

Notes to Condensed Consolidated Financial Statements

1. Accounting Policies

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that the comparative cash flow statement for the six months ended 30th June, 2000 has not been prepared as permitted under the transitional provisions set out in the Listing Rules.

The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the Group’s audited financial statements for the year ended 31st December, 2000, except the following new/revised SSAPs have been adopted for the first time in the preparation of the current period’s condensed consolidated financial statements:

• SSAP 9 (revised)	Events after the balance sheet date
• SSAP 14 (revised)	Leases
• SSAP 28	Provisions, Contingent Liabilities and Contingent Assets
• SSAP 29	Intangible Assets
• SSAP 30	Business Combinations
• SSAP 31	Impairment of Assets
• SSAP 32	Consolidated Financial Statements and Accounting for Investments in Subsidiaries

A summary of their major effects is as follows:

- (a) SSAP 9 (revised) prescribes the accounting treatment and disclosures for events occurring after the balance sheet date. This has had no major impact on these financial statements.
- (b) SSAP 14 (revised) prescribes the accounting treatment and disclosures for leases and hire purchase contracts. This SSAP has been applied prospectively. This has had no major impact on these financial statements; however, the disclosures for commitments under non-cancellable operating leases have been changed. In prior years, operating lease commitments were disclosed as payments committed to be made during the next year, analysed between those in which the commitment would expire within that year; in the second to fifth years, inclusive; and over five years. In the current period, the disclosure has been changed to the total of the future minimum lease payments under non-cancellable operating leases analysed into those not later than one year; later than one year and not later than five years; and later than five years. Disclosures as required are set out in note 17 to these financial statements.
- (c) SSAP 28 prescribes the accounting treatment and disclosures for provisions, contingent liabilities and contingent assets. This has had no major impact on these financial statements.
- (d) SSAP 29 prescribes the accounting treatment and disclosures of intangible assets. This has had no major impact on these financial statements.
- (e) SSAP 30 prescribes the accounting treatment and disclosures for business combinations.

In prior years, goodwill/negative goodwill arising on consolidation of subsidiary companies and on acquisition of associates, representing the excess/shortfall of the cost of investments in subsidiary companies and associates over the appropriate share of the fair value of the net tangible assets at the date of acquisition, was taken to reserves in the year in which it arose. On disposal of a subsidiary company or an associate, the attributable amount of goodwill/negative goodwill is included in calculating the profit or loss on disposal.

With effect from 1st January, 2001, with the introduction of SSAP 30 "Business Combinations", the Group adopted an accounting policy to recognise goodwill as an asset which is amortised on a straight-line basis over its estimated useful life. Negative goodwill which relates to an expectation of future losses and expenses that is identified in the plan of acquisition and can be measured reliably, but which has not yet been recognised, is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the profit and loss account. On disposal of a consolidated controlled enterprise, any attributable amount of purchased goodwill not previously amortised through the profit and loss account is included in the calculation of the profit or loss on disposal.

The Group has taken advantage of the transitional provisions in SSAP 30 and the goodwill/negative goodwill that arose from acquisitions prior to 1st January, 2001, which has been previously eliminated against/taken to reserves, has not been retrospectively restated under the new accounting policy. Therefore, goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be charged to the profit and loss account at the time of disposal of the subsidiary companies/associates, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be credited to the profit and loss account at the time of disposal of the relevant subsidiary companies/associates.

- (f) SSAP 31 requires enterprises to consider whether assets are carried in excess of their recoverable amounts and prescribes the accounting treatment for any resulting impairment losses. This also applies to goodwill eliminated against reserves in accordance with the provisions of Interpretation 13 issued by the HKSA. As the Group had not previously followed a policy of recognising impairment losses in respect of goodwill written off against reserves, implementation of SSAP 31 is treated as a change in accounting policy in accordance with SSAP 2 and is applied retrospectively in accordance with the transitional provisions of SSAP 30 and the comparatives presented have been restated to conform to the change of accounting policy.

