

Steady Development

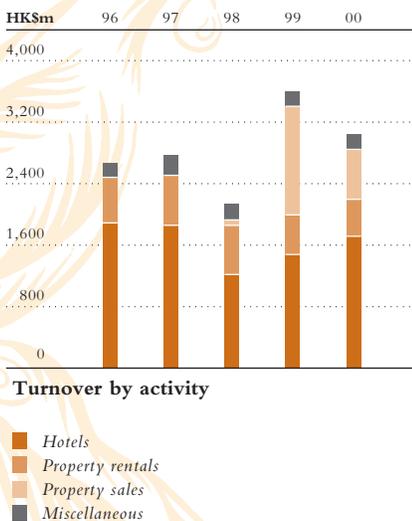
Branches extend out and up, enhancing the beauty of the whole plant

PROFIT AND LOSS ACCOUNT

Turnover

Turnover represents the gross amount invoiced to third parties for services, inventories and facilities provided and includes management fees and rentals (net of outgoings) from shops, offices and apartments. Turnover does not include dividends received from third parties, interest income, exchange gains or intra-group transactions.

(HK\$m)	2000		1999		Change
Hotels					
- Rooms	746	25%	579	16%	29%
- Food and beverage	511	17%	462	13%	11%
- Commercial	264	9%	266	7%	(1%)
- Other	194	6%	172	5%	13%
Hotels	1,715	57%	1,479	41%	16%
Property rentals	481	16%	516	14%	(7%)
Property sales	650	21%	1,415	39%	(54%)
Miscellaneous	197	6%	200	6%	(2%)
	3,043	100%	3,610	100%	(16%)
Arising in					
- Hong Kong	1,551	51%	1,494	41%	4%
- Other Asia Pacific	827	27%	1,542	43%	(46%)
- North America	665	22%	574	16%	16%



Total turnover has decreased by 16% compared to 1999, primarily due to the reduction in the number of residential apartments sold at the Bennelong complex in Sydney. Excluding the sale of these apartments, turnover increased by HK\$208 million or 9% compared to 1999.

However, growth of 16% can be seen in hotels turnover with The Peninsula Hong Kong, The Peninsula New York and The Peninsula Bangkok achieving substantially higher revenues.

Hotels

Rooms revenue improved significantly during 2000, showing growth of 29%. The contribution of HK\$746 million in rooms income generated by the hotels in Bangkok and New York was further supported by the performances of the Hong Kong and USA properties. The number of guestrooms available are:

	No. of Rooms
The Peninsula Hong Kong	300
The Kowloon Hotel, Hong Kong	736
The Peninsula New York	239
Quail Lodge Resort	100
The Peninsula Bangkok	370
	1,745

Food and beverage revenues also increased by 11% over 1999, mainly driven by higher occupancies and a rise in domestic patronage in Hong Kong both in volume of covers and average check.

Commercial revenues have been maintained at almost the same as 1999 levels. The bottom of the cycle has been reached and rental reversions are beginning to show signs of firming. A better consumer climate has also led to demand for more space from existing tenants of The Peninsula Arcade in Hong Kong. The net lettable commercial space is shown below:

	Shopping arcade sf	Office sf
The Peninsula Hong Kong	72,511	72,265
The Kowloon Hotel, Hong Kong	40,813	-
The Peninsula New York	5,224	-
The Peninsula Bangkok	2,831	-
	121,379	72,265

Other hotel income includes turnover from the retail outlets operated by The Peninsula Hong Kong which surged well above the 1999 performance. Also included is revenue from minor departments such as the spa, telephone, guest transportation and laundry. During 2000, these revenues were lifted as occupancies improved, and were augmented again by the performances of the New York and Bangkok hotels.

Property rentals

Total property rentals revenue of HK\$481 million was 7% less than 1999. Whilst occupancies increased in The Repulse Bay complex, continued rate sensitivity held down income levels. The Landmark's revenue dropped in a difficult market, rental income from The Sutton ceased following its sale in June 2000, and St. John's Building and 208 Wireless Road remained stable. Opera Quays, the commercial space in the Bennelong development, contributed revenue for the first time.

