

HALF YEAR RESULTS

Condensed Consolidated Profit and Loss Account

		Six months ended 30th June, 2002 (Unaudited)	Six months ended 30th June, 2001 (Unaudited)
	Notes	HK\$'million	HK\$'million
TURNOVER	3	693.3	845.1
Cost of sales		(497.3)	(659.0)
Gross profit		196.0	186.1
Other revenue	4	16.9	114.7
Administrative expenses		(71.9)	(78.6)
Other operating expenses, net	5	(108.5)	(70.3)
PROFIT FROM OPERATING ACTIVITIES	3	32.5	151.9
Finance costs	6	(344.1)	(492.5)
Share of profits less losses of:			
Jointly controlled entity		–	(60.6)
Associates		3.3	(3.0)
LOSS BEFORE TAX		(308.3)	(404.2)
Tax	7	(0.6)	(1.8)
LOSS BEFORE MINORITY INTERESTS		(308.9)	(406.0)
Minority interests		103.8	154.9
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(205.1)	(251.1)
Loss per share (HK\$):	9		
Basic		(0.059)	(0.075)
Diluted		N/A	N/A



Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2002

	Share capital (Unaudited)	Share premium account (Unaudited)	Capital redemption reserve (Unaudited)	Capital reserve (Unaudited)	Revaluation reserves (Unaudited)	Exchange equalisation reserve (Unaudited)	Accumulated losses (Unaudited)	Total (Unaudited)
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1st January, 2002	332.7	888.4	4.4	3,325.9	53.9	(4.2)	(4,761.4)	(160.3)
Issue of new shares	25.0	-	-	-	-	-	-	25.0
Movement in fair value of long term investments	-	-	-	-	4.6	-	-	4.6
Release on disposal of ordinary shares in the listed subsidiary companies	-	-	-	(46.2)	0.4	0.2	-	(45.6)
Release on disposal of long term investments	-	-	-	-	2.5	-	-	2.5
Exchange realignments	-	-	-	-	-	0.7	-	0.7
Transfers	-	-	-	-	(1.7)	-	1.7	-
Net loss for the period	-	-	-	-	-	-	(205.1)	(205.1)
At 30th June, 2002	357.7	888.4	4.4	3,279.7	59.7	(3.3)	(4,964.8)	(378.2)

	Share capital (Unaudited)	Share premium account (Unaudited)	Capital redemption reserve (Unaudited)	Capital reserve (Unaudited)	Revaluation reserves (Unaudited)	Exchange equalisation reserve (Unaudited)	Accumulated losses (Unaudited)	Total (Unaudited)
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1st January, 2001:								
As previously stated	332.7	888.4	4.4	3,226.9	64.7	(3.2)	(2,958.7)	1,555.2
Prior year adjustment (Note)	-	-	-	156.5	-	-	(156.5)	-
As restated	332.7	888.4	4.4	3,383.4	64.7	(3.2)	(3,115.2)	1,555.2
Movement in fair value of long term investments	-	-	-	-	(2.5)	-	-	(2.5)
Release on disposal of ordinary shares in the listed subsidiary companies	-	-	-	(57.5)	(1.0)	0.1	-	(58.4)
Release on disposal of long term investments	-	-	-	-	14.2	-	-	14.2
Transfers	-	-	-	-	(2.4)	-	2.4	-
Net loss for the period	-	-	-	-	-	-	(251.1)	(251.1)
At 30th June, 2001	332.7	888.4	4.4	3,325.9	73.0	(3.1)	(3,363.9)	1,257.4

Note: The prior year adjustment represented losses arising from impaired goodwill, the accounting treatment of which was disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2001.

