

# Business and Financial Review



“There was a significant growth in the profitability of the Group’s hotel operations in 2006.”

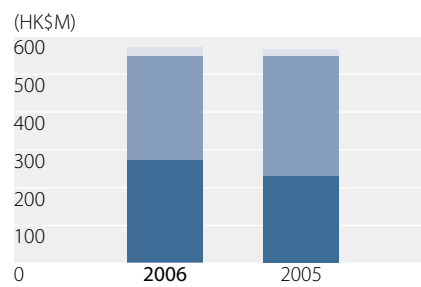
## Results

The Group’s turnover remained stable at HK\$570 million as the 17% increase from the Group’s three hotels were offset by a lower revenue from the travel agency. Gross operating profit, however, increased strongly by 30% to HK\$136 million.

This is the first time the group publishes its annual results by adopting a number of new and revised Hong Kong Financial Reporting Standards (new “HKFRS”).

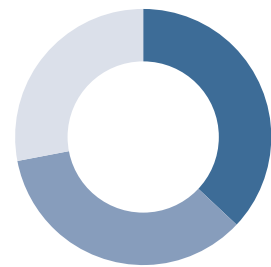
## Revenue by business segment

■ Catering services  
■ Travel agency  
■ Hotel operations



## 2006 Revenue by hotels

■ Empire Kowloon (37%)  
■ Empire Hong Kong (35%)  
■ Empire Landmark (28%)



Consequently, some significant non-cash accounting charges have adversely impacted the financial statements of the Group retrospectively. A detailed reconciliation of the financial impact of the new accounting standards is given in the notes to the financial statements.

In particular, it should be noted that the Group’s owned and operated hotels are now stated at cost less depreciation and impairment losses rather than at open market value previously. Depreciation and amortisation charge of HK\$73 million have been provided on the hotel properties.

As a result of the above, coupled with the recognition of share option expense, a lack of gain in investments and increased finance costs, the Group recorded a loss attributable to shareholders of HK\$20.8 million as compared with the profit of HK\$29.2 million for last year (as restated).

## Business review

It has been a positive year for tourism as the Hong Kong Tourism Board reported visitors arrivals for the year to December 2005 reaching a record high of 23 million, which is 7% higher than 2004. Visitors from Mainland China continue to show sustained growth while many of Hong Kong’s international markets such as the United States, Canada, Australia and South East Asia have achieved a record increase of 13% in visitor numbers.

Despite a significant 12% increase in the hotel room inventory in Hong Kong, the average occupancy rate across all categories of hotels in Hong Kong for 2005 remained strongly at 86%.

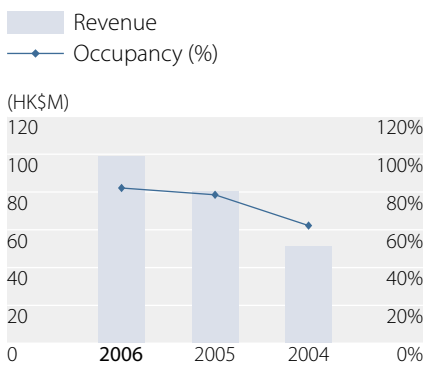
The average hotel room rate across all hotel categories and districts in Hong Kong in 2005 was increased by 16.4% over last year.

# Business and Financial Review



The Empire Hotel Hong Kong

The Empire Hotel Hong Kong



**The Empire Hotel, Hong Kong**  
 Empire Hotel Hong Kong achieved occupancy of 82% for the year ended 31st March 2006 as compared with 78% last year, while average room rate also increased by 16%. These improvements were mainly due to the up-graded guest rooms that were well received by guests. During the year, over 80% of the guest rooms were newly renovated with further room improvement plans due to be carried out in 2006/2007. As a result, room revenue and gross operating profit increased sharply by HK\$19 million and

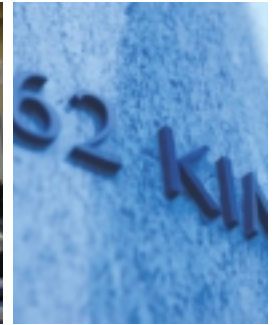
HK\$12 million to HK\$ 99.5 million and HK\$59.7 million respectively, both increased approximately 24% over last year.

