Chairman's Statement

Brand New Place

The year of 2004 witnessed a strong rebound of the Hong Kong economy from the damage inflicted by the SARS epidemic in 2003. Retail sales continued to increase on the back of historical high growth of tourist arrivals as a result of the relaxation of travel restrictions for Mainland individuals. The favourable impact of the Closer Economic Partnership Arrangements also became more apparent during 2004. At the same time, the stabilised and improving property market has helped to restore general consumer confidence.

In 2004 we also brought the construction of the massive Langham Place urban renewal development to final completion. Its outstanding architecture and design have won instant recognition in the market place and have established it as a landmark development in the busy commercial district of Mongkok. As its various components became operational in the latter part of 2004, the project will generate substantial revenue in 2005.

The Group's results for 2004 did not reflect the improvement in the Hong Kong economy in general and the office leasing market in particular during the year. The intense competition for office tenants in the earlier part of 2004 had moderated the pace of recovery of office rent rates. As a result it has taken longer for our Hong Kong office portfolio to emerge from the negative rental reversion cycle. It has also kept our vacancy at a relatively high rate for a significant part of the year.

The hotels' results have been mixed. The results of the Hong Kong and Toronto hotels have greatly improved. But in the rest of the world, the recovery pace has been slow and, coupled with the rebranding, some loss of business has been registered. Overall, the hotel division has recorded an increase in profit as compared to last year. As a result, the Group's net income decreased in 2004 to HK$312.2 million from that of HK$332.9 million recorded in 2003.

The 2004 income included HK$108 million in gains on disposal of investment properties. In 2005, we expect to see significant improvement in both the occupancy and rent rates of our office properties.

Operations Review

1 Rental Properties

Hong Kong Rental Properties

(a) Rental Income

	Gross Rental Income HK$million	
	2004	2003
Citibank Plaza	335.3	452.9
Great Eagle Centre	53.0	58.3
Langham Place	37.2	–
Concordia Plaza	3.7	4.7
Convention Plaza Apartments	2.6	3.1
Others	1.3	–
	433.1	519.0

(b) Occupancy and Rental Trend

	Occupancy at 31st December 2004		
	Office	Commercial	Residential
Citibank Plaza	80.9%	100.0%	–
Great Eagle Centre	98.9%	100.0%	–
Langham Place	6.0%	94.1%	–
Convention Plaza Apartments	–	–	100.0%

The Grade-A office leasing market in Hong Kong stabilised at the beginning of 2004 and steadily moved upward as the year progressed. Rent rates gradually recovered from the lows of second half 2003. The pace of the rent rate increase was however moderated by competition among landlords who continued to offer concessionary terms for larger tenancies in order to fill up their vacancies brought forward from 2003. This competition continued well into the second half of 2004. Many major space users took advantage of the relatively low rent rates to upgrade to better locations and newer buildings. At the same time, business expansion on the back of a strong economy also created demand. As a result, net take up of Grade-A office space during 2004 reached its highest level since 2000. With falling vacancy rates towards the latter part of 2004, the office leasing market has finally turned in favour of the landlords.

The 80.9% occupancy rate of Citibank Plaza as of year-end 2004 was only marginally higher than that of 2003. Actually that was the net result of a major swing during 2004 whereby over 220,000 sq. ft. of space in the building was vacated and subsequently re-filled. The year-end occupancy rate was lower than the Central market average. That was however the result of our strategic decision not to engage in counter-productive bidding for certain major leases, which called for long fixed-rate initial terms and tight rental caps on reversion. We believed the significantly reduced supply of new office space in 2005 to 2007, especially in the Central financial district, would support much higher rent rates. By insisting on a 3-year rent reversionary cycle and no caps on rent reviews, we have positioned ourselves to benefit fully from the current market upturn.

Great Eagle Centre had stayed close to full occupancy throughout 2004 on the strength of the trade and services sectors. Rent rates however had to be adjusted downwards in line with the overall market.

