Chairman's Statement

The Hong Kong economy has emerged from 2003 on a strong footing. Various positive measures, including the liberalisation of travel for Mainland residents and the Closer Economic Partnership Arrangement, have been introduced by the Central Government. With the uplift in general confidence and favourable investment sentiments, the property market also began to rebound quickly in the fourth quarter of 2003.

The performance of the Group in 2003 inevitably came under the adverse impact of SARS and the war in Iraq in the first half. Our hotels in Hong Kong and Toronto were particularly hard hit, although a strong rebound was seen in the last quarter of 2003. The occupancy and rent rates of our Hong Kong office properties also suffered some notable set back. However, the period also saw some of the lowest interest rates in history, which partially offset the decline in income of our office and hotel operations. The net result was a decline in the Group's Net Income from HK$530.8 million in 2002 to HK$332.9 million in 2003.

A Brighter Future

Operations Review

1 Rental Properties

Hong Kong Rental Properties

(a) Rental Income for the year ended 31st December 2003

	Group's Interest	Gross Floor Area (sq.ft.) Office	Commercial	Residential	Parking Spaces	Gross Rental Income (HK$million)
Citibank Plaza	85.93%	968,000	49,000	–	537	302.8
	100%	302,500	380	–	18	150.1
Great Eagle Centre	100%	193,000	77,000	–	296	58.3
Concordia Plaza	100%	28,000	–	–	5	4.7
Convention Plaza Apartments	100%	–	–	10,000	–	3.1
						519.0

(b) Occupancy and Rental Trend

	Occupancy at 31st December 2003 Office	Commercial	Residential
Citibank Plaza	80.6%	100.0%	–
Great Eagle Centre	94.9%	100.0%	–
Concordia Plaza	100.0%	–	–
Convention Plaza Apartments	–	–	100.0%

The Grade-A office market in Hong Kong started 2003 on a weak note, as corporations continued to downsize amidst economic uncertainties. Feeble demand from the financial sector in particular was the cause for higher vacancy rates in the Central market. The situation deteriorated further after SARS struck in March. The mid-year completion of a major new building in Central set off a new round of competition for tenants, resulting in further decline in net effective rent rates. Upgrading and relocation activities by tenants from peripheral districts were the major source of demand in a falling office market for the better part of 2003. Towards the end of the third quarter, stimulant policies of the Central Government and the HKSAR Government began to create a positive impact on the economy and overall sentiments. As a result, some of the pent-up demand for office space began to surface. The competition for tenants among key office landlords also eased off. As a result, effective rent rates were seen bottoming out at the beginning of the fourth quarter. By the end of the year, rates had moved up around 20% from the trough.

The occupancy at Citibank Plaza decreased to 80.6% at 31st December 2003 (2002: 85.1%). We have subsequently made some good progress in filling up part of the year-end vacancy. However the expiry of another major tenancy at the end of January 2004 has brought occupancy down to below 80%. This relatively high level of vacancy puts us in a good position to capitalise on major leasing opportunities in the prime Central market where large contiguous spaces are becoming increasingly scarce, and when rent rates are on an upward trend. Great Eagle Centre on the other hand has fared much better in terms of occupancy, which stood at 94.9% at the end of 2003 (2002: 94.2%). The differential between rent rates in Central and Wanchai was also the narrowest in years.

Because of the higher level of vacancy at Citibank Plaza and the overall drop in rent rates, our net rent income from Hong Kong rental properties declined by 13.4% to HK$480.3 million for 2003. (2002: HK$554.5 million)

U.S. Commercial Properties

The continued softening of the San Francisco market resulted in lower rental rates and lower occupancy for 2003. As a result, revenues in 2003 were lower than 2002, even after the full-year accounting of income from 888 West Sixth Street in 2003. The market appears to have bottomed out and modest improvement is expected in 2004. Favorable leasing activity has resulted in an increase in overall occupancy from 81% to 89%. The increase in revenues in 2003 was offset by the cost associated with leasing up the vacant space, but should have a favorable impact in 2004. The property at 888 West Sixth Street in Los Angeles performed well with occupancy at 100%. The prospect of refinancing of the debt on the property located at 353 Sacramento Street, San Francisco, should result in lower interest cost and also have a favorable impact in 2004.

