

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

1. GENERAL

The Company is a public limited liability company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 32.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the inclusion of the statement of changes in equity. However, it had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of subsidiaries outside Hong Kong at the closing rate for the period. They are now required to be translated at an average rate. This change in accounting policy has not had any significant effect on the results for the current or prior accounting periods.

Cash flow statements

In the current year, the Group adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Employee benefits

In the current year, the Group adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. The principal effect of the implementation of SSAP 34 is in connection with the recognition of costs for the Group's defined contribution retirement benefit plan. This change in accounting policy has not had any significant effect on the results for the current or prior accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 30th June, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisition is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 30th June, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balances sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

Revenue recognition

Income from operations of a hotel, a restaurant and a club are recognised when services are provided.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income under operating leases is recognised on a straight line basis over the period of the respective leases.

Property, plant and equipment

(i) *Hotel properties*

Hotel properties are stated at cost and no depreciation is provided on hotel properties held on leases of more than twenty years. It is the Group's practice to maintain the properties in a continual state of sound repairs and maintenance, and accordingly, the Directors consider that depreciation is not necessary due to their high residual values. The related maintenance expenditure is dealt with in the income statement in the year of expenditure.

(ii) *Others*

Other assets include furniture and fixtures, and hotel and restaurant operating equipment and are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of other assets over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Furniture and fixtures	10% – 20%
Hotel and restaurant operating equipment	20%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 30th June, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the year.

Hotel inventories

Hotel inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Deferred loan arrangement fees

Deferred loan arrangement fees represent expenses incurred in obtaining long-term secured bank loan facilities. Such expenses are deferred and amortised to the income statement over the repayment term of the loan on a straight line basis to provide a constant periodic rate of charge.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the subsidiaries and associates which are denominated in currencies other than Hong Kong dollars are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease terms.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

4. TURNOVER

	2003 HK\$	2002 HK\$
Hotel operations	100,024,791	109,498,622
Restaurant and club operations	6,375,803	12,274,170
Dividend income from investments in listed securities	4,015,960	2,509,975
Hotel management service fees	1,825,060	1,950,000
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	112,241,614	126,232,767
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into four operating divisions – hotel operations, restaurant and club operations, investment holding and hotel management services. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Hotel operations	–	operate a hotel
Restaurant and club operations	–	operate a restaurant and a club
Investment holding	–	investments in listed securities
Hotel management services	–	provide hotel management services

Segment information about these businesses is presented below.

INCOME STATEMENT

For the year ended 30th June, 2003

	Hotel Operations <i>HK\$</i>	Restaurant and club operations <i>HK\$</i>	Investment holding <i>HK\$</i>	Hotel management services <i>HK\$</i>	Consolidated <i>HK\$</i>
TURNOVER	<u>100,024,791</u>	<u>6,375,803</u>	<u>4,015,960</u>	<u>1,825,060</u>	<u>112,241,614</u>
RESULT					
Segment result	<u>32,789,634</u>	<u>1,641,326</u>	<u>4,010,277</u>	<u>1,825,060</u>	40,266,297
Unallocated corporate expenses					<u>(3,058,225)</u>
Profit from operations					37,208,072
Finance income					679,258
Finance costs					(37,048,690)
Share of results of associates					<u>54,528,981</u>
Profit before taxation					55,367,621
Taxation					<u>(7,309,169)</u>
Net profit for the year					<u>48,058,452</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

BALANCE SHEET

At 30th June, 2003

	Hotel operations <i>HK\$</i>	Restaurant and club operations <i>HK\$</i>	Investment holding <i>HK\$</i>	Consolidated <i>HK\$</i>
ASSETS				
Segment assets	1,975,401,936	2,732,609	176,962,169	2,155,096,714
Interests in associates				1,403,755,453
Unallocated corporate assets				<u>290,436,862</u>
Consolidated total assets				<u>3,849,289,029</u>
LIABILITIES				
Segment liabilities	10,189,392	714,217	6,000	10,909,609
Unallocated liabilities				<u>1,270,725,377</u>
Consolidated total liabilities				<u>1,281,634,986</u>

