



Chairman's Statement

Dear shareholders,

I am presenting herewith the Annual Report of the Company for the year ended 31st December, 1999.

FINANCIAL RESULTS

For the year ended 31st December, 1999, the Group recorded an audited consolidated net loss attributable to shareholders of HK\$1,261.6 million (1998 - net loss of HK\$5,292.0 million). This included loss, before minority interests, of HK\$1,014.0 million attributable to the disposal by Regal Hotels International Holdings Limited of its

hotel ownership and management interests in the United States and HK\$400 million on account of provision made on the Group's development properties in the People's Republic of China.

DIVIDEND

The Directors have resolved not to recommend the payment of a final dividend for the year ended 31st December, 1999 (1998 - nil).

REVIEW OF OPERATIONS

During the year under review, a series of asset disposals was implemented at different



corporate levels within the Group with a view to reduce the overall gearing of the Group.

As previously disclosed, the Company completed in January 1999 the sale to an independent third party purchaser of a 34.4% equity interest in a joint venture company which in turn holds a 60% interest in a sino-foreign co-operative joint venture owning and operating the Chengdu Mianyang Expressway in Sichuan. The sale of the subject interest was based on a gross consideration of HK\$390 million, subject to certain post-completion indemnities and warranties. Under one of the indemnities, the Company agreed to indemnify the purchaser in the event that any part of the 12.6% equity interest in the joint venture company, which was deposited under an escrow arrangement primarily to ensure completion of the expressway by effectively, 31st December, 1998, is not released to the purchaser within one year from the date of completion of the sale and purchase. Despite that the expressway was practically completed in December 1998, a part of the shares deposited in escrow, representing approximately 8.3% equity interest in that joint venture company, was distributed to its other shareholders in July 1999 on grounds which the Company, after taking legal advice, considered as wrongful. The attributable value of the shares distributed, based on the gross consideration of the sale and purchase, was approximately HK\$93 million. The contingent commitment of the Company under the indemnity has been fully accrued in the accounts for the year under review. The Company has recently entered into a settlement agreement with the purchaser under which the purchaser granted to the Company a loan facility covering the agreed principal and interests payable under the indemnity for the period to 30th June, 2001.

The purchaser has also granted a right to the Company to put the shares recoverable from the other shareholders of the joint venture company within that same period at the same attributable price. The Company intends to institute legal proceedings against the relevant parties shortly to recover, inter alia, the shares distributed.

The operating highlights of Paliburg Holdings Limited and Regal are set out below.

PALIBURG HOLDINGS LIMITED

For the year ended 31st December, 1999, Paliburg recorded an audited consolidated net loss attributable to shareholders of HK\$1,363.6 million (1998 - net loss of HK\$3,499.3 million). This included the loss, before minority interests, of HK\$693.4 million incurred by Regal on the disposal of its hotel ownership and management interests in the United States, the sharing of non-capitalised financing costs on the Stanley project and provision in the sum of HK\$400 million made on Paliburg's development properties in the People's Republic of China.

With a view to stabilise Paliburg's financial position, Paliburg implemented an asset disposal programme through various property sales and joint venture. Proceeds realised during the period from 1999 to the date of this report aggregated to HK\$840 million, most of which has been applied towards repayment of the Paliburg's bank borrowings and other indebtedness.

The standstill arrangement among Paliburg's lenders last expired on 30th September, 1999. Due to the relatively stagnant market for commercial/retail properties, particularly for those of larger size, Paliburg has resorted to raising additional funds from Kowloon City Plaza and Paliburg Plaza, its



two principal investment properties, through a proposed refinancing arrangement. In this connection, Paliburg has mandated a reputable European financial institution to undertake a financing proposal based on a mortgage securitisation on these two properties. A majority part of the surplus proceeds, after redemption of the existing indebtedness attached to these two properties, is intended to be used to reduce or repay borrowings owing to Paliburg's lenders. Paliburg is currently in discussions with its lenders with a view to replacing the existing standstill arrangement with new bilateral facilities, once the refinancing proposal is completed.

Property Development

There was no progress in the contemplated strata sale of the office portion and the remaining shops in **211 Johnston Road, Wanchai**, on account of the slackened demand for commercial and office properties. The completed building at **361 Shau Kei Wan Road, Shau Kei Wan** for office/retail banking use will continue to be marketed on an en bloc basis.

