

Business and Financial Review

“There was a significant turnaround in the Group’s results in 2005.”



Results

2005 has proved to be a very exciting year with the Group’s turnover surged by HK\$143.3 million or 34% to HK\$569.2 million from last year.

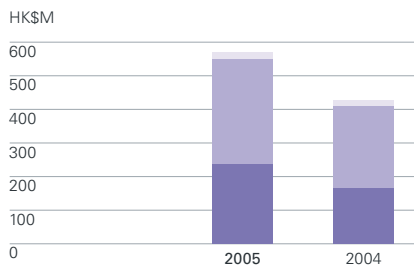
With stringent controls on operating costs, operating profit has increased by HK\$53.2 million to HK\$82.2 million, a staggering 184% growth on last year. Together with reduced finance costs, the Group had a significant turnaround and achieved profit attributable to shareholders for the year ended 31st March 2005 of HK\$84.9 million as compared with a loss of HK\$12.0 million last year.

Business review

It has been an exciting year for tourism as the Hong Kong Tourism Board reported visitors arrivals for the year to December 2004 reaching a record high of 21.8 million which is 40% higher than 2003 and nearly 30% over 2002. Visitors from Mainland China continue to show record-breaking growth while many of Hong Kong’s key source markets such as the United States, Canada, Australia and South East Asia have achieved their best-ever figures during 2004.

Revenue by business segment

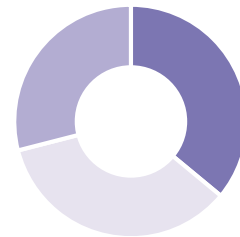
- Hotel operations
- Travel agency
- Catering services



With increased visitors, the average occupancy rate across all categories of hotels for 2004 was 88% while average achieved room rate improved by 19% over 2003 according to the Hong Kong Tourism Board.

2005 Revenue by hotels

- Empire Kowloon (36%)
- Empire Hong Kong (35%)
- Empire Landmark (29%)



With the imminent opening of Disneyland, Tung Chung Cable Car, Hong Kong Wetland Park, the new AsiaWorld-Expo Center adjacent to the new Airport, the Hong Kong-Zhuhai-Macau bridge, Ocean Park’s redevelopment plan and 2006 designated as Hong Kong tourism year will all ensure continuous growth in business and leisure visitors in 2005 and beyond.

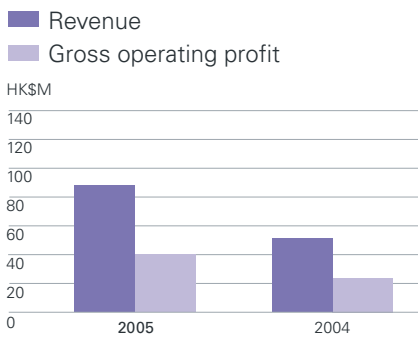
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The Empire Hotel Hong Kong

