

Notes to Financial Statements

31st December, 2002

1. CORPORATE INFORMATION

During the year, the Group was principally engaged in hotel ownership and management, property development and 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 NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

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

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

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

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated summary statement of changes in equity is now presented on page 61 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

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

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, interest and dividends received are now included in cash flows from investing activities and



dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout. In addition, cash flows from overseas subsidiary companies arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised. Further details of these changes are included in the accounting policies for "Foreign currencies" and "Cash and cash equivalents" in notes 4(r) and 4(w) to the financial statements.

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

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 29 to the financial statements. These share option scheme disclosures are similar to the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

Interpretation 15 prescribes the determination of the date of exchange on which the fair value of the equity instrument issued is determined in a business acquisition, and the basis of determination of the fair value of a quoted equity instrument. The adoption of this Interpretation requires equity instruments issued as purchase consideration in a business acquisition to be measured at their fair value at the date of exchange, which is normally their quoted market price, and the disclosure of alternative methods and assumptions used in determining the fair value if the market price has not been used. Further details of the additional disclosures resulting from the adoption of this Interpretation are set out in note 19 to the financial statements.

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

The Group sustained a net loss from ordinary activities attributable to shareholders of HK\$765.0 million for the year ended 31st December, 2002 (2001 - HK\$514.2 million). As at 31st December, 2002, the Group had net current liabilities of HK\$2,601.6 million (2001 - HK\$389.9 million). The increase in the net current liabilities was primarily due to the reclassification of certain non-current liabilities as current liabilities in accordance with the terms of the Standstill Agreement, pending the outcome of the Restructuring Proposal (both as defined hereunder). Between 1998 and 2002, the net asset value attributable to shareholders has declined significantly, which



decline has been largely attributable to the revaluation deficits arising in respect of the Group's hotel properties and other operating losses incurred by the Group. Since 1998, certain of the Group's loan covenants for the maintenance of certain financial ratios, as specified in certain loan agreements, have not been complied with. The total outstanding loans affected in this respect amounted to HK\$4,816.6 million as at 31st December, 2002, comprising a syndicated loan of HK\$3,755.8 million (the "Syndicated Loan") and a construction loan of HK\$1,060.8 million (the "Construction Loan") (collectively the "Loans") (note 27).

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

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

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

The Directors believe that the Standstill Agreement is a positive indication of continuing support from the Group's bank creditors. During the Standstill Period, the Group has deferred some of the milestone payments as specified under the terms of the Standstill Agreement. However, to date, no notice of early termination of the Standstill Agreement has been received by the agent from any bank creditors, nor has the agent served a notice of early termination to the Group upon the instruction of the specified majority of the relevant bank creditors. Nevertheless, with a view to securing the support of the Lenders on a medium to long term basis in respect of the Loans, in April 2003, the Group presented a financial restructuring proposal (the "Restructuring Proposal") to the Lenders to replace the Standstill Agreement. The Restructuring Proposal involves, inter alia, the disposal by the Group of certain hotel assets to reduce its bank borrowings by a committed minimum amount in 2003 and the refinancing of the remaining indebtedness with the Lenders on a medium to long term basis, which terms are currently being considered by the Lenders. The Directors consider that the Restructuring Proposal will be an essential step to provide financial stability, on a medium to long term basis, to the Group which



can facilitate (i) the improved performance and hence the value of its core hotel assets; and (ii) the realisation of the US\$45.0 million deferred consideration plus interest accrued thereon in relation to the Group's disposal of its hotel interests in the United States of America in 1999 (the "Consideration Receivable").

On the bases that (i) the Standstill Agreement has not been early terminated and the Directors do not expect that it will be early terminated within the Standstill Period; and (ii) after expiry of the Standstill Period and prior to the conclusion of the Restructuring Proposal, the lenders of the Syndicated Loan will not exercise and the Directors do not expect that they will exercise their respective put options granted to them pursuant to the terms of the agreement of the Syndicated Loan, who may require the Group to prepay their respective participations in the remaining outstanding indebtedness, on the exercise date of 8th September, 2003, as extended under the Standstill Agreement, by serving a notice at least 3 months in advance, and having regard to the past and anticipated support the Group has and hopes to continue to receive from the Lenders with respect to the Loans, the Directors consider it appropriate to continue to classify the Loans as current and non-current liabilities as at 31st December, 2002 in accordance with their original maturity terms under the loan agreements, as adjusted for the revised terms specified under the Standstill Agreement.

With respect to a term loan which was originally fully repayable by 30th September, 2002 and is secured by the Group's hotel property in Canada (the "Canada Loan"), the outstanding principal of CAD34.5 million (approximately HK\$170.8 million) remained unpaid as at 31st December, 2002. As detailed in note 6 to the financial statements, the Group entered into a sale and purchase agreement on 3rd September, 2002 (as supplemented by certain subsequent amendments) for the disposal of the entire interest in the wholly-owned subsidiary company that owns the hotel property in Canada for a consideration of CAD11.2 million (approximately HK\$55.2 million). Under the agreement, the purchaser will assume responsibility for the full repayment of the Canada Loan and the completion of the disposal is scheduled for May 2003. So far, the Group has received instalment payments from the purchaser totalling CAD1.9 million (approximately HK\$9.2 million) which were substantially applied to repay the Canada Loan. If the disposal proceeds to completion, the Canada Loan will be fully discharged and the net consideration will be receivable on a staged basis.

With regard to the Standstill Agreement and on the bases that (i) the Restructuring Proposal will be successfully implemented; and (ii) the recovery of the Consideration Receivable will be successful, the Directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements of the Group on a going concern basis.

If the going concern basis were not to be appropriate, adjustments would have to be made to restate the values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of the Group's 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, 2002, together with the Group's share of the results for the year and the post-acquisition undistributed reserves of its associates and jointly controlled entity. The results of subsidiary companies, associates and jointly controlled entity acquired or disposed of during the year are included from or to their effective dates of acquisition or disposal, as applicable. All significant intra-group transactions and balances are eliminated on consolidation.

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

(c) Goodwill/Negative goodwill

Goodwill arising on the acquisition of subsidiary companies, associates and jointly controlled entities 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, associates and jointly controlled entities 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 and jointly controlled entities, 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.

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

On disposal of subsidiary companies, associates or jointly controlled entities, 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.

(e) Joint venture companies

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

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



A joint venture company is treated as:

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

(f) Jointly controlled entity

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

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

(g) Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

(h) Impairment of assets

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



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

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

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

(i) Hotel properties

Hotel properties are interests in land and buildings and their integral fixed plants which are collectively used in the operation of hotels and are stated at their open market values for existing use on the basis of professional valuations. Movements in the carrying values of the hotel properties are dealt with in the hotel property revaluation reserve, unless this reserve is exhausted, in which case any excess of the decrease is charged to the profit and loss account as incurred. When a hotel property is determined to be impaired, the cumulative gain or loss derived from the hotel property recognised in the hotel property revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

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

(j) Deferred expenditure

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



(k) Long term investments

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

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

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises.

(l) Held-to-maturity securities

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

(m) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value, which is determined by reference to prevailing market prices, on an individual property basis.

(n) Fixed assets and depreciation

Fixed assets, other than 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.

The gain or loss on disposal or retirement of a fixed asset, other than 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 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
Other furniture, fixtures and equipment	10% - 25% or replacement basis
Motor vehicles	25%

(o) 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.

(p) 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.

(q) 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) hotel and other service income, in the period in which such services are rendered;
- (ii) rental income, in the period in which the property is let and on the straight-line basis over the lease terms;
- (iii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;
- (iv) dividend income, when the shareholders' right to receive payment has been established; and
- (v) 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.



(r) Foreign currencies

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

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiary companies and associates denominated in foreign currencies are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiary companies and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange equalisation reserve.

