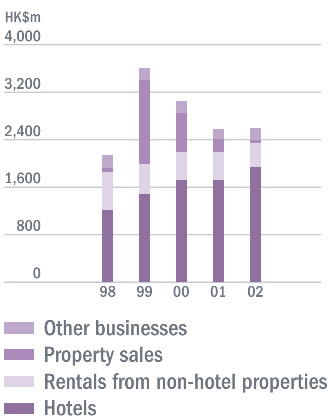
Income statement

A. Turnover by activity



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	2002		2001		Change
Hotels					
Rooms	**847**	**32%**	723	28%	17%
Food and beverage	**575**	**22%**	517	20%	11%
Commercial	**305**	**12%**	279	11%	9%
Other	**214**	**8%**	191	7%	12%
Hotels	**1,941**	**74%**	1,710	66%	14%
Rentals from non-hotel properties	**410**	**16%**	478	19%	(14%)
Other businesses	**202**	**8%**	183	7%	10%
	2,553	**98%**	2,371	92%	8%
Property sales	**39**	**2%**	213	8%	(82%)
	2,592	**100%**	2,584	100%	–
Arising in					
Hong Kong	**1,541**	**60%**	1,536	59%	–
Other Asia Pacific	**242**	**9%**	438	17%	(45%)
United States of America	**809**	**31%**	610	24%	33%

The results for this year incorporate a full year's operation of The Peninsula Chicago and this factor has affected most of the comparisons with 2001, during which The Peninsula Chicago was only operational for seven months.

Total turnover remained on a par with 2001. An improved contribution from the hotels was offset by a lack of property sales, which in 2001 was largely attributable to the sale of the company's Bangkok office block and the Opera Quays retail complex in Sydney. Excluding property sales, turnover grew by HK$182 million, an 8% increase year-on-year.

Hotels During 2002, rooms in the hotels in which we have a majority shareholding ("owned hotels") generated revenue of HK$847 million, a 17% increase over 2001. This improvement resulted in part from The Peninsula Bangkok's continued success, growth at The Peninsula Hong Kong, and the ability of the USA properties to reverse their decline. The number of guestrooms available and the revenue generated are:

	No. of rooms	Rooms revenue 2002 HK$m	Rooms revenue 2001 HK$m
Owned hotels			
The Peninsula Hong Kong	300	**199**	184
The Peninsula New York	239	**224**	219
The Peninsula Chicago	339	**148**	52
The Peninsula Bangkok	370	**97**	87
The Kowloon Hotel	736	**143**	140
Quail Lodge Resort	97	**36**	41
	2,081	**847**	723
Managed hotels			
The Peninsula Beverly Hills	196	**174**	177
The Peninsula Manila	498	**66**	67
The Palace Hotel Beijing (owned as of 31/12/02)	530	**96**	93
	1,224	**336**	337
	3,305	**1,183**	1,060

Note: Revenue on managed hotels is not consolidated in the financial statements of the group.

Food and beverage revenues rose 11% compared to 2001. A full year's contribution from The Peninsula Chicago boosted the total, while other hotels within the group recorded some growth in line with their increased occupancy levels.

Commercial revenues grew by 9% as a result mainly of the positive rental cycle which began in 2000 when sentiment improved in the retail sector in Hong Kong. However, by the second half of the year, faltering retail returns and a new reversion cycle in Hong Kong began to put rates under pressure again. The net lettable commercial space and combined turnover are shown below:

	Shopping arcade sf	Office sf	Total revenue 2002 HK$m	Total revenue 2001 HK$m
The Peninsula Hong Kong	72,522	72,265	**252**	229
The Peninsula New York	5,224	–	**26**	23
The Peninsula Bangkok	2,831	–	**1**	2
The Kowloon Hotel	40,813	–	**26**	25
	121,390	72,265	**305**	279

Other hotel income includes turnover from the retail outlets operated by The Peninsula Hong Kong and revenue from minor departments such as the spas, telephone, guest transportation and laundry. In 2002, these revenues increased by 12%, boosted by a full year's contribution from The Peninsula Chicago.