2 Hotels and Furnished Apartments

The Group's hotels faced an extremely challenging business environment in the first half of year 2003. While the Iraq War and the outbreak of SARS devastated tourism and severely weighed down the hotels' performance, the market rebounded stronger than expected in the second half of the year.

Visitor arrivals from all markets in the last quarter increased by 7.3% as compared to same period last year. Mainland arrivals increased by 33.4% and future growth is expected due to the new individual visa scheme. Hotels in Hong Kong benefited from this growth and are expecting the Mainland market to become increasingly important to the industry, though its impact on room rates will only be realised in the longer term.

Following the re-branding of the Group's hotel management division as **Langham Hotels International** in February 2003, the Great Eagle Hotel in Hong Kong was renamed as the Langham Hotel, Hong Kong in October 2003. The hotels in Boston and London will also be re-branded as the Langham Hotel in 2004.

Hong Kong Operations

(i) Langham Hotel, Hong Kong (formerly Great Eagle Hotel, Hong Kong)

Year 2003 was indeed a challenging year. The outbreak of SARS in March and the WHO Travel Advisory decimated room business until July. Corporate demand rebounded well from August onwards and the leisure segment has benefited from the growth in Mainland visitors. Simultaneously, the second half saw a resilient banqueting and catering sector providing a stronger profit base for food and beverage revenue.

For the year 2003, the hotel achieved an average occupancy of 58% (2002: 83%) and average room rate of HK$859 (2002: HK$823).

(ii) Eaton Hotel, Hong Kong

Although the business of this hotel was substantially affected by SARS in the first half of the year, business growth occurred in the last quarter from Internet bookings and leisure markets from Southeast Asia. Additional portions of "Eaton Hotel Banquet and Conference Center", (a conversion of the former Astor Plaza shopping arcade) has been in full operation since October, creating a strong base for food & beverage revenue growth. The business volume generated has been encouraging.

In 2003, the hotel achieved an average occupancy of 63% (2002: 84%) and average room rate of HK$469 (2002: HK$443).

(iii) Eaton House Furnished Apartment, Hong Kong

Eaton House registered an average occupancy of 75% in year 2003 as compared to 69% in year 2002. Although the increased supply of new serviced apartments led to a reduction in rental per occupied square feet, the pick-up in corporate demand had a positive impact in the second half of 2003.

International Operations

(i) The Langham Hilton, London

The year started off very slowly due to the war in Iraq and the impact of SARS on inbound travel for the first four months. Business however rebounded quickly and the demand has been satisfactory for the remaining months. Food and Beverage has also performed reasonably well. For the year 2003, the hotel maintained an average occupancy of 69% (same as 2002) and an average room rate of £144 (2002: £151).

Langham Hotels International will take over direct management of this hotel when the current contract with the Hilton Group expires in May 2004 and will operate the hotel as the Langham Hotel, London.

(ii) Delta Chelsea Hotel, Toronto

Year 2003 was a difficult year in Toronto. The twice SARS outbreaks in Toronto had a very profound impact on the tourism industry. Essentially, most citywide conventions were cancelled and combined with a strong Canadian dollar that forced the hotel and its competitors to pursue business by offering discounted rates. The Chelsea's performance was severely impacted as a result. However in the final months of the year, business appeared to have gradually gone back to normal.

For the year 2003, the hotel achieved an average occupancy of 62% (2002: 66%) and average room rate of C$121 (2002: C$141).

