



# THE HONGKONG AND SHANGHAI HOTELS, LIMITED

香港上海大酒店有限公司

website: www.hshgroup.com/ir

## 2003 FINAL RESULTS – ANNOUNCEMENT

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

(for the year ended 31 December)

	2003	2002 (restated)	Effect
<b>Turnover</b>	<b>2,517</b>	<b>2,592</b>	<b>(3%)</b>
Other revenue <sup>(1)</sup>	99	4	2,375%
	<u>2,616</u>	<u>2,596</u>	1%
Cost of inventories	(179)	(202)	11%
Staff costs	(901)	(891)	(1%)
Rent and utilities	(232)	(210)	(10%)
Other operating expenses	(578)	(546)	(6%)
<b>Operating profit before depreciation and amortisation</b>	<b>726</b>	<b>747</b>	<b>(3%)</b>
Depreciation and amortisation	(108)	(110)	2%
<b>Operating profit</b>	<b>618</b>	<b>637</b>	<b>(3%)</b>
Financing charges	(249)	(289)	14%
Share of losses of associated companies	(5)	(4)	(25%)
<b>Profit before non-operating items</b>	<b>364</b>	<b>344</b>	<b>6%</b>
Non-operating items <sup>(2)</sup>	66	27	144%
<b>Profit before taxation</b>	<b>430</b>	<b>371</b>	<b>16%</b>
Taxation <sup>(3)</sup>	(70)	(73)	4%
<b>Profit after taxation</b>	<b>360</b>	<b>298</b>	<b>21%</b>
Minority interests	(9)	(5)	(80%)
<b>Profit attributable to shareholders</b>	<b>351</b>	<b>293</b>	<b>20%</b>
<b>Final dividend (2003: Proposed)</b>	<b>112</b>	<b>93</b>	<b>20%</b>

#### Notes:

##### (1) Other revenue

Included in other revenue is an insurance claim of HK\$95 million (2002: HK\$ nil) which represents compensation received from an insurance company for estimated losses suffered by the group due to the outbreak of Severe Atypical Respiratory Syndrome during 2003.

##### (2) Non-operating items (HK\$m)

	2003	2002
Reversal of revaluation deficit previously charged to income statement/ (revaluation deficit) on hotel and other properties	62	(62)
Reversal of impairment losses on properties under development	4	6
Reversal of impairment loss on other investments	-	238
Provision against interest and other expenses capitalised during construction on a recently completed hotel	-	(155)
	<u>66</u>	<u>27</u>

##### (3) Taxation (HK\$m)

	2003	2002 (restated)
Current tax – Provision for Hong Kong profits tax		
Tax for the year	39	35
Over provision in respect of prior years	(4)	(2)
<b>Total current tax for Hong Kong</b>	<b>35</b>	<b>33</b>
Current tax – Overseas		
Tax for the year	6	4
Over provision in respect of prior years	(3)	(3)
<b>Total current tax for overseas</b>	<b>3</b>	<b>1</b>
Deferred tax		
Origination and reversal of temporary differences	38	39
Effect of increase in tax rate on deferred tax balances at 1 January	(6)	-
<b>Total deferred tax</b>	<b>32</b>	<b>39</b>
<b>Total taxation for the year</b>	<b>70</b>	<b>73</b>

Hong Kong profits tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated as provided in the respective jurisdictions. There was no share of taxation attributable to associated companies (2002: HK\$nil).

### Financial Highlights

	2003	2002 (restated)	Effect
<b>Balance Sheet (HK\$m)</b> (at 31 December)			
Total assets	20,056	18,963	6%
Shareholders' funds	13,441	11,577	16%
Net borrowings	4,689	5,611	16%
<b>Key Data</b>			
Earnings per share*	29¢	25¢	16%
Earnings per share excluding non-operating items	24¢	23¢	4%
Dividends per share	8¢	8¢	-
Dividend cover	3.1x	3.2x	(3%)
Net assets per share	\$9.59	\$9.90	(3%)
Gearing	26%	33%	21%
Interest cover	2.5x	2.2x	14%

\* Earnings per share are calculated based on profit of HK\$351 million (2002 restated: HK\$293 million) and on the weighted average number of 1,208 million shares (2002: 1,169 million shares) in issue during the year.

