

THE HONGKONG AND
SHANGHAI HOTELS, LIMITED

2006 Interim Report

香港上海大酒店有限公司 2006中期報告



Investor information 投資者資料

Board of Directors 董事局

Members of the Executive Committee 執行委員會成員

The Hon. Sir Michael Kadoorie 米高嘉道理爵士^E
Chairman 主席

Ian Duncan Boyce 貝思賢^{EAFR}
Deputy Chairman 副主席

Clement King Man Kwok 郭敬文^{EF}
Managing Director and Chief Executive Officer
董事總經理兼行政總裁

John Andrew Harry Leigh 利約翰^{EF}

Non-executive directors 非執行董事

Ronald James McAulay 麥高利

William Elkin Mocatta 毛嘉達

Pierre Roger Henri Robert Boppe 卜佩仁

Nicholas Timothy James Colfer 高富華

Independent non-executive directors 獨立非執行董事

Dr The Hon. Sir David Kwok Po Li 李國寶爵士

Robert Chee Siong Ng 黃志祥^A

Robert Warren Miller 麥禮賢^R

Patrick Blackwell Paul 包立德^{AR}

Executive directors 執行董事

Charles Mark Broadley 布樂尼^F
Chief Financial Officer 財務總裁

Peter Camille Borer 包華
Chief Operating Officer 營運總監

^E Executive Committee Members 執行委員會成員

^A Audit Committee Members 審核委員會成員

^F Finance Committee Members 財務委員會成員

^R Remuneration Committee Members 薪酬委員會成員

Company Secretary 公司秘書

Christobelle Yi Ching Liao 廖宜菁

Auditors 核數師

KPMG
Certified Public Accountants, Hong Kong

畢馬威會計師事務所

香港執業會計師

Shareholders' Calendar 股東行事曆

Closure of Register of Members	11 October 2006 to 13 October 2006 (both days inclusive)
暫停辦理股東登記日期	2006年10月11日至2006年10月13日(包括首尾兩日)
Deadline for scrip dividend election forms	9 November 2006 4:00 p.m.
遞交以股代息選擇表格截止日期	2006年11月9日下午4時正
Interim Dividend Payable	HK 5 cents per share 17 November 2006
派發中期股息	每股5港仙 2006年11月17日

Company Websites 公司網址

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The Peninsula Hotels 半島酒店：
<http://www.peninsula.com>

Investor Relations 投資者關係

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Listing Information 上市資料

Stock Code 股份代號 – 45

2006 INTERIM REPORT

Interim results

The directors hereby announce the unaudited interim results of the company for the six months ended 30 June 2006. 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 26.

Total turnover for the company amounted to HK\$1,710 million for the six months ended 30 June 2006, up 12% over the same period in 2005.

EBITDA (earnings before interest, tax, depreciation and amortisation) increased by 18% to HK\$583 million. The operating results reflect the continuing underlying strength of the company's performance amid sustained demand across the group's hotels and properties.

Profit before non-operating items increased by 40% to **HK\$398 million** (2005: HK\$285 million).

Profit attributable to shareholders amounted to **HK\$728 million** for the six months compared to HK\$1,268 million for the same period in 2005. To put the comparative figures in context, the profit attributable to shareholders in 2005 included a net one-off gain from the sale of The Kowloon Hotel.

Earnings per share were **51 cents** (2005: 90 cents). Excluding non-operating items and the related tax and minority interests effects, earnings per share increased 36% to **19 cents** (2005: 14 cents).

The directors have resolved to pay an interim dividend of **5 cents** per share (2005: 4 cents).

Shareholders' funds as at 30 June 2006 amounted to **HK\$15.6 billion**, or **HK\$11.0 per share**, compared to HK\$14.9 billion as at 31 December 2005. Net borrowings were HK\$2.3 billion and the company's gearing ratio has been reduced to 12.8%.

Consolidated income statement – unaudited (HK\$m)

	Note	For the six months ended 30 June	
		2006	2005
Turnover	2	1,710	1,533
Cost of inventories		(124)	(102)
Staff costs and related expenses		(529)	(492)
Rent and utilities		(140)	(129)
Other operating expenses		(334)	(318)
Operating profit before depreciation and amortisation (EBITDA)	2	583	492
Depreciation and amortisation		(121)	(126)
Operating profit		462	366
Financing charges	3(a)	(63)	(81)
Share of loss of a jointly controlled entity		(1)	-
Profit before non-operating items	3	398	285
Increase in fair value of investment properties	1(b)	546	-
Net gain on disposal of The Kowloon Hotel	4	-	945
Reversal of impairment losses		-	130
Profit before taxation		944	1,360
Taxation			
Current tax	5	(58)	(46)
Deferred tax	1(b), 5	(143)	(13)
Profit for the period		743	1,301
Attributable to:			
Shareholders of the company		728	1,268
Minority interests		15	33
Profit for the period		743	1,301
Interim dividend for the period	6	71	57
Earnings per share (HK cents)			
Basic	7(a)	51	90
Adjusted*	7(b)	19	14

* Adjusted for non-operating items, net of related tax and minority interests.

