

CHAIRMAN'S STATEMENT

In 2001, the local hotel industry was adversely affected by the global economic downturn and the terrorist attacks in the U.S. (the 911 events). The retail rental market remained soft. The Group achieved a total turnover of HK\$375.5 million in 2001, representing a decrease of 6% from the previous year. To comply with the Group's accounting policies, a provision for the impairment of investment securities of HK\$301.5 million, which included HK\$274.2 million provided against the investment securities revaluation reserve in previous years, was transferred from the investment securities revaluation reserve to the profit and loss account at 31st December, 2001. This had no effect on the net asset value of the Group. Group loss after taxation for the year ended 31st December, 2001 amounted to HK\$113.1 million against a profit of HK\$114.5 million (as restated) for 2000. Loss per share was HK\$0.36.

Hotel Operations

Although tourist arrivals reached a new record of 13.7 million in 2001 which represents an overall increase of 5% compared to the previous year, the increase was mainly from low yield markets. Reduction in business travel after the 911 events and fierce price wars amongst local hotels further eroded room yields achieved by The Marco Polo Hongkong Hotel which recorded a drop both in occupancy and average room rates in 2001 over the previous year.

The remaining phase of the renovation program for 363 guestrooms was completed during the year as planned to improve the hotel's product in the competitive market place.

Commercial Property

The Group's commercial space in The Marco Polo Hongkong Hotel reported a decrease in rental income. Average occupancies were similar to the previous year.

Plans are in hand to upgrade the retail podium to enhance the quality and return of the retail space.

Property Projects in Hong Kong

Following recent government rezoning of the small property situated at Kennedy Town, an application to develop a residential property has been submitted.

For the joint venture for the development of Sorrento (Kowloon Station Package II development), in which the Group has a 20% interest, pre-sales were launched in November 2001 and the market response was overwhelming.

Investments

Income from the Group's investment portfolio comprising blue chip stocks for the year remained satisfactory. In compliance of Statement of Standard Accounting Practice 24, a provision of HK\$301.5 million for impairment of investment securities which included HK\$274.2 million previously provided against the investment securities revaluation reserve was made at 31st December, 2001. This treatment has no effect on the net asset value of the Group.



CHAIRMAN'S STATEMENT (Cont'd)

Prospects

With the costs of air travel now much reduced and various promotions launched by the government, it is expected that the tourism market will recover slowly but the present adverse market environment will continue in the near future.

Rental revenues will be reduced due to commencement of the retail podium upgrade project while contribution to the Group's profit from Sorrento (Kowloon Station Package II development) is expected to increase in 2002.

Gonzaga W. J. Li

Chairman

Hong Kong, 11th March, 2002

