



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

website: www.hshgroup.com/ir

2002 FINAL RESULTS – ANNOUNCEMENT

Group Results (HK\$m)

(for the year ended 31 December)

	2002	2001	Effect
Turnover	2,592	2,584	–
Other revenue	<u>4</u>	<u>9</u>	(56%)
	2,596	2,593	–
Cost of inventories	(202)	(363)	44%
Staff costs	(891)	(783)	(14%)
Rent and utilities	(210)	(194)	(8%)
Other operating expenses	(546)	(555)	2%
Operating profit before depreciation and amortisation	747	698	7%
Depreciation and amortisation	<u>(110)</u>	<u>(114)</u>	4%
Operating profit	637	584	9%
Financing charges	(289)	(346)	16%
Share of losses of associated companies	<u>(4)</u>	<u>(8)</u>	50%
Profit before non-operating items	344	230	50%
Non-operating items ⁽¹⁾	<u>27</u>	<u>(148)</u>	–
Profit before taxation	371	82	352%
Taxation ⁽²⁾	<u>(56)</u>	<u>(46)</u>	(22%)
Profit after taxation	315	36	775%
Minority interests	<u>(7)</u>	<u>(3)</u>	(133%)
Profit attributable to shareholders	308	33	833%
Final dividend (2002: Proposed)	93	58	60%

Notes:

(1) <i>Non-operating items (HK\$m)</i>	2002	2001
Revaluation deficits on hotel and other properties	(62)	(98)
Reversal of impairment loss in relation to The Palace Hotel	238	–
Provision against interest and other expenses capitalised during construction in respect of a recently completed hotel	(155)	–
Reversal of/(provision for) impairment losses on properties under development and other assets	6	(46)
Impairment losses on investment securities	–	(10)
Profit on disposal of investment securities	–	6
	<u>27</u>	<u>(148)</u>

(2) Hong Kong profits tax has been provided at the rate of **16%** of estimated assessable profits while overseas profits tax has been provided at applicable rates. Share of taxation attributable to associated companies amounted to **nil** (2001: HK\$0.2 million).

Financial Highlights

	2002	2001	Effect
Balance Sheet (HK\$m)			
(at 31 December)			
Total assets	18,987	18,462	3%
Shareholders' funds	11,723	11,943	(2%)
Net borrowings	5,611	5,656	1%
Key Data			
Interest cover	2.2x	1.7x	29%
Gearing	32%	32%	–
Dividends per share	8¢	5¢	60%
Dividend cover	3.3x	0.6x	450%
Earnings per share*	26¢	3¢	767%
Earnings per share excluding non-operating items	24¢	15¢	60%
Net assets per share	\$10.03	\$10.22	(2%)

* Earnings per share are calculated on a profit of **HK\$308 million** (2001: HK\$33 million) and on the weighted average of **1,169 million shares** in issue (2001: 1,170 million shares).

Segment Report (HK\$m) (for the year ended 31 December)	2002	2001	Effect
Business Segment			
Turnover			
Hotels – Rooms	847	723	17%
– Food and beverage	575	517	11%
– Commercial	305	279	9%
– Others	214	191	12%
	<u>1,941</u>	<u>1,710</u>	14%
Rentals from non-hotel properties	410	478	(14%)
Other businesses	202	183	10%
	<u>2,553</u>	<u>2,371</u>	8%
Property sales	39	213	(82%)
	<u>2,592</u>	<u>2,584</u>	–
Operating Profit			
Hotels	305	224	36%
Rentals from non-hotel properties	289	341	(15%)
Other businesses	34	30	13%
	<u>628</u>	<u>595</u>	6%
Property sales	9	(11)	–
	<u>637</u>	<u>584</u>	9%
Geographical Segment			
Turnover			
Hong Kong	1,541	1,536	–
Other Asia Pacific	242	438	(45%)
United States of America	809	610	33%
Operating Profit			
Hong Kong	640	649	(1%)
Other Asia Pacific	57	6	850%
United States of America	(60)	(71)	15%

Results and Dividends

The directors hereby announce the audited consolidated results of the company for the financial year ended 31 December 2002.

Group operating profit in 2002 was HK\$637 million compared to HK\$584 million in 2001, an increase of 9%. The profit attributable to shareholders was HK\$308 million in 2002, compared to HK\$33 million in 2001, an increase of 833%.

No interim dividend was paid during the year 2002 (2001: nil). Although the company has achieved a satisfactory increase in both operating profit and profit attributable to shareholders for 2002, the directors consider it prudent to retain a significant portion of the earnings within the company, in the light of the group's ongoing capital expenditure requirements as well as the uncertainties arising from the possibility of further conflict in the Middle East. Your directors have, therefore, recommended a final dividend of 8 cents per share to be payable (2001: 5 cents per share) which shall be subject to the approval of the shareholders at the forthcoming Annual General Meeting.

Operational Highlights

Hotels

The financial results of our hotels were generally satisfactory for a year which started in the aftermath of the 11 September 2001 terrorist attack and later suffered further uncertainties caused by the Bali bombing and the threat of war in Iraq.

Our hotels in Asia performed strongly in 2002, with all the hotels other than The Peninsula Manila achieving increases in both turnover and operating profits. Our flagship hotel, The Peninsula Hong Kong, and The Peninsula Bangkok both contributed strongly to the increase in operating profits. The shopping arcades in The Peninsula Hong Kong and The Palace Hotel Beijing, which house many of the top retail brand names, continued to perform well.