Net areas currently available for letting are:

	Residential sf	Office sf	Shopping arcade sf
The Repulse Bay complex, Hong Kong	795,585	-	38,966
The Peak Tower, Hong Kong	-	-	26,026
St. John's Building, Hong Kong	-	61,317	-
The Landmark, Ho Chi Minh City	54,821	79,319	-
208 Wireless Road, Bangkok *	-	140,122	-
Opera Quays, Sydney	-	-	78,677
	<u>850,406</u>	<u>280,758</u>	<u>143,669</u>

* 208 Wireless Road has been sold with completion expected by April 2000.

Property sales

Revenue from property sales was HK\$650 million, 54% below 1999. This is attributable to a fall in the number of available apartments in Sydney of which 95% have now been sold. Six housing lots at Quail Meadows were sold.

The Thai Country Club real estate sales programme has yet to commence.

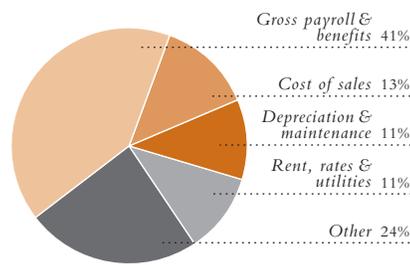
Miscellaneous

Miscellaneous income arises from the golf courses in California and Thailand, The Peak Tramways, Peak Entertainment, Tai Pan Laundry, Peninsula Clubs and Consultancy Services and food and beverage outlets other than in owned hotels, such as those in The Repulse Bay.

The Hei Fung Terrace Chinese restaurant at The Repulse Bay was closed at the end of 1999. However, lost revenues from this outlet were balanced by better performances from the golf courses and improved revenues from food and beverage outlets and other operations. Turnover year-on-year decreased marginally by 2%.

Operating costs

Operating expenses of HK\$1,666 million, which are deducted from turnover before arriving at operating profit, are illustrated overleaf. These exclude costs relating to the sale of apartments in Bennelong, which would distort the overall expense figure.



Operating costs (HK\$1,666 million)

HK\$677 million, or 41%, of direct operating costs are payroll related, a decrease of 5% compared to 1999. This covers some 3,198 direct employees, while a further 2,880 employees work in managed operations. The breakdown of employee numbers at 31 December was as follows:

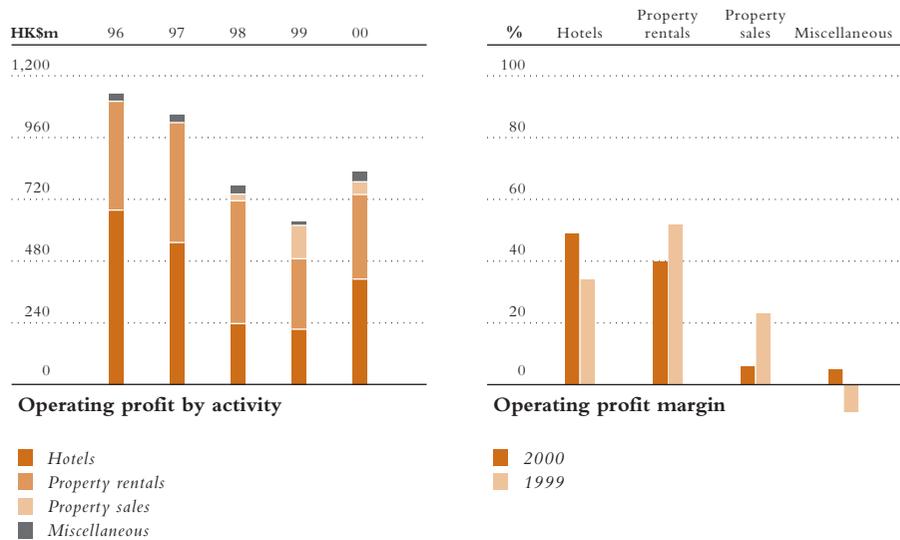
	Direct	Managed	Total	Total
		2000		1999
Hotels	2,395	1,979	4,374	4,283
Property	243	-	243	258
Miscellaneous	560	901	1,461	1,625
Total employees	3,198	2,880	6,078	6,166
Hong Kong	1,739	761	2,500	2,583
Other Asia Pacific	970	1,771	2,741	2,755
North America	489	348	837	828

The hotels in New York and Bangkok now have a full complement of manpower. In Asian hotel operations, positions were increased as business grew and standards of service demanded. However, other operations, notably property and miscellaneous, experienced decreases due to the closure of outlets such as the Hei Fung Terrace Chinese restaurant and the Dark Ride entertainment at The Peak Tower.