The Group has performed an assessment of the fair value of its assets, including the related goodwill that had previously been charged to reserves. As a result, the goodwill arising from the acquisitions of two subsidiary companies in 1998 was determined to have been impaired as at 31st December, 2000. The effect of this change in the accounting policy is to increase the accumulated losses and the capital reserve as at 1st January, 2001 by HK\$120.4 million. There is no attributable tax effect in respect of the prior year adjustments.

- (g) SSAP 32 prescribes the accounting treatment and disclosures in the preparation and presentation of consolidated financial statements. This has had no major impact on these financial statements.

2. Corporate Update and Basis of Presentation

As more fully explained in the audited consolidated financial statements for the year ended 31st December, 2000, certain of the Group's loan covenants for the maintenance of financial ratios under certain loan agreements have not been complied with. The total outstanding loans (the "Loans") affected in this manner amounted to HK\$4,901.6 million as at 30th June, 2001.

The Group continues to hold discussions with the lenders of the Loans with a view to securing their on-going support and their agreement to not exercising their rights to declare the Loans immediately due and repayable. Despite the non-compliance with the loan covenants as described above, to date, no notice (the "Declaration Notice") has been served to the Group to declare the Loans immediately due and repayable.

In order to improve its cash flow and financial position, the Group is actively working on the contemplated disposal of certain of its non-core assets (the "Disposal"). Furthermore, the Group is also considering alternative financing arrangements including, but not limited to, (i) negotiating with certain potential lenders with respect to a refinancing arrangement for certain of the Loans; and (ii) obtaining additional working capital funds through equity issues (collectively, the "Financing Arrangements").

On the bases that no Declaration Notice will be served to the Group, and the Disposal and the Financing Arrangements will be successful, the Directors are confident 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 interim condensed consolidated financial statements on a going concern basis.

3. Turnover

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

4. Segment Information

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and by geographical location is as follows:

	Turnover		Contribution	
	Six months ended 30th June, 2001 (Unaudited)	2000 (Unaudited and restated)	Six months ended 30th June, 2001 (Unaudited)	2000 (Unaudited)
	HK\$'million	HK\$'million	HK\$'million	HK\$'million
By activity:				
Hotel ownership and management	510.8	493.9	55.8	58.2
Property investment	0.7	-	0.4	-
Other operations and investments	32.0	38.6	(27.2)	63.4
	<u>543.5</u>	<u>532.5</u>	<u>29.0</u>	<u>121.6</u>
By geographical location:				
Hong Kong	473.4	452.2	35.5	56.2
U.S.A.	-	-	-	67.5
Canada	55.4	63.1	-	3.9
Others	14.7	17.2	(6.5)	(6.0)
	<u>543.5</u>	<u>532.5</u>	<u>29.0</u>	<u>121.6</u>

5. Other Revenue

Other revenue includes the following major item:

	Six months ended 30th June, 2001 (Unaudited)	Six months ended 30th June, 2000 (Unaudited)
	HK\$'million	HK\$'million
Interest income	<u>15.6</u>	<u>23.3</u>

6. Other Operating Expenses

Other operating expenses comprise the following items:

	Six months ended 30th June, 2001 (Unaudited)	Six months ended 30th June, 2000 (Unaudited)
	HK\$'million	HK\$'million
Depreciation	22.1	21.0
Loss on disposal of long term listed investments	26.4	-
	<u> </u>	<u> </u>

7. Finance Costs

	Six months ended 30th June, 2001 (Unaudited)	Six months ended 30th June, 2000 (Unaudited)
	HK\$'million	HK\$'million
Interest on bank loans, overdrafts and other loans wholly repayable within five years	166.4	197.6
Less: Interest capitalised in respect of property under development	-	(17.7)
	<u> </u>	<u> </u>
Amortisation of deferred expenditure	3.5	3.5
	<u> </u>	<u> </u>
Total finance costs	169.9	183.4
	<u> </u>	<u> </u>

8. Tax

	Six months ended 30th June, 2001 (Unaudited)	Six months ended 30th June, 2000 (Unaudited)
	HK\$'million	HK\$'million
The Group:		
Provision for tax in respect of profits for the period:		
Overseas	0.2	0.2
Capital gains tax — overseas	-	7.3
	<u> </u>	<u> </u>
Tax charge for the period	0.2	7.5
	<u> </u>	<u> </u>

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 period (2000 - 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 laws, practices and interpretations thereof.

