



The Peninsula Suite, The Peninsula Hong Kong

PEOPLE'S REPUBLIC OF CHINA HONG KONG SAR

The Peninsula Hong Kong (100% group-owned)

General Manager – Peter Borer

The first quarter of 2001 was buoyant as regional economies sustained the improvement begun in 2000. However, by the traditionally strong second half of the year occupancy had declined and room rates came under pressure. The Peninsula Hong Kong ended the year with overall revenues at HK\$724 million, a decrease of 2% compared to 2000.

Flexibility and new marketing initiatives became key both in adjusting to price sensitivity and in attracting business from emerging markets such as the PRC and Taiwan. The USA and Japan remain the top markets for the hotel. Hong Kong residents generate significant business for the property; the local market has become an important and growing segment showing a 35% increase over 2000. Hotel revenue totalled HK\$444 million, a decrease of 5% compared to 2000.

Revenues from food and beverage operations mirrored the fluctuating fortunes in the economy. Dining frequency and average checks in the restaurants were scaled back; banqueting, however, benefitted both from wedding bookings and from a rise in meeting events that were originally planned for overseas. Retail sales at The Peninsula Boutique were also affected, mainly due to declining numbers of Japanese customers, with revenue at HK\$41 million, down 11% year on year.

During 2001, the commercial shopping arcade was fully let, with gross rentals increasing to HK\$203 million, up 8% over 2000. Despite the sharp downward spiral in the retail sector generally in the fourth quarter, the outlook for the hotel arcade is relatively positive, with more high-end fashion brands expected to be introduced into the market mix.



The Peninsula Spa, The Peninsula Hong Kong

The Peninsula Office Tower remained under pressure from new grade-A office supply in Tsim Sha Tsui and from a weaker economy. Occupancy for the year was 95% but average rents fell, realising HK\$36 million in revenue, a drop of 10% year on year. Expectations for the Office Tower for 2002 are that space will be fully let and that average rents will remain level with those of 2001.

The Peninsula Hong Kong	2001	2000	% Change
Available rooms	300	300	-
Average occupancy	56%	55%	2%
Average room rate	HK\$2,749	HK\$2,984	(8%)
Yield	HK\$1,527	HK\$1,654	(8%)
Revenue (HK\$m)			
Hotel	444	468	(5%)
Retail	41	46	(11%)
Commercial	203	188	8%
Office	36	40	(10%)
	<u>724</u>	<u>742</u>	(2%)

To meet the challenges of 2002, the hotel will be targeting new markets such as China, introducing competitive rate strategies and packages and continually reviewing the product to ensure it offers added value. The uncompromising standards of service that continue to keep the hotel at the pinnacle of worldwide customer surveys will be upheld.

The Kowloon Hotel (100% group-owned)

General Manager – Rolf Pfisterer

Despite an adverse four-week interval straddling September and October, The Kowloon Hotel maintained its strong performance of 2000, completing the year with occupancy at 90%, a negligible decline from the preceding year. Under intense pressure in this highly competitive market sector, the hotel achieved an average room rate of HK\$527, a slight drop of 2% compared to 2000.

Revenue from hotel operations was HK\$248 million, a decrease of 6% year on year. Returns from food and beverage varied throughout the year, recovering to 2000-levels in the latter half of the year. The shopping arcade fared better, increasing both occupancy and average rental rates. A continuous programme of room refurbishment has helped to maintain the hotel's competitive edge; rigorous cost controls together with the established yield management programme continue to achieve improved revenues.

Wan Loong Court restaurant, The Kowloon Hotel



The Kowloon Hotel	2001	2000	% Change
Available rooms	736	736	-
Average occupancy	90%	91%	(1%)
Average room rate	HK\$527	HK\$540	(2%)
Yield	HK\$475	HK\$491	(3%)
Revenue (HK\$m)			
Hotel	248	263	(6%)
Commercial	25	23	9%
	<u>273</u>	<u>286</u>	(5%)

The outlook for 2002 is comparatively positive; gradual increases in occupancy and room rates are anticipated, although the food and beverage sector remains a challenge.

