

Chairman's Report



Dear shareholders,

I am presenting herewith the Annual Report of the Company for the year ended 31st December, 2001.

FINANCIAL RESULTS

For the year ended 31st December, 2001, the Group incurred an audited consolidated net loss attributable to shareholders of HK\$514.2 million, as compared with a net loss of HK\$347.9 million, as restated, recorded for the 2000 financial year.

Due to the unsatisfactory operating environment, particularly after the September 11 event, and in order to preserve liquidity, the Group has taken steps to realise most of its securities investments and certain other non-core assets despite the relatively depressed

market condition. Consequently, one-time losses and other provisions in an aggregate of over HK\$260 million were incurred, which had severely affected the financial results of the Group for the year under review. Furthermore, although the construction works at the Stanley development project have resumed in October 2001, the bank loan interest incurred by the joint venture entity for the first ten months of 2001 has not been capitalised and the interest on the shareholder's loans advanced by the Group to the joint venture entity for the whole year of 2001 has also not been recognised. Had such interest been capitalised and recognised respectively, the consolidated loss incurred by the Group for the financial year 2001 would have been reduced by approximately HK\$120 million.

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, 2001 (2000 - nil).

REVIEW OF OPERATIONS

Hong Kong

During the year under review, total visitor arrivals to Hong Kong amounted to over 13.7 million, which was an increase of about 5.1% over that of 2000. The September 11 event occurred last year no doubt gave a severe blow to the world's tourism business. In Hong Kong, the number of visitor arrivals declined sharply in September and October, particularly from the long haul markets. However, the continuing surge in the visitors from Mainland China has helped to curb the declining trend in the last two months of 2001. The more notable growth areas were Mainland China, Macau, South Korea, Thailand, India and South Africa. However, negative growth was recorded in the number of visitors from USA, Western Europe and Japan who customarily spend more on hotel accommodations. Overall, the average hotel occupancy in Hong Kong in 2001 fell by about 4.8% as compared with 2000, while the average room rate was down by about 1.6%.

Due to the deterioration in the local hotel market, the operating results of the Group's hotels in Hong Kong in year 2001 have similarly been affected. As compared with 2000, the combined average occupancy of the five Regal Hotels in Hong Kong has dropped by about 3.9% and the combined average room rate by about 4.6%.

The Regal Airport Hotel, which came into full operation since the beginning of 2001,

commands a total room count of 1,103, as compared to 881 in 2000. Although the year round average occupancy for this hotel in 2001 was marginally below that of the prior year due to the increased room count, the number of occupied rooms has actually increased by about 21% and the room revenues by about 13% when the overall market has contracted. The Regal Airport Hotel is now highly regarded by international travellers and was awarded in 2001 the "Best Airport Hotel in Asia Pacific" by Business Traveller Asia Pacific Magazine and the "Best Airport Hotel in Asia" by Business Asia Magazine and Bloomberg Television.

As for the luxury residential development at Wong Ma Kok Road in Stanley, in which the Group holds a 30% joint venture interest, the construction works have fully recommenced in October last year following the agreed reinstatement of the construction financing facility from the lending banks. Based on the existing construction programme, the development is scheduled to be completed in stages from around the second quarter of 2003.

Canada and United States of America

As reported before, the Group intends to focus its hotel operations primarily in Hong Kong in the near term. As such, the Group has mandated an agent to market for sale the Regal Constellation Hotel in Toronto, Canada. A tendering process was initiated and keen interest has been expressed by a number of prospective purchasers.

The Group was originally expecting to receive in December 2001 the deferred consideration of US\$45 million for the sale of the hotel interests in the USA together with certain accrued interest. The purchaser has however continued to withhold such payment due to the Group's



indemnity obligation provided to the purchaser under the sale agreement for third party claims that occurred before completion of the transaction in December 1999. The Group has obtained legal advice that, based on the prevailing facts and circumstances, such withholding by the purchaser is improper and, pending resolution of the underlying claims, certain amount should nevertheless be released to the Group. The Group is pursuing the matter through legal avenues.

The People's Republic of China

The Group's two managed hotels in Shanghai maintained steady performance during the year and contributed modest management income.

Business at the Kaifeng Yatai Brewery was unsatisfactory due to the increasingly difficult operating environment. While stringent measures are being implemented to improve the brewery's operations, the Group may consider disposing of this non-core asset if the terms are reasonable.

OUTLOOK

Benefiting from the continuing increase in the visitors from Mainland China, tourist business in Hong Kong sustained further recovery in the early part of 2002. Travel pattern in major long haul markets such as USA and Europe is also stabilising. For the first three months of 2002, overall performance of the Group's five hotels in Hong Kong surpassed that recorded in the comparative period last year.

The Group is implementing a number of strategies to restructure the hotel operations with a view to improving their performance and bottom-line. The restructuring and streamlining of the management structure of the head office

and the hotels in Hong Kong are being implemented by stages and positive results are being produced.

Barring any unforeseen circumstances, it is expected that the operating results of the Group's hotel business in Hong Kong for the current financial year should be able to fare better than that for the year under review.

The Group has recently commenced preliminary discussions with its lending banks to secure their ongoing support to a proposed rescheduling of banking facilities with a view to maintaining the Group's overall financial stability.

DIRECTORS AND STAFF

Taking this opportunity, I would like to thank Mr. William Henry Woo, who resigned from the Board in February this year due to personal reasons, for his past contribution and to bid a warm welcome to Mr. Thomas Ng Wai Hung who replaced Mr. Woo as an Independent Non-Executive Director of the Company. Furthermore, I also wish to express my gratitude to all management and staff members for their persistent and devoted efforts.

LO YUK SUI

Chairman

Hong Kong
19th April, 2002

