REVIEW AND OUTLOOK

For the six months ended 30th June, 2002, the Group reported an unaudited consolidated net loss attributable to shareholders of HK$25.5 million, as compared with the net loss of HK$167.9 million recorded for the same period in 2001.

During the period under review, total visitor arrivals to Hong Kong amounted to over 7.5 million, representing a growth of about 12.8% as compared with that in the first six months of 2001, which was largely attributable to the influx of travelers from Mainland China. In this period, average hotel room occupancy rate for all hotels in Hong Kong recorded an increase of about 3.8%. However, due to the price sensitiveness of most Mainland China travelers, which contributed for almost 40% of the total visitor arrivals, the achieved average hotel room rate continued to be under pressure and recorded a decrease of about 11.8%.

For the five Regal Hotels in Hong Kong, an increase of about 7.9% was attained in their combined average occupancy, but due to the competitive environment, the combined average room rate was about 9.3% lower than that in the comparative period last year. The streamlining and cost containment measures implemented were beginning to produce positive results, reflecting in the achievement of a 27.4% improvement in the total gross operating profit for these five hotels during the period.

As part of its asset disposal programme, the Group recently entered into a share purchase agreement with a third party purchaser for the sale of the Group's 100% equity interest in the subsidiary which owns the Regal Constellation Hotel in Toronto, Canada. The completion of the share purchase agreement is subject to, among other things, the results of the due diligence review being satisfactory to the purchaser. The due diligence process is being conducted by the purchaser and will be completed by 31st October, 2002. If the sale progresses, the share purchase agreement is scheduled to be completed in early December 2002. This hotel in Toronto was acquired by the Group in late 1980's at a consideration of CAD110 million. In accordance with the accounting policies of the Group regarding hotel properties, previous downward revaluations and foreign exchange losses in prior years were dealt with in the reserves and will be charged to the profit and loss account on disposal. Though this will not affect the net assets of the Group, if the sale duly takes place as scheduled, it may have an adverse impact on the results of the Group for the current financial year. However, it is expected that net surplus proceeds will be derived after full redemption of the attached bank loan.

The Group presently has a 30% interest in the Stanley development project. Superstructure works on this project are underway and the project is scheduled for completion in two phases from around the second quarter of 2003. On 2nd August, 2002, the Company entered into a conditional sale and purchase agreement with Paliburg Holdings Limited, the immediate listed parent of the Company, for the acquisition by the Group of the 40% interest in the Stanley development project presently owned by the Paliburg group for a consideration of HK$470 million. The consideration was determined with reference to the market valuation of the project as at 31st May, 2002 by an independent professional valuer and is to be satisfied by the issue of approximately 1,958.3 million new shares of the Company at an issue price of HK$0.24 per share. Details of this proposed transaction were contained in the circulars to the shareholders of the Company dated 26th August, 2002.

At the special general meeting of the Company held on 18th September, 2002, this proposed transaction was duly approved by the independent shareholders of the Company. At the subsequent special general meetings of Paliburg and Century City International Holdings Limited, the Company's ultimate listed holding company, held later on the same date, this proposed transaction was also duly approved by their respective independent shareholders. The completion of this transaction is subject to the satisfaction of other conditions including bank consents and listing approval for the new shares to be issued. Subject to fulfillment of the remaining conditions, the transaction is expected to be completed on or before 31st October, 2002.

At the said special general meeting of the Company, the shareholders have also duly approved the Company's capital reorganisation proposal which involves, among other things, the reduction of the issued share capital of the Company by the cancellation of the paid up capital to the extent of HK$0.09 on each ordinary share in issue, and the nominal value of the ordinary share of the Company will be reduced from HK$0.10 to HK$0.01 per share. The details of, including the reasons for, the capital reorganisation proposal were also contained in the said circular to shareholders. Certain procedural and compliance requirements will first have to be met before the capital reorganisation can become effective. The Company will issue further announcement to inform the shareholders of the effective date of the capital reorganisation.

