

# Notes to Financial Statements

31st December, 2001

## 1. CORPORATE INFORMATION

During the year, the Group was principally engaged in property development and investment, property management, construction and construction-related businesses, hotel ownership and management, securities brokering and other investments (including investment and trading in marketable securities).

During the year, the Group ceased its securities brokering businesses upon the disposal of the Group's two principal subsidiary companies engaged in the provision of securities brokering services.

## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) : "Events after the balance sheet date"
- SSAP 14 (Revised) : "Leases"
- SSAP 18 (Revised) : "Revenue"
- SSAP 26 : "Segment reporting"
- 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"
- Interpretation 12 : "Business combinations - subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 : "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. This has had no major impact on these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 51 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. This has had no major impact on these financial statements.



SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This has had no major impact on these financial statements. Provisions are now disclosed as a separate line item on the face of the balance sheet and note 34 to the financial statements. "Provisions" has been revised to include the new required additional disclosures.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. This has had no major impact on these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 4 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has resulted in a prior year adjustment, further details of which are included in note 40 to the financial statements. The required new additional disclosures are included in note 40 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.



### 3. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTIES IN RESPECT OF GOING CONCERN

The Group sustained a net loss from ordinary activities attributable to shareholders of HK\$1,650.7 million for the year ended 31st December, 2001 (2000 - HK\$278.1 million, as restated). As at the balance sheet date, the Group had consolidated net current liabilities of HK\$5,782.3 million (2000 - HK\$4,896.4 million) and reported a deficiency in assets of HK\$160.3 million (2000 - net assets of HK\$1,555.2 million).

Since October 1998, the Group and Paliburg Holdings Limited ("PHL"), a principal listed subsidiary company of the Group, including its subsidiary companies (the "PHL Group"), have encountered liquidity problems. They both have conducted discussions with their respective financial creditors for the purpose of implementing standstill arrangements in order to permit the Group and the PHL Group to suspend the repayment of their respective outstanding indebtedness (the "Standstill Arrangements"). Informal Standstill Arrangements of the Group and the PHL Group have been in operation since the formal Standstill Arrangements last expired on 31st October, 2000 and 30th September, 1999, respectively.

Due to the changes in the market environment as well as in the financial position of the Group since late 2000, the planned investment by the Group in an information technology project in the People's Republic of China, previously approved by the shareholders of the Company in September 2000, has not been proceeded with. The Group will continue to keep under review its position with regard to its participation in this project.

While continuing discussions were maintained with the financial creditors of the Group since 2000, no consensual debt restructuring proposal has yet been agreed by the financial creditors. At the request of the financial creditors, the Group has recently appointed another independent financial adviser to assist in the formulation of a consensual proposal for the restructuring of the terms of the Group's outstanding indebtedness with its financial creditors (the "Debt Restructuring") in order to replace the existing informal Standstill Arrangement of the Group.

Since the completion of the refinancing programme in September 2000 which involved a mortgage-backed securitisation for the PHL Group's two principal properties, namely, Paliburg Plaza and Kowloon City Plaza (the "Securitisation Properties"), the PHL Group has been conducting discussions with its financial creditors to replace the existing informal Standstill Arrangement with new bilateral facilities (the "Bilateral Facilities Arrangement") which have been concluded with a majority of the financial creditors. The directors of PHL expect that the Bilateral Facilities Arrangement with the remaining financial creditors will be finalised in the near future.

At the balance sheet date, the PHL Group had US\$140 million 3½% Exchangeable Guaranteed Bonds which matured on 6th February, 2001 (the "Exchangeable Bonds") (note 31) and US\$210 million Zero Coupon Guaranteed Convertible Bonds due on 12th March, 2002 (the "Convertible Bonds") (note 32) (collectively, the "Paliburg Bonds"). The principal, interest and accrued redemption premium in respect of the Paliburg Bonds outstanding as at 31st December, 2001 amounted to HK\$3,646.4 million. As a result of the maturity default in repayment of the outstanding principal, interest and redemption premium of the Exchangeable Bonds on 6th February, 2001, the trustee of the Convertible Bonds served a notice to the PHL Group on 15th March, 2001 to declare the Convertible Bonds to be immediately due and payable by virtue of



the cross default provisions contained in the trust deeds governing the issue of the Convertible Bonds. In October 2000, the PHL Group appointed financial and legal advisers in relation to a proposed restructuring/settlement of the Paliburg Bonds and continuous meetings and discussions have since been held with the holders of the Paliburg Bonds (the "Bondholders").

On 16th November, 2001, the Company, together with PHL, and Regal Hotels International Holdings Limited ("RHIHL"), a principal listed subsidiary company of PHL, jointly announced that the principal terms of a settlement proposal for the Paliburg Bonds had been formulated following protracted negotiations with an informal committee acting for a number of the Bondholders (the "Bonds Settlement"). Such proposal involves the exchange and cancellation of the outstanding principal, interest and redemption premium of the Paliburg Bonds, in return for (i) a 100% equity interest in the Securitisation Properties with the securitised loan attached; (ii) the transfer of 1,432,798,472 existing shares of RHIHL held by PHL, representing 36.4% of the then issued share capital of RHIHL; and (iii) the issue of 463,669,490 new shares of PHL, representing approximately 16.7% of the enlarged issued share capital of PHL. The transfer and issue of the shares in RHIHL and PHL mentioned in (ii) and (iii), respectively, above would be subject to a lock-up arrangement. Certain major Bondholders have agreed in principle to support the proposal. The completion of the Bonds Settlement is subject to, among others, the approvals by the Bondholders and the shareholders of PHL.

The PHL Group continued to implement an orderly asset disposal programme. In June 2001, the PHL Group completed the disposal of a commercial property in Shau Kei Wan, Hong Kong, generating proceeds of HK\$100.0 million which were partly applied towards the repayment of certain loan principal and interest and partly retained as working capital. RHIHL and its subsidiary companies (the "RHIHL Group") has adopted similar measures (collectively, the "Disposal Programmes") as further described below. The PHL Group will continue to implement its Disposal Programme to dispose of certain other identified assets.

Between 1998 and 2000, the net asset value attributable to shareholders of RHIHL has declined significantly, which was largely attributable to the revaluation deficits arising in respect of the RHIHL Group's hotel properties and operating losses incurred by the RHIHL Group. Since 1998, 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. Due to the continued economic downturn, the RHIHL Group also recorded substantial revaluation deficits of HK\$1,515.1 million on its hotel properties for the year ended 31st December, 2001, thereby contributing to a further decline in the net asset value attributable to shareholders of RHIHL from HK\$6,486.8 million as at 31st December, 2000 to HK\$4,563.5 million as at 31st December, 2001. Again, in 2001, certain other financial ratios specified under the loan covenants have not been complied with by the RHIHL Group. The total outstanding loans affected in this respect amounted to HK\$4,901.6 million as at 31st December, 2001, comprising a syndicated loan of HK\$3,822.1 million (the "Syndicated Loan") and a construction loan of HK\$1,079.5 million (the "Construction Loan") (collectively, the "Regal Loans") (note 30).

In addition to the foregoing, certain interest and/or principal instalments of the Construction Loan, and a term loan borrowed by a subsidiary company of RHIHL in Canada, with outstanding principal as at 31st December, 2001 of CAD\$35.5 million (approximately HK\$174.2 million) (the "Canada Loan"), remained unpaid during the year and to date.



Pursuant to the terms of the respective loan agreements, the failure either to maintain the financial ratios specified thereunder, where applicable, or a default in interest and/or principal repayments constitutes an event of default. In respect of the Regal Loans, as confirmed in a legal opinion obtained from RHIHL's legal advisers, the agents who act on behalf of the relevant lenders thereof (the "Agents") may, upon receiving notice as to the non-compliance with the loan covenants, require remedy of such breach and, after lapse of a specified period of time for the remedy of the cause of such non-compliance, upon the instruction of the specified majority of the relevant lenders, may serve notice to the RHIHL Group to declare the Regal Loans immediately due and repayable. The Agents have been informed of the RHIHL Group's non-compliance with the loan covenants. Unless and until the notice is served by the Agents to declare the Regal Loans immediately due and repayable, the Regal Loans remain repayable in accordance with their original stated maturity dates.

With respect to the Canada Loan, which is secured by a pledge of RHIHL's hotel property in Canada, upon the occurrence of an event of default, the lender may exercise its discretion to declare the loan immediately due and repayable. To date, no such discretion has been exercised by the lender. However, the RHIHL Group has appointed an agent to sell the hotel property in Canada with a view to fully repay the Canada Loan.

The Syndicated Loan agreement contains cross default provisions to the effect that if, inter alia, any indebtedness in respect of borrowed money of any principal subsidiary companies within the RHIHL Group (i) is not paid when due or within any applicable grace period; or (ii) becomes due and payable prematurely by reason of an event of default, the Syndicated Loan will become immediately due and repayable once a notice is served by the agent of the lenders of the Syndicated Loan (the "Syndicated Loan Lenders"). To date, neither the notice has been served by the agent who acts on behalf of the lenders of the Construction Loan (the "Construction Loan Lenders"), nor has the discretion been exercised by the lender of the Canada Loan, to declare an event of default. Accordingly, there is currently no cross default in respect of the Syndicated Loan.

Pursuant to the terms of the loan agreement in respect of the Syndicated Loan, put options (the "Put Options") were granted to the respective Syndicated Loan Lenders who may require the RHIHL Group to prepay their respective participations in the remaining outstanding indebtedness on the option exercise date on 8th September, 2002, by serving a notice to the RHIHL Group at least 3 months before the option exercise date. To date, as confirmed by the agent of the Syndicated Loan, no notice to exercise the Put Options has been served by the Syndicated Loan Lenders to the RHIHL Group.



On the basis that (i) the Agents of the Regal Loans have not served and the directors of RHIHL do not expect that they will serve notice to the RHIHL Group to declare the Regal Loans immediately due and repayable; and (ii) the Syndicated Loan Lenders have not exercised and the directors of RHIHL do not expect that they will exercise their respective Put Options, during the forthcoming year, and having regard to the past and anticipated support the RHIHL Group has and hopes to continue to receive with respect to the Regal Loans, the directors of RHIHL consider it appropriate to continue to classify the Regal Loans as current and non-current liabilities as at 31st December, 2001 in accordance with their original maturity terms under the loan agreements. The Directors of the Company have also adopted such classification for the Group for the same reasons.

The RHIHL Group continues to hold discussions with the lenders of the Regal Loans with a view to securing their ongoing support. In April 2002, RHIHL appointed a financial adviser to assist in the discussions on a proposed restructuring of the Regal Loans, which would include a rescheduling of the principal repayments of the Regal Loans (the "Regal Loans Restructuring") in order to allow time and provide financial stability to the RHIHL Group 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 deferred consideration plus interest in relation to RHIHL's disposal of its hotel interests in the United States of America in 1999 (the "Consideration Receivable") (see note 27 for further details); and (iii) implement an asset disposal programme and complete the Financing Arrangements as further detailed below. The directors of RHIHL are hopeful that, with the continued support of the lenders of the Regal Loans, the RHIHL Group's overall financial position will gradually stabilise.

With a view to improving its cash flow and profitability, the RHIHL Group is actively working on the disposal of certain of its hotel and other non-core assets under its Disposal Programme so that additional resources may be directed 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 ("Financing Arrangements").

On the bases that the Debt Restructuring, the Bonds Settlement, the Bilateral Facilities Arrangement, the Regal Loans Restructuring, the recovery of the Consideration Receivable and the Financing Arrangements will be successful, and the Disposal Programmes will continue to be successfully implemented, 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 financial statements on a going concern basis.

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 as current assets and liabilities, respectively.



#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of the Group's investment properties, hotel properties, certain fixed assets and equity investments, as further explained below.

##### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary companies for the year ended 31st December, 2001, together with the Group's share of the results for the year and the post-acquisition undistributed reserves of its associates and jointly controlled entity. The results of subsidiary companies, associates and jointly controlled entity acquired or disposed of during the year are included from or to their effective dates of acquisition or disposal, as applicable. All significant intra-group transactions and balances are eliminated on consolidation.

##### (c) Goodwill/Negative goodwill

Goodwill arising on the acquisition of subsidiary companies represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition. Negative goodwill arising on the acquisition of subsidiary companies represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In prior years, goodwill/negative goodwill arising on acquisitions was eliminated against consolidated reserves/credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill/negative goodwill on acquisitions which occurred prior to 1st January, 2001, to remain eliminated against consolidated reserves/credited to the capital reserve. Goodwill/Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.



On disposal of subsidiary companies, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill/negative goodwill which remains unamortised/has not been recognised in the consolidated profit and loss account and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

**(d) Subsidiary companies**

A subsidiary company is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiary companies are stated in the Company's balance sheet at cost less any impairment losses.

Upon the disposal of interests in subsidiary companies, any gain or loss arising thereon, including the realisation of the attributable reserves, is included in the profit and loss account.

