THE HONGKONG AND SHANGHAI HOTELS, LIMITED
DIRECTORS' INTERIM REPORT 2003

香港上海大酒店有限公司 二零零三年董事局中期業績報告

Incorporated in 1866, The Hongkong and Shanghai Hotels, Limited, formerly The Hongkong Hotel Company, Limited, was one of the first stocks to be listed on the Hong Kong stock exchange. Its principal business comprises the ownership and management of prestigious hotel, commercial and residential properties in key destinations in Asia and the USA; its hotel management arm is The Peninsula Group.

香港上海大酒店有限公司於一八六六年成立，前身為The Hongkong Hotel Company, Limited，是首批獲准在香港股票交易所上市的公司之一。公司之主要業務為擁有及管理位於亞洲及美國的著名酒店和商用及住宅物業；公司之酒店管理部門為半島集團。

Interim results

The directors hereby announce the unaudited interim results of the Company for the six months ended 30 June 2003. These interim results have been reviewed by the Company's audit committee and the Company's auditors, KPMG, whose independent review report to the board of directors is set out below. These results include the consolidation of The Palace Hotel Co., Ltd. which became a subsidiary of the Company as of 31 December 2002; the comparative figures for the prior period should be regarded in this light.

The profit attributable to shareholders amounted to HK$21 million for the six months ended 30 June 2003, a decrease of 82% as compared to the same period in 2002. The group operating profit decreased by 44% to HK$168 million. Earnings per share decreased to 2 cents. These results reflect the significant adverse impact suffered by certain of the Company's hotel and other properties as a consequence of the outbreak of atypical pneumonia (SARS) and the war in Iraq during the period. However, the shortfall in revenue was partially mitigated by significant cost savings, which were implemented in response to the downturn in business.

The directors have decided to continue the policy of deferring their decision on the payment of dividends until they have reviewed the full year's results. Consequently, they have resolved not to declare the payment of an interim dividend for the period (2002: nil).

Shareholders' funds as at 30 June 2003 amounted to HK$11.5 billion or HK$9.84 per share. Net borrowings increased by 5% to HK$5.9 billion.

Consolidated income statement (HK$m)

	Note	For the six months ended 30 June **2003**	 2002 *(restated)*	Effect
Turnover		**1,092**	1,253	(13%)
Other revenue		**2**	2	–
		1,094	1,255	(13%)
Cost of inventories		**(71)**	(105)	32%
Staff costs		**(429)**	(432)	1%
Rent and utilities		**(116)**	(104)	(12%)
Other operating expenses		**(257)**	(258)	–
Operating profit before depreciation and amortisation		**221**	356	(38%)
Depreciation and amortisation		**(53)**	(57)	7%
Operating profit		**168**	299	(44%)
Financing charges		**(125)**	(149)	16%
Share of (losses)/profits of associated companies		**(2)**	1	(300%)
Profit before taxation		**41**	151	(73%)
Taxation	2	**(16)**	(34)	53%
Profit after taxation		**25**	117	(79%)
Minority interests		**(4)**	(1)	(300%)
Profit attributable to shareholders		**21**	116	(82%)
Earnings per share (HK cents)	3	**2**	10	(80%)

Note: The 2003 figures reflect the effects of the consolidation of The Palace Hotel Co., Ltd. which became a subsidiary of the Company as of 31 December 2002.

Consolidated statement of changes in equity (HK$m)

	Note	For the six months ended 30 June 2003	2002 (restated)	Effect
Shareholders' equity as at 1 January				
As previously reported		**11,723**	11,943	(2%)
Prior period adjustment arising from change in accounting policy for income tax	1c	**(146)**	(129)	(13%)
As restated		**11,577**	11,814	(2%)
Exchange differences on translation of the financial statements of foreign entities not recognised in the income statement		**(9)**	(20)	55%
Net profit for the period				
As previously reported			121	
Prior period adjustment arising from change in accounting policy for income tax	1c		(5)	
Net profit		**21**	116	(82%)
Total recognised gains		**12**	96	(88%)
		11,589	11,910	(3%)
Dividends approved and paid during the period		**(93)**	(58)	(60%)
Balance as at 30 June		**11,496**	11,852	(3%)

Consolidated balance sheet (HK$m)