The **Park Royale** residential complex located at **Town Park Road North in Yuen Long**, comprising ten tower blocks with 680 apartment units and 445 car parks, was completed in August 1999. Except for 7 duplex units and 44 car parks remaining, all the apartment units and car parks have been sold for a total value of about HK\$1,668 million. Most of the profits derived from the unit sales have been accounted for in stages in the two years ended 31st December, 1999.

In August 1999, Paliburg entered into an agreement to set up a joint venture for the development of the site at **Ap Lei Chau Inland Lot No.129, Ap Lei Chau East**, pursuant to which a company equally held

by Sun Hung Kai Properties Limited and Kerry Properties Limited now owns a 70% interest in the joint venture. Under the terms of the joint venture, the value of the site was agreed at HK\$570 million and an aggregate sum of HK\$399 million has been received by Paliburg. Future funding required for the development of the site will be procured by the other joint venture partners, with no recourse to Paliburg. The profit attributable to the effective sale of a 70% interest in this development site was recognised in 1999, but further substantial gains are expected from the 30% joint venture interest retained.

Initial discussions have been held with the relevant government authorities for a proposed resort and recreational development on the lots owned by Paliburg in **Demarcation District No.251, Sharp Island, Sai Kung**. Response received was generally supportive and revised plans will be further submitted.

Development works for the residential site at **Lot No. 1736 in D.D.122, Tong Yan San Tsuen, Yuen Long** have been postponed to allow for revision of the building plans to achieve savings on the construction costs.

A wholly-owned subsidiary of Paliburg owns a 40% joint venture interest in the development project at **Rural Building Lot No.1138, Wong Ma Kok Road, Stanley** and another 30% interest is owned by Regal. The development was originally planned for a luxury residential complex with 129 houses having a total gross floor area of about 428,900 sq. ft.. Construction works have been temporarily suspended but, in the meanwhile, the general building plans have been revised to increase the total number of houses to 139 by reducing the size of certain larger houses, with a view to keeping the sale prices of the houses within a generally affordable range.



Paliburg is hopeful that, after the proposed restructuring of the existing loans from its lenders is satisfactorily resolved, the project can be put back to normal progress within the next few months. During the year under review, the financing costs incurred by the jointly controlled entity which owns the project have not been capitalised and the impact thereof attributable to Paliburg (including that of Regal) has been reflected in the profit and loss account.

Most of the remaining units in **118 Connaught Road West, Fuller Gardens (Phase I) and (Phase II) in Tai Po, Villa Art Deco in Yuen Long and in Greenfields, Yuen Long**, in which Paliburg holds a 7% interest, have been sold.

Due to liquidity strains encountered, Paliburg has not deployed further substantial financial resources to its two development projects in Beijing, namely, the **Beijing Century City and the Beijing Paliburg Plaza, both in prime locations in the Chaoyang District**. Consequently, development works on these two projects have been put on hold temporarily. The property market in Beijing is now recovering gradually. If PRC successfully joins the World Trade Organisation, commercial activities in this capital city will undoubtedly increase, and this should in turn create additional demand for commercial and residential properties. However, having regard to possible adverse consequences that may develop from the circumstances encountered, Paliburg has allowed an aggregate provision of HK\$400 million for possible loss in its investments in the development properties held in the PRC. Paliburg will continue to monitor closely the practical situation as well as the overall market condition in the PRC, in order to determine the most appropriate course of action to follow.

An agreement was signed for the sale of the **Crown Hill Site in Los Angeles** for US\$20 million, with completion originally scheduled for August 1999. However, the purchaser did not proceed to completion and the initial deposit paid has been forfeited. Direct negotiations with the purchaser are on-going and if a satisfactory deal cannot be concluded in the near future, it may be necessary that alternative arrangements or proposals will have to be considered.

Property Investment

Rental rates at **Paliburg Plaza in Causeway Bay** achieved on new tenancies and renewals continued to be under pressure, but average occupancy level is presently maintained at about 91%.

Visitor traffic to the shopping and entertainment mall at **Kowloon City Plaza in Kowloon City** remained steady and average occupancy was maintained at about 92% during the year. On account of the continued contraction in consumer spending, rental rate was similarly under pressure. The Town Planning Board has rejected Paliburg's initial application for the building of a 899-room hotel on top of the existing low-rise structure on technical grounds. Consequently, Paliburg plans to submit formal application for the rezoning of the property to commercial use to allow for the proposed hotel development. Paliburg anticipates that the application will ultimately be approved and the maximum development potential of this prime site eventually capitalised.

Over 90% of the lettable space in this retail complex at **Redhill Plaza, 3 Red Hill Road, Tai Tam** is presently under lease at relatively satisfactory level.



