



Notes to Financial Statements

31st December, 2003

1. CORPORATE INFORMATION

During the year, the Group was principally engaged in property development and investment, construction and building related businesses, hotel ownership and management and other investments.

In the opinion of the Directors, the ultimate holding company is Century City International Holdings Limited, which is incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited.

2. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The following revised SSAP and Interpretations are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised) : "Income taxes"
- Interpretation 18 : "Consolidation and equity method – potential voting rights and allocation of ownership interests"
- Interpretation 20 : "Income taxes – Recovery of revalued non-depreciable assets"

These SSAP and Interpretations 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 SSAP and Interpretations are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.



Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 14 and 25 to the financial statements and include a reconciliation between the accounting profit and the tax expenses/(income) for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 4(x) and in note 25 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its hotel properties and investment properties in the deferred tax calculated under SSAP 12.

Interpretation 18 prescribes the existence and effect of potential voting rights that are presently exercisable or presently convertible which should be considered when assessing whether an enterprise controls or significantly influences another enterprise. The principal impact of this Interpretation on these financial statements is that an associate which was previously accounted for in the consolidated balance sheet under the equity method of accounting is now consolidated in the Group's financial statements as a subsidiary company.

3. CORPORATE UPDATE

As at 31st December, 2003, the Group had consolidated net current liabilities of HK\$961.6 million (2002 - HK\$2,731.2 million).

During the year, the Group's listed subsidiary company, Regal Hotels International Holdings Limited ("RHIHL"), and its subsidiary companies (the "RHIHL Group") concluded a financial restructuring proposal with its bank creditors. On 30th September, 2003, the RHIHL Group entered into a loan rescheduling agreement (the "Rescheduling Agreement") with the lenders of two bank loans with an aggregate amount of HK\$4,428.0 million as at 31st December, 2003, comprising a syndicated loan of HK\$3,373.8 million (the "Syndicated Loan") and a construction loan of HK\$1,054.2 million (the "Construction Loan") (collectively, the "Regal Loans"). The principal terms of the Rescheduling Agreement are as follows:

- i) the existing security for the standstill arrangement (as more fully described in the audited financial statements for the year ended 31st December, 2002), comprising primarily security over the RHIHL Group's five hotels in Hong Kong, namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Riverside Hotel and Regal Oriental Hotel (until sold), the RHIHL Group's 70% interest in the luxury residential development at Stanley, Hong Kong (the "Regalia Bay Development Project"), and certain of the RHIHL Group's operating entities, continues to form the security for the restructured Regal Loans;



Notes to Financial Statements (Cont'd)

- ii) the introduction of cash sweep arrangements on the operational income of the RHIHL Group' five hotels in Hong Kong (to the extent they remain as security for the restructured Regal Loans) and the surplus funds from the Regalia Bay Development Project which are distributable to the RHIHL Group for interest servicing and milestone payments under the restructured Regal Loans; and
- iii) the final repayment date of the Syndicated Loan was extended from 8th September, 2003 to 31st December, 2006 and, in respect of the Construction Loan, to 31st December, 2012, subject to certain agreed milestone payments in respect of the Syndicated Loan and scheduled principal repayments in respect of the Construction Loan.

As contemplated under the financial restructuring proposal leading to the Rescheduling Agreement, a sale and purchase agreement (the "SP Agreement") was entered into by the RHIHL Group on 29th August, 2003 for the disposal of the Regal Oriental Hotel to an independent third party for a consideration of HK\$350.0 million (subject to adjustments) in respect of which a deposit of HK\$30.0 million has been paid by the purchaser. The SP Agreement was originally scheduled to be completed on 31st March, 2004. At the initiation of the RHIHL Group, a supplemental agreement to the SP Agreement was entered into on 30th March, 2004 between the RHIHL Group and the purchaser for the extension of the completion date to 30th June, 2004, together with the reinstatement of an option (in a revised form) to the RHIHL Group for the termination of the SP Agreement exercisable at its discretion before the extended completion date on certain agreed terms. The arrangement under the supplemental agreement was intended to facilitate the RHIHL Group's formulation of alternative business plans whereby the relevant debt reduction milestones required under the Rescheduling Agreement could be met without the disposal of its hotel properties.

In addition, a settlement was concluded in September 2003 with respect to the RHIHL Group's legal proceedings for the recovery of the US\$45.0 million (approximately HK\$351.0 million) deferred consideration plus interest (the "Consideration Receivable") in relation to the RHIHL Group's disposal of its hotel interests in the United States of America in 1999. A settlement amount of US\$48.8 million (approximately HK\$380.6 million) was received under the settlement in September 2003, most of which was applied to reduce the RHIHL Group's bank indebtedness.

With the execution of the Rescheduling Agreement and the satisfactory resolution of the Consideration Receivable, as well as the much improved outlook of the local hotel business and the substantial surplus funds expected to be generated from the Regalia Bay Development Project, the financial and liquidity positions of the RHIHL Group are expected to further improve significantly. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements of the Group on a going concern basis.



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 and certain 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, 2003, 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 interests 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 separately identified item on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such goodwill/negative goodwill to remain eliminated against consolidated reserves/credited to the capital reserve. Goodwill/Negative goodwill on acquisitions subsequent to the adoption of the SSAP 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 the 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 fittings 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 (r) 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 or rescheduling 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) 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.

(q) Properties held for sale

Properties held 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) 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%

**(s) 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.

(t) 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.

(u) 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.

(v) 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 (u) 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.

(w) 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.

**(x) Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiary companies, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiary companies, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

**(y) 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.

(z) 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 falls within 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 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 29% 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 option scheme*

The Company operates an executive share option scheme 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 Company's or 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 Company 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 Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(aa) 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.

(ab) 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.



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 construction and building related segment is engaged in construction works and building related businesses, including the provision of development consultancy and project management services, property management and also security systems and other software development and distribution (the property management segment, which was previously separately disclosed as a business segment, was combined with the construction and building related segment in the current year in order to better reflect the performance of similar businesses within the Group);
- (c) the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services;
- (d) the brewery operations segment represents the Group's brewery operations in Mainland China; and
- (e) the others segment mainly comprise the Group's securities trading, laundry services and restaurant operations.

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.



Notes to Financial Statements (Cont'd)

(a) Business segments

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

GROUP

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Brewery operations		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment revenue:														
Sales to external customers	12.2	155.6	90.3	225.9	747.2	964.7	24.8	17.3	2.9	6.4	-	-	877.4	1,369.9
Inter-segment sales	0.7	15.4	2.1	5.8	-	0.4	-	-	-	12.5	(21.8)	(34.1)	-	-
Total	12.9	171.0	111.4	231.7	747.2	965.1	24.8	17.3	2.9	18.9	(21.8)	(34.1)	877.4	1,369.9
Segment results	55.5	(66.4)	21.1	22.1	415.1	(941.5)	(3.0)	(16.4)	3.8	(1.8)	-	(5.1)	492.5	(1,009.1)
Interest income and unallocated non-operating and corporate gains														
Unallocated non-operating and corporate expenses, net														
Profit from operating activities													9.4	3,090.7#
Finance costs													(89.6)	(232.5)*
Share of profits less losses of:														
Jointly controlled entity	206.6	-	-	-	-	-	-	-	-	-	-	-	206.6	-
Associates	-	-	-	-	(0.1)	(0.7)	-	-	(2.7)	(14.2)	-	-	(2.8)	(14.9)
Profit before tax													449.2	1,333.3
Tax													63.2	(3.9)
Profit before minority interests													512.4	1,329.4
Minority interests													(124.8)	374.7
Net profit from ordinary activities attributable to shareholders													387.6	1,704.1

Inclusive of a gain of HK\$3,065.9 million (as restated) on the settlement of exchangeable bonds and convertible bonds.

* Inclusive of a write-back of provision against a loan receivable amounting to HK\$14.2 million (note 9).

(a) Business segments (continued)

GROUP

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Brewery operations		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	316.9	401.2	284.8	58.4	7,241.4	6,848.5	48.4	47.0	39.2	45.3	(28.5)	(42.5)	7,902.2	7,357.9
Interests in associates	223.4	223.5	1.4	-	5.1	5.0	-	-	15.4	291.4	-	-	245.3	519.9
Interest in a jointly controlled entity	1,298.6	1,062.9	-	-	-	-	-	-	-	-	-	-	1,298.6	1,062.9
Cash and unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	379.5	706.9
Total assets	-	-	-	-	-	-	-	-	-	-	-	-	9,825.6	9,647.6
Segment liabilities	(23.2)	(33.7)	(120.7)	(166.1)	(116.8)	(161.9)	(20.5)	(22.6)	(0.3)	(8.8)	28.5	42.5	(253.0)	(350.6)
Bank and other borrowings and unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	(4,924.4)	(5,637.0)
Total liabilities	-	-	-	-	-	-	-	-	-	-	-	-	(5,177.4)	(5,987.6)
Other segment information:														
Depreciation	0.2	7.9	0.5	0.4	35.1	36.9	4.9	5.0	0.1	0.7	-	-	-	-
Impairment losses/(Write-back of impairment losses) recognised in the profit and loss account	-	62.0	-	-	(11.4)	618.9	-	-	-	-	-	-	-	-
Write-down/(Write-back) in values of properties	(44.0)	67.4	-	-	-	-	-	-	-	-	-	-	-	-
Deficit/(Write-back of deficit) on revaluation of hotel properties	-	-	-	-	(266.1)	528.9	-	-	-	-	-	-	-	-
Capital expenditure	32.2	8.2	-	-	15.1	45.7	0.8	0.4	-	0.2	-	-	-	-
Other non-cash expenses	0.3	-	-	-	2.5	0.7	-	-	0.6	8.1	-	-	-	-



Notes to Financial Statements (Cont'd)

(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	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment revenue:												
Sales to external customers	820.2	1,263.5	-	-	32.2	88.6	25.0	17.8	-	-	877.4	1,369.9
Other segment information:												
Segment assets	7,773.7	6,885.4	-	78.4	-	233.7	128.5	160.4	-	-	7,902.2	7,357.9
Capital expenditure	47.0	53.8	-	-	0.3	0.3	0.8	0.4				



6. DISCONTINUED OPERATION

As previously reported, on 3rd September, 2002, the RHIHL Group entered into a sale and purchase agreement with a purchaser (the "CH Purchaser") to dispose of its 100% interest in a hotel property in Canada. Based on the expected amount recoverable from the disposal, an impairment loss relating to the hotel property amounting to HK\$437.0 million was included in the prior year's financial statements. The CH Purchaser subsequently defaulted to proceed to complete the sale and purchase. Since the default by the CH Purchaser, on 25th June, 2003, the RHIHL Group disposed of its 100% shareholding interest in the Canadian subsidiary company then indirectly holding the hotel property to an independent third party for a nominal consideration of CAD2.00, with sharing arrangements on any recovery from the defaulted purchaser. Accordingly, a loss on disposal of HK\$9.7 million was accounted for in the current year's profit and loss account. The principal repayment obligations of the bank loans secured on the hotel property in the principal sum of approximately CAD33.85 million (approximately HK\$195.8 million) have no recourse against the RHIHL Group.

