

THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司

Interim Report 2008 中期報告



CONTENTS

1	Company at a Glance
2	Financial and Operating Highlights
3–6	Financial Review
7–11	Operating Review
12–16	Other Corporate Information
17–33	Interim Financial Report
34	Review Report to the Board of Directors of The Hongkong and Shanghai Hotels, Limited
35	Information for Investors
36	Reservation and Contact Addresses

COMPANY AT A GLANCE

Incorporated in 1866 and listed on the Hong Kong Stock Exchange (0045), The Hongkong and Shanghai Hotels, Limited is a holding company whose subsidiaries are engaged in the ownership and management of prestigious hotel, commercial and residential properties in key destinations in Asia and the USA. The hotel portfolio of the Group comprises The Peninsula Hong Kong, The Peninsula New York, The Peninsula Chicago, The Peninsula Beverly Hills, The Peninsula Tokyo, The Peninsula Bangkok, The Peninsula Beijing, The Peninsula Manila, The Peninsula Shanghai (opening in 2009) and Quail Lodge Resort and Golf Club in Carmel, California. The property portfolio of the Group includes The Repulse Bay Complex, The Peak Tower and Peak Tram, St. John's Building, The Landmark in Ho Chi Minh City, Vietnam and the Thai Country Club.

HOTELS	
<ul style="list-style-type: none">• The Peninsula Hong Kong• The Peninsula New York• The Peninsula Chicago• The Peninsula Beverly Hills• The Peninsula Tokyo	<ul style="list-style-type: none">• The Peninsula Bangkok• The Peninsula Beijing• The Peninsula Manila• The Peninsula Shanghai (opening in 2009)• Quail Lodge Resort and Golf Club
RESIDENTIAL	
<ul style="list-style-type: none">• The Repulse Bay, Hong Kong	<ul style="list-style-type: none">• The Landmark, Ho Chi Minh City, Vietnam
COMMERCIAL	
<ul style="list-style-type: none">• The Peak Tower, Hong Kong	<ul style="list-style-type: none">• The Repulse Bay Arcade, Hong Kong
OFFICE	
<ul style="list-style-type: none">• The Peninsula Office Tower, Hong Kong• St. John's Building, Hong Kong• The Landmark, Ho Chi Minh City, Vietnam	
OTHER OPERATIONS	
<ul style="list-style-type: none">• Peak Tram, Hong Kong• Peninsula Clubs & Consultancy Services	<ul style="list-style-type: none">• Peninsula Merchandising Limited• Thai Country Club

FINANCIAL AND OPERATING HIGHLIGHTS

	For the six months ended 30 June		% Increase/ (Decrease)
	2008	2007	
Income statement			
Turnover (HK\$m)	2,395	1,991	20
EBITDA (HK\$m)	699	675	4
Profit before non-operating items (HK\$m)	478	484	(1)
Profit attributable to shareholders (HK\$m)	1,619	1,271	27
Interim dividend (HK\$m)	94	86	9
Earnings per share (HK\$)	1.12	0.89	26
Earnings per share excluding non-operating items (HK\$)*	0.37	0.27	37
Interim dividend per share (HK cents)	6.5	6.0	8
Interim dividend cover (times)	17.2x	14.8x	16
Interest cover (times)	14.7x	11.3x	30
Weighted average gross interest rate	3.5%	4.6%	(24)
	As at 30 June 2008	As at 31 December 2007	
Balance sheet			
Total assets (HK\$m)	31,202	29,500	6
Net assets attributable to shareholders (HK\$m)	22,377	20,726	8
Adjusted net assets attributable to shareholders (HK\$m)*	28,387	27,032	5
Net assets per share (HK\$)	15.42	14.37	7
Adjusted net assets per share (HK\$)*	19.56	18.75	4
Net borrowings (HK\$m)	1,162	1,455	(20)
Gearing	5%	7%	(29)
	For the six months ended 30 June		
	2008	2007	
Cash flow			
Net cash generated from operating activities (HK\$m)	615	570	8
Capital expenditure (HK\$m)	185	323	(43)
Net cash inflow after interest and dividends before financing activities (HK\$m)	336	231	45
Share information			
Highest share price (HK\$)	14.50	14.70	(1)
Lowest share price (HK\$)	10.30	11.36	(9)
Period end closing share price (HK\$)	11.80	13.82	(15)
Operating information			
Number of employees (as at 30 June)	6,532	6,081	7
Number of hotel rooms (as at 30 June)	2,874	2,561	12
Average occupancy rate			
— Asia	63%	71%	(11)
— United States of America	67%	73%	(8)
Average room rate (HK\$)			
— Asia	2,331	1,811	29
— United States of America	4,446	4,292	4
RevPAR (HK\$)			
— Asia	1,471	1,278	15
— United States of America	2,994	3,134	(4)

* 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 2008. These interim results have been reviewed by the Company's Audit Committee, comprising a majority of Independent Non-Executive Directors, one of whom chairs the Committee, and the Company's auditors, KPMG, whose independent review report to the Board of Directors is set out on page 34.

FINANCIAL REVIEW

The Group's financial statements are compiled in accordance with Hong Kong accounting standards. The Directors wish to draw the attention of the users of these financial statements to the following aspects of these accounting policies:

- 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' position 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\$3,025 million as at 30 June 2008, would 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 to perform a fair market valuation of the Group's hotel properties and golf courses as at 30 June 2008, 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 was 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 have been increased by HK\$2,985 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 2008 and 31 December 2007 on the basis set out below:

HK\$m	As at 30 June 2008	As at 31 December 2007
Net assets attributable to shareholders per balance sheet	22,377	20,726
Writing back the deferred taxation provision in respect of revaluation surpluses on Hong Kong investment properties	3,025	2,967
Adjusting the value of hotels and golf courses to fair market value	3,627	4,197
Less: Related deferred tax and minority interests	(642)	(858)
	2,985	3,339
Adjusted net assets attributable to shareholders	28,387	27,032
Net assets per share as per balance sheet (HK\$)	15.42	14.37
Adjusted net assets per share (HK\$)	19.56	18.75

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. 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	
	2008	2007
Profit attributable to shareholders	1,619	1,271
Increase in fair value of investment properties	(1,267)	(1,256)
Loss on disposal of an investment in Indonesia	-	160
Tax and minority interests attributable to non-operating items	178	215
Earnings excluding non-operating items and related tax and minority interests	530	390
Earnings per share excluding non-operating items (HK\$)	0.37	0.27

The total turnover of the Group amounted to HK\$2,395 million for the six months ended 30 June 2008, up 20% over the same period in 2007. This increase was mainly due to the inclusion of revenue from The Peninsula Tokyo, which opened in September 2007.

EBITDA (earnings before interest, tax, depreciation and amortisation) increased by 4% to HK\$699 million. The Group's hotel business was adversely affected by the uncertainties in the United States economy and financial markets, resulting in reduced margins at several of our hotels.

The Group's EBITDA margin, representing EBITDA as a percentage of turnover, decreased to 29% (2007: 34%). It should be noted that this comparison is affected by the impact of The Peninsula Tokyo whose revenues and costs have not yet stabilised during its first year of operation. If the impact of The Peninsula Tokyo had been excluded, our EBITDA margin would have remained the same as last year.

After taking into account depreciation and net financing charges, the profit before non-operating items remained flat at HK\$478 million.

In respect of non-operating items, the increase in fair value of investment properties for the current period amounted to HK\$1,267 million (2007: HK\$1,256 million), which was mainly attributable to the revaluation surplus on investment properties held in Hong Kong.

