

Results and Dividend

In the six months ended 31 December 2001, turnover decreased by 17% or \$25 million to \$118.9 million. Since operating expenses remained at the same level as the period before, the decline in turnover was reflected in profit before tax which amounted to \$13.3 million compared to the previous year's \$41.1 million. Net profit attributable to shareholders fell 55.5% to \$12.5 million.

Your board resolved to pay interim dividends of 1.5 cents per 'A' share and 0.15 cent per 'B' share on 28 March 2002 to shareholders of record on 22 March 2002.

Operations Review

The drop in turnover was due mainly to lower room rates. The severity of the problems facing the industry may not be obvious to the casual observer looking at certain statistics. Visitor arrival, for example rose marginally by 3% from the previous period, and by 5.1% for the full year of 2001 to a record high of 13.7 million.

However, as explained in one of my previous reports, much of the increase comes from same day travellers, i.e those coming in through one form of transportation and leaving the same day through another. The average stay for those who do use hotels has steadily fallen. Visitors from the West who are usually more willing to spend on accommodations, have dropped in numbers. The effects of the September 11 tragedies are apparently not yet over.

Thanks to the combined efforts of the Hong Kong government and the Hong Kong Tourism Board, and with the help of Beijing, the biggest gain in tourist arrivals comes from the mainland of China. Some 500,000 or 23% more mainland visitors reached our city in the first six months of 2001 from the same period of a year before. Central government authorities have greatly increased the number of travellers allowed to enter Hong Kong. Visa requirements have been simplified, and new approvals have been given to a large number of domestic as well as Hong Kong travel agents to organize tour groups. Such services are now available to Chinese citizens from most major provinces in the mainland.

Operations Review (continued)

All that is good news to Hong Kong, at least to our retailers, for mainland tourists now rank among the biggest spenders. The one industry which hardly benefits from them is our own. They do not like to spend much money on accommodations, and their tour groups have tremendous bargaining power with hoteliers. As a result, room rates dropped while city-wide occupancy fell from 85% of a year ago to the present 79%. We maintained our number at 89% which is about the same as the year before. The cost: a drop of 16% in room charges.

Prospects

Our industry is at a critical stage. Unless some good news comes fast, many hoteliers will begin to operate at a loss. If so, then it will be the first time in decades.

In as much as tourists from the mainland are of little value to us due to thin profit margins, they are better than nothing. Yet, is it reasonable to expect the Chinese economy to keep rising after some 10 years of continuous growth in GDP?

The ultimate cure for our woes is the return of western tourists, either for business or for pleasure. The latest statistics give slight comfort in this regard but it is too early to tell. Even if true, the beneficial effects will not come soon enough or be significant enough to reverse the slide in profit for this full fiscal year.

On Behalf of the Board

Ronnie C. Chan

Chairman

Hong Kong, 1 March 2002