



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\$1,071.0 million, as compared with a net loss of HK\$730.2 million, as restated, recorded for the 2000 financial year.

In the loss incurred for the year under review, HK\$374 million was attributable to the share of loss of Regal Hotels International Holdings Limited, the Company's principal listed subsidiary, HK\$183.7 million was attributable to a charge to the consolidated profit and loss account of the revaluation deficit of hotel

properties owned by Regal, HK\$180 million as impairment of investment in a development property in the People's Republic of China, and HK\$234 million as provision for interest and redemption premium accruing on the outstanding bonds.

Moreover, although the construction works at the Stanley development project, in which Paliburg and Regal holds a 40% and 30% interest respectively, 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 shareholders' loans advanced 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 loss incurred by Regal and Paliburg (excluding its attributable share of



Regal's loss) for the financial year 2001 would have been reduced by approximately HK\$120 million and HK\$160 million, respectively.

## DIVIDEND

The Directors have resolved not to recommend the payment of a final dividend for the year ended 31st December, 2001 (2000 - nil).

## REVIEW OF OPERATIONS

The Company announced in November 2001 that the principal terms of a proposal for the settlement of the Company's outstanding exchangeable bonds and convertible bonds have been formulated. The proposal involves, among others, the exchange and cancellation of the outstanding bonds in return for (i) the Company's entire interests in Paliburg Plaza and Kowloon City Plaza (together with the securitised loan attached), (ii) the issue of 463,669,490 new shares of the Company, representing approximately 16.7% of the enlarged issued share capital of the Company, and (iii) the transfer of 1,432,798,472 existing shares held by the Company in Regal, representing approximately 36.4% of the then issued share capital of Regal. Further details of the proposal were contained in the joint announcement of the Company on 16th November, 2001.

As at 31st December, 2001, total principal, interest and redemption premium outstanding under the exchangeable bonds and convertible bonds amounted to approximately HK\$3,646.4 million, and the outstanding securitised loan attached to Paliburg Plaza and Kowloon City Plaza was approximately HK\$1,217.0 million.

Implementation of the proposal will be conditional on, among others, settlement of the definitive documentation and the obtaining of all necessary consents and approvals, including the approval by the bondholders, other relevant lenders and the shareholders of the Company. Due to the multi-faceted nature of the proposal, the time taken to finalise the ultimate structure of the transaction, the obtaining of the consents from the relevant lenders and the settling of the definitive documentation has exceeded what was originally expected. Management of the Company is diligently working with all relevant parties to settle the ultimate structure of the transaction and the various outstanding issues involved. Shareholders will be kept posted in due course.

A brief review of the principal operating activities of the Group is contained below.

## PROPERTY DEVELOPMENT

### HONG KONG

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

This luxury residential development is the major development project presently undertaken by the Group. 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 for completion in stages from around the second quarter of 2003.

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

The Group has a 30% interest in the joint venture for the development of this site. A re-submission to the Town Planning Board for a proposed development comprising primarily residential accommodation is being processed.

**211 Johnston Road, Wanchai**

More than 60% of the lettable space in the office floors and all of the remaining ground floor shops have been leased to date. Given the relatively depressed market for office/commercial properties, the Group will continue to hold for rental the subject property until the market recovers.

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

The plans for a proposed resort and recreational development on the subject property are being revised, and will be re-submitted for approval in due course.

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

The amended building plans for this residential project have been approved by the Building Authority. Application is being made to extend the building covenant date for further one year to March 2003.

**UNITED STATES OF AMERICA**

The Group has planned to dispose of the Crown Hill site, which has an aggregate site area of approximately 339,800 square feet, located in the central city west area of Los Angeles. The Group has recently

mandated a local agent to market the property for sale and preliminary discussions are being conducted with a number of interested purchasers.

**THE PEOPLE'S REPUBLIC OF CHINA**

**Development Site at  
Gong Ren Ti Yu Chang Street East,  
Chao Yang District, Beijing**

The Group now holds a 50% interest in a jointly held entity that owns a 65% interest in the foreign partner. The foreign partner in turn has a 70% interest in a sino-foreign equity joint venture that owns the development site. Progress of this office/commercial project has been delayed due to processing of approvals of the revised building plans and construction permit. Preparatory site works are being organised and construction works are anticipated to commence later this year.

