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## 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.



## HALF YEAR RESULTS

### Condensed Consolidated Profit and Loss Account

		Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited and restated)
	Notes	HK\$'million	HK\$'million
TURNOVER	3	342.6	481.0
Cost of sales		(290.7)	(366.7)
Gross profit		51.9	114.3
Other revenue	5	0.3	3.2
Administrative expenses		(25.2)	(37.9)
Other operating expenses, net	6	(28.4)	(14.0)
Loss on disposal of overseas subsidiary companies		(34.4)	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	3	(35.8)	65.6
Finance costs	7	(82.0)	(93.5)
Share of profits less losses of:			
Jointly controlled entity		(0.1)	–
Associates		(1.5)	2.5
LOSS BEFORE TAX		(119.4)	(25.4)
Tax	8	50.3	(7.0)
LOSS BEFORE MINORITY INTERESTS		(69.1)	(32.4)
Minority interests		–	–
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(69.1)	(32.4)
Loss per ordinary share (HK\$):	9		
Basic		(0.011)	(0.009)
Diluted		N/A	N/A





## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2003

	Share capital (Unaudited)	Share premium account (Unaudited)	Capital reserve (Unaudited)	Special reserve (Unaudited)	Revaluation reserves (Unaudited)	Exchange equalisation reserve (Unaudited)	Accumulated losses (Unaudited)	Total (Unaudited)
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1st January, 2003								
As previously stated	64.2	467.1	71.9	1,062.3	1,563.6	(14.3)	-	3,214.8
Prior year adjustments (Note)	-	-	-	-	-	-	(102.2)	(102.2)
As restated	64.2	467.1	71.9	1,062.3	1,563.6	(14.3)	(102.2)	3,112.6
Issue of shares	2.3	8.8	-	-	-	-	-	11.1
Share issue expenses	-	(0.2)	-	-	-	-	-	(0.2)
Movement in fair value of long term investments	-	-	-	-	7.1	-	-	7.1
Net loss for the period	-	-	-	-	-	-	(69.1)	(69.1)
Release on disposal of overseas subsidiary companies	-	-	(71.9)	-	52.4	7.9	-	(11.6)
Exchange realignments	-	-	-	-	-	7.7	-	7.7
<b>At 30th June, 2003</b>	<b>66.5</b>	<b>475.7</b>	<b>-</b>	<b>1,062.3</b>	<b>1,623.1</b>	<b>1.3</b>	<b>(171.3)</b>	<b>3,057.6</b>
	Share capital (Unaudited)	Share premium account (Unaudited)	Capital redemption reserve (Unaudited)	Capital reserve (Unaudited)	Revaluation reserves (Unaudited)	Exchange equalisation reserve (Unaudited)	Accumulated losses (Unaudited)	Total (Unaudited)
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1st January, 2002								
As previously stated	395.1	1,653.8	1,314.2	13.5	2,662.7	(14.8)	(1,461.0)	4,563.5
Prior year adjustments (Note)	-	-	-	-	-	-	(86.4)	(86.4)
As restated	395.1	1,653.8	1,314.2	13.5	2,662.7	(14.8)	(1,547.4)	4,477.1
Issue of shares	9.0	3.6	-	-	-	-	-	12.6
Share issue expenses	-	(0.3)	-	-	-	-	-	(0.3)
Movement in fair value of long term investments	-	-	-	-	11.3	-	-	11.3
Net loss for the period	-	-	-	-	-	-	(32.4)	(32.4)
Release on disposal of long term investments	-	-	-	-	1.7	-	-	1.7
Exchange realignments	-	-	-	-	-	1.8	-	1.8
<b>At 30th June, 2002</b>	<b>404.1</b>	<b>1,657.1</b>	<b>1,314.2</b>	<b>13.5</b>	<b>2,675.7</b>	<b>(13.0)</b>	<b>(1,579.8)</b>	<b>4,471.8</b>

**Note:** The prior year adjustments represented losses arising from the recognition of deferred tax liabilities in accordance with SSAP 12 (Revised), the accounting treatment of which was further explained in note 1 to the condensed consolidated financial statements.

### Condensed Consolidated Balance Sheet

		30th June, 2003 (Unaudited)	31st December, 2002 (Restated)
	Notes	HK\$'million	HK\$'million
<b>NON-CURRENT ASSETS</b>			
Fixed assets		6,531.6	6,765.4
Interest in a jointly controlled entity		994.4	990.5
Interests in associates		21.3	21.3
Long term investments		37.1	30.0
Other loan		78.0	78.0
Deferred expenditure		12.3	15.7
Deferred tax assets		7.4	–
		<b>7,682.1</b>	<b>7,900.9</b>
<b>CURRENT ASSETS</b>			
Properties held for sale		–	28.0
Hotel and other inventories		16.6	22.4
Debtors, deposits and prepayments	11	483.5	513.5
Pledged time deposits		8.7	43.8
Time deposits		3.6	1.1
Cash and bank balances		6.9	20.2
		<b>519.3</b>	<b>629.0</b>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals	12	248.4	247.4
Tax payable		9.9	9.6
Interest bearing bank and other borrowings		2,842.9	2,973.6
Convertible bonds		19.0	–
		<b>3,120.2</b>	<b>3,230.6</b>
<b>NET CURRENT LIABILITIES</b>		<b>(2,600.9)</b>	<b>(2,601.6)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>5,081.2</b>	<b>5,299.3</b>



**Condensed Consolidated Balance Sheet (Cont'd)**

	30th June, 2003 (Unaudited)	31st December, 2002 (Restated)
	HK\$'million	HK\$'million
TOTAL ASSETS LESS CURRENT LIABILITIES	5,081.2	5,299.3
NON-CURRENT LIABILITIES		
Interest bearing bank and other borrowings	(1,964.4)	(2,034.5)
Convertible bonds	–	(50.0)
Deferred tax liabilities	(59.2)	(102.2)
	<u>3,057.6</u>	<u>3,112.6</u>
CAPITAL AND RESERVES		
Issued capital	66.5	64.2
Reserves	2,991.1	3,048.4
	<u>3,057.6</u>	<u>3,112.6</u>



### Condensed Consolidated Cash Flow Statement

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'million	HK\$'million
Net cash inflow from operating activities	55.8	89.8
Net cash inflow from investing activities	38.1	11.7
Net cash outflow from financing activities	(105.8)	(111.7)
Decrease in cash and cash equivalents	(11.9)	(10.2)
Cash and cash equivalents at beginning of period	21.3	38.5
Effect of foreign exchange rate changes, net	1.1	0.3
Cash and cash equivalents at end of period	<u>10.5</u>	<u>28.6</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	6.9	27.2
Non-pledged time deposits with original maturity of less than three months when acquired	3.6	1.4
	<u>10.5</u>	<u>28.6</u>



## Notes to Condensed Consolidated Financial Statements

### 1. Accounting Policies

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the Group's audited financial statements for the year ended 31st December, 2002, except that SSAP 12 (Revised) "Income taxes" has been adopted for the first time in the preparation of the current period's condensed consolidated financial statements.

SSAP 12 (Revised) prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP is that deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future. In addition, deferred tax assets have been recognised for the unused tax losses arising in the current/prior periods, to the extent that it is probable that sufficient future taxable profits will be available against which the unused losses can be utilised.

