凱聯國際酒店有限公司

Associated International Hotels Limited

(Incorporated in Hong Kong under the Companies Ordinance)

(stock code: 105)

Interim Results

(Expressed in Hong Kong dollars)

The Board of Directors is pleased to announce the unaudited consolidated results of the Group for the half year ended 30 September 2005. These results have been reviewed in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by KPMG, certified public accountants in Hong Kong, and the Audit Committee. The unmodified review report of the auditors is included in the interim report to be sent to shareholders.

CONSOLIDATED INCOME STATEMENT — UNAUDITED

		Six months ended 30 September	
	Note	**2005** **$'000**	2004 *$'000*
Turnover	3	**216,160**	206,118
Cost of services/sales		**(73,555)**	(68,317)
		142,605	137,801
Other revenue		**7,539**	2,029
Other net (loss)/income		**(478)**	1,792
Valuation gains on investment properties		**3,010**	—
Selling expenses		**(13,034)**	(12,738)
Administrative expenses		**(52,342)**	(51,626)
Profit from operations	3	**87,300**	77,258
Finance costs	4(a)	**(49)**	(29)
Profit before taxation	4	**87,251**	77,229
Income tax	5	**(15,180)**	(13,845)
Profit after taxation attributable to equity holders of the parent		**72,071**	63,384
Dividends attributable to the interim period	6(a)	**—**	28,800
Earnings per share	7	**$0.20**	$0.18

CONSOLIDATED BALANCE SHEET — UNAUDITED

		At 30 September 2005		At 31 March 2005 (restated)	
	Note	**$'000**	**$'000**	*$'000*	*$'000*
Non-current assets					
Fixed assets			**4,271,581**		4,214,641
Other investments in securities			**7,572**		7,440
Deferred tax assets			**119**		122
			4,279,272		4,222,203
Current assets					
Inventories		**1,507**		1,938	
Accounts receivable, deposits and prepayments	8	**18,340**		16,398	
Tax recoverable		**63**		63	
Cash and cash equivalents		**545,642**		472,286	
		565,552		490,685	
Current liabilities					
Accounts payable, other payables and accruals	9	**62,088**		48,551	
Deposits received		**33,229**		32,037	
Provision for long service payments		**4,689**		4,731	
Obligations under finance leases		**238**		235	
Current taxation		**27,893**		17,142	
		128,137		102,696	
Net current assets			**437,415**		387,989
Total assets less current liabilities			**4,716,687**		4,610,192
Non-current liabilities					
Government lease premiums payable		**(2,478)**		(2,478)	
Obligations under finance leases		**(693)**		(841)	
Deferred tax liabilities		**(547,284)**		(536,046)	
Other financial liabilities		**(1)**		(1)	
			(550,456)		(539,366)
NET ASSETS			**4,166,231**		4,070,826
CAPITAL AND RESERVES					
Share capital			**360,000**		360,000
Reserves			**3,806,231**		3,710,826
TOTAL EQUITY			**4,166,231**		4,070,826

Notes:

1. **Principal accounting policies and basis of preparation**

The unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting", issued by the HKICPA.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the financial statements for the year ended 31 March 2005, except for the changes following the Group's adoption of the new and revised Hong Kong Financial Reporting Standards, including HKASs and Interpretations, which became effective on 1 January 2005. Details of these changes in accounting policies are set out in note 2.

2. **Changes in accounting policies**

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 April 2005 which have been reflected in the interim financial report.

(a) ***Summary of the effect of changes in the accounting policies***

(i) *Effect on opening balance of total equity at 1 April 2005 and 2004*

The following table sets out the retrospective adjustments that have been made to the opening balances at 1 April 2005 and 2004.