Where the Group's equity interest in a subsidiary company is diluted by virtue of the additional issue of shares by such subsidiary company (i.e., a "deemed disposal"), any gain or loss arising from the deemed disposal, including the realisation of the attributable reserves, is dealt with in the Group's retained profits, and an amount equal to the increase in the Group's share of the non-distributable reserves of the subsidiary company is transferred to the capital reserve.

**(e) Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary company, if the Company has unilateral control over the joint venture company;
- (b) a jointly controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.





**(f) Jointly controlled entity**

A jointly controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

The Group's share of the post-acquisition results and reserves of the jointly controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

**(g) Associates**

An associate is a company, not being a subsidiary company or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

**(h) Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.



**(i) Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

When an asset is reclassified from investment properties to leasehold properties, the asset is stated at the carrying value as at the date of the reclassification, and the revaluation reserve attributable to that asset is transferred to the leasehold property revaluation reserve. Depreciation on such an asset is calculated based on that carrying value, and the portion of the depreciation charge thereon attributable to the related revaluation surplus is transferred from the leasehold property revaluation reserve to retained profits. On disposal or retirement of such an asset, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

**(j) Hotel properties**

Hotel properties are interests in land and buildings and their integral fixed plants which are collectively used in the operation of hotels and are stated at their open market values for existing use on the basis of annual professional valuations. Movements in the carrying values of the hotel properties are dealt with in the hotel property revaluation reserve, unless this reserve is exhausted, in which case any excess of the decrease is charged to the profit and loss account as incurred.

It is the Group's policy to maintain the hotel properties in such condition that their residual values are not currently diminished by the passage of time and that any element of depreciation is insignificant. The related maintenance and repairs expenditure is charged to the profit and loss account in the year in which it is incurred. The costs of significant improvements are capitalised. Accordingly, the Directors consider that depreciation is not necessary for the hotel properties. Depreciation is, however, provided on hotel furniture and fixtures at the rates stated in (t) below.

On disposal of a hotel property, the relevant portion of the hotel property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.



**(k) Properties under development**

Properties under development intended for sale are stated at the lower of cost and net realisable value, which is determined by reference to the prevailing market prices, on an individual property basis. Other properties under development are stated at cost less any impairment losses. Cost includes all costs attributable to such development, including any related finance charges.

When a property under development is pre-sold, the attributable profit recognised on the pre-sold portion of the property is determined by the apportionment of the total estimated profit over the entire period of construction to reflect the progress of the development, and is calculated by reference to the proportion of construction costs incurred up to the balance sheet date to the estimated total construction costs to completion, but is limited to the amount of sales deposits received and with due allowances for contingencies.

Properties under development intended for sale in respect of which occupation permits are expected to be granted within one year from the balance sheet date are classified under current assets.

Deposits received on properties pre-sold prior to their completion in excess of the attributable profit recognised are classified as current liabilities.

**(l) Properties held for future development**

Properties held for future development are stated at cost less any impairment losses. Cost includes all costs attributable to the acquisition and holding of such properties, including any related finance charges.

**(m) Capitalised borrowing costs**

Interest incurred on borrowings to finance the construction and development of properties under development is capitalised and is included in the carrying value of these assets. Interest is capitalised at the Group's weighted average interest rate on external borrowings and, where applicable, the interest rates related to specific development project borrowings.

**(n) Deferred expenditure**

Deferred expenditure represents expenses incurred in connection with the raising of long term finance and is amortised on the straight-line basis over the terms of the relevant underlying borrowings.

**(o) Properties held for sale**

Properties held for sale, consisting of completed properties and properties under development intended for sale, are classified as current assets and stated at the lower of cost and net realisable value on an individual property basis. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices.



**(p) Intangible assets**

Intangible assets, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited ("SEHK Trading Right") and the Hong Kong Futures Exchange Limited ("HKFE Trading Right"), are stated at cost less accumulated amortisation. Cost was determined by the Directors according to the methodology detailed in note 22 to the financial statements.

Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over a period of 10 years and is charged to the profit and loss account.

**(q) Other assets**

Other assets held on the long term basis are stated at cost less any impairment losses deemed necessary by the Directors.

**(r) Long term investments**

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis. These are determined by the Directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities and/or the most recent financial statements or other financial data considered relevant in respect of such investments.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

**(s) Short term investments**

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.



**(t) Fixed assets and depreciation**

Fixed assets, other than investment and hotel properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset. As stated in (i) above, where an asset is reclassified from investment properties to leasehold properties, the cost of such an asset on transfer is deemed to be the carrying amount of the asset as at the date of the reclassification.

The gain or loss on disposal or retirement of a fixed asset, other than investment and hotel properties, recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation of fixed assets, other than investment and hotel properties, is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining lease terms
Freehold and leasehold properties	Over the shorter of 40 years or the remaining lease terms on cost or valuations of buildings
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures and equipment	10% to 25% or replacement basis
Site equipment	20%
Motor vehicles	25%

**(u) Construction in progress**

Construction in progress represents fixed assets under construction or renovation, and is stated at cost less any impairment losses. Cost comprises the direct costs of construction or renovation and interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for commercial use.

No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.



**(v) Inventories**

Inventories are stated at the lower of cost and net realisable value after making due allowances for any obsolete or slow-moving items. Cost is determined on a first-in, first-out basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any further costs expected to be incurred to disposal.

**(w) Construction contracts**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads, including any related finance charges.

Revenue from short term construction contracts is recognised upon completion of the construction work.

Revenue from long term fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the work certified by architects for each contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

**(x) Premium on redemption of exchangeable bonds and convertible bonds**

The premium on redemption of exchangeable bonds and convertible bonds represents the excess of the redemption price payable by the Group on the maturity of the bonds over the respective principal amounts of the bonds. Provision is made for the premium so as to provide a constant rate of charge to the profit and loss account over the respective tenure of the bonds. Upon the exchange/conversion of the bonds prior to maturity, the related premium provided is released and accounted for as part of the consideration for the shares into which the bonds are so exchanged/converted.



**(y) Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (ii) income on sale of completed properties and outright sale of an entire development prior to completion, on the exchange of legally binding unconditional sales contracts;
- (iii) income on pre-sale of properties under development, when the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis set out in (k) above;
- (iv) fee income on short term construction contracts, on completion of the construction work;
- (v) fee income on long term construction contracts, on the percentage of completion basis as further explained in (w) above;
- (vi) hotel and other service income, in the period in which such services are rendered;
- (vii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;
- (viii) dividend income, when the shareholders' right to receive payment has been established;
- (ix) proceeds from sale of short term and long term investments in listed shares, on the transaction dates when the relevant contract notes are exchanged; and
- (x) commission and brokerage income on dealings in securities, futures and other derivatives, on the transaction dates when the relevant contract notes are exchanged.

**(z) Foreign currencies**

The financial records of the Company and its subsidiary companies operating in Hong Kong are maintained and the financial statements are stated in Hong Kong dollars.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Foreign currency transactions during the year are recorded at the rates existing on the respective transaction dates. Profits and losses on exchange are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiary companies and associates denominated in foreign currencies are translated at the applicable rates of exchange ruling at the balance sheet date. All translation differences arising on consolidation are dealt with in the exchange equalisation reserve.



**(aa) Deferred tax**

Provision is made for deferred tax, using the liability method, on all material timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

**(ab) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**(ac) Off-balance sheet financial instruments**

The Group transacts in total return share swaps and put/call option transactions as part of its investment and/or financing activities which are accounted for as follows:

- (i) the net settlements arising from swaps undertaken are recognised on an accrual basis and are dealt with in the profit and loss account; and
- (ii) the net premium paid/received from the writing of options is dealt with in the profit and loss account, and provision is made for any shortfall in the market prices of the underlying securities in respect of which the options are written below the contracted strike prices under the option agreements.

**(ad) Staff retirement scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1st December, 2000. Contributions are made based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme except for the Group's employer voluntary contributions, part or all of which are refunded to the Group when the employee leaves employment prior to the contributions became vested with the employee partly or fully, in accordance with the rules of the MPF Scheme.





Prior to the MPF Scheme being effective, the Group operated a defined contribution retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way to the MPF Scheme, except that when an employee left the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions.

The employees of the Group's subsidiary companies which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiary companies are required to contribute 27% of its payroll costs to the central pension scheme.

**(ae) Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**(af) Cash equivalents**

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

**(ag) Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.



## 5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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, and assets are attributed to the segments based on the location of the assets.

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.



## (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

**GROUP**

	Property development and investment		Property management		Construction and construction-related businesses		Hotel ownership and management		Brewery operations		Others		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	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	302.4	241.4	22.5	21.5	558.0	433.4	1,001.5	1,075.7	19.9	29.0	47.8	89.5	—	—	1,952.1	1,890.5
Intersegment sales	66.9	67.7	1.6	2.2	22.6	35.9	0.9	1.1	—	—	16.0	11.2	(108.0)	(118.1)	—	—
<b>Total</b>	<b>369.3</b>	<b>309.1</b>	<b>24.1</b>	<b>23.7</b>	<b>580.6</b>	<b>469.3</b>	<b>1,002.4</b>	<b>1,076.8</b>	<b>19.9</b>	<b>29.0</b>	<b>63.8</b>	<b>100.7</b>	<b>(108.0)</b>	<b>(118.1)</b>	<b>1,952.1</b>	<b>1,890.5</b>
Segment results	(364.9)	59.6	17.5	17.8	3.1	15.0	(577.1)	263.5	(69.0)	(80.2)	(36.2)	(91.9)	(46.9)	(43.3)	(1,073.5)	140.5
Interest income and unallocated non-operating and corporate gains															125.0	520.9
Unallocated non-operating and corporate expenses															(319.8)	(209.2)
Profit/(Loss) from operating activities															(1,268.3)	452.2
Finance costs															(872.2)	(959.1)
Share of profits less losses of:																
Jointly controlled entity	(80.9)	(142.3)	—	—	—	—	—	—	—	—	—	—	—	—	(80.9)	(142.3)
Associates	—	—	—	—	—	—	—	3.9	—	—	(6.5)	(1.6)	—	—	(6.5)	2.3
Loss before tax															(2,237.9)	(646.9)
Tax															3.7	(18.9)
Loss before minority interests															(2,234.2)	(665.8)
Minority interests															583.5	387.7
Net loss from ordinary activities attributable to shareholders															(1,650.7)	(278.1)



## (a) Business segments (continued)

## GROUP

	Property development and investment		Property management		Construction and construction-related businesses		Hotel ownership and management		Brewery operations		Others		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	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 assets	3,560.3	4,538.8	1.2	0.9	134.3	164.4	8,577.6	10,163.6	53.6	117.4	86.7	148.1	(62.9)	(156.2)	12,350.8	14,977.0
Interests in associates	215.8	209.8	-	-	-	-	-	-	-	-	45.1	39.2	-	-	260.9	249.0
Interest in a jointly controlled entity	1,036.9	1,073.5	-	-	-	-	-	-	-	-	-	-	-	-	1,036.9	1,073.5
Cash and unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	985.9	1,574.0
Total assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,634.5	17,873.5
Segment liabilities	(102.3)	(130.2)	(0.5)	(0.5)	(244.8)	(325.1)	(157.2)	(241.9)	(19.3)	(21.5)	(12.9)	(31.4)	62.9	156.2	(474.1)	(594.4)
Bank and other borrowings and unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,125.5)	(12,125.3)
Total liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,599.6)	(12,719.7)
Other segment information:																
Depreciation	12.7	14.0	-	-	0.5	0.5	37.5	33.8	5.3	5.3	3.9	4.8	-	-	-	-
Impairment losses recognised in the profit and loss account	180.0	-	-	-	-	-	-	-	50.8	71.7	-	102.8*	-	-	-	-
Capital expenditure	2.0	55.4	-	-	0.5	0.2	33.1	96.8	0.5	1.7	1.0	-	-	-	-	-
Other non-cash expenses	353.7	108.8	-	-	-	-	714.4	3.1	-	-	4.9	-	-	-	-	-

\* The impairment loss related to goodwill arising from acquisition of the securities brokerage business in prior year. The business was disposed of in 2001.

