

Notes to Financial Statements

31st December, 2004

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. Since 31st July, 2004, Regal Hotels International Holdings Limited ("RHIHL"), the then listed subsidiary company, became the listed associate of the Company. RHIHL and its subsidiary companies (the "RHIHL Group") are engaged in the business activities of hotel ownership and management, property investment 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 RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKAS"), herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether and to what extent these new HKFRSs would have an impact on its results of operations and financial position.

RHIHL, the Group's listed associate, is also in the process of making an assessment of the impact of these new HKFRSs, in particular, HKAS 16 "Property, Plant and Equipment" ("HKAS 16") and Interpretation 23 "The Appropriate Policies for Hotel Properties" ("Interpretation 23"), which affect hotel properties. The adoption of HKAS 16 and Interpretation 23 will result in additional depreciation charges on the RHIHL Group's hotel properties, thereby reducing the RHIHL Group's operating results. The RHIHL Group has not come to a final decision as to whether to state its hotel properties at cost less accumulated depreciation or at valuation as permitted under HKAS 16. If the RHIHL Group's hotel properties are to be stated at cost less accumulated depreciation, the carrying values of its hotel properties and hence the net asset value of the RHIHL Group may decrease significantly for accounting purposes. Consequently, the Group's share of results of the associate and its interest in the associate may be affected accordingly.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice ("SSAP") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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, 2004, 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 Group has unilateral control, directly or indirectly, over the joint venture company;



- (ii) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (iii) an associate, if the Group 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 Group 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 and 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) Property under development

Property under development is stated at cost less any impairment losses. Cost includes all costs attributable to such development, including any related finance charges.

(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
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) fee income on short term construction contracts, on completion of the construction work;
- (iv) fee income on long term construction contracts, on the percentage of completion basis as further explained in (u) above;
- (v) hotel and other service income, in the period in which such services are rendered;
- (vi) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;
- (vii) dividend income, when the shareholders' right to receive payment has been established;
- (viii) 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;
- (ix) brewery operations income from trading activities, upon passage of title to the customer, which generally coincides with their delivery and acceptance; and
- (x) bakery operations income, when the goods are delivered to the customers.

(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 and are 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.

4. 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, the leasing of office and commercial premises and the provision of estate agency services;
- (b) the construction and building related businesses 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;
- (c) the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services; and
- (d) the others segment mainly comprises securities trading, brewery operations, laundry services, bakery operations and other investments.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.



(a) Business segments

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		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	37.6	12.2	93.6	90.3	533.0	747.2	34.1	27.7	-	-	698.3	877.4
Intersegment sales	0.6	0.7	25.4	21.1	1.4	-	5.8	-	(33.2)	(21.8)	-	-
Total	38.2	12.9	119.0	111.4	534.4	747.2	39.9	27.7	(33.2)	(21.8)	698.3	877.4
Segment results	51.5	55.5	(171.1)	21.1	725.0	415.1	(0.3)	0.8	(8.4)	-	596.7	492.5
Interest income and unallocated non-operating and corporate gains											4.2	9.4
Unallocated non-operating and corporate expenses											(33.2)	(89.6)
Profit from operating activities											567.7	412.3
Finance costs											(48.2)	(166.9)
Share of profits less losses of:												
Jointly controlled entity	60.1	206.6	-	-	-	-	-	-	-	-	60.1	206.6
Associates	-	-	(0.1)	-	102.4	(0.1)	(7.0)	(2.7)	-	-	95.3	(2.8)
Profit before tax											674.9	449.2
Tax											8.4	63.2
Profit before minority interests											683.3	512.4
Minority interests											(166.5)	(124.8)
Net profit from ordinary activities attributable to shareholders											516.8	387.6

(a) Business segments (continued)

GROUP

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	346.2	316.9	71.6	284.8	-	7,241.4	39.0	130.6	-	(28.5)	456.8	7,945.2
Interests in associates	223.4	223.4	0.3	1.4	3,210.4	5.1	0.2	15.4	(8.4)	-	3,425.9	245.3
Interest in a jointly controlled entity	-	1,298.6	-	-	-	-	-	-	-	-	-	1,298.6
Cash and unallocated assets	-	-	-	-	-	-	-	-	-	-	255.2	336.5
Total assets											4,137.9	9,825.6
Segment liabilities	(11.9)	(23.2)	(80.9)	(120.7)	-	(116.8)	(0.1)	(20.8)	-	28.5	(92.9)	(253.0)
Bank and other borrowings and unallocated liabilities	-	-	-	-	-	-	-	-	-	-	(222.5)	(4,924.4)
Total liabilities											(315.4)	(5,177.4)
Other segment information:												
Depreciation	0.1	0.2	0.3	0.5	16.4	35.1	3.1	5.0				
Impairment losses/ (Write-back of impairment losses) recognised in the profit and loss account	-	-	189.6	-	(165.8)	(11.4)	-	-				
Write-back in values of properties	(47.3)	(44.0)	-	-	-	-	-	-				
Write-back of deficit on revaluation of hotel properties	-	-	-	-	(446.5)	(266.1)	-	-				
Capital expenditure	-	32.2	0.3	-	13.9	15.1	1.4	0.8				
Other non-cash expenses	0.2	0.3	-	-	-	2.5	0.6	0.6				



(b) Geographical segments

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

GROUP

	Hong Kong		Mainland China		Canada		Eliminations		Consolidated	
	2004 HK\$'m	2003 HK\$'m								
Segment revenue:										
Sales to external customers	665.6	820.2	32.7	25.0	-	32.2	-	-	698.3	877.4
Other segment information:										
Segment assets	375.3	7,773.7	81.5	128.5	-	-	-	-	456.8	7,902.2
Capital expenditure	14.2	47.0	1.4	0.8	-	0.3	-	-	-	-

5. 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. 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 prior year's consolidated 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) had no recourse against the RHIHL Group.

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

	2003 HK\$'million
TURNOVER	32.2
Cost of sales	(37.3)
	<hr/>
Gross loss	(5.1)
Administrative expenses	(1.9)
Other operating expenses	(1.1)
	<hr/>
LOSS FROM OPERATING ACTIVITIES	(8.1)
Finance costs	(4.2)
	<hr/>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(12.3)</u>

The net cash flows attributable to the discontinued operation were as follows:

Operating	0.1
Investing	(0.3)
Financing	(5.4)
	<hr/>
Net cash outflows	<u>(5.6)</u>



6. TURNOVER AND REVENUE

Turnover represents the aggregate of the gross amounts of rental income, fee income in respect of construction contracts (in the case of long term construction contracts, the fee income is adjusted to reflect the stage of completion to the extent that this was not previously recognised), proceeds from sale of properties, 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, proceeds from sale of short term investments, estate agency fees, laundry services revenue and income from brewery and bakery operations, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Rental income:		
Investment properties	0.1	0.3
Properties held for sale	8.5	8.8
Hotel properties	12.0	23.0
Construction and construction-related income	85.2	75.3
Proceeds from sale of properties	23.9	–
Estate management fees	5.3	15.0
Property development consultancy and project management fees	3.1	3.1
Hotel operations and management services	521.0	724.2
Proceeds from sale of short term investments	0.5	–
Other operations, including estate agency, laundry services, brewery and bakery operations	38.7	27.7
	<hr/>	<hr/>
Turnover	698.3	877.4
	<hr/> <hr/>	<hr/> <hr/>



7. OTHER OPERATING EXPENSES

Other operating expenses include the following items:

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Loss on deemed disposal of the Group's interest in the listed subsidiary company	–	39.4
Loss on disposal of long term listed investments (after a transfer from the revaluation reserve of a deficit of HK\$0.4 million)	–	1.2
Loss on deconsolidation of a listed subsidiary company	29.4	–
Termination fee in respect of cancellation of the disposal of a hotel property	39.0	–
	<u><u>39.0</u></u>	<u><u>–</u></u>

8. WRITE-BACK OF PROVISIONS FOR WRITE-DOWNS AND IMPAIRMENTS, NET

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

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Write-back in values of properties	47.3	44.0
Write-back of deficit on revaluation of hotel properties	446.5	266.1
Impairment of goodwill	(189.6)	–
	<u><u>304.2</u></u>	<u><u>310.1</u></u>



9. PROFIT FROM OPERATING ACTIVITIES

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

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Cost of completed properties sold	11.8	–
Cost of inventories sold and services provided	230.8	397.6
Staff costs (exclusive of directors' remuneration disclosed in note 11):		
Wages and salaries*	182.3	301.3
Staff retirement scheme contributions	9.5	16.2
Less: Forfeited contributions	(0.4)	(2.9)
Net retirement scheme contributions	9.1	13.3
	191.4	314.6
Less: Staff costs capitalised in respect of property development projects and construction contracts:		
Wages and salaries	(13.4)	(18.6)
Staff retirement scheme contributions	(0.6)	(1.0)
Less: Forfeited contributions	–	1.8
	177.4	296.8
Amortisation of goodwill**	13.2	14.3
Auditors' remuneration	2.8	4.4

* Inclusive of an amount of HK\$152.3 million (2003 - HK\$263.8 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.



	GROUP	
	2004 HK\$'million	2003 HK\$'million
Depreciation	20.2	41.0
Less: Depreciation capitalised in respect of property development project and construction contracts	(0.1)	(0.2)
	<u>20.1</u>	<u>40.8</u>
Minimum lease payments under operating leases:		
Land and buildings	3.9	8.9
Other equipment	–	0.5
Unrealised loss on revaluation of short term investments	1.6	–
and after crediting:		
Gross rental income	20.6	32.1
Less: Outgoings	(5.3)	(6.9)
Net rental income	<u>15.3</u>	<u>25.2</u>
Interest income from:		
Bank balances	0.2	0.6
Other loans and receivables	2.7	7.7
	<u>2.9</u>	<u>8.3</u>
Dividend income from:		
Listed investments	0.1	–
Unlisted investment	0.3	–
	<u>0.4</u>	<u>–</u>
Unrealised gain on revaluation of short term investments	–	1.0
Profit on disposal of investment properties (after a transfer from the revaluation reserve of a surplus of HK\$0.6 million (2003 - Nil))	0.5	–
Gain on disposal of fixed assets	–	5.4
Profit on disposal of long term investments	0.4	–
Profit on disposal of short term investments	0.1	–
Negative goodwill recognised as income during the year***	<u>2.0</u>	<u>0.4</u>

*** 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.



10. FINANCE COSTS

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Interest in respect of:		
Bank loans and overdrafts	55.6	149.0
Other loans and convertible bonds, wholly repayable within five years	9.1	12.9
	64.7	161.9
Interest capitalised in respect of a property development project	–	(0.7)
Interest waived in respect of a bank loan	(22.5)	–
	42.2	161.2
Amortisation of deferred expenditure	6.0	5.7
Total finance costs	48.2	166.9

11. DIRECTORS' REMUNERATION

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

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Fees	1.3	1.5
Salaries and other allowances	7.1	9.3
Performance related/discretionary bonuses	0.7	0.8
Staff retirement scheme contributions	0.5	0.7
	9.6	12.3
	9.6	12.3



The remuneration of the Directors fell within the following bands:

HK\$	2004 Number of Directors	2003 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
5,000,001 - 5,500,000	1	-
6,500,001 - 7,000,000	-	1
	<u> </u>	<u> </u>

The above Directors' remuneration for the current year includes the remuneration received by certain Directors of the Company from RHIHL, the former listed subsidiary company of the Company, in connection with the management of its affairs during the seven months to 31st July, 2004, the date on which RHIHL ceased to be a subsidiary company of the Company.

In the prior year, the Directors' remuneration included the remuneration received by certain Directors of the Company from RHIHL in connection with the management of its affairs during that year.

The Independent Non-Executive Directors of the Company were entitled to a total sum of HK\$0.5 million (2003 - 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, 2004.

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 (2003 - Nil). Further details of the share option schemes of the Company and the former listed subsidiary company of the Group are set out in note 33 to the financial statements.



12. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included three (2003 - three) Directors, details of whose remuneration are disclosed in note 11 to the financial statements. The emoluments of the remaining two (2003 - two) individuals, who were not Directors, are as follows:

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Salaries and other emoluments	1.7	2.8
Performance related/discretionary bonuses	0.3	0.1
Staff retirement scheme contributions	0.1	0.1
	<u>2.1</u>	<u>3.0</u>

The emoluments of the two (2003 - two) individuals fell within the following bands:

HK\$	2004 Number of individuals	2003 Number of individuals
1,000,001 - 1,500,000	2	1
1,500,001 - 2,000,000	-	1
	<u> </u>	<u> </u>

During the year, no share options were granted to the two non-director, highest-paid employees in respect of their services to the Group (2003 - Nil). Further details of the share option schemes of the Company and the former listed subsidiary company of the Group are set out in note 33 to the financial statements.



13. TAX

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Group:		
Current - Hong Kong		
Provision for tax in respect of profits for the year	2.4	4.1
Overprovision in prior years	-	(19.5)
Current - Overseas		
Provision for tax in respect of profits for the year	0.1	0.3
Deferred tax expenses/(income) (note 24)	0.9	(48.2)
	3.4	(63.3)
Associate:		
Hong Kong	(4.4)	0.1
Overseas	(7.4)	-
	(8.4)	(63.2)
Total tax credit for the year	(8.4)	(63.2)

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2003 - 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year.

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 (2003 - 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			
	2004 HK\$' million	%	2003 HK\$'million	%
Profit before tax	<u>674.9</u>		<u>449.2</u>	
Tax at the statutory tax rate	118.1	17.5	78.6	17.5
Effect on opening deferred tax of increase in tax rates	-	-	9.6	2.1
Adjustment in respect of deferred tax of previous years	9.0	1.3	-	-
Adjustments in respect of current tax of previous years	(7.5)	(1.1)	(19.5)	(4.3)
Higher tax rates of other countries	-	-	4.3	0.9
Income not subject to tax	(128.4)	(19.0)	(197.5)	(44.0)
Expenses not deductible for tax	56.7	8.4	21.2	4.7
Tax losses utilised from previous periods	(35.8)	(5.3)	(5.9)	(1.3)
Increase/(Decrease) in deferred tax assets not recognised during the year	(20.5)	(3.0)	45.8	10.2
Others	-	-	0.2	0.1
Tax credit at the Group's effective rate	<u>(8.4)</u>	<u>(1.2)</u>	<u>(63.2)</u>	<u>(14.1)</u>

14. 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\$518.4 million (2003 - HK\$158.2 million) (note 41).