No provision for tax is required for the associates or the jointly controlled entity as no assessable profits were earned by these associates or the jointly controlled entity during the period.

9. Loss Per Ordinary Share

The calculation of basic loss per ordinary share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$167.9 million (2000 - HK\$99.2 million), adjusted for the unpaid preference dividend for the period of HK\$3.4 million (2000 - HK\$3.4 million) and on the weighted average of 3,938.8 million (2000 - 3,935.9 million) ordinary shares of the Company in issue during the period.

No diluted loss per ordinary share is presented for the periods ended 30th June, 2000 and 2001, as the exercise of share options and the conversion of preference shares of the Company are anti-dilutive.

10. Dividend

The Directors have resolved not to declare the payment of any interim dividend in respect of the ordinary shares for the financial year ending 31st December, 2001 (2000 - nil).

At 30th June, 2001, there was cumulative unpaid dividend in arrears of HK\$17.5 million (31st December, 2000 - HK\$15.0 million) for the outstanding preference shares. Pursuant to the terms of the preference shares, if preference dividend is six months or more in arrears, the holders of the preference shares will have 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 interim condensed consolidated financial statements.

11. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK\$48.8 million (31st December, 2000 - HK\$64.4 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	30th June, 2001 (Unaudited)	31st December, 2000 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	44.8	56.9
Between 4 to 6 months	2.1	3.3
Between 7 to 12 months	2.6	3.5
Over 1 year	12.2	10.1
	<hr/>	<hr/>
Provisions	61.7 (12.9)	73.8 (9.4)
	<hr/>	<hr/>
	48.8	64.4
	<hr/> <hr/>	<hr/> <hr/>

Credit Terms

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

12. Creditors and Accruals

Included in the balance is an amount of HK\$71.0 million (31st December, 2000 - HK\$81.5 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	30th June, 2001 (Unaudited)	31st December, 2000 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	62.2	73.6
Between 4 to 6 months	5.4	2.9
Between 7 to 12 months	1.5	1.9
Over 1 year	1.9	3.1
	<u>71.0</u>	<u>81.5</u>

13. Reserves

	Share premium account (Unaudited)	Capital redemption reserve (Unaudited)	Capital reserve (Unaudited)	Revaluation reserves (Unaudited)	Exchange equalisation reserve (Unaudited)	Accumulated losses (Unaudited)	Total (Unaudited)
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1st January, 2001:							
As previously stated (Audited)	1,653.8	13.5	1,193.8	4,069.3	(12.3)	(826.4)	6,091.7
Prior year adjustment (note)	-	-	120.4	-	-	(120.4)	-
As restated	1,653.8	13.5	1,314.2	4,069.3	(12.3)	(946.8)	6,091.7
Movement in fair value of long term investments	-	-	-	(5.3)	-	-	(5.3)
Net loss for the period	-	-	-	-	-	(167.9)	(167.9)
Release on disposal of long term investments	-	-	-	29.2	-	-	29.2
Exchange realignments	-	-	-	-	(0.2)	-	(0.2)
At 30th June, 2001	<u>1,653.8</u>	<u>13.5</u>	<u>1,314.2</u>	<u>4,093.2</u>	<u>(12.5)</u>	<u>(1,114.7)</u>	<u>5,947.5</u>

Note: The prior year adjustment represents losses arising from impaired goodwill, the accounting treatment of which is further explained in note 1(f).

