1. CORPORATE INFORMATION

During the year, the Group was principally engaged in hotel ownership and management, property development and investment, and other investments (including investment and trading of marketable securities).

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 recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) : "Events after the balance sheet date"
- SSAP 14 (Revised) : "Leases"
- SSAP 18 (Revised) : "Revenue"
- SSAP 26 : "Segment reporting"
- 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"
- Interpretation 12 : "Business combinations — subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 : "Goodwill — continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

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 Interpretations are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. This has had no major impact on these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 40 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. This has had no major impact on these financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. This has had no major impact on these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 4 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has resulted in a prior year adjustment, further details of which are included in note 30 to the financial statements. The required new additional disclosures are included in note 30 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these 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$514.2 million for the year ended 31st December, 2001 (2000 - HK$347.9 million, as restated). As at 31st December, 2001, the Group had net current liabilities of HK$389.9 million. Between 1998 and 2000, the net asset value attributable to shareholders has declined significantly, which was 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. Due to the continued economic downturn, the Group also recorded substantial revaluation deficits of HK$1,515.1 million on its hotel properties for the year ended 31st December, 2001, thereby contributing to a further decline in the net asset value attributable to shareholders from HK$6,486.8 million as at 31st December, 2000 to HK$4,563.5 million as at 31st December, 2001. Again, in 2001, certain other financial ratios specified under the loan covenants have not been complied with by the Group. The total outstanding loans affected in this respect amounted to HK$4,901.6 million as at 31st December, 2001, comprising a syndicated loan of HK$3,822.1 million (the "Syndicated Loan") and a construction loan of HK$1,079.5 million (the "Construction Loan") (collectively, the "Loans") (note 25).

In addition to the foregoing, certain interest and/or principal instalments of the Construction Loan, and a term loan borrowed by a subsidiary company in Canada, with outstanding principal as at 31st December, 2001 of CAD$35.5 million (approximately HK$174.2 million) (the "Canada Loan"), remained unpaid during the year and to date.

Pursuant to the terms of the respective loan agreements, the failure either to maintain the financial ratios specified thereunder, where applicable, or a default in interest and/or principal repayments constitutes an event of default. In respect of the Loans, as confirmed in a legal opinion obtained from the Group's legal advisers, the agents who act on behalf of the relevant lenders thereof (the "Agents") may, upon receiving notice as to the non-compliance with the loan covenants, require remedy of such breach and, after lapse of a specified period of time for the remedy of the cause of such non-compliance, upon the instruction of the specified majority of the relevant lenders, may serve notice to the Group to declare the Loans immediately due and repayable. The Agents have been informed of the Group's non-compliance with the loan covenants. Unless and until the notice is served by the Agents to declare the Loans immediately due and repayable, the Loans remain repayable in accordance with their original stated maturity dates.

With respect to the Canada Loan, which is secured by a pledge of the Group's hotel property in Canada, upon the occurrence of an event of default, the lender may exercise its discretion to declare the loan immediately due and repayable. To date, no such discretion has been exercised by the lender. However, the Group has appointed an agent to sell the hotel property in Canada with a view to fully repay the Canada Loan.

The Syndicated Loan agreement contains cross default provisions to the effect that if, inter alia, any indebtedness in respect of borrowed money of any principal subsidiary companies within the Group (i) is not paid when due or within any applicable grace period; or (ii) becomes due and payable prematurely by reason of an event of default, the Syndicated Loan will become immediately due and repayable once a notice is served by the agent of the lenders of the Syndicated Loan (the "Syndicated Loan Lenders"). To date, neither the notice has been served by the agent who acts on behalf of the lenders of the Construction Loan (the "Construction Loan Lenders"), nor has the discretion been exercised by the lender of the Canada Loan, to declare an event of default. Accordingly, there is currently no cross default in respect of the Syndicated Loan.

Pursuant to the terms of the loan agreement in respect of the Syndicated Loan, put options (the "Put Options") were granted to the respective Syndicated Loan Lenders who may require the Group to prepay their respective participations in the remaining outstanding indebtedness on the option exercise date on 8th September, 2002, by serving a notice to the Group at least 3 months before the option exercise date. To date, as confirmed by the agent of the Syndicated Loan, no notice to exercise the Put Options has been served by the Syndicated Loan Lenders to the Group.

On the basis that (i) the Agents of the Loans have not served and the Directors do not expect that they will serve notice to the Group to declare the Loans immediately due and repayable; and (ii) the Syndicated Loan Lenders have not exercised and the Directors do not expect that they will exercise their respective Put Options, during the forthcoming year, and having regard to the past and anticipated support the Group has and hopes to continue to receive 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, 2001 in accordance with their original maturity terms under the loan agreements.

The Group continues to hold discussions with the lenders of the Loans with a view to securing their ongoing support. In April 2002, the Group appointed a financial adviser to assist in the discussions on a proposed restructuring of the Loans, which would include a rescheduling of the principal repayments of the Loans (the "Loans Restructuring") in order to allow time and provide financial stability to the Group to (i) improve the performance and hence the value of its core hotel assets; (ii) realise other non-hotel related receivables, including the US$45.0 million deferred consideration plus interest in relation to the Group's disposal of its hotel interests in the United States of America in 1999 (the "Consideration Receivable") (see note 23 for further details); and (iii) implement an asset disposal programme and complete the Financing Arrangements as further detailed below. The Directors are hopeful that, with the continued support of the lenders of the Loans, the Group's overall financial position will gradually stabilise.

With a view to improving its cash flow and profitability, the Group is actively working on the disposal of certain of its hotel and other non-core assets so that additional resources may be directed to its core hotel operations (the "Disposal Programme"). Furthermore, the Group is also considering other financing arrangements, including the raising of additional working capital through equity issues ("Financing Arrangements").

On the bases that the Loans Restructuring, the recovery of the Consideration Receivable and the Financing Arrangements will be successful, and the Disposal Programme will be successfully implemented, 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 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 investment properties, hotel properties and certain equity investments, as further explained below.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary companies for the year ended 31st December, 2001, 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.