With all the 362 guest rooms due to be fully renovated in 2006/2007, room rates and occupancy are expected to improve further. This hotel, which is conveniently located near the Wanchai convention center, continues to attract more business travelers through meetings and conventions, and other high yield business.

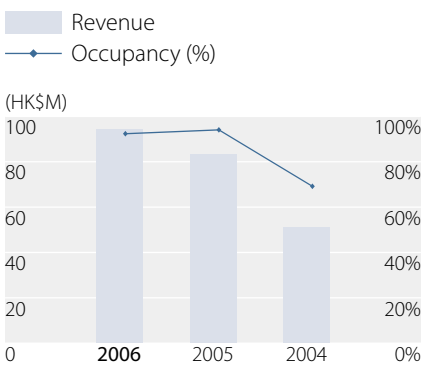
# Business and Financial Review



The Empire Hotel Kowloon



The Empire Hotel Kowloon



### The Empire Hotel, Kowloon

Empire Hotel Kowloon recorded occupancy of 92% for the year ended 31st March 2006, which is similar to last year. The average room rate, however, rose by 16% as compared with 2005. This has led to an increase of revenue by HK\$11 million to HK\$94 million, and an increase in gross operating profit by HK\$8 million to HK\$58 million.

These positive results are attributed mainly to the growth in our improved room rate from the increased high yield corporate and leisure groups as well as individual travelers from PRC. These travelers are attracted by our prime location in Tsim Sha Tsui, the heart of the very popular tourist area in Hong Kong.

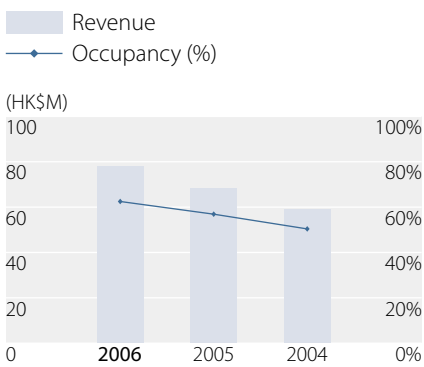
# Business and Financial Review



The Empire Landmark Hotel Vancouver



The Empire Landmark Hotel Vancouver



The Empire Landmark Hotel, Vancouver Hotel occupancy across Greater Vancouver for the year to December 2005 was 69.4%, an increase of 2.9% over last year, while average room rate rose by 2.8%.

Empire Landmark hotel's occupancy rose from 56.7% in 2005 to 62.3% in 2006, while its average room rate remained similar. As a result, and as boosted by a strong Canadian dollar that had appreciated by

6% during the year, the total revenue increased by HK\$9.7 million or 14% to HK\$77.6 million.

The acknowledgement by China of Canada being an approved travel destination will undoubtedly benefit tourism in cities such as Vancouver, and more specifically the hotel industry in the near future.

## Business and Financial Review



JBC Travel Company Limited

**Travel Agency**

The travel agency's revenue reduced 13% to HK\$276.4 million for the year ended 31st March 2006 as management has gradually shifted away from the low margin segments of the travel agency business. In addition, the company will continue its effort to tighten up its credit policy for enhancing the quality of its trade receivables.



T.G.I. Friday's

**Catering Business**

The revenue of our franchised restaurants increased by 10% to HK\$22.4 million for the year ended 31st March 2006 as compared with last year. Following the opening of the East Rail terminal on Nathan Road Tsim Sha Tsui towards the

end of 2004, patron's number for our Kowloon store has returned 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 two restaurants recorded a gross operating profit of HK\$3.5 million, an increase of 25% as compared with last year.