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

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

(s) Deferred tax

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

(t) 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.



(u) Employee benefits*Employment Ordinance long service payments*

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

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

Staff retirement scheme

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

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

Share options scheme

The 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.

(v) 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.

(w) Cash and cash equivalents

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

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services;
- (b) the property development and investment segment invests in properties for sale and for its rental income potential;
- (c) the brewery operations segment represents the Group's brewery operations in Mainland China; and
- (d) the other segments mainly comprise the Group's securities trading, travel services, restaurant operations, florist and wedding services.

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

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



(a) Business segments

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

Group

	Hotel ownership and management		Property development and investment		Brewery operations		Others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment revenue:												
Sales to external customers	964.7	1,001.5	0.2	1.2	17.3	19.9	6.4	34.5	-	-	988.6	1,057.1
Intersegment sales	0.4	0.9	0.3	0.3	-	-	12.5	16.1	(13.2)	(17.3)	-	-
Total	965.1	1,002.4	0.5	1.5	17.3	19.9	18.9	50.6	(13.2)	(17.3)	988.6	1,057.1
Segment results	(412.6)	133.3	(6.0)	(14.6)	(16.4)	(69.0)	(4.6)	(22.4)	-	-	(439.6)	27.3
Interest income and unallocated non-operating and corporate gains											6.9	31.4
Unallocated non-operating and corporate expenses											*(136.9)	(232.0)
Loss from operating activities											(569.6)	(173.3)
Finance costs											(182.7)	(300.2)
Share of profits less losses of:												
Jointly controlled entity	-	-	-	(39.0)	-	-	-	-	-	-	-	(39.0)
Associates	(0.7)	-	-	-	-	-	(14.0)	(2.7)	-	-	(14.7)	(2.7)
Loss before tax											(767.0)	(515.2)
Tax											2.0	0.1
Loss before minority interests											(765.0)	(515.1)
Minority interests											-	0.9
Net loss from ordinary activities attributable to shareholders											(765.0)	(514.2)

* Inclusive of a write back of provision against a loan receivable amounting to HK\$10.6 million (note 9)





(a) Business segments (continued)

Group

	Hotel ownership and management		Property development and investment		Brewery operations		Others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment assets	6,848.5	8,577.6	31.8	47.3	47.0	53.6	3.8	10.2	(8.4)	(8.3)	6,922.7	8,680.4
Interests in associates	5.0	-	-	-	-	-	16.3	16.8	-	-	21.3	16.8
Interest in a jointly controlled entity	-	-	990.5	489.7	-	-	-	-	-	-	990.5	489.7
Cash and unallocated assets	-	-	-	-	-	-	-	-	-	-	595.4	756.2
Total assets											8,529.9	9,943.1
Segment liabilities	(161.9)	(157.2)	-	(3.4)	(22.6)	(19.3)	(8.5)	(12.0)	8.4	8.3	(184.6)	(183.6)
Bank and other borrowings and unallocated liabilities	-	-	-	-	-	-	-	-	-	-	(5,130.5)	(5,196.0)
Total liabilities											(5,315.1)	(5,379.6)
Other segment information:												
Depreciation	36.9	37.5	0.1	0.1	5.0	5.3	0.7	2.5				
Impairment losses recognised in the profit and loss account	618.9	-	-	-	-	50.8	-	-				
Capital expenditure	47.3	62.5	-	-	0.4	0.5	0.2	1.0				
Other non-cash expenses	0.7	4.0	5.6	14.9	-	-	-	-				

(b) Geographical segments

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

Group	Hong Kong		Canada		Mainland China		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment revenue:										
Sales to external customers	882.5	940.4	88.6	95.6	17.5	21.1	-	-	988.6	1,057.1
Other segment information:										
Segment assets	6,610.4	8,373.9	233.7	205.2	78.6	101.3	-	-	6,922.7	8,680.4
Capital expenditure	47.2	61.4	0.3	2.1	0.4	0.5				



6. DISCONTINUING OPERATION

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

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

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

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

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



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

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



7. TURNOVER AND REVENUE

Turnover represents the aggregate of gross hotel income, rental income, travel services revenue and commissions, florist income, restaurant revenue, wedding services revenue, income from brewery operations, proceeds from the sale of short term listed investments, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Hotel operations and management services	938.6	967.0
Other operations, including travel services, florist, restaurant operations, wedding services and brewery operations	23.7	46.5
Rental income:		
Hotel properties	26.1	34.5
Properties held for sale	0.2	1.2
Proceeds from the sale of short term listed investments	–	7.9
Turnover	988.6	1,057.1



8. OTHER OPERATING EXPENSES

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Other operating expenses include the following items:		
Loss on disposal of long term unlisted investments (after a transfer from the revaluation reserve of a deficit of HK\$1.7 million)	95.0	–
Loss on disposal of long term listed investments (after a transfer from the revaluation reserve of a deficit of HK\$139.1 million in 2001)	–	141.4
	<u> </u>	<u> </u>

9. PROVISIONS FOR WRITE-DOWNS AND IMPAIRMENTS, NET

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Provisions for write-downs and impairments, net, represent the following items:		
Write-down in values of properties held for sale	5.6	14.9
Impairment of fixed assets	–	50.8
Provisions against other loans, promissory notes and interest receivable	–	56.8
Impairment of long term investments previously eliminated against long term investment revaluation reserve (note 34)	12.4	–
Write back of provision against a loan receivable	(10.6)	–
	<u> </u>	<u> </u>
	<u>7.4</u>	<u>122.5</u>



10. LOSS FROM OPERATING ACTIVITIES

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

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Cost of inventories sold and services provided	524.7	633.0
Staff costs (exclusive of directors' remuneration disclosed in note 12):		
Wages and salaries*	341.6	416.5
Staff retirement scheme contributions	15.4	18.6
Less: Forfeited contributions	(1.3)	(3.5)
Net retirement scheme contributions	14.1	15.1
	355.7	431.6
Auditors' remuneration	3.8	3.5
Loss on disposal of fixed assets	1.1	3.3
Minimum lease payments under operating leases:		
Land and buildings	10.3	21.4
Other equipment	1.0	1.0
Depreciation	42.7	45.4
and after crediting:		
Gross rental income	26.3	35.7
Less: Outgoings	(6.1)	(7.4)
Net rental income	20.2	28.3
Dividend income from listed investments	–	1.8
Interest income from:		
Bank balances	0.6	3.1
Other loans and receivable	1.3	25.1
Associate	–	0.2
	1.9	28.4
Negative goodwill recognised as income during the year**	0.1	–

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

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



11. FINANCE COSTS

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Interest on bank loans, convertible bonds and other loans wholly repayable within five years	175.4	293.2
Amortisation of deferred expenditure	7.0	7.0
Write off of deferred expenditure	0.3	–
	<hr/>	<hr/>
Total finance costs	182.7	300.2
	<hr/> <hr/>	<hr/> <hr/>

12. DIRECTORS' REMUNERATION

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

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Fees	1.0	0.8
Salaries and other allowances	6.0	4.0
Performance related/discretionary bonuses	0.1	–
Staff retirement scheme contributions	0.4	0.3
	<hr/>	<hr/>
	7.5	5.1
	<hr/> <hr/>	<hr/> <hr/>

The remuneration of the Directors fell within the following bands:

HK\$	2002 Number of Directors	2001 Number of Directors
Nil - 1,000,000	9	5
1,000,001 - 1,500,000	2	1
3,000,001 - 3,500,000	1	1
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>



The independent Non-Executive Directors of the Company were entitled to a total sum of HK\$0.4 million (2001 - HK\$0.4 million) as Directors' fees, including the fees entitled by those independent Non-Executive Directors for serving as audit committee members, for the year ended 31st December, 2002.