Consolidated balance sheet – unaudited (HK\$m)

	Note	As at 30 June 2006	As at 31 December 2005
Non-current assets			
Fixed assets			
Properties, plant and equipment	8(a)	4,562	4,406
Investment properties	8(b)	16,748	16,155
		21,310	20,561
Interest in a jointly controlled entity		452	446
Investment in a hotel management contract		166	168
Interests in unlisted equity instruments		52	52
Derivative financial instruments	9	49	23
Deferred tax assets		106	123
		22,135	21,373
Current assets			
Inventories		79	77
Debtors and payments in advance	10	246	216
Taxation recoverable		4	3
Derivative financial instruments	9	2	2
Cash and cash equivalents		253	301
		584	599
Current liabilities			
Creditors and accruals	10	(816)	(867)
Interest-bearing borrowings	11	(360)	(139)
Derivative financial instruments	9	(19)	(5)
Current taxation		(75)	(78)
		(1,270)	(1,089)
Net current liabilities		(686)	(490)
Total assets less current liabilities		21,449	20,883
Non-current liabilities			
Interest-bearing borrowings	11	(2,180)	(2,475)
Net defined benefit retirement obligation		(20)	(21)
Derivative financial instruments	9	(153)	(204)
Deferred tax liabilities		(2,721)	(2,577)
		(5,074)	(5,277)
Net assets		16,375	15,606
Capital and reserves			
Share capital	12	712	709
Reserves		14,920	14,187
Total equity attributable to shareholders of the company		15,632	14,896
Minority interests		743	710
Total equity		16,375	15,606

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

	Note	For the six months ended 30 June	
		2006	2005 <i>(restated)</i>
Total equity at 1 January			
Attributable to shareholders of the company		14,896	17,384
Minority interests		710	602
		<u>15,606</u>	<u>17,986</u>
Prior period adjustments arising from changes in accounting policies resulting from the adoption of the new accounting standards relating to property, plant and equipment (HKAS 16 and HK-Int 2), leasehold land and buildings (HKAS 17), investment property (HKAS 40), deferred tax on movements in fair value of investment properties (HK(SIC)-Int 21)		-	(5,030)*
As restated, before opening balance adjustments		15,606	12,956
Opening balance adjustments arising from the initial adoption of HKAS 32 and 39 relating to financial instruments		-	(304)
At 1 January, after prior period and opening balance adjustments		<u>15,606</u>	<u>12,652</u>
Net income for the period recognised directly in equity			
Exchange difference on translation of financial statements of foreign entities		62	(26)
Cash flow hedges: effective portion of changes in fair value, net of tax		38	(13)
Net income for the period recognised directly in equity		100	(39)
Cash flow hedges: transfer from equity to profit or loss, net of tax		11	210
transfer from equity to fixed assets, net of tax		2	1
		<u>13</u>	<u>211</u>
Net profit for the period		<u>743</u>	<u>1,301</u>
Total recognised income and expense for the period		<u>856</u>	<u>1,473</u>
Attributable to:			
Shareholders of the company		823	1,446
Minority interests		33	27
		<u>856</u>	<u>1,473</u>
Dividends distributed to shareholders of the company:			
By means of cash	6	(87)	(70)
By means of scrip		(55)	(56)
		<u>(142)</u>	<u>(126)</u>
Issue of new shares	12	55	89
Minority interests arising from business combination		-	40
Total equity at 30 June		<u>16,375</u>	<u>14,128</u>

* Includes HK\$2,008 million of deferred tax on revaluation gains of investment properties in Hong Kong not booked as at 1 January 2005 in the previous interim financial report.

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

	For the six months ended 30 June	
	2006	2005
Operating activities		
EBITDA	583	492
Tax paid	(63)	(21)
Other adjustments	(99)	(64)
Net cash from operating activities	421	407
Investing activities		
Acquisition of a subsidiary (note a)	-	(3)
Disposal of a subsidiary (note a)	-	1,685
Purchase of fixed assets	(209)	(195)
Loan granted to a jointly controlled entity	-	(136)
Interest/dividend received	2	4
Net cash (used in)/generated from investing activities	(207)	1,355
Net cash generated before financing activities	214	1,762
Net cash used in financing activities	(175)	(1,720)
Dividends paid	(87)	(70)
Net decrease in cash and cash equivalents	(48)	(28)
Cash and cash equivalents at 1 January	285	243
Effect of changes in foreign exchange rates	3	-
Cash and cash equivalents at 30 June (note b)	240	215

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

Note a The net cash generated 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)
	<u>(3)</u>	<u>1,685</u>

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 interests	(40)	-
Net assets acquired/(disposed of)	128	(705)
Interest in an associated company	(83)	-
Gain on disposal of a subsidiary company	-	(1,175)
	<u>45</u>	<u>(1,880)</u>
Consideration:		
Cash consideration paid	(13)	-
New shares issued	(32)	-
Sales consideration, net of expenses	-	1,880
	<u>(45)</u>	<u>1,880</u>

Note b Analysis of cash and cash equivalents

	As at 30 June	
	2006	2005
Cash at bank and on hand	253	232
Bank overdrafts	(13)	(17)
	<u>240</u>	<u>215</u>

Cash and cash equivalents at the end of the period include deposits with banks of **HK\$117 million** (2005: HK\$92 million) held by subsidiaries that are not freely remissible to the holding company because of currency exchange restrictions.

Notes to the interim financial report

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. It was authorised for issuance on 14 September 2006.

The interim financial report contains condensed consolidated financial statements and select explanatory notes which are in compliance with the Hong Kong Financial Reporting Standards (HKFRS) in issue.

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 2005. In addition, the adoption of the Amendments to HKAS 39 “Financial Instruments: Recognition and Measurement – Financial Guarantee Contracts” with effect from 1 January 2006 has no impact on the group’s results.

(b) Investment properties

In 2005, it was the group’s practice to state its investment properties at fair value, based on independent third party valuations conducted on an annual basis. Accordingly, no valuation was conducted on the group’s investment properties as at 30 June 2005 and there was no revaluation gain or loss and related deferred tax recorded in the consolidated income statement for the six months ended 30 June 2005.

