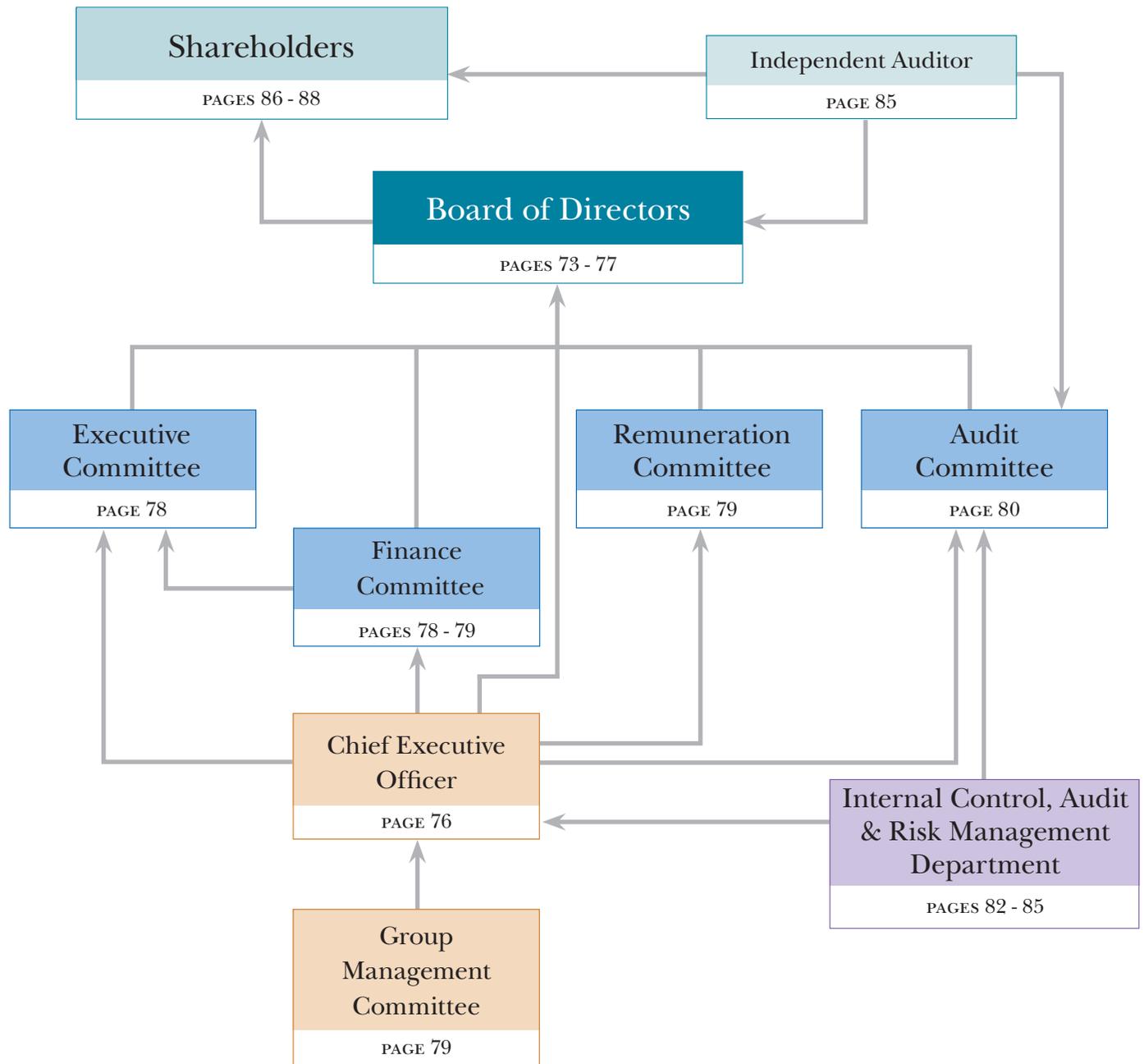


CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE STRUCTURE



HSB COMMITMENT

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

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

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

CODE ON CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

THE BOARD

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

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

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

Board composition

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

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

12 of our Directors are non-executive and independent of management, who promote a critical and independent review of the Group's business decisions and management processes. On 3 January 2011, the Board increased the number of Independent Non-Executive Directors from five to six by appointing Dr. William K.L. Fung as an Independent Non-Executive Director. The Board now has six well qualified Independent Non-Executive Directors, a number which exceeds the minimum requirement of the Listing Rules as to the appointment of at least three independent non-executive directors, as well as the recommended best practice for at least one-third of the Board being independent non-executive directors. The six Independent Non-Executive

Directors bring a wealth of experience, knowledge and independent judgement and play positive roles on the Board. The non-executive members of the Board also bring a wide range of business and financial experience to the Board and together with the Independent Non-Executive Directors, contribute to the control environment and quality of business decisions taken by the Board.

