



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

Interim Report 2009 中期報告

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Company at a Glance

The Hongkong and Shanghai Hotels, Limited (HSH) was incorporated in 1866 and is listed on the Stock Exchange of Hong Kong (00045). HSH is a holding company of a Group which is engaged in the development, ownership and management of prestigious hotel, commercial and residential properties in key destinations in Asia, the USA and Europe. HSH has three operating divisions, which are hotels, commercial properties and clubs and services.

	HOTELS	YEAR ACQUIRED/ ESTABLISHED	NUMBER OF ROOMS	HSH OWNERSHIP
Asia	The Peninsula Hong Kong	1928	300	100%
	The Peninsula Beijing	1989	525	42%
	The Peninsula Tokyo	2007	314	100%
	The Peninsula Bangkok	1998	370	75%
	The Peninsula Manila	1976	497	77%
	The Peninsula Shanghai	Opening in 2009	235	50%
USA	The Peninsula New York	1988	239	100%
	The Peninsula Chicago	2001	339	92.5%
	The Peninsula Beverly Hills	1991	193	20%
	Quail Lodge Resort and Golf Club	1997	97	100%
Europe	The Peninsula Paris	Opening in 2012	200	20%

	COMMERCIAL PROPERTIES	YEAR CURRENT BUILDING OPENED	GROSS FLOOR AREA (SQ. FT.)	HSH OWNERSHIP
Residential	The Repulse Bay, Hong Kong	1976 and 1989	795,585	100%
	The Landmark, Ho Chi Minh City, Vietnam	1994	52,259	70%
Commercial	The Peak Tower, Hong Kong	1996	67,254	100%
	The Repulse Bay, Hong Kong	1989	28,056	100%
Office	St. John's Building, Hong Kong	1983	60,690	100%
	The Landmark, Ho Chi Minh City, Vietnam	1994	82,150	70%

CLUBS AND SERVICES	HSH OWNERSHIP
Peak Tramways, Hong Kong	100%
Thai Country Club, Bangkok, Thailand	75%
Peninsula Clubs & Consultancy Services	100%
Peninsula Merchandising	100%
Tai Pan Laundry, Hong Kong	100%

Financial and Operating Highlights

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

* pp stands for percentage points.

** Please refer to calculation in the Financial Review section.

The Directors hereby announce the unaudited interim results of the Company for the six months ended 30 June 2009. The interim financial report has been reviewed by the Company's Audit Committee, comprising a majority of Independent Non-Executive Directors, one of whom chairs the Committee, and the Company's auditor, KPMG, whose independent review report to the Board of Directors is set out on page 38.

Financial Review

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

- Deferred taxation has been provided, at the profits tax rate, in respect of revaluation surpluses on the Group's investment properties which are mainly held in Hong Kong. It is the Directors' view that the Group's investment properties are held for the long-term and that if any Hong Kong investment properties were sold, tax would not be payable on such disposal as the gains would be capital in nature and such gains are subject to a nil tax rate in Hong Kong. The Directors therefore expect that the provision for deferred taxation in respect of revaluation surpluses for Hong Kong investment properties, amounting to HK\$2,806 million as at 30 June 2009, will not materialise.
- Hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less depreciation and any provision for impairment, rather than at fair market value. In order to provide shareholders with additional information on the value of the Group's net assets, the Directors have commissioned an independent third party fair market valuation of the Group's hotel properties and golf courses as at 30 June 2009, the details of which are set out on page 5. If these assets were to be stated at fair market value instead of at cost less depreciation and any provision for impairment (and deferred tax is not provided on the revaluation surplus on the hotel property in Hong Kong on the same rationale as above), the Group's net assets attributable to shareholders would increase by HK\$2,285 million.

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

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

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

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

Income Statement

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

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

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

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

The profit attributable to shareholders amounted to HK\$462 million for the first six months of 2009 compared to HK\$1,619 million for the same period in 2008. This was after a total tax charge of HK\$116 million (2008: HK\$112 million), including the impact of deferred taxation. It should be noted that the tax charge for the first half of last year included a one-off tax credit of HK\$175 million resulting from the reduction of the Hong Kong profits tax rate from 17.5% to 16.5%. Excluding the effects of the deferred taxation arising from the increase in fair value of investment properties and the one-off tax credit for the previous period, the Group's net tax charge amounted to HK\$61 million (2008: HK\$91 million).

