

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)	1,057.1	1,141.4
Cost of sales	(875.6)	(892.8)
Gross profit	181.5	248.6
Other revenue (Note 3)	31.4	50.6
Gain on disposal of an overseas associate	—	68.3
Administrative expenses	(73.9)	(77.5)
Other operating expenses (Note 4)	(189.8)	(71.0)
Provisions for write-down/ impairments (Note 5)	(122.5)	(125.6)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES (Note 2)	(173.3)	93.4
Finance costs (Note 6)	(300.2)	(369.4)
Share of profits less losses of:		
Jointly controlled entity	(39.0)	(61.0)
Associates	(2.7)	2.6
LOSS BEFORE TAX	(515.2)	(334.4)
Tax (Note 7)	0.1	(15.1)
LOSS BEFORE MINORITY INTERESTS	(515.1)	(349.5)
Minority interests	0.9	1.6
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(514.2)	(347.9)
Loss per ordinary share (Note 8)		
Basic	HK\$(0.13)	HK\$(0.09)
Diluted	N/A	N/A
Net asset value per ordinary share as at year end date	HK\$1.13	HK\$1.61

Notes:

- 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.
 - 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. As a result, the Group has recognised an impairment of goodwill previously eliminated against the capital reserve of HK\$120.4 million in the year ended 31st December, 2000. 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\$120.4 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:				
Hotel ownership and management	1,001.5	1,075.7	133.3	197.6
Property investment	1.2	1.0	(14.6)	(5.1)
Other operations	54.4	64.7	(91.4)	(107.3)
	<u>1,057.1</u>	<u>1,141.4</u>	27.3	85.2
Unallocated corporate income/(expenses), net			<u>(200.6)</u>	<u>8.2</u>
			<u>(173.3)</u>	<u>93.4</u>

	Turnover		Contribution	
	2001 HK\$'M	2000 HK\$'M (Restated)	2001 HK\$'M	2000 HK\$'M (Restated)
By geographical location:				
Hong Kong	940.4	984.1	115.0	158.6
Canada	95.6	127.3	(2.5)	12.9
Others	21.1	30.0	(85.2)	(86.3)
	<u>1,057.1</u>	<u>1,141.4</u>	27.3	85.2
Unallocated corporate income/(expenses), net			<u>(200.6)</u>	<u>8.2</u>
			<u>(173.3)</u>	<u>93.4</u>

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

	2001 HK\$'M	2000 HK\$'M
Gain/(Loss) on disposal of long term listed investments	<u>(141.4)</u>	<u>0.7</u>

- Other revenue includes the following major item:

	2001 HK\$'M	2000 HK\$'M
Interest income	<u>28.4</u>	<u>46.7</u>

- Other operating expenses include the following major items:

	2001 HK\$'M	2000 HK\$'M
Depreciation	45.4	41.9
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 prior year	—	<u>24.2</u>

- Provisions for write-down/impairments represent the following:

	2001 HK\$'M	2000 HK\$'M (Restated)
Deficit on revaluation of investment properties	—	5.2
Impairment of goodwill previously eliminated against capital reserve	—	120.4
Write-down in value of properties held for sale	14.9	—
Impairment of fixed assets	50.8	—
Provisions against other loans, promissory notes and interest receivable	<u>56.8</u>	<u>—</u>
	<u>122.5</u>	<u>125.6</u>

- Included in the Group's finance costs is an amount of HK\$7.0 million (2000 – HK\$7.0 million) representing the amortisation of loan costs.

- No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year (2000 – nil).

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

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

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.

- The calculation of basic loss per ordinary share is based on the net loss from ordinary activities attributable to ordinary shareholders for the year of HK\$514.2 million (2000 – HK\$347.9 million, as restated), adjusted for the unpaid preference dividend for the year of HK\$6.9 million (2000 – HK\$6.9 million), and on the weighted average of 3,938.8 million (2000 – 3,936.3 million) ordinary shares of the Company in issue during the year.

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

- 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 uncertainty

– 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 Group's disposal 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 the Group under the Disposal agreement exceeds the deferred consideration and has withheld payment to the Group of the Consideration Receivable. The Directors 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 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 the proposed restructuring of a syndicated loan of HK\$3,822.1 million and a construction loan of HK\$1,079.5 million as at 31st December, 2001;
 2. the successful recovery of the Consideration Receivable;
 3. the outcome of the proposed fund-raising arrangements through equity issues; and
 4. the successful implementation of an asset disposal programme.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the measures noted above. The Auditors consider that appropriate disclosures have been made and their opinion is not qualified in this respect.

DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

- During the year under review, net cash inflow from operating activities totalled HK\$141.3 million (2000 – HK\$141.1 million). Net interest payment for the year amounted to HK\$253.3 million (2000 – HK\$442.1 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 exercise.
- As at 31st December, 2001, the Group's gross borrowings net of cash and bank balances amounted to HK\$5,055.2 million (2000 – HK\$4,883.2 million). The Group's gearing ratio based on the total assets of HK\$9,943.1 million (2000 – HK\$11,932.7 million) was about 51% (2000 – 41%). The increase in the Group's gearing ratio was primarily the result of a downward adjustment in the valuation of the 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\$514.2 million, as compared with a net loss of HK\$347.9 million, as restated, recorded for the 2000 financial year.
- Due to the unsatisfactory operating environment, particularly after the September 11 event, and in order to preserve liquidity, the Group has taken steps to realise most of its securities investments and certain other non-core assets despite the relatively depressed market condition. Consequently, one-time losses and other provisions in an aggregate of over HK\$260 million were incurred, which had severely affected the financial results of the Group for the year under review.
- Furthermore, although the construction works at the Stanley development project have resumed in October 2001, the bank loan interest incurred by the joint venture entity, in which the Group holds a 30% joint venture interest, for the first ten months of 2001 has not been capitalised and the interest on the

shareholder's loans advanced by the Group 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 consolidated loss incurred by the Group for the financial year 2001 would have been reduced by approximately HK\$120 million.

Hong Kong

- During the year under review, total visitor arrivals to Hong Kong amounted to over 13.7 million, which was an increase of about 5.1% over that of 2000. The September 11 event occurred last year no doubt gave a severe blow to the world's tourism business. In Hong Kong, the number of visitor arrivals declined sharply in September and October, particularly from the long haul markets. However, the continuing surge in the visitors from Mainland China has helped to curb the declining trend in the last two months of 2001.
- Overall, the average hotel occupancy in Hong Kong in 2001 fell by about 4.8% as compared with 2000, while the average room rate was down by about 1.6%.
- Due to the deterioration in the local hotel market, the operating results of the Group's hotels in Hong Kong in year 2001 have similarly been affected. As compared with 2000, the combined average occupancy of the five Regal Hotels in Hong Kong has dropped by about 3.9% and the combined average room rate by about 4.6%.
- The Regal Airport Hotel, which came into full operation since the beginning of 2001, commands a total room count of 1,103, as compared to 881 in 2000. Although the year round average occupancy for this hotel in 2001 was marginally below that of the prior year due to the increased room count, the number of occupied rooms has actually increased by about 21% and the room revenues by about 13% when the overall market has contracted.
- The Regal Airport Hotel is now highly regarded by international travellers and was awarded in 2001 the "Best Airport Hotel in Asia Pacific" by Business Traveller Asia Pacific Magazine and the "Best Airport Hotel in Asia" by Business Asia Magazine and Bloomberg Television.
- As for the luxury residential development at Wong Ma Kok Road in Stanley, 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 to be completed in stages from around the second quarter of 2003.

Canada and United States of America

- As reported before, the Group intends to focus its hotel operations primarily in Hong Kong in the near term. As such, the Group has mandated an agent to market for sale the Regal Constellation Hotel in Toronto, Canada. A tendering process was initiated and keen interest has been expressed by a number of prospective purchasers.
- The Group was originally expecting to receive in December 2001 the deferred consideration of US\$45 million for the sale of the hotel interests in USA together with certain accrued interest. The purchaser has however continued to withhold such payment due to the Group's indemnity obligation provided to the purchaser under the sale agreement for third party claims that occurred before completion of the transaction in December 1999. The Group has obtained legal advice that, based on the prevailing facts and circumstances, such withholding by the purchaser is improper and, pending resolution of the underlying claims, certain amount should nevertheless be released to the Group. The Group is pursuing the matter through legal avenues.

The People's Republic of China

- The Group's two managed hotels in Shanghai maintained steady performance during the year and contributed modest management income.
- Business at the Kaifeng Yatai Brewery was unsatisfactory due to the increasingly difficult operating environment. While stringent measures are being implemented to improve the brewery's operations, the Group may consider disposing of this non-core asset if the terms are reasonable.

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 the Group's five hotels in Hong Kong surpassed that recorded in the comparative period last year.
- The Group 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 that the operating results of the Group's hotel business in Hong Kong for the current financial year should be able to fare better than that for the year under review.
- The Group has recently commenced preliminary discussions with its lending banks to secure their ongoing support to a proposed rescheduling of banking facilities with a view to maintaining the Group's overall financial stability.

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.