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

	2002 HK\$'million
Total assets	226.9
Total liabilities	(170.7)
	<hr/>
Net assets	56.2
	<hr/> <hr/>



Notes to Financial Statements (Cont'd)

The turnover, expenses and results attributable to the discontinued operation for the year ended 31st December, 2002 and for the period from 1st January, 2003 to 25th June, 2003 (date of completion of disposal of the Canadian hotel operation) are as follows:

	2003 HK\$'million	2002 HK\$'million
TURNOVER	32.2	88.6
Cost of sales	(37.3)	(87.4)
Gross profit/(loss)	(5.1)	1.2
Administrative expenses	(1.9)	(3.5)
Other operating expenses	(1.1)	(2.3)
LOSS FROM OPERATING ACTIVITIES	(8.1)	(4.6)
Finance costs	(4.2)	(6.4)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(12.3)	(11.0)
The net cash flows attributable to the discontinued operation are as follows:		
Operating	0.1	5.1
Investing	(0.3)	(0.2)
Financing	(5.4)	(11.4)
Net cash outflows	(5.6)	(6.5)



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, income from security systems and other software development and distribution, hotel income, restaurant revenue, laundry services revenue and income from brewery operations, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	GROUP	
	2003 HK\$'million	2002 HK\$'million (Restated)
Rental income:		
Investment properties	0.3	141.5
Properties held for sale	8.8	9.5
Hotel properties	23.0	26.1
Construction and construction-related income	75.3	202.9
Proceeds from the sale of properties	–	0.2
Estate management fees	15.0	23.0
Property development consultancy and project management fees	3.1	4.4
Hotel operations and management services	724.2	938.6
Other operations, including laundry services, restaurant and brewery operations	27.7	23.7
	877.4	1,369.9
Other revenue includes the following item:		
Gain on disposal of an associate	–	6.5
Gain on settlement of exchangeable bonds and convertible bonds*	–	3,065.9

* On 31st October, 2002, the Group completed a settlement proposal for its US\$140 million 3½% Exchangeable Guaranteed Bonds and US\$210 million Zero Coupon Guaranteed Convertible Bonds (collectively, 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 Group's entire equity interest in two principal investment properties (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 holders of the Bonds, resulting in a gain of HK\$3,065.9 million (as restated).

**8. OTHER OPERATING EXPENSES**

Other operating expenses include the following items:

	GROUP	
	2003 HK\$'million	2002 HK\$'million (Restated)
Loss on disposal of ordinary shares in the listed subsidiary company	–	53.7
Loss on deemed disposal of the Group's interest in the listed subsidiary company	39.4	–
Loss on disposal of an investment property	–	30.6
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\$0.4 million (2002 - HK\$1.1 million))	1.2	1.1
	<u><u>1.2</u></u>	<u><u>1.1</u></u>

9. WRITE-BACK OF PROVISIONS/(PROVISIONS) FOR WRITE-DOWNS AND IMPAIRMENTS, NET

Write-back of provisions/(Provisions) for write-downs and impairments, net, represent the following items:

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Write-back/(Write-down) in values of properties	44.0	(67.4)
Impairment of long term investments	–	(62.0)
Impairment of long term investments previously eliminated against long term investment revaluation reserve	–	(15.0)
Write-back of deficit/(Deficit) on revaluation of hotel properties	266.1	(528.9)
Write-back of provision against a loan receivable	–	14.2
	<u><u>310.1</u></u>	<u><u>(659.1)</u></u>



10. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Cost of completed properties sold	–	0.2
Cost of inventories sold and services provided	397.6	524.7
Staff costs (exclusive of directors' remuneration disclosed in note 12):		
Wages and salaries*	301.3	402.7
Staff retirement scheme contributions	16.2	16.5
Less: Forfeited contributions	(2.9)	(1.4)
Net retirement scheme contributions	13.3	15.1
	314.6	417.8
Less: Staff costs capitalised in respect of property development projects and construction contracts:		
Wages and salaries	(18.6)	(33.5)
Staff retirement scheme contributions	(1.0)	(0.1)
Less: Forfeited contributions	1.8	–
	296.8	384.2
Amortisation of goodwill**	14.3	–
Auditors' remuneration	4.4	5.0

* Inclusive of an amount of HK\$263.8 million (2002 - HK\$339.1 million) classified under cost of inventories sold and services provided.

** The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.



Notes to Financial Statements (Cont'd)

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Depreciation	41.0	51.6
Less: Depreciation capitalised in respect of property development projects and construction contracts	(0.2)	(0.7)
	<u>40.8</u>	<u>50.9</u>
Loss on disposal of fixed assets	–	1.0
Minimum lease payments under operating leases:		
Land and buildings	8.9	2.0
Other equipment	0.5	1.0
and after crediting:		
Gross rental income	32.1	177.1
Less: Outgoings	(6.9)	(53.3)
Net rental income	<u>25.2</u>	<u>123.8</u>
Interest income from:		
Associates	–	7.5
Bank balances	0.6	2.6
Other loans and receivables	7.7	5.7
	<u>8.3</u>	<u>15.8</u>
Dividend income from unlisted investment	–	0.7
Unrealised gain on revaluation of short term investments	1.0	–
Gain on disposal of fixed assets	5.4	–
Negative goodwill recognised as income during the year***	0.4	1.1

*** The movements in negative goodwill recognised in the consolidated 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	
	2003 HK\$'million	2002 HK\$'million
Interest in respect of:		
Bank loans and overdrafts	149.0	202.0
Other loans, exchangeable bonds and convertible bonds, wholly repayable within five years	12.9	286.6
	161.9	488.6
Interest capitalised in respect of property development projects	(0.7)	(0.4)
	161.2	488.2
Amortisation of deferred expenditure	5.7	12.3
Write-off of deferred expenditure	–	0.3
Other loan costs	–	0.1
Total finance costs	166.9	500.9

**12. DIRECTORS' REMUNERATION**

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

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Fees	1.5	1.5
Salaries and other allowances	9.3	10.0
Performance related/discretionary bonuses	0.8	0.1
Staff retirement scheme contributions	0.7	0.7
	12.3	12.3
	12.3	12.3

The remuneration of the Directors fell within the following bands:

HK\$	2003 Number of Directors	2002 Number of Directors
Nil - 1,000,000	6	6
1,000,001 - 1,500,000	-	2
1,500,001 - 2,000,000	1	-
2,000,001 - 2,500,000	1	1
6,000,001 - 6,500,000	-	1
6,500,001 - 7,000,000	1	-
	1	-
	1	-

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

The independent Non-Executive Directors of the Company were entitled to a total sum of HK\$0.4 million (2002 - HK\$0.4 million) as Directors' fees, including the fees entitled by those independent Non-Executive Directors for serving as audit committee members, for the year ended 31st December, 2003.

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 (2002 - Nil). Further details of the Company's share option scheme are set out in note 35 to the financial statements.



13. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included three (2002 - four) Directors, details of whose remuneration are disclosed in note 12 to the financial statements. The emoluments of the remaining two (2002 - one) individuals, who were not Directors, are as follows:

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Salaries and other emoluments	2.8	1.9
Performance related/discretionary bonuses	0.1	-
Staff retirement scheme contributions	0.1	-
	3.0	1.9
	3.0	1.9

The emoluments of the two (2002 - one) individuals fell within the following band:

HK\$	2003 Number of individuals	2002 Number of individuals
1,000,001 - 1,500,000	1	-
1,500,001 - 2,000,000	1	1
	1	1
	1	1

During the year, no share options were granted to the two non-director, highest paid employees in respect of their services to the Group (2002 - Nil). Further details of the Company's share option scheme are set out in note 35 to the financial statements.

**14. TAX**

	GROUP	
	2003 HK\$'million	2002 HK\$'million (Restated)
Group:		
Current - Hong Kong		
Provision for tax in respect of profits for the year	4.1	1.0
Overprovisions in prior years	(19.5)	(2.2)
Current - Overseas		
Provision for tax in respect of profits for the year	0.3	0.3
Overprovision in prior year	-	(0.2)
Deferred tax expenses/(income) (note 25)	(48.2)	4.9
	(63.3)	3.8
Associate:		
Hong Kong	0.1	0.1
Total tax charge/(credit) for the year	(63.2)	3.9

Hong Kong profits tax has been provided at the rate of 17.5% (2002-16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31st December, 2003.

Taxes on the profits of subsidiary companies 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 were earned by the jointly controlled entity during the year (2002 - Nil).

A reconciliation of the tax expenses applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiary companies, jointly controlled entity and associates are domiciled to the tax expenses at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	Group			
	2003 HK\$' million	%	2002 HK\$'million (Restated)	%
Profit before tax	449.2		1,333.3	
Tax at the statutory tax rate	78.6	17.5	213.3	16.0
Effect on opening deferred tax of increase in tax rates	9.6	2.1	-	-
Adjustments in respect of current tax of previous years	(19.5)	(4.3)	(2.4)	(0.2)
Higher tax rates of other countries	4.3	0.9	(10.1)	(0.7)
Income not subject to tax	(197.5)	(44.0)	(546.1)	(41.0)
Expenses not deductible for tax	21.2	4.7	298.6	22.4
Tax losses utilised from previous periods	(5.9)	(1.3)	(5.5)	(0.4)
Increase in deferred tax assets not recognised during the year	45.8	10.2	53.1	4.0
Others	0.2	0.1	3.0	0.2
Tax charge/(credit) at the Group's effective rate	(63.2)	(14.1)	3.9	0.3

15. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$158.2 million (2002 - net loss of HK\$414.7 million) (note 44).

16. EARNINGS PER ORDINARY SHARE

(a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the net profit from ordinary activities attributable to ordinary shareholders for the year of HK\$387.6 million (2002 - HK\$1,704.1 million, as restated) and on the weighted average of 3,270.8 million (2002 - 2,318.5 million) shares of the Company in issue during the year.

(b) Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31st December, 2003 is based on the net profit from ordinary activities attributable to ordinary



Notes to Financial Statements (Cont'd)

shareholders for the year of HK\$337.8 million as adjusted for the deemed changes in the Group's interest in the listed subsidiary company and on the adjusted weighted average of 5,791.6 million ordinary shares of the Company that would have been in issue during the year assuming (i) all outstanding convertible preference shares and convertible bonds (including optional convertible bonds) of RHIHL were converted into ordinary shares of RHIHL at the beginning of the year; and (ii) all the 3,450.0 million convertible preference shares of the Company were converted into the same number of ordinary shares of the Company, at the beginning of the year. The exercise prices of share options of the Company and RHIHL outstanding during the year are higher than the average market prices of the respective ordinary shares of the Company and RHIHL and, accordingly, they have no dilutive effect on the basic earnings per share.

No diluted earnings per ordinary share was presented for the year ended 31st December, 2002 as there were no dilutive events for that year.