With effect from 1 January 2006, in order to comply with the HKAS 40 “Investment Property”, the group states its investment properties at fair value, based on independent third party valuation, at both the interim and year-end balance sheet dates. This has resulted in an increase in the fair value of investment properties and a related deferred tax charge in the consolidated income statement for the six months ended 30 June 2006, amounting to HK\$546 million and HK\$89 million respectively. Accordingly, the carrying values of investment properties, deferred tax liabilities and minority interests have increased by HK\$546 million, HK\$89 million and HK\$2 million respectively in the consolidated balance sheet as at 30 June 2006.

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. By their nature, the revenue and operating performance of the group’s hotel business segment are subject to a higher degree of seasonality whilst those for the properties leasing segment are subject to a relatively lower degree of seasonality.

(a) Business segments

The group is comprised of 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 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 Tramways, food and beverage outlets other than those in owned hotels, wholesaling of food and beverage products, laundry, and provision of management and consultancy services for clubs.

2. Segment information (HK\$m) *continued*

(a) Business segments *continued*

Segment turnover and results

	Hotels*	Rentals from non-hotel properties	Other businesses	Consolidated
For the six months ended 30 June 2006				
Turnover				
Total segment	1,372	214	134	1,720
Inter-segment	-	(1)	(9)	(10)
	1,372	213	125	1,710
Segment operating profit before depreciation and amortisation				
	397	155	31	583
Depreciation and amortisation	(110)	-	(11)	(121)
Segment operating profit	287	155	20	462
Financing charges				(63)
Share of loss of a jointly controlled entity				(1)
Profit before non-operating item				398
Increase in fair value of investment properties				546
Profit before taxation				944
Capital expenditure, depreciation and amortisation				
Capital expenditure incurred	121	87	3	211
Depreciation and amortisation	110	-	11	121
For the six months ended 30 June 2005				
Turnover				
Total segment	1,247	184	109	1,540
Inter-segment	-	-	(7)	(7)
	1,247	184	102	1,533
Segment operating profit before depreciation and amortisation				
	335	122	35	492
Depreciation and amortisation	(115)	-	(11)	(126)
Segment operating profit	220	122	24	366
Financing charges				(81)
Profit before non-operating items				285
Net gain on disposal of The Kowloon Hotel				945
Reversal of impairment losses				130
Profit before taxation				1,360
Capital expenditure, depreciation and amortisation				
Capital expenditure incurred	99	40	19	158
Depreciation and amortisation	115	-	11	126
* Analysis of hotels' turnover				
	2006	2005		
Rooms	667	596		
Food and beverage	377	342		
Commercial	201	185		
Others	127	124		
	1,372	1,247		

2. Segment information (HK\$m) *continued*

(a) Business segments *continued*

Segment balance sheet

	Hotels	Rentals from non-hotel properties	Other businesses	Consolidated
As at 30 June 2006				
Assets				
Properties, plant and equipment	4,222	-	340	4,562
Investment properties	6,319	10,051	378	16,748
Interest in a jointly controlled entity	452	-	-	452
Investment in a hotel management contract	166	-	-	166
Interests in unlisted equity instruments	43	-	9	52
Other segment assets	251	21	53	325
Derivative financial instruments				51
Deferred tax assets				106
Taxation recoverable				4
Cash and cash equivalents				253
Total assets				<u>22,719</u>
Liabilities				
Segment liabilities	484	194	158	836
Bank loans and other liabilities				5,508
Total liabilities				<u>6,344</u>
As at 31 December 2005				
Assets				
Properties, plant and equipment	4,086	-	320	4,406
Investment properties	6,142	9,646	367	16,155
Interest in a jointly controlled entity	446	-	-	446
Investment in a hotel management contract	168	-	-	168
Interests in unlisted equity instruments	43	-	9	52
Other segment assets	232	21	40	293
Derivative financial instruments				25
Deferred tax assets				123
Taxation recoverable				3
Cash and cash equivalents				301
Total assets				<u>21,972</u>
Liabilities				
Segment liabilities	639	185	64	888
Bank loans and other liabilities				5,478
Total liabilities				<u>6,366</u>

2. Segment information (HK\$m) *continued*

(b) 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.

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	
	2006	2005	2006	2005	2006	2005
For the six months ended 30 June						
Turnover	747	694	436	351	527	488
Capital expenditure incurred	121	60	65	82	25	16
Depreciation and amortisation	28	30	43	41	50	55
As at 30 June 2006 / 31 December 2005						
Segment assets	16,075	15,442	3,655	3,494	2,575	2,584

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

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

(a) Financing charges

	For the six months ended 30 June	
	2006	2005
Interest on bank borrowings wholly repayable within 5 years	54	43
Interest on bank borrowings repayable after 5 years	1	4
Derivative financial instruments:		
cash flow hedges, transfer from equity	6	34
Others	6	5
	67	86
Less: Amount capitalised into fixed assets*	(4)	(5)
	63	81

* The average rate used to determine the amount of financing charges eligible for capitalisation was 2.4% (2005: 2.0%).

(b) Other items

	For the six months ended 30 June	
	2006	2005
Amortisation of a hotel management contract	3	3
Depreciation	118	123
Dividend income from unlisted equity instruments	-	(2)
Interest income	(2)	(2)

4. Net gain on disposal of The Kowloon Hotel (HK\$m)

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

* Due to the reduction of bank borrowings following the completion of the sale of The Kowloon Hotel, the loan interest hedging ratio was re-adjusted in 2005 by way of offsetting swap arrangements rendering some interest rate swap contracts ineffective. The one-off change in fair value of such contracts was therefore charged to the income statement as a non-operating item.