Net rental income from the Hong Kong properties for 2004 decreased by 25.4% to HK$358.2 million from that of HK$480.3 million for 2003. The decline was mainly the result of longer down time in between tenancies at Citibank Plaza and rent rates achieved on renewal of tenancies and reletting which were lower than those of expiring leases. New leasing activities appeared to be gaining momentum in the first few months of 2005 and rental reversions have turned positive. We should see a modest recovery in the rental income of our Hong Kong portfolio in 2005.

U.S. Commercial Properties

Net rental income from the US office portfolio decreased by 5.5% to HK$119.4 million in 2004 from HK$126.3 million in 2003, mainly because of the reduced contribution from the property at 888 West Sixth Street in Los Angeles, which was sold for a profit in September 2004. Otherwise, the other U.S. properties showed an increase in overall occupancy in 2004. During the year, 353 Sacramento Street in San Francisco was also refinanced at lower interest costs.

The California real estate market has bottomed out and is beginning to show modest improvement. However, leases expiring in 2005 are being replaced at the lower current market rates. Hence recurring rent income in 2005 is expected to remain at the 2004 level.

2 Hotels and Furnished Apartments

The recovery in hotel businesses, after the effects of SARS and the Iraq conflict in the first half of 2003, continued throughout 2004.

Visitor arrivals in Hong Kong from all markets in 2004 increased by 40.4% compared with 2003. Mainland China continued to be the leading source of visitors to Hong Kong, with a 44.6% growth in arrivals over 2003, mainly attributable to the progressive extension of the Individual Visitor Scheme (IVS).

The Group's hotel division has, as planned, undertaken a gradual process of building our "Langham" brand by re-naming, refurbishing and upgrading our properties. Following the re-branding of Langham Hotel, Hong Kong in 2003, Langham Hotel Boston and Langham Hotel London had been re-branded in January 2004 and May 2004 respectively. The Group's hotels in Melbourne and Auckland have also been re-branded as Langham Hotels in January 2005.

The Group is in the process of establishing the "Langham" as an international 5-star luxury hotel brand. Five of our Langham hotels have been admitted as members of "The Leading Hotels of the World", an association which represents the most luxurious hotels in the world. Our sales and marketing network has extended from Asia to Europe and North America. In 2004, we have established a representative office in Shanghai, as well as global sales offices in Sydney, Australia and New York, USA.

The rebranding exercise demands a lot of marketing expenses. However, these marketing expenses, together with the increased corporate expenses required for the direct management of our hotels, are more than sufficiently covered by what would otherwise have been payable to third party management companies by way of management fee, licence fee, marketing fee and the like.

It is anticipated that there would be some loss of business in the initial 12 to 18 months of the re-branding as it would take time for reservation and marketing networks to be re-established though gradually all properties should recover.

Hong Kong Operations

(i) Langham Hotel, Hong Kong

The hotel's performance continued to recover throughout 2004. The decline in the Japanese leisure market after the outbreak of SARS has been compensated by the increasing demand from corporate travelers. For the year 2004, the hotel achieved an average occupancy of 81% (2003: 58%) and an average room rate of HK$977 (2003: HK$859). Its banqueting and catering business also performed well, being ahead of 2003 by 21%.

(ii) Eaton Hotel, Hong Kong

Eaton Hotel recovered strongly from the dismal performance in 2003. The growth was mainly attributed to the high demand in the city. More marketing emphasis had been put on the higher yield business segment. With the full year operation of new banqueting venues, the overall banquet business also increased by 87% compared with 2003.

For the year 2004, the hotel achieved an average occupancy of 87% (2003: 63%) and an average room rate of HK$550 (2003: HK$469).

(iii) Eaton House Furnished Apartments, Hong Kong

Eaton House achieved an average occupancy of 82% in 2004 as compared to 75% in 2003. Revenue improved as a result of higher demand from corporate market segment.

International Operations

(i) Langham Hotel, London

The Group took back the management of the hotel and re-branded it as "Langham Hotel, London" on 24th May 2004. Following the transition, occupancy has been affected, especially in leisure market segment.

For the year 2004, the hotel achieved an average occupancy of 66% (2003: 69%) and average room rate of £149 (2003: £144).

