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

2013 Interim Results

HIGHLIGHTS

- In April 2013, the Group signed non-legally binding Heads of Terms for the development of a Peninsula hotel in Yangon, Myanmar.
- In June 2013, the Group purchased 21 avenue Kléber, a commercial building immediately adjacent to The Peninsula Paris, for EUR56 million.
- In July 2013, the Group acquired a 50% interest in the leasehold of the property at 1-5 Grosvenor Place, London, United Kingdom with plans to jointly re-develop the building with Grosvenor into a mixed use development that will include The Peninsula London.
- The Peninsula Hong Kong completed its second and final phase of renovation in May 2013, following which the hotel’s 300-room inventory is back to operation.
- The Repulse Bay’s de Ricou tower was launched to the market in May 2013 and the extensive public area renovation works are near completion.
- Total turnover amounted to HK$2,542 million, which was 5% above the same period in 2012.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 7% to HK$555 million.
- The overall Group EBITDA margin was maintained at 22%.
- Underlying profit attributable to shareholders increased by 8% to HK$169 million.
- Profit attributable to shareholders amounted to HK$840 million, after taking into account the gains on property revaluation (net of tax and non-controlling interests).
- Earnings per share and underlying earnings per share of HK$0.56 (2012: HK$0.55) and HK$0.11 (2012: HK$0.10) respectively.
- Shareholders’ funds as at 30 June 2013 amounted to HK$34,007 million or HK$22.64 per share (31 December 2012: HK$33,150 million or HK$22.07 per share).
- Adjusted net assets value as at 30 June 2013 amounted to HK$37,355 million (HK$24.87 per share).
- Gearing ratio at 7% (31 December 2012: 6%).
- Interim dividend of 4 HK cents (2012: 4 HK cents) per share.

FINANCIAL AND OPERATING HIGHLIGHTS

	For the six months ended 30 June		
	2013	2012	Increase/ (Decrease)
CONSOLIDATED INCOME STATEMENT (HK$m)			
Turnover	**2,542**	2,416	5%
EBITDA	**555**	521	7%
Operating profit	**362**	328	10%
Profit attributable to shareholders	**840**	814	3%
Underlying profit attributable to shareholders *	**169**	156	8%
Interim dividend	**60**	60	-
Earnings per share (HK$)	**0.56**	0.55	2%
Underlying earnings per share (HK$) *	**0.11**	0.10	10%
Interim dividend per share (HK cents)	**4**	4	-
Interim dividend cover (times) **	**2.8x**	2.6x	8%
Interest cover (times)	**7.7x**	8.6x	(10%)
Weighted average gross interest rate	**3.4%**	3.1%	0.3pp △
	As at 30 June 2013	As at 31 December 2012 *(restated)*	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)			
Total assets	**40,964**	39,807	3%
Net assets attributable to shareholders	**34,007**	33,150	3%
Adjusted net assets attributable to shareholders #	**37,355**	36,396	3%
Net assets per share (HK$)	**22.64**	22.07	3%
Adjusted net assets per share (HK$) #	**24.87**	24.23	3%
Net borrowings	**2,562**	1,989	29%
Net debt to EBITDA (annualised)(times)	**2.3x**	1.9x	21%
Net debt to equity	**8%**	6%	2pp △
Gearing	**7%**	6%	1pp △
	For the six months ended 30 June		
	2013	2012	
CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)			
Net cash generated from operating activities	**523**	368	42%
Capital expenditure on fixed assets	**1,172**	344	241%
Capital expenditure on fixed assets as a percentage to revenue	**46%**	14%	32pp △
SHARE INFORMATION (HK$)			
Highest share price	**14.20**	11.92	19%
Lowest share price	**10.90**	8.63	26%
Period end closing share price	**12.60**	10.30	22%
PENINSULA HOTELS OPERATING INFORMATION			
Number of hotel rooms (as at 30 June)^	**3,013**	3,012	0%
Average occupancy rate			
- Hong Kong ##	**69%**	80%	(11pp) △
- Other Asia	**64%**	62%	2pp △
- United States of America	**71%**	67%	4pp △
Average room rate (HK$)			
- Hong Kong	**5,639**	4,595	23%
- Other Asia	**2,131**	2,144	(1%)
- United States of America	**4,768**	4,525	5%
RevPAR (HK$)			
- Hong Kong ##	**3,869**	3,664	6%
- Other Asia	**1,369**	1,339	2%
- United States of America	**3,366**	3,050	10%

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

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

\# *Adjusted net assets attributable to shareholders and adjusted net assets per share are calculated by adjusting the Group's hotels and golf courses to fair market value based on the valuation conducted by independent property valuers.*

\## *The occupancy and RevPAR for Hong Kong are based on a reduced room inventory due to the renovation programme at The Peninsula Hong Kong.*

^ *The increase was due to the conversion of a meeting room into a suite by The Peninsula Beverly Hills.*

△ *pp denotes percentage points.*

CHIEF EXECUTIVE OFFICER'S REVIEW

The past six months has been an exciting period for the Company's future development. We have announced non-legally binding Heads of Terms for the development of a Peninsula hotel in a magnificent historic building in the centre of Yangon, Myanmar. We consider this to be an excellent opportunity for the Company to enter into one of the world's most exciting emerging markets. We have also completed the purchase of 21 avenue Kléber, the building immediately adjacent to The Peninsula Paris, which is under construction and due for completion in 2014. We believe the opening of The Peninsula Paris will uplift the level of activity and real estate values in the surrounding area, which will benefit our investment in 21 avenue Kléber. Having searched for over 20 years for a suitable opportunity to develop a Peninsula hotel in London, we have purchased a 50 per cent interest in the leasehold of the property at 1-5 Grosvenor Place, which fronts Hyde Park Corner. The intention is that, in joint venture with Grosvenor, we would re-develop this building into a mixed use development which will include The Peninsula London.

Besides these newly announced acquisitions and developments, we have completed the major renovation projects at our two most important assets, The Peninsula Hong Kong and The Repulse Bay. At The Peninsula Hong Kong, the second and final phase of renovation, comprising all guestrooms in the Original Building, was completed in May 2013, following which the hotel's entire guestroom inventory is back to operation. At The Repulse Bay, the extensive public area renovation works are close to completion and the fully renovated and reconfigured de Ricou tower has been successfully launched to the market, with the first tenants moving in from August upon completion of construction.

The operating results for the period were satisfactory, with revenue increasing by 5% and EBITDA increasing by 7% from the previous year. These results were achieved despite challenging market conditions, especially with continued intense competition in many of our hotel markets. We continue to face the challenge of rising costs, not only from inflation but also as we bring assets back into operation after renovation and expand our offerings and services to cope with the increased business levels, albeit at room rates which continue to be depressed in many of our hotel markets.

Hotels Division

Revenue for the Hotels Division in the first six months of 2013 was 4% above the same period last year. Our hotels were generally able to grow their business despite competitive markets, with good signs of recovery being seen in New York, Chicago and Tokyo. Our three hotels in the key Chinese markets of Hong Kong, Beijing and Shanghai continued to maintain good market shares despite the high level of competition in the luxury hotel market.

The Peninsula Hong Kong Total revenue was 7% higher than the same period last year with increased revenue in all areas. The renovation programme which began in January 2012 was fully completed in May 2013. Room revenue was 15% higher than last year despite a fewer number of rooms being available due to the renovation, due to the increased average room rate from the renovated rooms. The Office Tower and the Arcade remained fully let, with a 7% revenue increase as compared with the same period in 2012.

The Peninsula Shanghai Total revenue was 11% higher than the same period last year, with increased revenue from rooms, food and beverage and residential apartment leases. Occupancy was higher in 2013 as compared with the same period last year, although the average room rate remained flat due to the intense competition amongst luxury hotels in Shanghai. The Peninsula Shanghai was able to maintain its position as the city's market leader for both average room rate and RevPAR. The hotel has successfully partnered with various top brands and reputable global institutions for product launches and other significant events.

