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 FINAL RESULTS – ANNOUNCEMENT

Consolidated Income Statement (HK$m)
(for the year ended 31 December)

	2004	2003	Change
Turnover	**3,112**	2,517	24%
Other revenue (1)	**8**	99	(92%)
	3,120	2,616	19%
Cost of inventories	**(222)**	(179)	(24%)
Staff costs	**(996)**	(901)	(11%)
Rent and utilities	**(238)**	(232)	(3%)
Other operating expenses	**(678)**	(578)	(17%)
Operating profit before depreciation and amortisation ("EBITDA")	**986**	726	36%
Depreciation and amortisation	**(96)**	(108)	11%
Operating profit	**890**	618	44%
Financing charges	**(243)**	(249)	2%
Share of losses of associated companies (2)	**(14)**	(5)	(180%)
Profit before non-operating items	**633**	364	74%
Non-operating items (3)	**67**	66	2%
Profit before taxation	**700**	430	63%
Taxation (4)	**(94)**	(70)	(34%)
Profit after taxation	**606**	360	68%
Minority interests	**(32)**	(9)	(256%)
Profit attributable to shareholders	**574**	351	64%
Interim dividend	**42**	–	100%
Final dividend (2004: Proposed)	**126**	112	13%

Notes :

(1) Other revenue
In 2003, included in other revenue was an insurance claim of HK$95 million which represented compensation receivable from an insurance company for estimated losses suffered by the group due to the outbreak of Severe Atypical Respiratory Syndrome disease.

(2) *Associated companies*
This includes the group's share of revaluation deficit of a hotel property owned by an associated company amounting to HK$16 million (2003: HK$3 million).

(3) *Non-operating items (HK$m)*

	2004	2003
Reversal of revaluation deficit previously charged to income statement on hotel and other properties	***96***	*62*
(Impairment losses)/Reversal of impairment losses on properties under development	***(17)***	*4*
Impairment loss on interest in associated company	***(5)***	*–*
Others	***(7)***	*–*
	67	*66*

(4) *Taxation (HK$m)*

	2004	2003
Current tax – Provision for Hong Kong profits tax		
Tax for the year	***49***	*39*
Over provision in respect of prior years	***(1)***	*(4)*
Total current tax for Hong Kong	***48***	*35*
Current tax – Overseas		
Tax for the year	***14***	*6*
Under/(over) provision in respect of prior years	***5***	*(3)*
Total current tax for overseas	***19***	*3*
Deferred tax		
Origination and reversal of temporary differences	***27***	*38*
Effect of increase in tax rate on deferred tax balances at 1 January	*–*	*(6)*
Total deferred tax	***27***	*32*
Total taxation for the year	***94***	*70*

Hong Kong profits tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. There was no share of taxation attributable to associated companies (2003: HK$ nil).

Financial Highlights

	2004	2003	Change
Balance Sheet (HK$m)			
(at 31 December)			
Total assets	**23,907**	20,056	19%
Shareholders' funds	**17,384**	13,441	29%
Net borrowings	**4,274**	4,689	9%
Key Data			
Earnings per share *(HK cents)* *	**41**	29	41%
Earnings per share excluding non-operating items *(HK cents)*	**36**	24	50%
Dividends per share *(HK cents)*	**12**	8	50%
Dividend cover *(times)*	**3.4x**	3.1x	10%
Net assets per share *(HK$)*	**12.40**	9.59	29%
Gearing	**20%**	26%	23%
Interest cover *(times)*	**3.7x**	2.5x	48%

* *Earnings per share are calculated based on profit of HK$574 million (2003: HK$351 million) and on the 1,402 million shares (2003: weighted average number of 1,208 million shares) in issue during the year.*

Segment Report (HK$m)
(for the year ended 31 December)

