

HALF YEAR RESULTS

Condensed Consolidated Profit and Loss Account

		Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited and restated)
	Notes	HK\$'million	HK\$'million
TURNOVER	3	342.6	481.0
Cost of sales		(290.7)	(366.7)
Gross profit		51.9	114.3
Other revenue	5	0.3	3.2
Administrative expenses		(25.2)	(37.9)
Other operating expenses, net	6	(28.4)	(14.0)
Loss on disposal of overseas subsidiary companies		(34.4)	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	3	(35.8)	65.6
Finance costs	7	(82.0)	(93.5)
Share of profits less losses of:			
Jointly controlled entity		(0.1)	–
Associates		(1.5)	2.5
LOSS BEFORE TAX		(119.4)	(25.4)
Tax	8	50.3	(7.0)
LOSS BEFORE MINORITY INTERESTS		(69.1)	(32.4)
Minority interests		–	–
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(69.1)	(32.4)
Loss per ordinary share (HK\$):			
Basic	9	(0.011)	(0.009)
Diluted		N/A	N/A



Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2003

	Share capital (Unaudited)	Share premium account (Unaudited)	Capital reserve (Unaudited)	Special 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	HK\$'million
At 1st January, 2003								
As previously stated	64.2	467.1	71.9	1,062.3	1,563.6	(14.3)	-	3,214.8
Prior year adjustments (Note)	-	-	-	-	-	-	(102.2)	(102.2)
As restated	64.2	467.1	71.9	1,062.3	1,563.6	(14.3)	(102.2)	3,112.6
Issue of shares	2.3	8.8	-	-	-	-	-	11.1
Share issue expenses	-	(0.2)	-	-	-	-	-	(0.2)
Movement in fair value of long term investments	-	-	-	-	7.1	-	-	7.1
Net loss for the period	-	-	-	-	-	-	(69.1)	(69.1)
Release on disposal of overseas subsidiary companies	-	-	(71.9)	-	52.4	7.9	-	(11.6)
Exchange realignments	-	-	-	-	-	7.7	-	7.7
At 30th June, 2003	66.5	475.7	-	1,062.3	1,623.1	1.3	(171.3)	3,057.6

	Share capital (Unaudited)	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	HK\$'million
At 1st January, 2002								
As previously stated	395.1	1,653.8	1,314.2	13.5	2,662.7	(14.8)	(1,461.0)	4,563.5
Prior year adjustments (Note)	-	-	-	-	-	-	(86.4)	(86.4)
As restated	395.1	1,653.8	1,314.2	13.5	2,662.7	(14.8)	(1,547.4)	4,477.1
Issue of shares	9.0	3.6	-	-	-	-	-	12.6
Share issue expenses	-	(0.3)	-	-	-	-	-	(0.3)
Movement in fair value of long term investments	-	-	-	-	11.3	-	-	11.3
Net loss for the period	-	-	-	-	-	-	(32.4)	(32.4)
Release on disposal of long term investments	-	-	-	-	1.7	-	-	1.7
Exchange realignments	-	-	-	-	-	1.8	-	1.8
At 30th June, 2002	404.1	1,657.1	1,314.2	13.5	2,675.7	(13.0)	(1,579.8)	4,471.8

Note: The prior year adjustments represented losses arising from the recognition of deferred tax liabilities in accordance with SSAP 12 (Revised), the accounting treatment of which was further explained in note 1 to the condensed consolidated financial statements.

