# REVIEW AND OUTLOOK

For the six months ended 30th June, 2002, the Group incurred an unaudited consolidated net loss attributable to shareholders of HK$205.1 million, as compared with a net loss of HK$251.1 million in the same period last year.

In March this year, the Company completed a share exchange agreement entered into with Prism Communications International Limited in February 2002, pursuant to which the Company allotted and issued 250 million new shares of the Company at HK$0.1 each in exchange for 10 million new shares in Prism. Later in July, the Company exercised in part an option granted to it under the share exchange agreement, exercisable before 1st October, 2002, pursuant to which the Company further issued 240 million new shares of the Company at HK$0.1 each in exchange for an additional 9.6 million new shares in Prism. At present, the Company holds an aggregate of 19.6 million shares in Prism, representing approximately 9.7% of Prism's existing issued share capital. Prism is carrying on, through its wholly owned subsidiary, telecommunications and internet-related businesses and equipment trading, and provides international voice and fax long distance services.

Apart from the relatively minor investments in various information technology businesses, the Company's only major asset comprises the majority holding of shares in Paliburg Holdings Limited that have been pledged to the financial creditors. Therefore, in order to sustain the continued viability of the Company, it will be crucial that a consensual restructuring of the Company's indebtedness can be secured with its financial creditors and that the majority shareholding in Paliburg is maintained.

Against this background, the Company announced on 2nd August, 2002 the entering into of the Share Swap Agreement which was contemplated in conjunction with a series of reorganisation exercises proposed at different corporate levels within the overall Century City Group including, among other things, the Stanley Transfer between Paliburg and Regal Hotels International Holdings Limited, the Settlement Proposal in respect of the Exchangeable Bonds and the Convertible Bonds of Paliburg and the Paliburg Acquisition of Paliburg. Relevant details including the terms and conditions of these proposed transactions were fully set out in the circular to the Company's shareholders dated 26th August, 2002.

As explained in the said circular, the Share Swap under the Share Swap Agreement was proposed with a view to providing the Company with a mechanism to maintain a controlling interest in Paliburg following the Paliburg Acquisition, and the Paliburg Acquisition itself was aimed to strengthening the business base and cash resources of Paliburg. The Company regards the Share Swap as beneficial as it can help the Company in maintaining a controlling stake in Paliburg and facilitate the negotiation and implementation of the debt restructuring of the Group.

The completion of the Share Swap is conditional on, among other things, the implementation of the Paliburg Acquisition. As the poll demanded on the resolution to approve the Paliburg Acquisition at the special general meeting of Paliburg held on 18th September, 2002 has been directed to be taken on 2nd October, 2002, the Company accordingly adjourned the special general meeting of the Company held later on that date for the consideration of the Paliburg Acquisition and the Share Swap, to be reconvened at 12:00 noon on 2nd October, 2002.

For the six months ended 30th June, 2002, Paliburg incurred an unaudited consolidated net loss attributable to shareholders of HK$230.0 million, as compared with a net loss of HK$258.2 million in the corresponding period in 2001. The loss incurred was mostly attributable to the continuing accrual of interest on the two outstanding Bonds of Paliburg, the sale of certain Regal shares and the deemed disposal of shares in Regal due to the placement of new shares by Regal, and the disposal of Redhill Plaza during the period under review.

With a view to improving its working capital position, Paliburg sold in June this year its investment property at Redhill Plaza in Tai Tam through a tender process at a consideration of HK$169.9 million and a net loss of approximately HK$30.6 million was incurred.

As reported before, Paliburg had planned to dispose of the Crown Hill site located in the central city west area of Los Angeles. In July this year, the Paliburg group was formally notified by the Los Angeles Unified School District that it has instituted proceedings to compulsorily acquire the Crown Hill site for public education purposes at a just compensation to be ascertained. The Unified School District has deposited with the court its initially determined probable compensation of US$10 million which the Paliburg group, as the owner of the site, has the right to dispute and object. The Paliburg group has retained legal advisers and professional valuers to object the probable compensation determined by the Unified School District and the issue is expected to be adjudicated by the US courts towards the end of this year. The proceeds anticipated to be received by the Paliburg group from the ultimate disposal of this site would help to further reduce its indebtedness under the remaining bilateral banking facilities.

Completion of the Stanley Transfer is subject to the satisfaction of other conditions including relevant bank consents and the listing approval on the new consideration shares of Regal falling to be issued, while the Settlement Proposal is subject to certain other conditions including the approval by the holders of the outstanding Bonds of Paliburg at the Bondholders' meetings to be held on 27th September, 2002 and the completion of the Stanley Transfer.

If the Stanley Transfer is completed, Paliburg will receive from Regal approximately 1,958.3 million new shares as consideration and the shareholding of Paliburg in Regal will increase from 69.3% presently to 79.4%, assuming there are no other changes in the share capital of Regal.

