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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

2011 Interim Results

HIGHLIGHTS

- Positive momentum in the Group's first quarter business results were offset by the Japan earthquake.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 4% to HK\$512 million.
- Underlying profit attributable to shareholders increased by 3% to HK\$152 million.
- Profit attributable to shareholders increased by 174% to HK\$1,907 million, after including property revaluation gains (net of tax and non-controlling interests).
- Earnings per share and underlying earnings per share of HK\$1.29 (2010: HK\$0.47) and HK\$0.10 (2010: HK\$0.10) respectively.
- Shareholders' funds as at 30 June 2011 amounted to HK\$31,102 million or HK\$20.92 per share (31 December 2010: HK\$29,103 million or HK\$19.66 per share).
- Adjusted net asset value as at 30 June 2011 amounted to HK\$34,094 million (HK\$22.93 per share).
- Gearing ratio remained at 5% (31 December 2010: 5%).
- Interim dividend of 4 HK cents (2010: 4 HK cents) per share.

FINANCIAL AND OPERATING HIGHLIGHTS

	For the six months ended 30 June		
	2011	2010 (restated)	Increase/ (Decrease)
CONSOLIDATED INCOME STATEMENT (HK\$m)			
Turnover	2,310	2,176	6%
EBITDA	512	490	4%
Profit attributable to shareholders	1,907	697	174%
Underlying profit attributable to shareholders **	152	147	3%
Interim dividend	59	59	-
Earnings per share (HK\$)	1.29	0.47	174%
Underlying earnings per share (HK\$) **	0.10	0.10	-
Interim dividends per share (HK cents)	4	4	-
Interim dividend cover (times) #	2.6x	2.5x	4%
Interest cover (times)	7.0x	6.2x	13%
Weighted average gross interest rate	3.2%	3.2%	-
	As at 30 June 2011	As at 31 December 2010	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK\$m)			
Total assets	38,586	36,587	5%
Net assets attributable to shareholders	31,102	29,103	7%
Adjusted net assets attributable to shareholders **	34,094	31,888	7%
Net assets per share (HK\$)	20.92	19.66	6%
Adjusted net assets per share (HK\$) **	22.93	21.55	6%
Net borrowings	1,500	1,674	(10%)
Net debt to EBITDA (annualised) (times)	1.5x	1.7x	(12%)
Net debt to equity	5%	6%	(1pp) *
Gearing	5%	5%	-
	For the six months ended 30 June 2011	2010	
CONSOLIDATED STATEMENT OF CASH FLOWS (HK\$m)			
Net cash generated from operating activities	406	366	11%
Capital expenditure	107	103	4%
Net cash inflow after capital expenditure, interest and dividends	169	188	(10%)
Capital expenditure to revenue	5%	5%	-
SHARE INFORMATION (HK\$)			
Highest share price	14.74	13.06	13%
Lowest share price	12.64	10.32	22%
Period end closing share price	13.00	12.94	0.5%
OPERATING INFORMATION			
Number of hotel rooms (as at 30 June)	3,012	3,012	-
Average occupancy rate			
- Hong Kong	70%	67%	3pp *
- Other Asia	55%	57%	(2pp) *
- United States of America	63%	60%	3pp *
Average room rate (HK\$)			
- Hong Kong	4,074	3,779	8%
- Other Asia	1,941	1,837	6%
- United States of America	4,472	4,172	7%
RevPAR (HK\$)			
- Hong Kong	2,864	2,522	14%
- Other Asia	1,069	1,039	3%
- United States of America	2,838	2,496	14%

* pp denotes percentage points.

** Please refer to calculation in the Financial Review.

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

The Directors hereby announce the unaudited interim results of the Company for the six months ended 30 June 2011. 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 (HKICPA).

At the year ended 31 December 2010, in order to better present the Group's deferred tax position, the Group opted to early adopt the Amendments to HKAS 12 *Income Taxes* (the "Amendments") which is effective for annual periods beginning on or after 1 January 2012.

Under the Amendments, deferred tax liabilities in respect of the Group's investment properties are now measured with reference to the tax liabilities that would arise if the properties were disposed of at their carrying values at the reporting date, unless the property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time rather than through sale. Previously, where these properties were held under leasehold interest, deferred tax was generally measured using the tax rate that would apply as a result of recovery of the asset's value through use. In view of the foregoing, the Group is no longer required to provide for deferred tax liabilities in respect of temporary differences arising from revaluation of Hong Kong investment properties as there is no capital gains tax in Hong Kong.

Since the Amendments were not issued by the HKICPA until 21 December 2010, the Group's Interim Report for the period ended 30 June 2010 was prepared based on the recognition criteria under the old HKAS 12 without taking into account the new recognition provisions in respect of the deferred tax liabilities on the Group's investment properties under the Amendments. As a result of the early adoption of the Amendments, the Group's comparative figures for the period ended 30 June 2010 need to be restated. Further details of the effect on the Group's income statement arising from the Amendments are summarised in note 19 to the Interim Financial Report.

The Group's adjusted net asset value

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 2011, 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\$2,992 million (9.6%).

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 2011 on the basis set out below:

HK\$m	As at 30 June 2011	As at 31 December 2010
Net assets attributable to shareholders per statement of financial position	31,102	29,103
Adjusting the value of hotels and golf courses to fair market value	3,430	3,151
Less: Related deferred tax and non-controlling interests	<u>(438)</u>	<u>(366)</u>
	<u>2,992</u>	<u>2,785</u>
Adjusted net assets attributable to shareholders	<u>34,094</u>	<u>31,888</u>
Net assets per share as per statement of financial position (HK\$)	<u>20.92</u>	<u>19.66</u>
Adjusted net assets per share (HK\$)	<u>22.93</u>	<u>21.55</u>

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 items, such as the increase 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 2011	2010 (restated)
Profit attributable to shareholders	1,907	697
Increase in fair value of investment properties	(1,784)	(547)
Share of net property valuation gain of a jointly controlled entity, net of tax	-	(18)
Tax and non-controlling interests attributable to non-operating items	<u>29</u>	<u>15</u>
Underlying profit attributable to shareholders	<u>152</u>	<u>147</u>
Underlying earnings per share (HK\$)	<u>0.10</u>	<u>0.10</u>

Income Statement

The Group's turnover for the six months ended 30 June 2011 of HK\$2,310 million was HK\$134 million or 6% above the same period in 2010.