Condensed Consolidated Balance Sheet

		30th June, 2003 (Unaudited)	31st December, 2002 (Restated)
	Notes	HK\$'million	HK\$'million
NON-CURRENT ASSETS			
Fixed assets		6,531.6	6,765.4
Interest in a jointly controlled entity		994.4	990.5
Interests in associates		21.3	21.3
Long term investments		37.1	30.0
Other loan		78.0	78.0
Deferred expenditure		12.3	15.7
Deferred tax assets		7.4	–
		<u>7,682.1</u>	<u>7,900.9</u>
CURRENT ASSETS			
Properties held for sale		–	28.0
Hotel and other inventories		16.6	22.4
Debtors, deposits and prepayments	11	483.5	513.5
Pledged time deposits		8.7	43.8
Time deposits		3.6	1.1
Cash and bank balances		6.9	20.2
		<u>519.3</u>	<u>629.0</u>
CURRENT LIABILITIES			
Creditors and accruals	12	248.4	247.4
Tax payable		9.9	9.6
Interest bearing bank and other borrowings		2,842.9	2,973.6
Convertible bonds		19.0	–
		<u>3,120.2</u>	<u>3,230.6</u>
NET CURRENT LIABILITIES		(2,600.9)	(2,601.6)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,081.2</u>	<u>5,299.3</u>



Condensed Consolidated Balance Sheet (Cont'd)

	30th June, 2003 (Unaudited)	31st December, 2002 (Restated)
	HK\$'million	HK\$'million
TOTAL ASSETS LESS CURRENT LIABILITIES	5,081.2	5,299.3
NON-CURRENT LIABILITIES		
Interest bearing bank and other borrowings	(1,964.4)	(2,034.5)
Convertible bonds	–	(50.0)
Deferred tax liabilities	(59.2)	(102.2)
	<u>3,057.6</u>	<u>3,112.6</u>
CAPITAL AND RESERVES		
Issued capital	66.5	64.2
Reserves	<u>2,991.1</u>	<u>3,048.4</u>
	<u>3,057.6</u>	<u>3,112.6</u>



Condensed Consolidated Cash Flow Statement

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'million	HK\$'million
Net cash inflow from operating activities	55.8	89.8
Net cash inflow from investing activities	38.1	11.7
Net cash outflow from financing activities	(105.8)	(111.7)
Decrease in cash and cash equivalents	(11.9)	(10.2)
Cash and cash equivalents at beginning of period	21.3	38.5
Effect of foreign exchange rate changes, net	1.1	0.3
Cash and cash equivalents at end of period	<u>10.5</u>	<u>28.6</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	6.9	27.2
Non-pledged time deposits with original maturity of less than three months when acquired	3.6	1.4
	<u>10.5</u>	<u>28.6</u>



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").

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, 2002, except that SSAP 12 (Revised) "Income taxes" has been adopted for the first time in the preparation of the current period's condensed consolidated financial statements.

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

The principal impact of the revision of this SSAP is that deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future. In addition, deferred tax assets have been recognised for the unused tax losses arising in the current/prior periods, to the extent that it is probable that sufficient future taxable profits will be available against which the unused losses can be utilised.

SSAP 12 (Revised) has no specific transitional arrangement and therefore the provisions in SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies" should be applied, which requires the change in accounting policy to be applied retrospectively. Thus comparative amounts for 2002 have been restated accordingly. The opening accumulated losses at 1st January, 2002 and 2003 have been increased by approximately HK\$86.4 million and HK\$102.2 million respectively, which represented the cumulative effect of the change in accounting policy. Tax expense for the six months ended 30th June, 2002 was increased by approximately HK\$6.9 million.