Rentals from non-hotel properties Total rental revenue from non-hotel properties was HK$410 million, a drop of 14% from 2001. Performance was depressed at The Repulse Bay complex, which was affected by poor corporate sentiment and shrinking housing budgets. Rental for the office space at St John's Building also declined, due to over-supply in the vicinity and the weakness in business confidence. Rental income ceased from 208 Wireless Road, Bangkok and from Opera Quays, the commercial space in the Bennelong development, Sydney both of which were sold in 2001. On the positive side, The Peak Tower in Hong Kong recorded a 5% increase in income, and The Landmark in Ho Chi Minh City raised its revenue levels slightly in a reviving market.

Net areas currently available for letting and the total revenue generated are:

	Residential sf	Office sf	Shopping arcade sf	**Total revenue 2002 HK$m**	Total revenue 2001 HK$m
The Repulse Bay complex, Hong Kong	795,585	–	38,845	**341**	381
The Peak Tower, Hong Kong	–	–	26,026	**23**	22
St John's Building, Hong Kong	–	61,317	–	**18**	22
The Landmark, Ho Chi Minh City	54,821	80,342	–	**28**	28
Other properties (sold in 2001)	–	140,122	78,677	**–**	25
	850,406	281,781	143,548	**410**	478

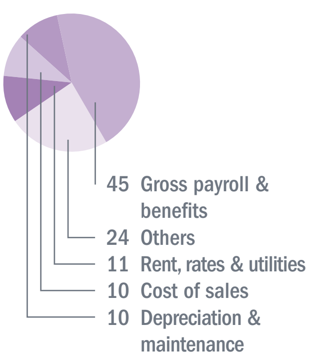
Property sales Revenue from property sales was HK$39 million, derived from the sale of the remaining two apartments in Sydney and two housing lots at Quail Meadows, Carmel. The drop of 82% year on year is attributed to the disposals in 2001 of 208 Wireless Road and Opera Quays, which were both one-off asset sales.

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

Other businesses Miscellaneous income arises from other businesses such as the golf courses in California and Thailand, the Peak Tramways, Peak Entertainment, Tai Pan Laundry, Peninsula Clubs and Consultancy Services and food and beverage outlets not in hotels, such as those in The Repulse Bay.

Revenues from the golf courses, the Peak Tramways and Tai Pan Laundry improved over 2001. However, weak consumer spending continued to have an impact on the food and beverage operations at The Repulse Bay where revenues were 4% lower. Income from Clubs also declined with the cessation of one management contract.

B. Operating costs (%)



Operating costs

An analysis of the operating expenses of HK$1,955 million, which are deducted from turnover before arriving at operating profit, is illustrated in chart B at left.

HK$891 million, or 45% of direct operating costs are payroll related, an increase of 14% compared to 2001. Owned hotels and other operations employ 3,544 staff, while a further 2,409 employees work in managed operations. The breakdown of employee numbers at 31 December was as follows:

	2002			2001
	Direct	Managed	Total	Total
Hotels	2,782	1,779	4,561	4,529
Property	219	–	219	229
Other businesses	543	630	1,173	1,274
	3,544	2,409	5,953	6,032
Hong Kong	1,670	630	2,300	2,409
Other Asia Pacific	983	1,440	2,423	2,445
United States of America	891	339	1,230	1,178
	3,544	2,409	5,953	6,032

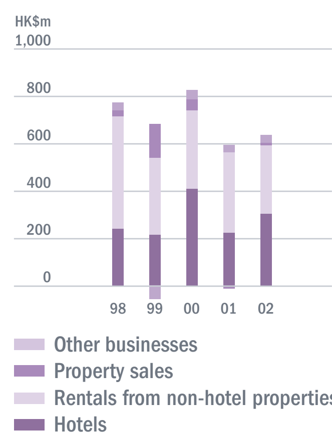
The increase in hotel employees is mainly attributable to the Peninsula hotels in the USA as more staff were needed to service the growth in business volume. This was offset by lower headcount in Quail Lodge, due to economies effected by the formation of Valley Resort Management LLC. The reduction in manpower in the Asian properties came mainly at The Palace Hotel Beijing as certain restaurants and rooms were closed during its renovation programme. The shrinkage in the clubs sector was responsible for the lower number of staff under "Other businesses".