## (b) Geographical segments

The following table presents revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

GROUP	Hong Kong		Canada		PRC		USA		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	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	1,834.7	1,733.1	95.6	127.3	21.8	30.1	-	-	-	-	1,952.1	1,890.5
Segment results	(762.0)	228.3	(2.5)	12.9	(268.2)	(99.1)	(40.8)	(1.6)	-	-	(1,073.5)	140.5
Other segment information:												
Segment assets	11,764.2	14,042.7	205.2	239.5	264.4	538.8	117.0	156.0	-	-	12,350.8	14,977.0
Capital expenditure	34.0	96.0	2.1	3.7	1.0	56.4	-	-	-	-	-	-



**6. TURNOVER AND REVENUE**

Turnover represents the aggregate of the gross amounts of rental income, fee income in respect of construction contracts (in the case of long term construction contracts, the fee income is adjusted to reflect the stage of completion to the extent that this was not previously recognised), proceeds from the sale of properties (in the case of pre-sale of properties, proceeds from the pre-sale are adjusted to reflect the stage of completion of construction to the extent that these were not previously recognised), estate management fees, property development consultancy and project management fees, building services income, hotel income, travel services revenue and commissions, florist income, restaurant revenue, wedding services revenue, income from brewery operations, and proceeds from the sale of short term investments, commission and brokerage income on dealings in securities, futures and other derivatives, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	<b>GROUP</b>	
	<b>2001 HK\$'million</b>	<b>2000 HK\$'million (Restated)</b>
Rental income:		
Investment properties	<b>178.4</b>	195.2
Properties held for sale	<b>6.7</b>	–
Hotel properties	<b>34.5</b>	27.9
Construction and construction-related income	<b>558.0</b>	433.4
Proceeds from the sale of properties	<b>113.9</b>	46.1
Estate management fees	<b>22.5</b>	21.5
Property development consultancy and project management fees	<b>3.4</b>	0.1
Hotel operations and management services*	<b>967.0</b>	1,047.8
Other operations, including travel services, florist, restaurant operations, wedding services and brewery operations	<b>48.3</b>	58.3
Proceeds from the sale of short term investments	<b>13.6</b>	45.0
Commission and brokerage income on dealings in securities, futures and other derivatives	<b>5.8</b>	15.2
Turnover	<b>1,952.1</b>	1,890.5

\* In previous years, service charges in respect of the Group's room sales and food and beverage sales were credited directly to staff costs included in the cost of sales. During the current year, the Group considered it more appropriate to include the service charges in the Group's turnover, to be in line with general accounting practice in hotel industry. The comparative amounts of turnover and cost of sales have been restated to conform to the current year presentation.



	<b>GROUP</b>	
	<b>2001</b> <b>HK\$'million</b>	<b>2000</b> <b>HK\$'million</b>
Other revenue include the following items:		
Profit on disposal of ordinary shares in a listed subsidiary company arising from exchange of Exchangeable Bonds	<b>64.7</b>	–
Gain on repurchase and cancellation of Convertible Bonds	<b>13.4</b>	–
	<u><u>78.1</u></u>	<u><u>–</u></u>

#### **7. OTHER OPERATING EXPENSES/PROVISIONS FOR WRITE-DOWNS AND IMPAIRMENTS, NET**

	<b>GROUP</b>	
	<b>2001</b> <b>HK\$'million</b>	<b>2000</b> <b>HK\$'million</b>
Other operating expenses include the following items:		
Provisions for guarantees and indemnity given	<b>2.7</b>	18.1
Loss on disposal of ordinary shares in a listed subsidiary company	<b>8.5</b>	–
Loss on disposal of long term listed investments (after a transfer from the revaluation reserve of a deficit of HK\$140.4 million)	<b>142.6</b>	–
Tax indemnity in respect of the disposal of overseas subsidiary companies/partnerships in prior year	–	24.2
	<u><u>153.8</u></u>	<u><u>42.3</u></u>



	2001 HK\$'million	2000 HK\$'million (Restated)
Provisions for write-downs and impairments, net, represent the following items:		
Provisions against other loans, promissory notes and interest receivable	(75.6)	(13.1)
Write-down in values of properties	(61.9)	(106.0)
Impairment of long term investments	(180.0)	–
Impairment of fixed assets	(50.8)	–
Write back of deficit/(Deficit) on revaluation of hotel properties	(710.4)	65.8
Deficit on revaluation of investment properties	(288.6)	–
Write back of provision for loss on deposit paid	–	10.0
Write back of provision against advances and interest receivable	–	9.6
Impairment of goodwill previously eliminated against capital reserve (note 40)	–	(223.2)
	<u>(1,367.3)</u>	<u>(256.9)</u>

The above amounts in the prior year were classified as other operating expenses, net. To accord with the presentation in the current year which, in the opinion of the Directors, better reflects the nature of the transactions, they have been reclassified to provisions for write-downs and impairments, net.





**8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES**

The Group's profit/(loss) from operating activities is arrived at after charging:

	<b>GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
		<b>(Restated)</b>
Cost of completed properties sold	<b>112.9</b>	40.7
Cost of inventories sold and other services provided*	<b>633.0</b>	675.2
Staff costs (exclusive of directors' remuneration disclosed in note 10):		
Wages and salaries <sup>#</sup>	<b>538.2</b>	534.1
Staff retirement scheme contributions	<b>25.3</b>	20.9
Less: Unvested contributions forfeited	<b>(4.3)</b>	(8.0)
Net retirement scheme contributions	<b>21.0</b>	12.9
	<b>559.2</b>	547.0
Less: Staff costs capitalised in respect of property development projects and construction contracts:		
Wages and salaries	<b>(45.9)</b>	(50.1)
Staff retirement scheme contributions	<b>(2.1)</b>	(0.6)
	<b>511.2</b>	496.3
Auditors' remuneration	<b>5.2</b>	5.7

\* Refer to note 6 to the financial statements.

<sup>#</sup> Inclusive of an amount of HK\$410.9 million (2000 – HK\$408.1 million, as restated) classified under cost of inventories sold and services provided.



	GROUP	
	2001 HK\$'million	2000 HK\$'million (Restated)
Depreciation	62.7	61.9
Less: Depreciation capitalised in respect of property development projects and construction contracts	(1.5)	(1.7)
	61.2	60.2
Loss on disposal of fixed assets	3.3	3.3
Unrealised loss on revaluation of short term investments	5.7	5.7
Minimum lease payments under operating leases:		
Land and buildings	–	0.8
Other equipment	1.0	1.1
Amortisation of trading rights	0.6	0.5
and after crediting:		
Gross rental income	219.6	223.1
Less: Outgoings	(62.6)	(57.5)
Net rental income	157.0	165.6
Interest income from:		
Associates	9.9	11.8
Bank balances	13.7	36.9
Other loans and receivables	32.9	35.4
	56.5	84.1
Unrealised gain on revaluation of short term investments	–	15.0
Gain on disposal of listed investments (after a transfer from the revaluation reserve of a deficit of HK\$0.9 million)	–	26.5
Dividend income from:		
Listed investments	2.1	1.0
Unlisted investment	1.3	1.3
	219.6	223.1



## 9. FINANCE COSTS

	<b>GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
Interest in respect of:		
Bank loans and overdrafts	<b>402.0</b>	562.8
Other loans, exchangeable bonds and convertible bonds, wholly repayable within five years	<b>384.1</b>	177.9
	<b>786.1</b>	740.7
Premium provided on exchangeable bonds and convertible bonds	<b>60.6</b>	213.1
	<b>846.7</b>	953.8
Interest capitalised in respect of property development projects and construction contracts	<b>(2.5)</b>	(34.8)
	<b>844.2</b>	919.0
Amortisation of deferred expenditure	<b>16.5</b>	23.4
Write-off of deferred expenditure	<b>10.0</b>	15.9
Other loan costs	<b>1.5</b>	0.8
Total finance costs	<b>872.2</b>	959.1



**10. DIRECTORS' REMUNERATION**

Details of Directors' remuneration charged to the Group's profit and loss account are set out below:

	<b>GROUP</b>	
	<b>2001 HK\$'million</b>	<b>2000 HK\$'million</b>
Fees	1.6	1.6
Salaries and other allowances	8.6	8.3
Performance related/discretionary bonuses	–	0.7
Staff retirement scheme contributions	0.6	–
	<b>10.8</b>	<b>10.6</b>
	<b>10.8</b>	<b>10.6</b>

The remuneration of the Directors fell within the following bands:

<b>HK\$</b>	<b>2001 Number of Directors</b>	<b>2000 Number of Directors</b>
Nil - 1,000,000	4	4
2,000,001 - 2,500,000	1	–
2,500,001 - 3,000,000	–	1
6,000,001 - 6,500,000	–	1
6,500,001 - 7,000,000	1	–
	<b>1</b>	<b>–</b>
	<b>1</b>	<b>–</b>

The above Directors' remuneration includes the remuneration received by certain Directors of the Company from PHL and RHIHL, the listed subsidiary companies of the Company, in connection with the management of their affairs during the year.

The independent Non-Executive Directors of the Company were entitled to a total sum of HK\$0.4 million (2000 - HK\$0.4 million) as Directors' fees, including the Director's fee from PHL to an independent Non-Executive Director who is also an independent Non-Executive Director of PHL and the fees entitled by those independent Non-Executive Directors for serving as audit committee members, for the year ended 31st December, 2001.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

During the year, no share options were granted to the Directors in respect of their services to the Group. Further details of the share option schemes of the listed subsidiary companies of the Group are set out under the respective headings "Directors' Interests in and Movements in Share Options granted by Paliburg Holdings Limited" and "Directors' Interests in and Movements in Share Options granted by Regal Hotels International Holdings Limited" in the Report of the Directors.

**11. SENIOR EXECUTIVES' EMOLUMENTS**

The five highest-paid individuals included two (2000 – two) Directors, details of whose remuneration are disclosed in note 10 to the financial statements. The emoluments of the other three (2000 - three) individuals, who were not Directors, are as follows:

	<b>GROUP</b>	
	<b>2001 HK\$'million</b>	<b>2000 HK\$'million</b>
Salaries and other emoluments	4.5	4.5
Staff retirement scheme contributions	0.3	0.2
	<u>4.8</u>	<u>4.7</u>

The emoluments of the three (2000 – three) individuals fell within the following bands:

<b>HK\$</b>	<b>2001 Number of individuals</b>	<b>2000 Number of individuals</b>
1,000,001 - 1,500,000	2	2
1,500,001 - 2,000,000	1	1

The emoluments included the emoluments received by those individuals from PHL and RHIHL in connection with the management of the affairs of these subsidiary companies during the year.

During the year, no share options were granted to the three non-director, highest paid employees in respect of their services to the Group. Further details of the share option schemes of the listed subsidiary companies of the Group are included in the disclosures set out under the respective headings "Directors' Interests in and Movements in Share Options granted by Paliburg Holdings Limited" and "Directors' Interests in and Movements in Share Options granted by Regal Hotels International Holdings Limited" in the Report of the Directors.



## 12. TAX

	GROUP	
	2001 HK\$'million	2000 HK\$'million
The Company and subsidiary companies:		
Provision for tax in respect of profits for the year:		
Hong Kong	2.3	5.4
Overseas	0.3	2.8
	2.6	8.2
Prior year overprovisions:		
Hong Kong	(5.0)	(0.8)
Overseas	(1.6)	–
	(6.6)	(0.8)
Capital gains tax – overseas	–	12.3
Transfer from deferred tax	–	(0.8)
	(4.0)	18.9
Associates:		
Hong Kong	0.2	–
Overseas	0.1	–
	0.3	–
Tax charge/(credit) for the year	(3.7)	18.9

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 year.

Taxes on the profits of subsidiary companies and associates operating overseas are calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing legislation, practices and interpretations thereof.

No provision for tax is required for the jointly controlled entity as no assessable profits was earned by the jointly controlled entity during the year.

At the balance sheet date, the Group had no material unprovided deferred tax liabilities (2000 – nil).



### 13. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$1,715.5 million (2000 - HK\$295.9 million).

### 14. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$1,650.7 million (2000 - HK\$278.1 million, as restated) and on the weighted average of 3,326.8 million (2000 - 3,288.5 million) shares of the Company in issue during the year.

(b) Diluted loss per share

No diluted loss per share is presented for the years ended 31st December, 2000 and 2001, as no diluting events existed during the year.



## 15. FIXED ASSETS

## GROUP

	1st January, 2001 HK\$'million	Exchange adjustments HK\$'million	Additions/ Depreciation for the year HK\$'million	Impairment* during the year recognised in the profit and loss account HK\$'million	Transfer to properties held for sales HK\$'million	Transfer from leasehold properties HK\$'million	Disposals/ write-off HK\$'million	Deficit on revaluation HK\$'million	31st December, 2001 HK\$'million
At valuation:									
Investment properties	3,155.2	—	1.9	—	(63.2)	121.1	—	(590.1)	2,624.9
Hotels, including furniture, fixtures and equipment	10,092.0	(15.1)	32.6	—	—	—	(0.1)	(1,485.8)	8,623.6
	<u>13,247.2</u>	<u>(15.1)</u>	<u>34.5</u>	<u>—</u>	<u>(63.2)</u>	<u>121.1</u>	<u>(0.1)</u>	<u>(2,075.9)</u>	<u>11,248.5</u>
At cost:									
Leasehold properties	635.0	—	—	—	—	(143.1)	(0.2)	—	491.7
Leasehold improvements, furniture, fixtures and equipment	126.2	—	2.6	—	—	—	(16.5)	—	112.3
Site equipment	1.7	—	—	—	—	—	—	—	1.7
Construction in progress	28.2	—	0.2	—	—	—	—	—	28.4
Motor vehicles	6.5	—	0.2	—	—	—	(0.7)	—	6.0
	<u>14,044.8</u>	<u>(15.1)</u>	<u>37.5</u>	<u>—</u>	<u>(63.2)</u>	<u>(22.0)</u>	<u>(17.5)</u>	<u>(2,075.9)</u>	<u>11,888.6</u>
Accumulated depreciation and impairment:									
Hotel furniture, fixtures and equipment	156.2	(2.4)	36.5	—	—	—	—	—	190.3
Leasehold properties	85.1	—	13.8	—	—	(22.0)	—	—	76.9
Leasehold improvements, furniture, fixtures and equipment	67.1	—	11.5	22.4	—	—	(12.7)	—	88.3
Site equipment	1.7	—	—	—	—	—	—	—	1.7
Construction in progress	—	—	—	28.4	—	—	—	—	28.4
Motor vehicles	5.0	—	0.9	—	—	—	(0.7)	—	5.2
	<u>315.1</u>	<u>(2.4)</u>	<u>62.7</u>	<u>50.8</u>	<u>—</u>	<u>(22.0)</u>	<u>(13.4)</u>	<u>—</u>	<u>390.8</u>
Net book value	<u>13,729.7</u>								<u>11,497.8</u>

\* The impairment loss for construction in progress and certain equipment represents the write-down in values to their recoverable amounts due to the unused excess production capacity of the Group's brewery operations which, in the opinion of the Directors, neither have a value in use nor a value for resale.



