

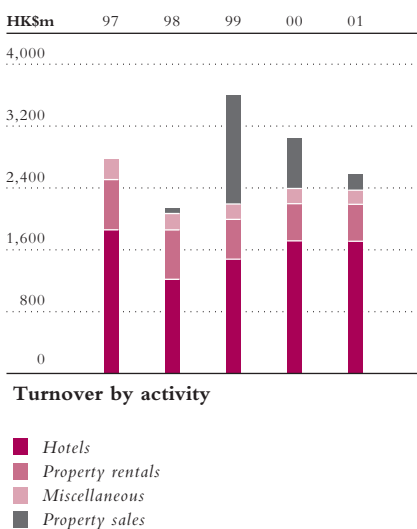
FINANCIAL REVIEW

PROFIT AND LOSS ACCOUNT

Turnover

Turnover represents the gross amount invoiced to third parties for services and 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)	2001		2000		Change
Hotels					
- Rooms	723	28%	746	25%	(3%)
- Food and beverage	517	20%	511	17%	1%
- Commercial	279	11%	264	9%	6%
- Other	191	7%	194	6%	(2%)
Hotels	1,710	66%	1,715	57%	-
Property rentals	478	19%	481	16%	(1%)
Miscellaneous	183	7%	197	6%	(7%)
	2,371	92%	2,393	79%	(1%)
Property sales	213	8%	650	21%	(67%)
	2,584	100%	3,043	100%	(15%)
Arising in					
- Hong Kong	1,536	59%	1,551	51%	(1%)
- Other Asia Pacific	438	17%	827	27%	(47%)
- United States of America	610	24%	665	22%	(8%)



Total turnover has decreased by 15% compared to 2000, primarily due to the reduction in the number both of residential apartments sold at the Bennelong complex in Sydney and of real estate lots sold at Quail Meadows in Carmel, California. Excluding the sales of these properties, turnover decreased by HK\$22 million, a 1% drop year-on-year.

Hotels

Despite the global economic slowdown and the 9/11 factor, hotels turnover maintained near parity with 2000. During 2001, rooms in owned hotels generated revenue of HK\$723 million, a decrease of 3% compared to 2000. The Peninsula Bangkok's robust performance and the opening of the Peninsula Chicago on 1 June provided a counterweight to the decline in the fortunes of the USA hotels, particularly the New York property. The number of guestrooms available is:

	No. of Rooms
<i>Owned Hotels</i>	
The Peninsula Hong Kong	300
The Kowloon Hotel, Hong Kong	736
The Peninsula New York	238
Quail Lodge Resort	97
The Peninsula Chicago	338
The Peninsula Bangkok	370
	2,079
<i>Managed Hotels</i>	
The Peninsula Beverly Hills	196
The Peninsula Manila	498
The Palace Hotel Beijing	530
	3,303

Food and beverage revenues showed a slight 1% increase over 2000; while there was a new contribution from The Peninsula Chicago, other hotels within the group experienced reduced levels of patronage in line with drops in occupancy and domestic consumption.

Commercial revenues rose by 6% as a result mainly of improving sentiment in the retail sector flowing on from 2000. Average rental rates and occupancy in the arcades at The Peninsula Hong Kong and The Kowloon Hotel increased; demand for increased space in the former was notable. The net lettable commercial space is shown below:

	Shopping arcade sf	Office sf
The Peninsula Hong Kong	72,522	72,265
The Kowloon Hotel, Hong Kong	40,813	-
The Peninsula New York	5,224	-
The Peninsula Bangkok	2,831	-
	121,390	72,265

Other hotel income includes turnover from the retail outlets operated by The Peninsula Hong Kong, which was impacted particularly by the substantially reduced number of Japanese visitors to the HKSAR. Also included is revenue from minor departments such as the spa, telephone, guest transportation and laundry. In 2001, these revenues suffered as a consequence of lower occupancies.

Property rentals

Total property rentals revenue of HK\$478 million was just 1% less than 2000. Better sentiment at the end of 2000 helped increase occupancy and achieve stable average rental rates in The Repulse Bay complex, The Peak Tower and St John's Building. Opera Quays, the commercial space in the Bennelong development from which rental revenue was derived, was sold in December. With the completion of the sale of 208 Wireless Road in Bangkok in August 2001, rental income from this property ceased.

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	79,653	-
	<u>850,406</u>	<u>140,970</u>	<u>64,992</u>

Property sales

Revenue from property sales was HK\$213 million, down 67% year on year. This is attributable to the fall in the number of available apartments in Sydney of which only two remain. Two housing lots at Quail Meadows were sold.

