

Notes to Financial Statements

31st December, 2002

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, and other investments (including investment and trading in marketable securities).

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

The following new and revised SSAPs and Interpretation are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 33 : "Discontinuing operations"
- SSAP 34 : "Employee benefits"
- Interpretation 15 : "Business combinations - "Date of exchange" and fair value of equity instruments"

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 Interpretation are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on pages 73 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiary companies and associates denominated in foreign currencies are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on these financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, interest and dividends received are now included in cash flow from investing activities and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout. In addition, cash flows from overseas subsidiary companies arising during the year are now translated to Hong Kong dollars at



the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised. Further details of these changes are included in the accounting policies for "Foreign currencies" and "Cash and cash equivalents" in notes 4(aa) and 4(ag) to the financial statements.

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group's discontinuing operations are now included in note 6 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Group's share option schemes, as detailed in note 41 to the financial statements. These share option scheme disclosures are similar to the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

Interpretation 15 prescribes the determination of the date of exchange on which the fair value of the equity instrument issued is determined in a business acquisition, and the basis of determination of the fair value of a quoted equity instrument. The adoption of this Interpretation requires equity instruments issued as purchase consideration in a business acquisition to be measured at their fair value at the date of exchange, which is normally their quoted market price, and the disclosure of alternative methods and assumptions used in determining the fair value if the market price has not been used.

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\$71.5 million for the year ended 31st December, 2002 (2001 - HK\$1,650.7 million). As at the balance sheet date, the Group had consolidated net current liabilities of HK\$4,326.1 million (2001 - HK\$5,782.3 million) and reported a deficiency in assets of HK\$492.6 million (2001 - HK\$160.3 million).

As previously reported, the Group, excluding Paliburg Holdings Limited ("PHL") and its subsidiary companies, (the "CCIHL" Group), has been conducting discussions with its financial creditors with a view to formulating a consensual debt restructuring proposal to replace the current informal standstill arrangement under which repayment of their indebtedness has been suspended. In October 2002, the CCIHL Group, together with its independent financial adviser, presented a debt restructuring proposal (the "Debt Restructuring") to the financial creditors. The CCIHL Group is now finalising the relevant documentation for review and approval by the financial creditors.

With respect to PHL and its subsidiary companies, excluding Regal Hotels International Holdings Limited ("RHIHL") and its subsidiary companies (the "RHIHL Group"), (the "PHL Group"), as previously reported, the PHL Group had US\$140 million 3½% Exchangeable Guaranteed Bonds (the "Exchangeable Bonds") (note 34) and US\$210 million Zero Coupon Guaranteed Convertible Bonds (the "Convertible Bonds") (note 35) (collectively the "Bonds") which either went into default, or cross-default in 2001. In October 2001, the PHL Group appointed financial and legal advisers in relation to a proposed restructuring/settlement of the Bonds. After protracted negotiations with the holders of the Bonds (the "Bondholders"), on 31st October, 2002, the PHL Group completed a settlement proposal for the Bonds (the "Bonds Settlement").

The Bonds Settlement involved the full settlement of the outstanding principal, accrued outstanding interest and any redemption premium of the Bonds aggregating HK\$3,820.7 million as at 31st October, 2002 by (i) the transfer of the PHL Group's entire equity interest in two principal investment properties, namely Kowloon City Plaza and Paliburg Plaza (together with the related securitised loans and interest attached aggregating HK\$1,231.3 million); and (ii) the phased release of 1,896.5 million ordinary shares in RHIHL, to the Bondholders. Details of the Bonds Settlement are set out in a circular to the shareholders of the Company dated 26th August, 2002. Following the completion of the Bonds Settlement, the indebtedness of the PHL Group has decreased significantly and the gearing and liquidity of the PHL Group have improved considerably.

To facilitate the completion of the Bonds Settlement, on 31st October, 2002, the PHL Group transferred its 40% equity interest in a property development project in Stanley to the RHIHL Group for a consideration of HK\$470.0 million, which was satisfied by the subscription for 1,958.3 million ordinary shares in RHIHL, of which 1,896.5 million ordinary shares were issued directly to a subsidiary company of PHL for the aforementioned phased release, subject to certain conditions, to the Bondholders (see note 53(f) for further details thereof).

As previously noted, the PHL Group successfully concluded bilateral facilities with the majority of the financial creditors. Having regard to the improved financial stability of the PHL Group following the completion of the Bonds Settlement, the directors of PHL are hopeful that a satisfactory bilateral facility arrangement will also be finalised with the remaining financial creditor in the near future.

With a view to enhancing its property-related services businesses and cashflow position, the PHL Group completed the acquisition of Venture Perfect Investments Limited ("VPI") during the year. The major assets of VPI comprised a 50% equity interest in Leading Technology Holdings Limited ("LTH") and cash deposits of approximately HK\$70.0 million. LTH and its subsidiary companies are principally engaged in the design, development, integration and distribution of security and building related systems, software and products in the Greater China Region (the "Paliburg Acquisition"). The consideration for the Paliburg Acquisition was HK\$345.0 million which was satisfied by the issuance of 3,450 million convertible preference shares of PHL at HK\$0.10 each, convertible into the ordinary shares of PHL, subject to the applicable terms and conditions (see note 53(e) for further details thereof). Further details of the Paliburg Acquisition are set out in the Company's circular dated 26th August, 2002.



Between 1998 and 2002, the net asset value attributable to shareholders of RHIHL has declined significantly, which decline has been largely attributable to the revaluation deficits arising in respect of the RHIHL Group's hotel properties and other 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. The total outstanding loans affected in this respect amounted to HK\$4,816.6 million as at 31st December, 2002, comprising a syndicated loan of HK\$3,755.8 million (the "Syndicated Loan") and a construction loan of HK\$1,060.8 million (the "Construction Loan") (collectively the "Regal Loans") (note 33).

In addition to the foregoing, certain principal instalments of the Regal Loans remained unpaid during the year prior to the implementation of the Standstill Agreement as defined hereunder.

On 4th September, 2002, the RHIHL Group entered into a standstill agreement (the "Standstill Agreement") with its principal bank creditors, including the lenders of the Regal Loans (the "Lenders"), which became effective on 5th September, 2002 (the "Effective Date") and will expire on 4th September, 2003 (the "Standstill Period"). The Standstill Agreement includes, inter alia, the following principal terms:

- (i) any repayment due under the Regal Loans between the date of the Standstill Agreement and the end of the Standstill Period will become due on 8th September, 2003 and, subject as so extended, the Regal Loans will continue in line with their then existing amortisation schedule;
- (ii) the cross-collateralisation of certain existing security and additional security primarily over certain of the RHIHL Group's operating entities have been provided as standstill security;
- (iii) the previous breaches of covenants by the RHIHL Group under the Regal Loans have been waived;
- (iv) the Lenders agreed not to enforce any of their rights under the Regal Loans within one year from the Effective Date or, if earlier, until the early termination of the Standstill Agreement (exercisable in the event of payment defaults during the Standstill Period and at any time by the majority of the relevant bank creditors); and
- (v) the RHIHL Group agreed to make certain milestone payments during the Standstill Period following the Standstill Agreement becoming effective.

The directors of RHIHL believe that the Standstill Agreement is a positive indication of continuing support from the RHIHL Group's bank creditors. During the Standstill Period, the RHIHL Group has deferred some of the milestone payments as specified under the terms of the Standstill



Agreement. However, to date, no notice of early termination of the Standstill Agreement has been received by the agent from any bank creditors, nor has the agent served a notice of early termination to the RHIHL Group upon the instruction of the specified majority of the relevant bank creditors. Nevertheless, with a view to securing the support of the Lenders on a medium to long term basis in respect of the Regal Loans, in April 2003, the RHIHL Group presented a financial restructuring proposal (the "Restructuring Proposal") to the Lenders to replace the Standstill Agreement. The Restructuring Proposal involves, inter alia, the disposal by the RHIHL Group of certain hotel assets to reduce its bank borrowings by a committed minimum amount in 2003 and the refinancing of the remaining indebtedness with the Lenders on a medium to long term basis, which terms are currently being considered by the Lenders. The directors of RHIHL consider that the Restructuring Proposal will be an essential step to provide financial stability, on a medium to long term basis, to the RHIHL Group which can facilitate (i) the improved performance and hence the value of its core hotel assets; and (ii) the realisation of the US\$45.0 million deferred consideration plus interest accrued thereon in relation to the RHIHL Group's disposal of its hotel interests in the United States of America in 1999 (the "Consideration Receivable").

On the bases that (i) the Standstill Agreement has not been early terminated and the directors of RHIHL do not expect that it will be early terminated within the Standstill Period; and (ii) after expiry of the Standstill Period and prior to the conclusion of the Restructuring Proposal, the lenders of the Syndicated Loan will not exercise and the directors of RHIHL do not expect that they will exercise their respective put options granted to them pursuant to the terms of the agreement of the Syndicated Loan, who may require the RHIHL Group to prepay their respective participations in the remaining outstanding indebtedness, on the exercise date of 8th September, 2003, as extended under the Standstill Agreement, by serving a notice at least 3 months in advance, and having regard to the past and anticipated support the RHIHL Group has and hopes to continue to receive from the Lenders 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, 2002 in accordance with their original maturity terms under the loan agreements, as adjusted for the revised terms specified under the Standstill Agreement. The Directors of the Company have also adopted such classification for the Group for the same reasons.

With respect to a term loan which was originally fully repayable by 30th September, 2002 and is secured by the RHIHL Group's hotel property in Canada (the "Canada Loan"), the outstanding principal of CAD34.5 million (approximately HK\$170.8 million) remained unpaid as at 31st December, 2002. As detailed in note 6 to the financial statements, the RHIHL Group entered into a sale and purchase agreement on 3rd September, 2002 (as supplemented by certain subsequent amendments) for the disposal of the entire interest in the wholly-owned subsidiary company that owns the hotel property in Canada for a consideration of CAD11.2 million (approximately HK\$55.2 million). Under the agreement, the purchaser will assume responsibility for the full



repayment of the Canada Loan and the completion of the disposal is scheduled for May 2003. So far, the RHIHL Group has received instalment payments from the purchaser totalling CAD1.9 million (approximately HK\$9.2 million) which were substantially applied to repay the Canada Loan. If the disposal proceeds to completion, the Canada Loan will be fully discharged and the net consideration will be receivable on a staged basis.

On the basis that the Debt Restructuring will be successful, and with respect to the RHIHL Group, having regard to the Standstill Agreement and on the bases that (i) the Restructuring Proposal will be successfully implemented; and (ii) the recovery of the Consideration Receivable will be successful, 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 of the Group 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, 2002, 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.

Minority interests represent the interest of outside shareholders in the results and net assets of the Company's subsidiary companies.

(c) Goodwill/Negative goodwill

Goodwill arising on the acquisition of subsidiary companies and associates 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 and associates 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 the case of associates, any goodwill/negative goodwill not yet amortised/recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separate identified item on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1st January, 2001. Prior to that date, goodwill/negative goodwill arising on acquisitions was eliminated against consolidated reserves/credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill/negative goodwill to remain eliminated against consolidated reserves/credited to the capital reserve. Goodwill/Negative goodwill on acquisitions subsequent to 1st January, 2001 is treated according to the SSAP 30 goodwill/negative goodwill accounting policies above.

On disposal of subsidiary companies or associates, 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/negative goodwill previously eliminated against consolidated reserves/credited to the capital reserve 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 results of subsidiary companies are included in the Company's profit and loss account to the extent of dividends received and receivable. 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 consolidated profit and loss account, 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:

- (i) a subsidiary company, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (ii) a jointly controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (iii) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, 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
- (iv) a long term investment, if the Company holds, directly or indirectly, 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. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in consolidated reserves, is included as part of the Group's interests in associates.

(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 and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.



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 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. When a hotel property is determined to be impaired, the cumulative gain or loss derived from the hotel property recognised in the hotel property revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

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 (u) 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) Property held for future development

Property held for future development is stated at cost less any impairment losses. Cost includes all costs attributable to the acquisition and holding of such property, 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) 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 recently 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.



(p) Held-to-maturity securities

Held-to-maturity securities are investments in dated debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition, less any impairment losses which reflect their credit risk.

(q) 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.

(r) Intangible assets

Intangible assets, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited ("SEHK") and the Hong Kong Futures Exchange Limited, are stated at cost less accumulated amortisation and any impairment losses.

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.

(s) Other assets

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

(t) 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 in the period in which they arise.

(u) 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%

(v) 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.

(w) 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.

(x) 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.



(y) 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.

(z) 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 (x) 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; and
- (ix) proceeds from the sale of short term and long term investments in listed shares, on the transaction dates when the relevant contract notes are exchanged.

(aa) 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.