Condensed Consolidated Balance Sheet

		30th June, 2002 (Unaudited)	31st December, 2001 (Audited)
	Notes	HK\$'million	HK\$'million
NON-CURRENT ASSETS			
Fixed assets		11,292.2	11,497.8
Properties under development		50.1	50.1
Property held for future development		26.7	26.7
Interest in a jointly controlled entity		1,050.8	1,036.9
Interests in associates		274.5	260.9
Long term investments	11	329.0	161.3
Loans and other long term receivable	12	129.9	303.3
Intangible assets		1.7	2.5
Deferred expenditure		40.2	46.9
Other assets		0.2	0.3
Deposit for acquisition of interest in a hotel property		–	5.6
		<u>13,195.3</u>	<u>13,392.3</u>
CURRENT ASSETS			
Short term loans receivable		0.9	0.9
Short term investments		10.7	9.9
Properties under development		117.0	117.0
Properties held for sale		200.0	209.2
Hotel and other inventories		32.2	29.4
Debtors, deposits and prepayments	13	590.9	651.2
Pledged time deposits		3.8	3.8
Time deposits		149.4	169.8
Cash and bank balances		45.1	51.0
		<u>1,150.0</u>	<u>1,242.2</u>
CURRENT LIABILITIES			
Creditors and accruals	14	1,034.6	986.8
Tax payable		36.2	36.9
Interest bearing bank and other borrowings		2,150.8	2,197.8
Exchangeable bonds		1,004.9	1,004.9
Convertible bonds		1,620.8	1,620.8
Provision for premium on redemption of exchangeable bonds and convertible bonds		815.6	815.6
Deposits received		57.2	63.2
Provisions		312.3	298.5
		<u>7,032.4</u>	<u>7,024.5</u>
NET CURRENT LIABILITIES		(5,882.4)	(5,782.3)
TOTAL ASSETS LESS CURRENT LIABILITIES		7,312.9	7,610.0



Condensed Consolidated Balance Sheet (Cont'd)

	30th June, 2002 (Unaudited)	31st December, 2001 (Audited)
	HK\$'million	HK\$'million
TOTAL ASSETS LESS CURRENT LIABILITIES	7,312.9	7,610.0
NON-CURRENT LIABILITIES		
Interest bearing bank and other borrowings	(5,436.9)	(5,536.5)
Advances from minority shareholders of subsidiary companies	(39.5)	(38.6)
	(5,476.4)	(5,575.1)
MINORITY INTERESTS	(2,214.7)	(2,195.2)
	(378.2)	(160.3)
CAPITAL AND RESERVES		
Issued capital	357.7	332.7
Reserves	(735.9)	(493.0)
	(378.2)	(160.3)



Condensed Consolidated Cash Flow Statement

	Six months ended 30th June, 2002 (Unaudited)	Six months ended 30th June, 2001 (Unaudited and restated)
	HK\$'million	HK\$'million
Net cash inflow from operating activities	120.4	181.9
Net cash inflow/(outflow) from investing activities	196.6	(55.8)
Net cash outflow from financing activities	<u>(342.1)</u>	<u>(316.5)</u>
Decrease in cash and cash equivalents	(25.1)	(190.4)
Cash and cash equivalents at beginning of period	219.6	473.0
Effect of foreign exchange rate changes, net	<u>0.1</u>	<u>0.9</u>
Cash and cash equivalents at end of period	<u><u>194.6</u></u>	<u><u>283.5</u></u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	45.1	56.8
Non-pledged time deposits with original maturity of less than three months when acquired	149.4	229.8
Time deposits with original maturity of less than three months when acquired, pledged as security for general banking facilities	<u>3.8</u>	<u>—</u>
	198.3	286.6
Bank overdrafts	<u>(3.7)</u>	<u>(3.1)</u>
	<u><u>194.6</u></u>	<u><u>283.5</u></u>



Notes to Condensed Consolidated Financial Statements

1. Accounting Policies

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the Group's audited financial statements for the year ended 31st December, 2001, except the following new/revised SSAPs have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

• SSAP 1 (Revised)	:	"Presentation of Financial Statements"
• SSAP 11 (Revised)	:	"Foreign Currency Translation"
• SSAP 15 (Revised)	:	"Cash Flow Statements"
• SSAP 34	:	"Employee Benefits"

A summary of their major effects is as follows:

- (a) SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.
- (b) SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss accounts of subsidiary companies and associates operating in Mainland China and overseas are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements and the effect on the results of the current period is not significant.
- (c) SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.
- (d) SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This has had no major impact on these condensed consolidated financial statements.

In addition to the above, included in the long term investments as at 30th June, 2002 are held-to-maturity securities of HK\$132.0 million (note 11) which is recorded for the first time in the current period's condensed consolidated financial statements. The accounting policy for these held-to-maturity securities is as follows:

Held-to-maturity securities

Held-to-maturity securities are investments in dated debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition, less any impairment losses which reflect their credit risk.