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

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

Statement of Financial Position

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

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

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

During the period, the Group invested a total of Euro102 million (HK\$1,044 million) into a company which owns the building to be developed into The Peninsula Paris hotel. HSH now has a 20% shareholding interest in this company.

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

In addition to the Group's consolidated borrowings, The Peninsula Beverly Hills (20% owned) and The Peninsula Shanghai (50% owned) have non-recourse bank borrowings, which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the Group. Including the Group's share of the net debt of these non-consolidated entities, the net borrowings would amount to HK\$2,935 million at 30 June 2009 (31 December 2008: HK\$1,820 million).

The Group's interest rate risk management policy focuses on reducing the Group's exposure to changes in interest rates. As at 30 June 2009, the Group's fixed-to-floating interest rate ratio was 50% and remained comparable to that as at 31 December 2008. The weighted average gross interest rate for the period reduced to 3.2% (2008: 3.5%) after taking hedging activities into account.

The Company manages its liquidity risk by constantly monitoring its loan portfolio and by obtaining sufficient borrowing facilities to meet its obligations and commitments. On 25 June 2009, HSH Financial Services Limited, a wholly-owned subsidiary, signed a HK\$1,225 million four-year term loan facility with a syndicate of seven international banks (namely Australia and New Zealand Banking Group Limited, Bank of China (Hong Kong) Limited, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Calyon, HSBC, Industrial and Commercial Bank of China (Asia) Limited and Standard Chartered Bank (Hong Kong) Limited). This facility is unsecured and guaranteed by the Company.

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

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

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

Cash Flow Statement

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

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

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

Operating Review

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

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

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

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

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

Hotels Division

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

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

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

	For the six months ended 30 June			
	Occupancy %		Average monthly yield per sq ft (HK\$)	
	2009	2008	2009	2008
Hotel Commercial Arcades				
The Peninsula Hong Kong	99	98	375	351
The Peninsula New York	100	100	351	343
The Peninsula Tokyo	100	100	162	150
The Peninsula Bangkok	100	100	70	77
The Peninsula Beijing	98	100	116	112
The Peninsula Manila	56	65	15	18
Hotel Office Space				
The Peninsula Hong Kong	85	97	36	33

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

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

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

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

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

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

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

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

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

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

Commercial Properties Division

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

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

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

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

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

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

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

Clubs and Services Division

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

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

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

Human Resources

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

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

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

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

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

New Hotel Projects

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

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

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

Outlook

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

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

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

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

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

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

Other Corporate Information

Interests of Directors and Chief Executive Officer

As at 30 June 2009, the interests and short positions of each Director and the Chief Executive Officer of the Company in the shares, underlying shares and debentures of the Company or any associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (SFO), recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the Model Code) to be notified to the Company and the Stock Exchange were as follows:

Long position in shares of the Company and its associated corporations

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
The Hon. Sir Michael Kadoorie	Note (a)	753,122,405	51.339
Mr. Ian D. Boyce	Beneficial Owner	216,070	0.015
Mr. Clement K.M. Kwok	Beneficial Owner	648,220	0.044
Mr. Peter C. Borer	Beneficial Owner	324,792	0.022
Mr. Ronald J. McAulay	Note (b)	517,100,014	35.250
Mr. William E. Mocatta	Note (c)	1,017,000	0.069
Mr. John A.H. Leigh	Note (d)	382,407,577	26.068
Dr. The Hon. Sir David K.P. Li	Beneficial Owner	550,550	0.038
Mr. Robert C.S. Ng	Family	125,719	0.009
Mr. Pierre R. Boppe	Beneficial Owner	150,000	0.010

Notes:

- (a) *The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 753,122,405 shares in the Company. These shares were held in the following capacity:*
- (i) *443,322,089 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and/or discretionary objects.*
- (ii) *309,800,316 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 753,122,405 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie was that of The Hon. Sir Michael Kadoorie which was 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 517,100,014 shares in the Company. These shares were held in the following capacity:*
- (i) *443,322,089 shares were ultimately held by discretionary trusts, of which Mr. Ronald J. McAulay is one of the discretionary objects.*
- (ii) *73,777,925 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 382,407,577 shares, was deemed to be interested in the 382,407,577 shares.*

Messrs. Neil J. Galloway, Nicholas T.J. Colfer, Robert W. Miller and Patrick B. Paul, who are Directors of the Company, have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 30 June 2009.