The Peninsula Beijing Business was negatively affected by the city's high levels of air pollution and fears of the H7N9 bird flu pandemic. Despite a higher occupancy achieved, rooms revenue fell short of 2012 by 15% as competitive rates had to be offered to retain market share. However, total revenue of the hotel remained flat as the decrease in rooms revenue was offset by higher revenue from the commercial arcade. A new rooftop bar, Yun, opened in June offering splendid city views.

The Peninsula New York Total revenue was 12% higher than the same period last year mainly due to the 20% increase in RevPAR resulting from gains in the negotiated corporate and consortia transient segments. There was lower revenue from food and beverage due to the closure of Fives restaurant for a complete enhancement; the outlet will re-open in September with a new theme and a new name.

The Peninsula Chicago Total revenue was 13% higher than the same period last year, with a 13% increase in RevPAR. The hotel has the highest concentration of US-based businesses among our hotels, with more than 90% of its guests from the domestic market. The conversion of Avenues restaurant into a junior ballroom has proven to be a successful investment, contributing to the increase of 16% in food and beverage revenue as compared with the same period last year.

The Peninsula Beverly Hills Total revenue was in line with the same period last year. The well-received guestrooms renovation last year has prompted the conversion of a lesser used meeting room into a suite to meet the high demand. The use permit for the roof top pool area has been modified to allow for functions and events, improving the revenue potential from this area.

The Peninsula Tokyo Total revenue was 12% higher than the same period last year in Japanese Yen terms although revenue was 7% lower in Hong Kong dollars due to the substantial weakening of the Japanese currency. The market continued to recover with a renewed air of economic confidence. Together with increased demand from long haul and regional leisure travellers and the corporate segment, the occupancy of the hotel increased from 62% to 75%.

The Peninsula Bangkok Total revenue was 11% higher than the same period last year. The occupancy was lower but the average room rate recorded a 30% increase as a result of the efforts to grow rate within the transient, group and meeting segments. The business mix shifted from long haul leisure travellers in the first quarter to meeting, incentive, corporate and exhibition business in the second quarter, which helped to sustain occupancy.

The Peninsula Manila Total revenue was on par with the same period last year despite the significant growth in the number of hotel rooms available in the city. There was a sustained level of optimism in the economic and political environment, resulting in increased numbers of business and leisure travellers. The renovation of select areas of the hotel continues in a measured way, with the Lobby being recently updated.

Commercial Properties Division

Turnover from the Commercial Properties Division was 6% higher than the same period last year mainly due to growth in the yields per square foot at The Repulse Bay and The Peak Tower. However, there was reduced revenue in St. John's Building and The Landmark in Vietnam due to lower occupancies. With the renovation of the de Ricou tower at The Repulse Bay due to be completed by the middle of 2013, there was no revenue contribution from this property during the period. In late June, the Group announced the acquisition of a commercial property at 21 avenue Kléber in Paris, which will complement our commercial property portfolio as it is located immediately adjacent to The Peninsula Paris.

The Repulse Bay Complex, Hong Kong Total revenue was 6% higher than the same period last year and occupancies were maintained at very high levels, despite the challenges that are increasingly apparent in the luxury residential leasing market. Marketing activities for the newly renovated de Ricou apartment tower, which comprises 39 unfurnished apartments and 10 serviced apartments, were launched during the period and response from the market has been positive. The first batch of tenants will move in from August. The Arcade remained fully let in the first half of the year. The upgrading and renovation of the public areas, including the outdoor swimming pool and playground at 109 Repulse Bay Road, are close to completion.

The Peak Tower, Hong Kong Total revenue was 16% higher than the same period last year. The Tower remained fully let with increased rental rates throughout the period. With the growth in tourist arrivals, Sky Terrace 428 also saw an increase in the number of visitors and higher admission revenue.

St. John's Building, Hong Kong Total revenue was 4% lower than the same period last year, with a 9% drop in occupancy due to some unexpected termination of leases.

The Landmark, Ho Chi Minh City, Vietnam Total revenue was 14% lower than the same period last year mainly due to non-recurring compensation from a major office tenant's departure in 2012. There is ongoing renovation work on the apartments and offices and it is expected that the renovation will attract new clientele.

21 avenue Kléber, Paris, France The property, which has a total area of approximately 4,010 square metres of four storeys comprising offices and retail and residential units, was acquired by the Group for a cash consideration of EUR56 million on 25 June 2013. Given its proximity to The Peninsula Paris, it is expected to benefit from the uplift in the surrounding area after the opening of The Peninsula Paris.

Clubs and Services Division

Total revenue for this Division was 10% higher than the same period last year. The various businesses in the Clubs and Services Division mostly showed improved performances for the six months ended 30 June 2013. Quail Lodge Resort re-opened in March 2013, thus increasing the revenue of the Division as compared with the same period last year.

For the ***Peak Tram***, revenue was 8% above the same period last year. The Peak Tram's patronage rose 7%, with 2.9 million passengers in the first six months of 2013. Revenue at ***Peninsula Merchandising*** was 11% lower than the same period last year, owing to the closure for renovation of the Duty Free shops at the Hong Kong International Airport and lower business volumes for the retail outlets in Hong Kong due to a reduced number of Japanese travellers. Revenue in the ***Thai Country Club*** was 6% higher than last year.

The total revenue at ***Quail Lodge*** was 87% higher than the same period last year, following the re-opening of the hotel portion of the property on 26 March 2013. Total revenue in ***Tai Pan Laundry*** was 5% higher than the same period last year, owing to increased volumes of laundry and dry cleaning 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 11% higher than the same period last year. Positive growth came from club management and consultancy fees and increased business volumes from the operation of the Cathay Pacific Airways first and business class lounges at the Hong Kong International Airport.

Human Resources

In the first half of 2013, the Human Resources function undertook several major initiatives.

An internal survey was undertaken to analyse the competencies that are bespoke to HSH. Focus groups and online surveys were administered to various business operations during the first quarter and the findings are being compiled for thorough analysis later in the year.

In May, a new Executive Development Programme for senior managers in the operations was launched. The programme aims to provide in-depth training for executive level employees through reinforcing a broader view of the business. A total of 12 executives from across the Group participated.

The General Managers' Conference, the Finance Conference and the Marketing Conference were held during the first half year.

Five of the Group's Hong Kong-based operations participated in an Ethnic Minority Students Project. The programme offers secondary school students an opportunity to learn about the hospitality industry through interning at our operations for six weeks. Managers at the participating operations were taught coaching skills so that they could provide mentorship to the students.

As at 30 June 2013, there were 7,420 full time employees in the Group.

Projects

The Peninsula Paris

As previously reported, The Peninsula Paris has encountered a number of challenges during its construction, resulting in overall delays and cost increases. A considerable amount of time was spent during the first half of this year engaging in further negotiations with the lead contractors and sub-contractors in order to mitigate the cost overruns. Extensive negotiations were held to reduce and fix the prices of sub-contracts and to address all outstanding project costs. As a result, the joint venture company, in which HSH has a shareholding of 20%, has signed a new fixed price contract with the lead contractor pursuant to which the contractor has committed to completing the construction in April 2014. To reflect the terms of this revised agreement, the project budget has been further increased by EUR56 million. It is expected that HSH will fund its 20% share of the budget increase from internal resources.

The first half of 2013 has seen the completion of the mansard slate and zinc roofs, the repair and cleaning of the stone facades and installation of the external windows. The fit-out work to the guestrooms is progressing on all six levels of the hotel and so too is the renovation work to the historical finishes on the ground floor. In the basements, the main mechanical, electrical and plumbing plant have been installed. All remaining major fit out packages for the public areas and main suites have been awarded.

The Peninsula Paris is expected to have its soft opening in the second half of 2014.