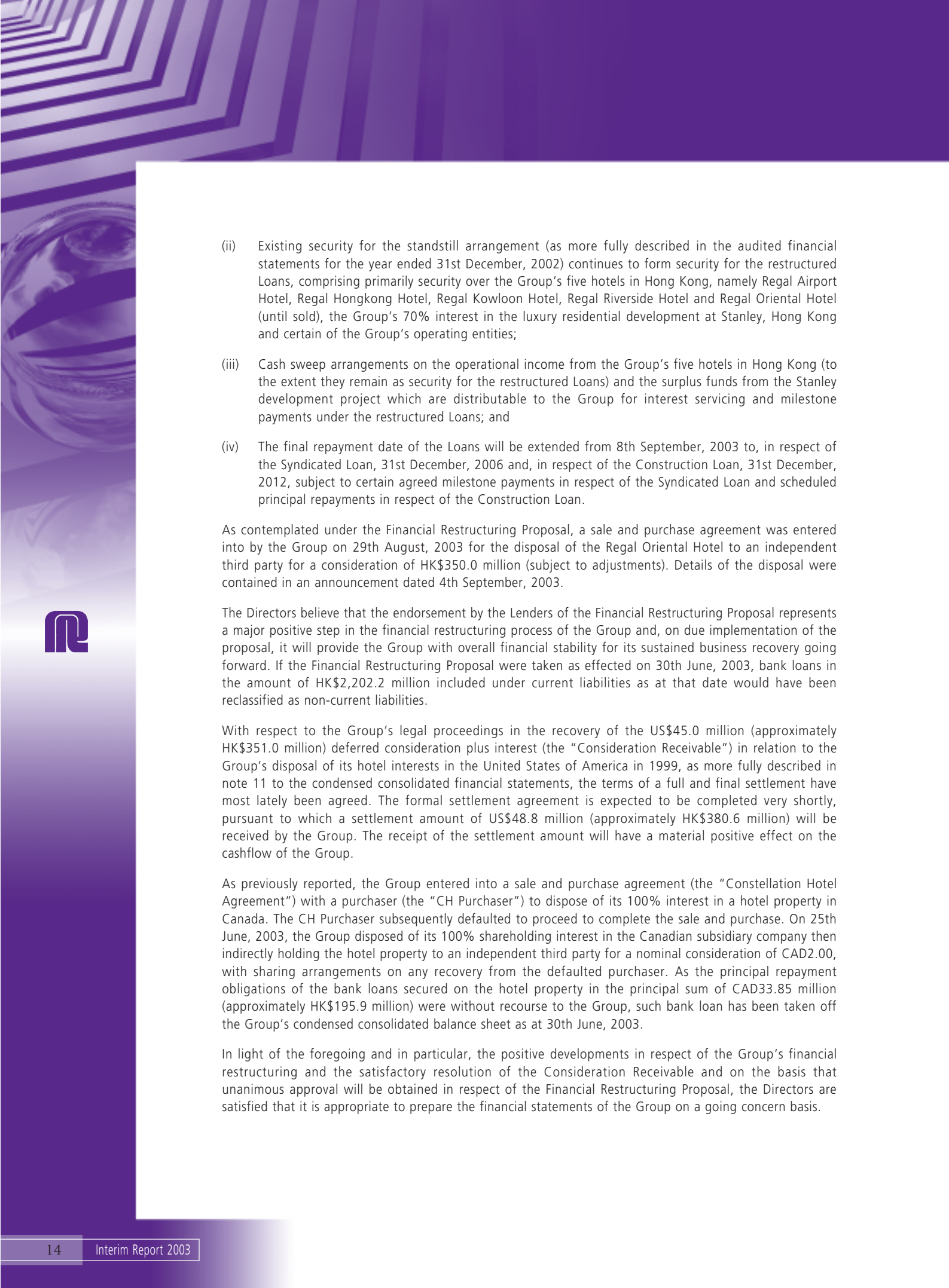

2. Corporate Update and Basis of Presentation

Following continuing discussions with the financial creditors of the Group, a proposal for a consensual restructuring of two loans in an aggregate amount of HK\$4,786.7 million as at 30th June, 2003 (the "Financial Restructuring Proposal"), comprising a syndicated loan of HK\$3,732.5 million (the "Syndicated Loan") and a construction loan of HK\$1,054.2 million (the "Construction Loan") (collectively the "Loans") was formulated and presented by the Group in August 2003 for consideration by the lenders of the Loans (the "Lenders"), aimed to replace the present Standstill Agreement (details of which were disclosed in the audited consolidated financial statements for the year ended 31st December, 2002). As of 3rd September, 2003, over 90% by value of the Lenders have in principle agreed to the proposal and the Group expects that unanimous approval will be obtained shortly. The proposal will be subject to the finalisation and signing of relevant loan documents by the Group and the Lenders.

