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

2012 Interim Results

HIGHLIGHTS

- Total turnover amounted to HK$2,416 million, which was 5% above the same period in 2011.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 2% to HK$521 million.
- The overall Group EBITDA margin was maintained at 22%, despite the major renovation programmes at The Peninsula Hong Kong and The Repulse Bay.
- Underlying profit attributable to shareholders increased by 3% to HK$156 million.
- Profit attributable to shareholders amounted to HK$814 million, after taking into account the gains on property revaluation (net of tax and non-controlling interests) and disposal of an unlisted equity instrument.
- Earnings per share and underlying earnings per share of HK$0.55 (2011: HK$1.29) and HK$0.10 (2011: HK$0.10) respectively.
- Shareholders' funds as at 30 June 2012 amounted to HK$32,194 million or HK$21.43 per share (31 December 2011: HK$31,455 million or HK$21.11 per share).
- Adjusted net asset value as at 30 June 2012 amounted to HK$35,355 million (HK$23.54 per share).
- Gearing ratio remained at 7% (31 December 2011: 7%).
- Interim dividend of 4 HK cents (2011: 4 HK cents) per share.

FINANCIAL AND OPERATING HIGHLIGHTS

	For the six months ended 30 June		
	2012	2011	Increase/ (Decrease)
CONSOLIDATED INCOME STATEMENT (HK$m)			
Turnover	**2,416**	2,310	5%
EBITDA	**521**	512	2%
Operating profit	**328**	331	(1%)
Profit attributable to shareholders	**814**	1,907	(57%)
Underlying profit attributable to shareholders **	**156**	152	3%
Interim dividend	**60**	59	2%
Earnings per share (HK$)	**0.55**	1.29	(57%)
Underlying earnings per share (HK$) **	**0.10**	0.10	-
Interim dividend per share (HK cents)	**4**	4	-
Interim dividend cover (times) #	**2.6x**	2.6x	-
Interest cover (times)	**8.6x**	7.0x	23%
Weighted average gross interest rate	**3.1%**	3.2%	(0.1pp) *
	As at 30 June 2012	**As at 31 December 2011**	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)			
Total assets	**38,870**	38,233	2%
Net assets attributable to shareholders	**32,194**	31,455	2%
Adjusted net assets attributable to shareholders **	**35,355**	34,703	2%
Net assets per share (HK$)	**21.43**	21.11	2%
Adjusted net assets per share (HK$) **	**23.54**	23.29	1%
Net borrowings	**2,491**	2,335	7%
Net debt to EBITDA (annualised) (times)	**2.4x**	2.3x	4%
Net debt to equity	**8%**	7%	1pp *
Gearing	**7%**	7%	-
	For the six months ended 30 June		
	2012	2011	
CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)			
Net cash generated from operating activities	**368**	406	(9%)
Capital expenditure on fixed assets	**344**	107	221%
Capital expenditure on fixed assets as a percentage to revenue	**14%**	5%	9pp
SHARE INFORMATION (HK$)			
Highest share price	**11.92**	14.74	(19%)
Lowest share price	**8.63**	12.64	(32%)
Period end closing share price	**10.30**	13.00	(21%)
OPERATING INFORMATION			
Number of hotel rooms (as at 30 June)	**3,012**	3,012	-
Average occupancy rate			
- Hong Kong	**80%** △	70%	10pp *
- Other Asia	**62%**	55%	7pp *
- United States of America	**67%**	63%	4pp *
Average room rate (HK$)			
- Hong Kong	**4,178**	4,074	3%
- Other Asia	**1,973**	1,941	2%
- United States of America	**4,525**	4,472	1%
RevPAR (HK$)			
- Hong Kong	**3,331** △	2,864	16%
- Other Asia	**1,233**	1,069	15%
- United States of America	**3,050**	2,838	7%

* *pp denotes percentage points.*

** *Please refer to the calculation in the Financial Review.*

△ *The Hong Kong's occupancy and RevPAR in 2012 are based on reduced room inventory after taking into consideration the rooms not available for sale due to the room enhancement programme at The Peninsula Hong Kong.*

\# *Interim dividend cover is calculated based on underlying profit attributable to shareholders over interim dividend.*

The Directors hereby announce the unaudited interim results of the Company for the six months ended 30 June 2012. 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 the 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

Basis of preparation

The Group's Interim Financial Report has been prepared in accordance with Hong Kong Accounting Standard 34 *Interim financial reporting* and all applicable Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants.

Adjusted net asset value

The Group's adjusted net asset value as at 30 June 2012 amounted to HK$35,355 million, after adjustment to fair market value for hotels and golf courses, up 2% compared to 31 December 2011.

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 2012, 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, the Group's net assets attributable to shareholders would increase by HK$3,161 million or 10% from the reported net assets attributable to shareholders of HK$32,194 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 2012 on the basis set out on the next page.

HK$m	As at 30 June 2012		As at 31 December 2011	
Net assets attributable to shareholders per statement of financial position		**32,194**		31,455
Adjusting the value of hotels and golf courses to fair market value	**3,560**		3,641	
Less: Related deferred tax and non-controlling interests	**(399)**		(393)	
		3,161		3,248
Adjusted net assets attributable to shareholders		**35,355**		34,703
Net assets per share as per statement of financial position (HK$)		**21.43**		21.11
Adjusted net assets per share (HK$)		**23.54**		23.29

Underlying earnings

Despite the significant earnings disruptions caused by the major renovations at The Peninsula Hong Kong and the de Ricou apartment tower at The Repulse Bay, the Group's underlying profit attributable to shareholders amounted to HK$156 million, up 3% from the same period in 2011.

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 items, such as any changes in fair value of investment properties, 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:

HK$m	For the six months ended 30 June 2012	2011
Profit attributable to shareholders	**814**	1,907
Increase in fair value of investment properties	**(630)**	(1,784)
Share of net property valuation loss of a jointly controlled entity, net of tax	**19**	-
Gain on disposal of an equity investment	**(46)**	-
Tax and non-controlling interests attributable to non-operating items	**(1)**	29
Underlying profit attributable to shareholders	**156**	152
Underlying earnings per share (HK$)	**0.10**	0.10

Despite the significant earnings disruptions caused by the major renovations at The Peninsula Hong Kong and The Repulse Bay apartments, the Group's underlying profit attributable to shareholders increased by 3% from the same period in 2011 to HK$156 million.

Income statement

The Group's turnover amounted to HK$2,416 million, which was 5% above the same period in 2011.

The Group's turnover for the six months ended 30 June 2012 of HK$2,416 million was HK$106 million or 5% above the same period in 2011. All of our operations have been seeking opportunities to create incremental revenue and to find ways to make better use of available facilities, adopting flexible pricing strategies when needed.

Turnover in the Hotels Division increased by 5% as compared with the same period last year. This increase was achieved despite revenue at The Peninsula Hong Kong declining by 9% from last year due to the renovation project. The most significant revenue increase came from The Peninsula Tokyo, due to the recovery from the impact of the March 2011 earthquake and tsunami. Revenue growth also exceeded 10% for the Peninsula hotels in Beijing and Manila.

In the Commercial Properties Division, demand for high end residential apartments and retail premises remained strong in the first half of 2012, although there were challenges in the market. Revenue for the Division was 1% lower than the same period last year principally because of the renovation closure of the de Ricou tower, which accounts for 13% of the net available area at The Repulse Bay. This revenue shortfall was largely offset by an increase of more than 10% in revenue at The Peak Tower, as well as increased revenue in other businesses.

