an associate of the Group responsible for the development of The Peninsula Paris project. The Group's 20% share of the contracted for and authorised but not contracted for capital commitments as at 31 December 2011 amounted to HK$195 million (2010: HK$108 million) and HK$215 million (2010: HK$435 million) respectively. It is planned that these capital commitments will be materially financed by way of bank borrowings by the associate and only in the event of the associate being unable to arrange the funding would the Group be required to meet the shortfall.

32. Commitments (HK$m) *continued*

(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases of the Group in respect of land and buildings are (receivable)/payable as follows:

	Group			
	Receivable		Payable	
	2011	2010	**2011**	2010
Within one year	**(812)**	(758)	**198**	186
After one year but within five years	**(1,203)**	(937)	**698**	683
After five years	**(63)**	(49)	**8,502**	8,458
	(2,078)	(1,744)	**9,398**	9,327

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

The Peninsula Manila, the hotel owned by Manila Peninsula Hotel, Inc. ("MPHI"), is situated on a piece of land which belongs to Ayala Hotel, Inc. ("Ayala"). The hotel land lease was negotiated in 1975 by the management of MPHI at the time with Ayala in the ordinary and usual course of business based on normal commercial terms and on an arm's length basis (the "Land Lease"). The initial term of the Land Lease was from 31 December 1975 to 31 December 2001, with an option to renew until 31 December 2027 on the same terms and conditions, which was exercised by MPHI. Pursuant to the terms and conditions, MPHI is committed to paying Ayala annual rental at 5% of its gross income on a quarterly basis.

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

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

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

33. Contingent liabilities (HK$m)

Contingent liabilities at 31 December are analysed as follows:

	Group		Company	
	2011	2010	**2011**	2010
Guarantees issued for subsidiaries				
– in respect of bank borrowings	**–**	–	**4,335**	4,346
– in respect of other banking facilities	**–**	–	**58**	56
Other guarantees	**1**	1	**1**	1
	1	1	**4,394**	4,403

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

The Directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect at 31 December 2011 and 2010.

34. Material related party transactions

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

(a) Under a three-year tenancy agreement which commenced on 1 April 2007, a wholly owned subsidiary of the Company, HSH Management Services Limited, leased the 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rent of HK$1,221,090 per month plus service charges of HK$169,074 per month from Kadoorie Estates Limited (KEL), which is the manager of the registered owner which is controlled by one of the substantial shareholders of the Company. The lease was renewed for three years on 1 April 2010 at a market rent of HK$1,221,090 per month plus service charges of HK$140,895 per month. The amount of service charges was further revised to HK$155,924 per month from 1 January 2011 to 31 December 2011. The amount of rent and service charges paid to KEL during 2011 amounted to HK$16.5 million (2010: HK$16.4 million).

(b) The Peninsula Manila is owned by Manila Peninsula Hotel, Inc. ("MPHI" – previously a 40% associate of the Company). MPHI became a subsidiary of the Company on 3 March 2005 following the completion of an offer made to shareholders as announced on 29 October 2004. The Peninsula Manila is situated on a piece of land owned by Ayala Hotels, Inc. ("Ayala"), an associate of a director of MPHI. Ayala is entitled to receive contingent rental from MPHI based on 5% of the gross income of MPHI pursuant to a land lease contract dated 2 January 1975 with an initial term from 31 December 1975 to 31 December 2001 and as extended to 31 December 2027. The amount of rent paid to Ayala under the lease during 2011 amounted to HK$14.9 million (2010: HK$11.8 million).

(c) On 20 January 2009, a wholly owned subsidiary of the Company, Peninsula International (Lux) Limited S. à r.l. ("LUX"), invested a total EUR44.3 million (HK$453 million) to acquire a 20% equity interest and 20% of the related shareholder's loan in Al Maha Majestic S.à r.l. ("Al Maha") which holds a 100% equity interest in Majestic EURL ("Majestic") which in turn owns a property in Paris to be redeveloped into a Peninsula hotel. Following the completion of the acquisition, Al Maha and Majestic became associates of the Group.

34. Material related party transactions *continued*

During 2011, a total of EUR8.3 million (2010: EUR2.7 million) additional shareholder's loans were advanced by LUX to Al Maha. These loans were made pro rata to the Group's shareholding in Al Maha to fund the progress payments for redevelopment costs incurred by Majestic. As at 31 December 2011, the balance of shareholder's loans amounted to EUR55.8 million (HK$561.8 million) (2010: EUR47.5 million (HK$493.7 million)). All the shareholder's loans are unsecured, bear interest at rates related to the rates published by the French tax authorities. Of the balance of EUR55.8 million, EUR13 million is repayable in or before November 2014 while the remaining balance is repayable on 25 April 2017.

(d) Unsecured and interest free shareholder's loans amounting to US$58.8 million (HK$458 million) (2010: US$58.8 million (HK$458 million)) were granted by Peninsula International Investment Holdings Limited ("PIIHL"), a wholly-owned subsidiary of the Company, to The Peninsula Shanghai (BVI) Limited ("TPS"), a 50% jointly controlled entity of the Group. The loans were provided in proportion to PIIHL's shareholding in TPS and are unsecured, interest free and have no fixed terms of repayment. TPS owns a 100% interest in Evermore Gain Limited ("EGL") which in turn holds a 100% interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"), a foreign owned enterprise incorporated in the People's Republic of China, engaged in the development of The Peninsula Shanghai project.

As at 31 December 2011, shareholder's loans amounting to US$58.8 million (HK$458 million) (2010: US$58.8 million (HK$458 million)) have been contributed as capital of PSW through EGL.

Under various agreements with PSW, HSH Management Services Limited ("HMS"), a wholly owned subsidiary of the Company, agreed to provide PSW with technical and design advisory, consultancy, management and marketing services with fees being determined based on normal market terms. The gross amount of fees earned by HMS during 2011 amounted to approximately HK$29.4 million (2010: HK$28.7 million).

