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.

4. Segment Information

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and by geographical location is as follows:

	Turnover Six months ended 30th June, 2001 (Unaudited)	Turnover Six months ended 30th June, 2000 (Unaudited and restated)	Contribution Six months ended 30th June, 2001 (Unaudited)	Contribution Six months ended 30th June, 2000 (Unaudited)
	HK$'million	HK$'million	HK$'million	HK$'million
By activity:				
Property investment and management	**104.0**	111.7	**49.8**	44.6
Property development	**113.3**	27.3	**(3.3)**	(4.8)
Construction and construction-related businesses	**75.5**	224.8	**(0.8)**	(2.0)
Development consultancy and project management	**–**	-	**(2.3)**	(8.1)
Hotel ownership and management	**510.8**	493.9	**62.3**	61.1
Other operations and investments	**41.5**	79.7	**46.2**	431.2
	845.1	937.4	**151.9**	522.0
By geographical location:				
Hong Kong	**774.6**	856.6	**159.2**	467.4
U.S.A.	**–**	-	**–**	58.0
Canada	**55.4**	63.1	**–**	3.9
Others	**15.1**	17.7	**(7.3)**	(7.3)
	845.1	937.4	**151.9**	522.0

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

	Six months ended 30th June, 2001 (Unaudited)	Six months ended 30th June, 2000 (Unaudited)
	HK$'million	HK$'million
Gain on disposal of listed investments, net	**27.4**	5.6
Profit/(Loss) on sale of properties	**(0.3)**	3.5

5. Other Revenue

Other revenue includes the following major items:

	Six months ended 30th June, 2001 (Unaudited)	Six months ended 30th June, 2000 (Unaudited)
	HK$'million	**HK$'million**
Interest income	**33.2**	39.5
Profit on disposal of ordinary shares in a listed subsidiary company arising from exchange of exchangeable bonds	**64.7**	-

6. Other Operating Income/(Expenses), Net

Other operating income/(expenses), net, include the following major items:

	Six months ended 30th June, 2001 (Unaudited)	Six months ended 30th June, 2000 (Unaudited)
	HK$'million	**HK$'million**
Depreciation	**(30.7)**	(29.8)
Loss on disposal of ordinary shares in a listed subsidiary company	**(8.5)**	-
Loss on disposal of long term listed investments	**(27.7)**	-
Write back of provision for indemnity given*	**–**	340.4

* The amount in the previous period was classified as other revenue. To accord with the presentation in the current period which, in the opinion of the Directors, better reflects the nature of the transaction, it has been reclassified to other operating income.

7. Finance Costs

	Six months ended 30th June, 2001 (Unaudited)	Six months ended 30th June, 2000 (Unaudited)
	HK$'million	**HK$'million**
Interest in respect of:		
Bank loans and overdrafts	**221.7**	298.4
Other loans and exchangeable bonds, wholly repayable within five years	**148.0**	71.5
	369.7	369.9
Premium provided on exchangeable bonds and convertible bonds	**104.4**	105.2
	474.1	475.1
Interest capitalised in respect of property development projects and construction contracts	**(2.1)**	(21.4)
	472.0	453.7
Amortisation of deferred expenditure	**9.7**	12.9
Write off of deferred expenditure	**10.0**	-
Other loan costs	**0.8**	-
Total finance costs	**492.5**	466.6

8. Tax

	Six months ended 30th June, 2001 (Unaudited)	Six months ended 30th June, 2000 (Unaudited)
	HK$'million	**HK$'million**
The Group:		
Provision for tax in respect of profits for the period:		
Hong Kong	**2.0**	4.0
Overseas	**0.2**	0.2
	2.2	4.2
Prior year overprovisions:		
Hong Kong	**(0.4)**	(0.5)
Capital gains tax — overseas	**–**	7.3
Tax charge for the period	**1.8**	11.0

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16% (2000 - 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.

9. Transfer from Other Reserves

For the period under review, an amount of HK$2.4 million (2000 - nil) was transferred from reserves to accumulated losses.

10. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK$251.1 million (2000 - net profit of HK$113.6 million) and on the weighted average of 3,326.8 million (2000 - 3,255.6 million) shares of the Company in issue during the period.

No diluted earnings/(loss) per share is presented for the periods ended 30th June, 2000 and 2001, as no diluting events existed during the periods.

11. Dividend

The Directors have resolved not to declare the payment of any interim dividend for the financial year ending 31st December, 2001 (2000 - nil).

12. Long Term Investments

Included in the long term investments is an amount of HK$298.9 million (31st December, 2000 - HK$298.9 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 financial statements for the year ended 31st December, 2000, a land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing on grounds of its prolonged idle condition. The 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. While there has been some 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, the provision, if any, required to be made against PHL Group's investments in the Investee Companies. Accordingly, no provision has been made in the financial statements in respect of these investments.

13. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK$196.9 million (31st December, 2000 - HK$199.9 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	30th June, 2001 (Unaudited)	31st December, 2000 (Audited)
	HK$'million	HK$'million
Outstanding balances with ages:		
Within 3 months	**144.1**	147.3
Between 4 to 6 months	**5.1**	5.3
Between 7 to 12 months	**4.6**	14.0
Over 1 year	**65.5**	52.1
	219.3	218.7
Provisions	**(22.4)**	(18.8)
	196.9	199.9

Credit Terms

Trade debtors, which generally have credit terms of 2 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$115.0 million (31st December, 2000 - HK$109.3 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	30th June, 2001 (Unaudited)	31st December, 2000 (Audited)
	HK$'million	HK$'million
Outstanding balances with ages:		
Within 3 months	**84.1**	79.4
Between 4 to 6 months	**5.5**	3.1
Between 7 to 12 months	**1.6**	1.9
Over 1 year	**23.8**	24.9
	115.0	109.3

15. Reserves

	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
At 1st January, 2001:							
As previously stated (Audited)	888.4	4.4	3,226.9	64.7	(3.2)	(2,958.7)	1,222.5
Prior year adjustment (note)	-	-	156.5	-	-	(156.5)	-
As restated	888.4	4.4	3,383.4	64.7	(3.2)	(3,115.2)	1,222.5
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	**888.4**	**4.4**	**3,325.9**	**73.0**	**(3.1)**	**(3,363.9)**	**924.7**

Note: The prior year adjustment represents losses arising from impaired goodwill, the accounting treatment of which is further explained in note 1(f).

16. Related Party Transactions

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

	Notes	Six months ended 30th June, 2001 (Unaudited) HK$'million	Six months ended 30th June, 2000 (Unaudited) HK$'million
Advertising, promotion and information technology service fees (including cost reimbursements) paid to an associate	(a)	**9.0**	12.1
Interest on loans to associates	(b)	**5.7**	5.7
Guarantees given in respect of a banking facility of a jointly controlled entity	(b)	**2,310.0**	2,310.0
Guarantee given in respect of a banking facility of an associate, which had been fully provided for	(b)	**109.0**	246.6

Notes:

(a) The advertising and promotion fees comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed. During the period, information technology services were also provided, the fees for which were charged on project basis.

(b) The nature and terms of these related party transactions are similar to those disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2000.

17. Pledge of Assets

At 30th June, 2001, certain of the Group's time deposits, listed investments, fixed assets including properties and equipment, properties under development, inventories and receivables with a total book value of HK$14,035.7 million (31st December, 2000 - HK$14,235.0 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.

18. Contingent Liabilities

At 30th June, 2001, the Group had the following contingent liabilities:

	30th June, 2001 (Unaudited)	31st December, 2000 (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	1,757.7	1,757.7

(b) On 18th November, 1999, Regal International (BVI) Holdings Limited ("Regal BVI"), a wholly-owned subsidiary company of RHIHL Group, entered into a securities purchase agreement ("SP Agreement") with an independent party (the "Purchaser") with respect to the disposal by Regal BVI 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 Regal BVI which are normal and usual for transactions of similar nature. At the date of this report, save for amounts ascertained and provided in the financial statements, the directors of RHIHL are unable either to assess the likelihood of the crystallisation of any contingent liability or to estimate the amounts thereof with reasonable accuracy.

19. Commitments

At 30th June, 2001, the Group had the following outstanding capital commitments:

	30th June, 2001 (Unaudited)	31st December, 2000 (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	6.5
Capital commitments in respect of the renovation or improvement of hotel properties:		
Authorised and contracted for	19.8	26.0
Authorised, but not contracted for	6.1	81.0
	25.9	107.0
Capital commitments in respect of a property development project:		
Authorised and contracted for	2.9	2.9
Authorised, but not contracted for	36.0	36.0
	38.9	38.9
	68.2	152.4

At 30th June, 2001, the Group had outstanding commitments under non-cancellable operating leases in respect of other equipment which fall due:

	30th June, 2001 (Unaudited)
	HK$'million
Within one year	**4.0**
In the second to fifth year, inclusive	**2.8**
	6.8

At 31st December, 2000, the Group had annual commitments payable in the following year under non-cancellable operating leases in respect of other equipment expiring:

	31st December, 2000 (Audited)
	HK$'million
Within one year	2.4
In the second to fifth year, inclusive	2.1
	4.5

20. Post Balance Sheet Event

Subsequent to the balance sheet date, on 31st August, 2001, the Group entered into a conditional sale and purchase agreement with an independent third party to dispose of certain subsidiary companies engaged in securities brokerage business. The Directors expect the impact of the disposal on the Group's current year's results to be immaterial.