

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
TURNOVER (Note 3)	396.1	693.3
Cost of sales	(322.9)	(497.3)
Gross profit	73.2	196.0
Other revenue (Note 5)	345.7	16.9
Administrative expenses	(48.2)	(71.9)
Other operating expenses, net (Note 6)	(1.3)	(105.6)
Loss on disposal of overseas subsidiary companies	(9.7)	—
PROFIT FROM OPERATING ACTIVITIES (Note 3)	359.7	35.4
Finance costs (Note 7)	(149.8)	(344.1)
Share of profits less losses of:		
Jointly controlled entity	(0.1)	—
Associates	(2.0)	3.3
PROFIT/(LOSS) BEFORE TAX	207.8	(305.4)
Tax (Note 8)	48.9	3.5
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	256.7	(301.9)
Minority interests	26.4	102.2
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	283.1	(199.7)
Earnings/(Loss) per share (Note 9)		
Basic	HK\$0.074	HK\$(0.057)
Diluted	HK\$(0.003)	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. Fundamental uncertainties in respect of the going concern basis upon which the interim financial statements have been prepared are set out in the 2003 Interim Report.
- 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\$77.8 million and HK\$28.9 million respectively, which represented the cumulative effect of the change in accounting policy. Tax expense for the six months ended 30th June, 2002 was decreased by approximately HK\$4.1 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 property development and investment segment comprises the development and sale of properties and the leasing of office and commercial premises;
(b) the property management segment is engaged in the provision of property management services;
(c) the construction and construction-related segment is engaged in construction works and construction-related businesses, including the provision of development consultancy and project management services and also security system and other software development and distribution;
(d) the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services;
(e) the brewery operations segment represents the Group's brewery operations in Mainland China; and
(f) 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	Property development and investment		Property management		Construction and construction-related businesses		Hotel ownership and management		Brewery operations		Others		Eliminations		Consolidated		
	Six months ended 30th June, 2003		Six months ended 30th June, 2002		Six months ended 30th June, 2003		Six months ended 30th June, 2002		Six months ended 30th June, 2003		Six months ended 30th June, 2002		Six months ended 30th June, 2003		Six months ended 30th June, 2002		
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(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	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Segment revenue:																	
Sales to external customers	6.0	91.1	11.8	11.1	35.5	109.8	323.0	467.2	17.6	9.2	2.2	4.9	—	—	396.1	693.3	
Intersegment sales	0.5	13.3	—	0.6	9.8	1.7	0.1	0.2	—	—	4.1	7.2	(14.5)	(23.0)	—	—	
Total	6.5	104.4	11.8	11.7	45.3	111.5	323.1	467.4	17.6	9.2	6.3	12.1	(14.5)	(23.0)	396.1	693.3	
Segment results	39.2	26.7	8.9	8.7	7.2	5.2	8.0	82.5	(3.9)	(7.2)	2.8	(4.4)	—	(2.4)	62.2	109.1	
Interest income and unallocated on-operating and corporate gains															343.1	16.2	
Unallocated non-operating and corporate expenses, net															(45.6)	(89.9)	
Profit from operating activities															359.7	35.4	
Finance costs															(149.8)	(344.1)	
Share of profits less losses of:																	
Jointly controlled entity	(0.1)	—	—	—	—	—	—	—	—	—	—	—	—	—	(0.1)	—	
Associates	—	—	—	—	—	—	(0.5)	(0.2)	—	—	(1.5)	3.5	—	—	(2.0)	3.3	
Profit/(Loss) before tax															207.8	(305.4)	
Tax															48.9	3.5	
Profit/(Loss) before minority interests															256.7	(301.9)	
Minority interests															26.4	102.2	
Net profit/(loss) from ordinary activities attributable to shareholders															283.1	(199.7)	

