

# Chairman's Report



Dear shareholders,

I am presenting herewith the Annual Report of the Company for the year ended 31st December, 2002.

## **FINANCIAL RESULTS**

For the year ended 31st December, 2002, the Group incurred an audited consolidated net loss attributable to shareholders of HK\$71.5 million, as compared with a net loss of HK\$1,650.7 million recorded for the 2001 financial year.

## **DIVIDEND**

The Directors have resolved not to recommend the payment of a final dividend for the year ended 31st December, 2002 (2001 - nil).

## **REVIEW OF OPERATIONS**

In the 2002 Interim Report, the Company explained that apart from certain minor investments, the Company's only major assets comprise its majority holdings of shares in Paliburg Holdings Limited, which have been pledged to the financial creditors as security for the Company's indebtedness. In order to ensure the continued integrity of the Company as a going concern, it will therefore be critically important that a consensual restructuring of the Company's indebtedness can be implemented and the majority shareholding in Paliburg maintained.



On 2nd August, 2002, the Company announced the entering into of the Share Swap Agreement, contemplated in conjunction with a series of reorganisation exercises at different corporate levels within the overall Century City Group including, among others, the Stanley Transfer between Paliburg and Regal Hotels International Holdings Limited, the Settlement Proposal in respect of the Exchangeable Bonds and the Convertible Bonds of Paliburg and the Paliburg Acquisition by Paliburg. Full details of these transactions were fully set out in the circular of the Company's shareholders dated 26th August, 2002.

The Company is pleased to advise shareholders that following approvals by respective shareholders or, as applicable, independent shareholders of Regal, Paliburg and the Company, all of these announced transactions have been duly completed on or before 31st December, 2002. It is particularly worth mentioning that, with the implementation of the Settlement Proposal, the financial stability of Paliburg has now been practically restored, as can be seen from its announced results for 2002.

On completion of the Share Swap Agreement on 31st December, 2002, each of the vendors in the Paliburg Acquisition (including a company owned and controlled by myself) sold to Almighty International Limited an aggregate of 3,450 million Paliburg Convertible Preference Shares (convertible into a same number of Paliburg new ordinary shares), satisfied by Almighty issuing 13,800 million Exchangeable Preference Shares which are exchangeable into the Paliburg Convertible Preference Shares (or Paliburg ordinary

shares if so converted) on a 4-for-1 basis. Pursuant to the Share Swap Agreement, the vendor company owned and controlled by myself has transferred the beneficial interest in the entire issued ordinary share capital of Almighty to the Company for a nominal consideration, subject to repurchasing right in certain events including the taking of precipitating action by the financial creditors of the Company. The vendor company owned and controlled by myself has also granted to the Company a right to call for an aggregate of 11,000 million Exchangeable Preference Shares of Almighty by the issue of new ordinary shares of the Company on a 1-for-1 basis at any time before 31st December, 2003 if certain conditions, including that the Company having successfully restructured its debts and is no longer in default of any material loan, are met.

If a consensual restructuring of its financial indebtedness can be successfully implemented, the Company will be able to acquire through the exercise of the call option effective interest in 2,750 million Paliburg ordinary shares, representing 113.7% of the existing issued share capital of Paliburg. Without taking into account any additional interest in underlying Paliburg ordinary shares that may come through from the put option granted to the other vendors in the Paliburg Acquisition over the Exchangeable Preference Shares of Almighty that they hold, the call option itself provides a mechanism to the Company for it to maintain an overall controlling interest of approximately 71.5% in Paliburg even on a fully diluted basis.

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



### **PALIBURG HOLDINGS LIMITED**

For the year ended 31st December, 2002, Paliburg recorded an audited consolidated net profit attributable to shareholders of HK\$1,621.6million, as compared with a net loss of HK\$1,071.0 million recorded for the 2001 financial year. The profit attained in the year under review was primarily the result of the net gain of approximately HK\$2,988.1 million recorded under the Settlement Proposal in respect of the Exchangeable Bonds and the Convertible Bonds of Paliburg and after having provided for its attributable share of loss incurred by Regal, net deficit on revaluation of hotel properties owned by Regal and interest accruing on the Paliburg Bonds before completion of the Settlement Proposal.

