

Chairman's Report



Dear shareholders,

I am presenting herewith the Annual Report of the Company for the year ended 31st December, 2002.

FINANCIAL RESULTS

For the year ended 31st December, 2002, the Group recorded an audited consolidated net profit attributable to shareholders of HK\$1,621.6 million, as compared with a net loss of HK\$1,071.0 million recorded for the 2001 financial year. The profit attained in the year under review was primarily the result of the net gain of approximately HK\$2,988.1 million recorded under the Settlement Proposal in respect of the Exchangeable Bonds and the Convertible Bonds of the Company and

after having provided for the attributable share of loss incurred by Regal Hotels International Holdings Limited, net deficit on revaluation of hotel properties owned by Regal and interest accruing on the Bonds before completion of the Settlement Proposal.

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, 2002 (2001 - nil).

According to the terms of the convertible preference shares of the Company, the holders of the convertible preference shares shall not be entitled to any right of participation in the profits of the Company.



REVIEW OF OPERATIONS

On 2nd August, 2002, the Company issued an announcement jointly with Century City International Holdings Limited, the Company's listed holding company, and Regal, the Company's listed subsidiary company, relating to proposals in respect of, among other things, the Stanley Transfer, the Settlement Proposal, the Paliburg Acquisition and the Paliburg Capital Reorganisation. Full details of these proposals were contained in the circular to shareholders dated 26th August, 2002. All of these proposals have since been approved respectively by the shareholders or independent shareholders of the Company and duly completed and/or effected.

Under the Stanley Transfer, which was completed on 31st October, 2002, the Company transferred to Regal its 40% interest in the Stanley development project for a consideration of HK\$470.0 million, determined with reference to an independent professional valuation of the project as at 31st May, 2002 and satisfied by Regal issuing and allotting at the direction of the Company 1,958.3 million new ordinary shares of Regal at an issue price of HK\$0.24 per share. Out of the consideration shares received, 1,896.5 million new ordinary shares of Regal were issued to a special purpose entity designated by the Company for the purpose of the Settlement Proposal.

Following protracted negotiations with the holders of the Exchangeable Bonds and the Convertible Bonds, the Settlement Proposal

was finally completed on 31st October, 2002. Under the Settlement Proposal, the indebtedness under the Bonds was settled in full, principally satisfied by the transfer of the Group's entire equity interests in the wholly-owned subsidiary companies owning Paliburg Plaza and Kowloon City Plaza, the two major investment properties of the Group, and the phased release of a total of 1,896.5 million Regal ordinary shares received under the Stanley Transfer to the Bondholders. Total indebtedness eliminated as a result of the Settlement Proposal amounted to HK\$5,052.0 million and, as noted above, accounting profit in the net amount of approximately HK\$2,988.1 million was recorded in the financial year under review.

There are at present 1,706.5 million Regal ordinary shares, representing approximately 27.1% of Regal's existing issued ordinary share capital, held within the designated special purpose entity and the voting rights attached to those Regal ordinary shares remain vested with the Company except in certain limited circumstances. Therefore, Regal continues to be accounted for as a subsidiary company of the Company, but the beneficial interest in those Regal ordinary shares was deemed to have been divested for the purpose of financial reporting. Assuming there are no other changes in the capital structure of Regal or in the shareholding held by the Company in Regal, the level of the Company's shareholding interest in Regal will be reduced to below 50% on full release of the 1,896.5 million Regal ordinary shares by July 2004.



On 2nd August, 2002, the Company entered into a conditional agreement with respect to the Paliburg Acquisition with certain vendors, including a company owned and controlled by myself. Under the agreement, the Company agreed to acquire the entire issued share capital of Venture Perfect Investments Limited. Venture Perfect is an investment holding company which holds a 50% interest in Leading Technology Holdings Limited. The Leading Technology group is principally engaged in the design, development, integration and distribution of innovative and technologically advanced security and building related systems, software and products in the Greater China region. Venture Perfect also held, through its wholly-owned subsidiary companies, approximately HK\$70.0 million in cash. The consideration of HK\$345.0 million for the Paliburg Acquisition was determined with reference to a business valuation of the Leading Technology group conducted by an independent valuer, to be satisfied by the issue of an aggregate of 3,450 million Paliburg Convertible Preference Shares. Each Paliburg Convertible Preference Share can be converted into one Paliburg ordinary share at any time within 3 years after completion of the Paliburg Acquisition.

Following approval by independent shareholders of the Company and the satisfaction of other conditions precedent, the Paliburg Acquisition was duly completed on 31st December, 2002. The Company believes that the Paliburg Acquisition will enrich and strengthen the business base of the Group and the HK\$70.0 million cash resources within Venture Perfect have also considerably improved the Group's working capital position.