The Hotels Division enjoyed positive momentum in its operating performance in the first quarter of the year, but this was disrupted by the Japanese earthquake on 11 March 2011 which had a significant adverse effect on business at The Peninsula Tokyo as well as some minor knock-on effects elsewhere. Momentum also slowed in some of our other markets in the second quarter. Overall, the Hotels Division was able to achieve revenue growth of 5% in the first half of 2011. The majority of the Division's increase in revenue was attributed to improved rooms and food and beverage business at the Peninsula hotels in Hong Kong and the United States.

For the Commercial Properties Division, demand for high end residential apartments and retail premises remained strong in the first half of 2011, resulting in an 8% growth in rental revenue.

Most of the businesses in the Clubs and Services Division also recorded revenue growth, leading to an overall increase in turnover by 12%. Details of the operating performance of the Group's individual business divisions are summarised in the Operating Review on pages 9 to 13.

The Group's consolidated EBITDA (earnings before interest, taxation, depreciation and amortisation) increased by 4% year-on-year to HK\$512 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	2011 vs 2010
2011					
Hotels	238	9	(19)	228	-
Commercial Properties	231	11	-	242	7%
Clubs and Services	49	10	(17)	42	17%
	518	30	(36)	512	4%
2010					
Hotels	226	38	(37)	227	
Commercial Properties	214	13	-	227	
Clubs and Services	50	8	(22)	36	
	490	59	(59)	490	
2011 vs 2010					
Percentage change	6%	(49%)	39%	4%	

Details of the operating performance of individual operations are set out in the Operating Review.

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

EBITDA margin	2011	2010
Hotels	13%	14%
Commercial Properties	67%	68%
Clubs and Services	20%	19%
Overall EBITDA margin	22%	23%
Arising in:		
Hong Kong	48%	49%
Other Asia	4%	8%
United States of America	(8%)	(15%)

During the period, due to the business disruption caused by the earthquake in Japan, the EBITDA margin of the Hotels Division fell short of 2010 by 1 percentage point. The EBITDA margin of the Commercial Properties Division also dropped by 1 percentage point mainly due to an increase in operating costs. However, the EBITDA margin of the Clubs and Services Division improved by 1 percentage point to 20%.

After taking into account depreciation and net financing charges, profit after financing charges amounted to HK\$284 million or 6% above the same period in 2010.

With respect to non-operating items, the increase in fair value of investment properties for the current period amounted to HK\$1,784 million (2010: HK\$547 million), mainly attributable to the revaluation surpluses on The Peninsula Hong Kong retail arcade and The Repulse Bay Complex in Hong Kong.

The Group has a 50% interest in The Peninsula Shanghai, which is owned by a jointly controlled entity. The Group's share of loss in relation to The Peninsula Shanghai for the first half of 2011 increased to HK\$43 million (2010: HK\$17 million). While the hotel operation is performing well across rooms, food and beverage and spa activities, and has achieved the position of rate leader in Shanghai, the commercial operations within the complex are still developing. The retail arcade, while fully tenanted with a strong brand mix, is working to promote itself in a new location and the Peninsula apartments are yet to commence rental, expected in the second half of 2011. In addition, with the construction completion of the complex, development loans have been substantially drawn resulting in significantly higher interest costs, also taking account of an increase in lending base rates.

After accounting for the increase in fair value of investment properties and the related deferred tax and non-controlling interests, consolidated profit attributable to HSH shareholders amounted to HK\$1,907 million for the six months, compared to HK\$697 million for the same period in 2010.

The earnings per share of HK\$1.29 was 174% above that of the same period in 2010. Excluding non-operating items and the related tax and non-controlling interests, underlying earnings per share remained at HK\$0.10 (2010: HK\$0.10).

The Directors have resolved to pay an interim dividend of 4 HK cents per share (2010: 4 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 2011 amounted to HK\$31,102 million or HK\$20.92 per share (31 December 2010: HK\$29,103 million or HK\$19.66 per share).

A summary of the Group's hotel, investment and other properties showing both the book value and the market value as at 30 June 2011 is set out in the following table:

HK\$m	Group's Interest	Market Value	Book Value
Hotels			
Consolidated hotels			
The Peninsula Hong Kong	100%	10,552	8,558
The Peninsula Beijing	42%	1,946	1,439
The Peninsula New York	100%	1,536	1,085
The Peninsula Chicago	100%	1,250	1,182
The Peninsula Tokyo	100%	1,569	1,227
The Peninsula Bangkok	75%	850	870
The Peninsula Manila	77%	315	292
		18,018	14,653
Jointly controlled entity (value attributable to the Group)			
The Peninsula Shanghai	50%	3,120	3,055
Total for hotels		21,138	17,708
Commercial properties			
The Repulse Bay	100%	9,092	9,092
Repulse Bay Apartments	100%	5,658	5,658
Repulse Bay Garage	100%	93	93
The Peak Tower	100%	1,141	1,141
St. John's Building	100%	763	763
The Landmark	70%	95	95
Total for commercial properties		16,842	16,842
Other properties			
Thai Country Club golf course	75%	255	255
Quail Lodge resort, golf course and vacant land	100%	153	155
Vacant land near Bangkok	75%	339	339
Other Hong Kong properties	100%	60	28
Total for other properties		807	777
Total		38,787	35,327

During the period, net borrowings decreased by 10% to HK\$1,500 million (31 December 2010: HK\$1,674 million) and the Group's gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders' funds, remained at 5% (31 December 2010: 5%). Net interest cover, expressed as operating profit divided by net financing charges, increased to 7.0 times (2010: 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, total net borrowings would amount to HK\$2,996 million at 30 June 2011 (31 December 2010: HK\$3,072 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 2011, the Group's fixed-to-floating interest rate ratio of 43% remained comparable to that as at 31 December 2010. The weighted average gross interest rate for the period remained at 3.2% (2010: 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 has refinanced two borrowing facilities for its subsidiaries in Thailand, totalling Baht 1,600 million. One of the facilities was refinanced at a reduced interest margin, while the other was refinanced with longer tenor.

