

**2004 INTERIM ANNOUNCEMENT**

**HALF YEAR RESULTS**

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'M	HK\$'M
<b>TURNOVER</b> (Note 2)	<b>486.6</b>	342.6
<b>Cost of sales</b>	<b>(285.4)</b>	(290.7)
<b>Gross profit</b>	<b>201.2</b>	51.9
<b>Other revenue</b> (Note 4)	<b>0.5</b>	0.3
<b>Administrative expenses</b>	<b>(22.3)</b>	(25.2)
<b>Other operating expenses</b> (Note 5)	<b>(61.0)</b>	(28.4)
<b>Loss on disposal of overseas subsidiary companies</b>	<b>—</b>	(34.4)
<b>Write-back of impairment of a hotel property</b>	<b>165.8</b>	—
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b> (Note 2)	<b>284.2</b>	(35.8)
<b>Finance costs</b> (Note 6)	<b>(50.5)</b>	(82.0)
<b>Share of profits less losses of:</b>		
<b>Jointly controlled entity</b>	<b>59.3</b>	(0.1)
<b>Associates</b>	<b>(6.9)</b>	(1.5)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>286.1</b>	(119.4)
<b>Tax</b> (Note 7)	<b>(1.0)</b>	50.3
<b>PROFIT/(LOSS) BEFORE MINORITY INTERESTS</b>	<b>285.1</b>	(69.1)
<b>Minority interests</b>	<b>—</b>	—
<b>NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>285.1</b>	(69.1)
<b>Earnings/(Loss) per ordinary share</b> (Note 8)		
<b>Basic</b>	<b>HK\$0.036</b>	HK\$(0.011)
<b>Diluted</b>	<b>HK\$0.035</b>	N/A

**Notes:**

1. The interim financial statements for the six months ended 30th June, 2004 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, 2004 (the "2004 Interim Report") to be despatched to shareholders, and by the Audit Committee of the Company.

**2. 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:

- the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services;
- the property development and investment segment includes investments in properties for sale and for rental income, and the provision of property agency and management services;
- the brewery operations segment represents the Group's brewery operations in Mainland China; and
- the others segment mainly comprises the Group's 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		Brewery operations		Others		Eliminations		Consolidated	
	Six months ended 30th June, 2004		Six months ended 30th June, 2003		Six months ended 30th June, 2004		Six months ended 30th June, 2003		Six months ended 30th June, 2004		Six months ended 30th June, 2003	
	(Unaudited) HK\$'M	(Unaudited) HK\$'M	(Unaudited) HK\$'M	(Unaudited) HK\$'M	(Unaudited) HK\$'M	(Unaudited) HK\$'M	(Unaudited) HK\$'M	(Unaudited) HK\$'M	(Unaudited) HK\$'M	(Unaudited) HK\$'M	(Unaudited) HK\$'M	(Unaudited) HK\$'M
Segment revenue:												
Sales to external customers	454.3	323.0	5.1	—	26.1	17.6	1.1	2.0	—	—	486.6	342.6
Intersegment sales	1.2	0.1	0.2	0.2	—	—	4.9	4.1	(6.3)	(4.4)	—	—
Total	455.5	323.1	5.3	0.2	26.1	17.6	6.0	6.1	(6.3)	(4.4)	486.6	342.6
Segment results	289.2	(16.7)	2.9	—	(0.1)	(3.9)	0.8	0.2	—	—	292.6	(20.4)
Interest income and unallocated non-operating and corporate gains	—	—	—	—	—	—	—	—	—	—	—	—
Unallocated non-operating and corporate expenses	—	—	—	—	—	—	—	—	—	—	(9.1)	(15.6)
Profit/(Loss) from operating activities	—	—	—	—	—	—	—	—	—	—	284.2	(35.8)
Finance costs	—	—	—	—	—	—	—	—	—	—	(50.5)	(82.0)
Share of profits less losses of:												
Jointly controlled entity	—	—	59.3	(0.1)	—	—	—	—	—	—	59.3	(0.1)
Associates	(0.2)	(0.5)	—	—	—	—	(6.7)	(1.0)	—	—	(6.9)	(1.5)
Profit/(Loss) before tax	—	—	—	—	—	—	—	—	—	—	286.1	(119.4)
Tax	—	—	—	—	—	—	—	—	—	—	(1.0)	50.3
Profit/(Loss) before minority interests	—	—	—	—	—	—	—	—	—	—	285.1	(69.1)
Minority interests	—	—	—	—	—	—	—	—	—	—	—	—
Net profit/(loss) from ordinary activities attributable to shareholders	—	—	—	—	—	—	—	—	—	—	285.1	(69.1)

