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

INTERIM RESULTS, DIVIDEND, CLOSURE OF BOOKS
2009 Interim Results

HIGHLIGHTS

Key financial results

- Turnover decreased by 18% to HK$1,962 million.
- EBITDA decreased by 41% to HK$411 million.
- Profit before non-operating items and taxation decreased by 62% to HK$182 million.
- Profit attributable to shareholders decreased by 71% to HK$462 million.
- Earnings per share decreased by 71% to HK$0.32.
- Shareholders' funds as at 30 June 2009 amounted to HK$21.3 billion (HK$14.49 per share).
- Adjusted net asset value as at 30 June 2009 amounted to HK$26.3 billion (HK$17.96 per share).
- Gearing ratio increased to 9% (2008: 5%).
- Interim dividend of 3 HK cents (2008: 6.5 HK cents) per share.

Milestones

- Construction and fit-out of The Peninsula Shanghai hotel is close to completion for soft opening in the last quarter of 2009.
- HSH entered into definitive agreements with Qatari Diar Real Estate Investment Company for the development of a Peninsula hotel in Paris, France. Design and construction of this hotel is underway with the opening of the hotel scheduled in 2012.
- Renovation of The Repulse Bay Arcade is nearing completion and the Arcade will be re-opening in phases during the autumn of this year.
- HSH's wholly-owned subsidiary, HSH Financial Services Limited, signed a HK$1.225 billion four year term loan facility with a group of seven international banks.

FINANCIAL AND OPERATING HIGHLIGHTS

	For the six months ended 30 June **2009**	2008	Increase/ (Decrease)
Income statement (HK$m)			
Turnover	**1,962**	2,395	(18%)
EBITDA	**411**	699	(41%)
Profit before non-operating items and taxation	**182**	478	(62%)
Profit attributable to shareholders	**462**	1,619	(71%)
Interim dividend	**44**	94	(53%)
Earnings per share (HK$)	**0.32**	1.12	(71%)
Earnings per share excluding non-operating items (HK$) **	**0.08**	0.37	(78%)
Interim dividend per share (HK cents)	**3**	6.5	(54%)
Interim dividend cover (times)	**10.5x**	17.2x	(39%)
Interest cover (times)	**6.2x**	14.7x	(58%)
Weighted average gross interest rate	**3.2%**	3.5%	(0.3 pp) *
	As at 30 June 2009	As at 31 December 2008	
Statement of financial position (HK$m)			
Total assets	**29,923**	29,587	1%
Net assets attributable to shareholders	**21,256**	20,712	3%
Adjusted net assets attributable to shareholders **	**26,347**	26,589	(1%)
Net assets per share (HK$)	**14.49**	14.28	1%
Adjusted net assets per share (HK$) **	**17.96**	18.34	(2%)
Net borrowings	**2,088**	1,198	74%
Net debt to equity	**10%**	6%	4 pp *
Gearing	**9%**	5%	4 pp *
	For the six months ended 30 June **2009**	2008	
Cash flow (HK$m)			
Net cash generated from operating activities	**258**	615	(58%)
Capital expenditure	**106**	185	(43%)
Net cash (outflow)/inflow after interest and dividends before financing activities	**(978)**	336	(391%)
Capital expenditure to revenue	**5%**	8%	(3 pp) *
Share information (HK$)			
Highest share price	**8.70**	14.50	(40%)
Lowest share price	**4.26**	10.30	(59%)
Period end closing share price	**7.78**	11.80	(34%)
Operating information			
Number of employees (as at 30 June)	**6,449**	6,532	(1%)
Number of hotel rooms (as at 30 June)	**2,874**	2,874	-
Average occupancy rate			
- Hong Kong	**52%**	73%	(21 pp) *
- Other Asia	**46%**	61%	(15 pp) *
- United States of America	**53%**	67%	(14 pp) *
Average room rate (HK$)			
- Hong Kong	**3,915**	4,058	(4%)
- Other Asia	**1,775**	1,973	(10%)
- United States of America	**3,937**	4,446	(11%)
RevPAR (HK$)			
- Hong Kong	**2,023**	2,944	(31%)
- Other Asia	**822**	1,212	(32%)
- United States of America	**2,069**	2,994	(31%)

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

The Directors hereby announce the unaudited interim results of the Company for the six months ended 30 June 2009. 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 auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the Interim Report to be sent to shareholders.

FINANCIAL REVIEW

The Group's interim financial report is compiled in accordance with Hong Kong accounting standards. The Directors wish to draw the attention of the users of the interim financial report to the following aspects of the Group's accounting policies which have been adopted by the Group since 2005:-

- Deferred taxation has been provided, at the profits tax rate, in respect of revaluation surpluses on the Group's investment properties which are mainly held in Hong Kong. It is the Directors' view that the Group's investment properties are held for the long-term and that if any Hong Kong investment properties were sold, tax would not be payable on such disposal as the gains would be capital in nature and such gains are subject to a nil tax rate in Hong Kong. The Directors therefore expect that the provision for deferred taxation in respect of revaluation surpluses for Hong Kong investment properties, amounting to HK$2,806 million as at 30 June 2009, will not materialise.

- Hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less depreciation and any provision for impairment, rather than at fair market value. In order to provide shareholders 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 hotel properties and golf courses as at 30 June 2009, the details of which are set out on page 5. If these assets were to be stated at fair market value instead of at cost less depreciation and any provision for impairment (and deferred tax is not provided on the revaluation surplus on the hotel property in Hong Kong on the same rationale as above), the Group's net assets attributable to shareholders would increase by HK$2,285 million.

In the light of the above, the Directors have provided for shareholders' additional information a calculation of the Group's adjusted net asset value as at 30 June 2009 and 31 December 2008 on the basis set out below:

HK$m		**As at 30 June 2009**		As at 31 December 2008
Net assets attributable to shareholders per statement of financial position		**21,256**		20,712
Writing back the deferred taxation provision in respect of revaluation surpluses on Hong Kong investment properties		**2,806**		2,723
Adjusting the value of hotels and golf courses to fair market value	**2,452**		3,826	
Less: Related deferred tax and minority interests	**(167)**		(672)	
		2,285		3,154
Adjusted net assets attributable to shareholders		**26,347**		26,589
Net assets per share as per statement of financial position (HK$)		**14.49**		14.28
Adjusted net assets per share (HK$)		**17.96**		18.34

The Directors believe that the Group's consolidated income statement and earnings per share include a number of items which are non-operating and/or non-recurring in nature, such as the increase in fair value of investment properties and impairment loss on interest in associates. As the Group continues to be managed with principal reference to its underlying operating cash flows and recurring earnings, the Directors have also provided for shareholders' additional information a calculation of the Group's earnings per share excluding non-operating items on the basis set out below:

HK$m	For the six months ended 30 June 2009	2008
Profit attributable to shareholders	**462**	1,619
Increase in fair value of investment properties	**(413)**	(1,267)
Impairment loss on interest in associates	**15**	-
Tax and minority interests attributable to non-operating items	**49**	178
Earnings excluding non-operating items and related tax and minority interests	**113**	530
Earnings per share excluding non-operating items (HK$)	**0.08**	0.37

Income Statement
The total turnover of the Group amounted to HK$1,962 million for the six months ended 30 June 2009, which fell by HK$433 million or 18% as compared to the same period in 2008. The uncertainties brought about by the global financial crisis continued to impact the operating performance of the Group in the first half of 2009. Details of the factors affecting the Group's turnover are summarised in the Operating Review.