In the USA, our operating results were somewhat mixed. The Peninsula Chicago, in its first full year of business, has received numerous accolades for the quality of its operation but is still in the process of establishing increased corporate business in a competitive market. The Peninsulas in New York and Beverly Hills both achieved similar revenue per available room levels to 2001 whilst retaining their strong reputations for quality.

Properties

With the bulk of our properties concentrated in Hong Kong, which has continued to suffer from poor economic sentiment, we have faced a challenging environment in our property business. Our largest property asset is the luxury residential apartments at Repulse Bay where the declining expatriate trends in Hong Kong have had a significant adverse effect on both occupancy levels and rentals.

The office rental market in Hong Kong also continues to suffer as evidenced by the performance of St. John's Building.

On the other hand, business has held up well at The Peak Tower and the Peak Tramways, The Landmark in Ho Chi Minh City and at the Thai Country Club.

Management

The Group Management Committee, created to oversee the day to day running of our businesses, has provided a forum for more focussed and collective decision-making, and communication between all of our operations and head office has improved as a result.

With the opportunities and challenges that lie ahead, development and career planning for our key people have been emphasised and we have launched a Group Management Development Programme which is designed to provide accelerated training and work opportunities for our high calibre managers.

Future Strategy and Developments

We have undertaken a strategic review of our businesses to provide clear direction for our management and operations. We have reaffirmed that our overriding objective is to increase long-term shareholder value whilst preserving and enhancing the quality of service and the Peninsula brand name. We have identified five key strategic objectives which are:

- (i) to develop new hotels and related developments on a measured and prudent basis;
- (ii) to maximise the Peninsula brand name by standardising its application and using it consistently across hotels and other products where appropriate;
- (iii) to explore alternative uses or new concepts as well as any redevelopment potential of our existing assets to seek enhanced returns;
- (iv) to devise specific strategies to improve our operating margins; and
- (v) to emphasise career development and training for staff.

We were delighted during the year to have signed an agreement with Mitsubishi Estate Company to develop The Peninsula Tokyo on a prime site in the prestigious Marunouchi business area of Tokyo for opening in 2007.

With the completion of the restructuring of The Palace Hotel which has given HSH a controlling interest in this hotel, we have embarked on the further phases of a HK\$237 million renovation programme which we expect will bring the standards of The Palace Hotel in line with our other Peninsula products.

Work has recently begun on a HK\$179 million renovation programme for Quail Lodge which we believe will enhance the property's status as a premier golfing and resort destination in the upmarket Carmel area of California.

We have also continued to place emphasis on maintaining and enhancing the quality and value of our existing assets. Guestroom and public area refurbishments continue to take place at a number of our hotels; a new restaurant concept was created in The Peninsula New York; and a new Thai restaurant and improved riverside dining are being developed at The Peninsula Bangkok.

On the property side, refurbishments of certain apartments and the clubhouse are taking place at The Repulse Bay. Studies are underway to examine the potential for possible redevelopment, reconfiguration or re-theming of certain properties where we think these might add value.

Outlook

The threat of disruption from war and terrorism remains and whilst we have maintained our costs to serve the existing healthy business levels, we are well-prepared to react quickly in the event that there is significant disruption from such events.

We are actively seeking opportunities to create additional value for our shareholders and we expect that the much improved products which we will have at The Palace Hotel and Quail Lodge will be reflected in their results later in the year.

While the outlook for the property market in Hong Kong remains weak for the time being, we are undertaking various studies to explore ways of enhancing the return from our Hong Kong property assets.

The recent launch of the celebrations for the 75th anniversary of The Peninsula Hong Kong serves as a strong reminder of how the unending pursuit of quality and integrity will overcome shorter-term uncertainties and result in the creation of substantial long-term value.

Financial Review

Gearing, expressed as a percentage of net borrowings to the total of net borrowings and net assets, was 32% (2001: 32%) at the year end and remains well within the debt capacity of the group. At 31 December 2002, the interest rates on 36% (2001: 34%) of net borrowings, after hedging, were fixed. The weighted average gross interest rate in 2002 was 5.1% (2001: 6.7%).

At 31 December 2002, total available facilities amounted to HK\$7.7 billion (2001: HK\$8.4 billion), of which 76% (2001: 68%) was drawn down. Net borrowings amounted to HK\$5.6 billion (2001: HK\$5.7 billion).

At 31 December 2002 secured borrowings amounted to HK\$1,159 million (2001: HK\$989 million). Total value of pledged assets attributable to the group amounted to HK\$3.7 billion (2001: HK\$2.9 billion).

Statutory Information

The Annual General Meeting will be held at The Peninsula on 19 May 2003 at 12 noon. The register of members will be closed from 15 May 2003 to 19 May 2003 inclusive, and subject to the passing of the necessary resolution at the forthcoming Annual General Meeting, the final dividend will be payable on 23 May 2003 to shareholders whose names appear on the register of members on 19 May 2003.

Miscellaneous

The Stock Exchange of Hong Kong Limited's website will contain all information relating to the announcement of results of the Company for the financial year 2002 as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The directors are not aware of any material changes other than disclosed in this Final Results Announcement from the information published in the annual report for the year ended 31 December 2001.

A handwritten signature in black ink, appearing to read 'Christobelle Liao', with a stylized flourish at the end.

By Order of the Board
Christobelle Liao *Company Secretary*
Hong Kong, 27 February 2003

“Please also refer to the published version of this announcement in SCMP”.