	Note	As at 30 June 2003	As at 31 December 2002 (restated)
Non-current assets			
Fixed assets		**18,220**	18,019
Deferred tax assets		**87**	88
Other non-current assets		**344**	351
		18,651	18,458
Current assets			
Inventories		**76**	78
Debtors and payments in advance	4	**180**	195
Cash and cash equivalents		**168**	232
		424	505
Current liabilities			
Creditors and accruals	4	**(788)**	(808)
Interest-bearing borrowings	5	**(917)**	(777)
Taxation		**(15)**	(14)
		(1,720)	(1,599)
Net current liabilities		**(1,296)**	(1,094)
Total assets less current liabilities		**17,355**	17,364
Non-current liabilities			
Interest-bearing borrowings	5	**(5,132)**	(5,066)
Deferred tax liabilities		**(159)**	(154)
		(5,291)	(5,220)
Minority interests		**(568)**	(567)
Net assets		**11,496**	11,577
Capital and reserves			
Share capital		**584**	584
Reserves		**10,912**	10,993
		11,496	11,577

Consolidated cash flow statement (HK$m)

	For the six months ended 30 June	
	2003	2002
Net cash inflow from operating activities	**146**	362
Net cash outflow from investing activities	**(177)**	(30)
Net cash (outflow)/inflow before financing	**(31)**	332
Net cash inflow/(outflow) from financing	**66**	(256)
Dividends paid	**(93)**	(58)
(Decrease)/increase in cash and cash equivalents	**(58)**	18
Cash and cash equivalents as at 1 January	**211**	85
Effect of foreign exchange rate changes	**1**	1
Cash and cash equivalents as at 30 June	**154**	104

1 Significant accounting policies

a Basis of preparation

The unaudited interim results of the group, which are not statutory financial statements, have been prepared in compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting", and on a basis consistent with the accounting policies adopted in the report and financial statements for the year ended 31 December 2002, except for the change in accounting policy for taxation, consistent with SSAP 12 (Revised) "Income taxes". Comparative figures are extracts from the Company's interim report for the six months ended 30 June 2002 and annual financial statements for the year ended 31 December 2002, as restated.

b Income tax

Income tax for the period comprises current and deferred tax. Except for items directly related to equity, income tax is recognised in the income statement.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current and deferred tax assets and liabilities are offset if, and only if, the Company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

(i) in the case of current tax assets and liabilities, the Company or the group intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously; or

(ii) in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
   - the same taxable entity; or
   - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

c Change of accounting policy

In the current period, the group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous periods, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. The opening retained profit as at 1 January 2003 has been reduced by **HK$129 million** (2002: HK$114 million), which is the cumulative effect of the change in policy on the results for periods prior to 2003. The balances on the group's properties revaluation reserves as at 1 January 2003 have been reduced by a total of **HK$17 million** (2002: HK$15 million), representing the deferred tax liability recognised in respect of net revaluation surplus on the group's properties recorded in the reserves at that date. The effect of the change to income tax for the six months ended 30 June 2002 is an increased charge of HK$5 million.

2 Taxation (HK$m)

	For the six months ended 30 June	
	2003	2002 *(restated)*
Current tax		
Hong Kong	**11**	15
Other jurisdictions	**2**	2
	13	17
Deferred tax		
Current period	**10**	17
Attributable to increase in tax rate	**(6)**	–
	4	17
Taxation attributable to the Company and its subsidiary companies	**17**	34
Share of taxation of associated companies	**(1)**	–
	16	34

Hong Kong profits tax is calculated at **17.5%** (2002: 16%) of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

3 Earnings per share

Earnings per share are calculated based on profit of **HK$21 million** (2002 *restated*: HK$116 million) and **1,169 million shares** (2002: 1,169 million shares) in issue.

4 Debtors and payments in advance, and creditors and accruals (HK$m)

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

	Trade debtors		Trade creditors	
	As at 30 June 2003	As at 31 December 2002	**As at 30 June 2003**	As at 31 December 2002
0 – 3 months	**36**	86	**87**	84
4 – 6 months	**2**	5	**3**	2
> 6 months	**–**	1	**2**	1
	38	92	**92**	87

5 Interest-bearing borrowings (HK$m)

	As at 30 June 2003	As at 31 December 2002
Total facilities available:		
Bank loans and revolving credits	**6,803**	6,591
Uncommitted facilities, including bank overdrafts	**1,057**	1,069
	7,860	7,660
Utilised:		
Bank loans and revolving credits	**5,905**	5,601
Uncommitted facilities, including bank overdrafts	**144**	242
	6,049	5,843
Represented by:		
Short-term loans	**852**	691
Current portion of long-term borrowings	**51**	65
Bank overdrafts	**14**	21
	917	777
Long-term borrowings, repayable:		
Within one year	**51**	65
Between one and two years	**2,001**	2,001
Between two and five years	**3,131**	3,065
	5,183	5,131
Less: Current portion of long-term borrowings	**(51)**	(65)
	5,132	5,066
Total interest-bearing borrowings	**6,049**	5,843