	Note	**Retained profits $'000**	**Investment properties revaluation reserve $'000**	**Hotel properties revaluation reserve $'000**	**Minority interests $'000**	**Total equity $'000**
Effect of new policies (increase/(decrease))						
Prior period adjustments at 1 April 2005:						
HKAS 40 and HK(SIC) Interpretation 21						
Changes in fair value of investment properties	2(b)(i)	**1,406,020**	**(1,406,020)**	**—**	**—**	**—**
Deferred tax on changes in the fair value of investment and hotel properties	2(b)(ii)	**(245,797)**	**—**	**(296,145)**	**—**	**(541,942)**
HKAS 32						
Redeemable preference shares issued	2(c)	**—**	**—**	**—**	**(1)**	**(1)**
Total effect at 1 April 2005		**1,160,223**	**(1,406,020)**	**(296,145)**	**(1)**	**(541,943)**

	Note	Retained profits *$'000*	Investment properties revaluation reserve *$'000*	Hotel properties revaluation reserve *$'000*	Minority interests *$'000*	Total equity *$'000*
Effect of new policies (increase/(decrease))						
Prior period adjustments at 1 April 2004:						
HKAS 40 and HK(SIC) Interpretation 21						
Changes in fair values of investment properties	2(b)(i)	1,263,034	(1,263,034)	—	—	—
Deferred tax on changes in the fair value of investment and hotel properties	2(b)(ii)	(220,759)	—	(223,248)	—	(444,007)
HKAS 32						
Redeemable preference shares issued	2(c)	—	—	—	(1)	(1)
Total effect at 1 April 2004		1,042,275	(1,263,034)	(223,248)	(1)	(444,008)

(ii) *Effect on profit after taxation for the six months ended 30 September 2005 and 2004*

The following table sets out the aggregate effect on the Group's profit in respect of the six months ended 30 September 2005 as a result of adopting the new accounting policies.

		Six months ended 30 September 2005		
	Note	**Equity holders of the parent $'000**	**Minority interests $'000**	**Total $'000**
Effect of new policies (increase/(decrease))				
HKAS 40 and HK(SIC) Interpretation 21				
Changes in fair values of investment properties	2(b)(i)	**3,010**	**—**	**3,010**
Deferred tax on changes in the fair values of investment properties	2(b)(ii)	**(530)**	**—**	**(530)**
Total effect for the period		**2,480**	**—**	**2,480**
Effect on basic earnings per share		**$0.01**		

The changes in the accounting policies do not have an impact on the Group's profit for the six months ended 30 September 2004.

(iii) *Effect on net income recognised directly in equity for the six months ended 30 September 2005 and 2004*

		Six months ended 30 September 2005		
	Note	**Equity holders of the parent $'000**	**Minority interests $'000**	**Total $'000**
Effect of new policy (increase/(decrease))				
HK(SIC) Interpretation 21				
Deferred tax on changes in the fair values of hotel properties	2(b)(ii)	**12,076**	**—**	**12,076**
Total effect for the period		**12,076**	**—**	**12,076**

The changes in the accounting policies do not have an impact on the Group's net income recognised directly in equity for the six months ended 30 September 2004.

(b) ***Investment and hotel properties (HKAS 40 "Investment property", and HK(SIC) Interpretation 21 "Income taxes — Recovery of revalued non-depreciable assets")***

Changes in accounting policies relating to investment and hotel properties are as follows:

(i) *Timing of recognition of movements in fair value of investment properties in the income statement*

In prior years movements in the fair value of the Group's investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

In addition, in prior years a piece of freehold land in Malaysia, which the Group held for an undetermined future purpose was accounted for under the cost model in Statements of Standard Accounting Practice 17 "Property, plant and equipment".

Upon adoption of HKAS 40 as from 1 April 2005:

— all changes in the fair value of investment properties are recognised directly in the income statement in accordance with the fair value model in HKAS 40; and

— land held for an undetermined future purpose is recognised as "investment property" and accounted for under the fair value model in HKAS 40. As such, movements in the fair value of land held for an undetermined future purpose are also now recognised directly in the income statement as they arise in accordance with the fair value model.

These changes in accounting policy have been adopted retrospectively by increasing the opening balance of retained earnings as of 1 April 2005 by $1,406,020,000 (1 April 2004: $1,263,034,000) to include all of the Group's previous investment properties revaluation reserve. In addition, the land held for development is reclassified as investment properties, with comparative figures restated accordingly.

