

CHIEF EXECUTIVE OFFICER'S REPORT



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The highlight of 2010 was undoubtedly the Grand Opening of The Peninsula Shanghai hotel, which took place on 18 March. Situated in a magnificent location on the famous Bund in Shanghai with commanding views over the Bund and across the river to Pudong, this magnificent hotel represents for our Company a fitting return to one of its founding cities after an absence of over 50 years.

In line with our Company's philosophy of focusing on a small, select number of hotel projects which we hope can rank amongst the world's best, no efforts were spared in the design, construction and service standards of The Peninsula Shanghai and I am pleased to report that this property has already gained widespread recognition both within China and internationally, with the receipt of many prestigious awards.

More generally, 2010 was a year in which we saw some recovery in the global hospitality markets following the significant downturn caused by the economic crisis which started in August 2008. However, whilst hotel revenues recovered partially towards 2008 pre-crisis levels, inflationary pressures have remained on operating and other costs, especially labour costs, and margins continue to be under pressure in several of our hotel properties. The performance of our hotels have varied quite significantly between different geographical locations, with strength in Greater China but recovery lagging in some parts of the US and Japan.

It continues to be a strength of our Group that our hotels business is balanced by a strong mix of commercial properties, including several successful high-end shopping arcades inside our hotels, as well as our well-established commercial, residential and office properties.

With the balance of earnings provided by this diversified portfolio, I am pleased to report that our Group achieved an increase of 24% in earnings before interest, taxation, depreciation and amortisation (EBITDA) to HK\$1,143 million in 2010 and an increase of 35% in operating profit to

HK\$794 million in 2010. We have continued to focus on controlling costs while providing the staff and resources to service the increased business levels and this has resulted in an improvement in our EBITDA margin from 22% in 2009 to 24% in 2010.

Inclusive of non-operating items, being principally the year-end investment property revaluation surpluses, the net profit attributable to shareholders was HK\$3,008 million, as compared to HK\$2,660 million in 2009. Our underlying profit attributable to shareholders, which we have calculated by excluding the post-tax effects of the property revaluation surpluses and other non-operating items, amounted to HK\$408 million, as compared to HK\$323 million in 2009, representing an increase of 26%.

Our financial position remains strong. Our revalued net assets attributable to shareholders increased by 11% to HK\$29,103 million, representing HK\$19.66 per share and our gearing remained at a very conservative level of 5% at the year-end. Our net cash surplus for the year, after deducting capital expenditure, interest and dividends, amounted to HK\$568 million.

HOTELS

Our Hotels Division recorded a mixed performance as economies around the world recovered at different speeds and travel demographics shifted from established long-haul markets to intra-regional and domestic markets. Challenges remained in some markets where we operate, including weak corporate business, oversupply of luxury hotels and political instability. Nevertheless, we experienced a strong surge in the second half of the year in markets such as Hong Kong and New York.

China: Amongst the Peninsula Hotels, the strongest performance came from our flagship property The Peninsula Hong Kong, where business was revived in both the corporate and leisure segments. Mainland China has become one of the top producing markets for the hotel, along with significant business growth from emerging markets including Russia and the Middle East. The Peninsula Arcade remains highly sought after by the leading luxury retail brands and both it and the Office Tower were able to grow their

average rent and maintain effectively full occupancy during the year. The Peninsula Shanghai held its Grand Opening Gala in March 2010 and has rapidly established itself as the leading hotel in China. Boosted by the World Expo 2010, the hotel benefited from strong demand from both domestic and international travellers and performed well for a hotel in its first full year of operations. The Peninsula Arcade has been fully occupied by leading luxury retail brands and officially opened in July 2010. Interior fit out work continues for the 39-unit Peninsula Residences, which form part of this complex. The Peninsula Beijing was able to maintain a leadership position in the capital whilst competition from the large supply of other luxury hotels remained intense. There was a significant recovery in revenue as compared to last year and the important stream of revenue from the Peninsula Arcade remained robust. The hotel's Arcade upgrade is currently underway.

Asia: The Peninsula Tokyo, in its third year of operation, has become a landmark in Japan's capital. The hotel saw a surge in Asian and Middle Eastern visitors, who were relatively unaffected by the global economic crisis, and its revenue increased significantly from the previous year. Its wedding market was also robust. In Thailand, The Peninsula Bangkok was hit by anti-government demonstrations from April to June, which crippled Bangkok and led to gloomy forecasts for Thailand's vital tourism sector. However, tourism rebounded to a limited extent in the final quarter of the year. At The Peninsula Manila, there was a marked improvement in business during 2010 and the hotel was further supported by the opening of Salon de Ning in December. Continuing the Salon de Ning theme at the Peninsula hotels in Hong Kong, Shanghai and New York, this venue has already become a leading nightspot in Manila.