The profit attributable to shareholders amounted to HK\$1,619 million for the six months compared to HK\$1,271 million for the same period in 2007. This figure was after a total tax charge of HK\$112 million (2007: HK\$280 million), including the impact of deferred taxation.

The earnings per share were HK\$1.12 (2007: HK\$0.89). Excluding non-operating items and the related tax and minority interests, earnings per share increased by 37% to HK\$0.37 (2007: HK\$0.27).

The Directors have resolved to pay an interim dividend of 6.5 HK cents per share (2007: 6 HK cents per share).

The Group has a strong balance sheet. The net assets attributable to shareholders as at 30 June 2008 increased to HK\$22,377 million, or HK\$15.42 per share, compared to HK\$20,726 million, or HK\$14.37 per share, as at 31 December 2007.

According to the Group's accounting policies, hotel properties (other than shopping arcades and offices at hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties are stated at fair value. In order to provide additional information to shareholders on the current market value of our hotels and golf courses as appraised by independent third party valuers, a summary of the Group's hotel, investment and other properties (excluding those under development in Shanghai) showing both the book value and the market value attributable to the Group at 30 June 2008 is set out in the following table:

	Market Valuation (HK\$m)	HSH Interest (%)	Attributable Market Value (HK\$m)	Attributable Book Value (HK\$m)
Hotels				
Consolidated hotels				
The Peninsula Hong Kong	9,382	100%	9,382	7,433
The Peninsula New York	1,676	100%	1,676	913
The Peninsula Chicago	1,232	92.5%	1,140	1,165
The Peninsula Tokyo	1,416	100%	1,416	1,125
The Peninsula Bangkok	859	75%	644	640
The Peninsula Beijing	1,990	42.13%	838	611
The Peninsula Manila	358	76.09%*	273	190
Quail Lodge Resort	150	100%	150	153
	<u>17,063</u>		<u>15,519</u>	<u>12,230</u>
Non-consolidated hotel				
The Peninsula Beverly Hills (at net cost)		20%		91
Total for hotels				<u>12,321</u>
Non-hotel properties held for rental				
The Repulse Bay	7,501	100%	7,501	7,501
Repulse Bay Apartments	4,741	100%	4,741	4,741
Repulse Bay Garage	88	100%	88	88
The Peak Tower	1,006	100%	1,006	1,006
St. John's Building	604	100%	604	604
The Landmark, Vietnam	85	70%	60	60
Total for non-hotel properties held for rental	<u>14,025</u>		<u>14,000</u>	<u>14,000</u>
Other properties				
Golf courses				
Thai Country Club	223	75%	167	167
Quail Lodge Golf Club	34	100%	34	34
Sub-total for golf courses	<u>257</u>		<u>201</u>	<u>201</u>
Vacant land				
Vacant land near Bangkok	337	75%	253	253
Quail Lodge land	65	100%	65	65
Sub-total for vacant land	<u>402</u>		<u>318</u>	<u>318</u>
Other properties in use				
Po Yip Building, Flats 2 & 3, 1/F	35	100%	35	35
1 Lugard Road	2	100%	2	-
Sun Hing Industrial Building, Units 1 & 2, 5/F	4	100%	4	-
Sub-total for other properties in use	<u>41</u>		<u>41</u>	<u>35</u>
Total for other properties	<u>700</u>		<u>560</u>	<u>554</u>
Total	<u>31,788</u>		<u>30,079</u>	<u>26,875</u>

* Subsequent to 30 June 2008, the Group increased its interest in The Peninsula Manila to 77.36%.

During the period, net borrowings decreased by 20% to HK\$1,162 million (31 December 2007: HK\$1,455 million) and the Group's gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders' funds, decreased to 5% (31 December 2007: 7%). Interest cover has improved at 14.7 times (2007: 11.3 times) net financing charges.

In addition to the above Group borrowings, The Peninsula Beverly Hills (20% owned) and The Peninsula Shanghai (50% owned) have obtained non-recourse bank borrowings, which are not consolidated in the Group's balance sheet as the entities owning the assets are not subsidiaries. Including the Group's share of the net debt of these non-consolidated entities, the net borrowings amounted to HK\$1,623 million at 30 June 2008 (31 December 2007: HK\$1,751 million).

As at 30 June 2008, interest rates on 52% (31 December 2007: 55%) of the Group's borrowings were fixed. The weighted average gross interest rate for the period decreased to 3.5% (2007: 4.6%) after taking hedging activities into account.

The Company manages its liquidity risk by constantly monitoring its loan portfolio and by obtaining sufficient borrowing facilities to meet its obligations and commitments. In the light of the Group's healthy cash flow position resulting in its reduced debt level, the total available borrowing facilities decreased to HK\$4,130 million (31 December 2007: HK\$4,297 million), of which 70% (31 December 2007: 67%) was drawn at 30 June 2008. In addition, the Group refinanced HK\$185 million of its banking facilities on more favourable terms. All the Group's borrowing facilities are unsecured with the vast majority being obtained on a committed basis. Undrawn committed facilities, in the form of revolving credits, totalled HK\$790 million (31 December 2007: HK\$1,007 million).

As at 30 June 2008, after accounting for currency hedging, approximately 78%, 9%, 9%, 3% and 1% (31 December 2007: 76%, 10%, 9%, 4% and 1%) of the Group's net assets were denominated in Hong Kong dollars, United States dollars, Chinese Renminbi, Thai Baht and Philippine Pesos respectively. These net assets were translated into Hong Kong dollars at the closing exchange rates.

During the period, net cash generated from operating activities increased to HK\$615 million (2007: HK\$570 million) whilst total capital expenditure amounted to HK\$185 million (2007: HK\$323 million).

OPERATING REVIEW

The Group faced a more challenging business environment in the first half of 2008 as uncertainties in the US economy and financial markets affected demand in both US domestic and international travel. Overall, the performance of our hotels division was somewhat mixed but fortunately this was countered by a robust performance in our non-hotel properties and operations, with our Hong Kong investment properties continuing to enjoy strong demand.

Within our hotels division, The Peninsula New York was the most affected by the uncertainty in the financial markets, as well as from the disruption from its spa renovation. The Peninsula Beijing was affected by travel restrictions in the PRC ahead of the Olympic Games and The Peninsula Manila was partially closed for the renovation of the Ayala Tower. The Peninsulas in Chicago and Beverly Hills maintained their revenue per available room (RevPARs) amidst the softer US economy. The Peninsula Hong Kong maintained a solid base of business whilst The Peninsula Bangkok achieved the best growth from the previous year. The Peninsula Tokyo faced softer market conditions and is also continuing to build its business in its first year of operations.

The stronger exchange rates in mainland China, The Philippines and Thailand positively impacted the reported results in HK dollars compared with 2007.

The year-to-date statistics for our hotels are as follows:

	For the six months ended 30 June				% RevPAR Change
	Occupancy %		Average Room Rate (HK\$)		
	2008	2007	2008	2007	
The Peninsula Hong Kong	73	77	4,058	3,674	4
The Peninsula New York	60	74	5,939	5,699	(15)
The Peninsula Chicago	65	67	3,521	3,396	1
The Peninsula Beverly Hills	82	85	5,392	4,978	4
The Peninsula Tokyo*	62	n/a	3,819	n/a	n/a
The Peninsula Bangkok	76	67	1,750	1,681	18
The Peninsula Beijing	49	62	1,849	1,616	(8)
The Peninsula Manila**	63	79	1,138	987	(8)
Quail Lodge Resort	64	66	1,917	1,903	(2)

* The Peninsula Tokyo soft-opened in September 2007.

