

Chairman's Statement

I am pleased to present the annual report of the Group for the year ended 31st March 2004 to the shareholders.

Results

2003/2004 has proved to be an exceptionally difficult year with Group turnover fallen by HK\$22 million to HK\$426 million for the year ended 31st March 2004 as compared with last year. The decrease was mainly in the hotel operation which was seriously affected by outbreak of SARS and the occurrence of Iraq War. These adverse factors had a detrimental effect on tourism industry globally. Locally consumers were reluctant to dine out during the SARS periods and thus our hotel food and beverage and franchised restaurant business suffered tremendously.



Empire Hotel, Hong Kong – Lobby

In light of the above the Group's operating profit decreased by HK\$33.2 million to HK\$29.0 million for the year to 31st March 2004. However, much of the decrease in operating profit was mitigated by reduced finance costs helped by a prevailing low interest rates environment, net investment gain arising from sale of listed shares and lower tax charges and as a result loss attributable to shareholders for the year to 31st March 2004 was HK\$12.0 million as compared to a profit of HK\$5.7 million for 2003.

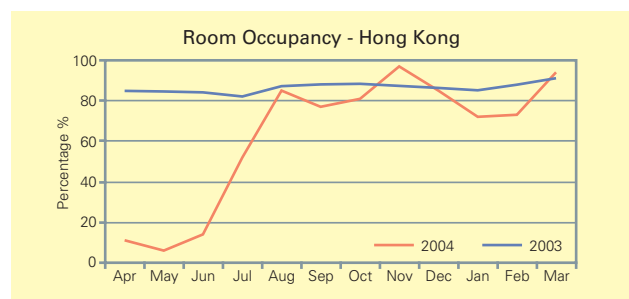
Business Review

For the year ended December 2003 figures issued by the Hong Kong Tourism Board ("HKTB") showed 15.5 million visitors arrivals, a 6.2% decrease from 2002 for reasons mentioned above which lead to 2.3 million fewer visitors during April to July a period worst effected by SARS. However, assisted by the relaxation of travel visa permits to residents of Beijing, Shanghai and major cities in Guangdong, arrivals from the Mainland showed positive growth for 2003 of 24.1%, totaling 8.5 million.

Average occupancy rate across all categories of hotels in Hong Kong for the year to December 2003 was 70% as compared with 84% in 2002.

The Empire Hotel, Hong Kong

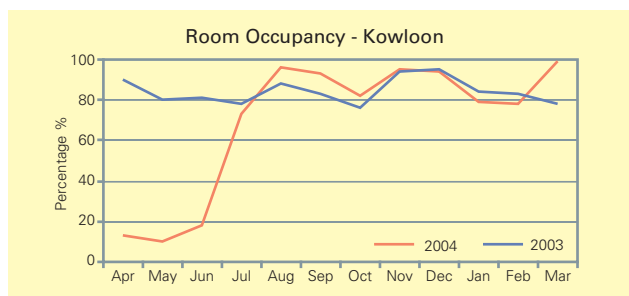
Occupancy for Empire Hotel Hong Kong for the year ended 31st March 2004 was 62% as compared with 85% last year. However, despite the devastating effect of SARS our hotel average rate improved by 6.4% against last year. Overall room revenue fell by HK\$9.2 million or 19.7% over last year while food and beverage, other operating revenue and rental showed a decrease of HK\$2.9 million versus the same period last year.



However, owing to the continuing cost control measures implemented by our hotel, operating costs fell by HK\$5.8 million or 18.2% as compared with last year which has helped to minimise the decrease in the operating profit of this hotel.

The Empire Hotel, Kowloon

Empire Hotel Kowloon recorded occupancy of 69% for the year ended 31st March 2004, which represents a decrease of 17.8% from 2003. As a result room revenue and other operating revenue fell by HK\$9.0 million and HK\$4.1 million respectively as compared with the same period last year.



Similarly due to a proactive cost reduction program, this hotel's operating cost was reduced by HK\$4.8 million or 15.6% for the year ended 31st March 2004 as compared with the same period last year. Therefore despite a decrease of HK\$12.3 million in total revenue, the operating profit of this hotel decreased only by HK\$7.5 million.



