

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

2007 *Interim Report*
2007 中期報告



Financial and operating highlights

	For the six months ended 30 June		% Increase/ (Decrease)
	2007	2006	
Income statement			
Turnover (HK\$m)	1,998	1,710	17
EBITDA (HK\$m)	682	583	17
Profit before non-operating items (HK\$m)	484	398	22
Profit attributable to shareholders (HK\$m)	1,271	728	75
Interim dividend (HK\$m)	86	71	21
Earnings per share (HK cents)	89	51	75
Earnings per share excluding non-operating items (HK cents)*	27	19	42
Interim dividend per share (HK cents)	6	5	20
Interim dividend cover (times)	14.8x	10.3x	44
Interest cover (times)	10.0x	7.3x	37
Weighted average gross interest rate	4.6%	5.0%	(8)
	As at 30 June 2007	As at 31 December 2006	
Balance sheet			
Total assets (HK\$m)	26,680	24,609	8
Net assets attributable to shareholders (HK\$m)	18,617	16,982	10
Adjusted net assets attributable to shareholders (HK\$m)*	23,846	21,841	9
Net assets per share (HK\$)	12.95	11.89	9
Adjusted net assets per share (HK\$)*	16.58	15.29	8
Net borrowings (HK\$m)	1,829	2,076	(12)
Gearing	9%	11%	(18)
	For the six months ended 30 June 2007	2006	
Cash flow			
Net cash generated from operating activities (HK\$m)	570	421	35
Capital expenditure (HK\$m)	323	209	55
Net cash inflow after interest and dividends before financing activities (HK\$m)	231	35	560
Share information			
Highest share price (HK\$)	14.70	9.85	49
Lowest share price (HK\$)	11.36	8.00	42
Period end closing share price (HK\$)	13.82	8.60	61
Operating information			
Number of hotel rooms (at 30 June)	2,561	2,562	-
Number of employees (at 30 June)	6,081	5,824	4
Average occupancy rate			
– Asia	71%	73%	(3)
– United States of America	73%	70%	4
Average room rate (HK\$)			
– Asia	1,811	1,521	19
– United States of America	4,292	3,984	8
RevPAR (HK\$)			
– Asia	1,278	1,104	16
– United States of America	3,134	2,794	12

* Please refer to calculation in the Financial review section.

The Directors hereby announce the unaudited interim results of the Company for the six months ended 30 June 2007. 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 29 .

Financial review

The Group's financial statements are compiled in accordance with Hong Kong accounting standards under a set of accounting policies which have been adopted as from 1 January 2005. The Directors wish to draw the attention of the users of these financial statements to the following aspects of these accounting policies:

- Deferred taxation has been provided, at the profits tax rate, in respect of revaluation surpluses on the Group's investment properties which are mainly held in Hong Kong. It is the Directors' position that the Group's investment properties are held for the long term and that if any Hong Kong investment properties were sold, tax would not be payable on such disposal as the gain would be capital in nature and such gains are subject to a nil tax rate in Hong Kong. The Directors therefore expect that the provision for deferred taxation in respect of revaluation surpluses for Hong Kong investment properties, amounting to HK\$2,623 million as at 30 June 2007, would not materialise.
- Hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less depreciation and any provision for impairment, rather than at fair market value. In order to provide shareholders with additional information on the value of the Group's net assets, the Directors have commissioned an independent third party fair market valuation of the Group's hotel properties and golf courses as at 30 June 2007, the details of which are set out on page 4. If these assets are stated at fair market value instead of at cost less depreciation and any provision for impairment (and deferred tax is not provided on the revaluation surplus on the hotel property in Hong Kong on the same rationale as above), the Group's net assets attributable to shareholders would increase by HK\$2,606 million.

In the light of the above, the Directors have provided for shareholders' additional information a calculation of the Group's adjusted net asset value as at 30 June 2007 and 31 December 2006 on the basis set out below:

HK\$m	As at 30 June 2007	As at 31 December 2006
Net assets attributable to shareholders per reviewed/audited balance sheet	18,617	16,982
Writing back the deferred taxation provision in respect of revaluation surpluses on Hong Kong investment properties	2,623	2,407
Adjusting the value of hotels and golf courses to fair market value	3,243	3,127
Less: Related deferred tax and minority interests	(637)	(675)
	2,606	2,452
Adjusted net assets attributable to shareholders	23,846	21,841
Reviewed/audited net assets per share (HK\$)	12.95	11.89
Adjusted net assets per share (HK\$)	16.58	15.29

The Directors believe that the Company's profit and loss account and earnings per share include a number of items which are non-operating and/or non-recurring in nature, such as the increase in fair value of investment properties and the loss on disposal of an investment in Indonesia. As the Group continues to be managed with principal reference to its underlying operating cash flows and recurring earnings, the Directors have also provided a calculation of the Group's earnings per share excluding non-operating items on the basis set out below:

HK\$m	For the six months ended 30 June	
	2007	2006
Profit attributable to shareholders	1,271	728
Increase in fair value of investment properties	(1,256)	(546)
Loss on disposal of an investment in Indonesia	160	-
Tax and minority interests attributable to non-operating items	215	91
Earnings excluding non-operating items and related tax and minority interests effects	390	273
Earnings per share excluding non-operating items (HK cents)	27	19

The total turnover of the Group amounted to HK\$1,998 million for the six months ended 30 June 2007, up 17% over the same period in 2006. EBITDA (earnings before interest, tax, depreciation and amortisation) increased by 17% to HK\$682 million. The increases in turnover and EBITDA reflect the continuing underlying strength of the operating performance and sustained demand across the Group's hotels and properties.

The Group's EBITDA margin, representing EBITDA as a percentage of turnover, remained at 34% (2006: 34%) despite the inclusion during the period of HK\$22 million of pre-opening expenses for The Peninsula Tokyo, which opened on 1 September 2007. In addition, the Group continued to monitor and control its overall level of costs with some measure of success. It should be noted that the absolute level of staff cost increased due to a combination of increased head count at certain operations such as the Group's spas and the airline lounges in Hong Kong as well as due to the exchange rate effect of the appreciation of certain Asian currencies.

The profit before non-operating items, which we consider to be the best measure of performance of the Group's ongoing business operations, increased by 22% to HK\$484 million (2006: HK\$398 million).