15. 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\$516.8 million (2003 - HK\$387.6 million) and on the weighted average of 5,383.1 million (2003 - 3,270.8 million) ordinary 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, 2004 is based on the adjusted net profit from ordinary activities attributable to ordinary shareholders for the year of HK\$492.5 million and on the adjusted weighted average of 6,440.8 million ordinary shares of the Company that would have been in issue during the year assuming (i) all outstanding convertible bonds (including optional convertible bonds) of the RHIHL Group were converted into, and the subscription rights attaching to all outstanding warrants of RHIHL were exercised to subscribe for, ordinary shares of RHIHL at the beginning of the year or their respective dates of issue, whichever is later; and (ii) all the 1,990.0 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 conversion of the outstanding convertible preference shares of RHIHL is anti-dilutive for the year. In addition, 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 ordinary share.

The calculation of diluted earnings per ordinary share for the year ended 31st December, 2003 was based on the adjusted net profit from ordinary activities attributable to ordinary shareholders for that year of HK\$337.8 million and on the adjusted weighted average of 5,791.6 million ordinary shares of the Company that would have been in issue during that year assuming (i) all outstanding convertible preference shares and convertible bonds (including optional convertible bonds) of the RHIHL Group were converted into ordinary shares of RHIHL at the beginning of that 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 that year. The exercise prices of share options of the Company and RHIHL outstanding during that year were higher than the average market prices of the respective ordinary shares of the Company and RHIHL and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.



16. FIXED ASSETS

	GROUP					
	1st January, 2004 HK\$'million	Additions/ Depreciation for the year HK\$'million	Disposals/ Write-off HK\$'million	Surplus on revaluation HK\$'million	Arising from deconsolidation of the listed subsidiary company HK\$'million	31st December, 2004 HK\$'million
At valuation:						
Investment properties	1.7	–	(0.8)	–	–	0.9
Hotels, including furniture, fixtures and equipment	7,355.0	13.9	–	165.8	(7,534.7)	–
	<u>7,356.7</u>	<u>13.9</u>	<u>(0.8)</u>	<u>165.8</u>	<u>(7,534.7)</u>	<u>0.9</u>
At cost:						
Leasehold properties	41.8	–	–	–	(40.7)	1.1
Leasehold improvements, furniture, fixtures and equipment	59.8	1.2	(0.2)	–	(52.9)	7.9
Site equipment	1.7	–	–	–	–	1.7
Construction in progress	8.6	–	–	–	(8.6)	–
Motor vehicles	2.5	0.5	–	–	(2.0)	1.0
	<u>7,471.1</u>	<u>15.6</u>	<u>(1.0)</u>	<u>165.8</u>	<u>(7,638.9)</u>	<u>12.6</u>
Accumulated depreciation and impairment:						
Hotel furniture, fixtures and equipment	215.4	16.3	–	–	(231.7)	–
Leasehold properties	8.3	0.8	–	–	(8.9)	0.2
Leasehold improvements, furniture, fixtures and equipment	49.2	3.0	(0.2)	–	(44.6)	7.4
Site equipment	1.7	–	–	–	–	1.7
Construction in progress	8.6	–	–	–	(8.6)	–
Motor vehicles	2.4	0.1	–	–	(1.6)	0.9
	<u>285.6</u>	<u>20.2</u>	<u>(0.2)</u>	<u>–</u>	<u>(295.4)</u>	<u>10.2</u>
Net book value	<u>7,185.5</u>					<u>2.4</u>



Analysis of net book value by geographical location:

	2004 HK\$'million	2003 HK\$'million
Leasehold land and buildings situated in Hong Kong:		
Long term Investment properties, at valuation at balance sheet date	0.9	1.7
Hotel properties, at valuation at balance sheet date:		
Long term	–	2,738.0
Medium term	–	4,401.6
Medium term leasehold properties, at cost	0.9	4.6
	<u>1.8</u>	<u>7,145.9</u>
Properties situated in Mainland China:		
Medium term leasehold properties, at cost	–	28.9
	<u>1.8</u>	<u>7,174.8</u>



As disclosed in the prior year's financial statements, a sale and purchase agreement (the "RHIHL SP Agreement") was entered into by the RHIHL Group in 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). Pursuant to a supplemental agreement to the RHIHL SP Agreement entered into in March 2004, the completion date under the RHIHL SP Agreement, originally scheduled on 31st March, 2004, was deferred to 30th June, 2004 and an option (the "ROH Option") was reinstated for the RHIHL Group to terminate the RHIHL SP Agreement, exercisable by the RHIHL Group prior to the extended completion date. While the RHIHL SP Agreement continued to subsist, the directors of RHIHL considered it appropriate to state the Regal Oriental Hotel at its carrying value of HK\$286.6 million as at 31st December, 2003, which approximated the net amount realisable by the RHIHL Group under the RHIHL SP Agreement should it proceed to completion. All the other hotel properties of the RHIHL Group were 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 prior year's profit and loss account.

On 3rd June, 2004, the RHIHL Group exercised the ROH Option and the RHIHL SP Agreement was terminated with effect on 24th June, 2004. Consequently, a write-back of impairment loss of HK\$165.8 million was recognised in the current year's profit and loss account.

The valuations of the investment properties in Hong Kong are performed by an independent valuer with an RICS qualification on an open market, existing use basis. Certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 46(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:

	2004 HK\$'million	2003 HK\$'million
Investment properties	0.6	0.8
Hotel properties	-	4,859.6
	0.6	4,860.4



17. 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 acquisition of additional interests in the listed subsidiary company (which became a listed associate of the Group with effect from 31st July, 2004 (note 21(1)) and unlisted subsidiary companies, are as follows:

	GROUP	
	Goodwill HK\$'million	Negative goodwill HK\$'million
Cost:		
At beginning of year	274.8	(4.3)
Arising from acquisition of additional interest in the listed subsidiary company	3.0	(46.2)
Arising from acquisition of additional interest in a subsidiary company	0.2	–
Reclassification to interests in associates (note 21)	(3.0)	50.5
	<u>275.0</u>	<u>–</u>
At 31st December, 2004		
Recognition as income/(Accumulated amortisation and impairment):		
At beginning of year	(14.3)	0.2
Recognised as income/(Amortisation provided) during the year	(13.1)	0.9
Impairment provided during the year*	(189.6)	–
Reclassification to interests in associates (note 21)	–	(1.1)
	<u>(217.0)</u>	<u>–</u>
At 31st December, 2004		
Net book value:		
At 31st December, 2004	<u>58.0</u>	<u>–</u>
At 31st December, 2003	<u>260.5</u>	<u>(4.1)</u>

* The amount relates to goodwill arising from the acquisition of certain subsidiary companies which are engaged in building related businesses, including security systems and other software development and distribution. The carrying value of the goodwill amounted to HK\$260.5 million as at 31st December, 2003. As the Directors of the Company have not determined whether the Group will allocate sufficient resources to fund and launch the business undertakings of these subsidiary companies in accordance with their expansionary business plan, the carrying value of the relevant goodwill has been determined by reference to a business valuation performed by an independent professional valuer based on a contraction scenario as at 31st December, 2004. Consequently, an impairment of HK\$189.6 million has been made against the carrying value of goodwill on the basis of the valuation in the amount of HK\$58.0 million as at 31st December, 2004.



18. PROPERTY UNDER DEVELOPMENT

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Balance at beginning of year	7.2	111.1
Other additions in development costs	–	32.1
Interest capitalised	–	0.7
Disposal of a subsidiary company	–	(23.9)
Other disposals	–	(108.0)
Transfer to properties held for sale	–	(48.8)
Write-back in values of properties	–	44.0
	7.2	7.2
Analysis by geographical location:		
Leasehold land and building in Mainland China, at cost less write-down in value:		
Medium term	7.2	7.2

19. PROPERTY HELD FOR FUTURE DEVELOPMENT

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Medium term leasehold land in Hong Kong, at cost:		
Balance at beginning and end of year	26.7	26.7



20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Share of net liabilities	–	(1,798.4)
Loans to the jointly controlled entity	–	2,730.3
Amount due from the jointly controlled entity	–	366.7
	<u>–</u>	<u>1,298.6</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\$1,407.6 million.

