

Chairman's Report



Dear shareholders,

I am pleased to present the Annual Report of the Company for the year ended 31st December, 2004.

FINANCIAL RESULTS

For the year ended 31st December, 2004, the Group achieved an audited consolidated net profit attributable to shareholders of HK\$516.8 million, representing an increase of 33.3% over the HK\$387.6 million attained in the 2003 financial year.

DIVIDEND

The Directors have resolved not to recommend the payment of a final dividend to holders of ordinary shares for the year ended 31st December, 2004.



MAJOR CORPORATE AND FINANCIAL HIGHLIGHTS

On 31st July, 2004, the final tranche of the ordinary shares held by the Group in Regal Hotels International Holdings Limited was released to the former bondholders of the Group and Regal has accordingly ceased to be a subsidiary company of the Company.

The results of Regal were accounted for in the consolidated financial accounts of the Group on a consolidation basis in the first 7 months of 2004 and on an equity accounting basis for the remaining 5 months to 31st December, 2004. In the consolidated balance sheet of the Company as at 31st December, 2004, Regal was treated as an associate of the Company and the interest in Regal reflected the Company's attributable share of the underlying net assets of Regal as at that date.

The Company held as at the balance sheet date approximately 45% of the existing issued ordinary shares of Regal and approximately 43% of the outstanding 2007 warrants of Regal issued by Regal pursuant to its bonus issue of warrants in August 2004 and, in addition, certain outstanding convertible preference shares of Regal.

The results of the Group for the year under review included write back of provisions for impairment and deficit on revaluation relating to Regal's hotel properties in Hong Kong in the respective amounts of HK\$165.8 million (2003 – HK\$11.4 million) and HK\$446.5 million (2003 – HK\$266.1 million), determined by reference to their independent professional valuations as at the relevant balance sheet dates, and a provision for impairment of goodwill in an amount of HK\$189.6 million in relation to the Group's building related businesses.

With a view to strengthening the capital base of the Company, the Company issued during the year under review a total of 1,290 million ordinary shares through a series of private share placements.

Prior to the balance sheet date, all the 3,450 million convertible preference shares issued by the Company pursuant to the Paliburg Acquisition in 2002 have been fully converted into ordinary shares of the Company.



REVIEW OF OPERATIONS

PROPERTIES

HONG KONG

211 Johnston Road, Wanchai

The Group still owns in this office/commercial building all the office floors with total gross floor area of about 60,900 square feet and certain ground floor shops with total gross floor area of about 2,200 square feet. In view of the general revival of the commercial/office property market, the Group has written back in the year under review the previous provision of HK\$47.3 million made for impairment in respect of these retained properties, taking into account their independent professional valuation as at 31st December, 2004.

Rainbow Lodge, 9 Ping Shan Lane, Yuen Long, New Territories

The certificate of compliance for this residential development was issued in January 2004. The development project has a total of 16 duplex units with aggregate gross floor area of 30,800 square feet and ancillary car parking facilities. The progress on the units sale has been satisfactory, but in view of the improvement in the general market sentiment for residential properties, the Group is considering the proposal to adjust the selling price of the remaining units upwards and it is expected that a new marketing programme will be launched shortly.

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

The Group retained a 30% interest in this joint venture development project. The proposed development entails primarily residential accommodation having gross floor area of about 900,000 square feet together with certain ancillary retail, recreational and car parking facilities. Pending the determination of the land premium amount, the basic terms of the lease modification have substantially been finalised.

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

The Group has retained professional consultants to advise on the formulation of a revised proposal for an overall comprehensive development scheme centering on the various lots owned by the Group, which entails resort hotel, water sports, recreational, spa and other related accommodations and facilities. Due to the complex nature of the proposed development scheme, progress is expected to be relatively gradual.



THE PEOPLE'S REPUBLIC OF CHINA

Development Project at Gong Ren Ti Yu Chang Street East, Chao Yang District, Beijing

The Group is still in discussions with the purchaser who has defaulted on the agreement entered into by the Group in July 2003 for the sale of the Group's entire joint venture interest in the development project, with a view to overall resolving the situation. In the meanwhile, construction works of the project have been progressing.