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	Hong Kong	Other Asia Pacific	United States of America	Total
2002				
Hotels	333	40	(68)	305
Rentals from non-hotel properties	274	15	–	289
Property sales	–	(6)	15	9
Other businesses	33	8	(7)	34
	640	57	(60)	637
2001				
Hotels	293	–	(69)	224
Rentals from non-hotel properties	320	21	–	341
Property sales	–	(14)	3	(11)
Other businesses	36	(1)	(5)	30
	649	6	(71)	584

C. Operating profit by activity



D. Operating profit margin

Operating profit margin

Chart D breaks down the operating profit margin which for the group rose slightly in 2002.

Hotels The hotels turned in a strong performance, with profit increasing by 36% despite losses at The Peninsula New York, The Peninsula Chicago and Quail Lodge Resort. The Peninsula Hong Kong, The Peninsula Bangkok and The Kowloon Hotel all achieved improved figures.

Rentals from non-hotel properties Profit from rentals in non-hotel properties decreased by 15% from 2001 levels. The biggest impact was felt at The Repulse Bay which suffered in a negative market as, to a lesser extent, did St John's Building. Profit derived from rental income from 208 Wireless Road, Bangkok and Opera Quays, Sydney ceased with their sale the previous year. The Landmark, however, increased slightly in profitability due to a strengthening situation in Vietnam, while The Peak Tower held steady.

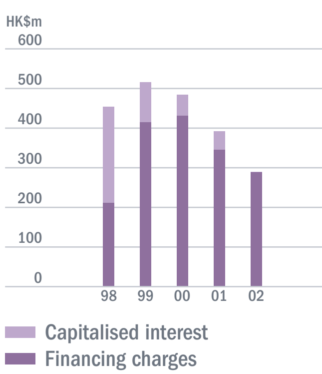
Property sales The sale of land lots in Quail Meadows and the reduced losses from Bennelong sales resulted in a net profit of HK$9 million in property sales.

Other businesses Profit from other businesses improved by 13%, contributing HK$34 million compared to HK$30 million in 2001. The increase in profit was mainly attributable to growth in contribution from the Thai Country Club offset by a reduction in the number of clubs managed. The Peak Tramways, the single largest contributor under this segment, maintained its fares at the 2001 level as well as its profit level.

Non-operating items

Non-operating items totalled HK$27 million in 2002. These comprise a net revaluation deficit totalling HK$62 million at several properties, a provision against interest and other expenses capitalised during construction in respect of a recently completed hotel of HK$155 million, and a gain of HK$238 million resulting from the restructuring of The Palace Hotel joint venture.

E. Financing charges



Financing charges

Total financing charges on borrowings in 2002 amounted to HK$290 million of which HK$1 million was capitalised on the project under development in Tokyo, giving a net charge to the income statement of HK$289 million. Interest cover has improved, with operating profit at 2.2 times the net financing charges for the year.

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.

Taxation
The taxation charge has increased compared to 2001 mainly due to the overall increase in profit generated by the Hong Kong properties.

Minority interests
The charge represents the share of profits attributable to the local joint venture partners in The Landmark and Thai subsidiaries.

Dividends
No interim dividend was declared during the year 2002. Due to the improvement in operational performance during the year, the directors have recommended the payment of a final dividend of 8 cents per share.

The proposed dividend equates to a yield of 2.1% on the 27 February 2003 closing share price of HK$3.725. The total distribution amounts to HK$93 million.

Balance sheet

Investment and hotel properties
Third party valuations of the group's investment and hotel properties were carried out as at 31 December 2002. According to the accounting policies adopted by the group, changes in the value of investment properties and hotels are dealt with on portfolio and individual bases respectively.

The amounts of revaluation surplus and deficit for the year are summarised as follows:

	Investment properties			Hotel properties			Other properties
For the year ended December 2002 (HK$m)	Revaluation surplus	Revaluation deficit	Total	Revaluation surplus	Revaluation deficit	Total	Revaluation deficit
Hong Kong	–	(557)	(557)	76	–	76	(1)
Other Asia Pacific	4	–	4	11	–	11	–
United States of America	22	–	22	–	(72)	(72)	–
Surplus/(deficit) for the year	26	(557)	(531)	87	(72)	15	(1)
Allocated to:							
Income statement	–	–	–	11	(72)	(61)	(1)
Revaluation reserves	25	(557)	(532)	76	–	76	–
Minority interests	1	–	1	–	–	–	–
Surplus/(deficit) for the year	26	(557)	(531)	87	(72)	15	(1)

The revaluation deficits are mainly related to the downward valuations of residential apartments in The Repulse Bay and hotels in the United States respectively. However, there have been upward revaluation adjustments for the hotels in Hong Kong and in Asia.