17. FIXED ASSETS

	GROUP							
	1st January, 2003 HK\$'million	Exchange adjustments HK\$'million	Additions/ Depreciation for the year HK\$'million	Arising from consolidation of a former associate HK\$'million	Disposal of subsidiary companies HK\$'million	Other disposals HK\$'million	Surplus on revaluation HK\$'million	31st December, 2003 HK\$'million
At valuation:								
Investment properties	1.7	-	-	-	-	-	-	1.7
Hotels, including furniture, fixtures and equipment	6,944.3	45.3	15.1	-	(312.9)	-	663.2	7,355.0
	<u>6,946.0</u>	<u>45.3</u>	<u>15.1</u>	<u>-</u>	<u>(312.9)</u>	<u>-</u>	<u>663.2</u>	<u>7,356.7</u>
At cost:								
Leasehold properties	41.8	-	-	-	-	-	-	41.8
Leasehold improvements, furniture, fixtures and equipment	58.9	-	0.8	1.0	(0.1)	(0.8)	-	59.8
Site equipment	1.7	-	-	-	-	-	-	1.7
Construction in progress	28.4	-	-	-	-	(19.8)	-	8.6
Motor vehicles	3.6	-	0.1	-	(0.7)	(0.5)	-	2.5
	<u>7,080.4</u>	<u>45.3</u>	<u>16.0</u>	<u>1.0</u>	<u>(313.7)</u>	<u>(21.1)</u>	<u>663.2</u>	<u>7,471.1</u>
Accumulated depreciation and impairment:								
Hotel furniture, fixtures and equipment	226.7	7.6	34.4	-	(53.3)	-	-	215.4
Leasehold properties	7.3	-	1.0	-	-	-	-	8.3
Leasehold improvements, furniture, fixtures and equipment	43.8	-	5.3	0.6	(0.1)	(0.4)	-	49.2
Site equipment	1.7	-	-	-	-	-	-	1.7
Construction in progress	28.4	-	-	-	-	(19.8)	-	8.6
Motor vehicles	3.1	-	0.3	-	(0.5)	(0.5)	-	2.4
	<u>311.0</u>	<u>7.6</u>	<u>41.0</u>	<u>0.6</u>	<u>(53.9)</u>	<u>(20.7)</u>	<u>-</u>	<u>285.6</u>
Net book value	<u>6,769.4</u>							<u>7,185.5</u>



Analysis of net book value by geographical location:

	2003 HK\$'million	2002 HK\$'million
Leasehold land and buildings situated in Hong Kong:		
Long term Investment properties, at valuation at balance sheet date	1.7	1.7
Hotel properties, at valuation at balance sheet date:		
Long term	2,738.0	2,598.0
Medium term	4,401.6	3,897.0
Medium term leasehold properties, at cost	4.6	4.7
	7,145.9	6,501.4
Properties situated in Mainland China:		
Medium term leasehold properties, at cost	28.9	29.8
Properties situated overseas:		
Freehold land and hotel property in Canada, at valuation at balance sheet date	–	222.6
	7,174.8	6,753.8

As at 31 December, 2003, all of the hotel properties and certain leasehold properties situated in Hong Kong and Mainland China were mortgaged to secure banking and other credit facilities granted to the Group.

As disclosed in the prior year's financial statements, the RHIHL Group had intended to dispose of two of its hotel properties in Hong Kong which were contemplated as part of its financial restructuring proposal. Accordingly, these hotels were stated at their then expected realisable amounts on a quick sale basis, calculated at a discount to their valuation 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 and the resultant revaluation deficit of HK\$181.9 million was charged to the prior year's profit and loss account as an impairment loss. The valuations of the remaining hotel properties and investment properties in Hong Kong as at 31st December, 2002 were also performed by independent valuers with an RICS qualification on an open market, existing use basis.



Notes to Financial Statements (Cont'd)

As further explained in note 3 to the financial statements, the SP Agreement was entered into by the RHIHL Group during the year for the disposal of the Regal Oriental Hotel to an independent third party for a consideration of HK\$350.0 million (subject to adjustments). Pursuant to a supplemental agreement to the SP Agreement entered into in March 2004, the completion date under the SP Agreement, originally scheduled on 31st March, 2004, was deferred to 30th June, 2004 and an option was reinstated for the RHIHL Group to terminate the SP Agreement, exercisable by the RHIHL Group prior to the extended completion date. While the SP Agreement continues to subsist, the directors of RHIHL consider it appropriate to state the Regal Oriental Hotel at its carrying value of HK\$286.6 million, which approximates the net amount realisable by the RHIHL Group under the SP Agreement should it proceed to completion. In light of the enhancement achieved in the overall financial position of the RHIHL Group since the loans rescheduling arrangement was implemented in September 2003, the RHIHL Group is presently exploring alternative proposals for a further rescheduling and/or refinancing of its outstanding bank loans, with a view to preserving its hotel properties in Hong Kong. Accordingly, the directors of RHIHL consider it appropriate that all the other hotel properties of the RHIHL Group should be stated at their valuations as at 31st December, 2003, which were performed by an independent valuer with an RICS qualification on an open market, existing use basis. Consequently, a write-back of impairment loss of HK\$11.4 million was recognised in the current year's profit and loss account. The valuations of the investment properties in Hong Kong as at 31st December, 2003 were also performed by an independent valuer 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 RHIHL Group's discontinued 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 that date.

Certain of the RHIHL 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 50(a) to the financial statement.

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:

	2003 HK\$'million	2002 HK\$'million
Investment properties	0.8	0.8
Hotel properties	4,859.6	4,978.3
	4,860.4	4,979.1



18. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the consolidation of a former associate and the acquisition of additional interest in the listed subsidiary company, respectively, are as follows:

	GROUP	
	Goodwill HK\$' million	Negative goodwill HK\$' million
Cost:		
At beginning of year	–	(5.0)
Released on deemed disposal of the Group's interest in the listed subsidiary company	–	0.7
Arising from consolidation of a former associate (note 22)	274.8	–
	<u>274.8</u>	<u>–</u>
At 31st December, 2003	<u>274.8</u>	<u>(4.3)</u>
Recognition as income/(Accumulated amortisation and impairment):		
Recognised as income/(Amortisation provided) during the year and balance at 31st December, 2003	(14.3)	0.2
	<u>(14.3)</u>	<u>0.2</u>
Net book value:		
At 31st December, 2003	<u>260.5</u>	<u>(4.1)</u>
At 31st December, 2002	<u>–</u>	<u>(5.0)</u>

The negative goodwill as at 31st December, 2002 was attributable to an additional interest acquired near the prior year end and, accordingly, no amount was recognised as income during that year.

**19. PROPERTIES UNDER DEVELOPMENT**

	GROUP	
	2003	2002
	HK\$'million	HK\$'million
Balance at beginning of year	111.1	167.1
Other additions in development costs	32.1	5.4
Interest capitalised	0.7	0.4
Disposal of a subsidiary company	(23.9)	–
Other disposals	(108.0)	–
Transfer to properties held for sale	(48.8)	–
Write-back/(Write-down) in values of properties	44.0	(61.8)
	<hr/>	<hr/>
Balance at end of year	7.2	111.1
Properties under development included in current assets	–	(94.4)
	<hr/>	<hr/>
Non-current portion	7.2	16.7
	<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
	<hr/>	<hr/>
Freehold land in the U.S.A., at cost less write-down in value	–	78.4
	<hr/>	<hr/>
Leasehold land and buildings in Mainland China, at cost less write-down in value:		
Long term	–	9.5
Medium term	7.2	7.2
	<hr/>	<hr/>
	7.2	16.7
	<hr/>	<hr/>
	7.2	111.1
	<hr/>	<hr/>



20. PROPERTY HELD FOR FUTURE DEVELOPMENT

	GROUP	
	2003 HK\$'million	2002 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>

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Share of net liabilities	(1,798.4)	(2,005.0)
Loans to the jointly controlled entity	2,730.3	2,700.9
Amount due from the jointly controlled entity	<u>366.7</u>	<u>367.0</u>
	<u>1,298.6</u>	<u>1,062.9</u>

The share of net liabilities in the prior year included a provision for foreseeable loss in respect of a property development project amounting to HK\$1,633.3 million, of which an amount of HK\$225.7 million was reversed during the year. As at 31st December, 2003, the provision for foreseeable loss included in the share of net liabilities was HK\$1,407.6 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. The amount due from the jointly controlled entity is unsecured, interest free and has no fixed terms of repayment.



Notes to Financial Statements (Cont'd)

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
			2003	2002	
Chest Gain Development Limited ("Chest Gain")	Corporate	Hong Kong	70	70	Property development

The percentage of equity interest represents the 70% held by RHIHL, which was in turn 40.8% (2002 - 47.8%) beneficially owned by the Group.

Despite the RHIHL Group's holding of 70% interest in Chest Gain, the directors of RHIHL confirm that neither the RHIHL Group nor the other shareholder of Chest Gain has unilateral control over the operating and financing decisions of Chest Gain in accordance with the agreed terms under the shareholders' agreement of Chest Gain. Accordingly, the directors of RHIHL consider it appropriate to continue to account for the RHIHL Group's interest therein as a jointly controlled entity.

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

	2003 HK\$'million	2002 HK\$'million
State of affairs		
Current assets	5,486.8	4,534.7
Current liabilities	(3,547.0)	(232.3)
Non-current liabilities	(5,835.6)	(8,336.9)
Net liabilities attributable to venturers	(3,895.8)	(4,034.5)
Income and losses		
Income	648.2	-
Net profit from ordinary activities attributable to venturers	138.7	-



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:

	2003 HK\$'million	2002 HK\$'million
Authorised and contracted for	15.1	359.0
Authorised, but not contracted for	–	16.4
	<u>15.1</u>	<u>375.4</u>

22. INTERESTS IN ASSOCIATES

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Unlisted companies:		
Share of net liabilities	(23.5)	(20.2)
Goodwill on acquisition	–	274.8
Negative goodwill on acquisition	(2.8)	(3.0)
	<u>(26.3)</u>	<u>251.6</u>
Loans to associates	264.1	261.1
Amounts due from associates	7.9	7.6
	<u>245.7</u>	<u>520.3</u>
Less: Provision for impairment	(0.4)	(0.4)
	<u>245.3</u>	<u>519.9</u>
At the balance sheet date:		
Share of post-acquisition undistributed reserves	<u>(321.0)</u>	<u>(318.1)</u>



Notes to Financial Statements (Cont'd)

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:		
At beginning of year	274.8	(3.1)
Reclassification to goodwill (note 18)	(274.8)	–
At 31st December, 2003	–	(3.1)
Recognition as income:		
At beginning of year	–	0.1
Recognised as income during the year	–	0.2
At 31st December, 2003	–	0.3
Net book value:		
At 31st December, 2003	–	(2.8)
At 31st December, 2002	274.8	(3.0)

The loans to associates are unsecured and not repayable within one year. Except for an amount of HK\$147.7 million which bore interest at Hong Kong prime rate in the prior year, 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
				2003	2002	
Talent Faith Investments Ltd. ("Talent Faith")	Corporate	British Virgin Islands	Ordinary shares	100.00 ⁽¹⁾	50.00 ⁽¹⁾	Investment holding
Beijing Hengfu Plaza Development Co., Ltd. ("Beijing Hengfu")*	Corporate	The People's Republic of China	Equity joint venture interest	45.50 ⁽¹⁾	22.75 ⁽¹⁾	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.00	30.00	Property development
Smart Tactic Limited*	Corporate	Hong Kong	Ordinary shares	30.00	–	Distribution of security systems and software
8D International (BVI) Limited ("8D-BVI")	Corporate	British Virgin Islands	Ordinary shares	30.00 ⁽²⁾	30.00 ⁽²⁾	Investment holding
8D International Limited ("8D International")	Corporate	Hong Kong	Ordinary shares	36.00 ⁽²⁾	36.00 ⁽²⁾	Promotions and information technology
8D Matrix Limited ("8D Matrix")	Corporate	British Virgin Islands	Ordinary shares	36.00 ⁽²⁾	36.00 ⁽²⁾	Investment holding
Bright Future (HK) Limited*	Corporate	Hong Kong	Ordinary shares	50.00 ⁽²⁾	50.00 ⁽²⁾	Investment holding
Regala Management Limited	Corporate	Hong Kong	Ordinary shares	50.00 ⁽³⁾	–	Light refreshment operation

* Not audited by Ernst & Young.

