

**2003 INTERIM ANNOUNCEMENT**

**HALF YEAR RESULTS**

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited and restated)
	HK\$'M	HK\$'M
<b>TURNOVER</b> (Note 3)	342.6	481.0
<b>Cost of sales</b>	<u>(290.7)</u>	<u>(366.7)</u>
<b>Gross profit</b>	51.9	114.3
<b>Other revenue</b> (Note 5)	0.3	3.2
<b>Administrative expenses</b>	(25.2)	(37.9)
<b>Other operating expenses, net</b> (Note 6)	(28.4)	(14.0)
<b>Loss on disposal of overseas subsidiary companies</b>	(34.4)	—
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b> (Note 3)	(35.8)	65.6
<b>Finance costs</b> (Note 7)	(82.0)	(93.5)
<b>Share of profits less losses of:</b>		
<b>Jointly controlled entity</b>	(0.1)	—
<b>Associates</b>	(1.5)	2.5
<b>LOSS BEFORE TAX</b>	(119.4)	(25.4)
<b>Tax</b> (Note 8)	50.3	(7.0)
<b>LOSS BEFORE MINORITY INTERESTS</b>	(69.1)	(32.4)
<b>Minority interests</b>	—	—
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	<u>(69.1)</u>	<u>(32.4)</u>
<b>Loss per ordinary share</b> (Note 9)		
<b>Basic</b>	<u>HK\$(0.011)</u>	<u>HK\$(0.009)</u>
<b>Diluted</b>	N/A	N/A

**Notes:**

- The interim financial statements for the six months ended 30th June, 2003 have not been audited, but have been reviewed by Ernst & Young, the Company's Auditors, whose review report is contained in the Company's interim report for the six months ended 30th June, 2003 (the "2003 Interim Report") to be despatched to shareholders, and by the Audit Committee of the Company.
- ADOPTION OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")  
SSAP 12 (Revised) "Income taxes" has been adopted for the first time in the preparation of the current period's condensed consolidated financial statements. The SSAP prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).  
The principal impact of the revision of this SSAP is that deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future. In addition, deferred tax assets have been recognised for the unused tax losses, to the extent that it is probable that taxable profit will be available against which the unused losses can be utilised.  
The change in accounting policy has been applied retrospectively. Thus comparative amounts for 2002 have been restated accordingly. The opening accumulated losses at 1st January, 2002 and 2003 have been increased by approximately HK\$86.4 million and HK\$102.2 million respectively, which represented the cumulative effect of the change in accounting policy. Tax expense for the six months ended 30th June, 2002 was increased by approximately HK\$6.9 million.
- SEGMENT INFORMATION  
Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.  
The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:  
(a) the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services;  
(b) the property development and investment segment invests in properties for sale and for its rental income potential;  
(c) the brewery operations segment represents the Group's brewery operations in Mainland China; and  
(d) the other segments mainly comprise the Group's laundry services and restaurant operations.  
In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.  
Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

3. SEGMENT INFORMATION (cont'd)

(a) Business segments

The following table presents revenue and profit/(loss) information for the Group's business segments.

Group

	Hotel ownership and management		Property development and investment		Brewery operations		Others		Eliminations		Consolidated	
	Six months ended 30th June, 2003		Six months ended 30th June, 2003		Six months ended 30th June, 2003		Six months ended 30th June, 2003		Six months ended 30th June, 2003		Six months ended 30th June, 2003	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Segment revenue:												
Sales to external customers	323.0	467.2	—	—	17.6	9.2	2.0	4.6	—	—	342.6	481.0
Intersegment sales	0.1	0.2	0.2	0.2	—	—	4.1	6.5	(4.4)	(6.9)	—	—
Total	<u>323.1</u>	<u>467.4</u>	<u>0.2</u>	<u>0.2</u>	<u>17.6</u>	<u>9.2</u>	<u>6.1</u>	<u>11.1</u>	<u>(4.4)</u>	<u>(6.9)</u>	<u>342.6</u>	<u>481.0</u>
Segment results	<u>(16.7)</u>	<u>82.5</u>	<u>—</u>	<u>(0.5)</u>	<u>(3.9)</u>	<u>(7.2)</u>	<u>0.2</u>	<u>(3.6)</u>	<u>—</u>	<u>—</u>	<u>(20.4)</u>	<u>71.2</u>
Interest income and unallocated non-operating and corporate gains											0.2	3.3
Unallocated non-operating and corporate expenses, net											(15.6)	*(8.9)
Profit/(Loss) from operating activities											(35.8)	65.6
Finance costs											(82.0)	(93.5)
Share of profits less losses of:												
Jointly controlled entity			(0.1)	—	—	—	—	—	—	—	(0.1)	—
Associates	(0.5)	(0.2)	—	—	—	—	(1.0)	2.7	—	—	(1.5)	2.5
Loss before tax											(119.4)	(25.4)
Tax											50.3	(7.0)
Loss before minority interests											(69.1)	(32.4)
Minority interests											—	—
Net loss from ordinary activities attributable to shareholders											<u>(69.1)</u>	<u>(32.4)</u>

