

## CHAIRMAN'S STATEMENT

**H**aving risen to meet a particularly challenging set of circumstances in 2003, your company, I am proud to say, has recorded a year of strong achievement in 2004.



Whilst the year was marked by favourable market conditions and improved consumer and business sentiment, your company's successful results are in no small measure also due to the commitment and hard work displayed by the frontline teams, management and directors who are to be congratulated for their strong contributions.

Across the hotels, there has been significant improvement in occupancies to levels not seen since the mid-to-late 1990s. Although much of this may be attributed to rising demand, the substantial renovation and repositioning of our existing assets, best exemplified by the performance of The Peninsula Palace Beijing, demonstrates the value of continuing to invest in our products and services. This strategy will continue to be applied to our hotels and properties.

Intensive marketing activities have also helped to underpin performance and promote the Peninsula brand image. A major part of this effort was the launch in October of a creative advertising campaign with a strong focus on the Peninsula people behind the group's services, viewed through the lens of world-renowned photographer Annie Leibovitz. The campaign has garnered substantial international attention.

Our expansion plans have progressed further during the year with the commencement of construction of The Peninsula Tokyo. A colourful yet solemn Shinto ceremony to mark the groundbreaking took place in October. This was attended by HSH and our partner, Mitsubishi Estate Company, as well as the design, construction and other professional teams assisting in the hotel's construction, together with guests from the business community. Our ambitions to return to Shanghai received a boost when we entered into an agreement in October to purchase the land use rights for a prime site with frontage on to the famous Bund. Although much work and cooperation on these two special projects lie ahead, I am confident that they are on the right track for the future.

Enhancing shareholder value remains a key objective and I am pleased to record further appreciation in our share price and increased investor

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interest as a result of our disciplined approach to performance, fiscal responsibility and adherence to our strategy. The disposal of The Kowloon Hotel, at a fair and reasonable price, will allow us to reduce debt as well as concentrate on the funding and development of the Peninsula brand and improving existing assets. The partial general offer to local shareholders of The Peninsula Manila has been successful and we will become the majority shareholder in the property, enabling us to improve the yield and standards of this asset.

Whilst this has been a very productive year in our corporate and operational endeavours, I am conscious of the need for continued vigilance and the application of risk management principles. The wisdom of having augmented our capabilities in this essential business function was brought into sharp focus by the devastating impact of the tsunami, and the consequences on human and economic life in the twelve affected countries fringed by the Indian Ocean. Thankfully, none of our operations was materially affected by the event.

It is appropriate, nevertheless, to end on a positive note. I wish to thank everyone within the company for their contributions to a very pleasing 2004, which would not have been possible without their drive and ambition. We are also grateful for the continued support and encouragement of our loyal shareholders, business partners and customers.



Dr The Hon. Michael D Kadoorie  
1 March 2005