In the Clubs and Services Division, the major revenue growth came from the increased passenger numbers at the re-opened and renovated Cathay Pacific Airways' business class lounges at the Hong Kong International Airport. There was also increased revenue from Tai Pan Laundry and Peak Tramways. The Thai Country Club and Quail Lodge Golf Club managed to maintain their revenue levels, even though the trading environment was challenging at both properties.

Details of the operating performance of the Group's individual business divisions are summarised in the Operating Review on pages 9 to 14.

The overall Group EBITDA (earnings before interest, taxation, depreciation and amortisation) margin was maintained at 22%, despite the renovation programmes at The Peninsula Hong Kong and The Repulse Bay apartments.

The Group's consolidated EBITDA increased by 2% year-on-year to HK$521 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	2012 vs 2011
2012					
Hotels	**183**	**75**	**(19)**	**239**	**5%**
Commercial Properties	**220**	**12**	**-**	**232**	**(4%)**
Clubs and Services	**58**	**10**	**(18)**	**50**	**19%**
	461	**97**	**(37)**	**521**	**2%**
2011					
Hotels	238	9	(19)	228	
Commercial Properties	231	11	-	242	
Clubs and Services	49	10	(17)	42	
	518	30	(36)	512	
2012 vs 2011 Percentage change	**(11%)**	**223%**	**3%**	**2%**	

Details of the operating performance of individual operations are set out in the Operating Review on pages 9 to 14.

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

EBITDA margin	**2012**	2011
Hotels	**13%**	13%
Commercial Properties	**65%**	67%
Clubs and Services	**21%**	20%
Overall EBITDA margin	**22%**	22%
Arising in:		
Hong Kong	**44%**	48%
Other Asia	**11%**	4%
United States of America	**(8%)**	(8%)

The Group's overall EBITDA margin was maintained at 22% despite the reduced EBITDA margin in Hong Kong due to the renovations at The Peninsula Hong Kong and The Repulse Bay apartments.

After taking into account depreciation and net financing charges, profit after net financing charges amounted to HK$290 million, which was 2% above the same period in 2011.

The non-operating items principally related to the increase in fair value of investment properties, which amounted to HK$630 million (2011: HK$1,784 million), arising mainly from the revaluation surpluses on The Peninsula Hong Kong shopping arcade and The Repulse Bay Complex in Hong Kong.

During the period, the Group disposed of its interest in Inncom International, Inc., an unlisted equity investment, and recognised a non-operating gain of HK$46 million (2011: HK$nil).

The Group has a 50% interest in The Peninsula Shanghai, which is owned by a jointly controlled entity. The Peninsula Shanghai remained the room rate leader in the market and generated an EBITDA of HK$34 million (2011: HK$32 million) in the first half of 2012. However, due to the increase in borrowings relating to the funding of the apartment development together with higher interest costs in China and the inclusion of a post-tax non-operating loss of HK$19 million (2011: nil) arising from property revaluation, the Group's share of loss for the period amounted to HK$71 million (2011: HK$43 million).

After accounting for the increase in fair value of investment properties, net of deferred tax and non-controlling interests, and the gain on disposal of unlisted equity investment, the consolidated profit attributable to HSH shareholders amounted to HK$814 million for the six months ended 30 June 2012.

Earnings per share were HK$0.55. Excluding non-operating items and the related tax and non-controlling interests, underlying earnings per share remained at HK$0.10 (2011: HK$0.10).

The Directors have resolved to pay an interim dividend of 4 HK cents per share (2011: 4 HK cents per share).

Statement of financial position

The Group's financial position remained strong. The net assets attributable to shareholders as at 30 June 2012 amounted to HK$32,194 million or HK$21.43 per share (31 December 2011: HK$31,455 million or HK$21.11 per share).

The Group's hotel properties and golf courses are stated at cost less depreciation. To provide readers with additional information on the fair market value of these fixed assets, the Directors have commissioned independent valuers to perform a fair valuation of these properties as at 30 June 2012.

A summary of the Group's hotel, investment and other properties showing both the book value and the market value as at 30 June 2012 is set out in the table below:

HK$m	Group's Interest	Market Value	Book Value
Hotels			
Consolidated hotels			
The Peninsula Hong Kong	100%	10,829	8,947
The Peninsula Beijing	76.6% *	1,910	1,421
The Peninsula New York	100%	1,655	1,140
The Peninsula Chicago	100%	1,278	1,161
The Peninsula Tokyo	100%	1,593	1,177
The Peninsula Bangkok	75%	818	821
The Peninsula Manila	77.4%	312	292
		18,395	14,959
Jointly controlled entity *(value attributable to the Group)*			
The Peninsula Shanghai	50%	3,303	3,186
Total for hotels		21,698	18,145
Commercial properties			
The Repulse Bay	100%	15,295	15,295
The Peak Tower	100%	1,196	1,196
St. John's Building	100%	825	825
The Landmark	70%	91	91
Total for commercial properties		17,407	17,407
Other properties			
Thai Country Club golf course	75%	252	245
Quail Lodge resort, golf course and vacant land	100%	96	96
Vacant land near Bangkok	75%	326	326
Other Hong Kong properties	100%	120	73
Total for other properties		794	740
Total		39,899	36,292

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

During the period, net borrowings increased by 7% to HK$2,491 million (31 December 2011: HK$2,335 million) and the Group's gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders' funds, remained at 7% (31 December 2011: 7%). The increase in net borrowings was mainly due to the advance of an entrustment loan of HK$184 million (RMB150 million) by the Group to The Peninsula Shanghai which is 50% owned. Net interest cover, expressed as operating profit divided by net financing charges, increased to 8.6 times (2011: 7.0 times) due to lower net financing charges incurred.

In addition to the Group's consolidated borrowings, The Peninsula Beverly Hills (20% owned), The Peninsula Shanghai (50% owned) and The Peninsula Paris (20% owned) have non-recourse bank borrowings, which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the Group. Including the Group's share of the net debt of these non-consolidated entities, total net borrowings would amount to HK$3,904 million at 30 June 2012 (31 December 2011: HK$3,736 million).

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

The Group's interest rate risk management policy focuses on reducing the Group's exposure to changes in interest rates. As at 30 June 2012, the Group's fixed-to-floating interest rate ratio of 43% remained comparable to that as at 31 December 2011. The weighted average gross interest rate for the period decreased to 3.1% (2011: 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. During the period, the Company refinanced two borrowing facilities for its subsidiaries in Japan, totalling JPY12,000 million. The table below illustrates the maturity profile of the committed facilities of the Group as at 30 June 2012 and 31 December 2011 respectively.

HK$m	**30 June 2012**		31 December 2011	
Maturing in 2012	**128**	**(3%)**	1,125	(24%)
Maturing in 2013	**1,024**	**(22%)**	1,069	(23%)
Maturing in 2014	**1,074**	**(23%)**	391	(9%)
Maturing in 2015	**1,663**	**(35%)**	1,201	(26%)
Maturing in 2016	**819**	**(17%)**	819	(18%)
Total committed facilities	**4,708**	**(100%)**	4,605	(100%)

On 8 August 2012, The Peninsula Shanghai Waitan Hotel Company Limited entered into a 15-year RMB2.5 billion term loan agreement with Agricultural Bank of China to refinance its maturing facilities and to provide additional financing.