The loans to the jointly controlled entity were unsecured, bore interest at Hong Kong prime rate per annum and were not repayable within one year. The amount due from the jointly controlled entity was unsecured, interest-free and had no fixed terms of repayment.

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

Name	Business structure	Place of incorporation and operation	Percentage of equity interest attributable to the Group		Principal activity
			2004	2003	
Chest Gain Development Limited ("Chest Gain")	Corporate	Hong Kong	–	70	Property development

The prior year's percentage of equity interest represented the 70% held by RHIHL, which was in turn 40.8% beneficially owned by the Group. Despite the RHIHL Group's holding of 70% interest in Chest Gain, the directors of RHIHL confirmed that neither the RHIHL Group nor the other shareholder of Chest Gain had 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 considered it appropriate to continue to account for the RHIHL Group's interest therein as a jointly controlled entity.

As explained in note 21(1) to the financial statements, RHIHL was deconsolidated from the Group with effect from 31st July, 2004. Accordingly, the interest in Chest Gain held by RHIHL was no longer treated as interest in a jointly controlled entity of the Group as at the balance sheet date.



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

	2003 HK\$'million
State of affairs	
Current assets	5,486.8
Current liabilities	(3,547.0)
Non-current liabilities	(5,835.6)
	<hr/>
Net liabilities attributable to venturers	(3,895.8)
	<hr/> <hr/>
Income and losses	
Income	648.2
	<hr/> <hr/>
Net profit from ordinary activities attributable to venturers	138.7
	<hr/> <hr/>

At 31st December, 2003, the Group's share of capital commitments of Chest Gain in respect of a property development project was as follows:

	2003 HK\$'million
Authorised and contracted for	15.1
	<hr/> <hr/>



21. INTERESTS IN ASSOCIATES

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Listed and unlisted companies:		
Share of net assets/(liabilities)	3,237.5	(23.5)
Goodwill on acquisition	2.9	–
Negative goodwill on acquisition	(48.4)	(2.8)
	3,192.0	(26.3)
Loans to associates	235.0	264.1
Amounts due from associates	0.4	7.9
Amount due to an associate	(1.1)	–
	3,426.3	245.7
Less: Provision for impairment	(0.4)	(0.4)
	3,425.9	245.3



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

	GROUP	
	Goodwill HK\$'million	Negative Goodwill HK\$'million
Cost:		
At beginning of year	–	(3.1)
Arising from deconsolidation of the listed subsidiary company (note 17)	3.0	(50.5)
Release on deconsolidation of the listed subsidiary company	–	3.1
	<u>3.0</u>	<u>(50.5)</u>
At 31st December, 2004	<u>3.0</u>	<u>(50.5)</u>
Recognition as income/(Accumulated amortisation):		
At beginning of year	–	0.3
Recognised as income/(Amortisation provided) during the year	(0.1)	1.1
Arising from deconsolidation of the listed subsidiary company (note 17)	–	1.1
Release on deconsolidation of the listed subsidiary company	–	(0.4)
	<u>(0.1)</u>	<u>2.1</u>
At 31st December, 2004	<u>(0.1)</u>	<u>2.1</u>
Net book value:		
At 31st December, 2004	<u>2.9</u>	<u>(48.4)</u>
At 31st December, 2003	<u>–</u>	<u>(2.8)</u>

The loans to associates are unsecured, interest-free and not repayable within one year.

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

The share of net assets/(liabilities) represents 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	Class of equity interest held	Percentage of equity interest attributable to the Group		Principal activities
				2004	2003	
Regal Hotels International Holdings Limited	Corporate	Bermuda	Ordinary shares	45.0 ⁽¹⁾	40.8 ⁽¹⁾	Investment holding
			Preference shares	20.5	20.5	
Talent Faith Investments Ltd. ("Talent Faith")	Corporate	British Virgin Islands	Ordinary shares	100.0 ⁽²⁾	100.0 ⁽²⁾	Investment holding
Beijing Hengfu Plaza Development Co., Ltd. ("Beijing Hengfu")*	Corporate	The People's Republic of China	Equity joint venture interest	45.5 ⁽²⁾	45.5 ⁽²⁾	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.0	30.0	Property development
Smart Tactic Limited*	Corporate	Hong Kong	Ordinary shares	30.0	30.0	Distribution of security systems and software
8D International (BVI) Limited ("8D-BVI")	Corporate	British Virgin Islands	Ordinary shares	– ⁽³⁾	30.0 ⁽³⁾	Investment holding
8D International Limited ("8D International")	Corporate	Hong Kong	Ordinary shares	– ⁽³⁾	36.0 ⁽³⁾	Promotions and information technology
8D Matrix Limited ("8D Matrix")	Corporate	British Virgin Islands	Ordinary shares	– ⁽³⁾	36.0 ⁽³⁾	Investment holding
Bright Future (HK) Limited*	Corporate	Hong Kong	Ordinary shares	– ⁽³⁾	50.0 ⁽³⁾	Investment holding
Regala Management Limited	Corporate	Hong Kong	Ordinary shares	25.0 ⁽⁴⁾	50.0 ⁽⁴⁾	Light refreshment operation

* Not audited by Ernst & Young.

- (1) 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 (the "Bonds Settlement"). Pursuant to the Bonds Settlement as detailed in the Company's circular dated 26th August, 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 were subject to a phased release to the bondholders. The rights to dividends relating to these shares were with the bondholders. Up to 31st December, 2003, a total of 284.6 million Relevant RHIHL Shares had 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 then total issued ordinary shares of RHIHL, continued to be held by the SPV at that date.



As set out in detail in the Company's circular dated 26th August, 2002, except in certain limited circumstances, the voting rights attached to the Relevant RHIHL Shares remained vested with the Company until they were released to the bondholders. Accordingly, as at 31st December, 2003, the Directors of the Company considered the Company had control over RHIHL as it controlled more than half of the voting power thereof and RHIHL was treated as a subsidiary company.

As at 31st July, 2004, the last date for the release of the Relevant RHIHL Shares, the remaining balance of the Relevant RHIHL Shares held by the SPV had all been released to the bondholders and as a result, the Company's voting interest in RHIHL fell to 45.0% which was the same as its economic interest in RHIHL at that date (after taken into account certain additional equity interest acquired since 1st January, 2004). Accordingly, RHIHL has been accounted for as an associate of the Company since that date.

- (2) The Group previously 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 previously 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 enforced its rights in 2003 to repossess the 50% interest in Talent Faith 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 is considered temporary, subject to the outcome of the New SP Agreement.

- (3) These companies were not treated as associates of the Group as at 31st December, 2004 as RHIHL was deconsolidated from the Group with effect from 31st July, 2004 as explained in note(1) above. The prior year's percentages of equity interest represented those attributable to RHIHL, including, in the cases of 8D Matrix and 8D International, a 6% attributable interest held by RHIHL through 8D-BVI.
- (4) The current year's percentage of equity interest represents solely the equity interest attributable to the Company as RHIHL was deconsolidated from the Group with effect from 31st July, 2004 as explained in note(1) above. The prior year's percentage of equity interest represented 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.