The total borrowings of HK$6,049 million as at 30 June 2003 comprised the following variable rate bank loans and overdrafts that were:

	As at 30 June 2003	As at 31 December 2002
Unsecured	**5,080**	4,684
Secured by mortgages over investment, hotel and other properties of certain Thai subsidiary companies	**185**	367
Secured by mortgage over investment and hotel properties of a PRC subsidiary company	**170**	170
Secured by the assets of a subsidiary company which owns and operates an hotel in the USA	**614**	622
Consolidated borrowings	**6,049**	5,843
Additionally, and not dealt with in the consolidated balance sheet are the portions of bank loans attributable to the group's shareholdings in:		
The Belvedere Hotel Partnership (20%)	**124**	123
Manila Peninsula Hotel, Inc. (40%)	**5**	4
Unconsolidated borrowings	**129**	127
	6,178	5,970

Total value of pledged assets attributable to the group amounted to HK$3,058 million.

Segment reporting (HK$m)

Segment information is presented in respect of the group's businesses and geographical segments. Business segment information has been chosen as the primary reporting format because this is more relevant to the group in making operating and financial decisions.

	Total	Hotels*	Rentals from non-hotel properties	Property sales	Other businesses
Six months ended 30 June 2003					
Turnover					
Total segment	**1,104**	**832**	**191**	**–**	**81**
Inter-segment	**(12)**	**(5)**	**–**	**–**	**(7)**
	1,092	**827**	**191**	**–**	**74**
Segment operating profit/(loss)	**168**	**33**	**130**	**(2)**	**7**
Financing charges	**(125)**				
Share of net loss of associated companies	**(2)**				
Profit before taxation	**41**				
Capital expenditure, depreciation and amortisation					
Capital expenditure incurred	**227**	**217**	**7**	**–**	**3**
Depreciation and amortisation	**53**	**44**	**–**	**–**	**9**
Six months ended 30 June 2002					
Turnover					
Total segment	1,268	930	209	18	111
Inter-segment	(15)	(5)	–	–	(10)
	1,253	925	209	18	101
Segment operating profit/(loss)	299	137	152	(2)	12
Financing charges	(149)				
Share of net profit of associated companies	1				
Profit before taxation	151				
Capital expenditure, depreciation and amortisation					
Capital expenditure incurred	25	14	–	–	11
Depreciation and amortisation	57	46	–	–	11

* ***Analysis of hotels turnover***

	2003	2002
Rooms	**325**	399
Food and beverage	**233**	274
Commercial	**192**	149
Other	**77**	103
	827	925

Segment balance sheet

	Total	Hotels	Rentals from non-hotel properties	Property sales	Other businesses
As at 30 June 2003					
Assets					
Fixed Assets					
Investment properties	**11,817**	**4,782**	**6,824**	**–**	**211**
Hotel properties	**5,283**	**5,283**	**–**	**–**	**–**
Development properties	**772**	**427**	**–**	**–**	**345**
Other properties	**17**	**–**	**–**	**–**	**17**
Other fixed assets	**331**	**265**	**–**	**–**	**66**
	18,220	**10,757**	**6,824**	**–**	**639**
Interests in associated companies	**110**	**105**	**–**	**–**	**5**
Investment securities	**52**	**43**	**–**	**–**	**9**
Investment in hotel management contract	**182**	**182**	**–**	**–**	**–**
Other segment assets	**256**	**179**	**12**	**13**	**52**
Deferred tax assets	**87**	**84**	**–**	**–**	**3**
Cash and cash equivalents	**168**				
Total assets	**19,075**				
Liabilities					
Segment liabilities	**788**	**612**	**103**	**–**	**73**
Deferred tax liabilities	**159**	**28**	**19**	**–**	**112**
Bank loans and other liabilities	**6,064**				
Total liabilities	**7,011**				
As at 31 December 2002 *(restated)*					
Assets					
Fixed Assets					
Investment properties	11,798	4,774	6,819	–	205
Hotel properties	5,231	5,231	–	–	–
Development properties	618	282	–	–	336
Other properties	18	–	–	–	18
Other fixed assets	354	275	–	–	79
	18,019	10,562	6,819	–	638
Interests in associated companies	114	107	–	–	7
Investment securities	52	43	–	–	9
Investment in hotel management contract	185	185	–	–	–
Other segment assets	273	192	7	4	70
Deferred tax assets	88	87	–	–	1
Cash and cash equivalents	232				
Total assets	18,963				
Liabilities					
Segment liabilities	808	528	129	–	151
Deferred tax liabilities	154	27	16	–	111
Bank loans and other liabilities	5,857				
Total liabilities	6,819				