On 9 August 2012, the Group through its wholly owned subsidiary, HSH Financial Services Limited, entered into a 6-year JPY5 billion fixed rate term loan agreement with Development Bank of Japan Inc. This is to prepay part of its existing debts maturing in 2014 and extend the maturity profile of its borrowings to 2018.

As at 30 June 2012, the Group's total assets were principally denominated in Hong Kong Dollars, which accounted for 72% of the total asset value.

Cash flow

The Group's net cash inflow from operations amounted to HK$429 million for the six months ended 30 June 2012.

The Group's cash flow for the first six months of 2012 is summarised as follows:

	For the six months ended 30 June	
HK$m	**2012**	2011
EBITDA	**521**	512
Working capital and other adjustments	**(92)**	(75)
Net cash inflow from operations	**429**	437
Capital expenditure (CAPEX)	**(344)**	(107)
Net cash inflow from operations after CAPEX	**85**	330
Net tax paid	**(61)**	(31)
Loans to a jointly controlled entity/an associate	**(184)**	(56)
Proceeds from sale of unlisted equity instrument and fixed assets	**47**	-
Dividends paid	**(35)**	(24)
Net cash (outflow)/inflow from financing activities	**(127)**	178
Net cash (outflow)/inflow for the period	**(275)**	397
Cash and cash equivalents at 1 January	**1,963**	1,644
Effect of changes in foreign exchange rate	**(2)**	12
Cash and cash equivalents at 30 June	**1,686**	2,053

During the period, net cash generated from operations amounted to HK$429 million. The capital expenditure of HK$344 million was mainly incurred for the renovation programmes at The Peninsula Hong Kong and The Repulse Bay apartments.

Excluding bank deposits maturing after more than three months, which amounted to HK$103 million and after accounting for investing and financing activities, cash and cash equivalents as at 30 June 2012 amounted to HK$1,686 million.

OPERATING REVIEW

As previously announced, the Group commenced major renovation projects at its two most important assets, The Peninsula Hong Kong and The Repulse Bay, in the first half of 2012. Pursuant to these projects, all of the guestrooms in the tower of The Peninsula Hong Kong were taken out of inventory for almost the entire 6 months period and the de Ricou serviced apartment tower at The Repulse Bay was closed as from 1 February 2012. In the light of the above, we are pleased to announce that the Group's EBITDA and underlying profit both achieved a small increase as compared to the same period last year.

Hotels Division

Revenue for the Hotels Division in the first six months of 2012 was 5% above the same period last year.

	For the six months ended 30 June				
	Occupancy %		Average room rate (HK$)		% RevPAR change
	2012	2011	**2012**	2011	
The Peninsula Hong Kong (note)	**80**	70	**4,178**	4,074	16
The Peninsula Shanghai	**59**	56	**3,143**	3,294	(1)
The Peninsula Beijing	**52**	44	**1,499**	1,492	20
The Peninsula New York	**69**	70	**5,132**	5,305	(4)
The Peninsula Chicago	**59**	56	**2,932**	2,900	7
The Peninsula Beverly Hills	**79**	68	**5,975**	5,674	21
The Peninsula Tokyo	**62**	50	**4,142**	3,743	36
The Peninsula Bangkok	**64**	55	**1,297**	1,531	0
The Peninsula Manila	**75**	70	**1,184**	1,145	10

Note: The Peninsula Hong Kong's occupancy and RevPAR in 2012 are based on a reduced room inventory after taking into consideration the rooms not available for sale due to the room enhancement programme.

	Occupancy %		Average monthly yield per sq ft (HK$)	
	2012	2011	**2012**	2011
Hotel shopping arcades				
The Peninsula Hong Kong	**100**	98	**417**	385
The Peninsula Shanghai	**100**	98	**85**	81
The Peninsula Beijing	**98**	91	**123**	120
The Peninsula New York	**100**	100	**368**	368
The Peninsula Tokyo	**100**	100	**185**	181
The Peninsula Bangkok	**100**	100	**81**	81
The Peninsula Manila	**64**	60	**18**	29
Hotel office space				
The Peninsula Hong Kong	**100**	100	**45**	46

The following is a summary of performance of each hotel:

The Peninsula Hong Kong Total revenue was 9% lower than the same period last year due to the renovation programme for all guestrooms in the tower which began on 8 January 2012, reducing the available room inventory from 300 to 165 rooms. Based on the number of rooms available for sale, the hotel achieved a higher occupancy and average rate compared with the same period last year, along with a 16% increase in RevPAR. For food and beverage, the combination of lower market demand and lower room inventory resulted in a 3% revenue drop. The Office Tower and the Arcade remained fully let, with increased revenue compared to the same period last year.

The Peninsula Shanghai Total revenue was 8% higher than the same period last year, with increased income from food and beverage and the commencement of Bund 33 rentals. The average room rate was 5% lower than the same period last year due to intense competition amongst luxury hotels in Shanghai. The hotel has maintained its position as the market leader in terms of average room rate in the city for the first half of 2012.

The Peninsula Beijing Total revenue was 15% higher than the same period last year, with 20% higher RevPAR and 24% higher food and beverage revenue. Beijing remains an overbuilt city in terms of five star hotel properties, and is expected to remain so for the foreseeable future. Business activity, however, is improving year-on-year with the strongest customer segment growth from the domestic market. Commercial revenue was 9% higher than the same period last year and the Arcade remains a leading venue for luxury goods in the capital. Both Chanel and Louis Vuitton are in the course of expanding their stores.

The Peninsula New York Total revenue was 2% lower than the same period last year, with 4% lower RevPAR. The lower demand from Middle Eastern travellers to New York City, coupled with a six month renovation of The Peninsula Suite, have negatively affected both rate and occupancy. Food and beverage revenue was 6% higher than the same period last year.

The Peninsula Chicago Total revenue was 6% higher than the same period last year, with 7% higher RevPAR due to occupancy growth. The hotel has the highest concentration of US-based business among our hotels, with more than 90% of guests from the domestic market. Occupancy growth has been generated through targeted marketing efforts to negotiated corporate accounts, online travel agents and groups. These efforts have enabled the hotel to preserve its positioning and rate integrity whilst creating increased demand. Food and beverage revenue has increased by 3% as compared with the same period last year, mainly due to higher banquet revenue. Avenues restaurant closed in September 2011 and, after a period of use as banquet space, is now being converted into a junior ballroom in order to generate better yields, with completion expected in October 2012.

The Peninsula Beverly Hills Total revenue was 22% higher than the same period last year. With the guestroom renovations completed in 2011, occupancy was 11% higher than the same period last year, whilst the average rate was 5% higher, resulting in a 21% RevPAR increase. The positive results were achieved through a concerted strategy to attract international business, particularly from the Middle East, which is showing consistent growth. Strong public relations efforts to unveil the new hotel's guestrooms have also attracted new and repeat business. Additionally, there has been a focus on high-end group travel to bolster occupancy during shoulder periods.

The Peninsula Tokyo Total revenue was 27% higher than the same period last year. The 36% growth in RevPAR has been driven by higher occupancy as the market continued to recover from the earthquake and tsunami in March 2011. Long haul and regional leisure travel are showing signs of recovery and there has been a significant improvement in corporate business, which is 49% higher than 2011.

