

ANNOUNCEMENT OF 2001 GROUP RESULTS

| | Year ended 31st Dec., 2001 | Year ended 31st Dec., 2000 (Restated) (Note 1) |
|--|-------------------------------|---|
| | HK\$'M | HK\$'M |
| TURNOVER (Note 2) | 1,951.8 | 1,855.5 |
| Cost of sales | (1,603.8) | (1,400.5) |
| Gross profit | 348.0 | 455.0 |
| Other revenue (Note 3) | 156.5 | 87.0 |
| Gain on disposal of an overseas associate | – | 65.8 |
| Administrative expenses | (150.9) | (154.5) |
| Other operating expenses (Note 4) | (206.7) | (91.9) |
| Provisions for write-downs/ impairments, net (Note 5) | (533.2) | (219.9) |
| Write-back of provision for guarantee given | – | 29.9 |
| Loss on disposal of overseas subsidiary companies | – | (13.8) |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES (Note 2) | (386.3) | 157.6 |
| Finance costs (Note 6) | (738.5) | (827.8) |
| Share of profits less losses of: Jointly controlled entity Associates | (90.9) (5.9) | (142.3) 2.5 |
| LOSS BEFORE TAX | (1,221.6) | (810.0) |
| Tax (Note 7) | 3.8 | (18.9) |
| LOSS BEFORE MINORITY INTERESTS | (1,217.8) | (828.9) |
| Minority interests | 146.8 | 98.7 |
| NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | (1,071.0) | (730.2) |
| Loss per share (Note 8) | | |
| Basic | HK\$(0.46) | HK\$(0.31) |
| Diluted | N/A | N/A |
| Net asset value per share as at year end date | HK\$0.94 | HK\$2.02 |

Notes:

- (a) In previous years, service charges in respect of the Group's room sales and food and beverage sales were credited to direct staff costs included in the cost of sales. During the year under review, the Group considered it more appropriate to include the service charges in the Group's turnover, to be in line with general accounting practice in the hotel industry. The comparative amounts of turnover and cost of sales have been restated to conform to the current year presentation.

(b) Due to the adoption of the Hong Kong Statements of Standard Accounting Practice No.30, the Group has adopted a policy to assess goodwill eliminated against reserves for impairment. This change of accounting policy has been accounted for retrospectively as a prior year adjustment. The effect of the prior year adjustment is to increase both the accumulated losses and the capital reserve of the Group as at 1st January, 2001 by HK\$88.9 million, (net of minority interests of HK\$31.5 million). There is no attributable tax effect in respect of the prior year adjustment.
- An analysis of the Group's turnover and contribution to trading results during the year by each principal activity and by geographical location is as follows:

| | Turnover | | Contribution | |
|---|----------------|------------------------------|----------------|------------------------------|
| | 2001 HK\$'M | 2000 HK\$'M (Restated) | 2001 HK\$'M | 2000 HK\$'M (Restated) |
| By principal activity: | | | | |
| Property development and investment | 314.4 | 254.5 | (96.0) | 36.2 |
| Property management | 22.5 | 21.5 | 17.5 | 17.8 |
| Construction and construction-related businesses | 558.0 | 433.4 | (14.2) | 6.3 |
| Hotel ownership and management | 1,001.5 | 1,075.7 | (50.4) | 197.6 |
| Other operations | 55.4 | 70.4 | (88.6) | (99.2) |
| | 1,951.8 | 1,855.5 | (231.7) | 158.7 |
| Unallocated corporate expenses, net | | | (154.6) | (1.1) |
| | | | (386.3) | 157.6 |
| By geographical location: | | | | |
| Hong Kong | 1,834.4 | 1,698.1 | 79.8 | 246.5 |
| Canada | 95.6 | 127.3 | (2.5) | 12.9 |
| Others | 21.8 | 30.1 | (309.0) | (100.7) |
| | 1,951.8 | 1,855.5 | (231.7) | 158.7 |
| Unallocated corporate expenses, net | | | (154.6) | (1.1) |
| | | | (386.3) | 157.6 |