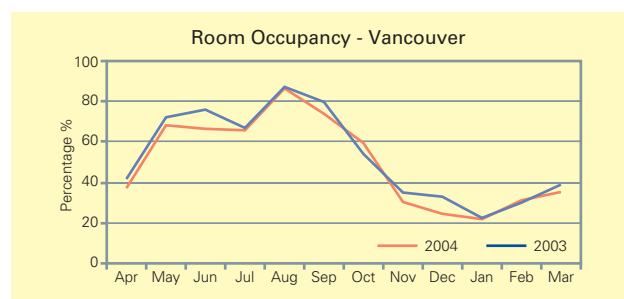
Empire Hotel, Kowloon – Lobby



Empire Hotel, Kowloon – Lobby

The Empire Landmark Hotel, Vancouver

In Canada, the Canadian Tourism Commission ("CTC") recorded international overnight travel to Canada for the year to 31st December 2003 of 17.5 million which is a decrease of 2.9% from 2002.



In view of the above Landmark Hotel occupancy for the year ended 31st March 2004 was 50.2% as versus 53.3% for the same period last year while average rate fell by 11.6%. However, owing to a strong Canadian dollar which had appreciated by 11% over last year, Landmark Hotel's total revenue was HK\$59.2 million for the year ended 31st March 2004 which showed an increase of HK\$0.3 million over last year despite fallen occupancy and average rate.

Chairman's Statement



Empire Landmark Hotel – Guest Room

While the operating cost of this hotel was reduced by C\$0.6 million as compared with 2003 due to cost control measures, the Hong Kong dollar equivalent operating cost increased by HK\$3.0 million due to appreciation of the Canadian dollar, as a result the operating profit of this hotel fell accordingly.

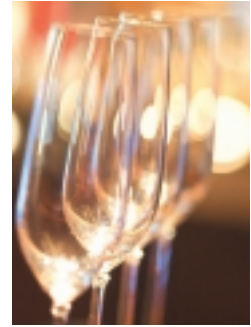
Travel Agency

Locally the Group's travel agency revenue was HK\$248.1 million for the year ended 31st March 2004, which has increased by HK\$10.5 million as compared with last year. This increase in revenue is due primarily to addition of sub-agents during the year which has introduced HK\$58.6 million new business to the company and which has offset decrease in business from our clientele of HK\$48.1 million caused by SARS and Iraq War during the first half of the year.

In view of the adverse market conditions encountered during the year, the Group disposed of the travel agency associated company in September 2003.

Catering Business

As severely affected by the impact of SARS globally and East Rail construction work on Nathan Road locally both our Hong Kong restaurant in Tsim Sha Tsui and our Shanghai restaurant experienced a difficult year during 2004. On the whole our franchised restaurants reported decrease in total revenue of HK\$3.3 million to HK\$16.3 million in 2004.



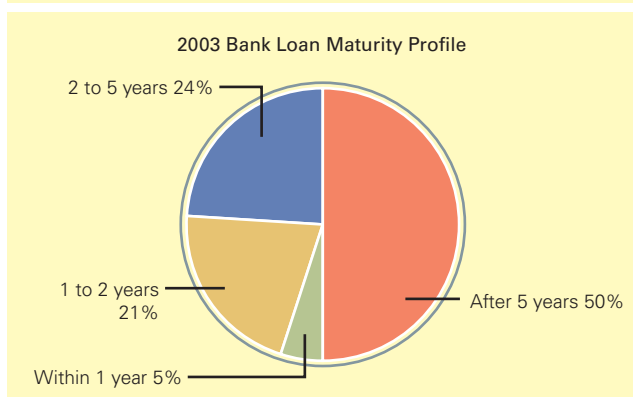
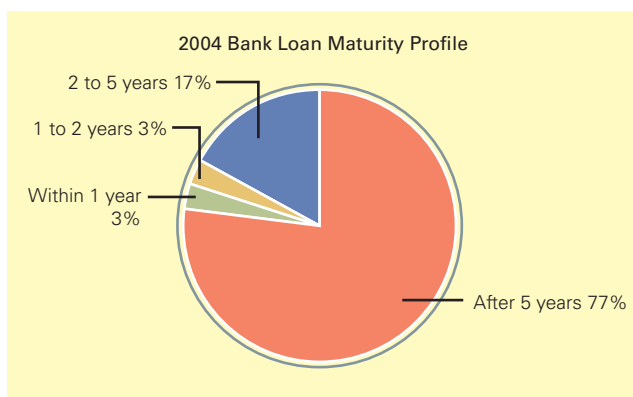
Human resources