Analysis of net book value by geographical location:

	<b>2001</b> <b>HK\$'million</b>	<b>2000</b> <b>HK\$'million</b>
Leasehold land and buildings situated in Hong Kong:		
Investment properties, at valuation at balance sheet date:		
Long term	<b>499.9</b>	512.9
Medium term	<b>2,125.0</b>	2,579.1
Hotel properties, at valuation at balance sheet date:		
Long term	<b>3,426.0</b>	3,973.0
Medium term	<b>4,811.0</b>	5,739.0
Leasehold properties, at cost or deemed cost:		
Long term	<b>379.0</b>	512.5
Medium term	<b>4.8</b>	4.9
	<b>11,245.7</b>	13,321.4
Properties situated in the People's Republic of China (the "PRC"):		
Medium term leasehold properties, at cost	<b>31.0</b>	32.5
Long term leasehold land and investment properties, at valuation at balance sheet date	–	63.2
	<b>31.0</b>	95.7
Properties situated overseas:		
Freehold land and hotel property in Canada, at valuation at balance sheet date	<b>196.3</b>	223.8
	<b>11,473.0</b>	13,640.9

As at 31st December, 2001, certain investment properties and leasehold properties situated in Hong Kong, certain leasehold properties situated in the PRC and all of the hotel properties situated in Hong Kong and overseas were mortgaged to secure banking and other credit facilities granted to the Group.

The valuations of the hotel properties and investment properties situated in Hong Kong at 31st December, 2001 were performed by independent valuers with an RICS qualification on an open market, existing use basis.



The valuation of the hotel property situated overseas at 31st December, 2001 was performed by an independent valuer with an AACI qualification on an open market, existing use basis.

At 31st December, 2000, the Group's investment properties situated in the PRC were stated at their subsequent selling prices as, in the opinion of the Directors, this approximated the open market value as at the balance sheet date. During the year, the Group changed its intention to dispose of such investment properties and, accordingly, such investment properties have been reclassified as properties held for sale.

Certain of the Group's shop units in the hotel properties and certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 51(a) to the financial statements.

If the carrying value of the revalued properties had been reflected in these financial statements at cost less accumulated depreciation and impairment losses, the following amounts would have been shown:

	<b>2001</b> <b>HK\$'million</b>	<b>2000</b> <b>HK\$'million</b>
Investment properties	<b>1,125.8</b>	1,170.9
Hotel properties	<b>5,405.5</b>	5,413.0
Leasehold properties	<b>112.0</b>	151.1
	<b>6,643.3</b>	6,735.0



**16. PROPERTIES UNDER DEVELOPMENT**

	<b>GROUP</b>	
	<b>2001 HK\$'million</b>	<b>2000 HK\$'million</b>
Balance at beginning of year	<b>214.1</b>	1,420.4
Exchange adjustments	–	0.6
Other additions in land and development costs	–	133.2
Interest capitalised	–	32.4
Disposal of subsidiary companies	–	(596.8)
Transfer to hotel property	–	(755.7)
Write-down in values of properties under development	<b>(47.0)</b>	(20.0)
	<hr/>	<hr/>
Balance at end of year	<b>167.1</b>	214.1
Properties under development included in current assets	<b>(117.0)</b>	(156.0)
	<hr/>	<hr/>
Non-current portion	<b>50.1</b>	58.1
	<hr/>	<hr/>
Analysis by geographical location:		
Leasehold land and buildings in Hong Kong held under medium term leases, at cost less write-down in value	<b>14.2</b>	22.2
	<hr/>	<hr/>
Freehold land in the U.S.A., at cost less write-down in value	<b>117.0</b>	156.0
	<hr/>	<hr/>
Leasehold land and buildings in the PRC, at cost less write-down in value:		
Long term	<b>25.5</b>	25.5
Medium term	<b>10.4</b>	10.4
	<hr/>	<hr/>
	<b>35.9</b>	35.9
	<hr/>	<hr/>
	<b>167.1</b>	214.1
	<hr/>	<hr/>

As at 31st December, 2001, certain of the Group's properties under development were pledged to secure banking facilities granted to the Group.



**17. PROPERTY HELD FOR FUTURE DEVELOPMENT**

	<b>GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
Medium term leasehold land in Hong Kong, at cost:		
Balance at beginning and end of year	<u>26.7</u>	<u>26.7</u>

At 31st December, 2001, the Group's property held for future development was pledged to secure the banking facilities granted to the Group.

**18. INTEREST IN A JOINTLY CONTROLLED ENTITY**

	<b>GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
Share of post-acquisition losses	<b>(2,005.0)</b>	(1,914.1)
Loans to the jointly controlled entity	<b>2,674.9</b>	2,646.5
Amount due from the jointly controlled entity, net	<b>367.0</b>	341.1
	<u><b>1,036.9</b></u>	<u>1,073.5</u>

The share of post-acquisition losses included a provision for foreseeable loss in respect of a property development project amounting to HK\$1,633.3 million (2000 - HK\$1,633.3 million).

The loans to the jointly controlled entity are unsecured, bear interest at Hong Kong prime rate per annum and are not repayable within one year.



Details of the Group's interest in the jointly controlled entity are as follows:

Name	Business structure	Place of incorporation and operation	Percentage of equity interest attributable to the Group		Principal activity
			2001	2000	
Chest Gain Development Limited ("Chest Gain")	Corporate	Hong Kong	70	70	Property development

The percentage of equity interest represents the aggregate of the 40% and the 30% held by wholly-owned subsidiary companies of PHL and RHIHL, respectively, which was in turn 59.2% and 43.1% (2000 - 60.4% and 44.6%) owned by the Group as at 31st December, 2001, respectively.

The summarised state of affairs and income and losses of Chest Gain are as follows:

	2001 HK\$'million	2000 HK\$'million
<b>State of affairs</b>		
Non-current assets	3,934.6	4,145.0
Current assets	0.4	0.2
Current liabilities	(151.5)	(72.1)
Non-current liabilities	(7,818.0)	(7,441.7)
Net liabilities attributable to venturers	(4,034.5)	(3,368.6)
<b>Income and losses</b>		
Income	-	-
Net loss from ordinary activities attributable to venturers	(665.9)	(543.4)



At the balance sheet date, the Group's share of capital commitments of Chest Gain in respect of a property development project was as follows:

	2001 HK\$'million	2000 HK\$'million
Authorised and contracted for	562.8	15.9
Authorised, but not contracted for	–	555.8
	<u>562.8</u>	<u>571.7</u>

## 19. INTERESTS IN ASSOCIATES

	GROUP	
	2001 HK\$'million	2000 HK\$'million
Unlisted companies:		
Share of net liabilities	(3.2)	(14.0)
Loans to associates	254.8	233.0
Amounts due from associates	9.7	30.4
	<u>261.3</u>	<u>249.4</u>
Less: Provision for impairment	(0.4)	(0.4)
	<u>260.9</u>	<u>249.0</u>
At balance sheet date:		
Share of post-acquisition undistributed reserves	<u>(308.8)</u>	<u>(305.6)</u>

The loans to associates are unsecured and not repayable within one year. Except for an amount of HK\$138.0 million (2000 - HK\$126.3 million) and a prior year balance of HK\$2.9 million which bear interest at Hong Kong prime rate and 10% per annum, respectively, the remaining balances are interest free.

The amounts due from associates are unsecured, interest free and have no fixed terms of repayment.

The shares of net liabilities and post-acquisition undistributed reserves represent the shares attributable to the Group before the Group's minority interests therein.

Details of the Group's principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operation	Class of equity interest held	Percentage of equity interest attributable to the Group		Principal activities
				2001	2000	
Talent Faith Investments Ltd.	Corporate	British Virgin Islands	Ordinary shares	50.00 <sup>(1)</sup>	50.00 <sup>(1)</sup>	Investment holding
Beijing Hengfu Plaza Development Co., Ltd.*	Corporate	The People's Republic of China	Equity joint venture interest	22.75 <sup>(1)</sup>	22.75 <sup>(1)</sup>	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.00 <sup>(1)</sup>	30.00 <sup>(1)</sup>	Property development
Weifang Futuan Building Materials Co., Ltd.*	Corporate	The People's Republic of China	Equity joint venture interest	25.00 <sup>(2)</sup>	25.00 <sup>(2)</sup>	Cement production
8D International (BVI) Limited ("8D-BVI")	Corporate	British Virgin Islands	Ordinary shares	40.00 <sup>(3)</sup>	40.00 <sup>(3)</sup>	Investment holding
8D Matrix Limited	Corporate	British Virgin Islands	Ordinary shares	48.00 <sup>(4)</sup>	40.00 <sup>(4)</sup>	Investment holding
8D International Limited	Corporate	Hong Kong	Ordinary shares	48.00 <sup>(4)</sup>	40.00 <sup>(4)</sup>	Promotions, communications and information technology

\* Not audited by Ernst & Young

(1) The percentage of equity interest represents equity interest attributable to PHL.

(2) The percentage of equity interest represents equity interest attributable to a 75% owned subsidiary company of PHL.

(3) The percentage of equity interest represents the aggregate of the 10% (2000 - 10%) and the 30% (2000 - 30%) equity interests attributable to the Company and RHIHL, respectively. RHIHL was in turn 43.1% (2000 - 44.6%) owned by the Group as at 31st December, 2001.

(4) The percentage of equity interest represents the aggregate of the 12% (2000 - 10%) (including a 2% attributable interest held by the Company through 8D-BVI) and the 36% (2000 - 30%) (including a 6% attributable interest held by RHIHL through 8D-BVI) equity interests attributable to the Company and RHIHL, respectively.

All associates are indirectly held by the Company.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.



**20. INVESTMENTS**

	<b>GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
<b>Long term investments</b>		
Listed equity investments, at market value:		
Hong Kong	<b>34.3</b>	144.8
Elsewhere	<b>7.8</b>	8.0
	<b>42.1</b>	152.8
Unlisted equity investments, at fair value:		
Carrying value	<b>392.7</b>	392.7
Provisions for impairments in values	<b>(273.5)</b>	(93.5)
	<b>119.2</b>	299.2
	<b>161.3</b>	452.0

Listed long term investments with an aggregate market value at the balance sheet date amounting to HK\$33.1 million (2000 - HK\$32.3 million) were pledged to secure general credit facilities granted to the Group.

Included in the unlisted long term investments is an amount of HK\$118.9 million (2000 - HK\$298.9 million) which represents the PHL Group's investments of 23% interest each in two sino-foreign joint venture companies, namely Beijing Century City Real Estate Development Co., Ltd. and Beijing Jianye Real Estate Developing Co., Ltd. (collectively, the "Investee Companies") in Beijing, the PRC. Despite the PHL Group's holding of 23% interests in the Investee Companies, the directors of PHL confirm that the PHL Group is not in a position to exercise significant influence over the financial and operating policies of the Investee Companies due to a contractual arrangement made with the independent third parties to exchange the PHL Group's entire interests in the Investee Companies for the hotel portion of the land site beneficially and collectively held by the Investee Companies in accordance with the agreed terms. Accordingly, the directors of PHL consider it appropriate to account for the investments therein as long term investments.





In November 2000, the 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 joint venture partners to the Investee Companies have the right to make an application to the relevant PRC government authorities for an administrative review but have not done so to date. Instead, the PHL Group and the other investor 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. A valuation of the hotel portion of the land site was carried out by an independent valuer at RMB265.0 million (approximately HK\$249.9 million) as at 31st December, 2001, based on an open market value, ready for hotel development basis and on the assumption that the owners of the land site have enforceable title thereto. Taking into account the estimated cost of approximately HK\$131.0 million to be incurred for bringing the hotel portion of the land site to a ready for development basis, an impairment loss of HK\$180.0 million was charged against the profit and loss account in the current year. In the opinion of the directors of PHL, it is 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.