The Peninsula Hong Kong

In Hong Kong, the second and final phase of the 15-month renovation of The Peninsula Hong Kong was completed in May 2013, in time for the hotel's 85th anniversary celebrations. The HK$450 million renovation has enhanced all 300 of the hotel's guestrooms with interiors showcasing the finest materials and craftsmanship, as well as some of the world's most revolutionary, guest-focused technology which utilises customised interactive digital tablets, pre-set in multiple languages, to control all in-room functions. The new rooms, together with the expanded and renovated Verandah restaurant, the new Bar and Conference Centre and the renovated Peninsula Boutique, have been very well received by guests.

The Repulse Bay

The de Ricou apartments, one of eight apartment towers at The Repulse Bay, was re-launched to the market in May 2013 following a HK$300 million renovation and reconfiguration programme, marking another milestone in the three-year renovation of The Repulse Bay. All 49 spacious apartments in de Ricou have full views of the South China Sea and feature fittings and finishes of the highest quality, as well as generous use of natural and sustainable materials showcased in contemporary interiors. The apartments have been well received in the market since their launch. In addition, all public areas in the Complex have nearly completed renovation, while a new residents' café, the outdoor pool and playground have been introduced.

The Peninsula Yangon

The Group announced in April 2013 that it had entered into non-binding heads of terms with Yoma Strategic Holdings Ltd., a Singapore-based listed company, to jointly re-develop a prominent and beautiful, heritage-listed building in Yangon, Myanmar into a Peninsula hotel. The site is a three-storey Victorian colonial building, constructed in 1877, which housed the former headquarters of Burma Railway Company in the 19th and 20th centuries. It is adjacent to the famous Scott's Market, which is a major tourist attraction in Yangon. If the hotel development proceeds, the building will be conserved and restored and will be the centrepiece of the surrounding mixed-use development. HSH's shareholding in the development will be 70%.

21 avenue Kléber

In June 2013, we announced the completion of the acquisition of a commercial building in Paris, known as 21 avenue Kléber, for EUR 56 million. This building is adjacent to The Peninsula Paris and because of its strategic location, it is envisaged that it will have synergy with the hotel when the latter opens in 2014. Both 21 avenue Kléber and the future The Peninsula Paris share the same Second Empire architectural style, dating back to 1900. The building has commercial, office and residential components spread over four floors.

1–5 Grosvenor Place, London, United Kingdom

In June 2013, the Group signed non-binding heads of terms with Derwent and Grosvenor to acquire from Derwent a 50 per cent interest in the leasehold of a site, 1-5 Grosvenor Place, in London with the aim of jointly re-developing the building with Grosvenor into a mixed use development which will include a Peninsula hotel and luxury residences. The lease sale agreements were signed in July 2013. We are now working on the design and planning of the project, which is subject to obtaining requisite planning approvals from the authorities.

Outlook

We have seen some recovery in most of our key hotel markets, although room rates continue to be under pressure from intense competition and an abundance of new supply in the luxury hotel sector. The summer months have been soft for the hotel market in Hong Kong and we hope to see a good pick-up in the traditional autumn high season, in order to benefit as expected from the full inventory now available at The Peninsula Hong Kong following renovation. Generally, business volumes in our hotels are higher this year, which has led to an increase in costs in order to service this business. In order to justify and earn an appropriate return on our cost base, many of our hotels rely on the higher revenue expected in the second half of the year. So far, forward bookings are generally in line with our expectations.

The Hong Kong residential sector, on which we rely for the bulk of the revenue from The Repulse Bay, is highly competitive. However, with the comprehensive upgrade of our public areas nearing completion, our product is proving to be attractive to tenants and the current rate of leasing take-ups is positive. Additional revenue will be earned as from August with the de Ricou tower coming back into operation after its extensive renovation and reconfiguration.

We intend to launch the sale of some of the units within The Peninsula Shanghai Residences in the second half of the year and expect some sales proceeds to be received before the year-end.

We have applied to Government for the extension of the Peak Tram operating licence, which expires on 31 December 2013, with a scheme to enhance the system and expand its operating capacity. Government has proposed to seek legislative approval for a temporary two year extension of the operating right during which period our proposals will be examined in more detail with the objective of a longer term operating right being sought to support the investment required for the expansion scheme.

Overall, our Company remains in a strong financial position, with the Peninsula brand enjoying recognition as one of the best luxury hotel brands in the world. With our long term outlook and the exciting new developments announced during this period, we remain confident and positive about the future, whilst being ready and able to ride out the shorter term fluctuations in the markets in which we operate.

The Directors hereby announce the unaudited interim results of the Company for the six months ended 30 June 2013. 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 assets value

The Group's adjusted net assets value as at 30 June 2013 amounted to HK$37,355 million, after adjustment to fair market value for hotels and golf courses, which was up 3% compared to 31 December 2012.

For the purpose of financial statements presentation, the Group has selected the cost model instead of fair value model under 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 2013, the details of which are set out on page 15. 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$3,348 million or 10% from the reported net assets attributable to shareholders of HK$34,007 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 assets value as at 30 June 2013 on the basis set out on the next page.

HK$m		As at 30 June 2013		As at 31 December 2012
Net assets attributable to shareholders per statement of financial position		**34,007**		33,150
Adjusting the value of hotels and golf courses to fair market value	**3,719**		3,619	
Less: Related deferred tax and non-controlling interests	**(371)**		(373)	
		3,348		3,246
Adjusted net assets attributable to shareholders		**37,355**		36,396
Net assets per share as per statement of financial position (HK$)		**22.64**		22.07
Adjusted net assets per share (HK$)		**24.87**		24.23

Underlying earnings

The Group's underlying profit attributable to shareholders amounted to HK$169 million, up 8% from the same period in 2012.

The Group's operating results are mainly derived from the operation of hotels and letting of commercial properties. However, to comply with 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:

	For the six months ended 30 June	
HK$m	**2013**	2012
Profit attributable to shareholders	**840**	814
Increase in fair value of investment properties	**(665)**	(630)
Share of net property valuation loss of a joint venture, net of tax	**0**	19
Gain on disposal of an equity investment	**(1)**	(46)
Tax and non-controlling interests attributable to non-operating items	**(5)**	(1)
Underlying profit attributable to shareholders	**169**	156
Underlying earnings per share (HK$)	**0.11**	0.10

Despite the major renovations at The Peninsula Hong Kong and the de Ricou serviced apartment tower in The Repulse Bay Complex which continued to impact on the Group's operation negatively during the first half of 2013, the Group's underlying profit attributable to shareholders increased by 8% from the same period in 2012 to HK$169 million.

Income statement

The Group's turnover amounted to HK$2,542 million, which was 5% above the same period in 2012.

The Group's turnover for the six months ended 30 June 2013 of HK$2,542 million was HK$126 million or 5% above the same period in 2012.

The Hotels Division contributed approximately 75% of the Group's turnover. Despite the guestroom renovation programme at The Peninsula Hong Kong which continued until May 2013 and the closure of the Fives restaurant at The Peninsula New York for a major upgrade as from 12 February 2013 which negatively impacted the business operation, the Hotels Division achieved a revenue growth of 4% in the first half of 2013. Revenue from the Commercial Properties Division also achieved a growth of 6% due to the increased yield from most of the properties. For the Clubs and Services Division, the 10% increase in revenue was mainly due to the re-opening of the resort at Quail Lodge in March 2013.

Operating performances of the Group's hotels and commercial properties are summarised in the following tables. Further details of the performance of each business unit of the Group are set out on pages 3 to 6.

