



THE HONGKONG AND SHANGHAI HOTELS, LIMITED

香港上海大酒店有限公司

(Stock Code: 45)

website: [www.hshgroup.com/ir](http://www.hshgroup.com/ir)

## 2005 INTERIM RESULTS – ANNOUNCEMENT

### INTERIM RESULTS

The directors hereby announce the unaudited interim results of the company for the six months ended 30 June 2005. 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.

Shareholders should note that these results are the first to be published by the company following the adoption of a number of new/revised Hong Kong accounting standards with effect from 1 January 2005, as detailed later. In particular, it should be noted that the company's owned and operated hotels are now stated at cost less depreciation and impairment losses, rather than previously at open market value, which has resulted in the shareholders' funds as at 31 December 2004 being restated to HK\$14.4 billion (HK\$10.2 per share) from the previously published figure of HK\$17.4 billion (HK\$12.4 per share). It should be noted that the 2004 comparative figures of the company have been restated in accordance with these new/revised provisions.

The profit attributable to shareholders amounted to HK\$1,268 million for the six months ended 30 June 2005, an increase of 898% as compared to the same period in 2004. Earnings per share increased to **90 cents** (2004 *restated*: 9 cents). Excluding non-operating items, earnings per share were **14 cents** (2004 *restated*: 9 cents).

EBITDA (earnings before interest, tax, depreciation and amortisation) increased by 18% to HK\$492 million. To provide a more meaningful year-on-year comparison, were the company to exclude the contribution of The Kowloon Hotel (which has been sold) from the 2004 results, EBITDA would have increased by 26%.

The operating results reflect the continuing underlying strength of the company's performance amid a sustained recovery in global economies and consumer confidence.

As a reflection of the strong performance and generally positive outlook, the directors have resolved to pay an interim dividend of **4 cents** per share (2004: 3 cents).

Shareholders' funds as at 30 June 2005 amounted to **HK\$15.5 billion**, or **HK\$10.9 per share**, compared to a restated figure of HK\$14.4 billion as at 31 December 2004 (as explained above). Net borrowings decreased by 37% to HK\$2.7 billion following receipt of the proceeds of HK\$1.9 billion from the sale of The Kowloon Hotel, which was completed in February 2005. As a result, the company's gearing ratio has been reduced to 15%.

**Consolidated income statement – unaudited (HK\$m)**

	<i>Note</i>	<b>For the six months ended 30 June</b>		Change
		<b>2005</b>	<b>2004 (restated)</b>	
<b>Turnover</b>		<b>1,529</b>	1,427	7%
Other revenue		<u>4</u>	<u>2</u>	100%
		<b>1,533</b>	1,429	7%
Cost of inventories		<b>(102)</b>	(96)	(6%)
Staff costs and related expenses		<b>(492)</b>	(479)	(3%)
Rent and utilities		<b>(129)</b>	(118)	(9%)
Other operating expenses		<u><b>(318)</b></u>	<u>(319)</u>	–
<b>Operating profit before depreciation and amortisation (“EBITDA”)</b>		<b>492</b>	417	18%
Depreciation and amortisation		<u><b>(126)</b></u>	<u>(129)</u>	2%
Operating profit		<b>366</b>	288	27%
Financing charges		<b>(81)</b>	(125)	35%
Share of profits of associated companies		<u>–</u>	<u>1</u>	–
<b>Profit before non-operating items</b>		<b>285</b>	164	74%
Non-operating items	6	<u><b>1,075</b></u>	<u>–</u>	–
<b>Profit before taxation</b>		<b>1,360</b>	164	729%
Taxation	7	<u><b>(59)</b></u>	<u>(32)</u>	(84%)
<b>Profit for the period</b>		<u><b>1,301</b></u>	<u>132</u>	886%
<b>Attributable to:</b>				
Shareholders of the parent company		<b>1,268</b>	127	898%
Minority interests		<u><b>33</b></u>	<u>5</u>	560%
<b>Profit for the period</b>		<u><b>1,301</b></u>	<u>132</u>	886%
<b>Interim dividend for the period</b>	8	<u><b>57</b></u>	<u>42</u>	36%
<b>Earnings per share* (HK cents)</b>	9	<u><b>90</b></u>	<u>9</u>	900%

\* Earnings per share is calculated based on profit attributable to shareholders of the parent company of **HK\$1,268 million** (2004 restated: HK\$127 million) and the weighted average number of **1,406 million shares** (2004: 1,402 million shares) in issue during the period.

**Consolidated statement of changes in equity – unaudited (HK\$m)**

	For the six months ended 30 June	
	2005	2004 <i>(restated)</i>
<b>Total equity at 1 January</b>		
Attributable to shareholders of the parent company (as previously reported at 31 December)	17,384	13,441
Minority interests (as previously presented separately from liabilities and equity at 31 December)	<u>602</u>	<u>579</u>
	17,986	14,020
Prior period adjustments arising from changes in accounting policies ( <i>see note 3</i> )	<u>(3,022)</u>	<u>(2,151)</u>
As restated, before opening balance adjustments	14,964	11,869
Opening balance adjustments arising from the initial adoption of HKAS 32 and 39	<u>(304)</u>	<u>–</u>
At 1 January, after prior period and opening balance adjustments	<u>14,660</u>	<u>11,869</u>
<b>Net gains/(losses) for the period recognised directly in equity:</b>		
Exchange difference on translation of financial statements of foreign entities	(26)	(4)
Changes in fair value of derivatives	<u>198</u>	<u>–</u>
<b>Net gains/(losses) for the period recognised directly in equity (2004: as restated)</b>	<u>172</u>	<u>(4)</u>
<b>Net profit for the period:</b>		
Attributable to shareholders of the parent company (as previously reported)		198
Minority interests (as previously presented separately in the income statement)		<u>8</u>
		206
Prior period adjustments arising from changes in accounting policies		(74)
<b>Net profit for the period (2004: as restated)</b>	<u>1,301</u>	<u>132</u>
<b>Total recognised gains for the period (2004: as restated)</b>	<u>1,473</u>	<u>128</u>
<b>Attributable to:</b>		
Shareholders of the parent company	1,446	127
Minority interests	<u>27</u>	<u>1</u>
	<u>1,473</u>	<u>128</u>
<b>Dividends:</b>		
Paid in cash	(70)	(112)
Distributed by means of scrip	<u>(56)</u>	<u>–</u>
	(126)	(112)
Issuance of new shares	89	–
Minority interests arising from business combination	<u>40</u>	<u>–</u>
<b>Total equity at 30 June</b>	<u>16,136</u>	<u>11,885</u>

**Consolidated balance sheet – unaudited (HK\$m)**

	<i>Note</i>	As at 30 June 2005	As at 31 December 2004 <i>(restated)</i>
<b>Non-current assets</b>			
Properties, plant and equipment		4,407	4,338
Investment properties		15,052	15,478
Leasehold land		–	242
Interests in associated companies		–	80
Interest in jointly controlled entity		273	137
Investment in hotel management contract		171	174
Interests in equity instruments		52	52
Derivative financial instruments	10	21	–
Deferred tax assets		23	11
		<u>19,999</u>	<u>20,512</u>
<b>Current assets</b>			
Inventories		74	74
Debtors and payments in advance	11	232	224
Cash and cash equivalents		232	262
		<u>538</u>	<u>560</u>
<b>Current liabilities</b>			
Creditors and accruals	11	(706)	(1,138)
Interest-bearing borrowings	12	(425)	(354)
Derivative financial instruments	10	(5)	–
Current taxation		(63)	(45)
		<u>(1,199)</u>	<u>(1,537)</u>
<b>Net current liabilities</b>		<u>(661)</u>	<u>(977)</u>
<b>Total assets less current liabilities</b>		<u>19,338</u>	<u>19,535</u>
<b>Non-current liabilities</b>			
Interest-bearing borrowings	12	(2,481)	(4,182)
Derivative financial instruments	10	(326)	–
Deferred tax liabilities		(395)	(389)
		<u>(3,202)</u>	<u>(4,571)</u>
Net assets		<u>16,136</u>	<u>14,964</u>
<b>Equity</b>			
Share capital	13	707	701
Reserves		14,747	13,649
<b>Equity attributable to shareholders of the parent company</b>		<u>15,454</u>	<u>14,350</u>
Minority interests		682	614
<b>Total equity</b>		<u>16,136</u>	<u>14,964</u>