(c) Goodwill/Negative goodwill

Goodwill arising on the acquisition of subsidiary companies 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 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 prior years, goodwill/negative goodwill arising on acquisitions was eliminated against consolidated reserves/credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill/negative goodwill on acquisitions which occurred prior to 1st January, 2001, to remain eliminated against consolidated reserves/credited to the capital reserve. Goodwill/Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiary companies, 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 previously eliminated against consolidated reserves 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 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:

(a) a subsidiary company, if the Company has unilateral control over the joint venture company;

(b) a jointly controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds 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

(d) a long term investment, if the Company holds 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.

(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.

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 (p) 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) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

(k) Capitalised borrowing costs

Interest incurred on borrowings to finance the construction and development of property under development is capitalised and is included in the carrying value of the asset. Interest is capitalised at the Group's weighted average interest rate on external borrowings and, where applicable, the interest rates related to specific development project borrowings.

(l) 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.

(m) 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. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

(n) 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.

(o) Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

(p) Fixed assets and depreciation

Fixed assets, other than investment and hotel properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

The gain or loss on disposal or retirement of a fixed asset, other than investment and hotel properties, recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation of fixed assets, other than investment and hotel properties, is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining lease terms
Freehold and leasehold properties	Over the shorter of 40 years or the remaining lease terms
Leasehold improvements	Over the remaining lease terms
Other furniture, fixtures and equipment	10% - 25% or replacement basis
Motor vehicles	25%

(q) 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.

(r) 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.

(s) 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.

(t) 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.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Foreign currency transactions during the year are recorded at the rates existing on the respective transaction dates. Profits and losses on exchange 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 at the applicable rates of exchange ruling at the balance sheet date. All translation differences arising on consolidation are dealt with in the exchange equalisation reserve.

(u) 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.

(v) 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.

(w) 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. The MPF Scheme has operated since 1st December, 2000. 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 become vested with the employee partly or fully, in accordance with the rules of the MPF Scheme.

Prior to the MPF Scheme being effective, the Group operated a defined contribution retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way to the MPF Scheme, except that when an employee left the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contriubtions.

The employees of the Group's subsidiary companies which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiary companies are required to contribute 27% of their payroll costs to the central pension scheme.

(x) 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.

(y) Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. 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 the PRC; and

(d) the other segment mainly comprises the Group's securities trading, travel services, restaurant operations, florist and wedding services.

In determining the Group's geographical segments, revenues and results 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	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	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	1,001.5	1,075.7	1.2	1.0	19.9	29.0	34.5	35.7	–	–	1,057.1	1,141.4
Intersegment sales	0.9	1.1	0.3	0.3	–	–	16.1	11.2	(17.3)	(12.6)	–	–
Total	**1,002.4**	**1,076.8**	**1.5**	**1.3**	**19.9**	**29.0**	**50.6**	**46.9**	**(17.3)**	**(12.6)**	**1,057.1**	**1,141.4**
Segment results	133.3	197.6	(14.6)	(5.1)	(69.0)	(80.2)	(22.4)	(27.1)	–	–	27.3	85.2
Interest income and unallocated non-operating and corporate gains											31.4	118.9
Unallocated non-operating and corporate expenses											(232.0)	(110.7)
Profit/(Loss) from operating activities											**(173.3)**	**93.4**
Finance costs											**(300.2)**	**(369.4)**
Share of profits less losses of:												
Jointly controlled entity	–	–	(39.0)	(61.0)	–	–	–	–	–	–	**(39.0)**	**(61.0)**
Associates	–	3.9	–	–	–	–	(2.7)	(1.3)	–	–	**(2.7)**	**2.6**
Loss before tax											**(515.2)**	**(334.4)**
Tax											**0.1**	**(15.1)**
Loss before minority interests											**(515.1)**	**(349.5)**
Minority interests											**0.9**	**1.6**
Net loss from ordinary activities attributable to shareholders											**(514.2)**	**(347.9)**

(a) Business segments *(continued)*

Group

	Hotel ownership and management		Property development and investment		Brewery operations		Others		Eliminations		Consolidated	
	2001	**2000**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**
	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	8,577.6	10,163.6	47.3	67.2	53.6	117.4	10.2	25.3	(8.3)	(11.8)	8,680.4	10,361.7
Interests in associates	–	–	–	–	–	–	16.8	10.1	–	–	16.8	10.1
Interest in a jointly controlled entity	–	–	489.7	477.2	–	–	–	–	–	–	489.7	477.2
Cash and unallocated assets											756.2	1,083.7
Total assets											9,943.1	11,932.7
Segment liabilities	(157.2)	(241.9)	(3.4)	(1.4)	(19.3)	(21.5)	(12.0)	(18.5)	8.3	11.8	(183.6)	(271.5)
Bank and other borrowings and unallocated liabilities											(5,196.0)	(5,173.5)
Total liabilities											(5,379.6)	(5,445.0)
Other segment information:												
Depreciation	37.5	33.8	0.1	0.1	5.3	5.3	2.5	2.7				
Impairment losses recognised in the profit and loss account	–	–	–	–	50.8	71.7	–	–				
Capital expenditure	62.5	128.0	–	0.3	0.5	1.7	1.0	–				
Other non-cash expenses	4.0	3.1	14.9	5.2	–	–	–	–				

(b) Geographical segments

The following table presents revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Canada		PRC		Eliminations		Consolidated	
	2001	**2000**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**
	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	940.4	984.1	95.6	127.3	21.1	30.0	–	–	1,057.1	1,141.4
Segment results	115.0	158.6	(2.5)	12.9	(85.2)	(86.3)	–	–	27.3	85.2
Other segment information:										
Segment assets	8,373.9	9,929.7	205.2	239.5	101.3	192.5	–	–	8,680.4	10,361.7
Capital expenditure	61.4	124.3	2.1	3.7	0.5	2.0				

6. 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	
	2001 HK$'million	**2000 HK$'million (Restated)**
Hotel operations and management services*	**967.0**	1,047.8
Other operations, including travel services, florist, restaurant operations, wedding services and brewery operations	**46.5**	53.6
Rental income:		
Hotel properties	**34.5**	27.9
Properties held for sale	**1.2**	–
Investment properties	**–**	1.0
Proceeds from the sale of short term listed investments	**7.9**	11.1
Turnover	**1,057.1**	1,141.4

