

CHAIRMAN'S STATEMENT

2004 saw a revival of the local tourism and hotel market after the resolution of atypical pneumonia (SARS) the year before. The property rental market also improved steadily on back of better economic fundamentals. The Group achieved a total turnover of HK\$445.0 million in 2004, representing an increase of 44% from the previous year. Group profit after taxation for the year ended 31st December, 2004 improved to HK\$250.7 million from HK\$169.4 million in 2003. Earnings per share were HK\$0.80 compared to HK\$0.54 per share in 2003.

To comply with the new accounting standards effective 1st January, 2005, the Group will adopt certain new accounting policies which will have significant impact on the Group's accounts as detailed in Note 23 to the Accounts.

Hotel Operations

Tourist arrivals to Hong Kong in 2004 increased by 40% year-on-year principally due to a very low level of visitors in 2003. The Marco Polo Hongkong Hotel recorded much higher occupancy and average room rate in 2004 compared to the previous year. Its food and beverage operations had also recorded satisfactory growth in revenue.

The hotel and certain facilities on the ground floor were upgraded during the year under review to enhance the competitiveness of the hotel.

Commercial Property

The Group's commercial area in The Marco Polo Hongkong Hotel reported an increase in rental income as 2004 was its first full year operation following completion of the remodelling and upgrading of the retail podium in March 2003 with a long term lease concluded with Lane Crawford.

The second phase of the retail space extension has commenced in order to further improve the rental income base of the Group. Completion is scheduled for mid 2005.

Property Development Projects

Lease modification of the property situated at Kennedy Town is underway. Foundation work is in progress and completion is scheduled for August 2006. It is planned to market the development in the second or third quarter of 2005.

For the development of Sorrento (Kowloon Station Package II development), in which the Group has a 20% interest, the market's response to the launch of Phase II in February 2004 was encouraging. The Group's share of profit amounted to HK\$64.7 million in 2004 (2003: HK\$124.2 million). Deferred interest income of HK\$21 million (2003: HK\$84 million) was recognised in line with the sale progress of the Sorrento project. Profit contribution for this project will be insignificant in future years since 97% of all units were sold as at 31st December, 2004.

Prospects

The opening of Disneyland in late 2005 will benefit the local tourism and hotel industry. However, competition in the market is expected to remain intense and the hotel manager will continue its efforts to maximise revenues and to control operating costs.

Rental revenues are expected to improve further following completion of the retail extension project.

Gonzaga W. J. Li

Chairman

Hong Kong, 8th March, 2005