富豪酒店國際控股有限公司
Regal Hotels International Holdings Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 78)

2005 INTERIM ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	Six months ended 30th June, 2005 (Unaudited) HK$'M	Six months ended 30th June, 2004 (Unaudited and restated) HK$'M	% Change
Turnover	**542.4**	486.6	**+11.5%**
Operating profit before depreciation and amortisation	**290.7**	168.3	**+72.7%**
Depreciation and amortisation	**64.9**	69.1	**-6.1%**
Operating profit	**225.8**	99.2	**+127.6%**
Net profit attributable to ordinary shareholders	**302.3**	109.5	**+176.1%**
Basic earnings per ordinary share	**HK3.6 cents**	HK1.4 cents	**+157.1%**
Interim Dividend	**HK0.25 cent**	Nil	**—**

REVIEW OF OPERATIONS

- For the six months ended 30th June, 2005, the Group achieved an unaudited consolidated net profit attributable to ordinary shareholders of HK$302.3 million, after netting off aggregate depreciation and amortisation of HK$64.9 million (2004 - HK$69.1 million, as restated), which represented an increase of about 176.1% as compared with the net profit of HK$109.5 million (as restated) for the corresponding period in 2004.
- In the preparation of the Group's interim financial statements for the six months ended 30th June, 2005 herein presented, the Company has adopted a number of new or revised Hong Kong Accounting Standards, which are generally applicable for accounting periods beginning from 1st January, 2005, and relevant comparative figures for 2004 have correspondingly been restated. The impact on the Group's interim financial statements under review arising from the adoption of these new or revised accounting standards are set out in the Notes to Condensed Consolidated Financial Statements below.
- Prior to 1st January, 2005, it was the Group's policy, in accordance with the relevant accounting standards previously applicable, to state the value of the Group's hotel properties in Hong Kong at their open market valuations appraised annually and not depreciated. Under the new or revised accounting standards, these hotel properties are now stated at costs less accumulated depreciation and amortisation in the Condensed Consolidated Financial Statements. In order to present a fair view of the net asset value of the Group and for the purposes of reference and ease of comparison, supplementary information on the Group's net assets position, compiled on a proforma basis to adjust for the open market valuations of these hotel properties as at 31st December, 2004, is also provided in the section headed "Management Discussion and Analysis" below.
- The tourist business in Hong Kong in the first half of 2005 continued to fare well, with total visitor arrivals growing by about 9.6% over the first half of 2004. However, the number of visitors from Mainland China in the second quarter of 2005 was below earlier expectations, apparently due to the postponing of some of their trips to Hong Kong pending the opening of the Hong Kong Disneyland in this September. Overall for the first six months of 2005, visitors from Mainland China have only increased by a modest 3.8% though, on the other hand, notable growth was recorded in the visitor arrivals from most long-haul markets. Based on the information published by the Hong Kong Tourism Board, the average room occupancy for the hotels in Hong Kong during the period was 83%, which was about 2.4% lower than the comparative period in 2004, while the average achieved room rate has increased by 18.2% over the same period. The published figures are reflective of the general disposition of most of the hotel operators in Hong Kong to place increasing focus on the improvement of room rates, having now stabilised a satisfactory room occupancy level. As a matter of fact, the prevailing average room rate achieved by the hotels in Hong Kong as a whole is still significantly below its previous peak level and lags behind those achieved in other comparable major international cities.
- During the period under review, the combined average room occupancy for the five Regal Hotels in Hong Kong was up by about 3.6% as compared with the same period in 2004, while the combined average achieved room rate increased by about 14.4%. Total hotel profits (including rental income) of these five hotels for the period amounted to HK$230.6 million, which represented an increase of about 19.5% over the corresponding figure in 2004. Gross operating profit margin for the period is about 45% and with the relatively fixed nature of the operating cost structure, any rise in room rates is expected to have a magnified impact on the hotels' overall profitability.
- The various renovation, upgrading and extension programmes planned for the Group's hotels in Hong Kong are all progressing as scheduled. The Group will continue to commit appropriate capital expenditures on the Group's hotels in Hong Kong to enhance and upgrade their image and facilities, with a view to further boosting their overall revenues.