- (1) As at 31st December, 2002, the Group held a 50% beneficial interest in Talent Faith which indirectly held a 45.5% beneficial interest in Beijing Hengfu. The other 50% beneficial interest in Talent Faith was then held by the purchaser ("the Purchaser") under a sale and purchase agreement for the sale by the Group of a 50% interest in Talent Faith entered into in 2000 (the "Former SP Agreement"). Due to the default by the Purchaser under the Former SP Agreement, the Group has enforced its rights during the year to repossess the 50% interest in Talent Faith previously sold to the Purchaser under the Former SP Agreement. In July 2003, the Group entered into a new sale and purchase agreement with the Purchaser for the sale of the Group's 100% interest in Talent Faith for a gross consideration of HK\$181.9 million (the "New SP Agreement"), with completion stipulated for November 2003. Though the Group has received from the Purchaser certain deposits and part payments, the Purchaser has failed to comply with the stipulated schedule for the full settlement of the consideration payable under the New SP Agreement. While the Group is legally retaining the entire shareholding ownership in Talent Faith, the Group is negotiating with the Purchaser for its remedy of the default. Under these circumstances, despite the holding of a 100% shareholding interest in Talent Faith at the balance sheet date, the Directors consider it appropriate to continue to account for the Group's interest therein as an associate as the Group's control over Talent Faith may be temporary, subject to the outcome of the New SP Agreement.



Notes to Financial Statements (Cont'd)

- (2) The percentages of equity interests represent those attributable to RHIHL, including, in the cases of 8D Matrix and 8D International, a 6% attributable interest held by RHIHL through 8D-BVI.
- (3) The percentage of equity interest represents the aggregate of the 25% equity interest directly attributable to the Company and the 25% equity interest attributable to RHIHL.

All associates were 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 for 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.

23. INVESTMENTS

	GROUP	
	2003	2002
	HK\$'million	HK\$'million
Long term investments		
Listed equity investments, at market value:		
Hong Kong	42.9	30.6
Elsewhere	0.1	7.8
	43.0	38.4
Unlisted equity investments, at fair value:		
Carrying value	313.1	384.4
Provision for impairment	(242.0)	(327.5)
	71.1	56.9
	114.1	95.3

Long term listed investments with an aggregate market value at the balance sheet date amounting to HK\$42.9 million (2002 - HK\$29.5 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 (2002 - HK\$56.9 million) which represents the Group's investments comprising a 23% interest in each of 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") established in Beijing, the People's Republic of China (the "PRC"). Despite the Group's holding of 23% interests in the Investee Companies, the Directors confirm that the Group is not in a position to exercise significant influence over the financial and operating policies of the Investee Companies due to a previous contractual arrangement made with the independent third parties to exchange the 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 consider it appropriate to account for the investments therein as long term investments.



As explained in the Group's prior years' audited consolidated financial statements, a land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing in 2000 on the grounds of its prolonged idle condition. The Group and the other parties concerned have been undergoing negotiations with the relevant PRC government authorities with a view to safeguarding the Investee Companies' interest in the land site. During 2002, an impairment loss of HK\$62.0 million (further to an impairment loss of HK\$180.0 million made in 2001) was made against the investments by reference to an independent valuation of the hotel portion of the land site. The valuation was conducted on the assumption that the Group has enforceable title to the land site.

In December 2003, approval on the overall development plan on the subject land site was obtained from the relevant government authorities. However, in the opinion of the Directors, it is not possible to determine with reasonable certainty the ultimate outcome of the negotiations with respect to the grant of the land use rights and the resolution of certain other outstanding issues with the other parties involved in the Investee Companies.

In the meantime, the Group is also holding negotiations with prospective investors for the possible disposal of its investments in the Investee Companies at an indicative price which is substantially higher than its written down carrying value. Having regard to the circumstances developed to date, the Directors consider that no further provision is required to be made against the Group's investments in the Investee Companies.

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Short term investments		
Listed equity investments in Hong Kong, at market value	<u>4.0</u>	<u>—</u>

**24. LOANS AND OTHER LONG TERM RECEIVABLE**

		GROUP	
	Notes	2003 HK\$'million	2002 HK\$'million
Long term mortgage loans	(a)	31.1	38.7
Other loans	(b)	78.0	78.0
		<u>109.1</u>	<u>116.7</u>

- (a) The long term mortgage loans represent loans granted by the Group to purchasers in connection with the sale of its properties. The loans are secured by 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.
- (b) The balance represents a loan of US\$10.0 million (HK\$78.0 million) (2002 – HK\$78.0 million) advanced to a hotel owner to assist in 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.



25. DEFERRED TAX

The movement in deferred tax assets and liabilities of the Group during the year is as follows:

Deferred tax assets

Group

	Losses available for offset against future taxable profits	
	2003 HK\$'million	2002 HK\$'million
Deferred tax credited to the profit and loss account during the year and gross deferred tax assets at end of year	<u>70.1</u>	<u>-</u>

Deferred tax liabilities

Group

	Accelerated tax depreciation	
	2003 HK\$'million	2002 HK\$'million
Balance at beginning of year:		
As previously reported	-	-
Prior year adjustment	<u>102.2</u>	<u>155.0</u>
As restated	102.2	155.0
Deferred tax charged to the profit and loss account during the year	21.9	4.9
Release on disposal of subsidiary companies upon completion of the Bonds Settlement	<u>-</u>	<u>(57.7)</u>
Gross deferred tax liabilities at end of year	<u>124.1</u>	<u>102.2</u>
Net deferred tax liabilities at end of year	<u>(54.0)</u>	<u>(102.2)</u>
Deferred tax assets and liabilities at end of year, presented after appropriate offsetting:		
Deferred tax assets	10.4	-
Deferred tax liabilities	<u>(64.4)</u>	<u>(102.2)</u>
Net deferred tax liabilities at end of year	<u>(54.0)</u>	<u>(102.2)</u>



The Group had tax losses arising in Hong Kong, Mainland China and the United States of America amounting to HK\$3,381.3 million (2002 - HK\$3,308.0 million), HK\$21.1 million (2002 - HK\$15.9 million) and HK\$293.4 million (2002 - HK\$17.9 million), respectively, as at 31st December, 2003. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, whilst those arising in Mainland China and the United States of America are available for a maximum period of five and twenty years, respectively. No deferred tax assets in respect of the RHIHL Group's tax losses had been recognised in prior years on account of the unpredictability of future profit streams due primarily to the uncertainty over the outcome of the financial restructuring then being undertaken by the RHIHL Group. As detailed in note 3 to the financial statements, while the RHIHL Group has successfully concluded a financial restructuring proposal with its bank creditors, the financial and liquidity positions of the RHIHL Group have also been significantly improved during the year and expected to be further enhanced in the foreseeable future. In the opinion of the directors of RHIHL, future profit streams of the RHIHL Group became more predictable and, accordingly, deferred tax assets have been recognised for such unused tax losses to the extent that it is probable that sufficient future taxable profits will be available against which the unused tax losses can be utilised.

At the balance sheet date, deferred tax assets in respect of tax losses not recognised in the financial statements amounted to HK\$631.3 million (2002 - HK\$540.8 million).

At 31st December, 2003, there is no significant unrecognised deferred tax liability (2002 - Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiary companies, associates or jointly controlled entity as the Group has no liability to additional tax should such amounts be remitted.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in (i) an increase in the Group's deferred tax asset as at 31st December, 2003 by HK\$10.4 million; and (ii) an increase in the Group's deferred tax liabilities as at 31st December, 2003 and 2002 by HK\$64.4 million and HK\$102.2 million, respectively. As a consequence, the consolidated net profit attributable to shareholders for the year ended 31st December, 2002 has been increased by HK\$82.5 million, and the consolidated accumulated losses as at 1st January, 2003 and 2002 have been increased by HK\$48.9 million and HK\$131.4 million, respectively, as detailed in the consolidated summary statement of changes in equity and note 44 to the financial statements.

26. PROPERTIES HELD FOR SALE

Certain of the Group's properties held for sale with carrying amount of HK\$207.6 million (2002 - HK\$158.8 million) were pledged to secure banking facilities granted to the Group.

On 10th March, 2003, the RHIHL Group disposed of its properties held for sale in Mainland China to an independent third party at a consideration of HK\$28.0 million.

At 31st December, 2002, these properties held for sale were stated at their subsequent selling price which was below cost and the sale proceeds in respect of these properties were assigned to lenders to secure loan facilities granted to the RHIHL Group.

Certain of the Group's properties held for sale are leased to third parties under operating leases, further summary details of which are included in note 50(a) to the financial statements.



27. HOTEL AND OTHER INVENTORIES

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Hotel merchandise	13.4	19.8
Raw materials	5.8	1.6
Work in progress	2.2	2.3
Finished goods	1.6	0.7
	23.0	24.4
	23.0	24.4

As at 31st December, 2003, the carrying amount of inventories of the Group pledged to secure general banking facilities granted to the Group amounted to HK\$20.9 million (2002 - HK\$21.8 million).

28. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK\$47.5 million (2002 - HK\$77.3 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Outstanding balances with ages:		
Within 3 months	44.0	72.4
Between 4 to 6 months	3.0	2.5
Between 7 to 12 months	3.2	2.4
Over 1 year	9.7	9.9
	59.9	87.2
Provisions	(12.4)	(9.9)
	47.5	77.3

The prior year debtors, deposits and prepayments of the RHIHL Group also included a receivable amount of approximately HK\$400.1 million, comprising (i) deferred consideration of US\$45.0 million (approximately HK\$351.0 million) which arose in connection with the RHIHL Group's disposal of its hotel interests in the United States of America to a third party purchaser (the "Purchaser") 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 on 17th December, 2001.



As previously disclosed, the RHIHL Group had instituted legal proceedings against the Purchaser to recover the Consideration Receivable. In September 2003, a settlement agreement was concluded with the Purchaser and a settlement amount of US\$48.8 million (approximately HK\$380.6 million) was received by the RHIHL Group in total resolution and release of all claims by and between the RHIHL Group and the Purchaser under or in connection with the Disposal agreement.

The RHIHL Group's receipt of the settlement amount effectively settled the Consideration Receivable and certain other related receivable of HK\$0.7 million, and at the same time eliminated a provision made against certain tax indemnity in the amount of HK\$24.2 million included in the prior year creditors and accruals under current liabilities.

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.

29. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK\$59.9 million (2002 – HK\$100.5 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Outstanding balances with ages:		
Within 3 months	47.6	82.8
Between 4 to 6 months	6.0	12.4
Between 7 to 12 months	0.7	1.3
Over 1 year	5.6	4.0
	<u>59.9</u>	<u>100.5</u>



30. CONSTRUCTION CONTRACTS

	GROUP	
	2003	2002
	HK\$'million	HK\$'million
Gross amount due from contract customers included in debtors, deposits and prepayment	1.7	–
Gross amount due to contract customers included in creditors and accruals	(4.8)	(60.4)
	(3.1)	(60.4)
Contract costs incurred plus recognised profits less recognised losses to date	1,503.2	1,441.4
Less: Progress billings	(1,506.3)	(1,501.8)
	(3.1)	(60.4)

As at 31st December, 2003, retentions held by customers for contract works, as included in debtors, deposits and prepayments under current assets, amounted to approximately HK\$9.0 million (2002 - HK\$24.9 million).

As at 31st December, 2003, advances from customers for contract works, as included in creditors and accruals under current liabilities, amounted to approximately HK\$3.0 million (2002 - HK\$18.3 million).