In respect of non-operating items, the increase in fair value of investment properties for the current period amounted to HK\$1,256 million (2006: HK\$546 million), which was mainly attributable to properties in Hong Kong. At the same time, the disposal of an investment in Indonesia resulted in an increase of HK\$92 million in net assets, but a non-operating loss of HK\$160 million after taking into account historical exchange losses of HK\$252 million previously held in the exchange reserve.

The profit attributable to shareholders amounted to HK\$1,271 million for the six months compared to HK\$728 million for the same period in 2006. This figure was after a total tax charge of HK\$280 million (2006: HK\$201 million), which includes deferred taxation in respect of the increase in fair value of investment properties amounting to HK\$216 million (2006: HK\$89 million).

The earnings per share were 89 cents (2006: 51 cents). Excluding non-operating items and the related tax and minority interests, earnings per share increased by 42% to 27 cents (2006: 19 cents).

The Directors have resolved to pay an interim dividend of 6 cents per share (2006: 5 cents per share).

The Group has a strong balance sheet. The net assets attributable to shareholders as at 30 June 2007 amounted to HK\$18,617 million, or HK\$12.95 per share, compared to HK\$16,982 million, or HK\$11.89 per share, as at 31 December 2006.

According to the Company's accounting policies, hotel properties (other than shopping arcades and offices at hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties are stated at fair value. In order to provide additional

information to shareholders on the current market value of our hotels and golf courses as appraised by independent third party valuers, a summary of the Group's fixed assets (excluding properties under development in Tokyo and Shanghai) showing both the book value and the market value attributable to the Group at 30 June 2007 is set out in the following table:

	Market Valuation (HK\$m)	HSH Interest (%)	Attributable Market Value (HK\$m)	Attributable Book Value (HK\$m)
Hotels				
Owned hotels				
The Peninsula Hong Kong	8,234	100%	8,234	6,597
The Peninsula New York	1,754	100%	1,754	905
The Peninsula Chicago	1,297	92.5%	1,200	1,170
The Peninsula Bangkok	849	75%	637	705
The Peninsula Beijing	2,071	42.13%	873	572
The Peninsula Manila	369	76.09%	281	203
Quail Lodge Resort	160	100%	160	160
	<u>14,734</u>		<u>13,139</u>	<u>10,312</u>
Managed hotel				
The Peninsula Beverly Hills (at net cost)	449	20%	90	90
Total for hotels	<u>15,183</u>		<u>13,229</u>	<u>10,402</u>
Non-hotel properties for rental				
The Repulse Bay	6,165	100%	6,165	6,165
Repulse Bay Apartments	3,963	100%	3,963	3,963
Repulse Bay Garage	81	100%	81	81
The Peak Tower	773	100%	773	773
St. John's Building	498	100%	498	498
The Landmark	82	70%	57	57
Total for non-hotel properties for rental	<u>11,562</u>		<u>11,537</u>	<u>11,537</u>
Other properties				
Golf courses				
Thai Country Club	247	75%	185	185
Quail Lodge Golf Club	34	100%	34	34
Sub-total for golf courses	<u>281</u>		<u>219</u>	<u>219</u>
Vacant land				
Vacant land near Bangkok	361	75%	271	271
Quail Lodge Land	80	100%	80	80
Sub-total for vacant land	<u>441</u>		<u>351</u>	<u>351</u>
Other properties in use				
Po Yip Building, Flats 2&3, 1/F	28	100%	28	28
1 Lugard Road	2	100%	2	-
Sun Hing Industrial Building, Units 1&2, 5/F	3	100%	3	-
Sub-total for other properties in use	<u>33</u>		<u>33</u>	<u>28</u>
Total for other properties	<u>755</u>		<u>603</u>	<u>598</u>
Other fixed assets (at net cost)	<u>87</u>	100%	<u>87</u>	<u>87</u>
Total (excluding properties under development)	<u>27,587</u>		<u>25,456</u>	<u>22,624</u>

During the period, net borrowings decreased by 12% to HK\$1,829 million (31 December 2006: HK\$2,076 million) and the Company's gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders' funds, decreased to 9% (31 December 2006: 11%). Interest cover has improved, with operating profit at 10 times (2006: 7.3 times) net financing charges.

In addition to the above Group borrowings, The Peninsula Beverly Hills (20% owned) and The Peninsula Shanghai (50% owned) have obtained non-recourse bank borrowings, which are not consolidated in the Group's balance sheet as the entities owning the assets are not subsidiaries. Including the Group's share of net debts of these non-consolidated entities, the net borrowings amounted to HK\$1,977 million at 30 June 2007 (31 December 2006: HK\$2,189 million).

As at 30 June 2007, interest rates on 54% (31 December 2006: 51%) of the Group's borrowings (including anticipated borrowings that are hedged with future effective dates) were fixed. The weighted average gross interest rate for the period decreased to 4.6% (2006: 5.0%) after taking hedging activities into account.

The Company manages its liquidity risk by constantly monitoring its loan portfolio and by obtaining sufficient borrowing facilities to meet its obligations and commitments. In the light of the Group's healthy cashflow position resulting in its reduced debt level, the total available borrowing facilities decreased to HK\$4,774 million (31 December 2006: HK\$5,058 million), of which 56% (31 December 2006: 50%) was drawn at 30 June 2007. In addition, the Group refinanced HK\$928 million of its banking facilities on more favourable terms. All the Group's borrowing facilities are unsecured with the vast majority being obtained on a committed basis. Undrawn committed facilities, in the form of revolving credits, totalled HK\$1,022 million (31 December 2006: HK\$1,479 million).

As at 30 June 2007, after accounting for currency hedging, approximately 76%, 10%, 9%, 4% and 1% (31 December 2006: 76%, 10%, 9%, 4% and 1%) of the Group's net assets were denominated in Hong Kong dollars, United States dollars, Chinese Renminbi, Thai Baht and Philippine Pesos respectively. These net assets were translated into Hong Kong dollars at the closing exchange rates. Owing to appreciation of most Asian currencies during the period, a net translation gain of HK\$174 million (2006: HK\$62 million) was recorded in the exchange reserve.

During the period, net cash generated from operating activities increased to HK\$570 million (2006: HK\$421 million) whilst total capital expenditure amounted to HK\$323 million (2006: HK\$209 million), of which HK\$284 million (2006: HK\$39 million) was spent on the development of The Peninsula Tokyo.

