ERNST & YOUNG
安永會計師事務所

To the members
Regal Hotels International Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 60 to 119 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and auditors

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty - Provision against a receivable

In forming our opinion, we have considered the adequacy of the disclosures made in note 23 to the financial statements concerning the outcome in respect of a receivable of approximately HK$400.1 million as at 31st December, 2001 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 at 7% per annum (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 23 to the financial statements, the Purchaser alleges 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, exceeds the deferred consideration, and has withheld payment to the Group of the Consideration Receivable. The Directors are currently unable to determine with reasonable certainty the time required for the resolution of the underlying legal claims, the legal or settlement costs that may be involved and the timing of the receipt of the Consideration Receivable. Accordingly, the Directors are currently unable to determine whether a provision, if any, is required against the Consideration Receivable. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

Fundamental uncertainties relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 3 to the financial statements which explain the circumstances giving rise to the fundamental uncertainties relating to:

i. the outcome of the proposed restructuring of a syndicated loan of HK$3,822.1 million (the "Syndicated Loan") and a construction loan of HK$1,079.5 million (collectively, the "Loans") as at 31st December, 2001;

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.

For the reasons detailed in note 3 to the financial statements, notwithstanding the non-compliance of certain loan covenants specified under the relevant loan agreements of the Loans, the Group has classified the Loans as current or non-current liabilities as at 31st December, 2001 in accordance with their original maturity dates, on the basis that (i) the agents of the Loans have not served and the Directors do not expect that they will serve notice to the Group to declare the Loans immediately due and repayable; and (ii) the lenders of the Syndicated Loan have not exercised and the Directors do not expect that they will exercise their respective individual put options to require the Group to prepay their respective participations in the remaining outstanding indebtedness by serving a notice to the Group, during the forthcoming year. Were such notices and put options to be served and fully exercised, liabilities of HK$4,349.5 million classified as non-current as at 31st December, 2001 would have to be reclassified as current and the liability position and the continuance of the Group would be adversely affected.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of implementation of the measures noted above. The financial statements do not include any adjustments that would result from the failure of implementation of such measures. If the going concern basis were not to be appropriate, adjustments would have to be made to restate the values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities, in addition to those described in the preceding paragraph, as current assets and liabilities, respectively. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
19th April, 2002