Geographical segment

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

	Hong Kong		Other Asia Pacific		United States of America	
	2003	2002 *(restated)*	**2003**	2002 *(restated)*	**2003**	2002 *(restated)*
For the six months ended 30 June						
Turnover	**586**	751	**164**	122	**342**	380
Operating profit/(loss)	**200**	317	**31**	30	**(63)**	(48)
Capital expenditure	**13**	9	**75**	6	**139**	10
As at 30 June 2003/31 December 2002						
Assets	**13,637**	13,661	**2,522**	2,452	**2,748**	2,618

Operating review

The Company faced an extremely challenging business environment in the six months ended 30 June 2003. A strong start to the year was interrupted first by the war in Iraq, which depressed the global travel industry, and particularly affected us in New York. The unexpected outbreak of the SARS virus, which started in late March and continued until the various travel advisories were lifted in May and June, had a severe impact on the performance of the group's Asian properties with Hong Kong and China suffering most. During the worst affected periods of the SARS crisis, The Peninsula Hong Kong, The Kowloon Hotel and The Palace Hotel Beijing all experienced occupancy rates of below 10%. The group is presently reviewing with its insurers the extent of the potential claim under its business interruption policies in relation to the SARS outbreak in Hong Kong.

Whilst the American hotels are now generally performing well, the recovery in Asia has been slower, despite the lifting of the WHO travel advisories related to SARS. The group's residential properties, on a longer leasing cycle, have been less vulnerable to the effects of both events.

The Company has implemented a number of strategies to counter the impact of the SARS crisis. Firstly, it introduced a range of measures to contain costs, which resulted in the group's total operating costs (excluding the results of The Palace Hotel Beijing, which were consolidated for the first time this year) reducing by 18% in the second quarter as compared to the previous year (9% reduction in the six month period). Head office and various operations' staff contributed to the cost savings by taking voluntary unpaid leave.

Secondly, an aggressive marketing campaign was prepared for implementation in stages once the threat of SARS receded; this has begun in Hong Kong and Bangkok and is already showing positive results. Thirdly, the situation was turned to advantage by accelerating certain scheduled renovation and maintenance programmes, positioning the properties competitively to meet future demand.

Despite the difficult environment, we have remained fully committed to maintaining the quality of our hotels and we were delighted that four of our properties were named among the best 20 hotels in the world in the recent Travel & Leisure magazine awards, including first place.

Given the business environment described above, the Company's turnover for the period decreased by 13% to HK$1,092 million, despite the inclusion of The Palace Hotel Beijing in the consolidated figures. With the effort made to contain costs, the Company's operating profit decreased by 44% to HK$168 million. The occupancies and average room rates of our various hotels for the period were as follows:

		2003		2002	
	Attributable interest (%)	Occupancy (%)	Average room rate (US$)	Occupancy (%)	Average room rate (US$)
For the six months ended 30 June					
The Peninsula Hong Kong	**100**	**35**	**328**	61	337
The Peninsula New York	**100**	**60**	**462**	64	492
The Peninsula Chicago	**92.5**	**59**	**298**	46	290
The Peninsula Beverly Hills	**20**	**82**	**412**	80	404
The Peninsula Bangkok	**75**	**59**	**130**	73	126
The Palace Hotel Beijing ("TPH")*	**42.1**	**51**	**88**	63	82
The Peninsula Manila	**40**	**59**	**70**	60	82
The Kowloon Hotel	**100**	**49**	**64**	92	64
Quail Lodge Resort**	**100**	**n/a**	**n/a**	59	223

* *Attributable interest in registered capital only. As the group controls 76.6% voting power of TPH, it has been included as a subsidiary since 31 December 2002. Figures for 2003 reflect the reduced average availability of 198 rooms due to renovation.*

** *Quail Lodge Resort was closed for renovation throughout most of this period.*

Asia

People's Republic of China

Hong Kong SAR The outbreak of atypical pneumonia took its toll on both the numbers of overseas visitors and on local patronage as residents chose not to dine outside their homes. The lifting of the WHO travel advisory towards the end of May released demand from the domestic sector. Regional traffic also improved as postponed meetings and incentives were rescheduled and attractive airline promotions boosted leisure travel. However, the long haul sector has been slower to recover.