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

During the year, no share options were granted to the Directors in respect of their services to the Group (2001 - Nil). Further details of the Company's share option scheme are set out in note 29 to the financial statements.

13. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included four (2001 - two) Directors, details of whose remuneration are disclosed in note 12 to the financial statements. The emoluments of the remaining one (2001 - three) individual, who was not a Director, are as follows:

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Salaries and other emoluments	0.7	2.8
Staff retirement scheme contributions	0.1	0.1
	<u>0.8</u>	<u>2.9</u>

The emoluments of the one (2001 - three) individual fell within the following band:

HK\$	2002 Number of individuals	2001 Number of individuals
Nil - 1,000,000	1	2
1,000,001 - 1,500,000	-	1
	<u>1</u>	<u>3</u>

During the year, no share options were granted to the non-director, highest paid employee in respect of her service to the Group (2001 - Nil). Further details of the Company's share option scheme are set out in note 29 to the financial statements.



14. TAX

	GROUP	
	2002 HK\$'million	2001 HK\$'million
The Company and subsidiary companies:		
Provision for tax in respect of profits for the year:		
Overseas	0.3	0.3
Prior year overprovision:		
Hong Kong	(2.1)	–
Overseas	(0.3)	(0.5)
	(2.1)	(0.2)
Associate:		
Hong Kong	0.1	0.1
Tax credit for the year	(2.0)	(0.1)

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year (2001 - Nil).

Tax on the profits of subsidiary companies operating overseas is calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing legislation, practices and interpretation thereof.

The provision for Hong Kong profits tax for an associate has been calculated by applying the applicable tax rate of 16% to the estimated assessable profits which were earned in or derived from Hong Kong during the year (2001 - 16%).

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 (2001 - Nil).

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



15. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$1,850.8 million (2001 - HK\$1,923.3 million).

16. DIVIDEND

At 31st December, 2002, there was a cumulative unpaid dividend in arrears of HK\$27.8 million (2001 - HK\$20.9 million) for the Company's outstanding convertible redeemable cumulative preference shares. Pursuant to the terms of the issuance of these preference shares, if such dividend is six months or more in arrears, this event will confer on the holders thereof the right to receive notice of and, unless all such arrears have been paid prior to the time for holding the meeting, to attend and vote at general meetings of the Company. This unpaid dividend has not been incorporated in the financial statements.

17. LOSS PER ORDINARY SHARE

(a) Basic loss per ordinary share

The calculation of basic loss per ordinary share is based on the net loss from ordinary activities attributable to ordinary shareholders for the year of HK\$765.0 million (2001 - HK\$514.2 million), adjusted for the unpaid preference dividend for the year of HK\$6.9 million (2001 - HK\$6.9 million), and on the weighted average of 4,483.8 million (2001 - 3,938.8 million) ordinary shares of the Company in issue during the year.

(b) Diluted loss per ordinary share

No diluted loss per ordinary share is presented for the years ended 31st December, 2001 and 2002, as the exercise of share options and the conversion of preference shares and convertible bonds of the Company are anti-dilutive for these years.



18. FIXED ASSETS

	GROUP					
	1st January, 2002 HK\$'million	Exchange adjustments HK\$'million	Additions/ Depreciation for the year HK\$'million	Disposals/ Write-off HK\$'million	Deficit on revaluation HK\$'million	31st December, 2002 HK\$'million
At valuation:						
Hotels, including furniture, fixtures and equipment	8,725.8	2.0	47.3	-	(1,728.6)	7,046.5
At cost:						
Leasehold properties	40.8	0.1	-	-	-	40.9
Leasehold improvements	10.1	-	-	(10.1)	-	-
Other furniture, fixtures and equipment	60.8	0.2	0.6	(4.4)	-	57.2
Motor vehicles	3.7	-	-	(0.9)	-	2.8
Construction in progress	28.4	-	-	-	-	28.4
	<u>8,869.6</u>	<u>2.3</u>	<u>47.9</u>	<u>(15.4)</u>	<u>(1,728.6)</u>	<u>7,175.8</u>
Accumulated depreciation and impairment:						
Hotel furniture, fixtures and equipment	292.5	0.4	36.0	-	-	328.9
Leasehold properties	5.9	-	1.4	-	-	7.3
Leasehold improvements	9.7	-	0.4	(10.1)	-	-
Other furniture, fixtures and equipment	41.6	0.1	4.7	(3.3)	-	43.1
Motor vehicles	3.4	-	0.2	(0.9)	-	2.7
Construction in progress	28.4	-	-	-	-	28.4
	<u>381.5</u>	<u>0.5</u>	<u>42.7</u>	<u>(14.3)</u>	<u>-</u>	<u>410.4</u>
Net book value	<u>8,488.1</u>					<u>6,765.4</u>

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

	2002 HK\$'million	2001 HK\$'million
Hotelproperties	<u>4,802.5</u>	<u>5,405.5</u>

Analysis of net book value by geographical location:

	2002 HK\$'million	2001 HK\$'million
Leasehold land and buildings situated in Hong Kong:		
Hotel properties, at valuation at balance sheet date:		
Long term	2,598.0	3,426.0
Medium term	3,897.0	4,811.0
Medium term leasehold property, at cost	3.8	3.9
	<u>6,498.8</u>	<u>8,240.9</u>
Properties situated in Mainland China:		
Medium term leasehold properties, at cost	29.8	31.0
Properties situated overseas:		
Freehold land and hotel property in Canada, at valuation at balance sheet date	222.6	196.3
	<u>6,751.2</u>	<u>8,468.2</u>

As at 31st December, 2002, all of the hotel properties situated in Hong Kong and overseas and certain leasehold properties situated in Mainland China were mortgaged to secure banking and other credit facilities granted to the Group.

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

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

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



Certain of the Group's shop units in the hotel properties are leased to third parties under operating leases, further summary details of which are included in note 43(a) to the financial statements.

19. INTEREST IN A JOINTLY CONTROLLED ENTITY

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Share of net liabilities	(2,077.1)	(859.3)
Loans to the jointly controlled entity	2,700.9	1,185.7
Amount due from the jointly controlled entity	366.7	163.3
	990.5	489.7

At 31st December, 2002, the share of net liabilities included a provision for foreseeable loss in respect of a property development project amounting to HK\$1,633.3 million (2001 - HK\$700.0 million), including HK\$933.3 million attributable to the additional 40% interest in the jointly controlled entity acquired during the year.

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

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

Name	Business structure	Place of incorporation and operation	Percentage of equity interest attributable to the Group		Principal activity
			2002	2001	
Chest Gain Development Limited ("Chest Gain")	Corporate	HongKong	70	30	Property development

The jointly controlled entity is indirectly held by the Company.

On 31st October, 2002, the Group acquired a further 40% interest in Chest Gain (the "Stanley Transfer") from Paliburg Holdings Limited ("PHL"), the immediate listed holding company of the Company, at a consideration of HK\$470.0 million, which was satisfied by the issue of 1,958.3 million new ordinary shares of the Company (the "Consideration Shares") at HK\$0.24 each (the "Issue Price"). Further details of the Stanley Transfer are set out in the circular of the Company dated 26th August, 2002 to shareholders (the "Circular").



The Consideration Shares have been issued and recorded at the Issue Price. According to SSAP 30 "Business Combinations" and Interpretation 15 which became effective during the year, each of the Consideration Share is required to be recorded as shares at the prevailing market price of HK\$0.073 per share on the date of completion of the Stanley Transfer (the "Market Price") instead of the Issue Price unless it is justified that the Market Price is not a reliable indicator for the determination of the fair value of the Consideration Shares. Owing to (i) the relatively insignificant market turnover of the Company's shares as compared with the size of the Consideration Shares; and (ii) the undue pressure on the market price of the Company's shares resulting from the magnitude of the indebtedness and the liquidity problems of the Group, the Directors of the Company consider that the Market Price is not a reliable indicator for determination of the fair value of the Consideration Shares. Instead, the Directors consider that the fair value of the Consideration Shares is better determined by reference to the fair value of the 40% interest in Chest Gain acquired, which amounts to HK\$470.0 million, as supported by an independent professional valuation on the underlying asset acquired. Accordingly, in the opinion of the Directors, the Issue Price of HK\$0.24 per share is the fair value for the Consideration Shares. Had the Consideration Shares been recorded at the Market Price instead of the Issue Price, an additional 4,480.0 million ordinary shares of the Company at HK\$0.073 per share would have to be issued for the Stanley Transfer.