Development Site at Chao Yang Men Wai Da Jie, Chao Yang District, Beijing

The Group has a 23% interest in the two joint venture companies involved in the subject development project. Following the approval by the Beijing Municipal Commission of Urban Planning of the development plan for the entire project in December 2003, the Beijing Municipal Administration of State Land and Resources granted in August 2004 to one of the two joint venture companies a Beijing Grant Contract of State-owned Land Use Right for the granting of land use rights of the subject development site, subject to payment of the requisite land premium. Under the terms of the Grant Contract, the development site will have a total permissible gross floor area of about 4,630,000 square feet encompassing office, residential, hotel, commercial and car parking accommodations. As no consensus can yet be reached among the joint venture parties involved, the due date for its payment under the terms of the Grant Contract has expired and the land premium remains unpaid. The Group is in active negotiations with the other joint venture parties and with potential investors to explore various feasible alternatives in addressing the situation and with a view to optimising the value of the Group's interest in the project.

CONSTRUCTION AND BUILDING RELATED BUSINESSES

Construction Business

The construction business of the Group, which is undertaken through Chatwin Engineering Limited, continues to be affected by the overall contraction in the local construction industry but the operations of Chatwin remain profitable. Chatwin will continue to seek new opportunities for the possible expansion and diversification of its existing businesses.

Building Related Business

The technology-based building related businesses of the Group are undertaken through the Leading Technology group, which is now wholly owned by the Group.



During the year under review, the Leading Technology group has successfully improved and upgraded its fingerprint access control system and property management system for hotels to new versions and with new features and functions that can enhance the values of its products and at the same time broaden its potential market. Basing on its experience and know-how in the building security business, the Leading Technology group is actively considering developing into mobile digital video recording and surveillance businesses.

Depending on the level of funds that will be deployed in the development of its new products and businesses, particularly on research and development, marketing and capex expenditures, the business valuation of the Leading Technology group would range from over HK\$520 million under an expansion scenario to HK\$58 million on a contraction scenario, based on a business valuation recently conducted by an independent professional valuer. As it is the Group's intention to re-build its core real estate businesses and to maintain an effective controlling interest in Regal, the Group has not determined whether it would allocate significant resources to fund and launch the business undertakings of the Leading Technology group on a full-fledged basis in accordance with its expansionary business plan. Taking this into due consideration, the Group has taken the prudent view to adjust the carrying value of the Leading Technology group to its professional business valuation based on the contraction scenario and has accordingly made a relevant impairment of goodwill in the sum of HK\$189.6 million in the financial statements for 2004.

Others

The Group also operates a comprehensive range of other building related businesses including development consultancy comprising architectural, engineering and interior design services, project management, building services and estate management.

REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

Regal, which is now a 45% held listed associate of the Group, achieved for the year ended 31st December, 2004 an audited consolidated net profit attributable to shareholders of HK\$602.9 million, which represented an increase of 190.1% over the corresponding figure of HK\$207.8 million attained in the 2003 financial year.

In December 2004, the Regal group completed a 5-year HK\$4,750 million syndicated loan facility from certain major banking institutions, primarily to refinance all of its bank loans then outstanding under the rescheduling agreement which has been in place since September 2003 as well as to provide additional working capital. After the complete normalisation of its banking arrangements, the Regal group is now well poised to undertake and implement its business development plans.



HOTELS

HONG KONG

Comparing with 2003, the combined average room occupancy level and the combined average room rate for the five Regal Hotels in Hong Kong for the year under review have increased by 39.5% and 14.1%, respectively, while the gross operating profit margin has at the same time improved by 44.8%. These translated into an overall gross operating profit for the five hotels in 2004 of HK\$419.7 million, representing a growth of 102.7% as compared with the corresponding figure in 2003.

Apart from the general revival in the local hotel business, the significant improvement in the operating results achieved by Regal's hotels was also attributable to the various measures on cost containment and realignment of manpower resources undertaken during the past few years. The operational structure of Regal's hotel business is now even more compact and efficient, and is well prepared for the growing demands and to take on new challenges.

With a view to enhancing the quality and competitiveness of its hotel properties in Hong Kong, Regal is implementing, in stages, various extension, renovation and upgrading plans for the hotels.

The plans involving the alteration and addition of five floors on the top portion of the existing hotel building structure of Regal Hongkong Hotel, which will provide about 50 additional deluxe guest rooms, have recently been approved by the government authority. Construction works are expected to commence later this year, scheduling to be completed before the end of 2006.