5. Taxation (HK\$m)

	For the six months ended 30 June	
	2006	2005
Current tax		
Hong Kong	26	21
Overseas	32	25
	<u>58</u>	<u>46</u>
Deferred tax		
Increase in deferred tax liabilities relating to revaluation of investment properties in		
Hong Kong*	79	-
Overseas	10	-
Write-down of deferred tax assets relating to unexpired tax losses	20	-
Increase in deferred tax liabilities relating to other temporary differences	34	13
	<u>143</u>	<u>13</u>
Taxation attributable to the company and its subsidiaries	<u>201</u>	<u>59</u>

The provision for Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the period. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

* 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. Dividends (HK\$m)

(a) Interim dividend for the period

	For the six months ended 30 June	
	2006	2005
Interim dividend declared and to be paid after the interim period of 5 cents per share (2005: 4 cents per share)	71	57

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

6. 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	
	2006	2005
Final dividend in respect of the financial year ended 31 December 2005, approved and paid during the following interim period, of 10 cents per share (year ended 31 December 2004: 9 cents per share)	142	126

For the final dividend in respect of 2005, scrip dividend elections were offered to shareholders other than those with registered addresses in Australia and the United States. Shareholders holding approximately 39% of the issued share capital of the company elected to receive their entitlement to the 2005 final dividend in the form of scrip, which resulted in the issue and allotment of approximately 5.9 million new shares on 23 June 2006.

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.

7. Earnings per share

(a) Earnings per share – basic

	For the six months ended 30 June	
	2006	2005
Profit attributable to shareholders of the company (HK\$m)	728	1,268
Weighted average number of shares in issue (million shares)*	1,418	1,406
Earnings per share (HK cents)	51	90

(b) Earnings per share – adjusted

	For the six months ended 30 June	
	2006	2005
Profit attributable to shareholders of the company (HK\$m)	728	1,268
Less:		
Increase in fair value of investment properties (HK\$m)	(546)	-
Net gain on disposal of The Kowloon Hotel (HK\$m)	-	(945)
Reversal of impairment losses (HK\$m)	-	(130)
Add:		
Tax and minority interests attributable to non-operating items (HK\$m)	91	(3)
Earnings excluding non-operating items and related tax and minority interests effects (HK\$m)	273	190
<i>Earnings per share – adjusted</i> (HK cents)	19	14

7. Earnings per share *continued*

(b) Earnings per share – adjusted *continued*

* *Weighted average number of shares* (million)

	2006	2005
<i>Issued shares at 1 January</i>	1,417	1,402
<i>Effect of new shares issued and allotted as part consideration to acquire a subsidiary</i>	-	3
<i>Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2005/2004 final dividends</i>	1	1
<i>Weighted average number of shares at 30 June</i>	1,418	1,406

8. Fixed assets (HK\$m)

(a) Acquisitions and disposals

During the six months ended 30 June 2006, the group acquired items of fixed assets with a cost of **HK\$216 million** (2005: HK\$158 million). Items of fixed assets disposed of during the six months ended 30 June 2006 were insignificant in value (2005: HK\$2 million).

(b) Valuation

All investment properties of the group were revalued as at 30 June 2006 on an open market value basis by firms of surveyors independent of the group, details of which are as follows:

Description of investment properties	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong		
– Retail shops, office and residential apartments	Savills (Hong Kong) Limited	Members of The Hong Kong Institute of Surveyors
Other Asia*		
– Retail shops, office and residential apartments and vacant land	Sallmanns (Far East) Limited Savills (Hong Kong) Limited	Members of Royal Institution of Chartered Surveyors and The Valuers Association of Thailand
United States of America		
– Retail shops and vacant land	HVS International Jones Lang LaSalle Hotels	Members of the Appraisal Institute, United States of America

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

As a result of the revaluation, a net gain of HK\$546 million and deferred tax thereon of HK\$89 million have been included in the consolidated income statement.

9. Derivative financial instruments (HK\$m)

	As at 30 June 2006		As at 31 December 2005	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	39	(4)	6	(32)
Forward foreign exchange contracts	2	-	3	-
Currency swap	-	(7)	2	-
	41	(11)	11	(32)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	-	(140)	-	(166)
Others	10	(21)	14	(11)
	51	(172)	25	(209)
Less: Current portion				
Cash flow hedges:				
Forward foreign exchange contracts	2	-	2	-
Held for trading, at fair value through profit or loss:				
Interest rate swaps	-	(19)	-	(5)
	2	(19)	2	(5)
Non-current portion	49	(153)	23	(204)

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

	Debtors and payments in advance	
	As at 30 June 2006	As at 31 December 2005
Trade debtors (ageing analysis is shown below)	92	94
Rental deposits and payments in advance	154	122
	246	216
	Creditors and accruals	
	As at 30 June 2006	As at 31 December 2005
Trade creditors (ageing analysis is shown below)	55	66
Interest payable	8	8
Accruals of fixed assets	48	43
Tenants' deposits	232	258
Golf membership deposits	46	43
Other payables	427	449
	816	867

The age analysis of trade debtors and trade creditors is as follows:

	Trade debtors		Trade creditors	
	As at 30 June 2006	As at 31 December 2005	As at 30 June 2006	As at 31 December 2005
Less than 3 months	89	90	54	65
More than 3 months but less than 6 months	3	3	-	1
More than 6 months	-	1	1	-
	92	94	55	66

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

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.

