1. CORPORATE INFORMATION

During the year, the Group was principally engaged in hotel ownership and management, property development and investment, and other investments.

In the opinion of the Directors, the ultimate holding company was Century City International Holdings Limited ("CCIHL"), which is incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited. During the year, the Company ceased to be a subsidiary company of Paliburg Holdings Limited ("PHL"), which is in turn a subsidiary company of CCIHL, as PHL's voting and economic interests in the Company fell below 50% with effect from 31st July, 2004.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKAS"), herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The Group is in the process of making an assessment of the impact of these new HKFRSs, in particular, HKAS 16 "Property, Plant and Equipment" ("HKAS 16") and Interpretation 23 "The Appropriate Policies for Hotel Properties" ("Interpretation 23"), which affect hotel properties. The adoption of HKAS 16 and Interpretation 23 will result in additional depreciation charges on the Group's hotel properties, thereby reducing the Group's operating results. The Group has not come to a final decision as to whether to state the Group's hotel properties at cost less accumulated depreciation or at valuation as permitted under HKAS 16. If the Group's hotel properties are to be stated at cost less accumulated depreciation, the carrying values of the Group's hotel properties and hence the net asset value of the Group may decrease significantly for accounting purposes.

However, the adoption of HKAS 16 and Interpretation 23 will not have any effect on the Group's EBITDA and operating cash flow.

The Group is continuing with the assessment of the impact of the other new HKFRSs but is not yet in a position to state whether and to what extent they would have an impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of the Group's hotel properties and certain equity investments, as further explained below.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary companies for the year ended 31st December, 2004, together with the Group's share of the results for the year and the post-acquisition undistributed reserves of its associates and jointly controlled entity. The results of subsidiary companies, associates and jointly controlled entity acquired or disposed of during the year are included from or to their effective dates of acquisition or disposal, as applicable. All significant intra-group transactions and balances are eliminated on consolidation.

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

(c) Goodwill/Negative goodwill

Goodwill arising on the acquisition of subsidiary companies, associates and jointly controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition. Negative goodwill arising on the acquisition of subsidiary companies, associates and jointly controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly controlled entities, any goodwill/negative goodwill not yet amortised/recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

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

On disposal of subsidiary companies, associates or jointly controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill/negative goodwill which remains unamortised/has not been recognised in the consolidated profit and loss account and any relevant reserves, as appropriate. Any attributable goodwill/negative goodwill previously eliminated against consolidated reserves/credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

(d) Subsidiary companies

A subsidiary company is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiary companies are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiary companies are stated in the Company's balance sheet at cost less any impairment losses.

(e) Joint venture companies

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

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

A joint venture company is treated as:

(i) a subsidiary company, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(ii) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(iv) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

(f) Jointly controlled entity

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

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

(g) Associates

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

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

(h) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use 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 fittings which are collectively used in the operation of hotels and are stated at their open market values for existing use on the basis of professional valuations. Movements in the carrying values of the hotel properties are dealt with in the hotel property revaluation reserve, unless this reserve is exhausted, in which case any excess of the decrease is charged to the profit and loss account as incurred. When a hotel property is determined to be impaired, the cumulative gain or loss derived from the hotel property recognised in the hotel property revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

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

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

(j) Deferred expenditure

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

(k) Long term investments

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

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

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

(l) Fixed assets and depreciation

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

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

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

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

(m) 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.

(n) 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.

(o) 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;

(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;

(vi) brewery operations income from trading activities, upon passage of title to the customer, which generally coincides with their delivery and acceptance; and

(vii) bakery operations income, when the goods are delivered to the customers.

(p) Foreign currencies

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

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

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

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

(q) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiary companies, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

(r) 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.

(s) Employee benefits

Employment Ordinance long service payments

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

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

Staff retirement scheme

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

The employees of the Group's subsidiary companies which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiary companies are required to contribute 29% of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates an executive share option scheme for the purpose of providing incentives and rewards to selected eligible participants. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting ordinary shares issued are recorded by the Company as additional ordinary share capital at the nominal value of the ordinary shares, and the excess of the exercise price per ordinary share over the nominal value of the ordinary shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(t) 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.

(u) Cash and cash equivalents

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

4. SEGMENT INFORMATION

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

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

(a) the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services;

(b) the property development and investment segment invests in properties for sale and for their rental income, and the provision of property agency and management services; and

(c) the others segment mainly comprises the Group's brewery operations, laundry services, bakery operations and other investments.

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

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

(a) Business segments

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

Group

	Hotel ownership and management		Property development and investment		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
Segment revenue:										
Sales to external customers	995.2	747.2	6.6	–	48.8	27.7	–	–	1,050.6	774.9
Intersegment sales	0.3	–	0.3	0.4	10.1	9.2	(10.7)	(9.6)	–	–
Total	**995.5**	**747.2**	**6.9**	**0.4**	**58.9**	**36.9**	**(10.7)**	**(9.6)**	**1,050.6**	**774.9**
Segment results	503.8	124.3	2.6	(0.2)	5.3	(2.6)	–	–	511.7	121.5
Interest income and unallocated non-operating and corporate gains									1.2	2.2
Unallocated non-operating and corporate expenses, net									(16.1)	(24.2)
Profit from operating activities									**496.8**	**99.5**
Finance costs									**(139.8)**	**(144.1)**
Share of profits less losses of:										
Jointly controlled entity	–	–	219.7	206.6	–	–	–	–	**219.7**	**206.6**
Associates	(0.4)	(0.1)	–	–	1.4	(1.9)	–	–	**1.0**	**(2.0)**
Profit before tax									**577.7**	**160.0**
Tax									**25.2**	**47.8**
Profit before minority interests									**602.9**	**207.8**
Minority interests									–	–
Net profit from ordinary activities attributable to shareholders									**602.9**	**207.8**

(a) Business segments (continued)

Group

	Hotel ownership and management		Property development and investment		Others		Eliminations		Consolidated	
	2004 HK$'m	2003 HK$'m	2004 HK$'m	2003 HK$'m	2004 HK$'m	2003 HK$'m	2004 HK$'m	2003 HK$'m	2004 HK$'m	2003 HK$'m
Segment assets	9,901.4	7,241.4	3.7	4.1	145.2	93.1	(0.5)	(0.5)	10,049.8	7,338.1
Interests in associates	4.8	5.1	–	–	17.5	15.4	–	–	22.3	20.5
Interest in a jointly controlled entity	–	–	1,844.6	1,226.5	–	–	–	–	1,844.6	1,226.5
Cash and unallocated assets									516.7	208.2
Total assets									12,433.4	8,793.3
Segment liabilities	(136.0)	(116.8)	(0.4)	–	(41.0)	(20.7)	0.5	0.5	(176.9)	(137.0)
Bank and other borrowings and unallocated liabilities									(5,043.4)	(4,615.7)
Total liabilities									(5,220.3)	(4,752.7)
Other segment information:										
Depreciation	26.6	35.1	0.1	0.1	5.3	5.0				
Write-back of impairment losses recognised in the profit and loss account	(170.5)	(11.4)	–	–	(7.8)	–				
Capital expenditure	44.2	15.1	–	–	7.8	0.8				
Other non-cash expenses	0.1	2.5	–	–	–	–				