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

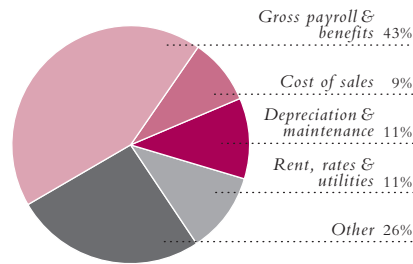
Miscellaneous

Miscellaneous income arises from the golf courses in California and Thailand, 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.

Revenues from the golf courses, clubs and Peak Tramways remained consistent with those of 2000. However, negative sentiment had an impact on the food and beverage operations at The Repulse Bay where revenues were 16% lower. Turnover decreased by 7% year-on-year.

Operating costs

An analysis of the operating expenses of HK\$1,817 million, which are deducted from turnover before arriving at operating profit, are illustrated on the opposite page. These exclude costs relating to the sale of apartments in Bennelong, which would distort the overall expense figures.



Operating costs (HK\$1,817 million)

HK\$783 million, or 43% of direct operating costs are payroll related, an increase of 14% compared to 2000. The increase is mainly attributable to the opening of The Peninsula Chicago. Payroll costs cover some 3,559 direct employees, while a further 2,473 employees work in managed operations. The breakdown of employee numbers at 31 December was as follows:

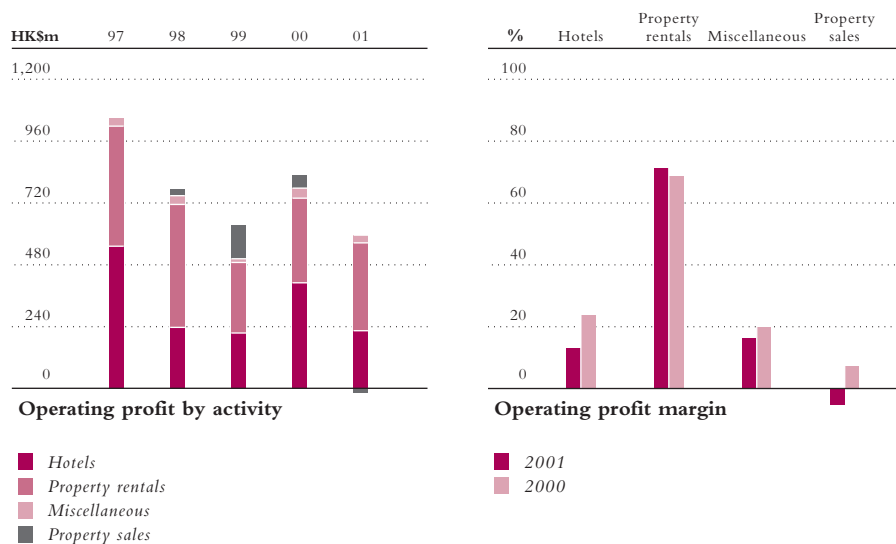
	Direct	Managed	Total	Total
		2001		2000
Hotels	2,759	1,770	4,529	4,374
Property	229	-	229	243
Miscellaneous	571	703	1,274	1,461
Total employees	3,559	2,473	6,032	6,078
Hong Kong	1,706	703	2,409	2,500
Other Asia Pacific	984	1,461	2,445	2,741
United States of America	869	309	1,178	837
	3,559	2,473	6,032	6,078

The increase in hotel employees is mainly related to The Peninsula Chicago which now has a full complement of staff, balanced by slightly reduced manpower in other group hotels as business volume was affected. In other operations, property has seen marginal declines in staff numbers, whilst miscellaneous dropped principally because of shrinkage in the clubs sector.

Operating profit

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

(HK\$m)	2001		2000		Change
Hotels	224	38%	410	49%	(45%)
Property rentals	341	59%	330	40%	3%
Miscellaneous	30	5%	39	5%	(23%)
	595	102%	779	94%	(24%)
Property sales	(11)	(2%)	48	6%	-
	584	100%	827	100%	(29%)
Arising in					
- Hong Kong	649	111%	685	83%	(5%)
- Other Asia Pacific	6	1%	42	5%	(86%)
- United States of America	(71)	(12%)	100	12%	-



Hotels

The positive trend begun in 2000 was reversed, with profit reduced by 45%, despite a strong showing by The Peninsula Bangkok. The Peninsula Chicago made a loss and the other USA hotels were affected by the waning global economy and the events of 11 September.

Property rentals

Profit from property rentals increased by 3% over 2000. The Repulse Bay showed a solid increase in performance and Opera Quays had nearly a full year of contributions prior to being sold. However, the sale of 208 Wireless Road, Bangkok in August resulted in a fall in income.