The principal terms of the Financial Restructuring Proposal are set out below:

- (i) That a sale and purchase agreement relating to the disposal of the Regal Oriental Hotel is signed, and a cash deposit of not less than HK\$30.0 million is paid under the agreement, on or before 31st August, 2003;



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- (ii) Existing security for the standstill arrangement (as more fully described in the audited financial statements for the year ended 31st December, 2002) continues to form security for the restructured Loans, comprising primarily security over the Group's five hotels in Hong Kong, namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Riverside Hotel and Regal Oriental Hotel (until sold), the Group's 70% interest in the luxury residential development at Stanley, Hong Kong and certain of the Group's operating entities;
 - (iii) Cash sweep arrangements on the operational income from the Group's five hotels in Hong Kong (to the extent they remain as security for the restructured Loans) and the surplus funds from the Stanley development project which are distributable to the Group for interest servicing and milestone payments under the restructured Loans; and
 - (iv) The final repayment date of the Loans will be extended from 8th September, 2003 to, in respect of the Syndicated Loan, 31st December, 2006 and, in respect of the Construction Loan, 31st December, 2012, subject to certain agreed milestone payments in respect of the Syndicated Loan and scheduled principal repayments in respect of the Construction Loan.

As contemplated under the Financial Restructuring Proposal, a sale and purchase agreement was entered into by the Group on 29th August, 2003 for the disposal of the Regal Oriental Hotel to an independent third party for a consideration of HK\$350.0 million (subject to adjustments). Details of the disposal were contained in an announcement dated 4th September, 2003.

The Directors believe that the endorsement by the Lenders of the Financial Restructuring Proposal represents a major positive step in the financial restructuring process of the Group and, on due implementation of the proposal, it will provide the Group with overall financial stability for its sustained business recovery going forward. If the Financial Restructuring Proposal were taken as effected on 30th June, 2003, bank loans in the amount of HK\$2,202.2 million included under current liabilities as at that date would have been reclassified as non-current liabilities.

With respect to the Group's legal proceedings in the recovery of the US\$45.0 million (approximately HK\$351.0 million) deferred consideration plus interest (the "Consideration Receivable") in relation to the Group's disposal of its hotel interests in the United States of America in 1999, as more fully described in note 11 to the condensed consolidated financial statements, the terms of a full and final settlement have most lately been agreed. The formal settlement agreement is expected to be completed very shortly, pursuant to which a settlement amount of US\$48.8 million (approximately HK\$380.6 million) will be received by the Group. The receipt of the settlement amount will have a material positive effect on the cashflow of the Group.

As previously reported, the Group entered into a sale and purchase agreement (the "Constellation Hotel Agreement") with a purchaser (the "CH Purchaser") to dispose of its 100% interest in a hotel property in Canada. The CH Purchaser subsequently defaulted to proceed to complete the sale and purchase. On 25th June, 2003, the Group disposed of its 100% shareholding interest in the Canadian subsidiary company then indirectly holding the hotel property to an independent third party for a nominal consideration of CAD2.00, with sharing arrangements on any recovery from the defaulted purchaser. As the principal repayment obligations of the bank loans secured on the hotel property in the principal sum of CAD33.85 million (approximately HK\$195.9 million) were without recourse to the Group, such bank loan has been taken off the Group's condensed consolidated balance sheet as at 30th June, 2003.

In light of the foregoing and in particular, the positive developments in respect of the Group's financial restructuring and the satisfactory resolution of the Consideration Receivable and on the basis that unanimous approval will be obtained in respect of the Financial Restructuring Proposal, the Directors are satisfied that it is appropriate to prepare the financial statements of the Group on a going concern basis.

3. 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 other business segments. Summary details of the business segments are as follows:

- (a) the hotel ownership and management segment is engaged in hotel operation 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 laundry services and restaurant operations.

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

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 table presents revenue and profit/(loss) information for the Group's business segments.