SSAP 12 (Revised) has no specific transitional arrangement and therefore the provisions in SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies" should be applied, which requires the change in accounting policy to be applied retrospectively. Thus comparative amounts for 2002 have been restated accordingly. The opening accumulated losses at 1st January, 2002 and 2003 have been increased by approximately HK\$86.4 million and HK\$102.2 million respectively, which represented the cumulative effect of the change in accounting policy. Tax expense for the six months ended 30th June, 2002 was increased by approximately HK\$6.9 million.

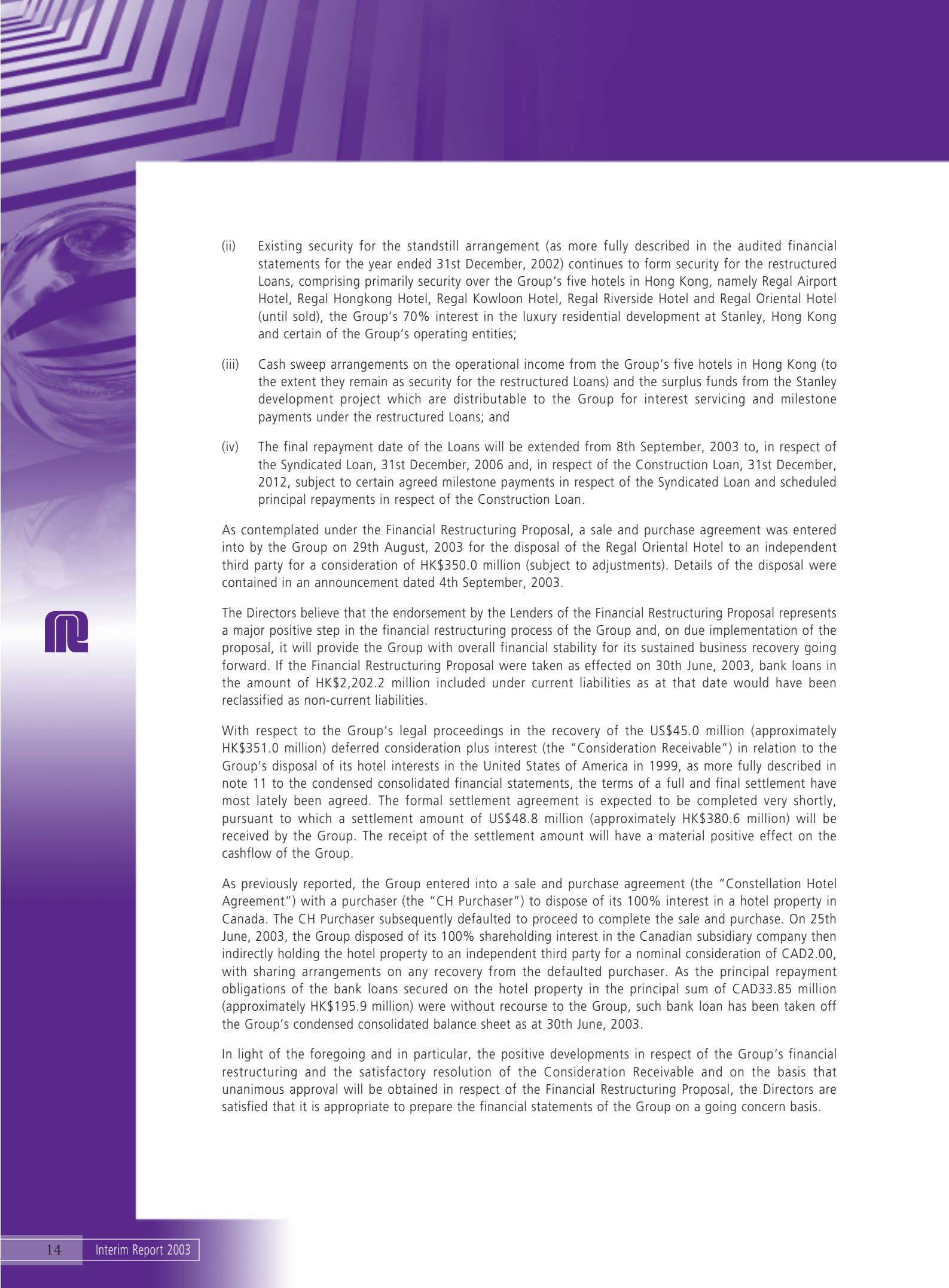

### 2. Corporate Update and Basis of Presentation

Following continuing discussions with the financial creditors of the Group, a proposal for a consensual restructuring of two loans in an aggregate amount of HK\$4,786.7 million as at 30th June, 2003 (the "Financial Restructuring Proposal"), comprising a syndicated loan of HK\$3,732.5 million (the "Syndicated Loan") and a construction loan of HK\$1,054.2 million (the "Construction Loan") (collectively the "Loans") was formulated and presented by the Group in August 2003 for consideration by the lenders of the Loans (the "Lenders"), aimed to replace the present Standstill Agreement (details of which were disclosed in the audited consolidated financial statements for the year ended 31st December, 2002). As of 3rd September, 2003, over 90% by value of the Lenders have in principle agreed to the proposal and the Group expects that unanimous approval will be obtained shortly. The proposal will be subject to the finalisation and signing of relevant loan documents by the Group and the Lenders.

The principal terms of the Financial Restructuring Proposal are set out below:

- (i) That a sale and purchase agreement relating to the disposal of the Regal Oriental Hotel is signed, and a cash deposit of not less than HK\$30.0 million is paid under the agreement, on or before 31st August, 2003;



- 
- 
- (ii) Existing security for the standstill arrangement (as more fully described in the audited financial statements for the year ended 31st December, 2002) continues to form security for the restructured Loans, comprising primarily security over the Group's five hotels in Hong Kong, namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Riverside Hotel and Regal Oriental Hotel (until sold), the Group's 70% interest in the luxury residential development at Stanley, Hong Kong and certain of the Group's operating entities;
  - (iii) Cash sweep arrangements on the operational income from the Group's five hotels in Hong Kong (to the extent they remain as security for the restructured Loans) and the surplus funds from the Stanley development project which are distributable to the Group for interest servicing and milestone payments under the restructured Loans; and
  - (iv) The final repayment date of the Loans will be extended from 8th September, 2003 to, in respect of the Syndicated Loan, 31st December, 2006 and, in respect of the Construction Loan, 31st December, 2012, subject to certain agreed milestone payments in respect of the Syndicated Loan and scheduled principal repayments in respect of the Construction Loan.

As contemplated under the Financial Restructuring Proposal, a sale and purchase agreement was entered into by the Group on 29th August, 2003 for the disposal of the Regal Oriental Hotel to an independent third party for a consideration of HK\$350.0 million (subject to adjustments). Details of the disposal were contained in an announcement dated 4th September, 2003.

The Directors believe that the endorsement by the Lenders of the Financial Restructuring Proposal represents a major positive step in the financial restructuring process of the Group and, on due implementation of the proposal, it will provide the Group with overall financial stability for its sustained business recovery going forward. 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.

With respect to the Group's legal proceedings in the recovery of the US\$45.0 million (approximately HK\$351.0 million) deferred consideration plus interest (the "Consideration Receivable") in relation to the Group's disposal of its hotel interests in the United States of America in 1999, as more fully described in note 11 to the condensed consolidated financial statements, the terms of a full and final settlement have most lately been agreed. The formal settlement agreement is expected to be completed very shortly, pursuant to which a settlement amount of US\$48.8 million (approximately HK\$380.6 million) will be received by the Group. The receipt of the settlement amount will have a material positive effect on the cashflow of the Group.