**Consolidated cash flow statement – unaudited (HK\$m)**

	For the six months ended 30 June	
	2005	2004
Operating activities		
EBITDA	492	417
Insurance settlement received	–	95
Tax paid	(21)	(6)
Other adjustments	(64)	(39)
Net cash from operating activities	407	467
Net cash inflow/(outflow) from investing activities ( <i>note a</i> )	1,355	(80)
Net cash inflow before financing activities	1,762	387
Net cash outflow from financing activities	(1,720)	(243)
Dividends paid	(70)	(112)
Net (decrease)/increase in cash and cash equivalents	(28)	32
Cash and cash equivalents at 1 January	243	203
Effect of changes in foreign exchange rates	–	(1)
<b>Cash and cash equivalents at 30 June (<i>note b</i>)</b>	<b>215</b>	<b>234</b>

*Note a* The net cash inflow from investing activities for the six months ended 30 June 2005 includes:

Net cash (outflow)/inflow of cash and cash equivalents arising from the acquisition/disposal of subsidiaries during the period:

	For the six months ended 30 June 2005	
	Acquisition	Disposal
Cash consideration paid	(13)	–
Sales consideration received, net of expenses	–	1,688
Cash and cash equivalents acquired/(disposed of)	10	(3)
	(3)	1,685

Details of net assets acquired/(disposed of) and the consideration (paid)/received are analysed below:

Properties, plant and equipment	176	(264)
Investment properties	8	(452)
Current assets	18	(18)
Cash and cash equivalents	10	(3)
Current liabilities	(27)	18
Interest-bearing borrowings	(10)	–
Taxation and deferred taxation	(7)	14
Minority interest	(40)	–
Net assets acquired/(disposed)	128	(705)
Interest in an associated company	(83)	–
Gain on disposal of a subsidiary company	–	(1,175)
	45	(1,880)
Consideration:		
Cash consideration paid	(13)	–
New shares issued	(32)	–
Sales consideration, net of expenses	–	1,880
	45	1,880

*Note b* Analysis of cash and cash equivalents

	As at 30 June	
	2005	2004
Cash at bank and on hand	232	252
Bank overdrafts	(17)	(18)
	215	234

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) 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.

The interim financial report contains condensed consolidated financial statements which are in compliance with the Hong Kong Financial Reporting Standards (“HKFRSs”) in issue that came into effect on 1 January 2005, with the exceptions as detailed in note 2 below.

The accounting policies used in preparation of the interim financial report are consistent with those adopted in the annual report and financial statements for the year ended 31 December 2004, except that the group has changed some of its accounting policies following its adoption of the new/revised HKFRSs with effect from 1 January 2005.

### (b) Change in accounting policies

Adoption of the following new/revised HKFRSs, which include all HKASs and applicable Interpretations (“HKAS-INTs and HK-INTs”), that necessitated material changes in accounting policies or presentation of financial statements are summarised as follows:

(i) The adoption of HKAS 1 “Presentation of Financial Statements” and HKAS 27 “Consolidated and Separate Financial Statements” has resulted in a change in the presentation of minority interests, which are now shown within equity. On the face of the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period.

(ii) The adoption of HKAS 16 “Property, Plant and Equipment” and HK-INT 2 “The Appropriate Policies for Hotel Properties” has resulted in a change in the accounting policy for the group’s hotel properties and other properties, which are now stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated to write off the carrying values of the assets on a straight line basis over the shorter of the unexpired period of the land lease and the anticipated remaining useful lives of the assets. The useful lives which have been adopted are summarised as follows:

– hotel buildings	75 to 150 years
– other buildings	50 years
– golf courses	100 years
– external wall finishes, windows, roofing and glazing works	10 to 40 years
– major plant and machinery	15 to 25 years
– furniture, fixtures and equipment	3 to 20 years
– motor vehicles	5 to 10 years

No depreciation is provided on freehold land as it is deemed to have an indefinite life.

(iii) The adoption of HKAS 17 “Leases” and HK-INT 4 “Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases” has resulted in a change in the accounting policy relating to leasehold land. A lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the interests in the land and the building elements at the inception of the lease. The leasehold land is stated at cost and is amortised over the period of the lease on a straight line basis whereas the leasehold building is stated at cost less accumulated depreciation and impairment losses.

(iv) The adoption of HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement” has resulted in a change in the accounting policy for financial instruments.

Derivative financial instruments are stated at fair value. The gain or loss on changes in fair value is recognised generally in the income statement unless the derivative financial instrument qualifies for hedge accounting. Where a derivative financial instrument qualifies for hedge accounting and is designated as a cash flow hedge, the effective part and the ineffective part of any unrealised gain or loss on the instrument is recognised directly in equity and in the income statement respectively. The cumulative gain or loss associated with the effective part of the cash flow hedge is removed from equity and is generally recognised in the income statement in the same period or periods during which the gain or loss arising from the hedged transaction is recognised in the income statement.

Other investments which are equity in nature have been reclassified as available-for-sale securities and disclosed as interests in equity instruments, but continue to be stated at cost as their fair value cannot be reliably measured. If there is objective evidence that an individual investment has been impaired, such impairment would be recognised in the income statement.

The group’s borrowings are measured at amortised cost over the period of the borrowings using an effective interest method.

(v) The adoption of HKAS 40 “Investment Property” has resulted in a change in the accounting policy for the group’s investment properties, whereby changes in fair value are recognised in the income statement. The group is maintaining its policy of conducting an independent third party valuation of its investment properties on an annual basis.

In addition, golf courses have been reclassified as other properties and are stated at cost less accumulated depreciation and impairment losses in accordance with HKAS 16; whilst land with undetermined future use has been reclassified as investment property and is stated at fair value.

- (vi) The adoption of HKFRS 3 “Business Combination” has resulted in a change in accounting policy for acquired goodwill, being the excess of the cost of business combination over the net fair value of net assets acquired, which is now stated at cost less accumulated impairment losses. Negative goodwill arising from business combination is recognised immediately in the income statement.

Changes in the accounting policies arising from the adoption of HKASs 1, 16, 17, 27, 32 and 40, HKFRS 3, and HK-INTs 2 and 4 have been made in accordance with the provisions of the respective standards, which require retrospective application to prior period comparatives. However the initial adoption of HKAS 39 requires prospective adjustments made on 1 January 2005.

Financial effects for the prior year and the opening balance adjustments, together with their related deferred tax effects, are summarised in note 3.