2. Corporate Update and Basis of Presentation

As noted in the audited consolidated financial statements for the year ended 31st December, 2001, while continuing discussions were being maintained by the Company with the financial creditors of the Group, excluding Paliburg Holdings Limited (“PHL”) and its subsidiary companies, (the “CCIHL Group”), no consensual debt restructuring proposal has yet been agreed. The Company continues to work with its independent financial adviser with a view to formulating a consensual proposal for the restructuring of the CCIHL Group’s outstanding indebtedness with its financial creditors (the “Debt Restructuring”) in order to replace the existing informal standstill arrangement of the CCIHL Group.

As previously noted, PHL and its subsidiary companies, excluding Regal Hotels International Holdings Limited (“RHIHL”) and its subsidiary companies (the “RHIHL Group”), (the “PHL Group”) successfully concluded new bilateral facilities with the majority of the financial creditors to replace its informal standstill arrangement. The PHL Group is continuing discussions with the remaining financial creditor with a view to finalising a satisfactory bilateral facility arrangement (the “Bilateral Facility Arrangement”) in the near future.

As more fully explained in the audited financial statements for the year ended 31st December, 2001, the PHL Group’s exchangeable bonds and convertible bonds went into default or cross default in 2001. The total amount outstanding under these two bonds, including interest and accrued redemption premium, amounted to HK\$3,751.0 million as at 30th June, 2002. The PHL Group is now in the final stage of implementation of the proposed settlement of these two bonds (the “Settlement Proposal”), the details of which were contained in the circular dated 26th August, 2002. Certain major holders of the bonds have agreed in principle to support the proposal. Requisite shareholders’ approvals on the Settlement Proposal have already been obtained. The completion of the Settlement Proposal is subject to, among other things, the approval by the bondholders at the bondholders’ meetings to be held on 27th September, 2002.

As previously reported, certain of the RHIHL Group’s loan covenants for the maintenance of certain financial ratios, as specified in certain loan agreements, have not been complied with. The total outstanding loans affected in this respect amounted to HK\$4,901.6 million as at 30th June, 2002, comprising a syndicated loan of HK\$3,822.1 million and a construction loan of HK\$1,079.5 million (collectively, the “Loans”). In addition, certain principal repayment installments of the construction loan remained unpaid as at 30th June, 2002.

On 4th September, 2002, the RHIHL Group entered into a standstill agreement (the “Standstill Agreement”) with its principal bank creditors, including the lenders of the Loans (the “Lenders”), which became effective on 5th September, 2002 (the “Effective Date”). Under the terms of the Standstill Agreement:

- (i) cross collateralisation of certain existing security and additional security primarily over certain of the RHIHL Group’s operating entities have been provided as standstill security;
- (ii) previous breaches of covenants by the RHIHL Group under the Loans have been waived;
- (iii) the Lenders have agreed not to enforce any of their rights under the Loans within one year from the Effective Date or, if earlier, until early termination (exercisable in the event of payment defaults and at any time by the majority Lenders); and
- (iv) RHIHL has agreed to make certain milestone payments during the period when the Standstill Agreement is effective.

The directors of RHIHL believe that the Standstill Agreement is a positive indication of continuing support from the RHIHL Group’s principal bank creditors. The Standstill Agreement provides the RHIHL Group with time and financial stability to (i) improve the performance and hence the value of its core hotel assets; (ii) realise other non-hotel related receivables, including the US\$45.0 million (approximately HK\$351.0 million) deferred consideration plus interest in relation to the RHIHL Group’s disposal of its hotel interests in the United States of America in 1999 (the “Consideration Receivable”) (see note 13 for further details); and (iii) implement an asset disposal programme and complete the financing arrangements as further detailed below.

With a view to improving its cash flow and profitability, the RHIHL Group continues to work on the disposal of certain of its hotels and other non-core assets (the “Asset Disposal Programme”), so as to reduce its debt levels and to direct additional resources to its core hotel operations.