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

7. OTHER OPERATING EXPENSES/PROVISIONS FOR WRITE-DOWNS AND IMPAIRMENTS

	GROUP	
	2001 **HK$'million**	**2000** **HK$'million**
Other operating expenses include the following items:		
Loss on disposal of long term listed investments (after a transfer from the revaluation reserve of a deficit of HK$139.1 million)	**141.4**	–
Tax indemnity in respect of the disposal of overseas subsidiary companies/partnerships in prior year	**–**	24.2

	2001 **HK$'million**	**2000** **HK$'million**
Provisions for write-downs and impairments represent the following items*:		
Write-down in values of properties held for sale	**14.9**	–
Impairment of fixed assets	**50.8**	–
Provisions against other loans, promissory notes and interest receivable	**56.8**	–
Deficit on revaluation of investment properties	**–**	5.2
Impairment of goodwill previously eliminated against capital reserve (note 30)	**–**	120.4
	122.5	125.6

* These amounts in the prior year were classified as other operating expenses. To accord with the presentation in the current year which, in the opinion of the Directors, better reflects the nature of the transaction, they have been reclassified to provisions for write-downs and impairments.

8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

	GROUP	
	2001 HK$'million	2000 HK$'million (Restated)
Cost of inventories sold and services provided*	**633.0**	674.3
Staff costs (exclusive of directors' remuneration disclosed in note 10):		
Wages and salaries*#	**416.5**	420.3
Staff retirement scheme contributions	**18.6**	15.0
Less: Forfeited contributions	**(3.5)**	(5.7)
Net retirement scheme contributions	**15.1**	9.3
	431.6	429.6
Auditors' remuneration	**3.5**	3.7
Unrealised loss on revaluation of short term investments	**–**	4.6
Loss on disposal of fixed assets	**3.3**	1.5
Minimum lease payments under operating leases:		
Land and buildings	**21.4**	23.5
Other equipment	**1.0**	1.1
Depreciation	**45.4**	41.9
and after crediting:		
Gross rental income	**35.7**	28.9
Less: Outgoings	**(7.4)**	(6.3)
Net rental income	**28.3**	22.6
Dividend income from listed investments	**1.8**	0.8
Interest income from:		
Bank balances	**3.1**	21.2
Other loans and receivable	**25.1**	25.3
Associate	**0.2**	0.2
	28.4	46.7
Gain on disposal of long term listed investments (after a transfer from the revaluation reserve of a deficit of HK$0.9 million)	**–**	0.7

* Refer to note 6 to the financial statements.

\# Inclusive of an amount of HK$410.9 million (2000 - HK$408.1 million, as restated) classified under cost of inventories sold and services provided.

9. FINANCE COSTS

	GROUP	
	2001 **HK$'million**	**2000** **HK$'million**
Interest on bank loans and other loans wholly repayable within five years	**293.2**	394.8
Less: Interest capitalised in respect of property under development	**–**	(32.4)
	293.2	362.4
Amortisation of deferred expenditure	**7.0**	7.0
Total finance costs	**300.2**	369.4

10. DIRECTORS' REMUNERATION

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

	GROUP	
	2001 HK$'million	**2000 HK$'million**
Fees	**0.8**	0.8
Salaries and other allowances	**4.0**	3.9
Performance related/discretionary bonuses	**–**	0.3
Staff retirement scheme contributions	**0.3**	–
	5.1	5.0

The independent Non-Executive Directors of the Company were entitled to a total sum of HK$0.4 million (2000 - 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, 2001.

The remuneration of the Directors fell within the following bands:

HK$	**2001 Number of Directors**	**2000 Number of Directors**
Nil - 1,000,000	**5**	5
1,000,001 - 1,500,000	**1**	1
3,000,001 - 3,500,000	**1**	1

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. Further details of the Company's share option scheme are set out under the heading "Directors' Interests in and Movements in Share Options granted by the Company" in the Report of the Directors.

11. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included two (2000 - two) Directors, details of whose remuneration are disclosed in note 10 to the financial statements. The emoluments of the other three (2000 - three) individuals, who were not Directors, are as follows:

	GROUP	
	2001 HK$'million	**2000 HK$'million**
Salaries and other emoluments	**2.8**	2.8
Staff retirement scheme contributions	**0.1**	0.1
	2.9	2.9

The emoluments of the three (2000 - three) individuals fell within the following bands:

HK$	**2001 Number of individuals**	**2000 Number of individuals**
Nil - 1,000,000	**2**	3
1,000,001 - 1,500,000	**1**	–

During the year, no share options were granted to the three non-directors, highest paid employees in respect of their services to the Group. Further details of the Company's share option scheme are included in the disclosures set out under the heading "Directors' Interests in and Movements in Share Options granted by the Company" in the Report of the Directors.

12. TAX

	GROUP	
	2001 **HK$'million**	**2000** HK$'million
The Company and subsidiary companies:		
Provision for tax in respect of profits for the year:		
Overseas	**0.3**	2.8
Prior year overprovision:		
Overseas	**(0.5)**	–
Capital gains tax – overseas	**–**	12.3
	(0.2)	15.1
Associate:		
Hong Kong	**0.1**	–
Tax charge/(credit) for the year	**(0.1)**	15.1

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 (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 legislation, practices and interpretations 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 (2000 - Nil).

No provision for tax is required for the jointly controlled entity as no assessable profits was earned by the jointly controlled entity during the year.

At the balance sheet date, the Group had no material unprovided deferred tax liabilities (2000 - Nil).

13. 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$1,923.3 million (2000 - HK$216.6 million).

14. DIVIDEND

At 31st December, 2001, there was a cumulative unpaid dividend in arrears of HK$20.9 million (2000 - HK$15.0 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.

15. 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$514.2 million (2000 - HK$347.9 million, as restated), adjusted for the unpaid preference dividend for the year of HK$6.9 million (2000 - HK$6.9 million), and on the weighted average of 3,938.8 million (2000 - 3,936.3 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, 2000 and 2001, as the exercise of share options and the conversion of preference shares of the Company are anti-dilutive for these years.