Operating review

The positive operating environment for our businesses has continued for the six months ended 30 June 2007. Demand for quality accommodation remains strong at this stage, with continued ability to drive rates in our key markets. Whilst this positive background continues, however, many of our hotels already enjoy high occupancy levels and potential for further occupancy growth may be limited in some cases.

The total turnover in HK Dollars for the hotels division rose 13% over the same period in 2006. It should be noted that strong exchange rates in Thailand and The Philippines have positively impacted the reported results in HK Dollars compared with 2006. The Group's hotel assets have mostly achieved increases in RevPAR in line with, or ahead of, competitor hotels in the relevant markets, with an average RevPAR increase across all Peninsula Hotels of 14%. The response to the renovation of the Makati Tower in The Peninsula Manila (carried out from May to November 2006) has been particularly pleasing, as shown in the increase in RevPAR for the hotel. 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\$)		
	2007	2006	2007	2006	
The Peninsula Hong Kong	77	81	3,674	3,119	12
The Peninsula New York	74	70	5,699	5,057	18
The Peninsula Chicago	67	65	3,396	3,202	9
The Peninsula Beverly Hills	85	85	4,978	4,574	9
The Peninsula Bangkok	67	73	1,681	1,430	8
The Peninsula Beijing	62	63	1,616	1,397	14
The Peninsula Manila*	79	77	987	687	47
Quail Lodge Resort	66	56	1,903	2,081	7

* For the first six months of 2006, an average of 34 rooms were closed for renovation at The Peninsula Manila.

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 were featured in the *Condé Nast Traveler* Gold List, and five appeared in *Town & Country's* Luxury Survey of Favourite City Hotels. On the business side, The Peninsula Hotels was awarded best business hotel chain in the world both by *Business Traveller Asia Pacific* and *Condé Nast Traveler*, while The Peninsula Bangkok and The Peninsula Chicago took 1st and 2nd place awards respectively as World Best Business Hotel in *Travel + Leisure*, with The Peninsula Hong Kong in the top slot in *Business Traveller* Germany.

The Peninsula Chicago was also rated the no. 1 hotel in the 2007 *Zagat* survey of US hotels, resorts and spas, while The Peninsula Hong Kong won "Best Hotel in the World" for the fourth consecutive year in the Luxury Travel Gold Awards. The "Naturally Peninsula – Flavours" cookbook was awarded the World's Best Cookbook Photography in the Gourmand World Cookbook Awards 2006.

Turnover from our residential, commercial and office properties for the first six months rose by 20% over 2006, due to sustained demand for luxury residential accommodation and the continued growth of the local economy, both of which are supported by the strength of the financial and multi-national sectors. The high-end retail sector has also remained strong in Hong Kong and Beijing, benefitting the hotel shopping arcades and other commercial spaces. Most of our investment properties, including the newly renovated Peak Tower, are fully leased.

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

	For the six months ended 30 June			
	Occupancy %		Average monthly yield per sq ft (HK\$)	
	2007	2006	2007	2006
Residential				
The Repulse Bay (Unfurnished)	93	93	35	33
The Repulse Bay (Serviced)	74	62	29	23
The Landmark	99	97	17	17
Commercial				
The Peninsula Hong Kong	96	96	316	288
The Peninsula New York	100	100	343	346
The Peninsula Bangkok	100	100	72	55
The Peninsula Beijing	97	98	91	83
The Peninsula Manila	74	64	17	13
The Repulse Bay	100	100	68	67
The Peak Tower *	100	42	53	5
Office				
The Peninsula Hong Kong	100	100	25	23
St. John's Building	98	98	23	19
The Landmark	100	99	20	18

* For the first six months of 2006, The Peak Tower was partially closed for renovation.

The other businesses which we operate have contributed an overall increase of 58% in revenue for the period. These include The Peak Tramways, which saw an 18% rise in the number of passengers to 2.3 million for the first six months; the Thai Country Club, which maintained business levels despite political uncertainties in Thailand; Peninsula Merchandising Limited, which has recorded a 135% increase in turnover thanks to the continued expansion of Peninsula Boutiques into China and Japan; and Peninsula Clubs and Consultancy Services which has increased profitability by 82%, with a significantly increased contribution from its airport lounge operations.

Asia

Hong Kong The Peninsula Hong Kong has continued to be the room rate and RevPAR leader in Hong Kong, setting a new record for both room rate (HK\$4,118) and RevPAR (HK\$3,274) in April 2007. However, although there has been growth in visitor arrivals from mainland China and regional markets, visitor arrivals from long haul markets has been stagnant. As a result of the change in customer mix, the average length of stay has been shortened and the occupancy level dropped slightly.

Business in The Peninsula Hong Kong's restaurants has exceeded last year's performance with average spend per guest growing steadily. On the spa front, pricing has been adjusted in line with usage and competition. For the hotel's commercial arcade, demand continues to be strong from many world-renowned luxury brands, including a number which have set up shops in Hong Kong for the first time. Rents generated from the arcade have grown by nearly 10% over the same period last year.

Bangkok The political uncertainties in Thailand following the coup in September 2006 and the bombings at the end of last year have impacted the occupancy of The Peninsula Bangkok and other hotels in the city. Although the number of international travellers from the USA and Europe has declined, the hotel is achieving more than its fair market share from within the region.

Beijing Although travel volume to Beijing is increasing in both the corporate and leisure sectors in the lead-up to the 2008 Olympic Games, the increase in the supply of luxury hotel rooms has outpaced demand. Several new five star properties have opened, and there are several more to come. The challenge is to maintain and increase market share, while maintaining room rates. The Peninsula Beijing has been able to increase its RevPAR over 2006 by 14%, which we believe compares favourably with the competitor set. With increased competition, the ability to attract and retain top employees is increasingly challenging, and the hotel has placed considerable emphasis on employee development.

Manila The renovation of all the guest rooms in the Makati Tower, the ballroom, the lobby and various public areas in The Peninsula Manila was completed on time and within budget, and has been extremely well received. The average room rate being achieved for the renovated Makati Tower guest rooms is now well above the similar rooms in the unrenovated Ayala Tower. The success of the renovation has led to an advancement of the renovation of the Ayala Tower, which is planned to commence in 2008.

United States of America

New York The Peninsula New York increased its RevPAR by 18%, with general market conditions remaining very strong in the city. The renovation of the spa, health club and swimming pool areas located in the top floors of the building is scheduled to commence in 2008.

