

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\$602.9 million, representing an increase of 190.1% over the HK\$207.8 million attained in the 2003 financial year.

DIVIDEND

In view of the satisfactory results, the Directors have resolved to recommend the payment of a final dividend of HK0.5 cent per ordinary share for the year ended 31st December, 2004 (2003 – nil), absorbing a total amount of approximately HK\$41.7 million, payable to holders of ordinary shares on the Register of Ordinary Shareholders on 16th June, 2005.

As at 13th December, 2004, the dividend payment date in 2004 for the 5¼% Convertible Cumulative Redeemable Preference Shares issued by the Company, there were total cumulated unpaid preference dividends on the Preference Shares in the amount of approximately HK\$41.1 million. Accordingly, the Directors have also resolved that the preference dividends cumulated up to 13th December, 2004 be paid to the holders of the Preference Shares on or about 10th June, 2005.

CLOSURE OF REGISTER

The Register of Ordinary Shareholders will be closed from Monday, 13th June, 2005 to Thursday, 16th June, 2005, both days inclusive, during which period no transfers of shares will be effected. In order to qualify for the proposed ordinary dividend, all transfers accompanied by the relevant certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:00 p.m. on Friday, 10th June, 2005. The relevant dividend warrants are expected to be despatched on or about 30th June, 2005.

MAJOR CORPORATE AND FINANCIAL HIGHLIGHTS

Comparing the Group's operating performance for the 2003 and 2004 financial years, turnover increased by 35.6% to HK\$1,050.6 million, profit from operating activities increased by 399.3% to HK\$496.8 million, finance costs (before amortisation and write-off of loan costs) reduced by 28.2% to HK\$99.4 million and the net profit attributable to shareholders increased by 190.1% to HK\$602.9 million.

The level of net borrowings over the Group's total assets improved from 50.1% as at the year end date of 2003 to 37.0% as at the balance sheet date.

In June 2004, the Group issued to two subscribers 2% Guaranteed Convertible Bonds due 2007 in an aggregate principal amount of HK\$200 million. Under the terms of the relevant subscription agreements, the subscribers have the option to further subscribe for additional Convertible Bonds up to an aggregate principal amount of HK\$200 million. The Convertible Bonds are convertible into new ordinary shares of the Company at an initial conversion price of HK\$0.25 per share, subject to adjustments, at any time up to 14th July, 2007.

So as also to provide to shareholders an appropriate opportunity to further participate in the prospects of the Group, the Company issued to shareholders in August 2004, by way of bonus, warrants carrying aggregate subscription rights of approximately HK\$208 million pursuant to the proposal announced in June 2004. The warrants entitle their holders to subscribe for new ordinary shares of the Company at any time up to 26th July, 2007 at an initial subscription price of HK\$0.25 per share, same as the initial conversion price of the Convertible Bonds, and the subscription price is subject to substantially the same adjustments as those applicable to the conversion price of the Convertible Bonds.

In December 2004, the Group completed a 5-year HK\$4,750 million syndicated loan facility from certain major banking institutions, primarily to refinance all of the Group's 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 Group is now well poised to undertake and implement its business development plans.

In February 2005, the Group concluded a settlement with its relevant insurers on the business interruption claims in relation to the Group's hotel operations in Hong Kong due to the incidence of SARS in 2003. A gross settlement amount of HK\$22 million has been received and will be taken into account in the 2005 financial year.

REVIEW OF OPERATIONS

HOTELS

Hong Kong

The tourist industry in Hong Kong experienced a remarkable turnaround in 2004, with total visitor arrivals during the year reaching an all-time high of over 21.8 million. On account of the further relaxation of the Individual Visit Scheme, there were altogether more than 12.2 million visitors from Mainland China during the year, while at the same time most of the major overseas markets have generally recovered to their pre-SARS levels. With regard to the local hotel industry as a whole, based on the data published by the Hong Kong Tourism Board, the average room occupancy rate for all hotels in Hong Kong in 2004 rebounded by some 25% as compared with 2003 and the average achieved hotel room rate has increased by about 19%.

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 the Group'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 the Group'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, the Group 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, the Group is actively reviewing various feasibility proposals for the utilisation of these available areas for revenue generating purposes.



Macau

The Company has recently in March 2005 entered into a Memorandum of Agreement with the Venetian Group from Las Vegas, USA, pursuant to which the Group 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 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 Group's extensive operational base in Hong Kong, the Group 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 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. The Regalia Bay development contributed to the Group a profit, including write-back of provision, of HK\$219.7 million in the financial year under review.

OTHER OPERATIONS

The Group operates a number of other businesses including the Kaifeng Yatai Brewery in Kaifeng City in Henan, PRC. Although the brewery business in the PRC is relatively competitive and often affected by seasonal fluctuations in market demands, the operation of the Kaifeng Yatai Brewery is steadily improving. In the meantime, the plan for the setting up of a separate joint venture brewery in the nearby Xinzheng City in Henan is progressing.

OUTLOOK

With the scheduled opening of the Hong Kong Disneyland in this September and the planned rollout of other major tourist attractions, including the Tung Chung cable car project and the recently announced remodeling and extension of the Ocean Park, Hong Kong will continue to be one of the most favoured tourist destinations. A weak Hong Kong dollar currency and the stepping up of promotional campaigns by the Hong Kong Tourism Board should also help to boost tourists from both short haul and long haul markets. The Group is optimistic on the future prospects of the local tourist and hotel industries and is taking steps to reinforce and strengthen its position as one of the leading hotel owners and operators in Hong Kong.

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, the Group'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 the Group 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, the Group strongly believes that it is beneficial and strategically important for the Group 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 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 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 Board is confident on the Group's continuing profitability and future prospects and its recommendation to resume the payment of a dividend to the shareholders of the Company signifies a clear endorsement of its confidence level in this regard.