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

The hotels, individually and as a group, continued to attract numerous accolades from prestigious, international, professional and consumer surveys. For example, The Peninsula Hong Kong, the Group's flagship property, took the top spots in The Gallivanter's Guide's 17th Annual Reader Poll as the "Best Hotel/Resort in East Asia", as well as Destin Asia — 2008 Reader's Choice Awards as the "Best Hotel in Hong Kong". The Group was also awarded the "2008 Hotel Visionary Award — Outstanding Achievement in In-Room Innovations" given by the Hospitality Technology Magazine.

Turnover from residential, commercial and office properties grew by 16% for the first six months as compared to the same period last year. There has been continuing robust demand for luxury residential accommodation, supported by a faster turnaround of new tenants, driving increased average rentals. The high-end retail sector has also remained strong in Hong Kong and Beijing, benefiting the hotels' shopping arcades and other commercial spaces. Most of our investment properties are fully leased.

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

	For the six months ended 30 June			
	Occupancy %		Average monthly yield per sq ft (HK\$)	
	2008	2007	2008	2007
Residential				
The Repulse Bay (Unfurnished)	97	93	40	35
The Repulse Bay (Serviced)	79	74	32	29
The Landmark, Vietnam	99	99	20	17
Commercial				
The Peninsula Hong Kong	98	97	351	301
The Peninsula New York	100	100	343	343
The Peninsula Tokyo*	100	n/a	150	n/a
The Peninsula Bangkok	100	100	77	72
The Peninsula Beijing	100	97	112	93
The Peninsula Manila	65	74	18	17
The Repulse Bay Arcade**	88	100	64	68
The Peak Tower	100	100	57	53
Office				
The Peninsula Hong Kong	97	100	33	25
St. John's Building	98	98	31	23
The Landmark, Vietnam	100	100	22	20

* The Peninsula Tokyo soft-opened in September 2007.

** The Repulse Bay Arcade's renovation commenced in March 2008.

The other businesses owned and operated by the Group generally achieved turnover growth over 2007, averaging 8%. The number of passengers travelling on The Peak Tram was consistent with the same period in 2007. Peninsula Merchandising recorded a 15% increase in turnover over 2007, while turnover in the Cathay Pacific First and Business Class Lounges increased by 12%.

The following is a summary of the performances of our key operations.

Asia

Hong Kong Turnover for The Peninsula Hong Kong increased by 10% over 2007, with good growth in all areas. The 10% increase in room rate to HK\$4,058 was sufficient to offset the reduced occupancy, resulting in a 4% increase in RevPAR. There has been some decline in long-haul and corporate business although this has been offset by increased business from mainland China and various new markets.

Food and beverage revenues have increased by 6% over last year, mainly due to higher average checks from upselling premium food and wines. Spa revenue is 10% above last year as the business continues to grow and develop. The increases in commercial arcade and office rental revenue have been higher than expected for the first six months of 2008, increasing by 16% and 24% respectively. Some of the high-end luxury brands have expanded their presence in the arcade and several new shops have opened. The Office Tower is fully occupied and recent renewals have reached record levels.

Tokyo The hotel opened in September 2007, and achieved 62% occupancy in the first six months of 2008. The hotel's RevPAR has grown progressively since opening and has exceeded its aggregated competitor set since April 2008.

Bangkok Following peaceful elections in December 2007, hotels in Bangkok have enjoyed a more favourable business environment, although there is vigorous competition among hotels to secure business. There is strong demand from the buoyant regional market, but the long-haul markets from Europe and the US have declined, partly due to the natural disasters in Asia and partly due to the US economic environment.

Beijing The visa restrictions implemented prior to the Olympic Games have impacted foreign travel to Beijing. Beijing's five star hotel room inventory has multiplied in the past few years and the full force of this expansion will be felt both in terms of occupancy and rate pressure for the foreseeable future. The Peninsula Beijing has negotiated long term contracts with key international travel partners which will assist in mitigating the impact of the possible rooms oversupply.

Manila There was a lingering impact from the November 2007 rebel occupation of the hotel on the first quarter and since May, half of the hotel's room inventory has not been available due to the Ayala Tower's renovation. After the renovation, we expect to see significant growth in room rates for the Ayala Tower, as happened following the renovation of the Makati Tower.

United States of America

New York Revenue in The Peninsula New York has been affected by the downturn in the US economy, as well as the renovations of the spa, health club and swimming pool. Occupancy is 19% below last year, the room rate has increased 4% and total turnover is 20% below last year. The re-launch of the rooftop bar as Salon de Ning has attracted strong business since its opening in May 2008.

Chicago Although business conditions have been challenging, the hotel has managed to achieve only a 1% drop in total revenue compared with last year, with the increase in room rate offsetting the reduced occupancy. Costs have been actively managed to enable the hotel to deliver GOP margins in line with last year, despite higher payroll and energy costs.

Beverly Hills Strict rate management has resulted in an 8% increase in room rates, which has been sufficient to counter the reduced occupancy and restaurant and spa revenues, resulting in a 0.5% increase in turnover. Effective cost control has resulted in slightly improved profit margins. The renovated roof garden restaurant and bar opened in April and have been very well received, with significant revenue growth.

Quail The gains in food and beverage and other revenue areas were sufficient to offset the reduced revenue in rooms, spa and golf. Increasing payroll and general expenses have eroded profit margins.

Other Properties in Hong Kong

The Repulse Bay Complex Turnover for The Repulse Bay Complex increased by 11% over 2007, with growth in both occupancy and average rental rates as a result of the continuing strong demand for luxury residential accommodation, particularly from executives of financial institutions.

The Peak Complex Total revenue from The Peak Complex increased by 20% over the same period in 2007, due to The Peak Tower being fully let with a much higher average rental level than was achieved before its renovation, as well as additional revenue from the Sky Terrace. Stronger rental rates in St. John's Building have resulted in higher revenue than in 2007.

Renovation projects

One of the Group's key business strategies is to improve its existing assets either through introducing new concepts or improving facilities, so as to enhance the Group's brand and augment the competitiveness of our hotels and properties.

During the first six months of the year, The Peninsula Beijing unveiled a new spa, swimming pool and fitness centre in May and also welcomed a new fleet of Rolls-Royces and BMWs in time for the Beijing Olympics. The Peninsula New York revitalised its rooftop bar by creating a new concept called Salon de Ning and is well underway in its extensive spa, gym and pool renovation. The Peninsula Beverly Hills renovated its roof terrace and swimming pool deck, which were re-opened in April.

Newly commenced projects include The Peninsula Manila's renovation of all the guestrooms in the Ayala Tower and the Salon de Ning being created at The Peninsula Hong Kong.

We are proceeding with the revitalisation of The Repulse Bay Arcade where the objective is to expand the facilities and enhance the mix of restaurants, shopping and entertainment. As the first phase of this, preliminary work for a new health wing commenced in March and finished in July.

New hotel projects

Substantial progress has been made in the construction of The Peninsula Shanghai, which is on schedule to open in late 2009. The hotel tower's superstructure works were completed by mid January 2008 and a topping-out ceremony took place in April. Since then, the apartment tower has also been topped out and the structural works for the entire complex have been completed. Interior fitting out works have started and good progress is being made. Demand from top international brands has been strong for leasing of space in the retail arcade. Mr. Paul Tchen, formerly General Manager, Operations Planning and Support, was appointed General Manager of The Peninsula Shanghai in July and recruitment of key executive personnel is underway.