OTHER INFORMATION

For the year ended 30th June, 2003

	Hotel Operations <i>HK\$</i>	Restaurant and club operations <i>HK\$</i>	Consolidated <i>HK\$</i>
Capital additions	2,085,951	1,735	2,087,686
Depreciation	2,845,665	6,548	2,852,213

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

INCOME STATEMENT

For the year ended 30th June, 2002

	Hotel Operations <i>HK\$</i>	Restaurant and club operations <i>HK\$</i>	Investment holding <i>HK\$</i>	Hotel management services <i>HK\$</i>	Consolidated <i>HK\$</i>
TURNOVER	109,498,622	12,274,170	2,509,975	1,950,000	126,232,767
RESULT					
Segment result	21,121,101	(1,548,656)	2,504,548	1,950,000	24,026,993
Unallocated corporate expenses					(2,854,989)
Profit from operations					21,172,004
Finance income					6,132,770
Finance costs					(58,102,786)
Share of results of associates					89,161,455
Profit before taxation					58,363,443
Taxation					(8,520,076)
Net profit for the year					49,843,367

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

BALANCE SHEET

At 30th June, 2002

	Hotel operations <i>HK\$</i>	Restaurant and club operations <i>HK\$</i>	Investment holding <i>HK\$</i>	Consolidated <i>HK\$</i>
ASSETS				
Segment assets	1,981,479,555	2,820,831	181,980,857	2,166,281,243
Interests in associates				1,372,920,722
Unallocated corporate assets				<u>411,627,319</u>
Consolidated total assets				<u>3,950,829,284</u>
LIABILITIES				
Segment liabilities	15,102,938	946,208	6,000	16,055,146
Unallocated liabilities				<u>1,407,178,816</u>
Consolidated total liabilities				<u>1,423,233,962</u>

OTHER INFORMATION

For the year ended 30th June, 2002

	Hotel Operations <i>HK\$</i>	Restaurant and club operations <i>HK\$</i>	Consolidated <i>HK\$</i>
Capital additions	6,832,907	39,117	6,872,024
Depreciation	1,811,882	24,153	1,836,035

(b) Geographical segments

All of the activities of the Group are based in Hong Kong and all of the Group's turnover, profit before taxation, assets and liabilities are derived from Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

6. PROFIT FROM OPERATIONS

	2003 HK\$	2002 HK\$
Profit from operations has been arrived at after charging:		
Directors' emoluments (note 9)	263,000	281,000
Other staff costs	37,039,937	46,096,597
Retirement benefits scheme contributions	1,447,179	1,286,770
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Total staff costs	38,750,116	47,664,367
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Auditors' remuneration		
Current year	342,040	377,900
Overprovision in prior years	(8,040)	(70,040)
Cost of hotel inventories recognised as an expense	6,782,301	8,856,857
Depreciation of property, plant and equipment	2,852,213	1,836,035
Loss on disposal of property, plant and equipment	—	298,247
Repairs and maintenance in respect of hotel properties	1,822,169	17,210,922
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and after crediting:		
Rental income in respect of premises, less outgoings of HK\$12,250 (2002: HK\$23,682)	2,023,152	1,436,935
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7. FINANCE INCOME

	2003 HK\$	2002 HK\$
Interest income on:		
Advance to an associate	492,715	5,858,119
Bank deposits	186,543	274,651
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	679,258	6,132,770
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

8. FINANCE COSTS

	2003 HK\$	2002 HK\$
Interest on:		
Bank loans wholly repayable within five years	11,939,806	17,779,854
Other interest-bearing unsecured loans wholly repayable within five years	23,678,421	38,562,819
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	35,618,227	56,342,673
Financing charges	1,430,463	1,760,113
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	37,048,690	58,102,786
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9. DIRECTORS' EMOLUMENTS

	2003 HK\$	2002 HK\$
Directors' fees		
Executives	125,000	143,000
Independent Non-Executives	138,000	138,000
Other emoluments	—	—
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Total emoluments	263,000	281,000
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No Director waived any emoluments in the year ended 30th June, 2003 (2002: Nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none (2002: none) of them was Director of the Company. The emoluments of the five (2002: five) individuals were as follows:

	2003 HK\$	2002 <i>HK\$</i>
Salaries and other emoluments	2,629,889	2,793,488
Contributions to retirement benefits scheme	98,865	106,493
	<u>2,728,754</u>	<u>2,899,981</u>

The aggregate emoluments of each of the five highest paid individuals in the Group were within the emoluments band of less than HK\$1,000,000.