Efforts to manage and contain costs and improve efficiencies have continued in all of our businesses in the first half of the year. Our Group's total operating costs (including fixed overheads but excluding depreciation) fell by HK$145 million (9%) as compared to the first six months of 2008. With total revenues reducing by HK$433 million (18%) as compared to last year, EBITDA (earnings before interest, tax, depreciation and amortisation) decreased by 41% to HK$411 million (2008: HK$699 million). We were able to limit the revenue reduction flow-through to EBITDA to 67%. The Group's EBITDA margin, representing EBITDA as a percentage of turnover, decreased to 21% (2008: 29%).

After taking into account depreciation and net financing charges, the profit before non-operating items and taxation amounted to HK$182 million (2008: HK$478 million).

With respect to non-operating items, the increase in fair value of investment properties for the current period amounted to HK$413 million (2008: HK$1,267 million), mainly attributable to the revaluation surplus on The Repulse Bay Complex in Hong Kong.

The profit attributable to shareholders amounted to HK$462 million for the six months compared to HK$1,619 million for the same period in 2008. This was after a total tax charge of HK$116 million (2008: HK$112 million), including the impact of deferred taxation. It should be noted that the tax charge for the first half of last year included a one-off tax credit of HK$175 million resulting from the reduction of the Hong Kong profits tax rate from 17.5% to 16.5%. Excluding the effects of the deferred taxation arising from the increase in fair value of investment properties and the one-off tax credit for the previous period, the Group's net tax charge amounted to HK$61 million (2008: HK$91 million).

The earnings per share were HK$0.32 (2008: HK$1.12). Excluding non-operating items and the related tax and minority interests, earnings per share decreased by 78% to HK$0.08 (2008: HK$0.37).

The Directors have resolved to pay an interim dividend of 3 HK cents per share (2008: 6.5 HK cents per share).

Statement of Financial Position

The Group's statement of financial position remained strong. The net assets attributable to shareholders as at 30 June 2009 amounted to HK$21,256 million (31 December 2008: HK$20,712 million), or HK$14.49 per share.

A summary of the Group's hotel, investment and other properties (excluding those under development in Shanghai and Paris) showing both the book value and the market value as at 30 June 2009 is set out in the following table:

	Market Value (HK$m)	Book Value (HK$m)
Hotels		
Consolidated hotels		
The Peninsula Hong Kong	8,602	7,055
The Peninsula New York	1,272	973
The Peninsula Chicago	1,123	1,113
The Peninsula Tokyo	1,448	1,145
The Peninsula Bangkok	702	810
The Peninsula Beijing	1,721	1,343
The Peninsula Manila	289	264
Quail Lodge Resort and Golf Club	134	136
Quail Lodge land	62	62
	15,353	12,901
Non-consolidated hotel		
The Peninsula Beverly Hills (at net cost attributable to the Group)		88
Total for hotels		12,989
Commercial properties		
The Repulse Bay	7,009	7,009
Repulse Bay Apartments	4,456	4,456
Repulse Bay Garage	81	81
The Peak Tower	902	902
St. John's Building	550	550
The Landmark	88	88
Total for commercial properties	13,086	13,086
Clubs and Services		
Thai Country Club golf course	216	216
Vacant land near Bangkok	291	291
Po Yip Building, Flats 2 & 3, 1/F	32	32
1 Lugard Road	2	-
Sun Hing Industrial Building, Units 1 & 2, 5/F	4	-
Total for clubs and services	545	539
Total	28,984	26,614

During the period, the Group invested a total of Euro 102 million (HK$1,044 million) into a company which owns the building to be developed into The Peninsula Paris hotel. HSH now has a 20% shareholding interest in this company.

During the period, gross borrowings decreased marginally by 3% to HK$3,092 million (31 December 2008: HK$3,193 million). However, net borrowings increased by 74% to HK$2,088 million (31 December 2008: HK$1,198 million) as a result of the cash consideration paid for the investment in the Peninsula Paris project. The Group’s gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders’ funds, increased to 9% (31 December 2008: 5%). Gross interest cover, expressed as operating profit divided by financing charges, was at 5.1 times (2008: 9.3 times) while net interest cover after netting off interest income was at 6.2 times (2008: 14.7 times). The reduction in interest cover was mainly due to the reduction of operating profit in the first half of the year.

In addition to the Group’s consolidated borrowings, The Peninsula Beverly Hills (20% owned) and The Peninsula Shanghai (50% owned) have non-recourse bank borrowings, which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the Group. Including the Group’s share of the net debt of these non-consolidated entities, the net borrowings would amount to HK$2,935 million at 30 June 2009 (31 December 2008: HK$1,820 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 2009, the Group’s fixed-to-floating interest rate ratio was 50% and remained comparable to that as at 31 December 2008. The weighted average gross interest rate for the period reduced to 3.2% (2008: 3.5%) 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. On 25 June 2009, HSH Financial Services Limited, a wholly-owned subsidiary, signed a HK$1,225 million four-year term loan facility with a syndicate of seven international banks (namely Australia and New Zealand Banking Group Limited, Bank of China (Hong Kong) Limited, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Calyon, HSBC, Industrial and Commercial Bank of China (Asia) Limited and Standard Chartered Bank (Hong Kong) Limited). This facility is unsecured and guaranteed by the Company.

The newly arranged term loan facility has expanded our banking relationships and extended our debt maturity profile. The facility will be fully drawn by the end of September 2009 and refinances maturities falling due in 2009 and 2010. The table below illustrates the maturity profile of the committed facilities of the Group as at 31 December 2008 and the proforma position as at 31 July 2009 after taking into account the new term loan facility and assuming constant exchange rates.

HK$m	31 December 2008	Proforma Position
Maturing in 2009	714 (17%)	-
Maturing in 2010	859 (20%)	859 (17%)
Maturing in 2011	1,793 (43%)	1,793 (36%)
Maturing in 2012	859 (20%)	1,151 (23%)
Maturing in 2013	-	1,225 (24%)
Total committed facilities	4,225 (100%)	5,028 (100%)

As at 30 June 2009, approximately 75%, 9%, 7%, 5%, 3% and 1% (31 December 2008: 78%, 9%, 7%, 0%, 5% and 1%) of the Group’s net assets were denominated in Hong Kong dollars, Chinese Renminbi, United States dollars, Euros, Thai Baht and Philippine Pesos respectively. These net assets were translated into Hong Kong dollars at the closing exchange rates.