Operating profit

Operating profit represents profit before non-operating items, financing charges, taxation and minority interests and is analysed among the main activities of the group.

(HK\$m)	2000		1999 (Restated)		Change
Hotels	410	49%	216	34%	90%
Property rentals	330	40%	325	52%	2%
Property sales	48	6%	143	23%	(66%)
Miscellaneous	39	5%	(54)	(9%)	-
	827	100%	630	100%	31%
Arising in					
- Hong Kong	685	83%	507	81%	35%
- Other Asia Pacific	42	5%	96	15%	(56%)
- North America	100	12%	27	4%	270%



Hotels

In 2000, the hotels produced a markedly improved performance, driven mainly by The Peninsula hotels in Hong Kong, New York and Bangkok. Hotels profit increased by 90%.

Property rentals

Profit from property rentals increased by 2% over 1999. Opera Quays contributed for the first time and The Peak Tower performed better. However 208 Wireless Road, Bangkok performed poorly and we received rental income from The Sutton, New York for half of the year only.

Property sales

Profit in 2000 arises from the sale of housing lots at Quail Meadows and apartments in Bannelong. Sale of land lots at the Thai Country Club has yet to commence. 1999 profit benefitted from the reversal of a provision made in earlier years.

Miscellaneous

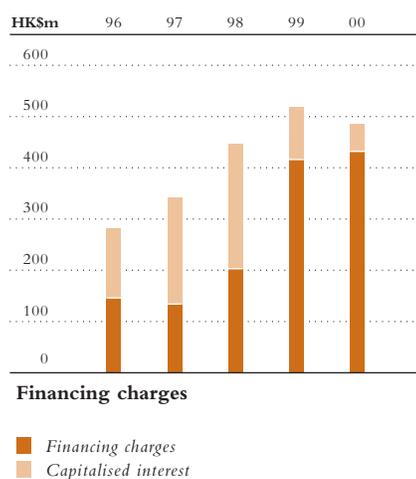
Miscellaneous profit reversed its 1999 trend, providing a positive contribution of HK\$39 million in 2000 compared to a loss of HK\$54 million. The loss in 1999 included charges relating to the closure of the Dark Ride of HK\$49 million. The Peak Tram usage increased substantially in 2000. Madame Tussaud's wax museum replaced the Dark Ride and it is hoped that this will increase patronage of The Peak Tower's attractions further. Restaurant outlets also showed an increase in contributions.

Non-operating items

A subsidiary company has entered into an agreement to sell its property at 208 Wireless Road, Bangkok resulting in a loss of HK\$140 million, including the transfer of the revaluation deficit relating to this property amounting to HK\$100 million from the group's investment properties revaluation reserve. When added to a number of other losses and revaluation adjustments, these non-operating items totalled HK\$242 million in 2000.

Financing charges

Total financing charges on borrowings in 2000 amounted to HK\$485 million, of which HK\$53 million was capitalised on the project under development in Chicago, giving a net charge to the profit and loss account of HK\$432 million. Interest cover has improved, with operating profit at 1.9 times the financing charges for the year.



Taxation

The taxation charge has decreased compared to 1999 mainly due to write back of over-provision in prior years.

Minority interests

The credit represents the share of profits attributable to the local partners in The Landmark joint venture.

Dividends

No interim dividend was declared in respect of the six months ended 30 June 2000. Due to the improvement in operational performance and a steady outlook for the future, the directors have recommended the payment of a final dividend of 5 cents per share.

This gives a dividend yield of 1.1% on the 1 March 2001 closing share price of HK\$4.6. Total distribution amounts to HK\$59 million.

