

## CHAIRMAN'S STATEMENT



### *Dear Shareholders,*

The hospitality industry was significantly affected by the global economic downturn, combined with the widespread threat of human swine influenza in some areas, for most of 2009. As regional and international travel patterns changed, the impact on both demand and pricing in our industry were direct and apparent.

Against this background, our Group continued to recognise that these cyclical ups and downs are unavoidable and remained firm in our belief that the value of top quality assets are maximised through long term holding. Most importantly, we have the commitment and resources to invest with an extended horizon in mind, and we are willing to wait patiently for our investments to bear fruit through asset appreciation and enhanced operational earnings over time.

I believe we are now beginning to see some signs that the world's major economies, particularly those in Asia, are stirring back to life. China continues to grow through the recession whilst our key assets in Hong Kong have weathered the downturn relatively well. We are also beginning to see some mild positive signs in some of our other markets.

Through this difficult period, it is important to note that whilst our management have had to deal with the revenue downturn through rigorous cost control measures, we were also able to steadfastly uphold the quality of our products and services, for which the Group is well known and recognised.

Nowhere was this better demonstrated than in The Peninsula Hong Kong which has just entered its 82nd year. Our flagship hotel property is not only a prime asset for the Group, but also achieved impressive operational earnings in a difficult year. The hotel's age has not stopped it from looking beyond the past and into the future: the introduction of two Mini Clubman vehicles to add to the hotel's fleet of Rolls-Royce Phantoms demonstrated our keen sense of melding innovation with guests' comfort.

In line with our long term strategy, the Group's assets are balanced between hotels and other commercial and residential properties to provide stability in earnings, particularly in volatile economic cycles. We saw proof of this in the past year when our commercial properties held up much better than the hotels division, partly because we have over the years continued to invest in our complex at The Repulse Bay. The past year saw the completion of the latest renovation of The Repulse Bay Arcade, to complement the previous improvement works which had been done in the apartments.

Perhaps the one single event that most distinguishes this as a year of growth is the opening of The Peninsula Shanghai, which marks the return to one of the two cities in which The Hongkong and Shanghai Hotels was founded. In the golden era of the 1920s and 1930s, our Group owned and managed four leading hotels in Shanghai – the Majestic, Astor House, Palace and Kalee Hotels. After an absence of 55 years, the Group has returned to Shanghai by building a magnificent hotel with its frontage right on the Bund, occupying a splendid location. We believe we have created a landmark property of which my own family is immensely proud and marks a fitting return. It also symbolises the Kadoorie’s homecoming: from 1880 when my grandfather, the late Sir Elly Kadoorie, arrived in Shanghai as a young man, his vision for an enduring presence is now continued 130 years later.

In conclusion, from a year of unprecedented challenges, we have maintained our vision and commitment and stand prepared to benefit from an upswing in the global economy. I would like to send my sincere thanks to all our staff, led by our Chief Executive Officer Clement Kwok, for they have been tested and faced complex challenges with a sense of confidence and a commitment to the HSH ideals. They have the full support of our Board of Directors, to whom I also wish to express my gratitude. Together, we have witnessed a willingness to innovate and a tenacity to improve, that leaves me greatly appreciative of the strength and confidence that has grown with the Group and our shared vision for the future.



The Hon. Sir Michael Kadoorie  
12 March 2010