

*A*n hotel is like a concert performance, greater than the sum of its many parts. The concert hall, the music, the leaders



of the different instrument sections, and the players – all giving pleasure to the audience. Blended properly, they create a memorable experience. In our hotels, fine architecture and interior design define the physical characteristics: the staff create the heart and soul. Their commitment to

standards of excellence keeps our guests returning and our hotels at the top of the industry.

MILESTONES 2002

THE PALACE HOTEL BEIJING

Restructuring

The restructuring of The Palace Hotel Co., Ltd from a sino-foreign equity joint venture into a sino-foreign cooperative joint venture was completed in December 2002. Following this completion, The Palace Hotel Co., Ltd became a subsidiary of The Hongkong and Shanghai Hotels group (HSH), which now controls the hotel and its future profit streams.

THAI JOINT VENTURE COMPANIES

Restructuring

The restructuring of the capital and loan structures of the group's Thai businesses, including The Peninsula Bangkok, was completed in May 2002. The HSH group now has a 75% equity interest in the various businesses, following the exercise by the Thai partner in December 2002 of its option to repurchase the 15% equity interest sold to the group in 2001. The Thai partner has a further option to rebuild its equity interest to the original 50% by December 2016.



THE PENINSULA TOKYO

The company signed an agreement with Mitsubishi Estate Company in October 2002 to develop The Peninsula Tokyo on a prime site in the Marunouchi business district of the city, close to the Imperial Gardens and the Ginza entertainment area. The hotel, with over 300 rooms, is expected to open in 2007.

THE PALACE HOTEL BEIJING

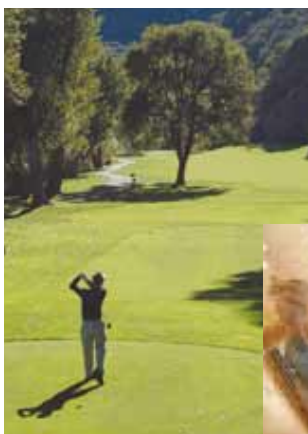
Renovation

北京

Phase I of a major upgrade to The Palace Hotel Beijing was completed in the first quarter of 2002 with the launch of a new restaurant, Jing, and a new look for the Lobby, Reception and Concierge areas. Phase II began in the fourth quarter, with a major overhaul of the hotel's function space, and Phase III will be devoted to rooms renovation, bringing the property in line with Peninsula standards.

LOAN FACILITY SIGNED

In October 2002, HSH signed a HK\$2 billion term loan facility with a syndicate of 16 local and international banks. The loan, which matures in 2007, was arranged to refinance existing facilities at a significantly lower interest margin.



QUAIL LODGE RESORT & GOLF CLUB

Renovation

A major renovation of Quail Lodge Resort in Carmel, California began in December 2002. The hotel has been closed in order to effect progress as quickly as possible and to avoid disruption to guests. The main lodge, food and beverage outlets, guestrooms, clubhouse and function spaces are being redesigned and substantially upgraded. The resort is scheduled to re-open in July 2003.



THE PENINSULA HONG KONG 75 Years in Operation

Our flagship hotel launched its year-long 75th anniversary celebrations in December 2002. The programme will culminate in December 2003 with a Gala Evening. A part of Hong Kong's social fabric and history since it first opened in 1928, the hotel is involving the community in its celebrations, including support for local charities, commissioning special music from young Hong Kong musicians, and cooperating with a locally-based historian to offer historical walking tours of the Kowloon area.

GROUP MANAGEMENT COMMITTEE FORMED

The creation of the Group Management Committee has provided management with a forum for more focussed and collective decision making, improved communication and better coordination of management actions across different functions and geographical areas.

GROUP MANAGEMENT DEVELOPMENT PROGRAMME INITIATED

As the group grows, the need to plan ahead for management succession and to develop career opportunities for next tier executives becomes imperative. The framework for an 18-month accelerated management development programme was agreed and put in place in the last quarter of 2002. Aimed at individuals aspiring to be General Managers, the programme's first candidates will embark on the course in 2003.

VALLEY RESORT MANAGEMENT LLC ESTABLISHED

In January 2002, the management of Quail Lodge Resort and Golf Club in Carmel, California was transferred to Valley Resort Management LLC (VRM), a joint venture formed between HSH and the operators of Bernardus Lodge, also situated in Carmel Valley. The purpose of VRM is to promote and develop Quail Lodge and Bernardus Lodge, as well as explore opportunities for future expansion by taking on similar properties.

PROCUREMENT INITIATIVES

To improve cost efficiency and effectiveness of our businesses further, the company has initiated a drive to implement a company-wide policy and procurement disciplines to achieve significant operational cost savings under the direction of the newly appointed General Manager, Procurement.

AWARDS

The group's hotels have been successful throughout the year in accumulating prestigious awards for the properties, their restaurants, facilities and services. The following selection of the awards received during 2002 is not exhaustive.

The Peninsula Hong Kong

- No. 1 – World's Best Hotel 2002 *Zagat Survey*
- No. 1 in Asia – World's Best Hotel Restaurants *Travel & Leisure, USA*
- No. 1 in Asia, No. 3 in World, Top 100 Hotels in the World *Conde Nast Traveler, USA*

The Peninsula New York

- 2003 AAA Five Diamond Award *American Automobile Association*
- Mobil Four Star Award *USA*
- Hotel Spa – One of Top 40 Spas in USA, and one of Ten Best Urban Spas *Conde Nast Traveler, USA*

The Peninsula Chicago

- 2003 AAA Five Diamond Award *American Automobile Association*
- Mobil Five Star Award *USA*
- No 1 USA Hotel – 2003 *Zagat Survey*
- Best New Business Hotel *Forbes Magazine*

The Peninsula Beverly Hills

- 2003 AAA Five Diamond Award – Hotel and The Belvedere restaurant *American Automobile Association*
- Mobil Five Star Award *USA*
- No. 1 US City Hotel *Andrew Harper's Hideaway Report*
- No. 1 Hotel in the USA *Travel & Leisure*

The Peninsula Bangkok

- Best Hotel – Asia, and No. 2 World's Best Hotel *Travel & Leisure, USA*
- No. 2 – Best Hotel Worldwide *Gallivanter's Guide Reader Survey*
- No. 3 World's Best Restaurants *Travel & Leisure, USA*

The Peninsula Manila

- Best Business Hotel in The Philippines *Business Asia magazine and Bloomberg TV*
- No.2 Top City Hotel in Manila *Euromoney*
- One of the Best Hotels in Asia/Pacific *Global Finance*
- Conde Nast Traveler Gold List *Only hotel in Manila to be listed*

The Palace Hotel, Beijing

- Conde Nast Traveler Gold List
- No. 2 Top City Hotel in Beijing *Euromoney*