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

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

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

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

	2002 HK\$'million	2001 HK\$'million
Authorised and contracted for	359.0	241.2
Authorised, but not contracted for	16.4	–
	<u>375.4</u>	<u>241.2</u>

20. INTERESTS IN ASSOCIATES

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Unlisted companies:		
Share of net liabilities	(10.5)	(11.9)
Negative goodwill	(3.0)	–
Loans to associates	34.8	28.7
	<u>21.3</u>	<u>16.8</u>
At the balance sheet date:		
Share of post-acquisition undistributed deficits	<u>(17.5)</u>	<u>(2.7)</u>

The amount of negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of an associate, is as follows:

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

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



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

Name	Business structure	Place of incorporation and operation	Class of equity interest held	Percentage of equity interest attributable to the Group		Principal activities
				2002	2001	
8D International (BVI) Limited ("8D-BVI")	Corporate	British Virgin Islands	Ordinary shares	30.0	30.0	Investment holding
8D International Limited	Corporate	Hong Kong	Ordinary shares	36.0 ⁽¹⁾	36.0 ⁽¹⁾	Promotions and information technology
8D Matrix Limited	Corporate	British Virgin Islands	Ordinary shares	36.0 ⁽¹⁾	36.0 ⁽¹⁾	Investment holding
Bright Future (HK) Limited*	Corporate	Hong Kong	Ordinary shares	50	–	Investment holding
Mira Technology Limited	Corporate	Hong Kong	Ordinary shares	33.0 ⁽²⁾	30.6 ⁽²⁾	Software development

* not audited by Ernst & Young

(1) The percentage of equity interest includes a 6% attributable interest held through 8D-BVI.

(2) The percentage of equity interest includes a 3% (2001 - 5.1%) attributable interest held through 8D-BVI.

All associates were indirectly held by the Company.

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

21. LONG TERM INVESTMENTS

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Listed equity investments in Hong Kong, at market value	30.0	33.5
Unlisted equity investments, at fair value:		
Carrying value	55.0	55.2
Provision for impairment	(55.0)	(55.0)
	–	0.2
	30.0	33.7

Long term listed investments with market values amounting to HK\$29.5 million (2001 - HK\$33.1 million) were pledged to secure general credit facilities granted to the Group.

22. LOANS AND OTHER LONG TERM RECEIVABLE

The loans and other long term receivable of the Group comprised the following:

		GROUP	
	Notes	2002 HK\$'million	2001 HK\$'million
Promissory notes receivable	(a)	–	168.0
Other loan	(b)	78.0	78.0
		78.0	246.0

- (a) The prior year balance, which were repayable on demand, represented promissory notes receivable in the aggregate amount of HK\$180.0 million and net of a provision of HK\$12.0 million as further explained below. Apart from an amount of HK\$50.0 million which was secured and bore interest at 11.5% per annum, the remaining amount of HK\$130.0 million was unsecured and bore interest at 1.5% to 2.5% over Hong Kong prime rate per annum. During the year, on 7th March, 2002, a settlement agreement was entered into between the Group and the borrowers, under which the promissory notes together with the interest accrued thereon was settled and satisfied by (i) a cash payment of HK\$36.0 million; and (ii) a 3-year convertible note with a face value of HK\$132.0 million (the "Convertible Note") issued by one of the borrowers (collectively, the "Entitlements"). The Convertible Note, which the Group intended to hold as held-to-maturity securities and would otherwise be due in 2005 (the "Initial Maturity Date") (subject to an extension for further 2 years due 2007 (the "Final Maturity Date") upon fulfilment of certain conditions), bore interest at 3% per annum from the date of issue of the note to the Initial Maturity Date and was convertible into shares of the issuer during the period from the Initial Maturity Date to the Final Maturity Date. The loss arising on the settlement agreement of HK\$38.0 million, representing the shortfall of HK\$12.0 million in the fair value of the Entitlements aggregating HK\$168.0 million received by the Group and the carrying value of the promissory notes receivable of HK\$180.0 million and accrued interest of HK\$26.0 million (included in debtors, deposits and prepayments under current assets), was provided for in the prior year financial statements.

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



- (b) This represents a loan of US\$10.0 million (HK\$78.0 million) (2001 - HK\$78.0 million) advanced to a hotel owner to assist financing the interior decoration and pre-operating expenditure of its hotel in Shanghai, the People's Republic of China (the "PRC"), which is managed by the Group. The loan is unsecured, interest free and is repayable commencing from the date of the hotel opening, by way of payments equivalent to 28% of the hotel's net operating profit determined in accordance with the PRC accounting standards after appropriation of the statutory reserves, over the tenure of the management contract for the hotel of 15 years, subject to the possible renewal thereof for a further 5 years.

23. PROPERTIES HELD FOR SALE

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

At 31st December, 2002, the properties held for sale were stated at their subsequent selling price which was below cost.

The sale proceeds in respect of the properties held for sale were assigned to lenders to secure loan 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 43(a) to the financial statements.

24. HOTEL AND OTHER INVENTORIES

	GROUP	
	2002	2001
	HK\$'million	HK\$'million
Hotel merchandise	19.8	21.1
Raw materials	1.6	2.9
Work in progress	0.3	-
Finished goods	0.7	1.0
	22.4	25.0

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



25. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK\$49.5 million (2001 - HK\$44.1 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Outstanding balances with ages:		
Within 3 months	46.0	39.1
Between 4 to 6 months	2.4	3.8
Between 7 to 12 months	2.2	2.6
Over 1 year	8.3	7.2
	<hr/> 58.9	<hr/> 52.7
Provisions	(9.4)	(8.6)
	<hr/> 49.5	<hr/> 44.1

Debtors, deposits and prepayments also include a receivable amount of approximately HK\$400.1 million, comprising (i) deferred consideration of US\$45.0 million (approximately HK\$351.0 million) (the "Deferred Consideration") which arose in connection with the Group's disposal of its hotel interests in the United States of America in December 1999 (the "Disposal"); and (ii) certain interest aggregating HK\$49.1 million accrued thereon at 7% per annum (collectively, the "Consideration Receivable"). Under the Disposal agreement, the Deferred Consideration and the interest accrued thereon were due to be paid by the purchaser (the "Purchaser") on 17th December, 2001. The Consideration Receivable was assigned as collaterals to the lenders of the Loans of the Group.

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



Credit Terms

Trade debtors, which generally have credit terms of 30 to 90 days, are recognised and carried at their original invoiced amount less provisions for doubtful debts which are made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

26. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK\$81.7 million (2001 - HK\$73.9 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	GROUP	
	2002	2001
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	67.0	67.6
Between 4 to 6 months	12.3	3.4
Between 7 to 12 months	1.3	1.3
Over 1 year	1.1	1.6
	81.7	73.9



27. INTEREST BEARING BANK AND OTHER BORROWINGS

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Secured bank loans	5,003.9	5,092.4
Secured other loans wholly repayable within five years	4.2	5.1
	<u>5,008.1</u>	<u>5,097.5</u>
Portion of borrowings due within one year included under current liabilities:		
Bank loans	(2,969.4)	(742.9)
Other loans	(4.2)	(5.1)
	<u>(2,973.6)</u>	<u>(748.0)</u>
Long term borrowings	<u>2,034.5</u>	<u>4,349.5</u>
The bank loans and other loans are repayable in varying instalments within a period of:		
On demand or not exceeding 1 year	2,973.6	748.0
More than 1 year but not exceeding 2 years	1,670.1	1,865.0
More than 2 years but not exceeding 5 years	364.4	2,185.0
More than 5 years	–	299.5
	<u>5,008.1</u>	<u>5,097.5</u>

At 31st December, 2002, the other loans carried fixed interest at a rate of 8.78% (2001 - 8.78%) per annum.