The Peninsula Bangkok Total revenue was 1% higher than the same period last year, with 9% higher occupancy but a 15% lower average room rate. The increased occupancy resulted from the various offers that have been made to the regional markets to attract business, with good growth from the wholesale and group tour segments, though this has had a negative impact on the average rate. There has been some recovery after the late 2011 flooding that significantly impacted Bangkok and the surrounding areas.

The Peninsula Manila Total revenue was 10% higher than the same period last year. The 10% growth in RevPAR has been driven by an increase of 5% in occupancy. The economic and political environment continues to be encouraging in The Philippines, with favourable government policies for investment, the Asian Development Bank's international conference in May 2012 and the launch of a new tourism campaign.

Commercial Properties Division

Turnover from the Commercial Properties Division was 1% lower than the same period last year, mainly due to the renovation being undertaken at The Repulse Bay. The residential and commercial leasing market in Hong Kong remains strong and most of the properties in this Division are operating at or near to full occupancy.

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

	For the six months ended 30 June			
	Occupancy %		Average monthly yield per sq ft (HK$)	
	2012	2011	**2012**	2011
Commercial Properties				
The Repulse Bay (unfurnished)	**91**	96	**41**	39
The Repulse Bay (serviced) (note)	**n/a**	73	**n/a**	30
The Repulse Bay Arcade	**100**	100	**81**	75
The Peak Tower	**100**	100	**90**	78
St. John's Building	**96**	100	**45**	42
The Landmark, Vietnam (Residential)	**90**	82	**18**	17
The Landmark, Vietnam (Office)	**90**	97	**20**	25

Note: As The Repulse Bay serviced apartments have been undergoing renovation works from February 2012, the occupancy and yield statistics are not meaningful.

The Repulse Bay Complex, Hong Kong Total revenue was 5% below the same period last year due to the temporary closure of the de Ricou tower for renovation from 1 February 2012. Excluding the serviced apartments, other apartment revenue was 5% higher than the same period last year. Occupancy for the remaining 353 unfurnished apartments continues to be very high and the shopping arcade remains fully let. The public areas are being upgraded and the first phase of this for the apartment towers at 101 Repulse Bay Road is completed. The redevelopment and reconfiguration of the de Ricou serviced apartment tower, while causing some income disruption in 2012 and part of 2013, is expected to have a positive impact on the rental yields after completion.

The Peak Tower, Hong Kong Total revenue was 11% higher than the same period last year. The Tower remains fully let and rental rates have increased over the same period last year. Admission to Sky Terrace 428 was 1% lower than last year, mainly due to the unstable weather.

St. John's Building, Hong Kong Total revenue was 5% higher than the same period last year. The office tower is almost fully let; the average monthly yield has increased by 7% over the same period last year.

The Landmark, Ho Chi Minh City, Vietnam Total revenue was 5% higher than the same period last year. This was contributed by short stay business and strong demand from corporate guests, despite the weaker office occupancy and rentals following the departure of a major office tenant.

Clubs and Services Division

Total revenue was 11% higher than the same period last year. For the *Peak Tramways*, revenue was 8% higher than the same period last year. The Peak Tram's patronage rose 3%, with 2.75 million passengers in the first six months of 2012, achieving another record. Revenues at *Peninsula Merchandising* were in line with the same period last year; although there was an increase of 14% in GOP owing to higher retail sales in Hong Kong. Meanwhile, Peninsula Merchandising's South Korean distributor will open the first Peninsula Boutique in South Korea in August in Seoul. Revenue in the *Thai Country Club* was 3% higher than last year in baht terms. In 2012 there has been increased revenue from golf cart rental and membership fees as compared with the same period last year. The total revenue at *Quail Lodge* was in line with the same period last year. The hotel portion of the Lodge has remained closed during the period, although we have recently announced plans to re-position and re-open this in 2013. Total revenue in *Tai Pan Laundry* was 22% higher than the same period last year as a result of increased volumes of laundry and dry cleaning business generated from the hotels in Hong Kong and other businesses served by the laundry, as well as new accounts.

Revenue in *Peninsula Clubs and Consultancy Services* was 24% higher than the same period last year. Positive growth came from Club Management and Consultancy fees and revenues from the operation of the Cathay Pacific Airways' first and business class lounges at the Hong Kong International Airport.

Human Resources

HSH's commitment in engaging its employees through customised learning, development programmes and organisational development initiatives continued in the first half of 2012.

"Finance for Business Managers", a corporate programme providing managers with awareness and basic understanding of budgets and financial measurements, was launched early in the year. As a pre-requisite, participants are required to complete e-learning modules prior to attending this programme.

Phase II of the Engagement Survey was conducted across six global operations. A very positive unaudited participation rate of 91% was achieved. Results of the Survey will be released in the third quarter of the year.

Two highly successful leadership programmes were also held in the United States and Asia in April and June respectively. The programmes focused on providing our future leaders with an opportunity to become more self aware of their leadership style, impact and influence on others and their ability to communicate.

As at 30 June, there were 7,087 full time employees in the Group.

Projects

In Europe, The Peninsula Paris is being developed in a building on Avenue Kleber, near the Arc de Triomphe. The first half of 2012 has seen the near completion of structural works, including three new basements and the renewal of all the superstructure, whilst cleaning the historic facades. Work on the renewal of the mansard slate and zinc roofs, the installation of external windows and internal partitioning are well advanced. The mechanical, electrical and plumbing works have begun and fit out packages for the guestrooms are being awarded through the main contractor. The latest schedule for the soft opening of the hotel is in the fourth quarter of 2013.

It has been a challenging and complicated project to convert this beautiful historic building into a Peninsula hotel. Since the commencement of the project, the scope of work has been expanded to address additional structural works required, historical preservation considerations, unknown site conditions and design improvements to the facilities for customers. These issues have had consequences on timing, scope of consultants' services and contract costs. As a result, the total construction budget for the project was recently increased from Euros 295 million to Euros 338 million (excluding contingency). The major part of the construction budget is being financed by a non-recourse project loan of Euros 220 million which has been arranged. HSH is a 20% owner of the hotel in partnership with Katara Hospitality.

The first phase of renovation work for the 135 Tower rooms and suites at The Peninsula Hong Kong commenced in January 2012. This is expected to be completed with the rooms and suites brought back into inventory by September this year. At the same time, construction of a new floor designed to serve business conferences and weddings has commenced and will be completed by November 2012. We will shortly commence the renovation of the 165 rooms and suites in the original building, with completion scheduled for the second quarter of 2013. We also plan at the same time to commence a project to expand and renovate the Verandah restaurant, which will be completed by October this year.

At The Repulse Bay Complex, the first phase renovation involving public areas upgrade work at 101 Repulse Bay Road was completed by April this year and the second phase began in February 2012 with the closure of the de Ricou serviced apartment tower for interior conversion. The de Ricou conversion will result in an improved mix of mainly larger unfurnished duplex apartments, together with a smaller number of luxury serviced apartments, upon completion in mid 2013. Our calculations indicate that the yield from this tower will be significantly enhanced as a result. The third and final phase, involving the upgrading of the public areas in the other residential towers at 109 Repulse Bay Road, has been reduced in scope so that it will commence in late 2012 and be completed at the same time as the second phase in mid 2013.

