REVIEW AND OUTLOOK

For the six months ended 30th June, 2003, the Group reported an unaudited consolidated net loss attributable to shareholders of HK$69.1 million, as compared with the net loss of HK$32.4 million (as restated) recorded for the same period in 2002.

The period under review witnessed the dramatic devastating effect caused by the outbreak of the Severe Acute Respiratory Syndrome, which seriously affected most facets of the economy in all infected regions. In particular, the tourism business in Hong Kong and Mainland China was drastically hit during the outbreak period. In Hong Kong, the encouraging growth gained in the number of visitor arrivals in the first two months was wholly wiped out by the swift downturn in the subsequent months and resulted in a negative growth of some 20% for the first half of 2003, compared on a year on year basis. Likewise, the average hotel room occupancy rate for all hotels in Hong Kong during this half year period sharply declined to a level of about 55%, with an all time low average of 17% having been recorded in the month of May. As compared with the same period in 2002, this represented a drop of some 33%, though the reduction in the average achieved hotel room rate of about 6% was relatively milder.

As reported before, business at the five Regal Hotels in Hong Kong also had a very good start in 2003 during the first two months of January and February, with gross operating profits significantly surpassing those recorded for the comparative period in 2002. However, due to the outbreak of the SARS, business in the ensuing months to June plummeted. Overall, for the first six months of 2003, the combined average occupancy for the Group's five hotels in Hong Kong was down by about 34%, but the combined average room rate was managed to be maintained at a level marginally above that of the same period last year. These had translated into a drastic reduction of about 54% in the total gross operating profits for these five hotels and, consequently, the results for the period under review were adversely affected.

The luxury residential development project located at Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, which is now 70% owned by the Group, has been formally named as the "Regalia Bay". The occupation permit for Phase I of the development, comprising 84 houses and the clubhouse facilities, was issued in March 2003. The construction works for Phase II, comprising the remaining 55 residential houses are advancing to the final stage and expected to be completed towards the end of this year. The presale programme for the Phase I houses is planned to be launched very shortly.

As was disclosed in the Annual Report for 2002, a Canadian subsidiary company of the Group had entered into a share purchase agreement with a third party purchaser in September 2002 for the sale of the Group's 100% interest in the entity which directly owns the Regal Constellation Hotel in Toronto. At the request of the purchaser, the final closing date of the agreement was last extended to June 2003, but the purchaser had failed to proceed with the closing and the Group has consequently forfeited all the deposits paid by the purchaser under the agreement. Since the default by the purchaser, the Group has divested of its 100% shareholding interest in the Canadian subsidiary company to another third party purchaser for a nominal consideration, with sharing arrangements on any recovery from the defaulted purchaser. In this respect, relevant legal actions have been instituted against the defaulted purchaser and its personal guarantors. 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 for the half year ended 30th June, 2003.

During the year to the date of this report, the Group has focused much of its efforts on achieving a consensual restructuring of its bank loans and the planned disposal of its non-core assets as part of the implementation process for such financial restructuring.

Following a series of continuing discussions with the Group's bank lenders, a financial restructuring proposal was finally formulated and presented to the Group's bank lenders for their consideration in August this year. The proposal primarily aims to replace the present standstill arrangement with a consensual restructuring of the outstanding bank loans, with the final repayment dates being extended and the interim debt reduction milestones set with due reference to the assets realisation plan and available cash flows of the Group. As of 3rd September, 2003, over 90% by value of the Group's bank lenders have in principle agreed to the proposal and the Group expects that unanimous approval will be obtained shortly. Further details on the financial restructuring proposal were contained in a joint announcement by the Group dated 4th September, 2003.