As previously reported, the Group entered into a sale and purchase agreement (the "Constellation Hotel Agreement") with a purchaser (the "CH Purchaser") to dispose of its 100% interest in a hotel property in Canada. The CH Purchaser subsequently defaulted to proceed to complete the sale and purchase. On 25th June, 2003, the Group disposed of its 100% shareholding interest in the Canadian subsidiary company then indirectly holding the hotel property to an independent third party for a nominal consideration of CAD2.00, with sharing arrangements on any recovery from the defaulted purchaser. As the principal repayment obligations of the bank loans secured on the hotel property in the principal sum of CAD33.85 million (approximately HK\$195.9 million) were without recourse to the Group, such bank loan has been taken off the Group's condensed consolidated balance sheet as at 30th June, 2003.

In light of the foregoing and in particular, the positive developments in respect of the Group's financial restructuring and the satisfactory resolution of the Consideration Receivable and on the basis that unanimous approval will be obtained in respect of the Financial Restructuring Proposal, the Directors are satisfied that it is appropriate to prepare the financial statements of the Group on a going concern basis.

### 3. 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 other business segments. Summary details of the business segments are as follows:

- (a) the hotel ownership and management segment is engaged in hotel operation and the provision of hotel management services;
- (b) the property development and investment segment invests in properties for sale and for its rental income potential;
- (c) the brewery operations segment represents the Group's brewery operations in Mainland China; and
- (d) the other segments mainly comprise the Group's laundry services and restaurant 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, 2003 (Unaudited)	2002 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)	2002 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)	2002 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)	2002 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)	2002 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)	2002 (Unaudited) and restated
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment revenue:												
Sales to external customers	323.0	467.2	-	-	17.6	9.2	2.0	4.6	-	-	342.6	481.0
Intersegment sales	0.1	0.2	0.2	0.2	-	-	4.1	6.5	(4.4)	(6.9)	-	-
<b>Total</b>	<b>323.1</b>	<b>467.4</b>	<b>0.2</b>	<b>0.2</b>	<b>17.6</b>	<b>9.2</b>	<b>6.1</b>	<b>11.1</b>	<b>(4.4)</b>	<b>(6.9)</b>	<b>342.6</b>	<b>481.0</b>
Segment results	(16.7)	82.5	-	(0.5)	(3.9)	(7.2)	0.2	(3.6)	-	-	(20.4)	71.2
Interest income and unallocated non-operating and corporate gains											0.2	3.3
Unallocated non-operating and corporate expenses, net											(15.6)	*(8.9)
Profit/(loss) from operating activities											(35.8)	65.6
Finance costs											(82.0)	(93.5)
Share of profits less losses of:												
Jointly controlled entity	-	-	(0.1)	-	-	-	-	-	-	-	(0.1)	-
Associates	(0.5)	(0.2)	-	-	-	-	(1.0)	2.7	-	-	(1.5)	2.5
Loss before tax											(119.4)	(25.4)
Tax											50.3	(7.0)
Loss before minority interests											(69.1)	(32.4)
Minority interests											-	-
Net loss from ordinary activities attributable to shareholders											(69.1)	(32.4)

\* Inclusive of a write back of provision against a loan receivable amounting to HK\$10.5 million (note 6).



(b) Geographical segments

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

**Group**

	Hong Kong		Canada		Mainland China		Eliminations		Consolidated	
	Six months ended 30th June, 2003 (Unaudited) HK\$'m	Six months ended 30th June, 2002 (Unaudited) HK\$'m	Six months ended 30th June, 2003 (Unaudited) HK\$'m	Six months ended 30th June, 2002 (Unaudited) HK\$'m	Six months ended 30th June, 2003 (Unaudited) HK\$'m	Six months ended 30th June, 2002 (Unaudited) HK\$'m	Six months ended 30th June, 2003 (Unaudited) HK\$'m	Six months ended 30th June, 2002 (Unaudited) HK\$'m	Six months ended 30th June, 2003 (Unaudited) HK\$'m	Six months ended 30th June, 2002 (Unaudited) HK\$'m
Segment revenue: Sales to external customers	292.8	423.8	32.2	48.0	17.6	9.2	-	-	342.6	481.0



#### 4. Discontinued Operation

As previously reported, the Group entered into a sale and purchase agreement with a purchaser (the "CH Purchaser") to dispose of its 100% interest in a hotel property in Canada. The CH Purchaser subsequently defaulted to proceed to complete the sale and purchase. Since the default by the CH Purchaser, on 25th June, 2003, the Group disposed of its 100% shareholding interest in the Canadian subsidiary company then indirectly holding the hotel property to an independent third party for a nominal consideration of CAD2.00, with sharing arrangements on any recovery from the defaulted purchaser. Accordingly, a loss on disposal of HK\$34.4 million was accounted for in the current period consolidated profit and loss account. The principal repayment obligations of the bank loans secured on the hotel property in the principal sum of approximately CAD33.85 million (approximately HK\$195.9 million) have no recourse against the Group.

The carrying amounts of the total assets and liabilities relating to the discontinued operation at 31st December, 2002 are as follows:

	<b>31st December, 2002</b> <b>(Audited)</b>
	<b>HK\$'million</b>
Total assets	226.9
Total liabilities	(170.7)
Net assets	<u>56.2</u>

The turnover, expenses and results from the discontinued operation for the six months ended 30th June, 2002 and 2003 are as follows:

	<b>Six months ended</b> <b>30th June, 2003</b> <b>(Unaudited)</b>	<b>Six months ended</b> <b>30th June, 2002</b> <b>(Unaudited)</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
TURNOVER	32.2	48.0
Cost of sales	<u>(37.3)</u>	<u>(46.0)</u>
Gross profit/(loss)	(5.1)	2.0
Administrative expenses	(1.9)	(1.9)
Other operating expenses	<u>(1.1)</u>	<u>(1.3)</u>
LOSS FROM OPERATING ACTIVITIES	(8.1)	(1.2)
Finance costs	<u>(4.2)</u>	<u>(3.0)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(12.3)</u>	<u>(4.2)</u>
The net cash flows attributable to the discontinued operation are as follows:		
Operating	0.1	2.1
Investing	(0.3)	(0.2)
Financing	<u>(5.4)</u>	<u>(3.0)</u>
Net cash outflows	<u>(5.6)</u>	<u>(1.1)</u>



## 5. Other Revenue

Other revenue includes the following major item:

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'million	HK\$'million
Interest income	<u>0.1</u>	<u>1.7</u>

## 6. Other Operating Expenses, net

Other operating expenses, net, include the following major items:

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'million	HK\$'million
Depreciation	21.2	22.9
Loss on disposal of long term unlisted investments	–	1.6
Write back of provision against a loan receivable	–	(10.5)
	<u>          </u>	<u>          </u>

## 7. Finance Costs

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'million	HK\$'million
Interest on bank loans, convertible bonds and other loans wholly repayable within five years	78.5	90.0
Amortisation of deferred expenditure	<u>3.5</u>	<u>3.5</u>
Total finance costs	<u>82.0</u>	<u>93.5</u>



## 8. Tax

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited and restated)
	HK\$'million	HK\$'million
Group:		
Current - overseas		
Provision for tax in respect of profits for the period	0.1	0.1
Deferred tax expenses/(income)	(50.4)	6.9
Tax charge/(credit) for the period	(50.3)	7.0

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 (2002 - 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.