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences 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 to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiary companies and associates are translated to Hong Kong dollars at the weighted average exchange rates for



the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange equalisation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiary companies denominated in foreign currencies are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiary companies which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiary companies and associates and the cash flows of overseas subsidiary companies were translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the financial statements.

(ab) 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.

(ac) 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.

(ad) 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.

(ae) Employee benefits

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance (the "Employment Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.



A contingent liability is disclosed in respect of possible future long service payments to employees, as certain current employees have achieved the required number of years of service to the Group as at the balance sheet date, entitling them to long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

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. 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 vesting with the employee partly or fully in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiary companies which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiary companies are required to contribute 28% of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share options scheme

The listed subsidiary companies of the Company operate executive share option schemes for the purpose of providing incentives and rewards to selected eligible participants. The financial impact of share options granted under the share option scheme is not recorded in the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting ordinary shares issued are recorded by the relevant subsidiary companies as additional ordinary share capital at the nominal value of the ordinary shares, and the excess of the exercise price per ordinary share over the nominal value of the ordinary shares is recorded by the relevant subsidiary companies in their respective share premium accounts. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(af) 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.



(ag) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(ah) 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

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 the 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;
- (d) the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services;
- (e) the brewery operations segment represents the Group's brewery operations in Mainland China; and
- (f) the other segments mainly comprise the Group's security system and other software development and distribution, securities trading, financing, travel services, restaurant operations, florist and wedding services.

In determining the Group's geographical segments, revenues 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 (Continued)

GROUP

	Property development and investment		Property management		Construction and construction-related businesses		Hotel ownership and management		Brewery operations		Others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	401.2	3,560.3	3.9	1.2	54.5	134.3	6,848.5	8,577.6	47.0	53.6	55.8	86.7	(43.3)	(62.9)	7,367.6	12,350.8
Interests in associates	223.5	215.8	-	-	-	-	5.0	-	-	-	296.8	45.1	-	-	525.3	260.9
Interest in a jointly controlled entity	1,062.9	1,036.9	-	-	-	-	-	-	-	-	-	-	-	-	1,062.9	1,036.9
Cash and unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	767.4	985.9
Total assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,723.2	14,634.5
Segment liabilities	(33.7)	(102.3)	(2.1)	(0.5)	(164.0)	(244.8)	(161.9)	(157.2)	(22.6)	(19.3)	(8.8)	(12.9)	43.3	62.9	(349.8)	(474.1)
Bank and other borrowings and unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,149.6)	(12,125.5)
Total liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,499.4)	(12,599.6)
Other segment information:																
Depreciation	7.9	12.7	-	-	0.4	0.5	36.9	37.5	5.0	5.3	0.7	3.9	-	-	-	-
Impairment losses recognised in the profit and loss account	62.0	180.0	-	-	-	-	618.9	-	-	50.8	2.3	-	-	-	-	-
Capital expenditure	8.2	2.0	-	-	-	0.5	45.7	33.1	0.4	0.5	0.2	1.0	-	-	-	-
Other non-cash expenses	67.5	353.7	-	-	-	-	529.6	714.4	-	-	8.1	4.9	-	-	-	-





(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

GROUP	Hong Kong		USA		Canada		Mainland China		Eliminations		Consolidated	
	2002 HK\$'m	2001 HK\$'m	2002 HK\$'m	2001 HK\$'m	2002 HK\$'m	2001 HK\$'m	2002 HK\$'m	2001 HK\$'m	2002 HK\$'m	2001 HK\$'m	2002 HK\$'m	2001 HK\$'m
Segment revenue:												
Sales to external customers	1,258.6	1,834.7	-	-	88.6	95.6	17.8	21.8	-	-	1,365.0	1,952.1
Other segment information:												
Segment assets	6,895.1	11,764.2	78.4	117.0	233.7	205.2	160.4	264.4	-	-	7,367.6	12,350.8
Capital expenditure	53.8	34.0	-	-	0.3	2.1	0.4	1.0				

6. DISCONTINUING OPERATION

On 3rd September, 2002, the Group entered into a sale and purchase agreement (the "Agreement") for the disposal of its hotel operation in Canada, which was subject to the results of the due diligence review being satisfactory to the purchaser. Since then, the due diligence review has been completed in November 2002 to the satisfaction of the purchaser, and the Agreement, as supplemented by certain subsequent amendments, has become binding and completion is scheduled for May 2003. The disposal is in line with the Group's intention to realise its non-core assets to reduce its indebtedness and focus the resources in its core hotel operations in Hong Kong, and will effectively represent the Group's discontinuance of its hotel operation in Canada (a geographical segment, note 5(b)). In connection with the disposal, estimated expenses in the amount of CAD1.0 million (approximately HK\$4.9 million), comprising mainly legal and professional fees and severance payments have been provided for in the current year financial statements.

Based on the amount recoverable from the disposal, an impairment loss relating to the hotel property amounting to HK\$437.0 million has been included in the current year financial statements.

To date, instalment payments totalling CAD1.9 million (approximately HK\$9.2 million) have been received from the purchaser. The balance of net sale proceeds (after discharging estimated disposal expenses) amounting to CAD8.3 million (approximately HK\$41.1 million) is receivable by instalments, the last of which falls due in March 2004.

The carrying amounts of the total assets and liabilities relating to the discontinuing operation, at 31st December, 2001 and 2002, are as follows:

	2002 HK\$'million	2001 HK\$'million
Total assets	226.9	200.6
Total liabilities	(170.7)	(174.2)
Net assets	56.2	26.4



The turnover, expenses and results from the discontinuing operation for the years ended 31st December, 2001 and 2002 are as follows:

	2002 HK\$'million	2001 HK\$'million
TURNOVER	88.6	95.6
Cost of sales	(87.4)	(91.4)
Gross profit	1.2	4.2
Administrative expenses	(3.5)	(3.8)
Other operating expenses	(2.3)	(2.7)
LOSS FROM OPERATING ACTIVITIES	(4.6)	(2.3)
Finance costs	(6.4)	(10.0)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(11.0)	(12.3)
The net cash flows attributable to the discontinuing operation are as follows:		
Operating	5.1	5.8
Investing	(0.2)	(1.8)
Financing	(11.4)	(19.7)
Net cash outflows	(6.5)	(15.7)



7. 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 listed investments, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Rental income:		
Investment properties	135.9	178.4
Properties held for sale	9.5	6.7
Hotel properties	26.1	34.5
Construction and construction-related income	202.9	558.0
Proceeds from the sale of properties	0.2	113.9
Estate management fees	23.0	22.5
Property development consultancy and project management fees	4.4	3.4
Hotel operations and management services	938.6	967.0
Other operations, including travel services, florist, restaurant operations, wedding services and brewery operations	24.4	48.3
Proceeds from the sale of short term investments	–	13.6
Commission and brokerage income on dealings in securities, futures and other derivatives	–	5.8
Turnover	1,365.0	1,952.1



GROUP

	2002 HK\$'million	2001 HK\$'million
Other revenue includes the following items:		
Gain on disposal of an associate	6.5	–
Profit on disposal of ordinary shares in a listed subsidiary company arising from exchange of exchangeable bonds	–	64.7
Gain on repurchase and cancellation of convertible bonds	–	13.4
	<u> </u>	<u> </u>

8. OTHER OPERATING EXPENSES

Other operating expenses include the following items:

GROUP

	2002 HK\$'million	2001 HK\$'million
Provisions for guarantees and indemnity given	3.7	2.7
Loss on disposal of ordinary shares in a listed subsidiary company	56.6	8.5
Loss on disposal of an investment property	35.6	–
Loss on disposal of long term unlisted investments (after a transfer from the revaluation reserve of a deficit of HK\$1.2 million)	95.0	–
Loss on disposal of long term listed investments (after a transfer from the revaluation reserve of a deficit of HK\$2.2 million (2001 - HK\$140.4 million))	2.2	142.6
	<u> </u>	<u> </u>



9. PROVISIONS FOR WRITE-DOWNS AND IMPAIRMENTS, NET

Provisions for write-downs and impairments, net, represent the following items:

	GROUP	
	2002	2001
	HK\$'million	HK\$'million
Write-down in values of properties	67.4	61.9
Impairment of fixed assets	–	50.8
Impairment of long term investments	62.0	180.0
Impairment of long term investments previously eliminated against long term investment revaluation reserve	15.0	–
Impairment of intangible assets	2.3	–
Provisions against other loans, promissory notes and interest receivable	–	75.6
Deficit on revaluation of hotel properties	528.9	710.4
Write back of provision against a loan receivable	(19.1)	–
Deficit on revaluation of investment properties	0.1	288.6
	<u>656.6</u>	<u>1,367.3</u>



10. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Cost of completed properties sold	0.2	112.9
Cost of inventories sold and other services provided	524.7	633.0
Staff costs (exclusive of directors' remuneration disclosed in note 12):		
Wages and salaries*	435.0	538.2
Staff retirement scheme contributions	17.5	25.3
Less: Forfeited contributions	(2.3)	(4.3)
Net retirement scheme contributions	15.2	21.0
	450.2	559.2
Less: Staff costs capitalised in respect of property development projects and construction contracts:		
Wages and salaries	(33.5)	(45.9)
Staff retirement scheme contributions	(0.1)	(2.1)
	416.6	511.2
Auditors' remuneration	5.7	5.2

* Inclusive of an amount of HK\$339.1 million (2001 – HK\$410.9 million) classified under cost of inventories sold and other services provided.



	GROUP	
	2002 HK\$'million	2001 HK\$'million (Restated)
Depreciation	52.4	62.7
Less: Depreciation capitalised in respect of property development projects and construction contracts	<u>(0.7)</u>	<u>(1.5)</u>
	<u>51.7</u>	<u>61.2</u>
Loss on disposal of fixed assets	1.0	3.3
Unrealised loss on revaluation of short term investments	1.7	5.7
Minimum lease payments under operating leases:		
Land and buildings	2.8	–
Other equipment	1.0	1.0
Amortisation of trading rights	0.2	0.6
and after crediting:		
Gross rental income	171.5	219.6
Less: Outgoings	<u>(53.3)</u>	<u>(62.6)</u>
Net rental income	<u>118.2</u>	<u>157.0</u>
Interest income from:		
Associates	7.5	9.9
Bank balances	2.7	13.7
Other loans and receivables	<u>5.7</u>	<u>32.9</u>
	<u>15.9</u>	<u>56.5</u>
Dividend income from:		
Listed investments	0.3	2.1
Unlisted investments	<u>0.7</u>	<u>1.3</u>
	<u>1.0</u>	<u>3.4</u>
Negative goodwill recognised as income during the year**	<u>1.1</u>	<u>–</u>

** The movements in negative goodwill recognised in the profit and loss account for the year are included in "Other revenue" on the face of the consolidated profit and loss account.



11. FINANCE COSTS

	GROUP	
	2002	2001
	HK\$'million	HK\$'million
Interest in respect of:		
Bank loans and overdrafts	262.5	402.0
Other loans, exchangeable bonds and convertible bonds, wholly repayable within five years	348.8	384.1
	611.3	786.1
Premium provided on exchangeable bonds and convertible bonds	–	60.6
	611.3	846.7
Interest capitalised in respect of property development projects and construction contracts	(0.4)	(2.5)
	610.9	844.2
Amortisation of deferred expenditure	12.3	16.5
Write-off of deferred expenditure	0.3	10.0
Other loan costs	0.1	1.5
Total finance costs	623.6	872.2

12. DIRECTORS' REMUNERATION

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

	GROUP	
	2002	2001
	HK\$'million	HK\$'million
Fees	1.8	1.6
Salaries and other allowances	9.2	8.6
Performance related/discretionary bonuses	0.1	–
Staff retirement scheme contributions	0.6	0.6
	11.7	10.8

The remuneration of the Directors fell within the following bands:

HK\$	2002 Number of Directors	2001 Number of Directors
Nil - 1,000,000	4	4
1,000,001 - 1,500,000	1	–
2,000,001 - 2,500,000	1	1
6,500,001 - 7,000,000	1	1
	<u> </u>	<u> </u>

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 (2001 - 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, 2002.

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 (2001 - Nil). Further details of the share option schemes of the listed subsidiary companies of the Group are set out in note 41 to the financial statements.

13. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included two (2001 - two) Directors, details of whose remuneration are disclosed in note 12 to the financial statements. The emoluments of the other three (2001 - three) individuals, who were not Directors, are as follows:

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Salaries and other emoluments	4.2	4.5
Staff retirement scheme contributions	0.2	0.3
	<u> </u>	<u> </u>
	<u>4.4</u>	<u>4.8</u>



The emoluments of the three (2001 - three) individuals fell within the following bands:

HK\$	2002 Number of individuals	2001 Number of individuals
1,000,001 - 1,500,000	2	2
1,500,001 - 2,000,000	1	1
	<u> </u>	<u> </u>

The emoluments included the emoluments received by those individuals from PHL and RHHL 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 (2001 - Nil). Further details of the share option schemes of the listed subsidiary companies of the Group are set out in note 41 to the financial statements.