Under the Stanley Transfer, which was completed on 31st October, 2002, Paliburg transferred to Regal its 40% interest in the Stanley development project for a consideration of HK\$470.0 million, determined with reference to an independent professional valuation of the project as at 31st May, 2002 and satisfied by Regal issuing and allotting at the direction of Paliburg 1,958.3 million new ordinary shares of Regal at an issue price of HK\$0.24 per share. Out of the consideration shares received, 1,896.5 million new ordinary shares of Regal were issued to a special purpose entity designated by Paliburg for the purpose of the Settlement Proposal.

Following protracted negotiations by Paliburg with the holders of the Exchangeable Bonds and the Convertible

Bonds, the Settlement Proposal was finally completed on 31st October, 2002. Under the Settlement Proposal, the indebtedness under the Paliburg Bonds was settled in full, principally satisfied by the transfer of the Paliburg group's entire equity interests in the wholly-owned subsidiary companies owning Paliburg Plaza and Kowloon City Plaza, the two major investment properties of the Paliburg group, and the phased release of a total of 1,896.5 million Regal ordinary shares received under the Stanley Transfer to the Bondholders. Total indebtedness of Paliburg eliminated as a result of the Settlement Proposal amounted to HK\$5,052.0 million and accounting profit in the net amount of approximately HK\$2,988.1 million was recorded by Paliburg in the financial year under review.

There are at present 1,706.5 million Regal ordinary shares, representing approximately 27.1% of Regal's existing ordinary issued share capital, held within the designated special purpose entity and the voting rights attached to those Regal ordinary shares remain vested with Paliburg except in certain limited circumstances. Therefore, Regal continues to be accounted for as a subsidiary company of Paliburg, but the beneficial interest in those Regal ordinary shares was deemed to have been divested by Paliburg for the purpose of financial reporting. Assuming there are no other changes in the capital structure of Regal or in the shareholding held by Paliburg in Regal, the level of Paliburg's shareholding interest in Regal will be reduced to below 50% on full release of the 1,896.5 million Regal ordinary shares by July 2004.



On 2nd August, 2002, Paliburg entered into a conditional agreement with respect to the Paliburg Acquisition with certain vendors, including a company owned and controlled by myself. Under the agreement, Paliburg agreed to acquire the entire issued share capital of Venture Perfect Investments Limited. Venture Perfect is an investment holding company which holds a 50% interest in Leading Technology Holdings Limited. The Leading Technology group is principally engaged in the design, development, integration and distribution of innovative and technologically advanced security and building related systems, software and products in the Greater China region. Venture Perfect also held, through its wholly-owned subsidiary companies, approximately HK\$70.0 million in cash. The consideration of HK\$345.0 million for the Paliburg Acquisition was determined with reference to a business valuation of the Leading Technology group conducted by an independent valuer, to be satisfied by the issue of an aggregate of 3,450 million Paliburg Convertible Preference Shares. Each Paliburg Convertible Preference Share can be converted into one Paliburg ordinary share at any time within 3 years after completion of the Paliburg Acquisition.

The Paliburg Acquisition was duly completed on 31st December, 2002. Paliburg believes that the Paliburg Acquisition will enrich and strengthen the business base of the Paliburg group and the HK\$70.0 million cash resources within Venture Perfect have also considerably improved its working capital position.

The capital reorganisation proposal of Paliburg, involving principally the reduction

and cancellation of the nominal value of Paliburg's ordinary shares from HK\$1.00 each to HK\$0.01 each and the application of certain credits and reserves towards elimination of the accumulated losses incurred, has become effective on 22nd November, 2002.

Following the completion of the Stanley Transfer, the Paliburg group's 70% interest in the luxury residential development at **Rural Building Lot No.1138, Wong Ma Kok Road, Stanley** is now entirely held through Regal. Major construction works for Phase I, comprising 84 residential houses and the clubhouse facilities, have been completed and the occupation permit issued in March 2003. While the construction works for Phase II are in progress, the presale programme for Phase I is intended to be launched shortly after the consent to sell has been obtained.

Paliburg retains a 30% interest in the joint venture for the development of **Ap Lei Chau Inland Lot No.129, Ap Lei Chau East**. Further revised scheme and information have been submitted to the Town Planning Board for the proposed development comprising primarily residential accommodation and it is anticipated that the formal approval process should be able to be accomplished within the near future.

More than 75% of the lettable space in the office floors and all ground floor shops at **211 Johnston Road, Wanchai** have been leased to date. Though the property is presently held for rental income, Paliburg may consider disposing of the property at satisfactory price.