\* Inclusive of a write back of provision against other loan receivable amounting to HK\$10.5 million (Note 6).

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments.

Group

	Hong Kong		Canada		Mainland China		Eliminations		Consolidated	
	Six months ended 30th June, 2003		Six months ended 30th June, 2003		Six months ended 30th June, 2003		Six months ended 30th June, 2003		Six months ended 30th June, 2003	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Segment revenue:										
Sales to external customers	292.8	423.8	32.2	48.0	17.6	9.2	—	—	342.6	481.0

4. DISCONTINUED OPERATION

The turnover, expenses and results from the discontinued operation in respect of the Group's hotel operation in Canada for the six months ended 30th June, 2003 and 2002 are as follows:

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'M	HK\$'M
<b>TURNOVER</b>	32.2	48.0
<b>Cost of sales</b>	<u>(37.3)</u>	<u>(46.0)</u>
<b>Gross profit/(loss)</b>	(5.1)	2.0
<b>Administrative expenses</b>	(1.9)	(1.9)
<b>Other operating expenses</b>	(1.1)	(1.3)
<b>LOSS FROM OPERATING ACTIVITIES</b>	(8.1)	(1.2)
<b>Finance costs</b>	(4.2)	(3.0)
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	<u>(12.3)</u>	<u>(4.2)</u>

5. Other revenue includes the following major item:

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'M	HK\$'M
Interest income	<u>0.1</u>	<u>1.7</u>

6. Other operating expenses, net, include the following major items:

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'M	HK\$'M
Depreciation	21.2	22.9
Loss on disposal of long term unlisted investments	—	1.6
Write back of provision against other loan receivable	—	(10.5)

7. Included in the Group's finance costs is an amount of HK\$3.5 million (2002 - HK\$3.5 million) representing the amortisation of loan costs.

8. No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the period (2002 - nil).

Tax on the profits of subsidiary companies operating overseas is calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing laws, practices and interpretations thereof.

No provision for tax is required for the associates or the jointly controlled entity as no assessable profits were earned by these associates or the jointly controlled entity during the period.

Included in tax income/(expenses) is net deferred tax income of HK\$50.4 million (2002 - deferred tax expenses of HK\$6.9 million) which has been calculated by applying the rate that is expected to apply in the period when the asset is realised or the liability is settled.

9. The calculation of basic loss per ordinary share is based on the net loss from ordinary activities attributable to ordinary shareholders for the period of HK\$69.1 million (2002 - HK\$32.4 million, as restated), adjusted for the unpaid preference dividend for the period of HK\$3.4 million (2002 - HK\$3.4 million), and on the weighted average of 6,330.1 million (2002 - 3,990.2 million) ordinary shares of the Company in issue during the period.

No diluted loss per ordinary share is presented for the periods ended 30th June, 2002 and 2003, as the exercise of share options of the Company and the conversion of preference shares and convertible bonds convertible into ordinary shares of the Company are anti-dilutive.

10. Neither the Company nor any of its subsidiary companies has purchased, sold or redeemed any listed securities of the Company during the period under review.

