



REVIEW AND OUTLOOK

For the six months ended 30th June, 2004, the Group recorded an unaudited consolidated net profit attributable to shareholders of HK\$36.7 million, as compared with a net profit of HK\$283.1 million attained in the corresponding period in 2003. It should however be noted that, as explained before, the net profit attained in the corresponding period last year was primarily the result of an accounting profit recognised on the deemed disposal of shareholding interest in Paliburg Holdings Limited.

During the period under review, the Company continued to engage primarily in the negotiations with its financial creditors with a view to concluding a consensual debt restructuring. As previously reported, the financial restructuring proposal presented by the Company essentially involves the settlement of a large majority of the outstanding indebtedness of the Century City Group by their conversion into one or more financial instruments and convertible securities proposed to be issued by the Century City Group and the remaining small minority portion of the outstanding indebtedness to be replaced by new loans. In January this year, the Company obtained the written in-principle approvals of the proposal from all its financial creditors. Those approvals were not legally binding and would be subject to finalisation and execution of the definitive legal agreements among the parties concerned.

Due to the complexity of the debt restructuring and the number of financial creditors involved, the process for the finalisation of the proposal has taken much longer time than originally expected. As announced by the Company on 29th June, 2004, the parties to the Share Swap Agreement entered into a third supplemental agreement to extend the Exchange Period under the Share Swap Agreement from 30th June, 2004 to 30th September, 2004. The purpose of the further extension is to allow the Company to continue to have the benefit of the mechanism provided in the Share Swap Agreement to maintain a majority shareholding interest in Paliburg, with a view to facilitating the ongoing negotiations with the financial creditors of the Century City Group for the finalisation of the debt restructuring.

As most of the outstanding issues with the financial creditors have now been resolved, it is anticipated that, barring any unforeseen circumstances, the detailed terms of the debt restructuring should be able to be finalised and concluded within a relatively short time. Nevertheless, it should also be cautioned that the implementation of the consensual debt restructuring would require the formal agreement of all the financial creditors involved and all necessary approvals required being obtained. Shareholders will be kept posted on any material development in this respect.

For the six months ended 30th June, 2004, Paliburg attained an unaudited consolidated net profit attributable to shareholders of HK\$127.5 million, representing an increase of about 7 times as compared with the HK\$15.8 million recorded in the corresponding period in 2003.

Since the beginning of this year, Paliburg has undertaken a number of equity placements with a view to strengthening its capital base. Aggregate net equity funds of approximately HK\$106.4 million were raised under those share placements, part of which had been utilised to fund the acquisition by Paliburg of additional interests in Regal Hotels International Holdings Limited.



Following the final release in July 2004 of all the Regal shares remaining to be delivered to the former bondholders of Paliburg pursuant to the Bonds Settlement, Paliburg still holds at present approximately 45.0% of the existing issued shares of Regal. In addition, Paliburg is holding approximately 43.1% of the outstanding warrants of Regal issued by Regal pursuant to its bonus issue of warrants in August 2004 as well as certain outstanding convertible preference shares of Regal. It is the intention of Paliburg to maintain the holding of an effective controlling shareholding interest in Regal, which presently constitutes Paliburg's most significant investment asset.

As previously reported, the rezoning of the development site at Ap Lei Chau Inland Lot No.129, in which Paliburg retains a 30% joint venture interest, has been formally approved. The proposed development entails primarily residential accommodation having gross floor area of about 900,000 square feet together with certain ancillary retail, recreational and car parking facilities. It is anticipated that the basic terms of the lease modification will be issued before the end of this year.

The certificate of compliance for the "Rainbow Lodge" residential development at 9 Ping Shan Lane in Yuen Long was issued in January this year. This development has a total of 16 duplex units with aggregate gross floor area of about 30,800 square feet. The sale programme has progressed satisfactorily and the profits realised from the units sold have been reflected in the results for the period under review.

Paliburg has retained professional consultants to advise on the formulation of a revised proposal for an overall comprehensive development scheme centering on the various lots owned in Sharp Island, Sai Kung, which entails resort hotel, water sports, recreational, spa and other related accommodations and facilities. In this regard, due consultations with the relevant government departments are in progress.