As at end of the financial year the total number of employees of the Company and its subsidiaries were reported at 328 as compared with 360 as at 31st March 2003. In addition to salary payment, other benefits include insurance, medical scheme and retirement and others. During the year no share option were granted.

Financial review

Shareholders' funds of the Group stood at HK\$2,006 million which has increased by HK\$124.0 million as compared with last year. Total assets amounted to HK\$3,388 million as at 31st March 2004 as compared with HK\$3,244 million last year. Total borrowings were HK\$1,307 million and HK\$ 1,300 million as at 31st March 2004 and 2003 respectively. The Group's gearing ratio (net debt to equity) was reduced from 67.4% as at 31st March 2003 to 64.5% at 31st March 2004.

As at 31st March 2004, HK\$89.2 million, which represents 6.8% of total borrowings, are repayable within one year. The balance is repayable by various instalments over a long period extending to over 10 years. Moreover, total borrowings are mainly denominated in Hong Kong dollar except for the Vancouver hotel's mortgage loan amounted to HK\$148.6 million (2003: HK\$142.7 million) which was borrowed in Canadian dollar as a hedging against exchange rate fluctuations.



Finance costs continue to decline from HK\$46.8 million in 2003 to HK\$40.2 million in 2004 as interest rates continue to remain at a low level. However, following the recent increase in US interest rates this is likely to exert upward pressure on Hong Kong interest rates in the near future.

The aggregate net book value of fixed assets pledged as securities for loans of the Group amounts to HK\$3,168 million (2003: HK\$3,011 million).

Future prospects

For the first quarter of 2004 HKTB reported that overall arrivals from all markets have reached 4.9 million, ahead of 2003 by 14.7% and 37.3% as compared with 2002. Again, arrivals from China continue to show the strongest growth, increasing by 47% from the same month in 2003 and a huge 110.5% increase from the 2002 figure. Much of the growth is attributable to the popularity of the individual visit scheme, which already covered 16 cities in March and was extended to 7 more with effect from 1 May. A further 9 cities joined the scheme from 1st July 2004. Other factors spurring the expansion of this market

include China's continued strong economic growth, additional air capacity as evidenced by Cathay Pacific's new Beijing flights and visitors' added convenience in being able to use renminbi credit cards in Hong Kong.

Comparison with 2002 figures also indicates that arrivals from Europe and Australia are now ahead of pre-SARS levels while those from the Americas and Southeast Asia are nearing a full recovery. With the Disneyland, Tung Chung Cable Car and Hong Kong Wetland Park all in place by 2006 and the hosting of the 2006 ITU World Telecom exhibition and forum at the new AsiaWorld-Expo facility adjacent to the airport will all help to attract international exhibitors, delegates and their families to Hong Kong.

In view of the above Hong Kong tourism and hotel industry will surely benefit from the increasing arrival of visitors. However, there are still uncertainties that could slow down the recovery momentum, given rising oil prices and hence air-tickets charges, and anticipated increase in interest rates. Nonetheless, the future prospects of the Group's hotel, travel agency and franchised restaurant business remain cautiously optimistic.

In Canada on the other hand, there is reason to be more optimistic for 2004 following the launching of domestic marketing campaign to promote domestic travel. Preliminary survey by CTC shows that Canadians responded favourably by taking additional trips or a longer trip in Canada, generating C\$574 million incremental tourism revenue. This marketing initiative coupled with the coming 2010 Winter Olympics will surely benefit our Vancouver hotel which has recently signed an all-year-round contract with China Eastern Airline for airline crew accommodation as well as further leasing of conference space, which would certainly enhance the profitability of this hotel.

Poon Jing
Chairman

Hong Kong, 19th July 2004