REVIEW AND OUTLOOK

For the six months ended 30th June, 2003, the Group recorded an unaudited consolidated net profit attributable to shareholders of HK$283.1 million, as compared with a net loss of HK$199.7 million (as restated) in the same period last year. The net profit attained during the period was primarily the result of an accounting profit of HK$337.4 million recognised on the deemed disposal of shareholding interest in Paliburg, as further explained below.

As background information to the profit recorded in the period under review, the Group completed the Share Swap Agreement on 31st December, 2002, pursuant to which the Company acquired the beneficial interest in the entire issued ordinary share capital of Almighty International Limited for a nominal consideration, subject to certain repurchasing rights in favour of the transferor company which is owned and controlled by myself. At the time when the Share Swap Agreement was completed, Almighty acquired from certain vendors (including the company owned and controlled by myself) 3,450 million Paliburg Convertible Preference Shares (convertible into a same number of Paliburg new ordinary shares), satisfied by Almighty issuing 13,800 million Exchangeable Preference Shares which are exchangeable into the Paliburg Convertible Preference Shares (or Paliburg ordinary shares if so converted) on a 4-for-1 basis.

As at 1st January and 30th June, 2003, the Company itself beneficially holds an aggregate of approximately 1,373.0 million Paliburg ordinary shares which, as at the last balance sheet date, represented approximately 59.2% of Paliburg's ordinary shares then in issue and have been pledged to various financial creditors to secure credit facilities granted to the Group. During the period to 30th June, 2003, an aggregate of 1,460.0 million Paliburg Convertible Preference Shares held by Almighty has been converted into a same number of Paliburg ordinary shares. As a result thereof, the beneficial interest in the ordinary share capital of Paliburg held by the Company itself (excluding those held by Almighty) was diluted to approximately 36.3% as at the half year end date. However, as the Company presently holds the entire issued ordinary share capital of Almighty, Paliburg was still consolidated as a subsidiary company of the Group during the period under review.

Due to the dilution of the Group's beneficial interest in the issued ordinary shares of Paliburg, an accounting profit on deemed disposal of shareholding interest in Paliburg of approximately HK$337.4 million has been incorporated in the Group's results for the period under review, which arose from the release of the attributable capital reserve to the profit and loss account. However, on account of the diluted shareholding interest in Paliburg and the consequent reduction in the share of its underlying net assets attributable to the Group, the net assets value of the Group has been adversely affected.

For the six months ended 30th June, 2003, Paliburg Holdings Limited attained an unaudited consolidated net profit attributable to shareholders of HK$15.8 million, as compared with a net loss of HK$220.9 million (as restated) in the corresponding period in 2002.

As formerly reported, the Los Angeles Unified School District initiated proceedings to compulsorily acquire the Crown Hill site in Los Angeles owned by the Paliburg group based on an initially determined probable compensation of US$10.0 million. The Paliburg group has retained legal and other advisers to object the probable compensation so determined, and in June this year, a settlement was reached with the Unified School District for the determination of the final compensation at approximately US$13.9 million. The compensation money is expected to be paid to the Paliburg group shortly, most of which will be used for repayment of the Paliburg group's borrowings. A write back of the provision previously made has been reflected in the results for the period.

The Paliburg group had previously sold to an independent third party purchaser, pursuant to an agreement entered into in December 2000, a 50% equity interest in a then wholly owned subsidiary company which owned a 65% interest in a company that, in turn, owned a 70% interest in a Sino-foreign joint venture that held the development site at Gong Ren Ti Yu Chang Street East in Chao Yang District, Beijing in the PRC. The purchaser has defaulted to comply with certain of its obligations under that agreement and the Paliburg group has thereby enforced its rights of remedy to recover the 50% equity interest sold. In late July this year, the Paliburg group entered into a new agreement with that purchaser for the effective sale by the Paliburg group to that purchaser of the Paliburg group's entire equity interest in the relevant wholly owned subsidiary company for a gross consideration of about HK$181.9 million. Under the new agreement, the net consideration payable is required to be paid by the purchaser in installments before the end of 2003.

In July 2003, the Paliburg group disposed of the majority equity interest in its wholly-owned subsidiary company that indirectly held the development site in Shenyang in the PRC to an independent third party at a satisfactory price and the remaining interest is subject to certain put and call options between the Paliburg group and the purchaser. A write back of the provision previously made against this investment has also been reflected in the results for the period.

Meanwhile, the construction works for the residential development at Lot No. 1736 in D.D. 122 in Tong Yan San Tsuen in the New Territories, named as "Rainbow Lodge", are near completion. The project is 100% owned by the Paliburg group and consists of 16 duplex residential units with gross area of about 30,000 square feet and ancillary car parking facilities. Sale of the units is scheduled to be launched before the end of this year.