All of the above associates operate in the place of their incorporation/registration, except for RHIHL, which is incorporated in Bermuda, but operates in Hong Kong.

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.



Information in respect of the state of affairs and income and losses of the Group's significant associate, which have been extracted from the audited consolidated financial statements of RHIHL, are summarised as follows:

	2004 HK\$'million	2003 HK\$'million
State of affairs		
Non-current assets	<u>11,925.1</u>	<u>8,599.0</u>
Current assets	508.3	194.3
Current liabilities	(313.3)	<u>(1,112.9)</u>
	<u>195.0</u>	<u>(918.6)</u>
Non-current liabilities	(4,907.0)	(3,639.9)
Minority interests	(0.8)	<u>(0.1)</u>
Net assets attributable to shareholders	<u><u>7,212.3</u></u>	<u><u>4,040.4</u></u>
Income and losses		
Income	<u>1,050.6</u>	<u>774.9</u>
Net profit from ordinary activities attributable to shareholders	<u><u>602.9</u></u>	<u><u>207.8</u></u>

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

- (a) At 31st December, 2003, a corporate guarantee in the amount of HK\$2,255.4 million was given by the RHIHL Group in respect of attributable share of outstanding bank borrowings of a jointly controlled entity. The bank borrowings were fully repaid on 31st December, 2004.
- (b) A corporate guarantee in the amount of HK\$3.8 million (2003 - HK\$3.8 million) has been given by RHIHL in respect of utility guarantees of a subsidiary company of the RHIHL Group.
- (c) The RHIHL 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\$7.0 million as at 31st December, 2004 (2003 - HK\$11.1 million). The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the RHIHL Group and are eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances.



22. INVESTMENTS

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Long term investments		
Listed equity investments, at fair value:		
Hong Kong	123.9	42.9
Elsewhere	8.5	0.1
	132.4	43.0
Unlisted equity investments, at fair value:		
Carrying value	313.1	313.1
Provision for impairment	(242.0)	(242.0)
	71.1	71.1
	203.5	114.1

Long term listed investments with an aggregate market value at the balance sheet date amounting to HK\$96.4 million (2003 - HK\$42.9 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 (2003 - 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 Investee Companies had enforceable title to the land site.



In August 2004, the relevant government authorities granted to one of the Investee Companies a Beijing Grant Contract of State-owned Land Use Right (the "Grant Contract") for the granting of the land use rights of the subject land site, subject to the payment of the requisite land premium. As no consensus can yet be reached among the joint venture parties involved, the due date for its payment under the terms of the Grant Contract has expired and the land premium remains unpaid. The Group is in active negotiations with the other joint venture parties and with potential investors to explore various feasible alternatives in addressing the situation and with a view to optimising the value of the Group's interest in the Investee Companies.

In the opinion of the Directors, it is not possible to determine with reasonable certainty the ultimate outcome of the negotiations. However, 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	
	2004 HK\$'million	2003 HK\$'million
Short term investments		
Listed equity investments in Hong Kong, at market value	<u>5.1</u>	<u>4.0</u>

23. LOANS AND OTHER LONG TERM RECEIVABLE

		GROUP	
	Notes	2004 HK\$'million	2003 HK\$'million
Long term mortgage loans	(a)	31.6	31.1
Other loan	(b)	-	78.0
		<u>31.6</u>	<u>109.1</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 to Hong Kong prime rate plus 2% per annum.
- (b) The prior year balance represented a loan of US\$10.0 million (HK\$78.0 million) advanced by the RHIHL Group to a hotel owner to assist in financing the interior decoration and pre-operating expenditure of its hotel in Shanghai, the PRC, which was managed by the RHIHL Group. The loan was unsecured, interest-free and was 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.

As explained in note 21(1) to the financial statements, RHIHL was deconsolidated from the Group with effect from 31st July, 2004. Accordingly, the other loan was deconsolidated from the Group's balance sheet.



24. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

Deferred tax assets

Group

	Losses available for offset against future taxable profits	
	2004 HK\$'million	2003 HK\$'million
Balance at beginning of year	70.1	–
Deferred tax credited to the profit and loss account during the year	16.4	70.1
Release on deconsolidation of the listed subsidiary company	(86.5)	–
Gross deferred tax assets at end of year	<u>–</u>	<u>70.1</u>

Deferred tax liabilities

Group

	Accelerated tax depreciation	
	2004 HK\$'million	2003 HK\$'million
Balance at beginning of year	124.1	102.2
Deferred tax charged to the profit and loss account during the year	17.3	21.9
Release on deconsolidation of the listed subsidiary company	(141.4)	–
Gross deferred tax liabilities at end of year	<u>–</u>	<u>124.1</u>
Net deferred tax liabilities at end of year	<u>–</u>	<u>(54.0)</u>
Deferred tax assets and liabilities at end of year, presented after appropriate offsetting:		
Deferred tax assets	–	10.4
Deferred tax liabilities	–	(64.4)
Net deferred tax liabilities at end of year	<u>–</u>	<u>(54.0)</u>



The Group has tax losses arising in Hong Kong and the United States of America amounting to HK\$792.4 million (2003 - HK\$3,381.3 million) and HK\$293.4 million (2003 - HK\$293.4 million), respectively, as at 31st December, 2004. In the prior year, the Group had tax losses arising in Mainland China amounting to HK\$21.1 million, which was available for offsetting against future taxable profits of the companies in which the losses arose for a maximum period of five years. 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 the United States of America is available for a maximum period of twenty years. No deferred tax assets in respect of the Group's tax losses have been recognised on account of the unpredictability of future profit streams.

At the balance sheet date, deferred tax assets in respect of tax losses not recognised in the financial statements amounted to HK\$241.3 million (2003 - HK\$631.3 million).

At 31st December, 2004, there is no significant unrecognised deferred tax liability (2003 - Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiary companies or associates as the Group has no liability to additional tax should such amounts be remitted.

25. PROPERTIES HELD FOR SALE

Certain of the Group's properties held for sale with carrying amount of HK\$243.1 million (2003 - HK\$207.6 million) are pledged to secure banking facilities granted to the Group.

Certain of the Group's properties held for sale are leased to third parties under operating leases, further summary details of which are included in note 46(a) to the financial statements.

26. HOTEL AND OTHER INVENTORIES

	GROUP	
	2004	2003
	HK\$'million	HK\$'million
Hotel merchandise	–	13.4
Raw materials	0.2	5.8
Work in progress	3.0	2.2
Finished goods	0.1	1.6
	3.3	23.0



27. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK\$9.0 million (2003 - HK\$47.5 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Outstanding balances with ages:		
Within 3 months	6.2	44.0
Between 4 to 6 months	2.0	3.0
Between 7 to 12 months	0.7	3.2
Over 1 year	0.1	9.7
	9.0	59.9
Provisions	-	(12.4)
	9.0	47.5

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.

28. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK\$1.3 million (2003 - HK\$59.9 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Outstanding balances with ages:		
Within 3 months	1.3	47.6
Between 4 to 6 months	-	6.0
Between 7 to 12 months	-	0.7
Over 1 year	-	5.6
	1.3	59.9
	1.3	59.9



29. CONSTRUCTION CONTRACTS

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Contract costs incurred plus recognised profits less recognised losses to date	1,539.9	1,462.3
Less: Progress billings	<u>(1,573.6)</u>	<u>(1,506.3)</u>
Gross amount due to contract customers included in creditors and accruals	<u><u>(33.7)</u></u>	<u><u>(44.0)</u></u>

At 31st December, 2004, retentions held by customers for contract works, as included in debtors, deposits and prepayments under current assets, amounted to approximately HK\$3.5 million (2003 - HK\$9.0 million).