## 2. NON-COMPLIANCE WITH ACCOUNTING STANDARDS

The directors consider it inappropriate for the company to adopt two particular aspects of the new/revised HKFRSs as these would result in the financial statements, in the view of the directors, either not reflecting the commercial substance of the business or being subject to significant potential short-term volatility, as explained below:

### (a) Deferred taxation on investment properties in Hong Kong

HKAS 12 “Income Taxes”, together with HKAS-INT 21 “Income Taxes – Recovery of Revalued Non-Depreciable Assets”, requires deferred taxation to be recognised on any revaluation movements on investment properties. It is further provided that any such deferred tax liability should be calculated at the profits tax rate in case of assets which management has no definite intention to sell. The company has not made such provision in respect of its Hong Kong investment properties since the directors consider that such provision would result in the financial statements not reflecting the commercial substance of the business since, 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.

Should this aspect of HKAS 12 have been adopted, deferred tax liabilities amounting to HK\$2,008 million on the revaluation surpluses arising from revaluation of Hong Kong investment properties would have been provided.

### (b) Fair value assessment of investment properties

HKAS 40 “Investment property” requires an assessment of the fair value of investment properties. The group intends to follow the same accounting treatment as adopted in 2004, which is to value such investment properties on an annual basis. Accordingly, the investment properties were not revalued at 30 June 2005, since the directors consider that such change of practice could introduce a significant element of short-term volatility into the income statement in respect of assets which are being held on a long term basis by the group. They intend to conduct an independent assessment of the fair value of the investment properties at 31 December 2005 and at each subsequent year end.

It is not practicable to estimate the financial effect of this non-compliance as no interim valuation of the properties has been conducted.

## 3. SUMMARY OF THE EFFECT OF CHANGES IN THE ACCOUNTING POLICIES

### (a) Consolidated income statement (HK\$m)

	Effect of adopting				Total
	HKAS 16 <sup>#</sup>	HKAS 17 <sup>#</sup>	HKAS 32 <sup>#</sup> & 39 <sup>^</sup>	HKAS 40 <sup>#</sup>	
<b>For the six months ended 30 June 2005</b>					
<i>Increase/(decrease) in:</i>					
Depreciation and amortisation	78	–	–	–	78
Non-operating items	1,073	133	12	(199)	1,019
Profit before taxation	995	133	12	(199)	941
Taxation	–	–	4	–	4
Profit after taxation	<u>995</u>	<u>133</u>	<u>8</u>	<u>(199)</u>	<u>937</u>
<b>Profit attributable to:</b>					
Shareholders of the parent company	998	133	8	(199)	940
Minority interests	(3)	–	–	–	(3)
	<u>995</u>	<u>133</u>	<u>8</u>	<u>(199)</u>	<u>937</u>
Earnings per share (HK cents)	<u>71.0</u>	<u>9.5</u>	<u>0.6</u>	<u>(14.2)</u>	<u>66.9</u>

3. SUMMARY OF THE EFFECT OF CHANGES IN THE ACCOUNTING POLICIES (Continued)

Effect of adopting

	Effect of adopting				Total
	HKAS 16 <sup>#</sup>	HKAS 17 <sup>#</sup>	HKAS 32 <sup>#</sup> & 39 <sup>^</sup>	HKAS 40 <sup>#</sup>	
<b>For the six months ended 30 June 2004</b>					
<i>Increase/(decrease) in:</i>					
Depreciation and amortisation	75	4	–	–	79
Profit before taxation	(75)	(4)	–	–	(79)
Taxation	(5)	–	–	–	(5)
Profit after taxation	<u>(70)</u>	<u>(4)</u>	<u>–</u>	<u>–</u>	<u>(74)</u>
<b>Profit attributable to:</b>					
Shareholders of the parent company	(67)	(4)	–	–	(71)
Minority interests	<u>(3)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(3)</u>
	<u>(70)</u>	<u>(4)</u>	<u>–</u>	<u>–</u>	<u>(74)</u>
Earnings per share (HK cents)	<u>(4.8)</u>	<u>(0.3)</u>	<u>–</u>	<u>–</u>	<u>(5.1)</u>

# adjustments which take effect retrospectively

^ adjustments which take effect prospectively from 1 January 2005

(b) Consolidated balance sheet (HK\$m)

	Effect of adopting						Total
	HKAS 1 <sup>#</sup>	HKAS 16 <sup>#</sup>	HKAS 17 <sup>#</sup>	HKAS 32 <sup>#</sup> & 39 <sup>^</sup>	HKAS 40 <sup>#</sup>	HKFRS 3 <sup>#</sup>	
<i>Increase/(decrease) in:</i>							
<b>As at 30 June 2005</b>							
Properties, plant and equipment	(15,052)	(1,720)	–	–	52	–	(16,720)
Investment properties	15,052	–	–	–	–	–	15,052
Deferred tax assets	–	(28)	–	5	–	–	(23)
Derivative financial instruments	–	–	–	21	–	–	21
Total assets	–	<u>(1,748)</u>	–	<u>26</u>	<u>52</u>	–	<u>(1,670)</u>
<b>Less:</b>							
Creditors and accruals	–	–	–	(222)	–	–	(222)
Interest-bearing borrowings	–	–	–	5	–	–	5
Deferred tax liabilities	–	190	–	(2)	–	–	188
Derivative financial instruments	–	–	–	331	–	–	331
Net assets	–	<u>(1,938)</u>	–	<u>(86)</u>	<u>52</u>	–	<u>(1,972)</u>
<b>Reserves</b>							
Investment properties revaluation reserve	–	–	–	–	(11,167)	–	(11,167)
Hotel properties revaluation reserve	–	(370)	–	–	–	–	(370)
Other properties revaluation reserve	–	(2)	–	–	–	–	(2)
Capital reserve	–	–	–	–	–	(4)	(4)
General reserve	–	1	–	8	2	–	11
Hedging reserve	–	–	–	(76)	–	–	(76)
Retained profits	–	(1,566)	–	(19)	11,208	4	9,627
Minority interests	–	<u>(1)</u>	–	<u>1</u>	<u>9</u>	–	<u>9</u>
Equity	–	<u>(1,938)</u>	–	<u>(86)</u>	<u>52</u>	–	<u>(1,972)</u>

As at 31 December 2004

Properties, plant and equipment	(15,478)	(2,721)	(375)	–	54	–	(18,520)
Investment properties	15,478	–	–	–	–	–	15,478
Deferred tax assets	–	(31)	–	–	–	–	(31)
Leasehold land	–	–	242	–	–	–	242
Interests in associated companies	–	(4)	–	–	–	–	(4)
<b>Total assets</b>	<b>–</b>	<b>(2,756)</b>	<b>(133)</b>	<b>–</b>	<b>54</b>	<b>–</b>	<b>(2,835)</b>
Less: Deferred tax liabilities	–	187	–	–	–	–	187
<b>Net assets</b>	<b>–</b>	<b>(2,943)</b>	<b>(133)</b>	<b>–</b>	<b>54</b>	<b>–</b>	<b>(3,022)</b>
<b>Reserves</b>							
Investment properties revaluation reserve	–	–	–	–	(11,367)	–	(11,367)
Hotel properties revaluation reserve	–	(1,394)	–	–	–	–	(1,394)
Other properties revaluation reserve	–	(2)	–	–	–	–	(2)
Capital reserve	–	–	–	–	–	(4)	(4)
General reserve	–	1	–	–	3	–	4
Retained profits	–	(1,550)	(133)	–	11,408	4	9,729
<b>Minority interests</b>	<b>–</b>	<b>2</b>	<b>–</b>	<b>–</b>	<b>10</b>	<b>–</b>	<b>12</b>
<b>Equity</b>	<b>–</b>	<b>(2,943)</b>	<b>(133)</b>	<b>–</b>	<b>54</b>	<b>–</b>	<b>(3,022)</b>
<i>As at 1 January 2004 (equity only)</i>							
<b>Reserves</b>							
Investment properties revaluation reserve	–	–	–	–	(8,585)	–	(8,585)
Hotel properties revaluation reserve	–	(653)	–	–	–	–	(653)
Other properties revaluation reserve	–	(2)	–	–	–	–	(2)
Capital reserve	–	–	–	–	–	(4)	(4)
Retained profits	–	(1,422)	(125)	–	8,623	4	7,080
<b>Minority interests</b>	<b>–</b>	<b>4</b>	<b>–</b>	<b>–</b>	<b>9</b>	<b>–</b>	<b>13</b>
	<b>–</b>	<b>(2,073)</b>	<b>(125)</b>	<b>–</b>	<b>47</b>	<b>–</b>	<b>(2,151)</b>