Chicago Business levels in the city have been in line with 2006, although effective rate strategies at The Peninsula Chicago have enabled the average room rate to be increased and the hotel to maintain its position as the room rate and RevPAR leader in Chicago. These gains are balanced however against higher costs for payroll, repairs and maintenance, real estate taxes and depreciation.

Los Angeles The market leader in occupancy, room rate and RevPAR, The Peninsula Beverly Hills has continued to perform very well. Targeted direct mail campaigns for off-peak shoulder periods have proven successful in filling periods which have traditionally been quieter.

Carmel Quail Lodge Resort has undergone a process of adjustment since the Company's resumption of direct management in April 2006. This has impacted on every area of the resort's operations, and has resulted in improving revenue levels, and increased profitability for the hotel departments as well as the golf operation.

New hotel projects

After a three year construction period, The Peninsula Tokyo opened for business on 1 September 2007. Located in the prestigious Marunouchi business district, Tokyo's banking and financial centre, and overlooking the Imperial Palace and adjacent to Ginza, the hotel building was handed over by the contractors to our partner Mitsubishi Estate Company and Peninsula of Tokyo Limited as the operator on 31 May 2007.

With recent luxury hotels in Tokyo opting to be part of high-rise office buildings or multi-use complexes, The Peninsula Tokyo stands unique in that it is the only free-standing luxury hotel to be built in Tokyo in more than a decade. At 24 storeys high, The Peninsula Tokyo features 314 guest rooms – among the largest in Tokyo – including 47 suites, five restaurants, two ballrooms, function rooms, a spa, a fitness centre and shopping arcade.

An international advertising campaign was launched in July, after which the hotel began accepting reservations. By the time the hotel opened, the staff number had grown to its full complement of 560, including 20 Peninsula Tokyo Ambassadors who for the past year had undergone intensive overseas training in The Peninsula Hong Kong and The Peninsula Bangkok.

In China, construction of The Peninsula Shanghai has progressed rapidly since ground-breaking in October 2006, with the foundation works and diaphragm walls having been completed by July 2007. In early September, above-the-ground construction work for the hotel had reached the second floor. Most of the design consultants have been appointed, while the hotel's façade mockup and model guest room had been approved for design purposes. Located on the famous Bund, the hotel and apartment complex is expected to open in 2009, in time for the Shanghai World Expo in 2010.

Outlook

The market outlook for our operations varies from country to country. In Hong Kong, continuing growth in the local economy is likely to underpin the commercial and luxury residential leasing markets, benefitting our investment properties, in particular The Repulse Bay and The Peninsula Hong Kong retail arcade. At the same time, The Peninsula Hong Kong, The Peak Tower and The Peak Tram continue to benefit from strong visitor arrivals. The renovation of the Peak Tram Lower Terminus will be completed in September, culminating in the opening of The Peak Tram Historical Gallery.

Conditions in Bangkok and Beijing are currently more challenging. In Bangkok, political uncertainty and local currency appreciation may continue to have an adverse effect on foreign investment and long-haul arrivals from Europe and the United States. In Beijing, several new luxury hotels have opened and with several more to come as China's capital gears up for the 2008 Olympic Games, competition has intensified significantly. On the other hand, we continue to see improved business at The Peninsula Manila with the renovated guestrooms performing well.

With relatively stable conditions in the markets where the Group operates, our US hotels continue to focus on facility and service enhancements and to augment marketing activities. Cost management continues to be a challenge with tight labour markets and rising labour costs.

Other corporate information

Interests of Directors and Chief Executive

As at 30 June 2007, 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)	718,713,330	49.989
Mr. Ian D. Boyce	Beneficial Owner	208,236	0.015
Mr. Clement K. M. Kwok	Beneficial Owner	624,714	0.044
Mr. Ronald J. McAulay	Note (b)	497,070,789	34.573
Mr. William E. Mocatta	Note (c)	1,017,000	0.071
Dr. The Hon. Sir David K. P. Li	Beneficial Owner	520,591	0.036
Mr. Robert C. S. Ng	Family	122,227	0.009
Mr. Pierre R. Boppe	Beneficial Owner	150,000	0.010
Mr. C. Mark Broadley	Beneficial Owner	208,236	0.015
Mr. Peter C. Borer	Beneficial Owner	177,584	0.012
Mr. John A. H. Leigh	Note (d)	370,401,101	25.763

Notes:

- (a) *The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 718,713,330 shares in the Company. These shares were held in the following capacity:*
- (i) *425,585,643 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and discretionary objects.*
 - (ii) *293,127,687 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.*
- For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 718,713,330 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in those shares.*
- (b) *Mr. Ronald J. McAulay was deemed (by virtue of the SFO) to be interested in 497,070,789 shares in the Company. These shares were held in the following capacity:*
- (i) *425,585,643 shares were ultimately held by discretionary trusts, of which Mr. Ronald J. McAulay is one of the discretionary objects.*
 - (ii) *71,485,146 shares were ultimately held by a discretionary trust, of which Mr. Ronald J. McAulay, his wife and members of his family are discretionary objects.*
- (c) *Mr. William E. Mocatta is the founder of a discretionary trust which is the ultimate owner of the 1,017,000 shares.*
- (d) *Mr. John A. H. Leigh, in his capacity as one of the trustees of a charitable trust which is one of the ultimate owners of unit trusts which indirectly hold 370,401,101 shares, was deemed to be interested in the 370,401,101 shares.*

Messrs. Robert W. Miller, Patrick B. Paul, 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 2007.

