

CHAIRMAN'S STATEMENT

I am pleased to present the 2003/2004 Annual Report to shareholders.

FINAL RESULTS

The Group's audited consolidated net profit attributable to shareholders for the financial year ended 30th June, 2004 was HK\$95.5 million, representing an increase of 2.7 times over that reported in the previous financial year. The turnover of the Group was HK\$136.5 million, representing an increase of 21.6% as compared with the turnover of HK\$112.2 million for the previous financial year.

Earnings per share for the year were 11.67 cents, an increase of 172.7% when compared with 4.28 cents for the corresponding year in 2003.

The increase in earnings was mainly attributable to the general improvement in business activities and tourism industry. Both room revenue and food and beverage business recorded strong growth during the financial year 2003/2004.

DIVIDENDS

The Directors recommend a final dividend in respect of the year ended 30th June, 2004 of 3 cents per share to shareholders whose names appear on the Register of Members of the Company on 17th November, 2004. Together with the interim dividend of 1.5 cents per share, the total dividend for the full year is 4.5 cents per share.

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 17th November, 2004; 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 18th November, 2004. It is expected that the final dividend warrants and share certificates will be despatched to shareholders on or about 21st December, 2004.

REVIEW OF OPERATIONS

The tourism and hotel industries have made a strong recovery since SARS was brought under control in June 2003. The HK Government, the Hong Kong Tourism Board (HKTB) and various other authorities have been working to increase tourist arrivals here by rolling out a series of initiatives designed to boost the industry. Together with the PRC Government's open-door policy to allow more mainlanders to travel to Hong Kong, visitor arrivals rose by 31% year on year: from 15 million between July 2002 and June 2003 to 19.6 million between July 2003 and June 2004. Both the leisure sector and the business travel sector have experienced strong growth.

CHAIRMAN'S STATEMENT *(Continued)*

REVIEW OF OPERATIONS *(Continued)*

According to the HKTB, long-haul arrivals, which include Europe, the United States, Australia and New Zealand, have shown encouraging growth since February 2004. Hotels also saw visitor numbers climbing with an average hotel occupancy rate of over 84% for the financial year 2003/2004 against 69% for 2002/2003 and 81% in 2001/2002.

The upturn in the tourism industry and related business activities have had a positive effect on the profits from the hotels in our Group during the same period.

City Garden Hotel (100% owned)

The average room occupancy rate of City Garden stood at 88.1%, an increase from 75.7% in the financial year 2002/2003 while the average room rate increased by 12.5%. Room sales for the year were HK\$94 million, representing an increase of 31.4% from HK\$71.6 million during the last financial year. Food and beverage sales for the year were HK\$23.6 million, reflecting an increase of 4.4% over last year.

Conrad Hong Kong (50% owned)

The average room occupancy of Conrad Hong Kong recorded for the financial year was 83.8% as compared to 61.2% in the previous year. The average room rate for the year increased by 4.8%. Room sales for the year were HK\$224.4 million which was 43.5% higher than that of last year whilst income from food and beverage sales for the year was HK\$230.6 million.

Royal Pacific Hotel & Towers (25% owned)

The average occupancy rate of Royal Pacific Hotel & Towers increased from 71.5% in the previous financial year to 84.4% in the latest financial year while its average room rate showed an increase of 5.8%. Room sales for the year totalled HK\$133.8 million, an increase of 25.2% from HK\$106.9 million in the last financial year. Revenue from food and beverage sales was HK\$43.7 million, the same as last year.

Finance

As at 30th June, 2004, the Group's gearing ratio, expressed as a percentage of bank and other borrowings net of cash and bank balances over shareholders' equity, was at approximately 32.2%. Of the total borrowings, 25% was repayable within one year and the remaining repayable after one year. The Group, including the attributable shares of its associates, held cash resources of approximately HK\$176.4 million, comprising cash on hand of approximately HK\$109.4 million together with committed undrawn facilities of approximately HK\$67.0 million.

There was no material change in foreign currency borrowings and the capital structure of the Group for the year ended 30th June, 2004. Foreign exchange exposure is kept at a minimal level. The majority of the Group's borrowings are subject to floating interest rates.