As a result of this new policy, the Group's profit before taxation for the six months ended 30 September 2005 has increased by $3,010,000 (six months ended 30 September 2004: $Nil), being the increase in the fair value of the Group's investment properties (including those reclassified as investment property as a result of this change in policy).

(ii) *Measurement of deferred tax on movements in fair values of the investment and hotel properties*

In prior years the Group was required to apply the tax rate that would be applicable to the sale of investment and hotel properties to determine whether any amounts of deferred tax should be recognised on the revaluation of investment and hotel properties. As there would have been no tax payable on the disposal of the Group's investment and hotel properties, no deferred tax was provided in prior years.

As from 1 April 2005, in accordance with HK(SIC) Interpretation 21, the Group recognises deferred tax on movements in the value of the investment and hotel properties using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the properties would have been depreciable had the Group not adopted the fair value model.

The change in accounting policy has been adopted retrospectively by reducing the opening balance of retained earnings and hotel properties revaluation reserve as of 1 April 2005 by $245,797,000 and $296,145,000 (1 April 2004: $220,759,000 and $223,248,000) respectively and increasing deferred tax liabilities by $541,942,000 (1 April 2004: $444,007,000).

As a result of this new policy, the Group's taxation expense for the six months ended 30 September 2005 has increased by $530,000 (six months ended 30 September 2004: $Nil).

(c) ***Financial instruments (HKAS 32 "Financial instruments: Disclosure and presentation" and HKAS 39 "Financial instruments: Recognition and measurement")***

Reclassification of redeemable preference shares as financial liabilities

In prior years, redeemable preference shares of a subsidiary were accounted for as minority interests and presented in the consolidated balance sheet separately from liabilities and as deduction from net assets.

With effect from 1 April 2005, in accordance with HKAS 32, the classification of redeemable preference shares is based on the substance of the contractual arrangement. Consequently, the shares have been classified as liabilities.

The change in accounting policy has been adopted retrospectively by reclassifying the minority interests of $1,000 as at 1 April 2005 (1 April 2004: $1,000) to other financial liabilities under non-current liabilities. There was no impact to the consolidated income statement for the six months ended 30 September 2005 and 2004 resulted from this change in accounting policy.

3. **Segment reporting**

An analysis of the Group's revenue and results for the six months ended 30 September 2005 and 2004 by business segments is as follows:

	Segment revenue Six months ended 30 September		Segment profit/(loss) Six months ended 30 September	
	2005 **$'000**	2004 *$'000*	**2005** **$'000**	2004 *$'000*
Hotel operation *(Note)*	**155,251**	144,423	**46,402**	42,759
Property leasing	**51,345**	50,321	**48,640**	47,166
Golf and recreational club operation	**9,564**	11,374	**(6,025)**	(2,858)
	216,160	206,118	**89,017**	87,067
Valuation gains on investment properties			**3,010**	—
Unallocated other revenue			**7,539**	2,029
Unallocated operating income and expenses			**(12,266)**	(11,838)
Profit from operations			**87,300**	77,258

Segment information is presented only in respect of the Group's business segments as it is chosen as the Group's primary basis of segment reporting.

Note: On 28 July 2004, the Directors made an announcement of their decision to pursue the possibility of redeveloping the property comprising the Hyatt Regency Hotel and the Hyatt Regency Shopping Arcade (the "Property") into a building with mainly retail components. On 20 October 2004, the Directors made a further announcement stating that they had resolved to proceed with the proposal to redevelop the Property as mentioned in the aforesaid announcement.

It is currently expected by the Directors that the operations of the Hyatt Regency Hotel and the Hyatt Regency Shopping Arcade will cease from 1 January 2006, the Property will then be demolished and a new building will be constructed. Barring unforeseen circumstances, it is expected by the Directors that the time period for the redevelopment will be three to four years from commencement of the redevelopment work.

As a result, hotel operation will cease from 1 January 2006.

