



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

(Stock Code: 45)

website: www.hshgroup.com/ir

2004 INTERIM RESULTS – ANNOUNCEMENT

Consolidated Income Statement (HK\$m)

(for the six months ended 30 June)

	2004	2003	Change
Turnover	1,427	1,092	31%
Other revenue	<u>2</u>	<u>2</u>	–
	1,429	1,094	31%
Cost of inventories	(96)	(71)	(35%)
Staff costs	(479)	(429)	(12%)
Rent and utilities	(118)	(116)	(2%)
Other operating expenses	(319)	(257)	(24%)
	<u>417</u>	<u>221</u>	
Operating profit before depreciation and amortisation	417	221	89%
Depreciation and amortisation	(50)	(53)	6%
	<u>367</u>	<u>168</u>	
Operating profit	367	168	118%
Financing charges	(125)	(125)	–
Share of profits/(losses) of associated companies	<u>1</u>	<u>(2)</u>	150%
	<u>243</u>	<u>41</u>	
Profit before taxation	243	41	493%
Taxation <i>(Note)</i>	(37)	(16)	(131%)
	<u>206</u>	<u>25</u>	
Profit after taxation	206	25	724%
Minority interests	(8)	(4)	(100%)
	<u>198</u>	<u>21</u>	
Profit attributable to shareholders	198	21	843%
	<u>42</u>	<u>–</u>	
Interim dividend attributable for the period	42	–	n/a

<i>Note:</i>	2004	2003
<i>Current tax</i>		
<i>Hong Kong</i>	16	11
<i>Overseas</i>	4	2
	<hr/>	<hr/>
	20	13
	<hr/>	<hr/>
<i>Deferred tax</i>		
<i>Origination and reversal of temporary differences in current period</i>	17	10
<i>Effect of increase in tax rate on deferred tax balance at 1 January</i>	–	(6)
	<hr/>	<hr/>
	17	4
	<hr/>	<hr/>
<i>Taxation attributable to the Company and its subsidiary companies</i>	37	17
<i>Share of taxation of associated companies</i>	–	(1)
	<hr/>	<hr/>
	37	16
	<hr/>	<hr/>

Provision for Hong Kong profits tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the period. Taxation for overseas subsidiary and associated companies is charged at the appropriate current rates of taxation ruling in the relevant countries.

Financial Highlights

	2004	2003	Change
Balance Sheet (HK\$m)			
(at 30 June 2004/31 December 2003)			
Total assets	20,016	20,056	–
Shareholders' funds	13,532	13,441	1%
Net borrowings	4,529	4,689	3%

Key Data

(for the six months ended 30 June)

Interest cover (times)	2.9x	1.3x	123%
Earnings per share (HK cents)*	14	2	600%
Dividends per share (HK cents)	3	–	n/a
Dividend cover (times)	4.7x	n/a	n/a

(at 30 June 2004/31 December 2003)

Gearing	25%	26%	4%
Net assets per share (HK\$)	9.65	9.59	1%

* *Earnings per share is calculated based on profit attributable to shareholders of **HK\$198 million** (2003: HK\$21 million) and **1,402 million shares** (2003: 1,169 million shares) in issue during the period.*

Segment Report (HK\$m)
(for the six months ended 30 June)

	2004	2003	Change
Business segment			
Turnover			
Hotels – Rooms	524	325	61%
– Food and beverage	325	233	39%
– Commercial	193	192	1%
– Other	108	77	40%
	<u>1,150</u>	<u>827</u>	39%
Non-hotel rental properties	181	191	(5%)
Other businesses	96	74	30%
	<u>1,427</u>	<u>1,092</u>	31%
Operating profit			
Hotels	230	33	597%
Non-hotel rental properties	117	130	(10%)
Other businesses	20	5	300%
	<u>367</u>	<u>168</u>	118%
Geographical segment			
Turnover			
Hong Kong	726	586	24%
Other Asia Pacific	265	164	62%
United States of America	436	342	27%
	<u>1,427</u>	<u>1,092</u>	31%
Operating profit/(loss)			
Hong Kong	306	200	53%
Other Asia Pacific	90	31	190%
United States of America	(29)	(63)	54%
	<u>367</u>	<u>168</u>	118%

Consolidated Balance Sheet (HK\$m)

(at 30 June 2004/31 December 2003)