	2004	2003	Change
Business segment			
Turnover			
Hotels – Rooms	**1,191**	835	43%
– Food and beverage	**715**	565	27%
– Commercial rentals	**382**	384	(1%)
– Other	**236**	189	25%
	2,524	1,973	28%
Rentals from non-hotel properties	**374**	372	1%
Other businesses	**214**	172	24%
	3,112	2,517	24%
EBITDA			
Hotels	**658**	423	56%
Rentals from non-hotel properties	**260**	252	3%
Other businesses	**68**	51	33%
	986	726	36%
Geographical segment			
Turnover			
Hong Kong	**1,566**	1,313	19%
Other Asia Pacific	**567**	384	48%
United States of America	**979**	820	19%
	3,112	2,517	24%
EBITDA			
Hong Kong	**717**	622	15%
Other Asia Pacific	**223**	116	92%
United States of America	**46**	(12)	–
	986	726	36%

Consolidated Balance Sheet (HK$m)
(at 31 December)

	2004	2003	Change
Non-current assets			
Fixed assets			
Investment properties	**15,227**	12,377	23%
Hotel properties	**6,613**	5,690	16%
Properties under development	**610**	560	9%
Other properties, plant and equipment	**408**	441	(7%)
	22,858	19,068	20%
Interests in associated companies	**84**	103	(18%)
Interest in jointly controlled entity	**137**	–	100%
Investment in hotel management contract	**174**	179	(3%)
Other investments	**52**	56	(7%)
Deferred tax assets	**42**	69	(39%)
	23,347	19,475	20%
Current assets			
Inventories	**74**	72	3%
Debtors and payments in advance	**224**	292	(23%)
Cash and bank balances	**262**	217	21%
	560	581	(4%)
Current liabilities			
Creditors and accruals	**(1,138)**	(919)	(24%)
Interest-bearing borrowings	**(354)**	(1,234)	71%
Current taxation	**(45)**	(28)	(61%)
	(1,537)	(2,181)	30%
Net current liabilities	**(977)**	(1,600)	39%
Total assets less current liabilities	**22,370**	17,875	25%
Non-current liabilities			
Interest-bearing borrowings	**(4,182)**	(3,672)	(14%)
Deferred tax liabilities	**(202)**	(183)	(10%)
Minority interests	**(602)**	(579)	(4%)
Net assets	**17,384**	13,441	29%
Capital and reserves			
Share capital	**701**	701	–
Reserves	**16,683**	12,740	31%
	17,384	13,441	29%

Results and Dividends

The directors hereby present the audited consolidated income statement for the year ended 31 December 2004 and the audited consolidated balance sheet of the group at that date, both of which have been reviewed by the audit committee.

In 2004, the group's EBITDA has increased by 36% to HK$986 million, whilst profit attributable to shareholders was HK$574 million, an increase of 64% compared to HK$351 million in 2003.

An interim dividend of 3 cents per share was paid during the year 2004 (2003: nil). To balance our improved operating performance with our future commitments to the Tokyo and Shanghai hotel projects, the directors are recommending to shareholders that the final dividend be set at 9 cents per share. Together with the interim dividend of 3 cents per share, this represents a total dividend for 2004 of 12 cents per share which is an increase of 50% over last year. Shareholders will also be given the option to receive their dividend in the form of scrip rather than cash.

Financial Review

Gearing, expressed as a percentage of net borrowings to the total of net borrowings and net assets, was 20% (2003: 26%) at the year end and remains well within the debt capacity of the group. At 31 December 2004, the interest rates on 66% (2003: 62%) of the group's borrowings, after hedging, were fixed. The weighted average gross interest rate in 2004 increased to 5.0% (2003: 4.4%) as net borrowings of HK$0.7 billion (representing 17% of the net borrowings) were hedged at higher long-term fixed rates in the last quarter of 2003.

At 31 December 2004, total available facilities amounted to HK$7.0 billion (2003: HK$6.7 billion), of which 65% (2003: 73%) was drawn down. Secured borrowings decreased to HK$146 million (2003: HK$814 million) and the corresponding value of pledged assets amounted to HK$1.5 billion (2003: HK$2.7 billion).

As at 31 December 2004, after accounting for certain currency swaps designed to hedge the exchange rate risk of foreign currency borrowings, approximately 85%, 6%, 6%, 2% and 1% of the group's net assets were denominated in Hong Kong dollars, United States dollars, Chinese renminbi, Thai baht and other currencies respectively.

