# HALF YEAR RESULTS

## *Condensed Consolidated Profit and Loss Account*

| | Notes | Six months ended 30th June, 2001 (Unaudited) HK$'million | Six months ended 30th June, 2000 (Unaudited and restated) HK$'million |
|---|---|---|---|
| TURNOVER | 3 & 4 | **845.1** | 937.4 |
| Cost of sales | 3 | **(659.0)** | (750.4) |
| Gross profit | | **186.1** | 187.0 |
| Other revenue | 5 & 6 | **114.7** | 63.8 |
| Gain on disposal of an overseas associate | | **–** | 58.0 |
| Administrative expenses | | **(78.6)** | (83.5) |
| Other operating income/(expenses), net | 6 | **(70.3)** | 296.7 |
| PROFIT FROM OPERATING ACTIVITIES | 4 | **151.9** | 522.0 |
| Finance costs | 7 | **(492.5)** | (466.6) |
| Share of profits less losses of: | | | |
| Jointly controlled entity | | **(60.6)** | (71.2) |
| Associates | | **(3.0)** | (0.2) |
| LOSS BEFORE TAX | | **(404.2)** | (16.0) |
| Tax | 8 | **(1.8)** | (11.0) |
| LOSS BEFORE MINORITY INTERESTS | | **(406.0)** | (27.0) |
| Minority interests | | **154.9** | 140.6 |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | **(251.1)** | 113.6 |
| Earnings/(Loss) per share (HK$): | 10 | | |
| Basic | | **(0.075)** | 0.035 |
| Diluted | | **N/A** | N/A |

## *Condensed Consolidated Statement of Recognised Gains and Losses*

| | Note | Six months ended 30th June, 2001 (Unaudited) HK$'million | Six months ended 30th June, 2000 (Unaudited) HK$'million |
|---|---|---|---|
| Surplus/(Deficit) on revaluation of long term equity investments | | **(2.5)** | 0.8 |
| Exchange difference on translation of the financial statements of foreign entities | | **–** | (4.6) |
| Gain on deemed disposal of the Group's interest in a listed subsidiary company | | **–** | 2.5 |
| Net losses not recognised in the profit and loss account | | **(2.5)** | (1.3) |
| Net profit/(loss) from ordinary activities attributable to shareholders | | **(251.1)** | 113.6 |
| Total recognised gains and losses | | **(253.6)** | 112.3 |
| Share of goodwill of an associate eliminated directly against reserves | | **–** | (10.0) |
| | | **(253.6)** | 102.3 |

*Note on prior year adjustment:*

| | Note | |
|---|---|---|
| Total recognised gains and losses related to the current period as above | | (253.6) |
| Prior year adjustment – given effect as to restatement of the profit and loss account for the year ended 31st December, 2000 | 1(f) | (156.5) |
| Total recognised gains and losses since the last annual report | | (410.1) |

## *Condensed Consolidated Balance Sheet*

| | Notes | 30th June, 2001 (Unaudited) HK$'million | 31st December, 2000 (Audited and restated) HK$'million |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | | **13,728.7** | 13,729.7 |
| Properties under development | | **58.1** | 58.1 |
| Properties held for future development | | **26.7** | 26.7 |
| Interest in a jointly controlled entity | | **1.048.4** | 1,073.5 |
| Interests in associates | | **263.8** | 249.0 |
| Long term investments | 12 | **428.0** | 452.0 |
| Loans and other long term receivables | | **362.5** | 370.0 |
| Intangible assets | | **6.6** | 7.0 |
| Deferred expenditure | | **53.7** | 73.4 |
| Other assets | | **2.5** | 2.5 |
| Deposit for acquisition of interest in a hotel property | | **5.6** | 2.5 |
| | | **15,984.6** | 16,044.4 |
| CURRENT ASSETS | | | |
| Short term loans receivable | | **0.9** | 0.9 |
| Short term investments | | **18.4** | 27.7 |
| Properties under development | | **156.0** | 156.0 |
| Properties held for sale | | **166.9** | 279.6 |
| Hotel and other inventories | | **47.0** | 41.2 |
| Debtors, deposits and prepayments | 13 | **711.7** | 724.9 |
| Pledged time deposits | | **121.2** | 122.1 |
| Time deposits | | **229.8** | 409.8 |
| Cash and bank balances | | **56.8** | 66.9 |
| | | **1,508.7** | 1,829.1 |
| CURRENT LIABILITIES | | | |
| Creditors and accruals | 14 | **1,267.6** | 1,201.0 |
| Tax payable | | **54.7** | 61.7 |
| Interest bearing bank and other borrowings | | **1,812.3** | 1,882.1 |
| Exchangeable bonds | | **1,004.9** | 1,090.3 |
| Convertible bonds | | **1,620.8** | 1,638.0 |
| Provision for premium on redemption of exchangeable bonds and convertible bonds | | **859.5** | 779.2 |
| Deposits received | | **72.6** | 73.2 |
| | | **6,692.4** | 6,725.5 |
| NET CURRENT LIABILITIES | | **(5,183.7)** | (4,896.4) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **10,800.9** | 11,148.0 |