During the year, no emoluments were paid by the Group to the five highest paid individuals, including Directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

11. SHARE OF RESULTS OF ASSOCIATES

Share of results of associates includes amortisation of an associate's goodwill of HK\$8,518,200 (2002: HK\$4,259,100) and release of an associate's negative goodwill of HK\$2,103,000 (2002: HK\$2,103,000).

12. TAXATION

	THE GROUP	
	2003 HK\$	2002 <i>HK\$</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% (2002: 16%) on the estimated assessable profit		
Current year	791,677	1,175,732
(Over)underprovision in prior years	(551,758)	186,094
	<u>239,919</u>	<u>1,361,826</u>
Share of taxation attributable to associates	7,069,250	7,158,250
	<u>7,309,169</u>	<u>8,520,076</u>

Neither the Group nor the Company had any material unprovided deferred taxation for the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

13. DIVIDENDS

	2003 HK\$	2002 HK\$
Final, paid – 2002: HK1 cent (2001: HK1 cent) per share	8,030,542	7,891,396
Interim, paid – 2003: HK1.5 cents (2002: HK1 cent) per share	<u>12,126,341</u>	<u>7,972,552</u>
	<u>20,156,883</u>	<u>15,863,948</u>

A final dividend of HK1 cent for the year ended 30th June, 2003 (2002: HK1 cent) per share has been proposed by the Directors and is subject to approval by the shareholders in the annual general meeting.

14. EARNINGS PER SHARE

The calculation of the earnings per share is based on the net profit for the year of HK\$48,058,452 (2002: HK\$49,843,367) and on the weighted average number of 806,801,331 (2002: 794,110,871) shares in issue during the year.

15. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties in Hong Kong held under long leases HK\$	Others HK\$	Total HK\$
THE GROUP			
COST			
At 1st July, 2002	1,950,110,500	18,125,961	1,968,236,461
Additions	<u>—</u>	<u>2,087,686</u>	<u>2,087,686</u>
At 30th June, 2003	<u>1,950,110,500</u>	<u>20,213,647</u>	<u>1,970,324,147</u>
DEPRECIATION			
At 1st July, 2002	—	7,815,108	7,815,108
Provided for the year	<u>—</u>	<u>2,852,213</u>	<u>2,852,213</u>
At 30th June, 2003	<u>—</u>	<u>10,667,321</u>	<u>10,667,321</u>
NET BOOK VALUES			
At 30th June, 2003	<u>1,950,110,500</u>	<u>9,546,326</u>	<u>1,959,656,826</u>
At 30th June, 2002	<u>1,950,110,500</u>	<u>10,310,853</u>	<u>1,960,421,353</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$	2002 HK\$
Unlisted shares, at cost	78	86
Advances to subsidiaries, less allowance	<u>2,967,584,054</u>	<u>2,949,696,769</u>
	<u>2,967,584,132</u>	<u>2,949,696,855</u>

Details of the principal subsidiaries at 30th June, 2003 are set out in note 32.

The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms. At 30th June, 2002, the balances included an amount of HK\$615,829,087 which was interest-bearing and the remaining balances were interest-free. In the opinion of the Directors, the amounts will not be received in the next twelve months of the balance sheet date and accordingly, the amounts are shown as non-current.

17. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Unlisted shares, at cost	—	—	25	25
Share of net assets	1,274,560,499	1,237,310,568	—	—
Goodwill (negative goodwill) (note)	<u>129,194,954</u>	<u>135,610,154</u>	<u>—</u>	<u>—</u>
	<u>1,403,755,453</u>	<u>1,372,920,722</u>	<u>25</u>	<u>25</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

17. INTERESTS IN ASSOCIATES (Continued)

Note:

	Goodwill HK\$	Negative goodwill HK\$	Total HK\$
COST/GROSS AMOUNT			
At beginning and end of the year	170,362,727	(42,059,973)	128,302,754
RELEASED TO INCOME/AMORTISATION			
At beginning of the year	4,259,100	(11,566,500)	(7,307,400)
Release for the year	—	(2,103,000)	(2,103,000)
Charge for the year	8,518,200	—	8,518,200
At end of the year	12,777,300	(13,669,500)	(892,200)
CARRYING AMOUNTS			
At end of the year	157,585,427	(28,390,473)	129,194,954
At beginning of the year	166,103,627	(30,493,473)	135,610,154

The amortisation period adopted for goodwill and negative goodwill is 20 years.

Details of the associates at 30th June, 2003 are as follows:

Name of company	Place of incorporation/ operation	Class of shares held	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Asian Glory Limited	British Virgin Islands	Ordinary	—	25%	Investment holding
Bestown Property Limited	Hong Kong	Ordinary	—	25%	Hotel owner
Greenroll Limited	Hong Kong	Ordinary	—	50%	Hotel owner
Regent Step Investment Limited	Hong Kong	Ordinary	25%	—	Provision of financial services

Notes:

- (a) All associates are unlisted in Hong Kong.
- (b) The financial statements of Greenroll Limited are not audited by Deloitte Touche Tohmatsu.
- (c) Results and affairs of the Group's significant associates are set out in note 33.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

18. INVESTMENTS IN SECURITIES

	THE GROUP	
	2003 HK\$	2002 HK\$
Other securities:		
Equity securities listed in Hong Kong, at cost	379,514,424	379,514,424
Revaluation deficit	(202,561,194)	(197,541,244)
Market value of listed securities	<u>176,953,230</u>	<u>181,973,180</u>

19. TRADE AND OTHER RECEIVABLES

The Group maintains a defined credit policy. An aged analysis of trade receivables is as follows:

	THE GROUP	
	2003 HK\$	2002 HK\$
Trade receivables		
0-30 days	929,589	3,494,035
31-60 days	22,728	443,030
61-90 days	25,336	3,730
Over 90 days	22,470	41,562
	<u>1,000,123</u>	<u>3,982,357</u>
Other receivables	<u>2,077,009</u>	<u>2,452,609</u>
	<u>3,077,132</u>	<u>6,434,966</u>

20. BALANCES WITH ASSOCIATES

The amounts are unsecured and have no fixed repayment terms.

The balances due from associates include an amount of HK\$286,245,176 (2002: HK\$410,331,391) which is interest-bearing and the remaining balances are interest-free. The amount due to an associate is interest-free.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

21. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	THE GROUP	
	2003 HK\$	2002 HK\$
Trade payables		
0-30 days	2,271,132	2,980,780
31-60 days	48,267	—
61-90 days	7,179	—
Over 90 days	60,647	9,014
	2,387,225	2,989,794
Other payables	6,913,970	11,135,571
	9,301,195	14,125,365

22. SHARE CAPITAL

	Number of ordinary shares of HK\$1 each		Nominal value	
	2003	2002	2003 HK\$	2002 HK\$
Authorised:				
At beginning and end of the year	3,000,000,000	3,000,000,000	3,000,000,000	3,000,000,000
Issued and fully paid:				
At beginning of the year	803,054,199	789,139,626	803,054,199	789,139,626
Shares issued pursuant to scrip dividend schemes for final dividend in respect of the years ended 30th June, 2002 and 2001	5,368,586	8,115,621	5,368,586	8,115,621
Shares issued pursuant to scrip dividend schemes for interim dividend in respect of the years ended 30th June, 2003 and 2002	7,694,154	5,798,952	7,694,154	5,798,952
At end of the year	816,116,939	803,054,199	816,116,939	803,054,199

On 17th December, 2002 and 21st May, 2003, pursuant to scrip dividend schemes, the Company issued and allotted a total of 5,368,586 shares and 7,694,154 shares of HK\$1 each at an issue price of HK\$1.33 and HK\$1.332 each to the shareholders who elected to receive shares of the Company in lieu of cash for the 2002 final and 2003 interim dividends in respect of the years ended 30th June, 2002 and 2003, respectively. These shares rank pari passu in all respects with the existing shares.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 30th June, 2003