14. TAX

	GROUP	
	2002 HK\$'million	2001 HK\$'million
The Company and subsidiary companies:		
Provision for tax in respect of profits for the year:		
Hong Kong	1.0	2.3
Overseas	0.3	0.3
	<u>1.3</u>	<u>2.6</u>
Prior year overprovisions:		
Hong Kong	(2.2)	(5.0)
Overseas	(0.2)	(1.6)
	<u>(2.4)</u>	<u>(6.6)</u>
	<u>(1.1)</u>	<u>(4.0)</u>
Associates:		
Hong Kong	0.1	0.2
Overseas	-	0.1
	<u>0.1</u>	<u>0.3</u>
Tax credit for the year	<u>(1.0)</u>	<u>(3.7)</u>



The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16% (2001 - 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 (2001 - Nil).

At the balance sheet date, the Group had no material unprovided deferred tax liabilities (2001 - Nil).

15. 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\$35.6 million (2001 - HK\$1,715.5 million).

16. 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\$71.5 million (2001 - HK\$1,650.7 million) and on the weighted average of 3,649.1 million (2001 - 3,326.8 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, 2001 and 2002, as no diluting events existed during these years.



17. FIXED ASSETS

GROUP							
	1st January, 2002 HK\$'million	Exchange adjustments HK\$'million	Additions/ Depreciation for the year HK\$'million	Transfer from leasehold properties HK\$'million	Disposals/ Write-off HK\$'million	Deficit on revaluation HK\$'million	31st December, 2002 HK\$'million
At valuation:							
Investment properties	2,624.9	—	2.7	50.6	(2,676.3)	(0.2)	1.7
Hotels, including furniture, fixtures and equipment	8,623.6	2.0	47.3	—	—	(1,728.6)	6,944.3
	11,248.5	2.0	50.0	50.6	(2,676.3)	(1,728.8)	6,946.0
At cost:							
Leasehold properties	491.7	0.1	—	(60.6)	(389.4)	—	41.8
Leasehold improvements, furniture, fixtures and equipment	112.3	0.2	1.1	—	(22.0)	—	91.6
Site equipment	1.7	—	—	—	—	—	1.7
Construction in progress	28.4	—	—	—	—	—	28.4
Motor vehicles	6.0	—	—	—	(1.8)	—	4.2
	11,888.6	2.3	51.1	(10.0)	(3,089.5)	(1,728.8)	7,113.7
Accumulated depreciation and impairment:							
Hotel furniture, fixtures and equipment	190.3	0.4	36.0	—	—	—	226.7
Leasehold properties	76.9	—	9.0	(10.0)	(68.6)	—	7.3
Leasehold improvements, furniture, fixtures and equipment	88.3	0.1	7.1	—	(20.3)	—	75.2
Site equipment	1.7	—	—	—	—	—	1.7
Construction in progress	28.4	—	—	—	—	—	28.4
Motor vehicles	5.2	—	0.3	—	(1.8)	—	3.7
	390.8	0.5	52.4	(10.0)	(90.7)	—	343.0
Net book value	11,497.8						6,770.7



Analysis of net book value by geographical location:

	2002 HK\$'million	2001 HK\$'million
Leasehold land and buildings situated in Hong Kong:		
Investment properties, at valuation at balance sheet date:		
Long term	1.7	499.9
Medium term	–	2,125.0
Hotel properties, at valuation at balance sheet date:		
Long term	2,598.0	3,426.0
Medium term	3,897.0	4,811.0
Leasehold properties, at cost or deemed cost:		
Long term	–	379.0
Medium term	4.7	4.8
	<u>6,501.4</u>	<u>11,245.7</u>
Properties situated in Mainland China:		
Medium term leasehold properties, at cost	<u>29.8</u>	<u>31.0</u>
Properties situated overseas:		
Freehold land and hotel property in Canada, at valuation at balance sheet date	<u>222.6</u>	<u>196.3</u>
	<u><u>6,753.8</u></u>	<u><u>11,473.0</u></u>

As at 31st December, 2002, certain leasehold properties situated in Mainland China 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.

As further detailed in note 3 to the financial statements, the Group intends to dispose of certain hotel properties in Hong Kong as part of the Restructuring Proposal. In order to better reflect the value of these hotel properties under the Group's intention for disposal, these hotel properties as at 31st December, 2002 were stated at their expected recoverable amounts on a quick sale basis, which were calculated at a discount to their valuations at 31st December, 2002 performed by an independent valuer with an RICS qualification on an open market, existing use basis. The discount rate was determined by the directors of RHIHL based on professional advice obtained from the independent valuer. In addition, the resultant revaluation deficit of HK\$181.9 million was recognised in the current year profit and loss account as an impairment loss.



The valuations of the remaining hotel properties and investment properties situated in Hong Kong at 31st December, 2002 and all the hotel properties and investment properties in Hong Kong as at 31st December, 2001 were performed by independent valuers with an RICS qualification on an open market, existing use basis.

At 31st December, 2002, the hotel property situated overseas, representing the major asset in the Group's discontinuing operation as detailed in note 6 to the financial statements, was stated at its expected recoverable amount as, in the opinion of the directors of RHIHL, this approximated the open market value as at the balance sheet date. The valuation of this hotel property at 31st December, 2001 was performed by an independent valuer with an AACI qualification on an open market, existing use basis.

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 56(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:

	2002 HK\$'million	2001 HK\$'million
Investment properties	0.8	1,125.8
Hotel properties	4,802.5	5,405.5
Leasehold properties	–	112.0
	<u>4,803.3</u>	<u>6,643.3</u>

18. NEGATIVE GOODWILL

The amount of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of additional interest in a listed subsidiary company, is as follows:

	GROUP Negative goodwill HK\$'million
Cost and net book value:	
Arising from the acquisition of additional interest in a listed subsidiary company and balance at end of year	<u>5.0</u>

The above negative goodwill was attributable to an additional interest acquired near the year end and, accordingly, no amount was recognised as income during the year.



19. INTANGIBLE ASSETS

	GROUP
	HK\$'million
Cost:	
At beginning and at end of year	3.0
Accumulated amortisation and impairment:	
At beginning of year	0.5
Amortisation provided during the year	0.2
Impairment during the year recognised in the profit and loss account	2.3
At 31st December, 2002	3.0
Net book value:	
At 31st December, 2002	–
At 31st December, 2001	2.5



20. PROPERTIES UNDER DEVELOPMENT

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Balance at beginning of year	167.1	214.1
Other additions in development costs	5.4	–
Interest capitalised	0.4	–
Write-down in values of properties under development	(61.8)	(47.0)
	<hr/>	<hr/>
Balance at end of year	111.1	167.1
Properties under development included in current assets	(94.4)	(117.0)
	<hr/>	<hr/>
Non-current portion	16.7	50.1
	<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	16.0	14.2
	<hr/>	<hr/>
Freehold land in the U.S.A., at cost less write-down in value	78.4	117.0
	<hr/>	<hr/>
Leasehold land and buildings in Mainland China, at cost less write-down in value:		
Long term	9.5	25.5
Medium term	7.2	10.4
	<hr/>	<hr/>
	16.7	35.9
	<hr/>	<hr/>
	111.1	167.1
	<hr/>	<hr/>

As at 31st December, 2002, certain of the Group's properties under development were pledged to secure banking facilities granted to the Group.



21. PROPERTY HELD FOR FUTURE DEVELOPMENT

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Medium term leasehold land in Hong Kong, at cost:		
Balance at beginning and at end of year	<u>26.7</u>	<u>26.7</u>

As at 31st December, 2002, the Group's property held for future development was pledged to secure the banking facilities granted to the Group.

22. INTEREST IN A JOINTLY CONTROLLED ENTITY

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Share of net liabilities	(2,005.0)	(2,005.0)
Loans to the jointly controlled entity	2,700.9	2,674.9
Amount due from the jointly controlled entity, net	<u>367.0</u>	<u>367.0</u>
	<u>1,062.9</u>	<u>1,036.9</u>

The share of net liabilities included a provision for foreseeable loss in respect of a property development project amounting to HK\$1,633.3 million (2001 - 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
			2002	2001	
Chest Gain Development Limited ("Chest Gain")	Corporate	Hong Kong	70	70	Property development

As at 31st December, 2001, the percentage of equity interest represented the aggregate of the 40% and the 30% held by a wholly-owned subsidiary company of PHL and RHIHL, respectively, which was in turn 59.2% and 43.1% owned by the Group, respectively.

On 31st October, 2002, the 40% equity interest in Chest Gain held by a wholly-owned subsidiary company of PHL was disposed of to RHIHL, accordingly, the percentage of equity interest as at 31st December, 2002 represents the 70% held by RHIHL, which was in turn 28.3% owned by the Group.

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

	2002 HK\$'million	2001 HK\$'million
State of affairs		
Non-current assets	–	3,934.6
Current assets	4,534.7	0.4
Current liabilities	(232.3)	(151.5)
Non-current liabilities	(8,336.9)	(7,818.0)
	<u> </u>	<u> </u>
Net liabilities attributable to venturers	<u>(4,034.5)</u>	<u>(4,034.5)</u>
Income and losses		
Income	–	–
	<u> </u>	<u> </u>
Net loss from ordinary activities attributable to venturers	<u>–</u>	<u>(665.9)</u>

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:

	2002 HK\$'million	2001 HK\$'million
Authorised and contracted for	359.0	562.8
Authorised, but not contracted for	16.4	–
	<u>375.4</u>	<u>562.8</u>

23. INTERESTS IN ASSOCIATES

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Unlisted companies:		
Share of net liabilities	(24.5)	(3.2)
Goodwill on acquisition	274.8	–
Negative goodwill on acquisition	(3.0)	–
	<u>247.3</u>	<u>(3.2)</u>
Loans to associates	270.8	254.8
Amounts due from associates	7.6	9.7
	<u>525.7</u>	<u>261.3</u>
Less: Provision for impairment	(0.4)	(0.4)
	<u>525.3</u>	<u>260.9</u>
At the balance sheet date:		
Share of post-acquisition undistributed reserves	<u>(323.6)</u>	<u>(308.8)</u>



The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of associates, are as follows:

	GROUP	
	Goodwill HK\$'million	Negative Goodwill HK\$'million
Cost:		
Arising from the acquisition of associates and balance at end of year	274.8	(3.1)
Recognition as income:		
Recognised as income during the year and balance at end of year	—	0.1
	<u> </u>	<u> </u>
Net book value:		
At 31st December, 2002	<u>274.8</u>	<u>(3.0)</u>
At 31st December, 2001	<u> </u>	<u> </u>

The above goodwill was attributable to an acquisition which took place at the year end date and, accordingly, there was no amortisation in respect thereof during the year.

The loans to associates are unsecured and not repayable within one year. Except for an amount of HK\$147.7 million (2001 - HK\$138.0 million) which bears interest at Hong Kong prime rate, the remaining balances are interest free.