- The Company announced in March 2005 that it has entered into a Memorandum of Agreement with the Venetian Group from Las Vegas, USA, pursuant to which the Group plans to develop a hotel development project within the Cotai Resort Area in Macau. The Memorandum of Agreement is subject to the parties finalising and agreeing on the terms of the relevant definitive agreements. By reason of certain material changes in the circumstances affecting some fundamental issues that had remained unresolved, the terms of the definitive agreements could not be agreed and finalised, and hence the Memorandum of Agreement ceased to have effect on 6th September, 2005. The Group, having invested significant amount of time, efforts and resources, remains committed to the proposed hotel development project. With a view to securing its rights in the development site and in furtherance of the proposed development project, the Company has applied directly to the Macau Government for the land grant of the land parcel in the Cotai Resort Area previously intended to be selected for the proposed development project, and if the application is approved, the Group can and is well positioned to proceed with the proposed development project as soon as practicable.
- According to the land grant application and the development proposal submitted to the Macau Government, the Group plans to develop a mega scale hotel complex on the subject land with a site area of approximately 618,000 square feet and a total expected permissible gross floor area of approximately 3.4 million square feet. The proposed development project, which is planned to be developed in two phases, will comprise three four-star to super-five-star hotels with a total of 3,950 guestrooms and suites, together with food and beverage outlets and related hotel facilities, a performance theatre, a convention plaza, a 3-D IMAX theatre, shopping and entertainment areas as well as a hotel training school. The proposed development project will also house a casino which is presently planned to be leased to and operated by an authorised gaming operator in Macau. Under the current plan and subject to approval for the land grant from the Macau Government, and all necessary permissions being obtained, construction work for the first phase of the proposed development project is anticipated to commence later this year or early next year, with completion expected by early 2008.
- Due to the rising interest rates, there has been some consolidation of the property market in Hong Kong. As far as the high-end residential sector is concerned, transaction volume has generally declined, but transacted prices have stayed firm. In view of the scarcity of supply and the high replacement cost of land, outlook of the luxury residential property market continues to be positive. For the six months ended 30th June, 2005, the Regalia Bay in Stanley, which is 70% owned by the Group, contributed to the Group a profit of HK$140.6 million, inclusive of write back of provision. The remaining unsold houses in Regalia Bay, which are mostly of larger sizes and/or on better locations, are planned to be released for sale in stages in keeping with the anticipated rising demand and corresponding price appreciation.
- On 8th July, 2005, the Group entered into a Sale and Purchase Agreement with Paliburg Holdings Limited and certain of its wholly owned subsidiaries for the acquisition of a 50% equity interest in Hang Fok Properties Limited at a consideration of HK$145 million. Hang Fok holds a 23% shareholding interest each in two investee companies which are principally engaged in the development of a property project in the Central Business District (CBD) of Beijing, PRC, comprising office, residential, hotel, commercial and carparking accommodations with a total permissible gross floor area of about 4,630,000 square feet. Completion of the agreement has taken place on 8th July, 2005 and the consideration was settled by the delivery of a promissory note. The transaction provided to the Group an appropriate opportunity to participate in the potential prospects of the property project as well as to diversify its hotel and investment businesses to the capital city of PRC where the 2008 Olympic Games will be held. Details of this transaction are contained in the joint announcement issued by the Company dated 8th July, 2005.
- Business performance of the Kaifeng Yatai Brewery located in Kaifeng City in Henan, PRC continued to be affected by the difficult operating environment. In order that the Group's management resources can be focused on its core businesses, the Group has recently divested of its shareholding interests in an intermediate holding company owning the brewery at their carrying costs to independent third parties, while retaining rights to subscribe for certain preference shareholdings in that holding company should circumstances improve in future.