USA: The Peninsula New York completed the final phase of its guestroom renovation in September 2010, which positioned the hotel favourably for future growth. The number of business and leisure travellers increased during the year although competition remained intense within the luxury hotel segment. The booming business we experienced in the fourth quarter, reminiscent of the pre-crisis period, bodes

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well for the hotel. Business was weak for The Peninsula Chicago, which is highly dependent on domestic and corporate business. Nevertheless, the hotel continues to be recognised as one of the best in the United States and its well-recognised leading market position places it strongly for future recovery. The Peninsula Beverly Hills has sustained business remarkably well throughout the economic crisis. In 2010, it enjoyed significant business improvement, particularly from the entertainment industry and the Middle East market. In October 2010, the hotel embarked on a comprehensive guestroom enhancement programme which will continue through the first half of 2011.

On a sad note, we have to record the huge earthquake that shook Japan on 11 March 2011. The full extent of the devastation is still to be assessed. However, all of the guests and staff at The Peninsula Tokyo were safe and unharmed and the hotel premises did not suffer any physical damage of significance. On the night of the earthquake, The Peninsula Tokyo opened its doors to the general public, providing hot food and beverages and refreshment facilities to those seeking refuge, while special guestrooms were set aside for pregnant women, mothers with small children, and the elderly who needed a place to rest. The hotel has remained fully operational throughout and will continue to play a role in supporting the community where needed as it faces the challenges that lie ahead as Japan recovers from the earthquake.

Overall, the revenue and EBITDA of the Hotels Division for the year were HK\$3,576 million and HK\$604 million, an increase of 12% and 40% respectively as compared to 2009. Further details of individual hotel's financial performance can be found in the Financial Review (pages 55 to 57).

COMMERCIAL PROPERTIES

As in past cycles, the Commercial Properties Division proved more resilient during the economic downturn than the Hotels Division, providing stable income contribution to the Group's earnings.

The most important asset in this Division is the Repulse Bay Complex. In the first full year after the revitalisation of the Complex's restaurants and shopping arcade,

food and beverage income was significantly increased and the shop spaces were fully let, reflecting the success of the renovation. Leasing demand for the apartments remained strong. The total revenue of the Complex rose 8% from 2009 to HK\$505 million. In order to continually enhance the value and attractiveness of this important asset, a major improvement plan has been approved. Starting in mid 2011, this will comprise a three-year phased programme that will significantly upgrade all the public areas of the residential towers and improve the layout and efficiency of the serviced apartment tower.

The Peak Complex enjoyed an increase in income over 2009, due to its strong positioning in the tourist market. The Peak Tower achieved 100% occupancy during the year and recorded an increase of 24% in year-on-year revenue. The Sky Terrace welcomed a record number of visitors. St. John's Building enjoyed a high occupancy throughout the year with a 6% increase in revenue.

At The Landmark in Vietnam, both the office and residential towers maintained high occupancies, yet revenues were 15-18% lower than 2009 due to intense competition in Ho Chi Minh City.

Overall, the revenue and EBITDA of the Commercial Properties Division for the year were HK\$688 million and HK\$450 million respectively, an increase of 8% as compared to 2009. Further details of individual property's financial performance can be found in the Financial Review (pages 57 and 58).

CLUBS & SERVICES

The 122-year-old Peak Tramways has maintained its position as one of Hong Kong's most popular tourist attractions. In 2010, patronage of the Peak Tramways rose to a record 5.4 million passengers, an 11% increase from 2009 and in line with the growth in visitor numbers in Hong Kong.

Income from our club management activities rose, with a major contribution coming from our management of the Cathay Pacific lounges at the Hong Kong International Airport. The Thai Country Club maintained the same number of golfers in 2010 but

increased its revenue by 12% over 2009. At Quail Lodge, the hotel portion remained closed but the golf course and Clubhouse were open to service the Club's 300-plus members and catering clientele. Peninsula Merchandising achieved record sales in Hong Kong and Asia for its signature mooncakes during Mid-Autumn Festival, while retail sales at the Peninsula Boutique in The Peninsula Hong Kong were very strong.

Overall, the revenue and EBITDA of the Clubs & Services Division for the year were HK\$443 million and HK\$89 million, an increase of 10% and 20% respectively as compared to 2009. Further details of individual clubs and services' financial performance can be found in the Financial Review (pages 58 and 59).

PROJECTS AND DEVELOPMENTS

The focus of our projects and development activities continues to be on (i) the establishment of a small and select number of new Peninsula hotels in key international gateway cities and (ii) continual enhancement of our existing hotels and other properties so as to maximize their long term value.

In Shanghai, following the grand opening of the hotel portion in March 2010, we focused on working with the various retail tenants to complete the Peninsula Arcade for its grand opening on 1 July 2010, as well as progressing with the interior construction and fit-out of the 39 apartment units which form part of The Peninsula Shanghai complex. Given the unique location of these apartments and taking a positive view of the long term value of this asset, it has been decided to hold these apartments as investment property and it is expected that they will be offered for rental as from the second half of 2011.

