

REVIEW OF OPERATIONS

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

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.

Prior to 1st January, 2005, it was the Group's policy, in accordance with the relevant accounting standards previously applicable, to state the value of the Group's hotel properties in Hong Kong at their open market valuations appraised annually and not depreciated. Under the new or revised accounting standards, these hotel properties are now stated at costs less accumulated depreciation and amortisation in the Condensed Consolidated Financial Statements. 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 to adjust for the open market valuations of these hotel properties as at 31st December, 2004, is also provided in the section headed "Management Discussion and Analysis" on pages 6 to 10 in this Interim Report.

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

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

On 8th July, 2005, the Group entered into a Sale and Purchase Agreement with Paliburg Holdings Limited and certain of its wholly owned subsidiaries for the acquisition 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 and the consideration was settled by the delivery of a promissory note. The transaction provided to the Group an appropriate opportunity to participate in the potential prospects of the property project as well as to diversify its hotel and investment businesses to the capital city of PRC where the 2008 Olympic Games will be held. Details of this transaction are contained in the joint announcement issued by the Company dated 8th July, 2005.

Business performance of the Kaifeng Yatai Brewery located in Kaifeng City in Henan, PRC continued to be affected by the difficult operating environment. In order that the Group's management resources can be focused on its core businesses, the Group has recently divested of its shareholding interests in an intermediate holding company owning the brewery at their carrying costs to independent third parties, while retaining rights to subscribe for certain preference shareholdings in that holding company should circumstances improve in future.

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 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 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 Group's hotels.

Overall, the Group 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.

By Order of the Board

LO YUK SUI

Chairman

Hong Kong, 15th September, 2005