## DIVIDEND

- The Directors have resolved not to declare the payment of an interim dividend for the financial year ending 31st December, 2003 (2002 - nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

- During the period under review, net cash inflow from operating activities totalled HK\$55.8 million (2002 - HK\$89.8 million). Net interest payment for the period amounted to HK\$51.8 million (2002 - HK\$122.6 million).
- As at 30th June, 2003, the Group's borrowings net of cash and bank balances amounted to HK\$4,807.1 million (31st December, 2002 - HK\$4,993.0 million). The Group's gearing ratio based on total assets of HK\$8,201.4 million (31st December, 2002 - HK\$8,529.9 million) was about 59% (31st December, 2002 - 59%). As the majority part of the Group's borrowings is denominated in Hong Kong dollar currency, being the same currency in which the Group's major revenues are derived, and with interest determined with reference to Interbank Offered Rates, the use of hedging instruments for currency or interest rates purposes is not considered to be necessary.
- Information in relation to the maturity profile of the borrowings, the pledge of assets and the contingent liabilities of the Group as of 30th June, 2003 has not changed materially from that disclosed in the most recently published annual report of the Company for the year ended 31st December, 2002 (the "2002 Annual Report"). During the period under review, the Group continued to adopt the same funding, treasury and remuneration policies as disclosed in the 2002 Annual Report. Detailed information in such aspects is contained in the Company's 2003 Interim Report.
- In June 2003, following the default by the relevant third party purchaser in the closing of a sale and purchase agreement dated 3rd September, 2002 for the disposal of the Group's 100% interest in a subsidiary company owning the Regal Constellation Hotel in Canada, the Group divested of its 100% shareholding interest in the immediate holding company of such subsidiary company to another third party purchaser for a nominal consideration, with sharing arrangements on any recovery from the defaulted purchaser. As the principal repayment obligations of the bank loan originally secured on the Regal Constellation Hotel was without recourse to the Group, such bank loan in the principal sum of approximately HK\$195.9 million has been taken off the consolidated balance sheet of the Group as at 30th June, 2003. A loss on disposal of the Group's investments in relation to the Regal Constellation Hotel has been fully accounted for in the results under review. Details of the transaction were disclosed in an announcement of the Company dated 7th July, 2003.
- Subsequent to the period under review, on 29th August, 2003, the Group entered into a sale and purchase agreement for the disposal of its 100% interest in a subsidiary company which indirectly owns the Regal Oriental Hotel. Details of such disposal were disclosed in an announcement of the Company dated 4th September, 2003. At present, there are no immediate plans for material investments or capital assets other than, as previously reported, the possible disposal of the Group's other non-core hotel property, namely, the Regal Riverside Hotel, with a view to reduce the overall debt levels.
- The Group's significant investments constitute primarily its ownership and operating interests in the five Regal Hotels in Hong Kong. The performance of these hotels during the period under review, their future prospects as well as the commentary on the local hotel industry, changes in general market conditions and their potential impact on the operating performance of these hotels are contained in the section headed "Review and Outlook" below.