The table below illustrates the maturity profile of the committed facilities of the Group as at 30 June 2011 and 31 December 2010 respectively.

HK\$m	30 June 2011	31 December 2010
Maturing in 2011	1,615 (30%)	1,822 (33%)
Maturing in 2012	1,089 (20%)	1,293 (24%)
Maturing in 2013	1,147 (21%)	1,225 (22%)
Maturing in 2014	202 (4%)	-
Maturing in 2015	1,156 (21%)	1,151 (21%)
Maturing in 2016	202 (4%)	-
Total committed facilities	5,411 (100%)	5,491 (100%)

As at 30 June 2011, the Group's total assets were principally denominated in Hong Kong Dollar which accounted for 71% of the total asset value.

Statement of Cash Flow

The statement of cash flow of the Group for the first six months of 2011 is summarised as follows:

HK\$m	For the six months ended 30 June		Increased/ (decreased)
	2011	2010	
Net cash generated from operating activities	406	366	11%
Purchase of fixed assets	(107)	(103)	4%
Loan to an associate	(56)	-	n/a
Net financing charges and dividends paid	(74)	(75)	(1%)
Net cash inflow before bank movements and non-recurring items	169	188	(10%)
Net increase in bank borrowings	4	106	(96%)
Exchange and other adjustments	12	4	200%
Net cash inflow for the period	185	298	(38%)
Cash at banks and in hand as at 1 January	2,658	1,835	45%
Cash at banks and in hand as at 30 June	2,843	2,133	33%

During the period, net cash generated from operating activities increased to HK\$406 million (2010: HK\$366 million). Approximately half of the net cash inflow from operating activities was applied to the payments of capital expenditure, loan to an associate, financing charges and dividends. The capital expenditure of HK\$107 million (2010: HK\$103 million) was mainly incurred for ongoing renovations for the Group's existing properties.

Excluding bank deposits maturing after more than three months, which amounted to HK\$773 million (30 June 2010: HK\$657 million) and after accounting for investing and financing activities, cash and cash equivalents as at 30 June 2011 amounted to HK\$2,053 million (30 June 2010: HK\$1,462 million).

OPERATING REVIEW

The Group's operating results for the first half of 2011 were impacted by the massive earthquake and tsunami which struck Japan on 11 March. This had a significant adverse impact on the business results of The Peninsula Tokyo which, prior to the earthquake, had been trading at above the previous year. Generally, the Hotels Division had a positive first quarter but has seen momentum slowing in several markets during the second quarter.

The Hotels Division recorded a 5% increase in revenue compared with the first half of 2010. The RevPAR in all the hotels improved over the same period last year, apart from The Peninsula Tokyo where RevPAR fell by 18%. The RevPAR growth has been mostly driven by increases in the average room rate. There was also robust demand for space at the hotels' shopping arcades, although The Peninsula Beijing's arcade recorded slightly lower occupancy due to renovation work.

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 mostly shown improved performance year-on-year.

All operations continue to take appropriate measures to contain costs in order to mitigate the impact on the Group's results from the Japan earthquake and in recognition of the uncertain global economic environment.

Hotels Division

Revenue for the Hotels Division in the first six months of 2011 was 5% above the same period last year. Apart from The Peninsula Tokyo, all hotels recorded revenue increases. The highest increase of 36% was achieved by The Peninsula Shanghai, although it should be noted that last year's results included part of the soft opening period prior to the hotel's grand opening in March 2010.

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

	For the six months ended 30 June				% RevPAR change
	Occupancy %		Average room rate (HK\$)		
	2011	2010	2011	2010	
The Peninsula Hong Kong	70	67	4,074	3,779	14
The Peninsula Shanghai	56	58	3,294	2,601	23
The Peninsula Beijing	44	44	1,492	1,415	6
The Peninsula New York	70	63	5,305	4,794	23
The Peninsula Chicago	56	52	2,900	2,918	7
The Peninsula Beverly Hills	68	70	5,674	5,116	9
The Peninsula Tokyo	50	62	3,743	3,665	(18)
The Peninsula Bangkok	55	49	1,531	1,458	16
The Peninsula Manila	70	72	1,145	1,007	12

	Occupancy %		Average monthly yield per sq ft (HK\$)	
	2011	2010	2011	2010
	Hotel Shopping Arcades			
The Peninsula Hong Kong	98	99	385	385
The Peninsula Shanghai	98	95	81	31
The Peninsula Beijing	91	96	120	116
The Peninsula New York	100	100	368	370
The Peninsula Tokyo	100	100	181	160
The Peninsula Bangkok	100	100	81	73
The Peninsula Manila	60	57	29	17

Hotel Office Space

The Peninsula Hong Kong	100	100	46	46
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The following is a summary of performance of each hotel:

The Peninsula Hong Kong Total revenue was 7% higher than the same period last year, with higher occupancy and average rate and increased revenue from food and beverage. We continue to see increase in room business generated from mainland China, which accounts for approximately 19% of the market mix. The Office Tower and Arcade remain fully let, with consistent revenue year-on-year. Preparations are under way for the hotel guestroom renovation from the beginning of 2012.

The Peninsula Shanghai Total revenue was 36% higher than the same period last year, with the hotel quickly establishing itself as the rate leader in the city. Occupancy and business levels remain subdued because of new competition for hotel rooms and dining options in Shanghai, as well as the general business slowdown following the 2010 World Expo. However, the hotel was able to maintain its position as the market leader in terms of average room rate and RevPAR in the city. It should be noted that the hotel was not fully operational in 2010 until its grand opening on 18 March 2010 and the shopping arcade was not formally opened until 1 July 2010.

The Peninsula Beijing Total revenue was 2% higher than the same period last year. The competition amongst luxury hotels in Beijing remains intense. However, we have continued to invest in our shopping arcade and commercial revenues remained strong and slightly ahead of the same period last year. Two of our anchor tenants are currently undertaking significant store expansion which will further enhance the Arcade.