(iii) Sheraton Towers Southgate Hotel, Melbourne

The hotel's occupancy increased through improved sales from the corporate meetings, crew and discount markets and as a result of one off events held during the year. However, the average room rate was affected by increased competition following recent room supply increases as well as increased demand from lower yielding markets. Demand from the traditionally higher yielding international markets was soft, particularly in the first half of the year, as a result of the SARS, the Iraq war and global economic weakness.

For the year 2003, the hotel achieved an average occupancy of 72% (2002: 69%) and an average room rate of A$212 (2002: A$217).

(iv) Langham Hotel, Boston (formerly Hotel Le Meridien, Boston)

With the war in Iraq, the SARS epidemic, several new U.S. corporate scandals and a weak U.S. economy, the US lodging industry was severely hit during the first half of the year. Following a strong improvement in the last quarter, the hotel was able to keep average occupancy above 70%. Food & Beverage, wedding business in particular, also performed well.

For the year 2003, the hotel achieved an average occupancy of 72% (2002: 70%) and average room rate of US$177 (2002: US$200).

Langham Hotels International took over management of this hotel at the beginning of 2004 and renamed it the Langham Hotel, Boston.

(v) Sheraton Auckland Hotel and Towers, Auckland

The first half trading has been negatively impacted by the Iraq war and SARS. Although the competitive environment in the city has continued throughout the year, keeping pressure on average room rates, business growth occurred in government, travel and leisure discount market segments. With effective manpower and expenses management, the hotel's operating profit for 2003 showed an increase over 2002.

For the year 2003, the hotel achieved an average occupancy of 68% (2002: 65%) and improved its average room rate to NZ$146 (2002: NZ$144).

3 Properties Under Development

Langham Place - Mongkok

At year-end 2003, this comprehensive development, comprising 1.8 million sq. ft. of hotel, office and retail spaces, was at a final stage of completion. Preparation for the application of Occupation Permit has been under way.

The 5-star Langham Place Hotel obtained its occupation permit in February 2004. The installation of furniture, fixtures and equipment has begun and the hotel is scheduled for opening in the third quarter of 2004. The 59-level Grade-A office tower, together with the 15-level Langham Place Shopping Mall, should be ready for occupation in mid-year 2004. The Shopping Mall is scheduled to open for business in the fourth quarter of 2004.

A 4,000 sq. ft. state-of-the-art show-suite demonstrating the unique features and characteristics of the development was opened to rave review in November 2003. The initial response to the pre-leasing of the shopping mall has been encouraging. Pre-leasing of the office tower has been withheld pending a further improvement in market conditions.

The total expenditure incurred in relation to this project, including interest capitalised, amounted to HK$9,604 million as of 31st December 2003 (2002: HK$7,809 million). The undrawn loan commitment of HK$1,570 million as of 31st December 2003 should be sufficient to fund the project to completion.

4 Trading

To counter the significant slowdown of construction activities in the Hong Kong public sector, Toptech placed more emphasis during 2003 on building fitting out works and new agencies for flooring products, with favourable results. Gross revenue increased from HK$164.4 million in 2002 to HK$197.7 million in 2003, the latter of which included intra-group sales in respect of the Mongkok project. Overheads were also subject to stringent control. As a result, the net operating income of the trading division increased to HK$11.3 million in 2003 (2002: HK$7.9 million) at the division level.

5 Property Management

Manager's remuneration received in 2003 amounted to HK$17.2 million, a drop of 3.0% in comparison to that of last year. This was attributable to the general demand of owners for lower management charges and manager's remuneration. This division managed to maintain a stable property management portfolio in 2003 and is planning to expand its business in 2004.

The engineering division operated under a difficult business environment. The competition in engineering field remained keen and employers were very cautious in carrying out new renovation works. Despite these, the engineering division successfully obtained a number of medium size office fitting-out and reinstatement works contracts after enhancing its competitiveness through effective cost control. The gross profit of this division was HK$8.0 million, a slight drop from that of 2002.