(b) Geographical segments

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

Group

	Hong Kong		Mainland China		Canada		Eliminations		Consolidated	
	2004 HK$'m	**2003 HK$'m**	**2004 HK$'m**	**2003 HK$'m**	**2004 HK$'m**	**2003 HK$'m**	**2004 HK$'m**	**2003 HK$'m**	**2004 HK$'m**	**2003 HK$'m**
Segment revenue:										
Sales to external customers	1,000.2	717.9	50.4	24.8	–	32.2	–	–	1,050.6	774.9
Other segment information:										
Segment assets	9,978.4	7,283.7	71.4	54.4	–	–	–	–	10,049.8	7,338.1
Capital expenditure	44.2	14.8	7.8	0.8	–	0.3				

5. DISCONTINUED OPERATION

As previously reported, on 3rd September, 2002, the Group entered into a sale and purchase agreement with a purchaser (the "CH Purchaser") to dispose of its 100% interest in a hotel property in Canada. The CH Purchaser subsequently defaulted to proceed to complete the sale and purchase. Since the default by the CH Purchaser, on 25th June, 2003, the Group disposed of its 100% shareholding interest in the Canadian subsidiary company then indirectly holding the hotel property to an independent third party for a nominal consideration of CAD2.00, with sharing arrangements on any recovery from the defaulted purchaser. Accordingly, a loss on disposal of HK$34.4 million was accounted for in the prior year's profit and loss account. The principal repayment obligations of the bank loans secured on the hotel property in the principal sum of approximately CAD33.85 million (approximately HK$195.8 million) had no recourse against the Group.

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

	2003 HK$'million
TURNOVER	32.2
Cost of sales	(37.3)
Gross loss	(5.1)
Administrative expenses	(1.9)
Other operating expenses	(1.1)
LOSS FROM OPERATING ACTIVITIES	(8.1)
Finance costs	(4.2)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(12.3)
The net cash flows attributable to the discontinued operation were as follows:	
Operating	0.1
Investing	(0.3)
Financing	(5.4)
Net cash outflows	(5.6)

6. TURNOVER AND REVENUE

Turnover represents the aggregate of gross hotel income, rental income, estate management fees, estate agency fees, laundry services revenue, income from brewery operations and bakery operations after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	GROUP	
	2004 HK$'million	2003 HK$'million
Hotel operations and management services	**974.3**	724.2
Other operations, including estate management, estate agency, laundry services, brewery and bakery operations	**55.4**	27.7
Rental income from hotel properties	**20.9**	23.0
Turnover	**1,050.6**	774.9

7. OTHER OPERATING EXPENSES

Other operating expenses include the following items:

	GROUP	
	2004 HK$'million	2003 HK$'million
Loss on disposal of long term listed investments (after a transfer from the revaluation reserve of a deficit of HK$0.3 million)	**–**	0.5
Termination fee in respect of cancellation of the disposal of a hotel property	**39.0**	–

8. PROFIT FROM OPERATING ACTIVITIES

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

	GROUP	
	2004 HK$'million	**2003 HK$'million**
Cost of inventories sold and services provided	**405.3**	394.1
Staff costs (exclusive of directors' remuneration disclosed in note 10):		
Wages and salaries*	**286.1**	269.0
Staff retirement scheme contributions	**14.1**	14.3
Less: Forfeited contributions	**(0.7)**	(0.8)
Net retirement scheme contributions	**13.4**	13.5
	299.5	282.5
Auditors' remuneration	**3.2**	3.3
Minimum lease payments under operating leases:		
Land and buildings	**4.3**	8.4
Other equipment	**–**	0.5
Depreciation	**32.0**	40.2
and after crediting:		
Gross rental income	**20.9**	23.0
Less: Outgoings	**(5.4)**	(5.4)
Net rental income	**15.5**	17.6
Interest income	**0.4**	0.2
Dividend income from listed investment	**2.3**	–
Gain on disposal of fixed assets	**–**	5.4
Negative goodwill recognised as income during the year**	**0.2**	0.2

* Inclusive of an amount of HK$276.9 million (2003 - HK$263.8 million) classified under cost of inventories sold and services provided.

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

9. FINANCE COSTS

	GROUP	
	2004 HK$'million	2003 HK$'million
Interest on bank loans, convertible bonds and other loans wholly repayable within five years	**99.4**	138.4
Amortisation of deferred expenditure	**10.3**	5.7
Write off of deferred expenditure	**28.4**	–
Other	**1.7**	–
Total finance costs	**139.8**	144.1

10. DIRECTORS' REMUNERATION

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

	GROUP	
	2004 HK$'million	2003 HK$'million
Fees	**1.3**	1.2
Salaries and other allowances	**8.1**	8.7
Performance related/discretionary bonuses	**1.7**	0.7
Staff retirement scheme contributions	**0.5**	0.5
	11.6	11.1

The remuneration of the Directors fell within the following bands:

HK$	2004 Number of Directors	2003 Number of Directors
Nil - 1,000,000	**13**	7
1,000,001 - 1,500,000	**1**	2
1,500,001 - 2,000,000	**1**	1
4,000,001 - 4,500,000	**–**	1
4,500,001 - 5,000,000	**1**	–

The independent Non-Executive Directors of the Company were entitled to a total sum of HK$0.4 million (2003 - HK$0.3 million) as Directors' fees, including the fees entitled by those independent Non-Executive Directors for serving as audit committee members, for the year ended 31st December, 2004.

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

During the year, no share options were granted to the Directors in respect of their services to the Group (2003 - Nil). Further details of the Company's share option scheme are set out in note 28 to the financial statements.

11. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included four (2003 - four) Directors, details of whose remuneration are disclosed in note 10 to the financial statements. The emoluments of the remaining one (2003 - one) individual, who was not a Director, are as follows:

	GROUP	
	2004 HK$'million	**2003 HK$'million**
Salaries and other emoluments	**0.8**	0.9
Performance related/discretionary bonuses	**0.3**	0.1
Staff retirement scheme contributions	**0.1**	0.1
	1.2	1.1

HK$	**2004 Number of individuals**	**2003 Number of individuals**
1,000,001 - 1,500,000	**1**	1

During the year, no share options were granted to the non-director, highest-paid employee in respect of his service to the Group (2003 - Nil). Further details of the Company's share option scheme are set out in note 28 to the financial statements.