Property sales

The small loss on property sales in 2001 mainly arose from sales in Bennelong. The profit from the sale of land lots in Quail Meadows was offset by expenses associated with land lots at the Thai Country Club, the sale of which has yet to commence.

Miscellaneous

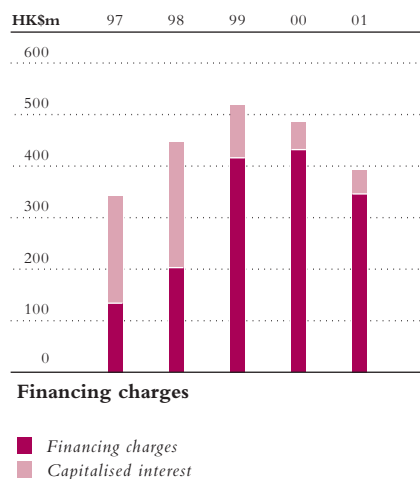
Miscellaneous profit took a turn for the worse, contributing HK\$30 million compared to HK\$39 million in 2000. The decrease in profit was mainly attributable to a drop in usage of the food and beverage outlets at The Repulse Bay complex and a reduction in the number of clubs managed. Peak Tramways, the main contributor under this segment, recorded a 3% drop in profit compared to 2000.

Non-operating items

Non-operating items totalled HK\$148 million in 2001. These related to losses and revaluation adjustments at several properties and a write-back of HK\$6 million from a provision against the sale of the Lucullus equity.

Financing charges

Total financing charges on borrowings in 2001 amounted to HK\$392 million, of which HK\$46 million was capitalised on the project under development in Chicago, giving a net charge to the profit and loss account of HK\$346 million. Interest cover has slipped marginally, with operating profit at 1.7 times the financing charges for the year.



Taxation

The taxation charge has increased compared to 2000 mainly due to the higher deferred tax charge. The charge to Hong Kong profits tax has been lowered.

Minority interests

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

Dividends

No interim dividend was declared in respect of the six months ended 30 June 2001. The directors have recommended the payment of a final dividend of 5 cents per share.

This gives a dividend yield of 1.6% on the 28 February 2002 closing share price of HK\$3.225. Total distribution amounts to HK\$58 million.

BALANCE SHEET AND CASH FLOW

Fixed assets

Third party valuations of the group's investment and hotel properties were carried out as at 31 December 2001. The deficit for the year arising on investment and hotel properties amounts to HK\$854 million and HK\$359 million respectively.

A summary comparing investment and hotel property valuations to cost as at 31 December 2001 is as follows:

	Valuation of Properties					
	Investment Properties			Hotel Properties		
	Valuation Below Cost	Valuation Above Cost	Total	Valuation Below Cost	Valuation Above Cost	Total
Valuation	830	10,910	11,740	1,075	2,549	3,624
Cost	(1,432)	(1,739)	(3,171)	(2,642)	(2,034)	(4,676)
Minority interest	120	-	120	-	-	-
Surplus/(deficit)	(482)	9,171	8,689	(1,567)	515	(1,052)

Changes in the value of investment properties are dealt with on a portfolio basis, consequently the deficit of HK\$482 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 2001 was HK\$1,567 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 that owns and operates the Ripley's Believe It or Not! Odditorium at The Peak Tower.

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

Investment securities

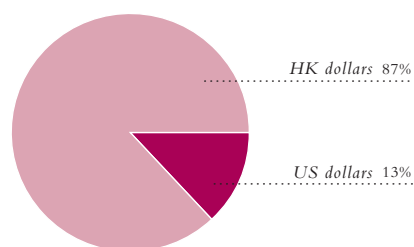
The group's investment securities comprise unlisted minority shareholdings in hotels under management in Beverly Hills and Beijing, and an investment in a site in Jakarta, which has been prepared for development, when the economy in Indonesia becomes more settled.

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 approximately HK\$1 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. It therefore aims to preserve its value in Hong Kong dollar and/or United States dollar terms. As at 31 December 2001 the net assets of the group, after hedging, are denominated in the following currencies:



Net assets

Net assets in other currencies, which amounted to less than 1%, mainly include exposures to the Thai Baht, Australian Dollar, Indonesian Rupiah, Philippine Peso, Vietnamese Dong, Japanese Yen 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 2001, equity and reserves amounted to HK\$11.9 billion (73%), and long term loans from third parties amounted to HK\$4.5 billion (27%), which reflects the profile of the group's capital employed.