Paliburg continues to hold for rental income all the office floors with total gross floor area of about 60,900 square feet, and certain ground floor shops with total gross floor area of 2,200 square feet, at the commercial building at 211 Johnston Road, Wanchai. As the local market for commercial properties continues to recover, the sale programme previously contemplated has been put in abeyance for the time being.

In the People's Republic of China, negotiations are continuing with the third party purchaser for the possible remedy of its default under the agreement entered into in July 2003 for the sale of Paliburg's equity interest in the joint venture project at Gong Ren Ti Yu Chang Street East, Chao Yang District in Beijing. With regard to the other joint venture development project at Chao Yang Men Wai Da Jie in Chao Yang District in Beijing, while Paliburg continues to negotiate with prospective investors for the sale of its interest held at an indicative price substantially above its carrying value (which was stated at HK\$56.9 million as at 30th June, 2004), the joint venture parties involved have been actively negotiating with the relevant local government authorities to secure the vesting of the requisite land title into the joint venture entity.

For the six months ended 30th June, 2004, Regal achieved an unaudited consolidated net profit attributable to shareholders of HK\$285.1 million, while for the corresponding period in 2003, a net loss of HK\$69.1 million was recorded.



Aided by the phased relaxation of the Individual Visit Scheme in China, the tourist industry in Hong Kong continued to recover rapidly. During the first six months of 2004, the total number of incoming visitors has surpassed 10 million, boosting an increase of over 68% as compared with the same period in 2003, although it should be noted that the comparative figure in 2003 had been distorted by the SARS effect. Visitors from the Mainland continued to account for more than 50% of the total visitor arrivals, but those from other major markets were gradually restoring to the pre-SARS levels. Benefiting from the influx of visitors, the average room occupancy and the average achieved hotel room rate for the hotels in Hong Kong during the period have rebounded by about 54.5% and 16.4%, respectively, comparing with the six months to June in 2003.

For the five Regal Hotels in Hong Kong, the combined average room occupancy attained in the period under review has similarly posted a strong increase of about 67.7% over the corresponding period last year, while the combined average room rate has at the same time improved by about 11.1%. During the past few years, management of Regal has spent strenuous efforts to put into position a lean and compact operating structure, geared to contain costs and to improve efficiency, and those efforts have been crucial to the significant enhancement now achieved in the operating profit margin of Regal's hotel businesses.

Despite recent concerns over the possible increase in the future supply of hotel rooms in Hong Kong, Regal believes that as what has transpired in the past, some of the announced hotel projects may not ultimately materialise due to the substantial cost involved and the long term nature of the investment. However, a gradual increase in the supply of hotel rooms driven up by market demands should be beneficial to the healthy development of the local hotel industry in the long run, particularly that the additional promotional campaigns by the new hotel players might in themselves help to attract more incoming tourists.

To reinforce its established brand name and to prepare for new market challenges, Regal is actively reviewing plans to refurbish or upgrade, in stages, its hotel properties in Hong Kong. In the meantime, Regal is also assessing various proposals for the more effective use of the underutilised space within its hotel properties as well as the feasibility of adding new extensions to certain of the hotels by utilising the developable area presently available. If circumstances are appropriate, Regal may consider acquiring or developing new hotel properties in Hong Kong, given Regal's intention to maintain its position as one of the largest hotel owners and operators in Hong Kong.

In order to provide additional flexibility for forward business planning, Regal is actively considering a long-term refinancing proposal for the Regal group's existing bank loans.

As announced on 8th June, 2004, Regal terminated the agreement for the sale of the Regal Oriental Hotel on 3rd June, 2004 and the agreed termination fee of HK\$39.0 million has been settled in July 2004 through the issue by Regal to the purchaser of 195.0 million new ordinary shares of Regal. As at the balance sheet date in 2003, the Regal Oriental Hotel was stated at a carrying value that was approximately equivalent to the net amount realisable by Regal under the terms of the original sale and purchase agreement. On account of the cancellation of the agreement, the payment of the termination fee of HK\$39.0 million and a write-back of impairment in the value of this hotel property in the sum of about HK\$165.8 million, determined by reference to its independent professional valuation of HK\$450.0 million as at the last balance sheet date on an open market, existing use basis, have been incorporated in the results for the half year period under review.