The Peninsula New York Total revenue was 20% higher than the same period last year, with a 23% lift in RevPAR arising from higher occupancy and higher average room rates. There has been a notable improvement in business levels in New York City and the hotel has been able to command higher room rates following its renovation.

The Peninsula Chicago Total revenue was 7% higher than the same period last year, with relatively sluggish growth due to the higher proportion of domestic business in Chicago than elsewhere in the US.

The Peninsula Beverly Hills Total revenue was 6% higher than the same period last year, despite the guestroom renovation work, which was ongoing throughout the period. The hotel has managed to keep occupancy at nearly the same level as the same period last year, while boosting its average rate by 11%.

The Peninsula Tokyo Total revenue was 13% lower than the same period last year, due to the impact of the massive earthquake. Business levels fell dramatically in the period following the earthquake. There has been a mild pick-up in business in the last few weeks of the second quarter, although rate has been affected to drive occupancy.

The Peninsula Bangkok Total revenue was 13% higher than the same period last year, although a general sense of uncertainty and caution remained leading up to the general election in July. The hotel has been able to achieve a 16% increase in RevPAR, with higher occupancy and a 5% higher average room rate and increased revenue from food and beverage.

The Peninsula Manila Total revenue was 15% higher than the same period last year. The 12% growth in RevPAR has been driven by higher average room rates, which was 14% higher than the same period last year. Food and beverage revenue has increased by 21% over the same period last year, with improved performance from the renovated areas.

Commercial Properties Division

Turnover from the Commercial Properties Division was 8% higher than in the first six months of 2010. The residential and commercial leasing market in Hong Kong remains strong and most properties in this Division are operating with 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\$)	
	2011	2010	2011	2010
Commercial Properties				
The Repulse Bay (unfurnished)	96	94	39	37
The Repulse Bay (serviced)	73	68	30	26
The Repulse Bay Arcade	100	100	75	72
The Peak Tower	100	99	78	67
St. John's Building	100	95	42	36
The Landmark, Vietnam (Residential)	82	82	17	18
The Landmark, Vietnam (Office)	97	98	25	28

The Repulse Bay Complex, Hong Kong Total revenue was 7% higher than the same period last year. Occupancy for the 353 unfurnished apartments remains very high and they are now almost fully let. Occupancy in the 68 serviced apartments has also increased over the same period last year and the shopping arcade remains fully let.

The Peak Tower, Hong Kong Total revenue was 15% higher than the same period last year. The Tower remains fully let and rental rates have increased over the same period last year. Strong support came from the increased number of visitors to the Peak Tower - 860,000 visitors for the first six months of 2011, compared with 627,000 for the same period last year, representing an increase of 37%.

St. John's Building, Hong Kong Total revenue was 22% higher than the same period last year. The office tower is fully let and the average rent has also increased by 17% over the same period last year.

The Landmark, Ho Chi Minh City, Vietnam Total revenue was 9% lower than the same period last year, largely due to the deflation of the Vietnam Dong. There is pressure on rental rates due to the increased supply of high quality office space; although the offices remain almost fully let.

Clubs and Services Division

Total revenue was 12% higher than the same period last year. *Peak Tramways* recorded an 11% higher turnover, with 7% more passengers than last year. There were 2.7 million passengers in the first six months of 2011 as compared with 2.5 million passengers in the same period last year. There has been a 12% increase in revenue in *Peninsula Merchandising*, which has wholesale and retail merchandise operations in Hong Kong, Japan and other countries. Revenue in the *Thai Country Club* was 18% higher than the same period in 2010, although revenue in *Quail Lodge* was 12% lower in 2011, due to the lower number of golf rounds and lack of new members. Revenue in *Tai Pan Laundry* has increased by 13% over the same period in 2010. Revenue in *Peninsula Clubs and Consultancy Services* was 40% lower than the same period in 2010.

Human Resources

The Group continued to focus its Human Resources efforts on attracting high quality talent and implementing customised learning and development programmes.

As part of our ongoing employee engagement initiatives, a pilot Engagement Survey was also launched across five hotels and commercial properties in Asia and the United States. The results will be analysed and shared with management for action planning.

Employees from different countries attended the Group Leadership Programme. The Programme has been running for four consecutive years in partnership with the Melbourne Business School and gives participants an overview of their leadership style and ability.

As at 30 June 2011, there were 6,955 full time employees in the Group.

Peninsula Paris Project

The Peninsula Paris hotel is held by a joint venture which is 20% owned by HSH. The other 80% was originally owned by Qatari Diar Real Estate Investment Company but has recently been transferred to QHotels BV, a subsidiary of Qatar Investment Authority. The hotel is being developed in a century-old Beaux Arts building on Avenue Kleber, near the Arc de Triomphe in Paris, France.

The general contractor for the project, CBC/PETIT, was appointed in July 2010. Since then, considerable progress has been made in terms of site installations and demolitions, as well as foundation, excavation and structural works. Most of the architectural and building services trades have been awarded through the main contractor and award of the interior fit out trades will follow, as the designs are being fine tuned.

The Peninsula Paris is expected to open in 2013.

Outlook

The general recovery in the hospitality markets since the 2008 global economic crisis continued at the start of 2011, with most of our hotels performing ahead of both our expectations and last year in the first quarter. Unfortunately, this momentum slowed in the second quarter, with the massive Japanese earthquake significantly adversely affecting our business at The Peninsula Tokyo and some knock-on effects elsewhere due to reduced outbound travel from Japan. Both the Beijing and Shanghai markets continued to be highly competitive and were not able to meet our expectations in the second quarter, with Shanghai unable to match the rooms demand of last year when the World Expo was being held. Business at The Peninsula Bangkok has struggled for several years as a result of ongoing political uncertainty in Thailand. Current occupancies and rates are far below the previous normal levels of a few years ago and, although it is hoped that the recent election will bring more stability, this has not yet materialised in improved business. Against these uncertainties, the Hong Kong luxury hotels market has remained strong and The Peninsula Hong Kong continues to be the mainstay of our earnings in the Hotels Division.

In the United States, business at The Peninsula Beverly Hills has been very strong and The Peninsula New York has enjoyed pockets of high demand from overseas guests. However, business from domestic US sources remains subdued as can be seen from the operating performance of The Peninsula Chicago.

