



THE HONGKONG AND SHANGHAI HOTELS, LIMITED  
DIRECTORS' INTERIM REPORT 2004

香港上海大酒店有限公司 二零零四年董事局中期業績報告



## DIRECTORS' INTERIM REPORT 2004

### 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 set out below.

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.

### Consolidated income statement (HK\$m)

	Note	For the six months ended 30 June		Change
		2004	2003	
<b>Turnover</b>		<b>1,427</b>	1,092	31%
Other revenue		<b>2</b>	2	-
		<b>1,429</b>	1,094	31%
Cost of inventories		<b>(96)</b>	(71)	(35%)
Staff costs		<b>(479)</b>	(429)	(12%)
Rent and utilities		<b>(118)</b>	(116)	(2%)
Other operating expenses		<b>(319)</b>	(257)	(24%)
<b>Operating profit before depreciation and amortisation ("EBITDA")</b>		<b>417</b>	221	89%
Depreciation and amortisation		<b>(50)</b>	(53)	6%
<b>Operating profit</b>		<b>367</b>	168	118%
Financing charges		<b>(125)</b>	(125)	-
Share of profits/(losses) of associated companies		<b>1</b>	(2)	150%
<b>Profit before taxation</b>		<b>243</b>	41	493%
Taxation	2	<b>(37)</b>	(16)	(131%)
<b>Profit after taxation</b>		<b>206</b>	25	724%
Minority interests		<b>(8)</b>	(4)	(100%)
<b>Profit attributable to shareholders</b>		<b>198</b>	21	843%
<b>Interim dividend attributable for the period</b>		<b>42</b>	-	n/a
<b>Earnings per share (HK cents)</b>	3	<b>14</b>	2	600%

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

	For the six months ended 30 June		Change
	2004	2003	
Shareholders' equity as at 1 January	<b>13,441</b>	11,577	16%
Exchange differences on translation of the financial statements of foreign entities not recognised in the income statement	<b>5</b>	(9)	156%
Net profit for the period	<b>198</b>	21	843%
<b>Total recognised gains</b>	<b>203</b>	12	1,592%
	<b>13,644</b>	11,589	18%
Dividends approved and paid during the period	<b>(112)</b>	(93)	(20%)
<b>Balance as at 30 June</b>	<b>13,532</b>	11,496	18%

## Consolidated balance sheet (HK\$m)

	Note	As at	As at
		30 June 2004	31 December 2003
<b>Non-current assets</b>			
Fixed assets		<b>19,078</b>	19,068
Deferred tax assets		<b>53</b>	69
Other non-current assets		<b>336</b>	338
		<b>19,467</b>	19,475
<b>Current assets</b>			
Inventories		<b>74</b>	72
Debtors and payments in advance	4	<b>223</b>	292
Cash and bank balances		<b>252</b>	217
		<b>549</b>	581
<b>Current liabilities</b>			
Creditors and accruals	4	<b>(896)</b>	(919)
Interest-bearing borrowings	5	<b>(801)</b>	(1,234)
Current taxation		<b>(42)</b>	(28)
		<b>(1,739)</b>	(2,181)
<b>Net current liabilities</b>		<b>(1,190)</b>	(1,600)
<b>Total assets less current liabilities</b>		<b>18,277</b>	17,875
<b>Non-current liabilities</b>			
Interest-bearing borrowings	5	<b>(3,980)</b>	(3,672)
Deferred tax liabilities		<b>(180)</b>	(183)
		<b>(4,160)</b>	(3,855)
<b>Minority interests</b>		<b>(585)</b>	(579)
<b>Net assets</b>		<b>13,532</b>	13,441
<b>Capital and reserves</b>			
Share capital		<b>701</b>	701
Reserves		<b>12,831</b>	12,740
		<b>13,532</b>	13,441