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

	As at 30 June 2006	As at 31 December 2005
Total facilities available:		
Bank loans and revolving credits	3,951	4,387
Uncommitted facilities, including bank overdrafts	1,202	1,086
	5,153	5,473
Utilised:		
Bank loans and revolving credits	2,509	2,594
Uncommitted facilities, including bank overdrafts	31	20
	2,540	2,614
<i>Represented by:</i>		
Short-term bank loans, repayable within 1 year or on demand	311	88
Current portion of long-term bank loans, repayable within 1 year	36	35
Bank overdrafts, repayable on demand	13	16
	360	139
Long-term bank loans, repayable:		
Within 1 year	36	35
Between 1 and 2 years	315	1,244
Between 2 and 5 years	1,865	1,164
After 5 years	-	67
	2,216	2,510
Less: Current portion of long-term bank loans	(36)	(35)
Non-current portion of long-term bank loans	2,180	2,475
Total interest-bearing borrowings	2,540	2,614

The total borrowings comprised the following variable rate bank loans and overdrafts that were:

	As at 30 June 2006	As at 31 December 2005
Unsecured	2,540	2,547
Secured mortgages over investment and hotel properties of a PRC subsidiary	-	67
Total interest-bearing borrowings	2,540	2,614

As at 31 December 2005, the secured banking facility and the book value of the mortgaged properties amounted to HK\$384 million and HK\$1,315 million respectively.

12. Share capital

	2006	2005
Number of shares of HK\$0.50 each (million)		
Authorised	1,800	1,800
Issued at 30 June / 31 December	1,423	1,417
Nominal value of shares (HK\$m)		
Authorised	900	900
Issued and fully paid at 30 June / 31 December	712	709

During the six months ended 30 June 2006, the company issued and allotted approximately 5.9 million new shares (at HK\$9.33 per share) in respect of the 2005 final scrip dividend. The new shares issued have resulted in an increase in fully paid share capital of approximately HK\$3 million and share premium of HK\$52 million. All ordinary shares issued during the period rank pari passu in all respects with the then existing shares in issue.

During the six months ended 30 June 2005, the company issued and allotted approximately 5.3 million new shares (at HK\$5.855 per share) as part consideration to acquire the 31.68% additional interest in Manila Peninsula Hotel, Inc. and approximately 7.5 million new shares (at HK\$7.62 per share) in respect of the 2004 final scrip dividend. The new shares issued have resulted in an increase in fully paid share capital of approximately HK\$6 million and share premium of HK\$83 million. All ordinary shares issued during the period rank pari passu in all respects with the then existing shares in issue.

13. Commitments (HK\$m)

Capital commitments outstanding at 30 June 2006 not provided for in the financial statements were as follows:

	As at 30 June 2006	As at 31 December 2005
Contracted for	537	525
Authorised but not contracted for	1,801	2,054
	2,338	2,579

Capital commitments include amounts in respect of the group's capital expenditure at existing properties and its commitment to the new hotel projects in Tokyo and Shanghai.

14. 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 2005.

15. Contingent liabilities

Contingent liabilities are at a similar level to that disclosed in the group's annual financial statements for the year ended 31 December 2005.

Financial review

Turnover for the period increased by 12% to HK\$1,710 million and EBITDA (earnings before interest, tax, depreciation and amortisation) increased by 18% to HK\$583 million. These increases were achieved due to sustained demand both for our hotel businesses, whose turnover and EBITDA increased by 10% and 19% respectively, and our non-hotel property rentals business, whose turnover and EBITDA increased by 16% and 27% respectively.

The group's EBITDA margin, representing EBITDA as a percentage of turnover, rose to **34%** (2005: 32%). Because of the fixed cost nature of a significant proportion of our operating costs, the percentage increase in EBITDA was significantly higher than the percentage increase in turnover.

Profit before non-operating items, which we consider to be the best measure of performance of our ongoing business operations, increased by 40% to HK\$398 million. This strong growth was helped by a reduction in financing charges payable by the group to HK\$63 million. This was 22% lower than the same period in 2005, mainly due to the lower average indebtedness of the group.

In respect of non-operating items, the increase in fair value of investment properties for the current period amounted to HK\$546 million, reflecting the positive sentiment of the property market in Hong Kong.

The company recorded a net profit attributable to shareholders of HK\$728 million for the current period. Net profit was after a total tax charge of **HK\$201 million** (2005: HK\$59 million) of which HK\$58 million was current taxation and HK\$89 million was deferred taxation in respect of the revaluation of the group's investment properties. Net assets attributable to shareholders stood at HK\$15.6 billion as at 30 June 2006.

Net borrowings remained at **HK\$2.3 billion** (31 December 2005: HK\$2.3 billion) whilst gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders' funds, decreased to **12.8%** (31 December 2005: 13.4%). Interest cover has improved, with operating profit at **7.3 times** (2005: 4.5 times) net financing charges. All secured borrowings, totalling HK\$67 million, were fully repaid during the period.

As at 30 June 2006, interest rates on **56%** (31 December 2005: 52%) of the borrowings, after all hedging arrangements, were fixed. The weighted average gross interest rate for the period was **5.0%** (2005: 4.8%) after all hedging activities.

The company manages its liquidity risk by constantly monitoring its loan portfolio and by obtaining sufficient borrowing facilities to meet its obligations and commitments. Taking advantage of the healthy liquidity in the market and the group's strong financial position with low leverage and high interest cover, banking facilities of over HK\$1 billion were refinanced on more favourable terms during the period. At 30 June 2006, total available facilities were **HK\$5.2 billion** (31 December 2005: HK\$5.5 billion), of which **49%** (31 December 2005: 48%) was drawn. All of the group's facilities are unsecured with the vast majority being obtained on a committed basis. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled **HK\$1.4 billion** (31 December 2005: HK\$1.8 billion).

Operating review

The company has enjoyed a positive operating environment for the six months ended 30 June 2006, and has achieved good progress in a number of areas.