Aggressive rooms and food and beverage promotions introduced by The Peninsula Hong Kong, aimed primarily at Hong Kong residents, have met with success. Proving particularly popular have been the hotel's "Three Peninsula Wishes" local package and its "75 for 75" food and beverage offers. The hotel also brought forward planned renovation and maintenance work for rooms in the original building. Similarly, The Kowloon Hotel has stepped up its dining offers to attract back its loyal clientele, and it has also seen occupancies begin to grow.

Rental income at our major asset, The Repulse Bay complex, has been reasonably steady in a difficult corporate market, which experienced a temporary lull in new international arrivals during the period. Food and beverage operations performed well as the complex's alfresco dining facilities proved an attraction.

Beijing Already under renovation at the onset of SARS, The Palace Hotel took the opportunity of accelerating the final phases of its major upgrade to rooms, restaurants and function space that will bring the hotel in line with other Peninsula products. The hotel will be renamed The Peninsula Palace Beijing upon completion of the HK$237 million renovation programme in September 2003.

Thailand

Although not as acutely affected as the Hong Kong and Beijing hotels, The Peninsula Bangkok suffered lower occupancy in April and May as international and regional traffic was curtailed. However, business has rebounded quickly following the lifting of the travel advisories in Asia. The hotel is currently developing a Thai restaurant and enhanced riverside dining facilities. We are proud that The Peninsula Bangkok was recently voted the best hotel in the world by Travel & Leisure magazine.

The Philippines

In a continually challenging environment, The Peninsula Manila was relatively less affected by the SARS incident, with support from the domestic market. Occupancy was almost level with the same period in 2002, although yield dipped as room rates remained under pressure.

United States of America

Our USA businesses have continued on a path of recovery, shrugging off the relatively short-lived disruption to business caused by the war in Iraq. The Peninsula New York experienced a steep drop in occupancy as corporate travel to the city declined during the conflict but has since recovered some lost ground.

The Peninsula Chicago has significantly improved its occupancy and yield as compared to the previous period. The number of prestigious industry and consumer awards gained during the period attest to the hotel's growing popularity and stature.

The Peninsula Beverly Hills sustained strong business during the period with its occupancy, room rate and yield all showing improvement over the same period last year.

Quail Lodge's HK$179 million renovation programme is largely complete. Now a much more competitive product, the hotel, which reopened at the beginning of July, is expected to increase market share and its contribution to group profit.

New projects

Significant progress has been made on the detailed design plans for The Peninsula Tokyo. The hotel, being jointly developed by the group and Mitsubishi Estate Co. Ltd. and scheduled to open in 2007, will be built on a prime site in the Marunouchi business district of Tokyo.

In addition, we have continued to explore and progress opportunities for other new hotel developments, as well as possibilities for refurbishing and enhancing our existing assets.

Outlook

The scale of the impact of the SARS outbreak on the hotel industry in Asia is unprecedented, making it difficult to predict when business levels will fully recover. However, we are confident that with our cost containment measures and marketing promotions, we will be able to benefit from continued recovery in business and leisure travel.

We are encouraged by the performance of our USA hotels and hope for good results during the high season in the autumn.

The completion of the extensive renovations to Quail Lodge Resort and shortly to The Palace Hotel Beijing are well-timed to enable the properties to capture greater market share as demand rebounds. Both are expected to enhance shareholder value through improved results.

Financial review

For the six months ended 30 June 2003, the Company recorded a net profit of HK$21 million. Due to the adoption of a new accounting standard on income taxes, comparative figures for the prior period have been restated as and where appropriate.

The Company's net assets were HK$11.5 billion as at 30 June 2003. There has been no significant change from the figure as at 31 December 2002, which has been adjusted downward by HK$146 million as a result of the adoption of the new accounting standard.

Gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders' funds, increased to **34%** (2002 *restated*: 33%) in the period and remains within the debt capacity of the group. At 30 June 2003 interest rates on **39%** (2002: 36%) of the principal amount of net borrowings, after hedging, were fixed. The weighted average gross interest rate for the period reduced to **4.4%** (2002: 5.1%).