Hotels

	For the six months ended 30 June				
	Occupancy %		Average room rate (HK$)		% RevPAR change
	2013	2012	**2013**	2012	
The Peninsula Hong Kong (note 2)	**69**	80	**5,639**	4,595	**6**
The Peninsula Shanghai	**64**	59	**3,627**	3,615	**9**
The Peninsula Beijing	**55**	52	**1,408**	1,724	**(13)**
The Peninsula New York	**72**	69	**5,897**	5,132	**20**
The Peninsula Chicago	**64**	59	**3,076**	2,932	**13**
The Peninsula Beverly Hills	**80**	79	**5,874**	5,975	**0**
The Peninsula Tokyo	**75**	62	**3,806**	4,558	**2**
The Peninsula Bangkok	**58**	64	**1,692**	1,297	**18**
The Peninsula Manila	**72**	75	**1,239**	1,184	**0**

Notes:

1. The average room rate includes undistributed service charge, which is levied in Hong Kong and Tokyo at the rate of 10% and 15% in mainland China.
2. The Peninsula Hong Kong's occupancy was based on a reduced room inventory after taking into consideration the rooms not available for sale due to the renovation programme.

Commercial Properties

	For the six months ended 30 June			
	Occupancy %		Average monthly yield per sq ft (HK$)	
	2013	2012	**2013**	2012
The Repulse Bay (unfurnished)	**96**	91	**45**	41
The Repulse Bay de Ricou tower (note 1)	**n/a**	n/a	**n/a**	n/a
The Repulse Bay Arcade	**100**	100	**85**	81
The Peak Tower	**100**	100	**98**	90
St. John’s Building	**87**	96	**44**	45
The Landmark, Vietnam (Residential)	**86**	90	**18**	18
The Landmark, Vietnam (Office)	**88**	90	**21**	20
21 avenue Kléber (note 2)	**87**	n/a	**39**	n/a

Notes:

1. As The Repulse Bay de Ricou tower has been undergoing renovation from February 2012, the occupancy and yield statistics are not meaningful.

2. As the purchase of 21 avenue Kléber was only completed on 25 June 2013, the details are included for information only.

Consolidated EBITDA (earnings before interest, taxation, depreciation and amortisation) of the Group increased by 7% to HK$555 million whereas the EBITDA margin remained flat at 22%, mainly due to the impact of the major renovation of the de Ricou serviced apartment tower at The Repulse Bay Complex.

The Group’s consolidated EBITDA increased by 7% compared to the same period in 2012. The breakdown of EBITDA by business segment and geographical segment is set out in the table on the next page.

EBITDA (HK$m)	**Hong Kong**	**Other Asia**	**United States of America**	**Total**	**2013 vs 2012**
2013					
Hotels	**190**	**86**	**0**	**276**	**15%**
Commercial Properties	**234**	**8**	**-**	**242**	**4%**
Clubs and Services	**49**	**9**	**(21)**	**37**	**(26%)**
	473	**103**	**(21)**	**555**	**7%**
2012					
Hotels	183	75	(19)	239	
Commercial Properties	220	12	-	232	
Clubs and Services	58	10	(18)	50	
	461	97	(37)	521	
2013 vs 2012 Percentage change	**3%**	**6%**	**43%**	**7%**	

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

EBITDA margin	**2013**	2012
Hotels	**14%**	13%
Commercial Properties	**64%**	65%
Clubs and Services	**14%**	21%
Overall EBITDA margin	**22%**	22%
Arising in:		
Hong Kong	**42%**	44%
Other Asia	**12%**	11%
United States of America	**(4%)**	(8%)

The EBITDA margin of the Hotels Division was 1% above that of the same period in 2012 due to improved operating results achieved by most hotels. However, there was a decrease in the EBITDA margin for the Commercial Properties Division and Clubs and Services Division due to the renovation of the de Ricou serviced apartment tower and the one-off re-opening cost incurred by Quail Lodge for its resort.

After taking into account depreciation and net financing charges, profit after net financing charges amounted to HK$315 million, which was 9% above the same period in 2012.

The non-operating item represented the increase in fair value of investment properties, which amounted to HK$665 million (2012: HK$630 million), arising mainly from the revaluation surpluses on The Peninsula Hong Kong shopping arcade and The Repulse Bay Complex in Hong Kong.

The Group has a 50% interest in The Peninsula Shanghai, which is owned by a joint venture. The hotel remained the market leader in terms of average room rate and RevPAR in Shanghai and generated an EBITDA of HK$37 million (2012: HK$34 million) in the first half of 2013. After taking into account depreciation and interest expenses, the Group’s share of loss for the period amounted to HK$60 million (2012: HK$71 million, which was inclusive of a post-tax non-operating loss of HK$19 million arising from property revaluation).

After accounting for the increase in fair value of investment properties, net of deferred tax and non-controlling interests, the consolidated profit attributable to HSH shareholders amounted to HK$840 million (2012: HK$814 million) for the six months ended 30 June 2013.

Earnings per share were HK$0.56. Excluding non-operating items and the related tax and non-controlling interests, underlying earnings per share increased to HK$0.11, 10% above the same period in 2012.

The Directors have resolved to pay an interim dividend of 4 HK cents per share (2012: 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 2013 amounted to HK$34,007 million or HK$22.64 per share (31 December 2012: HK$33,150 million or HK$22.07 per share).

The Group's hotel properties and golf courses are stated at cost less depreciation. To provide users of the Interim Financial Report 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 2013.

A summary of the Group's hotel, investment and other properties showing both the book value and the market value as at 30 June 2013 is set out in the table on the next page.

HK$m	Group's Interest	Market Value	Book Value
Hotels			
The Peninsula Hong Kong	100%	11,740	9,771
The Peninsula Beijing	76.6% *	1,855	1,401
The Peninsula New York	100%	1,802	1,221
The Peninsula Chicago	100%	1,318	1,136
The Peninsula Tokyo	100%	1,291	905
The Peninsula Bangkok	75%	839	824
The Peninsula Manila	77.4%	273	269
		19,118	15,527
Commercial properties			
The Repulse Bay Complex	100%	16,154	16,154
The Peak Tower	100%	1,265	1,265
St. John's Building	100%	884	884
21 avenue Kléber	100%	605	605
The Landmark	50%	86	86
		18,994	18,994
Other properties			
Thai Country Club golf course	75%	259	252
Quail Lodge resort, golf course and vacant land	100%	250	244
Vacant land near Bangkok	75%	334	334
Others	100%	181	97
		1,024	927
Total market / book value		39,136	35,448
Hotel and investment property held by a joint venture			
The Peninsula Shanghai Complex	50%	6,741	6,510

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

On 25 June 2013, the Group acquired a commercial building in Paris known as 21 avenue Kléber from an independent third party for a cash consideration of EUR56 million. The property has a total area of approximately 4,010 square metres of four storeys comprising offices and retail and residential units.

Statement of cash flows

The Group's net cash inflow from operating activities amounted to HK$523 million for the six months ended 30 June 2013.

The Group's cash flows for the first six months of 2013 are summarised on the next page.

	For the six months ended 30 June	
HK$m	**2013**	2012
EBITDA	**555**	521
Tax paid	**(45)**	(61)
Changes in working capital	**13**	(92)
Net cash generated from operating activities	**523**	368
Purchase of fixed assets	**(1,172)**	(344)
Net advance to a joint venture	**(1)**	(184)
Proceeds from disposal of an equity instrument	**1**	46
Proceeds from disposal of fixed assets	**0**	1
Net financing charges and dividends paid	**(192)**	(82)
Net increase in bank borrowings	**586**	16
Placement of interest-bearing bank deposits with maturity of more than three months	**(57)**	(96)
Net cash outflow for the period	**(312)**	(275)
Cash and cash equivalents at 1 January	**1,682**	1,963
Effect of changes in foreign exchange rates	**9**	(2)
Cash and cash equivalents at 30 June	**1,379**	1,686

During the period, net cash generated from operating activities amounted to HK$523 million (2012: HK$368 million). The capital expenditure of HK$1,172 million was mainly incurred for the renovation programmes at The Peninsula Hong Kong and The Repulse Bay apartments and the acquisition of 21 avenue Kléber, a commercial property in Paris.