12. TAX

	GROUP	
	2004	**2003**
	HK$'million	**HK$'million**
Group:		
Current - Hong Kong		
Provision for tax in respect of profits for the year	**0.1**	–
Current - Overseas		
Provision for tax in respect of profits for the year	**0.3**	0.3
Prior year overprovision	**(16.7)**	–
Deferred tax	**(9.0)**	(48.2)
	(25.3)	(47.9)
Associate:		
Hong Kong	**0.1**	0.1
Total tax credit for the year	**(25.2)**	(47.8)

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

In the prior year, no provision for Hong Kong profits tax was made as the Group had no assessable profits earned in or derived from Hong Kong during that year.

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.

No provision for tax is required for the jointly controlled entity as no assessable profits were earned by the jointly controlled entity during the year (2003 - Nil).

A reconciliation of the tax income applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiary companies, jointly controlled entity and associates are domiciled to the tax expenses at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	GROUP			
	2004 HK$' million	**%**	**2003 HK$'million**	**%**
Profit before tax	**577.7**		160.0	
Tax at the statutory tax rate	**101.1**	**17.5**	28.0	17.5
Effect on opening deferred tax of increase in tax rates	**–**	**0.0**	9.6	6.0
Adjustment in respect of deferred tax of previous years	**9.0**	**1.6**	–	0.0
Adjustments in respect of current tax of previous years	**(16.7)**	**(2.9)**	–	0.0
Higher tax rates of other countries	**0.1**	**0.0**	(0.8)	(0.5)
Income not subject to tax	**(71.2)**	**(12.3)**	(39.8)	(24.9)
Expenses not deductible for tax	**13.4**	**2.3**	11.4	7.1
Tax losses utilised from previous years	**(29.6)**	**(5.1)**	(2.6)	(1.6)
Decrease in deferred tax assets not recognised during the year	**(31.3)**	**(5.4)**	(53.8)	(33.6)
Others	**–**	**0.0**	0.2	0.1
Tax credit at the Group's effective rate	**(25.2)**	**(4.3)**	(47.8)	(29.9)

13. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK$3,102.9 million (2003 - HK$767.3 million).

14. DIVIDENDS

	Notes	2004 HK$'million	2003 HK$'million
Ordinary shares:			
Proposed final dividend - HK0.5 cent (2003 - Nil) per share	(i)	**41.7**	–
$5\frac{1}{4}$% convertible redeemable cumulative preference shares	(ii)	**41.1**	–
		82.8	–

(i) The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

(ii) As at 13th December, 2004, there were cumulative unpaid dividends of HK$41.1 million (2003 - HK$34.2 million) for the Company's outstanding convertible redeemable cumulative preference shares. On 11th April, 2005, the board of director of the Company declared the distribution of the cumulative unpaid dividend of HK$41.1 million. Pursuant to the terms of the issuance of these preference shares, if any 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.

15. EARNINGS PER ORDINARY SHARE

(a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$602.9 million (2003 - HK$207.8 million), adjusted for the unpaid preference share dividend for the year of HK$6.9 million (2003 - HK$6.9 million), and on the weighted average of 8,091.2 million (2003 - 6,847.4 million) ordinary shares of the Company in issue during the year.

(b) Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31st December, 2004 is based on the adjusted net profit from ordinary activities attributable to ordinary shareholders for the year of HK$597.8 million as adjusted for the interest savings arising from the conversion of the convertible bonds into ordinary shares of the Company, and on the adjusted weighted average of 9,033.5 million ordinary shares of the Company that would have been in issue during the year assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into, and the subscription rights attaching to all outstanding warrants of the Company were exercised to subscribe for, ordinary shares of the Company at the beginning of the year or their respective dates of issue, whichever is later. The conversion of the outstanding convertible preference shares of the Company is anti-dilutive for the year. In addition, the exercise price of the share options of the Company outstanding during the year is higher than the average market price of the Company's ordinary shares and, accordingly, they have no dilutive effect on the basic earnings per ordinary share.

The calculation of diluted earnings per ordinary share for the year ended 31st December, 2003 was based on the adjusted net profit from ordinary activities attributable to ordinary shareholders for that year of HK$201.5 million as adjusted for the interest savings arising from the conversion of the convertible bonds into ordinary shares of the Company, and on the adjusted weighted average of 7,999.7 million ordinary shares of the Company that would have been in issue during that year assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into ordinary shares of the Company at the beginning of that year. The conversion of the outstanding convertible preference shares of the Company was anti-dilutive for that year. In addition, the exercise price of share options of the Company outstanding during that year was higher than the average market price of the Company's ordinary shares and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

16. FIXED ASSETS

GROUP

	1st January, 2004 HK$'million	Additions/ Depreciation for the year HK$'million	Other disposals HK$'million	Surplus on revaluation HK$'million	31st December, 2004 HK$'million
At valuation:					
Hotels, including furniture, fixtures and equipment	7,457.2	44.2	–	2,642.6	**10,144.0**
At cost:					
Leasehold properties	40.9	0.1	–	–	**41.0**
Other furniture, fixtures and equipment	57.1	7.3	–	–	**64.4**
Motor vehicles	2.3	0.4	(0.1)	–	**2.6**
Construction in progress	8.6	–	–	–	**8.6**
	7,566.1	52.0	(0.1)	2,642.6	**10,260.6**
Accumulated depreciation and impairment:					
Hotel furniture, fixtures and equipment	317.6	26.4	–	–	**344.0**
Leasehold properties	8.3	1.3	–	–	**9.6**
Other furniture, fixtures and equipment	47.3	4.2	–	–	**51.5**
Motor vehicles	2.3	0.1	(0.1)	–	**2.3**
Construction in progress	8.6	–	–	–	**8.6**
	384.1	32.0	(0.1)	–	**416.0**
Net book value	7,182.0				**9,844.6**

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

	2004 HK$'million	2003 HK$'million
Hotel properties	**5,047.9**	4,859.6

Analysis of net book value by geographical location:

	2004 HK$'million	2003 HK$'million
Leasehold land and buildings situated in Hong Kong:		
Hotel properties, at valuation at balance sheet date:		
Long term	**3,851.0**	2,738.0
Medium term	**5,949.0**	4,401.6
Medium term leasehold property, at cost	**3.6**	3.7
	9,803.6	7,143.3
Properties situated in Mainland China:		
Medium term leasehold properties, at cost	**27.8**	28.9
	9,831.4	7,172.2

As at 31st December, 2004, all of the hotel properties and leasehold properties situated in Hong Kong and certain leasehold properties situated in Mainland China were mortgaged to secure banking and other credit facilities granted to the Group.