01 Hotel exterior
02 Lift lobby
03 Newly renovated guest room

Empire Hotel Hong Kong

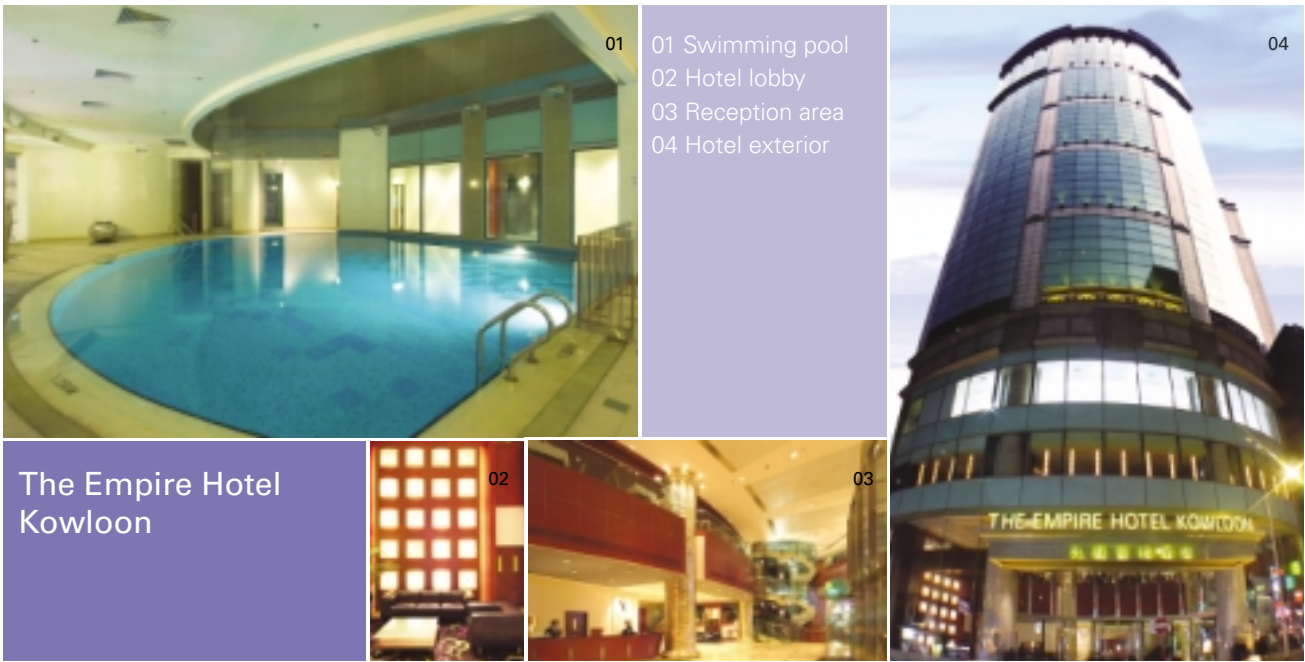


The Empire Hotel, Hong Kong

Empire Hotel Hong Kong achieved occupancy of 78% for year ended 31st March 2005 as compared with 62% last year while average room rate increased by 38% over last year. During the year 5 floors of executive guests rooms, which represents 105 rooms were upgraded. This led to direct improvements in average rates. As a result room revenue increased significantly by HK\$27 million or 73% on last year.

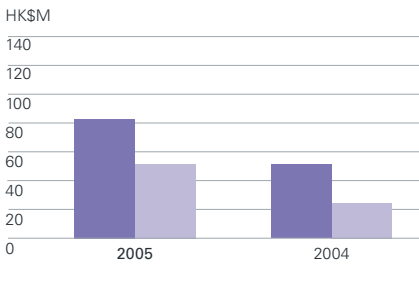
Further renovation work for the remaining hotel guest rooms is currently underway.

Empire Hotel Hong Kong operating profit was HK\$43.6 million (before room renovation cost of HK\$6.8 million), an increase of HK\$22.7 million or almost 100% improvement on last year.



Empire Hotel Kowloon

■ Revenue
■ Gross operating profit

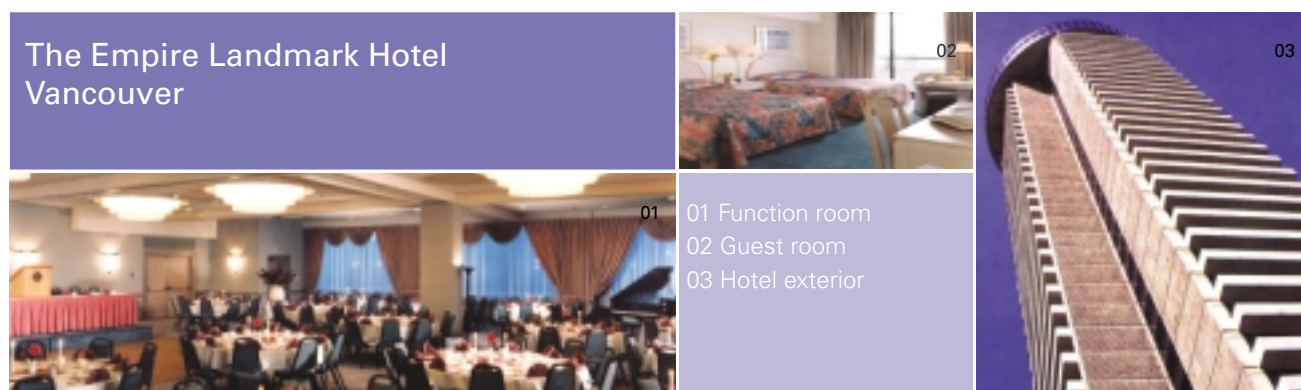


The Empire Hotel, Kowloon

Empire Hotel Kowloon recorded occupancy of 94% much improved from 69% last year while average room rate increased by almost 30% on last year. This resulted in an increase of room revenue of HK\$28.3 million and which represents a sharp rise of 76%. With a tight control on operating cost we were able to increase our gross operating profit margin by HK\$25.2 million reflecting an improvement of 117% on last year.