Taking the above comments together, the outlook for the second half of the year for our hotel businesses continues to be mixed. We are hoping that the traditional autumn high season for hotels such as Hong Kong, Beijing, Shanghai and New York will yield satisfactory results. Completion of the renovation of the shopping arcade at The Peninsula Beijing will boost earnings. The recent pick-up in the Tokyo market since the earthquake has created a mild level of optimism that the recovery may come faster than originally expected. Nevertheless, the results of The Peninsula Tokyo will undoubtedly be well below both last year and our original expectations.

A key challenge for us in the hotels business continues to be the maintenance of our profit margins in the face of inflationary costs, especially labour rates. We continue to manage our costs tightly and to seek improvements in efficiency and procurement wherever possible.

As a long term investor in hotel, commercial and other properties, we are pleased that the current mixed performance in the Hotels Division contrasts with the strong performance in our commercial properties, which are mainly based in Hong Kong. Demand for residential apartments in The Repulse Bay Complex, and hence the terms of rental renewals, are robust and the Peak Complex continues to achieve pleasing year-on-year growth. We believe that the medium term prospects for these businesses remain highly positive. The Repulse Bay residential properties will benefit from our plans to upgrade the public areas. The redevelopment and reconfiguration of the de Ricou serviced apartment tower, while causing some income disruption in 2012, is expected to significantly improve the rental yield after completion.

We are looking forward to the re-design and renovation of the guestrooms at The Peninsula Hong Kong, which will commence in phases in 2012. With our long term investment horizon in mind, we expect this renovation to strengthen The Peninsula Hong Kong's position at the top of the luxury hotels market in Hong Kong and to create significant value for our Company. However, this renovation programme will cause disruption to our earnings when portions of the hotel rooms start to be closed for renovation from the beginning of 2012 onwards.

Overall, our Group remains in a strong financial position, with a low level of gearing and significant capability to make further investments, both in terms of new hotel and other developments and enhancements to existing assets.

Consolidated Income Statement - unaudited (HK\$m)

	Note	For the six months ended 30 June	
		2011	2010 (restated)
Turnover	3	2,310	2,176
Cost of inventories		(184)	(167)
Staff costs and related expenses		(833)	(787)
Rent and utilities		(289)	(275)
Other operating expenses		(492)	(457)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)	3	512	490
Depreciation and amortisation		(181)	(170)
Operating profit		331	320
Interest income		22	10
Financing charges	4(a)	(69)	(62)
Net financing charges		(47)	(52)
Profit after net financing charges	4	284	268
Share of loss of a jointly controlled entity		(43)	(17)
Increase in fair value of investment properties	8(b)	1,784	547
Profit before taxation		2,025	798
Taxation			
Current tax	5	(66)	(67)
Deferred tax	5	(32)	(20)
Profit for the period		1,927	711
Profit attributable to:			
Shareholders of the Company		1,907	697
Non-controlling interests		20	14
Profit for the period		1,927	711
Earnings per share, basic and diluted (HK\$)	6	1.29	0.47

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	
	2011	2010 <i>(restated)</i>
Profit for the period	1,927	711
Other comprehensive income for the period, net of tax:		
Exchange gain/(loss) on translation of:		
- financial statements of overseas subsidiaries	(15)	27
- financial statements of a jointly controlled entity	23	9
- loans to an associate	44	(72)
- investment in hotel management contracts	50	(93)
	102	(129)
Cash flow hedges:		
- effective portion of changes in fair value	(19)	(50)
- transfer from equity to profit or loss	30	29
	113	(150)
Total comprehensive income for the period	2,040	561
Total comprehensive income attributable to:		
Shareholders of the Company	2,016	532
Non-controlling interests	24	29
Total comprehensive income for the period	2,040	561

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

	Note	As at 30 June 2011	As at 31 December 2010
Non-current assets			
Fixed assets	8		
Properties, plant and equipment		5,739	5,850
Investment properties		26,653	24,840
		<u>32,392</u>	<u>30,690</u>
Interest in associates	9	594	494
Interest in a jointly controlled entity	10	1,354	1,374
Interests in unlisted equity instruments		-	-
Investment in hotel management contracts		733	684
Derivative financial instruments	11	11	14
Deferred tax assets		91	94
		<u>35,175</u>	<u>33,350</u>
Current assets			
Inventories		97	105
Trade and other receivables	12	456	451
Derivative financial instruments	11	15	23
Cash at banks and in hand		2,843	2,658
		<u>3,411</u>	<u>3,237</u>
Current liabilities			
Trade and other payables	13	(968)	(1,037)
Interest-bearing borrowings	14	(1,645)	(879)
Derivative financial instruments	11	(74)	(93)
Current taxation		(88)	(55)
		<u>(2,775)</u>	<u>(2,064)</u>
Net current assets		<u>636</u>	<u>1,173</u>
Total assets less current liabilities		<u>35,811</u>	<u>34,523</u>
Non-current liabilities			
Interest-bearing borrowings	14	(2,698)	(3,453)
Trade and other payables	13	(270)	(266)
Net defined benefit retirement obligations		(26)	(26)
Derivative financial instruments	11	(97)	(107)
Deferred tax liabilities		(620)	(587)
		<u>(3,711)</u>	<u>(4,439)</u>
Net assets		<u>32,100</u>	<u>30,084</u>
Capital and reserves			
Share capital	15	744	740
Reserves		30,358	28,363
Total equity attributable to shareholders of the Company		<u>31,102</u>	<u>29,103</u>
Non-controlling interests		998	981
Total equity		<u>32,100</u>	<u>30,084</u>