The government administration is generally supportive of a proposed resort and recreational development on the **various lots owned by Paliburg in Demarcation District No.251, Sharp Island, Sai Kung**. The revised proposal for a comprehensive resort development to fit in with the government's objective of developing the region into a large scale water sports resort center is being finalised and will be submitted to the government in the near future.

The foundation works for the residential project at **Lot No.1736 in D.D. 122, Ping Shan Lane, Tong Yan San Tsuen, Yuen Long, New Territories**, comprising 16 duplex units with ancillary carparking facilities, have been completed and superstructure works are in progress. The development, which is intended for sale, is scheduled for completion in the third quarter of 2003.

As previously reported, the investment property at **Redhill Plaza, 3 Red Hill Road, Tai Tam** was sold in June 2002 through a tender process at a consideration of HK\$169.9 million.

The **Site at Gong Ren Ti Yu Chang Street East, Chao Yang District, Beijing** entails the development of an office/commercial building with gross floor area of about 1,000,000 square feet. Foundation works have been completed and basement works are in progress. According to the proposed construction schedule, the project is anticipated to be completed in 2004.

The development plans for the **Site at Chao Yang Men Wai Da Jie, Chao Yang District, Beijing** are being revised to adapt

to the general planning conditions governing developments in the Central Business District of Beijing. In the meanwhile, the Paliburg group is still working to resolve various outstanding issues with the relevant local government authorities and potential disputes with the joint venture partners with regard to the formal vesting of the land title of the subject site to the joint venture entities.

The Los Angeles United School District has initiated formal proceedings to compulsorily acquire the **Crown Hill site** owned by the Paliburg group. A sum of US\$10 million has been put into court by the United School District as its initially determined probable compensation. The Paliburg group has retained legal advisers and professional valuers to object the probable compensation so determined. It is expected that the issue will be adjudicated by the U.S. court within the next few months.

Despite the overall contraction in the local construction industry, **Chatwin Engineering Limited** has successfully obtained new jobs including interior fitting out works as well as building repair and improvement works. Chatwin will continue to explore new business opportunities.

The Paliburg group held though a 75%-owned subsidiary company a 25% interest in a **cement plant in Weifang, Shandong**. In November 2002, the Paliburg group has entered into an agreement with an independent third party for the disposal of the 25% interest in the cement plant for a consideration of RMB30.7 million.



## REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

For the year ended 31st December, 2002, Regal incurred an audited consolidated net loss attributable to shareholders of HK\$765.0 million, as compared with a net loss of HK\$514.2 million for the preceding financial year.

Out of the net loss of HK\$765.0 million incurred for the year, HK\$437.0 million was related to impairment arising from the sale of the Regal Constellation Hotel in Toronto, HK\$181.9 million attributable to impairment for the planned disposal of the Regal Oriental Hotel and the Regal Riverside Hotel and HK\$93.3 million being loss incurred on the sale of its investment in a convertible note receivable in the second half of the year.

If the results of the hotel business of Regal are reviewed in isolation, the income from hotel operation and management businesses has substantially increased by about 42% from HK\$181.7 million in 2001 to HK\$258.2 million in 2002.

During the year under review, the average hotel occupancy in Hong Kong in 2002 increased by about 6.3% as compared with 2001. However, due to the relatively minor growth in the high-yield market segments, the average room rate continued to be under pressure and recorded a drop of about 5.3%.

For the **five Regal Hotels in Hong Kong**, the combined average occupancy for 2002 was about 12.1% higher than 2001, while

the drop in the combined average room rate was contained at about 4%. Together with the stringent measures implemented to control operating costs, gross operating profits before management fees for these five hotels recorded a growth of about 43.7% as compared with 2001. Due to its unique location and capacity, the **Regal Airport Hotel** is now by far the single largest revenue contributor of the Regal group's hotels in Hong Kong.

