



Chairman's Report



Dear shareholders,

I am presenting herewith the Annual Report of the Company for the year ended 31st December, 2003.

I am particularly pleased to report to shareholders that the Company has successfully weathered through the most difficult times in recent years and achieved a turnaround in the financial year under review, after having sustained operating losses for five years since 1998.

It may also be worthwhile to note that, through the staged implementation of a planned assets disposal and realisation programme, the Group has managed to significantly improve its gearing levels, with the total indebtedness of the Group having been reduced from over HK\$9.0 billion recorded as at 31st December, 1998 to about HK\$4.5 billion as at the year end of 2003, while its core hotels assets in Hong Kong are being retained. On the same note, finance costs have been reduced from over HK\$700.0 million in the 1998 financial year to HK\$144.1 million in 2003.



With a view to restoring the Group's financial stability and, more importantly, to provide it with a solid platform for its continuing recovery going forward, the Group finalised and concluded a loan rescheduling agreement with its principal lenders in September 2003. Under the loan rescheduling agreement, the final repayment dates of the two principal outstanding loans of the Group have been extended to 2006 and 2012, respectively, with interim milestone payments and principal amortisation schedule having been set with reference to the expected cash inflows of the Group.

FINANCIAL RESULTS

For the year ended 31st December, 2003, the Group achieved an audited consolidated net profit attributable to shareholders of HK\$207.8 million, as compared with a net loss of HK\$780.8 million (as restated) recorded for the 2002 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, 2003 (2002 - nil).

REVIEW OF OPERATIONS

HOTELS

Hong Kong

Due to the outbreak of the Severe Acute Respiratory Syndrome, the tourism and hotel businesses in Hong Kong were drastically affected with the total number of visitors to Hong Kong having plunged by 20% in the first half of 2003, as compared with the same period in 2002. Since the delisting of Hong Kong as a SARS-affected area in late June, the local tourism and hotel markets staged a relatively rapid recovery. Aided by the new rules allowing residents of certain affluent Mainland cities to travel to Hong Kong as individuals and the implementation of the Closer Economic Partnership Arrangement, visitors from Mainland China for the year as a whole have climbed to over 8.4 million, representing an increase of some 24% as compared with 2002. However, due to the substantial negative growth recorded in all other major markets, the total number of incoming visitors in 2003 still declined by 6.2%, as compared with the preceding year. Given the longer lead-time between planning and traveling for most business and long-haul travelers, some of whom have actually cancelled their scheduled trips to Hong Kong in 2003 due to SARS scare, it can be anticipated that visitors from the other major markets would gradually pick up in 2004.

To cope with the business interruption during the period of the SARS outbreak, the Group initiated a temporary staff no pay leave programme, instead of resorting to any large-scale lay-offs. This arrangement has enabled the Group to contain staff costs during this interim period without compromising quality standards, while a core team of staff members is readily maintained to meet the anticipated business rebound. The Group had also taken the opportunity to put into position a lean and compact operating structure, both at the hotel and corporate levels, and added focus is now placed on improvement of efficiency and profit margins.



On account of the serious disruption caused by the SARS outbreak, the combined average occupancy for the five Regal Hotels in Hong Kong for the year under review has trailed behind 2002 by about 19.3%, but in terms of the combined average room rate, an increase of over 2% was attained. Except for the period affected by the SARS outbreak, the Regal Hotels in Hong Kong have in fact been able to achieve continuous improvements in their gross operating profit margins during the past few years, despite the competitive market conditions.

The Regal Airport Hotel remains highly regarded by international travelers and was for the third consecutive year awarded the "Best Airport Hotel Asia-Pacific" by Business Traveller Asia-Pacific Magazine in 2003. In March 2003, an overall settlement was concluded with the Hong Kong Airport Authority and the term of the sub-lease for this hotel has been agreed to be for a period of 25 years commencing from 31st December, 2003.

