



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\$1,085.7 million (1998 - net loss of HK\$1,187.0 million), of which HK\$693.4

million was incurred on the disposal of the Group's hotels and hotel management interests in the United States (after realisation of attributable revaluation reserve and goodwill previously eliminated against reserve).

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, 1999 (1998 - nil).



REVIEW OF OPERATIONS

Hong Kong

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.

During the year under review, the combined average occupancy of the Group's four hotels in Hong Kong, 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.

The Group owns a 30% joint venture interest in the luxury residential development at Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, for which a provision of HK\$700 million was made in the financial year ended 31st December, 1998.

Following the disposal of the Group's hotel interests in the United States, the financial position of the Group has been substantially improved. With the prospects of the luxury residential market on Hong Kong Island becoming more positive, the Group intends to hold on to its participation in this joint venture project. During the year under review, the financing costs (including interests accruing on the shareholders' loans) incurred by the jointly controlled entity which owns the project have not been capitalised, and the impact thereof attributable to the Group has been reflected in the profit and loss account.

Construction works of this development project have been temporarily suspended, but it is anticipated that development works will be able to be put back to normal progress in the next few months.

United States and Canada

As previously announced, the Group completed in December 1999 the transaction for the sale of its hotel ownership and management interests in the United States. Full information on this transaction was contained in the major transaction circular dated 12th January, 2000 sent to shareholders.

The sale assets included in the transaction comprised effectively the whole of the Group'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. As the requisite consent from the other partnership owner of the Regal Bostonian Hotel could not be obtained at the time of completion in December 1999, the sale of the Group's interest in that hotel was deferred and a sum of US\$13.4 million was withheld by the purchaser. The Group has recently been notified that the sale and purchase of the Group's interest in that hotel will proceed and completion is expected to take place shortly.

In summary, the Group has received from the disposal of the Group's hotel interests in the United States total cash consideration of HK\$4,623.2 million, before taxation and expenses. As mentioned above, 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 the Group'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 payable to the Group on or before 17th December, 2001, with interest accruing at 7% per annum, subject to any payment obligations of the Group in respect of certain warranties and indemnities provided in connection with the sale of the hotel 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 of HK\$693.4 million, the cash proceeds realised have significantly improved the Group's liquidity position as well as its gearing level. Consequently, the level of financing costs 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 overall management of this hotel is now directly co-ordinated by the management office in Hong Kong.

The People's Republic of China

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. If the PRC successfully joins the World Trade Organisation, the business of these two hotels will stand to benefit from the increasing commercial activities in Shanghai, as the largest commercial centre in the PRC.

The operating results of the Kaifeng Yatai Brewery in Henan, in which the Group holds a 90% beneficial interest, has slightly improved as compared with 1998. The brewery is still encountering a challenging environment due to increased production costs resulting from regulatory changes and stiff competition on account of over supply. 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 the Group'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 believes that the new Regal Airport Hotel will in time become the highest income contributor of the 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, the Group in 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 other selected parts of the Asian Pacific region.

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

DIRECTORS AND STAFF

Mr. Daniel Bong Shu Yin retired from his executive role in June 1999 but has stayed on board as a non-executive director, while Mr. Michael Choi Chi Wing and Mr. John Poon Cho Ming resigned as a Director in July and October 1999 respectively. On behalf of the Board, I would like to thank them for their past contribution and, at the same time, to extend our welcome to Mrs. Kitty Lo Lee Kit Tai and Mr. Jimmy Lo Chun To who came on Board in October 1999. The year past continued to be a challenging time for the hotel industry, but there are recently clear signs of a gradual market recovery. Taking this opportunity, I would like to express my gratitude to all staff members for their persistent efforts and I look forward to their continuous devotion while working together towards the common objective of achieving improving performance for the Group.

LO YUK SUI

Chairman

Hong Kong
19th May, 2000