**31. INTEREST BEARING BANK AND OTHER BORROWINGS**

	GROUP	
	2003	2002
	HK\$'million	HK\$'million
Bank loans and overdrafts:		
Secured	4,602.1	5,278.0
Unsecured	0.1	2.3
Other loans wholly repayable within five years:		
Secured	21.2	25.9
	4,623.4	5,306.2
Portion of borrowings due within one year included under current liabilities:		
Bank loans and overdrafts	(1,055.5)	(3,245.8)
Other loans	(21.2)	(25.9)
	(1,076.7)	(3,271.7)
Long term borrowings	3,546.7	2,034.5
The bank loans and overdrafts and other loans are repayable in varying instalments within a period of:		
On demand or not exceeding 1 year	1,076.7	3,271.7
More than 1 year but not exceeding 2 years	360.0	1,670.1
More than 2 years but not exceeding 5 years	2,622.5	364.4
More than 5 years	564.2	-
	4,623.4	5,306.2

The other loans carried fixed interest rates ranging from 7.97% to 12% (2002 - 8.78% to 12%) per annum at the balance sheet date.

At the balance sheet date, secured bank loans in an aggregate amount of HK\$4,428.0 million were classified as current and non-current liabilities in accordance with the terms in the Rescheduling Agreement entered into by the RHIHL Group as described in note 3 to the financial statements.

As at 31st December, 2002, the RHIHL Group was under a standstill arrangement with its bank creditors with respect to such loans in a then aggregate amount of HK\$4,816.6 million and, accordingly, they were classified 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.



32. 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 (the "RHIHL Optional Bonds") in whole or in part (the "Subscription Option"), which would mature on 15th April, 2004. The issue price of the RHIHL Convertible Bonds was 100% of their principal amount.

When the RHIHL Convertible Bonds were first issued, 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. The conversion price of HK\$0.10 per ordinary share was first adjusted to HK\$0.065 per ordinary share 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, and was further adjusted to HK\$0.048 per ordinary share following the issue of 210.0 million new ordinary shares of RHIHL at a price of HK\$0.048 per ordinary share upon a share placement completed on 16th June, 2003.

During the year, in January, 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. In the respective months of June and July, the RHIHL Convertible Bonds in the principal amounts of HK\$1.0 million and HK\$19.0 million were converted into new ordinary shares of RHIHL at HK\$0.048 each. In addition, in the months of July and August, the Subscription Option was partially exercised by the bondholder to subscribe for additional RHIHL Optional Bonds in a total principal amount of HK\$20.0 million, which were subsequently converted into new ordinary shares of RHIHL at HK\$0.048 each. RHIHL has in total issued 833.3 million new ordinary shares as a result of the conversions of the RHIHL Convertible Bonds during the year.

Subsequent to the balance sheet date, in January 2004, the Subscription Option for the remaining RHIHL Optional Bonds was exercised and further RHIHL Optional Bonds in a principal amount of HK\$30.0 million were issued. Part of these RHIHL Optional Bonds in a principal amount of HK\$28.0 million were subsequently acquired by a wholly owned subsidiary company of the Company. All such RHIHL Optional Bonds in a principal amount of HK\$30.0 million have since been converted into 625.0 million new ordinary shares of RHIHL at HK\$0.048 each.

The RHIHL Convertible Bonds were secured by certain receivables, fixed time deposits, interests in associates and shares in certain subsidiary companies of RHIHL. Security over such assets had been released in January 2004.

33. 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\$34.4 million (2002 - HK\$32.4 million) which bears interest at 1% above Hong Kong prime rate per annum, the remaining amount is interest free.

**34. OTHER PAYABLE**

The other payable represents loan restructuring fees payable to the bank creditors due on 31st December, 2006 pursuant to the terms of the Rescheduling Agreement entered into by the RHIHL Group as more fully described in note 3 to the financial statements. Accordingly, it is classified as a non-current liability at the balance sheet date.

35. SHARE CAPITAL AND SHARE PREMIUM

	COMPANY	
	2003 HK\$'million	2002 HK\$'million
Shares		
Authorised:		
20,000 million (2002 - 20,000 million) ordinary shares of HK\$0.01 each	200.0	200.0
4,750 million (2002 - 4,750 million) convertible preference shares of HK\$0.10 each	475.0	475.0
	675.0	675.0
Issued and fully paid:		
3,928.5 million (2002 - 2,318.5 million) ordinary shares of HK\$0.01 each	39.3	23.2
1,990 million (2002 - 3,450 million) convertible preference shares of HK\$0.10 each	199.0	345.0
	238.3	368.2
Share premium		
Ordinary shares	146.5	-

The movements of the Company's share capital and share premium during the period from 1st January, 2002 to 31st December, 2003 were as follows:

- (i) Pursuant to the board resolution passed on 31st July, 2002 and a special resolution passed on 16th October, 2002, a capital reorganisation (the "Capital Reorganisation") involving, inter alia, the following were implemented on 22nd November, 2002:



- (a) a reduction of the nominal value of each issued ordinary share of the Company (2,318.5 million shares) from HK\$1.00 to HK\$0.01 each by the cancellation of HK\$0.99 of the paid-up capital for each issued share (the "Capital Reduction"), and a transfer of the credit arising from the Capital Reduction of approximately HK\$2,295.3 million to a special reserve of the Group (note 39) and contributed surplus of the Company (note 43);
 - (b) the cancellation of the entire amount standing to the credit of the share premium account of the Company and a transfer of the credit totalling HK\$68.3 million arising therefrom to a special reserve of the Group (note 39) and contributed surplus of the Company (note 43);
 - (c) the cancellation of the existing authorised and unissued 3,681.5 million ordinary shares of HK\$3,681.5 million and a subsequent increase of the authorised ordinary share capital of the Company to HK\$200.0 million comprising 20,000 million ordinary shares of HK\$0.01 each by the creation of 17,681.5 million additional shares of HK\$0.01 each, ranking pari passu in all respects with the then existing ordinary share capital of the Company; and
 - (d) the cancellation of the entire amount standing to the credit of the capital redemption reserve (note 37) and a transfer of the credit totalling HK\$52.4 million arising therefrom to a special reserve of the Group (note 39) and contributed surplus of the Company (note 43).
- (ii) As detailed in note 47(g) to the financial statements, the Company issued 3,450.0 million convertible preference shares (the "Consideration Shares") of HK\$0.10 each (the "Issue Price") to the vendors as the consideration for the acquisition of Venture Perfect Investments Limited ("VPI") (the "Paliburg Acquisition"). According to SSAP 30 "Business Combinations" and Interpretation 15 which became effective in 2002, the Company is required to record the Consideration Shares at its fair value on the date of completion of the Paliburg Acquisition (the "Completion Date"). As the Consideration Shares are not listed and do not have a published price, the Directors of the Company consider that the fair value of the Consideration Shares is better determined by reference to the fair value of the entire equity interest in VPI acquired, which amounts to HK\$345.0 million as supported by an independent professional valuation of the underlying business acquired. Accordingly, in the opinion of the Directors, the Issue Price of HK\$0.10 per share is the fair value for the Consideration Shares.
- (iii) On 24th January, 2003 and 23rd May, 2003, 100.0 million and 1,360.0 million convertible preference shares of HK\$0.10 each were converted into 100.0 million and 1,360.0 million additional ordinary shares of the Company, respectively, of HK\$0.01 each by the relevant holders of the convertible preference shares.
- (iv) On 4th November, 2003, a total of 150.0 million new ordinary shares of HK\$0.01 each were issued to Almighty International Limited ("Almighty"), a wholly owned subsidiary company of Century City International Holdings Limited, the listed ultimate holding company of the Company, at HK\$0.113 per share for a total consideration of HK\$17.0 million (before expenses), following a placing of the same number of shares at the same price by Almighty to independent investors on 27th October, 2003.



Notes to Financial Statements (Cont'd)

- (v) Subsequent to the balance sheet date, on 28th January, 2004, a total of 180.0 million new ordinary shares of HK\$0.01 each were issued to Almighty at HK\$0.128 per share for a total consideration of HK\$23.0 million (before expenses), following a placing of the same number of shares at the same price by Almighty to independent investors on 20th January, 2004.

A summary of the above movements of the Company's share capital and share premium is as follows:

	Notes	Authorised		Issued and fully paid		Share premium
		Number of shares 'million	Amount HK\$'million	Number of shares 'million	Amount HK\$'million	HK\$'million
Ordinary shares						
At 1st January, 2002		6,000.0	6,000.0	2,318.5	2,318.5	68.3
Capital Reduction	(i)(a)	-	(2,295.3)	-	(2,295.3)	-
Cancellation of share premium	(i)(b)	-	-	-	-	(68.3)
Cancellation of unissued share capital	(i)(c)	(3,681.5)	(3,681.5)	-	-	-
Increase of authorised share capital	(i)(c)	17,681.5	176.8	-	-	-
At 31st December, 2002 and at 1st January, 2003		20,000.0	200.0	2,318.5	23.2	-
Conversion of convertible preference shares	(iii)	-	-	1,460.0	14.6	131.4
Issue of new shares	(iv)	-	-	150.0	1.5	15.5
Share issue expenses		-	-	-	-	(0.4)
At 31st December, 2003		20,000.0	200.0	3,928.5	39.3	146.5
Convertible preference shares of HK\$0.10 each						
Issued during the year and balance at 31st December, 2002 and at 1st January, 2003	(ii)	4,750.0	475.0	3,450.0	345.0	-
Conversion of convertible preference shares	(iii)	-	-	(1,460.0)	(146.0)	-
At 31st December, 2003		4,750.0	475.0	1,990.0	199.0	-
Total issued share capital						
At 31st December, 2003			675.0		238.3	146.5
At 31st December, 2002			675.0		368.2	-

**Convertible preference shares**

On 31st December, 2002, the Company issued 3,450.0 million convertible preference shares of HK\$0.10 each at par for the acquisition of a subsidiary company. The convertible preference shares are non-voting, freely transferable and not entitled to any right of participation in the profits of the Company. All convertible preference shareholders have the right (the "Conversion Rights") to convert any or all of their convertible preference shares into fully paid ordinary shares of HK\$0.01 each in the Company on the basis of one ordinary share of the Company for one convertible preference share so converted (the "Conversion Rate") at any time within 3 years after the date on which the convertible preference shares were issued. At the end of the 3-year period (i.e. 31st December, 2005), all the then outstanding convertible preference shares will be converted into the ordinary shares of the Company at the Conversion Rate on a mandatory basis. The new ordinary shares of the Company, which will be issued pursuant to the convertible preference shares, shall rank pari passu in all respects with the existing ordinary share capital of the Company.

During the year, 1,460.0 million convertible preference shares were converted into 1,460.0 million new ordinary shares of the Company of HK\$0.01 each. The exercise in full of the Conversion Rights attached to the outstanding 1,990.0 million convertible preference shares in issue at 31st December, 2003 would have, with the present capital structure of the Company, resulted in the issue of a further 1,990.0 million additional ordinary shares.

Subsequent to the balance sheet date, on 8th March, 2004, a convertible preference shareholder exercised the Conversion Rights to convert 750.0 million convertible preference shares into 750.0 million new ordinary shares of the Company of HK\$0.01 each.

Share options granted by the Company

The Company operates an executive share option scheme (the "PHL Share Option Scheme"). The PHL Share Option Scheme was adopted by the Company'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 the Company, on 15th December, 1993. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.