We have also worked closely with a company associated with the Huangpu District Government in relation to the construction and fit-out of the buildings which comprised the former British Consulate, now named Bund 33. Under an agreement signed in December 2009, The Peninsula Shanghai has commenced the management of the building No. 1 as a state guesthouse and the leasing of buildings No. 2, 3 and 4 as well as the basement of the Bund 33 complex for commercial usage, as from September 2010.

The next Peninsula hotel currently under construction is in Paris. Conversion of this magnificent, century-old Beaux Arts building to become The Peninsula Paris hotel commenced in September 2010, following the appointment of the general contractor in July 2010. At the same time, interior designs for the hotel's public areas and guestrooms are at an advanced stage. The Peninsula Paris will be the Group's first hotel in Europe and is scheduled to open in 2013.

We continue to look for future new Peninsula hotel developments, but remain very selective in seeking opportunities in exceptional locations in key gateway cities which offer the potential to build a hotel to Peninsula's full requirements. A lot of time and effort goes into this endeavour and I hope to be able to report further progress in due course.

In the meantime, we continue to devote significant efforts to the continual enhancement of our existing assets. During the year, plans have been finalised for an ambitious upgrade of the guestrooms at The Peninsula Hong Kong. The current guestrooms set a new level of technology and functionality within the industry when they were unveiled some 17 years ago and the aim is to raise the bar once more with this new product, the construction of which is expected to commence in 2012 at a projected cost of approximately HK\$450 million.

We have also approved a spend of approximately HK\$731 million in a phased programme over the next three years to revitalise the public areas of the residential portions of the Repulse Bay Complex, as well as to reconfigure the de Ricou serviced apartment tower to increase efficiency and functionality. We believe this investment will further enhance the value of the Repulse Bay Complex which is currently valued at over HK\$13.7 billion.

Of course, many projects are undertaken on an ongoing basis to maintain and enhance our existing hotels and other properties. During the year, these have included the final stage of the guestroom renovation programme at The Peninsula New York, the start of a comprehensive guestroom renovation programme at The Peninsula Beverly Hills and the creation of new outlets such as the Salon de Ning at The Peninsula Manila.

OUTLOOK

The strength of our Group continues to emanate from our genuine commitment to the long term, which provides the vision and willingness to invest in assets for their long term value creation and the staying power to ride through shorter term cycles in the economy without compromising the quality of our products and services. In the volatile economic circumstances that we regularly encounter in today's environment, this long term commitment has enabled us to make investment and capital expenditure decisions with a long term outlook and to maintain our service quality and the continuity of our people. With this philosophy in mind, I remain optimistic that we are continuing to chart a course which will maximise the quality and value of our assets and deliver long term returns to our shareholders.

In the more immediate future, we are optimistic that the recovery in some markets that became apparent in the latter part of 2010 will continue into 2011. Generally, the economic development and outlook for Hong Kong and China, where the bulk of our assets are based, continues to be positive and we expect this to be reflected both in the trading results of our hotel operations and the performance of our non-hotel commercial properties. However, for our operations generally, there is no doubt that in the labour intensive hotel industry, management of margins in the light of an ever increasing cost base continues to be a difficult challenge and the economics between revenue and costs continue to be imbalanced in several of the markets in which we operate.

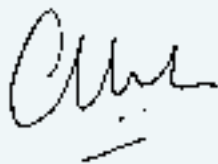
The impact on our businesses, both in Japan and elsewhere, in the aftermath of this earthquake cannot be fully assessed at this stage. We will, of course, use our best endeavours to manage the financial and other consequences of this disaster and play our part in restoring a healthy operating environment at The Peninsula Tokyo as quickly as possible.

Sustainable development continues to be high on our agenda. Much of our efforts here are focused on the development and well being of our staff, where during the year we rolled out a completely revamped human resources manual. Significant efforts have also been

made and continue to be made in the areas of energy efficiency, water consumption, indoor air quality, waste management, responsible sourcing and community involvement. Our energy intensity and water usage intensity figures have continued to improve and a new set of sustainable design standards for hotels has been adopted for our future developments.

Our corporate development and investment strategy continues to focus on the enhancement of our existing assets, seeking opportunities to increase their value through new concepts or improved space utilisation, and the development of a small number of the highest quality Peninsula hotels in the most prime locations with the objective of being a long term owner-operator. This is the approach which we believe has enabled us to establish and sustain a brand which is now recognized as possibly the leading luxury hotel brand in the world, thereby creating long term value in each Peninsula hotel through both asset value appreciation and operational earnings growth.

Finally, at the heart of our brand is our passion and our people, who exemplify our values and beliefs in their dealings with our guests and the communities in which we operate. It is the drive and creativity of our people which provide special and memorable experiences for our guests that hopefully sets us apart. I am delighted with the loyalty and long service of our big 'family' and thank them for their commitment.



Clement K.M. Kwok
22 March, 2011

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