As mentioned in the Interim Report for the year under review, the Group entered into an agreement with an independent third party purchaser on 29th August, 2003 for the sale of the Group's interests in the Regal Oriental Hotel for a consideration of HK\$350.0 million, subject to adjustments (including holdback and retention amounts for outstanding commitments and rectification works and warranties provided in respect of the hotel and its operations), with completion originally scheduled to take place on 31st March, 2004. The Group also had an option to terminate the sale agreement, subject to payment of certain agreed liquidated damages, but the latest time for the exercise of such option had since expired.

In view of the changed circumstances and the improved prospects for the local hotel sector since the entering into of the sale agreement of the Regal Oriental Hotel, the Group has been reconsidering the relative merits of selling the Regal Oriental Hotel, particularly having regard to the long held objective of positioning itself as one of the largest hotel owners and operators in Hong Kong. In order to provide the Group with additional time and flexibility for its contemplation of other alternative proposals and arrangements which may serve better commercial benefits to the Group than the disposal of the Regal Oriental Hotel under the sale agreement, the Group initiated discussions with the purchaser and, on 30th March, 2004, a supplemental agreement was finalised and signed. Under the supplemental agreement, the completion date was extended to 30th June, 2004 and an option (in a revised form) was reinstated for the Group, exercisable at its sole discretion, to terminate the sale agreement before the extended completion date, subject to the giving of requisite advance notice and the payment of an agreed termination fee. Further details of this supplemental agreement were contained in a joint announcement dated 31st March, 2004 published by the Company.

Similarly, in light of its enhanced financial position, the Group has also been reviewing the merits and, indeed, the need for the disposal of the Regal Riverside Hotel previously contemplated, particularly that the operating performance of this hotel has achieved substantial improvement since the second half of 2003. Therefore, the previous proposal for the sale of this hotel has been put in abeyance pending the mapping out of the Group's overall business plans.



United States of America and Canada

As disclosed in a joint announcement by the Company dated 2nd October, 2003, the Group had formally concluded a settlement agreement with the purchaser under the agreement entered into in December 1999 relating to the disposal of the Group's hotel interests in the United States of America. The settlement agreement provided for the payment by the purchaser to the Group of a settlement amount of US\$48.8 million in full and final settlement of the legal proceedings and the total resolution and mutual release of all claims by and between the parties under or in connection with the 1999 sale agreement. Before accounting for any further related legal and other expenses, the settlement amount reflected a surplus of approximately HK\$4.0 million over the Group's net carrying value of the receivable amount as at 31st December, 2002. The settlement amount has since been duly received, most of which was applied towards reduction of the Group's outstanding bank loans.

Regarding the Regal Constellation Hotel in Toronto, Canada, which was previously owned by the Group, the circumstances surrounding the divesture by the Group of its interests in this hotel in June 2003 had been reported in the Interim Report released in September 2003. The loss on disposal of the Group's investment in this hotel has been fully accounted for in the results for the year under review.

The People's Republic of China

The year round operating results of the two hotels in Shanghai managed by the Group had similarly been adversely affected by the outbreak of SARS. Having regard to the buoyant economic condition presently prevailing in Shanghai and Mainland China overall, their operating results and, hence, the management fee income attributable to the Group, are anticipated to improve in 2004.

With the Group's strong operating base in Hong Kong and the established presence in Shanghai, the Group is planning to expand its hotel management network in Mainland China as and when suitable opportunities arise. In this regard, the Group has recently entered into a preliminary agreement for the provision of hotel management and technical assistance services for a 5-star hotel project in Shenzhen being undertaken by a third party investor group.

PROPERTIES

Regalia Bay, Stanley

The Group owns a 70% jointly controlled interest in Regalia Bay, which is a luxury residential development project located at Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, Hong Kong. The project is developed in 2 phases comprising a total of 139 luxury residential houses. The occupation permits for Phase I and Phase II have been issued in March 2003 and January 2004, respectively, and the requisite certificate of compliance for the project issued in March 2004.