	<b>GROUP</b>	
	<b>2001</b> <b>HK\$'million</b>	<b>2000</b> <b>HK\$'million</b>
<b>Short term investments</b>		
Listed equity investment in Hong Kong, at market value	<u>9.9</u>	<u>27.7</u>

The prior year short term investments with market values amounting HK\$2.0 million were pledged to secure general credit facilities granted to the Group.



## 21. LOANS AND OTHER LONG TERM RECEIVABLE

		GROUP	
	Notes	2001 HK\$'million	2000 HK\$'million
Promissory notes receivable	(a)	168.0	180.0
Long term mortgage loans	(b)	57.3	74.3
Other loans	(c)	78.0	115.7
		303.3	370.0
		303.3	370.0

- (a) This represented promissory notes receivable in the aggregate amount of HK\$180.0 million (2000 - HK\$180.0 million) which were repayable on demand. Apart from an amount of HK\$50.0 million which was secured and bore interest at 11.5% per annum, the remaining amount of HK\$130.0 million was unsecured and bore interest at 1.5% to 2.5% over Hong Kong prime rate per annum. Subsequent to the balance sheet date, on 7th March, 2002, a settlement agreement was entered into between the Group and the borrowers, under which the promissory notes together with the interest accrued thereon was 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 (the "Entitlements"). The convertible note, which the Group intends to hold 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 fulfilment 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 note issuer during the period from the Initial Maturity Date to the Final Maturity Date. The loss arising on the settlement agreement of HK\$38.0 million, representing the shortfall in the fair value of the Entitlements aggregating HK\$168.0 million received by the Group and the carrying value of the promissory notes receivable of HK\$180.0 million and accrued interest of HK\$26.0 million (included in debtors, deposits and prepayments under current assets), has been provided for in the current year financial statements.
- (b) The long term mortgage loans represent loans granted by the Group to purchasers in connection with the sale of its properties. The loans are secured by the second mortgages over the properties sold and are repayable by instalments. The long term mortgage loans bear interest at Hong Kong prime rate plus 1.75% to 2% per annum with certain of the loans having interest free periods of up to thirty-six months from the respective drawdown dates of such loans.



- (c) The other loans include a loan of US\$10.0 million (HK\$78.0 million) (2000 - HK\$78.0 million) advanced to a hotel owner to assist financing the interior decoration and pre-operating expenditure of its hotel in Shanghai, the PRC, which is managed by the Group. The loan is unsecured, interest free and is repayable commencing from the date of the hotel opening, by way of payments equivalent to 28% of the hotel's net operating profit determined in accordance with the PRC accounting standards after appropriation of the statutory reserves, over the tenure of the management contract for the hotel of 15 years, subject to the possible renewal thereof for a further 5 years.

The prior year amount also included loans of RMB40.0 million (HK\$37.7 million) advanced to an independent third party in connection with a proposed investment in an information technology project which has been suspended due to unfavourable market conditions. Accordingly, a full provision has been made by the Group in the current year financial statements. The loans were secured on the investment in the project, bore interest at Hong Kong prime rate per annum and had no fixed terms of repayment.

## 22. INTANGIBLE ASSETS

	<b>GROUP</b>
	<b>HK\$'million</b>
Cost:	
At beginning of year	7.5
Disposal of subsidiary companies	(4.5)
	<hr/>
At 31st December, 2001	3.0
	<hr/>
Accumulated amortisation:	
At beginning of year	0.5
Provided during the year	0.6
Disposal of subsidiary companies	(0.6)
	<hr/>
At 31st December, 2001	0.5
	<hr/>
Net book value:	
At 31st December, 2001	2.5
	<hr/> <hr/>
At 31st December, 2000	7.0
	<hr/> <hr/>



**23. OTHER ASSETS**

	<b>GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
At cost:		
Deposits with the HKFE, SEHK and the SEHK Option Clearing House Limited	<b>0.1</b>	1.8
Others	<b>0.2</b>	0.7
	<hr/> <b>0.3</b> <hr/>	<hr/> 2.5 <hr/>

**24. SHORT TERM LOANS RECEIVABLE**

The short term loans receivable of the Group represents an unsecured and interest free loan to a consortium in the amount of HK\$0.9 million (2000 – HK\$0.9 million).

**25. PROPERTIES HELD FOR SALE**

Certain of the Group's properties held for sale with carrying amount of HK\$158.9 million (2000 - HK\$271.6 million) were pledged to secure banking facilities granted to the Group. In addition, the sale proceeds in respect of certain properties held for sale with carrying amount of HK\$42.7 million were assigned to lenders to secure a loan facility granted to the Group.

Certain of the Group's properties held for sale are leased to third parties under operating leases, further summary details of which are included in note 51(a) to financial statements.



**26. HOTEL AND OTHER INVENTORIES**

	<b>GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
Hotel merchandise	21.1	24.7
Raw materials	2.9	6.4
Work in progress	4.4	8.2
Finished goods	1.0	1.9
	<u>29.4</u>	<u>41.2</u>

As at 31st December, 2001, the carrying amount of inventories of the Group pledged to secure general banking facilities granted to the Group amounted to HK\$6.6 million (2000 - HK\$9.8 million).

**27. DEBTORS, DEPOSITS AND PREPAYMENTS**

Included in the balance is an amount of HK\$163.0 million (2000 - HK\$199.9 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	<b>GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
Outstanding balances with ages:		
Within 3 months	112.9	147.3
Between 4 to 6 months	7.2	5.3
Between 7 to 12 months	5.3	14.0
Over 1 year	56.8	52.1
	<u>182.2</u>	<u>218.7</u>
Provisions	(19.2)	(18.8)
	<u>163.0</u>	<u>199.9</u>



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 at 7% per annum (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. A 50% of the Consideration Receivable was assigned to the lenders of the Syndicated Loan of the RHIHL Group (note 3) for the prepayment of a loan instalment.

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"). The RHIHL Group has now been notified by the Purchaser of certain indemnity claims, allegedly related to Pre-closing Liabilities for third party legal claims, indemnifiable by the RHIHL Group under the SP Agreement. The Purchaser also alleges that the aggregate amount of these potential claims exceeds the Deferred Consideration 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 made by the Purchaser. Based on the advice obtained from the independent law firm, the RHIHL Group considers that (i) the majority of the underlying legal claims are either weak in their grounds, or are likely to be settled for amounts considerably less than the amounts claimed by the plaintiffs in the litigation cases; and (ii) in any event, a certain portion of the Consideration Receivable should be settled by the Purchaser regardless of the status of the resolution of certain major litigation cases underlying the third party claims. The RHIHL Group is currently consulting with its legal advisers to initiate appropriate recovery action against the Purchaser.

The directors of RHIHL expect that as and when the underlying third party legal claims are resolved, the Consideration Receivable will be released to the RHIHL Group in stages, a significant portion of which should be forthcoming within a reasonable timeframe. However, given the inherent complications associated with litigation proceedings in the USA, the directors of RHIHL 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 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 2 to 90 days, are recognised and carried at their original invoiced amount less provisions for doubtful debts which are made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Included in the Group's trade debtors are amounts due from the Group's jointly controlled entity of HK\$34.0 million (2000 - HK\$31.8 million), which are repayable on negotiated terms.



**28. CREDITORS AND ACCRUALS**

Included in the balance is an amount of HK\$110.9 million (2000 - HK\$109.3 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	<b>GROUP</b>	
	<b>2001 HK\$'million</b>	<b>2000 HK\$'million</b>
Outstanding balances with ages:		
Within 3 months	<b>84.3</b>	79.4
Between 4 to 6 months	<b>3.6</b>	3.1
Between 7 to 12 months	<b>1.4</b>	1.9
Over 1 year	<b>21.6</b>	24.9
	<u><b>110.9</b></u>	<u>109.3</u>

**29. CONSTRUCTION CONTRACTS**

	<b>GROUP</b>	
	<b>2001 HK\$'million</b>	<b>2000 HK\$'million</b>
Gross amount due from contract customers included in debtors, deposits and prepayments	–	2.4
Gross amount due to contract customers included in creditors and accruals	<b>(110.1)</b>	(119.6)
	<u><b>(110.1)</b></u>	<u>(117.2)</u>
Contract costs incurred plus recognised profits less recognised losses to date	<b>1,406.3</b>	1,092.9
Less: Progress billings	<b>(1,516.4)</b>	(1,210.1)
	<u><b>(110.1)</b></u>	<u>(117.2)</u>

At 31st December, 2001, retentions held by customers for contract works, as included in debtors, deposits and prepayments under current assets, amounted to approximately HK\$25.9 million (2000 - HK\$25.6 million).

As 31st December, 2001, advances from customers for contract works, as included in creditors and accruals under current liabilities, amounted to approximately HK\$22.8 million (2000 - HK\$23.2 million).



## 30. INTEREST BEARING BANK AND OTHER BORROWINGS

	GROUP		COMPANY	
	2001 HK\$'million	2000 HK\$'million	2001 HK\$'million	2000 HK\$'million
Bank loans and overdrafts:				
Secured	5,922.4	6,044.5	55.0	55.0
Unsecured	256.5	223.7	–	–
Other loans wholly repayable within five years:				
Secured	1,243.8	1,464.7	–	–
Unsecured	311.6	107.0	–	–
	<u>7,734.3</u>	<u>7,839.9</u>	<u>55.0</u>	<u>55.0</u>
Portion of borrowings due within one year included under current liabilities:				
Bank loans and overdrafts	(1,829.4)	(1,519.9)	(55.0)	(55.0)
Other loans	(368.4)	(362.2)	–	–
	<u>(2,197.8)</u>	<u>(1,882.1)</u>	<u>(55.0)</u>	<u>(55.0)</u>
Long term borrowings	<u>5,536.5</u>	<u>5,957.8</u>	<u>–</u>	<u>–</u>
The bank loans and overdrafts and other loans are repayable in varying instalments within a period of:				
On demand or not exceeding 1 year	2,197.8	1,882.1	55.0	55.0
More than 1 year but not exceeding 2 years	1,895.0	496.3	–	–
More than 2 years but not exceeding 5 years	3,342.0	5,069.5	–	–
More than 5 years	299.5	392.0	–	–
	<u>7,734.3</u>	<u>7,839.9</u>	<u>55.0</u>	<u>55.0</u>

The other loans carried fixed interest rates ranging from 8.78% to 13.5% (2000 - 8.78% to 13.5%) per annum at the balance sheet date.





At the balance sheet date, RHIHL Group had not complied with certain loan covenants in respect of a syndicated loan amounting to HK\$3,822.1 million (the "Syndicated Loan") and a construction loan amounting to HK\$1,079.5 million (the "Construction Loan"). For the reasons detailed in note 3 to the financial statements, the directors of RHIHL consider it appropriate to continue to classify the Syndicated Loan and the Construction Loan as current or non-current liabilities in accordance with their original maturity terms.

### 31. EXCHANGEABLE BONDS

In February 1996, the PHL Group issued US\$140 million 3½% exchangeable guaranteed bonds (the "Exchangeable Bonds") which fall due in 2001. The Exchangeable Bonds are listed on the Luxembourg Stock Exchange. The issue price of the Exchangeable Bonds was 100% of their principal amount and they bear interest at the rate of 3½% per annum.

As at 1st January, 2001, the outstanding Exchangeable Bonds in the amount of US\$139.8 million were exchangeable, at the option of the bondholders, into an aggregate of 536.7 million fully paid ordinary shares in RHIHL ("Regal Shares") owned by the PHL Group at an effective exchange price of HK\$2.0144 per Regal Share, subject to adjustments, based on an exchange rate of HK\$7.735 to US\$1.00. The exchange period for the Exchangeable Bonds was from 6th April, 1996 to 23rd January, 2001, both dates inclusive (which period was extended by 90 days to 23rd April, 2001 pursuant to a second supplemental trust deed dated 23rd January, 2001).

The PHL Group had the right to redeem on or after 13th February, 1999 all or part of the Exchangeable Bonds, subject to certain conditions, at a redemption price of not less than their principal amount and to be determined by reference to the specified percentage, as applicable to the year in which the redemption takes place, together with interest accrued to the date of redemption.

The Exchangeable Bonds were redeemable on maturity on 6th February, 2001 at 121.85% of their principal amount, if not previously exchanged or redeemed. The Exchangeable Bonds remained unpaid on the due date. Further details are set out in note 3 to the financial statements. Following the maturity default of the Exchangeable Bonds, the outstanding Exchangeable Bonds shall continue to bear interest at the original rate in accordance with the terms of the trust deed governing the issue of the Exchangeable Bonds.

During the year, Exchangeable Bonds in the amount of US\$10.95 million was exchanged for 42.05 million Regal Shares. The full exchange of the remaining Exchangeable Bonds as at 31st December, 2001 for Regal Shares would, with the capital structure of RHIHL as at 31st December, 2001, and based on the issued ordinary share capital of RHIHL and the PHL Group's 72.8% interest therein as at that date, reduce the PHL Group's shareholding in RHIHL to 60.2%.