There has been a significant increase in the volume of corporate travel as global businesses have embarked on an expansion phase, complementing a steady stream of leisure business. This in turn has benefitted food and beverage and other hotel revenues, which have also been boosted by better domestic consumption. More international business activity has created demand for quality office space and residential accommodation in Hong Kong thereby pushing up rental rates, whilst the high-end retail sector has also remained strong in Hong Kong and Beijing. This has benefitted the hotel shopping arcades as well as the revitalised Peak Tower, where 97% of the available space was committed before commencement of its phased re-opening beginning in early July 2006.

Total turnover for the hotels rose 10% over the same period in 2005 (13% if the contribution of The Kowloon Hotel in 2005 is excluded). Equally, the group's focus on improving the yield of our hotel assets has been rewarded with an average RevPAR increase at the Peninsula hotels of 11%. This success may be attributed to a mixture of demand outstripping supply, high standards of service, innovative marketing, and the company's policy of investing in existing assets to create value as well as to remain competitive. The year-to-date statistics for the hotels are as follows:

	For the six months ended 30 June				% RevPAR Improvement
	Occupancy %		Average Room Rate (HK\$)		
	2006	2005	2006	2005	
The Peninsula Hong Kong	81	81	3,119	2,810	11
The Peninsula New York	70	74	5,057	4,504	6
The Peninsula Chicago	65	65	3,202	2,731	17
The Peninsula Beverly Hills	85	83	4,574	4,073	15
The Peninsula Bangkok	73	68	1,430	1,312	17
The Peninsula Beijing*	63	75	1,397	1,143	3
The Peninsula Manila**	83	79	687	626	15
Quail Lodge Resort	56	59	2,081	2,044	(3)

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

**In 2006, due to renovation, the average number of rooms available for the period was reduced to 464.

The hotels, individually and as a group, continue to attract numerous accolades from prestigious consumer award surveys and feature regularly among the top named properties nationally and internationally. For example, all Peninsula hotels featured in the *Travel + Leisure 500 Best Hotels* list and the *Condé Nast World's Best Hotels Awards*. Most recently, The Peninsula Beverly Hills and The Peninsula Chicago were voted No. 1 and No. 2 respectively in the list of Top 20 US City Hotels in the annual readers' survey of the *World's Best Hotels*, in *Andrew Harper's Hideaway Report*, whilst both these hotels and The Peninsula Hong Kong were named in the *Robb Report's* list of *Luxury Hotels, the World's Ultimate City Escapes*.

Investment properties, continuing on a strong reversion cycle, have improved in both occupancy and yield, fuelled in particular by demand from the corporate sector in Hong Kong. Turnover from non-hotel properties for the first six months rose by 16% over 2005 despite the absence of contribution from The Peak Tower whilst this property was under renovation.

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\$)	
	2006	2005	2006	2005
Residential				
The Repulse Bay (Unfurnished)	93	83	33	26
The Repulse Bay (Serviced)	62	58	23	21
The Landmark, Ho Chi Minh City	97	94	17	16
Commercial				
The Peninsula Hong Kong	96	96	288	261
The Peninsula New York	100	100	346	291
The Peninsula Bangkok	100	100	55	55
The Peninsula Beijing	98	100	83	81
The Peninsula Manila	64	61	13	11
The Repulse Bay	100	100	67	65
Office				
The Peninsula Hong Kong	100	100	23	22
St. John's Building	98	88	19	15
The Landmark, Ho Chi Minh City	99	94	18	16

Other businesses that the company owns and operates have contributed an overall increase of 22% in revenue for the period. These include the Peak Tramways, which continued to operate normally during the renovation of The Peak Tower and saw a 7% rise in the number of passengers to 1,925,451; the Thai Country Club, which has enjoyed additional patronage following regrassing of the greens and the hosting of the Volvo Masters of Asia tournament and has achieved a 30% increase in revenue; and Peninsula Merchandising Limited, which has recorded a 67% increase in turnover thanks to the expansion of Peninsula Boutique franchises into several cities in Japan, Taiwan and Thailand, with more planned.

Asia

Hong Kong Hong Kong's economy has been strong, with visitor numbers to the city exceeding the pre-handover days. There has been a notable increase in the volume of corporate travellers, enabling the luxury hotel segment to achieve higher room rates and maintain healthy occupancy levels. The buoyant conditions have also affected the domestic market, with a healthy level of business and leisure entertaining leading to an increase in covers and average spend at the hotel's food and beverage outlets and banqueting.

In accordance with the company's strategy of enhancing its existing assets to maximise value, a 12,000 square foot spa, which had been under development at The Peninsula Hong Kong, was opened in May 2006. The response has been very positive and revenues achieved have been in line with budget. Taking an holistic approach to the trend for fitness and well-being, the hotel simultaneously launched The Peninsula Wellness programme, introducing lighter menus and organic foods in all its restaurants as well as in the spa itself. This initiative is being rolled out group-wide.

In the retail arcade, demand for additional space continues both from existing and new tenants. Some tenants, such as Louis Vuitton, have extended their premises into double-height spaces.

The influx of international business executives to Hong Kong has fuelled demand for luxury residential accommodation. The Repulse Bay has seen higher occupancy and rentals for the unfurnished apartments and use of the club facilities has risen accordingly. The serviced apartments, although showing some signs of growth, are in a much more competitive situation. The retail arcade is operating at full capacity and the complex's restaurants are experiencing satisfactory food and beverage sales.

The construction phase of The Peak Tower revitalisation, begun in April 2005, has now been largely completed. The handover to tenants for fit-out commenced in May 2006, and the first retail outlets soft-opened in early July. All outlets, including the restaurants, are expected to be open by the autumn and a grand opening event is scheduled for November.

Bangkok The Peninsula Bangkok has continued to turn in a solid performance, maintaining its position as a RevPAR leader in the city, and continually enhancing its reputation in prestigious consumer surveys. A three-storey, free-standing spa is under construction in a garden setting located to the rear of the existing swimming pool and is expected to open in December 2006.