Operational Highlights

Hotels

At the end of 2003, our businesses were still recovering from the aftermath of the SARS outbreak that year. In 2004, this recovery gathered pace and our hotels were able to achieve significant growth in both occupancies and room rates. The average revenue per available room (RevPAR) for the Peninsula hotels in Asia increased by 38% from US$80 in 2003 to US$110 whereas the average RevPAR for the Peninsula hotels in the USA increased by 20% from US$270 in 2003 to US$323.

In Asia, our businesses benefitted from increased economic activity in Hong Kong and China, as well as from the continuing growth of travellers from mainland China and the general resurgence of long haul travel to Asia. The Peninsula Hong Kong recorded its highest annual revenue since 1997 and The Peninsula Palace Beijing continued to benefit from its renovation, increasing room rate by 21% from the previous year. The Peninsulas in Bangkok and Manila and The Kowloon Hotel all performed well above the previous year. The sad and devastating tsunami disaster which occurred just before the year end has had relatively little impact on our hotels, although there have been some cancellations in The Peninsula Bangkok.

In the USA, the strongest growth as compared to 2003 was achieved in New York, with a resurgence of both financial markets activity and visitors to the city. The Peninsula Chicago continued to establish itself as the leading hotel in the city and one of the RevPAR leaders. The Peninsula Beverly Hills increased its average room rate by US$49 to US$466 whilst maintaining over 80% occupancy, despite already being the RevPAR leader in its locale. Performance at Quail Lodge has been disappointing following renovation and therefore re-focussing our market positioning and marketing strategies for the Lodge has been, and continues to be, a high priority.

We have continued to place emphasis on the maintenance and enhancement of the quality of our hotel assets. During the year, enhancement projects successfully completed included the renovations of guestrooms in the original building of The Peninsula Hong Kong, guestrooms in Beverly Hills, The Peninsula Suite in Beijing and the *Pen-Top Bar & Terrace* in New York. The renovated guestrooms in The Peninsula Palace Beijing have generated sufficient demand for us to proceed with the final phase of the renovation of the remaining guestrooms, due for completion in early 2005.

		2004		2003	
	Attributable Interest (%)	**Occupancy (%)**	**Av Rm Rate (US$)**	Occupancy (%)	Av Rm Rate (US$)
The Peninsula Hong Kong *	**100**	**77**	**341**	57	300
The Peninsula New York	**100**	**76**	**530**	67	500
The Peninsula Chicago	**92.5**	**72**	**319**	64	312
The Peninsula Beverly Hills	**20**	**84**	**466**	81	417
The Peninsula Bangkok	**75**	**77**	**148**	66	130
The Peninsula Palace Beijing **	**42.1**	**62**	**129**	49	107
The Peninsula Manila	**40**	**69**	**78**	62	71
The Kowloon Hotel	**100**	**94**	**81**	69	66
Quail Lodge Resort ***	**100**	**54**	**293**	46	284

* *In 2004, due to renovation, the average number of rooms available was reduced to 269 (2003: 278).*

** *In 2004, due to renovation, the average number of rooms available was reduced to 500 (2003: 287).*

*** *Figures for 2003 exclude the renovation period from early February to June 2003 as the Resort was closed.*

Properties

There has been a rebound in the high end residential lettings market in Hong Kong, with the more bullish local property market and increased lettings demand from multinational corporations. This has been reflected in the increase in occupancy of the apartments at 101 Repulse Bay from 75% to 86%. Occupancy has been lower at 109 Repulse Bay due to the ongoing apartment renovation programme. However, the strength of demand for the renovated apartments has confirmed both the recent trend of recovery and the appeal of our product. Our other non-hotel assets, including The Peak Tower, St John's Building, The Landmark in Ho Chi Minh City and the Thai Country Club, have performed solidly for the year. The Peak Tram enjoyed strong patronage, increasing its average daily ridership from 8,471 to 11,222 passengers, and our management of clubs, as well as the Cathay Pacific airport lounges, continues to be highly regarded. We continue to pursue opportunities to enhance the value of our non-hotel assets. The apartment renovation programme at 109 Repulse Bay will continue in 2005 and the enhancement at the residents' clubhouse has been completed. In December 2004, we unveiled plans for a major redevelopment of The Peak Tower, which we believe will enhance its quality and image, increase the lettable commercial area and improve visitor access and circulation.