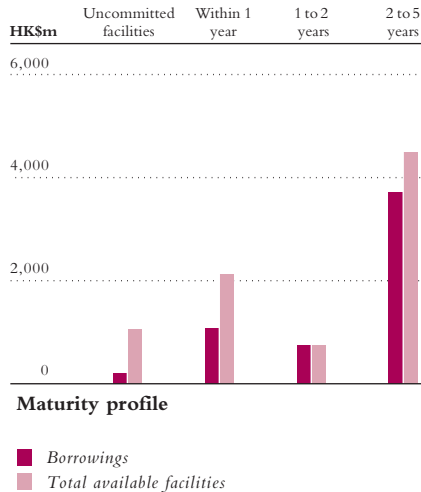
Borrowings

Gearing, expressed as the percentage of net borrowings to the total of net borrowings and net assets, at 32% 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 2001, the interest rates on 34% 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.



At 31 December 2001, total available facilities amounted to HK\$8.4 billion, of which 68% was drawn down. The balance of undrawn facilities is substantially in the form of 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 and there is only minor seasonality in its hotel operations. Borrowing requirements tend to follow the pattern of capital expenditure and investment. Net borrowings decreased by 0.7% during 2001 to HK\$5,656 million. At 31 December 2001, secured borrowings increased to HK\$989 million and group assets of HK\$2.3 billion were pledged.

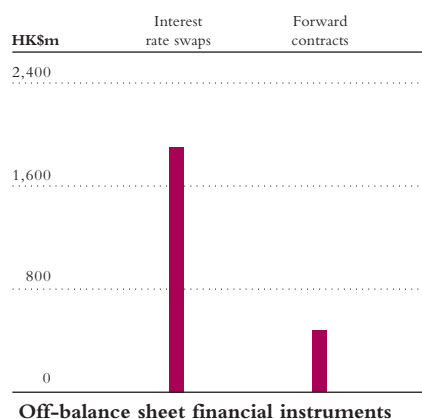
A wholly owned subsidiary company, Peninsula International Limited, has entered into arrangements with the group's Thai joint venture companies to provide a substantial bridging finance facility for the development and operation

of these entities. The balance at 31 December 2001 was US\$76 million. Under a restructuring agreement, this facility will be repaid during 2002.

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.

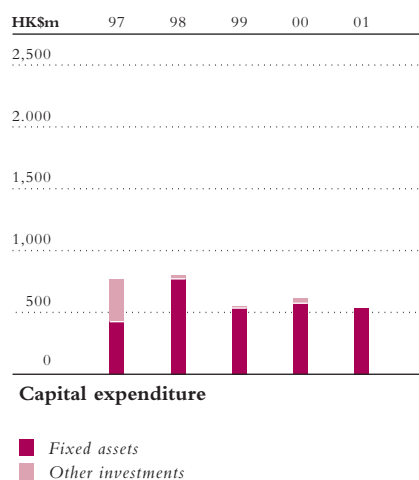
A net loss of HK\$113 million arising on these instruments was realised during 2001 and was recognised in the profit and loss account. At 31 December 2001, the notional amounts of the off-balance sheet financial instruments were categorised as follows:



In addition to the net realised loss, a net unrealised loss of HK\$80 million would result if the outstanding interest rate swaps were revalued at 31 December 2001. 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\$912 million in 2001 while HK\$537 million was spent in acquiring fixed assets.



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 Palace Hotel Beijing

Approval by state authorities for the final stage of the restructuring of the joint venture for The Palace Hotel Beijing is expected to be received soon. Under the new arrangement as a cooperative joint venture, the group will gain control of the hotel and its profit streams.

The Peninsula Bangkok and related interests

The group entered into a Memorandum of Agreement with its Thai partner to rearrange the capital and loan structures of the Thai joint venture, which includes The Peninsula Bangkok. Under the agreement the Thai partner has agreed to transfer 15% of its equity interest to the group. The group in turn has agreed to grant an option to the Thai partner to rebuild its equity interest by repurchasing the 15% interest on or before 31 December 2002, and a second option to buy back a further 25% for US\$25 million on or before 31 December 2016.

SECURITIES INFORMATION

The company's share price closed on 28 February 2002 at HK\$3.225 giving a market capitalisation of HK\$3.77 billion and reflecting a discount to net asset value of 68%. The share price underperformed the Hang Seng Index and other stocks in the hotel sector during 2001.

During 2001, a limited scheme was initiated to buy back the shares of the company at prices well below the net asset value attributable to them. Thus far, 2.3 million shares at an average price of HK\$2.49 have been acquired and cancelled.