Beijing The rebranding process which began with the substantial renovation of our hotel has now been completed with final refinements to its English and Chinese names, now branded "The Peninsula Beijing" in English and "Wangfu Bandao Jiudian" in Chinese. The Peninsula Beijing has continued to achieve growth in RevPAR and has attracted significant corporate and leisure business and international meetings since its upgrade. The distinctive Peninsula Suite has established itself as a premier venue for exclusive events and the hotel's commercial arcade, 98% tenanted, remains the leading venue for high-end retail in the city.

Manila Having acquired control of The Peninsula Manila during 2005, the company has embarked on a phased renovation programme of the hotel, which commenced in early June 2006. Guest rooms in the Makati Tower, the ballroom and various public areas including the Lobby, are being upgraded, with work scheduled for completion before the end of 2006. In the meantime, the hotel's RevPAR has continued to increase with a stable base of customers.

United States of America

New York The Peninsula New York has increased its RevPAR with general market conditions remaining strong in New York. In a competitive market where continual improvement is required to the physical product, we have approved a renovation of the spa, health club and swimming pool areas located in the top floors of the building.

Chicago The first half of 2006 has seen strong industry growth in the city, pushing average room rates at The Peninsula Chicago up by 17%. The hotel continues to be the RevPAR leader in its competitive set. A renovation of the hotel's spa was completed in the second quarter, creating a fresh look as well as two additional treatment suites and a new relaxation area. A new meeting room was also created by relocating and reducing the size of the business centre.

Los Angeles The market leader in occupancy, rate and RevPAR, The Peninsula Beverly Hills achieved record revenues for the first six months. A major renovation of the hotel's spa, completed in December 2005, has been complemented by upgrades to the Roof Terrace and the pool area.

Carmel The company's resumption of direct management of Quail Lodge Resort was smoothly accomplished at the beginning of April. The hotel has now embarked on a fresh chapter of its operations under the aegis of a new general manager who has been given the scope to restructure the management team, re-assess and make necessary changes to hotel services, re-invigorate the marketing and sales initiatives, and introduce new staff procedures and training practices.

New hotel projects

Progress has been made on the two major hotel projects currently under development – The Peninsula Tokyo and The Peninsula Shanghai.

The Peninsula Tokyo remains on schedule for opening in late 2007. The hotel building was topped out in early July and the pre-opening office has been established. Key executive appointments are beginning to be made, with the general manager and director of marketing already in place. Fit-out of the interiors has begun and the marketing programme will commence in earnest in September when a press launch of the hotel will take place.

The various stages of design development and planning have been under way for some time for The Peninsula Shanghai. In addition to receiving approvals from the relevant authorities for the schematic designs, application has now been made for the project planning permit. The foundation contract has been awarded, allowing the company to apply for the construction permit, receipt of which will enable piling to commence in the autumn. The interior design contract has also been awarded. A ground-breaking ceremony is planned to take place in the last quarter of the year.

Outlook

We have continued to experience good trends in the RevPAR of our hotels. In many of our markets, the second half of the year is traditionally the busiest period and we believe that the outlook remains positive for the remainder of the year, with forward reservations currently at a comfortable level.

As with other serious incidents that have temporarily disrupted travel patterns, the recent terrorist threats uncovered in Britain could have a short term impact on travel volumes. However, whilst on constant alert to the potential risks, industry observers indicate that the public appears to have factored such risks into their decisions to travel and the impact to date on our business is not discernible.

In our non-hotel properties, business sentiment in Hong Kong remains good, with continued growth in executive recruitment and demand for residential, office and commercial space. This has translated into higher occupancy and rental rate levels, particularly in the revitalised Peak Tower which has begun its phased re-opening.

Physical threats aside, there are other challenges ahead. At the macro level, rising oil prices and fluctuating interest rates may create a more uncertain backdrop, although they have shown no measurable impact on travel thus far. At the micro level, labour costs are an industry issue as an expanding hospitality market outpaces the available pool of trained staff. This is driving competition for the services of existing staff with a resulting knock-on effect on compensation levels. Risk management and cost containment, therefore, continue to be key issues for management.

Employees

The total number of employees, including those working in properties managed by the group, increased to **5,826** at 30 June 2006 (31 December 2005: 5,622). The increase in manpower occurred mainly as a result of the need for additional staff in the hotels to meet rising business volumes and maintain our standards of service.

Recruitment and staff retention are key areas for the company given its expansion plans and the high business volumes in its existing operations.

A major recruitment exercise is under way for The Peninsula Tokyo which is scheduled to open in September 2007. In addition to the announced appointments of the hotel's general manager and director of marketing, attention is currently devoted to filling the remaining key executive positions. Orientation programmes have also been held with the recently appointed Peninsula Ambassadors.

Providing existing staff with opportunities for polishing their professional skills and enabling them to further their careers through various training programmes is a high priority in employee development. On a group-wide basis, the second intake of 30 employees participating in the Group Professional Development Programme has embarked on the course which is under the direction of Cornell University's School of Hotel Management.

Community relations

The company and its divisions continue to support activities that benefit a wide range of organisations in the communities in which we operate.

Environment

Commitment to improving our internal practices in conserving water and energy continues within the operations; recycling materials is undertaken where the infrastructure in each destination permits this; and there is a noticeable shift towards using organic foodstuffs on our restaurant menus. We also support wider initiatives that are driven by the communities in which we operate, for example, the harbour protection and sustainable development efforts within Hong Kong.