Plans for the addition of three floors on top of the existing building structure of Regal Riverside Hotel in Shatin, to provide about 280 additional hotel rooms, are also being submitted to the relevant government authority for approval. Other proposals to increase the number of room count and beds in this hotel are also being considered. Pending approval of the plans by the government, modifications might be made to this extension programme to suit changing market needs. While renovation works to upgrade the hotel lobby will commence shortly, refurbishment of some of the hotel restaurant outlets are already in progress.



To enhance the market positioning of the Regal Kowloon Hotel, the hotel lobby will be renovated and upgraded to create a new and elegant image. As part of the hotel renovation programme and with a view to boosting the hotel food and beverage revenues, a number of food and beverage outlets at the hotel will also be renovated. The cafe lounge next to the hotel lobby will be fully refurbished to provide a trendy alfresco atmosphere and the coffee shop on the first basement floor will be renovated with an attractive new look.

The renovation of the guest room floors at the Regal Oriental Hotel is being carried out in stages. Certain guest rooms have already been refurbished with different country themes and are well received by hotel guests. The footbridge linking the hotel with the old Kai Tak Airport Terminal car park building will be demolished shortly, as required by the government. In the meantime, various proposals for the effective use of the unutilised space within the hotel are also being reviewed.

No major renovation will be required for the Regal Airport Hotel, as it is still in a relatively new condition. There are substantial unutilised areas reserved in the hotel building which can be put to effective uses. Taking into consideration the hotel's business focus and the changing market environment in the locality, Regal is actively reviewing various feasibility proposals for the utilisation of these available areas for revenue generating purposes.

MACAU

Regal has recently in March 2005 entered into a Memorandum of Agreement with the Venetian Group from Las Vegas, USA, pursuant to which Regal plans to develop a mega scale hotel development project in the Cotai Resort Area in Macau.

The proposed hotel development project has a site area of approximately 618,000 square feet and a total permissible gross floor area of approximately 3.4 million square feet. The project, comprising hotel, casino, entertainment and conference facilities, is planned to be developed in two phases. Under the present plan, the first phase of the project will have a hotel with about 1,690 guest rooms and suites, together with food and beverage outlets and related hotel facilities, a casino and a showroom for large performances, conference and meeting facilities, as well as shopping and entertainment areas. The casino/showroom shell will be constructed as part of the project and will be leased to, fitted out and operated by Venetian. The second phase of the project is planned to include about 2,210 additional guest rooms and suites together with expansion space for the casino, and will have further hotel facilities and a large shopping and entertainment complex. Subject to final conclusion of the definitive agreements, it is scheduled that the construction works for the first phase of the project will commence later this year, with completion expected by late 2007.



THE PEOPLE'S REPUBLIC OF CHINA

The two hotels in Shanghai managed by the Regal group contributed during the year increased management fee income due to the hotels' improved operating performance, though the contribution is relatively modest in terms of quantum.

Capitalising on Regal's established brand name and the Regal group's extensive operational base in Hong Kong, Regal will continue to seek further investment and management opportunities in various key cities in the mainland.

PROPERTIES - Regalia Bay, Stanley

Up to the date of this report, 101 houses in this luxury residential development, which is 70% owned by the Regal group, have been sold for a gross sale consideration of about HK\$4.8 billion and all the project loans secured on the development have been fully repaid.

OUTLOOK

Business operations of the five Regal Hotels in Hong Kong in the first quarter of 2005 were encouraging, with overall gross operating profits attaining double-digit growth as compared with the corresponding period in 2004. Based on present forecast, Regal's management is confident that the five hotels should be able to achieve further improved results for the year 2005.

There are now 38 houses in Regalia Bay remaining unsold, with total gross area of about 174,000 square feet. Given the scarcity of supply in the luxury residential sector, there should be further room for price improvement. The net carrying value of the houses remaining unsold is still substantially below current market price levels and significant profits can be expected when the remaining houses are sold.

The signing of the Memorandum of Agreement for the development of a mega scale hotel project in the Cotai Strip in Macau marks an important step for Regal in the planned development of its core hotel business. Visitors from Mainland China, and indeed many visitors from overseas, invariably include Hong Kong and Macau together within their ultimate travel package. As Macau is itself developing into the "Las Vegas of the East" and the ties between Hong Kong and Macau become increasingly closer, Regal strongly believes that it is beneficial and strategically important for Regal to be in a position to command an equivalently large hotel room stock in Macau.

