

CHAIRMAN'S STATEMENT

I am pleased to present the 2002/2003 Annual Report to shareholders.

FINANCIAL RESULTS

The Group's audited consolidated turnover for the financial year ended 30th June, 2003 was HK\$112.2 million, representing a decrease of 11.1% as compared with turnover of HK\$126.2 million for the previous year. The consolidated net profit attributable to shareholders for the year was HK\$48 million, representing a decrease of 3.6% from HK\$49.8 million for the financial year ended 30th June, 2002.

Earnings per share for the year were 5.96 cents, a decrease of 5.1% when compared with 6.28 cents for the corresponding year in 2002.

The decrease in earnings was mainly attributable to the war in Iraq and atypical pneumonia that had a significant impact on the tourism industry from March to June 2003.

DIVIDENDS

The Directors recommend a final dividend in respect of the year ended 30th June 2003 of 1 cent per share to shareholders whose names appear on the Register of Members of the Company on 18th November, 2003. Together with the interim dividend of 1.5 cents per share, the total dividend for the full year is 2.5 cents per share compared to 2 cents for the prior year.

The Directors propose that shareholders be given the option of electing to receive the final dividend in new shares in lieu of cash. The scrip dividend proposal is subject to: (1) the approval of the proposed final dividend at the Annual General Meeting to be held on 18th November, 2003; and (2) The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued pursuant to this proposal.

A circular containing details of the scrip dividend proposal will be despatched to shareholders together with the form of election for the scrip dividend on or about 19th November, 2003. It is expected that the final dividend warrants and share certificates will be despatched to shareholders on or about 18th December, 2003.

REVIEW OF OPERATIONS FOR THE YEAR

The results for the first half of financial year 2002/2003 recorded growth with earnings and net profit increasing by 64.7% and 67.6% respectively over the corresponding period due to a continuing rise in visitor arrivals. The growth was interrupted severely by the outbreak of atypical pneumonia and the war in Iraq in the second half of financial year 2002/2003. The epidemic affected a wide range of industries including tourism, hotel, transportation and retail thereby bringing down the GDP growth for the year. As a result, the occupancy of our hotels as well as earnings were adversely affected in the second half of financial year 2002/2003 which neutralised the growth of earnings in the first half.

CHAIRMAN'S STATEMENT *(Continued)*

REVIEW OF OPERATIONS FOR THE YEAR *(Continued)*

City Garden Hotel (100% owned)

The average room occupancy rate of City Garden stood at 75.7%, a decrease from 90.8% in the financial year 2001/2002 while the average room rate increased by 7.2%. Room sales for the year were HK\$71.6 million, representing a decrease of 9.7% from HK\$79.3 million during the last financial year. Food and beverage sales for the year were HK\$22.6 million, reflecting a decrease of HK\$1.5 million.

Conrad Hong Kong (50% owned)

The average room occupancy of Conrad Hong Kong recorded for the financial year was 61.2% as compared to 73.8% in the previous year. The average room rate for the year decreased by 0.4%. Room sales for the year were HK\$156.3 million which was 17.3% lower than that of last year whilst income from food and beverage sales for the year was HK\$192.1 million.

Royal Pacific Hotel & Towers (25% owned)

The average occupancy rate of Royal Pacific Hotel & Towers decreased from 89.5% in the previous financial year to 71.5% in the latest financial year while its average room rate showed an increase of 5.5%. Room sales for the year totalled HK\$106.9 million, a decrease of 15.6% from HK\$126.6 million in the last financial year. Revenue from food and beverage sales was HK\$43.7 million, 20.5% lower than that of last year.

Other than the above mentioned, there was no material change from the information published in the report and accounts for the year ended 30th June, 2002.

INDUSTRY OUTLOOK AND PROSPECTS

Between July 2002 and the middle of March 2003, revenue growth was evident from an increase in food and beverage consumption and business travellers. This was abruptly hindered by the onset of atypical pneumonia in the second quarter of 2003. In counteracting the epidemic, the Group proactively deployed contingency plans and cost containment measures. Concurrently, sales and marketing strategies by way of competitive dining and accommodation packages were swiftly formulated to capture the interests and participation of local residents.

The response was encouraging throughout the period of the epidemic. Following the decision of the World Health Organisation to remove Hong Kong from the list of affected areas by the third week of June 2003 and together with the Government's effort in pursuing a series of tourism promotional activities, the industry is set for a quick recovery. The "individual travel" scheme will further boost inbound tourists from the Mainland which will benefit both the hotel and retail sectors in Hong Kong.

As the situation has now stabilised, the tourism industry is back on track with visitor arrivals increasing from a low of about 0.43 million in May 2003 to 1.29 million in July 2003 and occupancy returning to normality in the third quarter of 2003. In general, the hotel industry is promising.

CHAIRMAN'S STATEMENT *(Continued)*

INDUSTRY OUTLOOK AND PROSPECTS

(Continued)

The Group will continue to strengthen its competitiveness by improving customer satisfaction through product and service standard enhancement programmes. We will strive for better financial performance through effective cost containment and increasing operational efficiency.

EMPLOYEE PROGRAMMES

The Group attaches great importance on the quality of services and customer satisfaction. Human resources development and training are vital in building professionalism and maintaining service excellence. Programmes specifically designed to coach staff in achieving such goals were carried out regularly throughout the year. As the economic and social ties among Mainland China, Taiwan and Hong Kong are flourishing and visitors travelling across these areas are on the rise, Putonghua lessons have been one of the important items on the training agenda along with furthering customer service standards, team building and contingency planning.

The Group has two award schemes for all staff and supervisory staff namely 'Employee of the Year' and 'Manager of the Year'. Both programmes seek to identify employees of outstanding performance while cultivating them into future leaders and role models for colleagues.

STAFF AND MANAGEMENT

On behalf of the Board, I would like to take this opportunity to express my sincere appreciation to all staff for their commitment, dedication and continuing support. I would also like to express my gratitude to my fellow Directors for their guidance and wise counsel.

Robert NG Chee Siong
Chairman

Hong Kong, 23rd September, 2003