Excluding bank deposits maturing after more than three months, which amounted to HK$551 million (2012: HK$103 million) and after accounting for investing and financing activities, cash and cash equivalents as at 30 June 2013 amounted to HK$1,379 million.

Treasury Management

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.

During the period, net borrowings increased by 29% to HK$2,562 million (31 December 2012: HK$1,989 million) and the Group's gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders' funds, increased to 7% (31 December 2012: 6%). The increase was mainly due to the payment of HK$605 million by the Group for the acquisition of 21 avenue Kléber. Net interest cover, expressed as operating profit divided by net financing charges, decreased to 7.7 times (2012: 8.6 times).

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$4,463 million at 30 June 2013 (31 December 2012: HK$3,740 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 2013, the Group's fixed-to-floating interest rate ratio of 56% remained comparable to that as at 31 December 2012. The weighted average gross interest rate for the period increased to 3.4% (2012: 3.1%) 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 obtained a new facility of EUR60 million for its wholly owned subsidiary in France to fund the acquisition of 21 avenue Kléber. The Company has also arranged a credit facility of HK$1 billion for its wholly owned subsidiary in Hong Kong to refinance its term loan maturing on 31 July 2013.

On 25 June 2013, the Company established a Medium Term Note Programme under which the Issuer, a wholly owned subsidiary of the Company, may offer and issue Notes of aggregate principal amount of up to US$1 billion (or its equivalent in other currencies) to professional and institutional investors in transactions exempt from the registration requirements under the U.S. Securities Act. The payments of all amounts due in respect of the Notes will be unconditionally and irrevocably guaranteed by the Company. The Issuer has appointed Australia and New Zealand Banking Group Limited, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank as the Arrangers and Dealers. The Programme is to make available a platform to enhance the Group's flexibility and efficiency for future funding or capital management. It is designed to allow Notes to be drawndown from time to time. No Notes had been issued as at 30 June 2013.

The table below illustrates the maturity profile of the committed facilities of the Group as at 30 June 2013 and 31 December 2012 respectively.

HK$m	**30 June 2013**		31 December 2012	
Maturing in 2013	**1,023**	**(17%)**	1,023	(22%)
Maturing in 2014	**552**	**(9%)**	578	(13%)
Maturing in 2015	**1,463**	**(25%)**	1,664	(37%)
Maturing in 2016	**823**	**(15%)**	827	(18%)
Maturing in 2018	**2,001**	**(34%)**	451	(10%)
Total committed facilities	**5,862**	**(100%)**	4,543	(100%)

As at 30 June 2013, the Group's total assets were principally denominated in Hong Kong Dollars, which accounted for 72% of the total assets value.

Major non-adjusting events

On 18 April 2013, the Group entered into a non-binding heads of agreement (the “HOA”) with Yoma Strategic Holdings Ltd. (“Yoma”), a company listed in the main board of the Singapore Securities Exchange Trading Limited, for a proposed hotel development on the site of the former headquarters of the Burma Railway Company (“Building”) on Bogyoke Aung San Road, Yangon, Myanmar (the “Proposed Hotel Development”). Binding agreements are subject to, amongst other conditions, Yoma acquiring an 80% interest in the land development rights of the entire site which houses the Proposed Hotel Development and the issue of a new leasehold title.

Under the HOA, the Group has agreed to subscribe for a 70% majority interest in the joint venture to be set up with Yoma and its other designated affiliate(s) to jointly re-develop the Building into a Peninsula hotel. The parties are still working on the financial commitment of each party in respect of the purchase of the land development rights of the Building and redevelopment costs prior to the signing of the binding agreements. The parties also agreed that a subsidiary of the Group would enter into a management agreement to manage the Proposed Hotel Development.

Furthermore, on 19 July 2013, the Group entered into a lease sale agreement to acquire a 50% interest in a property in London (“the Property”) from an independent third party for a cash consideration of GBP132.5 million (HK$1,568 million) which was completed on 25 July 2013. Immediately following the completion of the purchase transaction, the Group entered into a suite of agreements with GP Lessee LLP and related entities (together “Grosvenor”), a privately-owned property group which holds the remaining 50% interest in the Property, to govern the joint venture arrangements including the ownership, management and potential redevelopment of the Property. The Group will work together with Grosvenor to design and jointly submit a planning application to re-develop the Property into a mixed use complex consisting of a Peninsula hotel and luxury residences.

Consolidated Income Statement - unaudited (HK$m)

	Note	For the six months ended 30 June 2013	2012
Turnover	3	**2,542**	2,416
Cost of inventories		**(198)**	(190)
Staff costs and related expenses		**(958)**	(899)
Rent and utilities		**(285)**	(303)
Other operating expenses		**(546)**	(503)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)	3	**555**	521
Depreciation and amortisation		**(193)**	(193)
Operating profit		**362**	328
Interest income		**23**	29
Financing charges	4(a)	**(70)**	(67)
Net financing charges		**(47)**	(38)
Profit after net financing charges	4	**315**	290
Share of loss of a joint venture	11	**(60)**	(71)
Increase in fair value of investment properties	9(b)	**665**	630
Gain on disposal of unlisted equity instrument	5	**1**	46
Profit before taxation		**921**	895
Taxation			
Current tax	6	**(46)**	(57)
Deferred tax	6	**(34)**	(22)
Profit for the period		**841**	816
Profit attributable to:			
Shareholders of the Company		**840**	814
Non-controlling interests		**1**	2
Profit for the period		**841**	816
Earnings per share, basic and diluted (HK$)	7	**0.56**	0.55

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	
	2013	2012
Profit for the period	**841**	816
Other comprehensive income for the period, net of tax		
Items that may be reclassified subsequently to profit or loss:		
Exchange gain/(loss) on translation of:		
- financial statements of overseas subsidiaries	**142**	5
- financial statements of a joint venture	**17**	(10)
- loans to an associate	**(8)**	(23)
- investment in hotel management contracts	**(8)**	(23)
	143	(51)
Cash flow hedges:		
- effective portion of changes in fair value	**(2)**	(11)
- transfer from equity to profit or loss	**22**	22
	163	(40)
Total comprehensive income for the period	**1,004**	776
Total comprehensive income attributable to:		
Shareholders of the Company	**1,007**	774
Non-controlling interests	**(3)**	2
Total comprehensive income for the period	**1,004**	776

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

	Note	**As at 30 June 2013**	As at 31 December 2012 *(restated)*
Non-current assets			
Fixed assets	9		
Properties, plant and equipment		**6,026**	6,015
Investment properties		**29,577**	28,108
		35,603	34,123
Interest in associates	10	**564**	572
Interest in a joint venture	11	**1,249**	1,229
Investment in hotel management contracts		**660**	670
Deferred tax assets		**38**	46
		38,114	36,640
Current assets			
Inventories		**94**	96
Trade and other receivables	13	**564**	568
Amount due from a joint venture	20(c)	**252**	311
Derivative financial instruments	12	**1**	7
Cash at banks and in hand		**1,939**	2,185
		2,850	3,167
Current liabilities			
Trade and other payables	14	**(1,112)**	(1,113)
Interest-bearing borrowings	15	**(1,429)**	(1,078)
Derivative financial instruments	12	**(27)**	(52)
Current taxation		**(41)**	(34)
		(2,609)	(2,277)
Net current assets		**241**	890
Total assets less current liabilities		**38,355**	37,530
Non-current liabilities			
Interest-bearing borrowings	15	**(3,072)**	(3,096)
Trade and other payables	14	**(270)**	(285)
Net defined benefit retirement obligations	2	**(19)**	(19)
Derivative financial instruments	12	**(23)**	(36)
Deferred tax liabilities		**(678)**	(655)
		(4,062)	(4,091)
Net assets		**34,293**	33,439
Capital and reserves			
Share capital	16	**751**	751
Reserves		**33,256**	32,399
Total equity attributable to shareholders of the Company		**34,007**	33,150
Non-controlling interests		**286**	289
Total equity		**34,293**	33,439