Management

The composition of the Group Management Committee remains unchanged. Peter Borer was appointed as chief operating officer for The Peninsula Hotels and an executive director of the company in April 2004. He is now charged with responsibility for the overall operations, performance and standards of the Peninsula hotels.

Strategies and developments

Our group takes a very long-term view on business. Our main strategies, consistent with those set out in the last two annual reports, remain unchanged and are as follows:

(i) to continue the development of hotels on a measured basis;

(ii) to purify the Peninsula brand and increase its applications across our hotels and other products;

(iii) to seek ways of enhancing the value of our existing assets through new concepts and redevelopments;

(iv) to improve our operating margins; and

(v) to emphasise career development and training for staff.

On development, The Peninsula Tokyo project remains on track for hotel opening in late 2007. During the year, demolition of the previous Hibiya Park Building was completed and the groundbreaking ceremony for the new hotel was held in October 2004. Designs for the hotel are in an advanced state and the main construction contractor has been appointed. Our investment cost relates to the fit-out and fixtures, furniture and equipment of the hotel and is estimated at HK$845 million.

The Peninsula Shanghai project is now committed following the acquisition of a prime site with frontage on to the famous Bund. We are presently finalising the building designs to commence construction in 2006, for completion in 2009. The proposed development will comprise up to 56,000 square metres of gross floor area. The estimated total development cost is approximately HK$2.8 billion. No specific project financing has been raised for the project for the time being.

We have also taken steps to strengthen our brand image and applications during the year. The Portraits of Peninsula advertising campaign has made a strong impact for our brand image. Brand applications have included the opening of the Peninsula Boutique in Tokyo and we are in the process of developing a new line of Peninsula Spas.

Considerable effort continues to be applied towards pursuing opportunities to enhance our existing assets. Major projects now underway include the final phase of room renovations at The Peninsula Palace Beijing and the enlargement of the *Shanghai Terrace* restaurant at The Peninsula Chicago. In addition, the group is revitalising The Peak Tower, which will close in March 2005 on commencement of the works. Although the closure of the property will have a short-term impact on the group's earnings for 2005 and 2006, on re-opening in mid-2006 the much-improved facilities are expected to command significantly better returns.

After operating for many years as a 40% shareholder in The Peninsula Manila, we decided to extend a partial offer to the local shareholders of the hotel. The offer was declared unconditional on 24 February 2005. This will give HSH a 71.68% interest in Manila Peninsula Hotel, Inc., which will become a subsidiary of the company.

In order to focus our resources on our core Peninsula brand, the group sold The Kowloon Hotel for a cash consideration of HK$1.93 billion. Completion of the transaction took place on 1 February 2005. The net proceeds will be used to help fund the development of our new hotels and continuing refurbishment or renovation of some of the group's existing hotel and other property interests as detailed above. Pending the utilisation of the funds for the above purposes, the proceeds were applied towards reducing bank borrowings and effectively managing the group's cost of funding.

On staff development and training, the first Group Management Development Programme was completed in September and already several participants have progressed to more senior positions within the company. Modules One and Two of the Group Professional Development Programme for middle managers within the company are under way and the first four modules of the Group Front Line Management Development Programme are now being introduced throughout the hotels.

Outlook

The way in which we managed the SARS crisis in 2003 and the resultant strong recovery experienced as a result of our commitment to our investments, our staff and our standards, have reinforced our long-term philosophy towards the ownership and management of hotels. We continue to be very selective in identifying new hotel development opportunities, with particular emphasis on prime locations as in the case of our sites in Tokyo and Shanghai.

Although 2005 has started with a positive outlook for our hotel and property businesses, it will be a challenge for our staff to maintain the same level of growth in 2005. There will also be challenges from the opening of competitor hotels in some of our markets and the environment surrounding The Peninsula Hong Kong will continue to be disrupted by railway construction works.

Although our company has a long history, our current portfolio of hotel properties is relatively young. We therefore continue to see potential for these hotels to gain market share. We are also paying particular attention to Quail Lodge, which is not currently making a positive contribution to the group's earnings.