The Company maintains sufficient borrowing facilities to fund capital investment and working capital. At 30 June 2003 total available facilities amounted to **HK$7.9 billion** (2002: HK$7.7 billion), of which **77%** (2002: 76%) was drawn down. Net borrowings over the six months increased by 5% to **HK$5.9 billion** (2002: HK$5.6 billion). At 30 June 2003 secured borrowings amounted to **HK$1.0 billion** (2002: HK$1.2 billion), representing **16%** (2002: 21%) of the net borrowings. The value of pledged assets attributable to the group amounted to **HK$3.1 billion** (2002: HK$3.7 billion).

Employees

The total number of employees at 30 June 2003 decreased to **5,724** (2002: 5,953). The reduction in manpower was mainly the result of the need for fewer staff during the renovation programmes at The Palace Hotel Beijing and Quail Lodge, and the business shrinkage in the hotel and club sectors.

The Group Management Development Programme, initiated to develop a pool of high calibre managers through a fast track educational programme, is well under way. The first intake of candidates successfully completed the assessment in February and March and the selected executives are now undergoing individually tailored management development plans.

Directors' interests

As at 30 June 2003 the interests of the directors of the Company in the shares as recorded in the register maintained under section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

	Number of shares held			% of the issued
	Personal	Family	Other	share capital
The Hon. Michael D Kadoorie	–	–	625,459,075 (1)&(2)	53.525
Ian D Boyce	200,000	–	–	0.017
Clement K M Kwok	400,000	–	–	0.034
Sir Sidney Gordon	96,000	–	–	0.008
Ronald J McAulay	–	–	442,670,743 (1)&(3)	37.882
William E Mocatta	–	1,017,000	–	0.087
Dr. The Hon. David K P Li	400,000	–	–	0.034
Robert C S Ng	–	122,570	20,429 (4)	0.012
Pierre R Boppe	150,000	–	–	0.013
O Mark L Rhys	120,000	–	–	0.010

Notes:

(1) 370,968,444 shares were held by discretionary trusts, of which The Hon. Michael D Kadoorie and Mr R J McAulay are two of the beneficiaries.

(2) 254,490,631 shares were held by discretionary trusts, of which The Hon. Michael D Kadoorie is a beneficiary.

(3) 71,702,299 shares were held by discretionary trusts, of which Mr R J McAulay, his wife and members of his family are beneficiaries.

(4) Non-beneficial interest held by the wife of Mr R C S Ng.

Other than as disclosed, none of the directors nor the chief executive of the Company were interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations as at 30 June 2003.

Substantial shareholders' interests

As at 30 June 2003 the following companies were interested in more than 5% of the issued share capital of the Company as recorded in the register maintained under section 336 of the SFO:

	Number of shares held	% of the issued share capital
Bermuda Trust Company Limited	697,161,374	59.661
Esko Limited	370,968,444	31.746
Hesko Limited	370,968,444	31.746
Xenon Holding Corporation	316,447,411	27.081
Rostik Limited	135,998,024	11.638
Mikado Holding Inc.	254,490,631	21.778
Mikado Investments Limited	254,490,631	21.778

These interests are duplicated to the extent of 1,703,363,585 shares. The net total of 697,161,374 shares is duplicated with various of the directors' interests as recorded above. Save as stated above, no person was interested in or had a short position in the shares or underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of the SFO.

Purchase, sale and redemption of listed securities

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

Corporate governance

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the stock exchange Listing Rules, save that the three independent non-executive directors have not been appointed for a specific term but are subject to retirement by rotation, and the audit committee is not comprised of a majority of independent directors.

Practice Note 19 of the Listing Rules

Pursuant to paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the Company discloses that a covenant relating to a loan facility of an amount of HK$1,649 million requires that the Kadoorie family retains control and/or majority ownership of the Company. This facility is denominated in Hong Kong and United States dollars and has a maturity of seven years. Newly arranged facilities do not require this covenant.

Miscellaneous

The directors are not aware of any material changes from the information published in the annual report for the year ended 31 December 2002, other than disclosed in this Interim Report.

By Order of the Board
Christobelle Liao
Company Secretary
Hong Kong, 24 July 2003

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

Introduction

We have been instructed by the Company to review the accompanying balance sheet at 30 June 2003, and the related statements of income and cashflows for the six months then ended.

Directors' responsibilities

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 Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

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

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

KPMG

KPMG
Certified Public Accountants
Hong Kong, 24 July 2003

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