16. FIXED ASSETS

GROUP

	1st January, 2001 HK$'million	Exchange adjustments HK$'million	Additions/ Depreciation for the year HK$'million	Impairment* during the year recognised in the profit and loss account HK$'million	Disposals HK$'million	Transfer to properties held for sale HK$'million	Deficit on revaluation HK$'million	31st December, 2001 HK$'million
At valuation:								
Investment properties	63.2	–	–	–	–	(63.2)	–	**–**
Hotels, including furniture, fixtures and equipment	10,194.2	(15.1)	61.9	–	(0.1)	–	(1,515.1)	**8,725.8**
	10,257.4	(15.1)	61.9	–	(0.1)	(63.2)	(1,515.1)	**8,725.8**
At cost:								
Leasehold properties	41.0	–	–	–	(0.2)	–	–	**40.8**
Leasehold improvements	13.2	–	–	–	(3.1)	–	–	**10.1**
Other furniture, fixtures and equipment	67.9	–	1.7	–	(8.8)	–	–	**60.8**
Motor vehicles	4.0	–	0.2	–	(0.5)	–	–	**3.7**
Construction in progress	28.2	–	0.2	–	–	–	–	**28.4**
	10,411.7	(15.1)	64.0	–	(12.7)	(63.2)	(1,515.1)	**8,869.6**
Accumulated depreciation and impairment:								
Hotel furniture, fixtures and equipment	258.4	(2.4)	36.5	–	–	–	–	**292.5**
Leasehold properties	4.5	–	1.4	–	–	–	–	**5.9**
Leasehold improvements	11.2	–	1.7	–	(3.2)	–	–	**9.7**
Other furniture, fixtures and equipment	18.9	–	5.2	22.4	(4.9)	–	–	**41.6**
Motor vehicles	3.3	–	0.6	–	(0.5)	–	–	**3.4**
Construction in progress	–	–	–	28.4	–	–	–	**28.4**
	296.3	(2.4)	45.4	50.8	(8.6)	–	–	**381.5**
Net book value	10,115.4							**8,488.1**

* The impairment loss for construction in progress and certain equipment represents the write down in values to their recoverable amount due to the unused excess production capacity of the Group's brewery operations which, in the opinion of the Directors, neither have a value in use nor a value for resale.

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:

	2001 HK$'million	2000 HK$'million
Investment properties	**–**	81.2
Hotel properties	**5,405.5**	5,413.0
	5,405.5	5,494.2

Analysis of net book value by geographical location:

	2001 HK$'million	2000 HK$'million
Leasehold land and buildings situated in Hong Kong:		
Hotel properties, at valuation at balance sheet date:		
Long term	**3,426.0**	3,973.0
Medium term	**4,811.0**	5,739.0
Medium term leasehold property, at cost	**3.9**	4.0
	8,240.9	9,716.0
Properties situated in the People's Republic of China (the "PRC"):		
Medium term leasehold properties, at cost	**31.0**	32.5
Long term leasehold land and investment properties, at valuation at balance sheet date	**–**	63.2
	31.0	95.7
Properties situated overseas:		
Freehold land and hotel property in Canada, at valuation at balance sheet date	**196.3**	223.8
	8,468.2	10,035.5

As at 31st December, 2001, all of the hotel properties situated in Hong Kong and overseas and certain leasehold properties situated in the PRC were mortgaged to secure banking and other credit facilities granted to the Group.

The valuations of the hotel properties situated in Hong Kong at 31st December, 2001 were performed by an independent valuer with an RICS qualification on an open market, existing use basis.

The valuation of the hotel property situated overseas at 31st December, 2001 was performed by an independent valuer with an AACI qualification on an open market, existing use basis.

At 31st December, 2000, the investment properties were stated at their subsequent selling prices as, in the opinion of the Directors, this approximated the open market value as at the balance sheet date. During the year, the Group changed its intention to dispose of all of its investment properties and, accordingly, the investment properties have been reclassified as properties held for sale.

Certain of the Group's shop units in the hotel properties and certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 40(a) to the financial statements.

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	GROUP	
	2001 **HK$'million**	**2000** **HK$'million**
Share of post-acquisition losses	**(859.3)**	(820.3)
Loans to the jointly controlled entity	**1,185.7**	1,134.2
Amount due from the jointly controlled entity	**163.3**	163.3
	489.7	477.2

The share of post-acquisition losses included a provision for foreseeable loss in respect of a property development project amounting to HK$700.0 million (2000 - HK$700.0 million).

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

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 2001	2000	Principal activity
Chest Gain Development Limited ("Chest Gain")	Corporate	Hong Kong	30	30	Property development

The jointly controlled entity is indirectly held by the Company.

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

	2001 HK$'million	2000 HK$'million
State of affairs		
Non-current assets	**3,934.6**	4,145.0
Current assets	**0.4**	0.2
Current liabilities	**(151.5)**	(72.1)
Non-current liabilities	**(7,818.0)**	(7,441.7)
Net liabilities attributable to venturers	**(4,034.5)**	(3,368.6)
Income and losses		
Income	**–**	–
Net loss from ordinary activities attributable to venturers	**(665.9)**	(543.4)

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:

	2001 HK$'million	2000 HK$'million
Authorised and contracted for	**241.2**	6.8
Authorised, but not contracted for	**—**	238.2
	241.2	245.0

18. INTERESTS IN ASSOCIATES

	GROUP	
	2001 HK$'million	2000 HK$'million
Unlisted companies:		
Share of net liabilities	**(11.9)**	(12.8)
Loans to associates	**28.7**	21.8
Amount due from an associate	**–**	1.1
	16.8	10.1
At the balance sheet date:		
Share of post-acquisition undistributed deficits	**(2.7)**	(3.6)

The loans to associates are unsecured and not repayable within one year. Except for a balance of HK$2.9 million in the prior year which bore interest at 10% per annum, the remaining balances are interest free.

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 2001	2000	Principal activities
8D International (BVI) Limited ("8D-BVI")	Corporate	British Virgin Islands	Ordinary shares	30	30	Investment holding
8D International Limited	Corporate	Hong Kong	Ordinary shares	36[1]	30	Promotions, communications and information technology
8D Matrix Limited	Corporate	British Virgin Islands	Ordinary shares	36[1]	30	Investment holding

(1) The percentage of equity interest includes a 6% 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.