Outlook

The key factor that will continue to affect our results in the short term is the impact of the renovations at The Peninsula Hong Kong and The Repulse Bay. As mentioned above, the closure of the Tower at The Peninsula Hong Kong will be followed by the closure of the original building until the second quarter of 2013. At The Repulse Bay, closure of the de Ricou tower is expected to last until mid 2013. However, we are confident that completion of these improvements will significantly enhance our future earnings outlook.

In our other businesses and operations, the general trend of demand was stronger at the beginning of 2012 in the first quarter and we have seen a slowing of momentum as we entered into the second quarter and the summer months. The outlook for the traditional autumn high season for most of our hotels is therefore uncertain although we remain cautiously optimistic especially in some of our Asian markets. Rental yields at our investment properties are generally holding up and we expect this segment to remain stable.

Overall, our Group remains in a strong financial position, with a very low level of gearing and significant capability to make further investments.

Consolidated Income Statement - unaudited (HK$m)

	Note	For the six months ended 30 June 2012	2011
Turnover	3	**2,416**	2,310
Cost of inventories		**(190)**	(184)
Staff costs and related expenses		**(899)**	(833)
Rent and utilities		**(303)**	(289)
Other operating expenses		**(503)**	(492)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)	3	**521**	512
Depreciation and amortisation		**(193)**	(181)
Operating profit		**328**	331
Interest income		**29**	22
Financing charges	4(a)	**(67)**	(69)
Net financing charges		**(38)**	(47)
Profit after net financing charges	4	**290**	284
Share of loss of a jointly controlled entity	11	**(71)**	(43)
Increase in fair value of investment properties	9(b)	**630**	1,784
Gain on disposal of unlisted equity instrument	5	**46**	-
Profit before taxation		**895**	2,025
Taxation			
Current tax	6	**(57)**	(66)
Deferred tax	6	**(22)**	(32)
Profit for the period		**816**	1,927
Profit attributable to:			
Shareholders of the Company		**814**	1,907
Non-controlling interests		**2**	20
Profit for the period		**816**	1,927
Earnings per share, basic and diluted (HK$)	7	**0.55**	1.29

Details of dividends payable to shareholders of the Company are set out in note 8.

Consolidated Statement of Comprehensive Income - unaudited (HK$m)

	For the six months ended 30 June	
	2012	2011
Profit for the period	**816**	1,927
Other comprehensive income for the period, net of tax:		
Exchange gain/(loss) on translation of:		
- financial statements of overseas subsidiaries	**5**	(15)
- financial statements of a jointly controlled entity	**(10)**	23
- loans to an associate	**(23)**	44
- investment in hotel management contracts	**(23)**	50
	(51)	102
Cash flow hedges:		
- effective portion of changes in fair value	**(11)**	(19)
- transfer from equity to profit or loss	**22**	30
	(40)	113
Total comprehensive income for the period	**776**	2,040
Total comprehensive income attributable to:		
Shareholders of the Company	**774**	2,016
Non-controlling interests	**2**	24
Total comprehensive income for the period	**776**	2,040

Consolidated Statement of Financial Position – unaudited (HK$m)

	Note	As at 30 June 2012	As at 31 December 2011
Non-current assets			
Fixed assets	9		
Properties, plant and equipment		**5,734**	5,679
Investment properties		**27,505**	26,803
		33,239	32,482
Interest in associates	10	**539**	562
Interest in a jointly controlled entity	11	**1,259**	1,340
Investment in hotel management contracts		**637**	662
Derivative financial instruments	12	**1**	7
Deferred tax assets		**77**	86
		35,752	35,139
Current assets			
Inventories		**88**	99
Trade and other receivables	13	**547**	508
Amount due from a jointly controlled entity	19	**671**	492
Derivative financial instruments	12	**12**	11
Cash at banks and in hand		**1,800**	1,984
		3,118	3,094
Current liabilities			
Trade and other payables	14	**(998)**	(1,063)
Interest-bearing borrowings	15	**(93)**	(1,090)
Derivative financial instruments	12	**(63)**	(63)
Current taxation		**(75)**	(72)
		(1,229)	(2,288)
Net current assets		**1,889**	806
Total assets less current liabilities		**37,641**	35,945
Non-current liabilities			
Interest-bearing borrowings	15	**(4,198)**	(3,229)
Trade and other payables	14	**(252)**	(254)
Net defined benefit retirement obligations		**(24)**	(24)
Derivative financial instruments	12	**(54)**	(77)
Deferred tax liabilities		**(634)**	(623)
		(5,162)	(4,207)
Net assets		**32,479**	31,738
Capital and reserves			
Share capital	16	**751**	745
Reserves		**31,443**	30,710
Total equity attributable to shareholders of the Company		**32,194**	31,455
Non-controlling interests		**285**	283
Total equity		**32,479**	31,738

Consolidated Statement of Changes in Equity – unaudited (HK$m)

		Attributable to shareholders of the Company								
	Note	Share capital	Share premium	Capital redemption reserve	Hedging reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2011		740	3,373	13	(125)	(22)	25,124	29,103	981	30,084
Changes in equity for the six months ended 30 June 2011										
Profit for the period		-	-	-	-	-	1,907	1,907	20	1,927
Other comprehensive income		-	-	-	11	98	-	109	4	113
Total comprehensive income for the period		-	-	-	11	98	1,907	2,016	24	2,040
Dividends approved in respect of the previous year										
- by means of cash		-	-	-	-	-	(17)	(17)	-	(17)
- by means of scrip	16	4	97	-	-	-	(101)	-	-	-
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	(7)	(7)
Balance at 30 June 2011 and 1 July 2011		744	3,470	13	(114)	76	26,913	31,102	998	32,100
Changes in equity for the six months ended 31 December 2011										
Profit for the period		-	-	-	-	-	352	352	-	352
Other comprehensive income		-	-	-	16	(124)	-	(108)	4	(104)
Total comprehensive income for the period		-	-	-	16	(124)	352	244	4	248
Dividends approved in respect of the current year										
- by means of cash		-	-	-	-	-	(26)	(26)	-	(26)
- by means of scrip		1	32	-	-	-	(33)	-	-	-
Acquisition of non-controlling interest in a subsidiary		-	-	-	-	-	135	135	(713)	(578)
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	(6)	(6)
Balance at 31 December 2011 and 1 January 2012		**745**	**3,502**	**13**	**(98)**	**(48)**	**27,341**	**31,455**	**283**	**31,738**
Changes in equity for the six months ended 30 June 2012										
Profit for the period		**-**	**-**	**-**	**-**	**-**	**814**	**814**	**2**	**816**
Other comprehensive income		**-**	**-**	**-**	**11**	**(51)**	**-**	**(40)**	**-**	**(40)**
Total comprehensive income for the period		**-**	**-**	**-**	**11**	**(51)**	**814**	**774**	**2**	**776**
Dividends approved in respect of the previous year										
- by means of cash		**-**	**-**	**-**	**-**	**-**	**(35)**	**(35)**	**-**	**(35)**
- by means of scrip	16	**6**	**108**	**-**	**-**	**-**	**(114)**	**-**	**-**	**-**
Balance at 30 June 2012		**751**	**3,610**	**13**	**(87)**	**(99)**	**28,006**	**32,194**	**285**	**32,479**

Condensed Consolidated Statement of Cash Flows - unaudited (HK$m)