In July 2008, the Group entered into a non-legally binding heads of agreement with Qatari Diar Real Estate Investment Company for a proposed hotel development in Paris, France. Under the heads of agreement, HSH has agreed to invest in a 20% minority interest in a building located on Avenue Kleber which housed the former Majestic Hotel and jointly with Qatari Diar to re-develop it into a Peninsula hotel.

Outlook

We expect that business conditions will generally remain challenging for our hotels business in the second half of the year, although the fourth quarter is traditionally a strong season for hotels in New York, Hong Kong and Tokyo. The outlook for the market in Beijing will be rather uncertain following the Olympic Games, taking account of the large increase in the supply of luxury hotel rooms in the city. Demand in Bangkok is currently negatively affected by the anti-government protests taking place there.

On the other hand, demand continues to be strong for our non-hotel properties, particularly within the luxury residential sector in Hong Kong and we continue to look for growth in this sector to counter-balance the mixed environment in the hotels business.

In this challenging environment, we will continue to focus our priorities on employee retention within the increasingly competitive markets; keeping costs under control in the light of rising wages and commodity prices; and continuing to find new revenue streams while enhancing our products and services.

OTHER CORPORATE INFORMATION

Interests of Directors and Chief Executive Officer

As at 30 June 2008, the interests and short positions of each Director and the Chief Executive Officer of the Company in the shares, underlying shares and debentures of the Company or any associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”), recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) to be notified to the Company and the Stock Exchange were as follows:

Long position in shares of the Company and its associated corporations

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
The Hon. Sir Michael Kadoorie	Note (a)	727,643,512	50.136
Mr. Ian D. Boyce	Beneficial Owner	210,972	0.015
Mr. Clement K.M. Kwok	Beneficial Owner	632,923	0.044
Mr. Peter C. Borer	Beneficial Owner	249,916	0.017
Mr. Ronald J. McAulay	Note (b)	502,948,506	34.654
Mr. William E. Mocatta	Note (c)	1,017,000	0.070
Mr. Pierre R. Boppe	Beneficial Owner	150,000	0.010
Mr. John A.H. Leigh	Note (d)	374,821,096	25.826
Dr. The Hon. Sir David K.P. Li	Beneficial Owner	537,559	0.037
Mr. Robert C.S. Ng	Family	123,832	0.009

Notes:

(a) *The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 727,643,512 shares in the Company. These shares were held in the following capacity:*

- (i) *430,664,157 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and/or discretionary objects.*
- (ii) *296,979,355 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.*

For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 727,643,512 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in those shares.

(b) *Mr. Ronald J. McAulay was deemed (by virtue of the SFO) to be interested in 502,948,506 shares in the Company. These shares were held in the following capacity:*

- (i) *430,664,157 shares were ultimately held by discretionary trusts, of which Mr. Ronald J. McAulay is one of the discretionary objects.*
- (ii) *72,284,349 shares were ultimately held by a discretionary trust, of which Mr. Ronald J. McAulay, his wife and members of his family are discretionary objects.*

(c) *Mr. William E. Mocatta is the founder of a discretionary trust which is the ultimate owner of the 1,017,000 shares.*

(d) *Mr. John A.H. Leigh, in his capacity as one of the trustees of a charitable trust which is one of the ultimate owners of unit trusts which indirectly hold 374,821,096 shares, was deemed to be interested in the 374,821,096 shares.*

Messrs. Nicholas T.J. Colfer, Robert W. Miller and Patrick B. Paul, who are Directors of the Company, have each confirmed that they had no interests in the shares of the Company as at 30 June 2008.

Certain Directors held qualifying shares in Manila Peninsula Hotel, Inc., a 76.09% subsidiary of the Company, on trust for a subsidiary of the Company.

Except as set out above, as at 30 June 2008 none of the Directors and Chief Executive Officer of the Company, or any of their spouses, or children under eighteen years of age, has any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations, within the meaning of Part XV of the SFO, recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

At no time during the period was the Company, or its subsidiaries or its associated companies, a party to any arrangements which enabled any Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or of any other body corporate.

Interests of senior management

As at 30 June 2008, the interests of the senior management (other than Directors) in the shares and underlying shares of the Company were as follows:

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Mr. Martyn P.A. Sawyer	Beneficial Owner	26,239	0.0018

Interests of substantial shareholders

So far as is known to any Director or Chief Executive Officer of the Company, as at 30 June 2008, shareholders (other than a Director or the Chief Executive Officer of the Company) who have an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Long position in shares of the Company

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Bermuda Trust Company Limited	Trustee	799,927,861	55.116 (i)
The Mikado Private Trust Company Limited	Trustee	721,327,168	49.701 (ii)
Bermuda Trust (Cayman) Limited	Trustee	447,105,445	30.806 (v)
Acorn Holdings Corporation	Beneficiary	430,664,157	29.673 (i)
Lawrencium Holdings Limited	Beneficiary	426,925,755	29.416 (i)
Harneys Trustees Limited	Interest of controlled corporation	425,585,643	29.324 (v)
Merlin Investments No. 2 Limited	Beneficiary	374,821,096	25.826 (i)
Guardian Limited	Beneficiary	374,821,096	25.826 (i)
Lakshmi Company Limited	Beneficiary	374,821,096	25.826 (v)
Merlin Investments Limited	Beneficiary	374,821,096	25.826 (v)
Mr. Jason Holroyd Whittle	Beneficiary	374,821,096	25.826 (i)
Mrs. Deborah Whittle	Beneficiary	374,821,096	25.826 (i)
Mr. Richard Parsons	Trustee	374,821,096	25.826 (i)
New Boron Holding Corporation	Trustee	374,821,096	25.826 (iii)
New Xenon Holding Corporation	Trustee	374,821,096	25.826 (iii)
Lawrencium Mikado Holdings Limited	Beneficiary	294,401,413	20.285 (ii)
The Magna Foundation	Beneficiary	293,127,687	20.197 (i)
New Mikado Holding Inc.	Trustee	296,979,355	20.462 (iv)
Mikado Investments Limited	Interest of controlled corporation/ Beneficiary of trusts	296,979,355	20.462 (iv)

These interests are duplicated to the extent of 7,006,485,842 shares. The net total of 799,927,861 shares reflects duplication of various Directors' interests as set out in the section "Interests of Directors and Chief Executive Officer" of this Report.

Notes:

- (i) *The 799,927,861 shares in which Bermuda Trust Company Limited was deemed to be interested as a trustee include (1) the shares in which Acorn Holdings Corporation, Lawrencium Holdings Limited, Merlin Investments No. 2 Limited, Guardian Limited, Mr. Jason Holroyd Whittle, Mrs. Deborah Whittle and Mr. Richard Parsons were deemed to be interested; (2) the shares in which Mikado Investments Limited, The Magna Foundation and Lawrencium Mikado Holdings Limited were deemed to be interested; and (3) the shares in which The Mikado Private Trust Company Limited was deemed to be interested.*
- (ii) *The Mikado Private Trust Company Limited controlled Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.*

- (iii) *The shares in which Acorn Holdings Corporation and Lawrencium Holdings Limited were deemed to be interested as beneficiaries include the 374,821,096 shares in which New Boron Holding Corporation and New Xenon Holding Corporation were deemed to be interested as trustee.*
- (iv) *The shares in which Mikado Investments Limited was deemed to be interested as a beneficiary comprises the shares in which New Mikado Holding Inc. as trustee and The Magna Foundation as beneficiary were deemed to be interested.*
- (v) *Harnays Trustees Limited was deemed to be interested in the 374,821,096 shares in which New Boron Holding Corporation and New Xenon Holding Corporation were interested by virtue of having direct control over New Xenon Holding Corporation. Harnays Trustees Limited was also deemed to be interested in other shares through other controlled corporations. Lakshmi Company Limited and Merlin Investments Limited were deemed to be interested in the shares in which New Xenon Holding Corporation was interested. Bermuda Trust (Cayman) Limited controlled Lakshmi Company Limited and Merlin Investments Limited and was therefore deemed to be interested in the shares in which Lakshmi Company Limited and Merlin Investments Limited were interested.*

Except as set out above, as at 30 June 2008 the Company had not been notified of any substantial shareholder (other than a Director or the Chief Executive Officer of the Company) who had an interest or short position in the shares or underlying shares of the Company that were recorded in the register required to be kept under section 336 of the SFO.