OUTLOOK

- Businesses at the five Regal Hotels in Hong Kong for July and August remained steady, but with the opening of the Hong Kong Disneyland in September and the holding in Hong Kong of international high profile events such as the World Trade Organisation ministerial conference in December, overall operating results for the second half of 2005 should be substantially better than that attained in the first six months, particularly that the second half year comprises the traditional high season of the year.
- Many additional facilities are planned by the Hong Kong Airport Authority within the Airport complex, such as the AsiaWorld-Expo, the SkyPlaza and a golf course. The AsiaWorld-Expo, which is scheduled to open in December 2005, is a world-class exhibition and event venue with over 750,000 square feet of rentable space. The Regal Airport Hotel will be well benefited as being the only hotel located in the Airport complex and is already receiving hotel room bookings at attractive rates from exhibition and event organisers at the AsiaWorld-Expo spreading over a substantial period of 2006.
- With the large capacity and the diverse network of its hotels in Hong Kong, the Group is well positioned to capture the anticipated surge in visitors coming to visit the Hong Kong Disneyland. In this regard, special hotel transportation has been arranged to link all the five Regal Hotels with the Hong Kong International Airport and the Disneyland, and many more larger bedrooms have been fitted with three to four beds catering to families and to suit the requirements of different hotel customers. Moreover, the Group has been working closely in collaboration with a number of travel agencies and airlines that are actively marketing the Disneyland related packages and using the Regal Hotels in Hong Kong. As can be expected, market response so far is very positive, bringing in new additional businesses to the Group's hotels.
- Overall, the Group is confident of the continuing prospects of the local hotel industry and is committed to maintaining its position as a leading hotel owner and operator in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

- During the period under review, net cash inflow from operating activities totalled HK$193.0 million (2004 - HK$160.0 million). Net interest payment for the period amounted to HK$97.6 million (2004 - HK$49.8 million). The increase in the net interest payment was largely due to the settlement during the period of the accrued preference dividends in arrears of HK$40.8 million (2004 - Nil).
- Prior to 1st January, 2005, it was the Group's policy, in accordance with the relevant accounting standards previously applicable, to state the value of its owned and operated hotel properties at their open market valuations for existing use appraised annually and not depreciated. Under the new applicable accounting standard which became effective as from 1st January, 2005, owner-occupied leasehold land interests can no longer be carried at fair market valuations. Accordingly, in the financial statements herein presented, the Group's five hotel properties in Hong Kong have been stated at cost less accumulated depreciation on buildings and amortisation on the leasehold land interests.
- Aggregate depreciation and amortisation provided for the period under review amounted to HK$64.9 million (2004 - HK$69.1 million, as restated). Additional depreciation on the hotel buildings and amortisation of the prepaid land lease payments charged to the profit and loss account for the period due to the adoption of the new or revised accounting standards aggregated to HK$49.6 million (2004 - HK$49.2 million, as restated), but this has no actual impact on the operating cash flows.
- Moreover, there is significant difference between the fair market values of the Group's hotel properties in Hong Kong based on their annual open market valuations and the values as stated in the financial statements herein presented, particularly that some of these properties were acquired and/or developed by the Group many years ago at relatively low costs. Due to its significant impact on the Group's net assets position, the Group considers it appropriate also to present to shareholders, as set out below, supplementary information on the Group's statement of net assets on a proforma basis to adjust for the open market valuations as at 31st December, 2004 of the Group's hotel properties in Hong Kong, which should more readily reflect the underlying economic values of the property interests.

STATEMENT OF PROFORMA NET ASSETS

	30th June, 2005 (Unaudited) HK$'M	31st December, 2004 (Unaudited) HK$'M
NON-CURRENT ASSETS		
Fixed assets	**2,957.4**	2,990.7
Prepaid land lease payments	**1,099.1**	1,110.2
Add: Revaluation surplus relating to hotel properties based on open market valuation*	**5,786.6**	5,743.7
	9,843.1	9,844.6
Other non-current assets	**2,107.0**	2,082.8
	11,950.1	11,927.4
CURRENT ASSETS	**584.2**	508.3
CURRENT LIABILITIES	**(309.3)**	(311.5)
NET CURRENT ASSETS	**274.9**	196.8
TOTAL ASSETS LESS CURRENT LIABILITIES	**12,225.0**	12,124.2
NON-CURRENT LIABILITIES	**(4,813.7)**	(5,035.4)
MINORITY INTERESTS	**(1.1)**	(0.8)
PROFORMA NET ASSETS	**7,410.2**	7,088.0
Proforma net assets per ordinary share	**HK$0.88**	HK$0.85

* Surplus of independent professional valuations as at 31st December, 2004 over the carrying values of hotel properties (including furniture, fixture and equipment) at the respective balance sheet dates.