A summary of investment and hotel property valuations attributable to the group as at 31 December 2002 is as follows:

	HSH interest	Valuation HK$m	Attributable value HK$m
Hotel assets			
Owned hotels			
The Peninsula Hong Kong	100%	5,458	5,458
The Peninsula New York	100%	694	694
The Peninsula Chicago	92.5%	1,345	1,244
The Peninsula Bangkok	75%	569	427
The Palace Hotel Beijing	42.13%	1,036	436
The Kowloon Hotel	100%	1,167	1,167
Quail Lodge Resort	100%	268	268
		10,537	9,694
Managed hotels			
The Peninsula Beverly Hills	20%	1,069	214
The Peninsula Manila	40%	235	94
		1,304	308
Total hotels		**11,841**	**10,002**
Property assets			
The Repulse Bay complex	100%	6,151	6,151
The Peak Tower	100%	322	322
Peak Tramways	100%	38	38
St. John's Building	100%	274	274
The Landmark	70%	78	55
Thai Country Club	75%	385	289
Total properties		**7,248**	**7,129**
Total hotel and property assets		**19,089**	**17,131**

Investment securities

The group's investment securities comprise an unlisted minority shareholding in a hotel under management in Beverly Hills, and an investment in a site in Jakarta, which is being held for possible future development.

Investment in hotel management contract

The group acquired the hotel management contract in The Peninsula Beverly Hills in 1991. This payment is amortised over the 45-year term of the contract until 2036.

Borrowings and cash flow

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. 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 specific projects, like The Peninsula Chicago, The Peninsula Tokyo, The Palace Hotel Beijing and the investments in Thailand.

In addition to the net borrowings of the group, some associated companies and other companies in which the group invests obtain bank borrowings directly. At 31 December 2002, the group's share of those borrowings amounted to HK$127 million.

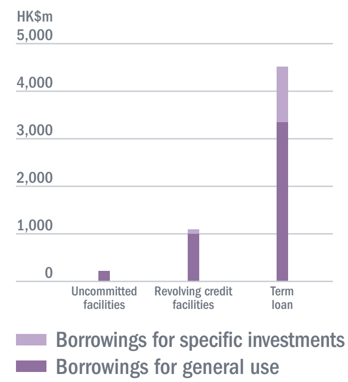
Borrowing requirements are not seasonal as the group benefits from a steady inflow of income from its leased properties and there is only minor seasonality in its hotel operations. Borrowing requirements tend to follow the pattern of capital expenditure and investment.

The group raised a Yen 3 billion bank facility to fund The Peninsula Tokyo project which was committed in October 2002. The group also took the initiative to reduce its overall interest costs and arranged a 5-year HK$2 billion syndicated loan, with 16 participating banks, to refinance part of its outstanding borrowings. There were some other refinancing exercises to further reduce the borrowing costs of the group.

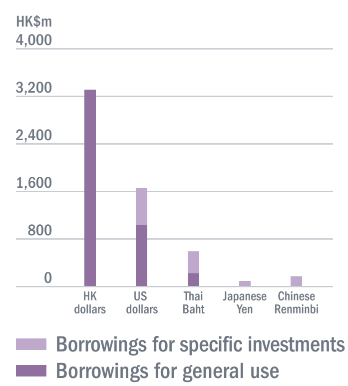
Following the completion of The Palace Hotel restructuring, the group has begun to consolidate the financial statements of this joint venture, including net borrowings of HK$62 million. Despite the inclusion of these borrowings on consolidation this year, the net borrowings of the group decreased by 0.8% during 2002 to HK$5,611 million (see charts F and G).

At 31 December 2002, secured borrowings increased to HK$1,159 million, representing 21% of the net borrowings. The value of pledged assets attributable to the group amounted to HK$3.7 billion.

