



# 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\$1,363.6 million (1998 - net loss of HK\$3,499.3 million). This included the loss, before minority interests, of HK\$693.4 million incurred by Regal Hotels International Holdings Limited on the disposal of its hotel ownership and

management interests in the United States, the sharing of non-capitalised financing costs on the Stanley project and provision in the sum of HK\$400 million made on the Group's development properties in the People's Republic of China.

## **DIVIDEND**

The Directors have resolved not to recommend the payment of a final dividend for the year ended 31st December, 1999 (1998 - nil).

## **REVIEW OF OPERATIONS**

With a view to stabilise its financial position, the Company implemented an

asset disposal programme through various property sales and joint venture. Proceeds realised during the period from 1999 to the date of this report aggregated to approximately HK\$840 million, most of which has been applied towards repayment of the Company's bank borrowings and other indebtedness.

As for Regal, the listed hotel subsidiary of the Company, it completed in December 1999 the disposal of virtually all of its hotel ownership and management interests in the United States. Cash consideration, before taxation and expenses, so far received by Regal amounted to HK\$4,623.2 million, out of which a total of HK\$3,972.5 million was used to repay indebtedness attached to the assets sold and to reduce certain of its bank borrowings in Hong Kong, with the remainder retained by Regal to strengthen its working capital.

The standstill arrangement among the Company's lenders last expired on 30th September, 1999. Due to the relatively stagnant market for commercial/retail properties, particularly for those of larger size, the Group has resorted to raising additional funds from Kowloon City Plaza and Paliburg Plaza, its two principal investment properties, through a proposed refinancing arrangement. In this connection, the Company has mandated a reputable European financial institution to undertake a financing proposal based on a mortgage securitisation on these two properties. A majority part of the surplus proceeds, after redemption of the existing indebtedness attached to these two properties, is intended to be used to reduce or repay borrowings owing to the Company's lenders. The Company is currently in discussions with its lenders with a view to replacing the existing standstill arrangement with new bilateral facilities, once the refinancing proposal is completed.

## PROPERTY DEVELOPMENT

### HONG KONG

#### 211 Johnston Road, Wanchai

On account of the slackened demand for commercial and office properties, there was no progress in the contemplated strata sale of the office portion and the remaining shops. A proposal to equip the office floors with IT connections is under study with a view to facilitate the leasing of the office units.

#### 361 Shau Kei Wan Road, Shau Kei Wan

This is a completed 28-storey building for office/retail banking use, with total gross floor area of about 73,000 sq. ft. and car parking facilities. It will continue to be marketed on an en bloc basis.

#### Park Royale, Town Park Road North, Yuen Long

This residential complex, comprising ten tower blocks with 680 apartment units and 445 car parks, was completed in August 1999. Except for 7 duplex units and 44 car parks remaining, all the apartment units and car parks have been sold for a total value of about HK\$1,668 million. Most of the profits derived from the unit sales have been accounted for in stages in the two years ended 31st December, 1999.

#### Ap Lei Chau Inland Lot No. 129, Ap Lei Chau East

As disclosed in the 1999 Interim Report, the Group entered into an agreement in August 1999 to set up a joint venture for the development of this site, pursuant to which a company equally held by Sun Hung Kai Properties Limited and Kerry Properties Limited now owns a 70% interest in the joint venture. Under the terms of the joint venture, the value of the site was agreed at



HK\$570 million and an aggregate sum of HK\$399 million has been received by the Group. Future funding required for the development of the site will be procured by the other joint venture partners, with no recourse to the Group. The profit attributable to the effective sale of a 70% interest in this development site was recognised in 1999, but further substantial gains are expected from the 30% joint venture interest retained.

**Various lots in Demarcation District  
No. 251, Sharp Island, Sai Kung**

Initial discussions have been held with the relevant government authorities for a proposed resort and recreational development on the property, which have a site area of 201,700 sq. ft. in aggregate. Response received was generally supportive and revised plans will be further submitted.

**Lot No. 1736 in D.D. 122,  
Tong Yan San Tsuen, Yuen Long**

Development works for this residential site, which has a gross floor area of about 22,000 sq. ft., have been postponed to allow for revision of the building plans to achieve savings on the construction costs.

**Rural Building Lot No. 1138,  
Wong Ma Kok Road, Stanley**

A wholly-owned subsidiary of the Group owns a 40% joint venture interest in this development project and another 30% interest is owned by Regal. The development was originally planned for a luxury residential complex with 129 houses having a total gross floor area of about 428,900 sq. ft.. Construction works have been temporarily suspended but, in the meanwhile, the general building plans have been revised to increase the total number of houses to 139 by reducing the size of

certain larger houses, with a view to keeping the sale prices of the houses within a generally affordable range.

The Group is hopeful that, after the proposed restructuring of the existing loans from its lenders as mentioned above is satisfactorily resolved, the project can be put back to normal progress within the next few months.

During the year under review, the financing costs incurred by the jointly controlled entity which owns the project have not been capitalised and the impact thereof attributable to the Group (including that of Regal) has been reflected in the profit and loss account.

**Other Completed Properties**

Most of the remaining units in 118 Connaught Road West, Fuller Gardens (Phase I) and (Phase II) in Tai Po, Villa Art Deco in Yuen Long and in Greenfields, Yuen Long, in which the Group holds a 7% interest, have been sold.