DIRECTORS AND STAFF

First of all, I would like to express on behalf of the Board our gratitude to all management and staff member for their continuing dedication and devotion, which have made possible the very satisfactory results achieved.

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 take this opportunity to extend my hearty welcome to Ms. Alice KAN Lai Kuen and Mr. WONG Chi Keung, who came on Board as Independent Non-Executive Directors on 21st September, 2004, and to Mr. NG Siu Chan who was also appointed as an Independent Non-Executive Director on 22nd March, 2005, and I look forward to their valuable advice and support.

LO YUK SUI

Chairman

Hong Kong
11th April, 2005

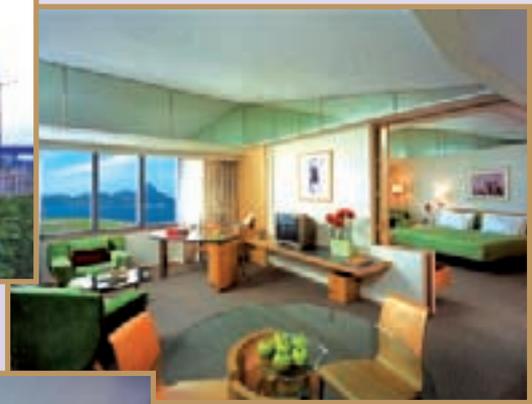


Regal Hotels in Hong Kong 香港富豪酒店

Regal Airport Hotel 富豪機場酒店

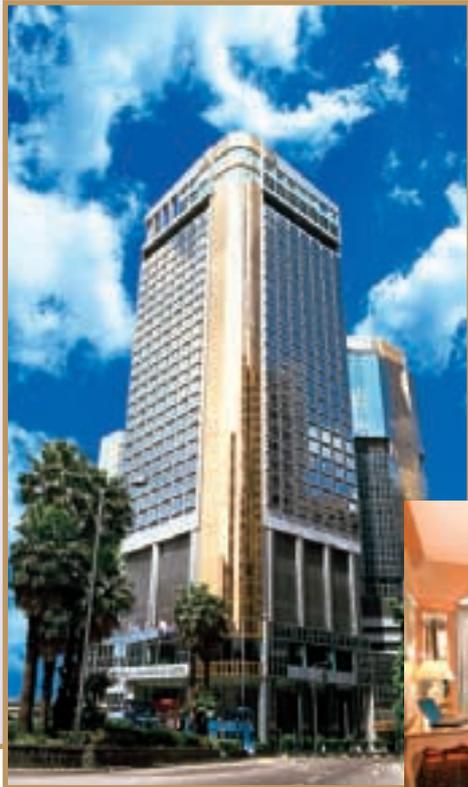


The 1,000 square meter pillarless Grand Ballroom is the largest hotel ballroom in Hong Kong.
面積達1,000平方米之無柱式大宴會廳乃香港最大型之酒店宴會廳。



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 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。

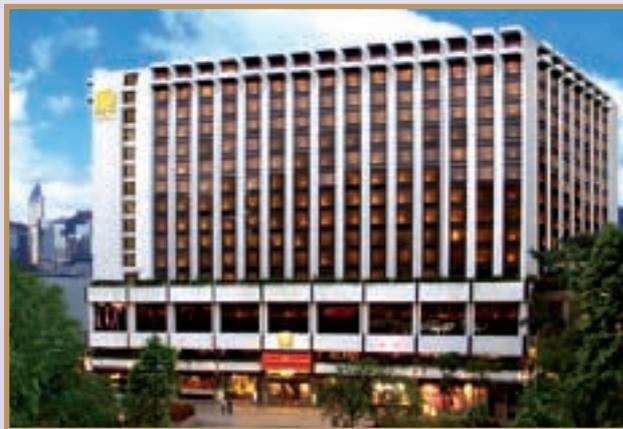


The hotel offers an exquisite selection of gourmet dining and banquet venues.
酒店設有菜餚精美之餐廳、設備完善之多功能宴會廳。



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.

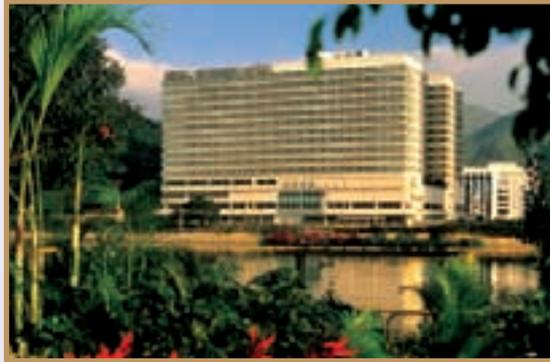
將予翻新後之酒店大堂（透視圖），形象新穎優雅。



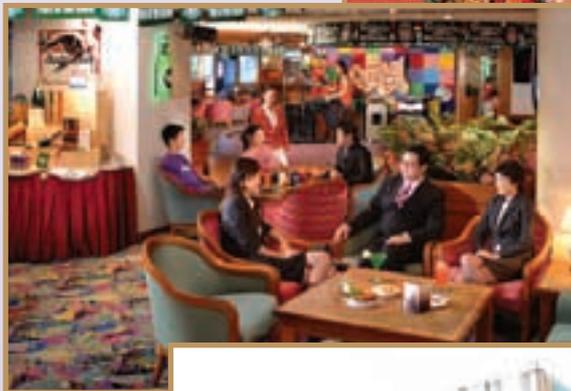
Renovated suites and guestrooms on Regal Club Executive Floor, well-appointed and gracefully furnished.

行政樓層套房及客房之新面貌，設備齊全、裝飾細緻。

Regal 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 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。