In addition, Peninsula Intellectual Property Limited ("PIPL"), a wholly owned subsidiary of the Company, has also entered into a service mark licence agreement with PSW. Total service mark licence fees earned by PIPL during 2011 amounted to HK$4.5 million (2010: HK$4.1 million).

(e) On 5 September 2011, Kam Lung Investments Limited ("KLI"), a wholly owned subsidiary of the Company, acquired from Hong Kong Construction (Hong Kong) Limited ("HKC") its entire interests (including the shareholders' loan) in Hong Kong Construction Kam Lung Limited ("HKCKL") for a cash consideration of HK$578 million. As HKC was a 45% substantial shareholder of HKCKL, the acquisition falls under Listing Rules as a connected transaction, and is disclosed in the Directors' Report.

HKCKL is a 76.6% foreign joint venture partner of The Palace Hotel Co., Ltd. ("TPH"), a sino-foreign co-operative joint venture established in the People's Republic of China, which holds a 100% interest in The Peninsula Beijing. Upon completion of the acquisition, HKCKL became a wholly owned subsidiary of the Company and HKC ceased to have any interest in HKCKL. Accordingly, following the completion of the acquisition, the Company's indirect legal interest in TPH increased from 42.13% to 76.6%. Despite this, the Group now owns 100% of the economic interest in The Peninsula Beijing with reversionary interest to the PRC partner at the end of the co-operative joint venture period.

The cash consideration of HK$578 million was fully funded by the Group's surplus cash and was arrived at after arm's length negotiations between KLI and HKC taking into account the contractual entitlements of the parties, the expected additional investments to be made through to the end of the term of TPH joint venture arrangements and with reference to the fair value of HKCKL's investment in The Peninsula Beijing as at 30 June 2011. As a result of the transaction, the Group realised a net gain of HK$135 million, being the difference between the book balance of HK$713 million non-controlling interest acquired and the consideration of HK$578 million paid. As required by HKAS 27 (Revised) "*Consolidated and Separate Financial Statement*", the gain was recorded as equity movement in the Group's statement of changes in equity for the year ended 31 December 2011.

34. Material related party transactions *continued*

(f) Pursuant to a tripartite entrustment loan agreement dated 12 December 2011 entered into among TPH, PSW and a PRC branch of an international bank (the "agent bank"), an unsecured entrustment loan of RMB400 million (HK$492 million) was on-lent by TPH to PSW via the agent bank on 15 December 2011. Under the agreement, the loan is repayable on 14 December 2012 and bears an annual interest of 5.5%, which was fixed by reference to the deposit rate published by The People's Bank of China on the day on which the draw down was made plus a margin of 200 basis points.

(g) The Company announced on 6 December 2000 that KLI, entered into various agreements with the then independent third parties, including China Everbright Group Ltd. ("CEG"), to carry out the restructuring of TPH. Upon completion of the restructuring under the terms of the agreement as announced, CEG was entitled to appoint two representatives as Directors of TPH's Board consisting of nine members and to receive a priority payment of a minimum of RMB8 million up to and including 11 November 2033 ("Annual Payment"). Completion of the restructuring took place on 13 December 2002 and the Annual Payment became payable. The Annual Payment in an amount of RMB8 million (HK$9.7 million) was recorded in 2011 (2010: RMB8 million (HK$9.2 million)).

35. Non-adjusting post reporting period events

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

36. Key sources of estimation uncertainty

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

(a) Valuation of investment properties

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

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

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

(c) Asset impairment

The Group assesses the impairment of assets in accordance with the accounting policy set out in note 37(j). The factors that the Group considers important in identifying indications of impairment and in assessing the impairment include the following:

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

36. Key sources of estimation uncertainty *continued*

(d) Deferred tax assets

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

37. Significant accounting policies

(a) Basis of preparation of the Financial Statements

The consolidated Financial Statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a jointly controlled entity.

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

i) investment properties (see note 37(g)); and
ii) derivative financial instruments (see note 37(e))

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

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

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

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

(b) Subsidiaries and non-controlling interests

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

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

37. Significant accounting policies *continued*

(b) Subsidiaries and non-controlling interests *continued*

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Company.

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 37(c)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 37(j)), unless the investment is classified as held for sale.

(c) Associates and jointly controlled entities

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

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

An investment in an associate or a jointly controlled entity is accounted for in the consolidated Financial Statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 37(j)). Any acquisition-date excess over costs, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

37. Significant accounting policies *continued*

(c) Associates and jointly controlled entities *continued*

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

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

(d) Equity instruments

The Group's long term investments which are equity in nature (other than investments in subsidiaries, associates and jointly controlled entities) that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are classified as interests in equity instruments and recognised in the statement of financial position at cost less provision for impairment losses (see note 37(j)).

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

(e) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify as cash flow hedges.

Cash flow hedges

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

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

(f) Properties, plant and equipment

Hotel and other properties held for own use (including buildings held for own use which are situated on leasehold land classified as held under operating leases) and plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 37(j)).

The cost of self-constructed items of properties, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 37(u)).

37. Significant accounting policies *continued*

(f) Properties, plant and equipment *continued*

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

• leasehold land classified as held under finance leases is depreciated over the unexpired term of lease	
• hotel buildings	75 to 150 years
• other buildings	50 years
• golf courses	100 years
• external wall finishes, windows, roofing and glazing works	10 to 40 years
• major plant and machinery	15 to 25 years
• furniture, fixtures and equipment	3 to 20 years
• operating equipment	3 to 5 years
• motor vehicles	5 to 10 years

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

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

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 37(i)) to earn rental income and/or for capital appreciation. These include land held for currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the statement of financial position at fair value, unless they are still in the course of construction or development at the reporting date and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 37(s).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 37(i)) and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 37(i).

(h) Investments in hotel management contracts

Payments for acquiring hotel management contracts are capitalised and are stated in the statement of financial position at cost less accumulated amortisation and impairment losses (see note 37(j)).

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

37. Significant accounting policies *continued*

(i) Leased assets

Classification of assets leased to the Group

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

- property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 37(g)); and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Operating lease charges

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

(j) Impairment of assets

(i) Impairment of financial assets

Investments in equity securities (other than investment in subsidiaries) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

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

- For investments in associates and jointly controlled entities recognised using the equity method (see note 37(c)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 37(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 37(j)(ii).