The sale programme for this development was first launched in September 2003. The development has gained general recognition as one of the most prestigious luxury residential estates and the sale progress achieved so far has been most satisfactory. Up to the date of this report, a total of 88 houses has been contracted to be sold for an aggregate gross sale consideration of over HK\$3.8 billion. It is anticipated that, by the third quarter of 2004, all the project loans outstanding on the development would have been fully repaid through the net proceeds receivable from the sale of the houses and further proceeds thereafter will accrue to the joint venture partners in accordance with their respective entitlements.

The Group has in the financial year under review written back a minority portion of the provision previously made against the Group's investment in this development project by reference to the sales achieved. Based on the latest transacted price, the going market trend as well as the growing demand for quality luxurious residential properties in Hong Kong Island, it is expected that the sale price for the remaining houses should be significantly higher than the average selling price achieved for the houses sold to date. Accordingly, it can be anticipated that, when the remaining houses are sold, a substantially larger write back amount will be recognised as profit contribution in the financial year ending 31st December, 2004.

OTHER OPERATIONS

The Group operates a number of other minor operations including the Kaifeng Yatai Brewery in Henan in the PRC. The strenuous efforts put to improve operational efficiency at this brewery are gradually producing positive results. While the operating loss for this brewery has been significantly contained during the year under review, management of the brewery is hopeful of achieving at least a break-even position in 2004. In the meantime, the brewery management is embarking on a plan to make use of the brewery's surplus production equipment to set up a separate joint venture brewery at a nearby area in Henan, in order to diversify its production and marketing network.

OUTLOOK

Business operations at the five Regal Hotels in Hong Kong for the first quarter of 2004 were very encouraging, with total gross operating profits having surpassed what were attained in the first quarter of 2003 by more than 50%. Based on the current forecast and barring any unforeseen circumstances, the operating results for the Regal Hotels in Hong Kong for 2004 are anticipated to fare far better than those attained in the year under review.

The Group expects that, on further sale of the remaining houses in Regalia Bay, there will be significant cash flows attributable to the Group starting from the latter part of 2004, which will help to greatly strengthen the Group's overall financial and liquidity position. The Group is presently exploring alternative proposals for a further rescheduling and/or refinancing of its outstanding bank loans, with a view to preserving the Group's hotel assets in Hong Kong and to providing the Group with added flexibility in its forward business planning.



Given the anticipated enhancement in the operating results of the Regal Hotels in Hong Kong and the significant profit contribution expected from the Regalia Bay development, the overall results of the Group for the financial year ending 31st December, 2004 should be even more promising.

To capitalise on Regal's established brand name, business network and operational and management expertise, the Group is actively looking to expand its presence in the PRC through management contracts and, if circumstances are considered to be appropriate, with equity participation.

On the whole, the general economic conditions in Hong Kong have been gradually recovering since the second half of 2003. Moreover, the continuing relaxation of the individual traveling by PRC residents, the coming into effect of the Closer Economic Partnership Arrangement with Mainland China, as well as the scheduled opening of the Disney World and the new International Exhibition Center at the Hong Kong International Airport at Chek Lap Kok in 2005 are all conducive to the creation of a favourable economic and business environment for Hong Kong. As the overall financial stability of the Group has now been restored, the Group is optimistic on the prospects of its continuing business revival and sustained growth.

DIRECTORS AND STAFF

For the Group to weather through the difficult times encountered in the past few years and to achieve a turnaround in 2003 had not been an easy accomplishment. This would not have been feasible without the persistent teamwork and efforts of all staff members, particularly during the SARS outbreak period. Taking this opportunity, I wish to extend my sincere gratitude to all management and staff members for their hard work and to my fellow Directors for their valuable support. I would also like to thank Mr. Daniel Bong who resigned as a Director of the Company in January 2004 for all his past valuable contribution. At the same time, I would also wish to bid a warm welcome to Dr. Alex Wu, who was appointed an Independent Non-Executive Director and to Mr. Kai Ringenson who, having resigned from his executive role as an Executive Director, was appointed as a Non-Executive Director, both in January 2004.

LO YUK SUI

Chairman

Hong Kong
15th April, 2004