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

	Note	Attributable to shareholders of the Company								
		Share capital	Share premium	Capital redemption reserve	Hedging reserve	Exchange and other reserves	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2012		745	3,502	13	(98)	(48)	27,341	31,455	283	31,738
Impact of change in accounting policy	2	-	-	-	-	5	-	5	-	5
At 1 January 2012 *(restated)*		745	3,502	13	(98)	(43)	27,341	31,460	283	31,743
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 and 1 July 2012		751	3,610	13	(87)	(94)	28,006	32,199	285	32,484
Changes in equity for the six months ended 31 December 2012										
Profit for the period		-	-	-	-	-	741	741	(1)	740
Other comprehensive income		-	-	-	15	255	-	270	10	280
Total comprehensive income for the period *(restated)*		-	-	-	15	255	741	1,011	9	1,020
Dividends approved in respect of the current year		-	-	-	-	-	(60)	(60)	-	(60)
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	(5)	(5)
Balance at 31 December 2012 and 1 January 2013		**751**	**3,610**	**13**	**(72)**	**161**	**28,687**	**33,150**	**289**	**33,439**
Changes in equity for the six months ended 30 June 2013										
Profit for the period		**-**	**-**	**-**	**-**	**-**	**840**	**840**	**1**	**841**
Other comprehensive income		**-**	**-**	**-**	**20**	**147**	**-**	**167**	**(4)**	**163**
Total comprehensive income for the period		**-**	**-**	**-**	**20**	**147**	**840**	**1,007**	**(3)**	**1,004**
Dividends approved in respect of the previous year		**-**	**-**	**-**	**-**	**-**	**(150)**	**(150)**	**-**	**(150)**
Balance at 30 June 2013		**751**	**3,610**	**13**	**(52)**	**308**	**29,377**	**34,007**	**286**	**34,293**

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

	For the six months ended 30 June	
	2013	2012
Operating activities		
EBITDA	**555**	521
Tax paid	**(45)**	(61)
Changes in working capital	**13**	(92)
Net cash generated from operating activities	**523**	368
Investing activities		
Purchase of fixed assets	**(1,172)**	(344)
Net advance to a joint venture	**(1)**	(184)
Proceeds from disposal of unlisted equity instrument	**1**	46
Proceeds from disposal of fixed assets	**0**	1
Net cash used in investing activities	**(1,172)**	(481)
Financing activities		
Interest received	**23**	15
Interest and other financing charges paid	**(65)**	(62)
Placement of interest bearing bank deposits with maturity of more than three months	**(57)**	(96)
Net increase in bank borrowings	**586**	16
Dividends paid to shareholders of the Company	**(150)**	(35)
Net cash generated from/(used in) financing activities	**337**	(162)
Net decrease in cash and cash equivalents	**(312)**	(275)
Cash and cash equivalents at 1 January	**1,682**	1,963
Effect of changes in foreign exchange rates	**9**	(2)
Cash and cash equivalents at 30 June (note)	**1,379**	1,686

Note *Analysis of cash and cash equivalents*

	As at 30 June	
	2013	*2012*
Interest-bearing bank deposits	***1,833***	*1,740*
Cash at banks and in hand	***106***	*60*
Total cash at banks and in hand	***1,939***	*1,800*
Less: Interest bearing bank deposits with maturity of more than three months	***(551)***	*(103)*
Less: Bank overdrafts (note 15)	***(9)***	*(11)*
Cash and cash equivalents in the condensed consolidated statement of cash flows	***1,379***	*1,686*

Cash at banks and in hand at the end of the period include deposits with banks of HK$791 million (30 June 2012: HK$263 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 2013.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 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 2012 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.

The financial information relating to the financial year ended 31 December 2012 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 2012 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 13 March 2013.

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 developments are 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 HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 11, *Joint arrangements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurements*
- Revised HKAS 19, *Employee benefits*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

In respect of the adoption of HKFRS 10 and HKFRS 11, the application does not result in any change of control or joint control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013. As a result of the adoption of HKFRS 11, interest in a jointly controlled entity is renamed as interest in a joint venture in this Interim Financial Report. Since the disclosure requirements in respect of the application of HKFRS 12 only apply to a full set of financial statements, the Group has not made additional disclosures in the Interim Financial Report.

a) Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income has been modified accordingly.

b) HKFRS 13, *Fair value measurement*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the Interim Financial Reports. The Group has provided those disclosures in note 17.

c) Revised HKAS 19, *Employee benefits* (HK$m)

Revised HKAS 19 introduces a number of amendments to the accounting for defined benefit plans. Among them, revised HKAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. Revised HKAS 19 also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

2. Changes in accounting policies *continued*

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

c) Revised HKAS 19, *Employee benefits* (HK$m) *continued*

As a result of the adoption of revised HKAS 19, the Group has changed its accounting policy with respect to defined benefit plans, for which the corridor method was previously applied. This change in accounting policy has been applied retrospectively by restating the balances at 31 December 2012 as follows:

	As previously reported	Effect of adopting revised HKAS 19	As restated
Consolidated statement of financial position as at 31 December 2012:			
Net defined benefit retirement obligation	25	(6)	19
Total non-current liabilities	4,097	(6)	4,091
Total equity	33,433	6	33,439

This change in accounting policy does not have any material impact on current or deferred taxation and earnings per share in the consolidated income statement and consolidated statement of comprehensive income for the six months ended 30 June 2012.

Except for the above, the new 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.

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

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 and resort, The Peak Tram, wholesaling and retailing of food and beverage products, laundry services and the provision of management and consultancy services for clubs.

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

(a) Segment results and assets (HK$m)

The Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments, and the expenses directly incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other expenses, including head office expenses not directly attributable to the reportable segments, are allocated to the segments by reference to the respective segments' operating profit before interest, taxation, depreciation and amortisation (EBITDA). Interest income and expense, results of associates and joint ventures, 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, interest in and amount due from a joint venture, 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 (HK$m) *continued*

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

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	For the six months ended 30 June							
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Reportable segment revenue*	**1,904**	1,823	**378**	357	**260**	236	**2,542**	2,416
Reportable segment operting profit before interest, taxation, depreciation and amortisation (EBITDA)	**276**	239	**242**	232	**37**	50	**555**	521
Depreciation and amortisation	**(177)**	(177)	**(4)**	(4)	**(12)**	(12)	**(193)**	(193)
Segment operating profit	**99**	62	**238**	228	**25**	38	**362**	328
As at 30 June 2013/31 December 2012 Reportable segment assets	**16,767**	16,635	**19,152**	17,899	**1,002**	923	**36,921**	35,457

* *Analysis of segment revenue*

	2013	*2012*
Hotels		
- Rooms	***817***	*757*
- Food and beverage	***568***	*577*
- Commercial	***339***	*314*
- Others	***180***	*175*
	1,904	*1,823*
Commercial Properties		
Rental revenue from:		
- Residential properties	***208***	*192*
- Offices	***33***	*34*
- Shopping arcades	***137***	*131*
	378	*357*
Clubs and Services		
- Clubs management	***85***	*77*
- The Peak Tram operation	***57***	*53*
- Others	***118***	*106*
	260	*236*
Total	***2,542***	*2,416*

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

(b) Reconciliations of reportable segment profits and assets (HK$m)

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 2013	As at 31 December 2012
Reportable segments' assets	**36,921**	35,457
Interest in associates	**564**	572
Interest in a joint venture	**1,249**	1,229
Derivative financial instruments	**1**	7
Deferred tax assets	**38**	46
Amount due from a joint venture	**252**	311
Cash at banks and in hand	**1,939**	2,185
Consolidated total assets	**40,964**	39,807

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	
	2013	2012
Interest on bank borrowings wholly repayable within five years	**36**	35
Other borrowing costs	**9**	7
Total interest expense on financial liabilities carried at amortised cost	**45**	42
Derivative financial instruments:		
- cash flow hedges, transfer from equity	**24**	25
- held for trading, at fair value through profit or loss	**1**	-
	70	67

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

(b) Other items

	For the six months ended 30 June	
	2013	2012
Amortisation of hotel management contract	**2**	2
Depreciation	**191**	191
Foreign exchange gains	**(1)**	0
Interest income	**(23)**	(29)

5. Gain on disposal of unlisted equity instrument

In June 2012, the Group disposed of its 17.29% interest in Inncom International, Inc. for a cash consideration of HK$46 million. During the six months ended 30 June 2013, the Group further received a deferred consideration of HK$1 million in respect of the disposal.