Certain Directors held qualifying shares in Manila Peninsula Hotel, Inc., a 77.36% subsidiary of the Company, on trust for a subsidiary of the Company.

Except as set out above, as at 30 June 2009 none of the Directors and Chief Executive Officer of the Company, or any of their spouses, or children under eighteen years of age, has any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations, within the meaning of Part XV of the SFO, recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

At no time during the period was the Company, or its subsidiaries or its associates, 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 2009, the interests of the senior management (other than Directors) in the shares and underlying shares of the Company were as follows:

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Mr. Martyn P.A. Sawyer	Beneficial Owner	26,469	0.0018

Interests of Substantial Shareholders

So far as is known to any Director or Chief Executive Officer of the Company, as at 30 June 2009, shareholders (other than a Director or the Chief Executive Officer of the Company) who have an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Long position in shares of the Company

(a) *Substantial shareholders*

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Bermuda Trust Company Limited	Trustee	821,257,006	55.984 (i)
The Mikado Private Trust Company Limited	Trustee	749,181,247	51.071 (ii)
Bermuda Trust (Cayman) Limited	Trustee	456,185,502	31.098 (vii)
Acorn Holdings Corporation	Beneficiary	443,322,089	30.221 (i)
Lawrencium Holdings Limited	Beneficiary	445,024,255	30.337 (i)
Harneys Trustees Limited	Interest of controlled corporation	445,024,255	30.337 (v)
Merlin Investments No. 2 Limited	Beneficiary	382,407,577	26.068 (i)
Guardian Limited	Beneficiary	382,407,577	26.068 (i)
Lakshmi Company Limited	Beneficiary	382,407,577	26.068 (vi)
Merlin Investments Limited	Beneficiary	382,407,577	26.068 (vi)
Mr. Jason Holroyd Whittle	Beneficiary	377,133,448	25.709 (i)
Mrs. Deborah Whittle	Beneficiary	377,133,448	25.709 (i)
Mr. Richard Parsons	Trustee	382,407,577	26.068 (i)
New Boron Holding Corporation	Trustee	382,407,577	26.068 (iii)
New Xenon Holding Corporation	Trustee	382,407,577	26.068 (iii)
Lawrencium Mikado Holdings Limited	Beneficiary	304,156,992	20.734 (ii)
The Magna Foundation	Beneficiary	293,127,687	19.982 (iv)
New Mikado Holding Inc.	Trustee	304,156,992	20.734 (iv)
Mikado Investments (PTC) Limited	Interest of controlled corporation/ Beneficiary of trusts	304,156,992	20.734 (iv)
Muriel, Lady Kadoorie	Founder	73,777,925	5.029 (viii)
Oak (Unit Trust) Holdings Limited	Trustee	73,777,925	5.029 (i)
Oak HSH Limited	Beneficiary	73,777,925	5.029 (vii)

These interests are duplicated to the extent of 7,395,087,555 shares. The net total of 826,900,330 shares reflects duplication of various Directors' interests as set out in the section "Interests of Directors and Chief Executive Officer" of this Report.