Cash Flow Statement

The cash flow statement of the Group for the first six months of 2009 is summarised as follows:

	For the six months ended 30 June	
	2009	2008
Net cash generated from operating activities	**258**	615
Purchase of fixed assets	**(106)**	(185)
Net financing charges and dividends paid	**(86)**	(94)
Net cash inflow before bank movements and non-recurring items	**66**	336
Investment in new project - Paris	**(1,044)**	-
Net decrease in bank borrowings	**(15)**	(42)
Exchange and other adjustments	**2**	23
Net cash (outflow)/inflow for the period	**(991)**	317
Cash at bank and in hand as at 1 January	**1,995**	1,414
Cash at bank and in hand as at 30 June	**1,004**	1,731

During the period, net cash generated from operating activities decreased to HK$258 million (2008: HK$615 million). A majority of the net cash inflow from operating activities was applied to the payments of capital expenditure, financing charges and dividends. The capital expenditure of HK$106 million (2008: HK$185 million) was mainly incurred for ongoing renovations for the Group's existing properties. It should be noted that, despite the challenging operating environment, the Group recorded a net cash inflow before bank movements and non-recurring items of HK$66 million (2008: HK$336 million), excluding the investment made by the Group in the Peninsula Paris project. This investment amounted to Euro 102 million (HK$1,044 million) and was fully funded by the Group's surplus cash.

OPERATING REVIEW

The Hongkong and Shanghai Hotels, Limited (HSH) is the holding company of a Group which has three divisions: the Hotels division, where the Group develops, owns and manages hotels, principally under the world renowned Peninsula brand; the Commercial Properties division, which includes commercial, residential and office properties owned and managed in Hong Kong and Vietnam; and the Clubs and Services division, which operates various businesses including the Peak Tram, Peninsula Clubs and Consultancy Services, Peninsula Merchandising and Tai Pan Laundry.

The Hotels division suffered a significant drop in revenue as compared to the first six months of last year. Occupancies and room rates continued to be adversely affected by the global economic crisis which started last year following the collapse of certain major US financial institutions. In the US, there has also been a reluctance on the part of some corporate clients to be seen to be patronising luxury hotel establishments during the economic downturn. In addition to the economic crisis, our hotel properties in Asia have suffered during the latter part of the current period from travel being deterred or curtailed due to the human H1N1 virus precautionary measures imposed by various governments. The continuing political unrest in Thailand and the over-supply of luxury hotel rooms in Beijing, coupled with continuing visa restrictions in China, have contributed to our hotels in those cities suffering the lowest occupancy rates within our Group.

In the Commercial Properties division, where our principal assets are located in Hong Kong, rental rates and occupancies have held up relatively well, with revenue for this division only decreasing by 2% compared to the same period in 2008. The Clubs and Services division has maintained a reasonable performance, with revenue down 9% as compared to the same period last year.

Given the general economic environment, all operations across the Group have been working hard to find ways of generating revenue and containing costs. A Group-wide hiring freeze was implemented and working hours and use of casual labour has been managed tightly. Operations have worked with suppliers to review purchase terms and efforts have been made to reduce energy consumption. Sales and marketing activities have been directed towards tactical campaigns offering value-added packages.

The effect of these measures is reflected in the reduction in our Group's operating costs excluding depreciation, which fell by HK$153 million (11%) as compared to the same period last year. These operating costs exclude fixed overheads such as property rental, property insurance, real estate taxes and utility charges over which the Group has no control. With total revenues reducing by HK$433 million (18%) as compared to last year, we were able to limit the revenue reduction flowthrough to EBITDA (earnings before interest, tax, depreciation and amortisation) to 67%.

Hotels Division

Revenue for the Hotels division in the first six months of 2009 was 22% below the same period last year. Revenue per available room (RevPAR) fell 31% in the US and 32% in Asia. Continuing strong revenue from the commercial arcades in The Peninsula Hong Kong and The Peninsula Beijing was helpful in supporting the profitability of those hotels. The year-to-date operating statistics for the Peninsula hotels are shown as follows:

	For the six months ended 30 June				
	Occupancy %		Average Room Rate (HK$)		% RevPAR Change
	2009	2008	**2009**	2008	
The Peninsula Hong Kong	**52**	73	**3,915**	4,058	(31)
The Peninsula New York	**53**	60	**4,997**	5,939	(25)
The Peninsula Chicago	**49**	65	**2,935**	3,521	(37)
The Peninsula Beverly Hills	**58**	82	**5,221**	5,392	(31)
The Peninsula Tokyo	**56**	62	**3,543**	3,819	(15)
The Peninsula Bangkok	**45**	76	**1,549**	1,750	(47)
The Peninsula Beijing	**32**	49	**1,418**	1,849	(50)
The Peninsula Manila*	**56**	63	**999**	1,138	(23)
Quail Lodge Resort	**50**	64	**1,631**	1,917	(33)

	Occupancy %		Average monthly yield per sq ft (HK$)	
	2009	2008	**2009**	2008
Hotel Commercial Arcades				
The Peninsula Hong Kong	**99**	98	**375**	351
The Peninsula New York	**100**	100	**351**	343
The Peninsula Tokyo	**100**	100	**162**	150
The Peninsula Bangkok	**100**	100	**70**	77
The Peninsula Beijing	**98**	100	**116**	112
The Peninsula Manila	**56**	65	**15**	18
Hotel Office Space				
The Peninsula Hong Kong	**85**	97	**36**	33

* *The Ayala Tower's guestrooms were closed for renovation from May to October 2008.*

The following is a summary of the performances of our hotels.

The Peninsula Hong Kong Turnover for The Peninsula Hong Kong decreased by 16% compared to the same period in 2008. Business at this hotel was holding up relatively well during the early part of the year but was significantly adversely affected by the government's precautionary measures imposed to control the spread of the human H1N1 virus, which led to a marked reduction in room bookings. Demand has so far held up in the hotel's office and retail arcade spaces, which posted higher revenues than last year.

The Peninsula New York The hotel's revenue was 15% below the same period in 2008. Although RevPAR decreased by 25%, the hotel has improved its position relative to its main competitors. The hotel is undertaking several capital improvement projects including guestroom refurbishments and a renovation of its meeting rooms floor. The newly opened and completely renovated Peninsula Spa has attracted favourable guest comments although it will take some time to build up its business under the current economic conditions.

The Peninsula Chicago The hotel's revenue decreased by 31% compared to the same period in 2008. The hotel's RevPAR was 37% lower, with the greatest impact on occupancy levels being in the group and negotiated corporate segments. In terms of requisite capital improvement work, the hotel's guestrooms and suites were enhanced with new technological features and soft furnishings.

The Peninsula Beverly Hills The hotel's revenue reduced by 28% as compared to the same period in 2008. Corporate business travellers reduced their length of stay leading to suite sales being down by 15%. The hotel's payroll was 10% lower than the same period last year, and other operating expenses dropped 28%.

The Peninsula Tokyo The revenue shortfall at the hotel was 8% against 2008. An increase in the number of luxury hotels in Tokyo has led to intense pricing competition to offset the weak demand from domestic and international visitors. The hotel has been working hard in its second full-year of operation to reduce its cost base and improve productivity and this has been beneficial in improving the hotel's operating results.

The Peninsula Bangkok The hotel's turnover was 46% below the same period in 2008. Following the political unrest in November 2008, there was a dramatic slowdown in arrivals from both domestic and long haul markets and this was further exacerbated by the civil unrest experienced in April 2009. An aggressive approach has been taken to manage operating costs, in particular energy conservation and purchases.

The Peninsula Beijing The hotel's cost reduction efforts helped to mitigate the profit impact from the 32% revenue shortfall compared to the same period in 2008. The commercial operations of the hotel remained strong, with the retail arcade achieving the same level of revenue as it did in the same period last year.

