

Chairman's Report



Regal Hotels
International
Holdings Limited



Dear shareholders,

I am pleased to present the Annual Report of the Company for the year ended 31st December, 2005.

FINANCIAL RESULTS

For the year ended 31st December, 2005, the Group achieved an audited consolidated profit attributable to shareholders of HK\$528.4 million, representing an increase of 43.6% over the corresponding figure of HK\$367.9 million (as restated) attained in the 2004 financial year.

Due to the adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), as further explained in the section headed "Impact arising from the adoption of new and revised HKFRSs" below, the audited consolidated profit attributable to shareholders for the 2004 financial year has been restated from the HK\$602.9 million, as previously announced, to HK\$367.9 million. The restatement was principally related to the reversal of the write-back of impairment of a hotel property in the amount of HK\$140.5 million and the provision of depreciation on hotel buildings and amortisation of leasehold land in the aggregate sum of HK\$98.4 million.

In the results for the year under review, depreciation and amortisation on hotel properties in an aggregate amount of HK\$99.2 million have likewise been provided and on account of the rising interest rates, total interest expenses on bank loans have increased to HK\$166.3 million. Taking these into consideration as well as the comparatively larger contribution from Regalia Bay recorded in the previous year of 2004, the profit growth of 43.6% achieved in the year under review can be considered to be rather satisfactory.

DIVIDEND

In view of the satisfactory results achieved, the Directors have resolved to recommend the payment of a final dividend of HK0.55 cent per ordinary share for the year ended 31st December, 2005 (2004 – HK0.5 cent), absorbing a total amount of approximately HK\$46.1 million (2004 – HK\$41.7 million), payable to holders of ordinary shares on the Register of Ordinary Shareholders on 16th June, 2006. Together with the interim dividend of HK0.25 cent per ordinary share paid in November 2005 (2004 – nil), total dividends per ordinary share for the year ended 31st December, 2005 will amount to HK0.8 cent (2004 – HK0.5 cent), representing an increase of 60 % over the total dividends paid for the 2004 financial year.

CLOSURE OF REGISTER

The Register of Ordinary Shareholders will be closed from Tuesday, 13th June, 2006 to Friday, 16th June, 2006, both days inclusive, during which period no transfers of shares will be effected. In order to qualify for the proposed final dividend, all transfers of ordinary shares and/or subscriptions of the outstanding 2007 warrants, duly accompanied by the relevant certificates together with, where appropriate, the relevant subscription moneys, 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 Monday, 12th June, 2006. The relevant dividend warrants are expected to be despatched on or about 30th June, 2006.

IMPACT ARISING FROM THE ADOPTION OF NEW AND REVISED HKFRSs

In the preparation of the Group's audited financial statements for the year ended 31st December, 2005, the Group has adopted a number of new and revised HKFRSs, which are applicable for accounting periods beginning from 1st January, 2005 and relevant comparative figures for 2004 or opening adjustments for 2005, where applicable, have correspondingly been restated or made.

More importantly, it should be noted that prior to 1st January, 2005, it was the Group's policy to state the value of the Group's hotel properties in Hong Kong at their open market valuations, which were appraised annually and not depreciated. Under the new and revised HKFRSs, these hotel properties are now stated in the audited financial statements at cost less accumulated depreciation and amortisation.

In order to more fairly reflect the underlying net asset value of the Group and for the purposes of reference and ease of comparison, supplementary information on the Group's net assets position, compiled on a proforma basis to adjust for the professional open market valuations conducted on these hotel properties as at 31st December, 2005, is provided in the section headed "Management Discussion and Analysis" on pages 23 to 27 in this Annual Report.

Other impact on the Group's audited financial statements under review arising from the adoption of the new and revised HKFRSs are also set out in the Note 2.4 to Consolidated Financial Statements.



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REVIEW OF OPERATIONS

HOTELS

Hong Kong

In 2005, Hong Kong received another new record number of over 23.3 million visitor arrivals, with the travel and tourism economy expected to contribute around 12.5% of Hong Kong's Gross Domestic Product. During the year, visitors from Mainland China continued to increase by 2.4% to over 12.5 million, accounting for 53.7% of the total incoming visitors to Hong Kong. In the meantime, strong growth was recorded in the number of visitors from most major long haul markets including Europe, North America and Australia, who customarily have a higher proportion of spending on hotel accommodation.

Benefiting from the increase in visitor arrivals, the hotel industry in Hong Kong on the whole continued to perform well. Although there was some short term pressure on overall hotel occupancy level on account of the opening of several new hotels, according to the report from the Hong Kong Tourism Board, the hotel room average occupancy rate for all hotels as a whole was still able to be maintained at 86% in 2005, albeit reflecting a modest decrease from 88% in 2004. However, the average achieved hotel room rate has over the same period increased significantly by 16.4%. These reported figures are indicative of the general inclination of most hotel operators in Hong Kong to be increasingly focused on the keeping up of the hotel room rate, now that the overall room occupancy has been steadily maintained at a satisfactory level despite the increased supply. Nevertheless, the current average room rate achieved by the hotels in Hong Kong as a whole is still substantially below its previous peak level during the mid-nineties and lags behind those prevailing in other major international cities.