The Settlement Proposal was aimed at settling the indebtedness under the two outstanding Bonds of Paliburg in full. If the Settlement Proposal is implemented, Paliburg would transfer, effectively for the benefit of its Bondholders, the entire equity interests in its wholly owned subsidiaries that indirectly hold the entire interests (subject to the mortgages securing the securitisation loan) in Paliburg Plaza and Kowloon City Plaza, and 1,896.5 million ordinary shares of Regal, out of the consideration shares to be received under the Stanley Transfer, to be released in phases within 21 months except in certain stated circumstances. After the full release of these Regal ordinary shares, if there are otherwise no changes in the share capital of Regal, Paliburg will continue to maintain an effective controlling interest of about 47.7% in Regal.

For the six months ended 30th June, 2002, Regal 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, Regal recently entered into a share purchase agreement with a third party purchaser for the sale of its 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. If the sale progresses, the share purchase agreement is scheduled to be completed in early December 2002. This hotel in Toronto was acquired by Regal 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 Group's results for the current financial year. However, it is expected that net surplus proceeds will be derived after full redemption of the attached bank loan.

Separately, the Regal 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 Regal group of standstill security by the cross collateralisation of certain existing security primarily over its five hotels in Hong Kong and its interest in the Stanley development project and additional security primarily over certain of its operating entities; (ii) waiver by the Regal group's lenders of previous breach of covenants on maintaining the financial ratios under the loans; (iii) the making by the Regal group of certain milestone payments during the period when the standstill agreement is effective; and (iv) the Regal group's 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.

With a view to raise additional funds for reduction of bank indebtedness and working capital purposes, Regal 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, which is subject to the satisfaction of certain conditions. 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 Regal at HK$0.10 per share, initially, subject to usual and downward adjustments.

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, Regal 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 Regal's principal bank creditors. Regal 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 local hotels of the Regal group will be able to produce improving performance and positive contributions over the coming years.

Based on the unaudited consolidated accounts of Paliburg as at 30th June, 2002, Paliburg's indebtedness will be significantly reduced by approximately HK$4,968.0 million (including approximately HK$3,751.0 million in relation to the Bonds and approximately HK$1,217 million in relation to the securitisation loan) and an estimated accounting profit of approximately HK$3,000 million will be recorded as a result of the implementation of the Settlement Proposal. The elimination of these indebtedness will significantly reduce Paliburg's future interest cost burden which may, in due course, be further lessened when the sale of the Crown Hill site is finalised.

Though the Paliburg group will inevitably become leaner due to the transfer of some of its major assets, these restructuring proposals are extremely crucial for Paliburg to emerge from the difficult environment encountered during the past few years.

The Company's management has all along worked diligently and in co-ordination with the appointed independent financial adviser on the restructuring discussions with the financial creditors. The Company will continue to use its utmost efforts to work out an overall restructuring proposal in order to bring the Company out of the present difficulties, however, any consensual resolution will inevitably depend on obtaining the agreement of all relevant parties involved.

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 amounted to HK$120.4 million (2001 - HK$181.9 million). Net interest payment for the period amounted to HK$190.0 million (2001 - HK$193.9 million).

In March 2002, 250 million new shares ("250M Consideration Shares") of the Company were allotted, issued and credited as fully paid to a nominee of Prism Communications International Limited ("Prism") at HK$0.10 per 250M Consideration Share in satisfaction of the consideration for the subscription by Expert Link Technology Limited ("Expert Link"), a wholly-owned subsidiary company of the Company, for 10 million new shares of HK$0.01 each in Prism pursuant to the Share Exchange Agreement (the "Share Exchange Agreement") dated 18th February, 2002 made between, inter alia, the Company and Prism.

Subsequent to 30th June, 2002, in July 2002, a total of 240 million new shares ("240M Consideration Shares") of the Company were allotted, issued and credited as fully paid to nominees of Prism at HK$0.10 per 240M Consideration Share in satisfaction of the consideration for the subscription by Expert Link for 9.6 million new shares of HK$0.01 each in Prism, as a result of the partial exercise of an option granted by Prism to the Company pursuant to the Share Exchange Agreement.

As at 30th June, 2002, the Group's gross borrowings net of cash and bank balances amounted to HK$10,015.1 million, as compared to HK$10,135.4 million as at 31st December, 2001. The Group's gearing ratio based on total assets of HK$14,345.3 million (31st December, 2001 - HK$14,634.5 million) was about 70% (31st December, 2001 - 69%).

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.

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.

### *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.

### *Remuneration Policy*

The Group employs approximately 2,000 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 benefit plans maintained by the Group include provident fund scheme and medical and life insurance.

The Company as well as Paliburg Holdings Limited ("PHL") and Regal Hotels International Holdings Limited ("RHIHL"), the listed subsidiary companies of the Company, each maintains an Executive Share Option Scheme, pursuant to which certain share options were granted under the Executive Share Option Schemes of PHL and RHIHL 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".