As disclosed in the prior year's financial statements, a sale and purchase agreement (the "SP Agreement") was entered into by the Group in 2003 for the disposal of the Regal Oriental Hotel to an independent third party for a consideration of HK$350.0 million (subject to adjustments). Pursuant to a supplemental agreement to the SP Agreement entered into in March 2004, the completion date under the SP Agreement, originally scheduled on 31st March, 2004, was deferred to 30th June, 2004 and an option (the "ROH Option") was reinstated for the Group to terminate the SP Agreement, exercisable by the Group prior to the extended completion date. While the SP Agreement continued to subsist, the Directors considered it appropriate to state the Regal Oriental Hotel at its carrying value of HK$286.6 million as at 31st December, 2003, which approximated the net amount realisable by the Group under the SP Agreement should it proceed to completion. All the other hotel properties of the Group were stated at their valuations as at 31st December, 2003, which were performed by an independent valuer with an RICS qualification on an open market, existing use basis. Consequently, a write-back of impairment loss of HK$11.4 million was recognised in the prior year's profit and loss account.

On 3rd June, 2004, the Group exercised the ROH Option and the SP Agreement was terminated with effect on 24th June, 2004. Accordingly, all hotel properties of the Group were stated at their valuations as at 31st December, 2004, which were performed by an independent valuer with an RICS qualification on an open market, existing use basis. Consequently, a write-back of impairment loss of HK$170.5 million was recognised in the current year's profit and loss account.

Certain of the Group's shop units in the hotel properties are leased to third parties under operating leases, further summary details of which are included in note 41(a) to the financial statements.

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	GROUP	
	2004	**2003**
	HK$'million	**HK$'million**
Share of net liabilities	**(1,650.8)**	(1,870.5)
Loans to the jointly controlled entity	**3,128.7**	2,730.3
Amount due from the jointly controlled entity	**366.7**	366.7
	1,844.6	1,226.5

The share of net liabilities in the prior year included a provision for foreseeable loss in respect of a property development project amounting to HK$1,407.6 million, of which an amount of HK$101.4 million was reversed during the year (2003 - HK$225.7 million). As at 31st December, 2004, the provision for foreseeable loss included in the share of net liabilities was HK$1,306.2 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. The amount due from the jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

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 2004	2003	Principal activity
Chest Gain Development Limited ("Chest Gain")	Corporate	Hong Kong	70	70	Property development

The jointly controlled entity is indirectly held by the Company.

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

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

	2004 HK$'million	2003 HK$'million
State of affairs		
Current assets	**2,759.6**	5,486.8
Current liabilities	**(69.0)**	(3,547.0)
Non-current liabilities	**(6,537.0)**	(5,835.6)
Net liabilities attributable to venturers	**(3,846.4)**	(3,895.8)
Income and losses		
Income	**3,155.1**	648.2
Net profit from ordinary activities attributable to venturers	**49.3**	138.7

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:

	2004 HK$'million	2003 HK$'million
Authorised and contracted for	**–**	15.1
Authorised, but not contracted for	**–**	–
	–	15.1

18. INTERESTS IN ASSOCIATES

	GROUP	
	2004 **HK$'million**	**2003** **HK$'million**
Unlisted companies:		
Share of net liabilities	**(11.7)**	(12.6)
Negative goodwill	**(2.6)**	(2.8)
Loans to associates	**36.6**	35.9
	22.3	20.5
At the balance sheet date:		
Share of post-acquisition undistributed deficits	**(18.7)**	(19.6)

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

	HK$'million
Cost:	
At beginning and at end of year	3.1
Recognition as income:	
At beginning of year	(0.3)
Recognised as income during the year	(0.2)
At end of year	(0.5)
Net book value:	
At 31st December, 2004	2.6
At 31st December, 2003	2.8

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

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

Name	Business structure	Place of incorporation and operation	Class of equity interest held	Percentage of equity interest attributable to the Group 2004	2003	Principal activities
8D International (BVI) Limited ("8D-BVI")	Corporate	British Virgin Islands	Ordinary shares	30.0	30.0	Investment holding
8D International Limited	Corporate	Hong Kong	Ordinary shares	36.0(1)	36.0(1)	Promotions and information technology
8D Matrix Limited	Corporate	British Virgin Islands	Ordinary shares	36.0(1)	36.0(1)	Investment holding
Bright Future (HK) Limited*	Corporate	Hong Kong	Ordinary shares	50.0	50.0	Investment holding
Mira Technology Limited	Corporate	Hong Kong	Ordinary shares	33.0(2)	33.0(2)	Software development
Regala Management Limited	Corporate	Hong Kong	Ordinary shares	25.0	25.0	Light refreshment operation

* not audited by Ernst & Young

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

(2) The percentage of equity interest includes a 3% 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. LONG TERM INVESTMENTS

	GROUP	
	2004 HK$'million	2003 HK$'million
Listed equity investments in Hong Kong, at market value	**78.6**	42.9

20. OTHER LOAN

The balance represents a loan of US$10.0 million (HK$78.0 million) (2003 - HK$78.0 million) advanced to a hotel owner to assist in financing the interior decoration and pre-operating expenditure of its hotel in Shanghai, the People's Republic of China (the "PRC"), which is managed by the Group. The loan is unsecured, interest-free and is repayable commencing from the date of the hotel opening, by way of payments equivalent to 28% of the hotel's net operating profit determined in accordance with the PRC accounting standards after appropriation of the statutory reserves, over the tenure of the management contract for the hotel of 15 years, subject to the possible renewal thereof for a further 5 years.

21. HOTEL AND OTHER INVENTORIES

	GROUP	
	2004 **HK$'million**	**2003** **HK$'million**
Hotel merchandise	**15.8**	13.4
Raw materials	**15.4**	5.8
Work in progress	**1.7**	0.8
Finished goods	**1.5**	1.4
	34.4	21.4

As at 31st December, 2004, the carrying amount of the inventories of the Group pledged to secure general banking facilities granted to the Group amounted to HK$4.3 million (2003 - HK$20.9 million).

22. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK$52.8 million (2003 - HK$38.2 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	GROUP	
	2004 HK$'million	**2003 HK$'million**
Outstanding balances with ages:		
Within 3 months	**47.9**	35.9
Between 4 to 6 months	**1.7**	2.8
Between 7 to 12 months	**1.8**	3.0
Over 1 year	**11.4**	8.0
	62.8	49.7
Provisions	**(10.0)**	(11.5)
	52.8	38.2

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.

At 31st December, 2003, an amount of HK$26.7 million was included in debtors, deposits and prepayments, which represented a reserve fund maintained by Chatwin Engineering Limited ("Chatwin"), a subsidiary company of PHL, against potential claims arising from litigation and arbitration proceedings with certain sub-contractors in connection with the construction work of the Regal Airport Hotel. During the year, an amount of HK$18.6 million was refunded by Chatwin while the remaining balance of HK$8.1 million continued to be held by Chatwin as the reserve fund against potential claims from a sub-contractor as at 31st December, 2004.

23. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK$54.8 million (2003 - HK$57.5 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	GROUP	
	2004	**2003**
	HK$'million	**HK$'million**
Outstanding balances with ages:		
Within 3 months	**47.9**	46.3
Between 4 to 6 months	**3.2**	6.0
Between 7 to 12 months	**1.3**	0.4
Over 1 year	**2.4**	4.8
	54.8	57.5

24. INTEREST BEARING BANK AND OTHER BORROWINGS

	GROUP	
	2004	**2003**
	HK$'million	**HK$'million**
Secured bank loans	**4,768.4**	4,446.4
Secured other loans wholly repayable within five years	**4.2**	4.2
	4,772.6	4,450.6
Portion of borrowings due within one year included under current liabilities:		
Bank loans	**(118.4)**	(899.7)
Other loans	**(4.2)**	(4.2)
	(122.6)	(903.9)
Long term borrowings	**4,650.0**	3,546.7
The bank loans and other loans are repayable in varying instalments within a period of:		
On demand or not exceeding 1 year	**122.6**	903.9
More than 1 year but not exceeding 2 years	**1,850.0**	360.0
More than 2 years but not exceeding 5 years	**2,800.0**	2,622.5
More than 5 years	**–**	564.2
	4,772.6	4,450.6

At 31st December, 2004, the other loans carried fixed interest at a rate of 7.97% (2003 - 7.97%) per annum.

On 31st December, 2004, the Group refinanced its then existing syndicated loan and construction loan by the drawdown under a new syndicated loan facility.

25. CONVERTIBLE BONDS

As previously disclosed, in January 2004, the Group issued additional 5% guaranteed convertible bonds due 2004 ("5% Convertible Bonds") in an aggregate principal amount of HK$30.0 million ("5% Optional Bonds") to a third party purchaser. Part of these 5% Optional Bonds in a principal amount of HK$28.0 million were subsequently acquired by a wholly owned subsidiary company of PHL. All such 5% Optional Bonds in a principal amount of HK$30.0 million were converted into 625.0 million new ordinary shares of the Company at HK$0.048 each during the year.

On 3rd June, 2004, two conditional subscription agreements (the "Subscription Agreements") were entered into by the Group with certain independent third party purchasers in relation to the issue by the Group of 2% guaranteed convertible bonds due 2007, guaranteed by, and convertible into ordinary shares of, the Company (the "2% Convertible Bonds") up to an aggregate principal amount of HK$400.0 million, comprising firm bonds in an aggregate principal amount of HK$200.0 million (the "2% Firm Bonds") and optional bonds of up to an aggregate principal amount of HK$200.0 million (the "2% Optional Bonds").

The 2% Convertible Bonds, if fully subscribed for and issued, are convertible into a total of 1,600.0 million new ordinary shares of the Company at the initial conversion price of HK$0.25 per ordinary share (subject to adjustments).

On 21st July, 2004, the 2% Firm Bonds were subscribed for and issued under the Subscription Agreements. The 2% Firm Bonds are unsecured, bear interest at 2% per annum and are due for repayment in 2007.

Dr. Francis Choi Chee Ming, who was subsequently appointed as a non-executive director and the vice-chairman of the Company on 18th August, 2004, holds 100% equity interest in the purchaser under one of the Subscription Agreements which subscribed for HK$100.0 million of the 2% Firm Bonds and has the right to subscribe for additional 2% Optional Bonds up to a principal amount of HK$100.0 million.

26. DEFERRED TAX

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

Deferred tax assets

Group

	Losses available for offset against future taxable profits	
	2004 **HK$'million**	**2003** **HK$'million**
Balance at beginning of year	**70.1**	–
Deferred tax credited to the profit and loss account during the year	**34.7**	70.1
Gross deferred tax assets at end of year	**104.8**	70.1

Deferred tax liabilities

Group

	Accelerated tax depreciation	
	2004 **HK$'million**	**2003** **HK$'million**
Balance at beginning of year	**124.1**	102.2
Deferred tax charged to the profit and loss account during the year	**25.7**	21.9
Gross deferred tax liabilities at end of year	**149.8**	124.1
Net deferred tax liabilities at end of year	**(45.0)**	(54.0)

	GROUP	
	2004 **HK$'million**	**2003** **HK$'million**
Deferred tax assets and liabilities at end of year, presented after appropriate offsetting:		
Deferred tax assets	**12.0**	10.4
Deferred tax liabilities	**(57.0)**	(64.4)
Net deferred tax liabilities at end of year	**(45.0)**	(54.0)

The Group had tax losses arising in Hong Kong and Mainland China amounting to HK$2,443.4 million (2003 - HK$2,536.9 million) and HK$21.1 million (2003 - HK$21.1 million), respectively, as at 31st December, 2004. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, whilst that arising in Mainland China are available for a maximum period of five years. In the opinion of the Directors, deferred tax assets have been recognised for such unused tax losses to the extent that it is probable that sufficient future taxable profits will be available against which the unused tax losses can be utilised.

At the balance sheet date, deferred tax assets in respect of tax losses not recognised in the financial statements amounted to HK$329.8 million (2003 - HK$380.9 million).

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

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

27. OTHER PAYABLE

The prior year's other payable represented loan restructuring fees payable to the bank creditors originally due on 31st December, 2006 pursuant to the terms of a rescheduling agreement. The balance was fully settled upon the refinancing of the relevant loans completed on 31st December, 2004.

28. SHARE CAPITAL AND SHARE PREMIUM

	COMPANY	
	2004 HK$'million	**2003 HK$'million**
Shares		
Authorised:		
20,000 million (2003 - 10,000 million) ordinary shares of HK$0.01 each	**200.0**	100.0
0.1 million 5¼% convertible cumulative redeemable preference shares of US$10 each	**1.3**	1.3
	201.3	101.3
Issued and fully paid:		
8,340.4 million (2003 - 7,520.4 million) ordinary shares of HK$0.01 each	**83.4**	75.2
0.1 million 5¼% convertible cumulative redeemable preference shares of US$10 each	**1.3**	1.3
	84.7	76.5
Share premium		
Ordinary shares	**574.0**	513.2

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

(i) On 16th June, 2003, 210.0 million new ordinary shares of HK$0.01 each were issued by the Company to Guo Yui Investments Limited ("Guo Yui") at a price of HK$0.048 per ordinary share to raise general working capital, following a placement by Guo Yui of 150.0 million issued ordinary shares in the Company at a price of HK$0.048 per ordinary share. Furthermore, on 21st July, 2003, 180.0 million new ordinary shares of HK$0.01 each were issued by the Company through placement to certain independent investors at a price of HK$0.048 per ordinary share to raise general working capital.

(ii) During the prior year, 833.3 million new ordinary shares of HK$0.01 each were issued by the Company upon conversion of the 5% Convertible Bonds, including the 5% Optional Bonds, in a total principal amounts of HK$40.0 million at an adjusted conversion price of HK$0.048 each.