19. INVESTMENTS

	GROUP	
	2001 **HK$'million**	**2000** **HK$'million**
Long term investments		
Listed equity investments in Hong Kong, at market value	**33.5**	141.7
Unlisted equity investments, at fair value:		
Carrying value	**55.2**	55.2
Provision for impairment	**(55.0)**	(55.0)
	0.2	0.2
	33.7	141.9
Short term investments		
Listed equity investments in Hong Kong, at market value	**–**	8.8

Long term listed investments with market values amounting to HK$33.1 million (2000 - HK$32.3 million) were pledged to secure general credit facilities granted to the Group.

The prior year short term investments with market values amounting to HK$2.0 million were pledged to secure general credit facilities granted to the Group.

20. LOANS AND OTHER LONG TERM RECEIVABLE

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

		GROUP	
	Notes	2001 HK$'million	2000 HK$'million
Promissory notes receivable	(a)	**168.0**	180.0
Other loans	(b)	**78.0**	96.8
		246.0	276.8

(a) This represented promissory notes receivable in the aggregate amount of HK$180.0 million (2000 - HK$180.0 million) which were repayable on demand. 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. Subsequent to the balance sheet date, 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 issued by one of the borrowers (the "Entitlements"). The convertible note, which the Group intends to hold as held-to-maturity securities and will 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), bears interest at 3% per annum from the date of issue of the note to the Initial Maturity Date and is 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 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 million and accrued interest of HK$26.0 million (included in debtors, deposits and prepayments under current assets), has been provided for in the current year financial statements.

(b) The other loans include a loan of US$10.0 million (HK$78.0 million) (2000 - 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 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 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.

The prior year amount also included a loan of RMB20.0 million (HK$18.8 million) advanced to an independent third party in connection with a proposed investment in an information technology project which has been suspended due to unfavourable market conditions. Accordingly, a full provision has been made by the Group in the current year financial statements. The loan was secured on the investment in the project, bore interest at Hong Kong prime rate per annum and had no fixed terms of repayment.

21. PROPERTIES HELD FOR SALE

The sale proceeds in respect of the properties held for sale were assigned to lenders to secure a loan facility 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 40(a) to the financial statements.

22. HOTEL AND OTHER INVENTORIES

	GROUP	
	2001	**2000**
	HK$'million	**HK$'million**
Hotel merchandise	**21.1**	24.7
Raw materials	**2.9**	6.4
Work in progress	**–**	0.9
Finished goods	**1.0**	1.9
	25.0	33.9

As at 31st December, 2001, the carrying amount of the inventories of the Group pledged to secure general banking facilities granted to the Group amounted to HK$6.6 million (2000 - HK$9.8 million).

23. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK$44.1 million (2000 - HK$64.4 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	GROUP	
	2001	**2000**
	HK$'million	**HK$'million**
Outstanding balances with ages:		
Within 3 months	**39.1**	56.9
Between 4 to 6 months	**3.8**	3.3
Between 7 to 12 months	**2.6**	3.5
Over 1 year	**7.2**	10.1
	52.7	73.8
Provisions	**(8.6)**	(9.4)
	44.1	64.4

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 ("USA") in December 1999 (the "Disposal"); and (ii) 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 dated 18th November, 1999 (the "SP Agreement") entered into between the Group and the purchaser (the "Purchaser") in respect of the Disposal, the Consideration Receivable was due to be paid by the Purchaser on the second anniversary of the completion date of the Disposal i.e. on 17th December, 2001. A 50% of the Consideration Receivable was assigned to the lenders of the Syndicated Loan (note 3) for the prepayment of a loan instalment.

The SP Agreement contains certain indemnifications given by the Group which cover, inter alia, liabilities for third party claims relating to events/conditions which existed prior to the completion of the Disposal (the "Pre-closing Liabilities"). The Group has now been notified by the Purchaser of certain indemnity claims, allegedly related to Pre-closing Liabilities for third party legal claims, indemnifiable by the Group under the SP Agreement. The Purchaser also alleges that the aggregate amount of these potential claims exceeds the Deferred Consideration and has withheld payment to the Group of the Consideration Receivable. The Group has retained an independent law firm to review the litigation cases underlying the third party claims and the related indemnity claims made by the Purchaser. Based on the advice obtained from the independent law firm, the Group considers that (i) the majority of the underlying legal claims are either weak in their grounds, or are likely to be settled for amounts considerably less than the amounts claimed by the plaintiffs in the litigation cases; and (ii) in any event, a certain portion of the Consideration Receivable should be settled by the Purchaser regardless of the status of the resolution of certain major litigation cases underlying the third party claims. The Group is currently consulting with its legal advisers to initiate appropriate recovery action against the Purchaser.

The Directors expect that as and when the underlying third party legal claims are resolved, the Consideration Receivable will be released to the Group in stages, a significant portion of which should be forthcoming within a reasonable timeframe. However, given the inherent complications associated with litigation proceedings in the USA, the Directors are currently unable to determine with reasonable certainty the time required for the resolution of the underlying legal claims, the legal or settlement costs that may be involved and the timing of the receipt of the Consideration Receivable. Accordingly, the Directors are currently unable to determine 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.

24. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK$73.9 million (2000 - HK$81.5 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	GROUP	
	2001 **HK$'million**	**2000** **HK$'million**
Outstanding balances with ages:		
Within 3 months	**67.6**	73.6
Between 4 to 6 months	**3.4**	2.9
Between 7 to 12 months	**1.3**	1.9
Over 1 year	**1.6**	3.1
	73.9	81.5

25. INTEREST BEARING BANK AND OTHER BORROWINGS

	GROUP	
	2001 **HK$'million**	**2000** **HK$'million**
Secured bank loans	**5,092.4**	5,105.8
Secured other loans wholly repayable within five years	**5.1**	5.1
	5,097.5	5,110.9
Portion of borrowings due within one year included under current liabilities:		
Bank loans	**(742.9)**	(357.5)
Other loans	**(5.1)**	(5.1)
	(748.0)	(362.6)
Long term borrowings	**4,349.5**	4,748.3
The bank loans and other loans are repayable in varying instalments within a period of:		
On demand or not exceeding 1 year	**748.0**	362.6
More than 1 year but not exceeding 2 years	**1,865.0**	466.3
More than 2 years but not exceeding 5 years	**2,185.0**	3,890.0
More than 5 years	**299.5**	392.0
	5,097.5	5,110.9

At 31st December, 2001, the other loans carried fixed interest rate at 8.78% (2000 - 8.78%) per annum.