The Peninsula Manila Although the renovation of all guestrooms was completed last October, we have not yet seen the expected growth due to the prevailing weak economic conditions, with a 22% shortfall in revenue compared to the same period in 2008. Nielsen's restaurant is under renovation for five months and will re-open in October 2009 as a new concept restaurant, to be called Escolta.

Quail Lodge Room occupancy was 14 percentage points lower than the same period last year and average room rate fell by 15%, driving all other revenues down, most notably banquet and catering revenues. Compared to last year, revenues were HK$18 million (31%) lower but gross operating profit was only HK$6 million less.

Commercial Properties Division

Turnover from the Commercial Properties division was 2% lower than the first six months of 2008. Whilst there has been a general drop in demand and tenant enquiries for residential property in Hong Kong, our occupancy levels have held up reasonably well and rental rates have remained stable. The Group continues to monitor changes in market conditions and to respond appropriately to legitimate concerns and challenges faced by our tenants.

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

	For the six months ended 30 June			
	Occupancy %		Average monthly yield per sq ft (HK$)	
	2009	2008	**2009**	2008
Commercial Properties				
The Repulse Bay (unfurnished)	**92**	97	**40**	40
The Repulse Bay (serviced)	**72**	79	**30**	32
The Repulse Bay Arcade*	**78**	88	**61**	64
The Peak Tower	**100**	100	**58**	57
St. John's Building	**93**	98	**34**	31
The Landmark, Vietnam (Residential)	**98**	99	**22**	20
The Landmark, Vietnam (Office)	**99**	100	**32**	22

* *Part of the Repulse Bay Arcade was closed for revitalisation from March to July 2008, and again from February 2009.*

The Repulse Bay Complex Turnover for The Repulse Bay Complex decreased by 5% compared to the same period in 2008. Despite the general drop in market demand for luxury residential accommodation, occupancy has held up reasonably well. Turnover was also affected by the closure of some food and beverage outlets as part of the Repulse Bay Arcade revitalisation programme. The Arcade renovation, which began in February 2009, is nearing completion. Retaining its refined, colonial aspect, the Arcade will have an enhanced overall appearance that will include the fully renovated Verandah and Spices restaurants, a new spa and a greater selection of shops and services. The Arcade will be re-opening in phases during the autumn of this year.

The Peak Complex Total revenue from The Peak Tower and St. John's Building increased by 1% and 9% respectively over the same period in 2008, with the Peak Tower remaining fully let. Revenue from the Sky Terrace was maintained at the same level although the number of visitors was 3% higher. Stronger rental rates in St. John's Building were sufficient to offset the reduced occupancy. Effective cost control has resulted in slightly improved profit margins.

The Landmark, Vietnam Total revenue for The Landmark increased by 23% compared to the same period in 2008. Residential and office spaces in the complex remained fully let. The monthly yield per square foot has increased substantially year-on-year due to higher demand especially for office spaces.

Clubs and Services Division

Revenue from the Clubs and Services division was 9% below the same period in 2008, with lower revenue in all businesses apart from the *Peak Tram.* Although there is a drop in overall tourist arrivals to Hong Kong, revenue from the *Peak Tram* was consistent with the same period in 2008, with 2.3 million passengers in each period.

Revenue from Peninsula Clubs and Consultancy Services was in line with the same period in 2008, with increased revenue from consultancy fees and Cathay Pacific Lounges offsetting reduced management fees from other businesses.

There has been a 13% drop in revenue in Peninsula Merchandising, which has wholesale and retail merchandise operations in Hong Kong, Japan and other countries. Revenue in Tai Pan Laundry has fallen by 12% compared to 2008, although lower diesel oil prices and controlled costs resulted in similar profit levels to 2008.

Human Resources

The Group focuses on long-term relationships with our employees. We are committed to invest in their well-being and development and to build outstanding talent from within to deliver business results. We believe a strong learning and development culture is an important element in attracting the right talent and future leaders.

At the Group level, HSH offers a wide range of training programmes to all levels of employees, from business school programmes to e-learning programmes as well as cross exposure programmes. At the operational level, Group training programmes for all employees focusing on service delivery and supervisory training are in place.

For new hotel openings the Group conducts The Peninsula Ambassadors programme under which a select group of 14 management trainees has undertaken an intensive 10-month training at The Peninsula Hong Kong and The Peninsula Beijing to become members of the pre-opening team for The Peninsula Shanghai.

HSH's remuneration packages comprise a base salary, retirement schemes, medical and life insurances and a performance-based bonus for senior staff. The Group does not operate a long-term incentive plan or share option scheme.

As at 30 June 2009, there were 6,449 (30 June 2008: 6,532) full time employees in the Group.

New Hotel Projects

Significant progress has been made in The Peninsula Shanghai project in the first six months of the year. The construction and fit-out of the hotel tower is close to completion and on schedule to begin operation with a soft opening in the last quarter of 2009. Guestroom floors were handed over in phases and the operations management team moved into the hotel in mid May to begin pre-opening preparations. By the end of June, the number of staff had grown to 171. Marketing for the hotel also commenced with the hotel starting to accept reservations in early June, while senior executives travelled to Europe, the United States, as well as key cities in Asia and mainland China to promote the hotel. In the hotel apartment tower, final designs and fit-out for the 39 apartments are underway. It is expected that the grand opening of the entire complex will take place in spring 2010, prior to the commencement of the World Expo in Shanghai.

In January 2009, HSH entered into definitive agreements with Qatari Diar Real Estate Investment Company (Qatari Diar) for the development of a Peninsula hotel in Paris, France in an historic building located on Avenue Kleber, close to the Arc de Triomphe. HSH has invested a total amount of Euro 102 million (HK$1.04 billion) into a subsidiary of Qatari Diar, called Al Maha Majestic S.à r.l., in which HSH has a 20% shareholding interest and which owns the building to be developed into The Peninsula Paris hotel. The total renovation cost of the project is expected to be in the region of Euro 250 million (HK$2.7 billion), in relation to which HSH’s expected commitment is Euro 50 million (HK$0.6 billion). It is expected that the renovation cost will be substantially financed by borrowings at the project level. The hotel will be constructed in accordance with Peninsula standards and will be managed by Peninsula for a period of 50 years.

Design and construction of this hotel is underway, with the appointment of an architect, interior designer and project manager. The hotel is expected to open in 2012 and will be Peninsula's first hotel in Europe.

Outlook

Economic conditions in the countries and regions where we operate remain uncertain, posing continuous pressure for our hotels business. While there have been occasional improvements in markets and consumer sentiment, economic data remains volatile while the demand for regional and international travel continues to be depressed.

The immediate outlook is that business will remain soft across our main markets. Beijing continues to be impacted by an over-supply in high-end lodgings following the 2008 Summer Olympics and Bangkok continues to be depressed within an uncertain political climate, while Tokyo battles the severe economic downturn in Japan. Hong Kong, which had been hit by a decline in long-haul arrivals while regional visitors interrupted their travel plans due to the human H1N1 virus, has seen some initial signs of a moderate pick-up.