Notes to Financial Statements (Cont'd)

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 the Company 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, 2003 and at the date of this report: | At 31st December, 2003:
14,562,500 ordinary shares
(approximately 0.4%)

At the date of this report:
2,500,000 ordinary shares
(approximately 0.05%) |
| (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 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 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 ended on 23rd November, 2003 |



During the year, movements in share options granted by the Company 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, 2003	Lapsed during the year	At 31st December, 2003		
22nd February, 1994	Directors					
	Mr. Lo Yuk Sui					
	Vested:	3,650,000	–	4,562,500	Notes 2 & 3	10.40
	Unvested:	912,500	–	–		
	Mr. Cheng Yuk Lun ***					
	Vested:	1,000,000	(1,000,000)	–	Notes 2 & 3	10.40
	Unvested:	250,000	(250,000)	–		
	Mr. Donald Fan Tung					
	Vested:	1,500,000	–	1,875,000	Notes 2 & 3	10.40
	Unvested:	375,000	–	–		
	Mr. Kenneth Ng Kwai Kai					
	Vested:	800,000	–	1,000,000	Notes 2 & 3	10.40
	Unvested:	200,000	–	–		
	Other Employees					
Employees, in aggregate						
Vested:	1,300,000	(125,000)	1,500,000	Notes 2 & 3	10.40	
Unvested:	325,000	–	–			
		10,312,500	(1,375,000)	8,937,500		



Notes to Financial Statements (Cont'd)

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, 2003	Lapsed during the year	At 31st December, 2003		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1993)	Directors Mr. Donald Fan Tung Vested:	<u>1,757,812</u>	<u>(1,757,812)</u>	<u>–</u>	Note 4	1.1571
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1994)	Directors Mr. Donald Fan Tung Vested: Unvested:	<u>2,500,000</u> <u>625,000</u>	<u>–</u> <u>–</u>	<u>3,125,000</u> <u>–</u>	Notes 2 & 5 Notes 2 & 5	3.5392
22nd February, 1997	Other Employees Employees, in aggregate Vested: Unvested:	<u>1,250,000</u> <u>1,250,000</u>	<u>–</u> <u>–</u>	<u>1,500,000</u> <u>1,000,000</u>	Note 3 Note 3	6.672
		<u>2,500,000</u>	<u>–</u>	<u>2,500,000</u>		
	Total:	<u><u>17,695,312</u></u>	<u><u>(3,132,812)</u></u>	<u><u>14,562,500</u></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 Company's share capital.

*** Resigned as Director during the year.

**Notes:**

1. Consequent upon the group reorganisation resulting in the effective merger of PIHL and the Company 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, the Company granted the same number of options to subscribe for the new consolidated shares of HK\$1.00 each of the Company 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.
2. Lapsed after expiry of the relevant exercise period on 22nd February, 2004.
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)



Notes to Financial Statements (Cont'd)

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)	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)

5. 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)

6. 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 the Company, resulted in the issue of 1.8 million additional ordinary shares and share premium of HK\$11.7 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, 2003 and at the date of this report: | 1,080,000 ordinary shares (approximately 0.01%) |
| (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 |



Notes to Financial Statements (Cont'd)

- (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, 2003	Lapsed during the year	At 31st December, 2003		
5th August, 1993	Directors					
	Mr. Donald Fan Tung					
	Vested:	1,080,000	(1,200,000)	–	Note 1	1.1083
	Unvested:	120,000	–	–	Note 1	
		<u>1,080,000</u>	<u>(1,200,000)</u>	<u>–</u>		
22nd February, 1997	Other Employees					
	Employees, in aggregate					
	Vested:	150,000	(180,000)	–	Note 1	1.1083
	Unvested:	30,000	–	–	Note 1	
		<u>150,000</u>	<u>(180,000)</u>	<u>–</u>		
		<u>1,380,000</u>	<u>(1,380,000)</u>	<u>–</u>		
22nd February, 1997	Other Employees					
	Employees, in aggregate					
	Vested:	540,000	–	648,000	Note 1	2.1083
	Unvested:	540,000	–	432,000	Note 1	
		<u>540,000</u>	<u>–</u>	<u>648,000</u>		
		<u>1,080,000</u>	<u>–</u>	<u>1,080,000</u>		
	Total:	<u>2,460,000</u>	<u>(1,380,000)</u>	<u>1,080,000</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 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 0.8 million additional ordinary shares and share premium of HK\$1.6 million (before issue expenses).



Notes to Financial Statements (Cont'd)

36. RESERVES

	Notes	GROUP		COMPANY	
		2003 HK\$'million	2002 HK\$'million (Restated)	2003 HK\$'million	2002 HK\$'million
Share premium	35	146.5	–	146.5	–
Capital reserve	38	887.2	1,073.2	–	–
Special reserve	39	689.6	689.6	–	–
Revaluation reserves	40	(16.1)	(15.1)	–	–
Exchange equalisation reserve	41	1.5	(5.0)	–	–
Contributed surplus	43	–	–	1,742.7	1,742.7
Retained profits/ (Accumulated losses)	44	338.7	(48.9)	158.2	–
		<u>2,047.4</u>	<u>1,693.8</u>	<u>2,047.4</u>	<u>1,742.7</u>

37. CAPITAL REDEMPTION RESERVE

	GROUP AND COMPANY	
	2003 HK\$'million	2002 HK\$'million
Balance at beginning of year	–	52.4
Cancellation and transfer to special reserve/contributed surplus (note 35(i)(d))	–	(52.4)
Balance at end of year	<u>–</u>	<u>–</u>



38. CAPITAL RESERVE

	GROUP	
	2003	2002
	HK\$'million	HK\$'million
Balance at beginning of year	1,073.2	1,663.9
Release on disposal of ordinary shares in the listed subsidiary company	–	(77.9)
Release on disposal of ordinary shares in the listed subsidiary company upon completion of the Bonds Settlement	–	(521.7)
Release on deemed disposal of the Group's interest in the listed subsidiary company	(152.2)	–
Release on disposal of overseas subsidiary companies	(33.8)	–
Share of impairment of goodwill of an associate previously eliminated against capital reserve	–	8.9
Balance at end of year	887.2	1,073.2

As further explained below, the carrying amounts at 31st December, 2003 and 2002 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, respectively, the capital reserve.



Notes to Financial Statements (Cont'd)

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	8.9	88.9	(1,073.2)
Release on disposal of overseas subsidiary companies	–	–	33.8
Release on deemed disposal of the Group's interest in the listed subsidiary company	–	–	152.2
At end of year	8.9	88.9	(887.2)
Accumulated impairment:			
At beginning and at end of year	(8.9)	(88.9)	–
Net amount:			
At 31st December, 2003	–	–	(887.2)
At 31st December, 2002	–	–	(1,073.2)



39. SPECIAL RESERVE

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Balance at beginning of year	689.6	–
Transfer from share capital pursuant to Capital Reduction (note 35)	–	2,295.3
Transfer from share premium (note 35)	–	68.3
Transfer from capital redemption reserve (note 37)	–	52.4
Elimination of accumulated losses (note 44)	–	(1,726.4)
	689.6	689.6
Balance at end of year	689.6	689.6

The special reserve represents reserve arising from the Company's Capital Reorganisation in 2002.

On 17th April, 2003, it was approved by the Directors that special reserve amounting to HK\$1,726.4 million was applied towards elimination of the Group's accumulated losses as at 31st December, 2002.

40. REVALUATION RESERVES

	GROUP			
	Investment properties HK\$'million	Leasehold properties HK\$'million	Long term investments HK\$'million	Total HK\$'million
At 1st January, 2002	1,505.1	265.7	(30.7)	1,740.1
Movement in fair value	–	–	0.2	0.2
Transfer to profit and loss account on impairment	–	–	8.5	8.5
Reclassification of leasehold properties as investment properties	35.8	(35.8)	–	–
Release on disposal of ordinary shares in the listed subsidiary company	–	–	0.8	0.8
Release on disposal of ordinary shares in the listed subsidiary company upon completion of the Bonds Settlement	–	–	2.9	2.9
Release on disposal of subsidiary companies upon completion of the Bonds Settlement	(1,531.6)	(225.5)	–	(1,757.1)
Release on disposal	(8.2)	–	2.3	(5.9)
Transfer to retained profits (note 45)	–	(4.4)	–	(4.4)
Deficit on revaluation	(0.2)	–	–	(0.2)
	(1,531.6)	(225.5)	–	(1,757.1)



Notes to Financial Statements (Cont'd)

	GROUP			Total HK\$'million
	Investment properties HK\$'million	Leasehold properties HK\$'million	Long term investments HK\$'million	
At 31st December, 2002				
and at 1st January, 2003	0.9	-	(16.0)	(15.1)
Movement in fair value	-	-	(1.7)	(1.7)
Release on deemed disposal of the Group's interest in the listed subsidiary company	-	-	0.3	0.3
Release on disposal	-	-	0.4	0.4
	<u>0.9</u>	<u>-</u>	<u>(17.0)</u>	<u>(16.1)</u>
At 31st December, 2003	<u>0.9</u>	<u>-</u>	<u>(17.0)</u>	<u>(16.1)</u>

41. EXCHANGE EQUALISATION RESERVE

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Balance at beginning of year	(5.0)	(8.3)
Release on disposal of ordinary shares in the listed subsidiary company	-	0.4
Release on disposal of ordinary shares in the listed subsidiary company upon completion of the Bonds Settlement	-	2.6
Release on deemed disposal of the Group's interest in the listed subsidiary company	(0.2)	-
Release on disposal of a subsidiary company	(0.6)	-
Release on disposal of overseas subsidiary companies	3.7	-
Exchange adjustment on translation of the financial statements of overseas subsidiary companies	3.6	0.3
	<u>3.6</u>	<u>0.3</u>
Balance at end of year	<u>1.5</u>	<u>(5.0)</u>



42. INTERESTS IN SUBSIDIARY COMPANIES

	COMPANY	
	2003 HK\$'million	2002 HK\$'million
Unlisted shares, at cost	154.4	154.4
Amounts due from subsidiary companies	2,654.4	2,641.3
	2,808.8	2,795.7
Provision for impairment	(521.9)	(683.5)
	2,286.9	2,112.2

The amounts due from subsidiary companies are 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
			2003	2002	
303 Company Limited Limited ^(vii)	Hong Kong	HK\$10,000	55 ^(viii)	55 ^(viii)	Security systems and software development and distribution
Capital Billion International Limited	British Virgin Islands	US\$10,000	100	100	Financing
Cathay City Development, Inc.	U.S.A.	US\$6,000,000	100	100	Property development and investment
Cathay City Property Management, Inc.	U.S.A.	US\$10,000	100	100	Financing and property and project management
Chatwin Engineering Limited	Hong Kong	HK\$2,800,000	100	100	Building construction
Cheer Faith Limited	Hong Kong	HK\$2	100	100	Financing



Notes to Financial Statements (Cont'd)

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Chinatrend (Holdings) Limited	Hong Kong	HK\$10,000	75	75	Investment holding
Cosmos Best Development Limited	Hong Kong	HK\$2	100	100	Management services
Cosmos Gain Investment Limited	Hong Kong	HK\$2	100	100	Property development and investment
Everlane Investment Limited	Hong Kong	HK\$2	100	100	Property development and investment
Farich Investment Limited	Hong Kong	HK\$2	100	100	Investment holding
Finso Limited	Hong Kong	HK\$2	100	100	Investment holding
Gain World Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Glaser Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Granco Development Limited	Hong Kong	HK\$2	100	100	Property development and investment
Grand Equity Limited	British Virgin Islands	US\$1	100	100	Investment holding
H.P. Nominees Limited	Hong Kong	HK\$2	100	100	Investment holding and nominee services
Lead Fortune Development Limited	Hong Kong	HK\$2	100	100	Property development and investment
Leading Technology Holdings Limited ("LTH") ^(vi)	British Virgin Islands	US\$100	55 ^(viii)	55 ^(viii)	Investment holding