	2004	2003	Change
Non-current assets			
Fixed assets			
Investment properties	12,387	12,377	–
Hotel properties	5,680	5,690	–
Properties under development	584	560	4%
Other properties, plant and equipment	427	441	(3%)
	<u>19,078</u>	<u>19,068</u>	–
Interests in associated companies	103	103	–
Investment in hotel management contract	177	179	(1%)
Other investments	56	56	–
Deferred tax assets	53	69	(23%)
	<u>19,467</u>	<u>19,475</u>	–
Current assets			
Inventories	74	72	3%
Debtors and payments in advance	223	292	(24%)
Cash and bank balances	252	217	16%
	<u>549</u>	<u>581</u>	(6%)
Current liabilities			
Creditors and accruals	(896)	(919)	3%
Interest-bearing borrowings	(801)	(1,234)	35%
Current taxation	(42)	(28)	(50%)
	<u>(1,739)</u>	<u>(2,181)</u>	20%
Net current liabilities	<u>(1,190)</u>	<u>(1,600)</u>	26%
Total assets less current liabilities	18,277	17,875	2%

Non-current liabilities			
Interest-bearing borrowings	(3,980)	(3,672)	(8%)
Deferred tax liabilities	(180)	(183)	2%
Minority interests	(585)	(579)	(1%)
Net assets	13,532	13,441	1%
Capital and reserves			
Share capital	701	701	–
Reserves	12,831	12,740	1%
	13,532	13,441	1%

INTERIM RESULTS

The directors hereby announce the unaudited interim results of the Company for the six months ended 30 June 2004. These interim results have been reviewed by the Company's Audit Committee, comprising a majority of independent non-executive directors, and the Company's auditors, KPMG, whose independent review report to the board of directors is included in the interim report to be sent to shareholders.

The profit attributable to shareholders amounted to HK\$198 million for the six months ended 30 June 2004, an increase of 843% as compared to the same period in 2003. The group operating profit increased by 118% to HK\$367 million. Earnings per share increased to 14 cents. These results reflect the continuing strength of the recovery in the hospitality industry and contrast sharply with the figures for the same period in 2003, which were significantly affected by the outbreak of SARS and the Iraq conflict during that time.

As a reflection of this improved performance and outlook, the directors have resolved to pay an interim dividend of **3 cents** per share (2003: nil).

Shareholders' funds as at 30 June 2004 amounted to HK\$13.5 billion or HK\$9.65 per share. Net borrowings decreased by 3% to HK\$4.5 billion.

FINANCIAL REVIEW

For the six months ended 30 June 2004, the Company recorded a net profit of HK\$198 million. The Company's net assets were HK\$13.5 billion as at 30 June 2004. There has been no significant change from the figure as at 31 December 2003.

Gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders' funds, decreased to **25%** (2003: 26%) in the period and remains within the debt capacity of the group. At 30 June 2004 interest rates on **63%** (2003: 62%) of the borrowings, after hedging, were fixed. The weighted average gross interest rate for the period increased to **5.1%** (2003: 4.4%) as borrowings of HK\$0.7 billion (representing 16% of the net borrowings) were hedged at higher long-term fixed rates in the last quarter of 2003. Interest cover has improved, with operating profit at **2.9 times** (2003: 1.3 times) net financing charges.

The Company maintains sufficient borrowing facilities to fund capital investment and working capital. At 30 June 2004 total available facilities amounted to **HK\$7.4 billion** (2003: HK\$6.7 billion), of which **64%** (2003: 73%) was drawn down. Net borrowings over the six months decreased by 3% to **HK\$4.5 billion** (2003: HK\$4.7 billion). At 30 June 2004 secured borrowings amounted to **HK\$0.2 billion** (2003: HK\$0.8 billion), representing **5%** (2003: 17%) of the net borrowings. The value of pledged assets amounted to **HK\$1.3 billion** (2003: HK\$2.7 billion).