Financial Review

1 Debt

Consolidated Net Attributable Debt as of 31st December 2003 was HK$13,759 million, an increase of HK$1,804 million over that at year-end 2002. Once again, the increased borrowings were mainly related to Mongkok project expenditures.

Consolidated Net Asset Value, based on professional valuation of the Group's investment properties and other assets at cost, amounted to HK$13,788 million as of 31st December 2003. The gearing ratio at 31st December 2003 was 100%. (Note: In 2003 the Group adopted for the first time SSAP 12 (Revised), which requires the recognition of deferred tax in respect of temporary differences between the carrying value of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Such temporary differences include unrealised capital gain on investment properties. As a result the Group's reserves was reduced by an aggregate amount of HK$996 million, of which $96 million was charged against the profit for 2003.)

As at 31st December 2003, we had outstanding interest rate swaps with total notional principal of HK$2,420 million, representing 22.5% of our HK$-denominated debts. The rest of our HK$ debts were on floating-rate basis. As a result we were able to benefit from the historical low levels of interest rates during the year.

Our foreign currency debts amounted to the equivalent of HK$4,077 million as of 31st December 2003. These foreign currency borrowings are fully hedged by the value of the underlying properties. Of this, the equivalent of HK$1,074 million, or 26% of our foreign currency debts, was on fixed-rate basis as of 31st December 2003.

2 Finance Cost

The net finance cost incurred during 2003 was HK$316.9 million, down slightly from the HK$326.6 million charged in 2002, notwithstanding the increased debt incurred in relation to the Mongkok Project. During 2003, HK$209.3 million of finance cost relating to the Mongkok Project was capitalized, down from that of HK$246.5 million for 2002, because of lower interest rates.

Overall interest cover for 2003 was 1.79 times, as compared to that of 2.08 times for 2002.

3 Liquidity and Debt Maturity Profile

As of 31st December 2003, our cash, bank deposits and committed but undrawn loan facilities amounted to a total of HK$2,661 million. The majority of our loan facilities is medium-term in nature and is secured by properties with conservative value to loan coverage. During 2003, we successfully refinanced a number of major syndicated bank loans, extending the final maturity of those loans to 2008. The following is a profile of the maturity of outstanding debts as of 31st December 2003.

Within 1 year	10.42%
1 - 2 years	9.79%
3 - 5 years	72.37%
More than 5 years	7.42%

Arrangements are being made to refinance and extend the maturity dates of term loans that are falling due in 2004. Based on current discussions, we are confident that we will be successful in obtaining the refinancing.

4 Pledge of Assets

At 31st December 2003, the Group's properties with a total carrying value of approximately HK$30,092 million (2002: HK$28,125 million) together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the relevant properties and deposits of approximately HK$3.6 million (2002: HK$4.6 million) were mortgaged or pledged to secure credit facilities granted to the Group.

5 Commitments and Contingent Liabilities

The Group

At 31st December 2003, the Group had commitments and contingent liabilities not provided for in these financial statements, as follows:

(a) estimated expenditure in respect of property under development amounting to approximately HK$1,407 million (2002: HK$2,947 million) of which approximately HK$1,094 million (2002: HK$2,457 million) were contracted for;

(b) authorised capital expenditure amounting to approximately HK$31 million (2002: HK$74 million) of which approximately HK$9 million (2002: HK$13 million) were contracted for; and

(c) no commitments under foreign exchange future contracts (2002: HK$154 million).

The Company

At 31st December 2003, the Company had issued corporate guarantees to certain banks and financial institutions in respect of credit facilities drawn by its subsidiaries amounting to approximately HK$11,625 million (2002: HK$9,915 million).

Other than set out above, the Group and the Company did not have any significant commitments and contingent liabilities at 31st December 2003.