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

	Attributable to shareholders of the Company							Total	Non-controlling interests	Total equity
	Note	Share capital	Share premium	Capital redemption reserve	Hedging reserve	Exchange reserve	Retained profits			
At 1 January 2010		735	3,260	13	(116)	(8)	22,263	26,147	908	27,055
Changes in equity for the six months ended 30 June 2010										
Profit for the period (<i>restated</i>)		-	-	-	-	-	697	697	14	711
Other comprehensive income		-	-	-	(21)	(144)	-	(165)	15	(150)
Total comprehensive income for the period		-	-	-	(21)	(144)	697	532	29	561
Dividend approved in respect of the previous year										
- by means of cash		-	-	-	-	-	(19)	(19)	-	(19)
- by means of scrip	15	3	66	-	-	-	(69)	-	-	-
Balance at 30 June 2010 and 1 July 2010		738	3,326	13	(137)	(152)	22,872	26,660	937	27,597
Changes in equity for the six months ended 31 December 2010										
Profit for the period		-	-	-	-	-	2,311	2,311	13	2,324
Other comprehensive income		-	-	-	12	130	-	142	36	178
Total comprehensive income for the period		-	-	-	12	130	2,311	2,453	49	2,502
Dividends approved in respect of the current year										
- by means of cash		-	-	-	-	-	(10)	(10)	-	(10)
- by means of scrip		2	47	-	-	-	(49)	-	-	-
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	(5)	(5)
Balance at 31 December 2010 and 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	15	4	97	-	-	-	(101)	-	-	-
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	(7)	(7)
Balance at 30 June 2011		744	3,470	13	(114)	76	26,913	31,102	998	32,100

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

For the six months ended 30 June

	2011	2010
Operating activities		
EBITDA	512	490
Tax paid	(31)	(51)
Other adjustments	(75)	(73)
Net cash generated from operating activities	406	366
Investing activities		
Purchase of fixed assets	(107)	(103)
Loan to an associate	(56)	-
Net cash used in investing activities	(163)	(103)
Financing activities		
Interest received	22	9
Interest and other financing charges paid	(72)	(65)
Withdrawal/(placement) of interest bearing bank deposits with maturity of more than three months	224	(220)
Net increase in bank borrowings	4	106
Dividends paid to shareholders of the Company	(17)	(19)
Dividends paid to non-controlling shareholders	(7)	-
Net cash generated from/(used) in financing activities	154	(189)
Net increase in cash and cash equivalents	397	74
Cash and cash equivalents at 1 January	1,644	1,380
Effect of changes in foreign exchange rates	12	8
Cash and cash equivalents at 30 June (note)	2,053	1,462

Note Analysis of cash and cash equivalents

	As at 30 June	
	2011	2010
<i>Interest-bearing bank deposits</i>	2,801	2,096
<i>Cash at banks and in hand</i>	42	37
<i>Total cash at banks and in hand</i>	2,843	2,133
<i>Less: Interest bearing bank deposits with maturity of more than three months</i>	(773)	(657)
<i>Less: Bank overdrafts (note 14)</i>	(17)	(14)
<i>Cash and cash equivalents in the condensed consolidated statement of cash flows</i>	2,053	1,462

Cash at banks and in hand at the end of the period include deposits with banks of HK\$919 million (30 June 2010: HK\$766 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 24 August 2011.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 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 2010 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 2010 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 2010 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2011.

2. Changes in accounting policies

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

The HKICPA has issued certain revised HKFRS and a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s Interim Financial Report:

2. Changes in accounting policies *continued*

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

- HKAS 24 (Revised), *Related Party Disclosures*
- Improvements to HKFRSs (2010)

The above developments relate primarily to classification and 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 except as explained in note (b) below.

(b) Early adoption of the amendments to HKAS 12, *Income taxes*

At the year ended 31 December 2010, in order to better present the Group's deferred tax position, the Group opted to early adopt the Amendments to HKAS 12 *Income Taxes* (the "Amendments") which is effective for annual periods beginning on or after 1 January 2012.

Under the Amendments, deferred tax liabilities in respect of the Group's investment properties are now measured with reference to the tax liabilities that would arise if the properties were disposed of at their carrying values at the reporting date, unless the property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time rather than through sale. Previously, where these properties were held under leasehold interest, deferred tax was generally measured using the tax rate that would apply as a result of recovery of the asset's value through use. In view of the foregoing, the Group is no longer required to provide for deferred tax liabilities in respect of temporary differences arising from revaluation of Hong Kong investment properties as there is no capital gains tax in Hong Kong.

Since the Amendments were not issued by the HKICPA until 21 December 2010, the Group's Interim Report for the period ended 30 June 2010 was prepared based on the recognition criteria under the old HKAS 12 without taking into account the new recognition provisions in respect of the deferred tax liabilities on the Group's investment properties under the Amendments. As a result of the early adoption of the Amendments, the Group's comparative figures for the period ended 30 June 2010 need to be restated. Further details of the effect on the Group's income statement arising from the Amendments are summarised in note 19 to the Interim Financial Report.

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 has identified the following three 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.
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.

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.

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	
	2011	2010	2011	2010	2011	2010	2011	2010
	For the six months ended 30 June							
Reportable segment revenue*	1,736	1,650	361	335	213	191	2,310	2,176
Reportable segment operating profit before interest, taxation, depreciation and amortisation (EBITDA)	228	227	242	227	42	36	512	490
Depreciation and amortisation	(167)	(155)	(3)	(1)	(11)	(14)	(181)	(170)
Segment operating profit	61	72	239	226	31	22	331	320
As at 30 June 2011/31 December 2010								
Reportable segments assets	15,891	15,376	16,930	15,706	857	848	33,678	31,930

* *Analysis of segment revenue*

	2011	2010
Hotels		
Rooms	747	697
Food and beverage	533	514
Commercial	290	286
Others	166	153
	1,736	1,650
Commercial Properties		
Rental revenue from:		
- Residential properties	204	195
- Office	35	33
- Shopping arcade	122	107
	361	335
Clubs and Services		
- Operation of lounges	59	49
- Tramway operation	49	44
- Others	105	98
	213	191
Total	2,310	2,176

(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 2011	As at 31 December 2010
Reportable segments' assets	33,678	31,930
Interest in associates	594	494
Interest in a jointly controlled entity	1,354	1,374
Derivative financial instruments	26	37
Deferred tax assets	91	94
Cash at banks and in hand	2,843	2,658
Consolidated total assets	38,586	36,587

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	
	2011	2010
Interest on bank borrowings wholly repayable within five years	29	23
Other borrowing costs	6	5
Total interest expense on financial liabilities carried at amortised cost	35	28
Derivative financial instruments:		
- cash flow hedges, transfer from equity	33	33
- held for trading, at fair value through profit or loss	1	1
	69	62