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

Except as set out above, as at 30 June 2007 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 2007, the interests of the senior management (other than Directors) in the shares and underlying shares of the Company were as follows:

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Mr. Martyn P. A. Sawyer	Beneficial Owner	25,900	0.0018

Interests of Substantial Shareholders

So far as is known to any Director or Chief Executive of the Company, as at 30 June 2007, 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 of the Company

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Bermuda Trust Company Limited	Trustee	790,198,476	54.961(i)
The Mikado Private Trust Company Limited	Trustee	718,713,330	49.989(ii)
Bermuda Trust (Cayman) Limited	Trustee	441,886,247	30.735(v)
Acorn Holdings Corporation	Beneficiary	425,585,643	29.601(i)
Lawrencium Holdings Limited	Beneficiary	425,585,643	29.601(i)
Harneys Trustees Limited	Interest of controlled corporation	425,585,643	29.601(v)
Goshawk Investments Limited	Beneficiary	370,401,101	25.763(i)
Guardian Limited	Beneficiary	370,401,101	25.763(i)
Lakshmi Company Limited	Beneficiary	370,401,101	25.763(v)
Merlin Investments Limited	Beneficiary	370,401,101	25.763(v)
Mr. Jason Holroyd Whittle	Beneficiary	370,401,101	25.763(i)
Mrs. Deborah Whittle	Beneficiary	370,401,101	25.763(i)
Mr. Richard Parsons	Trustee	370,401,101	25.763(i)
New Boron Holding Corporation	Trustee	370,401,101	25.763(iii)
New Xenon Holding Corporation	Trustee	370,401,101	25.763(iii)
Lawrencium Mikado Holdings Limited	Beneficiary	293,127,687	20.388(ii)
The Magna Foundation	Beneficiary	293,127,687	20.388(i)
Mikado Holding Inc.	Trustee	293,127,687	20.388(iv)
Mikado Investments Limited	Interest of controlled corporation/ Beneficiary of trusts	293,127,687	20.388(iv)

These interests are duplicated to the extent of 6,943,477,163 shares. The net total of 790,198,476 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 790,198,476 shares in which Bermuda Trust Company Limited was deemed to be interested as a trustee include (1) the 425,585,643 shares in which Acorn Holdings Corporation, Lawrencium Holdings Limited, Goshawk Investments Limited, Guardian Limited, Mr. Jason Holroyd Whittle, Mrs. Deborah Whittle and Mr. Richard Parsons were deemed to be interested; (2) the 293,127,687 shares in which Mikado Investments Limited, The Magna Foundation and Lawrencium Mikado Holdings Limited were deemed to be interested; and (3) the 718,713,330 shares in which The Mikado Private Trust Company Limited was deemed to be interested.*
- (ii) *The Mikado Private Trust Company Limited controlled Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.*
- (iii) *The 425,585,643 shares in which Acorn Holdings Corporation and Lawrencium Holdings Limited were deemed to be interested as beneficiaries include the 370,401,101 shares in which New Boron Holding Corporation and New Xenon Holding Corporation were deemed to be interested as trustee.*
- (iv) *The 293,127,687 shares in which Mikado Investments Limited was deemed to be interested as a beneficiary comprises the 293,127,687 shares in which Mikado Holding Inc. as trustee and The Magna Foundation as beneficiary were deemed to be interested.*
- (v) *Harneys Trustees Limited was deemed to be interested in the 370,401,101 shares in which New Boron Holding Corporation and New Xenon Holding Corporation were interested by virtue of having direct control over New Xenon Holding Corporation. Harneys Trustees Limited was also deemed to be interested in another 55,184,542 shares through other controlled corporations. Lakshmi Company Limited and Merlin Investments Limited were deemed to be interested in the shares in which New Xenon Holding Corporation was interested. Bermuda Trust (Cayman) Limited controlled Lakshmi Company Limited and Merlin Investments Limited and was therefore deemed to be interested in the shares in which Lakshmi Company Limited and Merlin Investments Limited were interested.*

Except as set out above, as at 30 June 2007 the Company had not been notified of any substantial 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.

Interests of Any Other Persons

As at 30 June 2007, the Company had not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of SFO.

Purchase, Sale and Redemption of Listed Securities

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

Corporate Governance

The Company is committed to fulfilling its responsibilities to shareholders 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 2006 Annual Report.

Throughout the period, the Company has complied with all the code provisions and the majority of the recommended best practices as set out in the Code on Corporate Governance Practices (CG Code) in Appendix 14 of the Listing Rules. In March 2005, the Company adopted its own code on corporate governance which was updated in October 2005 and which 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 Code for Dealing in the Company's Securities by Directors (the "Securities Code") on terms no less exacting than the required standard set out in the Stock Exchange's Model Code in Appendix 10. The Company has also extended the Securities Code to specified individuals.

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

Dividend

The interim dividend will be payable on or about 16 November 2007, to shareholders whose names appear on the register of members on 12 October 2007.

The register of members will be closed from 10 October 2007 to 12 October 2007, both days inclusive, during which period no transfer of shares can be registered.

To be entitled to receive the interim dividend, shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Company's registrars, Computershare Hong Kong Investor Services Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 9 October 2007.

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 18 October 2007.

By Order of the Board

Christobelle Liao

Company Secretary

Hong Kong, 12 September 2007

Interim financial report

Consolidated income statement – unaudited (HK\$m)

	Note	For the six months ended 30 June	
		2007	2006
Turnover	2	1,998	1,710
Cost of inventories		(150)	(124)
Staff costs and related expenses		(619)	(529)
Rent and utilities		(153)	(140)
Pre-opening expenses of a hotel	3(a)	(22)	-
Other operating expenses		(372)	(334)
Operating profit before depreciation and amortisation (EBITDA)	2	682	583
Depreciation and amortisation		(144)	(121)
Operating profit		538	462
Financing charges	3(b)	(54)	(63)
Share of loss of a jointly controlled entity		-	(1)
Profit before non-operating items	3	484	398
Increase in fair value of investment properties		1,256	546
Net loss on disposal of an unlisted equity instrument	4	(160)	-
Profit before taxation		1,580	944
Taxation			
Current tax	5	(72)	(58)
Deferred tax	5	(208)	(143)
Profit for the period		1,300	743
Attributable to:			
Shareholders of the Company		1,271	728
Minority interests		29	15
Profit for the period		1,300	743
Earnings per share, basic and diluted (HK cents)	6	89	51
Interim dividend for the period	7(a)	86	71

The notes on pages 18 to 28 form part of this interim financial report.