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

## 9. Loss Per Ordinary Share

The calculation of basic loss per ordinary share is based on the net loss from ordinary activities attributable to ordinary shareholders for the period of HK\$69.1 million (2002 - HK\$32.4 million, as restated), adjusted for the unpaid preference dividend for the period of HK\$3.4 million (2002 - HK\$3.4 million), and on the weighted average of 6,330.1 million (2002 - 3,990.2 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, 2002 and 2003, as the exercise of share options of the Company and the conversion of preference shares and convertible bonds convertible into ordinary shares of the Company are anti-dilutive.

## 10. 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, 2003 (2002 - nil).

At 30th June, 2003, there was cumulative unpaid dividend in arrears of HK\$31.2 million (31st December, 2002 - HK\$27.8 million) for the outstanding preference shares. Pursuant to the terms of the preference shares, if preference dividend is six months or more in arrears, the holders of the preference shares will have the right to receive notice of and, unless all such arrears have been paid prior to the time for holding the meeting, to attend and vote at general meetings of the Company. This unpaid dividend has not been incorporated in the interim condensed consolidated financial statements.

## 11. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK\$28.4 million (31st December, 2002 - HK\$49.5 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	30th June, 2003 (Unaudited)	31st December, 2002 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	23.9	46.0
Between 4 to 6 months	3.5	2.4
Between 7 to 12 months	3.4	2.2
Over 1 year	8.8	8.3
	<hr/>	<hr/>
	39.6	58.9
Provisions	(11.2)	(9.4)
	<hr/>	<hr/>
	28.4	49.5
	<hr/> <hr/>	<hr/> <hr/>

Included in debtors, deposits and prepayments is a receivable amount of approximately HK\$400.1 million, comprising (i) deferred consideration of US\$45.0 million (approximately HK\$351.0 million) (the "Deferred Consideration") which arose in connection with the Group's disposal of its hotel interests in the United States of America ("USA") in December 1999 (the "Disposal"); and (ii) certain interest aggregating HK\$49.1 million accrued thereon at 7% per annum (collectively, the "Consideration Receivable"). Pursuant to the terms of the securities purchase agreement (the "Disposal Agreement") entered into between the Group and the purchaser (the "Purchaser") in respect of the Disposal, the Deferred Consideration and the interest accrued thereon were due to be paid by the Purchaser on 17th December, 2001.

The Group has agreed under the Disposal Agreement to indemnify the Purchaser for third party claims arising from events occurring before the completion of the Disposal Agreement in December 1999. As previously reported, while most of the claims for such pre-closing liabilities so far notified by the Purchaser to the Group have been resolved and the aggregate amount of such remaining pre-closing liabilities claims has been reduced to significantly below the Deferred Consideration, the Purchaser has withheld payment of any of the Consideration Receivable on the ground that the Group has failed to provide adequate assurance for any future pre-closing liabilities that may surface before the end of the indemnity period in December 2004. Having consulted with its legal advisers, the Group was advised that the demand by the Purchaser was without grounds and has accordingly instituted legal proceedings against the Purchaser to recover the Consideration Receivable.

The legal proceedings against the Purchaser was undertaken in the form of a lawsuit in which a motion was made for summary judgement on a breach of contract claim in respect of a principal amount of US\$39.3 million (equivalent to approximately HK\$306.2 million), together with interest. This motion for summary judgement was, among others, heard in the United States District Court for the Southern District of New York on 30th May, 2003. A written decision dated 30th June, 2003 was issued by the District Court Judge, in which the Group's motion for summary judgement on the breach of contract claim with regard to the amount of US\$39.3 million (equivalent to approximately HK\$306.2 million) was granted. A separate hearing was held on 4th September, 2003 to determine what amount of interest, if any, was also due.



The Group and the Purchaser have subsequently agreed on the terms of a full and final settlement of the legal proceedings relating to the Consideration Receivable, involving the payment to the Group by the Purchaser of a gross settlement amount of US\$48.8 million (approximately HK\$380.6 million) (the "Settlement Amount") and the total resolution and release of all claims by and between the Group and the Purchaser under or in connection with the Disposal Agreement. The formal settlement agreement is expected to be completed very shortly.

The Group's receipt of the Settlement Amount will effectively settle the Consideration Receivable and certain other related receivable of HK\$0.7 million, and at the same time eliminate a provision made against certain tax indemnity in the amount of HK\$24.2 million included in creditors and accruals under current liabilities.

#### Credit Terms

Trade debtors, which generally have credit terms of 30 to 90 days, are recognised and carried at their original invoiced amounts less provisions for doubtful debts which are made when collection of the full amounts is no longer probable. Bad debts are written off as incurred.

#### 12. Creditors and Accruals

Included in the balance is an amount of HK\$77.5 million (31st December, 2002 - HK\$81.7 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	30th June, 2003 (Unaudited)	31st December, 2002 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	65.9	67.0
Between 4 to 6 months	3.9	12.3
Between 7 to 12 months	5.8	1.3
Over 1 year	1.9	1.1
	<u>77.5</u>	<u>81.7</u>



### 13. Related Party Transactions

The Group had the following material related party transactions during the period:

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'million	HK\$'million
Construction work performed by a subsidiary company of Paliburg Holdings Limited ("PHL"), the immediate listed holding company of the Company	–	4.8
Minimum lease payment under operating leases in respect of land and buildings paid to wholly-owned subsidiary companies of PHL	–	4.4
Advertising, promotion and information technology service fees (including cost reimbursements) paid to an associate	2.9	4.8
Management costs allocated from Century City International Holdings Limited ("CCIHL"), the listed ultimate holding company of the Company	5.7	11.5
Guarantee given in respect of a banking facility granted to a jointly controlled entity	<u>2,359.0</u>	<u>990.0</u>

The nature and terms of the above related party transactions are similar to those disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2002.

### 14. Pledge of Assets

At 30th June, 2003, certain of the Group's cash and bank balances, time deposits, long term investments, interests in associates, hotel properties, leasehold properties and equipment, inventories and receivables with a total carrying value of HK\$7,204.2 million (31st December, 2002 - HK\$7,521.1 million) and the shares held in certain subsidiary companies and a jointly controlled entity were pledged to secure (i) general banking facilities granted to the Group and the jointly controlled entity; and (ii) the Group's 5% guaranteed convertible bonds due 2004 (the "Convertible Bonds").

## 15. Contingent Liabilities

- (a) At 30th June, 2003, a corporate guarantee in the amount of HK\$2,359.0 million (31st December, 2002 – HK\$2,310.0 million) had been given by the Company in respect of banking facilities granted to a jointly controlled entity. The amount drawn against these facilities attributable to the Company at the end of the period amounted to HK\$2,114.9 million (31st December, 2002 – HK\$1,938.4 million).
- (b) At the balance sheet date, certain employees of the Group had completed the required number of years of service under the Employment Ordinance (the "Ordinance") to be eligible for long service payments upon termination of their employment. The Group is only liable to make such payments where the termination falls within the required circumstance specified in the Ordinance. If the termination of such employees falls within the circumstances required by the Ordinance, the Group's liability at the balance sheet date, after deducting the attributable asset balance of the employer's contribution to the Mandatory Provident Fund, would have increased by approximately HK\$14.6 million. No provision has been made for this amount in the condensed consolidated financial statements.
- (c) As described in note 11 to the condensed consolidated financial statements, the Group entered into the Disposal Agreement with respect to the disposal of its hotel interests in the United States of America in 1999.

