

# 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 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 recorded for the 2001 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, as already referred to in the 2002 Interim

Report, 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 the Group's investment in a convertible note receivable in the second half of the year.

If the results of the Group's hotel business 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.

## 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).



## REVIEW OF OPERATIONS

### Hong Kong

During the year under review, total visitor arrivals to Hong Kong amounted to over 16.5 million, representing an increase of about 20.7% over that of 2001. The significant growth in the tourist number was mainly due to the surge in Mainland China visitors following a series of visa relaxation measures. 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 Group's hotels in Hong Kong.

As reported in the 2002 Interim Report, the Company entered into a conditional sale and purchase agreement on 2nd August, 2002 with Paliburg Holdings Limited, the immediate listed parent of the Company, for the acquisition by the Group of the 40% interest in the Stanley development

project owned by the Paliburg group for a consideration of HK\$470.0 million, determined with reference to an independent market valuation as at 31st May, 2002. Details of the transaction were contained in the circular to shareholders dated 26th August, 2002. Following approval by the independent shareholders of the Company at the Special General Meeting held on 18th September, 2002, the transaction was duly completed on 31st October, 2002. In satisfaction of the consideration, the Company has issued a total of 1,958.3 million ordinary shares at a price of HK\$0.24 per share.

Consequently, the Group now owns 70% interest in the Stanley development project, a luxury residential development located at Rural Building Lot No.1138, Wong Ma Kok Road, Stanley. Major construction works for Phase I, comprising 84 residential houses and the clubhouse facilities, have been completed and the occupation permit was 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.

In the circular dated 26th August, 2002, the Company also put forward a proposal for the capital reorganisation of the Company involving, among others, the reduction of the nominal value of the ordinary shares of the Company from HK\$0.10 to HK\$0.01 each and the application of certain credits and reserves towards elimination of the accumulated losses incurred. The capital reorganisation proposal has become effective on 16th October, 2002.





During the second half of the year under review, the Company successfully completed two fund raising exercises with a view to strengthen the financial position of the Group. In October 2002, the Company 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 the Company was consummated, pursuant to which the Paliburg group subscribed for an aggregate of 310.0 million new ordinary shares of the Company at a price of HK\$0.065 per share. Subsequent to the year end, the Company 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.

#### **Canada and United States of America**

As previously reported, the Group entered into a share purchase agreement with a third party purchaser for the sale of the Group's 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 Group on a staged basis.

The 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 the Group's hotel interests in the United States completed in December 1999.

#### **The People's Republic of China**

The Group's two managed hotels in Shanghai 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 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 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, the Company has been actively engaging in loan restructuring discussions with the Group's bank lenders. In conjunction with the loan restructuring proposal, the Group has recently mandated professional agency firms to market the sale of the Regal Oriental Hotel and Regal Riverside Hotel, which are the Group's two hotels in Hong Kong of less strategic importance. On account of the planned disposal, the 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 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 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.

## **DIRECTORS AND STAFF**

Taking this opportunity, I would like to welcome Mr. Donald Fan Tung, Mr. Kai Ole Ringenson and Ms. Belinda Yeung Bik Yiu who came on Board in June 2002. Furthermore, I also wish to express my gratitude to all management and staff members for their dedicated teamwork and persistent devotion.

### **LO YUK SUI**

Chairman

Hong Kong  
17th April, 2003