**(b) Geographical segments**

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

Group	Hong Kong		Mainland China		Canada		Eliminations		Consolidated			
	Six months ended 30th June, 2004		Six months ended 30th June, 2003		Six months ended 30th June, 2004		Six months ended 30th June, 2003		Six months ended 30th June, 2004		Six months ended 30th June, 2003	
	(Unaudited) HK\$'M	(Unaudited) HK\$'M										
Segment revenue:												
Sales to external customers	460.5	292.8	26.1	17.6	—	—	32.2	—	—	—	486.6	342.6

**3. DISCONTINUED OPERATION**

The turnover, expenses and results attributable to discontinued operation in respect of the Group's previous hotel operation in Canada for the period from 1st January, 2003 to 25th June, 2003 (date of completion of disposal of the Canadian hotel operation) were as follows:

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

4. Other revenue includes the following major item:

	Six months ended 30th June, 2004 (Unaudited) HK\$'M	Six months ended 30th June, 2003 (Unaudited) HK\$'M
Interest income	0.2	0.1

5. Other operating expenses include the following major items:

	Six months ended 30th June, 2004 (Unaudited) HK\$'M	Six months ended 30th June, 2003 (Unaudited) HK\$'M
Depreciation	19.9	21.2
Termination fee in respect of cancellation of the disposal of a hotel property	38.0	—

6. Included in the Group's finance costs is an amount of HK\$5.1 million (2003 - HK\$3.5 million) representing the amortisation of loan costs.

7. The tax charge/(credit) for the period arose as follows:

	Six months ended 30th June, 2004 (Unaudited) HK\$'M	Six months ended 30th June, 2003 (Unaudited) HK\$'M
Current - overseas	—	—
Provision for tax in respect of profits for the period	0.1	0.1
Deferred tax expenses/(income)	0.9	(50.4)
Tax charge/(credit) for the period	1.0	(50.3)

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 (2003 - 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 (2003 - nil).

Deferred tax expenses/(income) have been calculated by applying the rate that is expected to apply in the period when the asset is realised or the liability is settled.

8. The calculation of basic earnings/(loss) per ordinary share is based on the net profit from ordinary activities attributable to ordinary shareholders for the period of HK\$285.1 million (2003 - net loss of HK\$69.1 million), adjusted for the unpaid preference dividend for the period of HK\$3.4 million (2003 - HK\$3.4 million), and on the weighted average of 7,865.1 million (2003 - 6,330.1 million) ordinary shares of the Company in issue during the period (including the effect of additional ordinary shares to be issued arising from the termination of the SP Agreement (as referred to in the section headed "Management Discussion and Analysis" below) for the period from 24th June, 2004, the effective date of the termination of the SP Agreement, to 30th June, 2004).

The calculation of diluted earnings per ordinary share for the period ended 30th June, 2004 is based on the adjusted net profit from ordinary activities attributable to ordinary shareholders for the period of HK\$281.7 million as used in the basic earnings per ordinary share calculation, and on the adjusted weighted average of 8,152.9 million ordinary shares of the Company that would have been in issue during the period assuming all outstanding optional convertible bonds of the Group were converted into 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.

No diluted loss per ordinary share was presented for the period ended 30th June, 2003 as the exercise of share options and the conversion of convertible preference shares and convertible bonds of the Company were anti-dilutive for that period.

9. 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, 2004.

**DIVIDEND**

- The Directors have resolved not to declare the payment of any interim dividend in respect of the ordinary shares for the financial year ending 31st December, 2004 (2003 - nil).