Other Business Operations

Business of **Chatwin Engineering Limited**, an 80%-owned subsidiary of Paliburg, progressed steadily. Total outstanding contract works is around HK\$1 billion, a majority part of which relates to Housing Authority projects. Due to the installation of tighter management and financial controls, it is expected that attractive profits may be derived from certain of these contracts.

The cement plant in Weifang, Shandong, the PRC held by **Weifang Futuan Building Material Co., Ltd.**, in which a 75%-owned subsidiary of Paliburg holds a 25% interest, reported a modest profit during the year.

REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

For the year ended 31st December, 1999, Regal reported an audited consolidated net loss attributable to shareholders of HK\$1,085.7 million (1998 - net loss of HK\$1,187.0 million), of which HK\$693.4 million was incurred on the disposal of its hotels and hotel management interests in the United States (after realisation of attributable revaluation reserve and goodwill previously eliminated against reserve).

While the economies in the Asian region began to stabilise in 1999, the number of visitor arrivals to Hong Kong recorded an increase of 11.5% as compared with 1998. Local average hotel occupancy in 1999 was up by 5.3%, but average room rate was under continuing pressure and declined by 13.3% as compared with the previous year.

The combined average occupancy of the **four Regal hotels in Hong Kong** in 1999, excluding the Regal Airport Hotel at Chek Lap Kok, was 68.1%, a modest increase of 2.4% as compared with 1998. However,

their combined average room rate was down by 17.9% as compared with the figure attained in 1998. Apart from facing a highly competitive market, the relatively unsatisfactory performance attained was partly the result of some transitional period brought about by a reorganisation in the hotel management and operation structure. While streamlining of operations and improvement of overall efficiencies are the key objectives, strenuous efforts are being put to reinforce the sale and marketing functions, including the launching of on-line marketing, sales and reservations on the internet. Furthermore, renovation plans for certain of these hotels are being drawn up to enhance their market positioning.

The new **Regal Airport Hotel** was soft opened in January 1999 and its business has since been picking up steadily. Its occupancy based on available rooms in 1999 was about 60% and the average room rate achieved was satisfactory. At present, about 845 guest rooms and most of its food and beverage, entertainment and recreational facilities are already open for business. The grand opening of this hotel is currently scheduled for the third quarter of 2000, at which time all the 1,102 guest rooms and suites will be put into operation.

With the financial position of Regal substantially improved through the disposal of the U.S. hotel interests, and the prospects of the luxury residential market on Hong Kong Island becoming more positive, Regal intends to hold on to its 30% interest in the joint venture project at Rural Building Lot No.1138, Stanley.

In December 1999, Regal completed the transaction for the sale of its hotel ownership and management interests in the **United States**. The sale assets included in the transaction comprised effectively the



whole of Regal's operations in the United States. The total consideration for the sale assets was based on an agreed value of US\$640 million, with adjustment for net working capital and attached borrowings to be discharged.

In summary, Regal has received from this transaction total cash consideration of HK\$4,623.2 million, before taxation and expenses. An additional sum of US\$13.4 million (equivalent to approximately HK\$104 million) will be receivable on the forthcoming completion of the sale of Regal's interest in the Regal Bostonian Hotel. A further sum of US\$45 million (equivalent to approximately HK\$349.7 million), being the amount agreed to be withheld from payment on completion, will be receivable on or before 17th December, 2001, with interest accruing at 7% per annum, subject to any payment obligations of Regal in respect of certain warranties and indemnities provided in relation to the sale assets.

Out of the cash consideration received, a sum of HK\$3,200.2 million was utilised to discharge the indebtedness attached to the hotel assets sold, and a sum of HK\$772.3 million was applied to reduce certain bank borrowings in Hong Kong.

Despite that this transaction has resulted in a loss to Regal of HK\$693.4 million, the cash proceeds realised have significantly improved Regal's liquidity position as well as its gearing level. Consequently, the level of financing costs for Regal in the year 2000 will be considerably less than that in the year under review.

The **Regal Constellation Hotel in Toronto** maintained its performance during the year at a level similar to that in 1998.

The performance of the two managed hotels in Shanghai, namely, the **Regal International East Asia Hotel and the Regal Shanghai East Asia Hotel**, remained encouraging, despite the highly competitive local market.

The operating results of the **Kaifeng Yatai Brewery in Henan**, in which Regal has a 90% beneficial interest, has slightly improved as compared with 1998. The brewery is repositioning its production and marketing strategies with a view to capture a larger share of the higher end consumer market.