(iii) At the special general meeting held on 18th July, 2004 (the "SGM"), an ordinary resolution was duly passed by the shareholders of the Company with respect to the increase in the authorised share capital of the Company by the creation of an additional 10,000.0 million new ordinary shares of par value HK$0.01 each of the Company. As a result, the authorised share capital of the Company now comprises HK$200.0 million divided into 20,000.0 million ordinary shares and US$167,480 divided into 16,748 5¼% convertible cumulative redeemable preference shares of par value US$10 each.

(iv) During the year, an aggregate of 625.0 million new ordinary shares of HK$0.01 each were issued to a wholly-owned subsidiary company of PHL and certain independent third party upon the conversion of the 5% Optional Bonds in a prinicipal amount of HK$30.0 million at HK$0.048 each (note 25).

(v) On 12th July, 2004, 195.0 million new ordinary shares of HK$0.01 each were issued to an independent third party at an issue price of HK$0.2 each in settlement of the termination fee payable in the amount of HK$39.0 million relating to the termination of the sale and purchase agreement in respect of the Regal Oriental Hotel.

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

		Authorised		Issued and fully paid		Share premium
	Notes	No. of shares 'million	Amount HK$'million	No. of shares 'million	Amount HK$'million	HK$'million
Ordinary shares						
At 1st January, 2003		10,000.0	100.0	6,297.1	62.9	467.1
Issue of new shares in June and July 2003	(i)	—	—	390.0	3.9	14.8
Issue of new shares upon conversion of convertible bonds	(ii)	—	—	833.3	8.4	31.6
Share issue expenses		—	—	—	—	(0.3)
At 31st December, 2003 and at 1st January, 2004		10,000.0	100.0	7,520.4	75.2	513.2
Increase of authorised share capital	(iii)	10,000.0	100.0	—	—	—
Issue of new shares upon conversion of convertible bonds	(iv)	—	—	625.0	6.2	23.8
Issue of new shares in settlement of termination fee payable	(v)	—	—	195.0	2.0	37.0
At 31st December, 2004		20,000.0	200.0	8,340.4	83.4	574.0
5¼% convertible cumulative redeemable preference shares of US$10 each						
At 31st December, 2003 and at 31st December, 2004		0.1	1.3	0.1	1.3	—
Total issued share capital						
At 31st December, 2004			**201.3**		**84.7**	**574.0**
At 31st December, 2003			101.3		76.5	513.2

Preference shares

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

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

None of the preference shares was converted during the year. The exercise in full of the Conversion Rights attached to the outstanding 16,748 preference shares in issue at 31st December, 2004 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 "Share Option Scheme"). The Share Option Scheme was approved by the Company's shareholders on 28th June, 1990. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The summarised information on the Share Option Scheme is set out as follows:

(i)	Purpose:	As incentive to selected eligible executives
(ii)	Participants:	Eligible executive means any director and any person who is an employee of the Group (including the Company, its subsidiary companies and other bodies corporate in which the Company or its subsidiary companies, or a combination of them, hold not less than 40% of the issued voting shares), or of any other company or corporation forming part of the Century City International Holdings Limited Group ("CCIHL Group"), for so long as the Company is part of the CCIHL Group, and (in the opinion of the Board) who devotes a material amount of time to the management of the affairs of the Group
(iii)	Total number of ordinary shares subject to outstanding options under the Share Option Scheme and as a percentage of the issued share capital as at 31st December, 2004 and at the date of this report:	1,080,000 ordinary shares (approximately 0.01%)
(iv)	Maximum entitlement of each participant under the Share Option Scheme:	Not exceeding 25% of the total number of ordinary shares included in options outstanding at the time of grant
(v)	The period within which the shares must be taken up under an option:	From the time when the options become vested no later than ten years after the date of grant
(vi)	Minimum period for which an option must be held before it can be exercised:	Not less than one year following the date of grant
(vii)	Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:	N/A
(viii)	The basis of determining the exercise price:	At the discretion of the Board but shall not be less than the par value of the shares nor at a discount of more than 10% below the average closing prices of the ordinary shares on the Stock Exchange on the five dealing days immediately preceding the date on which the invitation to apply for an option is resolved by the Board to be given

(ix) The remaining life of the Share Option Scheme: The life of the Share Option Scheme commenced from 28th June, 1990, date of adoption, and ended on 28th June, 2000.

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

Date of grant of share option	Name or category of participant	Number of ordinary shares under share option** At 1st January, 2004	Lapsed during the year	At 31st December, 2004	Vesting period*/ Exercise period of share option	Exercise price of share option** HK$
	Director					
22nd February, 1997	Ms. Belinda Yeung Bik Yiu					
	Vested:	648,000	–	756,000	Note 1	2.1083
	Unvested:	432,000	–	324,000	Note 1	
		1,080,000	–	1,080,000		
	Total:	**1,080,000**	**–**	**1,080,000**		

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

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

Notes:

1. Vesting/Exercise Periods of Option:

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

2. In the absence of a readily available market value, the Directors are unable to arrive at an accurate assessment of the value of the option granted.

The exercise in full of the outstanding rights which have vested with the holder of the option 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 0.9 million additional ordinary shares and share premium of HK$1.8 million (before issue expenses).

Warrants

At the SGM, an ordinary resolution was duly passed by the shareholders of the Company with respect to a bonus issue of warrants ("Warrants") of the Company to its shareholders, on the basis of one unit of Warrants carrying a subscription right of HK$0.25 for every ten ordinary shares of the Company held by the shareholders on the register of members of the Company on 19th July, 2004.

On 2nd August, 2004, Warrants carrying aggregate subscription rights of approximately HK$208.5 million were issued to the shareholders of the Company. The Warrants confer rights on their holders to subscribe for up to approximately 834.0 million new ordinary shares of the Company at the initial subscription price of HK$0.25 per ordinary share (subject to adjustments), at any time from the date falling 6 months after the date of issue (ie. 2nd February, 2005) to the date falling 7 days prior to the third anniversary of date of issue (ie. 26th July, 2007).

29. RESERVES

		GROUP		COMPANY	
	Notes	2004 HK$'million	2003 HK$'million	2004 HK$'million	2003 HK$'million
Share premium	28	**574.0**	513.2	**574.0**	513.2
Capital reserve	30	**–**	–	**–**	–
Special reserve	31	**1,062.3**	1,062.3	**–**	–
Revaluation reserves	32	**4,781.5**	2,281.5	**–**	–
Exchange equalisation reserve	33	**1.3**	1.4	**–**	–
Contributed surplus	35	**–**	–	**2,683.5**	2,683.5
Retained profits	36	**625.7**	105.6	**3,787.3**	767.3
		7,044.8	3,964.0	**7,044.8**	3,964.0

30. CAPITAL RESERVE

	GROUP 2004 HK$'million	GROUP 2003 HK$'million
Balance at beginning of year	–	71.9
Release on disposal of overseas subsidiary companies	–	(71.9)
Balance at end of year	–	–

As further explained below, the carrying amounts at 31st December, 2004 and 2003 included goodwill arising from the acquisitions of subsidiary companies and the share of goodwill of an associate in prior years. As detailed in note 3(c) to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1st January, 2001, to remain eliminated against or credited to, respectively, to the capital reserve.