During the second half of the year under review, Regal successfully completed two fund raising exercises with a view to strengthen its financial position. In October 2002, Regal concluded the issue of a series of 5% Guaranteed Convertible Bonds due 2004, pursuant to which firm bonds in the sum of HK\$50.0 million were subscribed, together with an option for the initial subscriber to further subscribe for additional bonds up to HK\$50.0 million on the same terms. In November 2002, a placing of existing shares and subscription for new shares of Regal was consummated, pursuant to which the Paliburg group subscribed for an aggregate of 310.0 million new ordinary shares of Regal at a price of HK\$0.065 per share. Subsequent to the year end, Regal repurchased in January 2003 from the initial subscriber a principal amount of HK\$30.0 million of the firm bonds (together with interest accrued) at a consideration of HK\$30.5 million, funded by proceeds derived from the realisation of certain security provided for the bonds.



As previously reported, the Regal group entered into a share purchase agreement with a third party purchaser for the sale of its 100% equity interest in the subsidiary company that owns the **Regal Constellation Hotel in Toronto, Canada**. The due diligence review by the purchaser has been completed but, at the request of the purchaser, closing of the transaction has been deferred to May 2003. If the sale duly proceeds to completion, the outstanding loan attached to the hotel will be fully repaid and the surplus consideration will be receivable by the Regal group on a staged basis.

The Regal group has initiated legal proceedings in the United States for the recovery of the deferred consideration together with accrued interest receivable from the sale of its hotel interests in the United States completed in December 1999.

The **two hotels in Shanghai managed by the Regal group** attained improved performance during the year and contributed increased management income.

Operations at the **Kaifeng Yatai Brewery in Henan** remained difficult due to the very competitive environment and additional efforts have been taken to strengthen its management. The Regal group is hopeful that the operating loss can be further contained in the current year.

## OUTLOOK

Business at the five Regal Hotels in Hong Kong during the initial period of January and February 2003 was very encouraging, with gross operating profits significantly surpassing those recorded in the comparative period in 2002. However, due to the outburst of SARS in March, businesses for all hotels in Hong Kong plummeted. Immediate cost reduction initiatives have been put in place by the Regal group at the operating level to alleviate the damage. If the spread of SARS cannot be controlled in time, outlook for the first half of 2003 is bleak.

Since February this year, Regal has been actively engaging in loan restructuring discussions with its bank lenders. In conjunction with the loan restructuring proposal, the Regal group has recently mandated professional agency firms to market the sale of the Regal Oriental Hotel and Regal Riverside Hotel, which are its two hotels in Hong Kong of less strategic importance. On account of the planned disposal, the Regal group has provided for impairment in the values of these two hotel properties in the financial accounts for the year under review based on an expedited sale valuation assessed by an independent professional valuer.



Despite the present crisis created by the outburst of SARS, the Regal group still maintains an optimistic outlook on the future of the hotel industry in Hong Kong due to the government's commitment to boost local tourism. In deciding on the planned disposal at this juncture of its two non-core hotels in Hong Kong, the Regal group has taken into consideration the more significant benefits that will emanate from a reduction in its overall debt levels and the financial stability that may be achieved through the successful implementation of a consensual loan restructuring scheme.

With the implementation of the series of financial restructuring and corporate reorganisation exercises during the year, the financial strength of Paliburg has been restored. If the debts of the Regal group are excluded, the outstanding bank indebtedness of the Paliburg group only amounted to approximately HK\$298.1 million as at 31st December, 2002. Despite that the Paliburg group has inevitably become leaner due to the divestiture of some of its major assets under the Settlement Proposal, the Paliburg Acquisition was aimed to provide to the Paliburg group with new opportunities that are complementary to its existing core businesses. The Paliburg group has gone a long way to achieve its corporate recovery and its directors are hopeful of its restated growth in the coming years.

The Company has over the past months continued to work diligently on a financial restructuring proposal with its financial creditors. Under the final proposal presented by the Company to its financial creditors, most of the outstanding financial indebtedness is proposed to be converted into certain convertible instruments to be issued by the Company. If this proposal can be implemented, the financial health of the Company is expected to be restored through the elimination of most of its outstanding financial indebtedness, while the financial creditors will be able to share in the equity upside of the Company. A majority of the financial creditors of the Company has indicated the willingness to support in principle the financial restructuring proposal. Legal documentation for the financial restructuring has recently been circulated to individual lenders, but the ultimate implementation of the proposal will of course have to meet with the approval of all relevant financial creditors concerned.

#### **DIRECTORS AND STAFF**

Once again, I wish to take this opportunity to thank my fellow Directors for their continuing support and all management and staff members for their devoted commitment throughout all these years.

#### **LO YUK SUI**

Chairman

Hong Kong  
17th April, 2003