In the circular dated 26th August, 2002, the Company also put forward a capital reorganisation proposal involving principally the reduction and cancellation of the nominal value of the Company's ordinary shares from HK\$1.00 each to HK\$0.01 each and the application of certain credits and reserves towards elimination of the accumulated losses incurred by the Company. The Paliburg Capital Reorganisation has become effective on 22nd November, 2002.

PROPERTIES

HONG KONG

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

The Group's 70% interest in this luxury residential development is now entirely held through Regal. Major construction works for Phase I, comprising 84 residential houses and the clubhouse facilities, have been completed and the occupation permit issued in March 2003. While the construction works for Phase II are in progress, the presale programme for Phase I is intended to be launched shortly after the consent to sell has been obtained.

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

The Group retains a 30% interest in the joint venture for the development of this site. Further revised scheme and information have been submitted to the Town Planning Board for the proposed development comprising primarily residential accommodation and it is anticipated that the formal approval process should be able to be accomplished within the near future.



211 Johnston Road, Wanchai

More than 75% of the lettable space in the office floors and all ground floor shops have been leased to date. Though the property is presently held for rental income, the Group may consider disposing of the property at satisfactory price.

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

The government administration is generally supportive of a proposed resort and recreational development on the subject property. The revised proposal for a comprehensive resort development to fit in with the government's objective of developing the region into a large scale water sports resort center is being finalised and will be submitted to the government in the near future.

Lot No.1736 in D.D. 122, Ping Shan Lane, Tong Yan San Tsuen, Yuen Long, New Territories

The foundation works for this residential project, comprising 16 duplex units with ancillary carparking facilities, have been completed and superstructure works are in progress. The development, which is intended for sale, is scheduled for completion in the third quarter of 2003.

Redhill Plaza, 3 Red Hill Road, Tai Tam

As previously reported, this investment property was sold in June 2002 through a tender process at a consideration of HK\$169.9 million and the net loss of HK\$30.6 million incurred has been reflected in the accounts for the year under review.

THE PEOPLE'S REPUBLIC OF CHINA**Development Site at Gong Ren Ti Yu Chang Street East, Chao Yang District, Beijing**

This project entails the development of an office/commercial building with gross floor area of about 1,000,000 square feet. Foundation works have been completed and basement works are in progress. According to the proposed construction schedule, the project is anticipated to be completed in 2004.

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

The development plans for this project are being revised to adapt to the general planning conditions governing developments in the Central Business District of Beijing. In the meanwhile, the Group is still working to resolve various outstanding issues with the relevant local government authorities and potential disputes with the joint venture partners with regard to the formal vesting of the land title of the subject site to the joint venture entities.

UNITED STATES OF AMERICA

The Los Angeles Unified School District has initiated formal proceedings to compulsorily acquire the Crown Hill site owned by the Group. A sum of US\$10 million has been put into court by the Unified School District as its initially determined probable compensation. The Group has retained legal advisers and professional valuers to object the probable compensation so determined. It is expected that the issue will be adjudicated by the U.S. court within the next few months.



CONSTRUCTION AND CONSTRUCTION-RELATED BUSINESSES

Construction Business

Despite the overall contraction in the local construction industry, Chatwin Engineering Limited has successfully obtained new jobs including interior fitting out works as well as building repair and improvement works. Chatwin will continue to explore new business opportunities.

Construction-related Businesses

The Group held through a 75%-owned subsidiary company a 25% interest in a cement plant in Weifang, Shandong. In November 2002, the Group has entered into an agreement with an independent third party for the disposal of the 25% interest in the cement plant for a consideration of RMB30.7 million.

REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

For the year ended 31st December, 2002, Regal incurred an audited consolidated net loss attributable to shareholders of HK\$765.0 million, as compared with a net loss of HK\$514.2 million for the preceding financial year.

Out of the net loss of HK\$765.0 million incurred for the year, HK\$437.0 million was related to impairment arising from the sale of the Regal Constellation Hotel in Toronto, HK\$181.9 million attributable to impairment for the planned disposal of the Regal Oriental Hotel and the Regal Riverside Hotel and HK\$93.3 million being loss incurred on the sale of its investment in a convertible note receivable in the second half of the year.

If the results of the hotel business of Regal are reviewed in isolation, the income from hotel operation and management businesses has substantially increased by about 42% from HK\$181.7 million in 2001 to HK\$258.2 million in 2002.

During the year under review, the average hotel occupancy in Hong Kong in 2002 increased by about 6.3% as compared with 2001. However, due to the relatively minor growth in the high-yield market segments, the average room rate continued to be under pressure and recorded a drop of about 5.3%.

