Chairman's Report

Dear shareholders,

I am presenting herewith the Annual Report of the Company for the year ended 31st December, 2000.

FINANCIAL RESULTS

For the year ended 31st December, 2000, the Group incurred an audited consolidated net loss attributable to shareholders of HK$641.3 million, as compared with a net loss of HK$1,363.6 million recorded for the 1999 financial year.

DIVIDEND

The Directors have resolved not to recommend the payment of a final dividend for the year ended 31st December, 2000 (1999 - nil).

REVIEW OF OPERATIONS

During the period from the beginning of 2000 to the date of this report, continuous efforts were put to implementing for the Group a financial restructuring with a view to resolving the liquidity strains encountered. Due to the stagnant condition of the local property market, disposal of sizable assets was relatively hard to achieve. In order to relieve part of the liquidity strains, the Group resorted to a mortgage-backed securitisation based on the Group's two principal investment properties at Kowloon City Plaza and Paliburg Plaza to raise additional funds. A sum of HK$1,247 million was raised through the securitisation process, which was completed in September 2000, and the net proceeds derived was used to repay or reduce bank borrowings and for general working capital purposes.

As stated in the Interim Report issued in September 2000, the Group had outstanding Exchangeable Guaranteed Bonds due for maturity in February 2001 and it was mentioned that depending on circumstances developing, the Group may need to enter into discussions with the bondholders with a view to restructuring the terms of the bonds. In last October, an independent financial adviser and a legal adviser were appointed to advise the Company with respect to the possible restructuring of the terms of the Exchangeable Bonds and the Zero Coupon Guaranteed Convertible Bonds due 2002. Since then, informal meetings and discussions have been held with the holders of the two bonds and a restructuring proposal involving, among others, an extension of the maturity date of the bonds to February 2004 was presented to the bondholders for their consideration.

As announced by the Company in its announcement dated 6th February, 2001, the Exchangeable Bonds involving a total outstanding principal amount, premium and interest accrued of US$161,488,405 matured on 6th February, 2001 and remain unpaid. This non-payment has caused a cross-default to the Convertible Bonds with an outstanding principal amount of approximately US$210,000,000, which together with the accrued premium have now become due and payable.

The Company is in discussions with the holders of the bonds with a view to putting in place a consensual restructuring of the terms of the bonds to avoid any enforcement action being taken by the trustees of the bonds.

A brief review of the principal operating activities of the Group is contained below.

PROPERTY DEVELOPMENT

HONG KONG

211 Johnston Road, Wanchai

The office floors and the remaining ground floor shops have been put up for leasing and approximately 44% of the available space is presently rented. The Group will consider selling all of the office floors and shop units owned when market condition of commercial properties improves.

361 Shau Kei Wan Road, Shau Kei Wan

An agreement for the sale of this office/retail banking building at a consideration of HK$100 million was signed recently and completion is scheduled for June 2001. The net proceeds, after repayment of the attached bank debt, will be used for general working capital purposes.

Park Royale, Town Park Road North, Yuen Long

Except for some remaining car parks, all the units in this residential complex have been sold.

Ap Lei Chau Inland Lot No. 129, Ap Lei Chau East

The Group is retaining a 30% interest in the joint venture for the development of this site. In February 2001, the site was formally rezoned from industrial to residential development use. The joint venture is presently proposing a development comprising primarily residential accommodation of approximately 903,000 square feet with ancillary commercial and other facilities. Under the terms of the joint venture, any future funding required for the completion of the project will be procured by the other partners of the joint venture with no recourse to the Company.

Various lots in Demarcation District No. 251, Sharp Island, Sai Kung

The proposed resort and recreational development on the subject property, which has an aggregate site area of 201,700 square feet, has been accommodated in the Draft Recommended Development Strategy of Study on South East New Territories Development Strategy Review conducted by the government. Revised plans are being prepared and will be submitted shortly to advance the project further.

Lot No. 1736 in D.D. 122, Tong Yan San Tsuen, Yuen Long

To cater to changed market demand and to achieve savings on construction costs, the building plans for this residential project, entailing a total gross floor area of about 22,000 square feet, have been revised and recently approved.

Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley

This luxury residential development project, which is 40% beneficially owned by the Company and 30% owned by Regal, is planned to provide a total of 139 houses with an aggregate gross floor area of about 428,900 square feet, complemented with a wide range of club house, recreational and other ancillary facilities.