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

The share of net liabilities and post-acquisition undistributed reserves represent the share 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
				2002	2001	
Talent Faith Investments Ltd.	Corporate	British Virgin Islands	Ordinary shares	50.00 ⁽¹⁾	50.00 ⁽¹⁾	Investment holding
Beijing Hengfu Plaza Development Co., Ltd.*	Corporate	The People's Republic of China	Equity joint venture interest	22.75 ⁽¹⁾	22.75 ⁽¹⁾	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.00 ⁽¹⁾	30.00 ⁽¹⁾	Property development
Weifang Futuan Building Materials Co., Ltd.*	Corporate	The People's Republic of China	Equity joint venture interest	–	25.00 ⁽²⁾	Cement production
Leading Technology Holdings Limited* ("LTH")	Corporate	British Virgin Islands	Ordinary shares	56.67 ⁽³⁾	13.33 ⁽³⁾	Investment holding
303 Company Limited	Corporate	Hong Kong	Ordinary shares	56.67 ⁽³⁾	13.33 ⁽³⁾	Development and distribution of security systems and software
Shenzhen Leading Technology Company Limited*	Corporate	The People's Republic of China	Equity joint venture interest	53.83 ⁽⁴⁾	12.67 ⁽⁴⁾	Development and distribution of security systems and software
Mira Technology Limited	Corporate	Hong Kong	Ordinary shares	74.00 ⁽⁵⁾	40.80 ⁽⁵⁾	Software development
8D International (BVI) Limited ("8D-BVI")	Corporate	British Virgin Islands	Ordinary shares	40.00 ⁽⁶⁾	40.00 ⁽⁶⁾	Investment holding
8D Matrix Limited ("8D-Matrix")	Corporate	British Virgin Islands	Ordinary shares	48.00 ⁽⁷⁾	48.00 ⁽⁷⁾	Investment holding
8D International Limited ("8D-International")	Corporate	Hong Kong	Ordinary shares	48.00 ⁽⁷⁾	48.00 ⁽⁷⁾	Promotions and information technology
Bright Future (HK) Limited *	Corporate	Hong Kong	Ordinary shares	50.00 ⁽⁸⁾	–	Investment holding

* Not audited by Ernst and Young



- (1) The percentage of equity interest represents equity interest attributable to PHL.
- (2) The percentage of equity interest represented an equity interest attributable to a 75% owned subsidiary company of PHL.
- (3) The percentages of equity interest represent the aggregate of the 1.67% (2001 - 3.33%) attributable interest held by the Company through 8D-BVI, the 50% (2001 - Nil) equity interest attributable to PHL and the 5% (2001 - 10%) attributable equity interest held by RHIHL through 8D-BVI. RHIHL was in turn 28.3% (2001 - 43.1%) owned by the Group as at 31st December, 2002.
- (4) The percentage of equity interest represents the aggregate of the 1.58% (2001 - 3.17%) attributable interest held by the Company through 8D-BVI, the 47.5% (2001 - Nil) equity interest attributable to PHL and the 4.75% (2001 - 9.5%) attributable equity interest held by RHIHL through 8D-BVI.
- (5) The percentage of equity interest represents the aggregate of the 11% (2001 - 10.2%) (including a 1% (2001 - 1.7%) attributable interest held by the Company through 8D-BVI) attributable interest held by the Company, the 30% (2001 - Nil) equity interest attributable to PHL through LTH and the 33% (2001 - 30.6%) (including a 3% (2001 - 5.1%) attributable equity interest held by RHIHL through 8D-BVI) equity interest attributable to RHIHL.
- (6) The percentage of equity interest represents the aggregate of the 10% (2001 - 10%) and the 30% (2001 - 30%) equity interests attributable to the Company and RHIHL, respectively.
- (7) The percentages of equity interest represent the aggregate of the 12% (2001 - 12%) (including a 2% (2001 - 2%) attributable interest held by the Company through 8D-BVI) and the 36% (2001 - 36%) (including a 6% (2001 - 6%) attributable interest held by RHIHL through 8D-BVI) equity interests attributable to the Company and RHIHL, respectively.
- (8) The percentage of equity interest represents equity interest attributable to RHIHL.

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.



24. INVESTMENTS

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Long term investments		
Listed equity investments, at market value:		
Hong Kong	30.6	34.3
Elsewhere	7.8	7.8
	38.4	42.1
Unlisted equity investments, at fair value:		
Carrying value	441.9	392.7
Provision for impairment	(335.5)	(273.5)
	106.4	119.2
	144.8	161.3

Long term listed investments with an aggregate market value at the balance sheet date amounting to HK\$29.5 million (2001 - HK\$33.1 million) were pledged to secure general credit facilities granted to the Group.

Included in the unlisted long term investments is an amount of HK\$56.9 million (2001 - HK\$118.9 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 People's Republic of China (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.



As previously reported, 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. 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 RMB203.0 million (2001 - RMB265.0 million) (approximately HK\$191.4 million (2001 - HK\$249.9 million)) as at 31st December, 2002, 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\$134.5 million (2001 - HK\$131.0 million) to be incurred for bringing the hotel portion of the land site to a ready for development basis, a further impairment loss of HK\$62.0 million (2001 - HK\$180.0 million) was charged against the profit and loss account in the current year. In the opinion of the directors of PHL, while there has been some progress in the negotiations with the relevant PRC government authorities regarding the resumption of the land site during the year, 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.



	GROUP	
	2002 HK\$'million	2001 HK\$'million
Short term investments		
Listed equity investment in Hong Kong, at market value	<u>8.2</u>	<u>9.9</u>

25. LOANS AND OTHER LONG TERM RECEIVABLE

		GROUP	
	Notes	2002 HK\$'million	2001 HK\$'million
Promissory notes receivable	(a)	–	168.0
Long term mortgage loans	(b)	38.7	57.3
Other loans	(c)	78.0	78.0
		116.7	303.3

- (a) The prior year balance, which were repayable on demand, represented promissory notes receivable in the aggregate amount of HK\$180.0 million and net of a provision of HK\$12.0 million as further explained below. 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. During the year, on 7th March, 2002, a settlement agreement was entered into between the RHIHL 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 (the "Convertible Note") issued by one of the borrowers (collectively, the "Entitlements"). The Convertible Note, which the RHIHL Group intended to hold as held-to-maturity securities and would otherwise be due in 2005 (the "Initial Maturity Date") (subject to an extension for further 2 years due 2007 (the "Final Maturity Date") upon fulfillment of certain conditions), bore interest at 3% per annum from the date of issue of the note to the Initial Maturity Date and was convertible into shares of the 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 of HK\$12.0 million in the fair value of the Entitlements aggregating HK\$168.0 million received by the RHIHL 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), was provided for in the prior year financial statements.

On 8th November, 2002, the RHIHL Group disposed of the Convertible Note with all rights attached thereto (including accrued interest receivable of HK\$1.3 million) at a cash consideration of HK\$40.0 million, resulting in a loss of HK\$93.3 million which was recorded in the current year financial statements.



- (b) The long term mortgage loans represent loans granted by the PHL 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.
- (c) This represents a loan of US\$10.0 million (HK\$78.0 million) (2001 - 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 RHIHL 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.

26. OTHER ASSETS

	GROUP	
	2002 HK\$'million	2001 HK\$'million
At cost:		
Deposits with the SEHK	0.1	0.1
Others	0.2	0.2
	<u>0.3</u>	<u>0.3</u>

27. SHORT TERM LOANS RECEIVABLE

The prior year short term loans receivable of the Group represented an unsecured and interest free loan to a consortium in the amount of HK\$0.9 million. The balance was reclassified to debtors, deposits and prepayments in the current year.



28. PROPERTIES HELD FOR SALE

Certain of the Group's properties held for sale with carrying amount of HK\$158.8 million (2001 - HK\$158.9 million) were pledged to secure banking facilities granted to the Group. In addition, the sale proceeds in respect of certain properties held for sale in Mainland China with carrying amount of HK\$28.0 million (2001 - HK\$42.7 million) (the "Assigned Properties") were assigned to lenders to secure a loan facility granted to the Group.

Subsequent to the balance sheet date, on 10th March, 2003, the Group disposed of the Assigned Properties to an independent third party at a consideration of HK\$28.0 million. Accordingly, the Assigned Properties were stated at their subsequent selling price at 31st December, 2002, which was below cost.

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 56(a) to financial statements.

29. HOTEL AND OTHER INVENTORIES

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Hotel merchandise	19.8	21.1
Raw materials	1.6	2.9
Work in progress	2.3	4.4
Finished goods	0.7	1.0
	24.4	29.4

As at 31st December, 2002, the carrying amount of inventories of the Group pledged to secure general banking facilities granted to the Group amounted to HK\$21.8 million (2001 - HK\$6.6 million).



30. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK\$79.3 million (2001 - HK\$163.0 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Outstanding balances with ages:		
Within 3 months	72.4	112.9
Between 4 to 6 months	2.5	7.2
Between 7 to 12 months	2.4	5.3
Over 1 year	19.8	56.8
	<hr/> 97.1	<hr/> 182.2
Provisions	(17.8)	(19.2)
	<hr/> 79.3 <hr/>	<hr/> 163.0 <hr/>

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 in December 1999 (the "Disposal"); and (ii) certain interest aggregating HK\$49.1 million accrued thereon at 7% per annum (collectively, the "Consideration Receivable"). Under the Disposal agreement, the Deferred Consideration and the interest accrued thereon were due to be paid by the purchaser (the "Purchaser") on 17th December, 2001. The Consideration Receivable was assigned as collaterals to the lenders of the Regal Loans of the RHIHL Group.

The RHIHL Group has agreed under the Disposal agreement to indemnify the Purchaser for third party claims arising from events occurring before the completion of the Disposal in December 1999 (the "Pre-closing Liabilities"). While most of the claims for Pre-closing Liabilities so far notified by the Purchaser to the RHIHL Group have been resolved and the aggregate amount of such remaining Pre-closing Liabilities claims has been reduced to significantly below the Deferred Consideration, the Purchaser has withheld payment of any or all of the Consideration Receivable on the ground that the RHIHL Group has failed to provide adequate assurance for any future Pre-closing Liabilities that may surface between now and the end of the indemnity period in December 2004 as demanded by the Purchaser. Having consulted with its legal advisers, the RHIHL Group was advised that the demand by the Purchaser was without grounds and has accordingly instituted legal proceedings against the Purchaser to recover the Consideration Receivable. The directors of RHIHL are currently unable to determine with reasonable certainty the outcome of the legal proceedings and therefore, are unable to determine the time required to recover the Consideration Receivable and whether a provision, if any, is required against the Consideration Receivable.



Credit Terms

Trade debtors, which generally have credit terms of 30 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.

As at 31st December, 2001, the Group's trade debtors included an amount due from the Group's jointly controlled entity of HK\$34.0 million, which was repayable on negotiated terms and was settled during the year.

31. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK\$100.7 million (2001 - HK\$110.9 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Outstanding balances with ages:		
Within 3 months	82.8	84.3
Between 4 to 6 months	12.4	3.6
Between 7 to 12 months	1.3	1.4
Over 1 year	4.2	21.6
	<u>100.7</u>	<u>110.9</u>

32. CONSTRUCTION CONTRACTS

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Contract costs incurred plus recognised profits less recognised losses to date	1,441.4	1,406.3
Less: Progress billings	(1,501.8)	(1,516.4)
	<u>(60.4)</u>	<u>(110.1)</u>
Gross amount due to contract customers included in creditors and accruals	(60.4)	(110.1)

As at 31st December, 2002, retentions held by customers for contract works, as included in debtors, deposits and prepayments under current assets, amounted to approximately HK\$24.9 million (2001 - HK\$25.9 million).

As at 31st December, 2002, advances from customers for contract works, as included in creditors and accruals under current liabilities, amounted to approximately HK\$18.3 million (2001 - HK\$22.8 million).



33. INTEREST BEARING BANK AND OTHER BORROWINGS

	GROUP		COMPANY	
	2002 HK\$'million	2001 HK\$'million	2002 HK\$'million	2001 HK\$'million
Bank loans and overdrafts:				
Secured	5,689.5	5,922.4	55.0	55.0
Unsecured	231.0	256.5	–	–
Other loans wholly repayable within five years:				
Secured	25.9	1,243.8	–	–
Unsecured	324.0	311.6	–	–
	<u>6,270.4</u>	<u>7,734.3</u>	<u>55.0</u>	<u>55.0</u>
Portion of borrowings due within one year included under current liabilities:				
Bank loans and overdrafts	(3,886.0)	(1,829.4)	(55.0)	(55.0)
Other loans	(349.9)	(368.4)	–	–
	<u>(4,235.9)</u>	<u>(2,197.8)</u>	<u>(55.0)</u>	<u>(55.0)</u>
Long term borrowings	<u>2,034.5</u>	<u>5,536.5</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	4,235.9	2,197.8	55.0	55.0
More than 1 year but not exceeding 2 years	1,670.1	1,895.0	–	–
More than 2 years but not exceeding 5 years	364.4	3,342.0	–	–
More than 5 years	–	299.5	–	–
	<u>6,270.4</u>	<u>7,734.3</u>	<u>55.0</u>	<u>55.0</u>

The other loans carried interest rates ranging from 8.05% to 12% (2001 - 8.78% to 13.5%) per annum at the balance sheet date.



At the balance sheet date, the RHIHL Group was under a standstill arrangement with its bank creditors with respect to a syndicated loan amounting to HK\$3,755.8 million (the "Syndicated Loan") and a construction loan amounting to HK\$1,060.8 million (the "Construction Loan"). For the reasons detailed in note 3 to the financial statements, the directors of RHIHL consider that it is appropriate to classify the Syndicated Loan and the Construction Loan as current or non-current liabilities in accordance with their original maturity terms under the loan agreements, as adjusted for the revised terms pursuant to the Standstill Agreement.

34. EXCHANGEABLE BONDS

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

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. Following the maturity default of the Exchangeable Bonds, the outstanding Exchangeable Bonds continued to bear interest at the original rate in accordance with the terms of the trust deed governing the issue of the Exchangeable Bonds.

As further explained in note 3 to the financial statements, on 31st October, 2002, the PHL Group completed the Bonds Settlement and the remaining outstanding Exchangeable Bonds in the amount of US\$128.8 million (approximately HK\$1,004.9 million) as at that date was fully settled.