23. RESERVES

	Share premium <i>HK\$</i>	Distributable reserve <i>HK\$</i>	Retained profits <i>HK\$</i>	Total <i>HK\$</i>
THE COMPANY				
At 1st July, 2001	55,643,858	1,823,877,078	108,776,287	1,988,297,223
Shares issued at premium	1,275,770	—	—	1,275,770
Share issue expenses	(591,660)	—	—	(591,660)
Net profit for the year	—	—	172,705,324	172,705,324
Dividends paid	—	—	(15,863,948)	(15,863,948)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2002	56,327,968	1,823,877,078	265,617,663	2,145,822,709
Shares issued at premium	4,326,112	—	—	4,326,112
Share issue expenses	(211,750)	—	—	(211,750)
Net profit for the year	—	—	20,885,141	20,885,141
Dividends paid	—	—	(20,156,883)	(20,156,883)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2003	<u>60,442,330</u>	<u>1,823,877,078</u>	<u>266,345,921</u>	<u>2,150,665,329</u>

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands and the provisions of the Company's Articles of Association, the share premium of the Company is available for distribution or paying dividends to the shareholders provided that immediately following the distribution or the payment of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

The distributable reserve of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the share capital issued by the Company pursuant to a group reorganisation in 1995. Under the Companies Law (Revised) of the Cayman Islands, the distributable reserve is available for distribution to shareholders.

The reserves available for distribution to the shareholders by the Company as at 30th June, 2003 amounted to HK\$2,150,665,329 (2002: HK\$2,145,822,709).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

24. BANK LOANS AND OTHER BORROWINGS

	THE GROUP	
	2003 HK\$	2002 HK\$
Bank loans	481,948,292	502,967,042
Other interest-bearing unsecured loans	402,171,491	501,251,618
Bank overdrafts	—	617,795
	<u>884,119,783</u>	<u>1,004,836,455</u>
Represented:		
Secured	364,956,542	386,593,087
Unsecured	519,163,241	618,243,368
	<u>884,119,783</u>	<u>1,004,836,455</u>
The maturity of the above bank loans and other borrowings is as follows:		
On demand or within one year	185,276,417	184,669,212
More than one year, but not exceeding two years	425,971,491	524,526,618
More than two years, but not exceeding five years	275,450,000	299,250,000
	<u>886,697,908</u>	<u>1,008,445,830</u>
Less: Deferred loan arrangement fees (note 25)	(2,578,125)	(3,609,375)
	<u>884,119,783</u>	<u>1,004,836,455</u>
Less: Amount due within one year shown under current liabilities	(184,245,167)	(184,669,212)
Amount due after one year	<u>699,874,616</u>	<u>820,167,243</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

25. DEFERRED LOAN ARRANGEMENT FEES

	THE GROUP	
	2003 HK\$	2002 HK\$
COST		
At beginning of the year	4,125,000	2,250,000
Incurred during the year	—	4,125,000
Write-off of fully amortised amount	—	(2,250,000)
	<hr/>	<hr/>
At end of the year	4,125,000	4,125,000
AMORTISATION		
At beginning of the year	515,625	1,588,235
Charge for the year	1,031,250	1,177,390
Eliminated on write-off of fully amortised amount	—	(2,250,000)
	<hr/>	<hr/>
At end of the year	1,546,875	515,625
CARRYING VALUE	<hr/>	<hr/>
	2,578,125	3,609,375

26. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries of the Company are unsecured, interest-free and have no fixed repayment terms. The amounts will not be repaid within twelve months from the balance sheet date and, accordingly, the amounts are classified as non-current.

27. AMOUNT DUE TO AN ASSOCIATE

The amount due to an associate of the Group is unsecured, interest-bearing and has no fixed repayment terms. The amount will not be repaid within twelve months from the balance sheet date and, accordingly, the amount is classified as non-current.