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



28. CONVERTIBLE BONDS

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

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

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

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

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

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



29. SHARE CAPITAL AND SHARE PREMIUM

	COMPANY	
	2002 HK\$'million	2001 HK\$'million
Shares		
Authorised:		
10,000 million (2001 – 6,000 million) ordinary shares of HK\$0.01 (2001 – HK\$0.10) each	100.0	600.0
0.1 million (2001 – 0.3 million) 5 ¼% convertible cumulative redeemable preference shares of US\$10 each	1.3	23.2
	<u>101.3</u>	<u>623.2</u>
Issued and fully paid:		
6,297.1 million (2001 – 3,938.8 million) ordinary shares of HK\$0.01 (2001 – HK\$0.10) each	62.9	393.8
0.1 million (2001 – 0.1 million) 5 ¼% convertible cumulative redeemable preference shares of US\$10 each	1.3	1.3
	<u>64.2</u>	<u>395.1</u>
Share premium		
Ordinary shares	467.1	1,525.6
5¼% convertible cumulative redeemable preference shares	–	128.2
	<u>467.1</u>	<u>1,653.8</u>



There was no movement in the Company's share capital and share premium in the prior year. The movements of the Company's share capital and share premium during the year were as follows:

- (i) 90.0 million new ordinary shares of HK\$0.10 each were issued to Taylor Investments Ltd. ("Taylor"), a wholly owned subsidiary company of PHL, at a price HK\$0.14 per share pursuant to a share placement on 7th March, 2002 for a total consideration of HK\$12.6 million to raise general working capital.
- (ii) Pursuant to the board resolution passed on 31st July, 2002 and a special resolution passed at a special general meeting of the Company held on 18th September, 2002, a capital reorganisation (the "Capital Reorganisation") involving, inter alia, the following was implemented on 16th October, 2002:
 - (a) a reduction of the nominal value of each issued ordinary share of the Company (involving 4,028.8 million ordinary shares) from HK\$0.10 to HK\$0.01 each by the cancellation of HK\$0.09 of the paid-up capital for each issued ordinary share (the "Capital Reduction"), and a transfer of the credit arising from the Capital Reduction of approximately HK\$362.6 million to a special reserve of the Group (note 33) and contributed surplus of the Company (note 37);
 - (b) the cancellation of the entire amount standing to the credit of the share premium account of the Company, comprising ordinary share premium of HK\$1,528.9 million and preference share premium of HK\$128.2 million, and a transfer of the total premium of HK\$1,657.1 million to a special reserve of the Group (note 33) and contributed surplus of the Company (note 37);
 - (c) the cancellation of the existing authorised and unissued 1,971.2 million ordinary shares of HK\$197.1 million and 0.2 million preference shares of HK\$21.9 million and a subsequent increase of the authorised ordinary share capital of the Company to HK\$100.0 million comprising 10,000 million ordinary shares of HK\$0.01 each by the creation of 5,971.2 million additional shares of HK\$0.01 each, ranking pari passu in all respects with the then existing ordinary shares of the Company; and
 - (d) the cancellation of the entire amount standing to the credit of the capital redemption reserve (note 31) and a transfer of the credit totalling HK\$13.5 million arising therefrom to a special reserve of the Group (note 33) and contributed surplus of the Company (note 37).
- (iii) As detailed in note 19 to the financial statements, 1,958.3 million new ordinary shares of HK\$0.01 each were issued by the Company to nominee(s) of Paliburg Development BVI Holdings Limited, a subsidiary of PHL, at a price of HK\$0.24 per share on 31st October, 2002 to satisfy the consideration of HK\$470.0 million in relation to the Group's acquisition of an additional 40% interest in Chest Gain, which represented share capital of HK\$19.6 million and share premium of HK\$450.4 million.
- (iv) 155.0 million new ordinary shares of HK\$0.01 each were issued to each of Taylor and Guo Yui Investments Limited, also a wholly owned subsidiary company of PHL, pursuant to a share placement at HK\$0.065 per share for a total consideration of HK\$20.1 million on 9th December, 2002 to raise general working capital.



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

	Notes	Authorised		Issued and fully paid		Share premium
		Number of shares 'million	Amount HK\$'million	Number of shares 'million	Amount HK\$'million	HK\$'million
Ordinary shares						
At 1st January, 2002		6,000.0	600.0	3,938.8	393.8	1,525.6
Issue of new shares in March 2002	(i)	—	—	90.0	9.0	3.6
Capital Reduction	(ii)(a)	—	(362.6)	—	(362.6)	—
Cancellation of share premium	(ii)(b)	—	—	—	—	(1,528.9)
Cancellation of unissued share capital	(ii)(c)	(1,971.2)	(197.1)	—	—	—
Increase of authorised share capital	(ii)(c)	5,971.2	59.7	—	—	—
Issue of new shares for acquisition of additional interest in Chest Gain	(iii)	—	—	1,958.3	19.6	450.4
Issue of new shares in December 2002	(iv)	—	—	310.0	3.1	17.0
Share issue expenses		—	—	—	—	(0.6)
At 31st December, 2002		<u>10,000.0</u>	<u>100.0</u>	<u>6,297.1</u>	<u>62.9</u>	<u>467.1</u>
5¼% convertible cumulative redeemable preference shares of US\$10 each						
At 1st January, 2002		0.3	23.2	0.1	1.3	128.2
Cancellation of share premium	(ii)(b)	—	—	—	—	(128.2)
Cancellation of unissued share capital	(ii)(c)	(0.2)	(21.9)	—	—	—
At 31st December, 2002		<u>0.1</u>	<u>1.3</u>	<u>0.1</u>	<u>1.3</u>	<u>—</u>
Total						
At 31st December, 2002			<u>101.3</u>		<u>64.2</u>	<u>467.1</u>
At 31st December, 2001			<u>623.2</u>		<u>395.1</u>	<u>1,653.8</u>

Preference shares

The outstanding preference shares at the beginning of the year represented 16,748 5¼% convertible cumulative redeemable preference shares of US\$10 each issued for cash on 13th December, 1993 at US\$1,000 each. The preference shares are redeemable on 13th December, 2008 at US\$1,000 each (the "Reference Amount"). The Company has the right to redeem, on or at any time after 13th December, 1996, either part or all of the preference shares, subject to certain conditions, at a redemption price of not less than the Reference Amount, with such amount to be determined by reference to specified percentages applicable to the year in which the redemption takes place. The redemption can be made either in United States dollars, or by issuing such number of the Company's ordinary shares calculated by reference to 95% of the average daily closing price of the ordinary shares for the five dealing days ending on the seventh day prior to the date on which notice of such redemption (the "Redemption Notice") is first given to the preference shareholders, at the fixed exchange rate of HK\$7.730255 to US\$1.00.

All preference shareholders have the right (the "Conversion Rights") to convert any or all of their preference shares into fully paid ordinary shares of the Company at an initial price of HK\$2.0445 per share based on the Reference Amount of US\$1,000 per preference share at the fixed exchange rate of HK\$7.730255 to US\$1.00. On 19th June, 1997, the conversion price of the preference shares was adjusted to HK\$1.7037 per share as a result of a bonus issue of ordinary shares. The Conversion Right is exercisable on or after 28th December, 1993 until and including the eighth day prior to 13th December, 2008 or, if earlier, the date fixed for redemption thereof as set out in the Redemption Notice.