Outlook

Riding on the robust economic growth of China, and favourable Central Government policies, Hong Kong has rebounded strongly from the doldrums of SARS in recent months. Retail sales have benefited substantially from the influx of Mainland tourists. Property values have also shown very decent increases, thereby taking the pressure off many property owners, who would otherwise have been in negative networth. Generally consumer sentiments and hence spending have been on the increase. At the same time Hong Kong Dollar interest rates have been hovering close to zero. Equity fund raising activities, in particular those by China enterprises, on the Hong Kong Stock Exchange also appear to be increasing. All these have created a favourable business climate. Employers in Hong Kong have been rehiring recently, as can be seen in the falling unemployment numbers. This augurs well for the occupancy of our Hong Kong office properties in the coming few years. Coupled with a dearth of new supply, especially in the Hong Kong Island business districts, the improving demand will result in a shortage of office space, subsequently leading to substantially higher rents.

Underpinned by a strengthening global economy, and barring a major epidemic outbreak or catastrophe, international business travel is poised to increase in 2004. This should lead to a much better performance of our hotels globally over that of 2003. We are undertaking a major initiative to build the Langham into a quality international hotel brand. As a first step, we have taken over the management of the Boston hotel and are about to take over that of the London hotel as well. We also plan to selectively go into the hotel management business in China under the Langham brand name.

The construction of our Langham Place project in Mongkok is getting close to completion. Through innovative design and meticulous attention to details, we have built a retail/office/hotel complex never been seen before in Hong Kong. Our timing appears to be ideal. The favourable response we have received in our pre-leasing of the shopping mall has given us confidence in achieving a high level of occupancy when it opens later this year. This project should be a major additional source of revenue for our Group in future years.

Staff

The total number of employees in the Group was 2,888 as of 31st December 2003. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include educational allowance, insurance, medical scheme and provident fund schemes. Senior employees (including executive directors) are entitled to participate in the Great Eagle Holdings Limited Share Option Scheme. In order to enhance employee relations and communications, certain recreation activities and regular meetings of general staff with senior management were arranged during the year and these will continue in 2004.

Dividends

The Board has resolved to recommend to Shareholders at the forthcoming 2004 Annual General Meeting (the “2004 AGM”) the payment of a final dividend of HK10 cents per share for the year ended 31st December 2003 (2002: HK10 cents per share), to be satisfied by way of a scrip dividend with a cash option, to Shareholders whose names appear on the Register of Members on 19th May 2004. Together with the interim dividend of HK3 cents per share paid on 23rd October 2003, on the assumption that every Shareholder elects to receive all final dividend in cash, the total dividend for the full year will be HK13 cents per share (2002: HK15 cents per share), amounting to not less than HK$75,970,120 (2002: HK$87,446,723).

Subject to the approval of Shareholders at the 2004 AGM and the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the new shares to be allotted and issued pursuant to the proposed distribution of a scrip dividend mentioned herein, each Shareholder will be allotted fully-paid shares having an aggregate market value equal to the total amount which such Shareholder could elect to receive in cash and will be given the option to elect to receive payment partly or wholly in cash instead of the allotment of shares. Dividend warrants and share certificates in respect of the proposed dividend are expected to be despatched to Shareholders on or about 23rd June 2004. Full details of the scrip dividend will be set out in a letter to be sent to Shareholders together with a form of election for cash soon after the 2004 AGM.

Closure of Transfer Books

The Register of Members of the Company will be closed from Wednesday, 12th May 2004 to Wednesday, 19th May 2004, both days inclusive, during which period no share transfers will be effected.

For those Shareholders who are not already on the Register of Members, in order to qualify for the final dividend, all share certificates accompanied by the duly completed transfers must be lodged with the Hong Kong Branch Registrars of the Company, Computershare Hong Kong Investor Services Limited of 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 11th May 2004.

Finally, I would like to take this opportunity to express my appreciation and thanks to all staff members for their dedication and hard work and to address my sincere gratitude to my fellow Directors for their support and guidance in the past year.

LO Ka Shui
Deputy Chairman
and Managing Director

Hong Kong, 8th March 2004