Negotiations with the lending banks to reactivate drawdowns under the original construction loan facility are in a final stage and preparatory works for the recommencement of construction works have also mostly been completed. Assuming that the construction works can be recommenced shortly, presale of the Phase I house units will be launched in the first half of 2002. Similar to last financial year, the financing costs (including interests accruing on the shareholders' loans) incurred by the jointly controlled entity owning the project have not been capitalized. Consequently, the Group's results for the year under review have been adversely affected.

THE PEOPLE'S REPUBLIC OF CHINA

Paliburg Plaza Development, Chao Yang District, Beijing

The Company held through one of its wholly owned subsidiaries a 65% interest in the foreign partner holding a 70% interest in a sino-foreign equity joint venture, which in turn owns the development site. In December 2000, the Company completed the sale of a 50% interest in the wholly owned subsidiary to a third party for a gross consideration of HK$71,500,000. After netting off certain other amounts payable, the net proceeds received amounted to approximately HK$24,700,000.

The development project is planned to consist of twin office towers erected on a commercial podium with an aggregate gross floor area of about 1,000,000 square feet. The development plans have already been approved and construction works will soon commence. Unit presale of the development is expected to be launched as soon as practicable. Funding required for the construction works is planned to be provided through project financing.

Century City Plaza Development, Chao Yang District, Beijing

In June 2000, the Group entered into an agreement with a third party in relation to the joint development of the site, under which the Group will retain exclusively the hotel portion included in the subject site, which is to have a developable gross floor area of about 860,000 square feet and to be delivered on a vacant and leveled basis.

Pursuant to that agreement, supplemental contracts relating to the PRC co-operative joint venture established for the project have been signed by the parties involved and approved by the relevant government authorities.

In November 2000, the Beijing Land Resources and Housing Administration Bureau issued an announcement announcing the resumption of the subject site due to its idle condition. However, the affected parties will have the right to make application to the Beijing municipal government or The Ministry of Land and Resources P.R.C. for an administrative review.

The Group together with the other parties concerned are undertaking negotiations with relevant authorities with a view to safeguard their respective interests. The Directors are hopeful that the matter will be able to be resolved in the near future.

UNITED STATES OF AMERICA

The Group owns the Crown Hill site located in the central city west area of Los Angeles. The Group is considering options for the possible disposal of this property.

PROPERTY INVESTMENT

Paliburg Plaza, Causeway Bay

About 96% of the office space and 99% of the retail space are currently under lease, and the rental levels are maintained at about the same levels in 1999.

Kowloon City Plaza, Kowloon City

Due to the continued contraction in consumer spending, rental rates achieved on new tenancies and renewals were under pressure, but the average occupancy during the year was maintained at about 92%.

Redhill Plaza, 3 Red Hill Road, Tai Tam

Over 90% of the lettable space in this commercial complex is currently under lease or committed at satisfactory rental rates.

CONSTRUCTION AND CONSTRUCTION RELATED BUSINESS

Construction Business

Contract works being undertaken by Chatwin Engineering Limited, an 80% owned subsidiary of the Group, have been progressing steadily and are expected to generate satisfactory profits. However, due to the contraction of new construction works and the narrowing of profit margin, the securing of future contracts will become more competitive.

Construction – related Business

The cement plant in Weifang, Shandong, the PRC, in which a 75% owned subsidiary of the Company holds a 25% interest, maintained steady performance during the year.

REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

For the year ended 31st December, 2000, Regal incurred an audited consolidated net loss attributable to shareholders of HK$227.5 million, as compared with a net loss of HK$1,085.7 million for the preceding financial year.

Hong Kong

During the year under review, visitor arrivals to Hong Kong increased by about 15% to a total of over 13 million. Benefiting from the increased number of visitors, the average hotel occupancy in Hong Kong was up by more than 3% as compared with 1999, while average room rate also gained by about 10%.