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Linkprofit Limited	Hong Kong	HK\$2	100	100	Investment holding
Mira Technology Limited ^(viii)	Hong Kong	HK\$937,500	63 ^(x)	63 ^(x)	Software development
Paliburg BVI Holdings Limited	British Virgin Islands	HK\$10	100	100	Investment holding
Paliburg Building Services Limited	Hong Kong	HK\$2	100	100	Mechanical and electrical engineering services
Paliburg Company Limited ⁽ⁱ⁾	Hong Kong	HK\$1,000	10	100	Investment holding
Paliburg Development BVI Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Paliburg Development Consultants Limited	Hong Kong	HK\$100,000	100	100	Development consultants
Paliburg Development Finance Limited	Hong Kong	HK\$2	100	100	Financing
Paliburg Estate Agents Limited	Hong Kong	HK\$20	100	100	Estate agent
Paliburg Estate Management Limited	Hong Kong	HK\$20	100	100	Estate management
Paliburg Finance Limited	Hong Kong	HK\$2	100	100	Financing
Paliburg International Holdings Limited	Bermuda	HK\$100,000	100	100	Investment holding
Paliburg Investments Limited	Hong Kong	HK\$526,506,860	100	100	Investment holding
Power Faith Investments Limited	British Virgin Islands	US\$100	100	100	Financing
Rank Cheer Investment Limited	Hong Kong	HK\$2	100	100	Financing



Notes to Financial Statements (Cont'd)

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Real Charm Investment Limited	Hong Kong	HK\$2	100	100	Property investment
Rich Pearl Limited	Hong Kong	HK\$10,000	100	100	Financing
Sanefix Development Limited	Hong Kong	HK\$2	100	100	Property investment
Shenyang Paliburg Plaza Limited ^{(i), (ii)}	The People's Republic of China	US\$9,820,000	10	100	Property development and investment
Shenzhen Leading Technology Co. Ltd. ^(vii)	The People's Republic of China	RMB10,000,000	55 ^(ix)	52.3 ^(ix)	Security systems and software development and distribution
Sonnix Limited	Hong Kong	HK\$2	100	100	Property development and investment
Taylor Investments Ltd.	British Virgin Islands	US\$1	100	100	Investment holding
Tower Bright Limited	British Virgin Islands	US\$1	100	100	Investment holding
Transcar Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Venture Perfect Investments Limited	British Virgin Islands	US\$34,500	100	100	Investment holding
Vertex Investments Limited	Hong Kong	HK\$2	100	100	Securities investment
Weifang Yuanzhong Real Estate Development Co., Ltd. ⁽ⁱⁱⁱ⁾	The People's Republic of China	US\$8,130,000	52.5	52.5	Property development and investment
Yield Star Limited	British Virgin Islands	US\$1	100	100	Investment holding
Regal Hotels International Holdings Limited ("RHIHL")	Bermuda	Ordinary – HK\$75,204,392 Preference – US\$167,480	40.8 ^(iv) 20.5	47.8 ^(iv) 20.5	Investment holding



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Bauhinia Hotels Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Hotel ownership
Camomile Investments Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Property investment
Charmwin Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Distribution of beer
Charter Capital Development Limited ⁽ⁱ⁾	Hong Kong	HK\$2	–	47.8 ^(v)	Property investment
Cityability Limited	Hong Kong	HK\$10,000	40.8 ^(v)	47.8 ^(v)	Hotel ownership
Cranfield Investments Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Financing
Farah Investments Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Financing
Fortune Nice Investment Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Financing
Gala Hotels Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Hotel ownership
HK168 Limited	Republic of Liberia	US\$1	40.8 ^(v)	47.8 ^(v)	Securities investment
Kaifeng Yatai Brewery Co., Ltd. ⁽ⁱⁱⁱ⁾	The People's Republic of China	RMB35,923,300	36.7 ^(v)	43.0 ^(v)	Production and distribution of beer
Kaifeng Yatai Brewery Second Co., Ltd. ⁽ⁱⁱ⁾	The People's Republic of China	RMB30,576,700	36.7 ^(v)	43.0 ^(v)	Production and distribution of beer
Kaybro Investments Limited	British Virgin Islands	US\$1	40.8 ^(v)	47.8 ^(v)	Securities investment
Key Winner Investment Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Financing
Kingford View Investments Limited ⁽ⁱ⁾	British Virgin Islands	US\$1	–	47.8 ^(v)	Securities investment



Notes to Financial Statements (Cont'd)

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Regal Century Investment Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Investment holding and management services
Regal Constellation Hotel Limited ⁽ⁱ⁾	Canada	CAD1	–	47.8 ^(v)	Hotel ownership
Regal Estate Agents Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Estate agents
Regal Estate Management Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Estate management
Regal Hotels (Holdings) Limited	Hong Kong	HK\$1,151,598,638	40.8 ^(v)	47.8 ^(v)	Investment holding
Regal Hotels International Limited	Hong Kong	HK\$100,000	40.8 ^(v)	47.8 ^(v)	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US\$1	40.8 ^(v)	47.8 ^(v)	Hotel management
Regal International Limited	British Virgin Islands	US\$20	40.8 ^(v)	47.8 ^(v)	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK\$10.1	40.8 ^(v)	47.8 ^(v)	Investment holding
Regal Laundry Services Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Laundry operations
Regal Pacific (Holdings) Limited ⁽ⁱ⁾	Canada	CAD2,005,200	–	47.8 ^(v)	Investment holding
Regal Quality Foods Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Bakery and retail operations
Regal Riverside Hotel Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Hotel ownership
Regal Supplies Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Bakery plant operation
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	40.8 ^(v)	47.8 ^(v)	Trademark holding



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Richtech Holdings Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Financing
Ricobem Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Hotel ownership
World Way Management Limited	Hong Kong	HK\$2	40.8 ^(v)	47.8 ^(v)	Management services

- (i) These subsidiary companies were partially/fully disposed of during the year.
- (ii) These subsidiary companies are sino-foreign co-operative joint venture companies established in the PRC.
- (iii) This subsidiary company is a sino-foreign equity joint venture company established in the PRC.
- (iv) At the balance sheet date, the Company had a 62.3% (2002 – 74.9%) voting interest and a 40.8% (2002 – 47.8%) economic interest in RHIHL. Pursuant to the Bonds Settlement completed in October 2002, 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 the Company, 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. Up to the balance sheet date, a total of 284.6 million Relevant RHIHL Shares have been released to the bondholders while the remaining 1,611.9 million Relevant RHIHL Shares (including those entitled by but not yet released to the bondholders), representing 21.4% of the total 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 the Company 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 more than half of the voting power thereof.

- (v) The percentages of equity interest represent those attributable to the Company through its shareholdings in RHIHL.
- (vi) On 2nd August, 2002, the Company 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 (the “LTH Option”) to acquire all or part of the 50% equity interest in LTH owned by one of the Vendors in LTH (the “LTH Option Shares”), the remaining 50% equity interest of which is owned by VPI. As further explained in note 2 to the financial statements, due to the adoption of Interpretation 18 during the year, the potential voting rights of the LTH Option Shares should also be considered when assessing whether the Group has control or significant influence on LTH and its subsidiary companies (collectively, the “LTH Group”). Taking into account the potential voting rights of the LTH Option Shares, the Group is considered to have more than 50% voting interest in the LTH Group, which is then reclassified from interests in associates and is consolidated into the Group’s financial statements with effect from 1st January, 2003.



Notes to Financial Statements (Cont'd)

Subsequent to the balance sheet date, on 29th January, 2004, the LTH Option was exercised by the Group at a consideration of HK\$1.0 and the transaction was completed on 30th January, 2004. Thereafter, LTH became a wholly-owned subsidiary company of the Group.

- (vii) These are the principal subsidiary companies of LTH.
- (viii) The percentages of equity interests represent the aggregate of the 50% (2002 - 50%) equity interest directly attributable to the Company and the 5% (2002 - 5%) equity interest attributable to RHIHL.
- (ix) The percentage of equity interest represents the aggregate of the 50% (2002 - 47.5%) equity interest directly attributable to the Company and the 5% (2002 - 4.75%) equity interest attributable to RHIHL.
- (x) The percentage of equity interest represents the aggregate of the 30% (2002 - 30%) equity interest directly attributable to the Company and the 33% (2002 - 33%) equity interest attributable to RHIHL.

Except for Paliburg Development 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 Regal Hotels International Holdings Limited, which is incorporated in Bermuda, but operates 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.

43. CONTRIBUTED SURPLUS

	COMPANY	
	2003 HK\$'million	2002 HK\$'million
Balance at beginning of year	1,742.7	281.1
Transfer from share capital pursuant to Capital Reduction (note 35)	-	2,295.3
Transfer from share premium (note 35)	-	68.3
Transfer from capital redemption reserve (note 37)	-	52.4
Elimination of accumulated losses (note 44)	-	(954.4)
	1,742.7	1,742.7
Balance at end of year	1,742.7	1,742.7

The contributed surplus represents reserves arising from (i) a Group reorganisation in 1993 in preparation for a separate listing of the Company's shares, originally representing 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 subsidiary companies at the date of acquisition; and (ii) the Company's Capital Reorganisation in 2002.

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

**44. RETAINED PROFITS/(ACCUMULATED LOSSES)**

	GROUP		COMPANY	
	2003 HK\$'million	2002 HK\$'million (Restated)	2003 HK\$'million	2002 HK\$'million
Balance at beginning of year:				
As previously reported	–	(3,654.3)	–	(539.7)
Prior year adjustment (note 25)	(48.9)	(131.4)	–	–
As restated	(48.9)	(3,785.7)	–	(539.7)
Net profit/(loss) for the year	387.6	1,704.1	158.2	(414.7)
Elimination of accumulated losses of the listed subsidiary company upon cancellation of its preference share premium	–	76.4	–	–
Transfer from other reserves (note 45)	–	229.9	–	–
Transfer from special reserve (note 39)	–	1,726.4	–	–
Transfer from contributed surplus (note 43)	–	–	–	954.4
Balance at end of year	338.7	(48.9)	158.2	–

	GROUP	
	2003 HK\$'million	2002 HK\$'million (Restated)
Retained profits/(Accumulated losses) at end of year retained by/(accumulated in):		
The Company and subsidiary companies	2,365.2	2,060.3
Associates	(328.2)	(326.5)
Jointly controlled entity	(1,698.3)	(1,782.7)
Balance at end of year	338.7	(48.9)

**45. TRANSFER FROM OTHER RESERVES**

	GROUP	
	2003	2002
	HK\$'million	HK\$'million
Transfer from revaluation reserve of the portion of depreciation charge on leasehold property attributable to the revaluation surplus in relation thereto (note 40)	-	4.4
Transfer from revaluation reserve upon disposal of leasehold properties (note 40)	-	225.5
	<u>-</u>	<u>229.9</u>
	<u>-</u>	<u>229.9</u>