Other corporate information

Interests of directors and chief executive

As at 30 June 2006, 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 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)	709,628,805	49.851
Mr Ian D Boyce	Beneficial Owner	205,418	0.014
Mr Clement K M Kwok	Beneficial Owner	616,259	0.043
Mr Ronald J McAulay	Note (b)	491,029,415	34.494
Mr William E Mocatta	Note (c)	1,017,000	0.071
Dr The Hon. Sir David K P Li	Beneficial Owner	513,546	0.036
Mr Robert C S Ng	Family	120,573	0.008
Mr Pierre R Boppe	Beneficial Owner	150,000	0.011
Mr C Mark Broadley	Beneficial Owner	205,418	0.014
Mr Peter C Borer	Beneficial Owner	115,994	0.008

Notes:

(a) *The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 709,628,805 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) *289,160,065 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 289,160,065 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) *Mr Ronald J McAulay was deemed (by virtue of the SFO) to be interested in 491,029,415 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) *70,560,675 shares were 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.*

Messrs Robert W Miller, Patrick B Paul, John A H Leigh and Nicholas T J Colfer, who are directors of the company, have each confirmed that they had no interests in the shares of the company as at 30 June 2006.

Except as set out above, as at 30 June 2006 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 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 2006, 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 J Niklaus Leuenberger	Beneficial Owner	1,500	0.0001
Mr Martyn P A Sawyer	Beneficial Owner	25,676	0.0018

Interests of shareholders

So far as is known to any director or chief executive of the company, as at 30 June 2006, 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

Substantial Shareholders

	Capacity	Number of shares held in the company	% of the issued share capital of the company
Bermuda Trust Company Limited	Trustee	780,189,480	54.808(i)
Esko Limited	Interest of controlled corporation/ Beneficiary of trusts	420,468,740	29.538(ii)
Hesko Limited	Interest of controlled corporation/ Beneficiary of trusts	420,468,740	29.538(ii)
Harneys Trustees Limited (formerly known as HWR Trustees Limited)	Interest of controlled corporation	420,468,740	29.538(v)
Acorn Holdings Corporation	Beneficiary	379,356,340	26.649(i)
Lawrencium Corporation	Beneficiary	379,356,340	26.649(i)
Lakshmi Company Limited	Beneficiary	365,947,707	25.707(v)
Merlin Investments Limited	Beneficiary	365,947,707	25.707(v)
New Xenon Holding Corporation	Trustee	365,947,707	25.707(iii)
Mikado Holding Inc.	Trustee	289,160,065	20.313(iv)
Mikado Investments Limited	Interest of controlled corporation/ Beneficiary of trusts	289,160,065	20.313(iv)

These interests are duplicated to the extent of 3,723,099,417 shares. The net total of 780,189,480 shares reflects duplication of various directors' interests as set out in the section "Interests of directors and chief executive" of this report.

Notes:

- (i) *The 780,189,480 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 289,160,065 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 include the 365,947,707 shares in which New Xenon Holding Corporation was deemed to be interested as trustee.*
- (iv) *The 289,160,065 shares in which Mikado Investments Limited was deemed to be interested as a beneficiary comprise the 289,160,065 shares in which Mikado Holding Inc. was deemed to be interested as trustee.*
- (v) *Harneys 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. Harneys 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.*

Except as set out above, as at 30 June 2006 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.

During the first half of 2006, Messrs John A H Leigh and Nicholas T J Colfer were elected as non-executive directors of the company at the Annual General Meeting held on 18 May 2006 to fill the vacancies left by the retirement of two non-executive directors, Sir Sidney Gordon and Mr James S Dickson Leach. These two new Board members are also directors of other businesses with which the majority shareholder is connected.

Mr John A H Leigh was appointed as a member of the Executive Committee and Finance Committee of the company in place of Mr James S Dickson Leach. Save as described, the composition of Board committees remains the same as set out in the Corporate Governance section of the 2005 Annual Report.

Detailed disclosure of the company's corporate governance practices and processes is available in the 2005 Annual Report.

Throughout the period, the company has complied with all the code provisions and a 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. In March 2005, the company adopted its own code on corporate governance which was updated in October 2005 and encompassed all code provisions and most of the recommended best practices in the CG Code.

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 (the "Company Code") on terms no less exacting than the required standard set out in the Stock Exchange's Model Code 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 Code during the period, and they have fully complied with the required standard set out in both the codes.

Dividend

The interim dividend will be payable on or about 17 November 2006, to shareholders whose names appear on the register of members on 13 October 2006.

The register of members will be closed from 11 October 2006 to 13 October 2006, 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 Tuesday, 10 October 2006.

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 19 October 2006.

By Order of the Board

Christobelle Liao

Company Secretary

Hong Kong, 14 September 2006

Independent review report to the board of directors of
The Hongkong and Shanghai Hotels, Limited

Introduction

We have been instructed by the company to review the interim financial report set out on pages 2 to 16.

Respective responsibilities of directors and auditors

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 interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent 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.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700, “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentations have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

As discussed in Note 1(b) to the interim financial report, the group’s investment properties were not revalued at 30 June 2005 as required under HKAS 40 “Investment Property” and accordingly comparative amounts in the income statement for the six months ended 30 June 2005 may not be comparable with the income statement for the six months ended 30 June 2006. It is not practicable for us to estimate the financial effect of this departure.

On the basis of our review which does not constitute an audit, with the exception of the matter referred to in the preceding paragraph in respect of comparative amounts, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

KPMG

Certified Public Accountants

Hong Kong, 14 September 2006

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Incorporated in 1866 and listed on the Hong Kong stock exchange, 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.

香港上海大酒店於一八六六年成立，為香港聯合交易所上市公司，附屬公司業務包括持有並管理若干位處亞洲及美國主要都會的豪華酒店、商用及住宅物業。



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