

## CHAIRMAN'S STATEMENT

I am pleased to present the 2005/2006 Annual Report to shareholders.

### FINAL RESULTS

The Group's audited consolidated net profit attributable to shareholders for the financial year ended 30th June, 2006 was HK\$62.8 million, representing an increase of 6.7% compared with HK\$58.8 million for the previous financial year. The turnover of the Group was HK\$179.8 million, representing an increase of 10.1% compared with the turnover of HK\$163.2 million for the previous financial year.

Earnings per share for the year were 7.51 cents, an increase of 5.4% compared with 7.12 cents for the previous financial year.

The increase in earnings was mainly attributable to the continued improvement in business environment and visitor arrivals both in short-haul and long-haul markets. Both room revenue and food and beverage business recorded good growth during the financial year 2005/2006.

### DIVIDENDS

The Directors recommend a final dividend in respect of the year ended 30th June, 2006 of 2.6 cents per share to shareholders whose names appear on the Register of Members of the Company on 16th November, 2006. Together with the interim dividend of 2.2 cents per share, the total dividend for the full year is 4.8 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 16th November, 2006; 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 20th November, 2006. It is expected that the final dividend warrants and share certificates will be despatched to shareholders on or about 15th December, 2006.

## CHAIRMAN'S STATEMENT *(Continued)*

### REVIEW OF OPERATIONS

Visitor arrivals to Hong Kong for the period between July 2005 and June 2006 reached 24.5 million, an increase of 7.9% compared with the corresponding period of the previous year. HKSAR Government statistics showed that the tourism industry has been undergoing a broad-based growth in the sense that both long-haul and short-haul market have recorded favourable growth with visitor arrivals from Australia, Europe and South Korea showing double-digit increase based on year-on-year comparison. Apart from world-wide economic growth, the Individual Visit Scheme implemented by the Central Government stretching to a total of forty-four cities on the mainland, the increase in middle-class families in mainland China will also boost both business and leisure travel.

#### **Business Activities**

##### *City Garden Hotel (100% owned)*

The average room occupancy rate of City Garden was 87.3% with the average room rate increased by 13.6%. Room sales for the financial year 2005/2006 were HK\$127.5 million, representing an increase of 12.0% from HK\$113.8 million during the last financial year. Food and beverage sales for the year were HK\$29.6 million, reflecting an increase of 5.5% over last year.

##### *Conrad Hong Kong (50% owned)*

The average room occupancy of Conrad Hong Kong recorded for the financial year 2005/2006 was 80.7% compared with 85.6% in the previous financial year. The average room rate for the year increased by 18.9%. Room sales for the year were HK\$308.9 million which was 12.7% higher than that of last year whilst income from food and beverage sales for the year was HK\$268 million.

##### *Royal Pacific Hotel & Towers (25% owned)*

The average occupancy rate of Royal Pacific Hotel & Towers was 81.9% in the financial year 2005/2006 while its average room rate showed an increase of 14.9%. Room sales for the year totalled HK\$177.5 million, an increase of 13.1% from HK\$156.9 million in the previous financial year. Revenue from food and beverage sales was HK\$51.8 million.

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, 2005.

## CHAIRMAN'S STATEMENT *(Continued)*

### REVIEW OF OPERATIONS *(Continued)*

#### Finance

As at 30th June, 2006, 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 32.7%. Of the total borrowings, 11.6% 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\$223.4 million, comprising cash on hand of approximately HK\$113.4 million together with committed undrawn facilities of approximately HK\$110.0 million.

There was no material change in foreign currency borrowings and the capital structure of the Group for the year ended 30th June, 2006. Foreign exchange exposure is kept at a minimal level. The majority of the Group's borrowings are subject to floating interest rates.

As at 30th June, 2006, the Group did not record any material changes in contingent liabilities since the previous financial year ended 30th June, 2005.

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, 2005.

### SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

The Group recognises that long-term shareholders' value can best be optimised by operating and performing in a socially responsible manner. Corporate integrity, ethics, governance and citizenship are important in the Group's daily operations and management. As a committed and responsible corporate citizen, the Group has been working closely with different charitable organizations to hold various community services for the needy, and with environmental conservation groups to promote a better environment and healthy living.

## CHAIRMAN'S STATEMENT *(Continued)*

### EMPLOYEE PROGRAMMES

Our employees are one of the most important assets in our Group. We continue to place a great deal of importance on staff training and education, as human resources development is vital in building professionalism and maintaining service of excellence. We believe that training can improve enthusiasm, commitment, and a sense of belonging.

Our theme for 2006, "Service from the Heart" is being cascaded to every level of the hotel in order to deliver to our customers the highest standards of product and service.

To cope with our new marketing strategies of diversifying market segments amongst different countries, language courses on Putonghua, English, Japanese, French and Korean will be our main focus. Employees are provided with opportunities to gain new knowledge through in-house training or by attending external classes. This is to ensure that all our employees can communicate proficiently with our customers.

The Group has launched two initiatives namely Staff Facilities Upgrading Programme and Employee Satisfaction Survey to ensure that a reasonable working environment is in place. In addition, the Group established two award schemes for all general staff and supervisory level staff, namely 'Employee of the Year' and 'Manager of the Year'. This has been well received by our employees. Both programmes identify outstanding employees. We encourage these employees to undergo further training, enabling them to become future leaders. We will then monitor them so as to serve as role models towards other employees within the Group.

Furthermore, the Group places significant emphasis on team-work and open communication at all levels of the organisation.

## CHAIRMAN'S STATEMENT *(Continued)*

### INDUSTRY OUTLOOK AND PROSPECTS

The financial year 2005/2006 witnessed a much improved performance and increasing level of activities in the tourism and hotel industries. The efforts by the HKSAR Government in promoting Hong Kong as Asia's world city by adopting a fully integrated and yet multi-dimensional approach have brought about a sustainable growth in the tourism industry. Combined with the strong economic growth, the increase in number of middle-class families in mainland China and with the Central Government's continuous support, the Hong Kong tourism industry has grown significantly. The Individual Travel Scheme covering forty-four cities in mainland China after adding six more new cities with effect from 1st May, 2006 will further boost visitor arrivals. Indeed, visitor arrivals through the scheme in June 2006 recorded a double-digit increase compared to that of last year.

The Group has not lost sight of the importance of not only maintaining a competitive position in the market but also adding new strengths in raising its quality and service to an even higher level. The Group has placed significant efforts to further improve the quality of service and at the same time placing resources to upgrade existing facilities for three of its hotels, which has been carried out by phases. These will enhance our guests' experience complementing the HKSAR Government strategy to elevate Hong Kong's standing as one of the world's leading travel destinations.

During the financial year 2005/2006, a series of renovations took place by phases. In City Garden, a total of 104 guest rooms were renovated during the year, bringing the total number of renovated guest rooms to 334. Garden Café in City Garden was also completely renovated bringing a refreshing and stylish look to the restaurant complemented with an open-kitchen dining concept boosting revenue from food and beverage revenue. Approximately 216 guest rooms in Conrad Hong Kong were upgraded with a new design and features. Its French restaurant Brassiere-on-the Eighth and Pacific Bar underwent a facelift in the first half of calendar year 2006. Also, much renovation works were done in Royal Pacific Hotel & Towers during the period under review. The Hotel Wing Lobby, with the creation of a new Business Centre and Premier Lounge, as well as a total of 56 guest rooms were renovated, offering a modern, refreshing and more inviting look. It also plans to renovate additional guest rooms and banqueting facilities soon, with the same purpose of providing improved facilities for our customers to enjoy.

Given the economic growth in mainland China and the Asia Pacific region, the outlook of the tourism industry in Hong Kong is positive. The Directors are confident in the medium to long term prospects of the Group.

### STAFF AND MANAGEMENT

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 Siang**  
*Chairman*

Hong Kong, 18th September, 2006