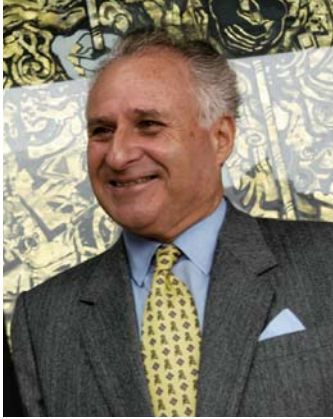


CHAIRMAN'S STATEMENT



I have the pleasure of reporting on a robust operating climate in 2005, following a positive showing in 2004. This year has been rewarding for its buoyant market fundamentals, fuelled by a return to strong consumer and business confidence.

Achieving successful results is, of course, also predicated on the ability of a talented and committed team, from frontline staff to management and directors, to deliver higher levels of service and product quality in increasingly challenging circumstances, which require us to address new competition, rising costs, and unusual risk issues.

In this sophisticated and complex environment, the Board takes pride in the staff who, thanks to their wholehearted commitment to the pursuit of excellence and to the company's well-being, have achieved significantly improved performance across all our business units.

Occupancies at our hotels have shown marked increases, and in many of our destinations, most notably in New York and Beverly Hills, average room rates have reached all-time record levels. Barring unforeseen circumstances, this trend looks set to continue.

The strategy of adding value by investing in existing assets, so successfully accomplished at The Peninsula Palace Beijing, is a continuing policy of the group. The Board has approved a programme to upgrade The Peninsula Manila, now majority-owned, with the first phase scheduled for completion in 2006. A group-wide initiative to develop or improve our spa facilities within our hotels is well under way with a significantly expanded spa in The Peninsula Hong Kong, and a totally new complex in the grounds of The Peninsula Bangkok, both due to open during the year.

The revitalisation of The Peak Tower is on track, and I am pleased to record that there has been intense interest in the retail space. Similarly, the leasing market has responded favourably to the much improved residential apartments at 109 Repulse Bay Road following its phased renovation.

Our two major properties under development, The Peninsula Tokyo and The Peninsula Shanghai, are both making satisfactory progress, the former towards a topping out in the summer of 2006, and the latter towards receiving the various approvals

necessary to begin construction during the coming year, following completion of the land purchase agreement. We look forward to adding these key destinations to our portfolio.

Fiscally, we are in a healthy position, helped by contributions from the sale transactions of The Kowloon Hotel and a parcel of land in Phuket during 2005. Gearing has improved to a very comfortable level and current expansion plans are in line with our conservative growth strategy. Management's responsible and disciplined approach to increasing shareholder value and maintaining the integrity of the Peninsula brand has been recognised by continued investor interest, a steadily appreciating share price, and a number of corporate awards from independent business organisations.

Nevertheless it is appropriate, amidst this positive picture, to note that the future is not without its challenges. Chief among these are the risks associated with natural disasters such as last year's tsunami, or the potential for major disease outbreaks. Atypical events in the last five years have made us much more aware of and therefore better prepared to handle the consequences, should there be such occurrences.

Your company is poised to embark on a new and rewarding chapter of its history as it enters its 140th year of operations. We have a proud and colourful past, with many achievements and a devoted family of friends, colleagues and business partners for which to be thankful. I know I speak for the Board when I pay tribute to those on whose capable shoulders our foundations have been laid, and say how much we admire and appreciate the resolve of the present team which now turns a hopeful and determined face to our future.

A handwritten signature in black ink, appearing to read 'M. Kadoorie', with a horizontal line underneath.

The Hon. Sir Michael Kadoorie
16 March 2006