REVIEW AND OUTLOOK

For the six months ended 30th June, 2004, the Group 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 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 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, 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 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, 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 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 the Group 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 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 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, 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.

Further details on the issue of the Bonds and the bonus issue of warrants were contained in the circular to shareholders dated 30th June, 2004.

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.

On behalf of the Group and all its team members, I would like to take this opportunity to thank Mrs. Kitty LO LEE Kit Tai who resigned from the Board on 18th August, 2004 for her past contribution and to extend my hearty welcome to Dr. Francis CHOI Chee Ming and Miss LO Po Man who were appointed as a Non-executive Director and an Executive Director, respectively, on the same date. I am also pleased that Dr. Francis Choi has been elected by the Board as the Vice Chairman of the Company. As the Group moves further ahead in its continuing revival, the Group will no doubt be able to benefit from Dr. Francis Choi's invaluable advice on overall strategic planning and his very extensive business network in exploring new development opportunities.

By Order of the Board

LO YUK SUI

Chairman

Hong Kong, 16th September, 2004