## Consolidated cash flow statement (HK\$m)

For the six months ended 30 June

	2004	2003
Operating activities		
EBITDA	417	221
Insurance settlement received	95	-
Tax paid	(6)	(9)
Other adjustments	(39)	(66)
Net cash from operating activities	467	146
Net cash outflow from investing activities	(80)	(177)
Net cash inflow/(outflow) before financing activities	387	(31)
Net cash (outflow)/inflow from financing activities	(243)	66
Dividends paid	(112)	(93)
Net increase/(decrease) in cash and cash equivalents	32	(58)
Cash and cash equivalents at 1 January	203	211
Effect of changes in foreign exchange rates	(1)	1
<b>Cash and cash equivalents at 30 June</b>	<b>234</b>	<b>154</b>

### 1 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 annual report and financial statements for the year ended 31 December 2003. Comparative figures are extracted from the Company’s interim report for the six months ended 30 June 2003 and annual financial statements for the year ended 31 December 2003.

### 2 Taxation (HK\$m)

For the six months ended 30 June

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

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.

### 3 Earnings per share

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.

#### 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 2004	As at 31 December 2003	As at 30 June 2004	As at 31 December 2003
0 – 3 months	79	82	55	77
4 – 6 months	3	2	2	1
> 6 months	1	1	1	-
	<b>83</b>	85	<b>58</b>	78

#### 5 Interest-bearing borrowings (HK\$m)

	As at 30 June 2004	As at 31 December 2003
Total facilities available:		
Bank loans and revolving credits	6,390	5,652
Uncommitted facilities, including bank overdrafts	1,054	1,060
	<b>7,444</b>	6,712
Utilised:		
Bank loans and revolving credits	4,638	4,753
Uncommitted facilities, including bank overdrafts	143	153
	<b>4,781</b>	4,906
<i>Represented by:</i>		
Short-term bank loans,		
repayable within one year or on demand	722	1,143
Current portion of long-term bank loans,		
repayable within one year	61	77
Bank overdrafts, repayable on demand	18	14
	<b>801</b>	1,234
Long-term borrowings, repayable:		
Within one year	61	77
Between one and two years	230	615
Between two and five years	3,750	3,057
	<b>4,041</b>	3,749
Less: Current portion of long-term borrowings	(61)	(77)
Non-current portion of long-term borrowings	3,980	3,672
<b>Total interest-bearing borrowings</b>	<b>4,781</b>	4,906

The total borrowings of HK\$4,781 million as at 30 June 2004 comprised the following variable rate bank loans and overdrafts that were:

	As at 30 June 2004	As at 31 December 2003
Unsecured	4,574	4,092
Secured by:		
Mortgage over investment and hotel properties of a PRC subsidiary company	207	207
Assets of a subsidiary company which owns and operates a hotel in the USA	-	607
<b>Total interest-bearing borrowings</b>	<b>4,781</b>	4,906

Total secured banking facilities and the corresponding value of the pledged assets amounted to **HK\$377 million** (2003: HK\$984 million) and **HK\$1,284 million** (2003: HK\$2,687 million) respectively.

## Segment reporting (HK\$m)

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

	Total	Hotels*	Non-hotel rental properties	Other businesses
<b>Six months ended 30 June 2004</b>				
<b>Turnover</b>				
Total segment	<b>1,442</b>	<b>1,154</b>	<b>181</b>	<b>107</b>
Inter-segment	<b>(15)</b>	<b>(4)</b>	<b>-</b>	<b>(11)</b>
	<b>1,427</b>	<b>1,150</b>	<b>181</b>	<b>96</b>
<b>Segment operating profit</b>				
	<b>367</b>	<b>230</b>	<b>117</b>	<b>20</b>
Financing charges	<b>(125)</b>			
Share of profits of associated companies	<b>1</b>			
<b>Profit before taxation</b>	<b>243</b>			
<b>Capital expenditure, depreciation and amortisation</b>				
Capital expenditure incurred	<b>93</b>	<b>73</b>	<b>15</b>	<b>5</b>
Depreciation and amortisation	<b>50</b>	<b>37</b>	<b>-</b>	<b>13</b>
<b>Six months ended 30 June 2003</b>				
<b>Turnover</b>				
Total segment	1,104	832	191	81
Inter-segment	(12)	(5)	-	(7)
	1,092	827	191	74
<b>Segment operating profit</b>				
	168	33	130	5
Financing charges	(125)			
Share of net losses of associated companies	(2)			
<b>Profit before taxation</b>	<b>41</b>			
<b>Capital expenditure, depreciation and amortisation</b>				
Capital expenditure incurred	227	217	7	3
Depreciation and amortisation	53	44	-	9