As contemplated under the financial restructuring proposal, the Group mandated earlier in the year professional agency firms to market the sale of the Regal Oriental Hotel and the Regal Riverside Hotel, which are the Group's two hotels in Hong Kong of less strategic importance. However, due to the outbreak of the SARS, the response was rather mediocre. With the gradual recovery of the tourism business in Hong Kong beginning in July, the Group undertook discussions with a number of interested investors and has since successfully concluded an agreement with an independent third party purchaser for the sale of the interests in the Regal Oriental Hotel on 29th August, 2003. Under that agreement, the Group will sell its 100% shareholding interests in and intra-group loans to Chasehill Limited, a wholly-owned subsidiary company of the Group which indirectly, through its subsidiary company, owns the Regal Oriental Hotel for a consideration of HK$350.0 million, subject to adjustments (including holdback and retention amounts for outstanding commitments and rectification works and warranties provided in respect of the hotel and its operations). A non-refundable deposit of HK$30.0 million has been paid by the purchaser and completion of the transaction is scheduled to be on or before 31st March, 2004. Further details on this sale agreement were also contained in the joint announcement dated 4th September, 2003.

As was also disclosed in the Annual Report for 2002, the Group has instituted legal proceedings against the purchaser under a securities purchase agreement entered into in 1999 relating to the disposal of the Group's hotel interests in the USA to recover the deferred consideration (together with accrued interest) which should be payable by the purchaser to the Group. In June 2003, a decision was issued by the District Court Judge in New York that granted the Group's motion for summary judgment with respect to a principal sum of approximately US$39.3 million. A further hearing has been held on 4th September, 2003 to determine the amount of interest that may also be due. Most lately, the Group has agreed with the purchaser on the terms of a full and final settlement of the legal proceedings involving the payment to the Group by the purchaser of a gross settlement amount of US$48.8 million and the total resolution and release of all claims by and between the Group and the purchaser under or in connection with the securities purchase agreement. The formal settlement agreement is being executed by all relevant parties and completion is expected very shortly.

Since the announcement of the Closer Economic Partnership Arrangement and the staged relaxation of individual traveling by PRC nationals to Hong Kong, there has been a clear recovery in the local tourist and hotel markets. Hotel room occupancies at the five Regal Hotels in Hong Kong during the months of July and August have rebounded to normal levels and, with the leaner and more compact operating structure now in place, the combined operating results of these five hotels in these two months have managed to surpass those of the comparative period last year. Meanwhile, the sentiments over the property market in Hong Kong are also improving gradually and it is anticipated that substantial cash proceeds will be generated from the units sale of the luxury residential development at Regalia Bay in Stanley.

The endorsement of the financial restructuring proposal is an indication of confidence by the Group's bank lenders and represents a major positive step in the Group's financial restructuring process. On due implementation of the proposal, it will provide the Group with overall financial stability and a solid platform for its business recovery going forward. Moreover, the various measures on traveling relaxation recently introduced by the PRC government, the scheduled opening of the Disney World as well as the overall revival of the local economy will be expected to give a substantial boost to the hotel industry in Hong Kong. These positive developments will be conducive to the Group's achievement of improved operating performance in the coming years.

By Order of the Board

LO YUK SUI

Chairman

Hong Kong, 19th September, 2003

INTERIM 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

Operating Highlights

The Group's significant investments constitute primarily its 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 above headed "Review and Outlook".

Cash Flow and Capital Structure

During the period under review, net cash inflow from operating activities totalled HK$55.8 million (2002 – HK$89.8 million). Net interest payment for the period amounted to HK$51.8 million (2002 – HK$122.6 million).

In June 2003, 210.0 million new ordinary shares were issued by the Company to Guo Yui Investments Limited ("Guo Yui"), a wholly-owned subsidiary company of Paliburg Holdings Limited, at a price of HK$0.048 per ordinary share following a placement by Guo Yui of 150.0 million issued ordinary shares in the Company at a price of HK$0.048 per ordinary share.

Subsequently, in July 2003, a total of 180.0 million new ordinary shares were issued by the Company through placement to certain independent investors, at a price of HK$0.048 per ordinary share.

Net cash inflows to the Company from the above new share issues amounted to an aggregate sum of approximately HK$18.4 million and were used for general working capital purposes.

