THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 45) website: www.hshgroup.com

2010 Interim Results

HIGHLIGHTS

Key financial results

- Earnings before interest, tax, depreciation and amortisation increased by 19% to HK$490 million.
- Underlying profit attributable to shareholders increased by 26% to HK$142 million.
- Profit attributable to shareholders increased by 31% to HK$605 million, after including property revaluation gains (net of tax and non-controlling interests).
- Earnings per share and underlying earnings per share of HK$0.41 (2009: HK$0.32) and HK$0.10 (2009: HK$0.08) respectively.
- Shareholders' funds as at 30 June 2010 amounted to HK$23,461 million or HK$15.89 per share (31 December 2009: HK$23,040 million or HK$15.67 per share).
- Adjusted net asset value as at 30 June 2010 amounted to HK$29,345 million (HK$19.88 per share).
- Gearing ratio decreased to 7% (31 December 2009: 8%).
- Interim dividend of 4 HK cents (2009: 3 HK cents) per share.

Milestones

- The Peninsula Shanghai held its grand opening ceremony on 18 March 2010, marking the return of HSH to one of its founding cities after an absence of 55 years. The grand opening of the Arcade within The Peninsula Shanghai was held on 1 July 2010.
- The Peninsula Paris project made steady progress in the first half year and the hotel is expected to open in 2012.
- In May 2010 the Company, through its wholly-owned subsidiary Peninsula of Tokyo Limited, signed bilateral loans of JPY 6 billion each with two international banks. The five-year term loans are principally to refinance the original construction loans for The Peninsula Tokyo, which was opened in 2007.

FINANCIAL AND OPERATING HIGHLIGHTS

	For the six months ended 30 June 2010	2009	Increase/ (Decrease)
CONSOLIDATED INCOME STATEMENT (HK$m)			
Turnover	**2,176**	1,962	11%
EBITDA	**490**	411	19%
Profit attributable to shareholders	**605**	462	31%
Underlying profit attributable to shareholders**	**142**	113	26%
Interim dividend	**59**	44	34%
Earnings per share (HK$)	**0.41**	0.32	28%
Underlying earnings per share (HK$) **	**0.10**	0.08	25%
Interim dividend per share (HK cents)	**4**	3	33%
Interim dividend cover (times)	**10.3x**	10.5x	(2%)
Interest cover (times)	**6.2x**	6.2x	-
Weighted average gross interest rate	**3.2%**	3.2%	-
	As at 30 June 2010	As at 31 December 2009	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)			
Total assets	**33,558**	32,815	2%
Net assets attributable to shareholders	**23,461**	23,040	2%
Adjusted net assets attributable to shareholders **	**29,345**	28,541	3%
Net assets per share (HK$)	**15.89**	15.67	1%
Adjusted net assets per share (HK$) **	**19.88**	19.42	2%
Net borrowings	**1,888**	1,990	(5%)
Net debt to EBITDA (annualised) (times)	**1.9x**	2.4x	(21%)
Net debt to equity	**8%**	9%	(1pp) *
Gearing	**7%**	8%	(1pp) *
	For the six months ended 30 June **2010**	2009	
CONSOLIDATED STATEMENT OF CASHFLOWS (HK$m)			
Net cash generated from operating activities	**366**	258	42%
Capital expenditure	**103**	106	(3%)
Investment in The Peninsula Paris project	**-**	1,044	n/a
Net cash inflow/(outflow) after interest and dividends before financing activities	**188**	(978)	n/a
Capital expenditure to revenue	**4%**	5%	(1pp) *
SHARE INFORMATION (HK$)			
Highest share price	**13.06**	8.70	
Lowest share price	**10.32**	4.26	
Period end closing share price	**12.94**	7.78	
OPERATING INFORMATION			
Number of hotel rooms (as at 30 June)	**3,012**	2,874	5%
Average occupancy rate			
- Hong Kong	**67%**	52%	15pp *
- Other Asia	**57%**	46%	11pp *
- United States of America	**60%**	53%	7pp *
Average room rate (HK$)			
- Hong Kong	**3,779**	3,915	(3%)
- Other Asia	**1,837**	1,775	3%
- United States of America	**4,172**	3,937	6%
RevPAR (HK$)			
- Hong Kong	**2,522**	2,023	25%
- Other Asia	**1,039**	822	26%
- United States of America	**2,496**	2,069	21%

** pp denotes for percentage points.*
*** Please refer to calculation in the Financial Review.*

The Directors hereby announce the unaudited interim results of the Company for the six months ended 30 June 2010. The interim financial report has been reviewed by the Company's Audit Committee, comprising a majority of Independent Non-Executive Directors, one of whom chairs the Committee. The interim financial report is unaudited but has been reviewed by the Company's auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the Interim Report to be sent to shareholders.

FINANCIAL REVIEW

The Group's adjusted net asset value

The Group's interim financial report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRS). HKFRS are issued by the Hong Kong Institute of Certified Public Accountants. Whilst certain management judgements may be applied when preparing the interim financial report, the Group is obliged to follow the framework of the HKFRS and a set of prescriptive standards under the HKFRS to measure, recognise and record its transactions, as well as to present and disclose the resultant accounting effects in its interim financial report without any departures.

To ensure that the Group's interim financial report is in full compliance with the HKFRS, deferred taxation has to be provided for all temporary differences between the carrying amounts of assets and liabilities and their tax bases. Accordingly, the deferred tax liabilities of the Group as at 30 June 2010 included HK$3,164 million, calculated based on the Hong Kong profit tax rate, in respect of revaluation surpluses on the Group's Hong Kong investment properties. It is the Directors' view that all the Group's investment properties are held for the long term and that if any Hong Kong investment properties were sold, tax would not be payable on such disposal as the gains would be capital in nature and would not be subject to tax in Hong Kong. The Directors therefore expect that the aforesaid HK$3,164 million provision made as at 30 June 2010 would not materialise.

For the purpose of interim financial report 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 hotels 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 interim financial report 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 hotels and golf courses as at 30 June 2010, the details of which are set out on page 7. If these assets were to be stated at fair market value instead of at cost less depreciation and any provision for impairment (and deferred tax is not provided on the revaluation surplus of the hotel property in Hong Kong on the same rationale explained above), the Group's net assets attributable to shareholders would increase by HK$2,720 million.