46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2003 HK\$'million	2002 HK\$'million (Restated)
Profit before tax	449.2	1,333.3
Adjustments for:		
Finance costs	166.9	500.9
Share of profits less losses of a jointly controlled entity and associates	(203.8)	14.9
Interest income	(8.3)	(15.8)
Dividend income	-	(0.7)
Gain on settlement of exchangeable bonds and convertible bonds	-	(3,065.9)
Loss on deemed disposal of the Group's interest in the listed subsidiary company	39.4	-
Loss on disposal of ordinary shares in the listed subsidiary company	-	53.7
Loss on disposal of overseas subsidiary companies attributable to discontinued operation	9.7	-
Gain on disposal of an associate	-	(6.5)
Loss/(Gain) on disposal of fixed assets	(5.4)	1.0
Loss on disposal of an investment property	-	30.6
Depreciation	40.8	50.9
Amortisation of goodwill	14.3	-
Negative goodwill recognised as income	(0.4)	(1.1)
Write-down/(Write-back) in values of properties	(44.0)	67.4
Write-back of provision against a loan receivable	-	(14.2)
Write-back of impairment of hotel properties	(11.4)	-
Impairment of hotel properties previously eliminated against hotel property revaluation reserve	-	618.9
Deficit/(Write-back of deficit) on revaluation of hotel properties	(266.1)	528.9
Impairment of long term investments	-	62.0
Impairment of long term investments previously eliminated against long term investment revaluation reserve	-	15.0
Provisions for doubtful debts	3.4	8.8
Loss on disposal of long term investments	1.2	96.1
Net proceeds from sale of properties	136.0	9.3
Additions to properties under development	(32.1)	(5.4)
Operating profit before working capital changes	289.4	282.1
Increase in short term investments	(4.0)	-
Decrease in debtors, deposits and prepayments	41.8	76.5
Decrease/(Increase) in hotel and other inventories	(2.5)	5.8
Decrease in creditors and accruals	(103.8)	(78.8)
Increase in deposits received	28.7	1.1
Exchange difference	(0.7)	0.3
Cash generated from operations	248.9	287.0
Hong Kong profits tax paid	(1.3)	(8.4)
Hong Kong profits tax refunded	0.3	-
Overseas taxes paid	(0.1)	(0.4)
Overseas taxes refunded	-	3.1
Net cash inflow from operating activities	247.8	281.3



Notes to Financial Statements (Cont'd)

(b) Major non-cash transactions

The Group had the following major non-cash transactions:

- (i) Part of the promissory notes receivable of HK\$180.0 million as at 31st December, 2001 together with the interest accrued thereon was settled in the prior 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) In the prior year, the Group acquired a 100% interest in Venture Perfect Investments Limited at a consideration of HK\$345.0 million which was satisfied by the issue of 3,450.0 million convertible preference shares of the Company.
- (iii) As detailed in note 35(iii) to the financial statements, on 24th January, 2003 and 23rd May, 2003, a total of 100.0 million and 1,360.0 million convertible preference shares of HK\$0.1 each were converted into 100.0 million and 1,360.0 million additional ordinary shares of the Company, respectively, of HK\$0.01 each by the relevant holders of the convertible preference shares.

(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\$6.3 million (2002 - HK\$29.9 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/Consolidation of a subsidiary company

	2003 HK\$'million	2002 HK\$'million
Net assets acquired:		
Fixed assets	0.4	–
Interest in an associate	–	275.0
Time deposits	–	70.0
Cash and bank balances	0.1	–
Debtors, deposits and prepayments	6.1	–
Inventories	0.1	–
Creditors and accruals	(6.1)	–
Minority interests	(0.2)	–
	<u>0.4</u>	<u>345.0</u>
Goodwill on consolidation	274.8	–
	<u>275.2</u>	<u>345.0</u>
Satisfied by:		
Issue of convertible preference shares	–	345.0
Reclassification of interest in an associate	275.2	–
	<u>275.2</u>	<u>345.0</u>

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

	2003 HK\$'million	2002 HK\$'million
Cash and bank balances acquired	<u>0.1</u>	<u>70.0</u>

The results of the subsidiary company consolidated in the current year contributed HK\$4.9 million to turnover and net loss of HK\$7.3 million to the consolidated profit after tax and before minority interests for the year ended 31st December, 2003. These turnover and profit after tax amounts exclude the former associate's contribution to the results prior to its becoming a subsidiary company.



Notes to Financial Statements (Cont'd)

(e) Disposal of subsidiary companies

	2003 HK\$'million	2002 HK\$'million (Restated)
Net assets disposed of:		
Fixed assets	259.8	2,792.3
Property under development	23.9	–
Deferred expenditure	–	18.6
Hotel and other inventories	4.7	–
Debtors, deposits and prepayments	4.1	10.1
Cash and bank balances	2.7	110.8
Creditors and accruals	(18.0)	(400.3)
Provision for premium on redemption of exchangeable bonds and convertible bonds	–	(815.6)
Deposits received	(11.3)	(42.3)
Deferred tax liabilities	–	(57.7)
Loans and other borrowings	(195.8)	(3,842.7)
Bank overdrafts	–	(0.3)
	70.1	(2,227.1)
Capital reserve released on disposal	(33.8)	–
Investment property revaluation reserve released on disposal	–	(1,531.6)
Exchange equalisation reserve released on disposal	3.1	–
Release of reserves attributable to minority shareholders	(6.1)	–
Gain/(Loss) on disposal	(9.7)	3,735.6*
	23.6	(23.1)
Satisfied by:		
Cash	9.4	(23.1)#
Reclassification to long term investments	14.2	–
	23.6	(23.1)

* The gain on disposal of subsidiary companies was included as part of the gain on settlement of exchangeable bonds and convertible bonds. 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\$3,065.9 million (as restated) comprised the gain on disposal of subsidiary companies amounting to HK\$3,735.6 million (as restated) above and the loss on disposal of ordinary shares in RHIHL amounting to HK\$669.7 million (as restated).

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 inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiary companies is as follows:

	2003 HK\$'million	2002 HK\$'million
Cash and bank balances disposed of	(2.7)	(110.8)
Bank overdrafts disposed of	–	0.3
Cash consideration	9.4	(23.1)
	<hr/>	<hr/>
Net inflow/(outflow) of cash and cash equivalents in respect of disposal of subsidiary companies	6.7	(133.6)
	<hr/> <hr/>	<hr/> <hr/>

The subsidiary companies disposed of in the current year contributed HK\$32.2 million (2002 – HK\$88.6 million) to turnover and net loss of HK\$12.4 million (2002 – HK\$27.1 million) to the consolidated profit after tax and before minority interests for the year ended 31st December, 2003.

The subsidiary companies disposed of in the prior year contributed HK\$134.0 million to the Group's turnover and a loss of HK\$204.7 million to the consolidated profit after tax and before minority interests for that year.



47. 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	2003 HK\$'million	2002 HK\$'million
Operating lease rentals in respect of land and buildings received from a wholly-owned subsidiary company of CCIHL	(a)	–	7.9
Advertising and promotion fees (including cost reimbursements) paid to an associate of CCIHL	(b)	7.4	12.6
Management costs allocated from CCIHL	(c)	14.9	45.8
Gross construction fee income from a jointly controlled entity	(d)	31.1	0.2
Interest on loans to associates	(e)	–	7.5
Guarantees given in respect of a banking facility granted to a jointly controlled entity	(f)	2,359.0	2,310.0

Notes:

- (a) The rental income in the prior year related to the provision of head office accommodation to CCIHL. The rental was determined by reference to market rental for offices of similar quality in the same district obtained from independent sources.
- (b) The advertising and promotion fees comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed.
- (c) The management costs included rentals and other overheads allocated from CCIHL, in the prior year, either on the basis of actual usage or on a proportionate basis by reference to individual consolidated turnover and asset values of the Group (excluding the RHIHL group), the RHIHL group and the CCIHL group (excluding the Group and the RHIHL group). With effect from 1st January, 2003, such management costs were allocated from CCIHL either on the basis of specific attribution or by reference to a predetermined ratio assessed by the management of the three groups based on the distribution of job responsibilities and the estimated time to be spent by the relevant staff in serving each of the three groups.
- (d) The gross construction fee income from a jointly controlled entity was charged to Chest Gain in respect of a property development project, pursuant to construction contracts awarded through competitive tendering process.



- (e) The interest income from associates arose from loans to Cheerjoy Development Limited ("Cheerjoy"), details of which are disclosed in note 22 to the financial statements. With effect from 1st January, 2003, such interest income was waived by mutual agreement among the shareholders of Cheerjoy.
- (f) The corporate guarantees were given by the Company and RHIHL in respect of a banking facility granted to Chest Gain (also see note (h) below).
- (g) On 2nd August, 2002, the Company 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 CCIHL. The assets of the VPI group comprised a 50% equity interest in LTH and cash deposits of approximately HK\$70 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 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 3,450.0 million convertible preference shares of the Company at HK\$0.10 each (the "Paliburg Convertible Preference Shares"). Each Paliburg Convertible Preference Share can be converted into an ordinary share of the Company (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.

- (h) On 2nd August, 2002, RHIHL entered into a sale and purchase agreement (the "Stanley Transfer Agreement") with the Company and Paliburg Development BVI Holdings Limited, a wholly-owned subsidiary company of the Company, for the acquisition of 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 Company 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 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. 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 (f) were entered into in the normal and usual course of business.

The related party transactions set out in notes 47(a), (b), (c), (g) and (h) 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, 2003 accompanying the financial statements.

The related party transactions set out in notes 47 (d) to (f) above did not constitute connected transactions as defined in the Listing Rules to the Company.

**48. PLEDGE OF ASSETS**

At the balance sheet date, certain of the Group's time deposits, properties held for sale, listed investments, interests in associates, fixed assets including properties and equipment, inventories and receivables with a total carrying value of HK\$7,732.4 million (2002 - HK\$7,801.1 million) and the shares in certain subsidiary companies, including certain ordinary shares in the listed subsidiary company, and 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.

49. CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	2003 HK\$'million	2002 HK\$'million	2003 HK\$'million	2002 HK\$'million
(a) Corporate guarantees provided in respect of: Attributable share of outstanding bank and other borrowings of:				
– a jointly controlled entity	2,255.4	1,938.4	1,288.7	1,107.6
– subsidiary companies	–	–	172.8	295.8
	<u>2,255.4</u>	<u>1,938.4</u>	<u>1,461.5</u>	<u>1,403.4</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\$ 12.8 million as at 31st December, 2003 (2002 - HK\$15.1 million), as further explained in note 4(z) 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.



50. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties (notes 17 and 26) under operating lease arrangements, with leases negotiated for terms ranging from 3 months 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 the leases.

At 31st December, 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Within one year	15.8	21.2
In the second to fifth years, inclusive	12.7	8.7
	28.5	29.9

In the prior year, the Group recognised HK\$0.1 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 in respect of the RHIHL Group's discontinued operation in the prior year were negotiated for terms ranging from 5 months to 9 years.



Notes to Financial Statements (Cont'd)

At 31st December, 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Land and buildings:		
Within one year	3.9	7.2
In the second to fifth years, inclusive	10.1	27.6
After the fifth year	2.5	15.0
	<hr/> 16.5	<hr/> 49.8
Other equipment:		
Within one year	–	3.6
In the second to fifth years, inclusive	–	0.6
	<hr/> –	<hr/> 4.2
	<hr/> 16.5 <hr/>	<hr/> 54.0 <hr/>

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



51. COMMITMENTS

In addition to the operating lease commitments detailed in note 50(b) above, the Group had the following outstanding commitments at the balance sheet date:

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Capital commitments in respect of the renovation of or improvements to the hotel properties:		
Authorised and contracted for	3.4	12.5
Authorised, but not contracted for	86.9	82.9
	90.3	95.4
Capital commitments in respect of a property development project:		
Authorised and contracted for	–	22.5
Authorised, but not contracted for	–	1.8
	–	24.3
	90.3	119.7

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

52. POST BALANCE SHEET EVENTS

Except for the events set out in notes 3, 17, 32, 35 and 42 to the financial statements, there were no other significant post balance sheet events.

53. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of revised SSAP 12 and Interpretations 18 and 20 during the current 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 prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 15th April, 2004.