Interests of any other persons

As at 30 June 2008, the Company had not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of Part XV of SFO.

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 fulfilling its responsibilities to shareholders and all other stakeholders by ensuring that the proper processes for oversight and management of its businesses are in place, in operation and are regularly reviewed.

Mr. C. Mark Broadley resigned from the Board on 31 March 2008. Mr. Neil J. Galloway was appointed as Executive Director, Finance Director and Chief Financial Officer, as well as a member of the Group Management Committee and the Finance Committee of the Company, as from 1 September 2008.

Save as disclosed above, the composition of the Board Committees remained the same as set out in the Corporate Governance section of the 2007 Annual Report.

Detailed disclosure of the Company's corporate governance practices and processes is available in the 2007 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 since March 2005.

Dealing in the Company's securities by Directors

The Company has adopted its own Code for Dealing in the Company's Securities by Directors (the "Company Code") on terms no less exacting than the required standard set out in the Stock Exchange's Model Code in Appendix 10 since February 2004. The Company has also extended this Code to specified individuals.

The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Company Code during the period, and they have fully complied with the required standard set out in both Codes, save for one Director who has advised the Company that due to an inadvertent oversight, a filing required under the SFO and related notification to the Company was not made within the prescribed time limit. As soon as that Director became aware of this oversight, he brought the matter to the attention of the Company and the Stock Exchange and took steps to rectify the filing with the Stock Exchange and the Company. That Director has informed the Company that he would take steps to prevent such late filing from happening in the future.

Dividend

The interim dividend will be payable on or about 14 November 2008, to shareholders whose names appear on the register of members on 6 October 2008.

The register of members will be closed from 2 October 2008 to 6 October 2008, 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 30 September 2008.

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 14 October 2008.

By Order of the Board

Christobelle Liao

Company Secretary

Hong Kong, 10 September 2008

INTERIM FINANCIAL REPORT

CONSOLIDATED INCOME STATEMENT — UNAUDITED (HK\$m)

		For the six months ended 30 June	
	Note	2008	2007
Turnover	2	2,395	1,991
Cost of inventories		(192)	(150)
Staff costs and related expenses		(779)	(619)
Rent and utilities		(254)	(153)
Pre-opening expenses of a hotel	3(a)	–	(22)
Other operating expenses		(471)	(372)
Operating profit before depreciation and amortisation (EBITDA)	2	699	675
Depreciation and amortisation		(185)	(144)
Operating profit		514	531
Interest income		20	7
Financing charges	3(b)	(55)	(54)
Net financing charges		(35)	(47)
Share of loss of a jointly controlled entity		(1)	–
Profit before non-operating items	3	478	484
Increase in fair value of investment properties		1,267	1,256
Net loss on disposal of an unlisted equity instrument	4	–	(160)
Profit before taxation		1,745	1,580
Taxation			
Current tax	5	(82)	(72)
Deferred tax	5	(30)	(208)
Profit for the period		1,633	1,300
Attributable to:			
Shareholders of the Company		1,619	1,271
Minority interests		14	29
Profit for the period		1,633	1,300
Earnings per share, basic and diluted (HK\$)	6	1.12	0.89
Interim dividend for the period	7(a)	94	86

The notes on pages 21 to 33 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET — UNAUDITED (HK\$*m*)

	Note	As at 30 June 2008	As at 31 December 2007
Non-current assets			
Fixed assets	8		
Properties, plant and equipment		5,842	5,727
Investment properties		22,419	21,168
		28,261	26,895
Interest in a jointly controlled entity		542	509
Investment in a hotel management contract		93	95
Derivative financial instruments	9	3	8
Deferred tax assets		53	49
		28,952	27,556
Current assets			
Inventories		105	98
Debtors and payments in advance	10	408	425
Derivative financial instruments	9	6	7
Cash and cash equivalents		1,731	1,414
		2,250	1,944
Current liabilities			
Creditors and accruals	10	(1,214)	(1,233)
Interest-bearing borrowings	11	(453)	(564)
Derivative financial instruments	9	(98)	(116)
Current taxation		(139)	(127)
		(1,904)	(2,040)
Net current assets/(liabilities)		346	(96)
Total assets less current liabilities		29,298	27,460
Non-current liabilities			
Interest-bearing borrowings	11	(2,440)	(2,305)
Net defined benefit retirement obligation		(26)	(26)
Derivative financial instruments	9	(61)	(99)
Deferred tax liabilities		(3,460)	(3,413)
		(5,987)	(5,843)
Net assets		23,311	21,617
Capital and reserves			
Share capital	12	726	721
Reserves		21,651	20,005
Total equity attributable to shareholders of the Company		22,377	20,726
Minority interests		934	891
Total equity		23,311	21,617

The notes on pages 21 to 33 form part of this interim financial report.

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

		For the six months ended 30 June	
	Note	2008	2007
Total equity at 1 January			
Attributable to shareholders of the Company		20,726	16,982
Minority interests		891	783
		21,617	17,765
Net income for the period recognised directly in equity			
Exchange differences on translation of financial statements of foreign entities		91	174
Cash flow hedges:			
Effective portion of changes in fair value, net of tax		21	11
		112	185
Transfer from equity:			
Cash flow hedges: transfer from equity to profit or loss, net of tax to fixed assets, net of tax		(8)	18
		-	3
Exchange loss transferred to profit or loss on disposal of an unlisted equity instrument	4	-	252
		(8)	273
Net profit for the period		1,633	1,300
Total recognised income for the period		1,737	1,758
Dividends distributed to shareholders of the Company:	7		
By means of cash		(43)	(41)
By means of scrip		(130)	(116)
		(173)	(157)
Issue of new shares	12	130	116
Total equity at 30 June		23,311	19,482
Total recognised income for the period attributable to:			
Shareholders of the Company		1,694	1,676
Minority interests		43	82
		1,737	1,758

The notes on pages 21 to 33 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT — UNAUDITED (HK\$m)

	For the six months ended 30 June	
	2008	2007
Operating activities		
EBITDA	699	675
Tax paid	(69)	(59)
Other adjustments	(15)	(46)
Net cash generated from operating activities	615	570
Investing activities		
Sales proceeds from disposal of an unlisted equity instrument	–	101
Purchase of fixed assets	(185)	(323)
Repayment of capital contribution from an unlisted equity instrument	–	4
Net cash used in investing activities	(185)	(218)
Financing activities		
Interest received	17	7
Interest and other financing charges paid	(68)	(87)
Net (decrease)/increase in bank borrowings	(42)	131
Dividends paid	(43)	(41)
Net cash (used in)/generated from financing activities	(136)	10
Net increase in cash and cash equivalents	294	362
Cash and cash equivalents at 1 January	1,398	433
Effect of changes in foreign exchange rates	28	12
Cash and cash equivalents at 30 June (note)	1,720	807

Note Analysis of cash and cash equivalents

	As at 30 June	
	2008	2007
Cash at bank and on hand	1,731	825
Bank overdrafts	(11)	(18)
	1,720	807

Cash and cash equivalents at the end of the period include deposits with banks of **HK\$568 million** (2007: HK\$326 million) held by subsidiaries that are not freely remittable to the holding company because of currency exchange restrictions.