**MANAGEMENT DISCUSSION AND ANALYSIS**

- During the period under review, net cash inflow from operating activities totalled HK\$160.0 million (2003 - HK\$55.8 million). Net interest payment for the period amounted to HK\$49.8 million (2003 - HK\$51.8 million).
- As at 30th June, 2004, the Group's gross borrowings net of cash and bank balances amounted to HK\$4,267.4 million (31st December, 2003 - HK\$4,401.5 million). The Group's gearing ratio based on total assets of HK\$9,085.0 million (31st December, 2003 - HK\$8,793.3 million) was about 47.0% (31st December, 2003 - 50.1%). The Group expects that its borrowings as well as its gearing level will be further reduced significantly with the surplus funds to be realised from the Regalia Bay development project.
- 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, 2004 has not changed materially from that disclosed in the most recently published annual report of the Company for the year ended 31st December, 2003 (the "2003 Annual Report"). During the period under review, the Company continued to adopt similar funding, treasury and remuneration policies as disclosed in the 2003 Annual Report. Detailed information in such aspects is contained in the Company's 2004 Interim Report.
- On 3rd June, 2004, the Group exercised the option granted by the relevant purchaser to terminate the sale and purchase agreement dated 29th August, 2003 (as supplemented by the supplemental agreement dated 30th March, 2004) (the "SP Agreement") for the disposal of its 100% interest in a subsidiary company which indirectly owns the Regal Oriental Hotel. The termination became effective on 24th June 2004 and the Group has returned the HK\$30.0 million deposit and all interest earned thereon to the purchaser in accordance with the terms of the SP Agreement. A termination fee of HK\$39.0 million was paid to the purchaser pursuant to the terms of the SP Agreement, which was satisfied by the issue of 195.0 million new ordinary shares of the Company to the purchaser at an issue price of HK\$0.2 each, as agreed between the parties to the SP Agreement, on 12th July, 2004. Details of the termination of the SP Agreement were disclosed in the joint announcement of the Company dated 8th June, 2004.
- The Group has no immediate plans for material investments or capital assets, other than those as disclosed in the section headed "Review and Outlook" below.
- The Group's significant investments constitute primarily 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 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, together with the progress and prospects on the Regalia Bay development are contained in the section headed "Review and Outlook" below.

**REVIEW AND OUTLOOK**

- For the six months ended 30th June, 2004, the Group reported an unaudited consolidated net profit attributable to shareholders of HK\$285.1 million, as compared with the net loss of HK\$69.1 million recorded for the corresponding period in 2003.
- Aided by the phased relaxation of the Individual Visit Scheme in the People's Republic of 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 rebound 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, the Group's management 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 the Group's hotel businesses.
- Despite recent concerns over the possible increase in the future supply of hotel rooms in Hong Kong, the Group 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, the Group is actively reviewing plans to refurbish or upgrade, in stages, its hotel properties in Hong Kong. In the meantime, the Group is also assessing various proposals for the more effective use of the underutilised space within the 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, the Group may consider acquiring or developing new hotel properties in Hong Kong, given the Group'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, the Company is actively considering a long-term refinancing proposal for the Group's existing bank loans.
- As announced on 8th June, 2004, the Group 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 of 195.0 million new ordinary shares of the Company. 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 the Group 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, the Group 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 60 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 the Group on the gradual sale of those 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 the Group and steps are being taken to convert the brewery into an entity wholly owned by the Group. In the meanwhile, with a view to expanding its operational foothold, a new brewery is being set up at a nearby location in Henan, which will be 90% owned by the Kaifeng brewery, with initial production capacity of 50,000 tons per annum.
- In the joint announcement by the Company dated 8th June, 2004, the Company 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 the Company 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 the Group's bank indebtedness.
- In that same joint announcement, the Company also announced a proposal for the bonus issue of warrants to shareholders of the Company on the basis of one warrant with subscription right of HK\$0.25 for every 10 ordinary shares held in the Company. Pursuant to the bonus warrants proposal, which was also approved by the shareholders of the Company at the meeting held on 19th July, 2004, warrants carrying aggregate subscription rights of approximately HK\$208.5 million had been duly issued in early August 2004. The warrants will be exercisable for subscription of new ordinary shares of the Company 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, the Group 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. The Group 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 Group's five 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 the Group for the whole year of 2004 should significantly surpass those recorded for the financial year of 2003.

**CODE OF BEST PRACTICE**

The Directors of the Company are not aware of any information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 30th June, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the Independent Non-Executive Directors of the Company were not appointed for specific terms. However, they were appointed to their offices for such terms and subject to retirement in accordance with the provisions of the Bye-laws of the Company.

**BOARD OF DIRECTORS**

As at the date of this announcement, the Board of Directors of the Company comprises Mr. LO Yuk Sui (Chairman and Managing Director), Dr. Francis CHOI Chee Ming (Vice Chairman and Non-Executive Director), Mr. Donald FAN Tung (Executive Director), Mr. Dominic LAI (Independent Non-Executive Director), Mr. Tommy LAM Chi Chung (Executive Director), Mr. Jimmy LO Chun To (Executive Director), Miss LO Po Man (Executive Director), Mr. Kenneth NG Kwai Kai (Executive Director), Mr. Thomas NG Wai Hung (Independent Non-Executive Director), Mr. Kai Ole RINGENSON (Non-Executive Director), Dr. Alex WU Shu Chih, CBE, LL D, FBIM FIOP, F Inst D, JP (Independent Non-Executive Director) and Ms. Belinda YEUNG Bik Yiu (Executive Director).

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

Hong Kong, 16th September, 2004

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, 2004.