Group

	Hotel ownership and management		Property development and investment		Brewery operations		Others		Eliminations		Consolidated	
	Six months ended 30th June, 2003 (Unaudited)	2002 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)	2002 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)	2002 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)	2002 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)	2002 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)	2002 (Unaudited) and restated
	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	323.0	467.2	-	-	17.6	9.2	2.0	4.6	-	-	342.6	481.0
Intersegment sales	0.1	0.2	0.2	0.2	-	-	4.1	6.5	(4.4)	(6.9)	-	-
Total	323.1	467.4	0.2	0.2	17.6	9.2	6.1	11.1	(4.4)	(6.9)	342.6	481.0
Segment results	(16.7)	82.5	-	(0.5)	(3.9)	(7.2)	0.2	(3.6)	-	-	(20.4)	71.2
Interest income and unallocated non-operating and corporate gains											0.2	3.3
Unallocated non-operating and corporate expenses, net											(15.6)	*(8.9)
Profit/(loss) from operating activities											(35.8)	65.6
Finance costs											(82.0)	(93.5)
Share of profits less losses of:												
Jointly controlled entity	-	-	(0.1)	-	-	-	-	-	-	-	(0.1)	-
Associates	(0.5)	(0.2)	-	-	-	-	(1.0)	2.7	-	-	(1.5)	2.5
Loss before tax											(119.4)	(25.4)
Tax											50.3	(7.0)
Loss before minority interests											(69.1)	(32.4)
Minority interests											-	-
Net loss from ordinary activities attributable to shareholders											(69.1)	(32.4)

* Inclusive of a write back of provision against a loan receivable amounting to HK\$10.5 million (note 6).

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments.

Group

	Hong Kong		Canada		Mainland China		Eliminations		Consolidated	
	Six months ended 30th June, 2003 (Unaudited) HK\$'m	Six months ended 30th June, 2002 (Unaudited) HK\$'m	Six months ended 30th June, 2003 (Unaudited) HK\$'m	Six months ended 30th June, 2002 (Unaudited) HK\$'m	Six months ended 30th June, 2003 (Unaudited) HK\$'m	Six months ended 30th June, 2002 (Unaudited) HK\$'m	Six months ended 30th June, 2003 (Unaudited) HK\$'m	Six months ended 30th June, 2002 (Unaudited) HK\$'m	Six months ended 30th June, 2003 (Unaudited) HK\$'m	Six months ended 30th June, 2002 (Unaudited) HK\$'m
Segment revenue: Sales to external customers	292.8	423.8	32.2	48.0	17.6	9.2	-	-	342.6	481.0



4. Discontinued Operation

As previously reported, the Group entered into a sale and purchase agreement with a purchaser (the "CH Purchaser") to dispose of its 100% interest in a hotel property in Canada. The CH Purchaser subsequently defaulted to proceed to complete the sale and purchase. Since the default by the CH Purchaser, on 25th June, 2003, the Group disposed of its 100% shareholding interest in the Canadian subsidiary company then indirectly holding the hotel property to an independent third party for a nominal consideration of CAD2.00, with sharing arrangements on any recovery from the defaulted purchaser. Accordingly, a loss on disposal of HK\$34.4 million was accounted for in the current period consolidated profit and loss account. The principal repayment obligations of the bank loans secured on the hotel property in the principal sum of approximately CAD33.85 million (approximately HK\$195.9 million) have no recourse against the Group.