- For unquoted equity instruments carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for unquoted equity instruments carried at cost are not reversed.

- For trade and other current receivables and other financial assets carried at cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. An impairment loss for trade and other receivables carried at amortised cost is calculated as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material.

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

37. Significant accounting policies *continued*

(j) Impairment of assets *continued*

(ii) Impairment of other assets

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

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

In respect of assets other than goodwill, an impairment loss is reversed to profit or loss if the recoverable amount of an asset, or the cash-generating unit to which it belongs, exceeds its carrying amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

Interim financial reporting and impairment

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

(k) Inventories

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

(l) Trade debtors and other receivables

Trade debtors and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest rate less allowance for impairment of doubtful debts (see note 37(j)), except where they are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, they are stated at cost less allowance for impairment of doubtful debts (see note 37(j)).

(m) Interest-bearing borrowings

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

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 37(r), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

37. Significant accounting policies *continued*

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

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

Defined benefit retirement plan obligations

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

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

Termination benefits

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

(q) Income tax

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

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

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

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

37. Significant accounting policies *continued*

(q) Income tax *continued*

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

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 37(g), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

(r) Provisions, contingent liabilities and financial guarantees issued

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

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

Where the Group issues a financial guarantee, where material the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

(s) Revenue recognition

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

Hotel and golf club operations

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

Sale of land lots

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

37. Significant accounting policies *continued*

(s) Revenue recognition *continued*

Sale of goods and wholesaling

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

Rental income from operating leases

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

Interest income

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

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities and non-monetary assets and liabilities that are stated at fair values and are denominated in foreign currencies, are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

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

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

(u) Borrowing costs

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

(v) Related parties

(1) A person, or a close member of that person's family, is related to the Group if that person:

- i) has control or joint control over the Group;
- ii) has significant influence over the Group; or
- iii) is a member of the key management personnel of the Group or the Group's parent.

37. Significant accounting policies *continued*

(v) Related parties *continued*

(2) An entity is related to the Group if any of the following conditions applies:

i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

vi) The entity is controlled or jointly controlled by a person identified in (1).

vii) The entity identified in (1) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(w) Segment reporting

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

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

38. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011

Up to the date of issue of these Financial Statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these Financial Statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements (2011)*	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
HKFRS 9, *Financial instruments*	1 January 2015

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the Consolidated Financial Statements of The Hongkong and Shanghai Hotels, Limited (the "Company") and the subsidiaries (together "the Group") set out on pages 134 to 195, which comprise the consolidated and Company statements of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibilities for the Consolidated Financial Statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

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

30 March 2012

SUSTAINABILITY DATA STATEMENTS

This section provides statistical information on the Group's sustainability performance. To facilitate stakeholders in understanding and benchmarking our corporate responsibility performance, our reporting follows Global Reporting Initiative's (GRI) disclosure framework, which is an internationally recognised set of indicators for economic, environmental and social aspects of business performance.

Sustainability performance highlights[1]

				2011	2010	2009	2006-08 baseline
Economic	**Revenue**		HK$m	**5,058**	4,731	4,233	–
	Operating costs		HK$m	**1,986**	1,847	1,698	–
	Employee wage and benefits		HK$m	**1,728**	1,639	1,512	–
	Capital expenditure		HK$m	**335**	261	281	
	Payments to providers of capital		HK$m	**195**	171	192	–
	Tax payments to governments[2]		HK$m	**422**	376	396	–
	Monetary community donations[3]		HK$'000	**4,163**	617	1,689	–
	Total floor area		'000 m^2	**588**	588	518	518
	Total number of guest nights		'000	**1,090**	1,082	870	1,089
People	**Headcount**			**7,759**	7,730	7,415	–
	Turnover		%	**19.5%**	19.4%	11.7%	–
	Headcount by gender		% of female	**41%**	40%	41%	–
Health and Safety	**Safety**	Lost time injuries	reported incidents per 200k hours	**9.5**	–	–	–
		Occupational diseases	reported instances per 200k hours	**1.2**	–	–	–
		Fatality	reported incidents	**0**	–	–	–
	Training	Health and safety training	'000 hours	**11**	–	–	–
Environment	**Greenhouse gas emissions**		'000 tCO_2e	**118**	127	113	104
	Group carbon intensity[4]		tCO_2e per m^2	**0.200**	0.216	0.218	0.213
	Direct energy use		'000 GJ	**251**	251	256	287
	Indirect energy use		'000 GJ	**585**	605	552	586
	Energy intensity		MJ per m^2	**1,422**	1,455	1,512	1,683
	Energy saved through reduction initiatives		GJ	44,750[5]		3,540	–
	Emissions of ozone depleting substances		kg CFC-11e	**92**	146	167	–
	Direct water consumption		'000 m^3	**1,820**	1,854	1,539	1,921
	Water intensity	Hotels Division	litres per guest night	**1,320**	1,367	1,363	1,411
		Commercial Properties Division[6]	litres per m^2	**1,988**	1,773	1,557	1,712
	Water recycled		'000 m^3	**95**	142	129	–
	Waste generated[7]		tonnes	**4,712**	–	–	–
	Waste recycled[7]		tonnes	**685**	–	–	–
Community	**Community outreach**	Service hours	hours	**6,192**	3,788	2,084	–
		Employee volunteers		**942**	2,420	1,004	–
	Monetary donations	Company donations[3]	HK$m	**4,163**	617	1,689	–
		Employee donations	HK$'000	**290**	642	97	–
	Internships	Training hours	'000 hours	**539**	301	83	–
		Participants		**881**	501	371	–
	Retraining schemes	Training hours	hours	**1,113**	4,988	3,599	–
		Participants		**329**	192	22	–

Footnotes:

1. *Please refer to Reporting Scope on page 76 for the scope of businesses covered in the reporting of employee, health and safety, and environmental performance. The 2006-08 baseline is used for benchmarking environmental performance. Collection of health and safety data based on GRI's guidelines began in 2011.*
2. *Inclusive of corporate income tax, property and real estate tax, and payroll tax.*
3. *Donation reported has not included HSH's yearly contribution to the Hong Kong Heritage Project. More details of HKHP can be found on page 23 of this Report.*
4. *Carbon intensity baseline is 2008 only, as 2006 and 2007 figures skew the average so preventing a meaningful baseline.*
5. *44,750 GJ represented energy saved over 2010 and 2011 through reduction initiatives implemented.*
6. *The increase of water intensity of the Commercial Properties Division in 2011 was mainly due to the rise in municipal water use at Thai Country Club as a result of the declining quality of well water. The use of local well water was not recorded in the water consumption and intensity in previous years.*
7. *The scope of total waste and recycled waste reported covers the Hotels Division and The Repulse Bay Complex. Collection of waste data across the Group began in 2011.*

Profile of our workforce, 2009-2011

		2011			2010			2009[3]		
		Hotels[1]	**Commercial Properties, Clubs & Services[2]**	**Total**	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total
Workforce Demographics Turnover	**Total Headcount[4]**	**6,039**	**1,720**	**7,759**	6,064	1,666	7,730	5,827	1,588	7,415
	by Employment Types									
	Full-time	**5,475**	**1,547**	**7,022**	5,444	1,511	6,955	5,334	1,499	6,833
	Part-time & Casual	**564**	**173**	**737**	620	155	775	493	89	582
	by Type of Contracts									
	Permanent	**3,062**	**1,453**	**4,515**	3,043	1,429	4,472	2,956	1,389	4,345
	Fixed term or at will contracts[5]	**2,752**	**210**	**2,962**	3,026	221	3,247	2,691	173	2,864
	by Geographical locations									
	Asia	**4,575**	**1,543**	**6,118**	4,633	1,493	6,126	4,481	1,451	5,932
	United States of America	**1,464**	**177**	**1,641**	1,431	173	1,604	1,346	137	1,483
	by Gender									
	Male	**58.4%**	**62.7%**	**59.4%**	58.7%	63.6%	59.8%	58.4%	62.7%	59.4%
	Female	**41.6%**	**37.3%**	**40.6%**	41.3%	36.4%	40.2%	41.6%	37.3%	40.6%
	by Management Role									
	Management	**7.4%**	**6.1%**	**7.1%**	6.4%	6.1%	6.4%	11.03%	9%	10.5%
	Non-management	**92.6%**	**93.9%**	**92.9%**	93.6%	93.9%	93.6%	88.97%	89%	89.4%
	Employees under Collective Bargaining	**13.0%**	**12.5%**	**12.9%**	12.0%	12.4%	12.1%	10.9%	9.9%	10.7%
	Union Membership	**33.6%**	**12.4%**	**28.9%**	22.2%	12.3%	20.1%	21.6%	9.8%	19.1%
	Employees receiving regular performance review	**99.8%**	**90.5%**	**97.8%**	99.7%	99.9%	99.8%	87.6%	100.0%	90.3%
Turnover	**Total Turnover Rate[6]**	**17.6%**	**26.1%**	**19.5%**	18.1%	24.0%	19.4%	13.0%	11.0%	11.7%
	by Geographical locations									
	Asia	**18.73%**	**24.69%**	**20.3%**	19.8%	20.4%	20.0%	11.3%	10.7%	11.0%
	United States of America	**13.86%**	**50.59%**	**16.1%**	12.6%	81.3%	17.2%	14.9%	75.0%	15.8%
	by Gender									
	Male	**10.14%**	**13.77%**	**10.9%**	17.6%	23.8%	19.0%	N/A	N/A	N/A
	Female	**7.45%**	**12.35%**	**8.5%**	18.9%	24.5%	20.0%	N/A	N/A	N/A
	by Age Group									
	Under 30 years old	**10.10%**	**8.53%**	**9.76%**	10.2%	8.7%	9.9%	N/A	N/A	N/A
	30 to 50 years old	**6.59%**	**13.77%**	**8.17%**	6.6%	10.4%	7.4%	N/A	N/A	N/A
	Over 50 years old	**0.89%**	**3.81%**	**1.54%**	1.3%	1.4%	2.1%	N/A	N/A	N/A

Footnotes:
1. *Data reported under the Hotels Division cover the Group's hotel operations and head office operation in Hong Kong, Beijing, Bangkok, Shanghai and the US.*
2. *Data reported cover the Group's commercial properties as well as all other clubs and services operations.*
3. *2009 turnover calculation methodology differs from 2010 and 2011 data as actual total figures were not available. Therefore, the median annual turnover rate was used.*
4. *Headcount data covers the entire workforce including full-time and part-time employees working on permanent, fixed term and "at will" contracts, and non-contracted employees.*
5. *All employees are employed "at will" at 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.*
6. *Based on GRI's disclosure requirement, the turnover rate refers to full-time employees only.*

Our environmental performance, 2008-2011

		2011			2010			2009			2006-2008		
		Hotels	**Commercial Properties, Clubs & Services[1]**	**Total**	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total
Greenhouse gas emissions	’000 tCO$_2$e	**95**	**22**	**118**	104	23	127	91	22	113	83	21	104
Carbon intensity[2]	tCO$_2$e per m^2	**0.213**	**0.160**	**0.200**	0.232	0.164	0.216	0.241	0.157	0.218	0.220	0.147	0.213
Emission of ozone depleters	kg CFC-11e	**68**	**24**	**92**	116	30	146	152	16	167	–	–	–
Direct energy use	’000 GJ	**183**	**69**	**251**	189	61	251	189	67	256	217	69	287
Indirect energy use	’000 GJ	**510**	**76**	**585**	524	81	605	473	79	552	502	84	586
Total energy use	’000 GJ	**692**	**144**	**837**	714	142	856	662	146	808	720	153	873
Energy intensity	MJ per m^2	**1,547**	**1,023**	**1,422**	1,623	1,064	1,455	1,684	1,047	1,512	1,899	1,097	1,683
Direct water consumption	’000 m^3	**1,438**	**382**	**1,820**	1,479	375	1,854	1,186	354	1,539	1,537	385	1,921
Water intensity (Hotels Division)	litres per guest night	**1,320**	**–**	**–**	1,367	–	–	1,363	–	–	1,411	–	–
Water intensity[3] (Commercial Properties Division)	litres per m^2	**–**	**1,988**	**–**	–	1,773	–	–	1,557	–	–	1,712	–
Water recycled	’000 m^3	**95**	**–**	**95**	142	–	142	129	–	129	–	–	–
Waste generated[4]	tonnes	**4,597**	**115**	**4,712**	–	–	–	–	–	–	–	–	–
Waste recycled[4]	tonnes	**681**	**4**	**685**	–	–	–	–	–	–	–	–	–