4. **Profit before taxation**

Profit before taxation is arrived at after charging/(crediting):

		Six months ended 30 September 2005 $'000	2004 $'000
(a)	Finance costs:		
	Interest on government lease premiums payable	**29**	29
	Finance charges on obligations under finance leases	**20**	—
		49	29
(b)	Other items:		
	Depreciation	**13,161**	10,447
	Dividend income from listed securities	**(131)**	(366)
	Net profit on disposal of fixed assets	**(5)**	(1,635)
	Net unrealised gains on listed securities	**(132)**	(64)
	Net exchange loss/(gain)	**615**	(93)
	Interest income	**(6,433)**	(785)

5. **Income tax**

	Six months ended 30 September 2005 $'000	2004 $'000
Current tax		
— Hong Kong profits tax	**15,982**	14,598
— Overseas tax	**34**	44
Deferred taxation	**(836)**	(797)
	15,180	13,845

The provision for Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the six months ended 30 September 2005. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

6. **Dividends**

(a) Dividends attributable to the interim period

	Six months ended 30 September 2005 $'000	2004 $'000
No interim dividend declared and paid after the interim period end (2004: 8 cents per share)	**—**	28,800

The interim dividend has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 September 2005 $'000	2004 $'000
Final dividend in respect of the financial year ended 31 March 2005, approved and paid during the following interim period, of 8 cents (year ended 31 March 2004: 10 cents) per share	**28,800**	36,000

7. **Earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent of $72,071,000 (2004: $63,384,000) and 360,000,000 (2004: 360,000,000) ordinary shares in issue during the period. There were no potential dilutive ordinary shares in existence during the six months ended 30 September 2005 and 2004.

8. **Accounts receivable, deposits and prepayments**

Included in accounts receivable, deposits and prepayments are accounts receivable (net of provisions for bad and doubtful debts) with the following ageing analysis:

	30 September 2005 $'000	31 March 2005 $'000
Current	**9,650**	9,122
1 to 3 months overdue	**2,370**	1,908
More than 3 months overdue but less than 12 months overdue	**824**	822
Total accounts receivable, net of provisions for bad and doubtful debts	**12,844**	11,852
Deposits and prepayments	**5,496**	4,546
	18,340	16,398

Debts are generally due within 45 days in respect of hotel operation and 14 days in respect of property leasing from the date of billing. Debtors of the hotel operation with balances that are 60 days overdue are requested to settle all outstanding balances before any further credit is granted. For debtors of property leasing, legal action will be taken against overdue debtors whenever the situation is appropriate.

9. **Accounts payable, other payables and accruals**

All of the accounts payable, other payables and accruals except for $255,000 (at 31 March 2005: $1,223,000), mainly represented retention monies payable, is expected to be settled within one year.

Included in accounts payable, other payables and accruals are accounts payable with the following ageing analysis:

	30 September 2005 $'000	31 March 2005 $'000
Due within 1 month or on demand	**3,340**	4,112
Due after 1 month but within 3 months	**582**	463
Due after 3 months but within 6 months	**41**	33
Due after 6 months but within 12 months	**1,603**	2
Due after 12 months	**255**	299
Total accounts payable	**5,821**	4,909
Other payables and accruals	**56,267**	43,642
	62,088	48,551

INTERIM DIVIDEND

The Directors have resolved that in view of the imminent cessation of the Group's main sources of income, no interim dividend will be paid to shareholders (2004: 8 cents per share).

