

2001 INTERIM ANNOUNCEMENT

HALF YEAR RESULTS

	Six months ended 30th June, 2001 (Unaudited)	Six months ended 30th June, 2000 (Unaudited and restated)
	HK\$'M	HK\$'M
TURNOVER (Notes 2 & 3)	543.5	532.5
Cost of sales (Note 2)	(448.6)	(446.6)
Gross profit	94.9	85.9
Other revenue (Note 4)	18.5	24.8
Gain on disposal of an overseas associate	—	67.5
Administrative expenses	(35.9)	(35.6)
Other operating expenses (Note 5)	(48.5)	(21.0)
PROFIT FROM OPERATING ACTIVITIES (Note 3)	29.0	121.6
Finance costs (Note 6)	(169.9)	(183.4)
Share of profits less losses of		
– Jointly controlled entity	(26.0)	(30.5)
– Associates	(1.7)	(0.4)
LOSS BEFORE TAX	(168.6)	(92.7)
Tax (Note 7)	(0.2)	(7.5)
LOSS BEFORE MINORITY INTERESTS	(168.8)	(100.2)
Minority interests	0.9	1.0
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(167.9)	(99.2)
Loss per ordinary share (Note 8)		
Basic	HK\$(0.043)	HK\$(0.025)
Diluted	N/A	N/A

Notes:

- The interim financial statements for the six months ended 30th June, 2001 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, 2001 (the "2001 Interim Report") to be despatched to shareholders, and by the Audit Committee of the Company.
- In previous years, service charges in respect of the Group's room sales and food and beverage sales were credited to direct staff costs included in the cost of sales. During the period under review, the Group considered it more appropriate to include the service charges in the Group's turnover, to be in line with accounting practice in hotel industry. The comparative amounts of turnover and cost of sales have been restated to conform to the current period presentation.
- An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and by geographical location is as follows:

	Turnover		Contribution	
	Six months ended 30th June, 2001 (Unaudited)	2000 (Unaudited and restated)	Six months ended 30th June, 2001 (Unaudited)	2000 (Unaudited)
	HK\$'M	HK\$'M	HK\$'M	HK\$'M
By activity:				
Hotel ownership and management	510.8	493.9	55.8	58.2
Property investment	0.7	—	0.4	—
Other operations and investments	32.0	38.6	(27.2)	63.4
	<u>543.5</u>	<u>532.5</u>	<u>29.0</u>	<u>121.6</u>
By geographical location:				
Hong Kong	473.4	452.2	35.5	56.2
U.S.A.	—	—	—	67.5
Canada	55.4	63.1	—	3.9
Others	14.7	17.2	(6.5)	(6.0)
	<u>543.5</u>	<u>532.5</u>	<u>29.0</u>	<u>121.6</u>

- Other revenue includes the following major item:

	Six months ended 30th June, 2001 (Unaudited)	Six months ended 30th June, 2000 (Unaudited)
	HK\$'M	HK\$'M
Interest income	15.6	23.3

- Other operating expenses comprise the following items:

	Six months ended 30th June, 2001 (Unaudited)	Six months ended 30th June, 2000 (Unaudited)
	HK\$'M	HK\$'M
Depreciation	22.1	21.0
Loss on disposal of long term listed investments	26.4	—

- Included in the Group's finance costs is an amount of HK\$3.5 million (2000 - HK\$3.5 million) representing the amortisation of loan costs.

- No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the period (2000 - 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 laws, 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.

- The calculation of basic loss per ordinary share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$167.9 million (2000 - HK\$99.2 million), adjusted for the unpaid preference dividend for the period of HK\$3.4 million (2000 - HK\$3.4 million) and on the weighted average of 3,938.8 million (2000 - 3,935.9 million) ordinary shares of the Company in issue during the period.

No diluted loss per ordinary share is presented for the periods ended 30th June, 2000 and 2001, as the exercise of share options and the conversion of preference shares of the Company are anti-dilutive.

- Neither the Company nor any of its subsidiary companies has purchased, sold or redeemed any listed securities of the Company during the period under review.