The current outlook for Hong Kong property is positive and we believe that our present apartment renovation programme at The Repulse Bay has been well-timed to capitalise on the demand for the newly renovated apartments which will become available in the coming year. Leasing rates on tenancy renewals have continued to improve.

Accounting Policies

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. These will impact the group in a number of respects which are summarised below:

(1) hotel properties will be stated at cost less accumulated depreciation and any provision for impairment except that the leasehold land on which the hotel properties are situated will be reclassified as a separate class of non-current assets and will be stated at cost less accumulated amortisation. To date, hotel properties are stated at open market value;

(2) except for golf courses, investment properties will continue to be stated at fair value. However, any revaluation movements will be taken directly to the income statement, instead of the revaluation reserve;

(3) golf courses, which were investment properties at 31 December 2004, will be reclassified as other properties, which will be stated at cost less accumulated depreciation and any provision for impairment; and

(4) land with undetermined future use will be reclassified as investment properties, subject to annual market valuation.

The group will also be required to account for the changes in fair value of off-balance sheet financial instruments which either fulfil or do not fulfil the hedging requirements of the relevant accounting standards. These will be recorded in reserves or the income statement respectively.

In summary, on the balance sheet, the change of the accounting policy from market valuation to cost accounting for hotel properties and golf courses is expected to reduce the carrying value of the fixed assets, thereby increasing the group's gearing ratio. On the income statement, the impact will be reflected as follows:

(1) revaluation movements of investment properties net of deferred tax provisions will be recorded in the income statement, instead of the revaluation reserve. This may give rise to non-operating fluctuations in the group's profits;

(2) additional depreciation and amortisation will be provided for hotel properties and the leasehold land on which they are situated; and

(3) changes in fair value of off-balance sheet financial instruments which do not fulfil the hedging requirements will be recorded in the income statement.

It should be noted that the adoption of these accounting standards is not anticipated to have a material effect on the group's EBITDA and operational cash flow.

Other Information

Purchase, Sale and Redemption of Listed Securities

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

Corporate Governance

Our commitment to high corporate governance standards is firm. In advance of stock exchange requirements and to adhere to best international practice, the company revamped the Audit and Remuneration Committees, the majority of whose members now comprise independent non-executive directors. In addition, the existing internal audit function was substantially augmented with the establishment of the Audit and Risk Management Department. Its terms of reference, reporting lines and three-year audit cycle plan have been approved by the Audit Committee and a substantial amount of work has already been undertaken.

During the year, the company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, save that the non-executive directors were not appointed for a specific term but are subject to retirement by rotation. In March 2005, the company adopted its Code on Corporate Governance Practices to comply with the amended Listing Rules that came into effect on 1 January 2005.

Code for Dealing in Company's Securities by Directors

In February 2004, the company adopted its Code for Dealing in the Company's Securities by Directors pursuant to the Stock Exchange's Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the amended Listing Rules which came into effect on 31 March 2004.

In December 2004, Dr The Hon. Michael D. Kadoorie, Mr Ian D Boyce, Sir Sidney Gordon and Mr Ronald J McAulay advised the company that due to an oversight, a number of filings required under the Securities and Futures Ordinance and related notifications to the company were not made within the prescribed time limit. These filings primarily related to a complex trust restructuring, and the overall number of securities in the company held by Kadoorie Family interests and their associated individuals or entities remained the same. As soon as the directors concerned became aware of this oversight, they brought the matter to the attention of the company, the Stock Exchange and the Securities and Futures Commission. The relevant filings were then made with the Stock Exchange and the company.

Apart from the foregoing, the company has received written confirmation from each of the directors confirming that they have complied with the company's Code for Dealing throughout the year.

Annual General Meeting

The Annual General Meeting will be held at The Peninsula Hong Kong on 5 May 2005 at 12 noon. The register of members will be closed from 3 May 2005 to 5 May 2005 inclusive, and subject to the passing of the necessary resolution at the forthcoming Annual General Meeting, the final dividend will be payable on or about 31 May 2005 to shareholders whose names appear on the register of members on 5 May 2005. Shareholders will be given the option to receive their dividend in the form of scrip rather than cash.

Miscellaneous

The annual 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, 1 March 2005

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."