Notes:

- (i) *The 821,257,006 shares in which Bermuda Trust Company Limited was deemed to be interested as a trustee included (1) the shares in which Acorn Holdings Corporation, Lawrencium Holdings Limited, Merlin Investments No. 2 Limited, Guardian Limited, Mr. Jason Holroyd Whittle, Mrs. Deborah Whittle and Mr. Richard Parsons were deemed to be interested; (2) the shares in which Mikado Investments (PTC) Limited, The Magna Foundation and Lawrencium Mikado Holdings Limited were deemed to be interested; (3) the shares in which The Mikado Private Trust Company Limited was deemed to be interested; and (4) the shares in which Oak (Unit Trust) Holdings Limited was deemed to be interested.*

- (ii) *The Mikado Private Trust Company Limited controlled Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.*
- (iii) *The shares in which Acorn Holdings Corporation and Lawrencium Holdings Limited were deemed to be interested as beneficiaries included the 382,407,577 shares in which New Boron Holding Corporation and New Xenon Holding Corporation were deemed to be interested.*
- (iv) *The shares in which Mikado Investments (PTC) Limited was deemed to be interested as a beneficiary included the shares in which New Mikado Holding Inc. as trustee and The Magna Foundation as beneficiary were deemed to be interested.*
- (v) *The 445,024,255 shares in which Harneys Trustees Limited was deemed to be interested by virtue of having control over various controlled corporations included (1) the shares in which New Boron Holding Corporation and New Xenon Holding Corporation were deemed to be interested; (2) the shares in which Lawrencium Holdings Limited was deemed to be interested; and (3) the shares in which other controlled corporations were deemed to be interested.*
- (vi) *Lakshmi Company Limited and Merlin Investments Limited were deemed to be interested in the shares in which New Xenon Holding Corporation was interested.*
- (vii) *Bermuda Trust (Cayman) Limited controlled Lakshmi Company Limited, Merlin Investments Limited and Oak HSH Limited and was therefore deemed to be interested in the shares in which Lakshmi Company Limited, Merlin Investments Limited and Oak HSH Limited were interested.*
- (viii) *The shares in which Muriel, Lady Kadoorie was deemed to be interested as a founder included shares in which Bermuda Trust (Cayman) Limited, Oak (Unit Trust) Holdings Limited and Oak HSH Limited were deemed to be interested.*

(b) *Other substantial shareholder*

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Prudential plc	Investment Manager	87,568,295	5.969

Except as set out above, as at 30 June 2009 the Company had not been notified of any substantial shareholder (other than a Director or Chief Executive Officer of the Company) who had an interest or short position in the shares or underlying shares of the Company that were recorded in the register required to be kept under section 336 of the SFO.

Interests of Any Other Persons

As at 30 June 2009, 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 ensuring that the business is conducted in accordance with high standards of corporate governance with proper control processes for oversight and management to safeguard the interests of shareholders and stakeholders, and to manage overall business risks. The Company regularly reviews its own practices in light of new development in this area and incoming regulatory requirements.

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

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

Changes of Directors' Information Under Rule 13.51B(1) of the Listing Rules

Mr. Pierre Roger Boppe, a Non-Executive Director, was re-designated as an Independent Non-Executive Director, as from 29 June 2009.

With effect from 1 January 2009, the basic monthly salary and rental allowance of three Executive Directors, Messrs. Clement K.M. Kwok, Neil J. Galloway and Peter C. Borer, increased by 2%. The basis for determining the Directors' bonuses, incentives and retirement benefits remain unchanged.

Except as set out above, as at 30 June 2009, there had not been any other changes to the Directors' information as disclosed in the 2008 Annual Report.

Dealing in the Company's Securities by Directors

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

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

Dividend

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

The register of members will be closed from 28 September 2009 to 30 September 2009, both days inclusive, during which period no transfer of shares can be registered.

To be entitled to receive the interim dividend, shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Company's registrars, Computershare Hong Kong Investor Services Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 25 September 2009.

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

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

By Order of the Board

Christobelle Liao

Company Secretary

Hong Kong, 26 August 2009

Interim Financial Report

CONSOLIDATED INCOME STATEMENT — UNAUDITED (HK\$m)

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

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

The notes on pages 23 to 37 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME — UNAUDITED (HK\$m)

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

The notes on pages 23 to 37 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — UNAUDITED (HK\$m)

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

The notes on pages 23 to 37 form part of this interim financial report.

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

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

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

The notes on pages 23 to 37 form part of this interim financial report.