	For the six months ended 30 June **2012**	2011
Operating activities		
EBITDA	**521**	512
Tax paid	**(61)**	(31)
Other adjustments	**(92)**	(75)
Net cash generated from operating activities	**368**	406
Investing activities		
Purchase of fixed assets	**(344)**	(107)
Loan to an associate	**-**	(56)
Loans to a jointly controlled entity	**(184)**	-
Proceeds from disposal of unlisted equity instrument	**46**	-
Proceeds from disposal of fixed assets	**1**	-
Net cash used in investing activities	**(481)**	(163)
Financing activities		
Interest received	**15**	22
Interest and other financing charges paid	**(62)**	(72)
(Placement)/withdrawal of interest bearing bank deposits with maturity of more than three months	**(96)**	224
Net increase in bank borrowings	**16**	4
Dividends paid to shareholders of the Company	**(35)**	(17)
Dividends paid to non-controlling shareholders	**-**	(7)
Net cash (used in)/generated from financing activities	**(162)**	154
Net (decrease)/increase in cash and cash equivalents	**(275)**	397
Cash and cash equivalents at 1 January	**1,963**	1,644
Effect of changes in foreign exchange rates	**(2)**	12
Cash and cash equivalents at 30 June (note)	**1,686**	2,053

Note *Analysis of cash and cash equivalents*

	As at 30 June ***2012***	*2011*
Interest-bearing bank deposits	***1,740***	*2,801*
Cash at banks and in hand	***60***	*42*
Total cash at banks and in hand	***1,800***	*2,843*
Less: Interest bearing bank deposits with maturity of more than three months	***(103)***	*(773)*
Less: Bank overdrafts (note 15)	***(11)***	*(17)*
Cash and cash equivalents in the condensed consolidated statement of cash flows	***1,686***	*2,053*

Cash at banks and in hand at the end of the period include deposits with banks of HK$263 million (30 June 2011: HK$919 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 22 August 2012.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 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 2011 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 2011 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 2011 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2012.

2. Changes in accounting policies

Changes in accounting policies as a result of the developments in HKFRSs

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following development is relevant to the Group's Interim Financial Report:

2. Changes in accounting policies *continued*

Changes in accounting policies as a result of the developments in HKFRSs ***continued***

- Amendments to HKFRS 7, *Financial instruments: Disclosure – Transfers of financial assets*

The above development relates primarily to certain disclosure requirements applicable to the Group's financial statements. These developments have no material impact on the contents of this Interim Financial Report for the current or comparative periods.

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period.

3. Segment reporting (HK$m)

In a manner consistent with the way in which information is reported internally to the Group's senior executive management for the purposes of resource allocation and performance assessment, the Group's reportable segments are as follows:

Hotels	This segment includes revenue generated from operating hotels, leasing of commercial shopping arcades and office premises located within the hotel buildings.
Commercial Properties	This segment comprises 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 comprises 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.

No operating segments have been aggregated to form the reportable segments.

(a) Segment results and assets

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.

3. Segment reporting (HK$m) *continued*

(a) Segment results and assets *continued*

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

Information regarding the Group's reportable segments as provided to the Group's 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							
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Reportable segment revenue*	**1,823**	1,736	**357**	361	**236**	213	**2,416**	2,310
Reportable segment operting profit before interest, taxation, depreciation and amortisation (EBITDA)	**239**	228	**232**	242	**50**	42	**521**	512
Depreciation and amortisation	**(177)**	(167)	**(4)**	(3)	**(12)**	(11)	**(193)**	(181)
Segment operating profit	**62**	61	**228**	239	**38**	31	**328**	331
As at 30 June 2012/31 December 2011								
Reportable segment assets	**16,178**	15,908	**17,538**	17,056	**795**	787	**34,511**	33,751

* *Analysis of segment revenue*

	2012	*2011*
Hotels		
- Rooms	***757***	*747*
- Food and beverage	***577***	*533*
- Commercial	***314***	*290*
- Others	***175***	*166*
	1,823	*1,736*
Commercial Properties		
Rental revenue from:		
- Residential properties	***192***	*204*
- Offices	***34***	*35*
- Shopping arcades	***131***	*122*
	357	*361*
Clubs and Services		
- Clubs management	***77***	*62*
- Tramway operation	***53***	*49*
- Others	***106***	*102*
	236	*213*
Total	***2,416***	*2,310*

3. Segment reporting (HK$m) *continued*

(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.

Assets

	As at 30 June 2012	As at 31 December 2011
Reportable segment assets	**34,511**	33,751
Interest in associates	**539**	562
Interest in a jointly controlled entity	**1,259**	1,340
Derivative financial instruments	**13**	18
Deferred tax assets	**77**	86
Amount due from a jointly controlled entity	**671**	492
Cash at banks and in hand	**1,800**	1,984
Consolidated total assets	**38,870**	38,233

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 **2012**	2011
Interest on bank borrowings wholly repayable within five years	**35**	29
Other borrowing costs	**7**	6
Total interest expense on financial liabilities carried at amortised cost	**42**	35
Derivative financial instruments:		
- cash flow hedges, transfer from equity	**25**	33
- held for trading, at fair value through profit or loss	**-**	1
	67	69

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

(b) Other items

	For the six months ended 30 June	
	2012	2011
Amortisation of hotel management contract	**2**	2
Depreciation	**191**	179
Foreign exchange gains	**-**	(1)
Interest income	**(29)**	(22)

5. Gain on disposal of unlisted equity instrument

The Group had a 17.29% interest in Inncom International, Inc., which was held as an unlisted equity investment with a carrying amount of HK$nil at 31 December 2011. During the period, the Group disposed of this investment for a consideration of HK$46 million.

6. Taxation (HK$m)

	For the six months ended 30 June	
	2012	2011
Current tax		
Hong Kong	**40**	48
Overseas	**17**	18
	57	66
Deferred tax		
Increase in net deferred tax liabilities relating to revaluation of overseas investment properties	**2**	19
Increase in net deferred tax liabilities relating to other temporary differences	**20**	12
Transfer from hedging reserve	**-**	1
	22	32
	79	98

The provision for Hong Kong profits tax is calculated at 16.5% (2011: 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.

7. Earnings per share

(a) Earnings per share - basic

	For the six months ended 30 June **2012**	2011
Profit attributable to shareholders of the Company (HK$m)	**814**	1,907
Weighted average number of shares in issue (million shares)	**1,491**	1,480
Earnings per share (HK$)	**0.55**	1.29

	2012 *(million shares)*	*2011* *(million shares)*
Issued shares at 1 January	***1,490***	*1,480*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2011/2010 final dividends	***1***	*-*
Weighted average number of shares in issue at 30 June	***1,491***	*1,480*

(b) Earnings per share - diluted

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2012 and 30 June 2011 and hence diluted earnings per share is the same as the basic earnings per share.

8. Dividends (HK$m)

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

	For the six months ended 30 June **2012**	2011
Interim dividend declared and to be paid after the interim period of 4 HK cents per share (2011: 4 HK cents per share)	**60**	59

The interim dividend declared after the interim period has not been recognised as a liability at the end of the reporting period.

8. Dividends (HK$m) *continued*

(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	
	2012	2011
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 10 HK cents per share (year ended 31 December 2010: 8 HK cents per share)	**149**	118

For the final dividend in respect of 2011, scrip dividend elections were offered to shareholders other than those with registered addresses in Australia and the United States of America. Shareholders holding approximately 77% of the issued share capital of the Company elected to receive their entitlement to the 2011 final dividend in the form of scrip, which resulted in the issue and allotment of approximately 11.8 million new shares on 29 June 2012.