6. Taxation (HK$m)

	For the six months ended 30 June	
	2013	2012
Current tax		
Hong Kong	**26**	40
Overseas	**20**	17
	46	57
Deferred tax		
Increase in net deferred tax liabilities relating to revaluation of overseas investment properties	**11**	2
Increase in net deferred tax liabilities relating to other temporary differences	**23**	20
	34	22
	80	79

The provision for Hong Kong profits tax is calculated at 16.5% (2012: 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	
	2013	2012
Profit attributable to shareholders of the Company (HK$m)	**840**	814
Weighted average number of shares in issue (million shares)	**1,502**	1,491
Earnings per share (HK$)	**0.56**	0.55

	2013	*2012*
	(million shares)	*(million shares)*
Issued shares at 1 January	***1,502***	*1,490*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2011 final dividends	*-*	*1*
Weighted average number of shares in issue at 30 June	***1,502***	*1,491*

(b) Earnings per share - diluted

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2013 and 30 June 2012 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	
	2013	2012
Interim dividend declared and to be paid after the interim period of 4 HK cents per share (2012: 4 HK cents per share)	**60**	60

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	
	2013	2012
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 2011: 10 HK cents per share)	**150**	149

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.

9. Fixed assets (HK$m)

(a) Acquisitions and disposals

During the six months ended 30 June 2013, the Group acquired items of fixed assets with a cost of HK$1,166 million (six months ended 30 June 2012: HK$359 million), of which HK$605 million related to the purchase of an investment property in Paris. Items of fixed assets disposed of during the six months ended 30 June 2013 and 30 June 2012 were insignificant in value.

(b) Valuation of investment properties

All investment properties of the Group were revalued as at 30 June 2013 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 this valuation
Hong Kong		
Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited	Members of the Hong Kong Institute of Surveyors ("HKIS")
Other Asia* and Europe		
Retail shops, offices, residential apartments and vacant land	Savills Valuation and Professional Services Limited	Members of the HKIS and Royal Institute of Chartered 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$665 million (2012: HK$630 million) has 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 2013. The total valuation placed on the hotel properties and golf courses, which have a net book value of HK$5,802 million (31 December 2012: HK$5,794 million), was HK$9,406 million as at 30 June 2012 (31 December 2012: HK$9,274 million). It is important to note that the surplus of HK$3,604 million (31 December 2012: HK$3,480 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 2013	As at 31 December 2012
Loans to an associate *	**564**	572

* *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. EUR13 million (HK$131 million) (31 December 2012: EUR13 million (HK$133.3 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 2013 and 31 December 2012 were not significant.

11. Interest in a joint venture (HK$m)

	As at 30 June 2013	As at 31 December 2012
Share of exchange reserve	**195**	178
Share of retained profits	**533**	593
Share of net assets	**728**	771
Loan to a joint venture *(note 11(b))*	**521**	458
	1,249	1,229

11. Interest in a joint venture (HK$m) *continued*

(a) Details of the joint venture 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 hotel, apartments, retail arcade and ancillary facilities of The Peninsula Shanghai. At 30 June 2013, the paid up capital of EGL and PSW amounted to HK$1 (31 December 2012: HK$1) and US$117,500,000 (31 December 2012: US$117,500,000) respectively.*

(b) The loan to the joint venture is denominated in US dollars, unsecured, interest free and has no fixed repayment terms. It is neither past due nor impaired. As at 30 June 2013, the loan to the joint venture amounted to US$67 million (HK$521 million) (31 December 2012: US$59 million (HK$458 million)), of which US$59 million (HK$458 million) (31 December 2012: US$59 million (HK$458 million)) 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 joint venture, of which the Group has a 50% share:

	As at 30 June 2013	As at 31 December 2012
Non-current assets	**6,510**	6,469
Current assets	**219**	227
Current liabilities	**(768)**	(789)
Non-current liabilities	**(4,504)**	(4,366)
Net assets	**1,457**	1,541

	For the six months ended 30 June	
	2013	2012
Income	**261**	235
Operating expenses	**(224)**	(201)
EBITDA	**37**	34
Depreciation	**(50)**	(52)
Net financing charges	**(98)**	(87)
Loss before non-operating items	**(111)**	(105)
Non-operating items**	**0**	(43)
Taxation - deferred tax	**(8)**	5
Loss for the period	**(119)**	(143)

*** Non-operating items represent property valuation adjustments in respect of the joint venture.*

11. Interest in a joint venture (HK$m) *continued*

(d) During 2012, PSW entered into a 15-year RMB2,500 million term loan agreement with an independent financial institution to refinance its maturing facilities which amounted to RMB1,600 million. As at 30 June 2013, the loan drawn down amounted to RMB2,306 million (HK$2,908 million) (31 December 2012: RMB2,292 million (HK$2,850 million)). The loan is secured by PSW's properties inclusive of the land use rights. The net carrying amount of these pledged assets amounted to RMB5,162 million (HK$6,510 million) (31 December 2012: RMB5,201 million (HK$6,469 million)).

12. Derivative financial instruments (HK$m)

	As at 30 June 2013		As at 31 December 2012	
	Assets	**Liabilities**	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	**0**	**(47)**	0	(74)
Cross currency interest rate swaps	**0**	**0**	0	(4)
	0	**(47)**	0	(78)
At fair value through profit or loss:				
Interest rate swaps	**1**	**(3)**	7	(10)
Total	**1**	**(50)**	7	(88)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	**0**	**(24)**	0	(38)
Cross currency interest rate swaps	**0**	**0**	0	(4)
	0	**(24)**	0	(42)
At fair value through profit or loss:				
Interest rate swaps	**1**	**(3)**	7	(10)
	1	**(27)**	7	(52)
Portion to be recovered/(settled) after one year	**0**	**(23)**	0	(36)

13. Trade and other receivables (HK$m)

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

	As at 30 June 2013	As at 31 December 2012
Trade debtors	**210**	223
Rental deposits, payments in advance and other receivables	**322**	320
Prepaid tax	**32**	25
	564	568

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$117 million (31 December 2012: HK$127 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 2013	As at 31 December 2012
Current	**165**	191
Less than one month past due	**31**	21
One to three months past due	**11**	9
More than three months but less than 12 months past due	**3**	2
Amounts past due	**45**	32
	210	223

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 2013	As at 31 December 2012
Trade creditors	**108**	144
Interest payable	**6**	7
Accruals for fixed assets	**131**	141
Tenant deposits	**337**	331
Guest deposits	**138**	104
Golf membership deposits	**108**	107
Other payables	**554**	564
Financial liabilities measured at amortised cost	**1,382**	1,398
Less: Non-current portion of trade and other payables	**(270)**	(285)
Current portion of trade and other payables	**1,112**	1,113

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$366 million (31 December 2012: HK$387 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 2013	As at 31 December 2012
Less than three months	**106**	141
Three to six months	**2**	3
	108	144

