

## CHIEF EXECUTIVE OFFICER'S OPERATING REVIEW

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The uplift in the economies of Hong Kong and its neighbours, apparent in the last quarter of 1999, made further progress in 2000. The upswing benefitted the group's SAR hotel operations. Consumer confidence began to return, albeit more slowly than expected, and in the second half of the year, we saw a healthy rise in business traffic.

Thailand and the Philippines remained hostage to economic and political influences, but most of our hotel operations reported higher revenues which totalled HK\$1,715 million compared to HK\$1,479 million for 1999, an increase of 16%.

The property sector had mixed results, however. Towards the end of 2000, Hong Kong's residential leasing market picked up and occupancy at The Repulse Bay was 12% better than 1999. With the substantial drop in the property market, any attempts to increase rates still meet resistance. However, many of our retail, commercial and apartment leases come up for renewal in 2001, and we expect to see some small improvement in rents.

The group operating profit for 2000 was HK\$827 million, compared to the 1999 profit of HK\$630 million, an improvement of 31%.

We are well aware that we will not lack challenges in the future but we have set realistic goals, and we have the disciplines and strategies in place to achieve the results we want.

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

## ADVANCING GROUP PERFORMANCE

Over the year, we made some progress with our business development and financial strategies. There were several key achievements:

- The Peninsula Chicago is on a fast-track construction process. By the end of 2000, the exterior had been completed and we have started internal fit-out. We expect to open the hotel in mid-2001.
- Following the reclassification of our increased interest in The Peninsula Manila as an associated company, we made good progress on the restructuring of the joint venture agreement on The Palace Hotel Beijing. In December, approval was received from the Ministry of Foreign Trade and Economic Co-operation. There are conditions precedent to the planned increase in our interest in the hotel, but we expect that these will all be met in the near future. We shall then have acquired control of the hotel and the profit stream derived from its operation, extending the term of our co-operation to 2033.
- We have continued to rationalise non-core assets, and The Sutton apartment block in New York was sold in June. The sale of our Wireless Road office property in Bangkok will be completed by April 2001 and our joint venture in Hanoi has been dissolved. By the end of the year, we had sold 95% of the apartments in Bennelong, near the Sydney Opera House. The retail component — Opera Quays — is being held for investment until it matures. It has proven remarkably popular with tenants and their customers.
- We continue to focus on the development and motivation of our staff. Regular dialogue through their performance evaluations and employee surveys are helping us to manage and foster good relations with our staff and to meet their expectations of career satisfaction and development.
- We have always been sensitive to our physical environment and do our best to design, construct and operate environmentally friendly buildings. Further, management is being held accountable for monitoring sustainable environmental value added and social value added practices, in accordance with the guidelines of the International Hotels Environment Initiative.
- There was a sharp decline in confidence in the USA at the end of 2000, triggering fears of a hard landing for that economy. These fears were mirrored to a lesser extent in Hong Kong. However, we shall further streamline our operations and continue asset rationalisation. Fiscal control will be enhanced and by 2002, the fruits of our strategy should be more apparent. In particular we aim to take more benefit from our very strong brand name.
- Teamwork is the essence of success in a service-based industry. The company is fortunate to have a dedicated, talented and enthusiastic international team which contributes to the group in so many ways. On behalf of the management, I should like to pay tribute to their continuing efforts.