At 31st December, 2004, advances from customers for contract works, as included in creditors and accruals under current liabilities, amounted to approximately HK\$2.3 million (2003 - HK\$3.0 million).



30. INTEREST BEARING BANK AND OTHER BORROWINGS

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Bank loans and overdrafts:		
Secured	90.5	4,602.1
Unsecured	0.1	0.1
Other loans wholly repayable within five years:		
Secured	17.0	21.2
	<u>107.6</u>	<u>4,623.4</u>
Portion of borrowings due within one year included under current liabilities:		
Bank loans and overdrafts	(90.6)	(1,055.5)
Other loans	(17.0)	(21.2)
	<u>(107.6)</u>	<u>(1,076.7)</u>
Long term borrowings	–	3,546.7
The bank loans and overdrafts and other loans are repayable in varying instalments within a period of:		
On demand or not exceeding 1 year	107.6	1,076.7
More than 1 year but not exceeding 2 years	–	360.0
More than 2 years but not exceeding 5 years	–	2,622.5
More than 5 years	–	564.2
	<u>107.6</u>	<u>4,623.4</u>

The other loans carried a fixed interest rate of 12% (2003 - ranging from 7.97% to 12%) per annum at the balance sheet date.



31. ADVANCES FROM MINORITY SHAREHOLDERS OF SUBSIDIARY COMPANIES

Advances from minority shareholders of subsidiary companies are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK\$34.4 million in the prior year which bore interest at 1% above Hong Kong prime rate per annum.

32. OTHER PAYABLE

The other payable in the prior year represented loan restructuring fees payable to the bank creditors due on 31st December, 2006 pursuant to the terms of a rescheduling agreement entered into by the RHIHL Group. As explained in note 21(1) to the financial statements, RHIHL was deconsolidated from the Group with effect from 31st July, 2004. Accordingly, the other payable was deconsolidated from the Group's balance sheet.

33. SHARE CAPITAL AND SHARE PREMIUM

	COMPANY	
	2004 HK\$'million	2003 HK\$'million
Shares		
Authorised:		
20,000 million (2003 - 20,000 million) ordinary shares of HK\$0.01 each	200.0	200.0
4,750 million (2003 - 4,750 million) convertible preference shares of HK\$0.10 each	475.0	475.0
	675.0	675.0
Issued and fully paid:		
7,208.5 million (2003 - 3,928.5 million) ordinary shares of HK\$0.01 each	72.1	39.3
1,990 million convertible preference shares of HK\$0.10 each	–	199.0
	72.1	238.3
Share premium		
Ordinary shares	522.1	146.5



The movements of the Company's share capital and share premium during the period from 1st January, 2003 to 31st December, 2004 were as follows:

- (i) 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.
- (ii) 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.
- (iii) On 8th March, 2004, 7th July, 2004 and 18th October, 2004, 750.0 million, 300.0 million and 940.0 million convertible preference shares of HK\$0.10 each were converted into 750.0 million, 300.0 million and 940.0 million additional ordinary shares of the Company, respectively, of HK\$0.01 each by the relevant holders of the convertible preference shares.
- (iv) During the year, a total of 1,290.0 million new ordinary shares of HK\$0.01 each were issued by the Company to Almighty following placements by Almighty of the same number of ordinary shares at the same prices of the respective new issues, as summarised below:

Date of new issue	Number of shares 'million	Issue price HK\$	Proceeds before expenses HK\$'million
28th January, 2004	180.0	0.128	23.0
17th May, 2004	200.0	0.210	42.0
16th July, 2004	300.0	0.146	43.8
28th October, 2004	310.0	0.162	50.2
29th December, 2004	300.0	0.183	54.9



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, 2003	20,000.0	200.0	2,318.5	23.2	-
Conversion of convertible preference shares	(i)	-	1,460.0	14.6	131.4
Issue of new shares	(ii)	-	150.0	1.5	15.5
Share issue expenses		-	-	-	(0.4)
At 31st December, 2003 and at 1st January, 2004	20,000.0	200.0	3,928.5	39.3	146.5
Conversion of convertible preference shares	(iii)	-	1,990.0	19.9	179.1
Issue of new shares	(iv)	-	1,290.0	12.9	201.0
Share issue expenses		-	-	-	(4.5)
At 31st December, 2004	20,000.0	200.0	7,208.5	72.1	522.1
Convertible preference shares of HK\$0.10 each					
At 1st January, 2003	4,750.0	475.0	3,450.0	345.0	-
Conversion of convertible preference shares	(i)	-	(1,460.0)	(146.0)	-
At 31st December, 2003 and at 1st January, 2004	4,750.0	475.0	1,990.0	199.0	-
Conversion of convertible preference shares	(iii)	-	(1,990.0)	(199.0)	-
At 31st December, 2004	4,750.0	475.0	-	-	-
Total issued share capital					
At 31st December, 2004		675.0		72.1	522.1
At 31st December, 2003		675.0		238.3	146.5



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, all outstanding 1,990.0 million convertible preference shares were converted into 1,990.0 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.



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, 2004 and at the date of this report: | 2,500,000 ordinary shares (approximately 0.03%) |
| (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, 2004	Lapsed during the year	At 31st December, 2004		
22nd February, 1994	Directors					
	Mr. Lo Yuk Sui					
	Vested:	<u>4,562,500</u>	<u>(4,562,500)</u>	<u>–</u>	Note 2	10.40
	Mr. Donald Fan Tung					
	Vested:	<u>1,875,000</u>	<u>(1,875,000)</u>	<u>–</u>	Note 2	10.40
	Mr. Kenneth Ng Kwai Kai					
	Vested:	<u>1,000,000</u>	<u>(1,000,000)</u>	<u>–</u>	Note 2	10.40
	Other Employees					
	Employees, in aggregate					
	Vested:	<u>1,500,000</u>	<u>(1,500,000)</u>	<u>–</u>	Note 2	10.40
		<u>8,937,500</u>	<u>(8,937,500)</u>	<u>–</u>		



Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options ** HK\$
		At 1st January, 2004	Lapsed during the year	At 31st December, 2004		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1994)	Directors					
	Mr. Donald Fan Tung Vested:	3,125,000	(3,125,000)	–	Note 3	3.5392
22nd February, 1997	Other Employees					
	Employees, in aggregate					
	Vested:	1,500,000	–	1,750,000	Note 2	6.672
	Unvested:	1,000,000	–	750,000	Note 2	
		<u>2,500,000</u>	<u>–</u>	<u>2,500,000</u>		
	Total:	<u>14,562,500</u>	<u>(12,062,500)</u>	<u>2,500,000</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 the Company's share capital.



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. 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)

3. 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)

4. 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 2.0 million additional ordinary shares and share premium of HK\$13.3 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, 2004 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 |



(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 option granted by RHIHL pursuant to the RHIHL Share Option Scheme are as follows:

Date of grant of share option	Name or category of participant	Number of ordinary shares under share option**			Vesting period*/ Exercise period of share option	Exercise price of share option** HK\$
		At 1st January, 2004	Lapsed during the year	At 31st December, 2004		
22nd February, 1997	Other Employees					
	Employees, in aggregate					
	Vested:	648,000	–	756,000	Note 1	2.1083
	Unvested:	432,000	–	324,000	Note 1	
		<u>1,080,000</u>	<u>–</u>	<u>1,080,000</u>		
	Total:	<u>1,080,000</u>	<u>–</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 Option:

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 0.9 million additional ordinary shares and share premium of HK\$1.8 million (before issue expenses).