When the various extension programmes of the Regal Hotels in Hong Kong are completed and the hotel development project in Macau brought to fruition, the Regal group will come to own and operate a total hotel room stock of about 3,680 in Hong Kong and about 3,900 in Macau, forming a critical mass in the hotel markets of these two closely linked regions. This will enable the Regal group on the one hand to strengthen its competitive edge in the operation and marketing of its existing hotels in Hong Kong through mutual synergistic support and, on the other hand, to share in the growing prosperity of Macau.



The directors of Regal are confident on the continuing profitability and future prospects of the Regal group and its recommendation to resume the payment of a dividend to the shareholders of Regal signifies a clear endorsement of its confidence level in this regard.

Having now stabilised its overall financial position, the Group will seek to strengthen its property and investment portfolio. Given its vast experience and expertise in many spheres of the real estate sector, property and related businesses will continue to be the main line of the Group's business focus. In view of Regal's well-established business and asset base as well as its encouraging prospects, it is the intention of the Group to maintain its effective controlling shareholding position in Regal. The Directors are optimistic that the Group will be able to attain continuing growth and to bring to its shareholders satisfactory returns.

DIRECTOR AND STAFF

I would like to take this opportunity to express my personal appreciation of the dedicated efforts from all the management and staff members as well as the unfailing support from my fellow Directors.

Dr. Alex WU Shu Chih, who was an Independent Non-Executive Director of the Company, unfortunately passed away in January 2005, but all his past contribution and guidance to the Company will surely be long remembered by all of us.

I would also like to extend my hearty welcome to Mr. WONG Chi Keung, who came on Board as an Independent Non-Executive Director on 21st September, 2004, and I look forward to his valuable advice and contribution.

LO YUK SUI

Chairman

Hong Kong
11th April, 2005



Regal Hotels in Hong Kong 香港富豪酒店

Regal Airport Hotel 富豪機場酒店



The 1,000 square meter pillarless Grand Ballroom is the largest hotel ballroom in Hong Kong.
面積達1,000平方米之無柱式大宴會廳乃香港最大型之酒店宴會廳。

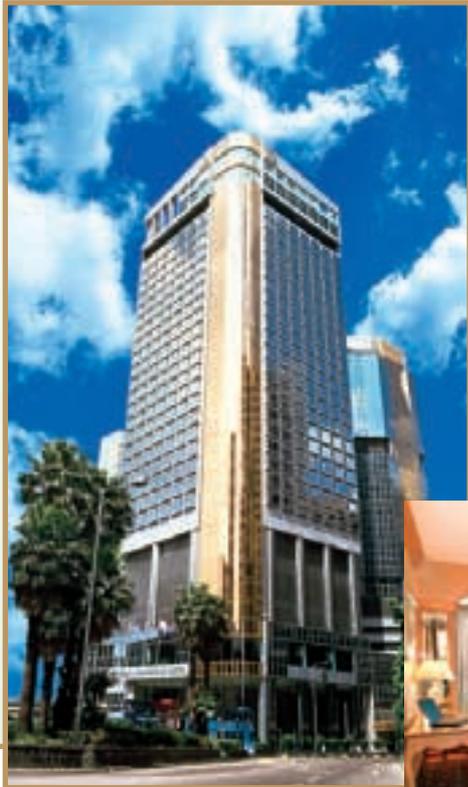


Spacious suites and guestrooms, well furnished and delicately planned.
套房及客房佈置優美，設置細意安排，空間寬敞。



Regal Hotels in Hong Kong 香港富豪酒店

Regal Hongkong Hotel 富豪香港酒店



Situated in the heart of Causeway Bay, this deluxe five-star hotel is the epitome of luxury and elegance.
位處銅鑼灣心臟地帶之五星級酒店，氣派尊貴、古典優雅。

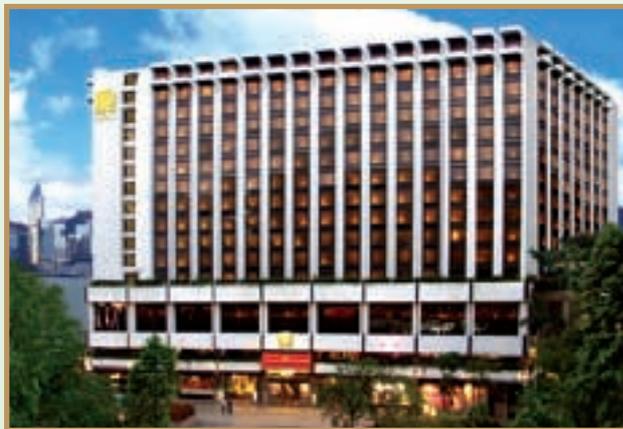


The hotel offers an exquisite selection of gourmet dining and banquet venues.
酒店設有菜餚精美之餐廳、設備完善之多功能宴會廳。



Regal Hotels in Hong Kong 香港富豪酒店

Regal Kowloon Hotel 富豪九龍酒店



Perspective of the renovated hotel lobby, creating a new and elegant image.