F. Borrowings (by type)



G. Borrowings (by currency)

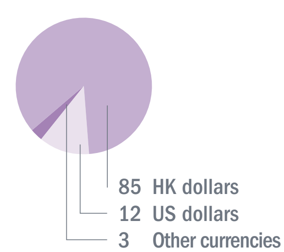


Financial risk management

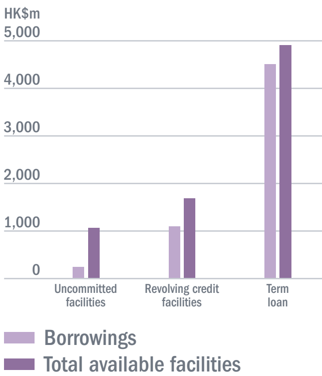
The group emphasises risk minimisation and hedges its exposure to financial risks. Various techniques and financial instruments are used to control or reduce the financial risks.

Foreign exchange risk The parent company of the group is a Hong Kong corporation, reporting its results and accountable to its shareholders in Hong Kong dollars. In the light of the Hong Kong dollar peg, the group has not hedged exposure to certain US dollar denominated net assets. It therefore aims to preserve its value in Hong Kong dollar and/or United States dollar terms. As at 31 December 2002 the net assets of the group, after accounting for a forward exchange contract designed to hedge net investment in the Thai group, are denominated in the currencies as illustrated in chart H.

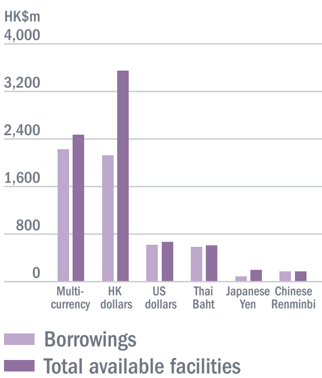
H. Net assets (%)



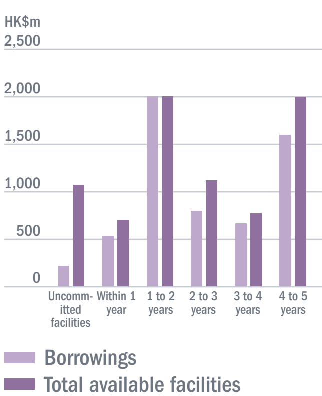
I. Borrowings and available facilities (by type)



J. Borrowings and available facilities (by currency)



K. Maturity profile



Net assets in other currencies mainly include exposures to the Thai Baht, Indonesian Rupiah, Philippine Peso, Vietnamese Dong, Japanese Yen and Chinese Renminbi.

The group manages its foreign exchange exposures with a view to protecting its net assets and profitability against adverse fluctuations in exchange rates. Significant foreign currency transactional requirements are locked into fixed exchange rates primarily by forward exchange contracts at the time of commitment. As at 31 December 2002 the group had entered into forward exchange contracts totalling Yen 3.8 billion to hedge the transaction exposure of The Peninsula Tokyo project.

Every effort is made to match assets and liabilities in terms of currency in order to minimise the translation exposures. In case of mismatching of currencies (other than Hong Kong dollar versus United States dollar), forward exchange contracts are sometimes used to manage the risk arising from translating financial statements of foreign subsidiaries and investments. As at 31 December 2002 the group had entered into a forward exchange contract of Baht 2.5 billion to hedge the translation exposure of Thai subsidiaries. Even after the forward exchange hedging, some translation exposures exist in Asian countries and general reserves have been debited with HK$14 million in 2002 in respect of this net translation loss.

Interest rate risk The group's borrowings bear floating interest rates that are reset as market rates change on a regular basis. Borrowing costs are therefore subject to market fluctuations in interest rates. In view of this, the group has a long-term policy to fix 50% of the borrowings, by way of interest rate swaps and other derivatives. At 31 December 2002, the interest rates on 36% of net borrowings after hedging were fixed. The weighted average gross interest rate in 2002 was 5.1%, compared to 6.7% in 2001.

Liquidity risk The group manages its liquidity risk by obtaining sufficient committed borrowing facilities to meet its obligations and commitments (see charts I and J). At 31 December 2002, total available facilities amounted to HK$7.7 billion, of which 76% was drawn down. The balance of undrawn committed facilities of HK$1.0 billion is in the form of revolving credit and term loan facilities.