After a period of market consolidation over the past few months, the market activity for the luxury residential properties is anticipated soon to regain its momentum. In such anticipation, Regal is in the course of relaunching a large scale marketing and sale programme for the Regalia Bay in Stanley. The sale and purchase contracts of most of the houses previously sold have now been duly completed and the project loan outstanding on the development has thereby been largely repaid. A minor portion of the profit expected from this joint development was recognised in the interim results based on the houses sold during the first six months of 2004. There are presently 50 houses remaining unsold, many of which are of larger accommodation size and at more desirable locations within the development. Further significant profits and cash inflow are expected to be contributed to Regal upon the gradual sale of the remaining houses.

The Kaifeng brewery operation in Henan in China has achieved steady progress in the period under review. The overall operating results of the brewery are now close to breakeven and the brewery's management is hopeful that the brewery operations will be able to attain profitability in the near future. The Kaifeng brewery is presently 90% owned by Regal and steps are being taken to convert the brewery into an entity wholly owned by Regal. In the meanwhile, with a view to expanding its operational foothold, a new brewery with an initial production capacity of 50,000 tons per annum is being set up at a nearby location in Henan, which will be 90% owned by the Kaifeng brewery.

In the joint announcement by the Company dated 8th June, 2004, Regal announced a proposal for the issue of 2% Guaranteed Convertible Bonds due 2007 pursuant to two subscription agreements both dated 3rd June, 2004. Following the approval of the proposal by, among others, the shareholders of the Company at a Special General Meeting held on 19th July, 2004, Firm Bonds in an aggregate principal amount of HK\$200.0 million have been duly subscribed and issued and, pursuant to the terms of the subscription agreements, the subscribers have the right to subscribe for additional Optional Bonds in an aggregate principal amount of HK\$200.0 million. The Bonds will be convertible into new ordinary shares of Regal at an initial conversion price of HK\$0.25 per share, subject to adjustments, at any time from 21st January, 2005 to 14th July, 2007. The net proceeds received from the issue of the Firm Bonds have been applied substantially for the reduction of Regal's bank indebtedness.

In that same joint announcement, Regal also announced a proposal for the bonus issue of warrants to its shareholders on the basis of one warrant with subscription right of HK\$0.25 for every 10 ordinary shares held in Regal. Pursuant to the bonus warrants proposal, warrants carrying aggregate subscription rights of approximately HK\$208.5 million, including the relevant entitlements receivable by Paliburg, had been duly issued by Regal in early August 2004. The warrants will be exercisable by their holders for subscription of new ordinary shares of Regal at any time from 2nd February, 2005 to 26th July, 2007 at an initial subscription price of HK\$0.25 per share, same as the initial conversion price of the Bonds, and the subscription price is subject to substantially the same adjustments as those applicable to the conversion price of the Bonds. If all the subscription rights of the warrants are fully exercised, Regal will receive additional equity funds of approximately HK\$208.5 million.



With the Individual Visit Scheme extended to the whole of Guangdong province in May and further to nine more cities in other provinces of China in July this year, the influx of visitors from the Mainland is expected to continue. The scheduled opening of the Hong Kong Disneyland and the new International Exhibition Center at the Hong Kong International Airport will pose new and promising business opportunities for the tourist industry in Hong Kong. On account of its strategic location, the Regal Airport Hotel, which has a total room count of about 1,100, should particularly stand to be benefited. Regal will seek to capitalise on its extensive hotel development, investment and operational expertise to pursue appropriate expansion opportunities, while remaining focused to maintaining a high quality standard in its existing hotel businesses.

As the last few months of the year are traditionally the high season for the local hotel business, the operations of the five Regal Hotels in Hong Kong in the second half year are anticipated to fare even better than what were attained in the period under review. Therefore, barring any unforeseen circumstances, the overall results of Regal for the whole year of 2004 should significantly surpass those recorded for the financial year of 2003.

Having now fully stabilised its overall financial position, Paliburg will seek to further expand its capital base with a view to providing additional funds for its business expansion plans. Paliburg will also seek to capitalise on its vast experience and expertise in the property and related businesses to explore appropriate development and investment opportunities in Hong Kong, as well as in certain selected cities in Mainland China, so as to strengthen and revitalise its asset portfolio.

If the Company's consensual debt restructuring can be successfully implemented, management believes that the Century City Group would equally be able to rebuild its financial strength and to progress steadily forward towards sustained revival, as what Regal and Paliburg have been capable to achieve.

By Order of the Board

LO YUK SUI

Chairman

Hong Kong, 16th September, 2004