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

	31st December, 2002 (Audited)
	HK\$'million
Total assets	226.9
Total liabilities	<u>(170.7)</u>
Net assets	<u><u>56.2</u></u>

The turnover, expenses and results from the discontinued operation for the six months ended 30th June, 2002 and 2003 are as follows:

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'million	HK\$'million
TURNOVER	32.2	48.0
Cost of sales	<u>(37.3)</u>	<u>(46.0)</u>
Gross profit/(loss)	(5.1)	2.0
Administrative expenses	(1.9)	(1.9)
Other operating expenses	<u>(1.1)</u>	<u>(1.3)</u>
LOSS FROM OPERATING ACTIVITIES	(8.1)	(1.2)
Finance costs	<u>(4.2)</u>	<u>(3.0)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u><u>(12.3)</u></u>	<u><u>(4.2)</u></u>
The net cash flows attributable to the discontinued operation are as follows:		
Operating	0.1	2.1
Investing	(0.3)	(0.2)
Financing	<u>(5.4)</u>	<u>(3.0)</u>
Net cash outflows	<u><u>(5.6)</u></u>	<u><u>(1.1)</u></u>



5. Other Revenue

Other revenue includes the following major item:

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'million	HK\$'million
Interest income	<u>0.1</u>	<u>1.7</u>

6. Other Operating Expenses, net

Other operating expenses, net, include the following major items:

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'million	HK\$'million
Depreciation	21.2	22.9
Loss on disposal of long term unlisted investments	–	1.6
Write back of provision against a loan receivable	–	(10.5)
	<u> </u>	<u> </u>

7. Finance Costs

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'million	HK\$'million
Interest on bank loans, convertible bonds and other loans wholly repayable within five years	78.5	90.0
Amortisation of deferred expenditure	<u>3.5</u>	<u>3.5</u>
Total finance costs	<u>82.0</u>	<u>93.5</u>



8. Tax

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited and restated)
	HK\$'million	HK\$'million
Group:		
Current - overseas		
Provision for tax in respect of profits for the period	0.1	0.1
Deferred tax expenses/(income)	(50.4)	6.9
Tax charge/(credit) for the period	(50.3)	7.0

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 (2002 - 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.

Deferred tax expenses/(income) has been calculated by applying the rate that is expected to apply in the period when the asset is realised or the liability is settled.

9. 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 period of HK\$69.1 million (2002 - HK\$32.4 million, as restated), adjusted for the unpaid preference dividend for the period of HK\$3.4 million (2002 - HK\$3.4 million), and on the weighted average of 6,330.1 million (2002 - 3,990.2 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, 2002 and 2003, as the exercise of share options of the Company and the conversion of preference shares and convertible bonds convertible into ordinary 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, 2003 (2002 - nil).

At 30th June, 2003, there was cumulative unpaid dividend in arrears of HK\$31.2 million (31st December, 2002 - HK\$27.8 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\$28.4 million (31st December, 2002 - HK\$49.5 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	30th June, 2003 (Unaudited)	31st December, 2002 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	23.9	46.0
Between 4 to 6 months	3.5	2.4
Between 7 to 12 months	3.4	2.2
Over 1 year	8.8	8.3
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	39.6	58.9
Provisions	(11.2)	(9.4)
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	28.4	49.5
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Included in debtors, deposits and prepayments is 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 ("USA") in December 1999 (the "Disposal"); and (ii) certain interest aggregating HK\$49.1 million accrued thereon at 7% per annum (collectively, the "Consideration Receivable"). Pursuant to the terms of the securities purchase agreement (the "Disposal Agreement") entered into between the Group and the purchaser (the "Purchaser") in respect of the Disposal, the Deferred Consideration and the interest accrued thereon were due to be paid by the Purchaser on 17th December, 2001.

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 Agreement in December 1999. As previously reported, while most of the claims for such 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 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 before the end of the indemnity period in December 2004. 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 legal proceedings against the Purchaser was undertaken in the form of a lawsuit in which a motion was made for summary judgement on a breach of contract claim in respect of a principal amount of US\$39.3 million (equivalent to approximately HK\$306.2 million), together with interest. This motion for summary judgement was, among others, heard in the United States District Court for the Southern District of New York on 30th May, 2003. A written decision dated 30th June, 2003 was issued by the District Court Judge, in which the Group's motion for summary judgement on the breach of contract claim with regard to the amount of US\$39.3 million (equivalent to approximately HK\$306.2 million) was granted. A separate hearing was held on 4th September, 2003 to determine what amount of interest, if any, was also due.