# adjustments which take effect retrospectively

^ adjustments which take effect prospectively from 1 January 2005

#### 4. THE PENINSULA MANILA

During the period, the group increased its shareholding in Manila Peninsula Hotel, Inc. (“MPHI”), which is now a 71.68% subsidiary of the group. The consideration of approximately HK\$45 million was satisfied by a cash payment of HK\$13 million and the issue and allotment of approximately 5.3 million new shares of the company at a value of HK\$5.855 per share.

The consolidation of MPHI has resulted in an increase of approximately HK\$58 million in revenue during the period. This has not resulted in any material change to the group’s capital commitments and contingent liabilities as disclosed in the 2004 annual financial statements.

Pursuant to the lease agreement dated 2 January 1975 (“Hotel Lease”) between MPHI as tenant and Ayala Hotels, Inc. (“Ayala”) as landlord, MPHI leased a piece of land on which its fixed assets are situated. The Hotel Lease will not expire until 31 December 2027. The rental payable under the Hotel Lease is calculated based on 5% of the gross income of the hotel. During the period from 1 March 2005 to 30 June 2005, rental payments of Peso15 million (approximately HK\$2 million) were made to Ayala.

As Ayala is an “associate” of a director of MPHI, and MPHI is a non wholly-owned subsidiary of the company, the Hotel Lease is a connected transaction as defined under the Listing Rules and a related party transaction under HKAS 24. Details of the Hotel Lease have been disclosed in the announcement of the company dated 8 July 2005.

## 5. 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 properties leasing segment are subject to a relatively lower degree of seasonality.

### a. Primary reporting format – business segments Segment turnover and results

	Total	Hotels*	Non-hotel rental properties	Other businesses
<b>For the six months ended 30 June 2005</b>				
<b>Turnover</b>				
Total segment	1,536	1,243	184	109
Inter-segment	(7)	–	–	(7)
	<u>1,529</u>	<u>1,243</u>	<u>184</u>	<u>102</u>
<b>Segment operating profit before depreciation and amortisation</b>	<b>492</b>	<b>335</b>	<b>122</b>	<b>35</b>
Depreciation and amortisation	(126)	(115)	–	(11)
Segment operating profit	366	220	122	24
Financing charges	(81)			
<b>Profit before non-operating items</b>	<b>285</b>			
Non-operating items	1,075			
<b>Profit before taxation</b>	<b>1,360</b>			
<b>Capital expenditure, depreciation and amortisation</b>				
Capital expenditure incurred	158	99	40	19
Depreciation and amortisation	126	115	–	11
<b>For the six months ended 30 June 2004 (restated)</b>				
<b>Turnover</b>				
Total segment	1,442	1,154	181	107
Inter-segment	(15)	(4)	–	(11)
	<u>1,427</u>	<u>1,150</u>	<u>181</u>	<u>96</u>
<b>Segment operating profit before depreciation and amortisation</b>	<b>417</b>	<b>267</b>	<b>117</b>	<b>33</b>
Depreciation and amortisation	(129)	(114)	–	(15)
Segment operating profit	288	153	117	18
Financing charges	(125)			
Share of profits of associated companies	1			
<b>Profit before taxation</b>	<b>164</b>			
<b>Capital expenditure, depreciation and amortisation</b>				
Capital expenditure incurred	93	73	15	5
Depreciation and amortisation	129	114	–	15
* <i>Analysis of hotels turnover</i>			<b>2005</b>	<b>2004</b>
<i>Rooms</i>			<b>596</b>	<b>524</b>
<i>Food and beverage</i>			<b>342</b>	<b>325</b>
<i>Commercial</i>			<b>185</b>	<b>193</b>
<i>Other</i>			<b>120</b>	<b>108</b>
			<u><b>1,243</b></u>	<u><b>1,150</b></u>

## Segment balance sheet

	Total	Hotels	Non-hotel rental properties	Other businesses
<b>As at 30 June 2005</b>				
<b>Assets</b>				
Properties, plant and equipment	4,407	4,056	–	351
Investment properties	15,052	5,543	9,064	445
Interest in jointly controlled entity	273	273	–	–
Investment in hotel management contract	171	171	–	–
Interests in equity instruments	52	43	–	9
Other segment assets	306	238	13	55
Derivative financial instruments	21	–	–	–
Deferred tax assets	23	–	–	–
Cash and cash equivalents	232	–	–	–
Total assets	<u>20,537</u>			
<b>Liabilities</b>				
Segment liabilities	706	420	119	167
Bank loans and other liabilities	3,695	–	–	–
Total liabilities	<u>4,401</u>			
<b>As at 31 December 2004 (restated)</b>				
<b>Assets</b>				
Properties, plant and equipment	4,338	3,986	–	352
Investment properties	15,478	5,989	9,024	465
Leasehold land	242	242	–	–
Interests in associated companies	80	80	–	–
Interest in jointly controlled entity	137	137	–	–
Investment in hotel management contract	174	174	–	–
Interests in equity instruments	52	43	–	9
Other segment assets	298	225	14	59
Deferred tax assets	11	–	–	–
Cash and cash equivalents	262	–	–	–
Total assets	<u>21,072</u>			
<b>Liabilities</b>				
Segment liabilities	1,138	638	134	366
Bank loans and other liabilities	4,970	–	–	–
Total liabilities	<u>6,108</u>			

### b. Secondary reporting format – geographical segments

The group's hotel operations and property rental businesses are principally located in Hong Kong, the People's Republic of China, 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.

	Hong Kong		Other Asia Pacific		United States of America	
	2005	2004 (restated)	2005	2004 (restated)	2005	2004 (restated)
<b>For the six months ended 30 June</b>						
Turnover	693	726	350	265	486	436
Operating profit/(loss) before depreciation and amortisation	338	323	129	98	25	(4)
Capital expenditure	60	26	82	48	16	19
<b>As at 30 June 2005/31 December 2004</b>						
Assets	14,330	15,014	3,356	3,153	2,619	2,643

### 6. NON-OPERATING ITEMS (HK\$m)

	For the six months ended 30 June	
	2005	2004
Gain on disposal of The Kowloon Hotel	1,175	–
Fair value changes of related derivative financial instruments	(230)	–
	<u>945</u>	<u>–</u>
Reversal of impairment losses	130	–
	<u>1,075</u>	<u>–</u>

7. **TAXATION (HK\$m)**

	<b>For the six months ended 30 June</b>	
	<b>2005</b>	2004 <i>(restated)</i>
Current tax		
Hong Kong	21	16
Overseas	25	4
	<u>46</u>	<u>20</u>
Deferred tax		
Origination and reversal of temporary differences in current period	13	12
Taxation attributable to the company and its subsidiary companies	<u>59</u>	<u>32</u>

Provision of Hong Kong profits tax is calculated at **17.5%** (2004: 17.5%) of the estimated assessable profits for the period. Taxation for overseas subsidiary companies is charged at the appropriate current rates of taxation ruling in the relevant countries.