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

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

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

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

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

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

Appointment, re-election and removal

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

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

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

Non-Executive Chairman:

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

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

Chief Executive Officer:

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

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

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

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

THE BOARD COMMITTEES AND GROUP MANAGEMENT COMMITTEE

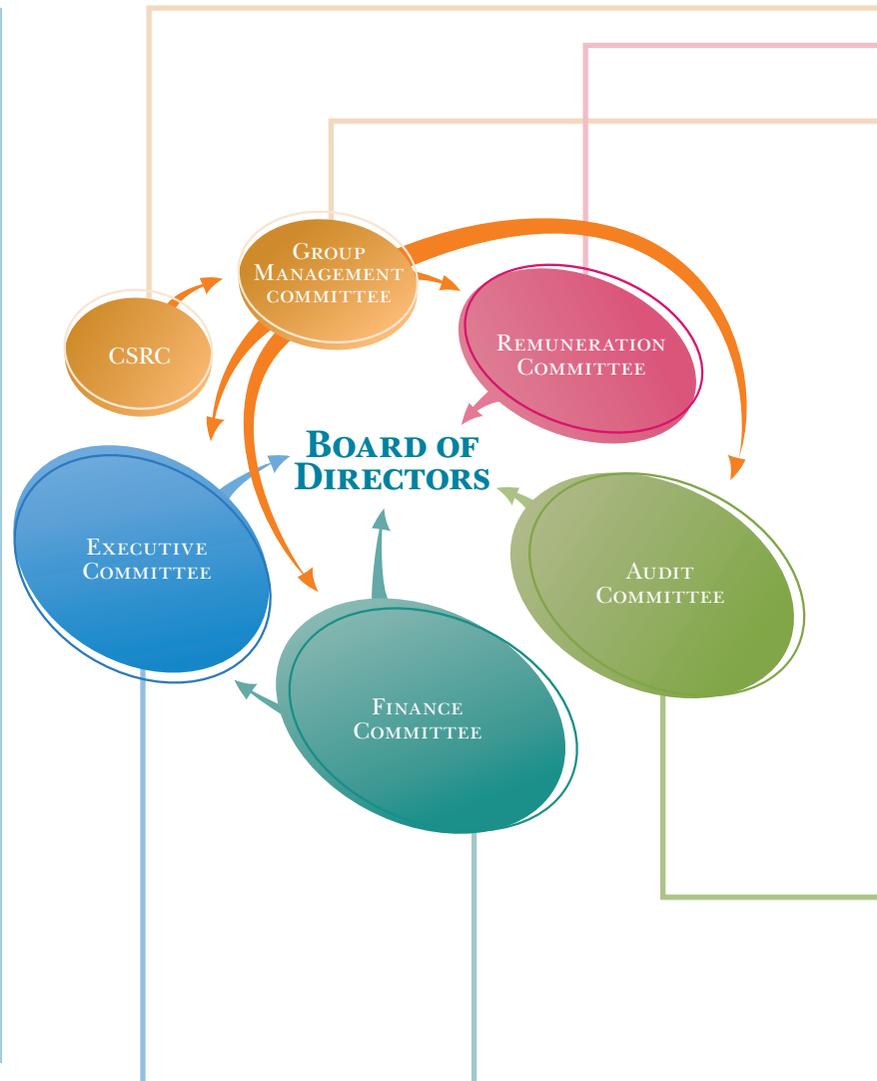
As part of good corporate governance practice, a number of Board Committees have been established. These Committees include representation from Non-Executive and Independent Non-Executive Directors whose independent judgements are important to the execution of the controls and corporate governance standards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

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

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

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

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



EXECUTIVE COMMITTEE

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

Main responsibilities:

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

Highlights of 2010:

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

FINANCE COMMITTEE

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

Main responsibilities:

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

GROUP MANAGEMENT COMMITTEE

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

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

Main responsibilities:

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

AUDIT COMMITTEE

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Highlights of 2010:

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

REMUNERATION COMMITTEE

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

Main responsibilities:

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

Highlights of 2010:

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

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

CORPORATE SOCIAL RESPONSIBILITIES COMMITTEE (CSRC)

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

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

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

AUDIT COMMITTEE

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

Main responsibilities:

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

Highlights of 2010:

- a) on financial reporting and control reviews:
- reviewed the completeness and accuracy of the 2009 Annual Report, the 2010 Interim Report and formal announcements relating to the Group's financial performance;
 - reviewed the financial reporting and audit processes and policies;
 - reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget;
 - reviewed the summary of internal general representation letters, and KPMG's representation letter;
 - conducted discussions with the independent auditor on financial reporting, compliance, accounting treatment and impact on the Company of accounting standards;
 - reviewed connected transactions and related party transactions; and
 - endorsed the adoption of revised accounting policies for compliance with new accounting standards.
- b) on the Company's internal audit function:
- reviewed the effectiveness of the Group's financial controls, internal control and risk management systems;
 - agreed the scope of internal audit for 2010, discussed the internal audit reports and matters arising from the reports and reviewed progress against recommendations made in the internal audit reports;
 - monitored and assessed the role and effectiveness of the Company's internal audit function and made enquiries to management on matters that have come to its attention; and
 - approved the appointment of General Manager, Audit and Risk Management.
- c) on the Company's independent auditor, KPMG:
- assessed the independence of KPMG and reviewed their policies for maintaining independence;
 - reviewed non-audit work awarded to KPMG;
 - approved the 2009 KPMG fee and considered their re-appointment; and
 - approved the audit plan for 2010 financial report.