In the light of the above, the Directors have provided the users of the interim financial report with a calculation of the Group's adjusted net asset value as at 30 June 2010 on the basis set out below:

HK$m		As at 30 June 2010		As at 31 December 2009
Net assets attributable to shareholders per statement of financial position		**23,461**		23,040
Write-back the deferred tax liabilities in respect of revaluation surpluses on Hong Kong investment properties		**3,164**		3,077
Adjusting the value of hotels and golf courses to fair market value	**2,844**		2,559	
Less: Related deferred tax and non-controlling interests	**(124)**		(135)	
		2,720		2,424
Adjusted net assets attributable to shareholders		**29,345**		28,541
Net assets per share as per statement of financial position (HK$)		**15.89**		15.67
Adjusted net assets per share (HK$)		**19.88**		19.42

The Group's underlying earnings

The Group's operating results are mainly derived from the operation of hotels and letting of commercial properties. However, to comply with the HKFRS, the Group is required to include non-operating and non-recurring items, such as the increase in fair value of investment properties and impairment provision adjustments for certain assets, in its income statement. As the Group continues to be managed with principal reference to its underlying operating cash flows and recurring earnings, the Directors have provided for the users of its interim financial report 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:

	For the six months ended 30 June	
HK$m	**2010**	2009
Profit attributable to shareholders	**605**	462
Less:		
Increase in fair value of investment properties	**(547)**	(413)
Share of property valuation adjustment of a jointly controlled entity, net of tax	**(18)**	-
Add back:		
Impairment loss on interest in associates	**-**	15
Tax and non-controlling interests attributable to non-operating items	**102**	49
Underlying profit attributable to shareholders	**142**	113
Underlying earnings per share (HK$)	**0.10**	0.08

Income Statement

The Group’s turnover for the six months ended 30 June 2010 of HK$2,176 million was HK$214 million or 11% above the same period in 2009. The Hotels division accounted for 87% of this increase in revenue, a large portion of which was attributed to improved occupancy and higher food and beverage income. For the Commercial Properties division, demand for high end residential units and retail premises remained steady in the first half of 2010, resulting in a 4% growth in rental revenue. All the businesses in the Clubs and Services division also recorded revenue growth, leading to an overall increase in turnover of the division by 8%. Details of the operating performance of the Group’s individual business divisions are summarised in the Operating Review.

With a total revenue growth of HK$214 million (11%), the Group's total operating costs increased by HK$123 million (7%) for the first six months of 2010 as compared to the same period in 2009, so that 43% of the revenue growth flowed through to operating profit.

The Group’s consolidated EBITDA (earnings before interest, taxation, depreciation and amortisation) increased by 19% year-on-year to HK$490 million. The breakdown of EBITDA by business segment and geographical segment is set out in the table below:

EBITDA HK$m	**Hong Kong**	**Other Asia**	**United States of America**	**Total**	**Change 2010/2009**
2010					
Hotels	**226**	**38**	**(37)**	**227**	**38%**
Commercial Properties	**214**	**13**	**-**	**227**	**4%**
Clubs and Services	**50**	**8**	**(22)**	**36**	**33%**
	490	**59**	**(59)**	**490**	**19%**
2009					
Hotels	198	18	(51)	165	
Commercial Properties	203	16	-	219	
Clubs and Services	34	8	(15)	27	
	435	42	(66)	411	

Details of the operating performance of individual operations are set out in the Operating Review on pages 9 to 13.

EBITDA margin represents EBITDA as a percentage of turnover and is analysed in the table on the right.

EBITDA margin	**2010**	2009
Hotels	**14%**	11%
Commercial Properties	**68%**	68%
Clubs and Services	**19%**	15%
Overall EBITDA margin	**23%**	21%
Arising in:		
Hong Kong	**49%**	49%
Other Asia	**8%**	6%
United States of America	**(15%)**	(17%)

During the period, the EBITDA margin of the Hotels division and the Clubs and Services division improved by 3% and 4% respectively. However, the EBITDA margin of the Commercial Properties division remained unchanged at 68%, mainly due to the increase in property maintenance and utilities costs, which had an offsetting effect to the increased rental revenue.

After taking into account depreciation and net financing charges, profit after financing charges amounted to HK$268 million or 40% above the same period in 2009.

With respect to non-operating items, the increase in fair value of investment properties for the current period amounted to HK$547 million (2009: HK$413 million), mainly attributable to the revaluation surplus on The Repulse Bay Complex in Hong Kong.

The Group has a 50% interest in The Peninsula Shanghai complex, which is owned by a jointly controlled entity. The hotel soft opened on 18 October 2009 but did not commence its full operations until after it held its grand opening ceremony on 18 March 2010. Trading results since the grand opening have been good. However, as the revenue and costs of the hotel had not yet stabilised in its initial start-up phase, the Group’s share of loss in relation to The Peninsula Shanghai for the first half of 2010 amounted to HK$17 million, after accounting for the Group’s share of pre-opening expenses of HK$8 million and a post-tax non-operating gain of HK$18 million arising from the property valuation adjustment.

The profit attributable to HSH shareholders amounted to HK$605 million for the six months, compared to HK$462 million for the same period in 2009. This was after an increased tax charge of HK$179 million (2009: HK$116 million), including the impact of deferred taxation arising from the increase in fair value of investment properties of the Group.

The earnings per share of HK$0.41 was 28% above that of the same period in 2009. Excluding non-operating items and the related tax and non-controlling interests, underlying earnings per share amounted to HK$0.10, representing an increase of 25% from 2009.

The Directors have resolved to pay an interim dividend of 4 HK cents per share (2009: 3 HK cents per share).

Statement of Financial Position

The Group’s statement of financial position remained strong. The net assets attributable to shareholders as at 30 June 2010 amounted to HK$23,461 million or HK$15.89 per share (31 December 2009: HK$23,040 million or HK$15.67 per share).

A summary of the Group’s interests in hotel, commercial and other properties showing both the book value and the market value as at 30 June 2010 is set out in the following table:

HK$m	Group’s Interest (%)	Market Value	Book Value
Hotels			
Consolidated hotels			
The Peninsula Hong Kong	100%	9,339	7,578
The Peninsula Beijing	42%	1,702	1,291
The Peninsula New York	100%	1,434	1,028
The Peninsula Chicago	100%	1,131	1,087
The Peninsula Tokyo	100%	1,473	1,189
The Peninsula Bangkok	75%	746	844
The Peninsula Manila	77%	306	278
		16,131	13,295
Jointly controlled entity *(value attributable to the Group)*			
The Peninsula Shanghai	50%	1,703	1,703
Total for hotels		17,834	14,998
Commercial properties			
The Repulse Bay	100%	7,981	7,981
Repulse Bay Apartments	100%	4,979	4,979
Repulse Bay Garage	100%	85	85
The Peak Tower	100%	1,021	1,021
St. John's Building	100%	654	654
The Landmark	70%	93	93
Total for commercial properties		14,813	14,813
Other properties			
Thai Country Club golf course	75%	230	230
Quail Lodge golf course	100%	35	26
Vacant land near Bangkok	75%	323	323
Quail Lodge land	100%	118	118
Other Hong Kong properties	100%	45	30
Total for other properties		751	727
Total		33,398	30,538

During the period, net borrowings decreased by 5% to HK$1,888 million (31 December 2009: HK$1,990 million) and the Group’s gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders’ funds, decreased to 7% (31 December 2009: 8%). Net interest cover, expressed as operating profit divided by net financing charges, remained at 6.2 times (2009: 6.2 times).

In addition to the Group’s consolidated borrowings, The Peninsula Beverly Hills (20% owned) and The Peninsula Shanghai (50% 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 Group. Including the Group’s share of the net debt of these non-consolidated entities, the net borrowings would amount to HK$3,160 million at 30 June 2010 (31 December 2009: HK$3,085 million).

The Group's interest rate risk management policy focuses on reducing the Group's exposure to changes in interest rates. As at 30 June 2010, the Group’s fixed-to-floating interest rate ratio of 47% remained comparable to that as at 31 December 2009. The weighted average gross interest rate for the period remained at 3.2% (2009: 3.2%) after taking hedging activities into account.