8. **DIVIDENDS (HK\$m)**

a. **Interim dividend for the period**

	<b>For the six months ended 30 June</b>	
	<b>2005</b>	2004
Interim dividend declared and paid after the interim period of <b>4 cents</b> per share (2004: 3 cents per share)	<u>57</u>	<u>42</u>

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

b. **Dividends attributable to the previous financial year, approved and paid during the interim period**

	<b>For the six months ended 30 June</b>	
	<b>2005</b>	2004
Final dividend in respect of the financial year ended 31 December 2004, approved and paid during the following interim period, of <b>9 cents</b> per share (year ended 31 December 2003: 8 cents per share)	<u>126</u>	<u>112</u>

For the final dividend in respect of 2004, scrip dividend elections were offered to shareholders other than those with registered addresses in Australia, Canada, the Republic of Ireland and the United States. Shareholders holding approximately 45% of the issued share capital of the company elected to receive their entitlement to the 2004 final dividend in the form of scrip, which resulted in the issue and allotment of approximately 7.5 million new shares on 31 May 2005.

9. **EARNINGS PER SHARE**

Earnings per share, which includes non-operating items, attributable to shareholders of the parent company is computed as follows:

	<b>For the six months ended 30 June</b>	
	<b>2005</b>	2004 <i>(restated)</i>
Profit attributable to shareholders of the parent company (HK\$m)	1,268	127
Weighted average number of shares in issue (million)	1,406	1,402
Earnings per share (HK cents)	<u>90</u>	<u>9</u>
<i>Earnings per share excluding non-operating items is computed as follows:</i>		
Profit attributable to shareholders of the parent company (HK\$m)	1,268	127
Non-operating items (HK\$m) (note 6)	<u>(1,075)</u>	<u>—</u>
Profit attributable to shareholders of the parent company excluding non-operating items (HK\$m)	<u>193</u>	<u>127</u>
Earnings per share excluding non-operating items (HK cents)	<u>14</u>	<u>9</u>

## 10. DERIVATIVE FINANCIAL INSTRUMENTS (HK\$m)

	As at 30 June 2005		As at 1 January 2005	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	–	(84)	3	(310)
Forward foreign exchange contracts	–	(8)	–	(29)
Currency swaps	12	–	17	–
	<u>12</u>	<u>(92)</u>	<u>20</u>	<u>(339)</u>
Held for trading, at fair value through profit or loss:				
Interest rate swaps	6	(203)	–	–
Others	3	(36)	6	(37)
Total	<u>21</u>	<u>(331)</u>	<u>26</u>	<u>(376)</u>
Less: Current portion				
Cash flow hedges:				
Interest rate swaps	–	–	–	(5)
Forward foreign exchange contracts	–	(3)	–	–
Held for trading, at fair value through profit or loss:				
Interest rate swaps	–	(2)	–	–
	<u>–</u>	<u>(5)</u>	<u>–</u>	<u>(5)</u>
Non-current portion	<u>21</u>	<u>(326)</u>	<u>26</u>	<u>(371)</u>

During the period, following the completion of the sale of The Kowloon Hotel and the reduction of bank borrowings in this connection, offsetting interest rate swaps were entered into for the purposes of re-adjusting the loan interest fixing ratio. As a result, some outstanding cash flow hedges became ineffective and were reclassified as interest rate swaps held for trading.

## 11. DEBTORS AND PAYMENTS IN ADVANCE, AND CREDITORS AND ACCRUALS (HK\$m)

A defined credit policy is maintained within the group. The age analysis of trade debtors and trade creditors was as follows:

	Trade debtors		Trade creditors	
	As at 30 June 2005	As at 31 December 2004	As at 30 June 2005	As at 31 December 2004
0 – 3 months	86	101	48	66
4 – 6 months	2	2	1	1
> 6 months	1	1	–	1
Total	<u>89</u>	<u>104</u>	<u>49</u>	<u>68</u>

## 12. INTEREST-BEARING BORROWINGS (HK\$m)

	As at 30 June 2005	As at 31 December 2004
Total facilities available:		
Bank loans and revolving credits	5,134	5,908
Uncommitted facilities, including bank overdrafts	<u>1,110</u>	<u>1,064</u>
	<u>6,244</u>	<u>6,972</u>
Utilised:		
Bank loans and revolving credits	2,722	4,389
Uncommitted facilities, including bank overdrafts	<u>184</u>	<u>147</u>
	<u>2,906</u>	<u>4,536</u>
<i>Represented by:</i>		
Short-term bank loans, repayable within one year or on demand	336	296
Current portion of long-term bank loans, repayable within one year	72	39
Bank overdrafts, repayable on demand	17	19
	<u>425</u>	<u>354</u>
Long-term borrowings, repayable:		
Within one year	72	39
Between one and two years	871	231
Between two and five years	1,502	3,805
After five years	<u>108</u>	<u>146</u>
	<u>2,553</u>	<u>4,221</u>
Less: Current portion of long-term borrowings	(72)	(39)
Non-current portion of long-term borrowings	<u>2,481</u>	<u>4,182</u>
Total interest-bearing borrowings	<u>2,906</u>	<u>4,536</u>

## 12. INTEREST-BEARING BORROWINGS (HK\$m) *continued*

The total borrowings of **HK\$2,906 million** as at 30 June 2005 (2004: HK\$4,536 million) comprised the following variable rate bank loans and overdrafts that were:

	As at 30 June 2005	As at 31 December 2004
Unsecured	2,798	4,390
Secured by:		
Mortgage over properties, plant and equipment and investment property of a PRC subsidiary company	<u>108</u>	<u>146</u>
Total interest-bearing borrowings	<u><b>2,906</b></u>	<u><b>4,536</b></u>

Total secured banking facilities and the corresponding value of the pledged assets amounts to **HK\$377 million** (2004: HK\$377 million) and **HK\$1.3 billion** (2004 restated: HK\$1.3 billion) respectively.

## 13. SHARE CAPITAL

	As at 30 June 2005	As at 31 December 2004
Number of shares of HK\$0.50 each (million)		
Authorised	<u><b>1,800</b></u>	<u>1,800</u>
Issued at 30 June/31 December	<u><b>1,415</b></u>	<u>1,402</u>
Nominal value of shares (HK\$m)		
Authorised	<u><b>900</b></u>	<u>900</u>
Issued and fully paid at 30 June/31 December	<u><b>707</b></u>	<u>701</u>

During the period, the company issued and allotted approximately 5.3 million (at HK\$5.855 per share) and 7.5 million (at HK\$7.62 per share) new shares as part consideration to acquire the 31.68% additional interest in Manila Peninsula Hotel, Inc. and in respect of the 2004 final scrip dividend respectively. The new shares issued have resulted in an increase in fully paid share capital of HK\$6 million and share premium of HK\$83 million. All ordinary shares issued during the period rank pari passu in all respects with the existing shares in issue.

## FINANCIAL REVIEW

Turnover for the period increased by 7% to HK\$1,529 million, mainly as a result of the improved contribution from the hotels whose revenue streams from rooms, food and beverage and other hotel services have been boosted by the increased volumes of business.

EBITDA (earnings before interest, tax, depreciation and amortisation) was HK\$492 million which represents a rise of 26% over the same period in 2004 (excluding The Kowloon Hotel), with the major contributing factor being the hotels' operating performance.

The overall EBITDA margin, representing EBITDA as a percentage of turnover, rose to **32%** (2004: 29%). Because of the fixed cost nature of a significant proportion of the operating costs, the percentage increase in EBITDA was significantly greater than the percentage increase in turnover.