將予翻新後之酒店大堂（透視圖），形象新穎優雅。



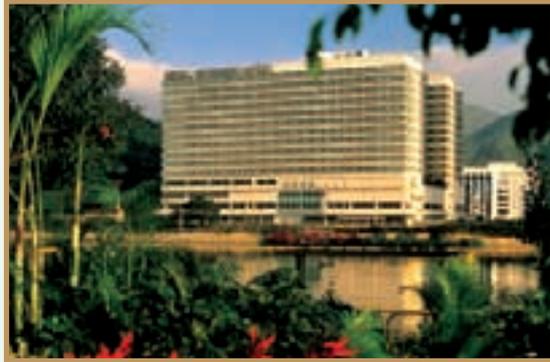
Renovated suites and guestrooms on Regal Club Executive Floor, well-appointed and gracefully furnished.

行政樓層套房及客房之新面貌，設備齊全、裝飾細緻。



Regal Hotels in Hong Kong 香港富豪酒店

Regal Riverside Hotel 麗豪酒店



*A city-resort hotel that offers a relaxing
ambience.*
環境清幽雅緻，恬靜怡人，乃城市中之度
假式酒店。



Perspective of the new hotel lobby.
酒店大堂的新面貌（透視圖）。



Regal Hotels in Hong Kong 香港富豪酒店

Regal Oriental Hotel 富豪東方酒店



Deluxe room refurbished and filled with oriental culture.
客房裝修華麗，充滿東方文化氣色。



Theme suites decorated with different country themes being well received by hotel guests.
主題套房配以不同國家風情，深受酒店顧客歡迎。

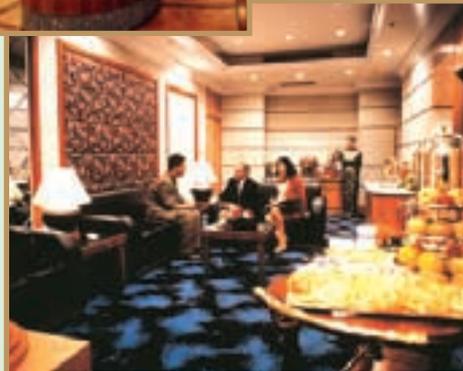


Regal Hotels in Shanghai 上海富豪酒店

Regal Shanghai East Asia Hotel 上海富豪東亞酒店



*Ideally located within the Shanghai Stadium in bustling Xu Hui District where business and pleasure convene.
位於繁華徐匯區上海體育場內，商務及娛樂皆宜。*



Regal Hotels in Shanghai 上海富豪酒店

Regal International East Asia Hotel 富豪環球東亞酒店



Set in the prestigious diplomatic district on beautiful Hengshan Lu, the most suitable address in Shanghai.

座落於享負盛名的衡山路，毗鄰外國領事館區，環境幽雅，盡顯滬城豪華繁榮風光。



Smart Suites, the ultimate in comfort and convenience, are elegant and stylish with a contemporary new look.

智能化套房，設計時尚典雅，乃現代化與舒適的完美結合。





The model of the planned hotel project in the Cotai Resort area in Macau, comprising hotel, casino, entertainment and conference facilities, to be developed in two phases with a total of about 3,900 guestrooms and suites.

在計劃中位於澳門路氹度假區之大型酒店發展項目模型，將包括有酒店、賭場、娛樂及會議設施，計劃分兩期發展，合共提供約3,900間客房及套房。





House decorated with **English Country** style.
英國鄉郊式之華麗佈置。





House full of **Oriental Romance**.
全屋充滿東方浪漫色彩。





Elegant **Contemporary Japanese** styled house.
時尚日式設計，簡潔舒適。





Lively **Contemporary Thai** styled house.
清新脫俗的時尚泰式擺設家居。