The Company manages its liquidity risk by constantly monitoring its loan portfolio and by obtaining sufficient borrowing facilities to meet its obligations and commitments. In May 2010, the Company, through its wholly-owned subsidiary Peninsula of Tokyo Limited, signed bilateral loans of JPY6 billion each with Australia and New Zealand Banking Group Limited and Credit Agricole Corporate and Investment Banking. The five year term loans, maturing in 2015, are principally to refinance the original construction loans for The Peninsula Tokyo, which was opened in 2007.

The newly arranged term loan facilities have extended our debt maturity profile. The facilities were fully drawn by the end of July 2010 to refinance maturing loans. The table below illustrates the maturity profile of the committed facilities of the Group as at 30 June 2010 and 31 December 2009 respectively.

HK$m	**30 June 2010**	31 December 2009
Maturing in 2010	**-**	838 (17%)
Maturing in 2011	**1,807 (34%)**	1,800 (36%)
Maturing in 2012	**1,194 (23%)**	1,142 (23%)
Maturing in 2013	**1,225 (23%)**	1,225 (24%)
Maturing in 2015	**1,059 (20%)**	-
Total committed facilities	**5,285 (100%)**	5,005 (100%)

As at 30 June 2010, approximately 77%, 10%, 6%, 3%, 3% and 1% (31 December 2009: 77%, 10%, 5%, 4%, 3% and 1%) of the Group's net assets were denominated in Hong Kong dollars, Chinese Renminbi, United States dollars, Euros, Thai Baht and Philippine Pesos respectively. These net assets were translated into Hong Kong dollars at the closing exchange rates.

Statement of Cash Flow

The statement of cash flow of the Group for the first six months of 2010 is summarised as follows:

	For the six months ended 30 June		Increased/
HK$m	**2010**	2009	(decreased)
Net cash generated from operating activities	**366**	258	42%
Purchase of fixed assets	**(103)**	(106)	(3%)
Net financing charges and dividends paid	**(75)**	(86)	(13%)
Net cash inflow before bank movements and non-recurring items	**188**	66	185%
Investment in new project - The Peninsula Paris	**-**	(1,044)	n/a
Net increase/(decrease) in bank borrowings	**106**	(15)	n/a
Exchange and other adjustments	**4**	2	100%
Net cash inflow/(outflow) for the period	**298**	(991)	n/a
Cash at banks and in hand as at 1 January	**1,835**	1,995	(8%)
Cash at banks and in hand as at 30 June	**2,133**	1,004	112%

During the period, net cash generated from operating activities increased to HK$366 million (2009: HK$258 million). Approximately half of the net cash inflow from operating activities was applied to the payments of capital expenditure, financing charges and dividends. The capital expenditure of HK$103 million (2009: HK$106 million) was mainly incurred for ongoing renovations for the Group's existing properties.

Excluding bank deposits maturing more than three months, which amounted to HK$657 million (30 June 2009: HK$363 million) and after accounting for investing and financing activities, cash and cash equivalents as at 30 June 2010 amounted to HK$1,462 million (30 June 2009: HK$624 million).

OPERATING REVIEW

The highlight of the first half of 2010 was undoubtedly the grand opening of The Peninsula Shanghai on 18 March 2010. Standing on a magnificent location directly fronting the famous Bund and adjacent to the former British Consulate buildings, the 92,160 square metre complex comprises 235 guestrooms, extensive restaurant, banqueting and other facilities, a high-end retail arcade and a hotel apartment building and provides our Company with a most fitting return to one of its founding cities after an absence of 55 years.

The Hotels division recorded a 13% increase in revenue compared with the first half of 2009. Occupancies at all of the Peninsula hotels improved as compared to last year, although the increases at the Peninsula hotels in Bangkok and Chicago were relatively small. While average room rates generally fell, these were offset by increased occupancy resulting in increased RevPAR over the same period last year.

In the Commercial Properties division, occupancies at the Group's principal assets remained largely at full capacity.

The various businesses in the Clubs and Services division have all shown improved performance as compared to the same period last year, resulting in an overall revenue increase of 8%.

Given the continuing uncertain economic environment, all operations continue to exercise strict cost control measures.

Hotels Division

Revenue for the Hotels division in the first six months of 2010 was 13% above the same period last year. Most of the hotels recorded revenue increases exceeding 10%, with the highest increases of 28% and 23% being achieved by The Peninsula Manila and The Peninsula Beijing respectively. Revenue growth was more modest for The Peninsula Chicago and The Peninsula Bangkok, at 3% and 9% respectively.

The year-to-date operating statistics for the Peninsula hotels are shown as follows:

	For the six months ended 30 June				
	Occupancy %		Average room rate (HK$)		% RevPAR change
	2010	2009	**2010**	2009	
The Peninsula Hong Kong	**67**	52	**3,779**	3,915	25
The Peninsula Shanghai	**58**	n/a	**2,601**	n/a	n/a
The Peninsula Beijing	**44**	32	**1,415**	1,418	35
The Peninsula New York	**63**	53	**4,794**	4,997	14
The Peninsula Chicago	**52**	49	**2,918**	2,935	5
The Peninsula Beverly Hills	**70**	58	**5,116**	5,221	17
The Peninsula Tokyo	**62**	56	**3,665**	3,543	14
The Peninsula Bangkok	**49**	45	**1,458**	1,549	3
The Peninsula Manila	**72**	56	**1,007**	999	30

	Occupancy %		Average monthly yield per sq ft (HK$)	
	2010	2009	**2010**	2009
Hotel Commercial Arcades				
The Peninsula Hong Kong	**99**	99	**385**	375
The Peninsula Beijing	**96**	98	**116**	116
The Peninsula New York	**100**	100	**370**	351
The Peninsula Tokyo	**100**	100	**151**	144
The Peninsula Bangkok	**100**	100	**73**	70
The Peninsula Manila	**57**	56	**17**	15
Hotel Office Space				
The Peninsula Hong Kong	**100**	85	**46**	36

The following is a summary of the performance of each hotel:

The Peninsula Hong Kong The hotel achieved a revenue increase of 12% over the same period last year. The growth has been driven by higher occupancy and increased business from the corporate and wholesale sectors. The revenues generated from the Office Tower and Arcade have also shown a small increase year-on-year.

The Peninsula Shanghai The hotel’s grand opening was held on 18 March 2010, following which the property enjoyed robust business in its rooms and food and beverage operations. The Shanghai World Expo was launched on 1 May, which helped to drive additional business to The Peninsula Shanghai. Most of the retail tenants had opened their shops by June, in time for the Peninsula Arcade’s formal opening on 1 July 2010.

The Peninsula Beijing With an improvement in commercial activities at the Chinese capital, the hotel's revenue increased by 23% over the same period last year. RevPAR also increased by 35% during the first half year. Commercial revenues from the Arcade remained strong and in line with the same period last year.

The Peninsula New York The hotel enjoyed a strong second quarter in 2010, resulting in a year-on-year revenue increase of 15%. The growth was driven by higher occupancy, supported mainly by the corporate segment, although there has also been a noticeable increase in the volume of leisure travellers to New York. The hotel’s guestroom renovation is near completion while maintenance work on the cornice is proceeding as planned.

The Peninsula Chicago The hotel's business saw some improvement in the second quarter, mainly from domestic customers and The Peninsula Chicago ended the first half with a 3% increase in revenue over the same period last year.

The Peninsula Beverly Hills Revenue improved by 16% year-on-year at the hotel, with higher occupancies and improved food and beverage income. The average room rate has been maintained at a similar level as last year.