(b) Other items

	For the six months ended 30 June	
	2011	2010
Amortisation of a hotel management contract	2	2
Depreciation	179	168
Foreign exchange gains	(1)	(1)
Interest income	(22)	(10)

5. Taxation (HK\$m)

	For the six months ended 30 June	
	2011	2010 (restated)
Current tax		
Hong Kong	48	50
Overseas	18	17
	<u>66</u>	<u>67</u>
Deferred tax		
Increase in net deferred tax liabilities relating to revaluation of overseas investment properties	19	5
Increase in net deferred tax liabilities relating to other temporary differences	12	11
Transfer from hedging reserve	1	4
	<u>32</u>	<u>20</u>
	<u>98</u>	<u>87</u>

The provision for Hong Kong Profits Tax is calculated at 16.5% (2010: 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	
	2011	2010 (restated)
Profit attributable to shareholders of the Company (HK\$m)	1,907	697
Weighted average number of shares in issue (million shares)	1,480	1,471
Earnings per share (HK\$)	<u>1.29</u>	<u>0.47</u>
	2011	2010
	(million shares)	(million shares)
Issued shares at 1 January	1,480	1,470
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2010/2009 final dividends	-	1
Weighted average number of shares in issue at 30 June	<u>1,480</u>	<u>1,471</u>

(b) Earnings per share - diluted

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2011 and 30 June 2010 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	
	2011	2010
Interim dividend declared and to be paid after the interim period of 4 HK cents per share (2010: 4 HK cents per share)	<u>59</u>	<u>59</u>

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	
	2011	2010
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 8 HK cents per share (year ended 31 December 2009: 6 HK cents per share)	<u>118</u>	<u>88</u>

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.

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.

8. Fixed assets (HK\$m)

(a) Acquisitions and disposals

During the six months ended 30 June 2011, the Group acquired items of fixed assets with a cost of HK\$114 million (six months ended 30 June 2010: HK\$90 million). Items of fixed assets disposed of during the six months ended 30 June 2011 and 30 June 2010 were insignificant in value.

8. Fixed assets (HK\$m) *continued*

(b) Valuation of investment properties

All investment properties of the Group were revalued as at 30 June 2011 on an open market value basis, mainly calculated by reference to net rental income and allowing for reversionary income potential. The changes in fair value of the investment properties during the 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
	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\$1,784 million (2010: HK\$547 million) and deferred tax thereon of HK\$19 million (2010: HK\$5 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 2011. The total valuation placed on the hotel properties and golf courses, which have a net book value of HK\$5,587 million (31 December 2010: HK\$5,701 million), was HK\$8,952 million as at 30 June 2011 (31 December 2010: HK\$8,813 million). It is important to note that the surplus of HK\$3,365 million (31 December 2010: HK\$3,112 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
- Hotels and golf courses	HVS	Members of the Singapore Institute of Surveyors and Valuers and the Appraisal Institute, United States of America

9. Interest in associates (HK\$m)

	As at 30 June 2011	As at 31 December 2010
Share of net assets	-	-
Goodwill	15	15
	15	15
Less: impairment loss	(15)	(15)
	-	-
Loans to an associate *	594	494
	594	494

* During the period ended 30 June 2011, additional shareholder's loans totalling EUR 5.3 million (HK\$56 million) were advanced to Al Maha Majestic S.à r.l. ("Al Maha"), an associate indirectly held by the Group. The loans were made pro rata to the Group's shareholding in Al Maha to fund the progress payments of the Peninsula project in Paris. 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 10 million (HK\$112.5 million) (2010: EUR 4.7 million (HK\$48.9 million)) of the loans is repayable in or before November 2014 while the remaining balance of the loans is repayable on 25 April 2017.

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 which in turn owns a 100% interest in a property in Paris designated to be redeveloped into a Peninsula hotel.

The associates' attributable accumulated results as at 30 June 2011 and 31 December 2010 were not significant.

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

	As at 30 June 2011	As at 31 December 2010
Share of exchange reserve	137	114
Share of retained profits	759	802
Share of net assets	896	916
Loan to a jointly controlled entity (note 10(b))	458	458
	1,354	1,374

10. 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 2011, the paid up capital of EGL and PSW amounted to HK\$1 (31 December 2010: HK\$1) and US\$117,500,000 (31 December 2010: US\$117,500,000) respectively.

(b) The loan to the jointly controlled entity is denominated in US dollars, unsecured, interest free and has no fixed repayment terms. It is neither past due nor impaired. The entire loan was contributed as capital of PSW described in note 10(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 2011	As at 31 December 2010
Non-current assets	6,111	6,024
Current assets	135	191
Current liabilities	(1,068)	(1,160)
Non-current liabilities	(3,387)	(3,224)
Net assets	1,791	1,831
	For the six months ended 30 June	
	2011	2010
Income	204	154
Operating expenses	(172)	(138)
EBITDA	32	16
Pre-opening expenses	-	(16)
Depreciation	(51)	(48)
Net financing charges	(63)	(44)
Loss before non-operating items	(82)	(92)
Non-operating items**	-	48
Taxation - deferred tax	(3)	10
Loss for the period	(85)	(34)

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

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

- (d) PSW has pledged its land use right, fixed assets and properties under development to an independent financial institution as security for PSW's loan facility amounting to HK\$1,926 million (RMB1,600 million) (31 December 2010: HK\$1,894 million (RMB1,600 million)). The net carrying amount of these pledged assets amounted to HK\$6,111 million (RMB5,075 million) (31 December 2010: HK\$6,024 million (RMB5,089 million)).

