

CHAIRMAN'S STATEMENT

I am pleased to present my interim report to the shareholders.

INTERIM RESULTS

The Group's unaudited consolidated turnover for the six months ended 31st December, 2006 was HK\$104.5 million, an increase of 17.9% compared with the corresponding period last year. Net profit for the interim period was HK\$38.7 million, an increase of 15.7% compared with the corresponding period last year. Earnings per share for the period was 4.6 cents.

The increase in earnings was mainly due to sustainable growth in economic activities, continuous growth in business expansion in Hong Kong as well as healthy development in tourism industry globally. Room revenue and food and beverage business registered good growth during the interim period.

The results for the interim period ended 31st December, 2006 reflect the adoption of all Hong Kong Financial Reporting Standards applicable to the Group that are effective for the accounting period.

DIVIDEND

The Directors have declared an interim dividend of 2.4 cents per share payable on 17th May, 2007 to shareholders whose names appear on the Register of Members of the Company on 18th April, 2007.

The interim dividend will be payable in cash but shareholders will be given the option of electing to receive the interim dividend in the form of new shares in lieu of cash in respect of part or all of such dividend. The new shares to be issued pursuant to the scrip dividend scheme are subject to their listing being granted by the Listing Committee of The Stock Exchange of Hong Kong Limited.

A circular containing details of the scrip dividend scheme will be despatched to shareholders together with the form of election for the scrip dividend on or about 26th April, 2007. It is expected that the interim dividend warrants and share certificates will be despatched to shareholders on or about 17th May, 2007.

The unaudited interim results have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu.

REVIEW OF OPERATIONS

Visitor arrivals in Hong Kong saw steady growth in 2006 mainly attributable to a continuous increase in business and family travels with number of visitor arrivals reaching another record high of over 25 million. The positive momentum of the tourism industry and business activities in the world economy as well as in Hong Kong continued to fuel the growth of the hotel industry in 2006.

Occupancy rates for City Garden Hotel, Royal Pacific Hotel & Towers and Conrad Hong Kong for the six months ended 31st December, 2006 were 91.4%, 84.5% and 78.5% respectively compared with 88.5%, 83.2% and 82.2% respectively for the corresponding period in 2005. At the same time, average room rates in general showed a 17.7% increase over the same period.

The turnover of City Garden Hotel, Royal Pacific Hotel & Towers and Conrad Hong Kong during the interim period was HK\$97.1 million, HK\$137.8 million and HK\$329.2 million respectively compared with HK\$81.8 million, HK\$116.5 million and HK\$302.3 million for the corresponding period in 2005.

CHAIRMAN'S STATEMENT *(Continued)*

REVIEW OF OPERATIONS *(Continued)*

The Group aims to provide and maintain the highest standards of customer service. Management will continue its policy of improving the quality of its products and services so as to ensure customer satisfaction and brand enhancement.

Finance

As at 31st December, 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 17.9%. Of the total borrowings, 10.4% 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\$246.4 million, comprising cash on hand of approximately HK\$116.4 million together with committed undrawn facilities of approximately HK\$130.0 million.

There was no material change in foreign currency borrowings and the capital structure of the Group for the interim period ended 31st December, 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 31st December, 2006, the Group did not record any material changes in contingent liabilities since the previous financial year ended 30th June, 2006.

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, 2006.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

The Group recognises that long-term shareholder 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 organisations to hold various community services for the needy, and with environmental conservation groups to promote a better environment and healthy living.

EMPLOYEE PROGRAMMES

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

Our theme for 2007, "We Never Stop Smiling" is cascading to every level of the hotel in order to remind our staff of the importance of serving our customers by delivering the highest standards of products and services to them.

To cope with our new marketing strategy 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.

CHAIRMAN'S STATEMENT *(Continued)*

EMPLOYEE PROGRAMMES *(Continued)*

During the interim period under review, the Group carried out two customer satisfaction surveys namely Sino Excellence Programme and Employee Satisfaction Survey. The purpose of the surveys was to ensure that management understand customers' needs. In addition, the Group continues to implement two award schemes for all general staff and supervisory level staff, namely 'Employee of the Year' and 'Manager of the Year' respectively to promote efficiency and high quality of service. This has been well received by our employees. Both programmes identify outstanding employees. We encourage these employees to further undergo structured training programmes to equip them to be future leaders.

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

INDUSTRY OUTLOOK AND PROSPECTS

The world tourism industry is expected to grow steadily. It is encouraging to learn that the HKSAR Government has taken more steps to further develop the tourism industry in Hong Kong alongside with other key industries. Following the 2006-07 Policy Address, The Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong" by Central Policy Unit of the HKSAR Government proposed a number of initiatives to strengthen sustainable development of tourism in Hong Kong as well as to promote Hong Kong as a premier tourist destination in the region. Initiatives including (i) passenger-friendly clearance policy and supporting measures to enhance passenger flow, (ii) improving the air, land and sea transport network to make Hong Kong readily accessible to visitors, (iii) measures to promote "Quality Tours", to educate consumers and to increase market transparency, and (iv) developing more tourist attractions will be conducive for the long-term development of not only the tourism and hospitality industries but also the hotel and retail sectors.

Hong Kong Tourism Board's three-pronged approach of facilitating (i) Honest & Quality Hong Kong Tour programme, (ii) multi-destination itineraries and (iii) MICE (meeting, incentive, conventions and exhibitions) and family travels will certainly be instrumental in achieving a balanced portfolio of visitors and further enlarging the visitor base. With the Individual Visit Scheme being extended to cover another five cities namely Shijiazhuang, Zhengzhou, Changchun, Hefei and Wuhan with effect from 1st January, 2007 bringing the total number of cities which can operate the Scheme to 49 cities, there will be a total of over 220 million mainland residents in these 49 cities with permanent household registration eligible to apply for the relevant exit endorsement from the relevant mainland authorities.

The Group also places great significance in upholding a competitive position in the market. The Group continues to roll out renovation programmes to upgrade the facilities of its hotels. The renovation will enhance guest satisfaction, strengthen the revenue base and improve operational efficiency. During the interim period under review, Conrad Hong Kong completed renovation for the Grand Ballroom and level seven function rooms. Royal Pacific Hotel & Towers completed renovation for the Pacific Room and Imperial Room. With regard to the guest rooms, a total of 87 guest rooms in Conrad Hong Kong were renovated during the interim period, bringing a total number of renovated guest rooms to 295 and the balance of guest rooms will be renovated in 2007. Continuing renovation will also take place by phases for the guestrooms, restaurant and other facilities in both City Garden Hotel and Royal Pacific Hotel & Towers.

Looking forward, the sustained robust performance of tourism industry is expected to continue and the global economic outlook is positive. The Directors are confident in the medium to long term prospects of the Group.

CHAIRMAN'S STATEMENT *(Continued)*

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 Siong
Chairman

Hong Kong, 20th March, 2007