34. RESERVES

	Notes	GROUP		COMPANY	
		2004 HK\$'million	2003 HK\$'million	2004 HK\$'million	2003 HK\$'million
Share premium	33	522.1	146.5	522.1	146.5
Capital reserve	35	887.2	887.2	–	–
Special reserve	36	689.6	689.6	–	–
Revaluation reserves	37	794.3	(16.1)	–	–
Exchange equalisation reserve	38	1.5	1.5	–	–
Contributed surplus	40	–	–	1,742.7	1,742.7
Retained profits	41	855.5	338.7	676.6	158.2
		3,750.2	2,047.4	2,941.4	2,047.4

35. CAPITAL RESERVE

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Balance at beginning of year	887.2	1,073.2
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)
Balance at end of year	887.2	887.2

As further explained below, the carrying amounts at 31st December, 2004 and 2003 also included goodwill and negative goodwill arising from the acquisitions of subsidiary companies in prior years. As detailed in note 3(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.



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

	Goodwill eliminated against capital reserve HK\$'million	Negative goodwill credited to capital reserve HK\$'million
Cost:		
At beginning and end of year	97.8	(887.2)
Accumulated impairment:		
At beginning and end of year	<u>(97.8)</u>	<u>-</u>
Net amount:		
At 31st December, 2004	<u>-</u>	<u>(887.2)</u>
At 31st December, 2003	<u>-</u>	<u>(887.2)</u>



36. SPECIAL RESERVE

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Balance at beginning and end of year	<u>689.6</u>	<u>689.6</u>

The special reserve represents reserve arising from the Company's capital reorganisation in 2002.

37. REVALUATION RESERVES

	GROUP			
	Investment properties HK\$'million	Associate* HK\$'million	Long term investments HK\$'million	Total HK\$'million
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>(16.0)</u>	<u>(15.1)</u>
At 31st December, 2003 and at 1st January, 2004	0.9	–	(17.0)	(16.1)
Movement in fair value	–	7.4	137.5	144.9
Surplus on revaluation	–	666.1	–	666.1
Release on disposal	(0.6)	–	–	(0.6)
	<u>(0.6)</u>	<u>–</u>	<u>–</u>	<u>(0.6)</u>
At 31st December, 2004	<u>0.3</u>	<u>673.5</u>	<u>120.5</u>	<u>794.3</u>

* This represents the Group's share of revaluation reserve of a listed associate in relation to hotel properties and long term investments.



38. EXCHANGE EQUALISATION RESERVE

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Balance at beginning of year	1.5	(5.0)
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
	<u>1.5</u>	<u>1.5</u>
Balance at end of year	<u>1.5</u>	<u>1.5</u>

39. INTERESTS IN SUBSIDIARY COMPANIES

	COMPANY	
	2004 HK\$'million	2003 HK\$'million
Unlisted shares, at cost	154.4	154.4
Amounts due from subsidiary companies	<u>2,860.1</u>	<u>2,654.4</u>
	<u>3,014.5</u>	2,808.8
Provision for impairment	–	(521.9)
	<u>3,014.5</u>	<u>2,286.9</u>

The amounts due from subsidiary companies are unsecured, interest-free and not repayable within one year.



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
			2004	2003	
303 Company Limited	Hong Kong	HK\$10,000	100	55	Security systems and software development and distribution
303 Technology Limited	Hong Kong	HK\$2	100	55	Security systems and software development and distribution
Cathay City Property Management, Inc.	U.S.A.	US\$10,000	100	100	Financing
Chatwin Engineering Limited	Hong Kong	HK\$11,200,000	100	100	Building construction
Cheer Faith Limited	Hong Kong	HK\$2	100	100	Financing
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



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2004	2003	
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
Guo Yui Investments 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	British Virgin Islands	US\$100	100	55	Investment holding
Linkprofit Limited	Hong Kong	HK\$2	100	100	Investment holding
Mira Technology Limited	Hong Kong	HK\$937,500	60 ⁽ⁱ⁾	63 ⁽ⁱ⁾	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 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



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2004	2003	
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
Rank Cheer Investment Limited	Hong Kong	HK\$2	100	100	Financing
Rich Pearl Limited	Hong Kong	HK\$10,000	100	100	Financing
Sanefix Development Limited	Hong Kong	HK\$2	100	100	Property investment
Shenzhen Leading Technology Co. Ltd.	The People's Republic of China	RMB10,000,000	100	55	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
Vertex Investments Limited	Hong Kong	HK\$2	100	100	Securities investment



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2004	2003	
Weifang Yuanzhong Real Estate Development Co., Ltd. ⁽ⁱ⁾	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

(i) The current year's percentage of equity interest represents the 60% equity interest directly attributable to the Company. The prior year's percentage of equity interest represented the aggregate of the 30% equity interest directly attributable to the Company and the 33% equity interest attributable to RHIHL.

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

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.

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.



40. CONTRIBUTED SURPLUS

	COMPANY	
	2004 HK\$'million	2003 HK\$'million
Balance at beginning and 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.

41. RETAINED PROFITS

	GROUP		COMPANY	
	2004 HK\$'million	2003 HK\$'million	2004 HK\$'million	2003 HK\$'million
Balance at beginning of year	338.7	(48.9)	158.2	–
Net profit for the year	516.8	387.6	518.4	158.2
Balance at end of year	855.5	338.7	676.6	158.2

	GROUP	
	2004 HK\$'million	2003 HK\$'million
Retained profits at end of year retained by:		
The Company and subsidiary companies	780.4	2,047.2
Associates	75.1	(10.2)
Jointly controlled entity	–	(1,698.3)
Balance at end of year	855.5	338.7



42. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2004 HK\$'million	2003 HK\$'million
Profit before tax	674.9	449.2
Adjustments for:		
Finance costs	48.2	166.9
Share of profits less losses of a jointly controlled entity and associates	(155.4)	(203.8)
Interest income	(2.9)	(8.3)
Dividend income	(0.4)	-
Termination fee in respect of cancellation of the disposal of a hotel property	39.0	-
Loss on deconsolidation of the listed subsidiary company	29.4	-
Loss on deemed disposal of the Group's interest in the listed subsidiary company	-	39.4
Loss on disposal of overseas subsidiary companies attributable to discontinued operation	-	9.7
Gain on disposal of fixed assets	-	(5.4)
Profit on disposal of investment properties	(0.5)	-
Depreciation	20.1	40.8
Amortisation of goodwill	13.2	14.3
Negative goodwill recognised as income	(2.0)	(0.4)
Write-back in values of properties	(47.3)	(44.0)
Write-back of impairment of a hotel property	(165.8)	(11.4)
Write-back of deficit on revaluation of hotel properties	(446.5)	(266.1)
Impairment of goodwill	189.6	-
Provisions for doubtful debts	0.8	3.4
Profit on sale of properties	(8.4)	-
Loss/(Profit) on disposal of long term investments	(0.4)	1.2
Net proceeds from sale of properties	20.3	136.0
Additions to property under development	-	(32.1)
Operating profit before working capital changes	205.9	289.4
Increase in short term investments	(1.0)	(4.0)
Decrease/(Increase) in debtors, deposits and prepayments	(11.1)	41.8
Increase in hotel and other inventories	(1.0)	(2.5)
Decrease in creditors and accruals	(28.7)	(103.8)
Increase in deposits received	0.9	28.7
Exchange difference	-	(0.7)
Cash generated from operations	165.0	248.9
Hong Kong profits tax paid	(3.0)	(1.3)
Hong Kong profits tax refunded	-	0.3
Overseas taxes paid	-	(0.1)
Overseas taxes refunded	1.2	-
Net cash inflow from operating activities	163.2	247.8