In respect of non-operating items, a profit of HK\$1.2 billion was recognised on completion of the sale of The Kowloon Hotel. At the same time, due to the reduction of bank borrowings following this sale, the loan interest hedging ratio was re-adjusted by way of offsetting swap arrangements rendering some swaps ineffective, which gave rise to a one-off loss of HK\$0.2 billion but has the benefit of producing lower future interest rates.

Financing charges for the six months to 30 June 2005 amounted to HK\$81 million. This was 35% lower than the same period in 2004 due to the lower outstanding indebtedness of the group following receipt of the proceeds from the sale of The Kowloon Hotel and the lower average interest rate resulting from the offsetting swap arrangements.

The company recorded a net profit attributable to shareholders of HK\$1,268 million for the period. Net assets attributable to shareholders stood at HK\$15.5 billion as at 30 June 2005.

Net borrowings decreased significantly during the six months, by 37% to **HK\$2.7 billion** (2004: HK\$4.3 billion), mainly because the proceeds from the sale of The Kowloon Hotel were applied towards reducing bank borrowings. Gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders' funds, accordingly decreased significantly to **15%** (2004 restated: 23%). Interest cover has improved, with operating profit at **4.5 times** (2004 restated: 2.3 times) net financing charges. As at 30 June 2005, secured borrowings amounted to **HK\$108 million** (2004: HK\$146 million), representing **4%** (2004: 3%) of the net borrowings. The corresponding value of pledged assets amounted to **HK\$1.3 billion** (2004 restated: HK\$1.3 billion).

As at 30 June 2005, interest rates on **49%** (2004: 66%) of the borrowings, after all hedging arrangements, were fixed. The weighted average gross interest rate for the period decreased to **4.8%** (2004: 5.0%) after all hedging activities.

The company manages its liquidity risk by obtaining sufficient borrowing facilities to meet its obligations and commitments. During the period, the sale proceeds in respect of The Kowloon Hotel were applied towards reducing bank borrowings and hence borrowing facilities of HK\$1.8 billion were pre-paid or cancelled. At the same time, the second-phase financing for the development of The Peninsula Tokyo was arranged, resulting in an increase of HK\$0.8 billion in borrowing facilities for the Tokyo project. At 30 June 2005, total available facilities decreased to **HK\$6.2 billion** (2004: HK\$7.0 billion), of which **47%** (2004: 65%) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled **HK\$2.4 billion** (2004: HK\$1.5 billion).

### **Impact of new accounting policies**

With effect from 1 January 2005, the group has adopted (other than in relation to certain aspects as summarised in note 2 of the Interim Results) the new accounting standards as issued by the Hong Kong Institute of Certified Public Accountants, the details of which are set out in note 1(b) of the Interim Results.

On the income statement, in respect of the first half of 2005, the effects are:

- (1) Depreciation and amortisation of **HK\$78 million** (2004 restated: HK\$79 million) was provided for hotel properties, leasehold land on which hotel properties are situated, and golf courses.
- (2) Changes in fair value of financial instruments resulted in a loss of **HK\$230 million** (2004: nil, as the adjustment only took effect prospectively from 1 January 2005) arising in respect of those instruments which do not fulfil the hedging requirements as specified in HKAS 39 “Financial Instruments” (mainly in connection with the offsetting swap arrangements), as compared to a provision for losses of HK\$242 million under the accounting standards previously adopted.
- (3) A gain of **HK\$1.2 billion** (2004: nil) was recognised on the disposal of The Kowloon Hotel based on cost accounting for hotel properties. Under the previous accounting policy of carrying hotels at market value, the gain on disposal would be HK\$0.2 billion.

On the balance sheet, the change of accounting policy from market valuation to cost accounting for hotel properties and the leasehold land on which hotels are situated has resulted in a reduction of approximately HK\$3 billion in the carrying value of fixed assets and other non-current assets as at 31 December 2004. Also, the requirement to fair value financial instruments, including hedging derivatives, has increased net liabilities by HK\$0.3 billion as at 1 January 2005. In accordance with the new accounting standards, the former adjustment was made retrospectively with the comparative figures for 2004 being restated, whilst the latter was made prospectively on 1 January 2005 without a restatement of the comparative figures.

### **CORPORATE TRANSACTIONS**

On 1 February 2005, the group completed the sale of The Kowloon Hotel Limited (“TKHL”) and received the remaining sale proceeds of HK\$1.7 billion (in addition to the 10% deposit of HK\$0.2 billion already received in December 2004). A non-operating gain of HK\$1.2 billion, being the difference between the sale proceeds net of related expenses of HK\$1.9 billion and the net asset value (excluding assigned intercompany debts) of TKHL being restated at HK\$0.7 billion upon completion, was recognised. Revenue, EBITDA and operating profit generated from TKHL for the pre-completion period in January 2005, amounting to HK\$28 million, HK\$14 million and HK\$13 million respectively, were included in the income statement.

In early March 2005, the group completed the acquisition of additional shares in Manila Peninsula Hotel, Inc. (“MPHI”) from existing MPHI shareholders. Following the completion, the group now owns a 71.68% interest in MPHI and consolidates the results of MPHI, which was previously classified as an associated company. Accordingly, revenue of HK\$58 million generated from MPHI for the four months ended 30 June 2005 was included in the income statement.

### **OPERATING REVIEW**

The company’s performance in the six months ended 30 June 2005 has been strong, with satisfactory progress in a number of areas. The significant recovery in our hotel businesses during 2004 has been consolidated during the first half of this current year. A combination of factors has benefitted the results including better consumer sentiment in our major markets, increased demand following a global rebound in business and leisure travel, and higher returns from assets that have undergone renovation programmes.

These positive trends have been underpinned by sustained marketing campaigns, greater tactical use of online reservations systems and the establishment of a Global Customer Service Centre to provide a 24-hour information service for customers. The occupancies and average room rates of the hotels have risen from 2004 levels, providing higher yields.

	For the six months ended 30 June				% Yield Improvement
	Occupancy %		Average Room Rate (US\$)		
	2005	2004	2005	2004	
The Peninsula Hong Kong*	81	70	360	324	29
The Peninsula New York	74	74	577	484	19
The Peninsula Chicago	65	64	350	311	14
The Peninsula Beverly Hills	83	85	522	467	9
The Peninsula Bangkok	68	75	168	146	4
The Peninsula Palace Beijing**	75	54	147	119	72
The Peninsula Manila	79	70	80	73	24
The Kowloon Hotel***	95	93	93	72	32
Quail Lodge Resort	59	48	262	279	15

\* In 2004, due to renovation, the average number of rooms available for the period was reduced to 275.

\*\* In 2005, due to renovation, the average number of rooms available for the period was reduced to 442.

\*\*\* The sale of The Kowloon Hotel was completed on 1 February 2005.

Our hotels have matched their operational performance with consistently impressive achievements in consumer and industry surveys. As a small sample of the many awards that have been won during the period, in the *Travel + Leisure* (USA) survey for the 500 Greatest Hotels in the World, The Peninsula Hong Kong, The Peninsula Bangkok, The Peninsula Chicago and The Peninsula Beverly Hills were each rated number one hotel in their respective cities. The Peninsula New York was voted best overall in the Forbes magazine poll for Best Business Hotels in New York. All seven Peninsula hotels were listed in Condé Nast Traveler's 2005 Gold List of the World's Best Places to Stay.