The Group and the Purchaser have subsequently agreed on the terms of a full and final settlement of the legal proceedings relating to the Consideration Receivable, involving the payment to the Group by the Purchaser of a gross settlement amount of US\$48.8 million (approximately HK\$380.6 million) (the "Settlement Amount") and the total resolution and release of all claims by and between the Group and the Purchaser under or in connection with the Disposal Agreement. The formal settlement agreement is expected to be completed very shortly.

The Group's receipt of the Settlement Amount will effectively settle the Consideration Receivable and certain other related receivable of HK\$0.7 million, and at the same time eliminate a provision made against certain tax indemnity in the amount of HK\$24.2 million included in creditors and accruals under current liabilities.

Credit Terms

Trade debtors, which generally have credit terms of 30 to 90 days, are recognised and carried at their original invoiced 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\$77.5 million (31st December, 2002 - HK\$81.7 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	30th June, 2003 (Unaudited)	31st December, 2002 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	65.9	67.0
Between 4 to 6 months	3.9	12.3
Between 7 to 12 months	5.8	1.3
Over 1 year	1.9	1.1
	<hr/> 77.5 <hr/>	<hr/> 81.7 <hr/>



13. Related Party Transactions

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

	Six months ended 30th June, 2003 (Unaudited)	Six months ended 30th June, 2002 (Unaudited)
	HK\$'million	HK\$'million
Construction work performed by a subsidiary company of Paliburg Holdings Limited ("PHL"), the immediate listed holding company of the Company	–	4.8
Minimum lease payment under operating leases in respect of land and buildings paid to wholly-owned subsidiary companies of PHL	–	4.4
Advertising, promotion and information technology service fees (including cost reimbursements) paid to an associate	2.9	4.8
Management costs allocated from Century City International Holdings Limited ("CCIHL"), the listed ultimate holding company of the Company	5.7	11.5
Guarantee given in respect of a banking facility granted to a jointly controlled entity	<u>2,359.0</u>	<u>990.0</u>

The nature and terms of the above related party transactions are similar to those disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2002.

14. Pledge of Assets

At 30th June, 2003, certain of the Group's cash and bank balances, time deposits, long term investments, interests in associates, hotel properties, leasehold properties and equipment, inventories and receivables with a total carrying value of HK\$7,204.2 million (31st December, 2002 - HK\$7,521.1 million) and the shares held 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 5% guaranteed convertible bonds due 2004 (the "Convertible Bonds").

15. Contingent Liabilities

- (a) At 30th June, 2003, a corporate guarantee in the amount of HK\$2,359.0 million (31st December, 2002 – HK\$2,310.0 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\$2,114.9 million (31st December, 2002 – HK\$1,938.4 million).
- (b) At the balance sheet date, certain employees of the Group had completed the required number of years of service under the Employment Ordinance (the "Ordinance") to be eligible for long service payments upon termination of their employment. The Group is only liable to make such payments where the termination falls within the required circumstance specified in the Ordinance. If the termination of such employees falls within the circumstances required by the Ordinance, the Group's liability at the balance sheet date, after deducting the attributable asset balance of the employer's contribution to the Mandatory Provident Fund, would have increased by approximately HK\$14.6 million. No provision has been made for this amount in the condensed consolidated financial statements.
- (c) As described in note 11 to the condensed consolidated financial statements, the Group entered into the Disposal Agreement with respect to the disposal of its hotel interests in the United States of America in 1999.

The Disposal Agreement contains representations, warranties and indemnification given by the Group which are normal and usual for transactions of similar nature. As more fully described in note 11, all contingent liabilities of the Group under or in connection with the Disposal Agreement will be released upon completion of the formal settlement agreement.