The Disposal Agreement contains representations, warranties and indemnification given by the Group which are normal and usual for transactions of similar nature. As more fully described in note 11, all contingent liabilities of the Group under or in connection with the Disposal Agreement will be released upon completion of the formal settlement agreement.

## 16. Operating Lease Arrangements

- (a) As lessor

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 5 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At 30th June, 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30th June, 2003 (Unaudited)	31st December, 2002 (Audited)
	HK\$'million	HK\$'million
Within one year	11.8	15.7
In the second to fifth years, inclusive	3.5	6.7
	<u>15.3</u>	<u>22.4</u>



(b) As lessee

The Group leases certain office and shop units and office equipment under operating lease arrangements. Leases for properties are negotiated for terms of 6 months, except for a lease which is negotiated for a term of 18 years and provides for periodic rent adjustments according to the then prevailing market conditions. In the prior year, leases for office equipment were negotiated for terms ranging between 5 months and 9 years.

At 30th June, 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2003 (Unaudited)	31st December, 2002 (Audited)
	HK\$'million	HK\$'million
Land and buildings:		
Within one year	7.2	7.2
In the second to fifth years, inclusive	27.6	27.6
After the fifth year	11.5	15.0
	<u>46.3</u>	<u>49.8</u>
Other equipment:		
Within one year	–	3.6
In the second to fifth years, inclusive	–	0.6
	<u>–</u>	<u>4.2</u>
	<u>46.3</u>	<u>54.0</u>

## 17. Commitments

In addition to the operating lease commitments detailed in note 16(b) above, the Group had the following outstanding capital commitments:

	30th June, 2003 (Unaudited)	31st December, 2002 (Audited)
	HK\$'million	HK\$'million
Capital commitments in respect of the renovation of or improvements to the hotel properties:		
Authorised and contracted for	11.6	12.5
Authorised, but not contracted for	79.9	82.9
	<u>91.5</u>	<u>95.4</u>



## 18. Post Balance Sheet Events

Subsequent to the balance sheet date, in addition to the events detailed elsewhere in the interim condensed consolidated financial statements, the Group had the following significant transactions:

- (i) 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 proceeds arising therefrom in an aggregate sum of approximately HK\$8.4 million were used by the Group for general working capital purposes.
- (ii) In July 2003, a total of 395.8 million new ordinary shares were allotted and issued by the Company upon conversion of the Convertible Bonds in the aggregate principal amount of HK\$19.0 million at the adjusted conversion price of HK\$0.048 per ordinary share.
- (iii) In July 2003, the relevant third party purchaser partially exercised the option to subscribe for additional Convertible Bonds of up to an aggregate principal amount of HK\$50.0 million (the "Optional Bonds") pursuant to the subscription agreement dated 12th September, 2002 relating to the Convertible Bonds. As a result, the Group issued additional Optional Bonds in an aggregate principal amount of HK\$20.0 million to the purchaser. The cash proceeds arising therefrom were used for general working purposes. The HK\$20.0 million Optional Bonds so issued have subsequently been converted into a total of 416.7 million new ordinary shares of the Company, at the adjusted conversion price of HK\$0.048 per ordinary share.



## 19. Share Options

The Company operates an executive share option scheme (the "Share Option Scheme"). The Share Option Scheme was approved by the Company's shareholders on 28th June, 1990. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the period, details of Directors' interests in and movements in share options granted by the Company pursuant to the Share Option Scheme are as follows:

Date of grant of share options	Name of Director	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options** HK\$
		At 1st January, 2003	Lapsed during the period	At 30th June, 2003		
5th August, 1993	Mr. Donald Fan Tung					
	Vested:	1,080,000	-	1,200,000	Note 1	1.1083
Unvested:	120,000	-	-	Note 1		
5th August, 1993	Ms. Belinda Yeung Bik Yiu					
	Vested:	150,000	-	180,000	Note 1	1.1083
	Unvested:	30,000	-	-	Note 1	
		1,380,000	-	1,380,000		
<b>Total:</b>	<b>2,460,000</b>	<b>-</b>	<b>2,460,000</b>			
22nd February, 1997	Ms. Belinda Yeung Bik Yiu					
	Vested:	540,000	-	648,000	Note 1	2.1083
	Unvested:	540,000	-	432,000	Note 1	
		1,080,000	-	1,080,000		
<b>Total:</b>	<b>2,460,000</b>	<b>-</b>	<b>2,460,000</b>			

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* Subject to adjustment in the case of rights or bonus issues, or other relevant changes in the Company's share capital.



**Notes:**

1. Vesting/Exercise Periods of Options:

<b>On Completion of Continuous Service of</b>	<b>Initial/Cumulative Percentage Vesting</b>	<b>Initial/Cumulative Percentage Exercisable</b>
(a) 2 years after date of grant	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after date of grant)
(b) 3 years to 9 years after date of grant	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after date of grant))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after date of grant) upon vesting (exercisable until 10 years after date of grant))
(c) 9½ years after date of grant	100%	100% (exercisable until 10 years after date of grant)

2. In the absence of a readily available market value, the Directors are unable to arrive at an accurate assessment of the value of the options granted.

The exercise in full of the outstanding rights which have vested with the holders of the options up to the date of approval of the financial statements by the Board of Directors, inclusive of those exercised since the period end date, would have, with the present capital structure of the Company, resulted in the issue of 0.6 million additional ordinary shares and share premium of HK\$1.4 million (before issue expenses).

**20. Comparative Amounts**

As further explained in note 1 to the condensed consolidated financial statements, due to the adoption of SSAP 12 (Revised) during the current period, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current period's presentation.

## DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30th June, 2003, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) of the Company, which (a) are as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance ("SFO"); or (b) are as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

	Name of Director	Class of Shares Held	Number of Shares Held				Total (Approximate percentage of the Issued Shares)	
			Personal Interests	Family Interests	Corporate Interests	Other Interests		
1.	The Company	Mr. Lo Yuk Sui	Ordinary (issued)	220,000	-	4,777,070,277 (Notes a(iv) & e)	-	4,777,290,277 (73.18%)
			Preference (issued)	-	-	3,440 (Note a(iv))	-	3,440 (20.54%)
		Mr. Daniel Bong Shu Yin	Ordinary (issued)	1,440,000	-	-	-	1,440,000 (0.022%)
		Mr. Donald Fan Tung	Ordinary (unissued)	1,200,000 (Note f)	-	-	-	1,200,000 (0.018%)
		Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	2,370,000	-	-	-	2,370,000 (0.036%)
		Ms. Belinda Yeung Bik Yiu	Ordinary (unissued)	1,080,000 (Note f)	-	-	-	1,080,000 (0.017%)
	<b>Name of Associated Corporation</b>							
2.	Century City International Holdings Limited ("CCIHL")	Mr. Lo Yuk Sui	Ordinary (i) issued	543,344,843	-	1,395,994,246	-	1,939,339,089
			(ii) unissued	-	-	11,000,000,000 (Note a(i))	400,000,000 (Note c)	11,400,000,000
								<b>Total (i) &amp; (ii): 13,339,339,089 (349.49%)</b>