The amounts of 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
Cost:		
At beginning and at end of year	12.8	120.4
Accumulated impairment:		
At beginning and at end of year	(12.8)	(120.4)
Net amount:		
At 31st December, 2004	–	–
At 31st December, 2003	–	–

31. SPECIAL RESERVE

	GROUP	
	2004 **HK$'million**	**2003** **HK$'million**
Balance at beginning and at end of year	**1,062.3**	1,062.3

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

32. REVALUATION RESERVES

	GROUP		
	Hotel properties HK$'million	**Long term investments HK$'million**	**Total HK$'million**
At 1st January, 2003	1,575.8	(12.2)	1,563.6
Movement in fair value	–	13.4	13.4
Surplus on revaluation	651.8	–	651.8
Release on disposal	52.4	0.3	52.7
At 31st December, 2003 and 1st January, 2004	2,280.0	1.5	2,281.5
Movement in fair value	–	27.9	27.9
Surplus on revaluation	2,472.1	–	2,472.1
At 31st December, 2004	**4,752.1**	**29.4**	**4,781.5**

33. EXCHANGE EQUALISATION RESERVE

	GROUP	
	2004 HK$'million	2003 HK$'million
Balance at beginning of year	**1.4**	(14.3)
Exchange adjustment on translation of the financial statements of overseas subsidiary companies	**(0.1)**	7.8
Release on disposal of overseas subsidiary companies	**–**	7.9
Balance at end of year	**1.3**	1.4

34. INTERESTS IN SUBSIDIARY COMPANIES

	COMPANY	
	2004 HK$'million	2003 HK$'million
Unlisted shares, at cost	**5,552.2**	5,552.2
Amount due from a subsidiary company	**2,200.2**	2,136.1
	7,752.4	7,688.3
Provision for impairment	**(538.2)**	(3,644.7)
	7,214.2	4,043.6

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 ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company 2004	2003	Principal activities
Bauhinia Hotels Limited	Hong Kong	HK$2	100	100	Hotel ownership
Camomile Investments Limited	Hong Kong	HK$2	100	100	Property investment
Charmwin Limited	Hong Kong	HK$2	100	100	Distribution of beer
Cheerview Limited	Hong Kong	HK$1	100	–	Financing
Cityability Limited	Hong Kong	HK$10,000	100	100	Hotel ownership
Cranfield Investments Limited	Hong Kong	HK$2	100	100	Financing
Farah Investments Limited	Hong Kong	HK$2	100	100	Financing
Fortune Nice Investment Limited	Hong Kong	HK$2	100	100	Financing
Gala Hotels Limited	Hong Kong	HK$2	100	100	Hotel ownership
Harvest Charm Investment Limited	Hong Kong	HK$2	100	100	Financing
HK 168 Limited	Republic of Liberia	US$1	100	100	Securities investment
Honrich Investment Limited	Hong Kong	HK$2	100	100	Financing
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

Name	Place of incorporation/ registration	Issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company 2004	2003	Principal activities
Kaybro Investments Limited	British Virgin Islands	US$1	100	100	Securities investment
Key Winner Investment Limited	Hong Kong	HK$2	100	100	Financing
Regal Century Investment Limited	Hong Kong	HK$2	100	100	Investment holding and management services
Regal Estate Agents Limited	Hong Kong	HK$2	100	100	Estate agents
Regal Estate Management Limited	Hong Kong	HK$2	100	100	Estate management
Regal Hotels (Holdings) Limited	Hong Kong	HK$1,151,598,638	100	100	Investment holding
Regal Hotels International Limited	Hong Kong	HK$100,000	100	100	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US$1	100	100	Hotel management
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 Riverside Hotel Limited	Hong Kong	HK$2	100	100	Hotel ownership
Regal Supplies Limited	Hong Kong	HK$2	100	100	Bakery plant operation

Name	Place of incorporation/ registration	Issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company 2004	2003	Principal activities
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	100	100	Trademark holding
Richtech Holdings Limited	Hong Kong	HK$2	100	100	Financing
Ricobem Limited	Hong Kong	HK$2	100	100	Hotel ownership
World Way Management Limited	Hong Kong	HK$2	100	100	Management services

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

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

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

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

35. CONTRIBUTED SURPLUS

	COMPANY	
	2004 HK$'million	2003 HK$'million
Balance at beginning and at end of year	**2,683.5**	2,683.5

The contributed surplus represents the aggregate of (i) the balance of the reserve originally arising from the Group reorganisation in 1989 representing the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiary companies; and (ii) the reserve arising from the Company's capital reorganisation in 2002.

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

36. RETAINED PROFITS/(ACCUMULATED LOSSES)

	GROUP		COMPANY	
	2004 **HK$'million**	**2003** **HK$'million**	**2004** **HK$'million**	**2003** **HK$'million**
Balance at beginning of year	**105.6**	(102.2)	**767.3**	–
Net profit for the year	**602.9**	207.8	**3,102.8**	767.3
Dividends (note 14)	**(82.8)**	–	**(82.8)**	–
Balance at end of year	**625.7**	105.6	**3,787.3**	767.3

	GROUP	
	2004 **HK$'million**	**2003** **HK$'million**
Retained profits/(Accumulated losses) at end of year retained by/(accumulated in):		
The Company and subsidiary companies	**1,077.4**	777.9
Associates	**(18.7)**	(19.6)
Jointly controlled entity	**(433.0)**	(652.7)
Balance at end of year	**625.7**	105.6

37. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2004 HK$'million	2003 HK$'million
Profit before tax	**577.7**	160.0
Adjustments for:		
Finance costs	**139.8**	144.1
Share of profits less losses of a jointly controlled entity and associates	**(220.7)**	(204.6)
Interest income	**(0.4)**	(0.2)
Loss on disposal of overseas subsidiary companies attributable to discontinued operation	**–**	34.4
Gain on disposal of fixed assets	**–**	(5.4)
Depreciation	**32.0**	40.2
Negative goodwill recognised as income	**(0.2)**	(0.2)
Dividend income from listed investments	**(2.3)**	–
Termination fee in respect of cancellation of the disposal of a hotel property	**39.0**	–
Write-back of impairment of a hotel property	**(170.5)**	(11.4)
Write-back of impairment of a long term investment	**(7.8)**	–
Provisions for doubtful debts	**0.1**	2.5
Loss on disposal of long term listed investments	**–**	0.5
Operating profit before working capital changes	**386.7**	159.9
Decrease/(Increase) in debtors, deposits and prepayments	**(2.1)**	10.3
Increase in hotel and other inventories	**(13.0)**	(3.0)
Increase/(Decrease) in creditors and accruals	**25.8**	(17.7)
Exchange differences	**–**	(1.4)
Cash generated from operations	**397.4**	148.1
Overseas taxes paid	**–**	(0.1)
Overseas taxes refunded	**11.8**	–
Hong Kong taxes refunded	**–**	0.3
Net cash inflow from operating activities	**409.2**	148.3

(b) Major non-cash transactions

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

195.0 million new ordinary shares of the Company were issued to an independent third party at an issue price of HK$0.2 each in settlement of the termination fee payable in the amount of HK$39.0 million relating to the termination of the sale and purchase agreement in respect of the Regal Oriental Hotel (note 28(v)).