### 32. CONVERTIBLE BONDS

On 12th March, 1997, the PHL Group issued US\$210 million of zero coupon guaranteed convertible bonds (the "Convertible Bonds") which mature in 2002. The Convertible Bonds are listed on the Luxembourg Stock Exchange. The issue price of the Convertible Bonds was 100% of their principal amount.

As at 1st January, 2001, the Convertible Bonds were convertible, at the option of the bondholders, into an aggregate of 193.7 million fully paid shares of HK\$1.00 each in PHL at a conversion price of HK\$8.40 per share, subject to adjustments, based on an exchange rate of HK\$7.749 to US\$1.00. The conversion period for the Convertible Bonds is from 21st April, 1997 to 5th March, 2002, both dates inclusive.

The PHL Group has the right to redeem the Convertible Bonds, in whole or in part, on or after 12th March, 2000, subject to certain conditions, at a redemption price based on the principal amount plus a time pro-rata portion of the final redemption premium calculated by reference to the number of days elapsed since the date of issue to the date of the redemption.

The Convertible Bonds are redeemable on maturity on 12th March, 2002 at 145.875% of their principal amount, if not previously redeemed, purchased and cancelled or converted.

Up to 31st December, 2001, none of the Convertible Bonds had been converted into shares of PHL. During the year, Convertible Bonds in the amount of US\$2.2 million were repurchased by the Group at a consideration of US\$1.9 million (HK\$15.0 million) and were cancelled. The full conversion of the remaining Convertible Bonds would, with the capital structure of PHL as at 31st December, 2001 and based on the issued share capital of PHL and the Group's 59.2% interest therein as at that date, dilute the Group's shareholding in PHL to 54.7%.

As more fully explained in note 3 to the financial statements, as a result of the maturity default of the Exchangeable Bonds (note 31), on 15th March, 2001, the trustee of the Convertible Bonds served a notice to declare the Convertible Bonds to be immediately due and payable by virtue of the cross default provisions contained in the trust deeds governing the issue of the Convertible Bonds. Accordingly, the Convertible Bonds had been classified as current liabilities since 31st December, 2000.

Following the cross default of the Convertible Bonds, the outstanding Convertible Bonds shall continue to bear interest at an effective rate of 7.844% per annum in accordance with the terms of the trust deed governing the issue of the Convertible Bonds.



### 33. PROVISION FOR PREMIUM ON REDEMPTION OF EXCHANGEABLE BONDS AND CONVERTIBLE BONDS

	GROUP	
	2001 HK\$'million	2000 HK\$'million
Balance at beginning of year	779.2	563.9
Exchange adjustments	–	2.2
Provision during the year	60.6	213.1
Provision released upon the exchange of Exchangeable Bonds prior to maturity	(18.3)	–
Provision released upon the repurchase and cancellation of Convertible Bonds	(5.9)	–
Balance at end of year	<u>815.6</u>	<u>779.2</u>

The above provision for premium was classified as a current liability on the same basis as the related Exchangeable Bonds and Convertible Bonds as explained in notes 31 and 32 to the financial statements, respectively.

### 34. PROVISIONS

	GROUP		
	Guarantee on bank loan granted to:		
	an associate HK\$' million	an independent third party HK\$' million	Total HK\$' million
Balance at beginning of year	109.0	267.5	376.5
Additional provision	9.8	31.0	40.8
Reclassification as a bank loan (notes 47(b) and 48(e))	(118.8)	–	(118.8)
Balance at end of year	<u>–</u>	<u>298.5</u>	<u>298.5</u>



	<b>COMPANY</b>
	<b>Guarantee on bank loan granted to an independent third party HK\$'million</b>
Balance at beginning of year	267.5
Additional provision	31.0
Balance at 31st December, 2001	<u>298.5</u>

The amounts of the provisions for guarantee were provided based on the net exposure of the Group and the Company on the outstanding loan balance drawn down by the borrowers.

### 35. ADVANCES FROM MINORITY SHAREHOLDERS OF SUBSIDIARY COMPANIES

All advances from minority shareholders of subsidiary companies are unsecured and have no fixed terms of repayment. Apart from an amount of HK\$30.6 million (2000 – HK\$28.4 million) which bears interest at 1% above Hong Kong prime rate per annum, the remaining amount is interest free.

### 36. SHARE CAPITAL

	<b>COMPANY</b>	
	<b>Number of shares of HK\$0.10 each 'million</b>	<b>HK\$'million</b>
Authorised:		
Balance at beginning and at end of year	<u>20,000.0</u>	<u>2,000.0</u>
Issued and fully paid:		
Balance at beginning and at end of year	<u>3,326.8</u>	<u>332.7</u>

**37. RESERVES**

	Notes	GROUP		COMPANY	
		2001 HK\$'million	2000 HK\$'million (Restated)	2001 HK\$'million	2000 HK\$'million
Share premium	38	<b>888.4</b>	888.4	<b>888.4</b>	888.4
Capital redemption reserve	39	<b>4.4</b>	4.4	<b>4.4</b>	4.4
Capital reserve	40	<b>3,325.9</b>	3,383.4	–	–
Revaluation reserves	41	<b>53.9</b>	64.7	–	–
Exchange equalisation reserve	42	<b>(4.2)</b>	(3.2)	–	–
Contributed surplus	44	–	–	<b>1,893.5</b>	1,893.5
Accumulated losses	45	<b>(4,761.4)</b>	(3,115.2)	<b>(3,279.3)</b>	(1,563.8)
		<b>(493.0)</b>	1,222.5	<b>(493.0)</b>	1,222.5

**38. SHARE PREMIUM**

	COMPANY	
	2001 HK\$'million	2000 HK\$'million
Balance at beginning of year	<b>888.4</b>	747.0
Premium on issue of new shares	–	145.3
Share issue expenses	–	(3.9)
Balance at end of year	<b>888.4</b>	888.4

**39. CAPITAL REDEMPTION RESERVE**

	GROUP AND COMPANY	
	2001 HK\$'million	2000 HK\$'million
Balance at beginning and at end of year	<b>4.4</b>	4.4



## 40. CAPITAL RESERVE

	GROUP	
	2001 HK\$'million	2000 HK\$'million
Balance at beginning of year		
As previously reported	3,226.9	3,239.4
Prior year adjustments (note 45)*	156.5	–
As restated	<u>3,383.4</u>	<u>3,239.4</u>
Impairment of goodwill eliminated against capital reserve (note 45)*	–	156.5
Release on disposal of ordinary shares in a listed subsidiary company	(43.1)	–
Release on disposal of ordinary shares in a listed subsidiary company upon the exchange of Exchangeable Bonds	(14.4)	–
Release as a result of the deemed disposal of the Group's interest in a listed subsidiary company	–	(2.5)
Share of goodwill of an associate eliminated directly against reserves	–	(10.0)
Balance at end of year	<u><u>3,325.9</u></u>	<u><u>3,383.4</u></u>

\* SSAP 30 was adopted during the year. As detailed in note 2 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1st January, 2001, to remain eliminated against the capital reserve.

Due to the adoption of SSAP 30, the Group has adopted a policy to assess goodwill eliminated against reserves for impairment. As a result, the Group has recognised an impairment of the goodwill previously eliminated against the capital reserve of HK\$156.5 million in the year ended 31st December, 2000 as detailed in the table below. This change of accounting policy has been accounted for retrospectively as prior year adjustments, the effect of which is to increase both the accumulated losses and the capital reserve of the Group as at 1st January, 2001 by HK\$156.5 million, (net of minority interests of HK\$66.7 million) (notes 7 and 45). There is no attributable tax effect in respect of the prior year adjustments.

The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisitions of subsidiary companies and that of an associate shared by the Group prior to 1st January, 2001, are as follows:

	<b>Share of goodwill of an associate eliminated against capital reserve HK\$' million</b>	<b>Goodwill eliminated against capital reserve HK\$' million</b>	<b>Negative goodwill credited to capital reserve HK\$' million</b>
Cost:			
At beginning of year	10.0	156.5	(2,168.3)
Release on disposal of ordinary shares in a listed subsidiary company	–	–	43.1
Release on disposal of ordinary shares in a listed subsidiary company upon the exchange of Exchangeable Bonds	–	–	14.4
At 31st December, 2001	<u>10.0</u>	<u>156.5</u>	<u>(2,110.8)</u>
Accumulated impairment:			
At beginning of year			
As previously reported	–	–	–
Prior year adjustment and as restated	–	(156.5)	–
At 31st December, 2001	<u>–</u>	<u>(156.5)</u>	<u>–</u>
Net amount:			
At 31st December, 2001	<u>10.0</u>	<u>–</u>	<u>(2,110.8)</u>
At 31st December, 2000	<u>10.0</u>	<u>–</u>	<u>(2,168.3)</u>

The remaining balance of the capital reserve arose as a result of the Group reorganisations in prior years.



## 41. REVALUATION RESERVES

	<b>GROUP</b>					
	<b>Associates*</b> HK\$'million	<b>Investment properties</b> HK\$'million	<b>Hotel properties</b> HK\$'million	<b>Leasehold properties</b> HK\$'million	<b>Long term investments</b> HK\$'million	<b>Total</b> HK\$'million
At 1st January, 2000	4.9	109.0	–	151.5	(42.1)	223.3
Movement in fair value	–	–	–	–	(26.0)	(26.0)
Reclassification of leasehold properties as investment properties	–	16.3	–	(16.3)	–	–
Release on deemed disposal of the Group's interest in a listed subsidiary company	(0.1)	–	–	–	0.1	–
Release on disposal	(4.8)	–	–	–	0.4	(4.4)
Transfer to retained profits (note 46)	–	–	–	(5.0)	–	(5.0)
Surplus/(Deficit) on revaluation	–	(123.2)	65.8	–	–	(57.4)
Write back of deficit previously charged to profit and loss account	–	–	(65.8)	–	–	(65.8)
At 31st December, 2000 and at 1st January, 2001	–	2.1	–	130.2	(67.6)	64.7
Movement in fair value	–	–	–	–	(13.4)	(13.4)
Reclassification of leasehold properties as investment properties	–	51.5	–	(51.5)	–	–
Reclassification of investment properties as properties held for sale	–	7.3	–	–	–	7.3
Release on disposal of ordinary shares in a listed subsidiary company	–	–	–	(2.6)	1.3	(1.3)
Release on disposal of ordinary shares in the listed subsidiary company upon the exchange of Exchangeable Bonds	–	–	–	–	0.8	0.8
Release on disposal	–	–	–	–	61.2	61.2
Transfer to retained profits (note 46)	–	–	–	(4.5)	–	(4.5)
Deficit on revaluation	–	(60.9)	–	–	–	(60.9)
At 31st December 2001	–	–	–	<b>71.6</b>	<b>(17.7)</b>	<b>53.9</b>

\* This represented the Group's share of revaluation reserve of associates in relation to hotel properties.

The revaluations of the Group's hotel properties and investment properties in Hong Kong do not constitute timing differences because the realisation of the revaluation surplus would not be subject to Hong Kong profits tax.