The combined average occupancy of the four Regal Hotels in Hong Kong in 2000, excluding the Regal Airport Hotel in Chek Lap Kok, was 74.2%, representing an increase of about 9% as compared with the preceding year. As for the combined average room rate, an increase of about 10% was recorded. The improved performance attained was largely attributable to efforts placed on the strengthening of the sales and marketing functions. The renovation programme for the Regal Kowloon Hotel is in progress, with the executive floors on the top two storeys of the hotel building just reopened after major renovation works. The new conference and meeting facilities for the Regal Hongkong Hotel have been very well received and contributed to additional room and food and beverage businesses. To meet the increasing demand, these conference and meeting facilities have recently been further expanded.

With additional hotel rooms being completed and coming on stream in stages, the number of average available rooms for the Regal Airport Hotel increased from 576 in 1999 to 881 in 2000. Due to the enlarged room count, the average occupancy during the year under review was marginally lower than that in 1999, but the average room rate improved by over 5%. Except for a few superior suites which are undergoing final decoration works, all of the 1,100 rooms in this hotel have been completed since early this year. Having regard to the size of its operating capacity and its unique positioning, this hotel will no doubt be the most significant revenue generator of all the five Regal Hotels in Hong Kong.

The Regal group retains a 30% joint venture interest in the residential development project at Wong Ma Kok Road, Stanley, the latest progress of which has been separately reported on in the section above.

United States and Canada

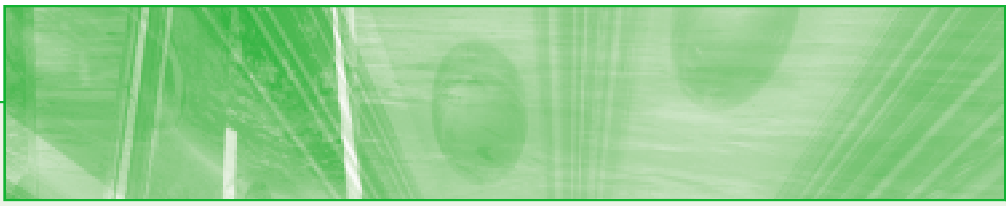
With the sale of the Regal Bostonian Hotel completed in June 2000, the disposal of all of Regal group's hotel ownership and management interests in the United States has been duly completed. The deferred portion of the consideration in the amount of approximately US$45 million will be receivable by Regal in December this year.

The Regal group still owns the Regal Constellation Hotel in Toronto, Canada, which is maintaining steady performance.

The People's Republic of China

Business at the two managed hotels in Shanghai, namely, the Regal International East Asia Hotel and the Regal Shanghai East Asia Hotel, remained satisfactory and contributed modest management income.

The Kaifeng Yatai Brewery in Henan continued to face very difficult operating environment due to stiff competition. The management and marketing functions of the brewery are being reinforced with a view to enhancing its operational efficiency and to expanding its sales into new markets in the PRC.



OUTLOOK

With brighter prospects setting in for local tourism, the hotel industry in Hong Kong is anticipated to sustain further recovery in 2001. As the Regal Airport Hotel is now virtually in full swing, overall revenues from Regal group's hotel operations in Hong Kong are expected to substantially increase as compared with the year under review.

The Directors of Regal are hopeful that as the overall economic condition in Hong Kong improves, Regal will be able to gradually restore its profitability.

Following completion of the refinancing through the securitisation arrangement concluded in September last year, facilities from lending banks have mostly been stabilized. In fact, one of the principal objectives of the securitisation arrangement was to put the Group on a more stable platform, such that negotiations with the lending banks of the Stanley development project for the revival of the original construction facilities could be expedited. As mentioned above, such negotiations are already in a very final stage. If the Stanley development project can be successfully completed and sold, the level of interest expenses of the Company as well as that of Regal will be significantly reduced and may further generate substantial cash surplus after repayment of the project loan.

The Group as a whole will continue with its asset disposal programmes in order to further reduce its gearing levels and to provide funding for its future commitment. In the meantime, the Company is engaging in active discussions with the holders of the Exchangeable Bonds and Convertible Bonds with a view to restructuring the terms of the bonds. The outcome of the discussions is yet uncertain, but if the restructuring proposal can be satisfactorily concluded, the overall stability of the Group going forward will be ensured.

DIRECTORS AND STAFF

Taking this opportunity, I would like to express my sincere gratitude to my fellow Directors, management and staff members for their support and dedication during the past years and I look forward to working closely with them to steer the Group through the challenges ahead.

LO YUK SUI
Chairman

Hong Kong
17th April, 2001