### Segment Report (HK\$m)

(for the year ended 31 December)

	2003	2002	Effect
<b>Business segment</b>			
<b>Turnover</b>			
Hotels – Rooms	835	847	(1%)
– Food and beverage	565	575	(2%)
– Commercial	384	305	26%
– Other	189	214	(12%)
	<u>1,973</u>	<u>1,941</u>	2%
Rentals from non-hotel properties	372	410	(9%)
Other businesses	172	202	(15%)
	<u>2,517</u>	<u>2,553</u>	(1%)
Property sales	-	39	-
	<u>2,517</u>	<u>2,592</u>	(3%)
<b>Operating profit</b>			
Hotels	337	305	10%
Rentals from non-hotel properties	253	289	(12%)
Other businesses	28	34	(18%)
	<u>618</u>	<u>628</u>	(2%)
Property sales	-	9	-
	<u>618</u>	<u>637</u>	(3%)
<b>Geographical segment</b>			
<b>Turnover</b>			
Hong Kong	1,313	1,541	(15%)
Other Asia Pacific	384	242	59%
United States of America	820	809	1%
	<u>2,517</u>	<u>2,592</u>	(3%)
<b>Operating profit/(loss)</b>			
Hong Kong	584	640	(9%)
Other Asia Pacific	95	57	67%
United States of America	(61)	(60)	(2%)
	<u>618</u>	<u>637</u>	(3%)

### Consolidated Balance Sheet (HK\$m)

(at 31 December)

	2003	2002 (restated)	Effect
<b>Non-current assets</b>			
Fixed assets			
Investment properties	12,377	11,798	5%
Hotel properties	5,690	5,231	9%
Properties under development	560	618	(9%)
Other properties, plant and equipment	441	372	19%
	<u>19,068</u>	<u>18,019</u>	6%
Interests in associated companies	103	114	(10%)
Investment in hotel management contract	179	185	(3%)
Other investments	56	52	8%
Deferred tax assets	69	88	(22%)
	<u>19,475</u>	<u>18,458</u>	6%
<b>Current assets</b>			
Inventories	72	78	(8%)
Debtors and payments in advance	292	195	50%
Cash and bank balances	217	232	(6%)
	<u>581</u>	<u>505</u>	15%
<b>Current liabilities</b>			
Creditors	(919)	(808)	(14%)
Interest-bearing borrowings	(1,234)	(777)	(59%)
Current taxation	(28)	(14)	(100%)
	<u>(2,181)</u>	<u>(1,599)</u>	(36%)
<b>Net current liabilities</b>	<b>(1,600)</b>	<b>(1,094)</b>	<b>(46%)</b>
<b>Total assets less current liabilities</b>	<b>17,875</b>	<b>17,364</b>	<b>3%</b>
<b>Non-current liabilities</b>			
Interest-bearing borrowings	(3,672)	(5,066)	28%
Deferred tax liabilities	(183)	(154)	(19%)
<b>Minority interests</b>	<b>(579)</b>	<b>(567)</b>	<b>(2%)</b>
<b>Net assets</b>	<b>13,441</b>	<b>11,577</b>	<b>16%</b>
<b>Capital and reserves</b>			
Share capital	701	584	20%
Reserves	12,740	10,993	16%
	<u>13,441</u>	<u>11,577</u>	16%

## Results and Dividends

The directors hereby announce the audited consolidated income statement for the year ended 31 December 2003 and the audited balance sheet of the group at that date, both of which have been reviewed by the audit committee.

Group operating profit in 2003 was HK\$618 million compared to HK\$637 million in 2002, a decrease of 3%. The profit attributable to shareholders was HK\$351 million in 2003, compared to HK\$293 million in 2002, an increase of 20%.

No interim dividend was paid during the year 2003 (2002: nil). Although the company has achieved satisfactory results in both operating profit and profit attributable to shareholders for 2003, 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 ongoing global economic and political uncertainties. Your directors have, therefore, recommended a final dividend of 8 cents per share to be payable (2002: 8 cents per share) which shall be subject to the approval of the shareholders at the forthcoming Annual General Meeting.

## Financial Review

In October 2003, the company placed 160 million existing shares held by two substantial shareholders of the company to independent investors at a price of HK\$4.90 per share. The two substantial shareholders subsequently subscribed at the same price for 233 million new shares. Pending utilisation of the funds for the development and refurbishment of hotels and properties, most of the net proceeds of HK\$1,135 million were applied towards reducing short-term bank borrowings. As a result, the net borrowings of the group decreased by 16% during 2003 to HK\$4.7 billion.