The notes on pages 21 to 33 form part of this interim financial report.

NOTES TO THE INTERIM FINANCIAL REPORT

1. Significant accounting policies

Basis of Preparation

This unaudited interim financial report, which does not constitute statutory financial statements, 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 10 September 2008.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The accounting policies used in preparation of the interim financial report are consistent with those adopted in the annual financial statements for the year ended 31 December 2007.

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the six months ended 30 June 2008 and which have not been early adopted in this report.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group’s operating results and financial position.

Hong Kong Financial Reporting Standard 8, “Operating Segments”, and revised HKAS 1, “Presentation of Financial Statements” which are effective for annual periods beginning on or after 1 January 2009, will result in new or amended disclosures in the Group’s financial statements for the periods beginning on or after 1 January 2009.

2. Segment information (HK\$m)

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions. The revenue and operating performance of the Group's hotel business segment are subject to a higher degree of seasonal volatility by nature whilst those for the Group's property leasing segment are subject to a relatively lower degree of seasonality.

(a) Business segments

The Group comprises the following main business segments:

Hotels	Hotel room accommodation, leasing of commercial shopping arcades and office premises, provision of food and beverage at restaurant outlets, operation of retail outlets and other minor departments such as spa, telephone, guest transportation and laundry within the hotel premises.
Rentals from non-hotel properties	Leasing of commercial and office premises (other than those in hotel properties) and residential apartments.
Other businesses	Various other businesses including operation of golf courses, The Peak Tram, food and beverage outlets other than those in owned hotels, wholesaling of food and beverage products, laundry, provision of management and consultancy services for clubs and sale of land lots.

2. Segment information (HK\$ million) continued

(a) Business segments continued

	Hotels		Rentals from non-hotel properties		Other businesses		Inter-segment elimination		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
For the six months ended 30 June										
Segment turnover and results										
Turnover										
External segment	1,884 *	1,535	296	256	215	200	-	-	2,395	1,991
Inter-segment	4	3	5	2	7	7	(16)	(12)	-	-
	1,888	1,538	301	258	222	207	(16)	(12)	2,395	1,991
Segment operating profit before depreciation and amortisation	427	431	229	192	43	52	-	-	699	675
Depreciation and amortisation	(172)	(132)	-	-	(13)	(12)	-	-	(185)	(144)
Segment operating profit	255	299	229	192	30	40	-	-	514	531
Interest income									20	7
Financing charges									(55)	(54)
Net financing charges									(35)	(47)
Share of loss of a jointly controlled entity	(1)	-	-	-	-	-	-	-	(1)	-
Profit before non-operating items									478	484
Increase/(decrease) in fair value of investment properties	256	352	1,027	904	(16)	-	-	-	1,267	1,256
Net loss on disposal of an unlisted equity instrument	-	-	-	-	-	(160)	-	-	-	(160)
Profit before taxation									1,745	1,580
Taxation									(112)	(280)
Profit for the period									1,633	1,300
Capital expenditure incurred during the period	151	238	11	14	14	31	-	-	176	283

* Analysis of hotels' turnover

	2008	2007
Rooms	899	765
Food and beverage	569	424
Commercial	267	219
Others	149	127
	1,884	1,535

2. Segment information (HK\$ million) continued

(a) Business segments continued

	Hotels		Rentals from non-hotel properties		Other businesses		Inter-segment elimination		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
As at 30 June/31 December										
Segment balance sheet										
Assets										
Properties, plant and equipment	5,438	5,332	–	–	404	395	–	–	5,842	5,727
Investment properties	7,993	7,759	14,026	12,992	400	417	–	–	22,419	21,168
Interest in a jointly controlled entity	542	509	–	–	–	–	–	–	542	509
Investment in a hotel management contract	93	95	–	–	–	–	–	–	93	95
Other segment assets	427	438	100	81	10,098	10,230	(10,112)	(10,226)	513	523
Derivative financial instruments									9	15
Deferred tax assets									53	49
Cash and cash equivalents									1,731	1,414
Total assets									31,202	29,500
Liabilities										
Segment liabilities	7,384	7,481	3,698	3,734	270	270	(10,112)	(10,226)	1,240	1,259
Bank loans and other liabilities									6,651	6,624
Total liabilities									7,891	7,883

(b) Geographical segments

The Group's hotel operations and property rental businesses are principally located in Hong Kong, The People's Republic of China, Japan, Thailand, The Philippines, Vietnam and the United States of America. The golf course operations are located in Thailand and the United States of America. Other miscellaneous businesses are mostly conducted in Hong Kong.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location in which the business operation is conducted. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		Other Asia		United States of America	
	2008	2007	2008	2007	2008	2007
For the six months ended 30 June						
Turnover	999	899	873	513	523	579
Capital expenditure incurred	20	39	94	221	62	23
Depreciation and amortisation	38	34	99	54	48	56
As at 30 June 2008/31 December 2007						
Segment assets	21,653	20,302	5,123	5,108	2,633	2,612

3. Profit before non-operating items (HK\$m)

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

(a) Pre-opening expenses of a hotel

The Group incurred the following pre-operating expenses for The Peninsula Tokyo (“PTK”), which is owned by Peninsula of Tokyo Limited, a wholly owned subsidiary of the Group. PTK was opened in September 2007.

	For the six months ended 30 June	
	2008	2007
Staff costs and related expenses	–	14
Rent and utilities	–	1
Other operating expenses	–	7
	–	22

(b) Financing charges

	For the six months ended 30 June	
	2008	2007
Interest on bank borrowings wholly repayable within five years	37	53
Other borrowing costs	1	2
Total interest expense on financial liabilities not at fair value through profit or loss	38	55
Derivative financial instruments:		
– cash flow hedges, transfer from equity	11	5
– held for trading, at fair value through profit or loss	3	2
Others*	3	(1)
	55	61
Less: Amount capitalised into assets under development**	–	(7)
	55	54

* Mainly represents the combined effect of exchange differences on foreign currency intra-group loans financed by bank borrowings and changes in fair value of the related currency swaps entered into for the purposes of offsetting these exchange differences.

** The average rate used for capitalisation for the six months ended 30 June 2007 was 1.7%.

(c) Other items

	For the six months ended 30 June	
	2008	2007
Amortisation of a hotel management contract	2	3
Depreciation	183	141
Foreign exchange loss	5	4
Interest income	(20)	(7)

4. Net loss on disposal of an unlisted equity instrument

The net loss on disposal of an unlisted equity instrument during the six months ended 30 June 2007 relates to disposal of the Group's entire 20% interest in PT Ciputra Adigraha, an unlisted equity instrument in Indonesia.