35. CONVERTIBLE BONDS

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

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

As a result of the maturity default of the Exchangeable Bonds (note 34), 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 continued 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.

As further explained in note 3 to the financial statements, on 31st October, 2002, the PHL Group completed the Bonds Settlement and the remaining outstanding Convertible Bonds in the amount of US\$207.8 million (approximately HK\$1,620.8 million) as at that date was fully settled.



36. PROVISION FOR PREMIUM ON REDEMPTION OF EXCHANGEABLE BONDS AND CONVERTIBLE BONDS

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Balance at beginning of year	815.6	779.2
Provision during the year	–	60.6
Provision released upon the exchange of exchangeable bonds prior to maturity	–	(18.3)
Provision released upon the repurchase of convertible bonds	–	(5.9)
Provision released upon completion of the Bonds Settlement	(815.6)	–
Balance at end of year	<u>–</u>	<u>815.6</u>

As at 31st December, 2001, 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 34 and 35 to the financial statements, respectively.

37. PROVISIONS

	GROUP AND COMPANY Guarantee on bank loan granted to an independent third party HK\$'million
Balance at beginning of year	298.5
Additional provision	<u>28.2</u>
Balance at end of year	<u>326.7</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 at the balance sheet date.



38. 5% CONVERTIBLE BONDS

On 15th October, 2002, the RHIHL Group issued HK\$50.0 million 5% guaranteed convertible bonds (the "RHIHL Convertible Bonds"), with an option to the bondholder to subscribe, on the same terms, for further RHIHL Convertible Bonds in an additional principal amount of HK\$50.0 million in whole or in part (the "Subscription Option"), which would mature on 15th April, 2004 (the "Maturity Date"). The issue price of the RHIHL Convertible Bonds was 100% of their principal amount.

On issue, the RHIHL Convertible Bonds were convertible, at the option of the bondholder, into an aggregate of 500.0 million fully paid ordinary shares of HK\$0.01 each in RHIHL at a conversion price of HK\$0.10 per ordinary share, subject to adjustments. The conversion period for the RHIHL Convertible Bonds is from 15th October, 2002 to 14th April, 2004, both dates inclusive. Following the issue of 310.0 million new ordinary shares of RHIHL at a price of HK\$0.065 per ordinary share upon a share placement completed on 9th December, 2002, the conversion price of HK\$0.10 per ordinary share was adjusted to HK\$0.065 per ordinary share.

The RHIHL Convertible Bonds shall be redeemed by the RHIHL Group at 100% of their principal amount on the Maturity Date, if not previously redeemed, purchased and cancelled or converted. The RHIHL Group has no right of prepayment of any principal moneys outstanding under the RHIHL Convertible Bonds to the bondholder prior to the Maturity Date, except if not more than HK\$10.0 million in principal amount of the RHIHL Convertible Bonds is still outstanding, the RHIHL Convertible Bonds may be redeemed (in whole but not in part) at the option of the RHIHL Group, at 100% of their principal amount (together with interest accrued thereon), at any time prior to the Maturity Date.

The RHIHL Convertible Bonds were secured by certain receivables, fixed time deposits, interests in associates and shares in certain subsidiary companies of RHIHL as at 31st December, 2002.

Up to 31st December, 2002, none of the RHIHL Convertible Bonds had been converted into shares of RHIHL and no Subscription Option had been exercised. The full conversion of the outstanding RHIHL Convertible Bonds, at the adjusted conversion price of HK\$0.065 per ordinary share, would, with the capital structure of RHIHL as at 31st December, 2002, result in the issue of approximately 769.2 million additional ordinary shares in RHIHL.

Subsequent to the balance sheet date, on 15th January, 2003, the RHIHL Convertible Bonds in the principal amount of HK\$30.0 million (together with interest accrued thereon) were repurchased and cancelled by the RHIHL Group.

39. 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\$32.4 million (2001 – HK\$30.6 million) which bears interest at 1% above Hong Kong prime rate per annum, the remaining amount is interest free.



40. MINORITY INTERESTS

Included in the minority interests as at 31st December, 2002 was an amount of HK\$345.0 million which was attributable to 3,450 million convertible preference shares of HK\$0.10 each issued by PHL (the "Convertible Preference Shares") as the consideration for the acquisition of Venture Perfect Investments Limited (the "Paliburg Acquisition") on 31st December, 2002 (the "Issue Date"), details of which are set out in note 53(e) to the financial statements. Each Convertible Preference Share is convertible into one ordinary share of PHL at any time within 3 years after the Issue Date.

On 2nd August, 2002, the Company entered into a share swap agreement with Almighty International Limited ("Almighty") and the vendors in the Paliburg Acquisition (the "Vendors") (the "Share Swap Agreement"). Under the Share Swap Agreement, (i) the Vendors would sell their Convertible Preference Shares to Almighty; (ii) Almighty would issue four exchangeable preference shares (the "Exchangeable Preference Shares") for every Convertible Preference Share acquired; and (iii) the Company agreed to acquire the entire issued ordinary share capital of Almighty from one of the Vendors at a nominal value. Every four Exchangeable Preference Shares are exchangeable into one Convertible Preference Share, or one ordinary share of PHL if so converted, within one year after the Issue Date. Under the Share Swap Agreement and pursuant to the terms of the Exchangeable Preference Shares, the Company may, through the exercise of rights to call subject to certain conditions, acquire from one of the Vendors 11,000 million Exchangeable Preference Shares while the Vendors may, through the exercise of rights to put, require the Company to acquire up to 13,800 million Exchangeable Preference Shares, by the issue of one new ordinary share of the Company for every Exchangeable Preference Share acquired.

The Share Swap Agreement was completed on 31st December, 2002. Further details of the Share Swap Agreement, and the terms of the Convertible Preference Shares and Exchangeable Preference Shares are set out in the Company's circular dated 26th August, 2002.

Subsequent to the balance sheet date, one of the Vendors exchanged 400 million Exchangeable Preference Shares into 100 million Convertible Preference Shares for conversion into 100 million ordinary shares of PHL.



41. SHARE CAPITAL

	COMPANY	
	Number of shares of HK\$0.10 each 'million	HK\$'million
Shares		
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 of year	3,326.8	332.7
Issue of new shares for acquisition of a long term investment	<u>490.0</u>	<u>49.0</u>
Balance at end of year	<u>3,816.8</u>	<u>381.7</u>

Pursuant to the share exchange agreement dated 18th February, 2002 (the "Agreement"), a total of 250 million new shares of the Company of HK\$0.10 each were issued on 8th March, 2002 to a nominee of Prism Communications International Limited ("Prism") as the consideration for subscription of 10 million ordinary shares of HK\$0.01 each in Prism (the "Prism Shares"). According to the Agreement, an option was granted by Prism to the Company to subscribe for up to a further 30 million shares in Prism at an exercise price of 25 new shares of the Company (the "Exercise Price") per Prism Share (the "Option"). On 23rd July, 2002, the Company partially exercised the Option to subscribe for an additional 9.6 million Prism Shares at the Exercise Price and, accordingly, 240 million new shares of the Company of HK\$0.10 each were issued on the same date. The remaining Option expired on 1st October, 2002.

There was no movement in the Company's share capital in the prior year.



Share Options

The Company does not maintain any share option scheme during the year.

Share options granted by Paliburg Holdings Limited

SSAP 34 was adopted during the year, as explained in note 2 and note 4(ae) to the financial statements. As a result, these detailed disclosures relating to PHL's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

PHL operates an executive share option scheme (the "PHL Share Option Scheme"). The PHL Share Option Scheme was adopted by PHL's shareholders on 23rd November, 1993 and subsequently approved by the independent shareholders of Paliburg International Holdings Limited ("PIHL"), formerly the immediate listed holding company of PHL, on 15th December, 1993. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The summarised information on the PHL Share Option Scheme is set out as follows:

- | | |
|--|--|
| (i) Purpose: | As incentive to selected eligible executives |
| (ii) Participants: | Eligible executive means any director, officer and any person who is an employee of PHL and its subsidiary companies |
| (iii) Total number of ordinary shares subject to outstanding options under the PHL Share Option Scheme and as a percentage of the issued share capital as at 31st December, 2002 and at the date of this report: | At 31st December, 2002:
17,695,312 ordinary shares
(approximately 0.8%)

At the date of this report:
15,937,500 ordinary shares
(approximately 0.7%) |
| (iv) Maximum entitlement of each participant under the PHL Share Option Scheme: | Not exceeding 25% of the total number of ordinary shares included in options outstanding at the time of grant |
| (v) The period within which the shares must be taken up under an option: | From the time when the options become vested to no later than ten years after the date of grant |
| (vi) Minimum period for which an option must be held before it can be exercised: | Not less than one year following the date of grant |
| (vii) Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid: | N/A |



- (viii) The basis of determining the exercise price: At the discretion of the board of PHL but shall not be less than the par value of the shares nor at a discount of more than 20% below the average closing prices of the ordinary shares on the Stock Exchange on the five dealing days immediately preceding the date on which the invitation to apply for an option is resolved by the board of PHL to be given
- (ix) The remaining life of the PHL Share Option Scheme: The life of the PHL Share Option Scheme commenced from 23rd November, 1993, date of adoption, and will end on 23rd November, 2003

During the year, movements in share options granted by PHL pursuant to the PHL Share Option Scheme are as follows:

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options ** HK\$
		At 1st January, 2002	Lapsed during the year	At 31st December, 2002		
22nd February, 1994	Directors					
	Mr. Lo Yuk Sui (Note 2)					
	Vested:	3,193,750	–	3,650,000	Note 3	10.40
	Unvested:	1,368,750	–	912,500		
	Mr. Kenneth Ng Kwai Kai					
	Vested:	700,000	–	800,000	Note 3	10.40
	Unvested:	300,000	–	200,000		
	Other Employees					
	Employees, in aggregate					
	Vested:	3,631,250	(350,000)	3,800,000	Note 3	10.40
	Unvested:	1,556,250	(87,500)	950,000		
		<u>10,750,000</u>	<u>(437,500)</u>	<u>10,312,500</u>		



Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options ** HK\$
		At 1st January, 2002	Lapsed during the year	At 31st December, 2002		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1992)	Directors Mr. Lo Yuk Sui (Note 2) Vested:	18,750,000	(18,750,000)	–	Note 4	0.6656
	Mr. Kenneth Ng Kwai Kai Vested:	5,127,656	(5,127,656)	–	Note 4	0.6656
	Other Employees Employees, in aggregate Vested:	16,887,892	(16,887,892)	–	Note 4	0.6656
		40,765,548	(40,765,548)	–		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1993)	Other Employees Employees, in aggregate Vested: Unvested:	1,406,249 351,563	– –	1,757,812 –	Notes 5 & 6 Notes 5 & 6	1.1571
		1,757,812	–	1,757,812		



Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options ** HK\$
		At 1st January, 2002	Lapsed during the year	At 31st December, 2002		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1994)	Other Employees Employees, in aggregate Vested: Unvested:	2,187,500 937,500	– –	2,500,000 625,000	Note 7 Note 7	3.5392
		<u>3,125,000</u>	<u>–</u>	<u>3,125,000</u>		
22nd February, 1997	Other Employees Employees, in aggregate Vested: Unvested:	1,250,000 1,875,000	(312,500) (312,500)	1,250,000 1,250,000	Note 3 Note 3	6.672
		<u>3,125,000</u>	<u>(625,000)</u>	<u>2,500,000</u>		
	Total:	<u>59,523,360</u>	<u>(41,828,048)</u>	<u>17,695,312</u>		

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** Subject to adjustment in the case of rights or bonus issues, or other relevant changes in the share capital of PHL.

Notes:

- Consequent upon the group reorganisation resulting in the effective merger of PIHL and PHL on 17th August, 1995 and in accordance with the terms of the executive share option scheme of PIHL ("PIHL Option Scheme"), the outstanding options held under the PIHL Option Scheme ("PIHL Options") lapsed on 17th August, 1995 and in conjunction therewith, PHL granted the same number of options to subscribe for the new consolidated shares of HK\$1.00 each of PHL under the PHL Share Option Scheme ("PHL Options") at the same prices and otherwise on the same terms as held by and applicable to the holders of the then outstanding PIHL Options. The above Original Grant Dates are the dates of grant of the PIHL Options and are used to determine the timing when the rights to exercise the PHL Options vest with the holders thereof.
- The aggregate number of shares under options previously granted was in excess of the individual maximum limit of 1% of the shares in issue in the 12-month period up to the date of the latest grant of options.



