

# FINANCIAL REVIEW SUMMARY

Consolidated Balance Sheet at 31.12.2002 (restated)	
	HK\$m
Net assets	
① Fixed assets	18,019
Other long-term investments	351
Deferred tax assets	88
Cash and bank balances	232
Other current assets	273
	<u>18,963</u>
Bank overdrafts	(21)
② Bank loans	(5,822)
Deferred tax liabilities	(154)
Other liabilities	(822)
Minority interests	(567)
	<u>11,577</u>
Shareholders' equity	
③ Share capital and premium	2,148
Retained profits	183
① Other reserves	9,246
	<u>11,577</u>

Consolidated Cash Flow Statement for the year ended 31.12.2003	
	HK\$m
EBITDA	726
④ Insurance settlement receivable	(95)
Tax paid	(24)
Other adjustments	20
Cash inflow from operating activities	627
Interest and other financing charges paid	(255)
Dividends paid	(93)
⑤ Capital expenditure	(436)
③ Net proceeds from shares issued	1,135
② Net decrease in bank loans	(989)
Other net cash inflow	1
Net decrease in cash	(10)
Cash and bank balances	232
Less: Bank overdrafts	(21)
Cash & cash equivalents at 1.1.2003	211
Effect of changes in exchange rates	2
Cash & cash equivalents at 31.12.2003*	<u>203</u>
*Representing:	
Cash and bank balances	217
Bank overdrafts	(14)
	<u>203</u>

Consolidated Income Statement for the year ended 31.12.2003	
	HK\$m
⑥ Turnover	2,517
④ Other revenue	99
⑦ Operating costs	(1,890)
EBITDA	726
Depreciation and amortisation	(108)
Financing charges	(249)
Share of losses of associates	(5)
① Non-operating items	66
Taxation	(70)
Minority interests	(9)
Profit attributable to shareholders	<u>351</u>

Consolidated Retained Profits for the year ended 31.12.2003	
	HK\$m
Retained profits at 1.1.2003	
As previously reported	312
⑧ Prior year adjustment - adoption of SSAP 12 (Revised)	(129)
As restated	183
Profit attributable to shareholders for the year	351
Dividends paid during the year	(93)
Retained profits at 31.12.2003	<u>441</u>

Consolidated Balance Sheet at 31.12.2003	
	HK\$m
Net assets	
① Fixed assets	19,068
Other long-term investments	338
Deferred tax assets	69
→ Cash and bank balances	217
Other current assets	364
	<hr/>
	20,056
→ Bank overdrafts	(14)
② Bank loans	(4,892)
Deferred tax liabilities	(183)
Other liabilities	(947)
Minority interests	(579)
	<hr/>
	13,441
Shareholders' equity	
③ Share capital and premium	3,283
Retained profits	441
① Other reserves	9,717
	<hr/>
	13,441

① It is the group's policy to state its hotel and investment properties in the balance sheet at their open market value on the basis of an annual third party professional valuation (see page 76). The 2003 properties revaluation resulted in a net surplus of HK\$568 million attributable to the group, of which HK\$62 million was credited as non-operating items in the income statement and HK\$506 million was credited to other reserves in the balance sheet (see page 53).

② During the year, the group applied most of the net proceeds of the share placement (see ③ below) to reduce short-term bank loans, which resulted in a 16% decrease in net borrowings.

③ In October 2003, in order to strengthen the capital base and financial flexibility of the group, HK\$1,135 million was raised by way of a share placement. Pending utilisation of the funds for development of new projects and continuing refurbishment of existing properties, most of the net proceeds were applied to reduce short-term borrowings (see ② above and page 54).

④ A final settlement in respect of business interruption insurance claims of HK\$95 million for the estimated losses incurred by certain of the group's Hong Kong operations due to the SARS outbreak was reached with the insurance company in December 2003 (see page 46). Payment of the proceeds was received in January 2004 (see page 55).

⑤ During the year, the group incurred capital expenditure on major renovation programmes for The Peninsula Palace Beijing and Quail Lodge Resort and Golf Club. In addition, capital was committed for investment in new projects, including Tokyo, and on upkeep of other existing properties (see page 55).

⑥ The group's turnover declined marginally by 3% in 2003. Factors contributing to the variance were multi-faceted. The SARS outbreak adversely impacted performance of The Peninsula, The Kowloon Hotel, the Peak Tram and the Peak Experience in Hong Kong. The Peninsula Bangkok saw a substantial reduction in long haul hotel guests due to the WHO travel advisories related to SARS and to the Iraq conflict. Quail Lodge Resort was closed for a period of almost five months to accelerate its major renovation programme whilst The Peninsula New York's operations were interrupted by the Iraq conflict. However, these negative effects were partially offset by the consolidation for the first time of The Peninsula Palace Beijing which brought in additional revenue of HK\$162 million. Detailed analysis of the turnover is discussed on pages 44 to 46.

⑦ Strategic measures were implemented during the year to contain costs in order to counteract the challenging business environment. Excluding the results of The Peninsula Palace Beijing, which were consolidated for the first time in 2003, the group achieved a reduction in operating expenses of 9% in the first half of the year. In the second half of the year, deferred marketing activities were re-activated and operating costs returned to a more normal level following the removal of the threat of SARS. The group recorded an overall 4% savings in operating expenses compared to that of 2002 (see pages 46 and 47).

⑧ In prior years, partial provision was made for deferred tax using the income statement liability method. Following the adoption of SSAP 12 (Revised), deferred tax is recognised using the balance sheet liability method with effect from 1.1.2003. The change in the accounting policy resulted in a prior year adjustment (see page 80).