

CHAIRMAN'S STATEMENT



Since its foundation in 1866, the company has operated in good times and bad, benefitting from the boom years and enduring through adverse conditions. 2001 proved to be yet another difficult period. However, I have no doubt that your company, resolved as it is to pursue a prudent course, will once again meet the challenge.

At the beginning of last year, market sentiment in the hospitality industry in Asia was positive. However, as the US economy slowed, we began to feel the effect. As you might expect, the terrorist attacks in September exacerbated the situation and the airline and hotel industries were affected seriously. Trading conditions for the hotels remain difficult with continuing pressure on the occupancy levels and room rates. Recently, however, we have seen some signs of recovery appearing.

The Repulse Bay and commercial properties, on the other hand, have not been hit so hard, and have provided some level of counter-balance.

One of the serious consequences of our inability to forecast a near-term upturn in revenues is a lower valuation of our properties. Because of the accounting standards that govern the production of our accounts, we have, over the past few years, been forced to recognise certain fluctuations in asset valuations in our profit and loss account. In my opinion, this has compromised our ability to give our shareholders a clear picture of our underlying operating performance, as your company has been a hotel and property company for many years and its core assets are not for sale.

Profit attributable to shareholders, after charging the revaluation deficits mentioned previously, was HK\$33 million for the year compared to HK\$85 million in 2000. Your directors recommend the payment of a final dividend of 5 cents per share, at the same level as last year.

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

Last year, I reported on the sale of our office block at 208 Wireless Road, and this was completed during the year. We also sold the retail mall at Opera Quays in Sydney and disposed of our small shareholding in Lucullus.

We have been pleased by the warm reception The Peninsula Chicago has received from customers and media since it opened in June 2001. Of course, we recognise fully the challenges confronting the hotel in building its levels of occupancy and room rates in the current climate. Nevertheless, we believe strongly that it will fulfil its potential in an improving environment.

Meanwhile our plans for development continue to be fairly conservative and measured. At the moment, we are continuing negotiations on the possible building of a Peninsula in Tokyo and we continue to assess other potential projects in Asia and in key international gateway cities.

While I can offer no immediate expectations of a strong rebound in group results, I can assure you that your company is strong and well able to withstand the financial effects of continuing recession, confident that, as with any cycle, better times will come.

I should like to pay tribute to Pierre Boppe for his commitment to and leadership of your company during the last six years, and to welcome his successor, Clement Kwok.



The Hon. Michael D Kadoorie,
28 February 2002