16. Operating Lease Arrangements

- (a) As lessor

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 5 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At 30th June, 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30th June, 2003 (Unaudited)	31st December, 2002 (Audited)
	HK\$'million	HK\$'million
Within one year	11.8	15.7
In the second to fifth years, inclusive	3.5	6.7
	<u>15.3</u>	<u>22.4</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. In the prior year, leases for office equipment were negotiated for terms ranging between 5 months and 9 years.

At 30th June, 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2003 (Unaudited)	31st December, 2002 (Audited)
	HK\$'million	HK\$'million
Land and buildings:		
Within one year	7.2	7.2
In the second to fifth years, inclusive	27.6	27.6
After the fifth year	11.5	15.0
	<u>46.3</u>	<u>49.8</u>
Other equipment:		
Within one year	–	3.6
In the second to fifth years, inclusive	–	0.6
	<u>–</u>	<u>4.2</u>
	<u>46.3</u>	<u>54.0</u>

17. Commitments

In addition to the operating lease commitments detailed in note 16(b) above, the Group had the following outstanding capital commitments:

	30th June, 2003 (Unaudited)	31st December, 2002 (Audited)
	HK\$'million	HK\$'million
Capital commitments in respect of the renovation of or improvements to the hotel properties:		
Authorised and contracted for	11.6	12.5
Authorised, but not contracted for	79.9	82.9
	<u>91.5</u>	<u>95.4</u>



18. Post Balance Sheet Events

Subsequent to the balance sheet date, in addition to the events detailed elsewhere in the interim condensed consolidated financial statements, the Group had the following significant transactions:

- (i) In July 2003, a total of 180.0 million new ordinary shares were issued by the Company through placement to certain independent investors, at a price of HK\$0.048 per ordinary share. Net proceeds arising therefrom in an aggregate sum of approximately HK\$8.4 million were used by the Group for general working capital purposes.
- (ii) In July 2003, a total of 395.8 million new ordinary shares were allotted and issued by the Company upon conversion of the Convertible Bonds in the aggregate principal amount of HK\$19.0 million at the adjusted conversion price of HK\$0.048 per ordinary share.
- (iii) In July 2003, the relevant third party purchaser partially exercised the option to subscribe for additional Convertible Bonds of up to an aggregate principal amount of HK\$50.0 million (the "Optional Bonds") pursuant to the subscription agreement dated 12th September, 2002 relating to the Convertible Bonds. As a result, the Group issued additional Optional Bonds in an aggregate principal amount of HK\$20.0 million to the purchaser. The cash proceeds arising therefrom were used for general working purposes. The HK\$20.0 million Optional Bonds so issued have subsequently been converted into a total of 416.7 million new ordinary shares of the Company, at the adjusted conversion price of HK\$0.048 per ordinary share.



19. Share Options

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.

During the period, details of Directors' interests in and movements in share options granted by the Company pursuant to the Share Option Scheme are as follows:

Date of grant of share options	Name of Director	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options** HK\$
		At 1st January, 2003	Lapsed during the period	At 30th June, 2003		
5th August, 1993	Mr. Donald Fan Tung					
	Vested:	1,080,000	-	1,200,000	Note 1	1.1083
Unvested:	120,000	-	-	Note 1		
5th August, 1993	Ms. Belinda Yeung Bik Yiu					
	Vested:	150,000	-	180,000	Note 1	1.1083
	Unvested:	30,000	-	-	Note 1	
		1,380,000	-	1,380,000		
Total:	2,460,000	-	2,460,000			
22nd February, 1997	Ms. Belinda Yeung Bik Yiu					
	Vested:	540,000	-	648,000	Note 1	2.1083
	Unvested:	540,000	-	432,000	Note 1	
		1,080,000	-	1,080,000		
Total:	2,460,000	-	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.



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 period end date, would have, with the present capital structure of the Company, resulted in the issue of 0.6 million additional ordinary shares and share premium of HK\$1.4 million (before issue expenses).

20. Comparative Amounts

As further explained in note 1 to the condensed consolidated financial statements, due to the adoption of SSAP 12 (Revised) during the current period, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current period's presentation.