For the final dividend in respect of 2010, scrip dividend elections were offered to shareholders other than those with registered addresses in Australia and the United States of America. Shareholders holding approximately 85% of the issued share capital of the Company elected to receive their entitlement to the 2010 final dividend in the form of scrip, which resulted in the issue and allotment of approximately 7.7 million new shares on 24 June 2011.

9. Fixed assets (HK$m)

(a) Acquisitions and disposals

During the six months ended 30 June 2012, the Group acquired items of fixed assets with a cost of HK$359 million (six months ended 30 June 2011: HK$114 million). Items of fixed assets disposed of during the six months ended 30 June 2012 and 30 June 2011 were insignificant in value.

(b) Valuation of investment properties

All investment properties of the Group were revalued as at 30 June 2012 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:

9. Fixed assets (HK$m) *continued*

(b) Valuation of investment properties *continued*

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

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

As a result of the revaluation, a net gain of HK$630 million (2011: HK$1,784 million) and deferred tax thereon of HK$2 million (2011: HK$19 million) have been included in the consolidated income statement.

(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 2012. The total valuation placed on the hotel properties and golf courses, which have a net book value of HK$5,524 million (31 December 2011: HK$5,489 million), was HK$8,970 million as at 30 June 2012 (31 December 2011: HK$9,038 million). It is important to note that the surplus of HK$3,446 million (31 December 2011: HK$3,549 million) and the related deferred taxation and non-controlling interests have not been incorporated in this Interim Financial Report but are provided for additional information only. The valuations were carried out by valuers independent of the Group, details of which are as follows:

Description of hotels and golf courses	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong and other Asia		
Hotels and golf course	HVS	Members of the Singapore Institute of Surveyors and Valuers
United States of America		
Hotels and golf course	HVS	Members of the Appraisal Institute, United States of America

10. Interest in associates (HK$m)

	As at 30 June 2012	As at 31 December 2011
Loans to an associate *	**539**	562

* *The loans to an associate are denominated in Euros, unsecured, bear interest at rates related to the rates published by the French tax authorities and are carried at their estimated recoverable amounts. EUR 13 million (HK$125.5 million) (31 December 2011: EUR 13 million (HK$130.9 million)) of the loans is repayable in or before November 2014 while the remaining balance of the loans is repayable on 25 April 2017.*

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 80,000,000	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.*

The associates' attributable accumulated results as at 30 June 2012 and 31 December 2011 were not significant.

11. Interest in a jointly controlled entity (HK$m)

	As at 30 June 2012	As at 31 December 2011
Share of exchange reserve	**155**	165
Share of retained profits	**646**	717
Share of net assets	**801**	882
Loan to a jointly controlled entity *(note 11(b))*	**458**	458
	1,259	1,340

11. Interest in a jointly controlled entity (HK$m) *continued*

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

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

* *The Group's interest in TPS is held indirectly by the Company. TPS holds a 100% direct interest in Evermore Gain Limited ("EGL"), a company incorporated in Hong Kong in 2007, which in turn holds a 100% direct interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"). PSW is a wholly owned foreign enterprise incorporated in the People's Republic of China and is engaged in the development and operation of The Peninsula Shanghai hotel, Peninsula hotel apartments, a retail arcade and ancillary facilities. At 30 June 2012, the paid up capital of EGL and PSW amounted to HK$1 (31 December 2011: HK$1) and US$117,500,000 (31 December 2011: 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 11(a) above.

(c) Set out below is a summary of the financial information on the jointly controlled entity, of which the Group has a 50% share:

	As at 30 June 2012	As at 31 December 2011
Non-current assets	**6,373**	6,510
Current assets	**236**	103
Current liabilities	**(3,396)**	(3,226)
Non-current liabilities	**(1,612)**	(1,623)
Net assets	**1,601**	1,764

	For the six months ended 30 June **2012**	2011
Income	**235**	204
Operating expenses	**(201)**	(172)
EBITDA	**34**	32
Depreciation	**(52)**	(51)
Net financing charges	**(87)**	(63)
Loss before non-operating items	**(105)**	(82)
Non-operating items**	**(43)**	-
Taxation - deferred tax	**5**	(3)
Loss for the period	**(143)**	(85)

** *Non-operating items represent property valuation adjustments in respect of the jointly controlled entity.*

11. Interest in a jointly controlled entity (HK$m) *continued*

(d) PSW has pledged its land use right, fixed assets and investment properties to an independent financial institution as security for PSW's loan facility amounting to HK$1,952 million (RMB1,600 million) (31 December 2011: HK$1,968 million (RMB1,600 million)). The net carrying amount of these pledged assets amounted to HK$6,373 million (RMB5,223 million) (31 December 2011: HK$6,510 million (RMB5,292 million)).

12. Derivative financial instruments (HK$m)

	As at 30 June 2012		As at 31 December 2011	
	Assets	**Liabilities**	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	**-**	**(93)**	-	(107)
Cross currency interest rate swaps	**-**	**(6)**	-	(8)
	-	**(99)**	-	(115)
At fair value through profit or loss:				
Interest rate swaps	**13**	**(18)**	18	(25)
Total	**13**	**(117)**	18	(140)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	**-**	**(41)**	-	(42)
Cross currency interest rate swaps	**-**	**(6)**	-	(5)
	-	**(47)**	-	(47)
At fair value through profit or loss:				
Interest rate swaps	**12**	**(16)**	11	(16)
	12	**(63)**	11	(63)
Portion to be recovered/(settled) after one year	**1**	**(54)**	7	(77)

13. Trade and other receivables (HK$m)

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

	As at 30 June 2012	As at 31 December 2011
Trade debtors	**182**	202
Rental deposits, payments in advance and other receivables	**360**	306
Prepaid tax	**5**	-
	547	508

The amount of the Group's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK$124 million (31 December 2011: HK$139 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

The Directors consider that the carrying 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.

The ageing analysis of trade debtors is as follows:

	As at 30 June 2012	As at 31 December 2011
Current	**155**	177
Less than one month past due	**17**	18
One to three months past due	**8**	6
More than three months but less than 12 months past due	**1**	1
More than 12 months past due	**1**	-
Amounts past due	**27**	25
	182	202

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

No impairment is considered necessary for any of the trade debtors including those that are past due as they relate to a wide range of independent customers that have a good track record with the Group, with no recent history of default and are considered by the management to be fully recoverable.

14. Trade and other payables (HK$m)

The details of trade and other payables are as follows:

	As at 30 June 2012	As at 31 December 2011
Trade creditors	**94**	148
Interest payable	**4**	4
Accruals for fixed assets	**47**	50
Tenant deposits	**326**	324
Guest deposits	**138**	116
Golf membership deposits	**106**	107
Other payables	**535**	568
Financial liabilities measured at amortised cost	**1,250**	1,317
Less: Non-current portion of trade and other payables	**(252)**	(254)
Current portion of trade and other payables	**998**	1,063

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$352 million (31 December 2011: HK$341 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 2012	As at 31 December 2011
Less than three months	**92**	145
Three to six months	**2**	3
	94	148

15. Interest-bearing borrowings (HK$m)

	As at 30 June 2012	As at 31 December 2011
Total facilities available:		
Term loans and revolving credits	**4,708**	4,605
Uncommitted facilities, including bank overdrafts	**293**	296
	5,001	4,901
Utilised:		
Term loans and revolving credits	**4,310**	4,335
Uncommitted facilities, including bank overdrafts	**11**	14
	4,321	4,349
Less: Unamortised financing charges	**(30)**	(30)
	4,291	4,319
Represented by:		
Short term bank loans, repayable within one year or on demand	**82**	1,076
Bank overdrafts, repayable on demand	**11**	14
	93	1,090
Long term bank loans, repayable:		
Between one and two years	**1,905**	1,072
Between two and five years	**2,323**	2,187
	4,228	3,259
Less: Unamortised financing charges	**(30)**	(30)
Non-current portion of long term bank loans	**4,198**	3,229
Total interest bearing borrowings	**4,291**	4,319

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.