Consolidated balance sheet – unaudited (HK\$m)

	Note	As at 30 June 2007	As at 31 December 2006
Non-current assets			
Fixed assets	8		
Properties, plant and equipment		5,524	5,223
Investment properties		19,078	17,728
		24,602	22,951
Interest in a jointly controlled entity		482	470
Investment in a hotel management contract		160	163
Interests in unlisted equity instruments		39	52
Derivative financial instruments	9	46	28
Deferred tax assets		86	98
		25,415	23,762
Current assets			
Inventories		89	86
Debtors and payments in advance	10	349	308
Taxation recoverable		-	3
Derivative financial instruments	9	2	3
Cash and cash equivalents		825	447
		1,265	847
Current liabilities			
Creditors and accruals	10	(1,082)	(1,111)
Interest-bearing borrowings	11	(396)	(306)
Derivative financial instruments	9	(49)	(8)
Current taxation		(103)	(93)
		(1,630)	(1,518)
Net current liabilities		(365)	(671)
Total assets less current liabilities		25,050	23,091
Non-current liabilities			
Interest-bearing borrowings	11	(2,258)	(2,217)
Net defined benefit retirement obligation		(23)	(23)
Derivative financial instruments	9	(176)	(206)
Deferred tax liabilities		(3,111)	(2,880)
		(5,568)	(5,326)
Net assets		19,482	17,765
Capital and reserves			
Share capital	12	719	714
Reserves		17,898	16,268
Total equity attributable to shareholders of the Company		18,617	16,982
Minority interests		865	783
Total equity		19,482	17,765

The notes on pages 18 to 28 form part of this interim financial report.

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

	Note	For the six months ended 30 June	
		2007	2006
Total equity at 1 January			
Attributable to shareholders of the Company		16,982	14,896
Minority interests		783	710
		17,765	15,606
Net income for the period			
recognised directly in equity			
Exchange differences on translation of financial statements of foreign entities		174	62
Cash flow hedges:			
Effective portion of changes in fair value, net of tax		11	38
		185	100
Transfers from equity:			
Cash flow hedges: transfer from equity to profit or loss, net of tax		18	11
to fixed assets, net of tax		3	2
		21	13
Transfer to profit or loss on disposal of an unlisted equity instrument	4	252	-
Net profit for the period		1,300	743
Total recognised income for the period		1,758	856
Attributable to:			
Shareholders of the Company		1,676	823
Minority interests		82	33
		1,758	856
Dividends distributed to shareholders of the Company:			
By means of cash	7	(41)	(87)
By means of scrip		(116)	(55)
		(157)	(142)
Issue of new shares	12	116	55
Total equity at 30 June		19,482	16,375

The notes on pages 18 to 28 form part of this interim financial report.

Condensed consolidated cash flow statement – unaudited (HK\$m)

	For the six months ended 30 June	
	2007	2006
Operating activities		
EBITDA	682	583
Tax paid	(59)	(63)
Other adjustments	(53)	(99)
Net cash from operating activities	570	421
Investing activities		
Sales proceeds from disposal of an unlisted equity instrument	101	-
Purchase of fixed assets	(323)	(209)
Repayment of capital contribution from an unlisted equity instrument	4	-
Interest received	7	2
Net cash used in investing activities	(211)	(207)
Financing activities		
Interest and other financing charges paid	(87)	(92)
Net increase/(decrease) in bank borrowings	131	(83)
Dividends paid	(41)	(87)
Net cash generated from/(used in) financing activities	3	(262)
Net increase/(decrease) in cash and cash equivalents	362	(48)
Cash and cash equivalents at 1 January	433	285
Effect of changes in foreign exchange rates	12	3
Cash and cash equivalents at 30 June (note a)	807	240

Note a Analysis of cash and cash equivalents

	As at 30 June	
	2007	2006
Cash at bank and on hand	825	253
Bank overdrafts	(18)	(13)
	807	240

Cash and cash equivalents at the end of the period include deposits with banks of HK\$326 million (2006: HK\$117 million) held by subsidiaries that are not freely remittable 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 by the Board of Directors on 12 September 2007.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The accounting policies used in preparation of the interim financial report are consistent with those adopted in the annual financial statements for the year ended 31 December 2006.

The following new standards and interpretations issued are effective for the accounting period beginning 1 January 2007:

HKFRS 7, Financial instruments: Disclosures; and
Amendment to HKAS 1, Presentation of financial statements: Capital disclosures.

While the above may result in new or amended disclosures in the financial statements for the year ended 31 December 2007, they have no impact on the Group’s interim financial report for the six months ended 30 June 2007.

The following new standards and interpretation have been issued, are not effective for accounting period beginning 1 January 2007 and have not been early adopted:

HKAS 23 (Revised), Borrowing costs;
HKFRS 8, Operating segments; and
HK(IFRIC) 11, HKFRS 2 – Group and treasury share transactions.

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

2. Segment information (HK\$m)

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

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

(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 within hotels, provision of food and beverage at restaurant outlets, operation of retail outlets and other minor departments such as spa, telephone, guest transportation and laundry within the hotel premises.
Rentals from non-hotel properties	Leasing of commercial and office premises (other than those in hotel properties) and residential apartments.
Other businesses	Various other businesses including operation of golf courses, The Peak 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.

	Hotels		Rentals from non-hotel properties		Other businesses		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
For the six months ended 30 June								
Segment turnover and results								
Turnover								
Total segment	1,548	1,372	258	214	204	134	2,010	1,720
Inter-segment	(3)	-	(2)	(1)	(7)	(9)	(12)	(10)
	1,545*	1,372	256	213	197	125	1,998	1,710
Segment operating profit before depreciation and amortisation	441	397	190	155	51	31	682	583
Depreciation and amortisation	(132)	(110)	-	-	(12)	(11)	(144)	(121)
Segment operating profit	309	287	190	155	39	20	538	462
Financing charges							(54)	(63)
Share of loss of a jointly controlled entity							-	(1)
Profit before non-operating items							484	398
Increase in fair value of investment properties	352	228	904	313	-	5	1,256	546
Net loss on disposal of an unlisted equity instrument	-	-	-	-	(160)	-	(160)	-
Profit before taxation							1,580	944
Capital expenditure, depreciation and amortisation								
Capital expenditure incurred	238	121	14	87	31	3	283	211
Depreciation and amortisation	132	110	-	-	12	11	144	121

* *Analysis of hotels' turnover*

	2007	2006
<i>Rooms</i>	765	667
<i>Food and beverage</i>	424	377
<i>Commercial</i>	219	201
<i>Others</i>	137	127
	1,545	1,372