The Peninsula Tokyo The Peninsula Tokyo recorded a revenue improvement of 12% with higher occupancy than the same period last year. The hotel faced intensive competition as other luxury hotel operators in the market adopted aggressive pricing strategies.

The Peninsula Bangkok The hotel's revenue for the first two months of 2010 was 25% above the same period last year. However, business was severely impacted by the political unrest in Bangkok which began in mid March. Occupancy and average room rates fell as a result of the state of emergency imposed by the Thai government. However, The Peninsula Bangkok was able to achieve a 9% increase in year-on-year revenue, helped by strong banquet demand.

The Peninsula Manila The hotel recorded significant revenue growth of 28% over the same period last year, following completion of renovation in most of the guestrooms and public areas. The newly renovated and re-launched Escolta restaurant was opened in November 2009. The Mi Piace restaurant was closed in June 2010 for renovation and will be re-branded as Salon de Ning at the end of the year.

Commercial Properties Division

Turnover from the Commercial Properties division was 4% higher than in the first six months of 2009. The HK$28 million increase in revenue from the Repulse Bay Arcade, Peak Tower and The Landmark was sufficient to offset the reduced revenue in other residential and office properties. The residential leasing market in Hong Kong continues to consolidate and demand for leasing of our apartments in The Repulse Bay remains positive.

The occupancies and yields of the Group's various commercial properties for the period were as follows:

	For the six months ended 30 June			
	Occupancy %		Average monthly yield per sq ft (HK$)	
	2010	2009	**2010**	2009
Commercial Properties				
The Repulse Bay (unfurnished)	**94**	92	**37**	40
The Repulse Bay (serviced)	**68**	72	**26**	30
The Repulse Bay Arcade*	**100**	78	**72**	61
The Peak Tower	**99**	100	**67**	58
St. John's Building	**95**	93	**36**	34
The Landmark, Vietnam (Residential)	**82**	97	**18**	22
The Landmark, Vietnam (Office)	**98**	99	**28**	32

* *Part of the Repulse Bay Arcade was closed for revitalisation from February to August 2009.*

The Repulse Bay Complex Turnover for the Complex was 2% higher than the same period last year, partly due to the increased revenue in 2010 from The Verandah restaurant, which was closed for renovation from mid February 2009 till the end of August 2009. The completion of the Arcade's revitalisation in August 2009 has resulted in an increase in commercial revenue as compared with last year.

The Peak Complex Turnover from the Peak Tower and St. John's Building increased by 26% and 5% respectively over the same period last year. The Peak Tower remained fully let with higher average rental rates and higher turnover rental than last year. Demand from visitors for the Sky Terrace continued to be strong.

Clubs and Services Division

Revenue from the Clubs and Services division was 8% above the same period in 2009, with higher revenue in all areas. The Peak Tram recorded a 20% higher turnover and 10% more passengers than last year. An increase in visitor arrivals to Hong Kong and an expansion of ticket sales network resulted in passenger numbers increasing to 2.5 million in the first six months of 2010, from 2.3 million in the same period last year.

Revenue from Peninsula Clubs and Consultancy Services was 12% higher than the same period in 2009, with increased revenue from management fees, consultancy fees and Cathay Pacific Lounges, as passenger numbers to the airport lounges have increased.

There has been a 19% increase in revenue in Peninsula Merchandising, which has wholesale and retail merchandise operations in Hong Kong, Japan and other countries. Revenue of Tai Pan Laundry increased by 11% compared to 2009, as lower diesel oil prices and controlled costs have resulted in higher profit levels than in the same period in 2009.

Human Resources

HSH is committed to building and sustaining a long-term relationship with its employees through attracting the appropriate talent, developing and engaging them in their career paths and empowering them to perform to the Group's exacting standards.

In the first half year, an electronic version of the Group-wide Human Resources Manual was launched to facilitate access by non-Hong Kong based employees. In terms of talent attraction and staff development, a number of corporate management trainees were appointed to The Peninsula Hong Kong and The Peninsula Chicago, while some of the Peninsula Ambassadors, who were recruited in 2006 for the opening of The Peninsula Tokyo in 2007, were given the opportunity to further develop their careers at The Peninsula New York and The Peninsula Chicago.

HSH's remuneration packages are comprised of a base salary, retirement scheme, medical and life insurances, as well as a performance-based bonus for senior employees. The Group does not operate a long-term incentive plan, nor a share option scheme.

As at 30 June 2010, there were 6,923 full time employees in the Group (30 June 2009: 6,449). Most of the increase relates to the opening of The Peninsula Shanghai.

Peninsula Paris Project

The Peninsula Paris, which is 20% owned by the Group in joint venture with Qatari Diar Real Estate Investment Company, is being developed in a century old Beaux Art building located on Avenue Kleber, near the Arc de Triomphe.

This project made steady progress in the first six months of the year. Soft demolition work, which began in June 2009, was completed in April 2010. This was followed by the appointments of design consultants for key areas such as lighting, landscaping, acoustic, signage and purchasing, as well as health and safety. Design of the hotel's interiors, including the public areas, spa and guestrooms, are in progress.

The general contractor for the project has been appointed and major re-development work including installation, ground and structural works will begin in the autumn of this year. The Peninsula Paris is expected to open in 2012 and will be the Group's first hotel in Europe.

Outlook

As previously reported, the occupancies and room rates at all of our Peninsula hotels were significantly adversely affected by the global economic crisis which started in September 2008. By the second half of 2009, our business had started to stabilise and improve and this gradual recovery has continued in the first six months of 2010. Although also affected by the global economic downturn, our commercial properties, which are mainly located in Hong Kong, remained relatively stable during the downturn and their stability has been maintained in the first half of this year.

While we have seen a general improvement across all our businesses in the first half of the year, the outlook for the remainder of 2010 remains uncertain with general concerns about a possibility of a 'double-dip recession' and different economic conditions and outlook in the various markets in which we operate.

The bulk of our assets and earnings continue to be based in and derived from Hong Kong, where the economy has remained strong and our trading prospects remain positive due to the proximity of Hong Kong to mainland China. The Peninsula Hong Kong has recovered to trading levels not too far below the same period before the financial crisis in 2008. The Repulse Bay Complex continues to experience a robust level of demand from tenants. Both the Peak Tram and the Peak Tower have maintained a positive momentum of business from inbound tourists.

The Peninsula Shanghai has already been widely recognised as an hotel of exceptional quality and is experiencing strong business, with reservations on the books which indicate this will continue at least until the World Expo finishes at the end of October. The Peninsula Beijing has recovered to a more stable level of business although the luxury hotels market in that city remains over-supplied. The economics of The Peninsula Beijing are strongly supported by its highly successful high-end retail arcade, which as in The Peninsula Hong Kong and The Peninsula Shanghai, is usually fully occupied with the top retail brand names.

Elsewhere in Asia, The Peninsula Tokyo continues to be recognised for its superb product and has improved its business, although room rates continue to be depressed due to the Japanese economy. The Peninsula Manila appears to be heading into a stable economic environment following the recent presidential elections in the Philippines. The Peninsula Bangkok has of course been significantly adversely affected by the political troubles in the country and the emergency rule in Bangkok which remains in place.