Footnotes:

1. *Inclusive of The Repulse Bay Complex, The Peak Tram Complex, St. John’s Building, The Landmark, Thai Country Club, Quail Lodge Golf Club, and Tai Pan Laundry.*
2. *Carbon intensity baseline is 2008 only, as 2006 and 2007 figures skew the average so preventing a meaningful baseline.*
3. *Water intensity of Tai Pan Laundry (14.8 litres per kilogram washed in 2011) is excluded as its intensity is measured on different metrics from that of properties and clubs. The increase of water intensity of the Commercial Properties Division in 2011 was mainly due to the rise in municipal water use at Thai Country Club as a result of the declining quality of well water. The use of local well water was not recorded in the water consumption and intensity in previous years.*
4. *The scope of total waste and recycled waste reported covers the Hotels Division and The Repulse Bay Complex. Collection of waste data across the Group began in 2011.*

HSH sustainability scorecard – progress and targets

	What we said we would do in 2011	Progress in 2011	2012 Commitments
Stakeholder Engagement	Complete stakeholders identification exercise, assess risks across the Group, and take appropriate actions	➡	Develop a roadmap and strategic framework for stakeholder engagement on environmental, social and ethical issues
	Continue to engage stakeholders through existing channels and conduct engagement sessions with priority stakeholders	➡	Develop a shared understanding amongst the Group's senior management team on key global trends that may affect our business in the medium to long term
			Develop a Group Risk Register
			Conduct phase two of Group employee engagement survey
Our People	Launch equal opportunities module as part of Code of Conduct learning programme	●	Roll out a revised management bonus plan for the Group
	Expand the number of employees undergoing the Executive Development Programme	●	Roll out the third module of Code of Conduct online and classroom training on guest data privacy
	Develop corporate training programme for middle managers	●	Design a Finance for Business Managers Programme for all Executive Committees in the operations
	Expand the Peninsula Scholar Programme	●	Conduct five Operational HR Reviews in accordance with the HSH Group HR Manual
	Conduct phase one of Group employee engagement survey	●	Build a competency framework for the Group
	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 corporate culture to engage employees	●	

● *objective achieved* ➡ *on track to achieve objective* ● *objective missed*

	What we said we would do in 2011	Progress in 2011	2012 Commitments
Environment	Cut energy intensity by 15% against 2006-2008 baseline	●	Cut energy intensity by a further 3% against 2006-08 baseline
	Reduce carbon intensity by 10% against 2008 baseline	➡	Enhance the engineering teams' capacity on carbon management
	Reduce water intensity of our Hotels Division by 6% against 2006-2008 baseline	●	Reduce Group companies' water intensity by another 2%
	Phase out the use of ozone depleting substances by 2015	➡	Enhance the robustness of waste management data so as to improve on waste diversion and reduction
	Monitor waste generated and collected to improve on waste diversion and reduction	➡	Improve awareness of the sustainable design standards and guidelines throughout the Group and encourage its adoption in new development and major renovation projects
	Roll out sustainable design standards and guidelines throughout the Group and provide training	➡	
Health and Safety	Minimise injury and lost day rates	➡	Improve the recording of health and safety training and incident data so as to enhance the management of health and safety issues
	Achieve full implementation of the Operational Risk Manual across the Group, as measured through audits	➡	Hotels Division to fully implement the Operational Risk Manual
	Standardise health and safety risk reporting across the Group	➡	All catering operations to review compliance to HACCP standard as guidance on food safety
	Complete Indoor Air Quality assessments across the Group	●	Review the Indoor Air Quality assessment findings and implement recommendations to improve our IAQ standard
Responsible Sourcing	Enhance the robustness of reporting on sustainable sourcing practices	●	Improve the framework for tracking our performance on sustainable sourcing practices
	Improve how we engage with key suppliers to enhance sustainable sourcing practices	➡	Reduce the environmental impact of our paper procurement requirements and promote sustainable use of forest resources
	Review how well we are using the sustainability guidelines to enhance our sourcing of environmentally and socially responsible goods and services	➡	Promote the use of sustainable building materials in new development and renovation projects
Community	Continue to assess and enhance the effectiveness of community initiatives	➡	Review the Group's community investment and engagement strategies – the longer term roadmap, the strategic focus and framework
	Increase staff participation in community activities	●	Explore new community development initiatives that align with the Group's focus areas and challenges common to the communities where we operate

GRI Index

To facilitate stakeholders in understanding and benchmarking our corporate responsibility performance, our reporting follows the Global Reporting Initiative G3 disclosure framework, which is an internationally recognised set of indicators for economic, environmental and social aspects of business performance. GRI guidelines help companies in selecting material content and key performance indicators. For more on GRI, please see www.globalreporting.org.

