

Few years in recent memory have tested our mettle more than 2003. Whilst the onset of the Iraq conflict was predicted and contingency plans had been put in place to deal with its impact on business, the wholly unexpected outbreak of the SARS virus in China and Hong Kong had a severe effect on the immediate communities, other countries in South East Asia and the travelling public worldwide.

Faced with unprecedented circumstances, your directors, management and frontline staff maintained a cohesive team, each contributing to the overall goal of sustaining the financial well-being of the company with a strong spirit that brought us all closer together than before.

It is a matter of pride that we kept our talented workforce intact, pressed ahead with renovation plans and new branding initiatives, and continued to pursue development opportunities, all the while readying our company to respond to the rebound once SARS was over. When the rebound came in the second half of the year, more quickly and more strongly than anyone had anticipated, the marketing programmes that we had put in place paid off.

The progress made this year, therefore, is all the more pleasing following a period of such adversity. Major renovations of our Beijing and Quail Lodge, Carmel properties were completed, and two new restaurants were added in Bangkok. A fresh brand identity for The Peninsula Hotels was rolled out, including the rebranding of The Palace Hotel to The Peninsula Palace Beijing. Our flagship, The Peninsula Hong Kong, completed its year of celebrations for its 75th anniversary in December with a successful Charity Gala evening.

We continue to look to the future and I am pleased with the successful response to our company's share placement, which raised HK\$1,135 million to help fund expansion and update existing assets. Plans for the development of The Peninsula Tokyo have continued to make progress, and we have signed a framework agreement to further discussions on the development of a Peninsula hotel in Shanghai, a move that may return us to part of our roots after an absence of some 50 years. Our strategy, management strength, quality assets and operational skills have been rewarded with renewed investor interest in our shares.

Maintaining standards in such trying times is difficult, so it is particularly pleasing to report that our hotels, individually and collectively, have been awarded top honours by our customers in prestigious magazine readership surveys.

Without doubt we shall have more challenges to face in the future. Our experiences this year, however, have forged bonds that provide strong foundations for our continued development. I wish to pay tribute to everyone within our company and to our shareholders for their loyalty and commitment, and to our business partners and our customers who have continued to support us.



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A handwritten signature in black ink, appearing to read 'Michael D Kadoorie'. The signature is fluid and cursive, with a long horizontal stroke at the end.

The Hon. Michael D Kadoorie
26 February 2004