In the US, The Peninsula Beverly Hills has recovered to a remarkably strong level of business over the summer. The Peninsula New York has shown some improvement with returning international and financial markets-related business. However, The Peninsula Chicago, which is more dependent on US domestic business, remains well below the pre-crisis levels. Generally, the issue of labour costs remains a major concern in the US, posing challenges for the profitability and margins of our businesses.

In overall terms, our Group remains well-placed to address the economic downturn, with our focus remaining on growing the long term value of our assets. The Peninsula hotels have all been maintained and enhanced to an excellent physical condition and are highly competitive at the top end of the markets which they serve. Our Company remains in a strong financial position with a low level of gearing and we have the resources to grow our brand on a highly selective basis in line with our philosophy.

CONSOLIDATED INCOME STATEMENT - UNAUDITED (HK$m)

	Note	For the six months ended 30 June **2010**	2009
Turnover	3	**2,176**	1,962
Cost of inventories		**(167)**	(149)
Staff costs and related expenses		**(787)**	(730)
Rent and utilities		**(275)**	(262)
Other operating expenses		**(457)**	(410)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)	3	**490**	411
Depreciation and amortisation		**(170)**	(182)
Operating profit		**320**	229
Interest income		**10**	8
Financing charges	4(a)	**(62)**	(45)
Net financing charges		**(52)**	(37)
Profit after net financing charges	4	**268**	192
Share of loss of a jointly controlled entity		**(17)**	(10)
Increase in fair value of investment properties	8(b)	**547**	413
Impairment loss on interest in associates		**-**	(15)
Profit before taxation		**798**	580
Taxation			
Current tax	5	**(67)**	(47)
Deferred tax	5	**(112)**	(69)
Profit for the period		**619**	464
Profit attributable to:			
Shareholders of the Company		**605**	462
Non-controlling interests		**14**	2
Profit for the period		**619**	464
Earnings per share, basic and diluted (HK$)	6	**0.41**	0.32

Details of dividends payable to shareholders of the Company are set out in note 7.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - UNAUDITED (HK$m)

	For the six months ended 30 June	
	2010	2009
Profit for the period	**619**	464
Other comprehensive income for the period, net of tax:		
Exchange differences on translation of:		
- financial statements of overseas subsidiaries	**(66)**	63
- financial statements of a jointly controlled entity	**9**	-
- loans to an associate	**(72)**	30
	(129)	93
Cash flow hedges:		
- effective portion of changes in fair value	**(50)**	9
- transfer from equity to profit or loss	**29**	19
	(150)	121
Total comprehensive income for the period	**469**	585
Total comprehensive income attributable to:		
Shareholders of the Company	**440**	582
Non-controlling interests	**29**	3
Total comprehensive income for the period	**469**	585

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - UNAUDITED (HK$m)

	Note	As at 30 June 2010	As at 31 December 2009
Non-current assets			
Fixed assets	8		
Properties, plant and equipment		**5,548**	5,549
Investment properties		**23,389**	22,790
		28,937	28,339
Interest in associates	9	**426**	498
Interest in a jointly controlled entity	10	**807**	815
Interests in unlisted equity instruments		**-**	-
Investment in hotel management contracts		**636**	730
Derivative financial instruments	11	**20**	18
Deferred tax assets		**66**	64
		30,892	30,464
Current assets			
Inventories		**99**	98
Trade and other receivables	12	**408**	391
Derivative financial instruments	11	**26**	27
Cash at banks and in hand		**2,133**	1,835
		2,666	2,351
Current liabilities			
Trade and other payables	13	**(1,147)**	(1,203)
Interest bearing borrowings	14	**(114)**	(769)
Derivative financial instruments	11	**(99)**	(95)
Current taxation		**(81)**	(67)
		(1,441)	(2,134)
Net current assets		**1,225**	217
Total assets less current liabilities		**32,117**	30,681
Non-current liabilities			
Interest bearing borrowings	14	**(3,907)**	(3,056)
Net defined benefit retirement obligation		**(23)**	(23)
Derivative financial instruments	11	**(127)**	(111)
Deferred tax liabilities		**(3,662)**	(3,543)
		(7,719)	(6,733)
Net assets		**24,398**	23,948
Capital and reserves			
Share capital	15	**738**	735
Reserves		**22,723**	22,305
Total equity attributable to shareholders of the Company		**23,461**	23,040
Non-controlling interests		**937**	908
Total equity		**24,398**	23,948

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - UNAUDITED (HK$m)

	Note	Share capital	Share premium	Capital redemption reserve	Hedging reserve	Exchange reserve	General reserve	Retained profits	Total	Non-controlling interests	Total equity
		Attributable to shareholders of the Company									
At 1 January 2009		725	3,120	13	(141)	(116)	1,048	16,063	20,712	934	21,646
Changes in equity for the six months ended 30 June 2009											
Dividends approved in respect of the previous year											
- by means of cash		-	-	-	-	-	-	(38)	(38)	-	(38)
- by means of scrip	15	8	106	-	-	-	-	(114)	-	-	-
Transfer (note)		-	-	-	-	-	(1,048)	1,048	-	-	-
Total comprehensive income for the period		-	-	-	28	92	-	462	582	3	585
Balance at 30 June 2009 and 1 July 2009		733	3,226	13	(113)	(24)	-	17,421	21,256	937	22,193
Changes in equity for the six months ended 31 December 2009											
Acquisition of non-controlling interests in a subsidiary		-	-	-	-	-	-	(57)	(57)	(34)	(91)
Dividend approved in respect of the current year											
- by means of cash		-	-	-	-	-	-	(8)	(8)	(7)	(15)
- by means of scrip		2	34	-	-	-	-	(36)	-	-	-
Total comprehensive income for the period		-	-	-	(3)	16	-	1,836	1,849	12	1,861
Balance at 31 December 2009		735	3,260	13	(116)	(8)	-	19,156	23,040	908	23,948
At 1 January 2010		**735**	**3,260**	**13**	**(116)**	**(8)**	**-**	**19,156**	**23,040**	**908**	**23,948**
Changes in equity for the six months ended 30 June 2010											
Dividends approved in respect of the previous year											
- by means of cash		**-**	**-**	**-**	**-**	**-**	**-**	**(19)**	**(19)**	**-**	**(19)**
- by means of scrip	15	**3**	**66**	**-**	**-**	**-**	**-**	**(69)**	**-**	**-**	**-**
Total comprehensive income for the period		**-**	**-**	**-**	**(21)**	**(144)**	**-**	**605**	**440**	**29**	**469**
Balance at 30 June 2010		**738**	**3,326**	**13**	**(137)**	**(152)**	-	**19,673**	**23,461**	**937**	**24,398**

Note: The general reserve, which represented retained profits previously set aside for general purposes, was transferred to retained profits during the previous period.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS - UNAUDITED (HK$m)

	For the six months ended 30 June	
	2010	2009
Operating activities		
EBITDA	**490**	411
Tax paid	**(51)**	(40)
Other adjustments	**(73)**	(113)
Net cash generated from operating activities	**366**	258
Investing activities		
Purchase of fixed assets	**(103)**	(106)
Payment for acquisition of interest in associates	**-**	(453)
Payment for acquisition of hotel management contract	**-**	(591)
Net cash used in investing activities	**(103)**	(1,150)
Financing activities		
Interest received	**9**	8
Interest and other financing charges paid	**(65)**	(56)
Placement of interest bearing bank deposits with maturity of more than three months	**(220)**	(363)
Net increase/(decrease) in bank borrowings	**106**	(15)
Dividends paid	**(19)**	(38)
Net cash used in financing activities	**(189)**	(464)
Net increase/(decrease) in cash and cash equivalents	**74**	(1,356)
Cash and cash equivalents at 1 January	**1,380**	1,979
Effect of changes in foreign exchange rates	**8**	1
Cash and cash equivalents at 30 June (note)	**1,462**	624

Note *Analysis of cash and cash equivalents*

	As at 30 June	
	2010	*2009*
Interest-bearing bank deposits	***2,096***	*987*
Cash at banks and in hand	***37***	*17*
Total cash at banks and in hand	***2,133***	*1,004*
Less: Interest bearing bank deposits with maturity of more than three months	***(657)***	*(363)*
Less: Bank overdrafts (note 14)	***(14)***	*(17)*
Cash and cash equivalents in the consolidated statement of cash flows	***1,462***	*624*

Cash at banks and in hand at the end of the period include deposits with banks of HK$766 million (30 June 2009: HK$624 million) held by subsidiaries which are subject to prevailing regulations and foreign exchange restrictions.