3. Vesting/Exercise Periods of Options:

	On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a)	2 years after date of grant	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after date of grant)
(b)	3 years to 9 years after date of grant	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after date of grant))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after date of grant) upon vesting (exercisable until 10 years after date of grant))
(c)	9½ years after date of grant	100%	100% (exercisable until 10 years after date of grant)

4. Vesting/Exercise Periods of Options:

	On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a)	Exercisable at any time	PHL Options were granted as vested options under the PHL Share Option Scheme for those PIHL Options already vested under PIHL Option Scheme (see Note 1)	Exercisable until 10 years after Original Grant Date
(b)	4 years after Original Grant Date	1/7 x 100%	1/7 x 100% upon vesting (exercisable until 10 years after Original Grant Date)
(c)	5 years to 9 years after Original Grant Date	Cumulative 2/7 x 100% to 6/7 x 100% (with 1/7 x 100% additional percentage vested each subsequent year (commencing from 5 years after Original Grant Date))	Cumulative 2/7 x 100% to 6/7 x 100% (with 1/7 x 100% additional percentage exercisable each subsequent year (commencing from 5 years after Original Grant Date) upon vesting (exercisable until 10 years after Original Grant Date))
(d)	9½ years after Original Grant Date	100%	100% (exercisable until 10 years after Original Grant Date).



5. Lapsed after expiry of the relevant exercise period on 22nd February, 2003.

6. Vesting/Exercise Periods of Options:

	On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a)	Exercisable at any time	PHL Options were granted as vested options under the PHL Share Option Scheme for those PIHL Options already vested under PIHL Option Scheme (see Note 1)	Exercisable until 10 years after Original Grant Date
(b)	3 years after Original Grant Date	1/8 x 100%	1/8 x 100% upon vesting (exercisable until 10 years after Original Grant Date)
(c)	4 years to 9 years after Original Grant Date	Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage vested each subsequent year (commencing from 4 years after Original Grant Date))	Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage exercisable each subsequent year (commencing from 4 years after Original Grant Date) upon vesting (exercisable until 10 years after Original Grant Date))
(d)	9½ years after Original Grant Date	100%	100% (exercisable until 10 years after Original Grant Date)

7. Vesting/Exercise Periods of Options:

	On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a)	2 years after Original Grant Date	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after Original Grant Date)
(b)	3 years to 9 years after Original Grant Date	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after Original Grant Date))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after Original Grant Date) upon vesting (exercisable until 10 years after Original Grant Date))
(c)	9½ years after Original Grant Date	100%	100% (exercisable until 10 years after Original Grant Date)



8. In the absence of a readily available market value, the Directors are unable to arrive at an accurate assessment of the value of the options granted.

The exercise in full of the outstanding rights which have vested with the holders of the options up to the date of approval of the financial statements by the Board of Directors, inclusive of those exercised since the year end date, would have, with the present capital structure of PHL, resulted in the issue of 13.6 million additional ordinary shares and share premium of HK\$116.4 million (before issue expenses).

Share options granted by Regal Hotels International Holdings Limited

RHIHL operates an executive share option scheme (the "RHIHL Share Option Scheme"). The RHIHL Share Option Scheme was approved by RHIHL's shareholders on 28th June, 1990. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The summarised information on the RHIHL Share Option Scheme is set out as follows:

- | | |
|--------------------|---|
| (i) Purpose: | As incentive to selected eligible executives |
| (ii) Participants: | Eligible executive means any director and any person who is an employee of the RHIHL Group (including RHIHL, its subsidiary companies and other bodies corporate in which RHIHL or its subsidiary companies, or a combination of them, hold not less than 40% of the issued voting shares), or of any other company or corporation forming part of the Century City International Holdings Limited Group ("CCIHL Group"), for so long as RHIHL is part of the CCIHL Group, and (in the opinion of the Board) who devotes a material amount of time to the management of the affairs of the RHIHL Group. |



- | | | |
|--------|--|---|
| (iii) | Total number of ordinary shares subject to outstanding options under the RHIHL Share Option Scheme and as a percentage of the issued share capital as at 31st December, 2002 and at the date of this report: | 2,460,000 ordinary shares (approximately 0.04%) |
| (iv) | Maximum entitlement of each participant under the RHIHL Share Option Scheme: | Not exceeding 25% of the total number of ordinary shares included in options outstanding at the time of grant |
| (v) | The period within which the shares must be taken up under an option: | From the time when the options become vested no later than ten years after the date of grant. |
| (vi) | Minimum period for which an option must be held before it can be exercised: | Not less than one year following the date of grant |
| (vii) | Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid: | N/A |
| (viii) | The basis of determining the exercise price: | At the discretion of the Board of RHIHL but shall not be less than the par value of the shares nor at a discount of more than 10% below the average closing prices of the ordinary shares on the Stock Exchange on the five dealing days immediately preceding the date on which the invitation to apply for an option is resolved by the board of RHIHL to be given. |
| (ix) | The remaining life of the RHIHL Share Option Scheme: | The life of the RHIHL Share Option Scheme commenced from 28th June, 1990, date of adoption, and ended on 28th June, 2000. |



During the year, movements in share options granted by RHIHL pursuant to the RHIHL Share Option Scheme are as follows:

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options** HK\$
		At 1st January, 2002	Lapsed during the year	At 31st December, 2002		
22nd February, 1992	Directors					
	Mr. Lo Yuk Sui					
	Vested:	26,880,000	(26,880,000)	–	Note 1	0.7083
	Mr. Kenneth Ng Kwai Kai					
	Vested:	8,400,000	(8,400,000)	–	Note 1	0.7083
	Other Employees					
	Employees, in aggregate					
	Vested:	14,814,000	(14,814,000)	–	Note 1	0.7083
		50,094,000	(50,094,000)	–	Note 1	0.7083
5th August, 1993	Other Employees					
	Employees, in aggregate					
	Vested:	1,080,000	–	1,230,000	Note 1	1.1083
	Unvested:	300,000	–	150,000	Note 1	
		1,380,000	–	1,380,000		
22nd February, 1997	Other Employees					
	Employees, in aggregate					
	Vested:	432,000	–	540,000	Note 1	2.1083
	Unvested:	648,000	–	540,000	Note 1	
		1,080,000	–	1,080,000		
	Total:	52,554,000	(50,094,000)	2,460,000		

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** Subject to adjustment in the case of rights or bonus issues, or other relevant changes in RHIHL's share capital.



Notes:

1. Vesting/Exercise Periods of Options:

On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a) 2 years after date of grant	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after date of grant)
(b) 3 years to 9 years after date of grant	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after date of grant))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after date of grant) upon vesting (exercisable until 10 years after date of grant))
(c) 9½ years after date of grant	100%	100% (exercisable until 10 years after date of grant)

2. In the absence of a readily available market value, the directors of RHIHL are unable to arrive at an accurate assessment of the value of the options granted.

The exercise in full of the outstanding rights which have vested with the holders of the options up to the date of approval of the financial statements by the Board of Directors, inclusive of those exercised since the year end date, would have, with the present capital structure of RHIHL, resulted in the issue of 2.0 million additional ordinary shares and share premium of HK\$2.9 million (before issue expenses).



42. RESERVES

	Notes	GROUP		COMPANY	
		2002 HK\$'million	2001 HK\$'million	2002 HK\$'million	2001 HK\$'million
Share premium	43	888.4	888.4	888.4	888.4
Capital redemption reserve	44	4.4	4.4	4.4	4.4
Capital reserve	45	2,980.3	3,325.9	–	–
Revaluation reserves	46	(7.9)	53.9	–	–
Exchange equalisation reserve	47	(2.2)	(4.2)	–	–
Contributed surplus	49	–	–	1,893.5	1,893.5
Accumulated losses	50	(4,737.3)	(4,761.4)	(3,314.9)	(3,279.3)
		<u>(874.3)</u>	<u>(493.0)</u>	<u>(528.6)</u>	<u>(493.0)</u>

43. SHARE PREMIUM

	COMPANY	
	2002 HK\$'million	2001 HK\$'million
Balance at beginning and at end of year	<u>888.4</u>	<u>888.4</u>

44. CAPITAL REDEMPTION RESERVE

	GROUP AND COMPANY	
	2002 HK\$'million	2001 HK\$'million
Balance at beginning and at end of year	<u>4.4</u>	<u>4.4</u>



45. CAPITAL RESERVE

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Balance at beginning of year	3,325.9	3,383.4
Release on disposal of ordinary shares in a listed subsidiary company	(46.3)	(43.1)
Release on disposal of ordinary shares in a listed subsidiary company upon the exchange of exchangeable bonds	–	(14.4)
Release on disposal of ordinary shares in a listed subsidiary company upon completion of the Bonds Settlement	(309.0)	–
Share of impairment of goodwill of an associate previously eliminated against capital reserve	9.7	–
Balance at end of year	<u>2,980.3</u>	<u>3,325.9</u>

As further explained below, the carrying amounts at 31st December, 2002 and 2001 also included goodwill and negative goodwill arising from the acquisitions of subsidiary companies and the share of goodwill of an associate in prior years. As detailed in note 4(c) to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1st January, 2001, to remain eliminated against or credited to the capital reserve, respectively.



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:

	Share of goodwill of an associate eliminated against capital reserve HK\$' million	Goodwill eliminated against capital reserve HK\$' million	Negative goodwill credited to capital reserve HK\$' million
Cost:			
At beginning of year	10.0	156.5	(2,110.8)
Release on disposal of ordinary shares in a listed subsidiary company	(0.3)	–	46.6
Release on disposal of ordinary shares in a listed subsidiary company upon completion of the Bonds Settlement	–	–	309.0
	<u>9.7</u>	<u>156.5</u>	<u>(1,755.2)</u>
At end of year			
Accumulated impairment:			
At beginning of year	–	(156.5)	–
Impairment provided during the year	(9.7)	–	–
	<u>(9.7)</u>	<u>(156.5)</u>	<u>–</u>
At end of year			
Net amount:			
At 31st December, 2002	<u>–</u>	<u>–</u>	<u>(1,755.2)</u>
At 31st December, 2001	<u>10.0</u>	<u>–</u>	<u>(2,110.8)</u>

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



46. REVALUATION RESERVES

	GROUP			
	Investment properties HK\$'million	Leasehold properties HK\$'million	Long term investments HK\$'million	Total HK\$'million
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 a 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 51)	–	(4.5)	–	(4.5)
Deficit on revaluation	(60.9)	–	–	(60.9)
At 31st December, 2001 and at 1st January, 2002	–	71.6	(17.7)	53.9
Movement in fair value	–	–	0.1	0.1
Transfer to profit and loss account on impairment	–	–	5.0	5.0
Reclassification of leasehold properties as investment properties	21.2	(21.2)	–	–
Release on disposal of ordinary shares in a listed subsidiary company	–	–	0.5	0.5
Release on disposal of ordinary shares in a listed subsidiary company upon completion of the Bonds Settlement	–	–	1.7	1.7
Release on disposal of subsidiary companies upon completion of the Bonds Settlement	(21.2)	(47.8)	–	(69.0)
Release on disposal	–	–	2.5	2.5
Transfer to retained profits (note 51)	–	(2.6)	–	(2.6)
At 31st December, 2002	–	–	(7.9)	(7.9)



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.