Furthermore, the RHIHL Group is also considering other financing arrangements, including the raising of additional working capital through equity issues or other financial instruments (the "Financing Arrangements"). In this regard, the RHIHL Group entered into a subscription agreement with an independent third party investor on 12th September, 2002 for the issue of convertible bonds (the "Subscription Agreement"), convertible into new ordinary shares of RHIHL, in a principal amount of HK\$50 million, with an option to the investor to subscribe, on same terms, for further convertible bonds in an additional principal amount of HK\$50 million. Completion of the Subscription Agreement is expected to occur on or before 26th September, 2002, subject to fulfillment of certain conditions precedent.

With respect to a term loan with outstanding principal as at 30th June, 2002 of CAD35.5 million (approximately HK\$183.1 million) and secured on the RHIHL Group's hotel property in Canada (the "Canada Loan"), certain principal repayment installments remained unpaid to date. However, no discretion has been exercised by the lender of the Canada Loan to declare the loan immediately due and repayable. On 3rd September, 2002, the RHIHL Group entered into a sale and purchase agreement for the disposal of its hotel property in Canada, completion of which is subject to, among other things, results of the due diligence review being satisfactory to the purchaser. If the disposal proceeds to completion which is scheduled for December 2002, net surplus proceeds will be derived after full repayment of the Canada Loan.

On the basis that the Debt Restructuring will be successful, having regard to the progress of the implementation of the Settlement Proposal and on the basis that the Bilateral Facility Arrangement will be successful, and further having regard to the Standstill Agreement and on the bases that the recovery of the Consideration Receivable, the implementation of the Asset Disposal Programme and the Financing Arrangements will be successful and hence the milestone payments in the Standstill Agreement will be met, the Directors are satisfied that it is appropriate to (i) prepare the interim condensed consolidated financial statements on a going concern basis; and (ii) classify the Loans as current and non-current liabilities in accordance with the terms in the Standstill Agreement.

3. Segment Information

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the property development and investment segment comprises the development and sale of properties and the leasing of office and commercial premises;
- (b) the property management segment is engaged in the provision of property management services;
- (c) the construction and construction-related segment is engaged in construction works contracts and construction-related businesses, including the provision of development consultancy and project management services and cement production;
- (d) the hotel ownership and management segment is engaged in hotel operation and the provision of hotel management services;
- (e) the brewery operations segment represents the Group's brewery operations in the PRC; and
- (f) the other segment mainly comprises the Group's securities trading, securities brokerage, financing, travel services, restaurant operations, florist and wedding services.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.



(b) Geographical segments

The following table presents revenue and profit/(loss) for the Group's geographical segments.

GROUP

	Hong Kong		USA		Canada		PRC		Eliminations		Consolidated	
	Six months ended 30th June, 2002 (Unaudited) (Unaudited)	Six months ended 30th June, 2001 (Unaudited) (Unaudited)	Six months ended 30th June, 2002 (Unaudited) (Unaudited)	Six months ended 30th June, 2001 (Unaudited) (Unaudited)	Six months ended 30th June, 2002 (Unaudited) (Unaudited)	Six months ended 30th June, 2001 (Unaudited) (Unaudited)	Six months ended 30th June, 2002 (Unaudited) (Unaudited)	Six months ended 30th June, 2001 (Unaudited) (Unaudited)	Six months ended 30th June, 2002 (Unaudited) (Unaudited)	Six months ended 30th June, 2001 (Unaudited) (Unaudited)	Six months ended 30th June, 2002 (Unaudited) (Unaudited)	Six months ended 30th June, 2001 (Unaudited) (Unaudited)
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment revenue:												
Sales to external customers	636.0	774.9	-	-	48.0	55.4	9.3	14.8	-	-	693.3	845.1
Segment results	118.0	138.1	(0.7)	(1.1)	(1.2)	1.4	(7.0)	(10.4)	-	-	109.1	128.0

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

	Six months ended 30th June, 2002 (Unaudited)	Six months ended 30th June, 2001 (Unaudited)
	HK\$'million	HK\$'million
Gain/(Loss) on disposal of listed investments, net	(58.8)	27.4
Loss on disposal of unlisted investments	(1.6)	–
Loss on sale of properties	(35.6)	(0.3)
	<u> </u>	<u> </u>

4. Other Revenue

Other revenue includes the following major items:

	Six months ended 30th June, 2002 (Unaudited)	Six months ended 30th June, 2001 (Unaudited)
	HK\$'million	HK\$'million
Interest income	9.2	33.2
Profit on disposal of ordinary shares in a listed subsidiary company arising from exchange of exchangeable bonds	–	64.7
	<u> </u>	<u> </u>