With the hotels business under pressure, we are fortunate to have a diversified base of earnings with our non-hotel businesses – most notably The Repulse Bay, the Peak Complex including the Peak Tram, the Landmark in Vietnam and clubs and consultancies – holding up reasonably well. We expect these businesses to remain steady in the second half of the year.

In these uncertain times, cost control remains our top priority. All operations have been working assiduously to find ways of generating revenue, improving productivity and containing costs, while maintaining the exceptional service standards for which we are known. Through these efforts, we have been able to mitigate the flow-through of revenue shortfall down to the operating profit line. It is also an important consideration that our Group remains conservatively geared, with a gearing ratio of only 9% after accounting for the investment made into The Peninsula Paris project. As a result, exclusive of the Paris investment, the Group's operational cash flows continue to be sufficient to cover its capital expenditure programme, financing charges and dividends.

The highlight in the latter half of this year will be the soft opening of The Peninsula Shanghai, which stands on the famous Bund. The project team has worked hard to deliver a hotel which is unique in its location, design and construction and exceptional in its services and facilities. The hotel marks the return for our Group and the Kadoorie family to one of the two cities in which it had its founding roots.

Most importantly, The Hongkong and Shanghai Hotels always looks to the long-term and reflects this in its loyalty and consideration to staff. We have managed so far to avoid making any permanent staff lay-offs, which reflects our long term commitment to our big "Peninsula family".

CONSOLIDATED INCOME STATEMENT - UNAUDITED (HK$m)

	Note	For the six months ended 30 June 2009	2008
Turnover	3	**1,962**	2,395
Cost of inventories		**(149)**	(192)
Staff costs and related expenses		**(730)**	(779)
Rent and utilities		**(262)**	(254)
Other operating expenses		**(410)**	(471)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)	3	**411**	699
Depreciation and amortisation		**(182)**	(185)
Operating profit		**229**	514
Interest income		**8**	20
Financing charges	4(a)	**(45)**	(55)
Net financing charges		**(37)**	(35)
Share of loss of a jointly controlled entity		**(10)**	(1)
Profit before non-operating items and taxation	4	**182**	478
Increase in fair value of investment properties	8(b)	**413**	1,267
Impairment loss on interest in associates	9	**(15)**	-
Profit before taxation		**580**	1,745
Taxation			
Current tax	5	**(47)**	(82)
Deferred tax	5	**(69)**	(30)
Profit for the period		**464**	1,633
Profit attributable to:			
Shareholders of the Company		**462**	1,619
Minority interests		**2**	14
Profit for the period		**464**	1,633
Earnings per share, basic and diluted (HK$)	6	**0.32**	1.12

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

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

	For the six months ended 30 June	
	2009	2008
Profit for the period	**464**	1,633
Other comprehensive income for the period, net of tax:		
Exchange differences on translation of:		
- financial statements of overseas subsidiaries	**63**	58
- financial statements of a jointly controlled entity	**-**	33
- loan to an associate	**30**	-
	93	91
Cash flow hedges:		
- effective portion of changes in fair value	**9**	21
- transfer from equity to profit or loss	**19**	(8)
	121	104
Total comprehensive income for the period	**585**	1,737
Total comprehensive income attributable to:		
Shareholders of the Company	**582**	1,694
Minority interests	**3**	43
Total comprehensive income for the period	**585**	1,737

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

	Note	As at 30 June 2009	As at 31 December 2008
Non-current assets			
Fixed assets	8		
Property, plant and equipment		**5,630**	5,791
Investment properties		**20,997**	20,577
		26,627	26,368
Interest in associates	9	**468**	-
Interest in a jointly controlled entity		**529**	539
Interest in unlisted equity instruments		**-**	-
Investment in hotel management contracts	10	**721**	92
Derivative financial instruments	11	**22**	38
Deferred tax assets		**55**	38
		28,422	27,075
Current assets			
Inventories		**101**	114
Debtors and payments in advance	12	**373**	378
Derivative financial instruments	11	**23**	25
Cash at bank and in hand		**1,004**	1,995
		1,501	2,512
Current liabilities			
Creditors and accruals	12	**(1,050)**	(1,188)
Interest-bearing borrowings	13	**(956)**	(695)
Derivative financial instruments	11	**(86)**	(93)
Current taxation		**(97)**	(90)
		(2,189)	(2,066)
Net current (liabilities)/assets		**(688)**	446
Total assets less current liabilities		**27,734**	27,521
Non-current liabilities			
Interest-bearing borrowings	13	**(2,136)**	(2,498)
Net defined benefit retirement obligation		**(21)**	(21)
Derivative financial instruments	11	**(124)**	(188)
Deferred tax liabilities		**(3,260)**	(3,168)
		(5,541)	(5,875)
Net assets		**22,193**	21,646
Capital and reserves			
Share capital	14	**733**	725
Reserves		**20,523**	19,987
Total equity attributable to shareholders of the Company		**21,256**	20,712
Minority interests		**937**	934
Total equity		**22,193**	21,646

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

		Attributable to shareholders of the Company									
	Note	Share capital	Share premium	Capital redemp -tion reserve	Hedging reserve	Exchange reserve	General reserve	Retained profits	Total	Minority interests	Total equity
At 1 January 2008		721	2,950	9	(53)	(111)	1,098	16,112	20,726	891	21,617
Changes in equity for the six months ended 30 June 2008											
Dividends approved in respect of the previous year											
- by means of cash		-	-	-	-	-	-	(42)	(42)	-	(42)
- by means of scrip	14	5	126	-	-	-	-	(131)	-	-	-
Total comprehensive income for the period		-	-	-	13	62	-	1,619	1,694	43	1,737
Balance at 30 June 2008 and 1 July 2008		726	3,076	9	(40)	(49)	1,098	17,558	22,378	934	23,312
Changes in equity for the six months ended 31 December 2008											
Repurchase of shares		(4)	-	4	-	-	(50)	-	(50)	-	(50)
Dividend declared in respect of the current year											
- by means of cash		-	-	-	-	-	-	(47)	(47)	(5)	(52)
- by means of scrip		3	44	-	-	-	-	(47)	-	-	-
Acquisition of additional shareholding in a subsidiary		-	-	-	-	1	-	2	3	(3)	-
Total comprehensive income for the period		-	-	-	(101)	(68)	-	(1,403)	(1,572)	8	(1,564)
Balance at 31 December 2008		725	3,120	13	(141)	(116)	1,048	16,063	20,712	934	21,646
At 1 January 2009		**725**	**3,120**	**13**	**(141)**	**(116)**	**1,048**	**16,063**	**20,712**	**934**	**21,646**
Changes in equity for the six months ended 30 June 2009											
Dividends approved in respect of the previous year											
- by means of cash		**-**	**-**	**-**	**-**	**-**	**-**	**(38)**	**(38)**	**-**	**(38)**
- by means of scrip	14	**8**	**106**	**-**	**-**	**-**	**-**	**(114)**	**-**	**-**	**-**
Transfer (note)		**-**	**-**	**-**	**-**	**-**	**(1,048)**	**1,048**	**-**	**-**	**-**
Total comprehensive income for the period		**-**	**-**	**-**	**28**	**92**	**-**	**462**	**582**	**3**	**585**
Balance at 30 June 2009		**733**	**3,226**	**13**	**(113)**	**(24)**	**-**	**17,421**	**21,256**	**937**	**22,193**

Note: The general reserve of HK$1,048 million, which represents retained profits set aside for general purposes in accordance with the Company's articles of association, was transferred to retained profits during the current period.