Profile Disclosure	Description	Coverage	Page(s)
Strategy Analysis and Profile			
1.1	Statement from the most senior decision maker of the organisation	●	7, 12
1.2	Description of key impacts, risks and opportunities	◐ (partially reported)	7, 12, 76, 77, 84
2.1-2.6	Name, location of headquarters, ownership and legal form, structure, countries of operation, primary brands, products and/or services	●	2, 129-131, 209
2.7	Markets served	●	209
2.8	Scale of the reporting organisation	●	2, 209
2.9	Significant changes during the reporting period regarding size, structure or ownership	●	11, 49, 67, 76
2.10	Awards received in the reporting period	●	46
Report Parameters			
3.1-3.5	Reporting period, reporting cycle, contact point and content selection process	●	76, 171-173 of Annual Report 2010
3.6-3.8	Boundary of the report and any specific limitations	●	76
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	●	76, 197, 198
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied	●	76
3.12	Table identifying the location of the Standard Disclosures	●	202, 203
3.13	Policy and current practice with regard to seeking external assurance for the report	●	76, 204
Governance, Commitments and Engagement			
4.1	Governance structure of the organisation, committees under the highest governance body e.g. setting strategy or organisational oversight	●	100-103, 107-123
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	●	107-123
4.3	For organisations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members	●	100-103, 107-123
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	●	78, 82, 122, 123
4.14	List of stakeholder groups engaged by the organisation	●	77, 78
4.15	Basis for identification and selection of stakeholders with whom to engage	●	77

● *fully reported* ◐ *partially reported*

Profile Disclosure/ Performance Indicators	Description	Coverage	Page(s)
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	●	77, 78
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded	●	77, 78
Economic			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	●	54-74, 197
Environment			
EN3	Direct energy consumption by primary energy source	●	197, 199
EN4	Indirect energy consumption by primary source	●	197, 199
EN5	Energy saved due to conservation and efficiency improvements	●	197
EN6	Initiatives to provide energy efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	●	85, 86, 88
EN10	Percentage and total volume of water recycled and reused	●	87
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	●	93, 94
EN16	Total direct and indirect greenhouse gas emissions by weight	●	197, 199
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	●	85, 86, 88
EN22	Total weight of waste by type and disposal method	●	88, 89, 197, 199
Social: Labour Practices and Decent Work			
LA1	Total workforce by employment type, employment contract, and region	●	197, 198
LA2	Total number and rate of employee turnover by age group, gender, and region	●	80, 197, 198
LA4	Percentage of employees covered by collective bargaining agreements	●	198
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	●	91, 197
LA12	Percentage of employees receiving regular performance and career development reviews	●	198
Social: Human Rights			
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	●	81
HR4	Total number of incidents of discrimination and actions taken	●	81
Social: Society			
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	●	81
SO4	Actions taken in response to incidents of corruption	●	81

Independent Assuror's Statement

Terms of Engagement
This Assurance Statement has been prepared for The Hongkong and Shanghai Hotels, Limited.

Lloyd's Register Quality Assurance Ltd. (LRQA) was commissioned by The Hongkong and Shanghai Hotels, Limited (HSH) to assure its Sustainability Review 2011 (hereafter referred to as "the Report") included within the Annual Report 2011 for the financial year ending 31 December 2011. The Report relates to the sustainability performance of HSH.

Our assurance covered HSH head office in Hong Kong and those properties and businesses where HSH has operational control.

Management Responsibility
HSH's management was responsible for preparing the Report and for maintaining effective internal controls over the data and information disclosed. LRQA's responsibility was to carry out an assurance engagement on the Report in accordance with our contract with HSH.

Ultimately, the Report has been approved by, and remains the responsibility of HSH.

LRQA's Approach
Our verification has been conducted against the Global Reporting Initiative Sustainability Reporting Guidelines (GRI G3), 2006. The objectives of the assurance engagement were to:

- Validate HSH's self-declaration of meeting GRI G3 application level C
- Verify HSH's reporting processes provide reliable data and information.

To form our conclusions the assurance was undertaken as a sampling exercise and 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.

Level of Assurance & Materiality
The opinion expressed in this Assurance Statement has been formed on the basis of a limited level of assurance and applying professional judgement for materiality.

LRQA's Opinion
Based on LRQA's approach nothing has come to our attention that would cause us to believe that the Report does not meet the requirements for GRI's C+ application level.

It is also our opinion that HSH's reporting processes provide reliable data and information as we have seen nothing to contradict this conclusion.

LRQA's Recommendations
HSH should:

- Complete its implementation of a systematic approach to stakeholder engagement to ensure future reports contain relevant information
- Implement a programme for establishing internal data verification
- Continue developing the data management systems to improve accuracy and reporting consistency.

William Tsui **10th February 2012**
LRQA Lead Verifier
On behalf of Lloyd's Register Quality Assurance Limited
22nd Floor, Dah Sing Financial Centre,
108 Gloucester Road, Wanchai, Hong Kong

LRQA Reference: HKG6008943/0003

Note 1: No source data was verified for its accuracy and completeness as in accordance with our contract; our verification was carried out only in the HSH Head Office, St. George's Building, 2 Ice House Street, Central, Hong Kong.
Note 2: Economic performance data was taken direct from the audited financial accounts.

GRI Accreditation Statement

Statement
GRI Application Level Check

GRI hereby states that **The HongKong and Shanghai Hotels, Limited** has presented its report "Sustainability Report 2011" to GRI's Report Services which have concluded that the report fulfills the requirement 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.

Amsterdam, February 24th 2012

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

The "+" has been added to this Application Level because The HongKong and Shanghai Hotels, Limited has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

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 February 17th 2012. GRI explicitly excludes the statement being applied to any later changes to such material.*