- As at 30th June, 2005, the Group's borrowings net of cash and bank balances amounted to HK$4,485.5 million (31st December, 2004 - HK$4,747.0 million, as restated). The Group's gearing ratio based on total assets of HK$6,747.7 million per financial statements herein presented (31st December, 2004 - HK$6,692.0 million, as restated) was about 66.5% (31st December, 2004 - 70.9%, as restated). However, based on the proforma total assets of HK$12,534.3 million, as at 30th June, 2005 (31st December, 2004 - HK$12,435.8 million), as adjusted for the revaluation surplus relating to the hotel properties as aforesaid, the gearing ratio would be 35.8% (31st December, 2004 - 38.2%).
- As the Group's borrowings are primarily 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, 2005 has not changed materially from that disclosed in the most recently published annual report of the Company for the year ended 31st December, 2004 (the "2004 Annual Report"). During the period under review, the Company continued to adopt similar funding, treasury and remuneration policies as disclosed in the 2004 Annual Report. Detailed information in such aspects is contained in the Company's 2005 Interim Report.
- The Group has no immediate plans for material investments or capital assets, other than those as disclosed in the section headed "Review of Operations" above.
- The Group's significant investments principally comprise its ownership and operating interests in the five Regal Hotels in Hong Kong and the investment in the jointly controlled Regalia Bay development. The performance of the Group's hotel operations during the period under review, their future prospects, the commentary on the local hotel industry and changes in general market conditions and their potential impact on the operating performance as well as the progress and prospects on the Regalia Bay development are contained in the sections headed "Review of Operations" and "Outlook" above.

DIVIDEND

- In view of the satisfactory results achieved, the Directors have resolved to declare the payment of an interim dividend of HK0.25 cent per ordinary share for the financial year ending 31st December, 2005 (2004 - Nil), absorbing a total amount of approximately HK$21.1 million, payable to holders of ordinary shares on the Register of Ordinary Shareholders on 28th October, 2005.

CLOSURE OF REGISTER

- The Register of Ordinary Shareholders will be closed from Wednesday, 26th October, 2005 to Friday, 28th October, 2005, both days inclusive, during which period no transfers of shares will be effected. In order to qualify for the proposed ordinary dividend, all transfers accompanied by the relevant certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, not later than 4:00 p.m. on Tuesday, 25th October, 2005. The relevant dividend warrants are expected to be despatched on or about 8th November, 2005.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Profit and Loss Account

	Six months ended 30th June, 2005 (Unaudited) HK$'M	Six months ended 30th June, 2004 (Unaudited and restated) HK$'M
TURNOVER (Note 4)	**542.4**	486.6
Cost of sales	**(311.1)**	(285.4)
Gross profit	**231.3**	201.2
Other revenue (Note 5)	**84.5**	0.5
Administrative expenses	**(25.1)**	(22.3)
Other operating expenses (Note 6)	**—**	(41.1)
Write-back of impairment of a hotel property	**—**	30.0
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION (Note 4)	**290.7**	168.3
Depreciation and amortisation	**(64.9)**	(69.1)
OPERATING PROFIT	**225.8**	99.2
Finance costs (Note 7)	**(77.5)**	(54.3)
Share of profits less losses of:		
Jointly controlled entity	**140.6**	59.3
Associates	**(1.2)**	(6.9)
PROFIT BEFORE TAX	**287.7**	97.3
Tax (Note 8)	**14.6**	12.2
PROFIT FOR THE PERIOD	**302.3**	109.5
ATTRIBUTABLE TO:		
Equity holders of the parent	**302.3**	109.5
Minority interests	**—**	—
	302.3	109.5
Earnings per ordinary share (Note 9)		
Basic	**HK3.6 cents**	HK1.4 cents
Diluted	**HK2.9 cents**	HK1.3 cents