**42. EXCHANGE EQUALISATION RESERVE**

	<b>GROUP</b>	
	<b>2001 HK\$'million</b>	<b>2000 HK\$'million</b>
Balance at beginning of year	<b>(3.2)</b>	2.0
Release on disposal of ordinary shares in a listed subsidiary company upon the exchange of Exchangeable Bonds	<b>0.1</b>	–
Release on disposal of overseas subsidiary companies	–	(1.4)
Release on disposal of an overseas associate	–	(2.1)
Exchange adjustment on translation of the financial statements of overseas subsidiary companies	<b>(1.1)</b>	(1.7)
Balance at end of year	<b>(4.2)</b>	(3.2)

**43. INTERESTS IN SUBSIDIARY COMPANIES**

	<b>COMPANY</b>	
	<b>2001 HK\$'million</b>	<b>2000 HK\$'million</b>
Unlisted shares, at cost	<b>2,059.0</b>	2,059.0
Amount due from a subsidiary company	<b>1,056.0</b>	1,059.8
	<b>3,115.0</b>	3,118.8
Provision for impairment	<b>(2,913.1)</b>	(1,236.2)
	<b>201.9</b>	1,882.6



Details of the principal subsidiary companies are as follows:

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Aikford Financial Services Limited	Hong Kong	HK\$2	100	100	Securities investment
Century City Brokerage Limited*	Hong Kong	HK\$25,800,000	–	100	Brokerage services
Century City BVI Holdings Limited	British Virgin Islands	HK\$10	100	100	Investment holding
Century City (F.S.) Management Limited	Hong Kong	HK\$2	100	100	Management services
Century City Finance Limited	Hong Kong	HK\$2	100	100	Financing
Century City Funds Management Limited	Hong Kong	HK\$2	100	100	Fund management
Century City Futures Limited*	Hong Kong	HK\$10,000,000	–	100	Brokerage services
Century City Holdings Limited	Hong Kong	HK\$264,488,059	100	100	Investment holding
Century City (Nominees) Limited	Hong Kong	HK\$2	100	100	Nominee services
Century City (Secretaries) Limited	Hong Kong	HK\$2	100	100	Secretarial services
Century Pacific Development Limited	Hong Kong	HK\$2	100	100	Financing
Cityline Finance Limited	Hong Kong	HK\$2	100	100	Financing
Gentwin Investment Limited	Hong Kong	HK\$2	100	100	Financing



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Meylink Limited	British Virgin Islands	US\$1	100	100	Investment holding
Splendour Corporation	British Virgin Islands	US\$1	100	100	Investment holding
T.M. Nominees Limited	Hong Kong	HK\$2	100	100	Nominee services
Wise Assets Holdings Limited	British Virgin Islands	US\$1	100	100	Securities investment
Paliburg Holdings Limited	Bermuda	HK\$2,318,497,452	59.2	60.4	Investment holding
Bajan Company Limited	Hong Kong	HK\$2	59.2	60.4	Securities trading
Cathay City BVI Holdings Limited	British Virgin Islands	HK\$10	59.2	60.4	Investment holding
Cathay City Investments Limited	Hong Kong	HK\$89,626,000	59.2	60.4	Investment holding
Cathay City Development, Inc.	U.S.A.	US\$6,000,000	59.2	60.4	Property development and investment
Cathay City Property Management, Inc.	U.S.A.	US\$10,000	59.2	60.4	Property and project management
Chatwin Engineering Limited	Hong Kong	HK\$2,800,000	47.4	48.3	Building construction
Cheer Faith Limited	Hong Kong	HK\$2	59.2	60.4	Financing
Chinatrend (Holdings) Limited	Hong Kong	HK\$10,000	44.4	45.3	Investment holding



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Chinatrend (Weifang Cement Plant) Limited	Hong Kong	HK\$2	44.4	45.3	Investment holding
Cosmos Best Development Limited	Hong Kong	HK\$2	59.2	60.4	Management services
Cosmos Gain Investment Limited	Hong Kong	HK\$2	59.2	60.4	Property development and investment
Everlane Investment Limited	Hong Kong	HK\$2	59.2	60.4	Property development and investment
Farich Investment Limited	Hong Kong	HK\$2	59.2	60.4	Investment holding
Fine Cosmos Development Limited	Hong Kong	HK\$2	59.2	60.4	Property development and investment
Finso Limited	Hong Kong	HK\$2	59.2	60.4	Investment holding
Gain World Investments Limited	British Virgin Islands	US\$1	59.2	60.4	Investment holding
Glaser Holdings Limited	British Virgin Islands	US\$1	59.2	60.4	Investment holding
Glory Legend Development Limited	Hong Kong	HK\$2	59.2	60.4	Financing
Good Focus Holdings Limited	British Virgin Islands	US\$1	59.2	60.4	Property investment
Granco Development Limited	Hong Kong	HK\$2	59.2	60.4	Property development and investment
H.P. Nominees Limited	Hong Kong	HK\$2	59.2	60.4	Investment holding and nominee services



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Landstar Investment Limited	Hong Kong	HK\$2	59.2	60.4	Financing
Lead Fortune Development Limited	Hong Kong	HK\$2	59.2	60.4	Property development and investment
Linkprofit Limited	Hong Kong	HK\$2	59.2	60.4	Investment holding
Paliburg BVI Holdings Limited	British Virgin Islands	HK\$10	59.2	60.4	Investment holding
Paliburg Building Services Limited	Hong Kong	HK\$2	59.2	60.4	Mechanical and electrical engineering services
Paliburg Company Limited	Hong Kong	HK\$1,000	59.2	60.4	Investment holding
Paliburg Development BVI Holdings Limited	British Virgin Islands	US\$1	59.2	60.4	Investment holding
Paliburg Development Consultants Limited	Hong Kong	HK\$100,000	59.2	60.4	Development consultants
Paliburg Development Finance Limited	Hong Kong	HK\$2	59.2	60.4	Financing
Paliburg Estate Agents Limited	Hong Kong	HK\$20	59.2	60.4	Estate agent
Paliburg Estate Management Limited	Hong Kong	HK\$20	59.2	60.4	Estate management
Paliburg Finance (C.B. 2002) Limited	British Virgin Islands	US\$1	59.2	60.4	Financing



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Paliburg Finance Limited	Hong Kong	HK\$2	59.2	60.4	Financing
Paliburg International Finance Limited	British Virgin Islands	US\$1	59.2	60.4	Financing
Paliburg International Holdings Limited	Bermuda	HK\$100,000	59.2	60.4	Investment holding
Paliburg Investments Limited	Hong Kong	HK\$526,506,860	59.2	60.4	Investment holding
Polarfine Inc	British Virgin Islands	HK\$3,000,000	47.4	48.3	Investment holding
Rank Cheer Investment Limited	Hong Kong	HK\$2	59.2	60.4	Financing
Real Charm Investment Limited	Hong Kong	HK\$2	59.2	60.4	Property investment
Rich Pearl Limited	Hong Kong	HK\$10,000	59.2	60.4	Financing
Sanefix Development Limited	Hong Kong	HK\$2	59.2	60.4	Property investment
Shenyang Paliburg Plaza Limited**	The People's Republic of China	US\$9,820,000	59.2	60.4	Property development and investment
Sonnix Limited	Hong Kong	HK\$2	59.2	60.4	Property development and investment
Taylor Investments Ltd.	British Virgin Islands	US\$1	59.2	60.4	Investment holding
Transcar Investments Limited	British Virgin Islands	US\$1	59.2	60.4	Investment holding
Treasure Spot Investments Limited	British Virgin Islands	US\$1	59.2	60.4	Property investment



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Vertex Investments Limited	Hong Kong	HK\$2	59.2	60.4	Securities investment
Weifang Yuanzhong Real Estate Development Co., Ltd.#	The People's Republic of China	US\$8,130,000	31.1	31.7	Property development and investment
Yield Star Limited	British Virgin Islands	US\$1	59.2	60.4	Investment holding
Regal Hotels International Holdings Limited	Bermuda	Ordinary	43.1	44.6	Investment holding
		- HK\$393,877,250 Preference - US\$167,480	12.1	12.4	
Bauhinia Hotels Limited	Hong Kong	HK\$2	43.1	44.6	Hotel ownership
Camomile Investments Limited	Hong Kong	HK\$2	43.1	44.6	Property investment
Century Win Investment Limited	Hong Kong	HK\$10,000	38.8	40.1	Restaurant operations
Charter Capital Development Limited	Hong Kong	HK\$2	43.1	44.6	Property investment
Cityability Limited	Hong Kong	HK\$10,000	43.1	44.6	Hotel ownership
Come On Investment Company Limited	Hong Kong	HK\$10,000	43.1	44.6	Securities investment and trading
Fortune Nice Investment Limited	Hong Kong	HK\$2	43.1	44.6	Financing
Gala Hotels Limited	Hong Kong	HK\$2	43.1	44.6	Hotel ownership
HK 168 Limited	Republic of Liberia	US\$1	43.1	44.6	Securities investment



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Kaifeng Yatai Brewery Co., Ltd.**	The People's Republic of China	RMB 35,923,300	38.8	40.1	Production and distribution of beer
Kaifeng Yatai Brewery Second Co., Ltd.**	The People's Republic of China	RMB 30,576,700	38.8	40.1	Production and distribution of beer
Key Winner Investment Limited	Hong Kong	HK\$2	43.1	44.6	Financing
Kingford View Investments Limited	British Virgin Islands	US\$1	43.1	44.6	Securities investment
Regal Century Investment Limited	Hong Kong	HK\$2	43.1	44.6	Investment holding and management services
Regal Constellation Hotel Limited	Canada	CAN\$1	43.1	44.6	Hotel ownership
Regal Hotels Company Limited	Hong Kong	HK\$2	43.1	44.6	Financing
Regal Hotels (Holdings) Limited	Hong Kong	HK\$1,151,598,638	43.1	44.6	Investment holding
Regal Hotels International Limited	Hong Kong	HK\$100,000	43.1	44.6	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US\$1	43.1	44.6	Hotel management
Regal International Limited	British Virgin Islands	US\$20	43.1	44.6	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK\$10.1	43.1	44.6	Investment holding
Regal Laundry Services Limited	Hong Kong	HK\$2	43.1	44.6	Laundry operations





Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Regal Pacific (Holdings) Limited	Canada	CAN\$2,005,200	43.1	44.6	Investment holding
Regal Quality Foods Limited	Hong Kong	HK\$2	43.1	-	Bakery and retail operations
Regal Riverside Hotel Limited	Hong Kong	HK\$2	43.1	44.6	Hotel ownership
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	43.1	44.6	Trademark holding
Ricobem Limited	Hong Kong	HK\$2	43.1	44.6	Hotel ownership
Stareast Travel Limited	Hong Kong	HK\$1,500,000	43.1	44.6	Travel services
Tenshine Limited	Hong Kong	HK\$2	43.1	44.6	Restaurant operations
Winner Team Investment Limited	Hong Kong	HK\$2	43.1	44.6	Securities investment
World Way Management Limited	Hong Kong	HK\$2	43.1	44.6	Management services

\* The entire interests in these subsidiary companies were disposed of during the year.

\*\* These subsidiary companies are sino foreign co-operative joint venture companies established in the PRC.

# This subsidiary company is a sino-foreign equity joint venture company established in the PRC.

Except for Century City BVI Holdings Limited, all principal subsidiary companies are indirectly held by the Company.

All of the above subsidiary companies operate in the place of their incorporation/registration except for Paliburg Holdings Limited, Good Focus Holdings Limited, Paliburg Finance (C.B. 2002) Limited, Paliburg International Finance Limited, Paliburg International Holdings Limited, Treasure Spot Investments Limited and Regal Hotels International Holdings Limited, which are incorporated in either Bermuda or the British Virgin Islands, but operate in Hong Kong.

The above table lists the subsidiary companies of the Company which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiary companies would, in the opinion of the Directors, result in particulars of excessive length.



**44. CONTRIBUTED SURPLUS**

The contributed surplus arose in 1989 as a result of the group reorganisation in that year and represented the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiary companies at the date of acquisition.

Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders under certain circumstances.

**45. ACCUMULATED LOSSES**

	GROUP		COMPANY	
	2001 HK\$'million	2000 HK\$'million	2001 HK\$'million	2000 HK\$'million
Balance at beginning of year:				
As previously reported	<b>(2,958.7)</b>	(2,844.6)	<b>(1,563.8)</b>	(1,267.9)
Prior year adjustments (note 40)	<b>(156.5)</b>	–	–	–
As restated	<b>(3,115.2)</b>	(2,844.6)	<b>(1,563.8)</b>	(1,267.9)
Net loss for the year:				
As previously reported	<b>(1,650.7)</b>	(121.6)	<b>(1,715.5)</b>	(295.9)
Prior year adjustments (note 40)	–	(156.5)	–	–
As restated	<b>(1,650.7)</b>	(278.1)	<b>(1,715.5)</b>	(295.9)
Gain on deemed disposal of the Group's interest in a listed subsidiary company	–	2.5	–	–
Appropriation:				
Transfer from other reserves (note 46)	<b>4.5</b>	5.0	–	–
Balance at end of year, as restated	<b>(4,761.4)</b>	(3,115.2)	<b>(3,279.3)</b>	(1,563.8)



	<b>GROUP</b>	
	<b>2001 HK\$'million</b>	<b>2000 HK\$'million (Restated)</b>
Accumulated losses at end of year accumulated in:		
The Company and subsidiary companies	<b>(3,508.4)</b>	(1,912.0)
Associates	<b>(198.6)</b>	(196.4)
Jointly controlled entity	<b>(1,054.4)</b>	(1,006.8)
	<u><b>(4,761.4)</b></u>	<u>(3,115.2)</u>
Balance at end of year	<u><b>(4,761.4)</b></u>	<u>(3,115.2)</u>

**46. TRANSFER FROM OTHER RESERVES**

	<b>GROUP</b>	
	<b>2001 HK\$'million</b>	<b>2000 HK\$'million</b>
Transfer from revaluation reserve of the portion of depreciation charge on leasehold properties attributable to the revaluation surplus in relation thereto (notes 41 and 45)	<u><b>4.5</b></u>	<u>5.0</u>