The above positive results in terms of room revenue are attributable mainly to growth in our high yield corporate client base, which currently accounts for almost one third of our room revenue as opposed to twenty five percent last year. Increasing individual travelers from the PRC has boosted overall average room rates and occupancy particularly during weekends when demand tends to be high.

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The Empire Landmark Hotel, Vancouver

In Canada, visitors to British Columbia (B.C.) increased by 2.2% in 2004 after a two-year decline to 22.4 million according to Tourism B.C.

Empire Landmark Hotel

■ Revenue
■ Gross operating profit



Helped by increases in visitors and an all-year-round airline crew accommodation contract signed with China Eastern Airlines, Empire Landmark Hotel achieved occupancy of 56.7% as compared with 50.2% last year, while there was a slight increase in average room rate. As a result and boosted by a strong Canadian dollar which had appreciated by 8% during the year, room revenue increased by HK\$7.9 million or 23% to HK\$42.2 million.

Furthermore, it was announced earlier that Canada would become an approved destination for PRC travellers. This would certainly benefit our hotel in Vancouver.

Travel Agency

Our travel agency business recorded an increase of HK\$69.6 million in air-ticketing and other travel-related revenue to HK\$317.7 million for the year ended 31st March 2005.

However, intensive competition between travel agencies and airline companies for direct retail air-ticketing business coupled with declined commission income from airlines continue to exert immense pressure on profit margins on travel agency businesses. A provision for impairment in value of purchased goodwill for this travel agency subsidiary of HK\$10.9 million was made in this year.

Catering Business

Our franchised restaurants revenue increased by HK\$4.2 million or 26% to HK\$20.5 million for the year ended 31st March 2005 as compared with last year. Following the opening of the East Rail terminal on Nathan Road Tsim Sha Tsui towards the end of 2004, patrons number for our Kowloon store has returned to the level prior to the closure of Nathan Road. Our Shanghai store continues to show positive growth as boosted by strong consumer spending. This year the catering business recorded a gross operating profit of HK\$1.2 million which is a significant turn-around from an operating loss of HK\$5.1 million last year.

Human resources

As at 31st March 2005 the total number of employees of the Company and its subsidiaries was 356 as compared with 328 last year. In addition to salary payment, other benefits include insurance, medical scheme and retirement plans and others. During the year no share options were granted.

Financial review

As at the year end shareholders' funds amounted to HK\$2,223 million, increased by HK\$217.0 million on last year. Total assets stood at HK\$3,584 million as compared with HK\$3,388 million last year. Total borrowings of the Group fell from HK\$1,311 million to HK\$1,262 million as at 31st March 2005. All of the HK\$46 million convertible notes were redeemed during the year. As a result of the increase in net assets coupled with improvement in operating cash flow, the Group's gearing ratio (net debt to equity) was significantly reduced from 64.7% to 53.9% as at 31st March 2005.

As at 31st March 2005, HK\$47.7 million (2004: HK\$93.3 million), which represented 3.8% (2004: 7.1%) of total borrowings, are repayable in one year. The balance is repayable by various instalments over a long period exceeding 10 years. The borrowings were principally denominated in Hong Kong dollar except for the Vancouver Hotel's mortgage loan which stood at HK\$148.1 million (2004: HK\$148.6 million) and which was borrowed in Canadian dollar as a hedging against exchange rate fluctuations.

The Group's finance expenses fell by HK\$3 million to HK\$37.2 million for the year ended 31st March 2005.

The aggregate net book value of fixed assets pledged as securities for loans of the Group amounts to HK\$3,313 million (2004: HK\$3,168 million).

Future prospects

Hong Kong hotels outlook appears very promising due to the following addition of many tourist-related infrastructure developments such as the Hong Kong Disneyland, the new convention center at the new airport, expansion of the Hong Kong Convention and Exhibition center, Ocean Park redevelopment project and the construction of the Hong Kong-Zhuhai-Macau bridge.

On the other hand there are a number of major events to be held in Hong Kong as follows:–

- The WTO ministerial conference in 2005;
- The hosting of the International Telecommunication Union Conference at end of 2006;
- 2006 being designated by Hong Kong Tourism Board as Hong Kong Tourism Year.

In light of the proposed relaxation of travel visa issued to PRC visitors to Canada, the financial performance of our Vancouver Hotel is expected to improve.

Debts Maturity Profile