* Inclusive of a write back of provision against other loan receivable amounting to HK\$19.1 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, 2002	Six months ended 30th June, 2003	Six months ended 30th June, 2002	Six months ended 30th June, 2003	Six months ended 30th June, 2002	Six months ended 30th June, 2003	Six months ended 30th June, 2002	Six months ended 30th June, 2003	Six months ended 30th June, 2002
	(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	346.2	636.0	32.2	48.0	17.7	9.3	—	—	396.1	693.3

4. DISCONTINUED OPERATION

The turnover, expenses and results from the discontinued operation in respect of the Regal 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
TURNOVER	32.2	48.0
Cost of sales	(37.3)	(46.0)
Gross profit/(loss)	(5.1)	2.0
Administrative expenses	(1.9)	(1.9)
Other operating expenses	(1.1)	(1.3)
LOSS FROM OPERATING ACTIVITIES	(8.1)	(1.2)
Finance costs	(4.2)	(3.0)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(12.3)	(4.2)

5. Other revenue includes the following major items:

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'M	HK\$'M
Interest income	3.4	9.2
Gain on deemed disposal of the Group's interest in a listed subsidiary company	337.4	—

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

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited and restated)
	HK\$'M	HK\$'M
Depreciation	21.7	28.4
Amortisation of goodwill	7.2	—
Loss on disposal of long term listed investments	—	2.2
Loss on disposal of long term unlisted investments	—	1.6
Loss on disposal of ordinary shares in a listed subsidiary company	—	53.7
Loss on deemed disposal of the Group's interest in a listed subsidiary company	4.6	—
Loss on disposal of investment property	—	35.6
Write back of provision against other loan receivable	—	(19.1)
Write back of provision for impairment against properties	(39.6)	—

7. Included in the Group's finance costs is an amount of HK\$3.5 million (2002 - HK\$6.7 million) representing the amortisation of loan costs.

8. The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2002 - 16%) to the estimated assessable profits which were earned in or derived from Hong Kong during the period.

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.

Included in tax income/(expenses) is net deferred tax income of HK\$50.4 million (2002 - HK\$4.1 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 earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$283.1 million (2002 - net loss of HK\$199.7 million, as restated) and on the weighted average of 3,816.8 million (2002 - 3,505.3 million) shares of the Company in issue during the period.

The calculation of diluted loss per share is based on the adjusted net loss from ordinary activities attributable to shareholders for the period of HK\$48.6 million and on the adjusted weighted average of 17,216.8 million shares of the Company that would have been in issue during the period assuming (i) all outstanding convertible preference shares and convertible bonds (including optional convertible bonds) of Regal Hotels International Holdings Limited ("RHIHL") were converted into ordinary shares of RHIHL at the beginning of the period; and (ii) all the 3,450 million convertible preference shares of Paliburg Holdings Limited ("PHL") were converted into the same number of ordinary shares of PHL, of which 3,350 million shares were acquired by the Company through issuing 13,400 million shares of the Company pursuant to the relevant terms under a share swap agreement, at the beginning of the period.

The exercise of share options of PHL and RHIHL are anti-dilutive.