## *Condensed Consolidated Balance Sheet (Continued)*

| | Note | 30th June, 2001 (Unaudited) HK$'million | 31st December, 2000 (Audited and restated) HK$'million |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **10,800.9** | 11,148.0 |
| NON-CURRENT LIABILITIES | | | |
| Interest bearing bank and other borrowings | | **(5,937.9)** | (5,957.8) |
| Advances from minority shareholders of subsidiary companies | | **(37.6)** | (36.4) |
| | | **(5,975.5)** | (5,994.2) |
| Minority interests | | **(3,568.0)** | (3,598.6) |
| | | **1,257.4** | 1,555.2 |
| CAPITAL AND RESERVES | | | |
| Issued capital | | **332.7** | 332.7 |
| Reserves | 15 | **924.7** | 1,222.5 |
| | | **1,257.4** | 1,555.2 |

## *Condensed Consolidated Cash Flow Statement*

| | Six months ended 30th June, 2001 (Unaudited) |
|---|---|
| | HK$'million |
| Net cash inflow from operating activities | 190.8 |
| Returns on investments and servicing of finance | (191.2) |
| Taxation | (8.9) |
| Investing activities | (87.4) |
| Net cash outflow before financing | (96.7) |
| Financing | (93.7) |
| Decrease in cash and cash equivalents | (190.4) |
| Cash and cash equivalents at beginning of period | 473.0 |
| Effect of foreign exchange rate changes, net | 0.9 |
| Cash and cash equivalents at end of period | 283.5 |
| Analysis of balances of cash and cash equivalents | |
| Cash and bank balances | 56.8 |
| Time deposits with original maturity of less than three months when acquired | 229.8 |
| | 286.6 |
| Bank overdrafts | (3.1) |
| | 283.5 |

## *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"), except that the comparative cash flow statement for the six months ended 30th June, 2000 has not been prepared as permitted under the transitional provisions set out in 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, 2000, 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 9 (revised) | Events after the balance sheet date |
| • SSAP 14 (revised) | Leases |
| • SSAP 28 | Provisions, Contingent Liabilities and Contingent Assets |
| • SSAP 29 | Intangible Assets |
| • SSAP 30 | Business Combinations |
| • SSAP 31 | Impairment of Assets |
| • SSAP 32 | Consolidated Financial Statements and Accounting for Investments in Subsidiaries |

A summary of their major effects is as follows:

(a) SSAP 9 (revised) prescribes the accounting treatment and disclosures for events occurring after the balance sheet date. This has had no major impact on these financial statements.

(b) SSAP 14 (revised) prescribes the accounting treatment and disclosures for leases and hire purchase contracts. This SSAP has been applied prospectively. This has had no major impact on these financial statements; however, the disclosures for commitments under non-cancellable operating leases have been changed. In prior years, operating lease commitments were disclosed as payments committed to be made during the next year, analysed between those in which the commitment would expire within that year; in the second to fifth years, inclusive; and over five years. In the current period, the disclosure has been changed to the total of the future minimum lease payments under non-cancellable operating leases analysed into those not later than one year; later than one year and not later than five years; and later than five years. Disclosures as required are set out in note 19 to these financial statements.

(c) SSAP 28 prescribes the accounting treatment and disclosures for provisions, contingent liabilities and contingent assets. This has had no major impact on these financial statements.

(d) SSAP 29 prescribes the accounting treatment and disclosures of intangible assets. This has had no major impact on these financial statements.

(e) SSAP 30 prescribes the accounting treatment and disclosures for business combinations.

In prior years, goodwill/negative goodwill arising on consolidation of subsidiary companies and on acquisition of associates, representing the excess/shortfall of the cost of investments in subsidiary companies and associates over the appropriate share of the fair value of the net tangible assets at the date of acquisition, was taken to reserves in the year in which it arose. On disposal of a subsidiary company or an associate, the attributable amount of goodwill/negative goodwill is included in calculating the profit or loss on disposal.

