CHIEF EXECUTIVE OFFICER'S OPERATING REVIEW

Clement K M Kwok
CEO from February 2002

Pierre R Boppe
CEO until January 2002

This is the last operating review that I shall present, after almost six years as CEO of the company.

2001 was to be a year of promise for the group. However, the tourism industry is always one of the first to be affected by any decline in the economy and by the second quarter, the effects of the global slowdown had become apparent. The events of 11 September made matters worse.

Under the circumstances, we believe that the hotels' operating performance was reasonable.

Total hotel revenues were HK$1,710 million compared to HK$1,715 million for 2000.

The property sector showed more signs of revival, particularly in the residential and commercial areas. Occupancy at The Repulse Bay complex improved by 4% and average rents increased slightly. The shopping arcades at The Peninsula Hong Kong and The Palace Hotel Beijing continued to attract premier tenants. Office premises, however, remained subject to intense competition in a market where there is continued over-supply.

Detailed reviews of our results are set out in later sections of this report.

HIGHLIGHTS

- The Peninsula Chicago opened for business on 1 June 2001. As is commonly the case, the final construction was beset with difficulties and, not knowing exactly when we would have the full use of the hotel, forward sales could not be committed. The hotel has been well-received by those who have used it, but corporate business is disappointing. We have, however, enjoyed good business over the weekends. Despite the difficulties, the hotel has won much praise for its restaurants and, given a better market, we believe it will be successful.

- After having entered into a non-binding Memorandum of Understanding with the Mitsubishi Estate Company, Limited in 2001, discussions have continued on the possibility of building a Peninsula hotel on a very good site in the Marunouchi district of Tokyo.

- Rationalisation of non-core assets has continued with the sale of the 208 Wireless Road office property in Bangkok, completed in August 2001. The group disposed of Opera Quays, the retail component of the Bennelong project in Sydney, in December 2001. We also disposed of our 30% interest in Lucullus, a company in the food production and retail sector.

- The joint venture agreement for the group's Thai interests was restructured in December 2001 which, when completed, will give the group a 90% equity share. Under the agreement, our joint venture partner has options to rebuild its equity position to the original 50% by acquiring from us 15% during 2002 and a further 25% in the period up to 2016.

- The group, together with Baylaurel, LLC, has established Valley Resort Management, LLC to operate and promote our respective properties, Quail Lodge Resort and Bernardus Lodge, both in Carmel Valley, California. The move will help Quail Lodge to reach its full potential in a niche industry sector. Company ownership of Quail Lodge remains unchanged.

- Our operations have been streamlined and we continue to control costs. Our strong brand name is enhanced by the high quality products and services we offer.

- Signals from the USA remain mixed but we are in a good position to benefit from any improvements in the worldwide economy.

The retention of a valuable, highly trained and committed team is essential to the success of the group's operations worldwide, and I have been privileged to have had their support and friendship during my tenure.

I have no doubt that my successor, Clement Kwok, will be equal to the challenges which face him, and I wish him and the group every success in the future.