15. Interest-bearing borrowings (HK$m)

	As at 30 June 2013	As at 31 December 2012
Total facilities available:		
Term loans and revolving credits	**5,862**	4,543
Uncommitted facilities, including bank overdrafts	**289**	298
	6,151	4,841
Utilised:		
Term loans and revolving credits	**4,475**	4,144
Uncommitted facilities, including bank overdrafts	**47**	53
	4,522	4,197
Less: Unamortised financing charges	**(21)**	(23)
	4,501	4,174
Represented by:		
Short term bank loans, repayable within one year or on demand	**1,420**	1,069
Bank overdrafts, repayable on demand	**9**	9
	1,429	1,078
Long term bank loans, repayable:		
Between one and two years	**1,140**	578
Between two and five years	**1,559**	2,090
Over five years	**394**	451
	3,093	3,119
Less: Unamortised financing charges	**(21)**	(23)
Non-current portion of long term bank loans	**3,072**	3,096
Total interest bearing borrowings	**4,501**	4,174

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 2013	As at 31 December 2012
Number of ordinary shares of HK$0.50 each **(million shares)**		
Authorised	**1,800**	1,800
Issued at 30 June/31 December	**1,502**	1,502
Nominal value of ordinary shares **(HK$m)**		
Authorised	**900**	900
Issued and fully paid at 30 June/31 December	**751**	751

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. The new shares issued have resulted in an increase in fully paid share capital of approximately HK$6 million and share premium of HK$108 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. The Group did not issue any new shares during the six months ended 30 June 2013.

17. Fair values measurement of financial instruments **(HK$m)**

(a) Financial instruments measured at fair value

i) The fair value measurements of financial instruments at the end of the reporting period are disclosed across the three levels of the fair value hierarchy as defined in HKFRS 13, with the fair value of each financial instrument categorised in its entirety, based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

All derivative financial instruments carried at fair value are categorised as falling under level 2 of the fair value hierarchy.

ii) Valuation techniques and inputs used in level 2 fair value measurements

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

17. Fair values measurement of financial instruments (HK$m) *continued*

(b) Fair values of financial instruments carried at other than fair value

Financial instruments are carried at amounts not materially different from their fair values as at 30 June 2013, except that interests in unlisted equity instruments are stated at cost less impairment losses as the fair value of the equity instruments cannot be reliably measured. The entrustment loan to the joint venture is at floating interest rates and the carrying amount of this loan approximates its fair value. The shareholder's loan to the joint venture is unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair values. The Group has no intention of disposing of these loans.

18. Commitments (HK$m)

Capital commitments outstanding at 30 June 2013 not provided for in the Interim Financial Report were as follows:

	As at 30 June 2013			As at 31 December 2012		
	Contracted for	**Authorised but not contracted for**	**Total**	Contracted for	Authorised but not contracted for	Total
Capital expenditure						
The Peninsula Hong Kong	**45**	**166**	**211**	173	143	316
The Repulse Bay Complex	**127**	**172**	**299**	225	208	433
The Peninsula London						
project (note 21)	**0**	**1,568**	**1,568**	-	-	-
Others	**78**	**432**	**510**	53	718	771
	250	**2,338**	**2,588**	451	1,069	1,520
The Group's share of						
capital commitments of						
- a joint venture	**3**	**10**	**13**	3	19	22
- associates	**263**	**96**	**359**	227	160	387

19. 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 2012.

20. Material related party transactions

a) Under a three-year tenancy agreement which commenced on 1 April 2010, a wholly owned subsidiary of the Company, HSH Management Services Limited, leased the 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rent of HK$1,221,090 per month plus service charges of HK$140,895 per month from Kadoorie Estates Limited ("KEL"), which is the agent of the registered owner which is controlled by one of the substantial shareholders of the Company. The lease was renewed for three years on 1 April 2013 at a market rent of HK$1,540,452 plus service charges of HK$182,224 per month with a rent free period of two months. The amount of rent and service charges paid to KEL during the six months ended 30 June 2013 amounted to HK$6 million (30 June 2012: HK$8 million).

b) As at 31 December 2012, unsecured and interest free shareholder's loans amounting to US$58.8 million (HK$458 million) were granted by Peninsula International Investment Holdings Limited ("PIIHL"), a wholly owned subsidiary of the Company, to The Peninsula Shanghai (BVI) Limited ("TPS"), a 50% joint venture of the Group. The loans were provided in proportion to PIIHL's shareholding in TPS and are unsecured, interest free and have no fixed terms of repayment. TPS owns a 100% interest in Evermore Gain Limited ("EGL") which in turn holds a 100% interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"), a foreign owned enterprise incorporated in the People's Republic of China, engaged in the operation of The Peninsula Shanghai Complex.

   During the six months ended 30 June 2013, additional unsecured and interest free shareholder's loan of US$8.1 million (HK$63 million) was advanced by PIIHL to TPS. The loan was made pro rata to PIIHL's shareholding in TPS to fund PSW's working capital requirements.

c) Pursuant to the tripartite entrustment loan agreement dated 12 December 2011 entered into among The Palace Hotel Co. Limited ("TPH"), a 76.6% owned subsidiary of the Company, PSW and a PRC branch of an international bank ("agent bank"), unsecured entrustment loans were on-lent by TPH to PSW via the agent bank starting from 15 December 2011. The loans were repayable on 13 June 2013 and bore 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 31 December 2012, the balance of entrustment loans amounted to RMB250 million (HK$311 million). During the six months ended 30 June 2013, an amount of RMB50 million was repaid by PSW to TPH and the parties agreed to extend the repayment date of the remaining balance of RMB200 million (HK$252 million) to 13 December 2013.

Except for the above, there were no material related party transactions during the six months ended 30 June 2013, other than the nature of those as disclosed in the Group's annual financial statements for the year ended 31 December 2012.

21. Non-adjusting event after the reporting period

On 19 July 2013, the Group entered into a lease sale agreement to acquire a 50% interest in a property in London (“the Property”) from an independent third party for a cash consideration of GBP132.5 million (HK$1,568 million) which was completed on 25 July 2013. Immediately following the completion of the purchase transaction, the Group entered into a suite of agreements with GP Lessee LLP and related entities (together “Grosvenor”), a privately-owned property Group which holds the remaining 50% interest in the Property, to govern the joint venture arrangements including the ownership, management and potential redevelopment of the Property. The Group will work together with Grosvenor to design and jointly submit a planning application to re-develop the Property into a mixed use complex consisting of a Peninsula hotel and luxury residences.

OTHER CORPORATE INFORMATION

Corporate responsibility
The Group's Corporate Responsibility Committee provides a formal governance structure to address the wider aspects of the Group's environmental, social and ethical responsibilities and to guide Group operations in integrating sustainable practices and principles in our day-to-day operation.

The Sustainability Review and Data Statements in the 2012 Annual Report discuss in detail specific environmental and social issues that contribute to the sustainable development of the Group, and report on the Group's corporate responsibility and sustainability performance.

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 actively seek to make improvements in this area. The Corporate Governance Report in the 2012 Annual Report sets out in detail the Company's corporate governance policies and practices.

The Company has adopted its own Corporate Governance Code ("HSH Code"). It applies all of the principles in the Corporate Governance Code in Appendix 14 of the Listing Rules ("CG Code"). The HSH Code has already encompassed all code provisions and recommended best practices of the CG Code, save for the recommended best practices including publication of quarterly financial results and disclosure of individual senior management remuneration, as disclosed in the 2012 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 ("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 ("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 may from time to time come across inside information. All specified employees have 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 (2012: 4 HK cents per share) for the six months ended 30 June 2013. The interim dividend will be payable on 30 September 2013 to shareholders whose names appear on the register of members on 24 September 2013.

Closure of register of members

The register of members of the Company will be closed from 19 September to 24 September 2013 (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 Wednesday, 18 September 2013.

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 2013.

By Order of the Board
Christobelle Liao
Company Secretary

Hong Kong, 22 August 2013

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
Dr. Rosanna Yick Ming Wong