During the year under review, the combined average room occupancy for the five Regal Hotels in Hong Kong was maintained at 81.6%, as compared with 83.9% in 2004, and if the Regal Airport Hotel was excluded, the combined average room occupancy for the other four Regal Hotels in Hong Kong would be 89.2%, maintaining very much the same level as that in 2004. In terms of the combined average achieved room rate for the five Regal Hotels as a whole, an increase of 13.5% was attained over that in 2004. Through increased marketing efforts, the other four Regal Hotels in Hong Kong were able to achieve an average occupancy level comparatively higher than the market average, even though there were some temporary disruptions in their business operations caused by the renovation programmes undertaken at the hotels. The Regal Airport Hotel is still catching up on its occupancy level on account of its relatively large number of room count and its unique market position and location. With gross operating profit margin maintained at over 46%, the five hotels together generated total operating profits (including hotel net rental income) of just over HK\$500 million, representing an increase of more than 16% over that attained in 2004.



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The Regal Airport Hotel has been rated "The Best Airport Hotel Asia-Pacific" by TTG Asia in 2005 and by Business Traveller Asia-Pacific for five consecutive years since 2001. To cater to the rising demand in meeting and conference businesses, a sizable meeting and conference centre comprising 13 new meeting rooms together with other ancillary facilities including a spa center are being added to this hotel.

To enhance the image and market recognition of the Regal brand, various upgrading and refurbishment works have been planned for the other four Regal Hotels in Hong Kong. These works are being implemented in stages, with the renovation of the hotel lobbies and food and beverage outlets as well as some of the guest rooms at the Regal Kowloon Hotel and the Regal Riverside Hotel having been substantially completed recently.

In order to maximise the utilisation of its hotel properties, the Group has started to embark on an asset enhancement programme which essentially entails the addition of a total of about 460 rooms to four Regal Hotels in Hong Kong (other than the Regal Kowloon Hotel), involving estimated total construction costs of about HK\$250 million. Certain parts of the asset enhancement programme have already been commenced and the entire programme is scheduled to be completed in stages from the fourth quarter of 2006 to the first half of 2008.

Macau

In the announcement released by the Company dated 6th September, 2005, the Company announced certain plans with respect to a hotel development project in Cotai, Macau. In light of the apparent flurry of new hotel projects being developed in Macau, with the corresponding dramatic increase in related construction costs and the concern over the potential oversupply of hotel rooms at least in the near term, the Company has been carefully reconsidering the overall investment proposal and its merits. Predicating on a cautious approach, the Company has henceforth not been pursuing the project actively pending further review in due course.

The People's Republic of China

The two hotels in Shanghai managed by the Group contributed increased management fee income during the year. In view of the buoyant economic outlook in China, the Group has plans to extend the Regal Hotels' network to certain key Mainland cities and is working actively on a number of proposals involving hotel investments, leasing and/or management opportunities.

PROPERTIES

Hong Kong

Regalia Bay, Stanley

The property market in Hong Kong continued to consolidate in 2005 due to the rising interest rates. Transaction volume for the high-end residential properties has generally declined, but transacted price levels stayed relatively firm.



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For the year under review, the Regalia Bay contributed to the Group a profit of HK\$128.5 million, inclusive of write back of provision. There are 38 houses with a total gross area of about 174,000 square feet remaining unsold, which are mostly of larger sizes and/or on better locations in the development. The Group plans to release these remaining houses for sale in stages when market activities revive.

The People's Republic of China

Development project in the Central Business District of Beijing

On 8th July, 2005, the Group entered into a Sale and Purchase Agreement with Paliburg Holdings Limited and certain of its wholly owned subsidiaries for the acquisition of a 50% equity interest in Hang Fok Properties Limited at a consideration of HK\$145 million. Hang Fok is principally engaged, through two investee companies established in the PRC, in the development of a property project at Chao Yang Men Wai Da Jie in the Central Business District of Beijing, planned to comprise office, residential, hotel, commercial and carparking accommodations with a total permissible gross floor area of about 4,630,000 square feet. The agreement was completed on the same date and the consideration was satisfied by the issue of an interest bearing promissory note. The Group has been given the right to terminate or rescind the agreement if any of the investee companies is not able to secure the acquisition of the land use right of the subject development site with total permissible gross floor area of not less than 430,000 square meters at a consideration of not more than RMB580 million by way of a bilateral agreement to be entered into on a private treaty basis, subject to any adjustment mutually acceptable if the total gross floor area and/or the permitted use of which has been altered, unless otherwise waived by the Group. Further information on this transaction is contained in the joint announcement made by the Company dated 8th July, 2005.