5. Other Operating Expenses, net

Other operating expenses, net, include the following major items:

	Six months ended 30th June, 2002 (Unaudited)	Six months ended 30th June, 2001 (Unaudited)
	HK\$'million	HK\$'million
Depreciation	28.4	30.7
Loss on disposal of long term listed investments	2.2	27.7
Loss on disposal of long term unlisted investments	1.6	–
Loss on disposal of ordinary shares in a listed subsidiary company	56.6	8.5
Loss on disposal of investment property	35.6	–
Write back of provision against other loan receivable	(19.1)	–
	<u> </u>	<u> </u>



6. Finance Costs

	Six months ended 30th June, 2002 (Unaudited)	Six months ended 30th June, 2001 (Unaudited)
	HK\$'million	HK\$'million
Interest in respect of:		
Bank loans and overdrafts	137.8	221.7
Other loans, exchangeable bonds and convertible bonds wholly repayable within five years	199.5	148.0
	<u>337.3</u>	<u>369.7</u>
Premium provided on exchangeable bonds and convertible bonds	–	104.4
	<u>337.3</u>	<u>474.1</u>
Interest capitalised in respect of property development projects and construction contracts	–	(2.1)
	<u>337.3</u>	<u>472.0</u>
Amortisation of deferred expenditure	6.7	9.7
Write off of deferred expenditure	–	10.0
Other loan costs	0.1	0.8
	<u>344.1</u>	<u>492.5</u>

7. Tax

	Six months ended 30th June, 2002 (Unaudited)	Six months ended 30th June, 2001 (Unaudited)
	HK\$'million	HK\$'million
The Group:		
Provision for tax in respect of profits for the period:		
Hong Kong	0.5	2.0
Overseas	0.1	0.2
	<u>0.6</u>	<u>2.2</u>
Prior year overprovisions:		
Hong Kong	–	(0.4)
	<u>–</u>	<u>(0.4)</u>
Tax charge for the period	<u>0.6</u>	<u>1.8</u>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16% (2001 - 16%) to the estimated assessable profits which were earned in or derived from Hong Kong during the period.

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.

No provision for tax is required for the associates or the jointly controlled entity as no assessable profits were earned by these associates or the jointly controlled entity during the period.

8. Transfer from Other Reserves

For the period under review, an amount of HK\$1.7 million (2001 - HK\$2.4 million) was transferred from reserves to accumulated losses.

9. Loss Per Share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$205.1 million (2001 - HK\$251.1 million) and on the weighted average of 3,505.3 million (2001 - 3,326.8 million) shares of the Company in issue during the period.

No diluted loss per share is presented for the periods ended 30th June, 2001 and 2002, as no diluting events existed during the periods.

10. Dividend

The Directors have resolved not to declare the payment of any interim dividend for the financial year ending 31st December, 2002 (2001 - nil).

11. Long Term Investments

Included in the long term investments is an amount of HK\$118.9 million (31st December, 2001 - HK\$118.9 million) which represents the PHL Group's investments of 23% interest each in two sino-foreign joint venture companies (collectively, the "Investee Companies") in Beijing, The People's Republic of China (the "PRC"). As disclosed in the PHL Group's prior years' audited consolidated financial statements, a land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing in 2000 on grounds of its prolonged idle condition. The PHL Group and the other parties concerned have been undergoing negotiations with the relevant PRC government authorities with a view to safeguarding the Investee Companies' interest in the land site. During 2001, an impairment loss of HK\$180.0 million was made against the investments by reference to an independent valuation of the hotel portion of the land site, for which the PHL Group can exchange its entire interests in the Investee Companies in accordance with the agreed terms pursuant to a contractual arrangement made with certain independent third parties. While there has been progress in the negotiations, in the opinion of the directors of PHL, it is still not possible to determine at this stage with reasonable certainty the ultimate outcome of the negotiations and hence any further provision required to be made against the PHL Group's investments in the Investee Companies.

