



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

website: www.hshgroup.com/ir

2003 INTERIM RESULTS – ANNOUNCEMENT

**Consolidated Income Statement (HK\$m)**

(for the six months ended 30 June)

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

Note:

	2003	2002 (restated)
<i>Current tax</i>		
<i>Hong Kong</i>	11	15
<i>Other jurisdictions</i>	2	2
	<u>13</u>	<u>17</u>
<i>Deferred tax</i>		
<i>Current period</i>	10	17
<i>Attributable to increase in tax rate</i>	(6)	–
	<u>4</u>	<u>17</u>
<i>Taxation attributable to the Company and its subsidiaries</i>	17	34
<i>Share of taxation of associated companies</i>	(1)	–
	<u>16</u>	<u>34</u>

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

## Financial Highlights

	2003	2002 (restated)	Effect
<b>Balance Sheet (HK\$m)</b>			
(at 30 June 2003/31 December 2002)			
Total assets	19,075	18,963	1%
Shareholders' funds	11,496	11,577	(1%)
Net borrowings	5,881	5,611	5%
<b>Key Data</b>			
(for the six months ended 30 June)			
Interest cover	1.3x	2.0x	(35%)
Earnings per share*	2¢	10¢	(80%)
(at 30 June 2003/31 December 2002)			
Gearing	34%	33%	3%
Net assets per share	\$9.84	\$9.91	(1%)

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

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

	2003	2002	Effect
<b>Business segment</b>			
<b>Turnover</b>			
Hotels – Rooms	325	399	(19%)
– Food and beverage	233	274	(15%)
– Commercial	192	149	29%
– Other	77	103	(25%)
	<hr/>	<hr/>	
	827	925	(11%)
Rentals from non-hotel properties	191	209	(9%)
Other businesses	74	101	(27%)
	<hr/>	<hr/>	
	1,092	1,235	(12%)
Property sales	–	18	(100%)
	<hr/>	<hr/>	
	<b>1,092</b>	<b>1,253</b>	(13%)
<b>Operating profit/(loss)</b>			
Hotels	33	137	(76%)
Rentals from non-hotel properties	130	152	(14%)
Other businesses	7	12	(42%)
	<hr/>	<hr/>	
	170	301	(44%)
Property sales	(2)	(2)	–
	<hr/>	<hr/>	
	<b>168</b>	<b>299</b>	(44%)
<b>Geographical segment</b>			
<b>Turnover</b>			
Hong Kong	586	751	(22%)
Other Asia Pacific	164	122	34%
United States of America	342	380	(10%)
	<hr/>	<hr/>	
	1,092	1,253	(13%)
<b>Operating profit/(loss)</b>			
Hong Kong	200	317	(37%)
Other Asia Pacific	31	30	3%
United States of America	(63)	(48)	(31%)
	<hr/>	<hr/>	
	<b>168</b>	<b>299</b>	(44%)

## Interim Results

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

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

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

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

## Accounting Policy

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

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

## Financial Review

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

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

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

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

## Operating Review

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

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

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

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

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

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

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

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

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

## Asia

### People's Republic of China

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

Aggressive rooms and food and beverage promotions introduced by The Peninsula Hong Kong, aimed primarily at Hong Kong residents, have met with success. Proving particularly popular have been the hotel's "Three Peninsula Wishes" local package and its "75 for 75" food and beverage offers. The hotel

also brought forward planned renovation and maintenance work for rooms in the original building. Similarly, The Kowloon Hotel has stepped up its dining offers to attract back its loyal clientele, and it has also seen occupancies begin to grow.

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

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

### **Thailand**

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

### **The Philippines**

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

### **United States of America**

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

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

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

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

## **New Projects**

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

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

## **Outlook**

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


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

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

## **Other Information**

The Stock Exchange of Hong Kong Limited's website will contain all information relating to the announcement of interim results of the Company for the financial year 2003 as required by Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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



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

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