## REVIEW AND OUTLOOK

- For the six months ended 30th June, 2003, the Group reported an unaudited consolidated net loss attributable to shareholders of HK\$69.1 million, as compared with the net loss of HK\$32.4 million (as restated) recorded for the same period in 2002.
- The period under review witnessed the dramatic devastating effect caused by the outbreak of the Severe Acute Respiratory Syndrome, which seriously affected most facets of the economy in all infected regions. In particular, the tourism business in Hong Kong and Mainland China was drastically hit during the outbreak period.
- In Hong Kong, the encouraging growth gained in the number of visitor arrivals in the first two months was wholly wiped out by the swift downturn in the subsequent months and resulted in a negative growth of some 20% for the first half of 2003, compared on a year on year basis. Likewise, the average hotel room occupancy rate for all hotels in Hong Kong during this half year period sharply declined to a level of about 55%, with an all time low average of 17% having been recorded in the month of May. As compared with the same period in 2002, this represented a drop of some 33%, though the reduction in the average achieved hotel room rate of about 6% was relatively milder.
- As reported before, business at the five Regal Hotels in Hong Kong also had a very good start in 2003 during the first two months of January and February, with gross operating profits significantly surpassing those recorded for the comparative period in 2002. However, due to the outbreak of the SARS, business in the ensuing months to June plummeted. Overall, for the first six months of 2003, the combined average occupancy for the Group's five hotels in Hong Kong was down by about 34%, but the combined average room rate was managed to be maintained at a level marginally above that of the same period last year. These had translated into a drastic reduction of about 54% in the total gross operating profits for these five hotels and, consequently, the results for the period under review were adversely affected.
- The luxury residential development project located at Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, which is now 70% owned by the Group, has been formally named as the "Regalia Bay". The occupation permit for Phase I of the development, comprising 84 houses and the clubhouse facilities, was issued in March 2003. The construction works for Phase II, comprising the remaining 55 residential houses are advancing to the final stage and expected to be completed towards the end of this year. The presale programme for the Phase I houses is planned to be launched very shortly.
- During the year to the date of this report, the Group has focused much of its efforts on achieving a consensual restructuring of its bank loans and the planned disposal of its non-core assets as part of the implementation process for such financial restructuring.
- Following a series of continuing discussions with the Group's bank lenders, a financial restructuring proposal was finally formulated and presented to the Group's bank lenders for their consideration in August this year. The proposal primarily aims to replace the present standstill arrangement with a consensual restructuring of the outstanding bank loans, with the final repayment dates being extended and the interim debt reduction milestones set with due reference to the assets realisation plan and available cash flows of the Group. As of 3rd September, 2003, over 90% by value of the Group's bank lenders have in principle agreed to the proposal and the Group expects that unanimous approval will be obtained shortly. Further details on the financial restructuring proposal were contained in a joint announcement by the Group dated 4th September, 2003.
- As contemplated under the financial restructuring proposal, the Group has successfully concluded on 29th August, 2003 an agreement with an independent third party purchaser for the sale of the interests in the Regal Oriental Hotel for a consideration of HK\$350.0 million, subject to adjustments. Further details on this sale agreement were also contained in the joint announcement dated 4th September, 2003.
- As was also disclosed earlier, the Group has instituted legal proceedings against the purchaser under a securities purchase agreement entered into in 1999 relating to the disposal of the Group's hotel interests in the USA to recover the deferred consideration (together with accrued interest) which should be payable by the purchaser to the Group. In June 2003, a decision was issued by the District Court Judge in New York that granted the Group's motion for summary judgment with respect to a principal sum of approximately US\$39.3 million. A further hearing has been held on 4th September, 2003 to determine the amount of interest that may also be due. Most lately, the terms of a full and final settlement of the legal proceedings involving the payment to the Group by the purchaser of a gross settlement amount of US\$48.8 million and the total resolution and release of all claims by and between the Group and the purchaser under or in connection with the securities purchase agreement have been agreed between the Group and the purchaser. The formal settlement agreement is being executed by all relevant parties and completion is expected very shortly.
- Since the announcement of the Closer Economic Partnership Arrangement and the staged relaxation of individual traveling by PRC nationals to Hong Kong, there has been a clear recovery in the local tourist and hotel markets. Hotel room occupancies at the five Regal Hotels in Hong Kong during the months of July and August have rebounded to normal levels and, with the leaner and more compact operating structure now in place, the combined operating results of these five hotels in these two months have managed to surpass those of the comparative period last year. Meanwhile, the sentiments over the property market in Hong Kong are also improving gradually and it is anticipated that substantial cash proceeds will be generated from the units sale of the luxury residential development at Regalia Bay in Stanley.
- The endorsement of the financial restructuring proposal is an indication of confidence by the Group's bank lenders and represents a major positive step in the Group's financial restructuring process. On due implementation of the proposal, it will provide the Group with overall financial stability and a solid platform for its business recovery going forward.
- Moreover, the various measures on traveling relaxation recently introduced by the PRC government, the scheduled opening of the Disney World as well as the overall revival of the local economy will be expected to give a substantial boost to the hotel industry in Hong Kong. These positive developments will be conducive to the Group's achievement of improved operating performance in the coming years.

By Order of the Board  
**LO YUK SUI**  
Chairman

Hong Kong, 19th September, 2003

*A detailed interim results announcement containing all the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be submitted to the Stock Exchange for publication on its website on or before 30th September, 2003.*