The group also manages its maturity profile of borrowings and facilities, as illustrated in chart K, to maximise liquidity and minimise refinancing risk.

Off-balance sheet financial instruments

Off-balance sheet financial instruments are held for hedging purposes to manage foreign exchange and interest rate risks. Effective controls are implemented to identify and monitor these risks.

The notional amounts and the fair value of the off-balance sheet financial instruments as at 31 December 2002 are as follows:

	Classified as					
	Cash flow hedges		Hedges of net investments in foreign entities		Total	
HK$m	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Interest rate swaps	3,407	(335)	–	–	3,407	(335)
Forward exchange contracts	270	(4)	458	9	728	5
Total	3,677	(339)	458	9	4,135	(330)

The fair value is calculated as the present value of the expected future cash flows relating to the financial instruments based on the market forward rates at 31 December 2002. According to the accounting policy adopted by the company, the changes in fair value of the off-balance sheet financial instruments are not dealt with in the financial statements as the instruments are not held for speculative purposes.

At 31 December 2002, the notional amounts of these off-balance sheet financial instruments were categorised as laid out in charts L and M at right.

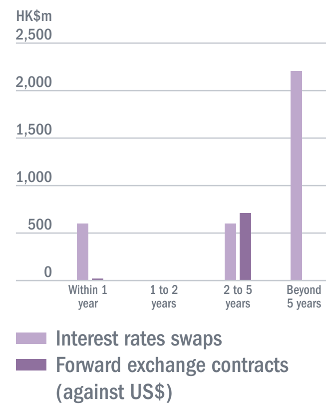
The following ranges of fixed rates are locked in by the interest rate swaps as at 31 December 2002:

HK$	6.0% to 7.5%
US$	5.7% to 5.9%
Yen	1.5% to 2.1%

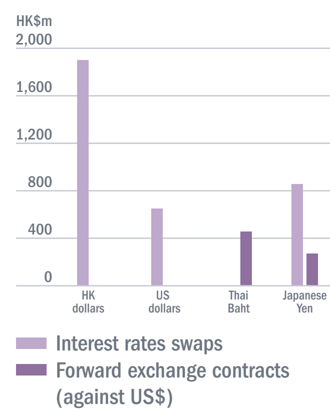
Cash flow

Net cash from operations amounted to HK$807 million in 2002 while HK$276 million was spent in acquiring fixed assets and investing in subsidiary companies (see chart N).

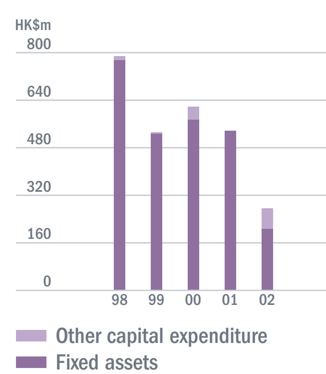
L. Notional amounts (by maturity)



M. Notional amounts (by currency)



N. Capital expenditure



Corporate restructuring

During the year, the group has undergone restructuring of some existing investments in Asia.

The Palace Hotel Beijing

Approval by state authorities for the final stage of the restructuring of the joint venture and hotel management contract for The Palace Hotel Beijing has been received. Under the new arrangements as a cooperative joint venture, the group has gained control of the hotel and its profit streams.

The Peninsula Bangkok & related interests

Under an agreement made in 2001 with the Thai partner, the group acquired an additional 15% equity interest in The Peninsula Bangkok and other subsidiaries in Thailand. In accordance with this agreement, the Thai partner exercised an option to repurchase this interest for US$6 million in December 2002. Under the restructuring agreement, the Thai partner has a second option to buy back a further 25% for US$25 million on or before 31 December 2016.

Share information

The company's share price closed on 27 February 2003 at HK$3.725 giving a market capitalisation of HK$4.35 billion (US$558 million) and reflecting a discount to net asset value of 63%. During 2002, the share price outperformed the Hang Seng Index, along with other stocks in the hotel sector, and the Hong Kong All Ordinaries Hotels Index.

Share price

Note: The share price and Indices as at 31 December 2001 = 100%