At the balance sheet date, the Group had not complied with certain loan covenants in respect of a syndicated loan amounting to HK$3,822.1 million (the "Syndicated Loan") and a construction loan amounting to HK$1,079.5 million (the "Construction Loan"). For the reasons detailed in note 3 to the financial statements, the Directors consider it appropriate to continue to classify the Syndicated Loan and the Construction Loan as current or non-current liabilities in accordance with their original maturity terms.

26. SHARE CAPITAL

Shares

	COMPANY	
	Number of shares 'million	HK$'million
Authorised:		
Ordinary shares of HK$0.10 each	**6,000.0**	**600.0**
5¼% convertible cumulative redeemable preference shares of US$10 each	**0.3**	**23.2**
		623.2
Issued and fully paid:		
Ordinary shares of HK$0.10 each		
Balance at beginning and at end of year	**3,938.8**	**393.8**
5¼% convertible cumulative redeemable preference shares of US$10 each		
Balance at beginning and at end of year	**0.1**	**1.3**
		395.1

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 Right") 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, 2001 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

The Company operates an executive share option scheme (the"Executive Share Option Scheme"), further details of which are set out under the heading "Directors' Interests in and Movements in Share Options granted by the Company" in the Report of the Directors.

The movements during the year in share options granted by the Company pursuant to the Executive Share Option Scheme approved by the shareholders on 28th June, 1990 were as follows:

	Number of ordinary shares under options			
	Granted on 22nd February, 1992 'million	**Granted on 5th August, 1993 'million**	**Granted on 22nd February, 1997 'million**	**Total 'million**
Balance at beginning of year	50.0	1.4	2.9	54.3
Lapsed during the year	–	–	(1.8)	(1.8)
Balance at end of year	**50.0***	**1.4**	**1.1**	**52.5**
Exercise price per ordinary share (HK$):	0.7083	1.1083	2.1083	
Outstanding rights vested with option holders at the date of approval of the financial statements by the Board of Directors, inclusive of those exercised prior thereto since the year end date	–	1.1	0.5	

The rights to exercise the options vest with the holders thereof in stages commencing two years from their respective dates of grant.

The exercise in full of the outstanding rights which have vested with the holders of the options up to the date of approval of the financial statements by the Board of Directors, inclusive of those exercised since the year end date, would have, with the present capital structure of the Company, resulted in the issue of 1.6 million additional ordinary shares and cash proceeds to the Company of approximately HK$2.3 million before related expenses.

* The options are exercisable until 10 years after the date of grant. Subsequent to the balance sheet date, the vested options lapsed on 22nd February, 2002 after expiry of the relevant exercise period.

27. RESERVES

		GROUP		COMPANY	
	Notes	2001 HK$'million	2000 HK$'million (Restated)	2001 HK$'million	2000 HK$'million
Share premium	28	**1,653.8**	1,653.8	**1,653.8**	1,653.8
Capital redemption reserve	29	**13.5**	13.5	**13.5**	13.5
Capital reserve	30	**1,314.2**	1,314.2	**–**	–
Revaluation reserves	31	**2,662.7**	4,069.3	**–**	–
Exchange equalisation reserve	32	**(14.8)**	(12.3)	**–**	–
Contributed surplus	34	**–**	–	**5,052.3**	5,052.3
Accumulated losses	35	**(1,461.0)**	(946.8)	**(2,551.2)**	(627.9)
		4,168.4	6,091.7	**4,168.4**	6,091.7

28. SHARE PREMIUM

	COMPANY	
	2001 HK$'million	2000 HK$'million
Balance at beginning of year	**1,653.8**	1,654.7
Add: Premium on ordinary shares issued upon conversion of 5¼% convertible cumulative redeemable preference shares	**–**	16.0
Less: Premium on issue in relation to 5¼% convertible cumulative redeemable preference shares converted and cancelled	**–**	(16.9)
Balance at end of year	**1,653.8**	1,653.8

29. CAPITAL REDEMPTION RESERVE

	GROUP AND COMPANY	
	2001 HK$'million	2000 HK$'million
Balance at beginning and at end of year	**13.5**	13.5

30. CAPITAL RESERVE

	GROUP	
	2001 HK$'million	2000 HK$'million
Balance at beginning of year:		
As previously reported	**1,193.8**	1,206.6
Prior year adjustment (note 35)*	**120.4**	–
As restated	**1,314.2**	1,206.6
Prior year adjustment - impairment of goodwill eliminated against capital reserve (note 35)	**–**	120.4
Share of goodwill of an associate eliminated directly against reserves	**–**	(12.8)
Balance at end of year	**1,314.2**	1,314.2

The capital reserve of the Group arose in 1989 as a result of the Group reorganisation and represented 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. As further explained below, the carrying amounts at 31st December, 2001 and 2000 also included goodwill and negative goodwill arising from the acquisitions of subsidiary companies and the share of goodwill of an associate in prior years.

* SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The Group has also adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1st January, 2001 to remain eliminated against the capital reserve.

Due to the adoption of SSAP 30, the Group has adopted a policy to assess goodwill eliminated against reserves for impairment. As a result, the Group has recognised an impairment of goodwill previously eliminated against the capital reserve of HK$120.4 million in the year ended 31st December, 2000 as detailed in the table below. This change of accounting policy has been accounted for retrospectively as a prior year adjustment, the effect of which is to increase both the accumulated losses and the capital reserve of the Group as at 1st January, 2001 by HK$120.4 million (note 35). There is no attributable tax effect in respect of the prior year adjustment.

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			
As previously reported	–	–	–
Prior year adjustment and as restated	–	(120.4)	–
At 31st December, 2001	–	(120.4)	–
Net amount:			
At 31st December, 2001	12.8	–	(71.9)
At 31st December, 2000	12.8	–	(71.9)

31. REVALUATION RESERVES

	GROUP				
	Associates* HK$'million	Property under development HK$'million	Hotel properties HK$'million	Long term investments HK$'million	Total HK$'million
At 1st January, 2000	30.0	329.4	3,763.1	(81.7)	4,040.8
Movement in fair value	–	–	–	(50.5)	(50.5)
Surplus on revaluation	–	–	108.1	–	108.1
Release on disposal	(30.0)	–	–	0.9	(29.1)
Reclassification	–	(329.4)	329.4	–	–
At 31st December, 2000 and 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
At 31st December, 2001	**–**	**–**	**2,685.5**	**(22.8)**	**2,662.7**

* This represented the Group's share of revaluation reserves of associates in relation to hotel properties.