An analysis of profit/(loss) on sale of investments or properties of the Group is as follows:

| | 2001 HK\$'M | 2000 HK\$'M |
|--|----------------|----------------|
| Gain/(Loss) on disposal of listed investments, net | (142.2) | 2.7 |
| Profit on sale of properties | 0.3 | 3.9 |

3. Other revenue include the following major items:

| | 2001 HK\$'M | 2000 HK\$'M |
|--|----------------|----------------|
| Interest income | 55.2 | 80.8 |
| Profit on disposal of ordinary shares in the listed subsidiary company arising from exchange of exchangeable bonds | 70.8 | – |

4. Other operating expenses include the following major items:

| | 2001 HK\$'M | 2000 HK\$'M |
|--|----------------|----------------|
| Depreciation | 58.5 | 56.5 |
| Loss on disposal of long term listed investments (after a transfer from the revaluation reserve of a deficit of HK\$139.1 million) | 141.4 | – |
| Tax indemnity in respect of the disposal of overseas subsidiary companies/partnerships in the prior year | – | 24.2 |

5. Provisions for write-downs/impairments, net, represent the following:

| | 2001 HK\$'M | 2000 HK\$'M (Restated) |
|---|----------------|------------------------------|
| Write-down in value of properties | (61.9) | (106.0) |
| Impairment of fixed assets | (50.8) | – |
| Impairment of long term investment | (180.0) | – |
| Write-back of provision against advances and interest receivable | – | 9.6 |
| Write-back of provision for loss on deposit paid | – | 10.0 |
| Provision against other loans, promissory notes and interest receivable | (56.8) | (13.1) |
| Impairment of goodwill previously eliminated against capital reserve | – | (120.4) |
| Deficit on revaluation of hotel properties | (183.7) | – |
| | (533.2) | (219.9) |

6. Included in the Group's finance costs is an amount of HK\$16.5 million (2000 – HK\$23.4 million) representing the amortisation of loan costs.

7. The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16% (2000 – 16%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year.

Taxes on the profits of subsidiary companies and associates operating overseas are calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing laws, practices and interpretations thereof.

No provision for tax is required for the jointly controlled entity as no assessable profits were earned by the jointly controlled entity during the year.

8. The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$1,071.0 million (2000 – HK\$730.2 million, as restated) and on the weighted average of 2,318.5 million (2000 – 2,318.5 million) shares of the Company in issue during the year.

No diluted loss per share is presented for the years ended 31st December, 2000 and 2001, as the exercise of share options and the conversion of bonds convertible into shares of the Company are anti-dilutive.

9. For the year under review, an amount of HK\$7.5 million (2000 – HK\$8.4 million) was transferred from reserves to accumulated losses.

10. Neither the Company nor any of its subsidiary companies has purchased, sold or redeemed any listed securities of the Company during the year under review.

SUMMARY OF AUDITORS' REPORT

Fundamental uncertainties

– **Provision against investments in two investee companies**

- The Auditors, in forming their opinion, have considered the adequacy of the disclosures made in the financial statements for the year ended 31st December, 2001 concerning the outcome of the negotiations with the relevant government authorities in the People's Republic of China in respect of the resumption of a land site beneficially and collectively held by two investee companies (the "Investee Companies"). The carrying value of the Group's investments in the Investee Companies amounted to HK\$118.9 million (2000 – HK\$298.9 million) as at 31st December, 2001. The Directors are currently unable to determine with reasonable certainty the outcome of the negotiations for the reversion of the land site to the Investee Companies. Accordingly, it is not possible to determine at this stage as to whether any further provision against the Group's investments in the Investee Companies is necessary. The Auditors consider that appropriate disclosures have been made and their opinion is not qualified in this respect.