**THE PEOPLE'S REPUBLIC OF CHINA**

Due to liquidity strains encountered, the Group has not deployed further substantial financial resources to its two development projects in Beijing, namely, the Beijing Century City and the Beijing Paliburg Plaza, both in prime locations in the Chaoyang District. Consequently, development works on these two projects have been put on hold temporarily.

The property market in Beijing is now recovering gradually. If PRC successfully joins the World Trade Organisation, commercial activities in this capital city will undoubtedly increase, and this should in turn create additional demand for commercial and residential properties. However, having regard to possible adverse

consequences that may develop from the circumstances encountered, the Group has allowed an aggregate provision of HK\$400 million for possible loss in its investments in the development properties held in the PRC. The Group will continue to monitor closely the practical situation as well as the overall market condition in the PRC, in order to determine the most appropriate course of action to follow.

#### **UNITED STATES OF AMERICA**

An agreement was signed for the sale of the Crown Hill Site in Los Angeles for US\$20 million, with completion originally scheduled for August 1999. However, the purchaser did not proceed to completion and the initial deposit paid has been forfeited. Direct negotiations with the purchaser are on-going and if a satisfactory deal cannot be concluded in the near future, it may be necessary that alternative arrangements or proposals will have to be considered.

#### **PROPERTY INVESTMENT**

##### **Paliburg Plaza, Causeway Bay**

Rental rates achieved on new tenancies and renewals continued to be under pressure, but average occupancy level is presently maintained at about 91%.

##### **Kowloon City Plaza, Kowloon City**

Visitor traffic to this shopping and entertainment mall remained steady and average occupancy was maintained at about 92% during the year. On account of the continued contraction in consumer spending, rental rate was similarly under pressure.

The Town Planning Board has rejected the Group's initial application for the building of a 899-room hotel on top of the existing low-rise structure on technical grounds. Consequently, the Group plans to submit formal application for the rezoning of the property to commercial use to allow for the proposed hotel development. The Group anticipates that the application will ultimately be approved and the maximum development potential of this prime site eventually capitalised.

##### **Redhill Plaza, 3 Red Hill Road, Tai Tam**

Over 90% of the lettable space in this retail complex is presently under lease at relatively satisfactory level.

#### **CONSTRUCTION AND CONSTRUCTION RELATED BUSINESSES**

##### **Construction**

Business of Chatwin Engineering Limited, an 80%-owned subsidiary of the Group, progressed steadily. Total outstanding contract works is around HK\$1 billion, a majority part of which relates to Housing Authority projects. Due to the installation of tighter management and financial controls, it is expected that attractive profits may be derived from certain of these contracts.

##### **Construction-related Business**

The cement plant in Weifang, Shandong, the PRC, in which a 75%-owned subsidiary of the Company holds a 25% interest, reported a modest profit during the year.



## **REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED**

For the year ended 31st December, 1999, Regal reported 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 its hotels and hotel management interests in the United States (after realisation of attributable revaluation reserve and goodwill previously eliminated against reserve).

### **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.

The combined average occupancy of the four Regal hotels in Hong Kong in 1999, 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.

With the financial position of Regal substantially improved through the disposal of the U.S. hotel interests, and the prospects of the luxury residential market on Hong Kong Island becoming more positive, Regal intends to hold on to its 30% interest in the joint venture project at Rural Building Lot No.1138, Stanley.

### **United States and Canada**

In December 1999, Regal completed the transaction for the sale of its hotel ownership and management interests in the United States. Details of this transaction were disclosed in the major transaction circular dated 12th January, 2000 sent to shareholders.

The sale assets included in the transaction comprised effectively the whole of Regal'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.

In summary, Regal has received from this transaction total cash consideration of HK\$4,623.2 million, before taxation and expenses. 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

Regal'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 receivable on or before 17th December, 2001, with interest accruing at 7% per annum, subject to any payment obligations of Regal 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 to Regal of HK\$693.4 million, the cash proceeds realised have significantly improved Regal's liquidity position as well as its gearing level. Consequently, the level of financing costs for Regal 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 Regal 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 Regal'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 of Regal believes that the new Regal Airport Hotel will in time become the highest income contributor of the Regal 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, Regal is 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 Regal's established position as one of the largest hotel owners and operators in Hong Kong, the directors of Regal are anticipating steady growth and improvement in its business and performance in the coming years.

The results of the Group during the year under review have been adversely affected by loss incurred primarily on the disposal by Regal of its hotel interests in the United States and additional provisions on development projects in the PRC. However, the Directors anticipate that the reduced gearing level afforded by the asset sales implemented so far will enable the Group to achieve a gradual recovery when overall economic condition revives.

#### **DIRECTORS AND STAFF**

Mr. Daniel Bong Shu Yin and Mr. Michael Choi Chi Wing resigned as a Director in June and July 1999 respectively, and Mrs. Kitty Lo Lee Kit Tai and Mr. Jimmy Lo Chun To were appointed to the Board in October 1999. On behalf of the Board, I would like to thank Mr. Bong and Mr. Choi for their contribution over all the past years and, at the same time, to extend our welcome to the new members on Board. Taking this opportunity, I would also like to express my sincere gratitude to my fellow Directors for their support and the staff members for their dedicated efforts during what has been a most challenging time for the Company.

#### **LO YUK SUI**

Chairman

Hong Kong  
19th May, 2000