OPERATING REVIEW

The Company's performance in the six months ended 30 June 2004 has been both pleasing and encouraging. The recovery in our hotel businesses, which started in the second half of 2003 after the effects of SARS and the Iraq conflict in the first half of last year, continued strongly with all our hotels achieving meaningful increases in room yield. The strategies which we implemented during and after the SARS period – to maintain and enhance our high service standards; to accelerate certain planned renovation programmes particularly at the Peninsulas in Hong Kong and Beijing; and to market aggressively to selected customer segments – have yielded positive results, as reflected in the occupancies and average room rates of our hotels as follows:

	Occupancy (%)		Average Room Rate (US\$)	
	2004	2003	2004	2003
The Peninsula Hong Kong *	70	38	324	328
The Peninsula New York	74	60	484	462
The Peninsula Chicago	64	59	311	298
The Peninsula Beverly Hills	85	82	467	412
The Peninsula Bangkok	75	59	146	130
The Peninsula Palace Beijing **	54	51	119	88
The Peninsula Manila	70	59	73	70
The Kowloon Hotel	93	49	72	64
Quail Lodge Resort ***	48	n/a	279	n/a

* In 2004, due to renovation, the average number of rooms available for the period was reduced to 275. In 2003, due to renovation, the average number of rooms available was reduced to 280.

** Due to renovation, the average number of rooms available in 2003 was reduced to 198.

*** Quail Lodge Resort was closed for renovation throughout most of the first half of 2003.

As well as achieving improved financial results, our hotels have continued to be recognised as being amongst the best in the world. In the recently published *Travel + Leisure* readers' survey of the world's best hotels, The Peninsula Bangkok was voted Number 1 in Asia, The Peninsula Chicago and The Peninsula Beverly Hills were voted Numbers 1 and 2 in North America and these three hotels, together with The Peninsula Hong Kong, were all ranked within the world's top 20.

In our investment property businesses, whilst there was a brief surge in Hong Kong property prices earlier in the year, the luxury residential lettings sector has not yet recovered significantly although we continue to derive a stable stream of income from these properties. The occupancies and yields of our various investment properties for the period were as follows:

	Occupancy (%)		Average Yield per sq ft (US\$)	
	2004	2003	2004	2003
Residential				
The Repulse Bay (Unfurnished)	74	74	3.01	3.37
The Repulse Bay (Serviced)	69	76	3.18	3.49
The Landmark, Ho Chi Minh City	96	94	2.06	1.94
Commercial				
The Peninsula Hong Kong	93	96	32.60	32.33
The Peninsula New York	100	100	36.73	35.96
The Peninsula Bangkok	100	100	7.49	6.59
The Peninsula Palace Beijing	99	95	9.89	9.48
The Kowloon Hotel	94	93	5.59	5.27
The Repulse Bay	99	100	7.86	8.53
The Peak Tower	100	98	4.73	3.77
Office				
The Peninsula Hong Kong	89	83	3.27	3.59
St John's Building	84	75	1.88	1.91
The Landmark, Ho Chi Minh City	99	100	2.10	2.10

Overall, the Company's turnover for the period increased by 31% to HK\$1,427 million and the Company's operating profit increased by 118% to HK\$367 million.

Asia

People's Republic of China

Hong Kong SAR Our flagship hotel, The Peninsula Hong Kong, continues to be recognised as one of the best hotels in the world, as well as the RevPAR (Revenue Per Available Room) leader in Hong Kong. During this period, the hotel has experienced strong occupancy levels with increased demand across all sectors of its customer base. Food and beverage revenues have benefitted both from the higher occupancy and from strong domestic demand. The recovery and improved outlook for Hong Kong's economy has also helped to sustain the hotel's retail arcade income.

Marketing efforts have been expanded through promotional partnerships with Cathay Pacific Airways and American Express, as well as direct mail initiatives. We are currently undergoing some rooms renovations in the original wing which are expected to be completed by September in time for the high season.

The initiative by the PRC government to permit independent travel to Hong Kong from a number of cities in the mainland has been beneficial to the local economy, generating a record number of visitors to the city. More particularly for our businesses it has boosted reservations for The Kowloon Hotel, as well as patronage of the hotels' commercial arcades, food and beverage outlets, the Peak Tram and The Peak Tower.

Although yields remain under pressure, we have continued with our phased renovation programme at The Repulse Bay complex. During this period, renovations have temporarily impacted occupancy levels, with some disruption to tenants whilst work is in progress. We have, however, been encouraged by the strong demand for the renovated apartments and to capitalise on this trend, more units have been identified for renovation.

Beijing Since the renovation and relaunch of The Peninsula Palace Beijing last year, the hotel has raised its market position with new clients being attracted, especially on the corporate side, resulting in a significant increase in average room rate. The hotel's two signature restaurants, *Jing* and *Huang Ting*, have gained favourable global reviews and increased profile, thus generating increased patronage. The very small number of cases of SARS in Beijing, although quickly contained, resulted in lost bookings during May. However, occupancy levels have recovered and are expected to strengthen further.