\* Analysis of hotels turnover

	2004	2003
Rooms	<b>524</b>	325
Food and beverage	<b>325</b>	233
Commercial	<b>193</b>	192
Other	<b>108</b>	77
	<b>1,150</b>	827

## Segment balance sheet

	Total	Hotels	Non-hotel rental properties	Other businesses
<b>As at 30 June 2004</b>				
<b>Assets</b>				
Fixed Assets				
Investment properties	12,387	4,929	7,194	264
Hotel properties	5,680	5,680	-	-
Development properties	584	226	-	358
Other properties	17	-	-	17
Other fixed assets	410	307	-	103
	<b>19,078</b>	<b>11,142</b>	<b>7,194</b>	<b>742</b>
Interests in associated companies	103	100	-	3
Other investments	56	47	-	9
Investment in hotel management contract	177	177	-	-
Other segment assets	297	233	10	54
Deferred tax assets	53			
Cash and bank balances	252			
Total assets	<b>20,016</b>			
<b>Liabilities</b>				
Segment liabilities	896	567	107	222
Bank loans and other liabilities	5,003			
Total liabilities	<b>5,899</b>			
<b>As at 31 December 2003</b>				
<b>Assets</b>				
Fixed Assets				
Investment properties	12,377	4,929	7,179	269
Hotel properties	5,690	5,690	-	-
Development properties	560	191	-	369
Other properties	16	-	-	16
Other fixed assets	425	312	-	113
	<b>19,068</b>	<b>11,122</b>	<b>7,179</b>	<b>767</b>
Interests in associated companies	103	98	-	5
Other investments	56	47	-	9
Investment in hotel management contract	179	179	-	-
Other segment assets	364	289	9	66
Deferred tax assets	69			
Cash and bank balances	217			
Total assets	<b>20,056</b>			
<b>Liabilities</b>				
Segment liabilities	919	575	128	216
Bank loans and other liabilities	5,117			
Total liabilities	<b>6,036</b>			



## 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 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	
	2004	2003	2004	2003	2004	2003
For the six months ended 30 June						
Turnover	<b>726</b>	586	<b>265</b>	164	<b>436</b>	342
Operating profit/(loss)	<b>306</b>	200	<b>90</b>	31	<b>(29)</b>	(63)
Capital expenditure	<b>26</b>	13	<b>48</b>	75	<b>19</b>	139
As at 30 June 2004/31 December 2003						
Assets	<b>13,995</b>	14,081	<b>2,863</b>	2,852	<b>2,853</b>	2,837

## 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:

	For the six months ended 30 June			
	Occupancy (%)		Average room rate (US\$)	
	2004	2003	2004	2003
The Peninsula Hong Kong*	<b>70</b>	38	<b>324</b>	328
The Peninsula New York	<b>74</b>	60	<b>484</b>	462
The Peninsula Chicago	<b>64</b>	59	<b>311</b>	298
The Peninsula Beverly Hills	<b>85</b>	82	<b>467</b>	412
The Peninsula Bangkok	<b>75</b>	59	<b>146</b>	130
The Peninsula Palace Beijing**	<b>54</b>	51	<b>119</b>	88
The Peninsula Manila	<b>70</b>	59	<b>73</b>	70
The Kowloon Hotel	<b>93</b>	49	<b>72</b>	64
Quail Lodge Resort***	<b>48</b>	n/a	<b>279</b>	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:

	For the six months ended 30 June			
	Occupancy (%)		Average yield per sq ft (US\$)	
	2004	2003	2004	2003
<b>Residential</b>				
The Repulse Bay (Unfurnished)	<b>74</b>	74	<b>3.01</b>	3.37
The Repulse Bay (Serviced)	<b>69</b>	76	<b>3.18</b>	3.49
The Landmark, Ho Chi Minh City	<b>96</b>	94	<b>2.06</b>	1.94
<b>Commercial</b>				
The Peninsula Hong Kong	<b>93</b>	96	<b>32.60</b>	32.33
The Peninsula New York	<b>100</b>	100	<b>36.73</b>	35.96
The Peninsula Bangkok	<b>100</b>	100	<b>7.49</b>	6.59
The Peninsula Palace Beijing	<b>99</b>	95	<b>9.89</b>	9.48
The Kowloon Hotel	<b>94</b>	93	<b>5.59</b>	5.27
The Repulse Bay	<b>99</b>	100	<b>7.86</b>	8.53
The Peak Tower	<b>100</b>	98	<b>4.73</b>	3.77
<b>Office</b>				
The Peninsula Hong Kong	<b>89</b>	83	<b>3.27</b>	3.59
St John's Building	<b>84</b>	75	<b>1.88</b>	1.91
The Landmark, Ho Chi Minh City	<b>99</b>	100	<b>2.10</b>	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, the 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 targeted 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.

## 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).

## Employees

The total number of employees, including those working in properties managed by the group, at 30 June 2004 increased to **6,162** (2003: 6,104). The increase in manpower occurred mainly in the hotels division, responding to the rise in business and the need to maintain service levels.

The Group Management Development Programme, our fast-track educational programme for high calibre managers introduced in 2003, will have the graduation for the first intake in September, with the completion of the course. A further enhancement of our staff training initiatives was the implementation of the Group Professional Development Programme for supervisor and manager levels in January this year. Further training courses for other levels of staff are being created and are expected to be introduced later in the year.

## Interests of directors and chief executive

The interests/short positions of each of the directors and chief executive in the shares, underlying shares and debentures of the Company or any of the Company's associated corporations (within the meaning of the Securities and Futures Ordinance) as at 30 June 2004, as recorded in the register required to be kept under Section 352 of Part XV of the Securities and Futures Ordinance, are set out opposite:

1. *Aggregate long position in the shares, underlying shares and debentures of the Company and its associated corporations*

The interests of directors and chief executive in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants or convertible bonds) as at 30 June 2004 were as follows:

	Capacity	Number of shares held	% of the issued share capital
Dr The Hon. Michael D Kadoorie	Note (a)	702,000,096	50.062
Ian D Boyce	Beneficial Owner	200,000	0.014
Clement K M Kwok	Beneficial Owner	600,000	0.043
Sir Sidney Gordon	Beneficial Owner	96,000	0.007
Ronald J McAulay	Note (b)	489,706,415	34.923
William E Mocatta	Family	1,017,000	0.073
Dr The Hon. David K P Li	Beneficial Owner	500,000	0.036
Robert C S Ng	Family & Note (c)	142,999	0.010
Pierre R Boppe	Beneficial Owner	150,000	0.011
C Mark Broadley	Beneficial Owner	200,000	0.014

Notes:

- (a) *Dr The Hon. Michael D Kadoorie was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 702,000,096 shares in the Company. These shares were held in the following capacity:*
- (i) *420,468,740 shares were held by discretionary trusts, of which Dr The Hon. Michael D Kadoorie is one of the beneficiaries.*
- (ii) *281,531,356 shares were held by a discretionary trust, of which Dr The Hon. Michael D Kadoorie is a beneficiary and the founder.*
- (b) *Mr Ronald J McAulay was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 489,706,415 shares in the Company. These shares were held in the following capacity:*
- (i) *420,468,740 shares were held by discretionary trusts, of which Mr Ronald J McAulay is one of the beneficiaries.*
- (ii) *69,237,675 shares were held by a discretionary trust, of which Mr Ronald J McAulay, his wife and members of his family are beneficiaries.*
- (c) *20,429 shares were non-beneficial interest held by the wife of Mr Robert C S Ng.*

Messrs James S Dickson Leach, Robert W Miller, Patrick B Paul and Peter C Borer who are directors of the Company have each confirmed that they had no interests in the shares of the Company as at 30 June 2004.