Also included in the current period balance is a 3-year convertible note with a carrying value of HK\$132.0 million issued by a borrower to the RHIHL Group in settlement of certain promissory notes receivable (note 12). The convertible note is classified as held-to-maturity securities and will otherwise be due in 2005 (the "Initial Maturity Date") (subject to an extension for further 2 years due 2007 (the "Final Maturity Date") upon fulfillment of certain conditions), bears interest at 3% per annum from the date of issue of the note to the Initial Maturity Date and is convertible into shares of the issuer during the period from the Initial Maturity Date to the Final Maturity Date. The accounting policy in respect of held-to-maturity securities is set out in note 1 to these condensed consolidated financial statements.

12. Loans and Other Long Term Receivable

Included in the prior year balance were promissory notes receivable in an aggregate amount, net of provision, of HK\$168.0 million which were repayable on demand. On 7th March, 2002, a settlement agreement was entered into between the RHIHL Group and the borrowers, under which the promissory notes together with the interest accrued thereon were settled and satisfied by (i) a cash payment of HK\$36.0 million; and (ii) a 3-year convertible note with a face value of HK\$132.0 million issued by one of the borrowers (note 11).



13. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK\$107.3 million (31st December, 2001 - HK\$163.0 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	30th June, 2002 (Unaudited)	31st December, 2001 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	92.1	112.9
Between 4 to 6 months	3.2	7.2
Between 7 to 12 months	6.7	5.3
Over 1 year	27.7	56.8
	<hr/>	<hr/>
	129.7	182.2
Provisions	(22.4)	(19.2)
	<hr/>	<hr/>
	107.3	163.0
	<hr/> <hr/>	<hr/> <hr/>

Debtors, deposits and prepayments of the RHIHL Group also include a receivable amount of approximately HK\$400.1 million, comprising (i) deferred consideration of US\$45.0 million (approximately HK\$351.0 million) (the "Deferred Consideration") which arose in connection with the RHIHL Group's disposal of its hotel interests in the United States of America ("USA") in December 1999 (the "Disposal"); and (ii) interest aggregating HK\$49.1 million accrued thereon (collectively, the "Consideration Receivable"). Pursuant to the terms of the securities purchase agreement dated 18th November, 1999 (the "SP Agreement") entered into between the RHIHL Group and the purchaser (the "Purchaser") in respect of the Disposal, the Consideration Receivable was due to be paid by the Purchaser on the second anniversary of the completion date of the Disposal i.e. on 17th December, 2001.

The SP Agreement contains certain indemnifications given by the RHIHL Group which cover, inter alia, liabilities for third party claims relating to events/conditions which existed prior to the completion of the Disposal (the "Pre-closing Liabilities"). As disclosed in the audited consolidated financial statements for 2001, the RHIHL Group has been notified by the Purchaser of certain indemnity claims, allegedly related to the Pre-closing Liabilities for third party legal claims, indemnifiable by the RHIHL Group under the SP Agreement. The Purchaser alleged that the aggregate amount of these potential claims exceeded the Deferred Consideration and also demanded for security from the RHIHL Group for future potential claims, and has withheld payment to the RHIHL Group of the Consideration Receivable. The RHIHL Group has retained an independent law firm to review the litigation cases underlying the third party claims and the related indemnity claims and the demand for security made by the Purchaser. To date, most of the major claims notified by the Purchaser have either been dismissed, resolved or settled for relatively insignificant amounts. Moreover, the RHIHL Group's legal advisers have also advised the RHIHL Group that the demand for security by the Purchaser is legally unfounded. The RHIHL Group intends to initiate appropriate recovery action against the Purchaser based on the claims resolved and/or settled.

Based on the legal advice obtained, additional amount within the Consideration Receivable should be released to the RHIHL Group as and when further third party legal claims are resolved. However, given the inherent complication associated with any litigation proceedings in the USA, the directors of RHIHL 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 of RHIHL are currently unable to determine whether a provision, if any, is required against the Consideration Receivable.

Credit Terms

Trade debtors, which generally have credit terms of 30 to 90 days, are recognised and carried at their original invoiced amounts less provisions for doubtful debts which are made when collection of the full amounts is no longer probable. Bad debts are written off as incurred.