14. Related Party Transactions

The Group had the following material related party transactions during the period:

		Six months ended 30th June, 2001 (Unaudited)	Six months ended 30th June, 2000 (Unaudited)
	Notes	HK\$'million	HK\$'million
Construction work performed by a subsidiary company of Paliburg Holdings Limited ("PHL"), the immediate listed holding company of the Company	(c)	30.8	10.6
Operating lease rentals in respect of land and buildings paid to wholly-owned subsidiary companies of PHL	(c)	10.7	10.8
Consultancy fees in respect of the hotel projects paid to a wholly-owned subsidiary company of PHL	(a)	19.1	15.0
Advertising, promotion and information technology service fees (including cost reimbursements) paid to an associate	(b)	8.2	10.9
Management costs allocated from Century City International Holdings Limited	(c)	14.3	12.9
Guarantee given in respect of a bank loan of a jointly controlled entity	(c)	<u>990.0</u>	<u>990.0</u>

Notes:

- (a) The consultancy fees related to services provided by a subsidiary company of PHL which include, inter alia, advising on, co-ordinating and supervising the construction of, and professional services provided by architects, structural engineers and interior designer in connection with the new airport hotel in Chek Lap Kok. During the period, similar services were also provided on renovation projects at the other hotels of the Group. The fees were charged at 5 - 12.5% of the total construction and related costs of the individual projects. Where services provided were not covered by the original appointments, fees were negotiated on a case by case basis.
- (b) The advertising and promotion fees comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed. During the period, information technology services were also provided, the fees for which were charged on project basis.
- (c) The nature and terms of these related party transactions are similar to those disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2000.

15. Pledge of Assets

At 30th June, 2001, certain of the Group's long term and short term investments, hotel properties, leasehold properties and equipment, inventories and receivables with a total carrying value of HK\$10,137.3 million (31st December, 2000 - HK\$10,166.5 million) and the shares held in a jointly controlled entity were pledged to secure general banking facilities granted to the Group and the jointly controlled entity.

16. Contingent Liabilities

- (a) At 30th June, 2001, a corporate guarantee in the amount of HK\$990.0 million (31st December, 2000 - HK\$990.0 million) had been given by the Company in respect of banking facilities granted to a jointly controlled entity. The amount drawn against these facilities attributable to the Company at the end of the period amounted to HK\$753.3 million (31st December, 2000 - HK\$753.3 million).
- (b) On 18th November, 1999, Regal International (BVI) Holdings Limited ("Regal BVI"), a wholly-owned subsidiary company of the Group, entered into a securities purchase agreement ("SP Agreement") with an independent party (the "Purchaser") with respect to the disposal by Regal BVI to the Purchaser of its interests in hotel ownership and hotel management in the United States of America.

The SP Agreement contains representations, warranties and indemnification given by Regal BVI which are normal and usual for transactions of similar nature. At the date of this report, save for amounts ascertained and provided for in the financial statements, the Directors are unable either to assess the likelihood of the crystallisation of any contingent liability or to estimate the amounts thereof with reasonable accuracy.

17. Commitments

At 30th June, 2001, the Group had the following outstanding capital commitments:

	30th June, 2001 (Unaudited)	31st December, 2000 (Audited)
	HK\$'million	HK\$'million
Capital commitments in respect of acquisition of interest in a hotel property in The People's Republic of China:		
Authorised and contracted for	3.4	6.5
Capital commitments in respect of renovation or improvement of hotel properties:		
Authorised and contracted for	19.8	26.0
Authorised, but not contracted for	6.1	81.0
	25.9	107.0
	29.3	113.5

At 30th June, 2001, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	30th June, 2001 (Unaudited)
	HK\$'million
Land and buildings:	
Within one year	10.4
In the second to fifth years, inclusive	27.7
After five years	25.3
	<hr/> 63.4
Other equipment:	
Within one year	4.0
In the second to fifth years, inclusive	2.8
	<hr/> 6.8
	<hr/> <hr/> 70.2

At 31st December, 2000, the Group had annual commitments payable in the following year under non-cancellable operating leases in respect of:

	31st December, 2000 (Audited)
	HK\$'million
Land and buildings expiring:	
Within one year	6.1
In the second to fifth years, inclusive	6.9
	<hr/> 13.0
Other equipment expiring:	
Within one year	2.4
In the second to fifth years, inclusive	2.1
	<hr/> 4.5
	<hr/> <hr/> 17.5