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

	Note	For the six months ended 30 June 2009	2008
Operating activities			
EBITDA		**411**	699
Tax paid		**(40)**	(69)
Other adjustments		**(113)**	(15)
Net cash generated from operating activities		**258**	615
Investing activities			
Purchase of fixed assets		**(106)**	(185)
Payment for the acquisition of interest in associates	9	**(453)**	-
Payment for acquisition of hotel management contract	10	**(591)**	-
Net cash used in investing activities		**(1,150)**	(185)
Financing activities			
Interest received		**8**	16
Interest and other financing charges paid		**(56)**	(68)
Placement of interest bearing bank deposits with maturity after more than three months		**(363)**	-
Net decrease in bank borrowings		**(15)**	(42)
Dividends paid		**(38)**	(42)
Net cash used in financing activities		**(464)**	(136)
Net (decrease)/increase in cash and cash equivalents		**(1,356)**	294
Cash and cash equivalents at 1 January		**1,979**	1,398
Effect of changes in foreign exchange rates		**1**	28
Cash and cash equivalents at 30 June (note)		**624**	1,720

Note *Analysis of cash and cash equivalents*

	As at 30 June ***2009***	*2008*
Cash at bank and in hand	***1,004***	*1,731*
Less: Interest bearing bank deposits with maturity after more than three months	***(363)***	*-*
Less: Bank overdrafts (note 13)	***(17)***	*(11)*
Cash and cash equivalents in the statement of cash flows	***624***	*1,720*

Cash at bank and in hand at the end of the period include deposits with banks of ***HK$624 million*** *(30 June 2008: HK$568 million) held by subsidiaries that are not freely remittable to the holding company because of currency 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 26 August 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these 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 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited but has been reviewed by the Company's auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the Interim Report to be sent to shareholders.

The financial information relating to the financial year ended 31 December 2008 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 2008 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 12 March 2009.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

2. CHANGES IN ACCOUNTING POLICIES *continued*

- HKFRS 8, *Operating segments*;
- HKAS 1 (revised 2007), *Presentation of financial statements*;
- Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*;
- Improvements to HKFRSs (2008);
- Amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*; and
- HKAS 23 (revised 2007), *Borrowing costs*

The amendment to HKAS 23 has had no material impact on the Group's financial statements as the amendment was consistent with the policy already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services. The adoption of HKFRS 8 has resulted in amendments to the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in amendments to the reportable segments being identified and presented (see note 3). As this is the first period in which the Group has presented segment information in accordance with HKFRS 8, additional explanations have been included in the interim financial report which explain the basis of preparation of the information. Corresponding amounts have been provided on a basis consistent with the revised segment information.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement termed as the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented. HKAS 1 (revised 2007) also includes changes to the titles of the other primary financial statements in order to better reflect their function. The consolidated balance sheet and the consolidated cash flow statement have been renamed as consolidated statement of financial position and consolidated statement of cash flows respectively.

2. CHANGES IN ACCOUNTING POLICIES *continued*

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

- The "Improvements to HKFRSs (2008)" comprise a number of minor amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendments have resulted in changes to the Group's accounting policies:

  - As a result of amendments to HKAS 28, *Investments in associates*, impairment losses recognised in respect of associates and jointly controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there is a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

  - As a result of amendments to HKAS 40, *Investment property*, investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognised in profit or loss. This change in policy has no impact on net assets or profit or loss for any of the periods presented.

3. SEGMENT REPORTING (HK$m)

The Group manages its businesses by segments which are organised by business lines. On first-time adoption of HKFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

Hotels	This segment includes revenue generated from hotel room accommodation, leasing of commercial shopping arcades and office premises located within the hotel buildings, provision of food and beverage at restaurant outlets located within hotel buildings, operation of golf courses attached to hotels, retail outlets and other minor departments such as spa, telephone, guest transportation and laundry within the hotel premises.

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

Commercial properties	This segment is engaged in the leasing of commercial and office premises (other than those in hotel properties) and residential apartments and operating food and beverage outlets other than those in owned hotels.
Clubs and services	This segment is engaged in operation of golf courses (other than those attached to hotel properties), The Peak Tram, wholesaling of food and beverage products, laundry services and the provision of management and consultancy services for clubs.

(a) Segment results and assets

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses directly incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other expenses not directly attributable to the reportable segments are allocated to the segments by reference to the respective segments' operating profit before interest, taxes depreciation and amortisation (EBITDA). Interest income and expense, results of associates and jointly controlled entities, taxes and any non-operating items are not allocated to the respective 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 assets and current assets with the exception of interests in associates and jointly controlled entities, derivative financial instruments, deferred tax assets and cash and bank balances. The Group does not provide information on segment assets to its senior executive management but such information has been disclosed as required by HKFRS 8.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out on the next page.

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

(a) Segment results and assets *continued*

	Hotels		Commercial properties		Clubs and services		Consolidated	
	For the six months ended 30 June							
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Reportable segment revenue	**1,489** *	1,899	**321**	329	**152**	167	**1,962**	2,395
Reportable segment operating profit before interest, tax, depreciation and amortisation (EBITDA)	**150**	424	**219**	227	**42**	48	**411**	699
Depreciation and amortisation	**(167)**	(174)	**-**	-	**(15)**	(11)	**(182)**	(185)
Segment operating profit	**(17)**	250	**219**	227	**27**	37	**229**	514
As at 30 June 2009/31 December 2008								
Reportable segments assets	**13,991**	13,453	**13,132**	12,762	**699**	737	**27,822**	26,952

** Analysis of hotels' turnover*

	2009	*2008*
Rooms	***611***	*899*
Food and beverage	***460***	*569*
Commercial	***278***	*267*
Others	***140***	*164*
	1,489	*1,899*

(b) Reconciliations of reportable segment profits and assets

Profit

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

	As at 30 June 2009	As at 31 December 2008
Assets		
Reportable segments assets	**27,822**	26,952
Interest in associates	**468**	-
Interest in a jointly controlled entity	**529**	539
Derivative financial instruments	**45**	63
Deferred tax assets	**55**	38
Cash at bank and in hand	**1,004**	1,995
Consolidated total assets	**29,923**	29,587

4. PROFIT BEFORE NON-OPERATING ITEMS AND TAXATION (HK$m)

Profit before non-operating items and taxation is arrived at after charging/(crediting):

(a) Financing charges

	For the six months ended 30 June	
	2009	2008
Interest on bank borrowings wholly repayable within five years	**21**	37
Other borrowing costs	**2**	1
Total interest expense on financial liabilities carried at amortised cost	**23**	38
Derivative financial instruments:		
- cash flow hedges, transfer from equity	**22**	11
- held for trading, at fair value through profit or loss	**-**	3
Others	**-**	3
	45	55

(b) Other items

	For the six months ended 30 June	
	2009	2008
Amortisation of a hotel management contract	**2**	2
Depreciation	**180**	183
Foreign exchange losses	**3**	5
Interest income	**(8)**	(20)