In February 2006, one of the investee companies (which are currently 59% owned joint venture companies of Hang Fok) has formally entered into Land Grant Contracts with the Beijing Municipal Administration of State Land and Resources in respect of certain portions of the original development site with total permissible gross floor area of 280,833 square meters encompassing office, commercial and residential uses at a total consideration of approximately RMB390.5 million. The investee companies are continuing with their efforts with a view to further securing their rights to the remaining portion of the original development site.

Having considered the entitlements of the land use rights granted to the investee companies under the Land Grant Contracts, the favourable market environment currently prevailing in Beijing and the relatively attractive opportunity for Regal to participate in this development project, the Group determined that it would be in its interest to continue with its investment in Hang Fok and has accordingly agreed to accept the condition subsequent as fulfilled or otherwise as waived on 3rd April, 2006.



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The consideration payable under the Land Grant Contracts is expected to be fully settled before the end of April 2006. While the detailed development plans for this project are being finalised, it is anticipated that the overall development scheme will comprise office, commercial, residential and carparking accommodations, to be complemented with a deluxe hotel. The land portions granted under the Land Grant Contracts are substantially vacant sites and in view of the Beijing Olympics to be held in August 2008, the joint venture parties are planning to proceed with the development of these land portions as the first phase of the project as soon as practicable.

OUTLOOK

With the concerted efforts of the tourist industry working closely with the Hong Kong Government in the promotion of Hong Kong as a major international business and tourism hub, coupled with the positive outlook on economic growth worldwide and, more particularly, in Mainland China, the number of incoming visitors to Hong Kong is anticipated to further increase. Although it is expected that there will be some further supply of hotel rooms in Hong Kong, the additional supply will be relatively limited due to the high investment costs required on land acquisition and construction, and a large proportion of the new supply will be located in peripheral areas outside of the traditional business or tourist districts. Accordingly, it is widely perceived that the overall demand for hotel rooms in the foreseeable future should remain strong and room rates can expect to rise further.

Businesses at the five Regal Hotels in Hong Kong continued to perform well in the first quarter of 2006, with average room rate and gross operating profits both attaining an encouraging double-digit growth as compared with the corresponding period in 2005.

The Chek Lap Kok International Airport is embarking on a large expansion programme with the development of the vibrant Sky City. The first phase of the Sky City development includes the Asia World-Expo (an international exhibition centre), which was recently opened in December 2005, the Sky Plaza (an office and retail complex), the Sky Pier (a cross-boundary ferry terminal) and a 9-hole golf course. Moreover, apart from the Hong Kong Disneyland opened in September 2005, many other tourist attractions are also being rolled out in the Lantau Island, including the Ngong Ping 360 project with the Sky Rail cable car connecting to Tung Chung, scheduled to open in mid-June 2006. All these new developments and facilities will generate substantial additional demand for hotel rooms in this area from both business as well as leisure travelers and the Regal Airport Hotel is particularly well positioned to capture this growing market.

When the asset enhancement programme is fully completed, the total hotel room count of the five Regal Hotels in Hong Kong will increase by about 14% to boost an aggregate of over 3,800 rooms. As the five Regal Hotels in Hong Kong are strategically positioned within the local hotel market to cater to different market segments in different localities, the Group anticipates that these hotels will be able to generate substantially increasing income.



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Having regard to the increasing confidence maintained over the future economic growth of Hong Kong, transaction volume in the high-end residential properties should gradually increase when the interest rates are seen as topping off, and with the scarcity of new supply, outlook of the luxury residential property market remains positive. The net carrying value of the 38 remaining houses in Regalia Bay is still significantly below their prevailing market valuation. Substantial cash flow and profits will be derived when these houses are gradually sold.

Over the past years, it has been the trend for some major international hotel groups to reorganise and segregate their hotel ownership with their hotel operating and management businesses into separate entities. Having considered the benefits of such segregation and, in particular, the greater scope and flexibility that such segregation can bring to the continuing business expansion under two separate operating arms, the Group has been actively working with appointed investment banks on a proposal for the separate listing of a real estate investment trust involving its five Regal Hotels in Hong Kong. Shareholders will be kept apprised of further progress in this respect.

Overall, the Directors are confident that the Group will be able to achieve increasing profitability and business growth in the years ahead.

DIRECTORS AND STAFF

Taking this opportunity, I would like to thank Mr. Tommy Lam Chi Chung, who resigned as a Director of the Company on 1st October, 2005, for his past contribution. I am also thankful to all my fellow Directors for their valuable support and advice. More importantly, I would also like to express, on behalf of the Board, our gratitude to all management and staff for their dedication and devotion, which have made possible the continuing improvement in the Group's operating performance.

LO YUK SUI

Chairman

Hong Kong
18th April, 2006



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