BALANCE SHEET AND CASH FLOW

Fixed assets

Third party professional valuations of the group's investment and hotel properties were carried out as at 31 December 2000. The net surplus for the year arising in investment and hotel properties amounts to HK\$912 million and HK\$288 million respectively.

A summary comparing investment and hotel property valuations to cost as at 31 December 2000 is as follows :

	Property valuation to cost					
	Investment			Hotel		
	Below	Above	Total	Below	Above	Total
At 31 December 2000						
Valuation	863	11,949	12,812	1,181	2,810	3,991
Cost	(1,428)	(1,961)	(3,389)	(2,650)	(2,034)	(4,684)
Minority interest	118	-	118	-	-	-
Surplus/(deficit)	(447)	9,988	9,541	(1,469)	776	(693)

Changes in the value of investment properties are dealt with on a portfolio basis, consequently the deficit of HK\$447 million on the valuation of certain properties below cost has not been reflected in the profit and loss account.

Changes in the value of hotels are dealt with on an individual basis and deficits below cost are reflected in the profit and loss account. The cumulative deficit in respect of individual hotels as at 31 December 2000 was HK\$1,469 million, all of which has been dealt with through the profit and loss account.

Associated companies

These comprise the following:

Manila Peninsula Hotel, Inc. (group share - 40%), the joint venture which owns The Peninsula Manila.

RipBion! Limited (group share - 50%), the joint venture which owns and operates the Ripley's Believe It or Not! Odditorium in The Peak Tower.

Merchandise & Co. (group share - 50%), the partnership which produces and sells merchandise in The Peak Tower.

PT Ciputra Adigraha (group share - 20%), the joint venture with the Ciputra group to develop a mixed-use complex in Jakarta's Golden Triangle. However, the decision remains to suspend work on this development for the time being.

Investment securities

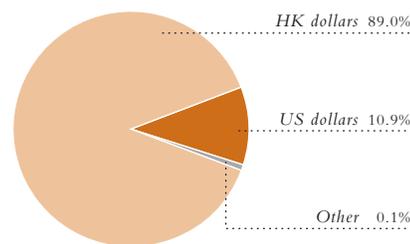
The group's investment securities are limited to unlisted minority shareholdings in hotels under management in Beverly Hills and Beijing and a 30% interest in Lucullus, a company in the food production and retail sector.

Treasury policy and capital structure

Treasury activities emphasise risk minimisation. Every effort is made to match assets to liabilities in terms of currency and all significant foreign exchange

requirements are locked into fixed exchange rates at the time of commitment. Some mismatching of currencies and open foreign exchange requirements have, however, occurred in countries with currencies traditionally linked to the US dollar e.g. Indonesia and Thailand, and/or where revenues are denominated in hard currency e.g. Vietnam. The group has not completely hedged the foreign exchange exposure on its investments in south east Asia and general reserves have been debited with HK\$47 million in respect of this net translation loss. In the light of the Hong Kong dollar peg, the group has not hedged exposure to certain US dollar denominated net assets.

The parent company of the group is a Hong Kong corporation, reporting its results and accountable to its shareholders in Hong Kong dollars and therefore aims to preserve its value in Hong Kong dollar and/or United States dollar terms. As at 31 December 2000 the net assets of the group, after hedging, are denominated in the following currencies:



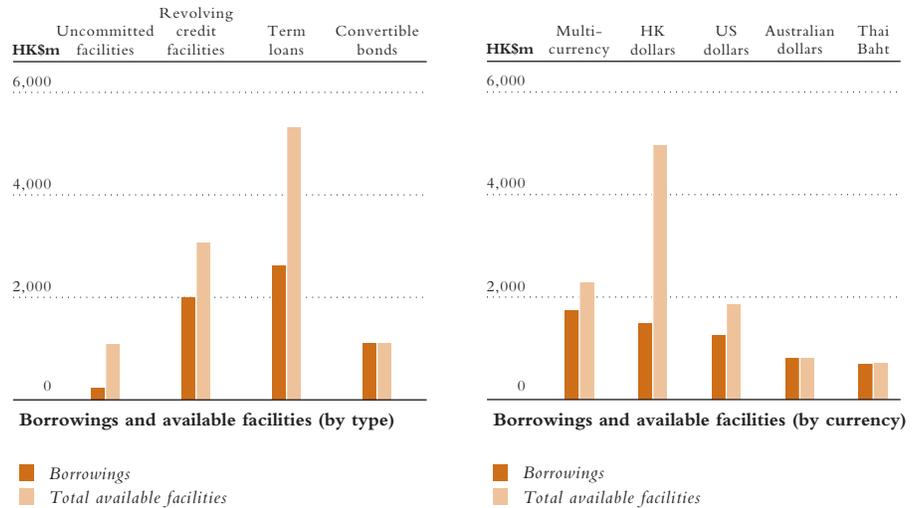
Net assets

Net assets in other currencies mainly include exposures to the Thai Baht, Australian dollar, Indonesian rupiah, Philippine peso, Vietnamese dong and Chinese renminbi.

The group also aims to match the tenor of assets and liabilities while maintaining an efficient level of borrowing facilities. At 31 December 2000, equity and reserves amounted to HK\$13.0 billion (79%), convertible bonds amounted to HK\$1.1 billion (7%), and long term loans from third parties amounted to HK\$2.3 billion (14%), thereby reflecting the profile of the group's capital employed.

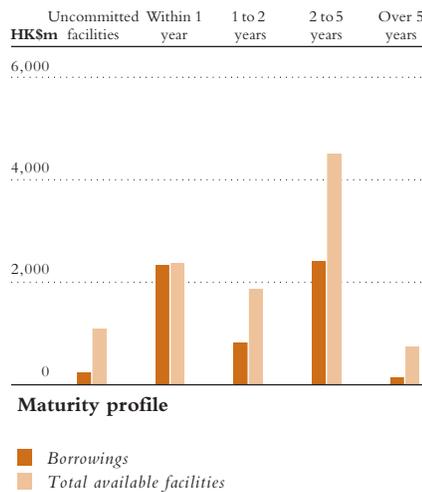
Borrowings

Gearing, expressed as a percentage of net borrowings to the total of net borrowings and net assets, at 30% remains well within the debt capacity of the group and borrowing costs are hedged using a long-term target of 50% fixed to 50% floating rate debt. At 31 December 2000, the interest rates on 57% of net borrowings after hedging were fixed. Care is taken to ensure that borrowing facilities do not impose onerous or restrictive covenants, and that the terms of the facilities match the underlying requirements. Borrowings are managed centrally and are not normally earmarked for specific investments other than those arranged to fund joint ventures.



During the year, the group negotiated a new HK\$2.5 billion syndicated loan facility to cover the expiry of the convertible bonds due January 2001 and for general corporate funding requirements. At 31 December 2000, total available facilities amounted to HK\$10.6 billion, of which 56% was drawn down. The balance of undrawn facilities being substantially in the form of commercial paper, revolving credit and term loan facilities.

The maturity profile of group borrowings and facilities is distributed to maximise liquidity and profitability while reducing the refinancing risk, as follows:



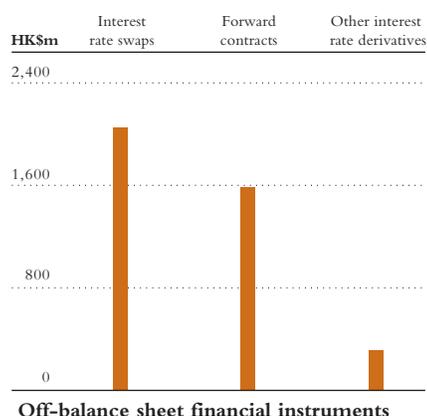
Borrowing requirements are not seasonal as the group benefits from a steady inflow of income from its leased properties while there is only minor seasonality in its hotel operations. Borrowing requirements tend to follow the pattern of capital expenditure and investment and, in the case of Australia, of the sale of apartments. Net borrowings decreased by 11% during 2000 to HK\$5,696 million. At 31 December 2000, secured borrowings increased to HK\$585 million and group assets of HK\$1,660 million were pledged.

A wholly owned subsidiary company, Peninsula International Limited has entered into arrangements with the group's Thai joint venture companies to provide a substantial bridging finance facility for the development and operation of these entities. The balance at 31 December 2000 was US\$70 million.