BUSINESS REVIEW

- The Group achieved a profit from operations of $87.3 million for the half year ended 30 September 2005, representing an increase of 13.0% compared with the corresponding period in 2004. The increase in profit from operations was mainly due to the increased contribution from the operations of the Hyatt Regency Hong Kong (the "Hotel") and the higher rental income from the Hotel's shopping arcade.
- The average room rate obtained at the Hotel during the half year ended 30 September 2005 was $946, representing an increase of 15.5% in comparison with the corresponding period in 2004.
- The average room occupancy of the Hotel during the half year ended 30 September 2005 was 84.5% as compared with 89.4% for the half year ended 30 September 2004.
- Rental income for the Hotel's shopping arcade for the half year ended 30 September 2005 was $51.2 million, representing a slight increase of 2.0% against the corresponding period in 2004. The improvement was attributable to the higher rental charged on certain renewed tenancy agreements since June 2004.
- As at 30 September 2005, the investment properties of the Group were revalued at $1,827.6 million by independent professional valuers and the fair value gain of $3.0 million was recognised in the consolidated income statement during the period.
- Interest income amounted to $6.4 million, increased by $5.6 million due to the rising in interest rates during the period.
- The total equity for the Group as at 30 September 2005 was $4,166.2 million, compared with $4,070.8 million (restated) as at 31 March 2005. The Group's gearing ratio is nil.
- As at 30 September 2005, the total number of employees of the Group (excluding the employees of the Hotel but including the Executive Directors and employees of the Group's resort operation) was 147 and the related costs incurred during the period amounted to $11.4 million.
- Save as disclosed in this announcement, there has been no further material change to the information contained in the Company's annual report for the year ended 31 March 2005 which necessitates additional disclosure to that made herein.

OUTLOOK

According to the Hong Kong Tourism Board, the cumulative visitor arrivals to Hong Kong for the first ten months of 2005 have reached 19 million, representing a growth of 7.5% from the same period of last year. It shows that the sentiment towards Hong Kong as a destination for leisure and business remains positive. The Directors are optimistic about the Hotel's revenue in the fourth quarter of 2005.

As announced on 20 October 2004, the Directors have resolved to proceed with the proposal to redevelop the property comprising the Hotel and the Hotel's shopping arcade into a building comprising mainly retail components. It is currently expected that the operations of the Hotel and the Hotel's shopping arcade, which are currently the main business segments of the Group, will cease from 1 January 2006. The existing property will be demolished and a new building comprising mainly retail components will be constructed. Barring unforeseen circumstances, the time period for the redevelopment will be three to four years from commencement of the redevelopment work. The cessation of the Hotel and the Hotel's shopping arcade operations from 1 January 2006 will have a substantial negative impact on the revenue and results of the Group during the redevelopment period with the removal of the Hotel and the Hotel's shopping arcade which are the Group's main sources of income. However, the Directors consider that upon completion of the redevelopment, it will increase the return to the Group in the long run and will enhance value for shareholders because it is believed that a retail development is likely to generate a higher return on capital in the long term than the hotel operation.

The entire redevelopment project is scheduled for completion in 2009. The present estimated cost of construction for this project is around $1 billion. It is presently intended that this will be financed by external borrowings and arrangements are in progress in this regard. It is likely that no dividend will be paid before completion of the project.

Transitional arrangements for the closure of the Hotel are in place. The management has taken steps to minimise adverse impact on the Hotel's last few weeks of operations which may arise owing to the Hotel's imminent closure.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") which apply to the Company for the period under review, except that the roles of chairman and chief executive officer are not separated and performed by two different individuals, which is inconsistent with code provision A.2.1 and that the executive chairman is not subject to retirement by rotation, which is inconsistent with code provision A.4.2. To comply with code provision A.4.2, amendments to the Company's Articles of Association were proposed and approved by shareholders at the annual general meeting of the Company on 14 September 2005.

INTERIM REPORT

The Company's interim report containing all the information required by the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited and dispatched to shareholders in due course.

As at the date of this announcement, Mr. Cheong Hooi Hong, Mr. Cheong Kheng Lim, Mr. Cheong Keng Hooi, Mr. Cheong Sim Lam and Ms. Cheong Been Kheng are executive directors, Mr. Sin Cho Chiu, Charles and Mr. Lau Wah Sum are non-executive directors, and Mr. Chow Wan Hoi, Paul, Mr. Yau Allen Lee-Nam and Mr. Lee Chung are independent non-executive directors.

By Order of the Board
Associated International Hotels Limited
Ng Sau Fong
Company Secretary

Hong Kong, 9 December 2005