5. TAXATION (HK$m)

	For the six months ended 30 June	
	2009	2008
Current tax		
Hong Kong	**47**	56
Overseas	**-**	26
	47	82
Deferred tax		
Increase/(decrease) in net deferred tax liabilities relating to revaluation of investment properties in		
Hong Kong *	**83**	228
Overseas	**(28)**	(32)
Effect of decrease in tax rate on deferred tax balances as at 1 January	**-**	(175)
Increase in net deferred tax liabilities relating to other temporary differences	**12**	7
Transfer from hedging reserve	**2**	2
	69	30
	116	112

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

In June 2008, the Hong Kong Government enacted a change in the profits tax rate in Hong Kong from 17.5% to 16.5% commencing with the fiscal year 2008/09. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% of the estimated assessable profits for the year and a deferred tax credit of HK$175 million in respect of deferred tax balances as at 1 January 2008 was recorded in the Group's consolidated income statement for the first six months of 2008. Taxation for overseas subsidiaries is calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

6. EARNINGS PER SHARE

(a) Earnings per share - basic

	For the six months ended 30 June	
	2009	2008
Profit attributable to shareholders of the Company (HK$m)	**462**	1,619
Weighted average number of shares in issue (million shares)	**1,451**	1,443
Earnings per share (HK$)	**0.32**	1.12

	2009	*2008*
	(million shares)	*(million shares)*
Issued shares at 1 January	***1,450***	*1,442*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2008/2007 final dividends	***1***	*1*
Weighted average number of shares in issue at 30 June	***1,451***	*1,443*

(b) Earnings per share - diluted

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2009 and 2008 and hence diluted earnings per share is the same as the basic earnings per share.

7. DIVIDENDS (HK$m)

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

	For the six months ended 30 June	
	2009	2008
Interim dividend declared and to be paid after the interim period of **3 HK cents per share** (2008: 6.5 HK cents per share)	**44**	94

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

(b) Dividends payable to shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	For the six months ended 30 June	
	2009	2008
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of **10.5 HK cents per share** (year ended 31 December 2007: 12 HK cents per share)	**152**	173

7. 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 *continued*

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

For the final dividend in respect of 2007, scrip dividend elections were offered to shareholders other than those with registered addresses in Australia and the United States of America. Shareholders holding approximately 75% of the issued share capital of the Company elected to receive their entitlement to the 2007 final dividend in the form of scrip, which resulted in the issue and allotment of approximately 9.5 million new shares on 13 June 2008.

8. FIXED ASSETS (HK$m)

(a) Acquisitions and disposals

During the six months ended 30 June 2009, the Group acquired items of fixed assets with a cost of **HK$102 million** (six months ended 30 June 2008: HK$176 million). Items of fixed assets disposed of during the six months ended 30 June 2009 and 30 June 2008 were insignificant in value.

(b) Valuation of investment properties

All investment properties of the Group were revalued as at 30 June 2009 on an open market value basis mainly calculated by reference to net rental income 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 surveyor firms independent of the Group who have staff with recent experience in the location and category of property being valued. Details of the valuers are as follows:

Description of investment properties	Name of valuer	Qualification of valuer staff conducting the valuation
Hong Kong		
- Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited	Members of The Hong Kong Institute of Surveyors
Other Asia *		
- Retail shops, offices, residential apartments and vacant land	Sallmanns (Far East) Limited	Members of The Royal Institution of Chartered Surveyors
	Savills Valuation and Professional Services Limited	
	Jones Lang LaSalle Hotels	Members of 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 The People's Republic of China, Japan, Thailand, The Philippines and Vietnam.*

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

(b) Valuation of investment properties *continued*

As a result of the revaluation, a net gain of **HK$413 million** (2008: HK$1,267 million) and deferred tax thereon of **HK$55 million** (2008: HK$196 million) have been included in the consolidated income statement.

(c) Valuation of hotel properties and golf courses

To provide additional information for shareholders, the Directors commissioned an independent valuation of the Group's hotel properties and golf courses as at 30 June 2009. The total valuation placed on the hotel properties and golf courses, which have a net book value of **HK$5,497 million** (31 December 2008: HK$5,651 million), was **HK$7,949 million** as at 30 June 2009 (31 December 2008: HK$9,477 million). It is important to note that the surplus of **HK$2,452 million** (31 December 2008: HK$3,826 million) and the related deferred taxation and minority interests have not been incorporated in this interim financial report but are for additional information only. The valuations were carried out by surveyor firms independent of the Group, details of which are as follows:

Description of hotels and golf courses	Name of valuer	Qualification of valuer staff conducting the valuation
Hong Kong and other Asia *		
- Hotels	Jones Lang LaSalle Hotels	Members of Singapore Institute of Surveyors and Valuers
- Golf course	Sallmanns (Far East) Limited	Members of The Royal Institution of Chartered Surveyors
United States of America		
- Hotels and golf course	HVS	Members of the Appraisal Institute, United States of America

** Other Asia includes The People's Republic of China, Japan, Thailand and The Philippines.*

9. INTEREST IN ASSOCIATES (HK$m)

	As at 30 June 2009	As at 31 December 2008
Share of net assets	**-**	-
Goodwill	**15**	-
	15	-
Less: impairment loss	**(15)**	-
	-	-
Loan to an associate *	**468**	-
	468	-

* *The loan to associate is denominated in Euros, is unsecured, and bears interest at rates related to the rates published by the French tax authorities. It is repayable on 25 April 2017 and is carried at its estimated recoverable value.*

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

(a) Details of the associates 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
Al Maha Majestic S.à r.l. ("Al Maha")	Incorporated	Luxembourg	Euro 12,500	20%	Investment holding
Majestic EURL	Incorporated	France	Euro 20,000,000	20%	Hotel investment and investment holding
Le 19 Avenue Kleber	Incorporated	France	Euro 1,000	20%	Hotel operator

* *The Group's effective interest is held indirectly by the Company.*

(b) On 20 January 2009, the Group invested a total of Euro 102 million (HK$1,044 million) into the Peninsula Paris project. Of this amount, Euro 44.3 million (HK$453 million) was attributed to the acquisition of a 20% equity interest and 20% of the related shareholder's loan in Al Maha which owns a property in Paris to be redeveloped into a Peninsula hotel, and Euro 57.7 million (HK$591 million) was attributed to the acquisition of the right to manage this hotel upon completion of redevelopment (see note 10).

Details of the goodwill that arose in respect of the Paris project transaction are as follows:

	As at 20 January 2009
Purchase consideration	453
Fair value of net assets acquired and shareholder's loan	(438)
Goodwill	15

10. INVESTMENT IN HOTEL MANAGEMENT CONTRACTS (HK$m)

	As at 30 June 2009	As at 31 December 2008
Investment in hotel management contracts, at cost	**839**	248
Exchange adjustment	**40**	-
Less: Repayment	**(63)**	(63)
Less: Accumulated amortisation	**(95)**	(93)
	721	92

As disclosed in note 9, during the period, Euro 57.7 million (HK$591 million) of the Group's investment in The Peninsula Paris project was attributed to the acquisition of the long term hotel management contract in respect of this hotel.