(ii) Delta Chelsea Hotel, Toronto

The business level of this hotel recovered in 2004 after the impact of SARS in the previous year, with increases in both occupancy and average room rate. For the year 2004, the hotel achieved an average occupancy of 73% (2003: 62%) and average room rate of C$126 (2003: C$121). Food & Beverage revenues also benefited from the higher occupancy and from strong domestic demand, and were ahead of last year by 29%.

(iii) Langham Hotel, Boston

The Group took over direct management of this hotel and re-branded it as "Langham Hotel, Boston" in January 2004. The average occupancy rate for 2004 was down slightly on that of 2003 but with a better average room rate. For 2004, the hotel achieved an average occupancy of 69% (2003: 72%) and average room rate of US$197 (2003: US$177).

(iv) Langham Hotel, Melbourne

The Melbourne's major event calendar affected the 2004 results, with the Rugby World Cup and the International Air Show events held in 2003 not being repeated in 2004.

For the year 2004, the hotel achieved an average occupancy of 71% (2003: 72%) and average room rate of A$201 (2003: A$212).

The Group took over direct management of the hotel on 1st January 2005 and operates it as Langham Hotel, Melbourne.

(v) Langham Hotel, Auckland

Average occupancy in 2004 was aided by growth in the corporate and aircrew business segments, though the competitive environment in the city continued to keep pressure on the average room rate.

For the year 2004, the hotel achieved an average occupancy of 74% (2003: 68%) and average room rate of NZ$135 (2003: NZ$146).

The Group took over direct management of the hotel on 1st January 2005 and operates it as Langham Hotel, Auckland.

(vi) Chuan Spa

A luxurious spa division has been created within the hotel group. Chuan Spa offers the most luxurious spa facilities with holistic programs relating to elements of traditional Chinese medicine. A Chuan Spa has been established in Langham Place Hotel, Hong Kong and Langham Hotel, Melbourne. Chuan Spas will be built in Boston and London. The objective is that every Langham hotel will have a Chuan Spa which should enhance the luxury branding of our Langham hotels as well as support room business from leisure travelers.

3 Development Project

Langham Place – Mongkok

By the end of 2004 all three components of this hotel, retail and office complex had been substantially completed and opened for business.

The 5-star Langham Place Hotel, which soft opened for business on 1st August 2004, is the latest addition to Group's luxury hotel portfolio. Located next to the MTR Mongkok Station, Langham Place Hotel positions itself as one of the most technologically advanced hotels in Hong Kong. At the end of December 2004 it had 606 rooms (out of a total of 665 rooms) available for occupancy. The hotel became fully operational in the first quarter of 2005. It has received generally favourable reviews from the travel trade and hotel guests alike. In the first 5 months of its operation from August to December 2004, the hotel achieved an average occupancy rate of 71.1% based on the rooms available for letting and an average room rate of HK$758.

The 15-level Langham Place Mall soft opened for business on 17th November 2004. At year-end 2004, over 94% of the floor area had been let to approximately 300 retailers, offering a diversified shopping, dining and entertainment experience. Its prime Mongkok location and unique architectural features have attracted a large number of visitors daily. It has established itself as an important shopping centre in the Kowloon Peninsula.

The Langham Place Office Tower, the tallest commercial structure in Kowloon, received its occupation permit in July 2004. Out of a total gross floor area of 770,000 sq. ft., approximately 330,000 sq. ft. of office space in the mid-low zone was released for leasing in August 2004. With the property's high technical specifications, its panoramic open view and the amenities offered by the adjacent mall and hotel, the leasing efforts have achieved favourable initial response. As of 31st December 2004, approximately 14% of the 330,000 sq. ft. was let. Considerable progress has been made since then. By the end of February 2005, approximately 70% of the 330,000 sq. ft. has been committed or were under offer.

4 Trading

Despite keen competition and general tightening of budgets by local property developers for selection of building materials, Toptech managed to increase its sales by 11% in 2004. During the year, Toptech continued its strategy to diversify into different market sectors and locations, with a view to broadening its income base and minimize cyclical fluctuation in earnings.

