

INDEPENDENT AUDITORS' REVIEW REPORT

**To the Board of Directors
Regal Hotels International Holdings Limited**

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 7 to 24.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Fundamental uncertainty - Provision against a receivable

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in note 12 to the interim financial report concerning the outcome in respect of a receivable of approximately HK\$400.1 million as at 30th June, 2002 included in debtors, deposits and prepayments under current assets. The receivable comprised (i) deferred consideration of US\$45.0 million (approximately HK\$351.0 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. As more fully explained in note 12 to the interim financial report, the Purchaser alleged that the aggregate amount of certain indemnity claims, relating to litigation cases underlying the third party claims covered by indemnifications given by the Group under the Disposal agreement, exceeded the deferred consideration and also demanded for security from the Group for future potential claims, and hence has withheld payment to the Group of the Consideration Receivable. To date, most of the major claims notified by the Purchaser have either been dismissed, resolved or settled for relatively insignificant amounts. However, the Directors are currently unable to determine with reasonable certainty the time ultimately required for the recovery of the Consideration Receivable and any legal or settlement costs that may be involved. Accordingly, the Directors are currently unable to determine whether a provision, if any, is required against the Consideration Receivable. Details of the circumstances relating to this fundamental uncertainty are described in note 12 to the interim financial report.

Fundamental uncertainties relating to the going concern basis

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in note 2 to the interim financial report which explain the circumstances giving rise to the fundamental uncertainties relating to:

- i. the satisfactory servicing of the milestone payments specified in the standstill agreement dated 4th September, 2002 during the standstill period in relation to two loans aggregating HK\$4,901.6 million as at 30th June, 2002;
- ii. the successful recovery of the Consideration Receivable;
- iii. the outcome of the proposed fund-raising arrangements through equity issues; and
- iv. the successful implementation of an asset disposal programme.

The interim financial report has been prepared on a going concern basis, the validity of which depends upon the successful outcome of implementation of the measures noted above. The interim financial report does not include any adjustments that would result from the failure of implementation of such measures. Details of the circumstances relating to these fundamental uncertainties are described in note 2 to the interim financial report.



Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2002.

Ernst & Young

Certified Public Accountants

Hong Kong
23rd September, 2002