– **Provision against a receivable**

- The Auditors, in forming their opinion, have considered the adequacy of the disclosures made in the financial statements concerning the outcome in respect of a receivable of approximately HK\$400.1 million comprising (i) a deferred consideration of US\$45 million (HK\$351 million) which arose in connection with the disposal by Regal Hotels International Holdings Limited, the Company's principal listed subsidiary, of its hotel interests in the United States of America in December 1999 (the "Disposal") and (ii) interest aggregating HK\$49.1 million accrued thereon (collectively, the "Consideration Receivable") which was due to be paid by the purchaser (the "Purchaser") on 17th December, 2001. The Purchaser alleges that the aggregate amount of certain third party claims covered by indemnifications given by Regal group under the Disposal agreement exceeds the deferred consideration and has withheld payment of the Consideration Receivable. The directors of Regal are currently unable to determine with reasonable certainty the time required for the resolution of the underlying legal claims, the legal or settlement costs that may be involved, and the timing of the receipt of the Consideration Receivable. Accordingly, the directors of Regal are currently unable to determine whether a provision, if any, is required against the Consideration Receivable. The Auditors consider that appropriate disclosures have been made and their opinion is not qualified in this respect.

Fundamental uncertainties relating to the going concern basis

- The Auditors, in forming their opinion, have considered the adequacy of the disclosures made in the financial statements which explain the circumstances giving rise to the fundamental uncertainties relating to:
 1. the outcome of completion of the proposed settlement with the bondholders of the two outstanding bonds of the Group;
 2. the outcome of finalisation of the proposed bilateral facilities arrangement with the financial creditors of the Group to replace the Group's existing informal standstill arrangement;
 3. the outcome of the proposed restructuring of a syndicated loan and a construction loan, with outstanding amounts of HK\$3,822.1 million and HK\$1,079.5 million as at 31st December, 2001, respectively, of Regal group;
 4. the successful recovery of Regal group's Consideration Receivable;
 5. the outcome of the proposed fund-raising arrangement of Regal group through equity issues; and
 6. the continued successful implementation of assets disposal programmes of the Group and Regal group.

The Auditors consider that appropriate disclosures have been made but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme that they have disclaimed their opinion.

DIVIDEND

- The Directors have resolved not to recommend the payment of a final dividend for the year ended 31st December, 2001 (2000 – nil). No interim dividend was paid for the year ended 31st December, 2001 (2000 – nil).

MANAGEMENT DISCUSSION AND ANALYSIS

- Net cash inflow from operating activities during the year under review amounted to HK\$361.7 million (2000 – HK\$267.8 million). Net interest payment for the year amounted to HK\$396.6 million (2000 – HK\$617.9 million).
- As at 31st December, 2001, the Group's gross borrowings net of cash and bank balances amounted to HK\$9,202.4 million, as compared to HK\$9,072.8 million in 2000. Gearing ratio based on the total assets of HK\$14,589.3 million (2000 – HK\$17,758.2 million) was 63% (2000 – 51%). The increase in the Group's gearing ratio was primarily the result of a downward adjustment in the valuation of the investment and hotel properties as at the balance sheet date.
- Information in relation to the maturity profile of the borrowings, the pledge of assets and the contingent liabilities of the Group as of 31st December, 2001 is disclosed in the annual report of the Company for the year ended 31st December, 2001 (the "2001 Annual Report"), which will be despatched to the shareholders on or before 30th April, 2002. During the year under review, the Company continued to adopt similar funding, treasury and remuneration policies as disclosed in the Company's 2001 Interim Report for the six months ended 30th June, 2001. Detailed information in such aspects is contained in the 2001 Annual Report.
- Further information relating to the Group's principal business operations and outlook is contained in the sections headed "Operating Highlights" and "Outlook" below, respectively.