Apart from the foregoing, none of the directors or chief executive had interests in debentures, under equity derivatives or in underlying shares of the Company and its associated corporations.

2. *Aggregate short position in shares, underlying shares and debentures of the Company and its associated corporations*

None of the directors or chief executive had short positions in respect of shares, debentures, equity derivatives or interests in underlying shares of the Company or its associated corporations.

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as recorded in the register required to be kept under Section 352 of Part XV of the Securities and Futures Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## Interests of substantial shareholders

The interests/short positions of substantial shareholders in the shares and underlying shares of the Company as at 30 June 2004, as recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance, are set out below:

### 1. Aggregate long position in the shares and underlying shares of the Company

The Company had been notified of the following substantial shareholders' interests in the shares (other than pursuant to equity derivatives such as share options, warrants or convertible bonds) as at 30 June 2004:

	Capacity	Number of shares held	% of the issued share capital
Bermuda Trust Company Limited	Interest of controlled corporation	771,237,771	55.000
Esko Limited	Interest of controlled corporation	420,468,740	29.985
Hesko Limited	Interest of controlled corporation	420,468,740	29.985
New Xenon Holding Corporation	Interest of controlled corporation	135,998,024	9.699
New Xenon Holding Corporation	Trustee	229,949,683	16.399
Rostik Limited	Beneficial Owner	135,998,024	9.699
Mikado Holding Inc.	Trustee	281,531,356	20.077
Mikado Investments Limited	Interest of controlled corporation	281,531,356	20.077

These interests are duplicated to the extent of 1,905,945,923 shares. The net total of 771,237,771 shares reflects duplication of various directors' interests as recorded above.

### 2. Aggregate short position in the shares and underlying shares of the Company

As at 30 June 2004, the Company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

## Interests of any other persons

As at 30 June 2004, 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 the Securities Futures Ordinance.

## Purchase, sale and redemption of listed securities

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

## Corporate governance

The Company is committed to fulfilling its responsibilities to shareholders by ensuring that the proper processes for oversight and management of its businesses are in place, in operation and are regularly reviewed. Detailed disclosure of the Company's corporate governance practices and processes is available in the annual report of 2003.

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.

Two new directors have been appointed to the Board during the period: Mr Patrick B Paul, an independent non-executive director, and Mr Peter C Borer, executive director and Chief Operating Officer.

A number of committees have been established which include representation from independent non-executive and non-executive directors whose objective views are important in the execution of controls expected in a publicly listed company. Both the Audit and Remuneration Committees comprise only non-executive directors the majority of whom are independent.

## Code for dealing in the company's securities by directors

In February 2004, the Company adopted its own 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.

The directors have also complied throughout the period with the Company's own Code.

## Loan agreements with covenants relating to specific performance of the controlling shareholder

Pursuant to rule 13.18 of the Listing Rules, the Company discloses that a covenant relating to a loan facility of an amount of HK\$1,649 million required that the Kadoorie family retain control and/or majority ownership of the Company during the six months ended 30 June 2004. This facility was denominated in Hong Kong and United States dollars and had a maturity of seven years; it expired on 6 July 2004. Facilities arranged subsequent to this facility do not require this covenant.

## 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 as disclosed in this interim report.

By Order of the Board

**Christobelle Liao**

*Company Secretary*

Hong Kong, 26 July 2004

# 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 2004, and the related statements of income and cash flows 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 2004.

**KPMG**

*Certified Public Accountants*

Hong Kong, 26 July 2004







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