For the six months ended 30th June, 2003, Regal Hotels International Holdings Limited 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 Regal'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 of Regal 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% directly owned by Regal, 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 Regal had entered into a share purchase agreement with a third party purchaser in September 2002 for the sale of its 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 Regal has consequently forfeited all the deposits paid by the purchaser under the agreement. Since the default by the purchaser, Regal 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, Regal 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 Regal's bank lenders, a financial restructuring proposal was finally formulated and presented to the Regal'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 Regal's 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 Regal group. As of 3rd September, 2003, over 90% by value of Regal's bank lenders have in principle agreed to the proposal and Regal expects that unanimous approval will be obtained shortly.

As contemplated under the financial restructuring proposal, Regal mandated earlier in the year professional agency firms to market the sale of the Regal Oriental Hotel and the Regal Riverside Hotel, which are Regal'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, Regal 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 Regal group will sell its 100% shareholding interests in and intra-group loans to Chasehill Limited, a wholly-owned subsidiary company of Regal 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.

As was also disclosed in the Annual Report for 2002, the Regal group has instituted legal proceedings against the purchaser under a securities purchase agreement entered into in 1999 relating to the disposal of its hotel interests in the USA to recover the deferred consideration (together with accrued interest) which should be payable by the purchaser to the Regal group. In June 2003, a decision was issued by the District Court Judge in New York that granted the Regal 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 Regal group has agreed with the purchaser on the terms of a full and final settlement of the legal proceedings involving the payment to the Regal 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 Regal 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 Regal's bank lenders and represents a major positive step in Regal group's financial restructuring process. On due implementation of the proposal, it will provide the Regal 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 Regal's achievement of improved operating performance in the coming years.

The Paliburg group has come a long way to achieve the corporate and financial restructurings since the encountering of the financial crisis in 1998 and in re-establishing its financial strength. The Paliburg group is now gradually restoring its profitability and is committed to a prudent and yet proactive plan for its overall growth in the years ahead.

Although, as previously reported, a majority of the financial creditors has earlier in the year indicated their in principle support to the financial restructuring proposal presented by the Company, the ultimate implementation of the proposal will require the formal approval of all relevant financial creditors before the end of this year, being the latest date for the Company to fulfill the required conditions and to exercise its call option rights under the Share Swap Agreement. If the financial restructuring proposal cannot be implemented before such date, then under the terms of the Share Swap Agreement, the Company will cease to own the issued ordinary share capital of Almighty and Almighty will, in turn, cease to own the relevant Paliburg ordinary shares and/or the Paliburg Convertible Preference Shares. In such event, Paliburg will be directly controlled by companies owned and controlled by myself instead of through the Company.

Nevertheless, the Company will continue to review proposals for the possible acquisition of suitable investments that can be funded by the issue of new equity or quasi-equity of the Company, with a view to maintaining the Company as a viable going concern and, in the meantime, to seek the support of its financial creditors in converting all the unsecured debts into new equity or quasi-equity of the Company.

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 amounted to HK$54.3 million (2002 - HK$120.4 million). Net interest payment for the period amounted to HK$53.7 million (2002 - HK$190.0 million).

As at 30th June, 2003, the Group's gross borrowings net of cash and bank balances amounted to HK$5,997.5 million, as compared to HK$6,149.2 million as at 31st December, 2002. The Group's gearing ratio based on total assets of HK$9,419.7 million (31st December, 2002 - HK$9,723.2 million) was about 64% (31st December, 2002 - 63%). As at 30th June, 2003, the Company recorded an unaudited consolidated negative net worth of HK$927.4 million (31st December, 2002 - consolidated negative net worth of HK$521.5 million, as restated), which was primarily due to the reduction in the attributable share of the underlying net assets of Paliburg Holdings Limited as a result of the diluted shareholding interest owned by the Group in Paliburg. 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 16 and 17, respectively, to the condensed consolidated financial statements. As disclosed in note 16, 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 being finalised by Regal Hotels International Holdings Limited, a listed subsidiary company of the Company. 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 17, as at 30th June, 2003, the Group has contingent liabilities under certain corporate guarantees in the amount of HK$2,359.0 million (31st December, 2002 - HK$2,310.0 million) provided 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 bank lenders of Regal 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. Property development projects are financed partly by internal resources and partly by bank financing. Project financing is normally arranged in local currency to cover a part of the land cost and a major portion or the entire amount of the construction cost, with interest calculated by reference to the interbank offered rates and the loan maturity tied in to the estimated project completion date. Currency and interest rate exposures are hedged where circumstances are considered appropriate.

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 1,800 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 benefit plans maintained by the Group include provident fund scheme and medical and life insurance.

Paliburg and Regal, the listed subsidiary companies of the Company, each maintains an Executive Share Option Scheme, pursuant to which share options had been granted to selected eligible executives.