None of the preference shares was converted during the year. The exercise in full of the Conversion Rights attached to the outstanding 16,748 preference shares in issue at 31st December, 2002 would have, with the present capital structure of the Company, resulted in the issue of a further 76.0 million additional ordinary shares.

Share options

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

The Company operates an executive share option scheme (the "Share Option Scheme"). The Share Option Scheme was approved by the Company'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 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 Group (including the Company, its subsidiary companies and other bodies corporate in which the Company 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 the Company 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 Group |

(iii)	Total number of ordinary shares subject to outstanding options under the Share Option Scheme and as a percentage of the issued share capital as at 31st December, 2002 and at the date of this report:	2,460,000 ordinary shares (approximately 0.04%)
(iv)	Maximum entitlement of each participant under the 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 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 to be given
(ix)	The remaining life of the Share Option Scheme:	The life of the Share Option Scheme commenced from 28th June, 1990, date of adoption, and ended on 28th June, 2000.



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

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options** HK\$
		At 1st January, 2002	Lapsed during the year	At 31st December, 2002		
Directors						
22nd February, 1992	Mr. Lo Yuk Sui Vested:	26,880,000	(26,880,000)	–	Note 1	0.7083
22nd February, 1992	Mr. Daniel Bong Shu Yin Vested:	7,200,000	(7,200,000)	–	Note 1	0.7083
22nd February, 1992	Mr. Donald Fan Tung*** Vested:	1,800,000	(1,800,000)	–	Note 1	0.7083
22nd February, 1992	Mr. Kenneth Ng Kwai Kai Vested:	8,400,000	(8,400,000)	–	Note 1	0.7083
22nd February, 1992	Ms. Belinda Yeung Bik Yiu*** Vested:	150,000	(150,000)	–	Note 1	0.7083
Other Employees						
22nd February, 1992	Employees, in aggregate Vested:	5,664,000	(5,664,000)	–	Note 1	0.7083
		50,094,000	(50,094,000)	–		
Directors						
5th August, 1993	Mr. Donald Fan Tung*** Vested:	960,000	–	1,080,000	Note 1	1.1083
	Unvested:	240,000	–	120,000	Note 1	
5th August, 1993	Ms. Belinda Yeung Bik Yiu*** Vested:	120,000	–	150,000	Note 1	1.1083
	Unvested:	60,000	–	30,000	Note 1	
		1,380,000	–	1,380,000		
Directors						
22nd February, 1997	Ms. Belinda Yeung Bik Yiu*** Vested:	432,000	–	540,000	Note 1	2.1083
	Unvested:	648,000	–	540,000	Note 1	
		1,080,000	–	1,080,000		
	Total:	52,554,000	(50,094,000)	2,460,000		

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

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

*** Appointed as Directors during the year.

Notes:

1. Vesting/Exercise Periods of Options:

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

2. In the absence of a readily available market value, the Directors 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\$2.9 million (before issue expenses).

30. RESERVES

	Notes	GROUP		COMPANY	
		2002 HK\$'million	2001 HK\$'million	2002 HK\$'million	2001 HK\$'million
Share premium	29	467.1	1,653.8	467.1	1,653.8
Capital redemption reserve	31	–	13.5	–	13.5
Capital reserve	32	71.9	1,314.2	–	–
Special reserve	33	1,062.3	–	–	–
Revaluation reserves	34	1,563.6	2,662.7	–	–
Exchange equalisation reserve	35	(14.3)	(14.8)	–	–
Contributed surplus	37	–	–	2,683.5	5,052.3
Accumulated losses	38	–	(1,461.0)	–	(2,551.2)
		3,150.6	4,168.4	3,150.6	4,168.4



31. CAPITAL REDEMPTION RESERVE

	GROUP AND COMPANY	
	2002 HK\$'million	2001 HK\$'million
Balance at beginning of year	13.5	13.5
Cancellation and transfer to special reserve/ contributed surplus (note 29(ii)(d))	(13.5)	–
Balance at and of year	–	13.5

32. CAPITAL RESERVE

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Balance at beginning of year	1,314.2	1,314.2
Share of impairment of goodwill of an associate previously eliminated against capital reserve	12.8	–
Transfer to special reserve (note 33)	(1,255.1)	–
Balance at end of year	71.9	1,314.2

Included in the Group's capital reserve was an amount of HK\$1,255.1 million which originally arose as a result of the Group reorganisation in 1989, representing the difference between the nominal value of the share capital of the subsidiary companies acquired and the nominal value of the share capital of the Company issued in exchange therefor, and was transferred to the Group's special reserve in the current year (note 33).

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

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

	Share of goodwill of an associate eliminated against capital reserve HK\$' million	Goodwill eliminated against capital reserve HK\$' million	Negative goodwill credited to capital reserve HK\$' million
Cost:			
At beginning and at end of year	12.8	120.4	(71.9)
Accumulated impairment:			
At beginning of year	–	(120.4)	–
Impairment provided during the year	(12.8)	–	–
At end of year	(12.8)	(120.4)	–
Net amount:			
At 31st December, 2002	<u>–</u>	<u>–</u>	<u>(71.9)</u>
At 31st December, 2001	<u>12.8</u>	<u>–</u>	<u>(71.9)</u>



33. SPECIAL RESERVE

	GROUP	
	2002	2001
	HK\$'million	HK\$'million
Transfer from share capital pursuant to Capital Reduction (note 29(ii)(a))	362.6	–
Transfer from share premium (note 29(ii)(b))	1,657.1	–
Transfer from capital redemption reserve (note 29(ii)(d))	13.5	–
Transfer from capital reserve (note 32)	1,255.1	–
Elimination of accumulated losses position (note 38)	(2,226.0)	–
	<hr/>	<hr/>
Balance at end of year	1,062.3	–
	<hr/> <hr/>	<hr/> <hr/>

The special reserve represents reserve arising from the Company's Capital Reorganisation in the current year as set out in note 29 to the financial statements.

On 17th April, 2003, it was approved by the Directors that special reserve amounting to HK\$2,226.0 million was applied towards elimination of the Group's accumulated losses position as at 31st December, 2002.



34. REVALUATION RESERVES

	GROUP		
	Hotel properties HK\$'million	Long term investments HK\$'million	Total HK\$'million
At 1st January, 2001	4,200.6	(131.3)	4,069.3
Movement in fair value	–	(30.6)	(30.6)
Deficit on revaluation	(1,515.1)	–	(1,515.1)
Release on disposal	–	139.1	139.1
	<hr/>	<hr/>	<hr/>
At 31st December, 2001 and 1st January, 2002	2,685.5	(22.8)	2,662.7
Movement in fair value	–	(3.5)	(3.5)
Deficit on revaluation	(1,728.6)	–	(1,728.6)
Transfer to profit and loss account on impairment	618.9	12.4	631.3
Release on disposal	–	1.7	1.7
	<hr/>	<hr/>	<hr/>
At 31st December, 2002	1,575.8	(12.2)	1,563.6

The revaluation of the Group's hotel properties in Hong Kong does not constitute a timing difference because the realisation of the revaluation surplus would not be subject to Hong Kong profits tax.