Condensed Consolidated Balance Sheet

	30th June, 2005 (Unaudited) HK$'M	31st December, 2004 (Restated) HK$'M
NON-CURRENT ASSETS		
Fixed assets	**2,957.4**	2,990.7
Prepaid land lease payments	**1,099.1**	1,110.2
Interest in a jointly controlled entity	**1,808.5**	1,844.6
Interests in associates	**23.4**	22.3
Financial assets at fair value through profit or loss	**139.5**	78.6
Other loan	**78.0**	78.0
Deferred expenditure	**38.6**	45.0
Deferred tax assets	**19.0**	14.3
	6,163.5	6,183.7
CURRENT ASSETS		
Hotel and other inventories	**38.6**	34.4
Debtors, deposits and prepayments	**124.0**	98.4
Financial assets at fair value through profit or loss	**1.1**	—
Pledged time deposits	**5.1**	5.0
Time deposits	**398.2**	348.3
Cash and bank balances	**17.2**	22.2
	584.2	508.3
CURRENT LIABILITIES		
Creditors and accruals	**185.9**	183.3
Tax payable	**0.8**	5.6
Interest bearing bank and other borrowings	**122.6**	122.6
	309.3	311.5
NET CURRENT ASSETS	**274.9**	196.8
TOTAL ASSETS LESS CURRENT LIABILITIES	**6,438.4**	6,380.5
NON-CURRENT LIABILITIES		
Interest bearing bank and other borrowings	**(4,468.7)**	(4,650.0)
Convertible bonds	**(184.7)**	(183.0)
Convertible preference shares	**(129.9)**	(166.9)
Deferred tax liabilities	**(30.4)**	(35.5)
	(4,813.7)	(5,035.4)
	1,624.7	1,345.1
CAPITAL AND RESERVES		
Equity attributable to equity holders of the parent		
Issued capital	**84.0**	83.4
Reserves	**1,518.5**	1,219.2
Dividends	**21.1**	41.7
	1,623.6	1,344.3
Minority interests	**1.1**	0.8
	1,624.7	1,345.1

Notes:

1. The interim financial statements for the six months ended 30th June, 2005 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, 2005 to be despatched to shareholders, and by the Audit Committee of the Company.

2. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st December, 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 2	The Appropriate Policies for Hotel Properties
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 18, 19, 21, 23, 24, 27, 28, 31, 33, 37 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 16 Property, Plant and Equipment
HKAS 17 Leases
HK-Int 2 The Appropriate Policies for Hotel Properties

In prior periods, the Group's hotel properties were stated at their open market values for existing use on the basis of annual professional valuations. No depreciation was provided on the hotel properties on the basis that they were maintained in such condition that their residual values were not diminished by the passage of time and that any element of depreciation was insignificant.

Upon the adoption of HKAS 16 and HK-Int 2, the Group's leasehold interest in the hotel buildings is now stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in hotel land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

The effects of the above changes are summarised in Note 3 below. The comparatives on the condensed consolidated balance sheet for the year ended 31st December, 2004 have been restated to reflect the reclassification of leasehold land.

(b) HKAS 32 and HKAS 39 - Financial Instruments

(i) Equity securities

In prior periods, the Group classified its investments in listed equity securities which were held for non-trading purposes as long term investments and were stated at fair values.

The gains or losses arising from changes in fair values of a security were dealt with as movements in the long term investment revaluation reserve, until the security was sold, collected or otherwise disposed of, or until the security was determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, was charged to the profit and loss account for the period in which the impairment arose.

Upon the adoption of HKASs 32 and 39, and in accordance with the transitional provisions of HKAS 39, these securities are classified as financial assets at fair value through profit or loss. Any gain or loss arising from a change in the fair value of the financial assets is recognised in the profit and loss account.

The effects of the above changes are summarised in Note 3 below. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(ii) Convertible bonds

In prior periods, convertible bonds were stated at amortised cost. Upon the adoption of HKASs 32 and 39, convertible bonds issued are split into liability and equity components.

The effects of the above changes are summarised in Note 3 below. In accordance with HKAS 32, comparative amounts have been restated.

(iii) Convertible preference shares

In prior periods, convertible preference shares were stated at their par values under equity and the related share premium had been cancelled to offset against the Group's accumulated losses in a capital reorganisation in 2002. Upon the adoption of HKASs 32 and 39, the whole principal amount of the convertible preference shares is restated and split into liability and equity components.

The effects of the above changes are summarised in Note 3 below. In accordance with HKAS 32, comparative amounts have been restated.

