

REVIEW AND OUTLOOK

For the six months ended 30th June, 2001, the Group incurred an unaudited consolidated net loss attributable to shareholders of HK\$251.1 million, as compared with a net profit of HK\$113.6 million in the same period last year. However, it should be noted that the comparative figure for 2000 included a gain of HK\$340.4 million due to a write back of provision for indemnity given.

The Company is in continuous discussions with its financial creditors with a view to maintaining in place the present informal standstill. As the Company's debt restructuring proposal will, to a large extent, be dependent on the successful outcome of the negotiations between Paliburg Holdings Limited and its bondholders on the settlement of the two outstanding bonds, no substantive progress on the Company's restructuring proposal has yet been able to be achieved.

As mentioned in the Chairman's Report dated 17th April, 2001, the conditions precedent to the first exercise of the call option and the put option with respect to the Company's possible participation in the information technology project under Century Digital Enterprise Limited have been fulfilled to the reasonable satisfaction of the parties involved. Up to date, no option has been exercised by either party. Having regard to the change in market environment affecting the information technology sector, the Company is reviewing its position with respect to its proposed participation in this project.

Due to the continually contracting trading volume in the Hong Kong stock market, it has now become more difficult to sustain the business viability of the Group's stock brokerage operations. Accordingly, the Group has recently entered into a conditional agreement for the sale of its entire interests in Century City Brokerage Limited and Century City Futures Limited, both presently wholly-owned subsidiaries of the Company. The sale of these operating businesses is not expected to cause any material profit and loss impact in the current financial year.

During the period under review, Paliburg reported an unaudited consolidated net loss attributable to shareholders of HK\$258.2 million, as compared with a net loss of HK\$279.0 million in the corresponding period in 2000. The loss incurred was mainly attributable to the relatively high level of finance costs and the non-capitalisation of interest expenses related to Paliburg group's joint venture interests in the Stanley project.

In February this year, Paliburg defaulted in the payment of its exchangeable bonds, which caused cross-default to the convertible bonds. Through its financial advisers, Paliburg is in active negotiations with the representatives of the bondholders, with a view to settling a consensual proposal for the settlement of the two outstanding bonds. On the other hand, the contemplated bilateral arrangements by Paliburg with its other financial creditors have now mostly been agreed in principle or are being finalised.

As an alternative initiative by Paliburg to resolving its financial difficulties, Paliburg has engaged during the earlier few months in negotiations with an independent third party on possible disposal of its assets, including its interests in Regal Hotels International Holdings Limited. However, due to various outstanding issues, such negotiations have not advanced. Brief information on these negotiations was disclosed in the Company's joint announcements published earlier.

In April 2001, Paliburg entered into an agreement with a third party purchaser for the sale of the property at 361 Shau Kei Wan Road, Shau Kei Wan for HK\$100 million. The purchaser under that agreement did not proceed to completion as scheduled and the deposit of HK\$10 million paid thereunder was forfeited. This property was subsequently sold at a consideration of HK\$90 million in June 2001. To meet liquidity requirements, Paliburg will continue to dispose of various selected assets.



Paliburg and Regal respectively owns a 40% and 30% interest in the luxury residential project at Wong Ma Kok Road in Stanley. Financing costs related to this project have not been capitalised during the period under review due to the continued suspension of construction works. Negotiations with the lenders on the resumption of draw down under the original construction facility are at an advanced stage, and it is hopeful that the requisite construction works could be recommenced shortly. Although the market condition for the overall property sector in Hong Kong remains weak at present, it is believed that when the overall economy recovers and the investors' confidence restored, there will be adequate demand for the luxury house units comprised in the development, as supply of house accommodation in the Hong Kong Island South district is relatively limited.

Average rental rates for Paliburg Plaza and Kowloon City Plaza in the first half year were comparatively lower than that in the last corresponding period, but average occupancy levels were still maintained at a relatively satisfactory level.

For the six months ended 30th June, 2001, Regal incurred an unaudited consolidated net loss attributable to shareholders of HK\$167.9 million (2000 - HK\$99.2 million). As the interim results of Regal in 2000 included a profit of HK\$67.5 million derived from the disposal of an associate, the loss reported for the current period was comparatively higher than that of last year.

Due to the slowdown in most major economies, performance of the tourism business in Hong Kong during the period under review fell short of earlier expectations. In the first six months, hotel room occupancy in Hong Kong in 2001 declined by 4.9% as compared with last year, but average achieved hotel room rate has gained by 8.3%.

The Regal Airport Hotel has substantially been in full operation since the beginning of this year. As compared with the corresponding period in 2000, the average occupancy of this hotel during the period under review has improved by 8.5%, despite the enlarged room count, while average room rate was maintained at about the same level last year. With its unique location, special design, superb facilities and fine services, the Regal Airport Hotel is gaining increasing recognition as one of the best airport hotels in the world. As for the other four Regal Hotels in Hong Kong, an improvement of 2.6% in the combined average occupancy and 4.2% in the combined average room rate was achieved during the same comparative periods.

The half-year results attained by the Regal Constellation Hotel in Toronto was lower than anticipated. However, overall business at the two managed hotels in Shanghai, China has improved.

In order to alleviate its relatively high level of interest burden, Regal is actively working on the disposal of some of its non-core assets. Furthermore, Regal is also actively exploring options to raise additional funds through refinancing or equity issues.

The HKSAR Government has recently announced major initiatives to boost the local tourism with the addition of various new tourist attractions, apart from the Disney World in the Lantau Island now under construction. The accession of China into WTO and the holding of the 2008 Olympics in Beijing are expected to create immense business and tourist traffic to China over the next few years and Hong Kong will surely stand to benefit as the gateway city to the Mainland.

With these favourable factors in the backdrop, the hotel business in Hong Kong in the medium term should see some recovery, but the impact on world economy due to the recent tragic incident in New York is casting a significant degree of uncertainty. However, Regal will keep a close review of its business strategy with a view to coping with and responding promptly to any changes in the hotel market condition.



In the meantime, Paliburg is actively working towards an overall plan to stabilise its financial position. If a consensual settlement proposal could be reached with the bondholders, other stabilising initiatives by Paliburg should be able to be worked out progressively.

While every possible effort will be used to secure an overall restructuring for the entire Century City Group, the successful outcome of such restructuring will ultimately depend on the continuing support of the relevant creditor groups at different levels.

By Order of the Board

LO YUK SUI

Chairman

Hong Kong, 20th September, 2001