11. DERIVATIVE FINANCIAL INSTRUMENTS (HK$m)

	As at 30 June 2009		As at 31 December 2008	
	Assets	**Liabilities**	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	**-**	**(126)**	-	(161)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	**45**	**(84)**	59	(109)
Currency swaps	**-**	**-**	4	(11)
Total	**45**	**(210)**	63	(281)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	**-**	**(49)**	-	(42)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	**23**	**(37)**	21	(40)
Currency swaps	**-**	**-**	4	(11)
	23	**(86)**	25	(93)
Portion to be recovered/(settled) after one year	**22**	**(124)**	38	(188)

12. DEBTORS AND PAYMENTS IN ADVANCE, CREDITORS AND ACCRUALS (HK$m)

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

	As at 30 June 2009	As at 31 December 2008
Trade debtors (ageing analysis is on the next page)	**163**	198
Rental deposits and payments in advance	**210**	180
	373	378

The amount of the Group's debtors and payments in advance expected to be recovered or recognised as expenses after more than one year is **HK$90 million** (31 December 2008: HK$88 million). All the other debtors and payments in advance are expected to be recovered or recognised as expenses within one year.

The Group has no concentrations of credit risk in view of its large number of customers. The Group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. In respect of the Group's rental income from operating leases, rentals are normally received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. As such, the Group normally does not obtain collateral from its customers.

12. DEBTORS AND PAYMENTS IN ADVANCE, CREDITORS AND ACCRUALS (HK$m)
continued

The ageing analysis of trade debtors is as follows:

	As at 30 June 2009	As at 31 December 2008
Current	**126**	159
Less than 1 month past due	**23**	25
1 to 3 months past due	**13**	13
More than 3 months but less than 12 months past due	**1**	1
Amounts past due	**37**	39
	163	198

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

The details of creditors and accruals are as follows:

	As at 30 June 2009	As at 31 December 2008
Trade creditors (ageing analysis is shown below)	**76**	109
Interest payable	**2**	4
Accruals for fixed assets	**16**	20
Tenants' deposits	**294**	296
Golf membership deposits	**108**	109
Other payables	**554**	650
	1,050	1,188

The amount of creditors and accruals of the Group expected to be settled or recognised as income after more than one year is **HK$348 million** (31 December 2008: HK$334 million). All of the other creditors and accruals 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 2009	As at 31 December 2008
Less than 3 months	**74**	109
3 to 6 months	**1**	-
More than 6 months	**1**	-
	76	109

13. INTEREST-BEARING BORROWINGS (HK$m)

	As at 30 June 2009	As at 31 December 2008
Total facilities available:		
Term loans and revolving credits	**5,524**	4,225
Uncommitted facilities, including bank overdrafts	**93**	355
	5,617	4,580
Utilised:		
Term loans and revolving credits	**3,072**	3,177
Uncommitted facilities, including bank overdrafts	**20**	16
	3,092	3,193
Represented by:		
Short term bank loans, repayable within one year or on demand	**939**	679
Bank overdrafts, repayable on demand	**17**	16
	956	695
Long term bank loans, repayable:		
Between one and two years	**106**	640
Between two and five years	**2,030**	1,858
Non-current portion of long term bank loans	**2,136**	2,498
Total interest-bearing borrowings	**3,092**	3,193

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

On 25 June 2009, HSH Financial Services Limited, a wholly-owned subsidiary of the Group, signed a HK$1,225 million four-year term loan facility with a syndicate of seven international banks.

14. SHARE CAPITAL

	As at 30 June 2009	As at 31 December 2008
Number of shares of HK$0.50 each (million shares)		
Authorised	**1,800**	1,800
Issued at 30 June/31 December	**1,467**	1,450
Nominal value of shares (HK$m)		
Authorised	**900**	900
Issued and fully paid at 30 June/31 December	**733**	725

14. SHARE CAPITAL *continued*

During the six months ended 30 June 2009, the Company issued and allotted **approximately 16.7 million new shares at HK$6.888 per share in respect of the 2008 final scrip dividend** (2008: approximately 9.5 million new shares at HK$13.704 per share in respect of the 2007 final scrip dividend). The new shares issued have resulted in an increase in fully paid share capital of approximately **HK$8 million** (2008: HK$5 million) and share premium of **HK$106 million** (2008: HK$126 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.

15. COMMITMENTS (HK$m)

Capital commitments outstanding at 30 June 2009 not provided for in the interim financial report were as follows:

	As at 30 June 2009	As at 31 December 2008
Capital expenditure		
Contracted for	**125**	109
Authorised but not contracted for	**339**	486
	464	595
Investment in the Paris project (note)		
Authorised but not contracted for	**-**	1,572
The Group's share of capital commitment of		
- a jointly controlled entity		
Contracted for	**265**	343
Authorised but not contracted for	**329**	429
	594	772
- an associate (note)		
Authorised but not contracted for	**525**	-
	1,583	2,939

Note

The capital commitment in respect of investment in the Paris project in 2008 consists of cash consideration payable for the acquisition of a 20% interest in Al Maha Majestic S.à r.l. ("Al Maha") and the related hotel management contract of HK$1,024 million (see note 9) and the Group's expected share of redevelopment cost of the Paris property of HK$548 million. After the former was paid during the first six months of 2009, Al Maha became an associate of the Group and the redevelopment cost of the property attributable to the Group is included under the Group's share of capital commitment of an associate.

16. CONTINGENT LIABILITIES

Contingent liabilities are at a level similar to that disclosed in the Group's annual financial statements for the year ended 31 December 2008.

17. MATERIAL RELATED PARTY TRANSACTIONS

Except for the loan to an associate as disclosed under note 9, there were no material related party transactions during the period, other than in the nature of those as disclosed in the Group's annual financial statements for the year ended 31 December 2008.

18. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), Presentation of financial statements, and HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

OTHER CORPORATE INFORMATION

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

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

Detailed disclosure of the Company's corporate governance practices and processes is available in the 2008 Annual Report.

Throughout the period, the Company has complied with all the code provisions and the majority of the recommended best practices as set out in the Code on Corporate Governance Practices (CG Code) in Appendix 14 of the Listing Rules. The Company has adopted its own code on corporate governance which encompasses all code provisions and most of the recommended best practices in the CG Code.

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

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

Dividend
The interim dividend will be payable on or about 6 November 2009, to shareholders whose names appear on the register of members on 30 September 2009.

The register of members will be closed from 28 September 2009 to 30 September 2009, 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 registrars, Computershare Hong Kong Investor Services Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 25 September 2009.

The interim dividend will be payable in cash but shareholders will have the option of receiving the interim dividend in cash or in the form of new shares in respect of part or all of such dividend. The new shares to be issued pursuant to the scrip dividend scheme are subject to their listing being granted by the Listing Committee of the Stock Exchange.

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend on or about 6 October 2009.

Miscellaneous

The Interim Report of the Company containing all the information required by the Stock Exchange Listing Rules will be dispatched to the shareholders as well as published on the websites of the Company and the Stock Exchange in mid September 2009.

By Order of the Board
Christobelle Liao
Company Secretary

Hong Kong, 26 August 2009

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

Non-Executive Chairman
The Hon. Sir Michael Kadoorie

Non-Executive Deputy Chairman
Ian Duncan Boyce

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

Chief Financial Officer
Neil John Galloway

Chief Operating Officer
Peter Camille Borer

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

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