Gearing, expressed as a percentage of net borrowings to the total of net borrowings and net assets, was 26% (2002: 33%) at the year end and remains well within the debt capacity of the group. At 31 December 2003, the interest rates on 62% (2002: 35%) of the group's borrowings, after hedging, were fixed. The weighted average gross interest rate in 2003 was 4.4% (2002: 5.1%).

At 31 December 2003, total available facilities amounted to HK\$6.7 billion (2002: HK\$7.7 billion), of which 73% (2002: 76%) was drawn down. Secured borrowings decreased to HK\$814 million (2002: HK\$1,159 million) and the corresponding value of pledged assets amounted to HK\$2.7 billion (2002: HK\$3.3 billion).

## Operational Highlights

### Hotels

The hotels that bore the brunt of the impact from the SARS outbreak were The Peninsula Hong Kong, The Kowloon Hotel and The Peninsula Palace Beijing. Each of these hotels was virtually empty for around three months following the outbreak of SARS in China and Hong Kong in late March 2003. Our other properties in Asia, The Peninsula Bangkok and The Peninsula Manila, were also affected as both international and regional travellers cancelled their visits.

In the midst of the SARS crisis, we took clear decisions to (i) cut costs wherever possible but maintain our staffing without any lay-offs; (ii) put in place marketing plans to capture business aggressively once the SARS outbreak ended; and (iii) use the quiet period to proceed with renovation plans in Beijing and Hong Kong. Our staff also contributed by taking voluntary unpaid leave to ease payroll costs during that period.

After the SARS crisis subsided, The Peninsula Hong Kong experienced an extraordinary business rebound, helped by marketing initiatives, and both The Kowloon Hotel and The Peninsula Bangkok returned to normal business levels. The renovation of The Palace Hotel was successfully completed and it has seen a significant increase in room rates since its re-launch as The Peninsula Palace in September 2003.

In the USA, The Peninsula New York had a difficult first half year amid security fears in the city during the Iraq conflict, but ended the year on a high note, with a record operating profit for December. Both The Peninsula Chicago and The Peninsula Beverly Hills were relatively unaffected by the conflict and performed well. Quail Lodge, closed for almost five months as it underwent a major renovation, re-opened during the summer with a much more attractive product and has been rebuilding its business at higher room rates.

	2003			2002	
	Attributable Interest (%)	Occupancy (%)	Av Rm Rate (US\$)	Occupancy (%)	Av Rm Rate (US\$)
The Peninsula Hong Kong	100	53	300	62	342
The Peninsula New York	100	67	500	65	507
The Peninsula Chicago	92.5	64	312	51	300
The Peninsula Beverly Hills	20	81	417	78	400
The Peninsula Bangkok	75	66	130	73	127
The Peninsula Palace Beijing *	42.1	49	107	63	88
The Peninsula Manila	40	62	71	59	79
The Kowloon Hotel	100	69	66	92	67
Quail Lodge Resort **	100	46	284	54	240

\* Attributable interest in registered capital only. As the group controls 76.6% of the voting power of the hotel's owning company, it has been included as a subsidiary since 31 December 2002. Figures for 2003 are based on the reduced average availability of 287 rooms during the renovation period.

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

### Properties

The yield on our major Hong Kong properties, being The Repulse Bay complex, The Peak Tower and St. John's Building, continued to decline during the year, as demand remained weak in the light of Hong Kong's uncertain economy and outlook. The improvement in sentiment towards the end of the year, particularly in the luxury residential sector, has not yet flowed through into our results. Nevertheless, with the long-term in mind, we have continued to improve the services for our residents at The Repulse Bay complex by enhancing the residents' club and commencing a phased apartment refurbishment programme. Elsewhere, The Landmark in Ho Chi Minh City, the Thai Country Club, and our club and consultancy operations have performed well. Our franchise to operate the Peak Tram has been extended for another 10 years until 2013.

### Management

Towards the end of 2003, our Finance Director, Mark Rhys, retired from the company and has been replaced by Mark Broadley. The other members of the Group Management Committee, being Clement Kwok (Managing Director and Chief Executive Officer), Peter Borer (Group General Manager - Asia), Niklaus Leuenberger (Group General Manager - America) and Martyn Sawyer (Group General Manager - Properties and Clubs), remain unchanged.