28. PLEDGE OF ASSETS

- The Group has pledged its hotel properties having a net book value of HK\$1,950,110,500 (2002: HK\$1,950,110,500), listed securities at market value of HK\$176,953,230 (2002: HK\$181,973,180) and other assets of HK\$23,530,850 (2002: HK\$29,836,756) to banks to secure long-term loan facilities granted to the Group;
- The Group has pledged a time deposit of HK\$1,367,679 (2002: HK\$1,347,567) to secure a letter of guarantee issuance facilities; and
- The investments in certain subsidiaries of the Company have been pledged to banks or financial institutions to secure loan facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

29. OPERATING LEASE ARRANGEMENTS

The Group as lessor

Property rental income earned during the year was HK\$2,035,402 (2002: HK\$1,460,617). The properties held have committed tenants for the next two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2003 HK\$	2002 HK\$
Within one year	2,002,822	2,058,142
In the second to fifth year inclusive	597,525	2,655,667
	2,600,347	4,713,809

30. CONTINGENT LIABILITIES

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

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Guarantees given to banks, in respect of loan facilities utilised by:				
– subsidiaries	—	—	484,526,417	507,194,213
– an associate	248,500,000	138,750,000	248,500,000	138,750,000
	248,500,000	138,750,000	733,026,417	645,944,213

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 30th June, 2003

31. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group entered into significant transactions with related parties as follows:

	<i>Notes</i>	THE GROUP	
		2003 HK\$	2002 HK\$
Interest expenses paid to associates	<i>(i)</i>	8,214,723	12,262,537
Management fee paid to a related party	<i>(ii)</i>	245,242	258,348
Interest income received from an associate	<i>(iii)</i>	492,715	5,858,119
Hotel management fee received from an associate	<i>(iv)</i>	1,000,000	1,000,000
Hotel management fee received from a related party	<i>(v)</i>	825,060	950,000
		<u>825,060</u>	<u>950,000</u>

Mr. Robert Ng Chee Siong was interested in these transactions as a Director of all the above mentioned related companies and Mr. Raymond Tong Kwok Tung was interested in these transactions as a Director of the above mentioned related companies in notes (i) to (iv).

Notes:

- (i) The interest expenses were chargeable at commercial rate.
- (ii) The management fee was charged on a cost-plus-5% basis pursuant to the Administrative Services Agreement dated 24th July, 2000 between the Company and Sino Land Company Limited's wholly-owned subsidiary, Sino Administration Services Limited. Sino Land Company Limited is related to the Company by having a common substantial shareholder. Press announcement relating to the entering into the agreement by the parties was published on 25th July, 2000.
- (iii) Interest income was calculated at the rate of cost of fund plus a margin.
- (iv) The relevant management fee income was a fixed sum agreed by both parties.
- (v) The management fee was charged at 2% of the quarterly hotel revenue subject to a maximum amount of HK\$950,000 per annum pursuant to the Hotel Management Agreement dated 24th May, 2002 between the Company and Wylan Limited. Wylan Limited is wholly-owned by the family members of the Company's substantial shareholder.
- (b) During the year, the Group made advances totaling HK\$1,413,785 (2002: HK\$106,547,756) to its 25% owned associate, Regent Step Investment Limited ("Regent Step"), to finance the loan on-lent to Bestown Property Limited ("Bestown"), which is the owner of the Royal Pacific Hotel. Both Regent Step and Bestown are of the same shareholding structure. The advances are unsecured, bear interest at cost of fund plus a margin and have no fixed repayment term. The advances made are proportional to the Group's shareholding interest in Regent Step, the remaining share interests in which are held by a connected party to the Company by virtue of Mr. Ng Teng Fong being a substantial shareholder of the Company.
- (c) At the balance sheet date, the Group had the outstanding balances with related parties as follows:
- (i) Details of amounts with associates are set out in notes 20 and 27.
- (ii) The Group had contingent liabilities in respect of loan facilities utilised by an associate amounting to HK\$248,500,000 (2002: HK\$138,750,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company at 30th June, 2003 which, in the opinion of the Directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Name of company	Place of incorporation/ operation	Class of shares held/ issued capital	Proportion of nominal value of issued/registered capital held by the Company	Principal activities
Direct subsidiary				
Active Finance Limited	Hong Kong	Ordinary HK\$2	100%	Provision of financial services
Aldrich Worldwide Holdings Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding
Allied Joy Limited	Hong Kong	Ordinary HK\$2	100%	Provision of nominee services
Asian Statesman Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding
Halliwell Ltd.	Cayman Islands	Ordinary US\$1	100%	Investment holding
Island Pacific Hotel Limited	Hong Kong	Ordinary HK\$2	100%	Hotel management
Sheridan Holdings Ltd.	Cayman Islands	Ordinary US\$1	100%	Investment holding
Sino Fortune Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding
Sino March Assets Ltd.	British Virgin Islands	Ordinary US\$1	100%	Investment holding
Toby Investments Limited	Cayman Islands	Ordinary US\$1	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ operation	Class of shares held/ issued capital	Proportion of nominal value of issued/registered capital held by the Company	Principal activities
Indirect subsidiary				
Bosco Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding
Bright Tower (HK) Limited	Hong Kong	Ordinary HK\$2	100%	Club and café operations
China Asia Property Limited	Hong Kong	Ordinary HK\$2	100%	Hotel owner
City Garden Hotel Limited	Hong Kong	Ordinary HK\$2	100%	Hotel management
Park Lane Towers Limited	Hong Kong	Ordinary HK\$2	100%	Food and beverages outlets operations
R.P. Hotel Limited	Hong Kong	Ordinary HK\$2	100%	Hotel management
Speed Advance Limited	Republic of Liberia/ Hong Kong	Registered/ Bearer shares US\$1	100%	Share investment
Wellrich International Ltd.	Republic of Liberia/ Hong Kong	Registered/ Bearer shares US\$1	100%	Share investment