Glossary

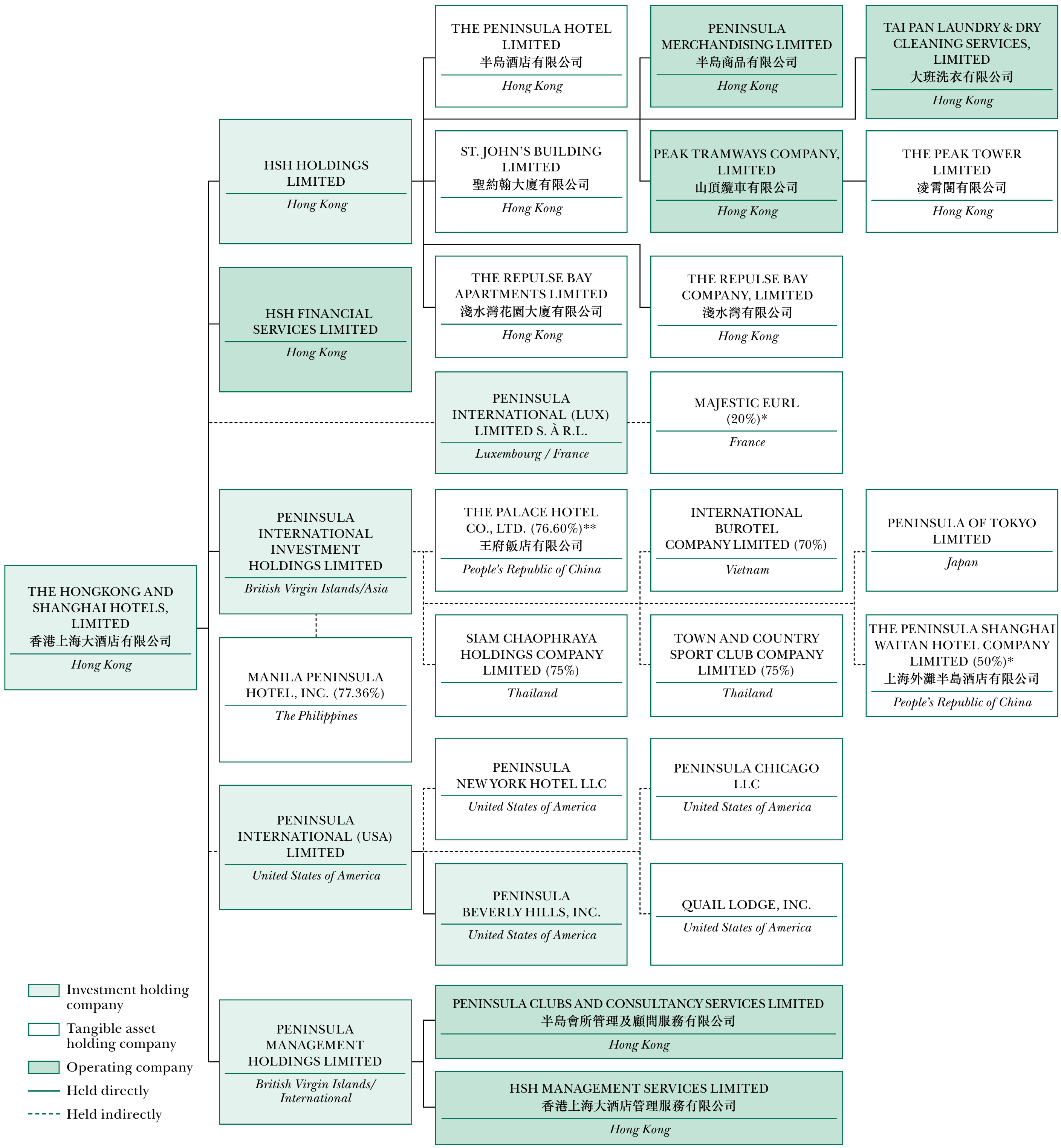
Terms	
Biofuel	Fuel whose energy is derived from biological sources e.g. biomass or biogases.
Back-of-house	Staff-only areas, usually in a hotel.
Carbon Dioxide Equivalent (CO_2e)	The "CO_2e" measures how much global warming a given type and amount of greenhouse gas may cause, using the equivalent amount or concentration of carbon dioxide (CO_2) as the reference.
Carbon intensity	Amount of carbon dioxide released per unit of energy produced (usually CO_2 per Mega Joules of energy).
Carbon footprint	The total set of greenhouse gas (GHG) emissions caused by an organisation, not always expressed in spatial terms.
Compact fluorescent lamps (CFLs)	Compact fluorescent lamps are low energy lights, using around a third to a fifth less energy with a longer life.
Corporate responsibility	A systematic approach whereby a business monitors and ensures its compliance with the law, ethical standards, and international standards relating to the environment, consumers, employees, communities and other stakeholders.
Sustainable development	Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Source: "Our Common Future", 1987, World Commission on Environment and Development.
Diversion rate	Waste diversion is the process of diverting waste from landfill through recycling, reuse or other means, expressed as a percentage of total waste arising in an organisation, for example.
Front-of-house	In sight of guests/customers, staff at front-of-house are visible representatives of the company.
Global Reporting Initiative (GRI)	A non-profit organisation that produces one of the world's most prevalent standards for sustainability reporting.
Greenhouse gas (GHG) emissions	Also referred to as GHG. Emissions of gasses (e.g. carbon dioxide, methane) which have the potential to cause earth warming.
HACCP	Hazard Analysis and Critical Control Points (HACCP) is an internationally recognised food safety and hygiene standard for commercial kitchens.
Health and safety	Responsibility to protect the health and welfare of stakeholders, namely employees, customers, contractors and suppliers.
Indoor Air Quality (IAQ)	Refers to the air quality within and around buildings and structures, especially as it relates to the health and comfort of building occupants.
IUCN Red List	The world's most comprehensive inventory of the global conservation status of biological species (www.iucnredlist.org).