Spices restaurant terrace, The Repulse Bay complex



The Repulse Bay complex (100% group-owned)

General Manager – Martyn Sawyer

An aggressive strategy was implemented to counter market fluctuations in demand and rental rates caused by concerns over the slowdown in the USA economy. Gross rental revenue from the apartments totalled HK\$349 million, compared to HK\$327 million in 2000, an increase of 7%.



The Bar, The Repulse Bay complex

The 353 unfurnished apartments in the complex achieved 93% occupancy and average rental yield improved slightly at HK\$34 per net square foot per month. The 68 serviced apartments achieved occupancy of 65%, up slightly from 2000. The average rental yield remained at HK\$23 per net square foot per month.

Local negative sentiment led to a decrease in discretionary spending, thus reducing revenues and numbers of covers in the food and beverage outlets; revenue generated was HK\$41 million, a decrease of 16% compared to the previous year.

The shopping arcade and ancillary commercial space achieved total gross revenue of HK\$33 million, up 6% over 2000 levels. The Chinese restaurant space was leased and began trading in mid-year, resulting in an overall commercial occupancy rate of 95% and adding positively to traffic flow in the complex.

The Repulse Bay complex	2001	2000	% Change
Unfurnished apartments	353	353	-
Average occupancy	93%	88%	6%
Average rental (pnsf)	HK\$34	HK\$32	6%
Serviced apartments	68	68	-
Average occupancy	65%	64%	2%
Average rental (pnsf)	HK\$23	HK\$23	-
Revenue (HK\$m)			
Residential	349	327	7%
Club	5	5	-
Commercial	33	31	6%
Food and beverage	41	49	(16%)
	428	412	4%

With multinationals freezing expansion plans and diminishing housing budgets, the complex's management is focussed on retaining existing tenants at competitive levels and attracting additional top sector residential and commercial tenants. A soft renovation programme of the serviced apartments was initiated in November and will be phased over three years.

Other Hong Kong Operations (100% group-owned)

Under the prevailing climate, other operations in Hong Kong performed quite well with Peak Tramways and Peak Entertainment remaining consistent with 2000. Revenues derived from St John's Building and The Peak Tower, however, both increased, reflecting the more positive sentiment and rising demand at the turn of the year. The drop in revenue derived from Tai Pan Laundry owed much to the decrease in demand from hotels as visitor numbers waned. Peninsula Clubs and Consultancy Services has scaled back the number of clubs it manages, hence the reduced fees.

Other Operations	2001	2000	% Change
Revenue (HK\$m)			
Peak Tramways	52	52	-
The Peak Tower	22	21	5%
Peak Entertainment	4	4	-
St. John's Building	22	20	10%
Tai Pan Laundry	44	47	(6%)
Peninsula Clubs and Consultancy Services	11	14	(21%)
	<u>155</u>	<u>158</u>	(2%)

BEIJING

The Palace Hotel Beijing (20% group-owned)

General Manager – Donald Harrington

The hotel held its course overall despite the drop in revenues associated with closure of food and beverage outlets, renovations and a fall in the number of long-haul travellers. The Palace Hotel achieved occupancy of 63%, a slight dip of 2% from 2000, with the average room rate decreasing by 7% to US\$86. Total hotel revenue was RMB221 million, 11% below that achieved in the previous year.



The entrance to Jing restaurant, The Palace Hotel Beijing

Phase one of a planned four-phase renovation, begun in August, was completed in January 2002. A new western restaurant, Jing, has been created offering contemporary cuisine. The new Lobby Lounge is to operate in the centre of an expanded shopping arcade where several prestigious brands are to be introduced to the existing premier mix. The combination is expected to assist in repositioning the hotel in the top flight within its competitive set.

The Palace Hotel Beijing	2001	2000	% Change
Available rooms	530	530	-
Average occupancy	63%	64%	(2%)
Average room rate	US\$86	US\$92	(7%)
Yield	US\$54	US\$59	(8%)
Revenue (RMB'm)			
Hotel	161	184	(13%)
Commercial	60	64	(6%)
	221	248	(11%)

China's accession to the World Trade Organisation, its successful bid to host the 2008 Olympics, the commitment of a national fund of US\$21 billion to improve Beijing's infrastructure and the expected doubling of foreign direct investments in the next five years point to substantial growth in the economy and a parallel escalation in domestic and international business and leisure travel from which The Palace Hotel stands to benefit.