(c) HKFRS 2 - Share-based Payment

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award.

The effects of adopting HKFRS 2 on the Group's share options granted to employees (including directors) during the current period are summarised in Note 3 below. There were no share options granted to any employees or directors in any prior period after 7th November, 2002.

(d) HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets

In prior periods, goodwill/negative goodwill arising on acquisitions prior to 1st January, 2001 was eliminated against consolidated capital reserve in the year of acquisition and was not recognised in the profit and loss account until disposal or impairment of the acquired business.

There was no goodwill arising on acquisitions on or after 1st January, 2001. Negative goodwill was carried in the balance sheet and was recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisition is no longer amortised but subject to an annual impairment review.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the profit and loss account.

The transitional provisions of HKFRS 3 have required the Group to derecognise at 1st January, 2005 the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against retained earnings.

The effects of the above changes are summarised in Note 3 below. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

3. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

Following the adoption of the HKFRSs, the opening balances of the following accounts were adjusted retrospectively. The details of the prior period adjustments and opening adjustments are summarised as follows:

(a) Effect on opening balance of total equity at 1st January, 2005

Effect of new policies (increase/(decrease))	**Notes**	**Share capital**	**Equity component of convertible bonds**	**Equity component of convertible preference shares**	**Revaluation reserves**	**Retained earnings**	**Total**
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		HK$'M	**HK$'M**	**HK$'M**	**HK$'M**	**HK$'M**	**HK$'M**
Prior period adjustments:							
HKASs 16 and 17							
Hotel properties	2(a)	—	—	—	(4,752.1)	(967.8)	(5,719.9)
HKASs 32 and 39							
Convertible bonds	2(b)(ii)	—	21.8	—	—	(3.0)	18.8
Convertible preference shares	2(b)(iii)	(1.3)	—	9.4	—	(175.0)	(166.9)
Net increase/(decrease) in total equity before opening adjustments		(1.3)	21.8	9.4	(4,752.1)	(1,145.8)	(5,868.0)
Opening adjustments:							
HKAS 39							
Cumulative gain in fair value of financial assets	2(b)(i)	—	—	—	(29.4)	29.4	—
HKFRS 3							
Derecognition of negative goodwill	2(d)	—	—	—	—	2.7	2.7
Total effect at 1st January, 2005		(1.3)	21.8	9.4	(4,781.5)	(1,113.7)	(5,865.3)

(b) Effect on opening balance of total equity at 1st January, 2004

Effect of new policies (increase/(decrease))	**Notes**	**Share capital**	**Equity component of convertible preference shares**	**Revaluation reserves**	**Retained earnings**	**Total**
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		HK$'M	**HK$'M**	**HK$'M**	**HK$'M**	**HK$'M**
Prior period adjustments:						
HKASs 16 and 17						
Hotel Properties	2(a)	—	—	(2,280.0)	(743.2)	(3,023.2)
HKASs 32 and 39						
Convertible preference shares	2(b)(iii)	(1.3)	9.4	—	(167.5)	(159.4)
Total effect at 1st January, 2004		(1.3)	9.4	(2,280.0)	(910.7)	(3,182.6)

The following tables summarise the impact on profit after tax, income or expenses recognised directly in equity and capital transactions with equity holders for the six-month periods ended 30th June, 2005 and 2004 upon the adoption of the new HKFRSs. As no retrospective adjustments have been made for the adoption of HKAS 39 and HKFRS 3, the amounts shown for the six months period ended 30th June, 2004 may not be comparable to the amounts shown for the current interim period.