In our investment property businesses, the luxury residential lettings sector has begun a cycle of recovery in Hong Kong, in response both to a surge in demand from the corporate sector and to our much-improved product following renovation. Similarly, demand for office space, particularly in Central, has begun to rise and we have derived a steady stream of income from these properties.

The occupancies and yields of our various investment properties for the period were as follows:

	For the six months ended 30 June			
	Occupancy (%)		Average yield per sq ft (HK\$)	
	2005	2004	2005	2004
<b>Residential</b>				
The Repulse Bay (Unfurnished)	83	74	26	23
The Repulse Bay (Serviced)	58	69	21	25
The Landmark, Ho Chi Minh City	94	96	16	16
<b>Commercial</b>				
The Peninsula Hong Kong	96	93	261	254
The Peninsula New York	100	100	291	286
The Peninsula Bangkok	100	100	55	58
The Peninsula Palace Beijing	100	99	81	77
The Peninsula Manila	61	63	11	10
The Kowloon Hotel*	95	94	59	44
The Repulse Bay	100	99	65	61
The Peak Tower**	24	100	13	37
<b>Office</b>				
The Peninsula Hong Kong	100	89	22	26
St. John's Building	88	84	15	15
The Landmark, Ho Chi Minh City	94	99	16	16

\* The sale of The Kowloon Hotel was completed on 1 February 2005.

\*\* Renovation of the premises commenced in April 2005.

## **Asia**

*Hong Kong* In a half year that has seen strong demand and increase in average room rates, The Peninsula Hong Kong has maintained its position as the RevPAR (revenue per available room) leader in the city. The average occupancy has reached a record level for recent years. Corporate business from the USA has been particularly buoyant amongst the hotel's market mix. The higher occupancy within the hotel, increased visitor numbers to Hong Kong and strong domestic patronage have also helped generate positive food and beverage revenues.

The revival of the retail sector in Hong Kong has fuelled demand for more space within the hotel's shopping arcade, which has boosted rental income. The office tower is now fully let, although average yield is lower due to the change in tenant use of two floors from office space to leisure facilities, which the company believes will enhance the attractiveness of the hotel complex.

In line with the company's policy of adding value to existing assets, a new spa is being developed within the hotel to expand the facilities and services currently offered. Work has already commenced and completion is expected in the first quarter of 2006.

Positive corporate sentiment and a resurgence of international business have spurred a revival of interest in The Repulse Bay complex. The renovated apartments have proved particularly popular both with existing and new tenants. Rates are rising in the new cycle of rent reversions although yields have been impacted by the disruption to tenants during renovation work and by the need to provide temporary accommodation in the serviced apartments. The final phase in the current renovation programme will be completed over the summer months and we are confident that these apartments will lease quickly when they become available.

*Beijing* The renovation and brand repositioning of The Peninsula Palace Beijing has continued to reap rewards in significantly higher room rates and increased occupancy. The final phase of the major renovation programme – the remaining guestrooms and The Peninsula Suite – was completed in the first quarter of 2005. Sophisticated guestrooms, two award-winning restaurants, an extensive range of function rooms and a desirable location have attracted high-profile delegations and prestigious international events such as the International Monetary Fund Conference and the Fortune Global Forum. Sensitivities between the PRC and Japan have resulted in some lost bookings from the latter market but the hotel has been successful in capturing other business to reduce the shortfall.

*Bangkok* The Peninsula Bangkok has achieved a steady performance even though occupancy levels have been affected by the fallout from the December tsunami and from intermittent bouts of political unrest in the south of the country. The drop in occupancy as a result of these factors has been compensated by a 15% increase in average room rate compared to 2004. The hotel remains popular with discerning international travellers and enjoys a high percentage of repeat visitors. Having added an award-winning Thai restaurant in 2003, the property will be further enhanced in 2006 by the introduction of a full spa, construction of which is scheduled to begin in the third quarter of this year.

*Manila* Whilst the market is still highly competitive, The Peninsula Manila has benefitted from a rise in domestic tourism and from significant long-stay corporate accounts generated by the growth in various international service businesses in the Philippines. As a result, both its occupancy and average room rates have improved.

## **United States of America**

The hospitality market in the USA is enjoying strong growth, in both business and leisure travel. The highest traffic has flowed to the major conurbations of New York, Chicago and Los Angeles, from which the Peninsula hotels in these cities have all benefitted.

## **OPERATING REVIEW** *continued*

*New York* The Peninsula New York's occupancy remains healthy in a city that is booming and where limited new inventory in the luxury sector is scheduled for the foreseeable future. Demand is driving up rates and our hotel's average rate for the first half of 2005 reached record levels, an increase of 19% over those of the same period in 2004. The continuing popularity of *The Pen-Top Bar* and *Fives* with the city's young professionals has contributed to the success of the property.

*Chicago* The Peninsula Chicago has the highest room rate in the city and is the RevPAR leader in its competitive set. The popular *Shanghai Terrace* restaurant re-opened in April 2005 following a renovation that added extra seating capacity to the venue. The hotel has consistently appeared in the top rankings in consumer and industry polls, confirming its place as one of the leading hotels in the USA.

*Los Angeles* The Peninsula Beverly Hills, like its sister Chicago hotel, is recognised as among the top hotels in America and is the market leader in the city in occupancy, room rate and yield by a significant margin. The hotel continues with its room refurbishment programme.

*Carmel* Quail Lodge Resort has improved its occupancy although average room rate still lags. Marketing initiatives are under way to emphasise its repositioning following renovation, and to capture higher market share.

### **New Projects**

Construction of The Peninsula Tokyo, which commenced in October 2004, has progressed in parallel with refinements to the interior design of guestrooms and public areas. A number of providers of commercial services and facilities that the hotel will provide have been appointed and the hotel remains on schedule for opening in late 2007.

The Peninsula Shanghai project is now committed, following the signing of the land grant contract in October 2004. The site has been substantially cleared and local authority approvals are being progressed for the designs of the complex that, in addition to the hotel, will include a small number of serviced apartments and retail space.

The Peak Tower, an existing commercial property asset, is undergoing a major revitalisation programme. Most of the tenants surrendered their premises in April and renovation work has now commenced. There is strong interest in leasing in the new Peak Tower, which will re-open in mid-2006.

### **Outlook**

Current trends are positive for our hotels and the outlook is positive for the second half of the year, traditionally a high season in many of our markets, with a satisfactory level of business already on the books. Notwithstanding competition from new or renovated hotels in some of our markets, we believe that there is still potential for growth within the group. We have focussed our energies on enhancing our assets to improve returns, and in pursuing strong brand positioning through the introduction of innovative marketing strategies, as witnessed by the strong response to our advertising campaign.

The performance of our non-hotel properties has been subject to shifts in prevailing corporate sentiment. This, however, is showing marked improvement, translating into increasing demand for residential, commercial and office space and we expect this trend to be maintained. The marketing for lease of the renovated apartments at The Repulse Bay has, therefore, been particularly timely.

Some uncertainties persist, such as oil price rises, political and economic challenges, and recent terrorist activity. Whilst they pose challenges to the industry as a whole, evidence suggests that to date, these combined factors have had a limited effect on consumer confidence. We continue to apply strict risk management principles to our business model.

### **Employees**

The total number of employees, including those working in properties managed by the group, at 30 June 2005 decreased to **5,848** (2004: 6,157). The decrease in manpower occurred mainly due to the disposal of The Kowloon Hotel, although this was slightly offset by increased headcount in other properties in the hotels division, in response to the need to maintain service standards in light of higher business levels. Some additions to Head Office have also been necessary with the expansion of the company's projects and changes to statutory reporting requirements.