47. EXCHANGE EQUALISATION RESERVE

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Balance at beginning of year	(4.2)	(3.2)
Release on disposal of ordinary shares in a listed subsidiary company upon the exchange of exchangeable bonds	–	0.1
Release on disposal of ordinary shares in a listed subsidiary company	0.2	–
Release on disposal of ordinary shares in a listed subsidiary company upon completion of the Bonds Settlement	1.6	–
Exchange adjustment on translation of the financial statements of overseas subsidiary companies	0.2	(1.1)
Balance at end of year	<u>(2.2)</u>	<u>(4.2)</u>

48. INTERESTS IN SUBSIDIARY COMPANIES

	COMPANY	
	2002 HK\$'million	2001 HK\$'million
Unlisted shares, at cost	2,059.0	2,059.0
Amount due from a subsidiary company	<u>1,101.9</u>	<u>1,056.0</u>
	3,160.9	3,115.0
Provision for impairment	<u>(2,913.1)</u>	<u>(2,913.1)</u>
	<u>247.8</u>	<u>201.9</u>

The amount due from a subsidiary company is unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

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
			2002	2001	
Aikford Financial Services Limited	Hong Kong	HK\$2	100	100	Securities investment
Century City BVI Holdings Limited	British Virgin Islands	HK\$10	100	100	Investment holding
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 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
Cityline Finance Limited	Hong Kong	HK\$2	100	100	Financing
Expert Link Technology Limited	British Virgin Islands	US\$1	100	–	Investment holding
Gentwin Investment Limited	Hong Kong	HK\$2	100	100	Financing
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



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Paliburg Holdings Limited	Bermuda	Ordinary	59.2	59.2	Investment holding
		-HK\$23,184,975 Convertible preference -HK\$345,000,000	100	-	
Capital Billion International Limited	British Virgin Islands	US\$10,000	59.2	-	Financing
Cathay City Development, Inc.	U.S.A.	US\$6,000,000	59.2	59.2	Property development and investment
Cathay City Property Management, Inc.	U.S.A.	US\$10,000	59.2	59.2	Property and project management
Chatwin Engineering Limited	Hong Kong	HK\$2,800,000	59.2	47.4	Building construction
Cheer Faith Limited	Hong Kong	HK\$2	59.2	59.2	Financing
Chinatrend (Holdings) Limited	Hong Kong	HK\$10,000	44.4 ^{###}	44.4	Investment holding
Chinatrend (Weifang Cement Plant) Limited	Hong Kong	HK\$2	44.4 ^{###}	44.4	Investment holding
Cosmos Best Development Limited	Hong Kong	HK\$2	59.2	59.2	Management services
Cosmos Gain Investment Limited	Hong Kong	HK\$2	59.2	59.2	Property development and investment



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Everlane Investment Limited	Hong Kong	HK\$2	59.2	59.2	Property development and investment
Farich Investment Limited	Hong Kong	HK\$2	59.2	59.2	Investment holding
Finso Limited	Hong Kong	HK\$2	59.2	59.2	Investment holding
Gain World Investments Limited	British Virgin Islands	US\$1	59.2	59.2	Investment holding
Glaser Holdings Limited	British Virgin Islands	US\$1	59.2	59.2	Investment holding
Glory Legend Development Limited	Hong Kong	HK\$2	59.2	59.2	Financing
Good Focus Holdings Limited*	British Virgin Islands	US\$1	–	59.2	Property investment
Granco Development Limited	Hong Kong	HK\$2	59.2	59.2	Property development and investment
Grand Equity Limited	British Virgin Islands	US\$1	59.2	–	Investment holding
H.P. Nominees Limited	Hong Kong	HK\$2	59.2	59.2	Investment holding and nominee services
Lead Fortune Development Limited	Hong Kong	HK\$2	59.2	59.2	Property development and investment
Linkprofit Limited	Hong Kong	HK\$2	59.2	59.2	Investment holding



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Paliburg BVI Holdings Limited	British Virgin Islands	HK\$10	59.2	59.2	Investment holding
Paliburg Building Services Limited	Hong Kong	HK\$2	59.2	59.2	Mechanical and electrical engineering services
Paliburg Company Limited	Hong Kong	HK\$1,000	59.2	59.2	Investment holding
Paliburg Development BVI Holdings Limited	British Virgin Islands	US\$1	59.2	59.2	Investment holding
Paliburg Development Consultants Limited	Hong Kong	HK\$100,000	59.2	59.2	Development consultants
Paliburg Development Finance Limited	Hong Kong	HK\$2	59.2	59.2	Financing
Paliburg Estate Agents Limited	Hong Kong	HK\$20	59.2	59.2	Estate agent
Paliburg Estate Management Limited	Hong Kong	HK\$20	59.2	59.2	Estate management
Paliburg Finance (C.B. 2002) Limited*	British Virgin Islands	US\$1	–	59.2	Financing
Paliburg Finance Limited	Hong Kong	HK\$2	59.2	59.2	Financing
Paliburg International Finance Limited*	British Virgin Islands	US\$1	–	59.2	Financing
Paliburg International Holdings Limited	Bermuda	HK\$100,000	59.2	59.2	Investment holding
Paliburg Investments Limited	Hong Kong	HK\$526,506,860	59.2	59.2	Investment holding
Polarfine Inc	British Virgin Islands	HK\$3,000,000	59.2	47.4	Investment holding



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Power Faith Investments Limited	British Virgin Islands	US\$100	59.2	–	Financing
Rank Cheer Investment Limited	Hong Kong	HK\$2	59.2	59.2	Financing
Real Charm Investment Limited	Hong Kong	HK\$2	59.2	59.2	Property investment
Rich Pearl Limited	Hong Kong	HK\$10,000	59.2	59.2	Financing
Sanefix Development Limited	Hong Kong	HK\$2	59.2	59.2	Property investment
Shenyang Paliburg Plaza Limited**	The People's Republic of China	US\$9,820,000	59.2	59.2	Property development and investment
Sonnix Limited	Hong Kong	HK\$2	59.2	59.2	Property development and investment
Taylor Investments Ltd.	British Virgin Islands	US\$1	59.2	59.2	Investment holding
Tower Bright Limited	British Virgin Islands	US\$1	59.2	–	Investment holding
Transcar Investments Limited	British Virgin Islands	US\$1	59.2	59.2	Investment holding
Treasure Spot Investments Limited*	British Virgin Islands	US\$1	–	59.2	Property investment
Venture Perfect Investments Limited	British Virgin Islands	US\$34,500	59.2	–	Investment holding
Vertex Investments Limited	Hong Kong	HK\$2	59.2	59.2	Securities investment



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Weifang Yuanzhong Real Estate Development Co., Ltd.***	The People's Republic of China	US\$8,130,000	31.1 ^{###}	31.1	Property development and investment
Yield Star Limited	British Virgin Islands	US\$1	59.2	59.2	Investment holding
Regal Hotels International Holdings Limited ("RHIHL")	Bermuda	Ordinary	28.3 [#]	43.1	Investment holding
		- HK\$62,971,058 Preference - US\$167,480	12.1	12.1	
Bauhinia Hotels Limited	Hong Kong	HK\$2	28.3 [#]	43.1	Hotel ownership
Camomile Investments Limited	Hong Kong	HK\$2	28.3 [#]	43.1	Property investment
Charmwin Limited	Hong Kong	HK\$2	28.3 [#]	-	Distribution of beer
Charter Capital Development Limited	Hong Kong	HK\$2	28.3 [#]	43.1	Property investment
Cityability Limited	Hong Kong	HK\$10,000	28.3 [#]	43.1	Hotel ownership
Cranfield Investments Limited	Hong Kong	HK\$2	28.3 [#]	43.1	Financing
Farah Investments Limited	Hong Kong	HK\$2	28.3 [#]	43.1	Financing
Fortune Nice Investment Limited	Hong Kong	HK\$2	28.3 [#]	43.1	Financing
Gala Hotels Limited	Hong Kong	HK\$2	28.3 [#]	43.1	Hotel ownership
HK168 Limited	Republic of Liberia	US\$1	28.3 [#]	43.1	Securities investment



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Kaifeng Yatai Brewery Co., Ltd.**	The People's Republic of China	RMB35,923,300	25.5 ^{##}	38.8	Production and distribution of beer
Kaifeng Yatai Brewery Second Co., Ltd.**	The People's Republic of China	RMB30,576,700	25.5 ^{##}	38.8	Production and distribution of beer
Kaybro Investments Limited	British Virgin Islands	US\$1	28.3 ^{##}	43.1	Securities investment
Key Winner Investment Limited	Hong Kong	HK\$2	28.3 ^{##}	43.1	Financing
Kingford View Investments Limited	British Virgin Islands	US\$1	28.3 ^{##}	43.1	Securities investment
Regal Century Investment Limited	Hong Kong	HK\$2	28.3 ^{##}	43.1	Investment holding and management services
Regal Constellation Hotel Limited	Canada	CAD1	28.3 ^{##}	43.1	Hotel ownership
Regal Estate Agents Limited	Hong Kong	HK\$2	28.3 ^{##}	–	Estate agents
Regal Estate Management Limited	Hong Kong	HK\$2	28.3 ^{##}	–	Estate management
Regal Hotels (Holdings) Limited	Hong Kong	HK\$1,151,598,638	28.3 ^{##}	43.1	Investment holding
Regal Hotels International Limited	Hong Kong	HK\$100,000	28.3 ^{##}	43.1	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US\$1	28.3 ^{##}	43.1	Hotel management



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Regal International Limited	British Virgin Islands	US\$20	28.3 ^{**}	43.1	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK\$10.1	28.3 ^{**}	43.1	Investment holding
Regal Laundry Services Limited	Hong Kong	HK\$2	28.3 ^{**}	43.1	Laundry operations
Regal Pacific (Holdings) Limited	Canada	CAD2,005,200	28.3 ^{**}	43.1	Investment holding
Regal Quality Foods Limited	Hong Kong	HK\$2	28.3 ^{**}	43.1	Bakery and retail operations
Regal Riverside Hotel Limited	Hong Kong	HK\$2	28.3 ^{**}	43.1	Hotel ownership
Regal Supplies Limited	Hong Kong	HK\$2	28.3 ^{**}	43.1	Bakery plant operation
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	28.3 ^{**}	43.1	Trademark holding
Richtech Holdings Limited	Hong Kong	HK\$2	28.3 ^{**}	–	Financing
Ricobem Limited	Hong Kong	HK\$2	28.3 ^{**}	43.1	Hotel ownership
World Way Management Limited	Hong Kong	HK\$2	28.3 ^{**}	43.1	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.



At the balance sheet date, PHL had a 74.9% voting interest and a 47.8% economic interest in Regal Hotels International Holdings Limited ("RHIHL"). Pursuant to the Bonds Settlement as detailed in note 3 to the financial statements, 1,896.5 million ordinary shares of RHIHL (the "Relevant RHIHL Shares") were transferred to a special purpose vehicle company (the "SPV") wholly-owned by PHL, which are subject to a phased release to the bondholders. The rights to dividends relating to these shares are with the bondholders. The Relevant RHIHL Shares are to be held by the SPV for a period of 12 months, subject to certain early release provisions, after the completion of the Bonds Settlement (i.e. from 1st November, 2002 to 31st October, 2003) following which they will be released, subject to certain conditions, at the option of the bondholders in phases. Prior to the balance sheet date, for the purpose of maintaining an adequate public float of the ordinary shares of RHIHL as required under the Listing Rules, PHL exercised its right pursuant to the provisions under the Bonds Settlement to release from the SPV 190.0 million Relevant RHIHL Shares to the bondholders while the remaining 1,706.5 million Relevant RHIHL Shares, representing 27.1% of the issued ordinary shares of RHIHL, continued to be held by the SPV at the balance sheet date.

As set out in detail in a circular to the shareholders of the Company dated 26th August, 2002, except in certain limited circumstances, the voting rights attached to the Relevant RHIHL Shares remain vested with PHL until they are released to the bondholders. Accordingly, at the balance sheet date, the Directors consider the Company has control over RHIHL as it controls PHL which in turn controls more than half of the voting power in RHIHL.

The percentages of equity interest represent those attributable to the Group through its shareholdings in RHIHL.

The percentages of equity interest represent those attributable to the Group through its shareholdings in PHL.

Except for Century City BVI Holdings Limited, all of the above 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, 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 for 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.

49. 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.



50. ACCUMULATED LOSSES

	GROUP		COMPANY	
	2002 HK\$'million	2001 HK\$'million	2002 HK\$'million	2001 HK\$'million
Balance at beginning of year	(4,761.4)	(3,115.2)	(3,279.3)	(1,563.8)
Net loss for the year	(71.5)	(1,650.7)	(35.6)	(1,715.5)
Elimination of accumulated losses position of a listed subsidiary company upon cancellation of its preference share premium	45.2	—	—	—
Transfer from other reserves (note 51)	50.4	4.5	—	—
Balance at end of year	<u>(4,737.3)</u>	<u>(4,761.4)</u>	<u>(3,314.9)</u>	<u>(3,279.3)</u>

GROUP

	2002 HK\$'million	2001 HK\$'million
Accumulated losses at end of year accumulated in:		
The Company and subsidiary companies	(3,478.3)	(3,508.4)
Associates	(204.6)	(198.6)
Jointly controlled entity	(1,054.4)	(1,054.4)
Balance at end of year	<u>(4,737.3)</u>	<u>(4,761.4)</u>



51. TRANSFER FROM OTHER RESERVES

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Transfer from revaluation reserve of the portion of depreciation charge on leasehold property attributable to the revaluation surplus in relation thereto (note 46)	2.6	4.5
Transfer from revaluation reserve upon disposal of leasehold property (note 46)	47.8	–
	<u>50.4</u>	<u>4.5</u>



52. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK\$'million	2001 HK\$'million (Restated)
Profit/(Loss) before tax	220.8	(2,237.9)
Adjustments for:		
Finance costs	623.6	872.2
Share of profits less losses of a jointly controlled entity and associates	19.5	97.4
Interest income	(15.9)	(56.5)
Dividend income	(1.0)	(3.4)
Gain on settlement of exchangeable bonds and convertible bonds	(2,102.4)	-
Profit on disposal of ordinary shares in a listed subsidiary company arising from exchange of exchangeable bonds	-	(64.7)
Loss on disposal of ordinary shares in a listed subsidiary company	56.6	8.5
Loss on disposal of unlisted subsidiary companies	-	2.7
Gain on disposal of an associate	(6.5)	-
Loss on disposal of fixed assets	1.0	3.3
Loss on disposal of an investment property	35.6	-
Depreciation	51.7	61.2
Amortisation of trading rights	0.2	0.6
Negative goodwill recognised as income	(1.1)	-
Write-down in values of properties	67.4	61.9
Deficit on revaluation of investment properties	0.1	288.6
Write back of provision against a loan receivable	(19.1)	-
Impairment of fixed assets	-	50.8
Provisions for guarantee and indemnity given	3.7	2.7
Impairment of hotel properties	618.9	-
Deficit on revaluation of hotel properties	528.9	710.4
Impairment of long term investments	62.0	180.0
Impairment of long term investments previously eliminated against long term investment revaluation reserve	15.0	-
Impairment of intangible assets	2.3	-
Provisions for doubtful debts	8.8	12.1
Provisions against other loans, promissory notes and interest receivable	-	75.6
Profit on sale of properties	-	(0.3)
Loss on disposal of long term investments	97.2	142.6
Gain on repurchase and cancellation of convertible bonds	-	(13.4)
Net proceeds from sale of properties	9.3	123.4
Additions to properties under development	(5.4)	-
Operating profit before working capital changes	271.2	317.8
Decrease in short term investments	1.7	17.8
Decrease in debtors, deposits and prepayments	76.4	35.5
Decrease in hotel and other inventories	5.8	15.5
Decrease in creditors and accruals	(91.6)	(43.2)
Increase/(Decrease) in deposits received	3.1	(10.0)
Exchange difference	0.3	(0.2)
Cash generated from operations	266.9	333.2
Hong Kong profits tax paid	(8.4)	(21.5)
Hong Kong profits tax refunded	2.1	-
Overseas taxes paid	(0.4)	(0.5)
Overseas taxes refunded	3.1	-
Net cash inflow from operating activities	263.3	311.2



(b) Major non-cash transactions

The Group had the following major non-cash transactions during the year:

- (i) As detailed in note 25 to the financial statements, part of the promissory notes receivable of HK\$180.0 million as at 31st December, 2001 together with interest accrued thereon was settled during the year, involving, inter alia, a 3-year convertible note of HK\$132.0 million issued by one of the borrowers of the promissory notes.
- (ii) As detailed in note 53(e) to the financial statements, the PHL Group acquired a 100% interest in Venture Perfect Investments Limited during the year at a consideration of HK\$345.0 million which was satisfied by the issue of 3,450 million convertible preference shares of PHL.
- (iii) As detailed in note 41 to the financial statements, a total of 490 million new shares of HK\$0.10 each of the Company were issued during the year in exchange for 19.6 million shares of HK\$0.01 each in Prism Communications International Limited.

(c) Restricted cash and cash equivalent balances

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$29.9 million (2001 - HK\$4.6 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(d) Acquisition of a subsidiary company

	2002 HK\$'million	2001 HK\$'million
Net assets acquired:		
Interest in an associate	275.0	–
Time deposits	70.0	–
	<u>345.0</u>	<u>–</u>
Satisfied by:		
Issue of convertible preference shares of PHL	<u>345.0</u>	<u>–</u>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiary company is as follows:

	2002 HK\$'million	2001 HK\$'million
Cash and bank balances acquired	<u>70.0</u>	<u>–</u>



The results of the subsidiary company acquired during the year had no impact on the Group's consolidated turnover and profit after tax for the year. Refer to note 53(e) to the financial statements for details of the acquisition.

(e) Disposal of subsidiary companies

	2002 HK\$'million	2001 HK\$'million
Net assets disposed of:		
Fixed assets	2,792.3	–
Deferred expenditure	18.6	–
Debtors, deposits and prepayments	10.1	–
Cash and bank balances	110.8	–
Creditors and accruals	(400.3)	–
Provision for premium on redemption of exchangeable bonds and convertible bonds	(815.6)	–
Deposits received	(42.3)	–
Loans and other borrowings	(3,842.7)	–
Bank overdrafts	(0.3)	–
	<u>(2,169.4)</u>	<u>–</u>
Investment property revaluation reserve released on disposal	(645.9)	–
Gain on disposal*	2,792.2	–
	<u>(23.1)</u>	<u>–</u>
Satisfied by:		
Cash#	(23.1)	–
	<u>(23.1)</u>	<u>–</u>

* The gain on disposal of subsidiary companies is included as part of the gain on settlement of exchangeable bonds and convertible bonds. As further explained in note 3 to the financial statements, the Bonds Settlement involved, inter alia, the disposal of the subsidiary companies owning the two principal investment properties and the issuers of the exchangeable bonds and convertible bonds, and the phased release of certain shares in RHIHL, to the bondholders. Accordingly, the gain on completion of the Bonds Settlement of HK\$2,102.4 million comprised the gain on disposal of subsidiary companies amounting to HK\$2,792.2 million (as above) and the loss on disposal of ordinary shares in RHIHL amounting to HK\$689.8 million.

The cash outflow of HK\$23.1 million represented payment for the incidental legal and professional fees incurred in respect of the Bonds Settlement.



An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiary companies is as follows:

	2002 HK\$'million	2001 HK\$'million
Cash and bank balances disposed of	(110.8)	–
Bank overdrafts disposed of	0.3	–
Cash consideration	(23.1)	–
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of disposal of subsidiary companies	(133.6)	–
	<hr/> <hr/>	<hr/> <hr/>

The subsidiary companies disposed of contributed HK\$128.4 million (2001 - HK\$162.7 million) to the Group's turnover and a loss of HK\$210.3 million (2001 - HK\$270.4 million) to the consolidated profit after tax and before minority interests for the year ended 31st December, 2002.



53. 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	2002 HK\$'million	2001 HK\$'million
Advertising, promotion and information technology service fees (including cost reimbursements) paid to an associate	(a)	12.8	20.8
Gross construction fee income from a jointly controlled entity	(b)	0.2	2.4
Interest on loans to associates	(c)	7.5	9.9
Guarantees given in respect of a banking facility granted to a jointly controlled entity	(d)	<u>2,310.0</u>	<u>2,310.0</u>

Notes:

- (a) The advertising and promotion fees were paid to 8D International Limited 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. In the prior 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 30 to the financial statements.
- (c) The interest income from associates arose from loans to Cheerjoy Development Limited, details of which are disclosed in note 23 to the financial statements.
- (d) The corporate guarantees were given by PHL and RHIHL in respect of a banking facility granted to Chest Gain (also see note (f) below).
- (e) On 2nd August, 2002, PHL entered into an agreement with Venture Perfect Investments Limited ("VPI") and the shareholders of VPI (the "Vendors") for the acquisition of the entire equity interest in VPI, including taking the benefit of an option to acquire all or part of the 50% equity interest owned by one of the Vendors in Leading Technology Holdings Limited ("LTH"), the remaining 50% equity interest of which is owned by VPI (the "Paliburg Acquisition").



The Vendors are connected persons (as defined in the Listing Rules) of the Company and PHL. The assets of the VPI group comprised a 50% equity interest in LTH and cash deposits of approximately HK\$70.0 million. LTH and its subsidiary companies are principally engaged in the design, development, integration and distribution of security and building related system, software and products in the Greater China region.

The consideration for the Paliburg Acquisition was HK\$345.0 million which was determined by reference to an independent professional business valuation and was satisfied by the issuance of 3,450 million convertible preference shares of PHL at HK\$0.10 each (the "Paliburg Convertible Preference Shares"). Each Paliburg Convertible Preference Share can be converted into an ordinary share of PHL (subject to adjustment) within three years after completion of the Paliburg Acquisition and the conversion will become mandatory after the three-year period. The Paliburg Acquisition, further details of which were set out in the circular dated 26th August, 2002, was completed on 31st December, 2002.

- (f) On 2nd August, 2002, RHIHL entered into a sale and purchase agreement (the "Stanley Transfer Agreement") with PHL and Paliburg Development BVI Holdings Limited, a wholly-owned subsidiary company of PHL, for the acquisition of its 40% interest in a property development project in Stanley, Hong Kong, in which the RHIHL Group had a then existing 30% interest (the "Stanley Transfer").

The consideration for the acquisition was HK\$470.0 million which was determined by reference to an independent professional valuation and was satisfied by the issuance of 1,958.3 million ordinary shares of RHIHL at HK\$0.24 each. In addition, PHL has agreed to continue to provide, after completion of the Stanley Transfer, a limited several guarantee in respect of 40% of the bank borrowings for the project pursuant to the Stanley Transfer Agreement. The Stanley Transfer, details of which were set out in the circular dated 26th August, 2002, was completed on 31st October, 2002.

The Directors of the Company are of the opinion that the above transactions set out in notes (a) to (d) above were entered into in the normal and usual course of business.

The related party transactions set out in note 53(a), (e) and (f) above also constituted connected transactions as defined in the Listing Rules to the Company. Relevant disclosure and other requirements in accordance with the Listing Rules with respect to such transactions have been made or met, which related details are disclosed in the Directors' Report of the Company for the financial year ended 31st December, 2002 accompanying the financial statements.

The related party transactions set out in notes 53(b) to (d) above did not constitute connected transactions as defined in the Listing Rules.

54. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's time deposits, listed investments, interests in associates, fixed assets including properties and equipment, properties under development, inventories and receivables with a total carrying value of HK\$7,801.1 million (2001 - HK\$12,160.0 million) and the shares in certain subsidiary companies, including certain ordinary shares in the listed subsidiary companies, and the shares in a jointly controlled entity were pledged to secure (i) general banking facilities granted to the Group and the jointly controlled entity; and (ii) the RHIHL Convertible Bonds.



55. CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	2002 HK\$'million	2001 HK\$'million	2002 HK\$'million	2001 HK\$'million
(a) Corporate guarantees provided in respect of:				
Attributable share of outstanding bank and other borrowings of:				
– a jointly controlled entity	1,938.4	1,757.7	–	–
– subsidiary companies	–	–	909.2	896.8
	<u>1,938.4</u>	<u>1,757.7</u>	<u>909.2</u>	<u>896.8</u>

- (b) The Group has a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of HK\$15.6 million as at 31st December, 2002, as further explained in note 4(ae) to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees having achieved the required number of years of service to the Group, and are eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.
- (c) As further explained in note 30 to the financial statements, 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 United States of America in December 1999.

The SP Agreement 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 consider it is unlikely that any material contingent liability will crystallise but in any event are unable to estimate the amount thereof with reasonable accuracy.



56. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties (notes 17 and 28) under operating lease arrangements, with leases negotiated for terms ranging from 1 year to 5 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 leases.

At 31st December, 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	GROUP	
	2002	2001
	HK\$'million	HK\$'million
Within one year	21.2	125.4
In the second to fifth years, inclusive	8.7	119.5
	29.9	244.9

During the year, the Group recognised HK\$0.1 million (2001 - HK\$0.4 million) in respect of contingent rentals receivable.

(b) As lessee

The Group leases certain office and shop units and office equipment under operating lease arrangements. Leases for properties are negotiated for terms of 6 months, except for a lease which is negotiated for a term of 18 years and provides for periodic rent adjustments according to the then prevailing market conditions. Leases for office equipment are negotiated for terms ranging from 5 months to 9 years.



At 31st December, 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Land and buildings:		
Within one year	9.5	–
In the second to fifth years, inclusive	27.6	–
After the fifth year	15.0	–
	<hr/> 52.1	<hr/> –
Other equipment:		
Within one year	3.6	3.9
In the second to fifth years, inclusive	0.6	1.2
	<hr/> 4.2	<hr/> 5.1
	<hr/> 56.3 <hr/>	<hr/> 5.1 <hr/>

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



57. COMMITMENTS

In addition to the operating lease commitments detailed in note 56(b) above, the Group had the following commitments at the balance sheet date:

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Capital commitments in respect of acquisition of interest in a hotel property in Mainland China:		
Authorised and contracted for	–	3.4
Capital commitments in respect of the renovation of or improvements to the hotel properties:		
Authorised and contracted for	12.5	22.2
Authorised, but not contracted for	82.9	51.4
	<u>95.4</u>	<u>73.6</u>
Capital commitments in respect of a property development project:		
Authorised and contracted for	22.5	2.4
Authorised, but not contracted for	1.8	28.3
	<u>24.3</u>	<u>30.7</u>
	<u>119.7</u>	<u>107.7</u>

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

58. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Notional amount of options	–	30.9
	<u>–</u>	<u>30.9</u>

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.



59. POST BALANCE SHEET EVENTS

Except for the events set out in notes 3, 28 and 38 to the financial statements, there were no other significant post balance sheet events.

60. COMPARATIVE AMOUNTS

As further explained in note 2 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. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

61. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 17th April, 2003.