### Strategies and Developments

Our group takes a very long-term view on business and the short-term effects of SARS have not altered our vision and strategies. These strategies are:

- to continue the development of new hotels on a measured basis;
- to purify the Peninsula brand and increase its applications across our hotels and other products;
- to seek ways of enhancing the value of our existing assets through new concepts or redevelopments;

- to improve our operating margins; and
- to emphasise career development and training for staff.

On development, significant progress has been made during the year on our hotel project in Tokyo. Working with our partner, Mitsubishi Estate Company, we have advanced our detailed designs to the point of shortly inviting tenders from contractors. It is expected that construction of the hotel will commence before the end of 2004.

We have pursued discussions in Shanghai with the aim of developing a Peninsula hotel in the Waitanyuan area of the Bund, close to the old British Consulate. A framework agreement was signed in November 2003 for further discussion on the acquisition of this site, in conjunction with a Shanghai developer, and we are presently in detailed negotiations which may lead to final agreements being signed.

On branding, we have introduced a new Peninsula brand image in conjunction with the re-launch of The Peninsula Palace Beijing, which will now be applied consistently across all the Peninsula hotels.

On existing assets, the major renovations at The Peninsula Palace and Quail Lodge have breathed new life into these properties. The new Thai restaurant, *Thiptara*, and the *River Café* have enhanced the dining facilities at The Peninsula Bangkok, and *The Pen-Top Bar* in the Peninsula New York will shortly be renovated. Guestroom refurbishments have also taken place in the Peninsulas in Hong Kong and Beverly Hills.

We have also focussed attention on our property assets. At The Repulse Bay complex, a programme to refurbish existing apartments has commenced and the residents' clubhouse continues to undergo improvements. We are also studying a major renovation scheme that would create a new layout with improved retail and restaurant concepts at The Peak Tower.

On operating margins, in addition to the cost saving initiatives generated in response to SARS, we have continued to work on improving our procurement practices through the establishment of a central purchasing office in Hong Kong and a review of our food purchasing practices.

On staff development and training, the Group Management Development Programme has been a success, with participants deriving significant value from the courses, the projects and interaction with other participants. We have, therefore, launched a further Group Professional Development Programme for managers and supervisors.

### Outlook

The challenges encountered during 2003 have once again reinforced our long-term philosophy towards ownership and management of hotels. In today's uncertain world, short-term fluctuations, both positive and negative, are inevitable but, as demonstrated during the SARS crisis, we will not vary our long-term commitment to our investment, our staff and our standards. We believe that this commitment was a key factor in our strong recovery after SARS.

We believe that all our hotels are well placed to compete in their respective markets. We are also positive about the prospects for The Peninsula Palace Beijing and Quail Lodge Resort, with the renovated products there.

In the longer term, we believe that efforts that we continue to make to enhance our existing properties, as well as the new developments in Tokyo and possibly Shanghai, will bring increased value.

With more positive economic indicators and confidence in Hong Kong, we would expect to see stability or perhaps a recovery in our property businesses, with our refurbishment efforts yielding positive results.

Finally, the celebrations for the 75th anniversary of The Peninsula Hong Kong were concluded with a gala evening attended by many friends of the hotel, and business associates. Over the years this hotel has become synonymous with Hong Kong itself and it is this longevity and recognition that we strive for in all our hotels.

### Accounting Policy

In 2003, the group adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, 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 years 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.

As a result of the adoption of SSAP 12 (Revised), the group's profit attributable to shareholders for the year has been decreased by **HK\$18 million** (2002: HK\$15 million), which comprises an additional deferred tax charge of **HK\$20 million** (2002: HK\$17 million) less share of **HK\$2 million** (2002: HK\$2 million) by minority interests.

### Statutory Information

There was no purchase, sale or redemption of the company's listed securities during the year. However, the company has issued new shares under the placement as announced on 20 October 2003, as described above.


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 three independent non-executive directors were not appointed for a specific term but are subject to retirement by rotation and the audit committee did not comprise a majority of independent directors. However, as at the date of this announcement, the composition of the audit committee has been changed and now comprises a majority of independent directors.

The Annual General Meeting will be held at The Peninsula on 6 May 2004 at 12 noon. The register of members will be closed from 3 May 2004 to 6 May 2004 inclusive, and subject to the passing of the necessary resolution at the forthcoming Annual General Meeting, the final dividend will be payable on 21 May 2004 to shareholders whose names appear on the register of members on 6 May 2004.

### Other Information

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 2003 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 from the information published in the annual report for the year ended 31 December 2002, other than disclosed in this Final Results Announcement.



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