	Name of Associated Corporation	Name of Director	Class of Shares Held	Number of Shares Held				Total (Approximate percentage of the Issued Shares)
				Personal Interests	Family Interests	Corporate Interests	Other Interests	
2.	CCIHL	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	2,510,000	-	-	-	2,510,000 (0.066%)
		Mr. Jimmy Lo Chun To	Ordinary (issued)	1,659,800	-	-	-	1,659,800 (0.043%)
		Ms. Belinda Yeung Bik Yiu	Ordinary (issued)	2,000	-	-	-	2,000 (0.0001%)
3.	Pailburg Holdings Limited ("PHL")	Mr. Lo Yuk Sui	Ordinary (i) issued	442,765	-	2,733,024,977 (Notes a(ii) & b)	-	2,733,467,742
			(ii) unissued	4,562,500 (Note g)	-	1,990,000,000 (Notes a(iii) & d)	100,000,000 (Note c)	2,094,562,500
								Total (i) & (ii): 4,828,030,242 (127.78%)
			Preference (issued)	-	-	1,990,000,000 (Notes a(iii) & d)	-	1,990,000,000 (100%)
		Mr. Daniel Bong Shu Yin	Ordinary (issued)	1,025,390	-	-	-	1,025,390 (0.027%)
		Mr. Donald Fan Tung	Ordinary (i) issued	2,718	-	-	-	2,718
			(ii) unissued	5,000,000 (Note g)	-	-	-	5,000,000
								Total (i) & (ii): 5,002,718 (0.13%)
		Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	100,000	-	-	-	100,000 (0.0026%)
		Mr. Jimmy Lo Chun To	Ordinary (issued)	284,000	-	-	-	284,000 (0.0075%)
		Mr. Kenneth Ng Kwai Kai	Ordinary (unissued)	1,000,000 (Note g)	-	-	-	1,000,000 (0.026%)
4.	8D International (BVI) Limited ("8D-BVI")	Mr. Lo Yuk Sui	Ordinary (issued)	-	-	1,000 (Note h)	-	1,000 (100%)

**Notes:**

- (a) (i) The interests in these shares of CCIHL are held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.81
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
Grand Modern Investments Limited	Century Digital Holdings Limited	100.00

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
Grand Modern Investments Limited	Century Digital Holdings Limited	100.00

- (ii) The shares were held through companies wholly owned by CCIHL, in which Mr. Lo Yuk Sui holds 50.81% shareholding interests.

- (iii) The interests in these shares of PHL are held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.81
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
Grand Modern Investments Limited	Century Digital Holdings Limited	100.00

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
Grand Modern Investments Limited	Century Digital Holdings Limited	100.00

- (iv) The shares were held through companies wholly owned by the Company, in which Century held 73.18% shareholding interests as at 30th June, 2003.





- (b) Including the retained balance, i.e. 6,444,444 shares, (the "Retained Shares") of the consideration shares agreed to be sold at HK\$4.50 per share for the acquisition of the remaining 51% shareholding interest in The New China Hong Kong Financial Services Limited (now known as Century City Financial Services Limited) by a wholly-owned subsidiary of Century from a wholly-owned subsidiary of The New China Hong Kong Group Limited (the "NCHK Company") pursuant to the conditional agreement dated 7th September, 1998 in respect of the said acquisition, which was completed on 17th September, 1998 (the "Completion Date"). The Retained Shares are retained by the Century City Group until the first anniversary of the Completion Date in connection with the indemnity given by the NCHK Company under the said agreement.
- (c) Mr. Lo Yuk Sui is the trustee for Select Wise Trust, of which Select Wise Holdings Limited, a substantial shareholder of CCIHL and the Company, is the beneficiary.
- (d) 1,990,000,000 convertible preference shares of PHL ("PHL Preference Shares") are convertible into 1,990,000,000 ordinary shares of PHL on the basis of one PHL Preference Share for one ordinary share of PHL.
- (e) 1,706,500,000 shares (the "Exchange Property") were charged by a wholly-owned subsidiary of PHL in favour of a trustee for the holders of the Series B Bonds issued as part of the restructuring and settlement proposal in respect of the then existing bonds of the PHL Group which closed on 31st October, 2002 (the "Closing Date") to form the initial exchange property in respect of the Series B Bonds. The Exchange Property is to be released to the holders of the Series B Bonds in four quarterly tranches (with the first tranche comprising 284,125,000 shares and the other three tranches each comprising 474,125,000 shares) on each dates falling 12, 15, 18 and 21 months after the Closing Date, subject to certain early release provisions.
- (f) Details of Directors' interests in share options granted by the Company are set out in note 19 to the condensed consolidated financial statements.



(g) Interests in share options granted by PHL:

Terms of option	Grantee	Number of ordinary shares under the share options	
		(I) Vested	(II) Unvested
Date of grant: 22/2/1994 Exercise price per share: HK\$10.40 Vesting period: (Note 1) Exercise period: (Note 1)	Mr. Lo Yuk Sui	(I) 4,562,500 (Note 1(c)) (II) –	
Date of grant: 15/9/1995 (Original grant date: 22/2/1994 (Note 2))  Exercise price per share: HK\$3.5392 Vesting period: (Note 3) Exercise period: (Note 3)	Mr. Donald Fan Tung	(I) 1,875,000 (Note 1(c)) (II) –	
	Mr. Kenneth Ng Kwai Kai	(I) 1,000,000 (Note 1(c)) (II) –	
	Mr. Donald Fan Tung	(I) 3,125,000 (Note 3(c)) (II) –	