Terms	
Light-emitting diode (LED)	A semiconductor light source, better than incandescent light sources: lower energy consumption, longer lifetime, improved robustness, smaller size, and faster switching.
LEED	Leadership in Energy and Environmental Design: a rating for the design, construction and operation of green buildings.
Life cycle	The stages of a product's life from-cradle-to-grave (i.e. from raw material extraction through materials processing, manufacturing, distribution, use, repair and maintenance, to disposal or recycling).
Lost Day Rate	Working days taken off due to work-related illness and workplace injuries. An injury is a non-fatal or fatal injury arising out of or in the course of work. The lost day rate is the number of lost work days per 100 equivalent employees per year. It is calculated as the Total Days Lost multiplied by 200,000 and then divided by total hours worked. The factor 200,000 is the annual hours worked by 100 employees, based on 40 hours per week for 50 weeks a year.
Lost Time Injury Rate	Represents the number of injuries per 100 equivalent employees per year. It is calculated as the Total Injuries multiplied by 200,000 and then divided by total hours worked. The factor 200,000 is the annual hours worked by 100 employees, based on 40 hours per week for 50 weeks a year.
Marine Stewardship Council (MSC)	An independent non-profit organisation with an ecolabel and fishery certification programme that is internationally recognised (www.msc.org).
Occupational disease	A disease arising from the work situation or activity (e.g. stress or regular exposure to harmful chemicals), or from a work-related injury. The occupational disease rate is the frequency of occupational diseases relative to the total time worked by the total workforce in the reporting period.
Ozone-depleting substance (ODS)	Any substance with an ozone depletion potential (ODP) greater than 0 that can deplete the stratospheric ozone layer. Most ozone-depleting substances are controlled under the Montreal Protocol and its amendments, and include CFCs (chlorofluorocarbons), HCFCs (hydrochlorofluorocarbons), halons, and methyl bromide. CFC-11 is a measure used to compare various substances based on their relative ozone depletion potential.
Responsible tourism	Tourism that attempts to have a low impact on the environment and local culture, while helping to generate future employment for local people.
Safety Management System	Management system designed to manage health and safety, environmental and general risk of a company's operations.
Stakeholders	Groups or individuals that are affected by or can affect a company's activities.
Sustainable building	Also known as "green building". A building which is environmentally responsible and resource-efficient throughout its life cycle.

Terms	
Sustainable luxury	Luxury items or services which maintain a level of responsibility to both the environment and society.
Sustainable procurement	Considering sustainability in procurement decisions, alongside other factors such as price and quality.
Variable Frequency Drive (VFD)	Energy saving devices that match motor speed to output requirement, so only the energy that is needed is produced.
Volatile Organic Compound (VOC)	Substances that are typically gas at room temperatures and can cause health issues if inhaled. Paints, for example, can emit VOCs.
Water footprint	Total volume of fresh water used to produce the goods and services consumed by an individual, community or business.
Water stress	In general terms, a country or region is said to experience water stress when annual water supplies drop below 1,700 cubic metres per person per year.

PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY

As at 31 December 2011



The Group's subsidiaries, associates and jointly controlled entity which principally affect the results, assets and liabilities of the Group are shown in the chart above. All subsidiaries are 100% owned except where indicated and their details are disclosed in Note 15.

* The Group's interests in Majestic EURL (associate) and The Peninsula Shanghai Waitan Hotel Company Limited (jointly controlled entity) are held indirectly. Details of the Group's associates and jointly controlled entity are disclosed in notes 16 and 17 respectively.

** The Palace Hotel Co., Ltd. ("TPH") owns 100% interest in The Peninsula Beijing ("PBJ"). On 5 September 2011, the Group increased its legal interest in TPH from 42.13% to 76.6%. Following the completion of the acquisition, the Group now owns 100% economic interest in PBJ with a reversionary interest to the PRC partner at the end of the co-operative joint venture period.

INFORMATION FOR INVESTORS

Board of Directors

The Hon. Sir Michael Kadoorie [EN]
Non-Executive Chairman

Ian Duncan Boyce [EAFR]
Non-Executive Deputy Chairman

Executive Directors

Clement King Man Kwok [EF]
Managing Director & Chief Executive Officer

Neil John Galloway [F]
Chief Financial Officer

Peter Camille Borer
Chief Operating Officer

Non-Executive Directors

Ronald James McAulay
William Elkin Mocatta
John Andrew Harry Leigh [EF]
Nicholas Timothy James Colfer

Independent Non-Executive Directors

Dr. the Hon. Sir David Kwok Po Li [N]
Robert Chee Siong Ng
Robert Warren Miller [R]
Patrick Blackwell Paul [AR]
Pierre Roger Boppe
Dr. William Kwok Lun Fung [AN]

Company Secretary

Christobelle Yi Ching Liao

Auditor

KPMG
Certified Public Accountants, Hong Kong

E – Executive Committee Member
A – Audit Committee Member
F – Finance Committee Member
R – Remuneration Committee Member
N – Nomination Committee Member

Shareholders' calendar

For entitlement to attend and vote at the Annual General Meeting
Last day to register: 16 May 2012 4:30pm
Closure of register of members: 17 May 2012 to 21 May 2012 (both days inclusive)

Annual General Meeting: 21 May 2012

For entitlement to receive the final dividend
Last day to register: 24 May 2012 4:30pm
Closure of register of members: 25 May 2012 to 29 May 2012 (both days inclusive)

Deadline for scrip dividend election forms: 20 June 2012 4:30pm

Final dividend: 10 HK cents per share
Payable: 29 June 2012

Company website

HSH Corporate: www.hshgroup.com

Investor enquiries

Webpage: www.hshgroup.com/ir
E-mail: ir@hshgroup.com

Corporate responsibility enquiries

Webpage: www.hshgroup.com/cr
E-mail: cr@hshgroup.com

Registered office

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Tel: (852) 2840 7788
Fax: (852) 2810 4306

Registrar

Computershare Hong Kong Investor Services Limited
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Customer Services Hotline: (852) 2862 8555
Fax: (852) 2865 0990/2529 6087
E-mail: hkinfo@computershare.com.hk

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Stock Code: 00045

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Toll Free: (1-866) 288 8889
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China 4001 200 618
France 00 800 3046 5111
Germany 00 800 3046 5111
Italy 800 789 365
Japan 0053 165 0498
Mexico 001 800 123 4646
Russia 810 800 2536 1012
Singapore 001 800 2828 3888
Spain 900 937 652
Switzerland 00 800 3046 5111
Taiwan 00 800 2828 3888
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Websites

The Hongkong and Shanghai Hotels, Limited:
www.hshgroup.com

Peninsula Hotels:
www.peninsula.com

The Repulse Bay:
www.therepulsebay.com

The Peak:
www.thepeak.com.hk

The Landmark:
www.thelandmarkvietnam.com

Thai Country Club:
www.thaicountryclub.com

Quail Lodge Golf Club:
www.quaillodge.com

Peninsula Merchandising Limited:
www.peninsulaboutique.com

Commercial Properties

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