



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. Principal growth areas were Mainland China, which alone accounted for over 40% of the increase attained, followed by Taiwan and other Asian countries such as Japan, South Korea and Thailand. Performance in most European countries however remained weak. 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.

As mentioned above, the Group's results for the period under review continued to be adversely affected by the high level of interest costs. In order to alleviate the 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 Group owns a 30% interest, are at an advanced stage. The Group is hopeful that the requisite construction works could be recommenced shortly. Although the market condition for the overall property sector in Hong Kong remains weak at present, the Group believes that when the overall economy recovers and the investors' confidence restored, there will be adequate demand for the luxury house units comprised in the development, as supply of house accommodation in the Hong Kong Island South district is relatively limited.

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