For the five Regal Hotels in Hong Kong, the combined average occupancy for 2002 was about 12.1% higher than 2001, while the drop in the combined average room rate was contained at about 4%. Together with the stringent measures implemented to control operating costs, gross operating profits before management fees for these five hotels recorded a growth of about 43.7% as compared with 2001. Due to its unique location and capacity, the Regal Airport Hotel is now by far the single largest revenue contributor of the Regal group's hotels in Hong Kong.

During the second half of the year under review, Regal successfully completed two fund raising exercises with a view to strengthen its financial position. In October 2002, Regal concluded the issue of a series of 5% Guaranteed Convertible Bonds due 2004, pursuant to which firm bonds in the sum of HK\$50.0 million were subscribed, together with an option for the initial subscriber to further subscribe for additional bonds up to HK\$50.0 million on the same terms. In November 2002, a placing of existing shares and subscription for new shares of Regal was consummated,



pursuant to which the Group subscribed for an aggregate of 310.0 million new ordinary shares of Regal at a price of HK\$0.065 per share. Subsequent to the year end, Regal repurchased in January 2003 from the initial subscriber a principal amount of HK\$30.0 million of the firm bonds (together with interest accrued) at a consideration of HK\$30.5 million, funded by proceeds derived from the realisation of certain security provided for the bonds.

As previously reported, the Regal group entered into a share purchase agreement with a third party purchaser for the sale of its 100% equity interest in the subsidiary company that owns the Regal Constellation Hotel in Toronto, Canada. The due diligence review by the purchaser has been completed but, at the request of the purchaser, closing of the transaction has been deferred to May 2003. If the sale duly proceeds to completion, the outstanding loan attached to the hotel will be fully repaid and the surplus consideration will be receivable by the Regal group on a staged basis.

The Regal group has initiated legal proceedings in the United States for the recovery of the deferred consideration together with accrued interest receivable from the sale of its hotel interests in the United States completed in December 1999.

The two hotels in Shanghai managed by the Regal group attained improved performance during the year and contributed increased management income.

Operations at the Kaifeng Yatai Brewery in Henan remained difficult due to the very competitive environment and additional efforts have been taken to strengthen its management. The Regal group is hopeful that the operating loss can be further contained in the current year.

OUTLOOK

Business at the five Regal Hotels in Hong Kong during the initial period of January and February 2003 was very encouraging, with gross operating profits significantly surpassing those recorded in the comparative period in 2002. However, due to the outburst of SARS in March, businesses for all hotels in Hong Kong plummeted. Immediate cost reduction initiatives have been put in place by the Regal group at the operating level to alleviate the damage. If the spread of SARS cannot be controlled in time, outlook for the first half of 2003 is bleak.

Since February this year, Regal has been actively engaging in loan restructuring discussions with its bank lenders. In conjunction with the loan restructuring proposal, the Regal group has recently mandated professional agency firms to market the sale of the Regal Oriental Hotel and Regal Riverside Hotel, which are its two hotels in Hong Kong of less strategic importance. On account of the planned disposal, the Regal group has provided for impairment in the values of these two hotel properties in the financial accounts for the year under review based on an expedited sale valuation assessed by an independent professional valuer.



Despite the present crisis created by the outburst of SARS, the Regal group still maintains an optimistic outlook on the future of the hotel industry in Hong Kong due to the government's commitment to boost local tourism. In deciding on the planned disposal at this juncture of its two non-core hotels in Hong Kong, the Regal group has taken into consideration the more significant benefits that will emanate from a reduction in its overall debt levels and the financial stability that may be achieved through the successful implementation of a consensual loan restructuring scheme.

With the implementation of the series of financial restructuring and corporate reorganisation exercises during the year, overall financial strength of Paliburg has been restored. If the debts of the Regal group are excluded, the outstanding bank indebtedness of the Paliburg Group only amounted to approximately HK\$298.1 million as at 31st December, 2002. Despite that the Paliburg Group has inevitably become leaner due to the divestiture of some of its major assets under the Settlement Proposal, the Paliburg Acquisition was aimed to provide to the Paliburg Group with new opportunities that are complementary to its existing core businesses. The Paliburg Group has gone a long way to achieve its corporate recovery and the Directors are hopeful of its restated growth in the coming years.

DIRECTORS AND STAFF

I wish to take this opportunity to express my gratitude to Mr. Francis Gonzalez Estrada, who has been residing overseas and resigned from the Board during the year, for all his past contribution and to bid a warm welcome to Mr. Abraham Shek Lai Him who came on Board as an Independent Non-executive Director in July 2002. Moreover, I also wish to thank the other Board members for their continuing support and all the management and staff members for their persistent and unfailing efforts all through these challenging years.

LO YUK SUI

Chairman

Hong Kong
17th April, 2003