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2003

33. RESULTS AND AFFAIRS OF THE GROUP'S SIGNIFICANT ASSOCIATES

The following details have been extracted from the audited financial statements of Greenroll Limited which have been adjusted to conform with the Group's accounting policies, and from the audited consolidated financial statements of Asian Glory Limited and its subsidiary, Bestown Property Limited.

	Greenroll Limited		Asian Glory Limited	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Results for the year				
Turnover	370,144,000	425,228,000	158,034,833	256,179,801
Profit before taxation	99,690,000	142,945,000	44,179,872	79,534,357
Profit before taxation attributable to the Group	49,845,000	71,472,500	11,044,968	19,883,590
Financial position				
Non-current assets	3,380,422,000	3,370,582,000	2,047,703,919	2,115,131,803
Current assets	93,864,000	133,890,000	81,502,840	106,210,509
Current liabilities	(126,511,000)	(139,872,000)	(69,068,301)	(76,507,759)
Non-current liabilities	(787,100,000)	(892,104,000)	(2,083,418,055)	(2,140,546,022)
Net assets (liabilities)	2,560,675,000	2,472,496,000	(23,279,597)	4,288,531
Net assets (liabilities) attributable to the Group	1,280,337,500	1,236,248,000	(5,819,899)	1,072,133

The Inland Revenue Department (the "IRD") initiated tax inquiries for the years of assessment 1994/95 to 2001/02 on a wholly-owned subsidiary, Bestown Property Limited ("Bestown") of the Group's associate, Asian Glory Limited ("AGL"). Notices of assessment for additional tax in an aggregate amount of approximately HK\$134,103,000 were issued to Bestown for the years under review and objections were properly lodged with the IRD by Bestown. The effective share of the additional tax attributable to the Group as at 30th June, 2003 is estimated to be approximately HK\$33,526,000. In the opinion of the management of Bestown, as the tax inquiries are still at the preliminary stage of fact finding and the process is likely to continue for some time, the ultimate outcome of the tax inquiries, which may not be known for some years, cannot presently be determined by the management of Bestown with an acceptable degree of reliability, and accordingly, no provision for any liabilities that may result has been made in the financial statements of Bestown.

The Directors of the Company have taken note of the above matters and have made due inquiries. Nothing has come to the attention of the Board of Directors of the Company which indicates that there has been material subsequent development or change in status in respect of the above matters.