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.

32. EXCHANGE EQUALISATION RESERVE

	GROUP	
	2001 **HK$'million**	**2000** **HK$'million**
Balance at beginning of year	**(12.3)**	(7.3)
Exchange adjustment on translation of the financial statements of overseas subsidiary companies	**(2.5)**	(0.2)
Release on disposal of an overseas associate	**–**	(4.8)
Balance at end of year	**(14.8)**	(12.3)

33. INTERESTS IN SUBSIDIARY COMPANIES

	COMPANY	
	2001 **HK$'million**	**2000** **HK$'million**
Unlisted shares, at cost	**5,552.2**	5,552.2
Amount due from a subsidiary company	**1,581.3**	1,584.4
	7,133.5	7,136.6
Provision for impairment	**(2,569.2)**	(648.1)
	4,564.3	6,488.5

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 2001	2000	Principal activities
Bauhinia Hotels Limited	Hong Kong	HK$2	100	100	Hotel ownership
Camomile Investments Limited	Hong Kong	HK$2	100	100	Property investment
Century Win Investment Limited	Hong Kong	HK$10,000	90	90	Restaurant operations
Charter Capital Development Limited	Hong Kong	HK$2	100	100	Property investment
Cityability Limited	Hong Kong	HK$10,000	100	100	Hotel ownership
Come On Investment Company Limited	Hong Kong	HK$10,000	100	100	Securities investment and trading
Fortune Nice Investment Limited	Hong Kong	HK$2	100	100	Financing
Gala Hotels Limited	Hong Kong	HK$2	100	100	Hotel ownership
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
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

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company 2001	2000	Principal activities
Regal Constellation Hotel Limited	Canada	CAN$1	100	100	Hotel ownership
Regal Hotels Company Limited	Hong Kong	HK$2	100	100	Financing
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
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	CAN$2,005,200	100	100	Investment holding
Regal Quality Foods Limited	Hong Kong	HK$2	100	–	Bakery and retail operations
Regal Riverside Hotel Limited	Hong Kong	HK$2	100	100	Hotel ownership
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	100	100	Trademark holding
Ricobem 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 2001	2000	Principal activities
Stareast Travel Limited	Hong Kong	HK$1,500,000	100	100	Travel services
Tenshine Limited	Hong Kong	HK$2	100	100	Restaurant operations
Winner Team Investment Limited	Hong Kong	HK$2	100	100	Securities investment
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 People's Republic of China.

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.

34. CONTRIBUTED SURPLUS

The contributed surplus arose in 1989 as a result of the Group reorganisation and represented 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.

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

35. ACCUMULATED LOSSES

	GROUP		COMPANY	
	2001 HK$'million	2000 HK$'million	2001 HK$'million	2000 HK$'million
Balance at beginning of year:				
As previously reported	**(826.4)**	(598.9)	**(627.9)**	(411.3)
Prior year adjustment (note 30)	**(120.4)**	–	**–**	–
As restated	**(946.8)**	(598.9)	**(627.9)**	(411.3)
Net loss for the year:				
As previously reported	**(514.2)**	(227.5)	**(1,923.3)**	(216.6)
Prior year adjustment (note 30)	**–**	(120.4)	**–**	–
As restated	**(514.2)**	(347.9)	**(1,923.3)**	(216.6)
Balance at end of year, as restated	**(1,461.0)**	(946.8)	**(2,551.2)**	(627.9)

	GROUP	
	2001 HK$'million	2000 HK$'million (Restated)
Accumulated losses at end of year accumulated in:		
The Company and subsidiary companies	**(599.0)**	(122.9)
Associates	**(2.7)**	(3.6)
Jointly controlled entity	**(859.3)**	(820.3)
Balance at end of year	**(1,461.0)**	(946.8)

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities

	2001 HK$'million	2000 HK$'million (Restated)
Profit/(Loss) from operating activities	**(173.3)**	93.4
Provisions against other loans, promissory notes and interest receivable	**56.8**	–
Tax indemnity in respect of the disposal of overseas subsidiary companies/partnerships in prior year	**–**	24.2
Impairment of fixed assets	**50.8**	–
Interest income	**(28.4)**	(46.7)
Depreciation	**45.4**	41.9
Impairment of goodwill	**–**	120.4
Loss on disposal of fixed assets	**3.3**	1.5
Gain on disposal of an overseas associate	**–**	(68.3)
Deficit on revaluation of investment properties	**–**	5.2
Write down in values of properties held for sale	**14.9**	–
Dividend income from long term investments	**(1.8)**	(0.8)
Loss/(Gain) on disposal of long term investments	**141.4**	(0.7)
Unrealised loss on revaluation of short term investments	**–**	4.6
Provisions for doubtful debts	**4.0**	3.1
Decrease/(Increase) in short term investments	**8.8**	(10.3)
Net proceeds from sale of properties held for sale	**5.6**	–
Decrease in debtors, deposits and prepayments	**28.1**	3.9
Decrease/(Increase) in hotel and other inventories	**8.5**	(2.3)
Decrease in creditors and accruals	**(23.3)**	(29.8)
Exchange differences	**0.5**	1.8
Net cash inflow from operating activities	**141.3**	141.1

(b) Analysis of changes in financing

	Share capital (including share premium) HK$'million	Bank loans and other loans HK$'million	Minority interests HK$'million
Balance at 1st January, 2000	2,048.9	5,220.7	3.3
Net cash outflow from financing	–	(108.3)	(0.8)
Share of loss for the year	–	–	(1.6)
Effect of foreign exchange rate changes	–	(1.5)	–
Balance at 31st December, 2000 and 1st January, 2001	2,048.9	5,110.9	0.9
Net cash outflow from financing	–	(3.2)	–
Share of loss for the year	–	–	(0.9)
Effect of foreign exchange rate changes	–	(10.2)	–
Balance at 31st December, 2001	**2,048.9**	**5,097.5**	**–**

(c) Major non-cash transaction

During the year, an amount of HK$31.6 million (2000 - HK$15.0 million) was deducted from the advance payment balance made to Chatwin Engineering Limited, a fellow subsidiary company of the Group, 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 37(a)).