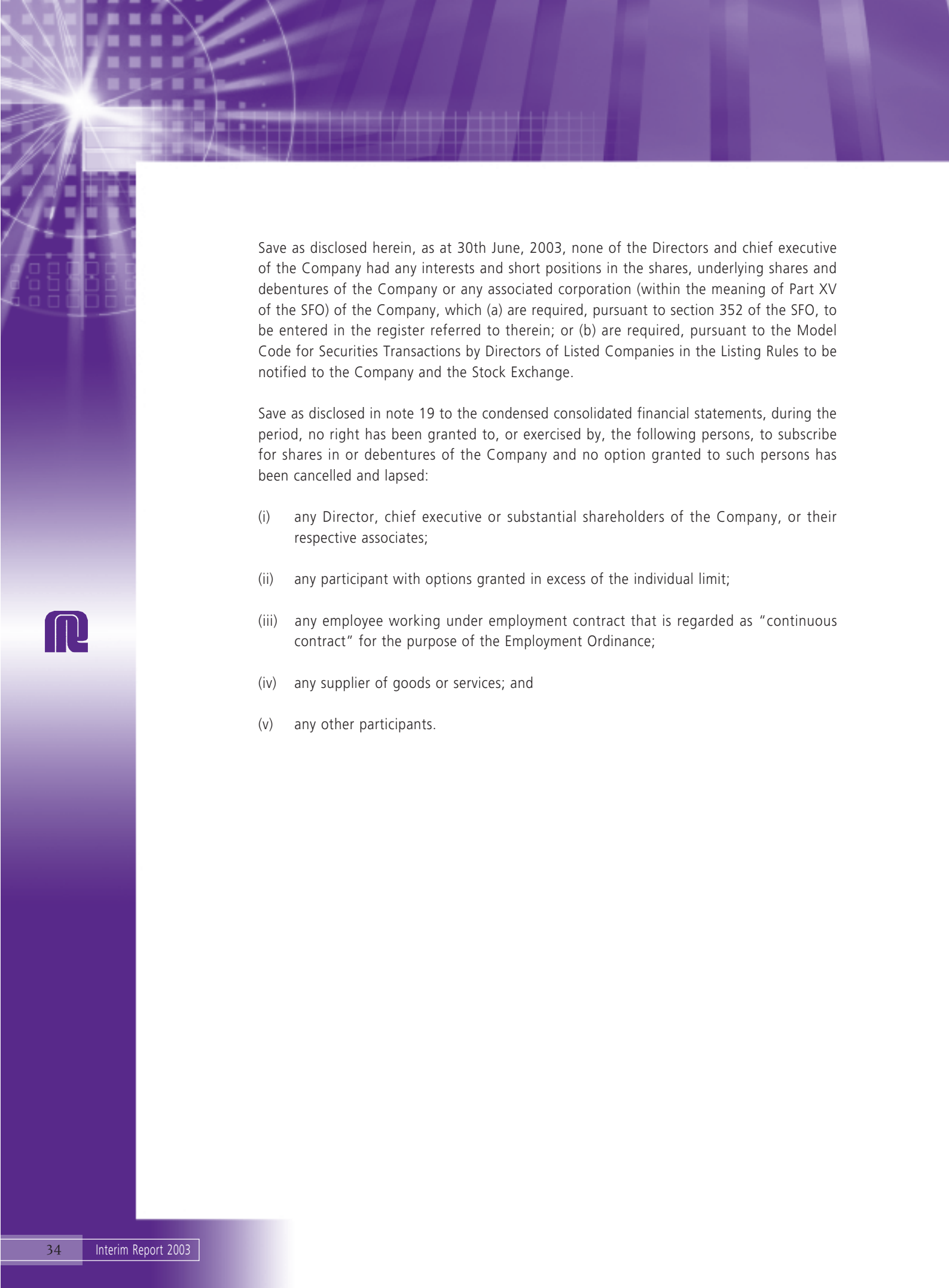
**Notes:**

1. Vesting/Exercise periods of options:

	On completion of continuous service of	Initial/Cumulative percentage vesting	Initial/Cumulative percentage exercisable
(a)	2 years after date of grant	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after date of grant)
(b)	3 years to 9 years after date of grant	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after date of grant))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after date of grant) upon vesting (exercisable until 10 years after date of grant))
(c)	9½ years after date of grant	100%	100% (exercisable until 10 years after date of grant)

(h) 400 shares were held through companies controlled by CCIHL and 600 shares were held through a company controlled by Mr. Lo Yuk Sui.





Save as disclosed herein, as at 30th June, 2003, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) of the Company, which (a) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

Save as disclosed in note 19 to the condensed consolidated financial statements, during the period, no right has been granted to, or exercised by, the following persons, to subscribe for shares in or debentures of the Company and no option granted to such persons has been cancelled and lapsed:

- (i) any Director, chief executive or substantial shareholders of the Company, or their respective associates;
- (ii) any participant with options granted in excess of the individual limit;
- (iii) any employee working under employment contract that is regarded as “continuous contract” for the purpose of the Employment Ordinance;
- (iv) any supplier of goods or services; and
- (v) any other participants.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 30th June, 2003, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Number of Issued Ordinary Shares Held	Approximate percentage of the Issued Ordinary Shares
CCIHL (Notes i and v)	4,777,070,277	73.18
Century City BVI Holdings Limited (Notes ii and v)	4,777,070,277	73.18
Almighty International Limited (Notes ii and v)	4,777,070,277	73.18
PHL (Notes iii and v)	4,777,070,277	73.18
Paliburg Development BVI Holdings Limited (Notes iv and v)	4,777,070,277	73.18
Paliburg International Holdings Limited (Note iv)	2,390,392,820	36.62
Paliburg BVI Holdings Limited (Note iv)	2,390,392,820	36.62
Taylor Investments Ltd. (Note iv)	1,402,111,870	21.48
Glaser Holdings Limited (Note iv)	533,480,286	8.17
Smart Emerald Limited (Notes iv and v)	1,706,500,000	26.14
Tower Bright Limited ("Tower Bright") (Notes iv and v)	1,706,500,000	26.14

### Notes:

- (i) These shares were shown in the corporate interests of Mr. Lo Yuk Sui in the Company as disclosed under Directors' Interests in Share Capital.
- (ii) These companies are wholly owned subsidiary companies of CCIHL and their interests in the shares of the Company are included in the interests held by CCIHL.
- (iii) PHL is a subsidiary company of CCIHL (which, as at 30th June, 2003, held 72.33% shareholding interests in PHL) and its interests in the shares of the Company are included in the interests held by CCIHL.
- (iv) These companies are wholly owned subsidiary companies of PHL and their interests in the shares of the Company are included in the interests held by PHL.
- (v) 1,706,500,000 shares were charged by Tower Bright in favour of a trustee for the holders of the Series B Bonds as disclosed under Directors' Interests in Share Capital.

Save as disclosed herein, there is no person who, as at 30th June, 2003, had an interest or short position in the shares and underlying shares of the Company which are recorded in the register required to be kept under section 336 of the SFO.



## DISCLOSURE PURSUANT TO PRACTICE NOTE 19

The following disclosure is made by the Company in compliance with the continuing disclosure requirements under Practice Note 19 ("PN19") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

### **Advances to an Entity (Paragraph 3.2.1 of PN19)**

Details of the advances made to Chest Gain Development Limited ("Chest Gain") by the Company and its subsidiary companies (the "Group") as at 30th June, 2003 are set out below:

<b>Advances</b>	<b>Group (HK\$'million)</b>
(A) Principal Amount of Advances	2,705.0
(B) Interest Receivable	379.2
(C) Several Guarantees for:	
(a) Principal Amount of Bank Facilities	2,359.0
(b) Amount of Bank Facilities Drawdown	2,114.9
Total: (A)+(B)+(C)(a)	<u>5,443.2</u>
(A)+(B)+(C)(b)	<u>5,199.1</u>

The above advances to Chest Gain in an aggregate sum of HK\$3,084.2 million (before a provision of HK\$1,633.3 million) included an amount of HK\$1,701.1 million, before a provision of HK\$933.3 million, which represented the gross amount of the advances attributable to the additional 40% interest in Chest Gain acquired from PHL in 2002 as detailed in last year's audited consolidated financial statements. Such contribution of funds to Chest Gain are required to be provided in the form of shareholders' loans in proportion to the respective shareholding interests of the shareholders of Chest Gain. The advances are unsecured and have no fixed term of repayment, and related interest had been accrued at prime rate up to 31st December, 1998. The provision of financial assistance to Chest Gain is for the purpose of facilitating Chest Gain in the development of its property project at Rural Building Lot No.1138, Wong Ma Kok Road, Stanley, Hong Kong (the "Stanley Site"). The Stanley Site was acquired by Chest Gain at the government land auction held on 3rd June, 1997. The above guarantee was provided by the Company on a several basis in proportion to its shareholding interests in Chest Gain and was given in respect of the bank loan facilities of HK\$3,370.0 million made available to Chest Gain for the purposes of refinancing part of the consideration for the acquisition of the Stanley Site and financing the estimated construction costs required for the luxury residential development at the Stanley Site.