35. EXCHANGE EQUALISATION RESERVE

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Balance at beginning of year	(14.8)	(12.3)
Exchange adjustment on translation of the financial statements of overseas subsidiary companies	0.5	(2.5)
	<hr/>	<hr/>
Balance at end of year	(14.3)	(14.8)



36. INTERESTS IN SUBSIDIARY COMPANIES

	COMPANY	
	2002 HK\$'million	2001 HK\$'million
Unlisted shares, at cost	5,552.2	5,552.2
Amount due from a subsidiary company	2,082.5	1,581.3
	<u>7,634.7</u>	<u>7,133.5</u>
Provision for impairment	(4,416.6)	(2,569.2)
	<u>3,218.1</u>	<u>4,564.3</u>

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

Details of the principal subsidiary companies are as follows:

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Bauhinia Hotels Limited	Hong Kong	HK\$2	100	100	Hotel ownership
Camomile Investments Limited	Hong Kong	HK\$2	100	100	Property investment
Charmwin Limited	Hong Kong	HK\$2	100	–	Distribution of beer
Charter Capital Development Limited	Hong Kong	HK\$2	100	100	Property investment
Cityability Limited	Hong Kong	HK\$10,000	100	100	Hotel ownership
Cranfield Investments Limited	Hong Kong	HK\$2	100	100	Financing
Farah Investments Limited	Hong Kong	HK\$2	100	100	Financing
Fortune Nice Investment Limited	Hong Kong	HK\$2	100	100	Financing
Gala Hotels Limited	Hong Kong	HK\$2	100	100	Hotel ownership

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
HK 168 Limited	Republic of Liberia	US\$1	100	100	Securities investment
Kaifeng Yatai Brewery Co., Ltd.*	The People's Republic of China	RMB35,923,300	90	90	Production and distribution of beer
Kaifeng Yatai Brewery Second Co., Ltd.*	The People's Republic of China	RMB30,576,700	90	90	Production and distribution of beer
Kaybro Investments Limited	British Virgin Islands	US\$1	100	100	Securities investment
Key Winner Investment Limited	Hong Kong	HK\$2	100	100	Financing
Kingford View Investments Limited	British Virgin Islands	US\$1	100	100	Securities investment
Regal Century Investment Limited	Hong Kong	HK\$2	100	100	Investment holding and management services
Regal Constellation Hotel Limited	Canada	CAD1	100	100	Hotel ownership
Regal Estate Agents Limited	Hong Kong	HK\$2	100	–	Estate agents
Regal Estate Management Limited	Hong Kong	HK\$2	100	–	Estate management
Regal Hotels (Holdings) Limited	Hong Kong	HK\$1,151,598,638	100	100	Investment holding
Regal Hotels International Limited	Hong Kong	HK\$100,000	100	100	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US\$1	100	100	Hotel management



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Regal International Limited	British Virgin Islands	US\$20	100	100	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK\$10.1	100	100	Investment holding
Regal Laundry Services Limited	Hong Kong	HK\$2	100	100	Laundry operations
Regal Pacific (Holdings) Limited	Canada	CAD2,005,200	100	100	Investment holding
Regal Quality Foods Limited	Hong Kong	HK\$2	100	100	Bakery and retail operations
Regal Riverside Hotel Limited	Hong Kong	HK\$2	100	100	Hotel ownership
Regal Supplies Limited	Hong Kong	HK\$2	100	100	Bakery plant operation
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	100	100	Trademark holding
Richtech Holdings Limited	Hong Kong	HK\$2	100	–	Financing
Ricobem Limited	Hong Kong	HK\$2	100	100	Hotel ownership
World Way Management Limited	Hong Kong	HK\$2	100	100	Management services

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

Except for Regal International (BVI) Holdings Limited, all principal subsidiary companies are indirectly held by the Company.

All of the above subsidiary companies operate in the place of their incorporation/registration.

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.

37. CONTRIBUTED SURPLUS

	COMPANY	
	2002	2001
	HK\$'million	HK\$'million
Balance at beginning of year	5,052.3	5,052.3
Transfer from share capital pursuant to Capital Reduction (note 29(ii)(a))	362.6	–
Transfer from share premium (note 29(ii)(b))	1,657.1	–
Transfer from capital redemption reserve (note 29(ii)(d))	13.5	–
Elimination of accumulated losses position (note 38)	(4,402.0)	–
Balance at end of year	2,683.5	5,052.3

The contributed surplus represents reserve arising from (i) the Group reorganisation in 1989 representing the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiary companies; (ii) the Company's Capital Reorganisation in the current year as set out in note 29 to the financial statements.

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



38. ACCUMULATED LOSSES

	GROUP		COMPANY	
	2002 HK\$'million	2001 HK\$'million	2002 HK\$'million	2001 HK\$'million
Balance at beginning of year	(1,461.0)	(946.8)	(2,551.2)	(627.9)
Net loss for the year	(765.0)	(514.2)	(1,850.8)	(1,923.3)
Transfer from special reserve (note 33)	2,226.0	–	–	–
Transfer from contributed surplus (note 37)	–	–	4,402.0	–
Balance at end of year	–	(1,461.0)	–	(2,551.2)

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Retained profits/(Accumulated losses) at end of year retained by/(accumulated in):		
The Company and subsidiary companies	876.8	(599.0)
Associates	(17.5)	(2.7)
Jointly controlled entity	(859.3)	(859.3)
Balance at end of year	–	(1,461.0)



39. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK\$'million	2001 HK\$'million (Restated)
Loss before tax	(767.0)	(515.2)
Adjustments for:		
Finance costs	182.7	300.2
Share of profits less losses of a jointly controlled entity and associates	14.7	41.7
Interest income	(1.9)	(28.4)
Dividend income from listed investments	–	(1.8)
Loss on disposal of fixed assets	1.1	3.3
Depreciation	42.7	45.4
Negative goodwill recognised as income	(0.1)	–
Write down in values of properties held for sale	5.6	14.9
Write back of provision against a loan receivable	(10.6)	–
Impairment of fixed assets	–	50.8
Impairment of hotel properties previously eliminated against hotel property revaluation reserve	618.9	–
Impairment of long term investments previously eliminated against long term investments revaluation reserve	12.4	–
Provisions for doubtful debts	0.7	4.0
Provisions against other loans, promissory notes and interest receivable	–	56.8
Loss on disposal of long term investments	95.0	141.4
Operating profit before working capital changes	194.2	113.1
Decrease in short term investments	–	8.8
Decrease in debtors, deposits and prepayments	–	28.1
Decrease in hotel and other inventories	2.6	8.5
Decrease in creditors and accruals	3.5	(23.3)
Exchange differences	0.3	0.5
Cash generated from operations	200.6	135.7
Overseas taxes paid	(0.4)	(0.5)
Overseas taxes refunded	3.1	–
Net cash inflow from operating activities	203.3	135.2



(b) Major non-cash transactions

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

- (i) During the year, an amount of HK\$9.8 million (2001 - HK\$31.6 million) was deducted from the advance payment balance made to Chatwin Engineering Limited, a fellow subsidiary company of the Company, in prior years in respect of the settlement of construction work performed for the Group relating to the construction of the Regal Airport Hotel in Chek Lap Kok (note 40(a));
- (ii) As detailed in note 19 to the financial statements, the Group acquired an additional 40% interest in a jointly controlled entity during the year at a consideration of HK\$470.0 million which was satisfied by the issue of 1,958.3 million new ordinary shares of the Company.
- (iii) As detailed in note 22(a) to the financial statements, part of the promissory notes receivable of HK\$180.0 million as at 31st December, 2001 together with interest accrued thereon was settled during the year, involving, inter alia, a 3-year convertible note of HK\$132.0 million issued by one of the borrowers of the promissory notes.

(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\$1.0 million (2001 - HK\$0.7 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.