(b) Major non-cash transactions

The Group had the following major non-cash transactions:

- (i) As detailed in note 33(i) 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\$0.10 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.
- (ii) As detailed in note 33(iii) to the financial statements, on 8th March, 2004, 7th July, 2004 and 18th October, 2004, 750.0 million, 300.0 million and 940.0 million convertible preference shares of HK\$0.10 each were converted into 750.0 million, 300.0 million and 940.0 million additional ordinary shares of the Company, respectively, of HK\$0.01 each by the relevant holders of the convertible preference shares.
- (iii) On 12th July, 2004, 195.0 million new ordinary shares of RHIHL were issued to an independent third party at an issue price of HK\$0.2 each in settlement of the termination fee payable in the amount of HK\$39.0 million relating to the termination of the sale and purchase agreement in respect of the Regal Oriental Hotel.

(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\$4.0 million (2003 - HK\$6.3 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) Consolidation of a subsidiary company

	2004 HK\$'million	2003 HK\$'million
Net assets acquired:		
Fixed assets	–	0.4
Cash and bank balances	–	0.1
Debtors, deposits and prepayments	–	6.1
Inventories	–	0.1
Creditors and accruals	–	(6.1)
Minority interests	–	(0.2)
	–	0.4
Goodwill on consolidation	–	274.8
	–	275.2
Satisfied by:		
Reclassification of interest in an associate	–	275.2

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

	2004 HK\$'million	2003 HK\$'million
Cash and bank balances acquired	–	0.1

The results of the subsidiary company consolidated in the prior 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 excluded the former associate's contribution to the results prior to its becoming a subsidiary company.



(e) Disposal/Deconsolidation of subsidiary companies

	2004 HK\$'million	2003 HK\$'million
Net assets disposed of/deconsolidated:		
Fixed assets	7,343.5	259.8
Goodwill	3.0	-
Negative goodwill	(49.4)	-
Property under development	-	23.9
Interest in a jointly controlled entity	1,392.1	-
Interests in associates	13.6	-
Long term investments	48.1	-
Other loan	78.0	-
Deferred tax assets	10.8	-
Deferred expenditure	32.7	-
Hotel and other inventories	20.6	4.7
Debtors, deposits and prepayments	90.3	4.1
Pledged time deposits	5.1	-
Time deposits	63.3	-
Cash and bank balances	11.3	2.7
Creditors and accruals	(134.8)	(18.0)
Tax payable	(11.4)	-
Deposits received	(10.0)	(11.3)
Convertible bonds	(200.0)	-
Loans and other borrowings	(4,188.0)	(195.8)
Deferred tax liabilities	(65.7)	-
Other payable	(28.7)	-
Minority interests	(2,430.0)	-
	1,994.4	70.1
Capital reserve released on disposal	-	(33.8)
Exchange equalisation reserve released on disposal	-	3.1
Release of reserves attributable to minority shareholders	-	(6.1)
Loss on disposal	-	(9.7)
	1,994.4	23.6
Satisfied by:		
Cash	-	9.4
Reclassification to long term investments	-	14.2
Reclassification to interests in associates	1,994.4	-
	1,994.4	23.6



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

	2004 HK\$'million	2003 HK\$'million
Cash and bank balances disposed of/deconsolidated	(74.6)	(2.7)
Cash consideration	-	9.4
	<hr/>	<hr/>
Net inflow/(outflow) of cash and cash equivalents in respect of disposal/deconsolidation of subsidiary companies	(74.6)	6.7
	<hr/> <hr/>	<hr/> <hr/>

The subsidiary company deconsolidated in the current year contributed HK\$571.7 million (2003 – HK\$774.9 million) to turnover and net profit of HK\$302.7 million (2003 – HK\$207.8 million) to the consolidated profit after tax and before minority interests for the year ended 31st December, 2004.

The subsidiary companies disposed of in the prior year contributed HK\$32.2 million to the Group's turnover and net loss of HK\$12.4 million to the consolidated profit after tax and before minority interests for that year.



43. 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	2004 HK\$'million	2003 HK\$'million
Advertising and promotion fees (including cost reimbursements) paid to an associate of CCIHL	(a)	4.2	7.4
Management costs allocated from CCIHL	(b)	11.0	14.9
Gross construction fee income from a jointly controlled entity	(c)	68.6	31.1
Guarantees given in respect of a banking facility granted to a jointly controlled entity	(d)	—	2,359.0

Notes:

- (a) The advertising and promotion fees comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed.
- (b) The management costs included rentals and other overheads allocated from CCIHL either on the basis of specific attribution or by reference to a predetermined ratio assessed by the management of CCIHL, RHIHL and the Company 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.
- (c) 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.
- (d) The corporate guarantees were given by the Company and RHIHL in respect of a banking facility granted to Chest Gain.

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

The related party transactions set out in notes 43(a) and (b) above also constituted continuing 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, 2004 accompanying the financial statements.

The related party transactions set out in notes 43(c) and (d) above did not constitute connected transactions as defined in the Listing Rules to the Company.



44. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's properties held for sale and long term investments with a total carrying value of HK\$339.4 million and certain ordinary shares in the listed associate were pledged to secure general banking facilities granted to the Group.

In the prior year, 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 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 RHHL convertible bonds.

45. CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	2004 HK\$'million	2003 HK\$'million	2004 HK\$'million	2003 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	-	1,288.7
– subsidiary companies	-	-	107.5	172.8
Utility guarantees of a subsidiary company	-	3.8	-	-
	<u>-</u>	<u>2,259.2</u>	<u>107.5</u>	<u>1,461.5</u>
	<u><u>-</u></u>	<u><u>2,259.2</u></u>	<u><u>107.5</u></u>	<u><u>1,461.5</u></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\$0.7 million as at 31st December, 2004 (2003 - HK\$12.8 million), as further explained in note 3(z) to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have 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.

46. OPERATING LEASE ARRANGEMENTS

- (a) As lessor

The Group leases certain of its properties (notes 16 and 25) under operating lease arrangements, with leases negotiated for terms ranging from 7 months to 4 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, 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	GROUP	
	2004	2003
	HK\$'million	HK\$'million
Within one year	4.0	15.8
In the second to fifth years, inclusive	1.1	12.7
	5.1	28.5

- (b) As lessee

In the prior year, the Group leased certain office and shop units under operating lease arrangements. Leases for properties were negotiated for terms of 6 months, except for a lease which was negotiated for a term of 18 years and provided for periodic rent adjustments according to the then prevailing market conditions.



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
Land and buildings:	
Within one year	3.9
In the second to fifth years, inclusive	10.1
After the fifth year	2.5
	<hr/>
	16.5
	<hr/> <hr/>

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

47. COMMITMENTS

In addition to the operating lease commitments detailed in note 46(b) above, the Group had the following outstanding commitments as at 31st December, 2003:

	GROUP 2003 HK\$'million
Capital commitments in respect of the renovation of or improvements to the hotel properties:	
Authorised and contracted for	3.4
Authorised, but not contracted for	86.9
	<hr/>
	90.3
	<hr/> <hr/>

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

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 11th April, 2005.