INTERIM DIVIDEND

- The Directors have resolved not to declare the payment of an interim dividend for the financial year ending 31st December, 2001 (2000 - nil).

MANAGEMENT DISCUSSION AND ANALYSIS

- During the period under review, net cash inflow from operating activities totalled HK\$39.8 million. Net interest payment for the period amounted to HK\$118.5 million. The Group intends to reduce further the level of interest expense through the disposal of some of its non-core assets and/or equity fund raising exercises.
- As at 30th June, 2001, the Group's borrowings net of cash and bank balances amounted to HK\$5,043.8 million (31st December, 2000 - HK\$4,883.2 million). The Group's gearing ratio based on the total assets of HK\$11,749.0 million (31st December, 2000 - HK\$11,932.7 million) was about 43% (31st December, 2000 - 41%).
- 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, 2001 has not changed materially from that disclosed in the most recently published annual report of the Company for the year ended 31st December, 2000 (the "2000 Annual Report"). During the period under review, the Group continued to adopt the same funding, treasury and remuneration policies as disclosed in the 2000 Annual Report. Detailed information in such aspects is contained in the Company's 2001 Interim Report.
- Further information relating to the Group's principal business operations and outlook is contained in the section headed "Review and Outlook" below.

REVIEW AND OUTLOOK

- For the six months ended 30th June, 2001, the Group incurred an unaudited consolidated net loss attributable to shareholders of HK\$167.9 million (2000 - HK\$99.2 million). As the interim results in 2000 included a profit of HK\$67.5 million derived from the disposal of an associate, the loss reported for the current period was comparatively higher than that of last year. The loss incurred in this period was mainly attributable to the relatively high level of finance costs and the non-capitalisation of interest expenses related to the Group's joint venture interest in the Stanley project.
- Due to the slowdown in most major economies, performance of the tourism business in Hong Kong during the period under review fell short of earlier expectations. In the first six months, total visitor arrivals to Hong Kong in 2001 recorded a growth of 7.5% as compared with that of last year. During the same comparative periods, hotel room occupancy in Hong Kong declined by 4.9% as compared with last year, but average achieved hotel room rate has gained by 8.3%.
- The Regal Airport Hotel has substantially been in full operation since the beginning of this year. As compared with the corresponding period in 2000, the average occupancy of this hotel during the period under review has improved by 8.5%, despite the enlarged room count, while average room rate was maintained at about the same level last year. With its unique location, special design, superb facilities and fine services, the Regal Airport Hotel is gaining increasing recognition as one of the best airport hotels in the world.
- As for the other four Regal Hotels in Hong Kong, an improvement of 2.6% in the combined average occupancy and 4.2% in the combined average room rate was achieved during the same comparative periods.
- The half-year results attained by the Regal Constellation Hotel in Toronto was lower than anticipated. However, overall business at the two managed hotels in Shanghai, China has improved.
- In order to alleviate its relatively high level of interest burden, the Group is actively working on the disposal of some of its non-core assets. Furthermore, the Group is also actively exploring options to raise additional funds through refinancing or equity issues.
- Negotiations with the lenders on the resumption of draw down under the original construction facility for the luxury residential project at Wong Ma Kok Road, Stanley, in which the Company owns a 30% interest, are at an advanced stage. It is hopeful that the requisite construction works could be recommenced shortly.
- The HKSAR Government has recently announced major initiatives to boost the local tourism with the addition of various new tourist attractions, apart from the Disney World in the Lantau Island now under construction. The accession of China into WTO and the holding of the 2008 Olympics in Beijing are expected to create immense business and tourist traffic to China over the next few years and Hong Kong will surely stand to benefit as the gateway city to the Mainland.
- With these favourable factors in the backdrop, the hotel business in Hong Kong in the medium term should see some recovery, but the impact on world economy due to the recent tragic incident in New York is casting a significant degree of uncertainty. However, the Company will keep a close review of its business strategy with a view to coping with and responding promptly to any changes in the hotel market condition.

By Order of the Board
LO YUK SUI
Chairman

Hong Kong, 20th September, 2001

A detailed interim results announcement containing all the information required by paragraphs 46(1) to 46(6) inclusive of 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 28th September, 2001.