CHAIRMAN'S STATEMENT *(Continued)*

REVIEW OF OPERATIONS

(Continued)

As at 30th June, 2004, the Group did not record any material changes in contingent liabilities since the previous financial year ended 30th June, 2003.

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, 2003.

EMPLOYEE PROGRAMMES

The Group continues to position staff training and continuous education in high priority as human resources development is fundamental in building professionalism and upholding service excellence. Hygiene, health and safety programmes also were one of the most important aspects in our training. As the economic and social ties among Mainland China, Taiwan and Hong Kong are increasing and visitors travelling across these areas are on the rise, Putonghua lessons have been one of the most important items on our training agenda. This is to ensure that all staff can communicate proficiently with customers and deliver service of the highest standard. 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 for further training to enable them to become future leaders and to serve as role models for their colleagues. Moreover, the first batch of trainees in our 2-year Corporate Management Trainee programme has already completed and these graduates have been assigned managerial positions in our hotels. The programme is specially designed for those graduates who have the necessary talent and vision to devote themselves to the hospitality industry. As a continuation of this 2-year programme, the next batch of trainees will commence the training in Summer 2005.

Furthermore, the Group places high priority on team-work as strong team-work is an important element for enhancing efficiency and effectiveness of human resources, internal procedures and systems. Core value for the Group is communicated to all staff as it ensures individual achievement towards the Group's objectives, which result in better quality of products and services. Extensive management workshops were organized as to ensure staff provides the best in the hospitality industry.

INDUSTRY OUTLOOK AND PROSPECTS

The Hong Kong tourism industry has experienced remarkable growth during the financial year 2003/2004 mainly due to SARS being brought under control, better economic conditions and the "Individual Travel Scheme" implemented first by 16 cities, including Beijing, Shanghai and 14 other cities in Guangdong, and later extended to over 30 other cities. These include 7 more cities in Guangdong and cities in Jiangsu, Zhejiang and Fujian provinces in the PRC. The scheme allows travellers from Mainland China to visit Hong Kong on an individual basis, where previously they had to be part of recognised tours.

The HK Government has adopted a multi-pronged strategy in promoting the tourism industry in Hong Kong. These prongs include: improvements to the tourism infrastructure; better quality of facilities, services and products; and improvements to the "software and hardware" of immigration facilities. This approach will benefit not only the hotels but also the retail, transportation and services industries as a whole, thereby generating more revenue for a wide range of related businesses all over Hong Kong.

CHAIRMAN'S STATEMENT *(Continued)*

INDUSTRY OUTLOOK AND PROSPECTS *(Continued)*

The initiatives taken by the HK Government, alongside various other highly regarded organisations, have provided solid foundations for a rise in the number of tourism-related attractions in Hong Kong planned for the next few years. The projects include: the Hong Kong Disneyland (scheduled for opening before Christmas 2005); restoration and conservation works to be carried out for Central Police Station and former Central Magistracy; the Tsim Sha Tsui Promenade Beautification project; the Stanley Waterfront Improvement project; and the development of the mega arts and cultural clusters in West Kowloon Cultural District along the waterfront of the Victoria Harbour. These all bode well for Hong Kong, making the island and its surrounds a truly premier tourist destination in Asia. Alongside with these initiatives, the development of Pearl River Delta Region ("Region") will also stimulate more flows of trade, traffic and people to Hong Kong. These will create more business opportunities for our hotels. The Group has continued its policy of rolling out an intensive marketing strategy to capture the sectors that are growing and to continue to foster customer loyalty.

A continuing schedule of programme is in place for renovation works to be carried out on the Hotels held by the Group.

STAFF AND MANAGEMENT

Mr. Ivan Lee Wank-hay resigned from the Group effective 16th June, 2004. I would like to express my appreciation for his contributions during his directorship with the Group.

We would like to welcome Mr. Daniel Desbaillets, who joined the Group as Chief Executive Officer on 12th July, 2004.

We are also pleased to announce that Mr. Thomas Tang Wing Yung has been appointed as Executive Director of the Company with effect from 30th August, 2004.

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, 22nd September, 2004