OPERATING HIGHLIGHTS

- For the year ended 31st December, 2001, the Group incurred an audited consolidated net loss attributable to shareholders of HK\$1,071.0 million, as compared with a net loss of HK\$730.2 million, as restated, recorded for the 2000 financial year.
- In the loss incurred for the year under review, HK\$374 million was attributable to the share of loss of Regal, HK\$183.7 million was attributable to a charge to the consolidated profit and loss account of the revaluation deficit of hotel properties owned by Regal, HK\$180 million as impairment of investment in a development property in the People's Republic of China, and HK\$234 million as provision for interest and redemption premium accruing on the outstanding bonds.
- Moreover, although the construction works at the Stanley development project, in which Paliburg and Regal holds a 40% and 30% interest respectively, have resumed in October 2001, the bank loan interest incurred by the joint venture entity for the first ten months of 2001 has not been capitalised and the interest on the shareholders' loans advanced to the joint venture entity for the whole year of 2001 has also not been recognised. Had such interest been capitalised and recognised respectively, the loss incurred by Regal and Paliburg (excluding its attributable share of Regal's loss) for the financial year 2001 would have been reduced by approximately HK\$120 million and HK\$160 million, respectively.
- The Company announced in November 2001 that the principal terms of a proposal for the settlement of the Company's outstanding exchangeable bonds and convertible bonds have been formulated. The proposal involves, among others, the exchange and cancellation of the outstanding bonds in return for (i) the Company's entire interests in Paliburg Plaza and Kowloon City Plaza (together with the securitised loan attached), (ii) the issue of 463,669,490 new shares of the Company, representing approximately 16.7% of the enlarged issued share capital of the Company, and (iii) the transfer of 1,432,798,472 existing shares held by the Company in Regal, representing approximately 36.4% of the then issued share capital of Regal. Further details of the proposal were contained in the joint announcement of the Company on 16th November, 2001.
- As at 31st December, 2001, total principal, interest and redemption premium outstanding under the exchangeable bonds and convertible bonds amounted to approximately HK\$3,646.4 million, and the outstanding securitised loan attached to Paliburg Plaza and Kowloon City Plaza was approximately HK\$1,217.0 million.
- Implementation of the proposal will be conditional on, among others, settlement of the definitive documentation and the obtaining of all necessary consents and approvals, including the approval by the bondholders, other relevant lenders and the shareholders of the Company. Due to the multi-faceted nature of the proposal, the time taken to finalise the ultimate structure of the transaction, the obtaining of the consents from the relevant lenders and the settling of the definitive documentation has exceeded what was originally expected. Management of the Company is diligently working with all relevant parties to settle the ultimate structure of the transaction and the various outstanding issues involved. Shareholders will be kept posted in due course.

PROPERTY DEVELOPMENT

Hong Kong

- The luxury residential development at Rural Building Lot No.1138, Wong Ma Kok Road, Stanley is the major development project presently undertaken by the Group. The construction works have fully recommenced in October last year following the agreed reinstatement of the construction financing facility from the lending banks. Based on the existing construction programme, the development is scheduled for completion in stages from around the second quarter of 2003.

- The Group has a 30% interest in the joint venture for the development at Ap Lei Chau Inland Lot No.129, Ap Lei Chau East. A re-submission to the Town Planning Board for a proposed development comprising primarily residential accommodation is being processed.
- More than 60% of the office floors and all of the remaining ground floor shops at 211 Johnston Road, Wanchai have been leased to date. Given the relatively depressed market for office/commercial properties, the Group will continue to hold for rental the subject property until the market recovers.
- The plans for a proposed resort and recreational development on the subject property at various lots in Demarcation District No.251, Sharp Island, Sai Kung are being revised, and will be re-submitted for approval in due course.
- The amended building plans for the residential project at Lot No.1736 in D.D. 122, Tong Yan San Tsuen, Yuen Long have been approved by the Building Authority. Application is being made to extend the building covenant date for further one year to March 2003.