40. CONNECTED AND RELATED PARTY TRANSACTIONS

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

	Notes	2002 HK\$'million	2001 HK\$'million
Construction works performed by a subsidiary company of PHL	(a)	22.0	33.2
Minimum lease payment under operating leases in respect of land and buildings paid to wholly-owned subsidiary companies of PHL	(b)	7.3	19.4
Consultancy fees in respect of hotel property development and renovation projects paid to a wholly-owned subsidiary company of PHL	(c)	2.8	19.1
Advertising, promotion and information technology service fees (including cost reimbursements) paid to an associate	(d)	11.2	19.2
Management costs allocated from CCIHL	(e)	22.6	27.4
Guarantee given in respect of a bank loan of a jointly controlled entity	(f)	2,310.0	990.0

Notes:

- (a) The construction works related to the hotel foundation and superstructure, carpark and walkway, and footbridge constructions performed by Chatwin Engineering Limited ("Chatwin"), a subsidiary company of PHL, in connection with the Regal Airport Hotel and the airport in Chek Lap Kok. The amount payable was determined in accordance with the terms under the relevant construction contracts, in stages based on construction works certified by the architects.

At 31st December, 2001, an amount of HK\$36.5 million was included in debtors, deposits and prepayments, which represented a reserve fund maintained by Chatwin against potential claims arising from litigation and arbitration proceedings with certain sub-contractors in connection with the construction work of the Regal Airport Hotel. During the year, HK\$9.8 million was applied in settlement of claims and related expenses with a sub-contractor. With respect to the remaining balance of HK\$26.7 million as at 31st December, 2002, HK\$8.1 million would continue to be held by Chatwin as the reserve fund against potential claims from a sub-contractor and the balance of HK\$18.6 million to be accounted for on completion of the final accounts.

In addition, there was another outstanding amount existing at the balance sheet date which was included in creditors and accruals amounting to HK\$2.7 million (2001 - HK\$0.8 million). This represented fees for construction works due to Chatwin in connection with the footbridge constructions. The amount is unsecured and payable in accordance with the terms of the respective contracts under which such amount is incurred.



- (b) The rental expenses related to the leasing of various offices and commercial spaces. The rental was determined by reference to market rental for offices and commercial spaces of similar qualities in the same district obtained from independent sources.
- (c) The consultancy fees in the prior year related to services provided by a subsidiary company of PHL which include, inter alia, advising on, co-ordinating, supervising the construction of, and the professional services provided by architects, structural engineers and interior designers in connection with the Regal Airport Hotel in Chek Lap Kok. The fees were charged at 5% of the total construction and related cost of the individual project. During that year, similar services were also provided on the footbridge project at the airport in Chek Lap Kok and various renovation projects at the other hotels of the Group and fees were charged at 8% to 12.5% of the relevant costs involved. Where there were services not covered under the terms of the original appointment, additional fees were negotiated on a case by case basis.

During the year, consultancy service was provided by the same subsidiary company of PHL for co-ordinating and supervising the litigation and arbitration proceedings noted in (a) above and the fees were charged as a basic fee plus a success fee calculated at 15% on the actual savings, subject to a cap, upon settlement of the related claims.

- (d) 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. In the prior year, information technology services were also provided, the fees for which were charged on project basis.
- (e) The management costs included rentals and other overheads allocated from CCIHL either on the basis of actual usage or on a proportionate basis by reference to individual consolidated turnover and asset values of the Group, the CCIHL group (excluding the PHL group and the Group) and the PHL group (excluding the Group) for each financial year.
- (f) Details of the guarantee are disclosed in note 42(a) to the financial statements.
- (g) On 2nd August, 2002, the Company entered into a sale and purchase agreement with PHL and Paliburg Development BVI Holdings Limited, a wholly-owned subsidiary company of PHL, for the acquisition of its 40% interest in a property development project in Stanley, Hong Kong, in which the Group had a then existing 30% interest (the "Stanley Transfer"). The consideration for the acquisition was HK\$470.0 million which was determined by reference to an independent professional valuation and was satisfied by the issuance of 1,958.3 million ordinary shares of the Company at HK\$0.24 each. The Stanley Transfer, details of which were set out in the circular of the Company dated 26th August, 2002 to the Company's shareholders, was approved by independent shareholders of the Company at its special general meeting held on 18th September, 2002 and completed on 31st October, 2002.

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

The related party transactions set out in notes 40(a) to (e) and (g) above also constituted connected transactions as defined in the Listing Rules to the Company. Relevant disclosure and other requirements, including, inter alia, independent shareholders' approval (where required) in accordance with the Listing Rules with respect to such transactions have been made or met. Related details of the related party transactions set out in notes 40(a) to (e) are disclosed in the Directors' Report of the Company for the financial year ended 31st December, 2002 accompanying the financial statements.

Prior to the completion of the Stanley Transfer, the related party transaction set out in note 40(f) also constituted a connected transaction to the Company under Rule 14.25(2)(b) of the Listing Rules. Relevant details are disclosed in the Directors' Report of the Company for the financial year ended 31st December, 2002 accompanying the financial statements, according to the disclosure requirement under Rule 14.25(2)(b)(ii).

41. PLEDGE OF ASSETS

In addition to the balances set out elsewhere in the notes to the financial statements, at the balance sheet date, certain of the Group's time deposits, long term investments, interests in associates, hotel properties, leasehold properties and equipment, inventories and receivables with a total carrying value of HK\$7,521.1 million (2001 - HK\$8,841.1 million) and the shares in certain subsidiary companies 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 Group's Convertible Bonds.

42. CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	2002 HK\$'million	2001 HK\$'million	2002 HK\$'million	2001 HK\$'million
(a) Corporate guarantees provided in respect of:				
Attributable share of outstanding bank borrowings of:				
- a jointly controlled entity	1,938.4	753.3	1,938.4	753.3
- subsidiary companies	-	-	4,816.6	4,901.6
Outstanding convertible bonds issued by a subsidiary company	-	-	50.0	-
	<u>1,938.4</u>	<u>753.3</u>	<u>6,805.0</u>	<u>5,654.9</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\$13.5 million as at 31st December, 2002, as further explained in note 4(u) to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees having achieved the required number of years of service to the Group, and are eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.
- (c) As further explained in note 25 to the financial statements, the Group entered into a securities purchase agreement (the "SP Agreement") with an independent party (the "Purchaser") with respect to the disposal by the Group to the Purchaser of its interests in hotel ownership and hotel management in the United States of America in December 1999. The SP Agreement contains representations, warranties and indemnification given by the Group which are normal and usual for transactions of similar nature. At the date of this report, the Directors consider it is unlikely that any material contingent liability will crystallise but in any event are unable to estimate the amount thereof with reasonable accuracy.

43. OPERATING LEASE ARRANGEMENTS

- (a) As lessor

The Group leases certain of its properties (notes 18 and 23) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

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

	GROUP	
	2002	2001
	HK\$'million	HK\$'million
Within one year	15.7	20.2
In the second to fifth years, inclusive	6.7	18.9
	<u>22.4</u>	<u>39.1</u>

(b) As lessee

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

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

	GROUP	
	2002	2001
	HK\$'million	HK\$'million
Land and buildings:		
Within one year	7.2	7.7
In the second to fifth years, inclusive	27.6	27.6
After the fifth year	15.0	21.9
	<u>49.8</u>	<u>57.2</u>
Other equipment:		
Within one year	3.6	3.9
In the second to fifth years, inclusive	0.6	1.2
	<u>4.2</u>	<u>5.1</u>
	<u>54.0</u>	<u>62.3</u>

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



44. COMMITMENTS

In addition to the operating lease commitments detailed in note 43(b) above, the Group had the following outstanding commitments at the balance sheet date:

	GROUP	
	2002 HK\$'million	2001 HK\$'million
Capital commitments in respect of acquisition of interest in a hotel property in Mainland China:		
Authorised and contracted for	–	3.4
Capital commitments in respect of the renovation of or improvements to the hotel properties:		
Authorised and contracted for	12.5	22.2
Authorised, but not contracted for	82.9	51.4
	95.4	73.6
	95.4	77.0

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

45. POST BALANCE SHEET EVENTS

Except for the events set out in notes 3, 23 and 28 to the financial statements, there were no other significant post balance sheet events.

46. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

47. APPROVAL OF THE FINANCIAL STATEMENTS

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