Calculated on the basis shown above, the aggregate of advances and other financial assistance as at 30th June, 2003 provided by the Group to Chest Gain in the respective sums of (a) HK\$5,443.2 million (based on the total available amount of the bank facilities) and (b) HK\$5,199.1 million (based on the amount of bank facilities drawdown) represented (a) 178.7% and (b) 170.7% of the consolidated net tangible assets of the Company of HK\$3,045.3 million (the "Regal NTA"), by reference to its latest unaudited condensed consolidated financial statements for the six months ended 30th June, 2003.

**Financial Assistance provided to and Guarantees given for Affiliated Companies  
(Paragraph 3.3 of PN19)**

Details of the financial assistance provided to and guarantees given for affiliated companies (including Chest Gain) by the Group as at 30th June, 2003 are set out below:

Name of Affiliated Companies	Principal Amount of Advances (HK\$'million)	Interest Receivable (HK\$'million)	Guarantee given for Bank Facilities	
			(i) Principal Amount of Bank Facilities (HK\$'million)	(ii) Amount of Bank Facilities Drawdown (HK\$'million)
Chest Gain	(A) 2,705.0	(B) 379.2	(C)(i) 2,359.0	(C)(ii) 2,114.9
8D International (BVI) Limited	(D) 28.7	–	Nil	Nil
8D Matrix Limited	(E) 0.5	–	Nil	Nil
Bright Future (HK) Limited	(F) 5.6	–	Nil	Nil
Network Sky Limited	(G) 0.4	–	Nil	Nil
		Total:	(A)+(B)+(C)(i)+(D) to (G)	5,478.4
			(A)+(B)+(C)(ii)+(D) to (G)	5,234.3

Relevant details in respect of the financial assistance provided to and guarantees given for Chest Gain are disclosed above under Paragraph 3.2.1 of PN19 of the Listing Rules.





8D International (BVI) Limited ("8D-BVI") is a 30% owned associate of the Company, which is involved in information technology businesses in connection with a broadband fibre optic network project in The People's Republic of China and the development and distribution of technologically advanced security and building related systems and software development and promotions businesses. The remaining shareholding interests in 8D-BVI are indirectly owned as to 10% by CCIHL and 60% by Mr. Lo Yuk Sui. The advances were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in 8D-BVI, for the purpose of financing the working capital of 8D-BVI. The advances are unsecured, interest free and have no fixed term of repayment.

8D Matrix Limited ("8D Matrix") is a 30% owned associate of the Company (the Company also holds an additional 6% attributable interest through its holding in 8D-BVI), which is involved in promotions businesses. The remaining shareholding interests in 8D Matrix are owned as to 10% indirectly by CCIHL and 60% indirectly by Mr. Lo Yuk Sui through his associates (as defined in the Listing Rules), including 8D-BVI. The advances were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in 8D Matrix, for the purpose of financing the working capital of 8D Matrix. The advances are unsecured, interest free and have no fixed term of repayment.

Bright Future (HK) Limited ("Bright Future"), a 50% owned associate of the Company, owns a 90% effective equity interest in a foreign enterprise engaged in the operation of a hotel in Qinghai in The People's Republic of China. The remaining 50% shareholding interest in Bright Future and the remaining 10% equity interest in the aforesaid foreign enterprise are owned by third parties respectively, which are independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules). The advances to Bright Future were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in Bright Future, for the purpose of funding the working capital requirements of Bright Future. The advances to Bright Future are unsecured, interest free and have no fixed term of repayment.

Network Sky Limited ("Network Sky") is a 25% owned associate of the Company, which through its wholly-owned subsidiary company is engaged in the carrying on of a light refreshment operation. The other shareholding interests in Network Sky are owned as to 25% indirectly by PHL, 25% indirectly by Mrs. Kitty Lo Lee Kit Tai, a director of the Company and PHL, through her associate (as defined in the Listing Rules) and 25% directly by a third party which is independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules). The advances to Network Sky were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in Network Sky, for the purpose of financing the working capital of Network Sky. The advances are unsecured, interest free and have no fixed term of repayment.

Calculated on the basis shown above, as at 30th June, 2003, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the Group in the respective sums of (a) HK\$5,478.4 million (based on the total available amount of the bank facilities to Chest Gain) and (b) HK\$5,234.3 million (based on the drawdown amount of bank facilities to Chest Gain) represented (a) 179.9% and (b) 171.9% of the Regal NTA.

A pro-forma combined balance sheet of the abovenamed affiliated companies and the Group's attributable interest in these affiliated companies are presented below:

	<b>Pro-forma combined balance sheet (HK\$'million)</b>	<b>Group's attributable interest (HK\$'million)</b>
Non-current assets	63.1	21.9
Current assets	4,972.2	3,477.4
Current liabilities	(3,314.4)	(2,319.3)
Non-current liabilities	(5,797.9)	(4,016.1)
Net liabilities	<u>(4,077.0)</u>	<u>(2,836.1)</u>

***Loan agreements with covenants relating to specific performance obligation of the controlling shareholders  
(Paragraphs 3.7.1 and 3.7.2 of PN19)***

***Paragraph 3.7.1 of PN19***

The agreements for the following loans to the Group impose specific performance obligations on the controlling shareholders of the Company:

		<b>Outstanding Balance of Bank Facilities as at 30th June, 2003 (HK\$'million)</b>	<b>Final Maturity of Bank Facilities</b>	<b>Specific Performance Obligations</b>
<b>The Group</b>	(a)	1,054.2	July 2007	Note (i)
	(b)	3,732.5	September 2004	Note (ii)
Total:		<u>4,786.7</u>		



**Notes:**

- (i) Mr. Lo Yuk Sui, the Chairman and the controlling shareholder of CCIHL which owns a 66.9% shareholding interest in PHL (which in turn owns a 63.5% shareholding interest in the Company), and/or members of his immediate family, or a trust or trusts under which they are beneficially interested (collectively, "Mr. Lo") shall not cease to maintain controlling interest (directly or indirectly) in respect of shareholding (as defined under the Listing Rules) and management control of the Company.
- (ii) Mr. Lo shall not cease to maintain controlling interest (whether directly or indirectly) in the Company.

Breach of the above specific performance obligations will constitute events of default of the bank facilities. As a result, the bank facilities may become immediately due and payable on demand by the relevant lenders according to the respective terms and conditions of the bank facilities.

***Paragraph 3.7.2 of PN19***

Details of the financial restructuring proposal relating to the above loan agreements are set out in note 2 to the condensed consolidated financial statements.





## CORPORATE GOVERNANCE

The Directors of the Company are not aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, 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 (the "Listing Rules"), 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.

In compliance with the requirement in the Code of Best Practice of the Listing Rules in respect of the establishment of an audit committee, the Company has formed an Audit Committee, which currently comprises Mr. Dominic Lai (Chairman of the Committee) and Mr. Thomas Ng Wai Hung, both independent Non-Executive Directors of the Company, and Mr. Daniel Bong Shu Yin, a Non-Executive Director of the Company. The Audit Committee is established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited condensed consolidated financial statements for the six months ended 30th June, 2003.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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.



## **INDEPENDENT AUDITORS' REVIEW REPORT**

**To the Board of Directors  
Regal Hotels International Holdings Limited**

### **Introduction**

We have been instructed by the Company to review the interim financial report set out on pages 8 to 28.

### **Respective responsibilities of Directors and auditors**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Review work performed**

We conducted our review in accordance with SAS 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2003.

**Ernst & Young**  
*Certified Public Accountants*

Hong Kong  
19th September, 2003