16. Share capital

	As at 30 June 2012	As at 31 December 2011
Number of ordinary shares of HK$0.50 each (million shares)		
Authorised	**1,800**	1,800
Issued at 30 June/31 December	**1,502**	1,490
Nominal value of ordinary shares (HK$m)		
Authorised	**900**	900
Issued and fully paid at 30 June/31 December	**751**	745

During the six months ended 30 June 2012, the Company issued and allotted approximately 11.8 million new ordinary shares of HK$0.50 each at HK$9.74 per share in respect of the 2011 final scrip dividend (2011: approximately 7.7 million new shares at HK$13.2 per share in respect of the 2010 final scrip dividend). The new shares issued have resulted in an increase in fully paid share capital of approximately HK$6 million (2011: HK$4 million) and share premium of HK$108 million (2011: HK$97 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.

17. Commitments (HK$m)

Capital commitments outstanding at 30 June 2012 and not provided for in the Interim Financial Report were as follows:

	As at 30 June 2012	As at 31 December 2011
Capital expenditure		
Contracted for	**652**	360
Authorised but not contracted for		
- major renovation of the guestrooms of The Peninsula Hong Kong	**104**	256
- upgrade programme at The Repulse Bay Complex	**125**	590
- others	**765**	612
	1,646	1,818
The Group's share of capital commitments of a jointly controlled entity		
Contracted for	**2**	-
Authorised but not contracted for	**10**	13
	12	13
	1,658	1,831

17. Commitments (HK$m) *continued*

The Group holds a 20% equity interest in Al Maha Majestic S.à r.l., an associate of the Group responsible for the development of The Peninsula Paris project. The Group's 20% share of the contracted for capital commitments and authorised but not contracted for capital commitments as at 30 June 2012 amounted to HK$186 million (31 December 2011: HK$195 million) and HK$274 million (31 December 2011: HK$215 million) respectively. It is planned that these capital commitments will be materially financed by way of bank borrowing by the associate and only in the event of the associate being unable to arrange the funding would the Group be required to meet the shortfall.

18. Contingent liabilities (HK$m)

Contingent liabilities were at a level similar to that disclosed in the Group’s annual financial statements for the year ended 31 December 2011.

19. Material related party transactions

Pursuant to the tripartite entrustment loan agreement dated 12 December 2011 entered into among The Palace Hotel Co., Ltd. (“TPH”), a 76.6% owned subsidiary of the Company, The Peninsula Shanghai Waitan Hotel Company Limited (“PSW”), a 50% jointly controlled entity and a PRC branch of an international bank (“agent bank”), PSW made further drawdown of RMB150 million (HK$184 million) unsecured entrustment loans via the agent bank during the six months ended 30 June 2012. The loans bear interest at a rate of 200 basis points above the deposit rate published by The People’s Bank of China on the day on which the drawdown was made. As at 30 June 2012, the entrustment loans owed by PSW to TPH totalled RMB550 million (HK$671 million) (31 December 2011: RMB400 million (HK$492 million)). Under the agreement, the loans are repayable in December 2012.

On 8 August 2012, PSW entered into a 15-year RMB2.5 billion term loan agreement with a local bank to refinance its maturing facilities and to provide additional financing. On 20 August 2012, RMB300 million was drawn by PSW to partially repay the entrustment loans.

Except for the above transaction, there were no material related party transactions during the period ended 30 June 2012, other than in the nature of those as disclosed in the Group’s annual financial statements for the year ended 31 December 2011.

OTHER CORPORATE INFORMATION

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

Corporate Governance
The Company is committed to good corporate governance which is central to the achievement of long term goals, for the benefit of its shareholders and other stakeholders. The Company strives to continuously review its corporate governance practices and seeks improvements in this area. The Corporate Governance Report in the 2011 Annual Report sets out in detail the Company's corporate governance policies and practices.

The Company adopted its own Code on Corporate Governance Practices in 2005. In light of the revised Appendix 14 of the Listing Rules, Corporate Governance Code, which came into effect on 1 April 2012 (the "CG Code"), the Company reviewed and updated its own code in March 2012 (the "HSH Code"). It applies all of the principles in the CG Code.

The HSH Code has already encompassed all code provisions and recommended best practices of the previous Code on Corporate Governance Practices in Appendix 14 of the Listing Rules (the "Former CG Code") and the CG Code, apart from the following deviations in regard to the recommended best practices:

- ***Publication of quarterly financial results***
  The Board believes that the businesses of the Group are characterised by their long term and cyclical nature. Quarterly reporting encourages a short term view on the Group's performance. Instead, the Company posts on the Company's website its quarterly operating statistics which set out key operating information to update shareholders on the Group's periodic performance;
- ***Establishment of Nomination Committee***
  The Company did not have a separate nomination committee in 2011, but the functions were performed by the Executive Committee. On 30 March 2012, a Nomination Committee was set up to comply with the code provision of the CG Code;
- ***Disclosure of individual senior management remuneration***
  The Company has adopted the code provision of disclosing the remuneration payable to senior management by band in note 7 to the Financial Statements in the 2011 Annual Report; and
- ***Board evaluation***
  The Board has not conducted formal Board evaluation. However, the Non-Executive Chairman and the Non-Executive Directors, including the Independent Non-Executive Directors, conduct an annual meeting to discuss the effectiveness of management and how the Board as a whole provides its collective advice and guidance to help management in its strategic direction.

Throughout the period, the Company has complied with all the code provisions in the Former CG Code as well as 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 enquiries with all the Directors regarding any non-compliance with the Model Code and the Securities Code during the period. The Directors have confirmed their full compliance with the required standard set out in the Model Code and the Securities Code.

The Company has further extended the Securities Code to specified employees including senior management who, because of their positions, are likely to come across unpublished price sensitive information. Senior management has also confirmed their full compliance with the required standards set out in the adopted Code for Dealing in the Company's Securities by Specified Individuals.

Interim dividend

The Board of Directors has resolved to declare an interim dividend of 4 HK cents per share (2011: 4 HK cents per share) for the six months ended 30 June 2012. The interim dividend will be payable on 28 September 2012 to shareholders whose names appear on the register of members on 21 September 2012.

Closure of register of members

The register of members of the Company will be closed from 19 September 2012 to 21 September 2012 (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 Tuesday, 18 September 2012.

Interim Report

The Interim Report of the Company will be dispatched to the shareholders as well as published on the websites of the Company and the Stock Exchange on or about 12 September 2012.

By Order of the Board
Christobelle Liao
Company Secretary

Hong Kong, 22 August 2012

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 Warren Miller
Patrick Blackwell Paul
Pierre Roger Boppe
Dr. William Kwok Lun Fung