Pursuant to the subscription agreement dated 12th September, 2002 relating to the issue of 5% guaranteed convertible bonds due 2004 (the "Convertible Bonds"), entered into between, among others, Richtech Holdings Limited ("Richtech"), a wholly-owned subsidiary company of the Company and the issuer of the Convertible Bonds, and a third party purchaser (the "Bonds Purchaser"), the Bonds Purchaser initially subscribed in October 2002 Convertible Bonds in a principal amount of HK$50.0 million and has the right to subscribe for additional Convertible Bonds of up to an aggregate principal amount of HK$50.0 million (the "Optional Bonds"). In January 2003, the Group repurchased and cancelled outstanding Convertible Bonds in a principal amount of HK$30.0 million for a cash consideration of HK$30.5 million, payment of which was settled by certain proceeds derived from the realisation of certain security provided for the Convertible Bonds. In July 2003, the Bonds Purchaser partially exercised the option to subscribe for the Optional Bonds and, as a result, additional Optional Bonds in an aggregate principal amount of HK$20.0 million was issued by Richtech. The cash proceeds from the issue of the HK$20.0 million Optional Bonds were used for general working purposes.

Up to the date of this report, a total of 833,333,327 new ordinary shares were allotted and issued by the Company upon conversion of the Convertible Bonds (including the HK$20.0 million Optional Bonds subscribed) based on the adjusted conversion price of HK$0.048 per ordinary share. As of the date of this report, there are no outstanding Convertible Bonds in issue but the Bonds Purchaser has the right to subscribe for the remaining Optional Bonds in an aggregate principal amount of HK$30.0 million at the adjusted conversion price of HK$0.048 per ordinary share.

As at 30th June, 2003, the Group's gross borrowings net of cash and bank balances amounted to HK$4,807.1 million (31st December, 2002 – HK$4,993.0 million). The Group's gearing ratio based on the total assets of HK$8,201.4 million (31st December, 2002 – HK$8,529.9 million) was about 59% (31st December, 2002 – 59%). The Group is presently implementing plans for assets realisation with a view to reduce the Group's gearing levels.

Details of the Group's pledge of assets and contingent liabilities are shown in notes 14 and 15, respectively, to the condensed consolidated financial statements. As disclosed in note 14, most of the Group's assets have been pledged to secure general banking facilities granted to the Group and the jointly controlled entity which is 70% owned by the Group and engaged in the luxury residential project at Wong Ma Kok Road in Stanley, Hong Kong. The Group does not consider such security arrangements to be unusual, having regard to the relatively difficult financial circumstances affecting the Group in prior year. Adequate flexibility will, however, be retained in the disposition of assets under the consensual Financial Restructuring Proposal. The background and further details of such proposal are more fully discussed in the preceding "Review And Outlook" section and in note 2 to the condensed consolidated financial statements. As disclosed in note 15, as at 30th June, 2003, the Group has contingent liabilities under a several corporate guarantee given by the Company in the amount of HK$2,359.0 million (31st December, 2002 - HK$2,310.0 million) in respect of the banking facilities granted to the jointly controlled entity. These banking facilities were granted to the jointly controlled entity solely for the purpose to finance its development of the residential project in Stanley.

Information in relation to the maturity profile of the Group's borrowings 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. As disclosed in note 2 to the condensed consolidated financial statements, the Group is finalising with the Group's bank lenders the Financial Restructuring Proposal which, on due implementation, will have the final repayment dates of the relevant bank loans extended and the interim milestone payments set with due reference to the assets realisation plan and available cash flows of the Group. If the Financial Restructuring Proposal were taken as effected on 30th June, 2003, bank loans in the amount of HK$2,202.2 million included under current liabilities as at that date would have been reclassified as non-current liabilities.

In June 2003, following the default of 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 has 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. 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 its overall debt levels.

Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. As the Group's borrowings are mostly 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.

Remuneration Policy

The Group employs approximately 1,500 staff in Hong Kong and 800 staff in The People's Republic of China. The Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Group's operations to be compatible with market norm.

Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Staff benefits plans maintained by the Group include provident fund scheme as well as medical and life insurance.

The Company adopted in 1990 an Executive Share Option Scheme under which share options had been granted to selected eligible executives.