The People's Republic of China

- The Group now holds a 50% interest in a jointly held entity that owns a 65% interest in the foreign partner. The foreign partner in turn has a 70% interest in a sino-foreign equity joint venture that owns the development site at Gong Ren Ti Yu Chang Street East, Chao Yang District, Beijing. Progress of this office/commercial project has been delayed due to processing of approvals of the revised building plans and construction permit. Preparatory site works are being organised and construction works are anticipated to commence later this year.
- Since the announcement by the Beijing Land Resources and Housing Administration Bureau in November 2000 for the resumption of the development site at Chao Yang Men Wai Da Jie, Chao Yang District, Beijing due to its idle condition, the joint venture entities involved have been re-organised in accordance with the terms agreed among the relevant parties and their business licences renewed. Application will be made to the relevant government authorities to formally vest the title of the subject site to the joint venture entities when certain other compliance requirements have been met.

United States of America

- The Group has planned to dispose of and recently mandated a local agent to market the Crown Hill site for sale and preliminary discussions are being conducted with a number of interested purchasers.

PROPERTY INVESTMENT

- The occupancy rate of Paliburg Plaza, Causeway Bay has been maintained at a satisfactory level but the rental rates achieved on tenancy reversions were under pressure due to the softened commercial market.
- The occupancy rate of Kowloon City Plaza has also been maintained at a satisfactory level but, likewise, the average rental rate has been adversely affected by the sustained depression in the retail sector.
- Over 90% of the lettable space in Redhill Plaza at 3 Red Hill Road, Tai Tam is under lease, yielding satisfactory rental income. With a view to improving the working capital of the Group, the Group has recently arranged for this property to be tendered for sale. If the price offered is reasonable, the Group may choose to dispose of this property.

CONSTRUCTION AND CONSTRUCTION RELATED BUSINESS

- Chatwin Engineering Limited, formerly an 80%-owned subsidiary of the Group, has become a wholly-owned subsidiary of the Group subsequent to the year end date. Due to the overall contraction in the number of new building works and the increasing competition in the construction industry, Chatwin's contracts on hand have reduced. However, Chatwin is well equipped to capture new business opportunities when the environment improves.
- The Group holds through a 75%-owned subsidiary a 25% interest in a cement plant in Weifang, Shandong. The Group is currently in discussions with the majority shareholder on a possible restructuring of the parties' respective ownership interests in this cement plant.

REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

- For the year ended 31st December, 2001, Regal reported an audited consolidated net loss attributable to shareholders of HK\$514.2 million (2000 – HK\$347.9 million, as restated).
- Further information on the operations of Regal, including management discussion and analysis, is contained in its announcement separately released today.

OUTLOOK

- Benefiting from the continuing increase in the visitors from Mainland China, tourist business in Hong Kong sustained further recovery in the early part of 2002. Travel pattern in major long haul markets such as USA and Europe is also stabilising. For the first three months of 2002, overall performance of Regal's five hotels in Hong Kong surpassed that recorded in the comparative period last year.
- Regal is implementing a number of strategies to restructure the hotel operations with a view to improving their performance and bottom-line. The restructuring and streamlining of the management structure of the head office and the hotels in Hong Kong are being implemented by stages and positive results are being produced.
- Barring any unforeseen circumstances, it is expected by the directors of Regal that the operating results of Regal's hotel business in Hong Kong for the current financial year should be able to fare better than that for the year under review.
- Regal has recently commenced preliminary discussions with its lending banks to secure their ongoing support to a proposed rescheduling of the banking facilities with a view to maintaining the financial stability of the Regal group.
- At Paliburg Group's level, if the bonds settlement proposal could be successfully implemented, the Group's total debt and hence the gearing will be substantially reduced with the elimination of indebtedness in an aggregate sum of approximately HK\$4,863.4 million. Though the Group will inevitably become leaner due to the transfer of some major assets, this is considered to be a crucial step that is required to re-establish the Group's overall stability and for its revival going forward.

By Order of the Board

LO YUK SUI

Chairman

Hong Kong, 19th April, 2002

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be submitted to the Stock Exchange for publication on its website on or before 30th April, 2002.