5. Taxation (HK\$m)

	For the six months ended 30 June	
	2008	2007
Current tax		
Hong Kong	56	28
Overseas	26	44
	82	72
Deferred tax		
Increase/(decrease) in net deferred tax liabilities relating to revaluation of investment properties in		
Hong Kong*	228	216
Overseas	(32)	–
Effect of decrease in tax rate on deferred tax balances		
Hong Kong	(175)	–
Overseas	–	(56)
Increase in deferred tax liabilities relating to other temporary differences	9	48
	30	208
	112	280

In February 2008, the Hong Kong Government announced a reduction in the profits tax rate applicable to the Group's operations in Hong Kong from 17.5% to 16.5%, which takes effect from the year of assessment 2008/09. Accordingly, the provision for Hong Kong profits tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the period and a deferred tax credit of HK\$175 million in respect of deferred tax balances as at 1 January 2008 has been recorded in the Group's consolidated income statement for the current period.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

* It should be noted that the Directors have no intention of selling the Group's investment properties in Hong Kong, and 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.

6. Earnings per share

(a) Earnings per share — basic

	For the six months ended 30 June	
	2008	2007
Profit attributable to shareholders of the Company (HK\$m)	1,619	1,271
Weighted average number of shares in issue (million shares)	1,443	1,429
Earnings per share (HK\$)	1.12	0.89
	2008	2007
	(million shares)	(million shares)
<i>Issued shares at 1 January</i>	1,442	1,428
<i>Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2007/2006 final dividends</i>	1	1
<i>Weighted average number of shares in issue at 30 June</i>	1,443	1,429

(b) Earnings per share — diluted

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2008 and 2007 and hence the diluted earnings per share is the same as the basic earnings per share.

7. Dividends (HK\$m)

(a) Interim dividend for the period

	For the six months ended 30 June	
	2008	2007
Interim dividend declared and to be paid after the interim period of 6.5 HK cents per share (2007: 6 HK cents per share)	94	86

The interim dividend has not been recognised as a liability at the balance sheet date.

7. Dividends (HK\$m) *continued*

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

	For the six months ended 30 June	
	2008	2007
Final dividend in respect of the financial year ended 31 December 2007, approved and paid during the following interim period, of 12 HK cents per share (year ended 31 December 2006: 11 HK cents per share)	173	157

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.

For the final dividend in respect of 2006, scrip dividend elections were offered to shareholders other than those with registered addresses in Australia and the United States of America. Shareholders holding approximately 74% of the issued share capital of the Company elected to receive their entitlement to the 2006 final dividend in the form of scrip, which resulted in the issue and allotment of approximately 9.2 million new shares on 15 June 2007.

8. Fixed assets (HK\$m)

(a) Acquisitions and disposals

During the six months ended 30 June 2008, the Group acquired items of fixed assets with a cost of **HK\$176 million** (2007: HK\$283 million). Items of fixed assets disposed of during the six months ended 30 June 2008 and 30 June 2007 were insignificant in value.

Assets amounting to **HK\$78 million** (2007: HK\$nil) were transferred during the period from investment properties to properties, plant and equipment following change in nature of usage of the assets.

(b) Valuation of investment properties

All investment properties of the Group were revalued as at 30 June 2008 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, details of which 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 The Institute of Surveyors and Valuers, Singapore
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\$1,267 million** (2007: HK\$1,256 million) and deferred tax thereon of **HK\$196 million** (2007: HK\$216 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 have commissioned an independent valuation of the Group's hotel properties and golf courses as at 30 June 2008. The total valuation placed on the hotel properties and golf courses, which have a net book value of **HK\$5,700 million** (31 December 2007: HK\$5,596 million), was **HK\$9,327 million** as at 30 June 2008 (31 December 2007: HK\$9,793 million). It is important to note that the surplus of **HK\$3,627 million** (31 December 2007: HK\$4,197 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 The Institute of Surveyors and Valuers, Singapore
– 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. Derivative financial instruments (HK\$m)

	As at 30 June 2008		As at 31 December 2007	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges				
Interest rate swaps	2	(48)	1	(61)
Currency swap	–	–	–	(23)
	2	(48)	1	(84)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	7	(73)	9	(89)
Currency swaps	–	(38)	5	(42)
Total	9	(159)	15	(215)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	–	(25)	–	(15)
Currency swap	–	–	–	(23)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	6	(35)	2	(36)
Currency swaps	–	(38)	5	(42)
	6	(98)	7	(116)
Portion to be recovered/(settled) after one year	3	(61)	8	(99)

10. 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 2008	As at 31 December 2007
Trade debtors (ageing analysis is shown on the next page)	198	227
Rental deposits and payments in advance	210	198
	408	425

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\$74 million** (2007: HK\$67 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.

10. Debtors and payments in advance, creditors and accruals (HK\$m) *continued*

The ageing analysis of trade debtors is as follows:

	As at 30 June 2008	As at 31 December 2007
Current	84	170
Less than 1 month past due	86	33
1 month to 3 months past due	24	21
More than 3 months but less than 12 months past due	4	3
Amounts past due	114	57
	198	227

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 2008	As at 31 December 2007
Trade creditors (ageing analysis is shown below)	93	142
Interest payable	4	6
Accruals of fixed asset purchases	32	42
Tenants' deposits	348	339
Golf membership deposits	53	53
Other payables	684	651
	1,214	1,233

The amount of creditors and accruals of the Group which are expected to be settled or recognised as income after more than one year is **HK\$391 million** (2007: HK\$349 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 2008	As at 31 December 2007
Less than 3 months	92	141
More than 6 months	1	1
	93	142

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

	As at 30 June 2008	As at 31 December 2007
Total facilities available:		
Term loans and revolving credits	3,672	3,840
Uncommitted facilities, including bank overdrafts	458	457
	4,130	4,297
Utilised:		
Term loans and revolving credits	2,882	2,833
Uncommitted facilities, including bank overdrafts	11	36
	2,893	2,869
<i>Represented by:</i>		
Short-term bank loans, repayable within one year or on demand	442	548
Bank overdrafts, repayable on demand	11	16
	453	564
Long-term bank loans, repayable:		
Between 1 and 2 years	964	580
Between 2 and 5 years	1,476	1,725
	2,440	2,305
Non-current portion of long-term bank loans	2,440	2,305
Total interest-bearing borrowings	2,893	2,869

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

12. Share capital

	As at 30 June 2008	As at 31 December 2007
Number of shares of HK\$0.50 each (million)		
Authorised	1,800	1,800
Issued at 30 June/31 December	1,451	1,442
Nominal value of shares (HK\$m)		
Authorised	900	900
Issued and fully paid at 30 June/31 December	726	721

12. Share capital *continued*

During the six months ended 30 June 2008, the Company issued and allotted **approximately 9.5 million new shares at HK\$13.704 per share in respect of the 2007 final scrip dividend** (2007: approximately 9.2 million new shares at HK\$12.584 per share in respect of the 2006 final scrip dividend). The new shares issued have resulted in an increase in fully paid share capital of approximately **HK\$5 million** (2007: HK\$5 million) and share premium of **HK\$125 million** (2007: HK\$111 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.

13. Commitments (HK\$m)

Capital commitments outstanding at 30 June 2008 not provided for in the financial statements were as follows:

	As at 30 June 2008	As at 31 December 2007
Contracted for	188	81
Authorised but not contracted for	1,759	1,954
	1,947	2,035

Capital commitments include amounts in respect of the Group's capital expenditure at existing properties and its commitment to the new hotel project in Shanghai, amounting to **HK\$1,339 million** (2007: HK\$1,255 million).

14. 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 2007.

15. Material related party transactions

There was no material related party transaction 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 2007.