Thailand

Voted for the second successive year as the Number 1 Hotel in Asia by readers of *Travel + Leisure*, The Peninsula Bangkok has maintained its solid performance despite being affected by the avian flu outbreak and very slightly by some unrest in the country during this period. The new Thai restaurant, *Thiptara*, and the renovated riverside dining facilities have contributed to the overall success of the hotel. The addition of a new Spa facility in 2006 is expected to enhance the hotel's attractions.

The Philippines

The Peninsula Manila has done well to achieve increased occupancy and average room rate in a highly competitive and price sensitive market. The hotel has targetted the corporate market aggressively and been successful in capturing new accounts. Now that the presidential election has been concluded in the country, the outlook for the hotel is positive.

United States of America

The Peninsula New York has had a very busy half year, with a strong performance in both occupancy and rates. It is now the RevPAR leader in New York, with a strong base of corporate and entertainment industry clients. Its recently renovated *Pen-Top Bar* has successfully enhanced its popularity and revenues.

The Peninsula Chicago, voted the best luxury hotel in the city in consumer magazine polls and most recently voted Number 1 Hotel in North America by *Travel + Leisure* readers, has continued to improve its performance. As well as higher occupancy levels, its restaurants and banqueting facilities have increased their contributions and the hotel has raised its profile by hosting the Academy of Achievement's International Achievement Summit.

The Peninsula Beverly Hills continues to be recognised as one of the top hotels in America, as evidenced by its *Travel + Leisure* ranking. Already the RevPAR leader in its market, it has achieved a further significant increase in occupancy, room rate and yield over the same period last year. It has also continued a rooms refurbishment programme to give the rooms a new, fresh look.

Quail Lodge has achieved higher room rates, as expected, following the major renovation undertaken in 2003. Marketing activities are being stepped up in order to capture a higher market share, as the property continues to be repositioned in the marketplace.

New Projects

Progress on the development of The Peninsula Tokyo, which will be located in the Marunouchi business district of the city, is on schedule for the opening of the hotel in 2007. The existing building on the site is currently being demolished, and ground-breaking for the new construction is expected to take place in the last quarter of 2004.

We have taken forward our negotiations for a potential Peninsula hotel in Shanghai by entering into a project agreement in May 2004 to acquire, subject to planning and other conditions being met, the land use rights for a designated site in the Waitanyuan area of the city, which is situated near the old British Consulate at the northern end of the Bund. It is expected that this project will be undertaken in conjunction with a company which has significant Shanghai property development experience.

Existing assets are also the subject of redevelopment programmes. In addition to the renovation programmes already mentioned for the original wing of The Peninsula Hong Kong and the unfurnished apartments at The Repulse Bay, plans for a major renovation of The Peak Tower are under review.

Outlook

Based on our forward bookings and recent industry trends, our outlook for the hotel business is positive for the second half of the year, which is normally a high season in many of our markets. However, the industry continues to be a fast moving one, with additional competitors continuing to emerge, and we must continue to be innovative in positioning our product and in our marketing strategies. We believe that there is potential for further growth in most of our hotels which have either been recently opened or renovated or are operating in markets with a growing or recovering economy.

Our non-hotel properties will continue to be dependent on the economy and the level of corporate confidence in Hong Kong. We are, however, continuing to take steps to improve our competitive positioning through renovation programmes to enhance the quality of these assets.

OTHER INFORMATION

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 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Stock Exchange Listing Rules, save that the non-executive directors have not been appointed for a specific term but are subject to retirement by rotation.

Dividend Dates

The interim dividend will be payable on 20 August 2004, to shareholders whose names appear on the register of members on 13 August 2004.

The register of members will be closed from 12 August to 13 August 2004, both days inclusive, during which period no transfer of shares can be registered.

To be entitled to receive the interim dividend, shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Company's registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:00 p.m. on Wednesday, 11 August 2004.

Miscellaneous

The directors are not aware of any material changes from the information published in the annual report for the year ended 31 December 2003, other than disclosed in this Interim Results Announcement.

The interim report of the Company containing all the information required by the Stock Exchange Listing Rules will be despatched to the shareholders as well as published on the website of the Stock Exchange in due course.

By Order of the Board
Christobelle Liao *Company Secretary*
Hong Kong, 26 July 2004

As at the date of this announcement, the board of directors of the Company comprises the following directors:

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

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

* *Independent non-executive director*

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