With effect from 1st January, 2001, with the introduction of SSAP 30 "Business Combinations", the Group adopted an accounting policy to recognise goodwill as an asset which is amortised on a straight-line basis over its estimated useful life. Negative goodwill which relates to an expectation of future losses and expenses that is identified in the plan of acquisition and can be measured reliably, but which has not yet been recognised, is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the profit and loss account. On disposal of a consolidated controlled enterprise, any attributable amount of purchased goodwill not previously amortised through the profit and loss account is included in the calculation of the profit or loss on disposal.

The Group has taken advantage of the transitional provisions in SSAP 30 and the goodwill/negative goodwill that arose from acquisitions prior to 1st January, 2001, which has been previously eliminated against/taken to reserves, has not been retrospectively restated under the new accounting policy. Therefore, goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be charged to the profit and loss account at the time of disposal of the subsidiary companies/associates, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be credited to the profit and loss account at the time of disposal of the relevant subsidiary companies/associates.

(f) SSAP 31 requires enterprises to consider whether assets are carried in excess of their recoverable amounts and prescribes the accounting treatment for any resulting impairment losses. This also applies to goodwill eliminated against reserves in accordance with the provisions of Interpretation 13 issued by the HKSA. As the Group had not previously followed a policy of recognising impairment losses in respect of goodwill written off against reserves, implementation of SSAP 31 is treated as a change in accounting policy in accordance with SSAP 2 and is applied retrospectively in accordance with the transitional provisions of SSAP 30 and the comparatives presented have been restated to conform to the change of accounting policy.

The Group has performed an assessment of the fair value of its assets, including the related goodwill that had previously been charged to reserves. As a result, the goodwill arising from the acquisitions of certain subsidiary companies in 1998 was determined to have been impaired as at 31st December, 2000. The effect of this change in the accounting policy is to increase the accumulated losses and the capital reserve as at 1st January, 2001 by HK$156.5 million. There is no attributable tax effect in respect of the prior year adjustments.

(g) SSAP 32 prescribes the accounting treatment and disclosures in the preparation and presentation of consolidated financial statements. This has had no major impact on these financial statements.

## 2. Corporate Update and Basis of Presentation

As more fully explained in the audited consolidated financial statements for the year ended 31st December, 2000, the Group, including Paliburg Holdings Limited ("PHL"), a listed subsidiary company of the Group, and its subsidiary companies ("PHL Group"), has been encountering liquidity problem since October 1998. The Group continues to work with its financial adviser with a view to replacing the existing informal standstill arrangement with its financial creditors by a debt restructuring and/or settlement proposal (the "Debt Restructuring"). However, the Debt Restructuring will, to a significant extent, depend on the successful outcome of the Bonds Settlement which is further explained below.

In February this year, PHL Group defaulted in the payment of the exchangeable bonds, which caused cross-default to the convertible bonds. The total amount outstanding under the two bonds, including premium and interest payable, amounted to approximately HK$3,557.2 million as at 30th June, 2001. PHL Group is in active negotiations with the bondholders with a view to settling a consensual proposal for the settlement of the two outstanding bonds (the "Bonds Settlement"). On the other hand, the contemplated bilateral arrangements with PHL Group's other financial creditors have now mostly been agreed in principle or are being finalised (the "Bilateral Facilities Arrangements").

As previously disclosed, certain loan covenants of Regal Hotels International Holdings Limited ("RHIHL"), another listed subsidiary company of the Group, and its subsidiary companies ("RHIHL Group") for the maintenance of financial ratios under certain loan agreements have not been complied with. The total outstanding loans (the "Loans") affected in this manner amounted to HK$4,901.6 million as at 30th June, 2001. RHIHL Group continues to hold discussions with the lenders of the Loans with a view to securing their on-going support and their agreement to not exercising their rights to declare the Loans immediately due and repayable. Despite such non-compliance, to date, no notice (the "Declaration Notice") has been served to RHIHL Group to declare the Loans immediately due and repayable.

In order to improve its cash flow and financial position, PHL Group, including RHIHL Group, is actively working on the disposal of certain of its identified assets (the "Disposals"). Furthermore, RHIHL Group is also considering alternative financing arrangements including, but not limited to, (i) negotiating with certain potential lenders with respect to a refinancing arrangement for certain of the Loans; and (ii) obtaining additional working capital funds through equity issues (collectively, the "Financing Arrangements").

On the bases that the Debt Restructuring, the Bonds Settlement, the Bilateral Facilities Arrangements, the Disposals and the Financing Arrangements will be successful, and no Declaration Notice will be served to RHIHL Group, the Directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to prepare the interim condensed consolidated financial statements on a going concern basis.

### 3. Turnover

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 period under review, the Group considered it more appropriate to include the service charges in the Group's turnover, to be in line with accounting practice in hotel industry. The comparative amounts of turnover and cost of sales have been restated to conform to the current period presentation.