(c) Effect on profit after tax for the six months ended 30th June, 2005 and 2004

		For the six months ended 30th June					
		2005			2004		
Effect of new policies (increase/(decrease))	**Notes**	**Equity holders of the parent**	**Minority interests**	**Total**	Equity holders of the parent	Minority interests	Total
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		HK$'M	**HK$'M**	**HK$'M**	**HK$'M**	**HK$'M**	**HK$'M**
Effect on profit after tax:							
HKAS 16							
Depreciation on hotel buildings net of related deferred tax	2(a)	(29.3)	—	(29.3)	(24.9)	—	(24.9)
Write-back of impairment of a hotel property	2(a)	—	—	—	(135.8)	—	(135.8)
HKAS 17							
Amortisation of prepaid land lease payments	2(a)	(11.1)	—	(11.1)	(11.1)	—	(11.1)
HKAS 39							
Gain in fair value of financial assets at fair value through profit or loss	2(b)(i)	61.0	—	61.0	—	—	—
Finance cost on convertible bonds	2(b)(ii)	(3.5)	—	(3.5)	—	—	—
Finance cost on convertible preference shares	2(b)(iii)	(3.8)	—	(3.8)	(3.8)	—	(3.8)
HKFRS 2							
Employee share option scheme	2(c)	(0.3)	—	(0.3)	—	—	—
HKFRS 3							
Discontinuation of amortisation of goodwill	2(d)	(0.1)	—	(0.1)	—	—	—
Total effect for the period		12.9	—	12.9	(175.6)	—	(175.6)
Effect on earnings per share:							
Basic		HK0.15 cent			HK(2.2) cents		
Diluted		HK0.12 cent			HK(2.2) cents		

(d) Effect on income or expenses recognised directly in equity and capital transactions with equity holders for the six months ended 30th June, 2005 and 2004

		For the six months ended 30th June					
		2005			2004		
Effect of new policies (increase/(decrease))	Note	Equity holders of the parent (Unaudited) HK$'M	Minority interests (Unaudited) HK$'M	Total (Unaudited) HK$'M	Equity holders of the parent (Unaudited) HK$'M	Minority interests (Unaudited) HK$'M	Total (Unaudited) HK$'M
HKFRS 2							
Employee share option scheme	2(c)	0.3	—	0.3	—	—	—
Total effect for the period		0.3	—	0.3	—	—	—

4. 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 their rental income, and the provision of property agency and management services; and

(c) the others segment mainly comprises the Group's other investment business, brewery operations, laundry services and bakery 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.

(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		Others		Eliminations		Consolidated	
	Six months ended 30th June,		Six months ended 30th June,		Six months ended 30th June,		Six months ended 30th June,		Six months ended 30th June,	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)
	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	509.1	454.3	1.0	5.1	32.3	27.2	—	—	542.4	486.6
Intersegment sales	1.2	1.2	0.2	0.2	3.5	4.9	(4.9)	(6.3)	—	—
Total	510.3	455.5	1.2	5.3	35.8	32.1	(4.9)	(6.3)	542.4	486.6
Segment results	238.0	170.7	0.2	2.9	61.5	3.3	—	—	299.7	176.9
Interest income and unallocated non-operating and corporate gains									1.6	0.5
Unallocated non-operating and corporate expenses									(10.6)	(9.1)
Operating profit before depreciation and amortisation									290.7	168.3
Depreciation and amortisation									(64.9)	(69.1)
Operating profit									225.8	99.2
Finance costs									(77.5)	(54.3)
Share of profits less losses of:										
Jointly controlled entity	—	—	140.6	59.3	—	—	—	—	140.6	59.3
Associates	(0.2)	(0.2)	—	—	(1.0)	(6.7)	—	—	(1.2)	(6.9)
Profit before tax									287.7	97.3
Tax									14.6	12.2
Profit for the period									302.3	109.5
Attributable to:										
Equity holders of the parent									302.3	109.5
Minority interests									—	—
									302.3	109.5

(b) Geographical segments

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

Group

	Hong Kong		Mainland China		Eliminations		Consolidated	
	Six months ended 30th June,		Six months ended 30th June,		Six months ended 30th June,		Six months ended 30th June,	
	2005	2004	2005	2004	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
Segment revenue:								
Sales to external customers	511.1	460.5	31.3	26.1	—	—	542.4	486.6

5. Other revenue includes the following major items:

	Six months ended 30th June, 2005 (Unaudited) HK$'M	Six months ended 30th June, 2004 (Unaudited) HK$'M
Settlement amount received less expenses for the business interruption claims in relation to the Group's hotel operations	20.9	—
Gain in fair value of financial assets	61.0	—
Interest income	1.5	0.2

6. Other operating expenses include the following major item:

	Six months ended 30th June, 2005 (Unaudited) HK$'M	Six months ended 30th June, 2004 (Unaudited) HK$'M
Termination fee in respect of cancellation of the disposal of a hotel property	—	39.0

7. Included in the Group's finance costs is an amount of HK$6.4 million (2004 - HK$5.1 million) representing the amortisation of loan costs.