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

(a) Business segments *continued*

	Hotels		Rentals from non-hotel properties		Other businesses		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
As at 30 June / 31 December								
Segment balance sheet								
Assets								
Properties, plant and equipment	5,131	4,876	-	-	393	347	5,524	5,223
Investment properties	7,081	6,695	11,556	10,639	441	394	19,078	17,728
Interest in a jointly controlled entity	482	470	-	-	-	-	482	470
Investment in a hotel management contract	160	163	-	-	-	-	160	163
Interests in unlisted equity instruments	39	43	-	-	-	9	39	52
Other segment assets	334	303	30	33	74	58	438	394
Derivative financial instruments							48	31
Deferred tax assets							86	98
Taxation recoverable							-	3
Cash and cash equivalents							825	447
Total assets							26,680	24,609
Liabilities								
Segment liabilities	700	735	213	209	192	190	1,105	1,134
Bank loans and other liabilities							6,093	5,710
Total liabilities							7,198	6,844

(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	
	2007	2006	2007	2006	2007	2006
For the six months ended 30 June						
Turnover	900	747	515	436	583	527
Capital expenditure incurred	39	121	221	65	23	25
Depreciation and amortisation	34	28	54	43	56	50
As at 30 June 2007 / 31 December 2006						
Segment assets	18,339	17,066	4,612	4,168	2,770	2,796

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

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

(a) Pre-opening expenses of a hotel

	For the six months ended 30 June	
	2007	2006
Staff costs and related expenses	14	-
Rent and utilities	1	-
Other operating expenses	7	-
	22	-

(b) Financing charges

	For the six months ended 30 June	
	2007	2006
Interest on bank borrowings wholly repayable within five years	55	54
Interest on bank borrowings repayable after five years	-	1
Loss on derivative financial instruments designated as cash flow hedges transferred from equity	5	6
Others	1	6
	61	67
Less: Amount capitalised into assets under development*	(7)	(4)
	54	63

* The average rate used to determine the amount of financing charges eligible for capitalisation was 1.7% (2006: 2.4%).

(c) Other items

	For the six months ended 30 June	
	2007	2006
Amortisation of a hotel management contract	3	3
Depreciation	141	118
Interest income	(7)	(2)

4. Net loss on disposal of an unlisted equity instrument (HK\$m)

	For the six months ended 30 June	
	2007	2006
Sales proceeds	101	-
Less: Carrying value of the unlisted equity instrument	(9)	-
Gain on disposal, before transfer of exchange reserve	92	-
Exchange losses previously held in exchange reserve	(252)*	-
Net loss on disposal reported in consolidated income statement	(160)	-

* The exchange losses of HK\$252 million previously held in exchange reserve were transferred to the consolidated income statement upon disposal of the unlisted equity instrument.

5. Taxation (HK\$m)

	For the six months ended 30 June	
	2007	2006
Current tax		
Hong Kong	28	26
Overseas	44	32
	72	58
Deferred tax		
Increase in deferred tax liabilities relating to revaluation of investment properties in		
Hong Kong*	216	79
Overseas	-	10
Write-down of deferred tax assets relating to unexpired tax losses	-	20
Effect of decrease in tax rate on deferred tax balances	(56)	-
Increase in deferred tax liabilities relating to other temporary differences	48	34
	208	143
Taxation attributable to the Company and its subsidiaries	280	201

The provision for Hong Kong profits tax is calculated at 17.5% (2006: 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.

In March 2007, the government of The People's Republic of China ("PRC") announced a reduction in the foreign enterprise income tax rate applicable to the Group's operations in the PRC from 33% to 25%, which will take effect from 1 January 2008. Accordingly, a deferred tax credit of HK\$56 million (2006: Nil) has been recorded in the Group's consolidated income statement.

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

6. Earnings per share

(a) Earnings per share – basic

	For the six months ended 30 June	
	2007	2006
Profit attributable to shareholders of the Company (HK\$m)	1,271	728
Weighted average number of shares in issue (million shares)	1,429	1,418
Earnings per share (HK cents)	89	51
	2007	2006
	(million shares)	(million shares)
<i>Issued shares at 1 January</i>	1,428	1,417
<i>Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2006/2005 final dividends</i>	1	1
<i>Weighted average number of shares in issue at 30 June</i>	1,429	1,418

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2007 and 2006, and hence the diluted earnings per share is the same as the basic earnings per share.

7. Dividends (HK\$m)

(a) Interim dividend for the period

	For the six months ended 30 June	
	2007	2006
Interim dividend declared and to be paid after the interim period of 6 cents per share (2006: 5 cents per share)	86	71

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

	For the six months ended 30 June	
	2007	2006
Final dividend in respect of the financial year ended 31 December 2006, approved and paid during the following interim period, of 11 cents per share (year ended 31 December 2005: 10 cents per share)	157	142

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

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

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

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 of America. 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.

8. Fixed assets (HK\$m)

(a) Acquisitions and disposals

During the six months ended 30 June 2007, the Group acquired items of fixed assets with a cost of HK\$283 million (2006: HK\$211 million). Items of fixed assets disposed of during the six months ended 30 June 2007 and 30 June 2006 were insignificant in value.

(b) Valuation of investment properties

All investment properties of the Group were revalued as at 30 June 2007 on an open market value basis mainly calculated by reference to net rental income allowing for reversionary income potential. The changes in fair value of the investment properties during the period were accounted for in the consolidated income statement. The valuations were carried out by surveyor firms independent of the Group, details of which are as follows:

Description of investment properties	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong		
– Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited	Members of The Hong Kong Institute of Surveyors
Other Asia*		
– Retail shops, offices, residential apartments and vacant land	Sallmanns (Far East) Limited Savills Valuation and Professional Services Limited	Members of The Royal Institution of Chartered Surveyors
United States of America		
– Retail shops and vacant land	HVS	Members of the Appraisal Institute, United States of America

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

As a result of the revaluation, a net gain of HK\$1,256 million (2006: HK\$546 million) and deferred tax thereon of HK\$216 million (2006: HK\$89 million) have been included in the consolidated income statement.