Notes to the unaudited interim financial report

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

This unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with the Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance by the Board of Directors on 25 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these relevant changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2009 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included in the Interim Report to be sent to shareholders.

The financial information relating to the financial year ended 31 December 2009 that is included in the interim financial report as being previously reported information, does not constitute the Company's statutory financial statements for the financial year, but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2009 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 12 March 2010.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. CHANGES IN ACCOUNTING POLICIES *continued*

The following developments are relevant to the Group's financial statements.

- HKFRS 3 (revised 2008), *Business combinations*;
- Amendments to HKAS 27, *Consolidated and separate financial statements*;
- Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*;
- Amendments to HKAS 28, *Investments in associates*;
- Amendments to HKAS 31, *Interest in joint ventures*;
- HK(IFRIC) 17, *Distributions of non-cash assets to owners;*
- Improvements to HKFRSs (2009); and
- Amendments to HKAS 39, *Financial Instrument: Recognition and measurement – eligible hedged items*.

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

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

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

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

3. SEGMENT REPORTING (HK$m)

The Group manages its businesses by segments which are organised by business lines. 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 has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

(a) Segment results and assets

Segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, 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' operating profit before interest, taxation, depreciation and amortisation (EBITDA). Interest income and expense, results of associates and jointly controlled entities, taxes and any non-operating items are not allocated to the various segments.

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

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

3. SEGMENT REPORTING (HK$m) *continued*

(a) Segment results and assets *continued*

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out as follows:

	Hotels		Commercial properties		Clubs and services		Consolidated	
	For the six months ended 30 June							
	2010	2009 (restated)	**2010**	2009	**2010**	2009 (restated)	**2010**	2009
Reportable segment revenue*	**1,650**	1,464	**335**	321	**191**	177	**2,176**	1,962
Reportable segment operating profit before interest, taxation, depreciation and amortisation (EBITDA)	**227**	165	**227**	219	**36**	27	**490**	411
Depreciation and amortisation	**(155)**	(166)	**(1)**	-	**(14)**	(16)	**(170)**	(182)
Segment operating profit	**72**	(1)	**226**	219	**22**	11	**320**	229
As at 30 June 2010/31 December 2009								
Reportable segments assets	**14,410**	14,479	**14,887**	14,338	**783**	741	**30,080**	29,558

**** Analysis of segment revenue***

	2010	*2009*
Hotels		*(restated)*
Rooms	***697***	*611*
Food and beverage	***514***	*449*
Commercial	***286***	*278*
Others	***153***	*126*
	1,650	*1,464*
Commercial Properties		
Rental revenue from:		
- Residential properties	***195***	*208*
- Office	***33***	*34*
- Shopping arcade	***107***	*79*
	335	*321*
Clubs and Services		
- Operation of lounges	***49***	*45*
- Tramway operation	***44***	*37*
- Others	***98***	*95*
	191	*177*

(b) Reconciliations of reportable segment profits and assets

Profit

Reconciliation of segment operating profit to the profit before taxation in the consolidated income statement is not presented as the segment operating profit is the same as the operating profit presented in the consolidated income statement.

3. SEGMENT REPORTING (HK$m) *continued*

(b) Reconciliations of reportable segment profits and assets *continued*

Assets

	As at 30 June 2010	As at 31 December 2009
Reportable segments assets	**30,080**	29,558
Interest in associates	**426**	498
Interest in a jointly controlled entity	**807**	815
Derivative financial instruments	**46**	45
Deferred tax assets	**66**	64
Cash at banks and in hand	**2,133**	1,835
Consolidated total assets	**33,558**	32,815

4. PROFIT AFTER NET FINANCING CHARGES (HK$m)

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

(a) Financing charges

	For the six months ended 30 June **2010**	2009
Interest on bank borrowings wholly repayable within five years	**23**	21
Other borrowing costs	**5**	2
Total interest expense on financial liabilities carried at amortised cost	**28**	23
Derivative financial instruments:		
- cash flow hedges, transfer from equity	**33**	22
- held for trading, at fair value through profit or loss*	**1**	-
	62	45

* *Mainly represents the change in fair value of interest rate swaps at the fair value through profit or loss and the actual net inflow/outflow of interest relating thereto.*

(b) Other items

	For the six months ended 30 June **2010**	2009
Amortisation of a hotel management contract	**2**	2
Depreciation	**168**	180
Foreign exchange (gains)/losses	**(1)**	3
Interest income	**(10)**	(8)

5. TAXATION (HK$m)

	For the six months ended 30 June	
	2010	2009
Current tax		
Hong Kong	**50**	47
Overseas	**17**	-
	67	47
Deferred tax		
Increase/(decrease) in net deferred tax liabilities relating to revaluation of investment properties in		
Hong Kong *	**87**	83
Overseas	**5**	(28)
Increase in net deferred tax liabilities relating to other temporary differences	**16**	12
Transfer from hedging reserve	**4**	2
	112	69
	179	116

* *It should be noted that the Directors have no intention of selling the Group's investment properties in Hong Kong and consider that should any such sale eventuate, any gain would be regarded as capital in nature and would not be subject to any tax in Hong Kong.*

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

6. EARNINGS PER SHARE

(a) Earnings per share - basic

	For the six months ended 30 June	
	2010	2009
Profit attributable to shareholders of the Company (HK$m)	**605**	462
Weighted average number of shares in issue (million shares)	**1,471**	1,451
Earnings per share (HK$)	**0.41**	0.32

	2010	*2009*
	(million shares)	*(million shares)*
Issued shares at 1 January	***1,470***	*1,450*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2009/2008 final dividends	***1***	*1*
Weighted average number of shares in issue at 30 June	***1,471***	*1,451*

6. EARNINGS PER SHARE *continued*

(b) Earnings per share - diluted

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2010 and 30 June 2009 and hence diluted earnings per share is the same as the basic earnings per share.

7. DIVIDENDS (HK$m)

(a) Dividends payable to shareholders of the Company attributable to the interim period

	For the six months ended 30 June	
	2010	2009
Interim dividend declared and to be paid after the interim period of 4 HK cents per share (2009: 3 HK cents per share)	**59**	44

The interim dividend declared after the interim 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 interim period

	For the six months ended 30 June	
	2010	2009
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 6 HK cents per share (year ended 31 December 2008: 10.5 HK cents per share)	**88**	152

For the final dividend in respect of 2009, scrip dividend elections were offered to shareholders other than those with registered addresses in Australia and the United States of America. Shareholders holding approximately 78% of the issued share capital of the Company elected to receive their entitlement to the 2009 final dividend in the form of scrip, which resulted in the issue and allotment of approximately 5.8 million new shares on 25 June 2010.