Under the direction of Cornell University's School of Hotel Management, the first Group Professional Development Programme was completed in June 2005, with some 35 department heads graduating. In addition, 100 managers from HSH's Asian and USA operations successfully completed the company's own in-house Group Frontline Management Development Programme, which was launched in late 2004. Alumni of the first Group Management Development Programme, who graduated last year, returned to Hong Kong for a refresher course on a number of relevant courses. These training programmes will continue to be offered to staff to enable their progress and add further to the professionalism of the teams.

## OTHER CORPORATE INFORMATION

### Interests of directors and chief executive

As at 30 June 2005, the interests and short positions of each director and the chief executive 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 Companies 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)	705,325,265	49.843
Ian D Boyce	Beneficial Owner	202,362	0.014
Clement K M Kwok	Beneficial Owner	607,086	0.043
Sir Sidney Gordon	Note (b)	70,022,654	4.948
Ronald J McAulay	Note (c)	490,394,261	34.654
William E Mocatta	Note (d)	1,017,000	0.072
Dr The Hon. David K P Li	Beneficial Owner	505,905	0.036
Robert C S Ng	Family	120,573	0.009
Pierre R Boppe	Beneficial Owner	150,000	0.011
C Mark Broadley	Beneficial Owner	202,362	0.014
Peter C Borer	Beneficial Owner	65,295	0.005

Notes:

(a) *The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 705,325,265 shares in the company. These shares were held in the following capacity:*

(i) *420,468,740 shares were held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects.*

(ii) *284,856,525 shares were held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects 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 284,856,525 shares referred to in Note (a)(ii). 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) *Sir Sidney Gordon, in his capacity as trustee of a charitable trust which is one of the ultimate owners of a unit trust which holds the 69,925,521 shares referred to in Note (c)(ii), was deemed to be interested in the 69,925,521 shares. Sir Sidney Gordon holds 97,133 shares in his personal capacity.*

(c) *Mr Ronald J McAulay was deemed (by virtue of the SFO) to be interested in 490,394,261 shares in the company. These shares were held in the following capacity:*

(i) *420,468,740 shares were held by discretionary trusts, of which Mr Ronald J McAulay is one of the discretionary objects.*

(ii) *69,925,521 shares were held by a discretionary trust, of which Mr Ronald J McAulay, his wife and members of his family are discretionary objects.*

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

Messrs James S Dickson Leach, 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 2005.

As at 30 June 2005, by virtue of their deemed interests in the shares of the company under the SFO as described above and as directors of the company, The Hon. Sir Michael Kadoorie and Mr Ronald J McAulay are deemed to be interested in the securities of subsidiaries and associated companies of the company held through the company.

Except as set out above, as at 30 June 2005 none of the directors and chief executive 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 for Securities Transactions by Directors of Listed Companies to be notified to the company and the Stock Exchange.

## Interests of shareholders

So far as is known to any director or chief executive of the company, as at 30 June 2005, shareholders (other than a director or the chief executive 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

#### (a) Substantial Shareholders

	Capacity	Number of shares held in the company	% of the issued share capital of the company
Bermuda Trust Company Limited	Trustee	775,250,786	54.784(i)
Esko Limited	Interest of controlled corporation/ Beneficiary of trusts	420,468,740	29.713(ii)
Hesko Limited	Interest of controlled corporation/ Beneficiary of trusts	420,468,740	29.713(ii)
HWR Trustees Limited	Interest of controlled corporation	420,468,740	29.713(v)
Acorn Holdings Corporation	Beneficiary	379,356,340	26.808(i)
Lawrencium Corporation	Beneficiary	379,356,340	26.808(i)
Lakshmi Company Limited	Beneficiary	365,947,707	25.860(v)
Merlin Investments Limited	Beneficiary	365,947,707	25.860(v)
New Xenon Holding Corporation	Trustee	365,947,707	25.860(iii)
Mikado Holding Inc.	Trustee	284,856,525	20.130(iv)
Mikado Investments Limited	Interest of controlled corporation/ Beneficiary of trusts	284,856,525	20.130(iv)

These interests are duplicated to the extent of 3,687,675,071 shares. The net total of 775,250,786 shares reflects duplication of various directors' interests as set out in the section "Interests of directors and chief executive of this announcement".

#### Notes:

- (i) The 775,250,786 shares in which Bermuda Trust Company Limited was deemed to be interested as a trustee include the 420,468,740 shares in which Esko Limited and Hesko Limited were deemed to be interested, the 379,356,340 shares in which Acorn Holdings Corporation and Lawrencium Corporation were deemed to be interested and the 284,856,525 shares in which Mikado Investments Limited was deemed to be interested.
- (ii) The interests of Esko Limited and Hesko Limited are duplicated with each other's interests.
- (iii) The 420,468,740 shares in which Esko Limited and Hesko Limited were deemed to be interested as beneficiaries includes the 365,947,707 shares in which New Xenon Holding Corporation was deemed to be interested as trustee.
- (iv) The 284,856,525 shares in which Mikado Investments Limited was deemed to be interested as a beneficiary comprises the 284,856,525 shares in which Mikado Holding Inc. was deemed to be interested as trustee.
- (v) HWR Trustees Limited was deemed to be interested in the 365,947,707 shares in which New Xenon Holding Corporation was interested by virtue of having direct control over New Xenon Holding Corporation. HWR Trustees Limited was also deemed to be interested in another 54,521,033 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.

#### (b) Other Shareholders

	Capacity	Number of shares held in the company	% of the issued share capital of the company
Marathon Asset Management Ltd.	Investment Manager	70,382,432	5.019

Except as set out above, as at 30 June 2005 the company had not been notified of any shareholder (other than a director or chief executive 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.

## 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 by ensuring that the proper processes for oversight and management of its businesses are in place, in operation and are regularly reviewed. Detailed disclosure of the company's corporate governance practices and processes is available in the 2004 Annual Report.

In March 2005 the company adopted its own code on corporate governance practices which incorporates all the code provisions and a majority of the recommended best practices in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Throughout the period, the company complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14.

Further to the report on Corporate Governance contained in the 2004 Annual Report, the company has issued letters of appointment valid for a period of three years to non-executive directors and subsequent to a review process in 2004, the company adopted an amended Company Management Authority Manual in March 2005.

#### **Dealing in the company's securities by directors**

In February 2004, the company adopted its own Code for Dealing in the Company's Securities by Directors on terms no less exacting than the required standard set out in the Stock Exchange's Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10. 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's own dealing code during the period, and they have fully complied with the required standard set out in both codes.

#### **Dividend**

The interim dividend will be payable on or about 29 September 2005, to shareholders whose names appear on the register of members on 24 August 2005.

The register of members will be closed from 22 August to 24 August 2005, 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 at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:00 p.m. on Friday, 19 August 2005.

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 30 August 2005.

By Order of the Board  
**Christobelle Liao**  
*Company Secretary*  
Hong Kong, 28 July 2005

As at the date hereof, the board of directors of HSH comprises the following directors:

The Hon. Sir Michael Kadoorie (*Chairman*)  
Ian D Boyce (*Deputy Chairman*)  
Clement K M Kwok (*Managing Director and  
Chief Executive Officer*)  
Sir Sidney Gordon  
Ronald J McAulay  
William E Mocatta  
Dr The Hon. David K P Li\*

Robert C S Ng\*  
James S Dickson Leach  
Pierre R Boppe  
Robert W Miller\*  
C Mark Broadley (*Chief Financial Officer*)  
Patrick B Paul\*  
Peter C Borer (*Chief Operating Officer*)

\* *Independent non-executive director*

“Please also refer to the published version of this announcement in The Standard.”