**Development Site at  
Chao Yang Men Wai Da Jie,  
Chao Yang District, Beijing**

Since the announcement by the Beijing Land Resources and Housing Administration Bureau in November 2000 for the resumption of the subject site due to its idle condition, the joint venture entities involved have been re-organised in accordance with the terms agreed among the relevant parties and their business licences renewed. Application will be made to the relevant government authorities to formally vest the title of the subject site to the joint venture entities when certain other compliance requirements have been met.





## PROPERTY INVESTMENT

### Paliburg Plaza, Causeway Bay

The occupancy rate has been maintained at a satisfactory level but the rental rates achieved on tenancy reversions were under pressure due to the softened commercial market. This office/commercial building comprises one of the principal properties to be transferred to the bondholders under the bonds settlement proposal mentioned above.

### Kowloon City Plaza

The occupancy rate has also been maintained at a satisfactory level but, likewise, the average rental rate has been adversely affected by the sustained depression in the retail sector. This commercial complex comprises the other principal property to be transferred to the bondholders under the bonds settlement proposal.

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

Over 90% of the lettable space in this commercial complex is under lease, yielding satisfactory rental income. With a view to improving the working capital of the Group, the Group has recently arranged for this property to be tendered for sale. If the price offered is reasonable, the Group may choose to dispose of this property.

## CONSTRUCTION AND CONSTRUCTION RELATED BUSINESS

### Construction Business

Chatwin Engineering Limited was formerly an 80%-owned subsidiary of the Group. Subsequent to the year end date, the Group has acquired from the other shareholder its 20% interest in Chatwin. Consequently, Chatwin is now a wholly-owned subsidiary of the Group. Due to the

overall contraction in the number of new building works and the increasing competition in the construction industry, Chatwin's contracts on hand have reduced. However, Chatwin is well equipped to capture new business opportunities when the environment improves.

### Construction-related Business

The Group holds through a 75%-owned subsidiary a 25% interest in a cement plant in Weifang, Shandong. The Group is currently in discussions with the majority shareholder on a possible restructuring of the parties' respective ownership interests in this cement plant.

## REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

For the year ended 31st December, 2001, Regal 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, for the preceding financial year.

Due to the unsatisfactory operating environment, particularly after the September 11 event, and in order to preserve liquidity, Regal 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 Regal for the year under review. Furthermore, as explained above, the non-capitalisation of the bank loan interest and the non-recognition of the interest on the shareholder's loan in respect of the Stanley development project have also adversely impacted Regal's results to the tune of approximately HK\$120 million.

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. 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 Regal'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 reported before, Regal intends to focus its hotel operations primarily in Hong Kong in the near term. As such, Regal 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.

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

Regal's two managed hotels in Shanghai in the People's Republic of China 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, Regal 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 Regal's five hotels in Hong Kong surpassed that recorded in the comparative period last year.

Regal 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 by the directors of Regal that the operating results of Regal's hotel business in Hong Kong for the current financial year should be able to fare better than that for the year under review.

Regal has recently commenced preliminary discussions with its lending banks to secure their ongoing support to a proposed rescheduling of the banking facilities with a view to maintaining the financial stability of Regal group.

At Paliburg Group's level, if the bonds settlement proposal could be successfully implemented, the Group's total debt and hence the gearing will be substantially reduced through the elimination of indebtedness in an aggregate sum of approximately HK\$4,863.4 million. Though the Group will inevitably become leaner due to the transfer of some major assets, this is considered to be a crucial step that is required to re-establish the Group's overall stability and for its revival going forward.

## DIRECTORS AND STAFF

Taking this opportunity, I wish to express my sincere gratitude to my fellow colleagues on the Board and all management and staff members for their persistent efforts over the years and I look forward to their continued dedication in meeting the challenges ahead.

### LO YUK SUI

Chairman

Hong Kong  
19th April, 2002