14. Creditors and Accruals

Included in the balance is an amount of HK\$88.8 million (31st December, 2001 - HK\$110.9 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	30th June, 2002 (Unaudited)	31st December, 2001 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	71.6	84.3
Between 4 to 6 months	5.4	3.6
Between 7 to 12 months	1.4	1.4
Over 1 year	10.4	21.6
	<u>88.8</u>	<u>110.9</u>

15. Related Party Transactions

The Group had the following material related party transactions during the period:

	Six months ended 30th June, 2002 (Unaudited)	Six months ended 30th June, 2001 (Unaudited)
	HK\$'million	HK\$'million
Advertising, promotion and information technology service fees (including cost reimbursements) paid to an associate	5.7	9.0
Interest on loans to associates	3.8	5.7
Guarantees given in respect of a banking facility granted to a jointly controlled entity	2,310.0	2,310.0
Guarantee given in respect of a banking facility granted to an associate	-	109.0
	<u>-</u>	<u>109.0</u>

The nature and terms of the above related party transactions are similar to those disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2001.



16. Pledge of Assets

At 30th June, 2002, certain of the Group's time deposits, listed investments, fixed assets including properties and equipment, properties under development, inventories and receivables with a total carrying value of HK\$12,159.7 million (31st December, 2001 - HK\$12,160.0 million) and certain ordinary shares in two listed subsidiary companies and the shares held in a jointly controlled entity were pledged to secure general banking facilities granted to the Group and the jointly controlled entity and to secure exchange rights under the exchangeable bonds issued by the PHL Group.

Apart from the above pledge of assets, at 30th June, 2002, the sale proceeds in respect of the RHIHL Group's properties held for sale were assigned to certain banks to secure a loan facility granted to the RHIHL Group.

17. Contingent Liabilities

At 30th June, 2002, the Group had the following contingent liabilities:

	30th June, 2002 (Unaudited)	31st December, 2001 (Audited)
	HK\$'million	HK\$'million
(a) Corporate guarantees provided in respect of the attributable share of an outstanding bank loan of a jointly controlled entity	<u>1,838.0</u>	<u>1,757.7</u>
(b) At the balance sheet date, certain employees of the Group had completed the required number of years of service under the Employment Ordinance (the "Ordinance") to be eligible for long service payments upon termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstance specified in the Ordinance. If the termination of such employees met the circumstances required by the Ordinance, the Group's liability at the balance sheet date, after deducting the attributable asset balance of the employer's contribution to the Mandatory Provident Fund, would have increased by approximately HK\$14.7 million. No provision has been made for this amount in the interim condensed consolidated financial statements.		
(c) As described in note 13 to the interim condensed consolidated financial statements, on 18th November, 1999, the RHIHL Group entered into a securities purchase agreement (the "SP Agreement") with an independent party (the "Purchaser") with respect to the disposal by the RHIHL Group to the Purchaser of its interests in hotel ownership and hotel management in the United States of America.		

The SP Agreement contains representations, warranties and indemnification given by the RHIHL Group which are normal and usual for transactions of similar nature. At the date of this report, save for amounts ascertained and provided for in prior years' financial statements, the directors of RHIHL are unable either to assess the likelihood of the crystallisation of any contingent liabilities or to estimate the amounts thereof with reasonable accuracy.

18. Operating Lease Arrangements

(a) As lessor

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 5 years. The terms of the leases generally also require the tenants to pay security deposits and in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At 30th June, 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30th June, 2002 (Unaudited)	31st December, 2001 (Audited)
	HK\$'million	HK\$'million
Within one year	104.9	125.4
In the second to fifth years, inclusive	112.9	119.5
	<u>217.8</u>	<u>244.9</u>

During the period, the Group recognised HK\$0.1 million (2001 - HK\$0.4 million) in respect of contingent rental receivable.

(b) As lessee

The Group leases certain of its office equipment under operating lease arrangements. Leases for office equipment are negotiated for terms ranging from 5 months to 9 years.