10. In the prior period, an amount of HK\$1.7 million was transferred from reserves to accumulated losses.

11. 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 amounted to HK\$54.3 million (2002 - HK\$120.4 million). Net interest payment for the period amounted to HK\$53.7 million (2002 - HK\$190.0 million).
- As at 30th June, 2003, the Group's borrowings net of cash and bank balances amounted to HK\$5,997.5 million, as compared to HK\$6,149.2 million as at 31st December, 2002. Gearing ratio based on total assets of HK\$9,419.7 million (31st December, 2002 - HK\$9,723.2 million) was about 64% (31st December, 2002 - 63%). As at 30th June, 2003, the Company recorded an unaudited consolidated negative net worth of HK\$927.4 million (31st December, 2002 - audited consolidated negative net worth of HK\$521.5 million, as restated), which was primarily due to the reduction in the attributable share of the underlying net assets of Paliburg as a result of the diluted shareholding interest owned by the Group in Paliburg. 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 further reduce the overall debt levels.
- Following the divestiture of two of Paliburg's major investment properties in 2002, the Group's significant investments constitute primarily the 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 recorded an unaudited consolidated net profit attributable to shareholders of HK\$283.1 million, as compared with a net loss of HK\$199.7 million (as restated) in the same period last year. The net profit attained during the period was primarily the result of an accounting profit of HK\$337.4 million recognised on the deemed disposal of shareholding interest in Paliburg, as further explained below.
- As background information to the profit recorded in the period under review, the Group completed the Share Swap Agreement on 31st December, 2002, pursuant to which the Company acquired the beneficial interest in the entire issued ordinary share capital of Almighty International Limited for a nominal consideration, subject to certain repurchasing rights in favour of the transferor company which is owned and controlled by myself. At the time when the Share Swap Agreement was completed, Almighty acquired from certain vendors (including the company owned and controlled by myself) 3,450 million Paliburg Convertible Preference Shares (convertible into a same number of Paliburg new ordinary shares), satisfied by Almighty issuing 13,800 million Exchangeable Preference Shares which are exchangeable into the Paliburg Convertible Preference Shares (or Paliburg ordinary shares if so converted) on a 4-for-1 basis.
- As at 1st January and 30th June, 2003, the Company itself beneficially holds an aggregate of approximately 1,373.0 million Paliburg ordinary shares which, as at the last balance sheet date, represented approximately 59.2% of Paliburg's ordinary shares then in issue and have been pledged to various financial creditors to secure credit facilities granted to the Group. During the period to 30th June, 2003, an aggregate of 1,460.0 million Paliburg Convertible Preference Shares held by Almighty has been converted into a same number of Paliburg ordinary shares. As a result thereof, the beneficial interest in the ordinary share capital of Paliburg held by the Company itself (excluding those held by Almighty) was diluted to approximately 36.3% as at the half year end date. However, as the Company presently holds the entire issued ordinary share capital of Almighty, Paliburg was still consolidated as a subsidiary company of the Group during the period under review.
- Due to the dilution of the Group's beneficial interest in the issued ordinary shares of Paliburg, an accounting profit on deemed disposal of shareholding interest in Paliburg of approximately HK\$337.4 million has been incorporated in the Group's results for the period under review, which arose from the release of the attributable capital reserve to the profit and loss account. However, on account of the diluted shareholding interest in Paliburg and the consequent reduction in the share of its underlying net assets attributable to the Group, the net assets value of the Group has been adversely affected.
- For the six months ended 30th June, 2003, Paliburg Holdings Limited attained an unaudited consolidated net profit attributable to shareholders of HK\$15.8 million (2002 - net loss of HK\$220.9 million, as restated).
- For the six months ended 30th June, 2003, Regal Hotels International Holdings Limited reported an unaudited consolidated net loss attributable to shareholders of HK\$69.1 million (2002 - HK\$32.4 million, as restated).
- Further information on the principal business operations of Paliburg and Regal, including management discussion and analysis, is contained in their respective announcements separately released today.
- Although, as previously reported, a majority of the financial creditors has earlier in the year indicated their in principle support to the financial restructuring proposal presented by the Company, the ultimate implementation of the proposal will require the formal approval of all relevant financial creditors before the end of this year, being the latest date for the Company to fulfill the required conditions and to exercise its call option rights under the Share Swap Agreement. If the financial restructuring proposal cannot be implemented before such date, then under the terms of the Share Swap Agreement, the Company will cease to own the issued ordinary share capital of Almighty and Almighty will, in turn, cease to own the relevant Paliburg ordinary shares and/or the Paliburg Convertible Preference Shares. In such event, Paliburg will be directly controlled by companies owned and controlled by myself instead of through the Company.
- Nevertheless, the Company will continue to review proposals for the possible acquisition of suitable investments that can be funded by the issue of new equity or quasi-equity of the Company, with a view to maintaining the Company as a viable going concern and, in the meantime, to seek the support of its financial creditors in converting all the unsecured debts into new equity or quasi-equity of the Company.

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.