DIRECTORS' RESPONSIBILITIES AND DISCLOSURES

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

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

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

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

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

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

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

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

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

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

EXTENDED APPLICATION OF THE SECURITIES CODE

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

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

INTERNAL CONTROLS, AUDIT AND RISK MANAGEMENT

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

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

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

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

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

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

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

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

INTERNAL CONTROL FRAMEWORK

Categories for assessing extent of objective achievement under COSO framework	Internal control system components	How HSH implement the internal control system components
<ul style="list-style-type: none"> • Effectiveness and efficiency of operations • Reliability of financial reporting • Compliance with applicable laws and regulations 	<p><i>Control environment</i></p> <ul style="list-style-type: none"> • Establishes the foundation for the internal control system by providing fundamental discipline and structure 	<ul style="list-style-type: none"> • Establishment of the CMAM, Purchasing and Tendering Procedures, Code of Conduct and Equal Opportunities Policy and other operational procedures • Management exercising discipline over control and approval processes • Segregation of duties • Well defined organisational structure and responsibilities • Set clear business objectives
	<p><i>Risk assessment</i></p> <ul style="list-style-type: none"> • The identification and analysis by management of relevant risks to achieve, predetermined objectives 	<ul style="list-style-type: none"> • Operational management reviews and evaluates the risks
	<p><i>Control activities</i></p> <ul style="list-style-type: none"> • Implements policies, procedures and practices that ensure management objectives are achieved and risk mitigation strategies are carried out 	<ul style="list-style-type: none"> • Implementation of CMAM, Purchasing and Tendering Procedures, Code of Conduct and Equal Opportunities Policy and other operational procedures • Group Management Committee regular review on control activities • Key controls checklists
	<p><i>Information and communication</i></p> <ul style="list-style-type: none"> • Supports all other control components by communicating control responsibilities to employees and by providing information in a form and time frame that allows people to carry out duties 	<ul style="list-style-type: none"> • Monthly financial report for management review • Periodical general managers, financial controllers and marketing and human resources conferences • Company's intranet • Regular training including on-line e-learning programme and classroom training programme
	<p><i>Monitoring</i></p> <ul style="list-style-type: none"> • Management or other parties outside the process oversee the internal control process and the application of independent methodologies, by employees within the process 	<ul style="list-style-type: none"> • Checks and balances system within operational function • Internal audit • Periodical financial review by the Board • General Representation Letter • Checking compliance with Hong Kong Financial Reporting Standards and Listing Rules and other regulations

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

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

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

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR

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

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

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

CODE OF CONDUCT AND EQUAL OPPORTUNITIES POLICY

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

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

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

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

All employees are required to abide by this revised Code of Conduct and to acknowledge receipt of it by December 2010. Managers are required to ensure their team fully understands and complies with the standards and requirements stipulated in the Code. Internal training, including online e-learning

programme to managerial level staff, as well as classroom training programme to non-managerial staff in respect of the Conduct module of the Code of Conduct were launched in September and December 2010 respectively. The internal online e-learning programme for Equal Opportunities module will be launched in 2011.

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

SHAREHOLDING INFORMATION

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

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

SHAREHOLDERS' RIGHTS

Shareholders holding not less than 1/20 of paid-up capital of the Company can convene an extraordinary general meeting by requisition, by stating the objects

of the meeting and depositing the signed requisition at the registered office of the Company. The procedures for shareholders to convene and put forward proposals at an annual general meeting or extraordinary general meeting and to vote by poll at general meetings are posted on the Company's website.

ANNUAL GENERAL MEETING

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

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

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

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

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

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



2010 Annual General Meeting

EMPLOYEES' ENGAGEMENT

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

Information on our business, performance and developments are regularly provided to our employees. This is communicated through the Chief Executive Officer's briefings at the head office, to the operations during his regular visits and via a webcast

in 2010. The Company also has other communication channels including our staff newsletters, training programmes and our intranet which is accessible by all operations. HSH's intranet also provides a platform for our employees to raise suggestions to the management and Executive Directors. Department heads and general managers meet regularly with Executive Directors, through the operations coordination meeting, monthly review meeting, general managers, marketing and human resources conferences and financial controllers meeting, to share updates on businesses and best practices and had been used as a means of information dissemination and collection method.

OTHER STAKEHOLDERS

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

OTHER INFORMATION TO SHAREHOLDERS

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

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