37. 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	2001 HK$'million	2000 HK$'million
Construction work performed by a subsidiary company of Paliburg Holdings Limited ("PHL"), the immediate listed holding company of the Company	(a)	**33.2**	20.0
Minimum lease payment under operating leases in respect of land and buildings paid to wholly-owned subsidiary companies of PHL	(b)	**19.4**	21.3
Consultancy fees in respect of hotel property development and renovation projects paid to a wholly-owned subsidiary company of PHL	(c)	**19.1**	15.0
Advertising, promotion and information technology service fees (including cost reimbursements) paid to an associate	(d)	**19.2**	27.2
Management costs allocated from Century City International Holdings Limited ("CCIHL"), the listed ultimate holding company of the Company	(e)	**27.4**	26.7
Guarantee given in respect of a bank loan of a jointly controlled entity	(f)	**990.0**	990.0

Notes:

(a) The construction work related to the hotel foundation and superstructure, carpark and walkway, and footbridge constructions performed by 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 work certified by the architects.

At 31st December, 2000, an outstanding amount of HK$96.1 million was included in debtors, deposits and prepayments, which represented the balance of an advance payment to Chatwin Engineering Limited ("Chatwin") in respect of the construction work of the Regal Airport Hotel in Chek Lap Kok for which Chatwin is the main contractor. Chatwin is also a fellow subsidiary company of the Group. To make up for the delay occasioned in the approval of the building plans by the relevant government authorities, an accelerated construction programme for the hotel construction work was agreed with Chatwin, pursuant to which an advance payment of HK$180.0 million, primarily to compensate Chatwin for the additional costs associated with the accelerated programme, was paid to Chatwin in 1998. Part of the advance payment had been deducted against the Group's subsequent payments of the hotel construction work certified by the architects. During the year, the balance of the advance payment was (1) applied to settle the outstanding construction costs and related expenses incurred of HK$31.6 million; (2) set aside as 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 of HK$36.5 million which was included in debtors, deposits and prepayments at the balance sheet date and (3) refunded by Chatwin to the extent of HK$28.0 million.

In addition, there was another outstanding amount existing at the balance sheet date which was included in creditors and accruals amounting to HK$0.8 million (2000 - HK$25.3 million). This represented consultancy fees payable to certain other subsidiary companies of PHL in connection with the renovation works of certain minor operations. The amounts are unsecured and payable in accordance with the terms of the respective contracts under which such amounts are 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 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 designer 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 the 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.

(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. During the 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 39(a) to the financial statements.

The Directors of the Company are of the opinion that the above transactions were entered into in the normal and usual course of business.

The related party transactions set out in notes 37(a) to (e) above also constituted connected transactions as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") to the Company. Relevant disclosure and other requirements in accordance with the Listing Rules with respect to such transactions have been made or met, which related details are disclosed in the Directors' Report of the Company for the financial year ended 31st December, 2001 accompanying the financial statements.

The related party transaction set out in note 37(f) also constituted 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, 2001 accompanying the financial statements, according to the disclosure requirement under Rule 14.25(2)(b)(ii).

38. PLEDGE OF ASSETS

In addition to the balances set out elsewhere in the notes to the financial statements, certain of the Group's time deposits, long term investments, hotel properties, leasehold properties and equipment, inventories and receivables with a total carrying value of HK$8,841.1 million (2000 - HK$10,166.5 million) and the shares in a jointly controlled entity were pledged to secure general banking facilities granted to the Group and the jointly controlled entity.

39. CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	2001 HK$'million	**2000 HK$'million**	**2001 HK$'million**	**2000 HK$'million**
(a) Corporate guarantees provided in respect of:				
Attributable share of outstanding bank borrowings of:				
- a jointly controlled entity	**753.3**	753.3	**753.3**	753.3
- subsidiary companies	**–**	–	**4,901.6**	4,894.1
	753.3	753.3	**5,654.9**	5,647.4

(b) As described in note 23 to the financial statements, on 18th November, 1999, 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.

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 of the Company are unable either to assess the likelihood of the crystallisation of any contingent liability or to estimate the amount thereof with reasonable accuracy. Further details in respect of the unresolved allegedly indemnifiable claims made by the Purchaser are set out in note 23 to the financial statements.

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties (notes 16 and 21 to the financial statements) 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, 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	GROUP	
	2001 **HK$'million**	**2000** **HK$'million**
Within one year	**20.2**	28.6
In the second to fifth years, inclusive	**18.9**	24.5
	39.1	53.1

(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 ranging from 6 months to 18 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, 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2001 HK$'million	**2000 HK$'million (Restated)**
Land and buildings:		
Within one year	**7.7**	13.0
In the second to fifth years, inclusive	**27.6**	27.6
After the fifth year	**21.9**	28.8
	57.2	69.4
Other equipment:		
Within one year	**3.9**	4.5
In the second to fifth years, inclusive	**1.2**	3.6
	5.1	8.1
	62.3	77.5

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

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above have been restated to accord with the current year's presentation.

41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group had the following outstanding commitments at the balance sheet date:

	GROUP	
	2001 **HK$'million**	**2000** **HK$'million**
Capital commitments in respect of acquisition of interest in a hotel property in the PRC:		
Authorised and contracted for	**3.4**	6.5
Capital commitments in respect of the renovation of or improvements to the hotel properties:		
Authorised and contracted for	**22.2**	26.0
Authorised, but not contracted for	**51.4**	81.0
	73.6	107.0
	77.0	113.5

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

42. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, in addition to the events detailed elsewhere in the financial statements, on 7th March, 2002, 90 million ordinary shares of HK$0.10 each of the Company were issued to Taylor Investments Ltd. ("Taylor"), a wholly-owned subsidiary company of PHL, at HK$0.14 per ordinary share for a total consideration of HK$12.6 million, following a placing of 150 million ordinary shares at the same price by Taylor to independent placees on 27th February, 2002. The net proceeds from the above placement were used for general working capital purposes.

43. 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 prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

In addition, as further explained in note 6 to the financial statements, the comparative amounts of turnover and cost of sales have been restated to be in line with general accounting practice in hotel industry.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 19th April, 2002.