5 Property Management

Revenue arising from property management activities amounted to HK$16.3 million in 2004, representing a drop of 5.2% from that of 2003. That was due to lower rates for manager remuneration as a result of keen market competition and reduced expenditures by property owners. The opening of the Langham Place mall and the office tower has significantly increased our property management portfolio and will become a meaningful source of incremental income.

The market for the engineering division remained difficult in 2004 due to market competition and depressed volume of fit-out or refurbishment jobs available. Majority of the revenue was generated from service contracts and medium size jobs. The income of the engineering division amounted to HK$5.3 million in 2004, a drop of 33.8% from that of 2003.

Financial Review

1 Debt

Consolidated Net Attributable Debt as of 31st December 2004 was HK$14,663 million, an increase of HK$904 million over that at year-end 2003 representing mainly incremental expenditures incurred on the Langham Place project. During 2004 the Concordia Plaza property in Hong Kong and 888 West Sixth Street in Los Angeles were disposed of for a total consideration of HK$375 million, which was applied towards repayment of debt.

Consolidated Net Asset Value, based on professional valuation of the Group's investment properties (including Langham Place) as of 31st December 2004 and other assets at cost, amounted to HK$17,965 million. The gearing ratio at 31st December 2004 improved at 82%.

As at 31st December 2004, we had outstanding interest rate swaps with total notional principal of HK$2,420 million, representing 19.7% of our HK$-denominated debts. The rest of our HK$ debts were on floating-rate basis. As a result we continued to benefit from the low levels of interest rates during 2004.

Our foreign currency debts as of 31st December 2004 amounted to the equivalent of HK$4,166 million. These foreign currency borrowings are fully hedged by the value of the underlying properties. Of this, the equivalent of HK$1,697 million, or 40.7% of our foreign currency debts, was on fixed-rate basis as of 31st December 2004.

2 Finance Cost

The net finance cost incurred during 2004 was HK$391.6 million, an increase of HK$74.7 million over the HK$316.9 million charged in 2003. The increase was partly due to incremental debts incurred on Langham Place and partly due to recognition of interest expense, amounting to HK$66 million, upon (a) the issuance of occupation permit for the Langham Place office tower in July 2004, (b) the commencement of business of the mall in mid-November 2004, and (c) the completion of hotel rooms for occupancy on various dates. Finance cost capitalised on the Langham Place project correspondingly decreased to HK$131.9 million, as compared to that of HK$209.3 million for 2003.

Overall interest cover for 2004 was 1.67 times, as compared to that of 1.79 times for 2003. The completion of Langham Place will result in a significant increase in rental and hotel income and strengthen the Group's cashflow for 2005. Notwithstanding an anticipated increase in interest rates, the Group's interest cover is expected to show considerable improvement in 2005.

3 Liquidity and Debt Maturity Profile

As of 31st December 2004, our cash, bank deposits and committed but undrawn loan facilities amounted to a total of HK$2,005 million. The majority of our loan facilities is medium-term in nature and is secured by properties. During 2004, we successfully refinanced the bank loans related to the Eaton Hotel, 353 Sacramento Street and Langham Hotel, Boston, extending the final maturity of those loans. The following is a profile of the maturity of outstanding debts as of 31st December 2004:

Within 1 year	10.41%
1 – 2 years	8.24%
3 – 5 years	77.47%
More than 5 years	3.88%

4 Pledge of Assets

At 31st December 2004, properties of the Group with a total carrying value of approximately HK$35,941 million (2003: HK$30,092 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 (2003: HK$3.6 million) were mortgaged or pledged to secure credit facilities granted to the Group.

5 Commitments and Contingent Liabilities

The Group

At 31st December 2004, the Group had authorised capital expenditures not provided for in these financial statements amounting to approximately HK$34 million (2003: HK$31 million) of which approximately HK$19 million (2003: HK$9 million) were contracted for.

The Company

At 31st December 2004, 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$13,446 million (2003: HK$11,625 million).

Other than set out above, the Group and the Company did not have any significant commitments and contingent liabilities at 31st December 2004.