OUTLOOK

Tourism in Hong Kong continued to recover in the first few months of this year. Monthly visitor arrivals topped one million in March for the first time since April 1997. Overall performance of Regal's hotels in Hong Kong achieved considerable improvement in the first quarter of 2000, as compared with the same period last year.

Due to its unique location and the wide range of upscale facilities catering to the needs of both business as well as leisure travellers, management of Regal believes that the new Regal Airport Hotel will in time become the highest income contributor of the Regal group.

Now that it has been formally announced that the second Disney World in Asia will be opened in Hong Kong by 2005, and given the dedicated efforts of the HKSAR Government and the tourism community to maintaining Hong Kong as a prime destination for visitors, the prospects of the local hotel industry remains promising.

Accordingly, Regal is placing primary focus on its hotel operations in Hong Kong, but if circumstances are appropriate, will consider



re-expanding its hotel network, either through equity investments or management contracts, in the PRC and selected parts of the Asian Pacific region.

With Regal's established position as one of the largest hotel owners and operators in Hong Kong, the directors of Regal are anticipating steady growth and improvement in its business and performance in the coming years.

The results of Paliburg during the year under review have been adversely affected by loss incurred primarily from the disposal by Regal of its hotel interests in the United States and additional provisions on development projects in the PRC. However, the directors of Paliburg anticipate that the reduced gearing level afforded by the asset sales implemented so far will enable Paliburg to achieve a gradual recovery when overall economic condition revives.

With a view to broadening and enhancing its business prospects, the Company has since the beginning of the new millennium been taking steps to diversify its activities in the information technology businesses, particularly in those projects that can provide a stable business base and significant growth potential.

In January this year, the Company announced the establishment of a joint venture on information technology business through 8D International Limited, formerly a wholly-owned subsidiary of the Company. Projects currently undertaken by 8D include the development of The Hotel Intelligence System and Matrix, which is a comprehensive and integrated hotel solution that has the capacity to link with other international and regional travel-related parties, forming a potent and pervasive network. 8D is also in active

discussions with a number of parties for the acquisitions of related businesses that are considered to be complementary to its present undertakings.

Furthermore, the Group has an indirect minority interest in Century Digital Enterprise Limited, the foreign investor in a sino-foreign joint venture with Beijing CSU Digital Technologies Limited, involving the development by CSU of internet related businesses based on a leased railway fibre optic network in the PRC. The sino-foreign joint venture, in which Century Digital owns a 90% interest, has been incorporated in the PRC under the name of Beijing Century Union Digital Technology Limited. Beijing Century Union will provide financial and technical assistance to CSU to develop and equip a broad band digital transmission network, configured along the national railway system with an aggregate length of approximately 37,500 km., covering 129 major cities across the PRC. Through this network, high speed digital transmission services will be offered to a number of ministries and departments in the PRC, including metallurgy, forestry, railway and light industry, for the development of Virtual Private Networks for E-Commerce and E-Education.

Since the year end date, the Company has successfully raised new equities in the aggregate sum of HK\$170 million, before expenses, through two placements of new shares in January and March at an issue price of HK\$0.37 and HK\$1.00 per share respectively. A majority part of the proceeds obtained was used to reduce outstanding borrowings and the remainder retained for working capital purposes. The informal standstill among the lenders of the Company last expired on 30th April, 2000, and a large majority of the lenders has indicated in principle support to the Company to extend



the standstill arrangement to 30th October this year.

In view of the attractive business prospect and growth potential of Century Digital, the Company is currently in discussions with the shareholders of Century Digital to evaluate the possible acquisition of a further interest in Century Digital. In this regard, the Company has been working closely with its professional advisers with the objective of formulating an acquisition proposal that will best serve the interests of the Company and its shareholders. Further announcements will be made as and when appropriate.

DIRECTORS AND STAFF

Mr. Daniel Bong Shu Yin and Mr. Michael Choi Chi Wing retired as Directors at the last Annual General Meeting of the Company held in June 1999, while Mr. John Poon Cho Ming resigned as a Director in October 1999. On behalf of the Board, I would like to thank them for their past contribution and, at the same time, to welcome Mrs. Lo Lee Kit Tai and Mr. Jimmy Lo Chun To who were appointed as Directors in October 1999. Taking this opportunity, I wish to extend my deep appreciation to all my fellow colleagues on the Board as well as all management and staff members for their continuing support and hard work, particularly as we steer through such difficult period.

LO YUK SUI

Chairman

Hong Kong
19th May, 2000