8. The tax credit for the period arose as follows:

	Six months ended 30th June, 2005 (Unaudited) HK$'M	Six months ended 30th June, 2004 (Unaudited and restated) HK$'M
Current - Hong Kong		
Prior year overprovision	(5.0)	—
Current - overseas		
Provision for tax in respect of profits for the period	0.2	0.1
Deferred tax	(9.8)	(12.3)
Tax credit for the period	(14.6)	(12.2)

No provision for Hong Kong profits tax has been made as the Group had no assessable profits or had available tax losses brought forward from prior years to offset the assessable profits, derived from or earned in Hong Kong during the period (2004 - 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 legislation, 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 (2004 - Nil).

Deferred tax income 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 earnings per ordinary share is based on the profit attributable to equity holders of the parent for the period of HK$302.3 million (2004 - HK$109.5 million, as restated), and on the weighted average of 8,356.2 million (2004 - 7,885.1 million) ordinary shares of the Company in issue during the period.

The calculation of diluted earnings per ordinary share for the period ended 30th June, 2005 is based on the adjusted profit attributable to equity holders of the parent for the period of HK$307.8 million as adjusted for the interest savings arising from the conversion of the convertible bonds into ordinary shares of the Company, and on the adjusted weighted average of 10,461.7 million ordinary shares of the Company that would have been in issue during the period assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into, and the subscription rights attaching to all outstanding warrants of the Company were exercised to subscribe for, ordinary shares of the Company at the beginning of the period. The conversion of the outstanding convertible preference shares of the Company is anti-dilutive for the period. In addition, the exercise price of share options of the Company outstanding during the period is higher than the average market price of the Company's ordinary shares and, accordingly, they have no dilutive effect on the basic earnings per ordinary share.

The calculation of diluted earnings per ordinary share for the period ended 30th June, 2004 was based on the adjusted profit attributable to equity holders of the parent for the period of HK$109.5 million, as restated, and on the adjusted weighted average of 8,152.9 million ordinary shares of the Company that would have been in issue during that period assuming all outstanding optional convertible bonds of the Group were converted into ordinary shares of the Company at the beginning of that period. The conversion of the outstanding convertible preference shares of the Company was anti-dilutive for that period. In addition, the exercise price of share options of the Company outstanding during that period was higher than the average market price of the Company's ordinary shares and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

10. Neither the Company nor any of its subsidiary companies has purchased, sold or redeemed any listed securities of the Company during the six months ended 30th June, 2005.

CORPORATE GOVERNANCE

- The Company has complied with the Code Provisions in the Code of Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30th June, 2005, except that the roles of the Chairman and Chief Executive Officer are not separated and performed by two different individuals and the Non-Executive Directors and the Independent Non-Executive Directors of the Company were not appointed for specific terms. However, the Non-Executive Directors and the Independent Non-Executive Directors were appointed to their offices for such terms and subject to retirement in accordance with the provisions of the Bye-laws of the Company. At the annual general meeting of the Company held on 16th June, 2005, all those Directors who had been in office for three years or more retired and were re-elected at that meeting.

BOARD OF DIRECTORS

- As at the date of this announcement, the Board comprises the following members:

Executive Directors:
Mr. LO Yuk Sui
(Chairman and Managing Director)
Mr. Donald FAN Tung
Mr. Tommy LAM Chi Chung
Mr. Jimmy LO Chun To
Miss LO Po Man
Mr. Kenneth NG Kwai Kai
Ms. Belinda YEUNG Bik Yiu

Non-Executive Directors:
Dr. Francis CHOI Chee Ming
(Vice Chairman)
Mr. Kai Ole RINGENSON

Independent Non-Executive Directors:
Ms. Alice KAN Lai Kuen
Mr. NG Siu Chan
Mr. WONG Chi Keung

By Order of the Board
LO YUK SUI
Chairman

Hong Kong, 15th September, 2005

A detailed interim results announcement containing all the information required by 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, 2005.