

# CHAIRMAN'S STATEMENT

2003 saw the local hotel market severely affected by the outbreak of severe acute respiratory syndrome ("SARS") while the property rental market remained soft due to the economic downturn. Against this adverse business environment, the Group achieved a total turnover of HK\$308.7 million in 2003, representing a decrease of 8% from the previous year. Mainly on the back of the Group's share of profit in 2003 from a 20% associate engaged in a property development project, group profit after taxation for the year ended 31st December, 2003 improved to HK\$169.4 million from HK\$12.8 million (as restated) in 2002. Earnings per share were HK\$0.54, compared to HK\$0.04 per share (as restated) last year.

## Hotel Operations

Tourist arrivals to Hong Kong in 2003 reduced by 6% year-on-year principally due to the outbreak of SARS in mid-March. The Marco Polo Hongkong Hotel recorded lower occupancy and average room rate in 2003 against the previous year. Its food and beverage operations were also adversely affected by the drop in occupancy and the weak local economy. Various cost rationalisation programmes were implemented to mitigate the reduction in operating margins.

## Commercial Property

The Group's commercial space in The Marco Polo Hongkong Hotel reported an increase in rental income as occupancies returned to a steady level following successful completion of the remodelling and upgrading of the retail podium and the conclusion of a long-term lease with Lane Crawford in respect of a retail area of 57,000 square feet during the first half of the year under review.

## Property Projects in Hong Kong

Lease modification for the property situated at Kennedy Town into a residential project is under application. Following an internal review, a provision of HK\$9.3 million (2002: HK\$43.3 million) for impairment in the value of this project has been made in the Group's accounts for the year ended 31st December, 2003.

Pre-sale of phase I and II of Sorrento (Kowloon Station Package II development), in which the Group has a 20% interest, has progressed satisfactorily. The attributable profit from the project has been reflected in the share of results in associates. Deferred interest income of HK\$83.8 million (2002: HK\$70.9 million) was recognised in line with the sale progress of the Sorrento project.

## Investments

Steady income from the Group's investment portfolio comprising mainly blue chip securities was reported for the year. In accordance with the Group's accounting policies, HK\$128.2 million of the accumulated deficit in the investment securities revaluation reserve was transferred to the profit and loss account to reflect impairment in the value of certain investment securities. This has no impact on the net asset value of the Group.

## CHAIRMAN'S STATEMENT (cont'd)

### Prospects

The relaxation of individual Mainland Chinese visiting Hong Kong will benefit the hotel industry. The hotel manager will continue its aggressive efforts to maximise the Group hotel's revenue and to control costs.

Rental revenues are expected to improve further as occupancy of the remodelled and upgraded retail podium has returned to a steady level.

**Gonzaga W. J. Li**

*Chairman*

Hong Kong, 9th March, 2004