Off-balance sheet financial instruments

Off-balance sheet financial instruments are held for hedging purposes to manage foreign exchange and interest rate risks based on the treasury policy. Effective controls are implemented to identify and monitor these risks.

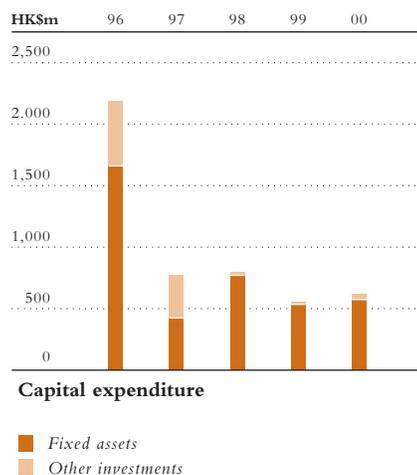
A net loss of HK\$23 million arising on these instruments was realised during 2000, all of which was recognised in the profit and loss account. At 31 December 2000, the notional amounts of the off-balance sheet financial instruments were categorised as follows:



In addition to the net realised loss, a net unrealised loss of HK\$19 million would result if the above instruments were revalued at 31 December 2000. However, according to the accounting policy adopted by the company, this loss was not dealt with in the financial statements as the instruments are not held for speculative purposes.

Cash flow

Net cash from operations amounted to HK\$1,511 million in 2000 while HK\$618 million was spent in acquiring fixed assets, or investing in associated companies.



CORPORATE RESTRUCTURING

The group has taken advantage of the depressed market to strengthen its position in core activities and therefore has restructured some of the group's existing investments in Asia and has disposed of some non-core assets.

The Peninsula Manila

In February and March 2000, the group purchased a total of 23.94% of the issued capital of Manila Peninsula Hotel, Inc. for a consideration of HK\$99 million. This was satisfied by a cash payment of HK\$44 million and the issue and allotment of 14 million new shares of the company at a value of approximately HK\$3.87 each.

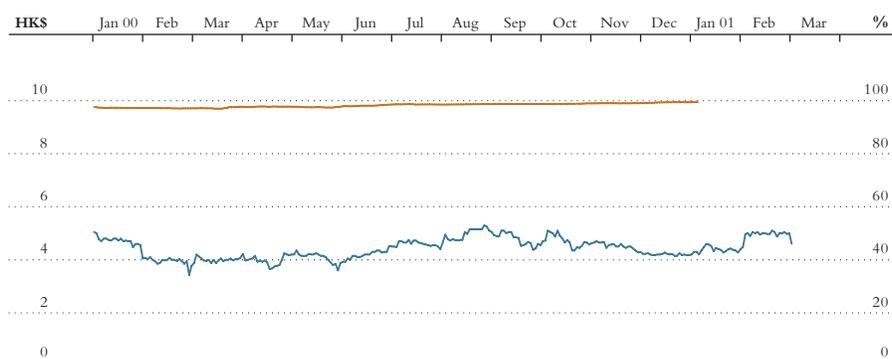
The Palace Hotel Beijing

Subject to certain conditions set out in agreements dated 5 December 2000, the joint venture and hotel management contract for The Palace Hotel Beijing will be restructured as a cooperative joint venture until 2033. Under these new arrangements, the group will gain control of the hotel and its profit stream.

SECURITIES INFORMATION

The company's share price closed on 1 March 2001 at HK\$4.60 giving a market capitalisation of HK\$5.39 billion (US\$0.69 billion) and reflecting a discount to net asset value of 59%. The share price underperformed the Hang Seng Index during 2000 along with other stocks in the hotel sector.

In February 2000, in accordance with the general mandates granted at the 1999 Annual General Meeting, 14 million shares were issued and allotted at a value of approximately HK\$3.87 each, to acquire an additional 13.33% interest in the ownership of The Peninsula Manila.



Share price and convertible bond performance

- Convertible bond performance (%)
- Daily closing share price (HK\$)

During the year, convertible bonds were repurchased, by private arrangement, by a wholly-owned subsidiary of the company. In January 2001, the remaining outstanding convertible bonds were fully repaid.