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

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

Note *Analysis of cash and cash equivalents*

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

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

The notes on pages 23 to 37 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. Significant Accounting Policies

Basis of preparation

This unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with the Hong Kong Accounting Standard (HKAS) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issuance by the Board of Directors on 26 August 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 38.

The financial information relating to the financial year ended 31 December 2008 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for the financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2008 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 12 March 2009.

2. Changes in Accounting Policies

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

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

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

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

2. Changes in Accounting Policies *continued*

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement termed as the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented. HKAS 1 (revised 2007) also includes changes to the titles of the other primary financial statements in order to better reflect their function. The consolidated balance sheet and the consolidated cash flow statement have been renamed as consolidated statement of financial position and consolidated statement of cash flows respectively.
- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.
- The "Improvements to HKFRSs (2008)" comprise a number of minor amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendments have resulted in changes to the Group's accounting policies:
 - As a result of amendments to HKAS 28, *Investments in associates*, impairment losses recognised in respect of associates and jointly controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there is a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.
 - As a result of amendments to HKAS 40, *Investment property*, investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognised in profit or loss. This change in policy has no impact on net assets or profit or loss for any of the periods presented.

3. Segment Reporting (HK\$m)

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

Hotels	This segment includes revenue generated from hotel room accommodation, leasing of commercial shopping arcades and office premises located within the hotel buildings, provision of food and beverage at restaurant outlets located within hotel buildings, operation of golf courses attached to hotels, retail outlets and other minor departments such as spa, telephone, guest transportation and laundry within the hotel premises.
Commercial properties	This segment is engaged in the leasing of commercial and office premises (other than those in hotel properties) and residential apartments and operating food and beverage outlets other than those in owned hotels.
Club and services	This segment is engaged in operation of golf courses (other than those attached to hotel properties), The Peak Tram, wholesaling of food and beverage products, laundry services and the provision of management and consultancy services for clubs.

(a) Segment results and assets

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

The measure used for reporting segment results is EBITDA. In addition to receiving information concerning EBITDA, management is provided with segment information concerning depreciation and amortisation.

Segment assets include all tangible assets and current assets with the exception of interests in associates and jointly controlled entities, derivative financial instruments, deferred tax assets and cash and bank balances. The Group does not provide information on segment assets to its senior executive management but such information has been disclosed as required by HKFRS 8.

3. Segment Reporting (HK\$m) *continued*

(a) Segment results and assets *continued*

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

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

* *Analysis of hotels' turnover*

	2009	2008
<i>Rooms</i>	611	899
<i>Food and beverage</i>	460	569
<i>Commercial</i>	278	267
<i>Others</i>	140	164
	1,489	1,899

(b) Reconciliations of reportable segment profits and assets

Profit

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

Assets

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

4. Profit Before Non-Operating Items and Taxation (HK\$m)

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

(a) Financing charges

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

(b) Other items

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

5. Taxation (HK\$m)

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

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

5. Taxation (HK\$m) *continued*

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

6. Earnings Per Share

(a) Earnings per share — basic

	For the six months ended 30 June	
	2009	2008
Profit attributable to shareholders of the Company (HK\$m)	462	1,619
Weighted average number of shares in issue (million shares)	1,451	1,443
Earnings per share (HK\$)	0.32	1.12
	2009	2008
	(million shares)	(million shares)
<i>Issued shares at 1 January</i>	1,450	1,442
<i>Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2008/2007 final dividends</i>	1	1
<i>Weighted average number of shares in issue at 30 June</i>	1,451	1,443

(b) Earnings per share — diluted

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

7. Dividends (HK\$m)

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

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

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

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

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

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

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

8. Fixed Assets (HK\$m)

(a) Acquisitions and disposals

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

(b) Valuation of investment properties

All investment properties of the Group were revalued as at 30 June 2009 on an open market value basis mainly calculated by reference to net rental income allowing for reversionary income potential. The changes in fair value of the investment properties during the period were accounted for in the consolidated income statement. The valuations were carried out by surveyor firms independent of the Group who have staff with recent experience in the location and category of property being valued. Details of the valuers are as follows:

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

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

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

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

(c) Valuation of hotel properties and golf courses

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

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

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

9. Interest In Associates (HK\$m)

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

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

9. Interest In Associates (HK\$m) *continued*

(a) Details of the associates are as follows:

Company name	Form of business structure	Place of incorporation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
Al Maha Majestic S.à r.l. ("Al Maha")	Incorporated	Luxembourg	Euro 12,500	20%	Investment holding
Majestic EURL	Incorporated	France	Euro 20,000,000	20%	Hotel investment and investment holding
Le 19 Avenue Kleber	Incorporated	France	Euro 1,000	20%	Hotel operator

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

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

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

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

10. Investment in Hotel Management Contracts (HK\$m)

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

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

11. Derivative Financial Instruments (HK\$m)

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

12. Debtors and Payments in Advance, Creditors and Accruals (HK\$m)

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

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

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

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

12. Debtors and Payments in Advance, Creditors and Accruals (HK\$m) *continued*

The ageing analysis of trade debtors is as follows:

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

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

The details of creditors and accruals are as follows:

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

The amount of creditors and accruals of the Group expected to be settled or recognised as income after more than one year is **HK\$348 million** (31 December 2008: HK\$334 million). All of the other creditors and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

The ageing analysis of trade creditors is as follows:

	As at 30 June 2009	As at 31 December 2008
Less than 3 months	74	109
3 to 6 months	1	–
More than 6 months	1	–
	76	109

13. Interest-Bearing Borrowings (HK\$m)

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

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

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

14. Share Capital

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

During the six months ended 30 June 2009, the Company issued and allotted **approximately 16.7 million new shares at HK\$6.888 per share in respect of the 2008 final scrip dividend** (2008: approximately 9.5 million new shares at HK\$13.704 per share in respect of the 2007 final scrip dividend). The new shares issued have resulted in an increase in fully paid share capital of approximately **HK\$8 million** (2008: HK\$5 million) and share premium of **HK\$106 million** (2008: HK\$126 million). All ordinary shares issued during the period rank pari passu in all respects with the then existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

15. Commitments (HK\$m)

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

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

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

16. Contingent Liabilities

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

17. Material Related Party Transactions

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

18. Comparative Figures

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

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

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 18 to 37 which comprises the consolidated statement of financial position of The Hongkong and Shanghai Hotels, Limited as of 30 June 2009, the related consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated statement of cash flows 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 2009 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

26 August 2009

Information for Investors

Board of Directors

The Hon. Sir Michael Kadoorie^E
Non-Executive Chairman

Ian Duncan Boyce^{EAFR}
Non-Executive Deputy Chairman

Executive Directors

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

Neil John Galloway^F
Chief Financial Officer

Peter Camille Borer
Chief Operating Officer

Non-Executive Directors

Ronald James McAulay
William Elkin Mocatta
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}
Pierre Roger Boppe

Company Secretary

Christobelle Yi Ching Liao

^E Executive Committee Member
^A Audit Committee Member
^F Finance Committee Member
^R Remuneration Committee Member

Auditor

KPMG
Certified Public Accountants, Hong Kong

Shareholders' Calendar

Last day to register for interim dividend:
25 September 2009 4:30pm

Closure of Register of Members:
28 September 2009 to 30 September 2009
(both days inclusive)

Deadline for scrip dividend election forms:
28 October 2009 4:30pm

Interim Dividend: 3 HK cents per share
Payable: 6 November 2009

Company Websites

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

Investor Enquiries

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

Registered Office

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

Registrars

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

Listing Information

Stock Code: 45

Reservations and Contact Addresses

Hotels and Resort

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

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

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

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

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

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

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

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

The Peninsula Shanghai
(opening in late 2009)
32 Zhong Shan Dong Yi Road
Shanghai 200002
People's Republic of China
Tel: (86-21) 2327 2888
Fax: (86-21) 2327 2000
Email: psh@peninsula.com

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

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

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

St. John's Building
33 Garden Road, Central, Hong Kong
Tel: (852) 2526 4926
Email: sjbmanagement@peninsula.com

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

The Landmark
5B Ton Duc Thang, District 1
Ho Chi Minh City, Vietnam
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Fax: (84-8) 3822 5161
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