

REVIEW OF OPERATIONS

For the six months ended 30th June, 2005, the Group attained an unaudited consolidated net profit attributable to shareholders of HK\$144.1 million, representing an increase of about 281.2% as compared with the HK\$37.8 million (as restated) recorded 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 contained in this Interim Report.

In the corresponding period in 2004, Regal Hotels International Holdings Limited ("Regal") was accounted for as a subsidiary of the Company as the Group then held over 50% of the ordinary shares of Regal. As explained in the 2004 Annual Report despatched to shareholders in April 2005, Regal ceased to be a subsidiary of the Company on 31st July, 2004 and has since been equity accounted for as an associate of the Group.

Prior to 1st January, 2005, it was the policy of Regal, 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 appraised annually and not depreciated. Upon the adoption by Regal of the new accounting standards, Regal's five hotel properties in Hong Kong are now stated at cost less accumulated depreciation and amortisation on the hotel land and buildings. However, adjustments have been made retrospectively to the interests of the Group held in Regal to reflect the fair value of Regal's hotel properties in 1993 when the Group initially acquired Regal as a subsidiary.

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 that Regal were to continue to state its five hotel properties in Hong Kong at their open market valuations as at 31st December, 2004 and not depreciated, is presented in the section headed "Management Discussion and Analysis" on pages 7 to 10 in this Interim Report.

The basic terms and the land premium amount for the lease modification of the development site at Ap Lei Chau Inland Lot No. 129 have been agreed and finalised with the government. The Group retains a 30% interest in this joint venture development and under the terms of the joint venture, any funding required for the development project will be procured by the other joint venture partners. The proposed development entails primarily residential accommodation having gross floor area of about 900,000 square feet together with ancillary retail, recreational and car parking facilities. Site formation works are scheduled to commence shortly.



The Group holds 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 about 2,200 square feet, at the commercial building at 211 Johnston Road, Wanchai. About 90% of the units is leased to date, with increasing rentals achieved on new leases or tenancy renewals.

The Group is retaining a majority of the 16 duplex units in the "Rainbow Lodge" residential development at 9 Ping Shan Lane, Yuen Long, New Territories. In view of the positive outlook of the residential property market, the retained units will be released for sale on a gradual basis.

On 8th July, 2005, the Group entered into a Sale and Purchase Agreement with the Regal group for the sale 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, with the consideration settled by way of a promissory note, and Hang Fok has hence become a 50%-owned associate of the Group. Details of the transaction are contained in the Discloseable Transaction Circular to shareholders dated 25th July, 2005.

For the six months ended 30th June, 2005, Regal 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.

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 by Regal for its hotels in Hong Kong are all progressing as scheduled. Regal will continue to commit appropriate capital expenditures on its hotels in Hong Kong to enhance and upgrade their image and facilities, with a view to further boosting their overall revenues.

Regal announced in March 2005 that it has entered into a Memorandum of Agreement with the Venetian Group from Las Vegas, USA, pursuant to which Regal 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. Regal, 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, Regal 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, Regal 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, Regal 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 Regal group, contributed to the Regal 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.

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 Regal 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 Regal 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 Regal group's hotels.

Overall, Regal 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.



The Group's controlling interest in Regal is yielding encouraging growth prospects. The Group's financial position is now very healthy and the gearing ratio is maintained at a very low level. To complement its strategic investment holding in Regal, the Group is actively seeking appropriate development and investment opportunities in the property sector which will continue to be a core business of the Group. With the anticipated improvement in the overall performance of the Group, the Directors are hopeful that the Company will soon resume payment of dividends to shareholders.

By Order of the Board

LO YUK SUI

Chairman

Hong Kong, 15th September, 2005