Outlook

We expect the Hong Kong office market to strengthen considerably in 2005 as the low supply of new office spaces will not be able to meet the growing demand brought on by the robust economy. As a result, the occupancy rates and hence the rent rates of our Hong Kong office properties should improve significantly in the coming year.

The strong performance of our Hong Kong hotels should continue into 2005 as the growth in business segment appears to be sustainable.

Though there will be a significant increase in the supply of new hotel rooms in the coming two years, the majority of the new stock will be located outside the major business and tourist districts, hence limiting the impact on mainstream hotels such as those owned by the Group. The planned opening of Hong Kong Disneyland in September 2005 should also attract a large number of family tourists who will hopefully be able to absorb the new supply of hotel rooms.

We have commenced our strategic initiative to build "Langham Hotels" as a quality international brand of 5-star luxury hotels. We have re-branded our hotels in London, Boston, Melbourne and Auckland and have taken over their direct management.

The Langham Place project has achieved initial favourable results. We will continue to diligently manage the property in the coming year to ensure its initial success is sustainable. We will also follow through with the office leasing campaign to attain a high occupancy rate at favourable rents at an early date.

After the completion of Langham Place and hence the peaking of our debt, one of our priorities will be to strengthen the Group's balance sheet in the coming year. We are planning to selectively dispose of certain assets. The objectives are two-fold. Firstly, such disposal would un-lock the significant amounts of net equity embedded in many of our property assets. Hopefully the substantial discount on net asset value of the Company's stock would narrow significantly as a result. Secondly, it would reduce the Group's financial gearing at a time when interest rates are on the way up. The timing and extent of the asset divestiture will however be contingent upon market conditions.

New Accounting Standards

As from the financial year commenced on 1st January 2005, the Group is required to adopt certain new and revised accounting standards issued by the Hong Kong Institute of Certified Public Accountants. We consider that the adoption of these new and revised standards in connection with the following will significantly affect the Group's reported results and net assets value but will not have any impact on the Group's cashflow.

Investment Properties

Investment properties will continue to be revalued and stated at fair value in the balance sheet. However, any revaluation surplus or deficit will have to be reflected in the income statement and not in the revaluation reserve. There will therefore be fluctuation in the Group's reported results as the valuation of our investment properties changes.

Hotel Properties

The Group's hotel properties had been stated at fair value in the accounts. Under the new and revised standards, leasehold lands on which hotels were built are treated as operating leases and will have to be amortised over the lease terms. Hotel buildings and plant and machinery will be stated at cost less accumulated depreciation and impairment. Hence, there will be additional charge in the Group's income statement of amortisation and depreciation with respect to hotel properties. Furthermore, the carrying value of hotel properties in the balance sheet will be reduced, thereby increasing our gearing ratio.

Staff

The total number of employees in the Group was 3,426 as of 31st December 2004. Salary levels of employees are competitive and discretionary bonuses are granted based on performance of the Group as well as performance of individual employees. 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 for the year.

Dividends

The Board has resolved to recommend to Shareholders at the forthcoming 2005 Annual General Meeting (the "2005 AGM") the payment of a final dividend of HK13 cents per share for the year ended 31st December 2004 (2003: 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 12th May 2005. Together with the interim dividend of HK3.5 cents per share paid on 28th October 2004, on the assumption that every Shareholder elects to receive all final dividend in cash, the total dividend for the full year will be HK16.5 cents per share (2003: HK13 cents per share), amounting to not less than HK$97,454,261 (2003: HK$75,970,120).

Subject to the approval of Shareholders at the 2005 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 16th June 2005. 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 2005 AGM.

Closure of Transfer Books

The Register of Members of the Company will be closed from Thursday, 5th May 2005 to Thursday, 12th May 2005, 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 Wednesday, 4th May 2005.

Annual General Meeting

The 2005 AGM of the Company will be held at the Penthouse, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong on Thursday, 12th May 2005 at 3:00 p.m. and the notice of the 2005 AGM will be published in China Daily and Hong Kong Economic Times on the date of despatch of this annual report to Shareholders.

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 2005