**Human resources**

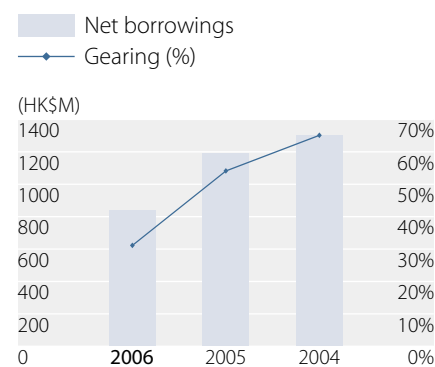
As at 31st March 2006 the total number of employees of the Company and its subsidiaries was 353, which was the same as last year. In addition to salary payment, other benefits include insurance, medical scheme and retirement plans and others. Options to subscribe for a total of 250,000,000 shares of the Company were granted under the share option scheme at an exercise price of HK\$0.217 per share on 31st October 2005. Up to 31st March 2006, the options for a total of 246,000,000 shares were exercised.

**Financial review**

As at the year end, the shareholders' funds amounted to HK\$1,476 million. The increase by HK\$249 million over last year was primarily due to the new capital raised during the year. Total assets stood at HK\$2,417 million as compared with the restated HK\$2,540 million of last year. Total borrowings of the Group fell from HK\$1,255 million to HK\$882 million as at 31st March 2006 as a result of loan prepayments.

However, the Group considered that it would be more meaningful to present supplementary information for revalued net assets based on revaluation of our hotels so as to reflect more closely the economic substance of the hotel property investments. The aggregate valuation of the hotel properties in Hong Kong and Canada based on the valuation reports from independent professional valuers amounted to HK\$3,537,540,000 (2005: HK\$3,312,610,000).

Accordingly, the revalued net assets and revalued net asset per share based on valuation as at 31st March 2006 were HK\$2,725 million and HK\$0.43 respectively. Based on the revalued net assets, the Group's gearing ratio as at 31st March 2006 reduced to 31% from 54% of last year.

**Gearing ratio  
(Net debt to revalued net asset value)**

## Business and Financial Review

As at 31st March 2006, an amount of HK\$17.8 million that represented 2% of total borrowings was repayable within one year, with the balance repayable by various instalments over a period exceeding 10 years. Furthermore, except for the Vancouver property mortgage loan of HK\$142 million (2005: HK\$148.1 million) which was borrowed in Canadian dollar for exchange hedging purposes, all the other borrowings were denominated in Hong Kong dollar.

With the continuous rise in interest rates both in the USA and locally, the Group's finance cost increased substantially by HK\$17.9 million to HK\$55.6 million for the year ended 31st March 2006, which represented a 47% increase on last year. However, interest rate swaps amounting to HK\$360 million have been contracted to mitigate the effects of higher interest expenses going forward.

After the year end the Group raised HK\$283 million new capital through rights issue for further bank loan prepayments.

The aggregate net book value of hotel properties pledged as securities for loans

of the Group as at 31st March 2006 amounted to HK\$2,203 million (2005: HK\$2,241.0 million as restated).

### Future Prospects

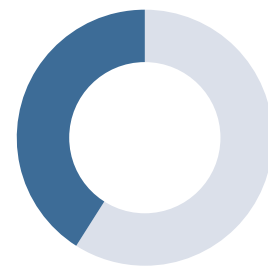
With the recent opening of the Wetland park, the hosting of 2006 ITU World exhibition in December 2006 at the all-new exhibition facilities at the Airport, the outlook for hotel industry in Hong Kong continues to be promising.

The upgrading program of the remaining guest rooms and hotel lobby at the Wanchai Empire Hotel will ensure that we are well positioned to capitalise on the high yield business opportunities brought about by the above and other major business conferences and sporting and leisure events due to take place in the near future.

With 2006 being designated by the Hong Kong Tourism Board as Tourism Year, our Empire Kowloon hotel which is located in the center of a traditionally popular tourist area, will undoubtedly enjoy a higher occupancy and room rates brought about by influx of foreign visitors.

### Total borrowings as at 31st March 2006

- Borrowings hedged by interest rate swap contracts (41%)
- Borrowings with unhedged interest rates (59%)



Similarly, our franchised restaurants will also benefit by the thriving tourist industry here locally while our Shanghai restaurant is expected to maintain stable growth in revenue and profitability.

The future prospects of our Vancouver hotel look equally optimistic, in part due to the forthcoming 2010 Winter Olympics, and in other, the fact that Canada being an approved destination for PRC travelers.