8. Fixed assets (HK\$m) *continued*

(c) Valuation of hotel properties and golf courses

To provide additional information for shareholders, the Directors have commissioned an independent valuation of the Group's hotel properties and golf courses as at 30 June 2007. The total valuation placed on the hotel properties and golf courses, which have a net book value of HK\$4,684 million (31 December 2006: HK\$4,588 million), was HK\$7,927 million as at 30 June 2007 (31 December 2006: HK\$7,715 million). It is important to note that the surplus of HK\$3,243 million (31 December 2006: HK\$3,127 million) and the related deferred taxation and minority interests has not been incorporated in the consolidated financial statements but is for additional information only. The valuations were carried out by surveyor firms independent of the Group, details of which are as follows :

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

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

9. Derivative financial instruments (HK\$m)

	As at 30 June 2007		As at 31 December 2006	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	23	(5)	10	(34)
Forward foreign exchange contracts	2	-	3	-
Currency swap	-	(48)	-	(23)
	25	(53)	13	(57)
Held for trading, at fair value through profit or loss:				
Interest rate swaps	-	(94)	1	(118)
Currency swaps	23	(78)	17	(39)
	48	(225)	31	(214)
Less: Current portion				
Cash flow hedges:				
Forward foreign exchange contracts	2	-	3	-
Currency swap	-	(48)	-	-
Held for trading, at fair value through profit or loss:				
Interest rate swaps	-	(1)	-	(8)
	2	(49)	3	(8)
Non-current portion	46	(176)	28	(206)

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

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

	As at 30 June 2007	As at 31 December 2006
Trade debtors (ageing analysis is shown below)	123	114
Rental deposits and payments in advance	226	194
	349	308

The details of creditors and accruals are as follows:

	As at 30 June 2007	As at 31 December 2006
Trade creditors (ageing analysis is shown below)	66	84
Interest payable	7	9
Accruals of fixed asset purchases	125	172
Tenants' deposits	358	306
Golf membership deposits	57	49
Other payables	469	491
	1,082	1,111

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

	Trade debtors		Trade creditors	
	As at 30 June 2007	As at 31 December 2006	As at 30 June 2007	As at 31 December 2006
Less than 3 months	119	101	66	83
3 months to 6 months	3	9	-	-
More than 6 months	1	4	-	1
	123	114	66	84

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 2007	As at 31 December 2006
Total facilities available:		
Term loans and revolving credits	3,620	3,942
Uncommitted facilities, including bank overdrafts	1,154	1,116
	4,774	5,058
Utilised:		
Term loans and revolving credits	2,598	2,463
Uncommitted facilities, including bank overdrafts	56	60
	2,654	2,523
<i>Represented by:</i>		
Short-term bank loans, repayable within one year or on demand	378	257
Current portion of long-term bank loans, repayable within one year	-	35
Bank overdrafts, repayable on demand	18	14
	396	306
Long-term bank loans, repayable:		
Within 1 year	-	35
Between 1 and 2 years	439	537
Between 2 and 5 years	1,819	1,680
	2,258	2,252
Less: Current portion of long-term bank loans	-	(35)
Non-current portion of long-term bank loans	2,258	2,217
Total interest-bearing borrowings	2,654	2,523

All borrowings are unsecured. Except for an amount of HK\$974 million, most of which would be repaid and early refinanced by bank loans to be newly arranged, the remaining non-current portion of long-term bank loans are not expected to be settled within one year.

12. Share capital

	As at 30 June 2007	As at 31 December 2006
Number of shares of HK\$0.50 each (million)		
Authorised	1,800	1,800
Issued at 30 June/31 December	1,438	1,428
Nominal value of shares (HK\$m)		
Authorised	900	900
Issued and fully paid at 30 June/31 December	719	714

12. Share capital *continued*

During the six months ended 30 June 2007, the Company issued and allotted approximately 9.2 million new shares at HK\$12.584 per share in respect of the 2006 final scrip dividend (2006: 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\$5 million (2006: HK\$3 million) and share premium of HK\$111 million (2006: HK\$52 million). All ordinary shares issued during the period rank pari passu in all respects with the then existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

13. Commitments (HK\$m)

Capital commitments outstanding at 30 June 2007 not provided for in the financial statements were as follows:

	As at 30 June 2007	As at 31 December 2006
Contracted for	151	376
Authorised but not contracted for	1,570	1,871
	<u>1,721</u>	<u>2,247</u>

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. Contingent liabilities

Contingent liabilities are at a level similar to that disclosed in the Group's annual financial statements for the year ended 31 December 2006.

15. Material related party transactions

There was no material related party transaction during the period, other than in the nature of those as disclosed in the Group's annual financial statements for the year ended 31 December 2006.

Review report to the Board of Directors of The Hongkong and Shanghai Hotels, Limited

Introduction

We have reviewed the interim financial report set out on pages 14 to 28 which comprises the consolidated balance sheet of The Hongkong and Shanghai Hotels, Limited as of 30 June 2007 and the related consolidated income statement, and the consolidated statement of changes in equity and the condensed consolidated cash flow statement, for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2007 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting”.

KPMG

Certified Public Accountants
8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong
12 September 2007

Information for investors

Board of Directors

The Hon. Sir Michael Kadoorie ^E
Chairman

Ian Duncan Boyce ^{EAFR}
Deputy Chairman

Executive Directors

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

Charles Mark Broadley ^F
Chief Financial Officer

Peter Camille Borer
Chief Operating Officer

Non-Executive Directors

Ronald James McAulay

William Elkin Mocatta

Pierre Roger Henri Robert Boppe

John Andrew Harry Leigh ^{EF}

Nicholas Timothy James Colfer

Independent Non-Executive Directors

Dr. The Hon. Sir David Kwok Po Li

Robert Chee Siong Ng ^A

Robert Warren Miller ^R

Patrick Blackwell Paul ^{AR}

Company Secretary

Christobelle Yi Ching Liao

^E Executive Committee Member

^A Audit Committee Member

^F Finance Committee Member

^R Remuneration Committee Member

Auditors

KPMG
Certified Public Accountants, Hong Kong

Shareholders' Calendar

Last day to register for interim dividend:
9 October 2007 4:30pm

Closure of Register of Members:
10 October 2007 to 12 October 2007
(both days inclusive)

Deadline for scrip dividend election forms:
9 November 2007 4:30pm

Interim Dividend: HK 6 cents per share
Payable: 16 November 2007

Company Websites

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The Peninsula Hotels: www.peninsula.com

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Email: pny@peninsula.com

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China North 10 800 852 3888
China South 10 800 152 3888
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Germany 00 800 2828 3888
Japan 0120 563 888
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Incorporated in 1866 and listed on the Hong Kong Stock Exchange, The Hongkong and Shanghai Hotels, Limited and its subsidiaries' principal businesses comprise the ownership and management of prestigious hotel, commercial and residential properties in key destinations in Asia and the USA.



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