Separately, the Group entered into a standstill agreement with its principal bank creditors on 4th September, 2002 with a view to rescheduling or extending the principal repayments of two outstanding loans aggregating in the principal amount of approximately HK$4,901.6 million, which became effective on 5th September, 2002. The terms of the standstill agreement included, among other things, (i) the provision by the Group of standstill security by the cross collateralisation of certain existing security primarily over the Group's five hotels in Hong Kong and the Group's interest in the Stanley development project and additional security primarily over certain of the Group's operating entities; (ii) waiver by the lenders of previous breach of covenants on maintaining the financial ratios under the loans; (iii) the making by the Group of certain milestone payments during the period when the standstill agreement is effective; and (iv) the lenders agreeing not to enforce any of their rights under the loans for one year unless there is a payment default or the exercise of an early termination right by the majority lenders. Details of the standstill agreement were contained in an announcement issued by the Company dated 10th September, 2002.

With a view to raise additional funds for reduction of bank indebtedness and working capital purposes, the Company entered into a subscription agreement with a third party investor on 12th September, 2002 for the issue of a series of 5% Guaranteed Convertible Bonds due 2004. The Bonds will comprise Firm Bonds in an aggregate principal amount of HK$50 million and Optional Bonds in an additional aggregate principal amount of up to HK$50 million. The Bonds will carry rights to convert into new ordinary shares of the Company at HK$0.10 per share, initially, subject to usual and downward adjustments. The detailed terms and conditions for the issue of the Bonds were set out in an announcement issued by the Company dated 16th September, 2002. The Company intends to seek from the shareholders a mandate for the issue of the new shares which may fall to be issued on conversion of the Optional Bonds and the shareholders will be informed in due course.

As the second half of the year is traditionally the higher season for the hotel industry in Hong Kong, it is anticipated that the operating results of the five Regal Hotels in Hong Kong in the second half should be better than that attained in the period under review. As noted above, the Group has been taking various initiatives with a view to enlarging its asset base, to strengthening its working capital, and to stabilising its financial position by extending or rescheduling its loan commitments. The conclusion of the standstill agreement can be regarded as a positive indication of continuing support by the Group's principal bank creditors. The Group will continue to monitor its assets and liabilities, including its debt levels and the potential for cash flow generation through assets disposal or other appropriate means.

With the anticipated gradual improvement of the overall tourism market in Hong Kong and the concerted efforts of management and staff and all parties concerned, it may reasonably be expected that the Group's local hotels will be able to produce improving performance and positive contributions over the coming years.

By Order of the Board

LO YUK SUI

Chairman

Hong Kong, 23rd September, 2002

INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend for the financial year ending 31st December, 2002 (2001 - nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Cash Flow and Capital Structure

During the period under review, net cash inflow from operating activities totalled HK$89.8 million (2001 – 39.8 million). Net interest payment for the period amounted to HK$122.6 million (2001 – 118.5 million). The Group intends to reduce further the level of interest expense through the disposal of some of its non-core assets and/or equity fund raising exercises.

As at 30th June, 2002, the Group's borrowings net of cash and bank balances amounted to HK$5,073.1 million (31st December, 2001 – HK$5,055.2 million). The Group's gearing ratio based on the total assets of HK$9,909.6 million (31st December, 2001 – HK$9,943.1 million) was about 51% (31st December, 2001 – 51%).

Details of the Group's pledge of assets and contingent liabilities are shown in notes 15 and 16, respectively, to the condensed consolidated financial statements.

The majority of the Group's borrowings are denominated in Hong Kong dollar currency and there is no material foreign exchange exposure. Information in relation to the maturity profile of the Group's borrowings as of 30th June, 2002 has not changed materially from that disclosed in the most recently published annual report of the Company for the year ended 31st December, 2001.

In March 2002, 90 million new ordinary shares were issued by the Company to Taylor Investments Ltd. ("Taylor"), a wholly-owned subsidiary company of Paliburg Holdings Limited, at HK$0.14 per ordinary share following a placement, through a placing agent, by Taylor of 150 million issued ordinary shares in the Company at HK$0.14 per ordinary share. Cash inflow to the Company from the new share issue amounted to approximately HK$12.3 million and was used for general working capital purposes.

Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations, and currency and interest rate exposures are hedged where circumstances are considered appropriate.

Remuneration Policy

The Group employs approximately 1,700 staff in Hong Kong, 400 staff in Canada and 900 staff in The People's Republic of China.

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 are granted to selected eligible executives.

Further information on the Group's principal business operations and outlook is contained in the section above headed "Review and Outlook".