11. Derivative financial instruments (HK\$m)

	As at 30 June 2011		As at 31 December 2010	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	-	(122)	-	(136)
Cross currency interest rate swaps	-	(10)	-	(9)
	-	(132)	-	(145)
At fair value through profit or loss:				
Interest rate swaps	26	(39)	36	(55)
Foreign exchange swap	-	-	1	-
Total	26	(171)	37	(200)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	-	(46)	-	(54)
Cross currency interest rate swaps	-	(6)	-	(5)
	-	(52)	-	(59)
At fair value through profit or loss:				
Interest rate swaps	15	(22)	22	(34)
Foreign exchange swap	-	-	1	-
	15	(74)	23	(93)
Portion to be recovered/(settled) after one year	11	(97)	14	(107)

12. Trade and other receivables (HK\$m)

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

	As at 30 June 2011	As at 31 December 2010
Trade debtors (ageing analysis is shown on the next page)	160	211
Rental deposits, payments in advance and other receivables	295	238
Prepaid tax	1	2
	456	451

12. Trade and other receivables (HK\$m) *continued*

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\$83 million (31 December 2010: HK\$75 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 2011	As at 31 December 2010
Current	140	185
Less than one month past due	14	22
One to three months past due	6	3
More than three months but less than 12 months past due	-	1
Amounts past due	20	26
	160	211

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.

13. Trade and other payables (HK\$m)

The details of trade and other payables are as follows:

	As at 30 June 2011	As at 31 December 2010
Trade creditors	93	133
Interest payable	3	5
Accruals for fixed assets	14	17
Tenant deposits	314	308
Guest deposits	117	103
Golf membership deposits	112	117
Other payables	585	620
Financial liabilities measured at amortised cost	<u>1,238</u>	<u>1,303</u>
Less: Non-current portion of trade and other payables	<u>(270)</u>	<u>(266)</u>
Current portion of trade and other payables	<u>968</u>	<u>1,037</u>

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\$375 million (2010: HK\$354 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 2011	As at 31 December 2010
Less than three months	91	131
Three to six months	<u>2</u>	<u>2</u>
	<u>93</u>	<u>133</u>

14. Interest-bearing borrowings (HK\$m)

	As at 30 June 2011	As at 31 December 2010
Total facilities available:		
Term loans and revolving credits	5,411	5,491
Uncommitted facilities, including bank overdrafts	300	306
	<u>5,711</u>	<u>5,797</u>
Utilised:		
Term loans and revolving credits	4,352	4,346
Uncommitted facilities, including bank overdrafts	17	17
	<u>4,369</u>	<u>4,363</u>
Less: Unamortised financing charges	(26)	(31)
	<u>4,343</u>	<u>4,332</u>
<i>Represented by:</i>		
Short term bank loans, repayable within one year or on demand	1,628	862
Bank overdrafts, repayable on demand	17	17
	<u>1,645</u>	<u>879</u>
Long term bank loans, repayable:		
Between one and two years	96	1,105
Between two and five years	2,628	2,379
	<u>2,724</u>	<u>3,484</u>
Less: Unamortised financing charges	(26)	(31)
Non-current portion of long term bank loans	2,698	3,453
Total interest bearing borrowings	<u>4,343</u>	<u>4,332</u>

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.

15. Share capital

	As at 30 June 2011	As at 31 December 2010
Number of ordinary shares of HK\$0.50 each (million shares)		
Authorised	1,800	1,800
Issued at 30 June/31 December	<u>1,487</u>	<u>1,480</u>
Nominal value of ordinary shares (HK\$m)		
Authorised	900	900
Issued and fully paid at 30 June/31 December	<u>744</u>	<u>740</u>

15. Share capital *continued*

During the six months ended 30 June 2011, the Company issued and allotted approximately 7.7 million new ordinary shares of HK\$0.50 each at HK\$13.2 per share in respect of the 2010 final scrip dividend (2010: approximately 5.8 million new shares at HK\$11.98 per share in respect of the 2009 final scrip dividend). The new shares issued have resulted in an increase in fully paid share capital of approximately HK\$4 million (2010: HK\$3 million) and share premium of HK\$97 million (2010: HK\$66 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 2011 and not provided for in the Interim Financial Report were as follows:

	As at 30 June 2011	As at 31 December 2010
Capital expenditure		
Contracted for	203	60
Authorised but not contracted for		
- major renovation of the guestrooms of The Peninsula Hong Kong	424	450
- upgrade programme at The Repulse Bay Complex	602	731
- others	408	522
	<u>1,637</u>	<u>1,763</u>
The Group's share of capital commitments of a jointly controlled entity		
Contracted for	-	-
Authorised but not contracted for	162	168
	<u>162</u>	<u>168</u>
	<u>1,799</u>	<u>1,931</u>

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 2011 amounted to HK\$115 million (31 December 2010: HK\$108 million) and HK\$421 million (31 December 2010: HK\$435 million) respectively. It is intended that the project will be financed by way of bank borrowings.

17. 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 2010.

18. Material related party transactions

Except for the loans advanced to an associate as disclosed in note 9, there were no material related party transactions during the period ended 30 June 2011, other than in the nature of those as disclosed in the Group's annual financial statements for the year ended 31 December 2010.

19. Comparative figures

As a result of the early adoption of amendments to HKAS 12, *Income taxes*, the Group has changed its accounting policy in respect of deferred tax on investment properties carried at fair value and further details of the change in accounting policy are disclosed in note 2.

To conform with current period's presentation, certain comparative figures have been restated as set out below.

(HK\$m)	<i>As previously reported</i>	<i>Increase in net assets arising from the early adoption of amendments to HKAS 12</i>	<i>As restated</i>
Profit before taxation	798	-	798
Taxation			
Current tax	(67)	-	(67)
Deferred tax	(112)	92	(20)
Profit for the period	619	92	711

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

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

Detailed disclosure of the Company's corporate governance policies and practices is available in the 2010 Annual Report.

The Company has applied all of the principles in the Code on Corporate Governance Practices (the CG Code) in Appendix 14 of the Listing Rules and adopted its own code on corporate governance practices which encompasses all code provisions and all 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 2010 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 (the Model Code) in Appendix 10 of the Listing Rules.

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.

Interim Dividend

The interim dividend of 4 HK cents per share will be payable on 4 November 2011 to shareholders whose names appear on the register of members on 28 September 2011.

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 4 October 2011.

Closure of Register of Members

The register of members of the Company will be closed from 26 September 2011 to 28 September 2011, 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, 23 September 2011.

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 14 September 2011.

By Order of the Board

Christobelle Liao

Company Secretary

Hong Kong, 24 August 2011

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

Dr. William Kwok Lun Fung