For the final dividend in respect of 2008, scrip dividend elections were offered to shareholders other than those with registered addresses in Australia and the United States of America. Shareholders holding approximately 75% of the issued share capital of the Company elected to receive their entitlement to the 2008 final dividend in the form of scrip, which resulted in the issue and allotment of approximately 16.7 million new shares on 19 June 2009.

8. FIXED ASSETS (HK$m)

(a) Acquisitions and disposals

During the six months ended 30 June 2010, the Group acquired items of fixed assets with a cost of HK$90 million (six months ended 30 June 2009: HK$102 million). Items of fixed assets disposed of during the six months ended 30 June 2010 and 30 June 2009 were insignificant in value.

(b) Valuation of investment properties

All investment properties of the Group were revalued as at 30 June 2010 on an open market value basis, mainly calculated by reference to net rental income and allowing for reversionary income potential. The changes in fair value of the investment properties during the period were accounted for in the consolidated income statement. The valuations were carried out by valuers independent of the Group whose staff have recent and relevant experience in the location and category of the properties being valued. Details of the valuers are as follows:

Description of investment properties	Name of valuer	Qualification of the staff of valuer conducting the valuation
Hong Kong		
- Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited	Members of The Hong Kong Institute of Surveyors
Other Asia *		
- Retail shops, offices, residential apartments and vacant land	Savills Valuation and Professional Services Limited	Members of The Hong Kong Institute of Surveyors
	Jones Lang LaSalle Hotels	Members of the Singapore Institute of Surveyors and Valuers and the Royal Institution of Chartered Surveyors
United States of America		
- Retail shops and vacant land	HVS	Members of the Appraisal Institute, United States of America

** Other Asia includes mainland China, Japan, Thailand, The Philippines and Vietnam.*

As a result of the revaluation, a net gain of HK$547 million (2009: HK$413 million) and deferred tax thereon of HK$92 million (2009: HK$55 million) have been included in the consolidated income statement.

8. FIXED ASSETS (HK$m) *continued*

(c) Valuation of hotel properties and golf courses

To provide additional information for shareholders, the Directors commissioned an independent valuation of the Group’s hotel properties and golf courses as at 30 June 2010. The total valuation placed on the hotel properties and golf courses, which have a net book value of HK$5,416 million (31 December 2009: HK$5,415 million), was HK$8,260 million as at 30 June 2010 (31 December 2009: HK$7,974 million). It is important to note that the surplus of HK$2,844 million (31 December 2009: HK$2,559 million) and the related deferred taxation and non-controlling interests have not been incorporated in this interim financial report but are for additional information only. The valuations were carried out by valuers independent of the Group, details of which are as follows:

Description of hotel properties and golf courses	Name of valuer	Qualification of the staff of valuer conducting the valuation
Hong Kong and other Asia *		
- Hotels and golf course	Jones Lang LaSalle Hotels	Members of the Singapore Institute of Surveyors and Valuers and the Royal Institution of Chartered Surveyors
United States of America		
- Hotels and golf course	HVS	Members of the Appraisal Institute, United States of America

** Other Asia includes mainland China, Japan, Thailand and The Philippines.*

9. INTEREST IN ASSOCIATES (HK$m)

	As at 30 June 2010	As at 31 December 2009
Share of net assets	**-**	-
Goodwill	**15**	15
	15	15
Less: impairment loss	**(15)**	(15)
	-	-
Loans to an associate *	**426**	498
	426	498

* *The loans to an associate are denominated in Euros, are unsecured, bear interest at rates related to the rates published by the French tax authorities and are carried at their estimated recoverable amounts. Euro 2 million (HK$19 million) of the loans is repayable in or before November 2014 while the remaining balance of the loans is repayable on 25 April 2017.*

9. INTEREST IN ASSOCIATES (HK$m) *continued*

Details of the principal unlisted associates are as follows:

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

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

10. INTEREST IN A JOINTLY CONTROLLED ENTITY (HK$m)

	As at 30 June 2010	As at 31 December 2009
Share of retained profits	**259**	276
Share of exchange reserve	**90**	81
Share of net assets	**349**	357
Loan to a jointly controlled entity *(note 10(b))*	**458**	458
	807	815

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

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

* *The Group's interest in TPS is held indirectly by the Company. TPS holds a 100% direct interest in Evermore Gain Limited ("EGL"), a company incorporated in Hong Kong in 2007, which in turn holds a 100% direct interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"). PSW is a wholly owned foreign enterprise incorporated in the People's Republic of China and is engaged in the development and operation of The Peninsula Shanghai hotel, Peninsula hotel apartments, a retail arcade and ancillary facilities. At 30 June 2010, the paid up capital of EGL and PSW amounted to HK$1 (31 December 2009: HK$1) and US$117,500,000 (31 December 2009: US$117,500,000) respectively.*

(b) The loan to the jointly controlled entity is denominated in US dollars, unsecured, interest free and has no fixed repayment terms. It is neither past due nor impaired. The entire loan was contributed as capital of PSW described in note 10(a) above.

(c) 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 RMB1,600 million (31 December 2009: RMB1,600 million). The net carrying amount of these pledged assets amounted to RMB3,693 million (31 December 2009: RMB3,639 million).

11. DERIVATIVE FINANCIAL INSTRUMENTS (HK$m)

	As at 30 June 2010		As at 31 December 2009	
	Assets	**Liabilities**	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	**-**	**(146)**	-	(128)
Cross currency interest rate swaps	**-**	**(9)**	-	(1)
	-	**(155)**	-	(129)
At fair value through profit or loss:				
Interest rate swaps	**46**	**(71)**	44	(77)
Foreign exchange swap	**-**	**-**	1	-
Total	**46**	**(226)**	45	(206)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	**-**	**(54)**	-	(54)
Cross currency interest rate swaps	**-**	**(5)**	-	(1)
	-	**(59)**	-	(55)
At fair value through profit or loss:				
Interest rate swaps	**26**	**(40)**	26	(40)
Foreign exchange swap	**-**	**-**	1	-
	26	**(99)**	27	(95)
Portion to be recovered/(settled) after one year	**20**	**(127)**	18	(111)

12. TRADE AND OTHER RECEIVABLES (HK$m)

The details of debtors and payments in advance are as follows:

	As at 30 June 2010	As at 31 December 2009
Trade debtors (ageing analysis is shown on the next page)	**162**	175
Rental deposits and payments in advance	**246**	216
	408	391

The amount of the Group's trade and other receivable expected to be recovered or recognised as expenses after more than one year is HK$66 million (31 December 2009: HK$73 million). All the other trade and other receivable are expected to be recovered or recognised as expenses within one year.

The directors consider that the carrying amounts of all trade and other receivables approximate their fair value.

The Group has no concentrations of credit risk in view of its large number of customers. The Group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. 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. As such, the Group normally does not obtain collateral from its customers.