**47. NOTES TO CONSOLIDATED CASH FLOW STATEMENT**

- (a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities

	2001 HK\$'million	2000 HK\$'million (Restated)
Profit/(Loss) from operating activities	<b>(1,268.3)</b>	452.2
Loss on disposal of ordinary shares in a listed subsidiary company	<b>8.5</b>	–
Profit on disposal of ordinary shares in the listed subsidiary company arising from exchange of Exchangeable Bonds	<b>(64.7)</b>	–
Loss on disposal of overseas subsidiary companies	–	13.8
Profit on disposal of an overseas associate	–	(58.8)
Loss on disposal of unlisted subsidiary companies	<b>2.7</b>	–
Gain on repurchase and cancellation of Convertible Bonds	<b>(13.4)</b>	–
Deficit/(Write back of deficit) on revaluation of hotel properties	<b>710.4</b>	(65.8)
Realised losses and provisions for losses in short term investments	–	0.4
Provision for deposit paid	–	4.7
Provisions against other loans, promissory notes and interest receivable	<b>75.6</b>	13.1
Impairment of long term investments	<b>180.0</b>	–
Write-down in values of properties	<b>61.9</b>	106.0
Deficit on revaluation of investment properties	<b>288.6</b>	–
Tax indemnity in respect of the disposal of overseas subsidiary companies/partnerships in prior year	–	24.2
Write back of provision against advances and interest receivable	–	(9.6)
Impairment of fixed assets	<b>50.8</b>	–
Write back of provisions for guarantee and indemnity given	–	(370.3)
Provisions for guarantees and indemnity given	<b>2.7</b>	18.1
Write back of provision for loss on deposit paid	–	(10.0)
Interest income	<b>(56.5)</b>	(84.1)
Dividend income from listed and unlisted investments	<b>(3.4)</b>	(2.3)
Depreciation	<b>61.2</b>	60.2
Impairment of goodwill	–	223.2
Amortisation of trading rights	<b>0.6</b>	0.5
Provisions for doubtful debts	<b>12.1</b>	5.0
Loss on disposal of fixed assets	<b>3.3</b>	3.3
Profit on sale of properties	<b>(0.3)</b>	(3.9)
Loss/(Gain) on disposal of long term investments	<b>142.6</b>	(0.7)
Net proceeds from sale of properties	<b>123.4</b>	143.8
Additions to properties under development for sale and properties held for future development	–	(54.5)
Decrease in debtors, deposits and prepayments	<b>35.5</b>	10.2
Decrease/(Increase) in short term investments	<b>17.8</b>	(15.1)
Decrease/(Increase) in hotel and other inventories	<b>15.5</b>	(0.3)
Decrease in creditors and accruals	<b>(43.2)</b>	(144.3)
Decrease in deposits received	<b>(10.0)</b>	(16.6)
Exchange difference	<b>(0.2)</b>	11.6
Net cash inflow from operating activities	<b>333.2</b>	254.0



## (b) Analysis of changes in financing

	Share capital (including share premium) HK\$'million	Loans, exchangeable bonds, convertible bonds and advances from minority shareholders of subsidiary companies HK\$'million	Minority interests HK\$'million (Restated)
Balance at 1st January, 2000	1,053.9	10,605.3	3,987.4
Net cash inflow/(outflow) from financing	167.2	(1.2)	(0.8)
Share of loss for the year	-	-	(387.7)
Share of revaluation deficit	-	-	(39.1)
Share of exchange difference on consolidation	-	-	(1.2)
Share of capital reserve on consolidation	-	-	58.0
Arising from deemed disposal of interest in a listed subsidiary company	-	-	2.1
Disposal of subsidiary companies	-	(98.9)	(0.9)
Disposal of an overseas associate	-	-	(19.2)
Interest expenses capitalised	-	9.4	-
Reclassification from creditors and accruals	-	98.2	-
Reclassification to interest payable	-	(20.8)	-
Effect of foreign exchange rate changes	-	8.9	-
	<hr/>	<hr/>	<hr/>
Balance at 31st December, 2000	1,221.1	10,600.9	3,598.6



## Notes to Financial Statements (Cont'd)

	Share capital (including share premium) HK\$'million	Loans, exchangeable bonds, convertible bonds and advances from minority shareholders of subsidiary companies HK\$'million	Minority interests HK\$'million (Restated)
Balance at 1st January, 2001	1,221.1	10,600.9	3,598.6
Net cash outflow from financing	–	(229.7)	–
Share of loss for the year	–	–	(583.5)
Share of revaluation deficit	–	–	(949.5)
Share of exchange difference on consolidation	–	–	(1.5)
Arising from disposal of ordinary shares in a listed subsidiary company	–	–	56.6
Reclassification from creditors and accruals	–	–	20.0
Exchange of Exchangeable Bonds for ordinary shares in a listed subsidiary company	–	(85.4)	54.5
Repurchase and cancellation of Convertible Bonds	–	(17.2)	–
Interest expenses capitalised	–	16.4	–
Reclassification of a provision for guarantee as a bank loan (note 34)	–	118.8	–
Effect of foreign exchange rate changes	–	(10.2)	–
Balance at 31st December, 2001	<u><u>1,221.1</u></u>	<u><u>10,393.6</u></u>	<u><u>2,195.2</u></u>



## (c) Disposal of subsidiary companies

	2001 HK\$'million	2000 HK\$'million
Net assets disposed of:		
Fixed assets	–	0.5
Properties under development	–	596.8
Intangible assets	<b>3.9</b>	–
Other assets	<b>1.8</b>	–
Debtors, deposits and prepayments	<b>9.2</b>	7.7
Cash and bank balances	<b>15.2</b>	0.5
Creditors and accruals	<b>(8.6)</b>	(23.5)
Tax payable	–	(0.2)
Advances from minority shareholders	–	(98.9)
	<b>21.5</b>	482.9
Exchange equalisation reserve realised on disposal	–	(1.4)
Release of reserves attributable to minority shareholders	–	(0.9)
Loss on disposal	<b>(2.7)</b>	(13.8)
	<b>18.8</b>	466.8
Satisfied by:		
Cash	<b>18.6</b>	77.1
Debtors	<b>0.2</b>	8.2
Reclassification to long term investments	–	298.9
Reclassification to interests in associates	–	82.6
	<b>18.8</b>	466.8



Analysis of net inflow of cash and cash equivalents in respect of disposal of subsidiary companies:

	2001 HK\$'million	2000 HK\$'million
Cash and bank balances disposed of	(15.2)	(0.5)
Cash consideration	18.6	77.1
Net inflow of cash and cash equivalents in respect of disposal of subsidiary companies	<u>3.4</u>	<u>76.6</u>

The subsidiary companies disposed of during the year utilised HK\$6.7 million of the Group's net operating cash flows and contributed HK\$0.9 million in respect of the net returns on investments and servicing of finance.

The subsidiary companies disposed of in the prior year contributed HK\$5.1 million to the Group's net operating cash flows and utilised HK\$54.5 million for investing activities.

#### 48. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in the notes to the financial statements, the Group had the following material connected and related party transactions during the year:

	Notes	2001 HK\$'million	2000 HK\$'million
Advertising, promotion and information technology service fees (including cost reimbursements) paid to an associate	(a)	20.8	29.7
Gross construction fee income from a jointly controlled entity	(b)	2.4	–
Interest on loans to associates	(c)	9.9	11.8
Guarantees given in respect of a banking facility granted to a jointly controlled entity	(d)	2,310.0	2,310.0
Guarantee given in respect of a banking facility granted to an associate	(e)	–	109.0
		<u>          </u>	<u>          </u>



**Notes:**

- (a) The advertising and promotion fees were paid to 8D International Limited ("8D") and 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 year, information technology services were also provided, the fees for which were charged on project basis.
- (b) The gross construction fee income from a jointly controlled entity was charged to Chest Gain Development Limited ("Chest Gain") in respect of a property development project, pursuant to construction contracts awarded through competitive tendering process. Details of the Group's trade balances with its jointly controlled entity as at the balance sheet date, are disclosed in note 27 to the financial statements.
- (c) The interest income from associates in the current year arose from loans to Cheerjoy Development Limited. The prior year interest income also included interest income arose from loans to Bostonian Hotel Limited Partnership and Century King Investment Limited. The details of the terms of such loans are disclosed in note 19 to the financial statements.
- (d) The corporate guarantees were given by PHL and RHIHL in respect of a banking facility granted to Chest Gain.
- (e) The prior year corporate guarantee was given by PHL in respect of a banking facility granted to Rapid Growth Holdings Limited, the then holding company of Chi Cheung Investment Company, Limited. The obligation under the guarantee was fully provided for in prior year and reclassified as a bank loan in the current year.

The Directors of the Company are of the opinion that the above transactions were entered into in the normal and usual course of business.

The related party transactions set out in notes 48(a) to (e) above did not constitute connected transactions as defined in the Listing Rules.

**49. PLEDGE OF ASSETS**

At the balance sheet date, 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\$12,160.0 million (2000 - HK\$14,235.0 million) and certain ordinary shares in the listed subsidiary companies and the shares 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.



**50. CONTINGENT LIABILITIES**

At the balance sheet date, the Group and the Company had the following contingent liabilities:

	GROUP		COMPANY	
	2001 HK\$'million	2000 HK\$'million	2001 HK\$'million	2000 HK\$'million
(a) Corporate guarantees provided in respect of:				
Attributable share of outstanding bank and other borrowings of:				
– a jointly controlled entity	1,757.7	1,757.7	–	–
– subsidiary companies	–	–	896.8	880.9
	<u>1,757.7</u>	<u>1,757.7</u>	<u>896.8</u>	<u>880.9</u>

- (b) As detailed in note 27 to the 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 USA.

The SP Agreement also 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, 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. Further details in respect of the unresolved allegedly idemnifiable claims made by the Purchaser are set out in note 27 to the financial statements.



**51. OPERATING LEASE ARRANGEMENTS**

## (a) As lessor

The Group leases certain of its properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 7 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 31st December, 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
Within one year	<b>125.4</b>	135.1
In the second to fifth years, inclusive	<b>119.5</b>	133.5
After five years	–	5.2
	<u><b>244.9</b></u>	<u>273.8</u>

During the year, the Group recognised HK\$0.4 million (2000 - HK\$0.8 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 1 month to 9 years.

At 31st December, 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>GROUP</b>	
	<b>2001</b> <b>HK\$'million</b>	<b>2000</b> <b>HK\$'million</b> <b>(Restated)</b>
Other equipment:		
Within one year	<b>3.9</b>	4.5
In the second to fifth years, inclusive	<b>1.2</b>	3.6
	<u><b>5.1</b></u>	<u>8.1</u>

At the balance sheet date, the Company had no material outstanding operating lease commitments.

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above have been restated to accord with the current year's presentation.



**52. COMMITMENTS**

In addition to the operating lease commitments detailed in note 51(b) above, the Group had the following commitments at the balance sheet date:

	<b>GROUP</b>	
	<b>2001 HK\$'million</b>	<b>2000 HK\$'million</b>
Capital commitments in respect of acquisition of interests in a hotel property in the PRC:		
Authorised and contracted for	<b>3.4</b>	6.5
Capital commitments in respect of renovation or improvement of hotel properties:		
Authorised and contracted for	<b>22.2</b>	26.0
Authorised, but not contracted for	<b>51.4</b>	81.0
	<b>73.6</b>	107.0
Capital commitments in respect of property and hotel development projects:		
Authorised and contracted for	<b>2.4</b>	2.9
Authorised, but not contracted for	<b>28.3</b>	36.0
	<b>30.7</b>	38.9
	<b>107.7</b>	152.4

At the balance sheet date, the Company had no material outstanding commitments.



**53. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS**

	<b>GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
Notional amount of options	<b>30.9</b>	43.4

The notional amounts of the above instruments indicate the volume of the transactions outstanding at the balance sheet date, and do not represent the amount at risk.

**54. POST BALANCE SHEET EVENTS**

Subsequent to the balance sheet date, in addition to the events as detailed elsewhere in the financial statements, the Group entered into the following significant transactions:

- (a) On 7th March, 2002, 90 million ordinary shares of HK\$0.10 each of RHIHL were issued to Taylor Investments Ltd. ("Taylor"), a wholly-owned subsidiary company of PHL, at HK\$0.14 per ordinary share for a total consideration of HK\$12.6 million, following a placing of 150 million ordinary shares at the same price by Taylor to independent placees on 27th February, 2002. The net proceeds from the above placement were used for general working capital purposes.
- (b) On 8th March, 2002, 250,000,000 new shares ("Consideration Shares") of HK\$0.10 each of the Company were allotted, issued and credited as fully paid to a nominee 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 10,000,000 ordinary shares of HK\$0.01 each in Prism pursuant to a Share Exchange Agreement dated 18th February, 2002 (the "Agreement") entered into between, inter alia, the Company and Prism. Pursuant to the Agreement, the Group has also been granted an option by Prism to subscribe for up to a further 30 million shares in Prism at an exercise price of 25 new shares of the Company per Prism share, subject to certain adjustments.

The principal activity of Prism is the provision of telecommunications and internet-related businesses and equipment trading through its subsidiary company which is an emerging Internet Telephony Service Provider of international voice and fax long distance services.



**55. COMPARATIVE AMOUNTS**

In addition to the reclassification/restatement of certain comparative amounts as detailed in notes 6 and 7 to the financial statements, due to the adoption of certain new and revised SSAPs during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements as further explained in note 2. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

**56. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Board of Directors on 19th April, 2002.