At 30th June, 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2002 (Unaudited)	31st December, 2001 (Audited)
	HK\$'million	HK\$'million
Other equipment:		
Within one year	3.8	3.9
In the second to fifth years, inclusive	0.7	1.2
	<u>4.5</u>	<u>5.1</u>



19. Commitments

In addition to the operating lease commitments detailed in note 18(b) above, the Group had the following outstanding capital commitments:

	30th June, 2002 (Unaudited)	31st December, 2001 (Audited)
	HK\$'million	HK\$'million
Capital commitments in respect of acquisition of interests in a hotel property in The People's Republic of China:		
Authorised and contracted for	–	3.4
Capital commitments in respect of the renovation or improvement of hotel properties:		
Authorised and contracted for	26.5	22.2
Authorised, but not contracted for	38.5	51.4
	<u>65.0</u>	<u>73.6</u>
Capital commitments in respect of a property development project:		
Authorised and contracted for	9.0	2.4
Authorised, but not contracted for	21.7	28.3
	<u>30.7</u>	<u>30.7</u>
	<u>95.7</u>	<u>107.7</u>



20. Post Balance Sheet Events

Subsequent to the balance sheet date, in addition to the events detailed elsewhere in the interim condensed consolidated financial statements, the Group entered into the following significant transactions/agreements:

- (a) In July 2002, a total of 240 million new shares (“Consideration Shares”) of the Company were allotted, issued and credited as fully paid to nominees of Prism Communications International Limited (“Prism”) at HK\$0.10 per Consideration Share in satisfaction of the consideration for the subscription by Expert Link Technology Limited, a wholly-owned subsidiary company of the Company, 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 dated 18th February, 2002 made between, inter alia, the Company and Prism.

- (b) On 2nd August, 2002, RHIHL entered into a sale and purchase agreement with PHL and Paliburg Development BVI Holdings Limited, a wholly-owned subsidiary company of PHL, for the acquisition of its 40% interest in a property development project at Stanley, Hong Kong, in which the RHIHL Group has an existing 30% interest (the “Stanley Transfer”).

The consideration for the acquisition is HK\$470 million which will be satisfied by the issuance of 1,958.3 million ordinary shares at HK\$0.24 each. The Stanley Transfer, details of which were contained in the circular dated 26th August, 2002, has been approved by the respective independent shareholders of RHIHL, PHL and the Company at their respective special general meetings held on 18th September, 2002.

- (c) On 2nd August, 2002, PHL entered into an agreement with Venture Perfect Investments Limited (“VPI”) and the shareholders of VPI (the “Vendors”) for the acquisition of the entire equity interest in VPI, including taking the benefit of an option to acquire all or part of the 50% equity interest owned by one of the Vendors in Leading Technology Holdings Limited (“LTH”), the remaining 50% equity interest of which is owned by VPI (the “Paliburg Acquisition”).

The Vendors are connected persons (as defined in the Listing Rules) of the Company and PHL. The assets of the VPI group currently comprise a 50% equity interest in LTH and cash deposits of approximately HK\$70 million. LTH and its subsidiary companies are principally engaged in the design, development, integration and distribution of security and building related systems, software and products in the Greater China region.

The consideration for the Paliburg Acquisition is HK\$345 million (subject to a maximum of HK\$475 million for any new placing of shares by VPI for cash prior to the completion of the Paliburg Acquisition) which will be satisfied by PHL by the issuance of 3,450 million (subject to a maximum of 4,750 million) convertible preference shares at HK\$0.10 each (the “Paliburg Convertible Preference Shares”). Each Paliburg Convertible Preference Share can be converted into an ordinary share of PHL (subject to adjustment) within three years after completion of the Paliburg Acquisition and the conversion will become mandatory after the three year period.

Further details of the Paliburg Acquisition were contained in the circular dated 26th August, 2002. At the special general meeting of PHL held on 18th September, 2002, a poll has been demanded in respect of the resolution on the Paliburg Acquisition, which will be taken on 2nd October, 2002.

- (d) On 2nd August, 2002, the Company entered into a share swap agreement with the Vendors and Almighty International Limited, a company controlled by Mr. Lo Yuk Sui and which will hold up to 3,750 million Paliburg Convertible Preference Shares to be acquired under the Paliburg Acquisition (the “Share Swap Agreement”). Under the Share Swap Agreement, the Company may, subject to certain conditions, effectively acquire up to a maximum of 3,750 million Paliburg Convertible Preference Shares or PHL ordinary shares (subject to adjustment) so converted pursuant to the Paliburg Convertible Preference Shares, by the issuance of up to a maximum of 15,000 million ordinary shares of the Company.

Further details of the Share Swap Agreement were contained in the circular dated 26th August, 2002. The Share Swap Agreement is subject to, among other things, the approval of the Company’s independent shareholders at a special general meeting to be held on 2nd October, 2002, as adjourned.