12. TRADE AND OTHER RECEIVABLES (HK$m) *continued*

The ageing analysis of trade debtors is as follows:

	As at 30 June 2010	As at 31 December 2009
Current	**124**	145
Less than one month past due	**31**	19
One to three months past due	**5**	9
More than three months but less than 12 months past due	**2**	2
Amounts past due	**38**	30
	162	175

Trade debtors are normally due within 30 days from the date of billing.

13. TRADE AND OTHER PAYABLES (HK$m)

The details of trade and other payables are as follows:

	As at 30 June 2010	As at 31 December 2009
Trade creditors (ageing analysis is shown below)	**94**	119
Interest payable	**5**	5
Accruals for fixed assets	**18**	32
Tenants' deposits	**299**	295
Golf membership deposits	**111**	109
Other payables	**620**	643
Financial liabilities measured at amortised cost	**1,147**	1,203

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$345 million (2009: HK$340 million). All of the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The ageing analysis of trade creditors is as follows:

	As at 30 June 2010	As at 31 December 2009
Less than three months	**92**	117
Three to six months	**2**	2
	94	119

14. INTEREST BEARING BORROWINGS (HK$m)

	As at 30 June 2010	As at 31 December 2009
Total facilities available:		
Term loans and revolving credits	**5,285**	5,005
Uncommitted facilities, including bank overdrafts	**287**	278
	5,572	5,283
Utilised:		
Term loans and revolving credits	**4,042**	3,830
Uncommitted facilities, including bank overdrafts	**14**	18
	4,056	3,848
Less: Unamortised financing charges	**(35)**	(23)
	4,021	3,825
Represented by:		
Short term bank loans, repayable within one year or on demand	**100**	751
Bank overdrafts, repayable on demand	**14**	18
	114	769
Long term bank loans, repayable:		
Between one and two years	**1,648**	734
Between two and five years	**2,294**	2,345
	3,942	3,079
Less: Unamortised financing charges	**(35)**	(23)
Non-current portion of long term bank loans	**3,907**	3,056
Total interest bearing borrowings	**4,021**	3,825

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

In May 2010, Peninsula of Tokyo Limited, a wholly owned subsidiary of the Group, signed bilateral loans of JPY 6,000 million (HK$529 million) each with two international banks.

15. SHARE CAPITAL

	As at 30 June 2010	As at 31 December 2009
Number of ordinary shares of HK$0.50 each (million shares)		
Authorised	**1,800**	1,800
Issued at 30 June/31 December	**1,476**	1,470
Nominal value of ordinary shares (HK$m)		
Authorised	**900**	900
Issued and fully paid at 30 June/31 December	**738**	735

15. SHARE CAPITAL *continued*

During the six months ended 30 June 2010, the Company issued and allotted approximately 5.8 million new ordinary shares of HK$0.50 each at HK$11.98 per share in respect of the 2009 final scrip dividend (2009: approximately 16.7 million new shares at HK$6.888 per share in respect of the 2008 final scrip dividend). The new shares issued have resulted in an increase in fully paid share capital of approximately HK$3 million (2009: HK$8 million) and share premium of HK$66 million (2009: HK$106 million). All ordinary shares issued during the period rank pari passu in all respects with the then 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.

16. COMMITMENTS (HK$m)

Capital commitments outstanding at 30 June 2010 and not provided for in the interim financial report were as follows:

	As at 30 June 2010	As at 31 December 2009
Capital expenditure		
Contracted for	**69**	80
Authorised but not contracted for	**306**	394
	375	474
The Group's share of capital commitments of a jointly controlled entity		
Contracted for	**64**	40
Authorised but not contracted for	**172**	224
	236	264
	611	738

The Group holds a 20% equity interest in Al Maha S.à r.l., an associate of the Group responsible for the development of The Peninsula Paris project. The Group's 20% share of the contracted for capital commitments and authorised but not contracted for capital commitments as at 30 June 2010 amounted to HK$126 million (31 December 2009: HK$37 million) and HK$339 million (31 December 2009: HK$474 million) respectively. It is intended that the project will be financed by way of bank borrowings.

17. CONTINGENT LIABILITIES

Contingent liabilities were at a level similar to that disclosed in the Group's annual financial statements for the year ended 31 December 2009.

18. MATERIAL RELATED PARTY TRANSACTIONS

Under a three-year tenancy agreement which commenced on 1 April 2007, a wholly owned subsidiary of the Company, HSH Management Services Limited, had leased the 7^{th} and 8^{th} 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 rent and service charges paid to KEL during the six months ended 30 June 2010 amounted to HK$8.3 million (2009: HK$8.3 million).

Except for the above, there were no material related party transactions during the period, other than in the nature of those as disclosed in the Group's annual financial statements for the year ended 31 December 2009.

19. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with current period's presentation. Please refer to Note 3 of this interim financial report.

OTHER CORPORATE INFORMATION

Purchase, Sale and Redemption of Listed Securities

There was no purchase, sale or redemption of the Company's listed securities during the period.

Corporate Governance

HSH is committed to ensuring that its business is conducted in accordance with high standards of corporate governance, with proper control processes for oversight and management to safeguard the interests of shareholders and stakeholders and to manage overall business risks. HSH regularly reviews its policies and practices in the light of experience, new developments in this area and incoming regulatory requirements.

Detailed disclosure of the Company's corporate governance policies and practices is available in the 2009 Annual Report.

HSH has applied all of the principles in the Code on Corporate Governance Practices (CG Code) in Appendix 14 of the Listing Rules and adopted its own corporate governance practices which encompasses all Code provisions and all the recommended best practices in the CG Code save for the publication of quarterly financial results and the establishment of a nomination committee for Directors, as disclosed in the 2009 Annual Report.

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

Dealings in the Company's Securities by Directors and Specified Individuals

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 Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code and the Securities Code during the period and they have confirmed their full compliance with the required standard set out in both Codes.

The Company has also extended the Securities Code to specified employees who, because of their positions, are likely to come across unpublished price sensitive information.

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.

Dividend

The interim dividend will be payable on 5 November 2010 to shareholders whose names appear on the register of members on 29 September 2010.

The register of members will be closed from 27 September 2010 to 29 September 2010, both days inclusive, during which period no transfer of shares can be registered.

To be entitled to receive the interim dividend, shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Company's registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 24 September 2010.

The interim dividend will be payable in cash but shareholders will have the option of receiving the interim 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 5 October 2010.

Miscellaneous
The Interim Report of the Company containing all the information required by the Stock Exchange Listing Rules will be dispatched to the shareholders as well as published on the websites of the Company and the Stock Exchange in mid September 2010.

By Order of the Board
Christobelle Liao
Company Secretary
Hong Kong, 25 August 2010

As at the date of this announcement, the Board of Directors of the Company comprises the following Directors:

Non-Executive Chairman
The Hon. Sir Michael Kadoorie

Non-Executive Deputy Chairman
Ian Duncan Boyce

Executive Directors
Managing Director and Chief Executive Officer
Clement King Man Kwok

Chief Financial Officer
Neil John Galloway

Chief Operating Officer
Peter Camille Borer

Non-Executive Directors
Ronald James McAulay
William Elkin Mocatta
John Andrew Harry Leigh
Nicholas Timothy James Colfer

Independent Non-Executive Directors
Dr. The Hon. Sir David Kwok Po Li
Robert Chee Siong Ng
Robert Warren Miller
Patrick Blackwell Paul
Pierre Roger Boppe