There were no major non-cash transactions for the prior year.

(c) Disposal of subsidiary companies

	2004 HK$'million	2003 HK$'million
Net assets disposed of:		
Fixed assets	–	259.6
Hotel and other inventories	–	4.7
Debtors, deposits and prepayments	–	3.4
Cash and bank balances	–	2.5
Creditors and accruals	–	(28.4)
Interest bearing bank and other borrowings	–	(195.8)
	–	46.0
Capital reserve released on disposal	–	(71.9)
Revaluation reserve released on disposal	–	52.4
Exchange equalisation reserve released on disposal	–	7.9
Loss on disposal	–	(34.4)
	–	–
Satisfied by:		
Cash	–	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of overseas subsidiary companies is as follows:

	2004 HK$'million	2003 HK$'million
Cash consideration	–	–
Cash and bank balances disposed of	–	(2.5)
Net outflow of cash and cash equivalents in respect of the disposal of overseas subsidiary companies	–	(2.5)

The overseas subsidiary companies disposed of in the prior year contributed HK$32.2 million to turnover and net loss of HK$12.3 million to the consolidated profit after tax and before minority interests for the year ended 31st December, 2003.

(d) Restricted cash and cash equivalent balances

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$2.6 million (2003 - HK$1.1 million). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

38. CONNECTED AND RELATED PARTY TRANSACTIONS

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

	Notes	2004 HK$'million	2003 HK$'million
Consultancy fees in respect of hotel property development projects paid to a wholly owned subsidiary company of PHL	(a)	**18.7**	–
Advertising and promotion fees (including cost reimbursements) paid to an associate	(b)	**7.3**	7.3
Management costs allocated from CCIHL	(c)	**8.9**	9.7
Guarantee given in respect of a bank loan of a jointly controlled entity	(d)	**–**	2,359.0
Estate agency fee income from a jointly controlled entity	(e)	**5.7**	–

Notes:

(a) During the year, consultancy fees were paid to a subsidiary company of PHL for services rendered in connection with the settlement of certain claims with the Airport Authority Hong Kong (the "Airport Authority") relating to the construction of the Regal Airport Hotel at Chek Lap Kok. The fees comprise a basic fee and a success fee calculated by reference to the term of the sub-lease extension concluded with the Airport Authority upon settlement of all claims.

(b) The advertising and promotion fees comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed.

(c) The management costs included rentals and other overheads allocated from CCIHL either on the basis of specific attribution or by reference to a predetermined ratio assessed by the management of CCIHL, PHL and the Company based on the distribution of job responsibilities and the estimated time to be spent by the relevant staff in serving each of the three groups.

(d) Details of the prior year's guarantee are disclosed in note 40(a) to the financial statements.

(e) The estate agency fee income is charged in respect of estate agency service provided in relation to the properties held for sale of the jointly controlled entity.

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

The related party transactions set out in notes 38(a) to (c) above also constituted connected transactions or continuing connected transactions as defined in the Listing Rules to the Company. Relevant disclosure and other requirements, including, inter alia, independent shareholders' approval (where required) in accordance with the Listing Rules with respect to such transactions have been made or met. Related details of the related party transactions set out in notes 38(a) to (c) are disclosed in the Directors' Report of the Company for the financial year ended 31st December, 2004 accompanying the financial statements.

39. PLEDGE OF ASSETS

In addition to the balances set out elsewhere in the notes to the financial statements, at the balance sheet date, certain of the Group's time deposits, interest in a jointly controlled entity, hotel properties, leasehold properties and equipment, inventories and receivables with a total carrying value of HK$11,724.8 million and the shares in certain subsidiary companies were pledged to secure general banking facilities granted to the Group.

40. CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	2004 HK$'million	**2003 HK$'million**	**2004 HK$'million**	**2003 HK$'million**
(a) Corporate guarantees provided in respect of:				
Attributable share of outstanding bank borrowings of:				
- a jointly controlled entity	**–**	2,255.4	**–**	2,255.4
- subsidiary companies	**–**	–	**4,750.0**	4,428.0
Outstanding convertible bonds issued by a subsidiary company	**–**	–	**200.0**	–
Utility guarantees of a subsidiary company	**3.8**	3.8	**3.8**	3.8
	3.8	2,259.2	**4,953.8**	6,687.2

(b) The Group has a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of HK$7.0 million as at 31st December, 2004 (2003 - HK$11.1 million), as further explained in note 3(s) to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group, and are eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties (note 16) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 4 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At 31st December, 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	GROUP	
	2004	**2003**
	HK$'million	**HK$'million**
Within one year	**13.8**	11.4
In the second to fifth years, inclusive	**9.1**	11.9
	22.9	23.3

(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 from 1 year to 2 years, 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. Lease for office equipment in respect of the Group is negotiated for a term of 3 years.

At 31st December, 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2004 HK$'million	**2003 HK$'million**
Land and buildings:		
Within one year	**3.0**	3.9
In the second to fifth years, inclusive	**8.9**	10.1
After the fifth year	**0.4**	2.5
	12.3	16.5
Other equipment:		
Within one year	**–**	–
In the second to fifth years, inclusive	**0.1**	–
	0.1	–
	12.4	16.5

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

42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41(b) above, the Group had the following outstanding commitments at the balance sheet date:

	GROUP	
	2004 **HK$'million**	**2003** **HK$'million**
Capital commitments in respect of the renovation of, improvements or extensions to the hotel properties:		
Authorised and contracted for	**2.0**	3.4
Authorised, but not contracted for	**187.3**	86.9
	189.3	90.3

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

43. POST BALANCE SHEET EVENT

In February 2005, the Group concluded a settlement with its relevant insurer on the business interruption claims in relation to the Group's hotel operations in Hong Kong due to the incidence of SARS in 2003. A gross settlement amount of HK$22.0 million has been received and will be taken into account in the 2005 financial year.

44. APPROVAL OF THE FINANCIAL STATEMENTS

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