16. Non-adjusting post balance sheet events

- (a) On 4 July 2008, the Group acquired an additional 1.27% equity interest in Manila Peninsula Hotel, Inc. ("MPHI") at a consideration of Philippine Pesos 15 million (HK\$3 million), increasing the Group's ownership interest in MPHI from 76.09% to 77.36%. The acquisition has not given rise to any material goodwill on consolidation.
- (b) On 15 July 2008, the Company entered into a non-legally binding heads of agreement with an unrelated third party for the purchase of a 20% minority interest in a property from this third party and to subsequently jointly re-develop the property into a hotel in Paris, France. The financial commitment of the Group in respect of the purchase of the minority interest in the asset, together with its share of the re-development costs, is expected to be in the region of Euros 140 million (HK\$1,725 million).

REVIEW REPORT TO THE BOARD OF DIRECTORS OF THE HONGKONG AND SHANGHAI HOTELS, LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 17 to 33 which comprises the consolidated balance sheet of The Hongkong and Shanghai Hotels, Limited as of 30 June 2008, the related consolidated income statement, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review 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. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2008 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting”.

KPMG

Certified Public Accountants

8th Floor, Prince’s Building

10 Chater Road

Central, Hong Kong

10 September 2008

INFORMATION FOR INVESTORS

Board of Directors

The Hon. Sir Michael Kadoorie^E
Chairman

Ian Duncan Boyce^{EAFR}
Deputy Chairman

Executive Directors

Clement King Man Kwok^{EF}
Managing Director & Chief Executive Officer

Neil John Galloway^F
Chief Financial Officer

Peter Camille Borer
Chief Operating Officer

Non-Executive Directors

Ronald James McAulay
William Elkin Mocatta
Pierre Roger Henri Robert Boppe
John Andrew Harry Leigh^{EF}
Nicholas Timothy James Colfer

Independent Non-Executive Directors

Dr. The Hon. Sir David Kwok Po Li
Robert Chee Siong Ng^A
Robert Warren Miller^R
Patrick Blackwell Paul^{AR}

Company Secretary

Christobelle Yi Ching Liao

^E Executive Committee Member

^A Audit Committee Member

^F Finance Committee Member

^R Remuneration Committee Member

Auditors

KPMG
Certified Public Accountants, Hong Kong

Shareholders' Calendar

Last day to register for interim dividend:
30 September 2008 4:30pm

Closure of Register of Members:
2 October 2008 to 6 October 2008
(both days inclusive)

Deadline for scrip dividend election forms:
5 November 2008 4:30pm

Interim Dividend: 6.5 HK cents per share
Payable: 14 November 2008

Company Websites

HSH Corporate: www.hshgroup.com
The Peninsula Hotels: www.peninsula.com

Investor Enquiries

Webpage: www.hshgroup.com/ir
Email: ir@hshgroup.com

Registered Office

8th Floor, St. George's Building,
2 Ice House Street, Central, Hong Kong
Tel: (852) 2840 7788
Fax: (852) 2810 4306

Registrars

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong
Customer Services Hotline: (852) 2862 8555
Fax: (852) 2865 0990 / 2529 6087
Email: hkinfo@computershare.com.hk

Listing Information

Stock Code: 45

RESERVATION AND CONTACT ADDRESSES

HOTELS AND RESORT

The Peninsula Hong Kong

Salisbury Road, Kowloon
Hong Kong
Tel: (852) 2920 2888
Fax: (852) 2722 4170
Email: phk@peninsula.com

The Peninsula New York

700 Fifth Avenue at 55th Street
New York, NY 10019, USA
Tel: (1-212) 956 2888
Fax: (1-212) 903 3949
Toll Free: (1-800) 262 9467
(USA only)
Email: pny@peninsula.com

The Peninsula Chicago

108 East Superior Street
(at North Michigan Avenue)
Chicago, Illinois 60611, USA
Tel: (1-312) 337 2888
Fax: (1-312) 751 2888
Toll Free: (1-866) 288 8889
(USA only)
Email: pch@peninsula.com

The Peninsula Beverly Hills

9882 South Santa Monica
Boulevard, Beverly Hills
California 90212, USA
Tel: (1-310) 551 2888
Fax: (1-310) 788 2319
Toll Free: (1-800) 462 7899
(USA and Canada only)
Email: pbh@peninsula.com

The Peninsula Tokyo

1-8-1 Yurakucho, Chiyoda-ku
Tokyo, 100-0006, Japan
Tel: (81-3) 6270 2888
Fax: (81-3) 6270 2000
Email: ptk@peninsula.com

The Peninsula Bangkok

333 Charoennakorn Road
Klongsan, Bangkok 10600
Thailand
Tel: (66-2) 861 2888
Fax: (66-2) 861 1112
Email: pbk@peninsula.com

The Peninsula Beijing

8 Goldfish Lane, Wangfujing
Beijing 100006
People's Republic of China
Tel: (86-10) 8516 2888
Fax: (86-10) 6510 6311
Email: pbj@peninsula.com

The Peninsula Manila

Corner of Ayala and Makati Avenues
1226 Makati City, Metro Manila
Republic of The Philippines
Tel: (63-2) 887 2888
Fax: (63-2) 815 4825
Email: pmn@peninsula.com

The Peninsula Shanghai

32 Zhong Shan Dong Yi Road
Shanghai 200002
People's Republic of China
Pre-Opening Office:
22B, Jinling Haixin Building
666 Fu Zhou Road, Shanghai 200001
People's Republic of China
Tel: (86-21) 2327 2888
Fax: (86-21) 2327 2800
Email: psh@peninsula.com

Quail Lodge Resort and Golf Club

8205 Valley Greens Drive, Carmel
California 93923, USA
Tel: (1-831) 624 2888
Fax: (1-831) 624 3726
Email: qlreservations@quailodge.com

Global Customer Service Centre

5th Floor, The Peninsula Office Tower
18 Middle Road, Kowloon
Hong Kong
Tel: (852) 2926 2888
Fax: (852) 2732 2933
Email: reservationgsc@peninsula.com

Toll free from:

Argentina 0800 888 7227
Australia 1 800 116 888
Brazil 0800 891 9601
Canada 011 800 2828 3888
China North 10 800 852 3888
China South 10 800 152 3888
France 00 800 2828 3888
Germany 00 800 2828 3888
Japan 0120 563 888
Mexico 01 800 123 4646
Russia 810 800 2536 1012
Singapore 001 800 2828 3888
Switzerland 00 800 2828 3888
Taiwan 00 800 2828 3888
Thailand 001 800 2828 3888
UK 00 800 2828 3888
USA 1 866 382 8388

PROPERTIES AND CLUBS

The Repulse Bay

109 Repulse Bay Road
Hong Kong
Tel: (852) 2292 2888
Fax: (852) 2812 2176
Email: marketingtrb@peninsula.com

The Peak Tower and The Peak Tram

No. 1 Lugard Road
The Peak, Hong Kong
Tel: (852) 2849 7654
Fax: (852) 2849 6237
Email: info@thepeak.com.hk

Thai Country Club

88 Moo 1
Bangna-Trad Km. 35.5
Thambon Pimpa
Bangpakong District
Chacheongsao 24180, Thailand
Tel: (66-2) 651 5300
Fax: (66-2) 651 5307
Email: inquiry@thaicountryclub.com

The Landmark

5B Ton Duc Thang, District 1
Ho Chi Minh City, Vietnam
Tel: (84-8) 3822 2098
Fax: (84-8) 3822 5161
Email: info@landmark-saigon.com



THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司